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Proposed Senate Budget Is Likely to Leave Millions of Americans Worse Off

By Joel Friedman, Chye-Ching Huang, David Reich, Paul Van de Water, and Sharon Parrott[1]

The Senate Budget Committee will consider this week a 2018 budget resolution that will facilitate $1.5 trillion of deficit-increasing tax cuts, likely benefiting those who are most well-off. The resolution, proposed by Chairman Mike Enzi, also calls for large cuts in health care, assistance programs that help Americans of modest means make ends meet, and funding for a broad swath of public services and investments — including education, scientific research, infrastructure, and more — that support the nation's economy. Millions of Americans will likely end up worse off under this combination of policies.

The budget plan also has some "sleeper" provisions that change Senate rules for considering budget legislation. For instance, it *eliminates* an existing Senate requirement for a Congressional Budget Office (CBO) cost estimate a day in advance of votes on the Senate floor on legislation that a committee has reported. The recent debate on the Affordable Care Act (ACA) repeal bills shows the importance of having timely CBO analyses. The budget also includes various other procedural provisions to help clear the way for the tax-cut bill, such as avoiding the "pay-as-you-go" rule that would otherwise apply.

Chairman Enzi's proposed budget resolution[2] includes four key elements:

1. A fast-track "reconciliation" process that would allow for tax cuts costing $1.5 trillion over ten years that require only a simple majority to pass. The $1.5 trillion cost would not have to be offset by closing tax loopholes or ending unproductive tax breaks, and thus would add to the nation's deficits, which are already growing as the baby boomers retire. In addition, the resolution would allow the Senate Finance Committee to cut critical programs under its jurisdiction, including Medicaid, Medicare, and basic assistance for poor seniors and people with disabilities, and then use those savings to make the tax cuts even larger (so that the *net* cost of the tax cuts and the budget cuts combined equaled $1.5 trillion). The reconciliation process is the same process that Congress tried to use to repeal the ACA and requires only a simple majority to enact law.

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[1] Guillermo Herrera and Richard Kogan also contributed to this analysis.

[2] This analysis is based on materials the Senate Budget Committee made public on September 29, 2017.

Once a budget resolution puts in place a reconciliation process, Congress can move ahead with tax legislation. Last week, the Trump Administration and congressional Republican leaders unveiled a set of tax proposals they intend to form the framework for the tax bill. The framework features tax cuts that are heavily skewed to those at the top of the economic ladder, with roughly 80 percent of the benefits flowing to the top 1 percent in 2027, and 40 percent to just the highest-income 1 out of every 1,000 Americans, according to Tax Policy Center (TPC) estimates. The bottom 80 percent of Americans would get just 13 percent of the tax cut, and the 115 million households with incomes below $75,000 would receive an average tax cut of just $190, amounting to a 0.5 percent increase in after-tax incomes.

If the tax cuts were eventually paid for with the types of budget cuts that Republican leaders have set out in their budget plans — including this plan — most Americans likely would end up as net losers.

2. Budget cuts of $5.8 trillion over the next decade, including cuts to a broad range of basic public services, assistance for low- and moderate-income Americans, and health care. The budget plan doesn't mandate these cuts through reconciliation, and most aren't likely to be enacted this year. But they provide a roadmap for the kinds of cuts Republican leaders intend to make when their attention turns to deficits, made larger by unpaid-for tax cuts. Measured relative to CBO's June 2017 baseline estimates, the $5.8 trillion in cuts include:[3]

