CENTER ON BUDGET
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ADMINISTRATION PROPOSALS TO CHANGE BUDGET PROCESS HAVE STRONG IDEOLOGICAL CAST

Proposals Would Skew Policy Debates, Exempt Tax Cuts from Fiscal Discipline

The President released a budget that proposes numerous changes in the process by which Congress develops and passes the federal budget. This analysis briefly summarizes the proposed changes, offers assessments of them, and where applicable, provides links to previous Center analyses of similar proposals.

Unbalanced Proposals that Favor Tax Breaks and Distort Policy Debates

1. Changing the rules to make it easier to make the 2001 and 2003 tax cuts permanent. The Administration proposes that the Congressional Budget Office and the Office of Management and Budget be required to treat extension of the 2001 and 2003 tax cuts as though such extension *had already been enacted*. Under this change, when CBO and OMB are asked to provide estimates of the cost of legislation to extend the tax cuts or make them permanent, they would be required to produce estimates showing the cost to be "zero." (In reality, CBO estimates that extending the tax cuts and making them permanent would cost $2.1 trillion over the next ten years. See http://www.cbpp.org/2-2-05tax.pdf.)

This proposal is highly significant, as it would exempt legislation to extend the tax cuts, or make them permanent, from any sort of Congressional budget enforcement. It should be recalled that the tax cuts enacted in 2001 and 2003 were purposely given early expiration dates so that their costs would be viewed as small enough to fit within the budget targets then in use. This constituted a rather massive budget gimmick. Under the Administration's new proposal, the costs of these tax cuts in years after 2010 would be entirely exempt from any budget control or limits. (In other words, the costs of the tax cuts after 2010 — and in the case of the dividend and capital gains tax cuts, the cuts after 2008 — would effectively have been placed outside the budget enforcement rules both when the tax cuts were first enacted and when they were extended.) Such budgetary legerdemain would be unprecedented and would shatter rules designed to promote some modicum of fiscal responsibility. For a prior Center analysis of this proposal, see http://www.cbpp.org/2-27-04bud4.pdf.

2. Cap annually appropriated programs. The Administration proposes to set a statutory limit on the total amount of annual appropriations for "discretionary programs." These programs include defense, education, veterans' medical care, housing, biomedical research, international affairs programs, and all other programs that do not have entitlement or "mandatory" status. The annual caps would run through fiscal year 2010, and would be set at levels equal to the total amount the President's budget requests for discretionary programs in each of the next five years.

The proposed caps would be harsh. If defense, homeland security, and international affairs are funded at the levels the President proposes, then by 2010, funding for the remaining discretionary program would have to be cut about $66 billion, or 16 percent, below the 2005 levels, adjusted for inflation.

In another unprecedented move, the Administration is proposing such caps without showing what programs it would cut, or by how much, to fit discretionary funding within these caps. It is impossible to tell from the President's budget how the Administration would cut programs after 2006 to meet its proposed caps because — for the first time in decades — an Administration is refusing to provide information in the budget or in supporting documents showing the funding levels it envisions for discretionary programs in years after the coming year. The part of the budget that normally includes the proposed funding levels for discretionary program accounts for the second through fifth years has been deleted from that budget and from all supporting documents, concealing from view the cuts the Administration has in mind to achieve the austere caps it wants written into law.

It should be noted that under the new budget rules the Administration is proposing, there would be no limit whatsoever on the size of tax cuts that could be enacted in this or future years. Domestic appropriations would be capped and cut, in essence, to help defray a portion of the costs of the tax cuts enacted since January 2001 and the new tax cuts the Administration is proposing. That this is the case is readily apparent — the tax cuts would cost much more, and increase deficits by much more, than the proposed reductions in domestic programs would save. For the Center's analysis of a similar proposal last year, see http://www.cbpp.org/3-1-04bud.pdf.

3. Bar near-term improvements in mandatory programs. The Administration proposes a "pay-as-you-go" rule under which any legislation enacted through 2010 that would increase the cost of a mandatory or "entitlement" program would have to be "paid for," or offset, by cuts in other entitlement programs. Unlike the pay-as-you-go rule that was in effect in the 1990s, tax cuts would be *exempt* from the rule. Thus, unlimited tax cuts would be allowed, but no net improvements in entitlement programs such as Medicare prescription drug coverage, Supplemental Security Income (SSI) for poor people with disabilities or the elderly poor, unemployment compensation, or child care assistance would be allowed unless offsetting cuts in the same or other entitlement programs were made.

Previous "pay-as-you-go rules were even-handed; they required *both* tax cuts and entitlement increases to be paid for. They also allowed an entitlement increase to be paid for with a revenue increases, such as by closing tax loopholes or curbing abusive tax shelters. Under the Administration's proposal, by contrast, paying for an improvement in an entitlement, say for working poor families, by reducing tax avoidance or closing an abusive tax shelter would be prohibited. For a prior Center analysis of this proposal, see http://www.cbpp.org/3-17-04bud.pdf.

