

THE BUDGET PLAN REPORTED BY THE HOUSE BUDGET COMMITTEE: SOME KEY ASPECTS

by Richard Kogan and James Sly

On March 21, 2001, the House Budget Committee approved Chairman Jim Nussle's proposal for a congressional budget plan for the ten-year period that covers fiscal years 2002-2011.¹ The Nussle plan is based on, and is very similar to, the budget framework that President Bush presented to Congress on February 28, 2001. Rep. John Spratt, the ranking Democratic member of the Committee, unsuccessfully offered an alternative budget plan.

This brief analysis is based on materials that Reps. Nussle and Spratt distributed at the Budget Committee "mark-up." The analysis focuses primarily on the plan the Committee approved (i.e., the Nussle plan) and makes five principal observations: 1) the plan heavily favors tax cuts over program increases; 2) the tax cuts called for in the plan total almost \$2.1 trillion over ten years; 3) if CBO's summer projection is more favorable than its current projection, Chairman Nussle is allowed to increase the size of the tax cut, but if CBO's projection becomes less favorable, the size of the tax cut does not shrink; 4) the plan calls for modest increases in defense appropriations and net reductions in non-defense appropriations, with the budget targets in both areas likely to prove unrealistically low over the decade ahead; and 5) the plan appears to include a surplus of \$364 billion that could be used to cover unanticipated needs or future, downward re-estimates of the projected surplus, but a realistic assessment of future costs that have been left out of the plan shows that all of the \$364 billion — and more — is likely already to be spoken for.

Tax Cuts versus Program Increases. Over the ten-year period, Chairman Nussle's plan calls for almost \$8 of tax cuts for each \$1 of program increases. A similar way of looking at this imbalance is shown in the table on page 5: more than 88 percent of the new costs incurred under the Nussle plan would be in the form of tax cuts, while less than 12 percent would come in the form of program increases.

\$2.1 Trillion of the Surplus for Tax Cuts. Over ten years, the tax cuts in Rep. Nussle's plan would cost almost \$2.1 trillion, including the increased interest payments on the debt. The plan

¹ Congressional budget plans are called "budget resolutions." They do not directly change tax or entitlement law or enact appropriations; rather, they set budget targets for the other committees of Congress that deal with taxes, entitlements, and appropriations. By law, budget resolutions must cover at least five fiscal years and may cover more. The plan proposed by Chairman Nussle covers the ten-year period from 2002-2011 and also makes minor changes in the figures for 2001.

includes \$1.68 trillion for tax cuts and a little over \$400 billion for increased interest payments resulting from the tax cuts.²

It is not clear at this juncture whether the Ways and Means Committee will honor this target. The cost of the two tax bills the Ways and Means Committee has approved to date exceeds the cost that the Administration's budget shows for the comparable provisions of the Bush tax plan by \$300 billion over ten years, including the increased interest payments on the debt.

Total Tax Cuts and Program Increases for 2002-2011 in Budget the House Budget Committee Approved (in billions of dollars)

Tax cuts	1,676 ^a
Net Program Increases	219

^a The budget plan the House Budget Committee approved includes \$37 billion over ten years for the refundable portions of tax credits. This amount is included in this table as part of the proposed tax cuts. The tax cut figure also includes \$19 billion in revenue reductions that are not reconciled to the House Ways and Means Committee.

Expanding the Tax Cut. The Nussle budget contains a provision that may enable this \$2.1 trillion tax-cut figure to swell further by this summer. The plan gives Chairman Nussle the power to act, by himself, to increase the size of the tax cut the budget plan allows to the extent the revised CBO budget projections released in July show larger surpluses than those CBO currently projects. He could increase the size of the allowable tax cut by the amount that the projected surplus outside Social Security and Medicare Hospital Insurance rises. If, however, the projections that CBO issues this summer show a *smaller* surplus than CBO currently projects, the size of the allowable tax cut would *not* be reduced