- Cuts in mandatory programs: The budget calls for $4.1 trillion of cuts in entitlement programs over the decade. This includes a cut of $1.8 trillion in health entitlement programs, including $473 billion in Medicare and $1.3 trillion primarily in Medicaid and subsidies to make coverage affordable through the ACA marketplaces. The budget resolution also proposes $653 billion in cuts to income security programs, a large share of which includes basic assistance to struggling families. Roughly one-quarter (or $1 trillion) of these entitlement cuts are unspecified, meaning that cuts in a range of programs would be significantly deeper than the budget resolution portrays.
- Cuts in non-defense appropriations: The budget calls for $800 billion in cuts over the decade to non-defense discretionary spending, which supports a broad array of public services and investments. These cuts would come on top of significant cuts that have been made to this part of the budget since 2010, especially though the caps set by the Budget Control Act of 2011. Under the Senate budget plan, 2027 funding for non-defense discretionary programs subject to those caps would be 18 percent below 2017 levels and fully 29 percent below 2010 levels, adjusting only for inflation. In 2027, non-defense discretionary spending as a share of the economy would drop to levels likely not seen since the Hoover Administration.
- Assumptions of sharp reductions in war funding: The budget plan also calls for a reduction of roughly $850 billion in spending for war costs, known as Overseas Contingency Operations (OCO). These costs have been running at about $100 billion per year, but the budget plan conveniently assumes that OCO funding will fall to $77 billion in 2018 and to zero by 2022, thereby helping make the budget resolution's deficit numbers look smaller.

[3] The Senate Budget Committee's starting point is also CBO's June baseline, except that the committee removes from that baseline future funding for Overseas Contingency Operations and other activities not subject to the caps on discretionary funding that were established by the Budget Control Act. Because of the adjusted starting point, the committee shows program spending cuts netting to $4.7 trillion over ten years.

3. Rosy economic assumptions to mask the size of future deficits. The budget claims to generate a surplus of nearly $200 billion in 2027 outside Social Security and the Postal Service. But to do so, the budget relies on savings of $1.2 trillion over ten years (and $275 billion in 2027 alone) that reflect a heroic assumption that the budget plan, and particularly its $1.5 trillion in tax cuts, will yield substantially higher economic growth than CBO is currently projecting. There is no historical evidence to support an "economic feedback" bonus of this magnitude; indeed, all the available evidence — from tax cuts enacted during the Reagan and George W. Bush administrations to those enacted more recently in Kansas — shows that tax cuts *reduce* revenues and generate little or no additional economic growth, and so little or no offsetting revenue increases.

4. Changes in Senate rules to make it easier to consider a bill on the Senate floor without a CBO cost estimate. The budget calls for eliminating an existing point of order that requires a cost estimate at least 28 hours in advance of voting on the Senate floor on legislation reported by a committee. The congressional debate around repealing the ACA highlights the importance of having not only a CBO cost estimate but a full analysis of major legislation in advance of a vote. Indeed, that experience points to the need to *strengthen* the current point of order, not repeal it.

Overall, the Senate budget plan is broadly similar to the Trump and House budget plans.[4] All three combine tax cuts for those at the top with budget cuts in a wide array of programs, including assistance for families struggling to get by, and in a broad swath of basic government functions. The result would almost certainly be more poverty and inequality and likely a weaker economy in the future.

Tax Cuts

Chairman Enzi's proposed budget resolution allows the Senate to move forward with tax-cut legislation that could increase deficits by $1.5 trillion over the next decade. Because that $1.5 trillion would not have to be offset by closing tax loopholes or unproductive tax breaks, it would add to the deficit and debt. (In contrast, the Trump budget released in May and the plan approved by the House Budget Committee in July assume that their tax plans would *not* add to deficits.)

The tax framework that President Trump and the House and Senate Republican leadership unveiled last week is a clear preview of how tilted to the wealthy and corporations the ultimate tax bill would be. TPC estimates that in 2027 (when key provisions of the plan are in full effect):[5]

- The top 1 percent of Americans would receive 80 percent of the tax cuts (see Figure 1), with the average annual tax cut for these households exceeding $200,000 by that year.

[4] For more on the Trump budget, see "Trump Budget's Radical, Harmful Priorities," CBPP, May 26, 2017, https://www.cbpp.org/research/federal-budget/trump-budgets-radical-harmful-priorities. For more on the House budget plan, see Richard Kogan, "5 Key Points About the Budget Likely Before the House This Month, CBPP, September 5, 2017, https://www.cbpp.org/blog/5-key-points-about-the-budget-likely-before-the-house-this-month.

