Tax cuts “give.” Pay-as-you-go takes it away?

Both the House of Representatives and the Senate have passed their versions of a tax cut bill. While the House could accept the Senate version, it is more likely that the final tax cut bill will depend on the work of a conference committee charged with reconciling the differences between the two bills.

While, as we write this column, the full text of the legislation has not been released, there is an issue that needs to be discussed. That issue is known as PAYGO, pay-as-you-go. PAYGO forces Congress to balance tax cuts with spending decreases in non-exempt mandatory programs or compensate for spending increases with tax increases. Exempt mandatory programs include Medicare, Social Security and SNAP (the Supplemental Nutrition Assistance Program), along with other safety net programs—Medicare is limited to a 4 percent ($25-$28 billion) cut in spending.

In the case of the current tax cut legislation, which is estimated to increase the deficit by $1.5 trillion, that would require budget cuts of $150 billion each year for the next ten years.

In addition to agriculture ($14 billion in cuts), programs covered by PAYGO include the Affordable Care Act’s Risk Adjustment program ($5 billion), operations and support for Customs and Border Protection ($2 billion), student loan administration ($2 billion), and all other programs ($62 billion) (https://tinyurl.com/y747mbb9).

But, Congress left itself a loophole. It can suspend PAYGO. In that case, unlike the tax cut legislation, PAYGO would require 60 votes in the Senate to avoid a filibuster.

That means that in the absence of a suspension of PAYGO, the House and Senate agriculture committees will have $140 billion less—over the ten-year period which is used to determine the cost of a program—with which to fashion the policies they want to make a part of the 2018 Farm Bill. This will affect not only commodity programs, but also young farmer programs, grants available for university agricultural research, environmental programs like EQIP (Environmental Quality Incentives Program), funds to support local ASC offices, and much more.

In addition, many non-agricultural programs that are important to rural areas could be affected. Without suspension of PAYGO, rural US highways and bridges, rural hospitals, the Forestry Service, small business loans, and programs that we don’t even think about could all be negatively impacted by budget cuts.

So, how likely is it that Congress will enact a suspension of PAYGO? Aside the need for 60 votes in the Senate, will members of Congress who campaigned on reducing the deficit be willing to increase the deficit by suspending PAYGO? In many ways that is more problematic than getting 60 votes; Senate Democrats may be willing to vote for PAYGO in exchange for the adoption of policies that are important to their constituents.

Entitlement programs, including those that are exempt from PAYGO, are not out of the woods. Even before members of Congress put the finishing touches on the tax cut legislation, some like Speaker of the House Paul Ryan have said that cuts to Social Security, Medicare, and Medicaid are on the table. They argue that tax cuts must be matched with “entitlement” cuts to achieve long-term deficit reduction. These cuts would disproportionately fall on rural residents who are older and rely more on these services than urban residents.

Expectations are that the eventual tax cut law will positively affect the pocketbooks of many individuals and economic sectors, at least in the short-run. But it is also possible that subsequent legislation to pay for the tax cuts could have a devastating effect on a wide swath of social and economic programs. Agriculture and rural residents would not be exempt.

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