Squeezing Appropriated Programs. Like the President's budget, Rep. Nussle's plan sets a target for appropriated programs that is lower than appears politically feasible or desirable. The Administration presents its budget as including a four percent increase in discretionary programs. The four percent figure (3.9 percent to be precise), however, applies to 2002 only, and is as large as 3.9 percent primarily because it reflects increases in advance appropriations enacted last year.³ In fact, the 3.9 percent increase in appropriations for 2002 is not sufficient to keep pace with CBO's current policy baseline. (CBO's baseline for appropriated programs represents the amount enacted in the current year, projected forward by adjusting funding for inflation. The baseline also accounts for technical anomalies such as advance appropriations.) In years after

² Congress measures the costs of a proposal relative to a "baseline" in which it is assumed that no new proposals will be adopted. Because it assumes no tax cuts or spending increases, the existing baseline projects large surpluses, and therefore rapidly declining federal debt and federal interest payments on that debt. Any proposal that decreases projected surpluses — whether through tax cuts or through program increases — necessarily means that debt and interest costs will decline more slowly than projected in the baseline. As a result, a tax cut reduces projected surpluses both because of reduced revenues and because of increased interest costs.

³ The president's budget agrees that advance appropriations can constitute "distortions" (in its own words) and so also presents figures, e.g. for the Department of Education, showing smaller increases. When extolling its budget, however, the White House generally uses the larger, distorted figure.

Fitting Within the Tax Cut Target: The Case of the AMT

One device the Ways and Means Committee may employ to help meet the budget resolution target is to push off for a year or two the principal actions needed to address the major problems with the Alternative Minimum Tax (AMT), problems that the Administration's tax cut would make more costly to resolve. Most observers believe it is a given that Congress will take action in coming years to address the problems in the AMT. The Ways and Means Committee appears, however, to be planning to defer most of these actions so that their cost does not count against the target for tax cuts in this year's budget resolution. (Note: Failing to address the bulk of the AMT problem will not be sufficient; given the higher costs of the tax bills approved to date, staying within the budget plan's tax target will require the Ways and Means Committee to scale back significantly the President's remaining tax proposals.)

The AMT was originally designed to ensure that high-income taxpayers did not make excessive use of tax shelters and thereby avoid paying income taxes. Primarily because the AMT is not indexed for inflation, however, it will affect a rapidly growing number of middle-income taxpayers over the next decade unless it is changed. According to the Joint Committee on Taxation, the Bush tax cuts will exacerbate this problem, causing an additional 15 million filers to become subject to the AMT. The Joint Tax Committee estimates it will cost nearly \$300 billion over ten years to prevent the Administration's tax cut from having this effect. For a further discussion of these AMT issues, see *Income Tax Rates and High-Income Taxpayers*, Center on Budget and Policy Priorities, March 6, 2001, pages 7-9 (see <http://www.cbpp.org/3-6-01tax2.htm>).

2002, both the Nussle plan and the President's budget call for average increases in funding for discretionary programs of only 2.8 percent per year, which would just about cover inflation and would fall about \$300 billion short of what will be needed to keep discretionary funding at today's levels on a per-person basis, after adjusting for inflation.

It is likely the Administration will seek defense spending increases of substantially more than 2.8 percent for these years. The current Bush budget includes only a first installment of the defense spending increases the Administration is expected ultimately to request; the Administration is currently conducting a defense review, following which it is expected to seek sizeable additional increases for the years after 2002 for a national missile defense system and other military spending items. Under the Nussle plan, the increase in funding for discretionary programs would drop to a rate of 2.8 percent in the very years in which defense spending is likely to begin growing more rapidly. Since defense accounts for about half of total discretionary spending, significant reductions in funding for non-defense discretionary programs would be needed to remain within the discretionary spending totals the Nussle plan sets.