[5] Chuck Marr, "Republican Leaders' Tax Framework Provides Windfall to High-Income Households, With Working Families Largely an Afterthought," CBPP, October 2, 2017, https://www.cbpp.org/research/federal-tax/republican-leaders-tax-framework-provides-windfall-to-high-income-households; Tax Policy Center, "A Preliminary Analysis of the Unified Framework," September 29, 2017, http://www.taxpolicycenter.org/publications/preliminary-analysis-unified-framework.

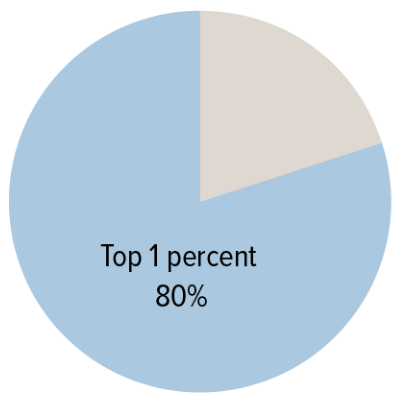
- The top 0.1 percent of Americans would receive 40 percent of the tax cuts, with their average annual tax cut exceeding $1 million by that year.
- The bottom 80 percent of Americans would receive 13 percent of the tax cuts.
- The 115 million households (or more than 60 percent of all households) earning less than $75,000 would receive an average tax cut of just $190 on average.

The tax cuts are also far larger as a share of after-tax income for households at the top.

FIGURE 1

80 Percent of Trump/GOP Tax Framework Net Tax Cuts Go to Top 1 Percent of Americans

Share of total federal tax cut, 2027



Source: Tax Policy Center

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TPC estimated that the GOP tax plan would cost more than the $1.5 trillion in deficit-increasing tax cuts allowed under the Senate budget plan. Congress could bridge this gap in several ways. The budget resolution allows the Senate Finance Committee to cut programs in its jurisdiction — including, for example, Medicaid, Medicare, and basic assistance for poor seniors and people with disabilities — to offset the cost of tax cuts above the $1.5 trillion level. If Congress takes this approach, low- and moderate-income Americans and seniors would be paying for tax cuts heavily skewed to the most affluent. Alternatively, Congress could make the proposed tax cuts smaller or use gimmicks to mask their true costs — or it could use some combination of these approaches.

The GOP tax framework is highly skewed to the top of the income spectrum because it recycles a series of tax cuts — each favoring those at the top — that have been included in some form in every recent GOP tax plan, including:

- Cutting the corporate tax rate from 35 percent to 20 percent, the bulk of the benefit of which would go to wealthy investors and CEOs, not typical workers.

- Setting a special 25 percent top tax rate for certain financial firms, lobbyists, law firms, and other high-earning "pass-through" businesses. This provision is often billed as a benefit for "small business." But the vast majority of small businesses are, indeed, small — and already pay at the 25 percent rate or lower — so they would not benefit.
- Cutting the top individual income tax rate from 39.6 percent to 35 percent.
- Repealing the estate tax, which would benefit only the heirs of the wealthiest 2 out of every 1,000 estates in the country.
- Eliminating the Alternative Minimum Tax, which is intended to ensure that higher-income people who take large amounts of deductions and other tax breaks pay at least a minimum level of tax.

Further, while the Republican leaders' framework alters numerous individual income tax provisions, the TPC analysis indicates that the end result would likely be close to a wash for many low- and middle-income families.

If an eventual $1.5 trillion tax cut were anywhere nearly as favorable to high-income households as the Trump-GOP leadership framework unveiled last week, it likely would ultimately *hurt* most Americans. The resulting increase in deficits and debt would raise the pressure for cuts in programs that help low- and moderate-income people afford basic needs, produce long-term economic benefits, or provide basic government services. Indeed, Republican lawmakers have already called for deep cuts in critical programs to address *current* projected deficits — even before accounting for another $1.5 trillion in deficit-increasing tax cuts.[6] The majority of Americans could ultimately lose more from the program cuts than they would gain from the tax cuts. That's because while the benefits of the tax cut are concentrated on the wealthy, most Americans would see cuts in government services or benefits upon which they rely when it came time to pay for the tax cuts.

