Senate budget writers spar over taxes at hearing with CBO director

Democrats and Republicans on the Senate Budget Committee sparred over tax policy during a July 9 hearing with Phillip Swagel, the director of nonpartisan Congressional Budget Office (CBO), that was called to discuss the grim fiscal picture presented in the agency's recently published update to its 10-year budget and economic outlook.

CBO's most recent budget outlook, in brief

CBO's *An Update to the Budget and Economic Outlook: 2024 to 2034*, released June 18, anticipates that the budget deficit for current fiscal year 2024—which runs through September 30—will clock-in at more than $1.9 trillion, or 6.7 percent of gross domestic product (GDP). That shortfall represents a roughly $400 billion increase relative to the comparable projections CBO released in February—reflecting the net effect of the Biden administration's proposed rule to reduce federal student loan balances for many borrowers, slower-than-anticipated recoveries by the Federal Deposit Insurance Corporation when resolving recent bank failures, newly enacted legislation, and higher projected outlays within the Medicaid program.
URL: https://www.cbo.gov/system/files/2024-06/60039-Outlook-2024.pdf

This negative trend continues over the 10-year budget window, with cumulative deficits now projected to amount to almost $22.1 trillion, about $2.1 trillion higher than the agency projected earlier this year, with the bulk of that increase attributable to the recently enacted $95 billion supplemental spending package benefiting Ukraine, Israel, and Taiwan and the fact that under standard scoring conventions the CBO must assume that amount of discretionary funding is provided on an inflation-adjusted basis over the course of the budget window. Should lower levels of appropriations—whether regular or supplemental—be enacted in future fiscal years, that component of baseline spending would be marked down accordingly. (Note the $95 billion package, structured as an "emergency supplemental" spending bill, is not subject to the statutory appropriations caps for fiscal years 2024 and 2025 put in place by the Fiscal Responsibility Act of 2023 (P.L. 118-5).)
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

Over the course of the next decade, CBO also projects that the debt held by the public—that is, federal debt not held in intragovernmental accounts such as the Social Security and Medicare trust funds—will rise by more than one-fifth and exceed 122 percent of GDP by 2034. (For more details on CBO's most recent budget outlook, see *Tax News & Views*, Vol. 25, No. 22, June 21, 2024.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240621_1.html

Revenue v. spending debate revisited

At its most basic level, mounting deficit and debt levels are the product of a large and growing mismatch between federal revenue and spending. On the revenue side, CBO Director Swagel explained that his agency sees federal receipts averaging about 17.8 percent of GDP over the next 10 years, a bit north of the 17.3

percent of GDP average over the past five decades, but shy of the roughly 20 percent of GDP levels reached during the late 1990s when the federal budget was in balance.

Whitehouse says tax hikes needed: For his part, Budget Committee Chairman Sheldon Whitehouse, D-R.I., who also is a taxwriter on the Senate Finance Committee, argued during the hearing that the US revenue base has been eroded by GOP-drafted tax cuts enacted over the past 25 years.

"The Bush and Trump tax cuts—skewed to the wealthy and big corporations—have added another $10 trillion to the national debt," Whitehouse said. "If not for those tax cuts, the debt-to-GDP ratio—our best fiscal safety metric—would be declining in perpetuity."

Looking ahead to next year, Whitehouse suggested it would be fiscal malpractice for lawmakers to make permanent the expired and expiring components of the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) which, according to a separate CBO analysis published in May, would add another roughly $4.6 trillion to the deficit beyond the agency's current projections. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 17, May 10, 2024.)
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240510_2.html

"For 18 months, we've heard a steady chorus of Republican voices expressing alarm about debt and deficits . . . ," Whitehouse said. That attitude, he continued, "is hard to reconcile . . . with Republican plans to extend [the TCJA] and add almost $5 trillion more to the deficit." (The Republican National Committee endorsed a permanent extension of the temporary TCJA tax cuts in the draft 2024 campaign platform that it released this week and intends to ratify at the party's presidential nominating convention that will be held from July 15-18 in Milwaukee. See separate coverage in this issue for details on the draft platform.)
URL: https://cdn.nucleusfiles.com/be/beb1a388-1d88-4389-a67d-c1e2d7f8bedf/2024-gop-platform-july-7-final.pdf

Whitehouse asked CBO Director Swagel if the TCJA tax cuts paid for themselves through increased economic growth—an argument frequently advanced by Republicans—and if the agency had any data to indicate whether an extension of those provisions would provide enough of a boost to the economy to make them revenue neutral over the long term.

Swagel replied that the TCJA had some positive effects on GDP, "but by far it did not pay for itself, and the same would apply to an extension of the 2017 Act."

Republicans focus on spending side of ledger: Budget Committee Republicans, by contrast, focused on spending restraint as the primary lever for reducing deficits.

"If there's one thing clear from this meeting it's that my friends across the aisle have promised they will raise your taxes," said Sen. Roger Marshall, R-Kan.

"Folks, we don't have a taxing problem in this government, we have a spending problem," he added.

Federal outlays—which have fallen sharply from their pandemic-era highs—are expected to resume their steady climb due to pre-existing demographic trends that are projected to increase the ranks of Social Security and Medicare beneficiaries and thus push up spending within those programs. Health care cost growth is also expected to continue to outstrip economic growth, thus pushing up that budgetary component as a share of GDP. By 2034, outlays would exceed 24 percent of the economy according to the CBO.

Over the past 50 years, spending has averaged about 21 percent of GDP.

For his part, the panel's ranking Republican, Sen. Charles Grassley of Iowa, argued that higher marginal tax rates have not always correlated to rising revenues as a share of the economy.

"History proves that high tax rates fail to raise significant revenues," Grassley said. "Taxpayers, workers, and investors are smarter than we are. We've had a 93 percent marginal tax rate, then 70 percent marginal tax rates, 50 percent, 30 percent, back up to 40 percent, and you can go on and on."

"But, regardless of the rate," he said, "we've brought in about the same amount of revenue."

And although Grassley suggested he was open to reviewing "tax subsidies," to address the deficit, the ones he cited would likely face resistance from Democrats.

"A very good place to start is with those in the so-called Inflation Reduction Act, which CBO has said actually increases inflation," Grassley said. "Ending the law's subsidies for luxury [electric vehicles] and other regressive giveaways that have exploded in cost could net hundreds of billions in savings."

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