CENTER ON BUDGET AND POLICY PRIORITIES

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THE EXTENT TO WHICH THE HOUSE AND SENATE BUDGET PLANS WOULD INCREASE DEFICITS AND DEBT

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According to the official projections of the Congressional Budget Office, budget deficits will turn to surpluses by 2008 if Congress refrains from enacting any further tax cuts or program increases, with the budget running a net surplus of $0.6 trillion over the period from 2003 through 2013. As is widely recognized, however, these CBO projections are too optimistic: they do not include the large and inevitable cost of providing relief from the exploding scope of the Alternative Minimum Tax; they include no allowance for the war with Iraq; and they assume that various "temporary" tax credits will expire on schedule even though Congress always extends them. Reflecting the cost of these three omitted items adds approximately $1 trillion in deficits over ten years. (See box on page 4.)

The President, the House, and the Senate Budget Committee have now presented their budget plans. This analysis reflects the budget plan passed by the House on March 21. It also reflects the Senate budget plan as reported by its Budget Committee. Each of the three plans would cause substantial deterioration in projected budgets. These three plans would result in *between $1.9 trillion and $2.7 trillion in additional deficits and debt through 2013,* compared with what would occur under current law. Like the CBO projection, all three of these plans also omit about $1 trillion in likely or inevitable costs. As a result, the federal budget is likely to run cumulative deficits under these three plans of between $2 trillion and $3 trillion through 2013.

- CBO reported on March 3 that **the President's budget** would add $2.7 trillion in deficits over the period 2003-2013, turning CBO's projected $0.6 trillion in surpluses to $2.0 trillion in deficits.[1] Counting approximately $1 trillion in omitted costs, deficits would total $3 trillion over this period. This also means that $3 trillion would be added to the national debt.

- **The Senate plan** would add $2.3 trillion in deficits over this period, turning CBO's projected $0.6 trillion in surpluses to $1.6 trillion in deficits. Counting $1.1 trillion in omitted costs, deficits would total approximately $2.7 trillion over this period.

- **The House plan** would add $1.9 trillion in deficits over this period, turning CBO's projected $0.6 trillion in surpluses to $1.3 trillion in deficits. Counting $1.1 trillion in omitted costs, deficits would total $2.3 trillion over the period.

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[1] Note: All figures for the President's budget represent the CBO/ JCT estimates of the cost of the President's policies, except for the cost of the President's proposed Medicaid block grant, which relies on OMB estimates for technical reasons.

Table 1
Comparison of Budget Policies
Cumulative total 2003-2013, dollars in trillions; deficits and costs are shown with a minus sign

	Current Law	President (CBO estimate)	Senate Budget Committee	House–passed Plan
Projected net surpluses (+) under current law	+0.6	+0.6	+0.6	+0.6
Proposed policy changes	none	-2.7	-2.3	-1.9
Resulting stated surpluses (+) or deficits (-)	+0.6	-2.0	-1.6	-1.3
Omitted costs (AMT, Iraq, extension of tax credits)	-1.0	-1.0	-1.1	-1.1
Resulting approximate deficits (-)	-0.3	-3.0	-2.7	-2.3

Columns may not add due to rounding

The figures shown above include the surpluses in the Social Security trust fund, which CBO estimates will total $2.7 trillion over this period. Outside of Social Security, the deficits in the three plans thus are $2.7 trillion greater than the amounts shown above. For example, outside Social Security, the stated deficits in the House budget plan total $4.0 trillion over the period, rather than the $1.3 trillion in deficits shown above.

The policies assumed by the President, the Senate Budget Committee, and the House are broadly similar, but do differ in some important respects, as shown in the tables below. Perhaps the most striking difference is that the House plan, unlike the President's budget and the Senate Budget Committee plan, would make very large cuts in almost every entitlement program, exempting only Social Security, Medicare, unemployment compensation, and benefits for retired military personnel. The three budget plans are summarized in the three tables below.

Table 2
Cost of Policies Assumed in the House-passed Budget Plan
Cumulative totals, 2003-2013, in trillions of dollars.
Policies that cost money (tax cuts or program increases) are shown with a minus sign.

	Direct cost of policy	Related interest costs	Total cost of policy
Tax cuts (-)	-1.40	-0.33	-1.72
Increased defense appropriations (-)	-0.21	-0.04	-0.25
Reduced non-defense appropriations (+)	+0.21	+0.05	+0.26
Prescription drug benefit (-)	-0.40	-0.09	-0.49
Other mandatory programs: net cuts (+)	+0.25	+0.04	+0.29
TOTAL policy costs	**-1.55**	**-0.36**	**-1.91**

Columns and rows may not add due to rounding; tax cut figures include "refundable" tax credits.

Table 3
Cost of Policies Assumed in the Senate Budget Plan
Cumulative totals, 2003-2013, in trillions of dollars
Policies that cost money (tax cuts or program increases) are shown with a minus sign.

