THE "NEW" BUDGET AGREEMENT: PART I FROM BAD TO WORSE

Angry protests from American taxpayers forced the House of Representatives last week to reject the original tax-laden budget agreement worked out behind closed doors by the summit negotiators. As they sifted through the fine print, lawmakers realized that not only did the package rely on phony spending cuts and unrealistic economic assumptions, it also would have caused a deep recession by burdening the faltering economy with the largest tax increase in American history.

Unfortunately, the Washington "insiders" who produced the original agreement responded to taxpayer protests with a new package that is even worse. It would produce less in savings on the spending side and more in growth-destroying new taxes. Even specific spending reductions in the package turn out to be only advisory, leaving congressional committees with a penchant for creative accounting in charge of producing the "savings" using whatever policies they wish. Taking advantage of the limited public awareness of the agreement, the new budget resolution was enacted swiftly by both chambers.

The original summit package would have been a disaster for the economy. Not only is the revised agreement even worse, but by including an open invitation for committees to further modify the package, it all but guarantees that the final budget legislation will mean the end of the economic growth America has enjoyed since the early 1980s.

Record Tax Increase Gets Even Bigger. Economists disagree on many issues, but they are almost completely united in their belief that it is folly to raise taxes with the economy perched on the edge of a recession. Instead of reducing the record \$133.8 billion tax hike in the original package, however, the new budget agreement increases the tax burden by as much as \$15.2 billion, with the added revenues to come from \$20 billion of "unspecified" deficit reduction assigned to the tax-writing committees.

Many legislators are concerned that the new agreement permits greater tax increases. Proponents deny this point, claiming that "gross" revenues in the new agreement will be no greater than the \$162.9 billion in the original package. But the original agreement contained approximately \$25 billion of revenue-losing provisions, meaning the net increase in the tax burden was \$133.8 billion. The new budget agreement likely will eliminate these, resulting in the net tax burden jumping to \$149 billion.

The distinction between "net" and "gross" tax increases, moreover, is highly significant. The Tax Reform Act of 1986, for instance, included gross tax increases of more than \$100 billion. But these revenue-raising provisions were almost exactly offset by revenue-losing provisions, leaving the important figure — net taxes — largely unchanged. The budget resolution passed by the House and Senate, by contrast, increases net taxes by far more than the original agreement.

Green Light for More Spending. The original package did little to limit federal spending. The revised agreement does even less. The few positive spending proposals in the initial package, including reforms of Medicare and unemployment compensation, either are missing from the new package or are reduced in scope. Under the initial agreement, Medicare spending was supposed to be $55 billion higher in 1995 than in 1990 — characterized in Washington parlance as a "cut," since it reduced the rate of increase in Medicare spending. Under the new agreement, Medicare spending will climb faster. The foregone deficit reduction will be made up by higher taxes on working Americans.

In many ways, however, the new agreement simply replicates the bad features of the old one. For example, the only genuine cuts are in the defense budget. The other supposed cuts actually are no more than reductions in previously planned increases. Other "cuts" in both the new and old proposals in fact are thinly-disguised tax increases or "fees." Remaining spending savings are either unspecified or budget gimmicks, such as the provision transferring nearly $5.4 billion of revenue from the Postal Service to the general budget, and the provision changing the point in time when certain federal employee retirement benefits are paid.

Rosy Scenario. The new agreement also continues to use the same discredited economic assumptions contained in the initial package. The largest tax increase in history is assumed to cause the annual rate of economic growth to double in 1991 and triple in 1992. Today's rising inflation and interest rates are supposed to fall magically, with long-term interest rates somehow dropping to their lowest level in a quarter century. Of course, if inflation and interest rates do not behave as projected, spending will be much higher than the agreement estimates since so many federal programs are tied to increases in the price level.

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The newly enacted budget resolution is a victory for politics as usual and the status quo. Budget summit agreements in 1982, 1984, 1987, and 1989 all were enacted with the solemn promise that spending would be restrained, new taxes would be used for deficit reduction, and government borrowing would be reduced. In every single instance, however, the deficit rose in the year following summit agreements as Congress spent every penny of the additional tax revenue and then some. There is no reason to believe that the result will be any different if Congress and the Bush Administration enact the latest "solution" to the federal deficit.

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For further information:

Scott A. Hodge and Robert Rector, "The Budget Summit Agreement: Part III, No New Taxes Needed," Heritage Foundation *Backgrounder Update* No. 142, October 3, 1990.

Daniel J. Mitchell, "The Budget Summit Agreement: Part VIII, Hidden Time Bombs," Heritage Foundation *Backgrounder Update* No. 146, October 3, 1990.