



Joint Economic Committee

Republicans

Senator Sam Brownback *Ranking Member*
Representative Kevin Brady *Senior House Republican*

Republican Staff Commentary

Higher Taxes Fund More Spending, Not Deficit Reduction

October 6, 2010

“[T]he Budget eliminates the Bush tax cuts for those making more than \$250,000 a year and devotes those resources to reducing the deficit.”

President Barack Obama

President Obama has repeatedly urged Congress to allow the 2001 and 2003 income tax reductions for upper income American families to expire on December 31, 2010 so that the additional revenues generated by this tax increase could be used to reduce federal budget deficits. For deficit reduction to occur, however, Congress must refrain from spending the additional revenues.

To answer the question of whether Congress can restrain itself from spending any additional revenues that the federal government receives from levying new or higher taxes, this report examined major legislation enacted into law during the 111th Congress that contained both new or increased taxes and provisions for higher federal spending. This report identified seven major tax and spending initiatives contained in eight public laws (PL 111-148, *Patient Protection and Affordable Care Act*, and PL 111-152, *Health Care and Education Reconciliation Act of 2010*, were analyzed by the Joint Committee on Taxation and the Congressional Budget Office as if they were a single act). For projected federal revenue increases, this report used the JCT's most recent estimate for revenue raising provisions. For projected federal spending increases, this report used the CBO's most recent estimate for the change in direct spending.

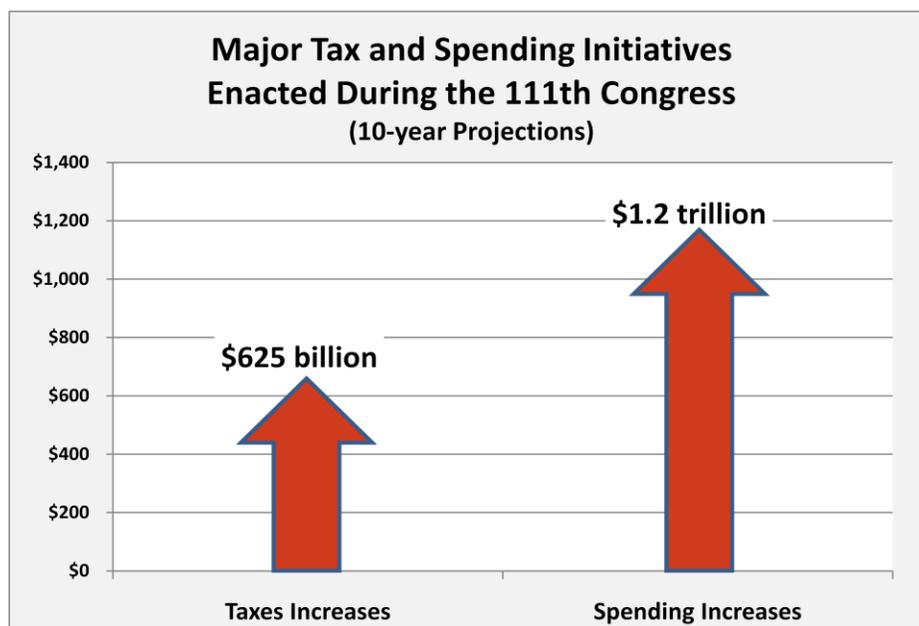
In these seven major initiatives, Congress increased projected tax revenues over the next ten years by \$624.9 billion.¹ Yet Congress increased projected federal spending by \$1.195 trillion over the next ten years in the same legislation.² In other words, Congress spent \$1.91 for every dollar raised through new or higher taxes. Through seven major initiatives, Congress actually added to projected federal budget deficits over the next ten years.

Given this pattern of behavior, one should be skeptical that any revenues generated from allowing part or all of the provisions of the 2001 and 2003 tax reductions to expire would be used for deficit reduction.

- In seven major initiatives enacted into law during the 111th Congress that contained both new or higher taxes and provisions for higher spending, Congress increased projected tax revenues by \$624.9 billion over the next ten fiscal years.
- In the same legislation, Congress also increased projected federal spending by \$1.195 trillion over the next ten fiscal years.
- On balance, the 111th Congress increased federal spending by \$1.91 for every dollar raised through new or higher taxes in the seven major initiatives.
- Given this pattern of behavior, one should be skeptical that any revenues generated from allowing part or all of the provisions of the 2001 and 2003 tax reductions to expire would be used for deficit reduction.

Appendix

| Major Enacted Tax and Spending Legislation of the 111th Congress (\$ Millions) | | | | |
|---|-------------------------------|--|---|--|
| <u>Bill</u> | <u>Public Law³</u> | <u>Title</u> | <u>Projected Federal Revenue Increase</u> | <u>Projected Federal Spending Increase</u> |
| HR 1 | PL 111-5 | American Recovery and Reinvestment Act of 2009 | \$6,977 | \$575,300 |
| HR 2 | PL 111-3 | Children's Health Insurance Program Reauthorization Act of 2009 | \$65,515 | \$73,800 |
| HR 2847 | PL 111-147 | Hiring Incentives to Restore Employment Act | \$18,625 | \$7,611 |
| HR 3548 | PL 111-92 | Worker, Homeownership, and Business Assistance Act of 2009 | \$21,352 | \$6,639 |
| HR 3590 ⁴ | PL 111-148 | Patient Protection and Affordable Care Act [Includes effect of Health Care and Education Reconciliation Act of 2010 (HR 4872, PL 111-152)] | \$439,900 | \$497,000 |
| HR 4213 ⁵ | PL 111-205 | Investing in American Jobs and Closing Tax Loopholes Act of 2010 | \$58,064 | \$33,040 |
| HR 5297 | PL 111-240 | Small Business Jobs Act of 2010 | \$14,457 | \$2,064 |
| 111 th Congress Totals | | | \$624,890 | \$1,195,454 |



¹ Sources: JCT revenue projections and CBO cost estimates; figures based on 10-year projections. Projected tax revenues do not consider any revenue reducing provisions (e.g. tax credits).

² CBO treats refundable tax credits in excess of a taxpayer's liability as an outlay. Therefore, these amounts have been included in the projections for federal spending increases.

³ Public laws with less than \$100 million revenue effect have been omitted from the analysis.

⁴ An updated CBO cost estimate from May 11, 2010 was used for HR 3590 [the spending estimate was increased by \$115 billion].

⁵ The CBO cost estimate for this bill is entitled Senate Amendment 4425 to the *Unemployment Compensation Extension Act of 2010*.