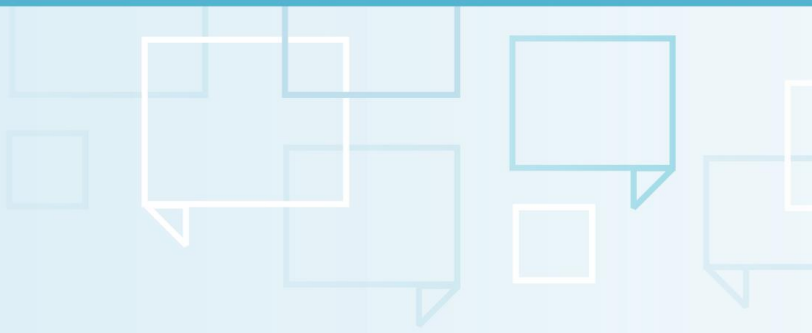




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HOW REVOLUTIONARY WERE PRESIDENT BIDEN'S BUDGET PROPOSALS?

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President Biden's fiscal year 2022 budget proposals were big and diffuse. They, and much of what Congress has considered since then, would also often be temporary. Despite once-in-a-generation policy changes, the real growth in federal spending that either administration or congressional proposals would foster pales relative to that caused by a few years of economic growth, the past adoption of Medicare by itself, or the future growth already built in existing programs through decisions by past Congresses. On the tax side, the Biden proposals would largely continue a modern tug-of-war involving tax cuts mainly when Republicans succeed to the Office of the President and offsetting tax increases when Democrats win.

For opposite reasons, pundits from left and right like to claim that the Biden proposals are revolutionary. But what do the numbers actually say?

THE NEAR-TERM AGENDA

To assess Biden's fiscal year 2022 budget, we compare actual federal spending levels in 2019—before the unusual outpouring of spending in 2020 and 2021 in response to the COVID-19 pandemic—to 2026, a peak year in terms of the requests the president made. Figure 1 shows the real increase in annual federal spending (in 2021 dollars) that would occur by the end of that seven-year period. Annual Social Security, Medicare and other health care spending together would rise by about \$770 billion, almost exactly 50 percent of all the growth—a hefty though smaller share than shown in budget statistics for many recent years.¹

FIGURE 1



Total Increase in Real Federal Spending Under President Biden's Proposed Budget

2026 compared with 2019

Billions of 2021 dollars



Source: Authors' estimates based on Table 3.1, OMB Historical Tables

Note: Includes all growth, both from Biden proposals and built-in growth from current law.

Other budget categories take up smaller shares of total spending growth. For instance, physical resources—including many transportation and other infrastructure programs—and income security together take up about 13 percent and 10 percent of the total growth, respectively. But the proposed increases in both categories are still quite large relative to their starting point. For instance, physical resources today are a much smaller share of federal outlays than in the past. The Biden proposals would attempt to reverse that trend and would more than double the annual spending in that category. Similarly, federal education spending would also just about double in size, though it would still pale relative to state and local spending in that area.

The dominance of Social Security, Medicare, and health care spending in the above comparison may be confusing, since the president proposed only modest changes to these programs relative to other agenda items. However, we are comparing all real spending growth, whether Congress newly legislates it or passively allows spending to grow through past legislation.² Unlike most of American history, only in the last few decades has most federal spending growth been determined by past, rather than current, legislation.³ Even President Biden's proposed budget increases would fail to reverse that trend.

Divided this way, President Biden's proposed budget entails an increase in federal outlays of about \$1.5 trillion, from \$4.6 trillion in 2019 to \$6.1 trillion by 2026, of which about \$600 billion would derive from the net cost of president's outlay initiatives.⁴

This raises an interesting dilemma for the president in trying to achieve his objectives, whether this year or in future years. Most of his new initiatives apply to areas of the budget—infrastructure, the environment, education, and children—that have been neglected for some time. Yet he faces great limits in reshaping new and longer-term priorities for the budget without addressing driving forces from the past that will increasingly swamp and overtake his new agenda items.