Furthermore, the amounts allowed for domestic appropriations are already smaller than one might think. Although the Nussle plan calls for defense outlays that are above baseline by \$61 billion over ten years, it holds expenditures for non-defense programs \$9 billion *below* the

The Spratt Plan

The Spratt plan differs from the Nussle plan in substantial ways. It divides the projected \$2.73 trillion surplus outside Social Security and Medicare Hospital Insurance into three equal shares of \$910 billion. The first \$910 billion is used for tax cuts — \$713 billion for tax cuts over ten years, with the remainder for interest costs associated with the tax cuts. The second \$910 billion goes for program increases, again with \$713 billion for the programs themselves and the rest for interest payments. Thus, of the projected ten-year surplus, the Spratt plan consumes \$1.82 trillion for tax cuts, program increases, and interest payments. By comparison, the Nussle plan consumes \$2.37 trillion. As a result, the Spratt plan devotes \$550 billion more to debt reduction than the Nussle plan does (or provides a cushion for adverse estimates and unaddressed needs that is \$550 billion larger).

There also may be fewer unaddressed needs under the Spratt plan: smaller tax cuts likely mean a somewhat smaller AMT problem, and a greater allowance for program increases may mean more funding for farmers up front, as well as a larger prescription drug benefit (and as a result, less intense pressure in the future to enlarge the drug benefit).

The Spratt plan transfers the final \$910 billion to the Social Security and Medicare HI trust funds. Each program would receive half of this amount. According to material the minority staff of the House Budget Committee distributed, this would extend the solvency of each of these trust funds by at least 11 years.

baseline. In addition, the plan includes a new feature, an allowance for natural disasters totaling \$55 billion over ten years. Such an allowance would be allocated to the Appropriations Committee only if, and to the extent that, natural disasters occur. Including such an allowance in a budget plan is a step forward — for almost two decades, presidential and congressional budgets have ignored the likelihood of costly natural disasters. But the existence of this pot of money — which is not available for the ongoing needs of existing programs even if no disasters occur in a year — means that existing non-defense programs are really being held \$65 billion below baseline over ten years. It is questionable whether such an approach is realistic; even in the era of deficits, non-defense programs tended to grow faster than inflation, not to be cut in inflation-adjusted terms.

A Reserve for Contingencies and Unmet Needs? The Nussle plan appears to include a reserve of \$364 billion over ten years outside Social Security and Medicare Hospital Insurance (see box on the size of the reserve). In theory, this money might act as a small cushion in the event that the current CBO projections prove to be overly optimistic.⁴ In reality, claims against this reserve

⁴ Rep. Nussle's budget plan is built on CBO's economic and other budget projections. However, as CBO and many others point out, those projections are exceptionally uncertain and over the next decade, baseline surpluses may be far smaller or larger than currently projected. For a discussion of this issue, see *Surpluses or Deficits? Projections of a Large Budget Surplus Are Surrounded by a High Degree of Uncertainty*, Center on Budget and Policy Priorities, Feb. 6, 2001. See <http://www.cbpp.org/2-6-01bud.htm>.

that are virtually certain to be honored already exceed \$364 billion; as a result, no reserve is likely to be available for other purposes.⁵

In fact, the reason that \$364 billion appear to remain unused in the Nussle plan is that this budget, like the Administration's budget, fails to reflect several hundred billion dollars in costs that most observers agree are virtually certain to be incurred. These costs include approximately \$100 billion over ten years to maintain assistance to farmers at roughly its average level of the past three years and several hundred billion dollars more to prevent the Alternative Minimum

Total Tax Cuts and Net Program Increases, 2002-2011
(in billions of dollars)

	Nussle Budget		Spratt Budget	
	Cost	Percent of Total Tax Cuts and Program Increases	Cost	Percent of Total Tax Cuts and Program Increases
Tax Cuts	1,676 ^a		713	
Interest payments	415		197	
Total Cost of Tax Cuts	2,091	88%	910	50%
Net Program Increases	219		713	
Interest Payments	55		197	
Total cost of Program Increases	275	12%	910	50%
Total Tax Cuts, Net Program Increases, and Interest payments	2,366	100%	1,820	100%
Remaining amount of the \$2.7 trillion projected surplus outside Social Security and Medicare HI	364		910	
			(The Spratt plan transfers the unused \$910 billion to the Social Security and Medicare HI trust funds.)	
^a \$37 billion in proposed increases in the refundable portions of certain tax credits are shown here as tax cuts; most of this cost stems from the proposed expansion of the child credit and the proposed establishment of a health insurance tax credit.				

