THIRD WAY

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4 Facts on the Budget Baseline Fight

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In the debate around the Republican tax bill, one key phrase is coming up again and again: *current policy baseline*. Under this idea, budget scorekeepers assume a policy in place this year will continue in perpetuity—even if by law it is scheduled to end. If that smells fishy, well, it is. But Senate Republicans have pinned their hopes on this wonky term as a way to extend provisions of their 2017 tax bill. As we await a ruling from the Senate Parliamentarian on whether it's allowed or not, here are four things you should know about the current policy baseline:

1. Using it in budget reconciliation is a gimmick.

There's nothing wrong with measuring a current policy baseline as an intellectual exercise. The Congressional Budget Office (CBO), Office of Management and Budget, and nonpartisan groups have all constructed current policy baselines from time to time. But when the rubber meets the road, bills are evaluated on the commonly agreed upon "current law" baseline to evaluate what things truly cost.

When you use a current policy baseline in the budget reconciliation process, it's cheating. The unpaid for 2001 and 2003 Bush tax cuts were designed to expire due to reconciliation rules. That same design was used for the individual side of the 2017 Trump tax cuts and even the clean energy tax credits in the 2022 Inflation Reduction Act. If the law says they are going to expire, why should we assume they will continue in perpetuity? Simply put, that's a gimmick.

As I told the *New York Times*: "If budget reconciliation is like taking the express lanes on a highway (there's extra rules and tolls, limited stops, but it gets you to where you want to go faster), using a current policy baseline for taxes is like slapping a fake license plate on your car [to avoid the toll]." [1]

For a more detailed explanation of budget baselines see "Why Do Budget Baselines Matter?" [2]

2. It doesn't make tax cuts free in practice, just on paper.

Tax cuts reduce the amount of revenue coming into federal coffers. Extending the 2017 tax cuts that are set to expire will mean that the federal government will take in $4 trillion less over the 10-year budget window, plus interest. [3] Even if you assume a current policy baseline, where extending tax cuts appears free, the country still takes in less revenue and our debt still becomes higher. You can see this in a recent analysis the CBO did for Chairman of the Joint Economic Committee David Schweikert (R-AZ). Over the next 30 years, CBO projected US debt to rise to 166% of GDP, but that amount shoots up to 214% of GDP if the Tax Cuts and Jobs Act is extended. [4]

3. The extra debt from unpaid-for tax cuts will boost inflation and harm the economy.

High and growing levels of national debt can have negative impacts on the economy over time. Two recent analyses measure the fiscal impact of extending the tax cuts and not paying for them, like Republican policymakers are trying to do:

- The Budget Lab at Yale modeled a permanent 1 percentage point of GDP increase in the primary (non-interest) deficit—in line with not paying for the tax cut extensions. Under this situation, the inflationary pressures will reduce a typical household's purchasing power by upwards of $1,250 a year. Further, the impact on interest rates will make auto and home loans even more expensive. [5]

- CBO noted that the unpaid-for extension of these tax cuts slow growth in "the longer term than in the extended baseline, and interest rates would be higher." [6]

4. Republicans know it's fake.

Don't take my word for it, here are three budget-oriented Republicans who know the current policy baseline is fake and harms the debt:

- Ways and Means Chairman Jason Smith (R-MO): "There are members of my conference that believe what the Senate is trying to do with the current policy baseline is a budget gimmick just so that they don't have to do spending cuts." [7]

- Jessica Riedl, Senior Fellow at the Manhattan Institute and former Chief Economist for former Senator Rob Portman (R-OH): "Congress can play whatever budget games it wants to evade its budget rules. But the deficit still skyrockets, the interest costs still bury taxpayers, and the bond market still eventually cries uncle. The laws of economics and math cannot be overruled in reconciliation." [8]

- William Hoagland, Senior Vice President of the Bipartisan Policy Center and former senior aide to Majority Leader Bill Frist (R-TN) and Budget Committee Chairman Pete Domenici (R-NM): "I would caution my friends, my Republican friends and senators up there, be careful about this. Someday you may be in the minority." [9]

ENDNOTES

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