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ATTACK ON THE MIDDLE CLASS: FIVE WAYS THE NEW REPUBLICAN BUDGET RIGS THE RULES AGAINST HARDWORKING AMERICANS

INTRODUCTION

In the introduction to the House Republican budget, its authors claim: "we do not rely on gimmicks or creative accounting tricks to balance our budget."[1] Unfortunately, both the House and Senate budget proposals are riddled with tricks, gimmicks, and sleight of hand.

Despite draconian cuts that will devastate investments in the middle class, independent observers, journalists, and even Republicans have admitted that their budget proposals cannot realistically deliver the promise of zero deficits within ten years.

The Republican budgets would shower tax breaks on special interests, millionaires and big corporations, take affordable health coverage away from millions of Americans, end the Medicare guarantee, and hurt our economy by gutting investments in health, science, and education.

However, even with enormous cuts to investments in the middle class, the Republican budget blueprints rely on deceptive and cynical accounting tricks to pave the way for their extreme policies by hiding their true costs and making their proposals appear to balance. Journalists called it "creative math," economists dubbed Republicans "trillion dollar fraudsters" and criticized the "magic asterisk" in their budget, but it was a Republican who put it most simply: "It's all hooey."[2]

In this report, we outline five ways that the Republican budgets would rig the rules in favor of powerful special interests and against hardworking families.

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[1] House Budget Committee, "A Balanced Budget for a Stronger America," March 2015
[2] Bloomberg.com, 3/18/15; NY Times, 3/20/15; Washington Post, 3/17/15; Huffington Post, 3/18/15

1. Republicans Use "Dynamic Scoring" To Rig the Rules by Hiding the True Cost of Tax Breaks for Millionaires and Billionaires

> *"Republicans don't really care about accurate revenue estimates; they just want them to show that tax cuts pay for themselves, so they can pass more of them without constraint."*
> Bruce Bartlett, former Advisor to Pres. Ronald Reagan and George H.W. Bush, 2/7/12

Senate and House Republicans included a requirement that the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) adopt "dynamic scoring" – a deeply problematic method of estimating the impact of tax policy on the American economy that makes tax cuts appear to shrink deficits, rather than grow them. Dynamic scoring is incredibly uncertain and politically controversial. By mandating its use, Republicans would rig the rules in favor of more millionaire tax breaks and endangering the non-partisan reputation of the CBO and JCT.

Republicans have contended for years that dynamic scoring should be incorporated into federal budgeting to support claims that huge tax cuts will have almost no impact on the deficit or as they often describe it, tax cuts pay for themselves.[3] Now in control of the Senate for the first time in years, Senate Republicans followed the lead of House Republicans, by including language in their budget calling on CBO and JCT to estimate the "budgetary effects from changes in economic output, employment, interest rates, capital stock, and other macroeconomic variables" due to major legislation.[4]

Independent experts agree that dynamic scoring is subject to manipulation by advocates pushing a particular economic agenda. One analyst went so far as to declare that, with the right assumptions, "you can get essentially any answer you want out of a dynamic tax model."[5] When examining a tax proposal from then-House Ways and Means Chairman Dave Camp (R-MI), JCT gave eight different estimates of its growth effects and impact on the deficit. Yet Chairman Camp touted the biggest effects, without context, misleading Americans about the potential impact of his plan.[6] Similarly, the Tax Foundation claimed that a tax cut proposal from Senators Lee (R-UT) and Rubio (R-FL) (complete with huge new cuts for the wealthiest corporations) would generate sufficient growth that federal tax revenue would be even higher than before the tax cut over the long term.[7]

In actual fact, independent analysis and empirical evidence demonstrates clearly that tax cuts do not come close to covering their budgetary costs. The Congressional Budget Office has concluded that models purporting to show growth from tax cuts are "not supported empirically" -- that is, they do not reflect what happens in the real world.[8]

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[3] Vox, 12/7/14
[4] Reuters, 1/7/15; House Budget Committee, FY16 Budget; Senate Republican Budget, FY16 Budget;
[5] NY Times, 3/17/15; CBPP, 11/17/14; NY Times, 3/1/15
[6] CPBB, 11/17/14
[7] NY Times, 3/12/15; NY Times, 3/17/15
[8] Congressional Research Service, 7/8/14

The wide gap between misleading estimates using "dynamic scoring" and the actual effect of tax cuts has led to calls on Republicans to abandon the practice. The Washington Post editorialized against adopting dynamic scoring as the "dominant method" of evaluating legislation; the Office of Management and Budget warned that "dynamic scoring can create a bias favoring tax cuts over investments in infrastructure, education, and other priorities."[9]

