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Congress's Budget Resolution Promises Spending Hikes Now and Tax Hikes Soon

Brian M. Riedl

Disregarding their promise to restore fiscal responsibility in Washington, the House is about to follow the Senate in passing a budget resolution conference report that:

- Assumes tax increases topping $3 trillion over the next decade, or $3,135 per household annually;
- Includes 64 reserve funds that could be used to raise taxes by hundreds of billions more;
- Increases discretionary spending by 8 percent for the second consecutive year and does not terminate a single wasteful program;
- Completely ignores the impending explosion of Social Security, Medicare, and Medicaid costs;
- Creates rules that bias the budget toward tax increases; and
- Assumes that Congress will violate its own PAYGO rules.

The White House has already threatened to veto the large spending and tax increases that would follow from this budget. Office of Management and Budget (OMB) Director Jim Nussle—in addition to ruling out tax increases, as well as spending bills that fail to reform earmarks—stated that: "[A]ppropriations bills that exceed the President's reasonable and responsible spending levels will be met with a veto because every dime Congress spends beyond these limits will push the budget deficit higher."[1] In response, congressional Democrats have hinted at waiting until the next President takes office in January—four months into the next fiscal year—to pass the annual spending bills. President Bush should insist that Congress complete its work on time and in a fiscally responsible manner.

Building on a Bad Legacy. The Democratic congressional majority promised pay-as-you-go (PAYGO) budgeting that would prevent new deficit spending. During the 17 months of their majority, they have used blatant accounting gimmicks, such as fake sunsets and shifting payment dates, to:

- Pass SCHIP (State Children's Health Insurance) legislation adding $55 billion to the budget deficit;
- Enact a student loan bill with $15 billion in new deficit spending; and
- Waive their own PAYGO rules and enact a farm bill that adds approximately $20 billion to the budget deficit, despite record-high farm incomes.[2]

Gimmicks such as abusing the "emergency" designation also helped Congress to eventually secure White House acceptance of most of its proposed 9.4 percent increase in discretionary spending. The budget resolution shows that Congress has retained its spending addiction.

More Spending Increases Now. Federal spending now tops $25,000 per household annu-

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214 Massachusetts Avenue, NE
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(202) 546-4400 • heritage.org

ally, and the coming Social Security, Medicare, and Medicaid costs of 77 million retiring baby boomers threaten to add another $12,000 per household to the taxpayers' annual tab.[3] Rather than address escalating federal spending and the coming entitlement tsunami, the budget irresponsibly piles on even more spending and debt. Congress's budget would boost FY 2009 discretionary spending (excluding emergencies) by $80 billion, or 8 percent, above this year's level. That amount is also $24 billion over the President's proposed $992 billion.[4] That does not include the extra spending that could result from 64 reserve funds that allow Congress to increase spending further as long as they raise taxes accordingly.

Discretionary spending has already expanded by 45 percent (after inflation) since 2001. While defense spending has received large increases, even non-defense programs have increased by 28 percent under President Bush—at an annual rate that is nearly twice as fast as under President Clinton.[5] Yet, Congress would provide an additional 8 percent increase.

This year would represent the second consecutive 8 percent hike in discretionary spending. Entitlement spending increases—which are subject to PAYGO rules—get most of the attention, yet each year's discretionary spending increase also matters because it becomes part of the following year's baseline. Over the next decade, the difference between growing discretionary spending by 8 percent annually versus 3 percent annually is a staggering $3.6 trillion—the same cost as extending all the 2001 and 2003 tax cuts and fixing the Alternative Minimum Tax (AMT).

Regrettably, the budget does not propose any significant offsets for this new spending. Nor does it propose eliminating a single wasteful federal program. Not even wasteful and unnecessary programs like the Advanced Technology Program, which spends much of its $70 million budget subsidizing Fortune 500 companies, would be reduced.[6] In failing to offer spending reductions, congressional budget writers ignored:

- At least $55 billion in annual program overpayments;
- $60 billion for corporate welfare;
- $123 billion for programs for which government auditors can find no evidence of success;
- $140 billion in potential budget savings identified in the CBO's "Budget Options" books; and
- Massive program duplication, such as the 342 economic development programs, the 130 programs serving the disabled, the 130 programs serving at-risk youth, and the 90 early childhood development programs.[7]

By a party-line vote, Democrats on the House Budget Committee also rejected an amendment offered by Representatives Jeb Hensarling (R–TX) and John Campbell (R–CA) to impose a one-year moratorium on earmarks so that a new bipartisan select committee can make recommendations on how to reform the earmark process. The continuation of earmarking-as-usual will likely create more upward pressure on program budgets, while also pressuring lawmakers to support large, wasteful spending bills in order to preserve their pork. This is certainly not the change the American people voted for in 2006.

1. Office of Management and Budget, "Democrats Reflect Tax and Spend Agenda in Congressional Budget," Press Release, March 5, 2008, at *http://www.whitehouse.gov/omb/pubpress/2008/030508_tax.html*.
2. Brian M. Riedl, "The Democratic Congress's 2008 Budget: A Tax and Spending Spree," Heritage Foundation *Backgrounder* #2081, October 30, 2007 at *http://www.heritage.org/Research/Budget/bg2081.cfm*.
3. Brian M. Riedl, "Federal Spending by the Numbers: 2008," Heritage Foundation *WebMemo* No. 1829, February 27, 2007, at *http://www.heritage.org/Research/Taxes/wm1829.cfm*.
4. Including an additional $3.3 billion in advance appropriations.
5. Riedl, "Federal Spending by the Numbers: 2008.
6. Brian M. Riedl, "Congress Should Follow the President and Eliminate the Advanced Technology Program," Heritage Foundation *Backgrounder* No. 1828, March 1, 2005, at *www.heritage.org/Research/Budget/bg1828.cfm*.
7. These and many more examples can be found in Riedl, "Federal Spending by the Numbers: 2008.

