

## CONGRESSIONAL BUDGET RESOLUTION WOULD USE AT LEAST 98 PERCENT OF PROJECTED NON-SOCIAL SECURITY SURPLUSES FOR TAX CUTS

### Plan Assumes Reductions in Non-Defense Discretionary Programs Totaling More Than \$121 Billion Over Five Years

by James Horney

On April 13, both the House and the Senate adopted the Congressional budget resolution for fiscal year 2001. The new Congressional budget resolution would:

- Devote to tax cuts at least 98 percent of the non-Social Security surpluses projected for the next five years;
- Increase defense discretionary funding by about \$29 billion — or 1.8 percent — over the next five years above the amount needed to maintain funding at the current level, adjusted for inflation;
- Cut spending for non-defense discretionary programs by more than \$121 billion — or 7.5 percent — over the next five years below the amount needed to maintain funding at the current level, adjusted for inflation; and
- Use this reduction in non-defense discretionary programs to offset the costs of providing modest increases in entitlement benefits, such as a limited Medicare prescription drug benefit and additional payments to farmers.

In addition, by proposing a five-year, rather than a ten-year, budget — and failing to provide any guidelines for, or constraints on, the size of tax cuts or entitlement expansions after the fifth year — the budget resolution would significantly weaken the fiscal discipline that has contributed to the bright near-term budget outlook and has discouraged adoption of policies that would aggravate the looming

long-term budget imbalance the nation faces when the baby-boomers retire in large numbers.

#### Tax Cuts

The budget resolution calls for tax cuts totaling at least \$150 billion over the next five years (2001 through 2005). Taking into account the increase in interest payments on the debt that would result from a \$150 billion tax cut, a tax cut of that magnitude would consume more than \$167 billion — or 98 percent — of the \$171 billion non-Social Security surplus that CBO projects for the next five years. (This is the CBO baseline projection that assumes discretionary spending is maintained at the current level, adjusted for inflation.) The resolution also allows tax cuts to be increased by another \$25 billion to a total of \$175 billion, although it fails to reflect these additional tax cuts in its revenue and surplus totals.

*A tax cut of the magnitude called for in the budget resolution would consume at least 98 percent of the surplus projected for the next five years.*

In addition, the resolution allows the tax cuts to be enlarged further if CBO increases its projection of non-Social Security surpluses in its summer update of the budget and economic forecast. The budget resolution would allow an increase in the projected surpluses to be used *only* to finance still-larger tax cuts (or greater debt reduction). Increased surpluses

*Under the budget resolution, it would not be permissible to shrink the number of uninsured low-income working parents by expanding a health insurance program and paying for it by closing abusive tax shelters.*

could *not* be used to reduce the magnitude of the reductions in non-defense discretionary programs or to finance any initiatives other than tax cuts.

The resolution also would allow the Senate to consider additional tax cuts if those cuts are paid for by reductions in mandatory programs. But the resolution would *not* allow increases in a mandatory program to be financed by a tax-raising measure. Thus, a proposal to expand a mandatory health program in order to reduce the number of working poor parents without health insurance, and to pay for it by closing abusive corporate tax shelters, would not be permitted.

Presumably, the tax cut envisioned in the budget resolution reflects most or all of the tax reductions that either the House or Senate already has passed this year. (The House has passed two significant tax cuts, a marriage-penalty tax cut and a bill connected to minimum-wage legislation that features reductions in estate taxes and increases in pension tax breaks. The Senate approved bankruptcy legislation in early February that included an array of tax cuts and passed legislation on March 2 containing education-related tax cuts. The Senate is currently considering a version of the marriage-penalty bill reported by the Finance Committee that is more costly than the House marriage penalty bill.) The tax cuts in the pieces of legislation the House or Senate has already passed, excluding the effects of duplicative provisions, would reduce federal revenues by \$111 billion over five years. When the resulting increases in interest costs are taken into account, these tax cuts would reduce the surplus by \$124 billion over this period.<sup>1</sup>

Because the budget resolution covers only the next five years (unlike last year, when the resolution covered 10 years), there is no information on the cost of the proposed tax cuts in 2006 through 2010. But tax cuts costing \$150 billion over the next five years could cost more over 10 years than the entire \$893

billion non-Social Security surplus that CBO projects for this period. (The \$893 figure is CBO's projection of the 10-year surplus, assuming that discretionary spending is maintained at the current level, adjusted for inflation.)