However, Republicans continue to double down on this practice, using "dynamic scoring" to show second-order "savings" not tied to any direct policy changes of $147 billion in the House Republican budget and $164 billion in the Senate Republican budget.[10]

Although both Senate and House Republicans have included requirements for dynamic estimates in their budgets, the House goes further in rigging the rules to hide the cost of their tax cuts and block additional investments in middle class priorities. The House budget limits the use of dynamic scoring to legislation that changes the budget by at least 0.25% of GDP -- or roughly $500 billion over ten years. While many tax bills -- including the Bush tax cuts -- are of that scale, almost no normal appropriations bills are. This gimmick will reduce the budgetary costs of tax cuts, but <u>not</u> apply to the vast majority of spending proposals.[11]

In conclusion, the jury has already rendered its verdict: dynamic scoring is an attempt to justify massive tax cuts for special interests, which will force Congress to gut investments in America's middle class. [12]

2. The New Republican Budget Rigs the Rules against Students, Homebuyers, and Small Businesses Through an Arcane Accounting Gimmick

> "*It gives opponents of particular credit programs a back-door way to scale back the government's footprint in certain industries, under the guise of 'responsible' budgeting.*"
>
> Center for Budget and Policy Priorities, 6/18/13

Matched by the House, the Senate Republican budget requires the Congressional Budget Office to implement "fair value" accounting (FVA) when estimating the cost of federal loan programs.[13] This innocuous-sounding change would alter government accounting procedures to make loan programs -- to students, homebuyers and entrepreneurs -- look more expensive than they actually are.[14]

FVA would require the government to inflate the costs of federal lending programs to include a "market risk premium" that a private lender would charge if it made the same loans. However, including this premium means adding costs to the budget that the government *never actually*

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[9] OMB, 1/6/15; Washington Post, 1/12/15
[10] NY Times, 3/17/15
[11] WSJ, 3/12/15
[12] NY Times, 2/7/12
[13] House Budget Committee, FY16 Budget; Senate Republican Budget, FY16 Budget
[14] CBPP, 2/10/14

pays to anyone. This distorts the government's true fiscal position, opening the door for cuts to students, homebuyers, and small business owners.[15]

Switching to FVA would make $135 billion in profits from student loan payments look like an $88 billion *cost* to the government over ten years. $63 billion in savings from FHA's single-family mortgage guarantee program would suddenly become a $30 billion *cost* over the same period. Housing loans to veterans and small business loans and loan guarantees could also be affected.[16]

Since Republicans have vowed to stick to current spending caps, making government loans look more expensive could force deep cuts to programs that help millions of Americans pursue a college education, buy a home, or start or grow a business. This would reduce the number of students, homeowners, or others who can borrow from the federal government, or increase the interest rates they must pay.[17] US News & World Report warned that "fair-value accounting would burden student loan borrowers with unnecessarily high interest rates for the foreseeable future."[18]

This attack on students, homebuyers, and small business owners is not only misguided, it is completely unnecessary. The budget already accounts for the risk inherent in lending programs.[19] Former CBO Director Robert Reischauer confirmed that federal accounting "already reflects the risk that borrowers will default on their loans or loan guarantees."[20] And, those estimates have been remarkably accurate. One analysis found that the cost to the government from all non-emergency credit programs between 1992-2011 increased by only $8 billion from the initial estimates, or just 0.15% of their face value. And, in an internal review of two decades of credit costs, OMB found that original budget estimates were off by less than 1 percent.[21]

3. The Republican Budget Rigs the Rules for the Biggest Banks by Repealing a Critical Provision in Wall Street Reform That Prevents Future Taxpayer Bailouts

> *"Taxpayers shall bear no losses from the exercise of any authority under this title."*
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> Sec. 214. Prohibition on Taxpayer Funding
>
> Dodd-Frank Wall Street Reform and Consumer Protection Act, 7/21/10

In the wake of massive taxpayer bailouts of Wall Street financial institutions, the Dodd-Frank Wall Street Reform law included measures to ensure that taxpayers did not have to foot the bill for future failures of large financial institutions. However, the House Republican budget not only eliminates this important protection for American taxpayers, it falsely claims that doing so will save money. The Senate Republican budget follows the House lead by also paving the way for the repeal of an important component of Wall Street Reform.