Mandatory Spending Cuts

The Enzi plan assumes $4.1 trillion in cuts in mandatory spending programs over the next ten years — cuts that almost certainly would fall heavily on low- and middle-income families.[7] Although the resolution does not specify precisely which programs would be cut, it allocates most of the cuts to particular budget categories, known as "budget functions":

- *Health* programs other than Medicare — primarily Medicaid and premium and cost-sharing assistance — would face cuts of $1.3 trillion over the decade. These programs would be cut by nearly 30 percent by 2027.
- Programs in the *income security* function of the budget would be cut by $653 billion over the decade. Likely targets include programs for low-income children and households such as

[6] Chye-Ching Huang and Joel Friedman, "Senate Republicans Take Big First Step Towards $1.5 Trillion Revenue-Losing Tax Cut," CBPP, updated October 2, 2017, https://www.cbpp.org/research/federal-tax/senate-republicans-take-big-first-step-towards-15-trillion-revenue-losing-tax.

[7] Summary tables from the Senate Budget Committee show $4.278 trillion in mandatory spending cuts but note that this figure includes $178 billion in "economic feedbacks" from reducing the deficit.

SNAP (formerly food stamps), Supplemental Security Income, Temporary Assistance for Needy Families, and refundable tax credits.

- *Medicare* would be reduced by $473 billion over the decade.
- *Education, training, employment, and social services* would face cuts of $199 billion over the decade. This part of the budget includes Pell Grants for low- and moderate-income college students, student loans, and the Social Services Block Grant.
- *Other budget functions* would be cut by $0.5 trillion over the decade.
- The remaining $1.0 trillion in ten-year cuts is *not allocated* by budget function. If previous Republican budgets (such as those of President Trump and the House Budget Committee) are a model, some or many of these unspecified cuts also are likely to fall on low- and middle-income families.

The budget resolution wouldn't use the fast-track reconciliation procedure to *require* congressional committees to advance any of these spending cuts this year, except for $1 billion in deficit reduction assigned to the Senate Committee on Energy and Natural Resources.[8] As noted, the resolution's reconciliation instruction would *allow* the Senate Finance Committee to propose more than $1.5 trillion in tax cuts by cutting programs in its jurisdiction. The Finance Committee would also have the flexibility to pursue repeal of the ACA as part of reconciliation if GOP leaders conclude they had sufficient votes to pass ACA repeal along with their tax package.

Non-Defense Appropriations Cuts

Chairman Enzi's budget proposes even deeper cuts to non-defense appropriations than required by the Budget Control Act of 2011 (BCA) and the "sequestration" process it created. These appropriations — also known as non-defense discretionary (NDD) funding — support a wide range of basic services and investments, such as scientific research, veterans' medical care, job training, weather forecasting, environmental protection, low-income housing assistance, homeland security, financial aid for college students, and the national parks.

Most NDD funding is subject to caps set by the BCA, and for 2018 the budget resolution leaves that funding at the current-law level, which assumes that *full* sequestration takes effect for the first time — a level that both Republicans and Democrats have said is inadequate to meet national needs. Then for 2019 and beyond, the resolution calls for cutting NDD funding *below* the already austere sequestration-level caps. It sets the 2019 level some *$29 billion below* the 2018 sequestration level, and $42 billion below what full sequestration would allow in 2019. After adjusting for inflation, the overall 2019 NDD funding level would be 10 percent below the 2017 level and 22 percent below the 2010 level. By 2027, the budget resolution's NDD level would be 18 percent below the 2017 level and 29 percent below the 2010 level in inflation-adjusted terms.

In contrast, the budget assumes *no* further cuts to defense beyond what the BCA and sequestration require. It sets funding for defense programs at the current-law BCA cap level in 2018 and all subsequent years.

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[8] In contrast, the budget resolution reported by the House Budget Committee on July 21, 2017 includes reconciliation instructions to several committees requiring cuts of at least $203 billion over ten years to programs in their jurisdictions.

Some NDD spending is outside the caps, including outlays for highway and mass transit programs that are funded through the transportation trust funds. Despite Administration rhetoric calling for increased infrastructure investment and the large documented needs for highway and bridge repair, the Senate budget resolution would cut this spending substantially, as well.

