THE BASELINE

Issue Brief

MAY 10, 2023

BY: DEMIAN BRADY

The Limit, Save, Grow Act Would Implement Much Needed Budget Reforms

Introduction

The government is facing a fiscal impasse. Under law, there is a limit to the outstanding debt that the Department of the Treasury can issue. In January 2023, the government reached the current debt ceiling of $31.4 trillion. Unfortunately, decades of chronic overspending have driven up the debt substantially, such that the national debt is now 6.5 times higher than the estimated revenues for the current fiscal year.

Since the date that the debt ceiling was reached, Treasury has implemented "extraordinary measures" to continue to finance the day-to-day operations of the federal government. These measures, which include deferring investments to certain civil pension funds until after the debt ceiling is raised, buy time for lawmakers to address the issue before Treasury reaches what is known as the "X date," when the government will exhaust these accounting tricks and no longer be able to fully finance obligations.

Last week, Treasury Secretary Janet Yellen announced that the "X date" will fall on June 1. The Congressional Budget Office (CBO) concurs that the Treasury will run out of funds sometime in early June. CBO Director Phillip Swagel warns that if the debt limit is not increased, "... the government will have to delay making payments for some activities, default on its debt obligations, or both."

Key Facts:

The federal government reached the debt ceiling of $31.4 trillion in January. Opportunities to use "extraordinary measures" to fully finance its daily obligations will expire sometime in early June.

The House has passed the Limit, Save, Grow Act that would increase the debt ceiling by $1.5 trillion and implement $4.3 trillion in savings through 2033.

The most significant savings would result in caps on discretionary spending, repealing the Inflation Reduction Act's exorbitant clean energy credits, and prohibiting the student debt cancellation. The bill would also reduce debt servicing costs by $547 billion over the decade.

On April 26, the House of Representatives passed H.R. 2811, the Limit, Save, Grow Act of 2023 (LSGA). The bill would increase the debt ceiling by $1.5 trillion in exchange for an estimated $4.3 trillion in deficit reduction. The bill achieves this deficit reduction by capping increases in discretionary spending over 10 years, repealing the Inflation Reduction Act's (IRA) exorbitant clean energy tax credits, preventing the administration's student loan forgiveness scheme, and rescinding unspent funds enacted since 2020 in response to the COVID pandemic. The proposal also claws back most of the $80 billion plus-up in funding to the Internal Revenue Service (IRS). On top of the savings specified in the Act, CBO estimates that it will reduce debt servicing costs by $547 billion over the decade.

Increasing the Debt Ceiling

In just over a decade, total governmental debt has more than doubled from $14 trillion in 2011 to over $31 trillion this year. The debt is composed of debt held by the public (*i.e.*, investors who purchased interest-bearing Treasury bills, notes, or bonds) and intragovernmental holdings, where the government essentially owes itself money after shifting money from funds with surpluses to finance other spending programs. The debt held by the public increased from 64.8 percent of GDP in 2011 to 94.6 percent of GDP this year. The House-passed proposal would increase the debt ceiling by $1.5 trillion or extend it through March 2024, whichever comes first. This would lift the debt ceiling to $32.9 trillion.

The caps would be enforceable via sequestration procedures established by the Budget Enforcement Act of 1990 (BEA). If limits are exceeded, the BEA requires that funds are automatically cut. But of course, Congress has the opportunity to budget accordingly in advance to minimize the likelihood that sequestration of funding would be necessary.

Discretionary Budget Caps

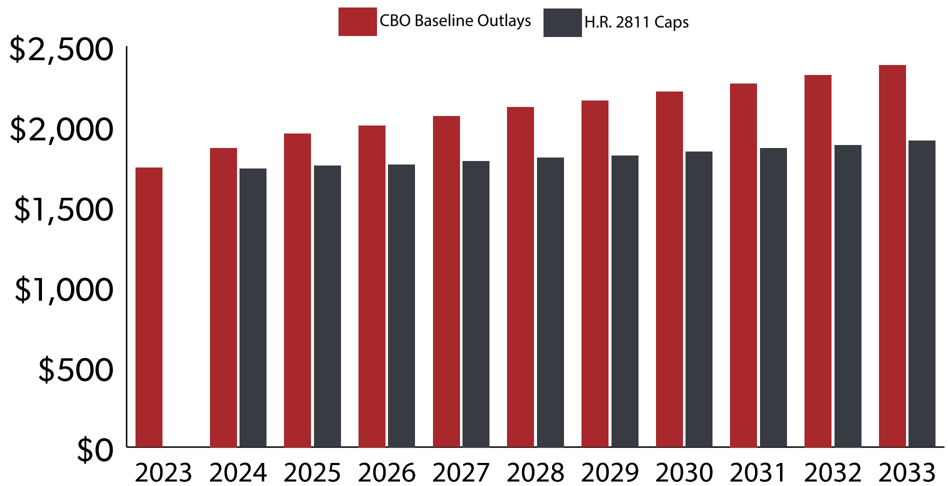
The most significant savings in the Act would come from re-establishing budgetary caps on discretionary spending. The BEA originally established discretionary caps through 1995 that were subsequently extended and modified. The government actually ran fiscal surpluses from FY 1998 through FY 2001. The caps expired in 2002 as deficits returned.