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15 CBPP, 2/10/14; CBPP, 6/18/13
16 CBO, May 2014; CBPP, 2/10/14
17 CAP, May 2012; CBPP, 6/18/13
18 US News & World Report, 6/19/13
19 CBPP, 2/10/14
20 Reischauer Letter, 1/24/12
21 OMB, Supplemental Materials, FY2015

After the financial crisis and ensuing bailouts, Congress granted the FDIC "orderly liquidation authority" to take control of failing financial institutions and sell off their assets in a way that will avoid endangering the entire economy.[22] Orderly Liquidation Authority can only be used on financial institutions that are in danger of defaulting and that default would cause serious adverse effects on the U.S. economy, and there is no viable alternative to resolve the firm through the bankruptcy code.[23]

Crucially, the Wall Street Reform law clearly dictates that taxpayers will not bear any losses from the seizure or liquidation of a complex financial institutions. The law clearly states: "no taxpayer funds shall be used to prevent the liquidation of any financial company"; "taxpayers shall bear no losses from the exercise of any authority under this title"; and "creditors and shareholders must bear all losses in connection with the liquidation of a covered financial company."

While the law allows the FDIC to temporarily borrow funds to finance the liquidation, it mandates that all taxpayer dollars spent "in the liquidation of a financial company under this title shall be recovered from the disposition of assets of such financial company."[24] If the company lacks sufficient assets, FDIC is required to recover any money spent via fees on other financial companies.[25] Through this reform, the cost to bailout a financial institution is born by Wall Street, and not by taxpayers.

The House Republican budget, however, abuses a quirk of budgeting forecasts to make it appear as if this process costs taxpayers money.

According to the Congressional Budget Office, while the likelihood that FDIC will be forced to use its authority under OLA is small, there are potentially large short-term costs to liquidating a systemically important firm. To account for this possibility, CBO adds a small amount to federal outlays each year. However, while spending would go up initially, CBO clarifies that "spending would be offset in subsequent years."[26] As a result, a "snapshot of cash flows in any given 10-year budget window is unlikely to net to zero because the spending to liquidate a firm would occur before the income was received to cover those costs."

The House Republican budget ignores the plain language of the law and CBO's explanations, and instead assumes that the funds spent by FDIC will never be recovered. That lets Republican budget writers repeal a piece of Wall Street Reform while claiming to "save" taxpayers money. Worst of all, the Republican budget fails to provide a replacement procedure to deal with possible future financial system failures -- leaving taxpayers on the hook for more bailouts.

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[22] H.R.4173 - Dodd-Frank Wall Street Reform and Consumer Protection Act, 7/21/10
[23] Skadden, Arps, Slate, Meagher, & Flom, July 9, 2010; Skadden, "Orderly Liquidation Authority"
[24] H.R.4173 - Dodd-Frank Wall Street Reform and Consumer Protection Act, 7/21/10
[25] Skadden, Arps, Slate, Meagher, & Flom, July 9, 2010; Skadden, "Orderly Liquidation Authority"
[26] CBO, Testimony of Director Elmendorf, 3/30/11; Wall Street Journal, 4/18/12

4. The Republican Budget Once Again Hides a Trillion-Dollar "Magic Asterisk" in the Fine Print and Asks America to Stay Tuned for More Cuts that would Rig the Rules Against the Most Vulnerable

> *"We were concerned that there would be a magic asterisk in the budget. It turns out to be an even bigger magic asterisk than we expected."*
> Bob Greenstein, President of the Center on Budget and Policy Priorities, 3/18/15

Both the Republican House and Senate budget writers have committed to creating a budget that balances within ten years. Members in both chambers called it imperative that the budget balances within that time period, and some conservatives are even saying ten years is not fast enough.[27]

However, despite enormous cuts to discretionary spending, already at its lowest level since the 1960s, both Republican budgets still have to rely on a "magic asterisk": over $1 trillion in cuts to unspecified mandatory spending programs.[28] Despite the enormous scale of these cuts to programs that millions of American families depend on, the Associated Press noted that details are "sparse or, in some cases, non-existent."[29]

The House Republican budget includes $1.1 trillion in cuts to "other mandatory" spending -- that is, mandatory spending other than Social Security or Medicare.[30] Although this amounts to 20% of the deficit reduction in the entire budget, and is "critical" to getting to balance within 10 years, Republicans provided virtually no information about where those cuts would fall.[31] Other mandatory spending includes investments in student loans, veterans' pensions and disability compensation, Supplemental Security Income for the elderly and disabled poor, the Earned Income Tax Credit, and farm programs.[32] A guide to the budget produced by House Republicans did indicate that some of the $1.1 trillion in cuts would come from a $125 billion decrease in nutrition programs and big, unspecified cuts to Pell Grants.[33]