The tax bill that Congress passed last year and President Clinton vetoed would have cost \$156 billion over the first five years, a figure nearly identical to the \$150 billion in tax cuts the new budget plan provides. Over 10 years, last year's tax bill would have reduced revenues by approximately \$850 billion.<sup>2</sup>

If a \$150 billion five-year tax cut were enacted and were back-loaded to the same degree as last year's tax-cut package, the reduction in revenues would exceed \$800 billion over 10 years. Counting the resulting increase in interest payments on the debt, the cost of those tax cuts would exceed \$950 billion over 10 years, more than the total non-Social Security surpluses that CBO has projected.

Even if tax legislation providing a \$150-billion tax cut over five years is no more back-loaded than the tax cuts either the House or Senate has passed so far this year, it still would use up almost three-quarters of the non-Social Security surplus that CBO projects for 2001 through 2010.

### **Discretionary Spending**

The budget resolution proposes to increase *defense* discretionary funding by about \$29 billion — or 1.8 percent — over the next five years above the amount needed to maintain the current (fiscal year 2000) funding level, adjusted for inflation. For 2001, it proposes defense discretionary appropriations of nearly \$311 billion, which is more than \$12 billion above the 2000 level, adjusted for inflation, and more than \$4 billion above the President's budget request.

In contrast to the proposal for defense discretionary funding, the budget resolution proposes to cut *non-defense* discretionary appropriations by \$121 billion — or 7.5 percent — over the next five years below the amount CBO estimates is needed to maintain current funding, adjusted for inflation (by 2005, the cut would be 9.8 percent). In 2001 alone, the budget resolution calls for slicing non-defense discretionary funding by more than \$19 billion — or 6.3 percent — below the inflation-adjusted 2000 level, nearly \$7 billion below the amount needed just

to freeze funding at the 2000 level without any adjustment for inflation, and almost \$29 billion below the amount proposed in the Clinton Administration's budget.

Furthermore, since a number of Congressional leaders have pledged to increase funding for such popular discretionary programs as education, basic research, and veterans health care, the funding for all other non-defense programs — which include environmental programs, Head Start, low-income housing programs, the Federal Bureau of Investigation, the Coast Guard, anti-drug activities, and the National Park Service, among others — would have to be cut more than 6.3 percent below the current level, adjusted for inflation, for total non-defense discretionary funding to be reduced by that percentage. The budget resolution also establishes a “firewall” between defense and non-defense discretionary spending in the Senate. Under this provision, it would take 60 votes on the Senate floor to allow non-defense discretionary spending to be raised above the level the budget resolution assumes and paid for with a reduction in defense spending below the level the resolution assumes.

In addition, the budget resolution requires 60 votes in the Senate to designate any non-defense appropriations as emergency spending, a requirement the resolution does *not* apply to emergency defense appropriations (which continue to require a simple majority vote to pass). This rule will make it harder to increase funding for non-defense discretionary programs above the level the resolution assumes. (Emergency appropriations do not count against the spending ceilings the resolution sets.)

Given the array of basic functions that non-defense discretionary programs serve and the unmet needs in some of these areas — for example, HUD recently released new Census data showing that the number of low-income renters who pay more than half of their income for rent or live in dilapidated housing has reached an all-time high — instituting these cuts in this part of the budget seems ill-advised. The proposed cuts in non-defense discretionary programs appear even more dubious when placed alongside the hefty tax cuts disproportionately geared to high-income individuals that the Senate and House have approved this year and that the budget resolution accommodates.

Moreover, the reductions the budget resolution assumes in non-defense discretionary programs are

*If this summer's budget forecast shows a larger surplus, the increase in the surplus could be used for an even-bigger tax cut but could not be used to make the cuts assumed in domestic discretionary programs smaller.*

unrealistic; Congress and the President are unlikely ultimately to enact such cuts. Passing a budget resolution that limits non-defense discretionary spending to unrealistic levels is likely to make it more difficult to enact appropriations for fiscal year 2001 in a timely and orderly fashion.

