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PRESIDENT'S BUDGET USES ACCOUNTING DEVICES AND IMPLAUSIBLE ASSUMPTIONS TO HIDE HUNDREDS OF BILLIONS OF DOLLARS IN COSTS

by Robert Greenstein

The President's budget issued today projects a return to budget balance in fiscal year 2005 and a $1 trillion total budget surplus over the next ten years, although it also projects that all of the surplus will be due to Social Security and that the budget outside Social Security will run a $1.5 trillion deficit over this period.

These projections, however, are not realistic. They are based on an array of budget devices and implausible assumptions that mask hundreds of billions of dollars of tax reductions and government expenditures that are virtually certain to occur but are omitted from the budget.

- The budget proposes to make permanent the tax cuts that expire in 2010. However, it conveniently fails to include the cost of extending a certain-to-be-renewed provision of last June's tax cut that is scheduled to expire at the end of 2004. This is the provision that prevents the individual Alternative Minimum Tax from exploding into the middle class.

  Because the Administration's budget omits extension of this provision, the revenue numbers in the budget are based on the implausible assumption that the number of taxpayers subject to the AMT will swell from 1.4 million in 2001 to 39 million by 2012. (Buried in one of the budget books is an acknowledgment that the revenue numbers assume that 39 million taxpayers — one of every three in the nation — will be subject to the AMT by 2012.) There is, of course, no possibility that the Administration or Congress will allow this to happen. The Administration clearly intends to propose addressing this problem before the current AMT relief provision expires in 2004, and there is little question that AMT relief will pass. Joint Tax Committee estimates indicate that the cost of addressing this problem amounts to several hundred billion dollars over the next ten years, a cost the Administration's budget conveniently omits. Moreover, assuming that a swollen AMT is in effect in 2011 and 2012, as the budget does, helps the Administration in a second way — it reduces the costs shown in 2011 and 2012 for extending the tax cuts scheduled to expire in 2010, since the AMT is implausibly assumed to cancel out a significant share of these tax cuts.

- In addition, the budget proposes to extend for two years various popular tax credits that always are extended when they are scheduled to expire. Although it is a virtual certainty these tax credits will be extended throughout the ten-year period, the budget assumes they will expire after two years. Using this assumption enables the Administration to avoid showing the cost of these provisions for the final eight years of the ten-year period.

- The budget also understates the costs of the plethora of new tax cuts it proposes. To make these tax cuts appear less costly then they actually are, the budget uses the same devices that last year's tax cut used: some tax cuts would be phased in very slowly so their full costs would not appear until late in the decade — the proposed deduction for charitable contributions, for example, would not become fully effective until 2012 — while other tax cuts are assumed to terminate after a few years despite their likely extension at that time.

- The budget shows its tax-cut proposals as costing $665 billion between 2003 and 2012. (Some news accounts have reported a $591 billion cost, but that figure fails to include the refundable component of the Administration's health insurance tax credit and a few smaller credits. The budget documents show $665 billion as the full cost of the tax proposals.[1]) The actual cost, however, would be much larger. When the cost of AMT relief and maintaining the expiring tax credits throughout the decade is taken into account, the cost is likely to reach $1 trillion over the ten-year period.

- Moreover, the cost of the Administration's tax proposals in the second decade of this century — when the slowly phasing-in tax cuts would be in full effect — would be much greater than that. The cost of extending the tax cut and making it permanent (including the AMT provision), along with the costs of the new tax cuts the Administration is proposing, would amount to between $4 trillion and $5 trillion in the second ten-year period, from 2013-2022. (This is based on Joint Tax Committee estimates of the cost of the tax cut enacted last year when it is fully in effect.) This massive cost would come in the same decade that the baby boom generation will retire in large numbers, Social Security and Medicare costs will rise rapidly as a result, and Social Security will go from running annual cash surpluses to annual cash deficits.

- The budget also understates the likely course of government spending. For example, the budget appears to understate Medicare costs substantially. It assumes an extraordinarily low rate of growth in Medicare costs and shows Medicare costs under current law as being $300 billion below what the Congressional Budget Office projects for the next ten years. It also assumes nothing will be done to avert various reductions in Medicare home health and physician payments that are scheduled to occur in the next two years under current

[1] This figures does not include the cost in fiscal year 2002 of the tax cuts the Administration is proposing as part of a stimulus package.

law, despite the near-certainty that these scheduled cuts will be moderated or repealed.

- In addition, the budget proposes and shows costs for only a one-year extension of Transitional Medical Assistance. Established under welfare reform legislation that Ronald Reagan signed into law in 1988, TMA provides up to a year of health insurance to families that work their way off welfare. It is an established program that is broadly supported on both sides of the aisle and by governors. It is considered an integral part of welfare reform. There is no possibility that Congress and the Administration will allow it to die after a year. By including only a one-year extension in the budget, the Administration is able to leave out its costs for the nine succeeding years.

- The levels the budget includes for non-defense discretionary programs in years after 2003 are unrealistic as well. The budget shows overall expenditures for non-defense discretionary programs — a part of the budget that includes homeland security, most education programs, the National Institutes of Health and veterans programs, among others — *falling* in inflation-adjusted terms in every year after 2003. The Administration's budget does not include specific programmatic reductions to achieve these "out-year" savings. Historical experience strongly suggest these savings will not materialize.

By omitting or understating various costs and understating the ultimate costs of the tax cuts, the Administration presents a much rosier picture than is warranted.