Although Senate Republicans budget cuts slightly less their House counterparts, their magic asterisk is even larger: $1.2 trillion in mandatory spending cuts.[34] Accounting for 23 percent of the deficit reduction in the entire budget, Senate Republicans $1.2 trillion in cuts would likely come from nutrition and school lunch programs, Supplemental Security Income for the elderly and disabled poor, the Earned Income Tax Credit and low-income part of the Child Tax Credit, and unemployment insurance.[35] However, Senate Republicans refuse to reveal how much they would cut from each of these programs.

Without these massive cuts, Republicans' budgets do not come close to balancing. But specific dollar amounts would make it clear just how many Americans will be hurt by Republicans deep

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[27] NY Times, 3/20/15; The Hill, 3/17/15; The Hill, 3/18/15; NY Times, 3/16/15
[28] NY Times, 3/20/15
[29] AP, 3/19/15
[30] Washington Post, 3/17/15
[31] Washington Post, 3/17/15
[32] CBPP, 3/18/15
[33] House Budget Committee, "A Balanced Budget for A Stronger America," March 2015; CBPP, 3/18/15
[34] CBPP, 3/19/15
[35] CBPP, 3/19/15

cuts to programs that millions of families rely on. So instead, Republicans have left out the details, as Senate Budget Committee Chair Mike Enzi (R-WY) put it: "You won't find specifics in what we've done..."[36]

5. Republican Budget Rigs the Rules Against Hardworking Americans by Taking Away Affordable Health Care, But Uses ACA Revenue to Balance the Budget in Ten Years

Bloomberg News: "Tricks to Balance Budget: Repeal Obamacare, Keep Its Revenue."
Bloomberg.com, 3/18/15

The Senate and House Republican budgets claim to fulfill the GOP's election-year promise to repeal the Affordable Care Act -- the health care law that has seen 16 million Americans gain health coverage.[37] However, both budgets rely on the revenue generated by the law to help balance their budgets.[38]

The Senate and House Republican budgets both propose maintaining current levels of federal revenue, while proposing spending cuts sufficient to balance the budget within ten years.[39] The Congressional Budget Office wrote that both Senate and House budgets "envision allowing revenues to rise roughly as projected under current law."[40]

"Current law" however, includes some of the same ACA provisions that Republicans have promised to repeal. In 2012, CBO estimated that the ACA would generate over $1 trillion in tax revenue over 10 years.[41] At the same time, CBO estimated that Medicare spending under Obamacare would be reduced by over $700 billion dollars.[42] Today, CBO notes that the budgetary effects of the ACA's changes to the tax code and existing federal programs (like Medicare) "are embedded in CBO's baseline projections for those programs and tax revenues."[43]

Republicans claim this is not the case, pointing to tax and spending provisions that they say will replace the ACA's budget effects with identical savings and revenue. However, while the Republican budget include language directing Congress to come up with other Medicare cuts to replace ACA savings -- they refuse to say what those cuts will be.[44]

In addition, to replace the ACA's $1 trillion in revenue, Rep. Price's budget proposes unspecified comprehensive tax reform which will raise "just as much revenue" as the ACA.[45] However, House and Senate budget authors have vowed that they will not raise taxes and bragged that

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[36] Salon, 3/19/15
[37] CNBC, 3/16/15
[38] NY Times, 3/18/15; WSJ, 3/18/15
[39] NY Times, 3/18/15; House Budget Committee, FY16 Budget Summary Tables; Senate Budget Committee, FY16 Budget Summary Tables
[40] CBO, "Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Enzi and by Chairman Price," 3/18/15
[41] CBO, 7/24/12
[42] CBO, 7/24/12
[43] CBO, "The Budget and Economic Outlook," Jan. 2015
[44] NY Times, 3/18/15
[45] House Budget Committee, "Setting the Record Straight"

their budgets contain no tax hikes.[46] This makes it difficult to see how they will replace $1 trillion in tax revenue.

Republicans latest attack on the millions of families covered by the Affordable Care Act will have a devastating effect -- not just on those families, but also on the taxpayers who will have to foot the bill.

[46] CBS News, 3/16/15;Sen. Enzi Release, 3/18/15