The Daily Dish

House Budget Markup

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Yesterday the House Appropriations committee approved a spending measure seeking $1.8 billion for the Department of Homeland Security's (DHS) cyber unit, an amount in line with the Trump Administration's request for DHS. $1.4 billion of the approved funds will go to the DHS's National Protection and Programs Directorate which is in charge of protecting the U.S.'s infrastructure from cyber threats.

On Tuesday the Trump Administration targeted 16 entities for a new wave of economic sanctions targeting Iran. The move comes amid rising tensions over Iran's ballistic missile program and their actions in the region which are viewed as disruptive by the administration. Treasury Secretary Steven Mnuchin said that the Trump Administration's actions on Iran show that this administration "will not tolerate Iran's provocative and destabilizing behavior." On Monday the Trump Administration pledged to craft a new strategy on Iran that will take into account all of Iran's actions and not simply focus on the current nuclear agreement.

Eakinomics: House Budget Markup

Today at 10:00 a.m. the House Budget Committee is scheduled to "mark up" — i.e., amend as necessary prior to vote — its draft budget resolution for Fiscal Year 2018 (FY 2018). Recall that a budget resolution is (currently) a 10-year plan for the level of spending (including by type and purpose), the level of revenues, and the debt issuance of the federal government. In principle, the House will pass a resolution out of committee and off the floor, the Senate will follow in course, and the two chambers will agree on a concurrent resolution on the budget for FY2018.

There are a number of reasons to pass a budget resolution: it is good governance to have a fiscal plan for the future, it is required by the Budget Act of 1974 (but there is no penalty for failure), it can be used to make a statement regarding policies, and it is the route to the ability to consider legislation in the Senate under the special reconciliation procedures that permit limited debate and passage with a 51-vote majority. In practice, it has not been uncommon for the House, the Senate, or both to fail to pass a budget resolution.

Two factors are working in favor of passage this year. First, Republicans are using the resolution to make a central political point: economic performance has been stuck at an unsatisfactory pace (2.0 percent or less) and the adoption of pro-growth reforms to the tax code, the large entitlement programs, and aspects of the social safety net that are an impediment to work. Thus, the resolution will show that after adoption of the policies, the economy will average 2.6 percent growth annually over the next ten years — a substantial but not outlandish upshift in growth of the standard of living. In the process, the budget will also be brought into balance (actually, a modest projected surplus) by 2027.

But perhaps the greater motivation will be the ability to consider tax reform in reconciliation. The key to getting the biggest economic impact is to make tax reform permanent, which means it will have to be revenue neutral (one cannot use reconciliation to create long-term deficits). Interestingly, the budget resolution does more than direct the Ways and Means Committee to, say, save $1 billion using taxes in its jurisdiction — the plain vanilla instruction needed for revenue-neutral tax reform. Instead, the resolution is drafted to instruct 11 committee to reduce deficits by a bit over $200 billion. Media reports have characterized this as slashing spending or attaching “major spending cuts” to tax reform. This cries out for a bit of perspective. The federal government will spend roughly $46 trillion over the next 10 years; $200 billion in savings is a paltry 0.4 percent reduction in the outflow.

To be sure, the resolution is only a plan. There is no guarantee that the reduced level of discretionary spending will occur — the non-defense levels are below the existing budget caps that many think are already too low. (The solution to that, of course, is greater reform of the entitlement programs; they are the real budget stress.) And the House wants to improve the integrity of the budget by reducing improper payments; historically, these programs have resisted these types of efficiencies.

In short, stay tuned. Today’s mark up is only the starting point for the near-term push for tax reform and the longer-term need for budget sanity.