	Direct cost of policy	Related interest costs	Total cost of policy
Tax cuts (-)	-1.41	-0.35	-1.75
Increased defense appropriations (-)	-0.12	-0.03	-0.15
Reduced non-defense appropriations (+)	+0.12	+0.02	+0.14
Prescription drug benefit (-)	-0.40	-0.09	-0.49
Other mandatory programs: net increase (-)	*	-0.01	-0.01
TOTAL policy costs	**-1.82**	**-0.45**	**-2.28**

* Rounds to zero; columns and rows may not add due to rounding;

Table 4
Cost of Policies Proposed by the President (CBO estimate)
Cumulative totals, 2003-2013, in trillions of dollars
Policies that cost money (tax cuts or program increases) are shown with a minus sign.

	Direct cost of policy	Related interest costs	Total cost of policy
Tax cuts (-)	-1.59	-0.38	-1.97
Increased defense appropriations (-)	-0.21	-0.04	-0.25
Reduced non-defense appropriations (+)	+0.11	+0.03	+0.13
Prescription drug benefit (-)	-0.40	-0.09	-0.49
Other mandatory programs: net increase (-)	-0.05	-0.02	-0.08
TOTAL policy costs	**-2.15**	**-0.51**	**-2.66**

Columns and rows may not add due to rounding

Conclusions

The key feature of all three plans is massive tax cuts. In the case of the President's plan and the Senate Budget Committee plan, three-quarters of the several trillion dollars in added costs through 2013 would result from the proposed tax cuts. Under the House plan, 90 percent of the net increase in costs is due to the tax cuts; the cuts in non-defense discretionary programs in the House plan are as large as its increases in defense spending, while its cuts in various entitlement programs offset three-fifths of its prescription drug benefit.

By largely paying for its prescription drug benefit and its defense increases through cuts in other domestic programs, the House plan would reduce many benefits and services upon which middle-class families rely and would cut virtually every basic safety net program for the poor — including programs for low-income children and elderly and disabled individuals — while conferring extremely large tax cuts on the most well-to-do.

Fiscal discipline does not require harsh measures aimed at the most vulnerable. Many years ago, then-OMB director David Stockman called for fiscal discipline measures to be aimed at "weak claims, not weak clients." The House Budget Committee plan charts the opposite course. Moreover, it manages to erode fiscal discipline by $1.9 trillion even while extracting large cuts from the less fortunate members of society.

Nearly Certain Costs Omitted from Budget Plans

Both the CBO projections and the three budget plans discussed in this analysis omit key costs that are very likely to occur and that, together, would consume approximately $1 trillion in the years through 2013. CBO omits these costs because they are not part of current law. The three budget plans, however, have less justification for omitting the costs. Their omission means that even the substantial deficits to which the plans admit are likely to be understated by approximately $1 trillion.

Iraq: The cost of a war in Iraq and the subsequent costs of occupation, which could last for a number of years, are not included.

Alternative Minimum Tax. All of the budget plans omit the cost of extending relief from the swelling individual Alternative Minimum Tax beyond 2005. The three budget plans include AMT relief through 2005. Senior Treasury officials have said that in 2005, the Administration will submit a proposal for ongoing relief. But the cost of the ongoing AMT relief is not included in the budget.

Enactment of ongoing AMT relief is inevitable. Without it, the number of taxpayers subject to the AMT will soar from two million today to 43.5 million by 2013, according to calculations by the Urban Institute-Brookings Tax Policy Center. Based on Tax Policy Center estimates, extending the AMT relief that the Administration has proposed through 2005 so that it remains in effect through the rest of the decade would add over $750 billion more to the deficit over the next ten years. (This figure assumes that the 2001 tax cut is extended, as the President's budget, the House plan, and the Senate Budget Committee plan all propose.)[2]

Tax "Extenders." The President's budget also fails to include the cost of extending most of the tax credits that expire every couple of years or so and always are extended with overwhelming bipartisan support. The virtually certain extension of these provisions will add $100 billion over the next ten years to the deficits projected under the President's budget. Moreover, the House plan and the Senate Budget Committee plan omit even more of the inevitable costs in this area than the President's budget does. The President's plan includes a permanent extension of the research and experimentation tax credit, the largest of the tax provisions that expire every few years and always are renewed. By contrast, the Senate plan, and apparently the House plan as well, omit the cost of permanently extending this credit. As a result, the House plan and the Senate Budget Committee plan understate costs in this area by $170 billion over ten years.

If one were deeply concerned with fiscal discipline, one would forgo new tax cuts. The Committee on Economic Development, a group of corporate and academic leaders of longstanding reputation, earlier this month summarized the budgetary challenge facing the nation. Calling on policymakers to refrain from instituting any further tax cuts, the CED concluded, "any tenable budget program must address the budget deficit on every front, including both comprehensive spending reductions and *alternative or additional revenues*. … The first step in climbing out of a hole is to stop digging. … In addition, the burden of fiscal restraint should not be placed disproportionately on low-income families with little political voice [emphasis added]."[3] All three budget plans violate the CED's calls to stop digging the hole deeper and forgo further tax cuts.

[2] While AMT relief is inevitable, the Tax Policy Center has designed a revenue-neutral package that relieves the burden of the AMT on the middle class and re-targets the AMT to those with very high incomes, who are now largely exempt from the AMT. Given the tax policies enacted and espoused over recent years, however, it is highly unlikely that the Administration or Congress will pursue such an approach.

[3] Committee on Economic Development, *Exploding Deficits, Declining Growth: The Federal Budget and the Aging of America*, March 2003, available at http://www.ced.org/docs/report/report_deficit.pdf.