CENTER ON BUDGET AND POLICY PRIORITIES

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THE ENERGY BILL: MORE TAX BREAKS IN THE FACE OF RISING DEFICITS

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Congress is this week considering an energy bill that features a new round of substantial tax cuts. Months of haggling have produced a bill that includes tax breaks totaling $26 billion through 2013 as estimated by the Joint Committee on Taxation and the Congressional Budget Office.[1] This is more than three times the tax cuts in the energy plan originally proposed by the President, and larger than the separate energy bills passed by the House and Senate earlier this year. Further, nearly half of the bill's tax breaks are scheduled to expire before 2013; if these provisions are extended, the bill would cost about twice as much as advertised. Because none of the energy bill's tax cuts are offset, the measure adds to deficits — which are estimated to be $5 trillion over the next decade, according to projections by a range of analysts — exacerbating the nation's long-term fiscal problems.

- The energy bill that has emerged from conference committee is officially projected by the Joint Committee on Taxation and the Congressional Budget Office to reduce revenues by $26 billion over the next ten years, 2004 through 2013. The bill also includes $5 billion in new spending in this period, bringing its total cost to over $31 billion.

- Because none of the conference agreement's costs are offset, they will add to the deficit and the debt. The additional interest payments associated with servicing this higher level of debt will total about $11 billion. As a result, the energy bill would end-up adding $42 billion to the deficit over the next ten years. (The energy legislation approved by the Senate in July included $5 billion in offsets, but they were dropped from the conference agreement.)

- The actual impact on the deficit, however, is likely to be higher, because the agreement is loaded with budgetary gimmicks that artificially reduce its official price-tag. Of the bill's 46 tax cuts, nearly half expire before 2013. This front-loads the cost of the legislation and hides its likely long-term cost. For instance, the tax cuts in the agreement cost $5 billion a year by 2007, but the cost falls to less than half this level by 2013, reflecting the expiration of various provisions. Consequently, 45 percent of the bill's cost occurs in the first three years, and more than two-thirds occurs over the first five years. If the temporary provisions are made permanent, the ten-year cost of the bill approximately doubles.

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[1] Joint Committee on Taxation, JCX-101-03, November 18, 2003. Congressional Budget Office, *Estimated Impact of the Conference Agreement for H.R. 6*, November 18, 2003.

- Finally, the legislation would be costly to state governments at a time when they are facing their worst fiscal crisis in decades. State corporate income tax systems tend to be linked to the federal tax code, and so many of the energy bill's corporate tax breaks would also drain state coffers.

To gather votes, Congressional leaders have heaped on the tax breaks benefiting a wide variety of special interests, ranging from ceiling fan suppliers to the nuclear power plant industry. Even the normally tax-cut friendly editorial page of the *Wall Street Journal* found the bill to be objectionable, noting that "We realize that making legislation is never pretty, but this exercise is uglier than most."[2] In general, the type of targeted tax breaks that permeate this measure either reward businesses and individuals for actions they would have undertaken anyway or distort investment decisions by drawing funds into activities that are, in the absence of the tax break, less profitable and thus less beneficial for the economy as a whole. While these costly tax cuts offer questionable benefits for the nation's energy security, they unquestionably add to the deficit, something the nation can ill afford.

Rising Deficits and Low Revenues — No Time for More Tax Breaks

The fiscal picture has sharply deteriorated over the last two years. Projections have gone from showing a stream of healthy surpluses to deficits "as far as the eye can see." Meanwhile, tax revenues have fallen to their lowest level relative to the economy in the last four decades.

- The bill adds to deficits at a time when the federal government is already under fiscal strain. In September, the Center on Budget and Policy Priorities, Concord Coalition, and Committee for Economic Development, released a report projecting $5 trillion in federal deficits over the next ten years, if the tax cuts enacted in recent years are extended, a Medicare prescription drug benefit is enacted, the Administration's multi-year defense plan is fully funded, and other likely actions are taken.[3] Goldman Sachs and Brooking Institution economists William Gale and Peter Orszag have reached similar conclusions.

- These deficits represent a remarkable fiscal sea change. Since January 2001, there has been a $9.3 trillion swing from the projected budget surpluses to the projected budget deficits for the 2002-2011 period. (These figures also reflect the Center on Budget and Policy Priorities, Concord Coalition, and Committee for Economic Development projections.) Tax cuts have been a driving force behind this fiscal deterioration. In fiscal year 2003, federal revenues fell to their lowest level relative to the economy since the days of the Eisenhower Administration.

[2] "The Grassley Rainforest Act," *Wall Street Journal*, November 18, 2003, p. A20.

[3] Center on Budget and Policy Priorities, Committee for Economic Development, and Concord Coalition, *Mid-term and Long-term Deficit Projections*, September, 29, 2003.

Energy Bill Exceeds Budget Resolution, Allowing Points of Order in the Senate

The Congressional budget resolution adopted in April 2003 permits $1.7 trillion in tax cuts and entitlement increases between 2004 and 2013. This reflected a $400 billion Medicare prescription drug benefit and an ambitious tax-cutting agenda that includes making permanent all of the tax cuts enacted 2001 that expire in 2010. These tax-cut and entitlement spending limits are enforced in the Senate in 2004 as well as over multi-year periods. If a piece of legislation causes any of these limits to be breached, the measure is subject to a point of order in the Senate under its pay-as-you-go rule. Although that rule offers little in the way of long-term fiscal restraint, it nonetheless comes into play for purposes of considering the energy conference agreement. The cost of the tax-cut package enacted in May as well as several smaller measures enacted since then are (using official estimates) below the *multi-year* limits, but they have used up the available room in 2004. As a result, the energy bill — which reduces revenues by $2.5 billion in 2004 and increases spending by $0.7 billion in that year — is in violation of the Senate's pay-as-you-go limit for 2004. In addition, the energy bill is subject to other budget points of order because it violates the tax-cut limit for the Finance Committee in 2004 as well as the spending allocation for the Energy and Natural Resources Committee in 2004 and for the multi-year periods covered by the budget resolution. If raised by a Senator, these various points of order can only be waived with 60 votes.

- Despite the deficits and low revenues, policymakers have continued to show a remarkable lack of fiscal discipline. The tax-cut package enacted in May carries an official cost of $350 billion, although it will actually cost about $1 trillion if all of its temporary provisions are extended. Further, the House has passed or the Ways and Means Committee has reported additional costly tax cuts, including the permanent repeal of the estate tax ($162 billion over ten years), expansion of the Child Tax Credit ($82 billion), pension-related tax cuts ($48 billion), and a package of corporate tax breaks ($60 billion). In addition, the prescription drug bill nearing passage would cost $400 billion over the first ten years and much larger amounts in the decades after that.

Passage of the energy bill would add to the deficit. Despite a steady stream of ever-worsening budget news over the past few months, no attempt was made to impose any semblance of fiscal discipline on the bill; instead, Congressional leaders made the bill more expensive than the versions proposed by the President or initially passed by the House and Senate. The first step to addressing the nation's fiscal problems is to "stop digging the hole deeper." This legislation goes in the wrong direction.