Under the proposed budget resolution, overall spending for NDD programs in 2018 would equal about 3.1 percent of gross domestic product (GDP) — tied for the lowest percentage on record since at least the early 1960s. That percentage would then drop steadily, falling to 2.1 percent in 2027 — a level likely not seen since the Hoover Administration.

Rosy Economic Assumptions

The proposed Senate budget resolution claims its policies will generate an "on-budget" surplus of $197 billion in 2027. This figure excludes the income and expenditures of Social Security and the Postal Service. But the estimate relies heavily on highly unrealistic assumptions of stronger than projected economic growth.

In particular, the budget assumes that its $1.5 trillion in unpaid-for tax cuts would generate robust additional economic growth, enough to produce $1.2 trillion of offsetting deficit reduction over the decade (and $275 billion in 2027 alone).[9] Absent that rosy assumption, both the "on-budget" programs and the total budget would be firmly in deficit in each of the next ten years. Claims of tax cuts generating a massive burst of economic activity are unwarranted. They have been thoroughly debunked by the historical record, both nationally following the Reagan and George W. Bush tax cuts and in states like Kansas following its own tax-cut experiment.[10]

Bruce Bartlett, a former tax adviser to both Presidents Reagan and George H.W. Bush who previously promoted the concept that tax cuts can ignite growth, recently wrote (after reviewing the evidence) of the idea that tax cuts can generating offsetting economic growth, even to the point of paying for themselves: "That's wishful thinking. So is most Republican rhetoric around tax cutting. In reality, there's no evidence that a tax cut now would spur growth."[11]

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[9] The Senate budget resolution assumes another $178 billion in deficit reduction that CBO estimates will occur if the spending cuts in the resolution were enacted. See Congressional Budget Office, "Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Enzi," September 2017, https://www.cbo.gov/publication/53152.

[10] See, for instance, CBPP, "Tax Cuts for the Rich Aren't an Economic Panacea — and Could Hurt Growth," https://www.cbpp.org/research/federal-tax/tax-cuts-for-the-rich-arent-an-economic-panacea-and-could-hurt-growth and "GOP Tax Plans Would Emulate Failed Kansas Experiment," https://www.cbpp.org/research/federal-tax/gop-tax-plans-would-emulate-failed-kansas-experiment.

[11] Bruce Bartlett, "I helped create the GOP tax myth. Trump is wrong: Tax cuts don't equal growth." *Washington Post*, September 28, 2017, https://www.washingtonpost.com/news/posteverything/wp/2017/09/28/i-helped-create-the-gop-tax-myth-trump-is-wrong-tax-cuts-dont-equal-growth/?utm_term=.5ec8d2956843.

Budget Process Changes

The budget resolution includes changes to certain Senate budget procedures that could reduce transparency or eliminate certain budget constraints.

For example, the budget plan would shield the deficit-increasing tax legislation from certain points of order that would otherwise apply. In particular, the budget resolution includes a "reserve fund" mechanism that effectively exempts the tax legislation from the Senate's pay-as-you-go rule, which normally creates a 60-vote point of order against legislation that increases the deficit. (Ironically, the budget plan is making technical adjustments to the Senate's pay-as-you-go rule at the same that it proposes an exemption for a bill expected to swell deficits by $1.5 trillion.) The budget would also exempt the tax bill from another Senate rule that creates a 60-vote point of order against measures that increase the deficit by more than $10 billion in any year unless the cost is fully offset over the full period that the resolution covers.

The budget plan also would repeal an existing point of order against voting on bills reported by a Committee unless a CBO cost estimate for the bill has been publicly available for at least 28 hours before the vote. It does so despite recent experience with measures to repeal the ACA, which highlighted the importance of having a full cost estimate and analysis available in advance of a vote. At the same time, the resolution creates a new 60-vote point of order, applicable only to the tax-cut bill (and likely primarily to proposals from Democratic senators), against consideration of *amendments* to the bill if the Budget Committee chairman rules that insufficient information is available about their budget effects. The provision directs the chairman to consult with the ranking minority member of the Budget Committee, but leaves the final decision solely to the chairman's discretion.