Note: figures may not add due to rounding.

⁵ One unprecedented provision of the budget resolution gives the Chairman permission to increase spending allocations and totals beyond those in the budget plan to cover the costs of legislation reported by July 11 of this year, as long as the results are not estimated to produce a deficit outside of the Social Security and Medicare Hospital Insurance trust funds. Extra defense needs and the needs of farmers are mentioned, but increases for other purposes are allowed. This provision specifically relates to the use of the \$364 billion reserve.

Tax from encroaching heavily upon the middle class in coming years and subjecting millions of middle-income taxpayers to greater tax complexity and higher tax burdens. (Technically, the Ways and Means Committee could address the AMT problems with some of the tax-cut money the budget resolution allots it, but that is not the course the Ways and Means Committee is pursuing; the Ways and Means Committee is currently writing only modest changes in the AMT into its tax bills and leaving most of the AMT problem unaddressed.) These two items alone — maintaining payments to farmers and holding the AMT to roughly its current size — are expected to consume more than \$364 billion over the next ten years.

Furthermore, the defense spending figures in the Administration’s budget and the Nussle plan are essentially placeholders for years after 2002; these figures do not reflect the costs of the advanced weapons and missile defense systems the Administration is expected to propose once it

The Size of the “Reserve”

A pie chart the majority staff of the House Budget Committee distributed at the March 21 mark-up of the budget resolution purports to show that under the Nussle plan, there would be \$757 billion left outside of Social Security. Some \$240 billion of this is shown as Medicare Hospital Insurance surplus funds that would stay with that trust fund, while the other \$517 billion is shown as being placed in a “general contingency reserve.” The pie chart, however, appears to overstate the size of the plan’s “reserve.”

The Congressional Budget Office estimates that the Medicare Hospital Insurance trust fund will run a surplus of \$393 billion over ten years. The President’s budget and the Nussle plan envision \$153 billion over ten years for a Medicare drug benefit. The pie chart the Budget Committee majority staff distributed assumes that the \$153 billion for the drug benefit will be paid for with funds taken from the Medicare Hospital Insurance trust fund, leaving the aforementioned \$240 billion available in the trust fund. But if the drug benefit were financed in this fashion, the Medicare Hospital Insurance reserves would be smaller, and would run out at an earlier date than would otherwise be the case, causing the Medicare Hospital Insurance trust fund to become insolvent well *before* 2029 (the year in which it currently is projected to become insolvent). Bush Administration officials have indicated that their plan does *not* entail using Medicare surpluses in a way that accelerates insolvency in the Medicare trust fund. If that is so, the \$153 billion for the drug benefit must come from general revenues and not from the Medicare Hospital Insurance trust fund.^a

This result is a “reserve” of \$364 billion, rather than \$517 billion. As explained in the text, the \$364 billion amount is insufficient even to maintain current payments to farmers and prevent the Alternative Minimum Tax from affecting millions of middle-class families. As a result, no true reserve would be available for contingencies and other needs.

^a Furthermore, the Nussle budget shows that \$43 billion of the \$153 billion for a drug benefit would go for the President’s “Helping Hand” proposal, which calls for temporary block grants to states for prescription drugs for low-income seniors who are not on Medicaid. The budget places this \$43 billion in the Health function of the budget (Function 550), not the Medicare function (Function 570). This further underscores the deficiencies of the pie chart, which presents these costs as being financed from the Medicare Hospital Insurance trust fund.

completes its review of the Pentagon. In addition, the non-defense appropriations seem unrealistically low, and recent testimony by CBO Director Dan Crippen makes clear that even the most modest of prescription drug plans will likely cost significantly more than the \$153 billion in the budget plan allocated for that purpose. In short, the reserve is likely to be much smaller than the amount Congress will ultimately use over the net decade. If so, it will not be available as a cushion if the current surplus projection proves to have been too optimistic or to add resources to Social Security and Medicare as a part of a plan to restore long-term solvency to those plans.