The most recent caps were enacted through the Budget Control Act of 2011 (BCA) and expired in 2021. The BCA was enacted by a divided government as a solution to a debt ceiling impasse. In May 2011, the government reached the debt ceiling of $14.4 trillion. The BCA allowed for the ceiling to be raised in stages and enacted deficit reduction reforms, including budgetary caps. Although Congress made several adjustments to the caps during the decade to allow for more spending, the BCA successfully reset spending to a lower baseline and set a goal of fiscal discipline.

Under CBO's most recent baseline, discretionary spending is projected to grow by three percent annually over the decade, totaling $23.1 trillion. The LSGA's caps would reduce discretionary outlays in 2024 by $6 billion from 2023's projected levels. After that, the limits would slow annual discretionary spending growth by one percent, shaving off $3.2 trillion in spending relative to CBO's baseline projection.

If the past is a guide to the future, Congress might at some point down the road seek to lift these caps. As noted, this happened through the successive laws enacted from 2012 through 2019 that raised the BCA's caps. On the plus side, these packages also included some additional reforms to find savings spread out over a number of years to partially offset the increase in individual year fiscal caps. This shows how it is important to re-establish top line fiscal targets as a starting basis for discipline. Also, the sooner that savings are locked into the budget, congressional opportunities to roll them back will be limited, and the more significant they will be in reducing debt interest costs.

Table 1. Changes to CBO's Projections of Discretionary Outlays Under the Caps Specified in H.R. 2811



Student Loan Savings

The second most impactful savings under the Limit, Save, Grow Act comes from prohibiting the Department of Education from canceling student loan debt and from implementing its proposed income-driven repayment plan (IDR). CBO now estimates that the loan cancellation would cost a total of $316 billion through 2023. The cancellation would be recorded in FY 2023 at a $320 billion cost, and through 2023 direct spending would increase by $400 million per year. The Supreme Court is currently reviewing the constitutionality of the plan and a decision is pending that could impact the cost estimate.

CBO's official score estimates that repealing the administration's IDR proposal would reduce direct spending by $110 billion over the decade. This understates the true cost of the program should it go into effect. The IDR plan was published as a proposed rule in the *Federal Register* in January. Under scoring conventions, CBO includes proposed rules into the budget baseline at half of their estimated cost. These estimates are included in the baseline because they are issued to implement current law and are discounted since they have not yet been finalized. CBO will revise the score and incorporate its full cost into the baseline after the final rule is published.

CBO also estimated that these provisions will have other interactive budgetary impacts that will save an additional $36 billion. Combined, CBO's score finds that student loan provisions in the LSGA will save a total of $571 billion, including the full cost of implementing the IDR plan.

Reforming Rules Costs

The scoring issue for proposed rules noted above would be addressed by another reform included in the LSGA. Under current law, final rules take effect unless Congress enacts a joint resolution of disapproval that is signed by the President. The LSGA includes the text of a bill known as the Regulations from the Executive in Need of Scrutiny (REINS) Act that would require a joint resolution of approval before any major rule would go into effect. This would provide an important check on the expansion of costly regulations and would help reclaim a portion of Congress's power of the purse that has been ceded to the executive bureaucracy.

The REINS Act reform could also help prevent scorekeeping controversies in future rules like those that manifested in the wake of the Trump-era Medicare Rebate Rule. The Department of Health and Human Services proposed this rule in 2019 to limit the use of rebates offered by pharmaceuticals that the former administration argued were driving up out-of-pocket costs. It was supposed to go into effect in 2021 and CBO estimated that the rule would end up increasing Medicare and Medicaid costs by an average of $21 billion per year through 2031. However, it was subsequently delayed by a court order. Even though the rule had never gone into effect, Congress has repeatedly enacted laws to further delay implementation that were scored as "savings" and used to offset other massive spending increases. If proposed rules have significant costs on top of what CBO has estimated for the related underlying laws the rules are implemented, the REINS Act would require explicit approval of Congress.