Tax Increases Coming Soon. The FY 2009 budget assumes the expiration of most of the 2001 and 2003 tax relief. However, it provides one unlikely scenario by which a small portion of the tax cuts—most likely the child tax credit expansion, marriage penalty relief, and lower 10 percent tax bracket—may be extended.[8] The budget would allow these tax relief extensions only if the following two criteria are met:

1. Unrealistically large budget surpluses materialize in 2012 and 2013, which Congress projects only by assuming no spending in Iraq, no entitlement program expansions (the new farm bill already violated this), annual discretionary spending growth of just 1.8 percent, and no long-term fix of the AMT; and
2. A congressional supermajority can overcome the PAYGO rules and several other points of order that Congress has created as barriers to extending the tax cuts.[9]

By making those tax relief extenders contingent on unrealistic budget outcomes plus a supermajority vote, the likely result of this budget is to *reduce* their eventual likelihood. Consequently, revenues would tie back to a CBO baseline that assumes tax increases of $1.265 trillion over five years and $3.911 trillion over 10 years, or $3,135 per household annually. Taxes on American workers and businesses would rise by an average of 12 percent. Revenues would rise from 18.8 percent of GDP to a near-record 20.3 percent of GDP by 2018.

Even that may not be all. The budget also includes 64 more reserve funds, which effectively gives lawmakers a blank check to hike taxes yet more to finance additional spending.

True, lawmakers may choose to keep some of the current tax cuts by raising other taxes instead. For example, the budget calls for avoiding the AMT tax hike by raising other taxes. However, increasing some tax rates as the price of maintaining other tax policies at current levels is still a tax increase. Taxpayers will still pay trillions of dollars more, regardless of which pocket that lawmakers take it from.

Some lawmakers have even declared that, because it is already written into current law, allowing the tax cuts to expire does not constitute a tax increase. However, a tax increase is a tax increase, even if lawmakers schedule it years in advance. Under this budget, millions of Americans would see their marginal income tax rates leap from 25 percent to 28 percent; the estate tax would surge from zero to 55 percent. It would be difficult for taxpayers to believe that their taxes have not been raised.

While there is never a good time to raise taxes, pledging $4 trillion in tax increases during a time of economic uncertainty is especially worrisome. Raising tax rates on every taxpayer and business would reduce incentives to work, save, and invest, and therefore significantly reduce the economy's long-term capacity to grow and raise living standards. The same Congress that distributed a one-time $1,200 per household tax rebate in hopes of helping the economy would now turn around and raise taxes by $3,135 per household annually. Even though the budget delays most of the tax increases until 2011, businesses and investors may begin pulling back long-term investment plans in anticipation of higher investment taxes and the resulting slower economic growth.

Ignoring the Entitlement Crisis. The coming collision of 77 million retiring baby boomers with Social Security, Medicare, and Medicaid represents the greatest economic challenge of the present era. What Federal Reserve Chairman Ben Bernanke has recently called the "calm before the storm" ended on January 1, 2008, when the first baby boomers became eligible for early Social Security benefits.[10] In just three years, they will become eligible for Medicare. In the coming decades, the cost of these programs will leap from 8.4 percent to 18.6 percent of GDP. Without reform, this 10.2 percent of GDP

8. The budget also hints at an estate tax compromise.
9. PAYGO mandates that the tax extenders be offset with tax increases or entitlement spending cuts. The budget resolution assumes no offsets. Therefore, the budget assumes that a congressional supermajority will waive PAYGO.
10. Ben Bernanke, Chairman, Federal Reserve, "Long-Term Fiscal Challenges Facing the United States," testimony before the Senate Budget Committee, January 18, 2007, at *www.federalreserve.gov/boarddocs/testimony/2007/20070118/default.htm*.

cost increase would require either raising taxes by the current equivalent of $12,072 per household or eliminating every other government program.[11]

The budget resolution simply ignores the entitlement problem. Worse, it rejects the President's common-sense proposal to save $8 trillion by reducing Medicare Part B and D subsidies for the wealthiest seniors and adjusting payment formulas. The President offered this and other recommendations in response to the Medicare Trustees' recent warning that a record 45 percent of its budget will soon be subsidized out of general tax revenues, leaving just 55 percent funded by payroll taxes and user premiums. The congressional leadership has thus far chosen to ignore the trustee's warning.

This abdication of responsibility will have negative consequences for nearly every American. For every year that Congress chooses to ignore the problem, the 77 million baby boomers move a year closer to retirement and the price tag of the inevitable reforms increases by hundreds of billions of dollars.

Conclusion. Congress's budget resolution pledges to raise taxes by an average of $3,135 per household. This classic tax-and-spend budget pushes up discretionary spending and leaves the nation woefully unprepared to face the coming retirement of 77 million baby boomers. The White House has rightly drawn a veto line in the sand for any budget bills that emerge from this budget resolution. Lawmakers should go back to the drawing board and write a budget that contains no tax increases, meets the President's spending targets, and deals realistically with coming entitlement costs. If they do not, the President should keep his veto pen ready.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

11. Riedl, "Federal Spending by the Numbers: 2008.