4. Bar *long-term* improvements in mandatory programs. The Administration also is proposing a second "pay-as-you-go" rule, which would apply to a group of selected entitlement programs. Under this rule, the House of Representatives and the Senate would be permanently barred from considering any measures that would increase the overall cost of this group of programs *over the next 75 years* (measured on a "present-value" basis). More precisely, an improvement in a covered program could be enacted only if the projected cost of the improvement over 75 years was fully offset by savings over 75 years from the enactment of cuts in one or more of the other entitlements programs subject to this rule, or from an increase in the Medicare payroll tax or a new tax specifically dedicated to one of these programs. The programs that would be subject to these requirements are Medicare, Supplemental Security Income (SSI), federal military or civilian retirement, veterans' disability benefits, Medicaid (within a few years), and ultimately any other entitlement that OMB chose to put on the list.[1] A Senate waiver of the new rule would require 60 votes.

One feature of this proposed rule worthy of note is that legislation that increased the cost of these entitlements could be paid for by an increase in *dedicated* revenues, but not by an increase in *general* revenues. The effect of this rule would be to block increases in progressive individual and corporate income taxes (including the closing of tax loopholes or shelters) from being considered as a way to pay for improvements in these entitlement programs. Thus, increases in regressive payroll taxes (or in Medicare premiums) would be allowable financing mechanisms, but increase in progressive income tax revenues would not be.

One other problem with this proposal is that it would heavily and inappropriately skew debates on health care policy and the uninsured. The 75-year costs of legislation to expand Medicaid to cover more of the uninsured would have to be offset (once Medicaid was added to the list of programs subject to the new rule, as the budget says would be done). But legislation to provide new tax deductions or other tax breaks related to health insurance (other than refundable tax credits) would *not* have to be offset, even though such proposals would necessarily be less well targeted on the uninsured population and likely be less effective at reducing the ranks of the uninsured.

Furthermore, CBO and other health and budget analysts have warned that long-term trends in health care costs are virtually impossible to forecast and that 75-year cost estimates for health care legislation would be highly unreliable. For the Center's analysis, see http://www.cbpp.org/2-1-05bud.pdf.

Proposals that Enhance the White House's Power and Diminish that of Congress

1. Line-Item Veto. The Administration proposes that the President be allowed to sign appropriations acts but then strike specific provisions from them. The current division of powers gives the President the power to veto legislation but balances this presidential power by giving Congress the power to package legislation. This change in the balance of powers would be accomplished either through an amendment to the U.S. Constitution or a statutory approach that would survive constitutional challenge.

2. Joint Budget Resolution. Currently, Congress passes a budget plan each spring to guide its committees in preparing budget legislation during the year. That plan is called a "congressional budget resolution." The Administration proposes to allow the President to sign or veto the

[1] Social Security would be treated separately. Social Security benefit increases would be ruled out unless offset by other reductions in Social Security benefits or on increase in payroll taxes.

congressional plan, giving him much more control over the plan's contents. For previous Center analysis of this concept, see http://www.cbpp.org/6-21-04bud.pdf.

3. Biennial Budgeting and Appropriations. The Administration proposes that Congress enact budgetary legislation only in odd-numbered years (i.e., not in election years). Congress currently uses the annual appropriations process as the most direct form of oversight and control over officials of the executive branch; biennial budgeting would likely reduce such congressional control. In any case, budget estimates grow less reliable as one looks further in the future, so requests for supplemental funding or requests to rescind enacted funding would likely become more frequent.

It is ironic that the President has requested biennial appropriations in the same budget from which all information on the funding levels that the President envisions for discretionary programs in the second year — fiscal year 2007 — *has been removed*. For a previous Center analysis of this concept, see http://www.cbpp.org/3-1-99bud.pdf.

4. Automatic Appropriations. The Administration proposes that if an appropriations bill is not enacted by the start of the fiscal year, each program normally covered by that bill would continue automatically at the lower of the funding level the President has requested or the level for the prior year. This proposal would strengthen the President's hand by making it easier for him to veto some appropriations bills and refuse to negotiate with Congress on their contents; the agencies funded by the bill would not have to shut down, and the President thus would be likely to get his way on more of the funding levels in the bill. (For a similar reason, the proposal would strengthen a Senate minority that threatened to filibuster an appropriations bill, since the minority would know its filibuster could not be thwarted by the specter of an agency shutdown. Currently, filibusters are frowned upon in such circumstances because they risk agency shutdowns.) For a Center analysis of a similar proposal, see http://www.cbpp.org/6-22-04bud3.pdf.