Energy Tax Credits Score Update Wipes Out the Inflation Reduction Act's Deficit Reduction

The House-passed bill would roll back the energy tax credits enacted in the Inflation Reduction Act (IRA), including a $7,500 tax credit for the purchase of electric vehicles (EVs) and plug-in hybrid vehicles. These subsidies are not only highly regressive but are turning out to be much more expensive for taxpayers than was initially suggested by the administration.

In its score for IRA on August 3, CBO estimated that these credits would cost around $270 billion in foregone revenue and outlays. In its score for the new LSGA proposal, CBO has more than doubled the cost of the credits to $570 billion.

CBO's final analysis of the IRA, published last September, estimated that its scoreable effects would increase deficits by $60 billion through 2026. However, by 2031, a mix of tax hikes and questionable scorekeeping for the Medicare Rebate Rule mentioned above would reduce deficits by $58 billion. In addition, the funding boost to the IRS was estimated to increase tax revenues by $180 billion over the decade. While those are nonscorable under budget rules, the net impact under CBO's September score would see the 10-year deficit fall by $238 billion.

CBO had estimated that the IRA would decrease the deficit by $238.5 billion through 2031 (including the nonscorable revenue impacts from the IRS spending boost). Upon signing the IRA into law, President Biden boasted twice about its deficit impact. However, *ceteris paribus*, a revised score of IRA through 2031 that would account for the $27 billion higher per year cost for the energy credits would see the deficit reduction wiped out.

There are also additional costs that were not accounted for in the IRA estimate. The Internal Revenue Service's recent *Inflation Reduction Act Strategic Operating Plan* notes that the agency will have to allocate a portion of the $80 billion in plus-up funding provided in IRA to administer the energy credits:

> … will need approximately $3.9 billion in funding, well above the specific $500 million appropriation, for energy security to support the implementation of the energy tax incentives outlined in the IRA. These initial estimates were developed in close consultation with the U.S. Department of Energy based on their past experiences in supporting the Treasury Department and the IRS in the implementation of energy tax credits and will be refined as part of future planning processes. These estimates include costs for necessary IT modernization efforts and for hiring staff to support the development of implementation guidelines, associated compliance efforts and anticipated customer-service needs. Successful implementation of these provisions is necessary to effect the energy security and clean energy policy goals included in the legislation.

Other Savings

The LSGA would implement additional budget reforms and savings, including:

- Claw Back of the IRA Internal Revenue Service Plus Up: the proposal would claw back the $80 billion supplemental provided in the IRA for the IRS, more than half of which is reserved for enforcement. Some of this money has already been spent or obligated, and some spending for taxpayer services and business system modernization are excluded, leaving a net savings of $72 billion. CBO also estimates that this would reduce tax revenues by $191 billion.
- Rescission of Unspent Funding: Six laws between 2020 and 2022 provided $4.6 trillion in response to the pandemic and the economic shutdown. CBO estimates that repealing the unspent funds from these laws would reduce outlays by $30 billion.
- Work Requirements: The bill would require that certain recipients of Medicaid would have to participate in work-related activities, including job training or community service, for at least 80 hours per month. CBO estimates that this would decrease outlays by $109 billion. Related requirements would also reduce Supplemental Nutrition Assistance Program funding by $11 billion.

With the caps and other reforms combined, the LSGA would reduce outlays by $4.3 trillion over the decade.

Debt Service Costs

At the request of House Budget Committee Chair Jodey Arrington (R-TX), CBO's estimate also calculates that the savings in the bill would reduce costs to service the federal debt by $547 billion. Debt interest payments are one of the fastest growing areas of federal spending yet are generally excluded from CBO's cost estimates of major legislation. In a 2022 hearing, Representative Ed Case (D-HI) asked CBO what it would entail to include debt service impacts in cost estimates. CBO Director Phillip Swagel explained that doing so would be feasible and require few additional resources. H.R. 311, the Cost Estimates Improvement Act, introduced by Representative Michael Cloud (R-TX), would require that CBO include this information in its estimates regularly.

Conclusion

Senate Majority Leader Chuck Schumer (D-NY) has called the bill dead on arrival in the upper chamber. His position, shared by President Biden, is that there should be a "clean" increase in the debt ceiling. However, this is a misleading characterization. A law that increases the ceiling without any reforms kicks the can down the road. In its latest budget outlook, CBO projected that interest payments on the federal debt will cost $10.5 trillion over the next decade. These are burdens that are being unjustly shifted on to future generations of taxpayers. Delay in fundamental budget reform will end up increasing the costs of fixing the problems of decades of overspending.

About the Author

Demian Brady is the Vice President of Research for National Taxpayers Union Foundation, where he runs the organization's Taxpayers' Budget Office.

2023 National Taxpayers Union Foundation
122 C Street NW, Suite 700, Washington, DC 20001
ntuf@ntu.org