US Budget: Fiscal Showdown or Kick the Can?

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Abstract

In a contribution to the Christian Science Monitor, Donald Marron discusses the six-pack of expiring temporary tax cuts which could provide the incentive to reshape the tax code and boost the budget.

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It's a shame that can-kicking isn't an Olympic sport. Imagine America's elected leaders facing off against their European counterparts in a contest to see who can avoid difficult decisions the longest.

My money would be on the Americans. Our team has taken the game to a new level in recent years and is ready to shine on this year's Olympic stage. At home, however, it's not clear whether that can-kicking prowess will end in gold or tears.

Despite its bad reputation, can-kicking is sometimes the best we can do. Putting off long-term decisions makes sense, for example, when the world is riven with uncertainty. If you aren't careful, however, you will find your path littered with unresolved issues.

That's where we are on fiscal issues today. Start with our tattered tax code, which now contains a six-pack of temporary tax cuts. The largest are the Bush-era cuts originally enacted in 2001 and 2003 that were scheduled to expire in 2010. Rather than decide their fate, President Obama and Congress extended them another two years.

That legislation also included additional tax cuts championed by Mr. Obama and an estate tax compromise, all of which expire - along with the original tax cuts - at the end of 2012.

Then there's the dreaded alternative minimum tax. It expired Dec. 31, but Congress for years has passed an annual "patch" preventing the AMT from hitting more middle-class families. A hodgepodge of temporary tax breaks known, tellingly, as the "extenders," also expired at the end of last year, but many lawmakers and beneficiaries want to bring them back. Various stimulus measures, including the payroll tax holiday and corporate investment incentives, are set to lapse soon, too.

The expiration of those six packages of tax cuts, plus the arrival of some new taxes created in the health reform legislation, would boost tax revenues sharply in the next few years. The Congressional Budget Office projects that tax revenues will increase from $2.3 trillion in fiscal 2011 to $3.3 trillion in 2014 if all these scheduled changes occur. That trillion-dollar increase, a 44 percent gain, would far outstrip the expected 11 percent growth of the economy.

It's hard to imagine that lawmakers will actually let that happen. As the CBO itself notes, such a sharp increase would weaken the economy at a time when it's struggling to recover from the Great Recession.

On the spending side of the ledger, the most egregious example of can-kicking is the formula by which Medicare sets payments for doctors. That formula has called for dramatic cuts for years. But every time those cuts come near, Congress overrides them temporarily, and often "pays for" that by scheduling even bigger cuts in the future. That's why doctors face a 27 percent cut in payment rates at the end of March and more in years ahead.

And then there are across-the-board spending cuts, spread over nine years, that are scheduled to begin next January. Congress didn't really intend those cuts to happen; instead, they were meant to pressure last year's "super committee" to find real budget savings. That didn't occur, and now Washington is rife with speculation that policymakers will flinch from letting the cuts go through, at least until the economy strengthens.

Lawmakers will thus face a tempting lineup of cans later this year. But preventing any of the scheduled tax increases and spending cuts will require new legislative action at a time when the two parties find it hard to agree on almost anything.

Years of can-kicking have set the stage for a dramatic fiscal showdown after the elections or early in the new year. Lawmakers could take this opportunity to shape a tax code and federal spending that make sense for 21st-century America. Or they can settle for more clank-clank-clank.

Other Publications by the Authors

- Donald Marron