One of the most important budget decisions made each year concerns the level of discretionary appropriations to include in the Congressional budget resolution for the fiscal year that begins October 1. The level for such spending that is included in the budget resolution is supposed to serve as a ceiling on the amount of funds that can be provided in appropriation bills for the coming fiscal year. If the level established for discretionary programs in the budget resolution is unrealistically low, it is difficult for the appropriations committees to produce bills that can garner majority support in both houses and be signed by the President. That can lead to the kind of protracted struggle that delayed enactment of final appropriation bills last year until November 29, nearly two months after the start of the fiscal year.

Experience suggests it is very unlikely that the level of non-defense discretionary funding ultimately enacted in the appropriation bills for 2001 will be substantially below the level provided for 2000, adjusted for inflation. Last year, the Congressional budget resolution called for a nearly 16 percent cut in non-defense discretionary funding for 2000 below the level needed to maintain funding at the 1999 level, adjusted for inflation. At the end of a long and somewhat tortuous process, the appropriations enacted for 2000 actually were a bit higher than the 1999 inflation-adjusted level.<sup>3</sup> And last year was not unusual. As former CBO director Robert Reischauer recently wrote, Congress let non-defense discretionary spending grow by 20 percent in real terms “during its decade-long jihad to balance the budget,” and it is hard to imagine Congress will be more close-fisted when the budget is in surplus, the

*Since the budget resolution covers only five years — instead of ten — it places no limit on the 10-year cost of tax cuts or entitlement increases.*

economy is robust, and voters are demanding more and better government services.<sup>4</sup>

It seems unlikely, especially in this election year, that Congress will be willing to make the real cuts in non-defense discretionary appropriations that the budget resolution assumes. As a result, assuming these cuts in the budget resolution may seriously complicate and delay enactment of the appropriation bills for 2001, especially since the resolution contains provisions designed to limit the use in coming months of gimmicks employed last year to enable discretionary appropriations to exceed the limit the budget resolution set while maintaining the fiction that the limit was being observed.

### Entitlement Spending

The tax cuts assumed in both versions of the budget resolution would cost almost as much as the total non-Social Security surpluses that CBO projects for the next five years. Virtually none of the surpluses would remain after the tax cuts are taken into account. As a result, the reductions in non-defense discretionary spending the budget resolution calls for are needed to pay for the modest entitlement expansions the resolution contains.

The budget resolution proposes spending \$40 billion over the next five years to establish a limited Medicare prescription drug benefit and for other changes in Medicare. The budget resolution also proposes to spend \$5.5 billion in 2000 to provide additional payments to farmers, above what they will receive under the Freedom to Farm Act, and \$8.8 billion over the next five years for further payments to farmers and to alter the federal crop insurance program. These and some other modest increases would be financed primarily by cutting domestic discretionary programs. (The plan also assumes small savings from several provisions, such as one that would continue customs user fees that are scheduled to expire under current law.)

### Reducing Fiscal Discipline

Last year's budget resolution covered 10 years, 2000 through 2009. It specified overall level of tax cuts and entitlement changes for the 10-year period. Although last year's resolution did not provide a mechanism to enforce the levels it assumed after the fifth year, the amounts the budget resolution specified for the sixth through the tenth years exerted political pressure. For example, the cost of the tax bill the Ways and Means Committee originally planned to write last year was scaled back because the proposal's 10-year cost exceeded the amount the budget resolution called for.

The new budget resolution covers only five years, 2001-2005. That means there is no limit on the 10-year cost of tax bills or entitlement legislation. This represents a further erosion of the fiscal discipline that contributed to the current bright budget outlook. This change in the structure of the budget resolution also makes more likely the enactment of tax cuts (or entitlement expansions) that have costs that explode in the second half of the decade and ultimately exacerbate the serious long-term imbalance between revenues and expenditures that the nation is expected to face when the baby-boom generation retires in large numbers.

1. If the Senate passes the Finance Committee version of the marriage penalty tax bill, the cumulative reduction in revenues passed by the House or the Senate would total \$130 billion over five years. Together with resulting additional interest costs, those tax cuts would reduce the surplus by \$145 billion over five years.
2. The \$850 billion figure ignores the effect of a gimmick included in last year's tax bill that would have sunset the bill's tax rate reductions in 2009.
3. After adjusting for an accounting gimmick that artificially reduced 2000 budget authority by nearly \$15 billion (see Box 1-2 in CBO's *The Budget and Economic Outlook: Fiscal Years 2001-2010*, January 2000).
4. Robert D. Reischauer, "The Phantom Surplus," *New York Times*, January 28, 2000, page A27.