

President Obama Breaks His Promise on Taxes Again

Self-Inflicted Debt Ceiling Conflict Results in Unbalanced Deal with No Guarantee of Revenue Increase

The so-called “Budget Control Act” that President Obama signed into law today to increase the federal debt ceiling and reduce the federal budget deficit marks the second time the Obama administration has capitulated on tax policy to the most extreme elements in Congress, those who are least in touch with the American people and most willing to risk economic disaster to get their way.

While our political leaders should be doing all they can to boost consumer demand and create jobs, the administration and Congress have instead agreed to slash public services without guaranteeing any increase in revenue.

To be sure, a revenue increase could result from the process established under this deal, despite Republicans’ claims to the contrary. But anti-tax lawmakers have already demonstrated that they will risk everything — including economic catastrophe — to block any and all revenue increases. As a result, we believe the only hope for a balanced approach depends on President Obama finding the courage (which he has lacked so far) to allow all of the Bush tax cuts to expire at the end of 2012.

Even Republican Voters Concede We Are an Under-Taxed Country

Citizens for Tax Justice has long pointed out that the United States is one of the least taxed countries in the developed world.¹ We have demonstrated that the tax cuts enacted under the previous administration added \$2.5 trillion to our national debt and disproportionately benefitted the richest five percent of Americans.² Despite insisting that he would never extend these tax cuts for the rich, President Obama did exactly that at the end of last year when he signed into law a deal that extended all the Bush tax cuts for two years and which was heavily tilted towards the richest Americans.³

¹ Citizens for Tax Justice, “U.S. Is One of the Least Taxed Developed Countries,” June 30, 2011. <http://www.ctj.org/pdf/oced201106.pdf>

² Citizens for Tax Justice, “The Bush Tax Cuts Cost Two and a Half Times as Much as the House Democrats’ Health Care Proposal,” September 8, 2009. <http://www.ctj.org/pdf/bushtaxcutsvshealthcare.pdf>

³ Citizens for Tax Justice, “Compromise Tax Cut Plan Tilts Heavily in Favor of the Well-Off,” December 7, 2010. <http://www.ctj.org/pdf/taxcompromise2010.pdf>

We have shown that making the Bush tax cuts permanent, which may well happen despite this week's deficit reduction agreement, would increase the deficit by \$5.4 trillion over the upcoming decade.⁴

We have also pointed to dozens of polls showing that Americans believe that tax increases must play a roll in addressing our budget deficit.⁵ In fact, polls show that even the majority of Republican voters believe that deficit reduction should rely at least partly on tax increases.⁶

In other words, the deal President Obama and Congressional leaders settled on is to the right of Republican voters, not to mention average Americans.

Spending Cuts Guaranteed, Tax Increases Not Guaranteed

For months, President Obama said he would not sign onto a deal to reduce the deficit that did not include at least some revenue increases. However, from the start the President negotiated for a deal that would have actually cut taxes.⁷ He couched his proposals as revenue increases only by comparing them to an "alternative baseline" that pretends that Congress already made the Bush tax cuts permanent. Of course, Republican proposals have always been even more irresponsible in that they want to extend all the Bush tax cuts, while President Obama wants to extend "only" about 81 percent of the Bush tax cuts.

Under the Budget Control Act, the debt ceiling, which is currently \$14.3 trillion, would increase immediately by \$900 billion. Part of that sum would be subject to a symbolic vote of disapproval by Congress (which would be meaningless because the President could and would veto it). At the same time, more than \$900 billion of budget cuts over 10 years would be implemented through caps on discretionary spending (both domestic and defense).

The debt ceiling can be increased again by \$1.2 trillion to \$1.5 trillion, depending on what deficit reduction measures are recommended by a special joint House and Senate committee established under the bill, enacted by Congress, and signed by the President this fall. The joint committee will be made up of an equal number of Democrats and Republicans, and they can recommend a plan to reduce the deficit that could be enacted with a simple majority of votes in the House and Senate.

In the more likely scenario that no such plan is agreed upon by the committee or approved by the House and Senate, \$1.2 trillion in budget cuts would take place automatically, spread evenly between cuts in domestic programs (including payments to Medicare providers) and cuts in defense spending.

Ludicrous Debate over Baselines for Tax Policy Changes

The joint committee established under the bill could recommend tax changes to raise revenue. However, this has been obscured by a convoluted debate over budget baselines.

⁴ Citizens for Tax Justice, "Another Decade of Bush Tax Cuts Will Cost More than Twice as Much as the First Decade," June 7, 2011. <http://ctj.org/pdf/bushtaxcuts2013to2022.pdf>

⁵ Bruce Bartlett, "Americans Support Higher Taxes. Really." Capital Gains and Games, June 29, 2011.

⁶ Nate Silver, "GOP's No-Tax Stance Is Outside the Political Mainstream," New York Times FiveThirtyEight, July 13, 2011.