On the revenue side, real federal receipts would have risen by \$1.2 trillion, from about \$3.6 trillion to \$4.8 trillion, under President Biden's proposals. Of this total, about \$900 billion would come from growth built into current law and about

\$300 billion from the Biden initiatives. This comparison also shows the extent to which new revenues deriving from economic growth can be used to set new priorities, as long as those new revenues are not also pre-committed.

Combining outlays and receipts, the Biden proposals would cause the annual real federal deficit to rise by an additional \$300 billion in 2026 above the \$1 trillion already scheduled for that year.

Looking within receipts, for corporate revenues the president suggests a significant permanent increase of over \$200 billion in 2026, on top of the \$150 billion or so that are already scheduled in current law (due largely to economic growth).

The president's budget would also increase individual taxes substantially—and mostly on a permanent basis. About \$72 billion more than under current law would be collected in 2026—primarily from high-income taxpayers with more than \$400,000 of annual income—through additional taxes on capital income, including for gains unrealized by time of death. The other major source of new revenue would be enhanced tax compliance initiatives, impacting both individuals and corporations.

These proposed revenue increases would be somewhat offset by a variety of proposed tax expenditures, which act as substitute for direct expenditures. While some tax expenditures would be permanent, other changes would be temporary, though their costs could increase substantially as the eventual political goal is to make many of these provisions permanent. A proposed temporary increase in the Child Tax Credit (CTC) from \$2,000 to \$3,000 for most children (and \$3,600 children younger than 6) would last through 2025 (with net new costs of around \$100 billion in 2025 and \$60 billion in 2026). Even if those provisions were allowed to expire, one part would be permanent: the extension of at least the base \$2,000 credit to all children no matter what the tax liability of the household (in technical jargon, it would be “fully refundable”). That provision would cost about \$20 billion in later years.

THE LONG-TERM AGENDA

As of this writing, congressional Democrats appear almost certain to roll back the president's proposals, so that the changes outlined here are an outer limit for how much President Biden would get enacted in 2021. (We relied on projections from the Office of Management and Budget for this analysis.⁵)

Yet suppose that Congress were to fully enact this agenda, if not in 2021, then in later years. Many questions remain as to the long-term impacts of the president's proposals for future budgets and the long-term consequences of any bill or set of bills that Congress may pass in 2021.

First, these proposals dodge many of the issues created by the expiration of host of provisions⁶ that Congress enacted in 2017 (the Tax Jobs and Cuts Act), including that law's temporary change to the CTC, which is scheduled to fall back to \$1,000 after 2025. Maintaining 2022 levels of proposed benefits by itself costs about \$100 billion annually.⁷ Preventing the credit per child from falling back to the \$1,000 level set by the 2017 tax legislation implies an additional hefty price tag.

Second, the president has laid to the side the issue of how to deal with the big deficit increases already built into the budget even before the enactment of legislation this year.

Third, and closely related, the Social Security and Medicare trust funds are running large and growing annual deficits, threatening the benefits already being given to current retirees. Tackling these issues might have been deferred in past decades, but the impending insolvency of the trust funds limits the extent of further delay.

Much of the uncertainty can be seen in the president's own figures for 2031. In Figure 2 we turn from showing changes in real dollars in 2026 to changes as a share of GDP in 2031. The blue or bottom shaded part of each bar represents the

