



A So-So Republican Budget

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May 27, 2015

There was none of the *sturm und drang* that has accompanied past budget battles, but earlier this month the Republican-controlled Congress passed the first fully Republican budget since 2005. A historic event, to be sure, but, given that it has been a decade since Republicans had this ability to shape federal tax and spending policy, it is disappointing that the end result was such mediocre gruel.

First the good news: The budget would spend \$6 billion less over the next 10 years than the current baselines, and would, in theory, balance by 2024. The agreement at least ostensibly sticks to the budget caps agreed to under sequestration, although it circumvents them in a way by shifting more funds to “overseas contingency operations” (OCO), which are not subject to the caps.

Moreover, as valuable as the sequester caps have proven to be in restraining spending, they remain a blunt instrument that allows Congress to avoid truly tough decisions. As one bad sign, the budget agreement takes note of \$140 billion in needed health-care savings to offset the cost of the recent “doc fix” agreement, but doesn’t actually propose any specific cuts. On the other hand, the budget resolution establishes a deficit-neutral reserve fund that could allow for some reallocations that would give policymakers flexibility to replace sequestration with other cuts as long as those actions don’t increase the ten-year deficit. We will have to see how this plays out in a practical sense, but if the deficit-neutrality is strict enough, it could potentially be an improvement.

The budget resolution also engages in some serious sleight-of-hand when it comes to defense spending. The resolution keeps the sequester caps on defense in place, but only by shifting some \$38 billion in spending for next year to the OCO account, essentially using this war-fighting appropriation as a slush fund. The final budget agreement also removed a Senate provision requiring 60 votes to add future funds to the OCO without offsetting spending cuts.

We should also remember that, while a balanced budget is important, it is not as important as reducing overall levels of federal spending. And the GOP budget envisions spending \$1.14 trillion more (in nominal dollars) by 2025. That is not a good thing just because tax revenues will

rise fast enough to offset the increases.

The budget's biggest failing comes, as usual, in its refusal to seriously address entitlement reform. Mandatory outlays now comprise 62 percent of all federal spending, and that proportion would only rise under the GOP budget. In fact, just 3 programs (Social Security, Medicare, and Medicaid) account for 47 percent of federal spending. Unless Congress is willing to reform those programs, any balanced budget will be purely ephemeral.

So what does the budget resolution propose to do about Social Security? The program is currently running a roughly \$78 billion cash-flow shortfall that will grow worse with each passing year. Overall, Social Security's unfunded liabilities approach \$25 trillion. And in response, the budget resolution says that "the President should submit legislation to Congress addressing the long-term insolvency of [Social Security]." So a congressional budget resolution solves Social Security's problems by asking the president to tell them what to do. There's courage for you.

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Medicare's finances are in even worse shape than Social Security's, with the program's unfunded liabilities exceeding \$47 trillion. The House budget had included Paul Ryan's plan to add a premium-support model to Medicare. While Ryan's plan was substantially watered down — it wouldn't have taken effect for a decade and would have continued traditional Medicare as an option — it was dropped entirely from the final resolution.

A spokesman for Ryan was reduced to claiming a victory because "nothing in the conference report prevents us from continuing to pursue it." Fair enough. Nothing prevents me from running for president either, but I wouldn't buy any inaugural tickets just yet.

Essentially the budget kicks the Medicare can down the road, calling for "the committees of jurisdiction in the House and Senate [to determine] the specific Medicare reforms needed to bring spending levels under current law in line with the budget." Don't hold your breath.

Let's be clear: The GOP budget is a big improvement over the one presented by President Obama, and if appropriators follow through, it would improve our fiscal position. It would spend less and, presumably, tax less. It includes a reconciliation mechanism that could be used to repeal Obamacare.

But given the Democrats' power to filibuster in the Senate and the president's veto, the budget resolution is the one area where congressional Republicans can really exercise the power of the purse. One can't escape the wish that they had done better.

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