CENTER ON BUDGET AND POLICY PRIORITIES

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How to Avoid Over-Committing the Available Surplus: Would a Tax-Cut "Trigger" Be Effective or Is There a Better Way?

> The full report can be viewed at http://www.cbpp.org/3-5-01bud.pdf; for a more extensive summary, see http://www.cbpp.org/3-5-01bud.htm

On March 16, the Center on Budget and Policy Priorities released a report, *How to Avoid Over-Committing the Available Surplus: Would a Tax-Cut "Trigger" Be Effective or Is There a Better Way?* The report analyzes suggestions to attach a "trigger" to legislation cutting taxes that would automatically delay some or all of the tax cuts in the event of a deficit. As the report explains, a trigger would be very unlikely to work effectively and would likely *increase* the risk of deficits, because it could lull policymakers into voting for a substantially larger tax cut than they otherwise would support and than would be fiscally prudent. The report's findings include:

- A trigger would be easy to evade or override. If it were based on whether the budget for the coming fiscal year is projected to be in surplus or deficit, the Office of Management and Budget could use a "rosy forecast" to produce the desired projection of a budget surplus. If it were based on actual budget results in the fiscal year that has just ended, Congress could make last-minute shifts in the timing of federal payments or use other budget gimmicks that would restore a surplus for the fiscal year but would do nothing to restore fiscal health. And a trigger could simply be overridden by future Congresses.

- The history of the Gramm-Rudman-Hollings (GRH) laws of the 1980s, under which automatic spending cuts were supposed to be triggered if specific deficit targets were not met, demonstrates the weaknesses of a trigger. Congress and the White House used *all* of the approaches to evading triggers mentioned above to disarm the GRH trigger. The budget targets set for 1990 in the GRH law were missed by more than $250 billion.

- Even if a trigger weren't evaded or overridden, it would be unlikely to accomplish its goals. The vast majority of the tax cuts President Bush has proposed would be fully in effect by 2006, but 70 percent of the surplus projected for the next ten years occurs between 2007 and 2011. If these projections prove to be incorrect and deficits return after 2006, the trigger would be of little use since tax cut provisions accounting for 97 percent of the tax cut's cost would already be in effect.

- A trigger could have adverse economic effects. A temporary economic downturn could cause a temporary return of deficits, as tax revenues fell and the cost of programs such as unemployment compensation rose. Under these circumstances, automatically delaying a tax cut would be unwise.

- By creating the illusion that it will protect against the consequences of an overly large tax cut, a trigger would likely encourage Congress to pass a larger tax cut than it would otherwise accept.

- The shortcomings outlined above apply regardless of whether the trigger is tied to meeting a specific budget target (such as a balanced non–Social Security budget) or a target tied to specific levels of debt.

The Center's report concludes that a much better alternative to the trigger would be a budget reserve, under which this session of Congress would enact tax cuts or program increases that use up some *but not all* of the projected surpluses and would set a substantial portion of the projected surpluses to the side. Should surpluses materialize in later years, Congress could enact additional tax cuts or program increases at that time.