



ASSESSING THE PRESIDENT'S FY 2013 BUDGET PROPOSAL: SERIOUS PLAN OR 'MAGIC BEANS'?

“What have you done? Now we don't have anything, and we are even poorer.”

Jack's furious mother, upon hearing her son traded their cow for a get-rich-quick scheme, the English folktale, “Jack and the Beanstalk”

In the fairytale, Jack's risk paid off and everyone lived happily ever after. In the real world, however, Washington has bought and planted trillions of “magic beans”—yet the strong, stable beanstalk of growth never materialized. Pursuing another round of ad-hoc, short-sighted policies, while putting off dealing with the nation's unsustainable path of spending and debt, only will push the goal of *real, sustained* economic growth and job creation further out of reach.

It's time policy makers on both sides face the nation's dire fiscal situation, and do the real work necessary to improve it. This requires a serious budget.

KEY TESTS OF A SERIOUS BUDGET PROPOSAL

A serious budget should include fundamental reform in the areas of spending, taxes, and the budget process (or accounting). Below, scholars from the [Mercatus Center at George Mason University](#) identify key tests in each of these categories to help assess whether a budget is a serious plan for growth.

Entitlements

Serious Budget. Proposes meaningful reforms beginning in the coming fiscal year to make the largest entitlement programs more effective and sustainable and ease their future burden on the nation's economy.

Magic Beans. Proposes token reforms, reforms that begin ‘later,’ or maintains the status quo.

- “We cannot simply ‘leave these programs alone.’ They will grow themselves into [insolvency](#), leaving the most vulnerable Americans without a reliable safety net and bankrupting the economy in the process.” Jason Fichtner, Mercatus Senior Scholar; former Deputy Commissioner, Social Security Administration
- “[Worse than failing to strengthen Social Security](#) is using its sole designated funding source—the payroll tax—for ‘temporary’ stimulus. This only can lead to one of two things: 1) accelerating the program's insolvency or 2) forcing Social Security to increasingly rely on general revenues, or income taxes, to pay beneficiaries—thus, turning it into something more akin to welfare.” Charles Blahous, Mercatus Senior Scholar; Public Trustee for Social Security and Medicare

Discretionary Spending

Serious Budget. Proposes real cuts in all spending categories starting in the budget's first year and building on the Budget Control Act [BCA] reductions; proposes specific cuts to meet the BCA's \$1.2 trillion sequester.

Magic Beans. Claims cuts in one program to increase spending in another; adds more ‘temporary’ spending increases; calls for the largest cuts in the ‘out’ years; makes vague reductions in ‘waste, fraud and abuse.’

- “Unless Washington ends its increasing [reliance on ‘temporary’ spending and tax policies](#), it will just keep fighting last year’s battles, engendering financial uncertainty for job creators, failing to address our most serious challenges, and perpetuating economic policy paralysis.” Charles Blahous
- “Washington doesn’t exactly have a good track record for correctly guessing tomorrow’s jobs. Federal job-training programs that help accumulate expertise for jobs that may not exist today—and may even be less likely to exist tomorrow—is not a solid plan to reduce unemployment in any meaningful or [sustainable](#) way.” Matthew Mitchell, Mercatus Center Senior Scholar
- “American public works need improving, but federal spending on [infrastructure](#) is seldom timely, targeted, or temporary and tends to suffer from significant cost overruns. In short, it simply doesn’t work as ‘stimulus.’” Veronique de Rugy, Mercatus Center Senior Scholar

Taxes

Serious Budget. Proposes reforms to make the tax code simpler, more predictable, more competitive, more equitable, and more efficient.

- “If Washington is serious about improving American competitiveness, there are several things both sides should be able to agree on: [reduce the corporate tax rate](#) at or below the OECD average of 25%, end the ridiculously anti-competitive practice of double-taxing exports, and clean up the hundreds of special-interest temporary provisions currently [mucking up the tax code](#). Lowering rates across the board would be infinitely better for growth.” Jason Fichtner

Magic Beans. Proposes further complicating and increasing uncertainty in the tax code by adding more special-interest, temporary tax breaks; tax increases to ‘fix’ the economy, deficits, or both; tax increases to chase additional spending; and tax increases to achieve social policy aims.

- “It’s [non-millionaires who will likely pay](#) for tax hikes on the rich in the form of lower wages, higher prices, and fewer jobs. And it’s fantasy to suggest taxing the rich is a solution to the looming explosion of spending and debt. No set of numbers can make that calculation add up.” Veronique de Rugy

Budget Process/ Sound Accounting

Serious Budget. Gives credibility to the BCA’s spending caps by including a realistic fund for ‘emergency’ and ‘disaster’ spending—two of the biggest loopholes through which Congress spends beyond the budget limits on items that are often neither an ‘emergency’ nor related to any unforeseeable disaster.

Magic Beans. Characterizes as ‘cuts’ spending below the increases anticipated prior to the BCA; counts as ‘new’ cuts from the BCA; pretends ‘war savings’ are actual savings and ‘doc fix’ savings will materialize.

- “It’s a huge stretch to count as ‘savings’ future war spending that was never going to happen. And Congress will likely blow through even these pretend savings by continuing to stuff every ‘emergency war funding’ bill with spending that has nothing to do with either emergencies or war. These ‘war savings’ will never materialize.” Veronique de Rugy
- “No one should count on the [‘savings’](#) that would require a 29-percent cut to doctors’ reimbursement fees for Medicare. Lawmakers have ‘fixed’ this cut every year for the past decade. They need to stop pretending it’s real, or they need to push for the cut and then explain to Medicare patients why it will be so hard to get a doctor’s appointment.” Veronique de Rugy

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