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Citizens for Tax Justice

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Recently Passed Budget Resolutions Do *Not* Increase Taxes Despite Accusations of "Biggest Tax Increase in History"

> *"The numbers are crystal clear, and they tell the truth... This budget, the Democratic budget, gives us the largest tax increase in American history." Rep. Paul Ryan (R-WI), ranking Republican member of House Budget Committee, quoted in Washington Post, March 30, 2007*

Republican critics of the budget resolutions recently passed in the U.S. Senate and House of Representatives have claimed that the congressional budget bills include tax increases. This is false. For better or worse, the resolutions do not raise taxes by a penny.

What the critics really are complaining about is a rule established in the budget resolutions that says any new tax cut enacted by Congress must not result in increased government borrowing. This rule, commonly known as “pay-as-you-go” or PAYGO, is a commonsense reform that was used successfully in the 1990s to eliminate federal budget deficits. In essence, Congress is saying it will not increase government borrowing and the national debt (and the interest payments that taxpayers are forced to bear) in order to enact new tax cuts. PAYGO treats new entitlement spending the same way: Congress cannot expand or create a new entitlement program unless it is paid for.

Why does this rule infuriate critics of the budget resolutions? Because the major tax cut legislation enacted by President Bush and the Republican Congress specifies that the tax cuts will expire at the end of 2010. During the six years that the President’s allies controlled Congress, the tax cuts were never extended beyond that date. As a result, projections made by the Congressional Budget Office assume that the tax cuts will expire at the end of 2010, as is specified in the law. Any legislation extending the tax breaks past 2010 is a new tax cut, and will have to be offset with either decreased spending or increased revenues under the PAYGO rules.

Critics of Budget Resolutions Want New Deficit-Financed Tax Breaks

Republican critics of the House and Senate budget resolutions believe that the Bush tax cuts should be extended without any offsetting tax increases or program cuts. In fact, they have tried unsuccessfully in the House and Senate to exempt legislation extending the tax cuts from the PAYGO rules.

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As an alternative to borrowing trillions of dollars to pay for extending the Bush tax cuts, the President and some congressional Republicans also have proposed budget plans that would allegedly reduce public services by enough to pay for extending the Bush tax cuts. But these reductions are so severe that no one seriously believes they will happen. For example, under the President's budget, education spending as a percentage of the Gross Domestic Product (GDP) would fall by 45 percent. Spending on agriculture, always popular in the West and Midwest, would fall by 42 percent, while spending on environmental protection and natural resources would fall by 30 percent.

"The President's allies in Congress understand that they have no serious plan to balance the budget while also extending their cherished tax cuts," said Robert S. McIntyre, director of Citizens for Tax Justice. "That's why they want to exempt their new tax cuts from the PAYGO rules. In other words, what they really want is the biggest deficit increase in history."

The House and Senate Budget Resolutions Are Not Perfect — But Both Are More Responsible than the President's

To be sure, the House and Senate budget resolutions passed by the new Democratic majority do rely on some of the same gimmicks that the President's budget proposal relies on in order to pretend that the budget will be balanced by 2012. For example, both the President's and Congress's budget plans cavalierly propose to use the Social Security surplus to pay for unrelated spending — even though the Social Security trust fund is supposed to be kept separate from general revenues and used to pay down the national debt, reduce interest payments, and make it easier for taxpayers to afford to pay future Social Security benefits.

Nonetheless, by prohibiting any new deficit-financed tax cuts, the congressional versions of the budget take a far more realistic approach toward reducing the deficit than does the President's budget plan. Congress deserves praise for responsibly requiring that any new tax cuts be paid for, rather than being put on the national credit card.

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