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How to Raise Revenue Without Violating the Tax Pledge

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The biggest barrier to reducing the budget deficit is the Republican insistence that taxes not be increased by so much as a penny. As we saw in the Republican candidates' debate on Aug. 11, when asked if they would support a plan with \$10 of spending cuts for \$1 of tax increase, every candidate declined to support that plan.

But with federal revenues at a 60-year low, every serious budget analyst knows that revenues must be increased to stabilize the nation's finances, not just in dollar terms, but as a share of gross domestic product.

However, no Republican politician dares to acknowledge this, for fear of excommunication and likely defeat by some Tea Party patriot in the next primary.

Enforcement of Republican tax dogma is handled by Grover Norquist of Americans for Tax Reform, a group that isn't actually in favor of tax reform because it supports every gimmicky tax cut that comes down the road and likewise opposes eliminating any special-interest tax provision if it would lead to higher taxes on anyone.

For 25 years, Mr. Norquist has demanded that every Republican running for office anywhere sign a no-tax-increase pledge, which every G.O.P. presidential candidate and virtually every Republican member of Congress has done. Allied groups like the Club for Growth will spend whatever it takes to defeat any Republican who violates the pledge or refuses to sign it.

With Republican control of the House of Representatives and enough Republicans in the Senate to filibuster to death any measure deemed by Mr. Norquist to violate the sacred pledge, spending cuts appear to be the only permissible means of reducing the deficit.

There are, however, ways of cutting spending by raising revenue. While this sounds like magic, it is done all the time.

The first thing one needs to know is that not all federal revenues count as revenues. Some are classified as "offsetting receipts" or "offsetting collections." Such revenues are classified as negative spending rather than as revenues. The classification has no effect on the deficit but does make both federal spending and revenues about \$600 billion lower than they actually are.

Details on offsetting receipts can be found in Chapter 16 of the analytical perspectives volume of the federal budget. As it explains, such receipts consist of user fees and other voluntary payments made to the government in exchange for services of various kinds.

There are a wide variety of such receipts, but I want to focus on the one that is probably most familiar to people – premiums paid by beneficiaries for Medicare Part B, which amount to \$65 billion this year.

When Medicare was established, it had two parts, A and B. Part A pays for hospitalization and is financed by a payroll tax that all workers pay. Part B pays for doctors' visits and is voluntary. Its cost is financed by premiums paid by beneficiaries and by general revenues.

Originally, beneficiaries paid for 50 percent of Part B's benefits. But in 1973, the law was changed and the percentage of benefits covered by premiums fell steadily until 1985, when premiums were fixed at 25 percent of the program's costs. Thus if beneficiaries still paid as much of Medicare Part B's costs as they originally were supposed to then federal revenues would be \$65 billion higher this year.

And here's the kicker: higher Part B premiums wouldn't count as higher revenues, but as lower spending for Medicare. Therefore, it would not be a tax increase, would not violate the sacred pledge and would cut Medicare, which Republicans all say they want to do.

Even libertarians could support higher Part B premiums because the program is voluntary. Anyone who doesn't want to pay the premiums (or receive the benefits) doesn't have to. That's the key reason why Part B premiums aren't considered to be taxes.

There is really only one good argument against making Medicare beneficiaries pay for more of their benefits – it will be massively unpopular among elderly people. Right now they are getting something for nothing, and they like it. According to a recent Urban Institute study, single people and two-earner couples get back three times as much as they pay into Medicare and single-earner couples get back six times their contributions.

There are many other ways, as well, where the concept of offsetting receipts could be used to reduce federal spending while raising revenues through higher fees and reduced subsidies.

Once upon a time, it was a principle of conservative budget analysis that the federal government ought to impose user fees wherever possible, because it was unfair for taxpayers to subsidize programs that benefited only a limited group of people or businesses.

For example, user fees were a big part of the recommendations put forward by the Grace Commission, established by Ronald Reagan to find ways of reducing federal costs. It

published an entire volume detailing opportunities to impose fees and raise those insufficient to cover benefits received by users of government services.

The Wall Street Journal editorial writer Stephen Moore, who was formerly head of the Club for Growth and is a close ally of Mr. Norquist in enforcing the anti-tax orthodoxy among Republicans, once wrote a paper for the conservative Heritage Foundation recommending a variety of new fees to reduce the deficit.

Libertarian groups like the Cato Institute and the Reason Foundation have argued that establishing fees for government services would help make them viable for privatization, which would shrink the size of government.

The Government Accountability Office and the Congressional Budget Office periodically publish reports on user fees that can easily be consulted for ideas on how they can be improved. Budget conventions that treat such fees as reduced spending offer a way out of the budget impasse imposed by the tax pledge. And they could make a major contribution to meeting the \$1.5 trillion deficit-reduction target that the Joint Select Committee on Deficit Reduction must meet by Nov. 23.