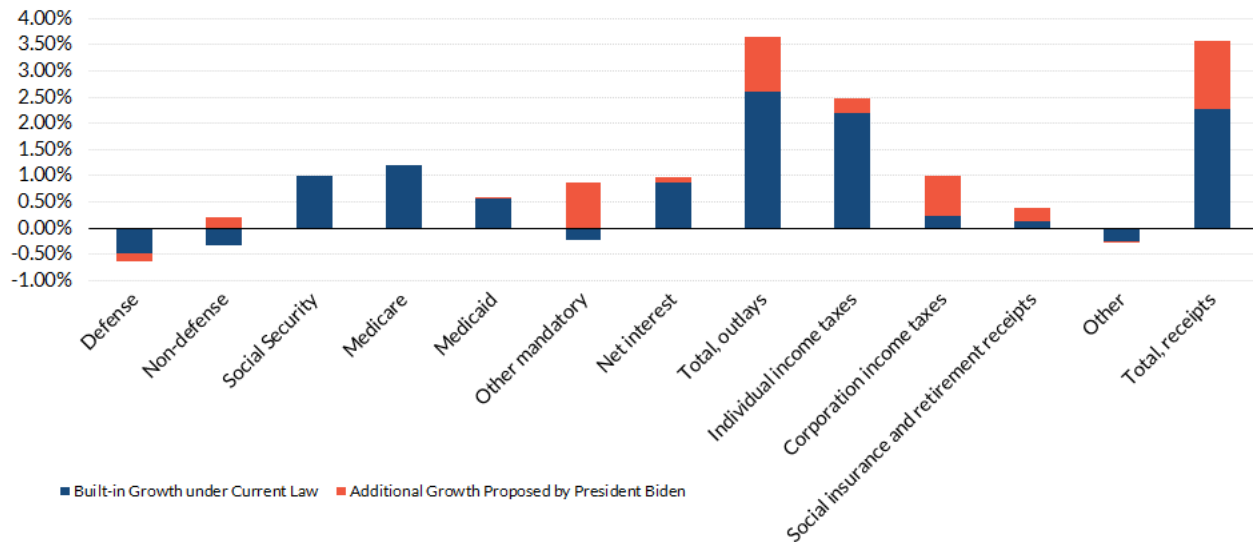
changes already built into current law, while the top part of each bar shows the additional change that would occur if the entire Biden budget were enacted.

FIGURE 2

Federal Budget Growth from 2019 to 2031 as a Share of GDP



Total and by category



As can easily be seen, the three programs with the largest total growth in total outlays are Social Security, Medicare, and net interest on the debt. Almost all the growth in those three items derives from current law, which, along with the growth in Medicaid, has little to do with the president’s proposals. The “other mandatory category,” which includes programs like transportation infrastructure and universal pre-K education, is the only one with significant growth due to the president’s proposals, and even that may be overstated for years after 2031, when further expirations in clean energy initiatives may occur. As a share of GDP, this budget also presumes a continued decline in defense spending and little change in net non-defense discretionary spending.

On the receipt side, most growth as a share of GDP also occurs under current law, including the scheduled expiration of the tax cuts enacted in 2017. The president’s proposals would mainly add more taxes on capital income and hoped-for returns from compliance initiatives.

CONCLUSION

In the end, even full enactment of the president’s proposals can hardly be considered revolutionary. The president’s proposed budget is big and bold in attempting to set the nation on a different path by setting new priorities in areas ranging from global warming (clean energy) to greater federal involvement in education and higher family benefits. It would continue the tug-of-war over taxation of capital income by restoring some of the taxes on corporate and individual capital income that have been cut in recent decades. Though it increases multi-year non-recessionary deficits to an all-time high, most of those deficits had already been scheduled by past presidents and Congresses. Because the president has yet to put forward a plan for dealing with unsustainable growth in existing programs, the long-term direction of the budget remains elusive and will not be resolved by the enactment of this or any related congressional budget being considered this year.

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- ² C. Eugene Steuerle and Caleb Quakenbush. 2016. "How Budget Offices Should Reframe Our Long-Term Budget Problems." in *Fixing Fiscal Myopia*. Bipartisan Policy Center, Washington, DC. <https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2019/03/BPC-Fixing-Fiscal-Myopia.pdf>
- ³ C. Eugene Steuerle. 2014. *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future*. New York, NY: The Century Foundation.
- ⁴ These and many succeeding estimates are derived by the authors, after converting to real dollars, from Summary Tables S-3 and S-4 in Office of Management and Budget, The White House, Budget of the U.S. Government, Fiscal Year 2022.
- ⁵ The Congressional Budget Office has not provided comparable detail. For the items CBO has assessed, we found the differences to be moderate, and the Tax Policy Center has provided consistent estimates for numbers such as the cost of an expanded CTC. The OMB figures still represent at best what the President sets forth as his desired budget, not what might be enacted.
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