⁷ Citizens for Tax Justice, "Both Sides of Debt Ceiling Talks Propose Increasing the Budget Deficit," July 14, 2011. <http://www.ctj.org/pdf/grandbargain.pdf>

Whenever lawmakers propose a change in tax policy, the nonpartisan Joint Committee on Taxation (JCT) provides an estimate of how the proposal would affect revenue. JCT must compare the proposal against a baseline, which is essentially a set of assumptions about what would occur if the proposal is not enacted.

JCT and the Congressional Budget Office (CBO) generally use the “current law” baseline, which is based on the tax laws currently on the books.

But Democrats and Republicans at various times have preferred to use a different baseline when it helps to obscure their fiscal irresponsibility. For example, they sometimes prefer to use the so-called “current policy” baseline which assumes that Congress has already passed a bill making the Bush tax cuts permanent, and that bill has been signed by the President. Of course, this has never actually happened.

Because the Bush tax cuts expire at the end of 2012, any extension of the Bush tax cuts beyond that date, even a partial extension, would be counted as a revenue reduction against the *current law* baseline. On the other hand, the plan proposed by Obama to extend most, but not all, of the Bush tax cuts, counts as a revenue increase compared to the *current policy* baseline, which assumes the Bush tax cuts are already permanent.

In an interesting development, the Republican Speaker of the House, John Boehner, insists that any proposal from the joint committee established under the Budget Control Act must be compared to the normal current law baseline. This would mean that the committee could not recommend a partial extension of the Bush tax cuts and count that towards revenue reduction, since compared to the current law baseline, it would increase the deficit.

Democrats and others have argued that the committee can use whatever baseline it wants and could therefore present a partial extension of the Bush tax cuts as “deficit reduction.”⁸ But the official congressional scorekeepers will almost certainly use the current law baseline absent a change in the law telling them to do otherwise.

Republicans in Congress have been most adamant about extending all of the Bush tax cuts, so one might wonder why they would prefer a baseline that makes it obvious how these tax cuts reduce revenue and increase the deficit.

The sad answer is that neither Democrats nor Republicans in Congress genuinely care that their tax proposals are massive deficit drivers or that JCT and CBO will officially declare them as such. Lawmakers have shown again and again that their alleged concern for deficit reduction takes a back seat to their zeal for tax cuts. Even President Obama’s proposal to extend 81 percent of the Bush tax cuts (instead of 100 percent, as Republicans demand) would increase the deficit by more than the amount saved through spending cuts in the Budget Control Act.⁹

⁸ James R. Horney, “Contrary to Speaker Boehner’s Claim, Budget Deal’s “Supercommittee” Can Consider Revenue Increases,” Center on Budget and Policy Priorities, August 1, 2011.

⁹ Citizens for Tax Justice, “Both Sides of Debt Ceiling Talks Propose Increasing the Budget Deficit,” July 14, 2011. <http://www.ctj.org/pdf/grandbargain.pdf>

Fortunately, there are viable tax measures that would raise considerable revenue compared to the current law baseline, particularly curbs on tax-based subsidies in the corporate income tax.¹⁰

Will President Obama Fail His Third Test on Taxes Like He Did the First Two?

Last year, anti-tax lawmakers threatened to allow all the Bush tax cuts, including those for low- and middle-income people, to expire unless the President agreed to extend the tax cuts even for the richest Americans. Once it became clear that the White House was giving in to these demands to extend all of the Bush tax cuts, many of us asked lawmakers why an increase in the debt ceiling should not be part of the deal. Our concerns fell on deaf ears.

As a result, the lawmakers who voted to increase the debt by enacting tax cuts were able to return to Congress this year to feign shock and dismay that the debt ceiling needed to be raised. They threatened to allow a breach of the ceiling — and a disastrous default on the U.S.'s debt obligations — if the President did not agree to massive spending cuts without any provisions clearly calling for revenue increases. The President gave in to their demands again.

In the likely scenario that the joint committee established under the act fails to propose any revenue changes, the President has another chance to make a wise move on tax policy. At the end of 2012 the Bush tax cuts are scheduled to expire. CTJ has already demonstrated that extending these tax cuts through 2013 or beyond would be hugely costly and would be tilted heavily toward the rich.¹¹

President Obama should allow the Bush tax cuts to expire at the end of 2012. After that, Congress can begin work on a comprehensive tax reform that simplifies the system and raises revenue compared to current law.

¹⁰ Citizens for Tax Justice, "Revenue-Positive Reform of the Corporate Income Tax," January 25, 2011. <http://www.ctj.org/pdf/corporatetaxreform.pdf>

¹¹ Citizens for Tax Justice, "The Bush Tax Cuts After Ten Years," June 7, 2011. <http://www.ctj.org/bushtaxcuts10yrs.php>