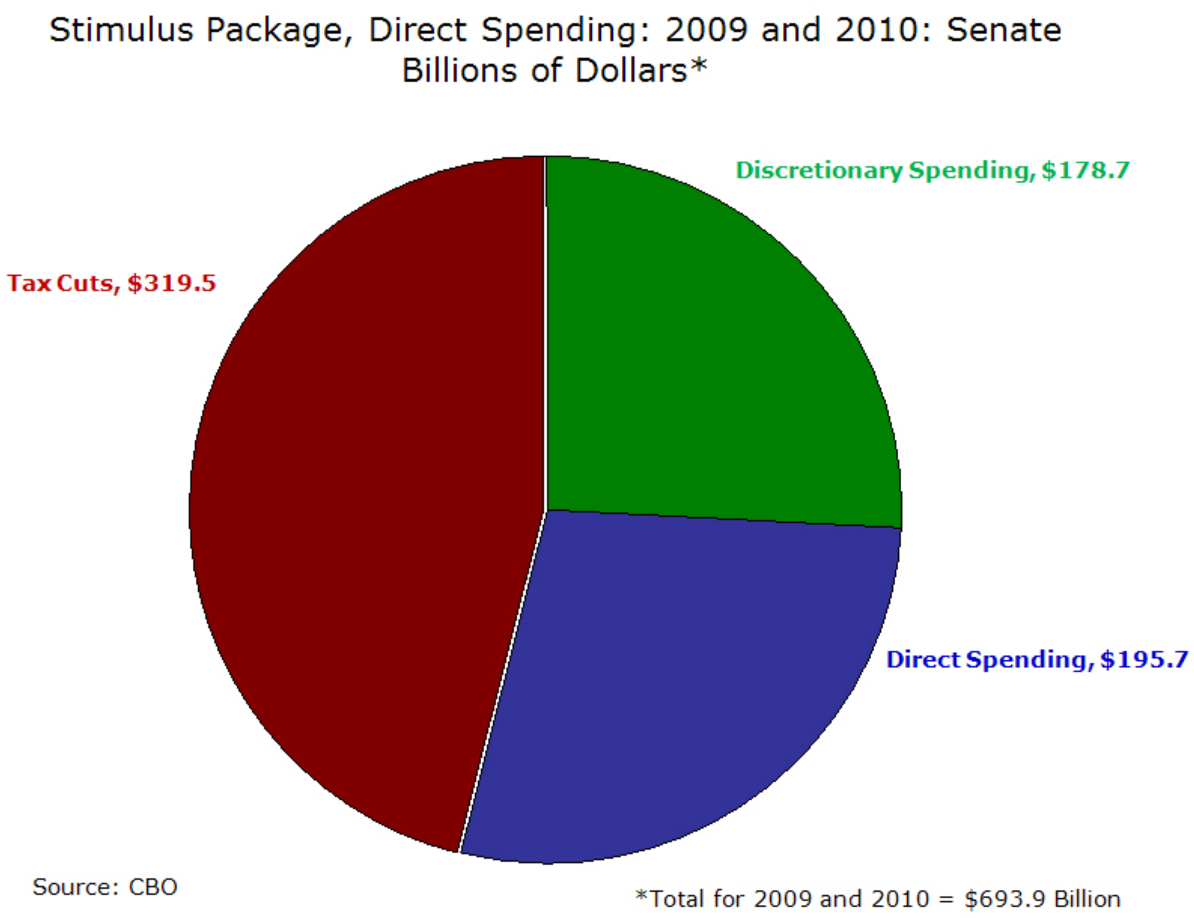
February 5, 2009

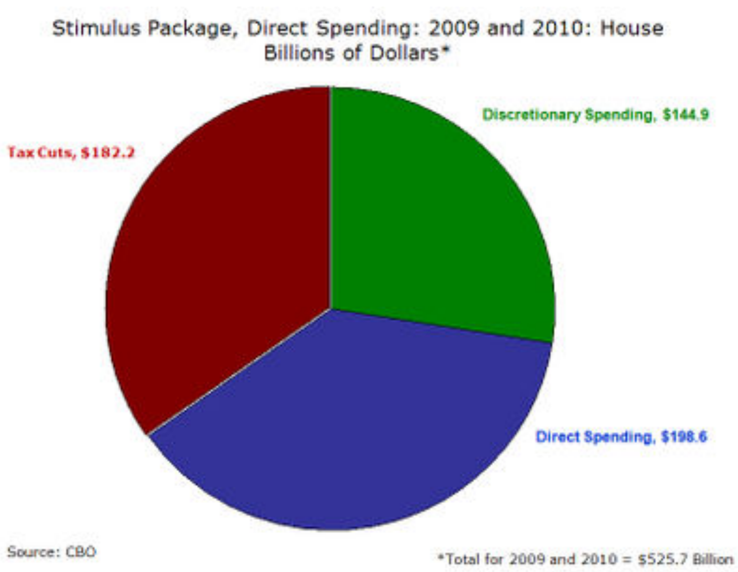
There is no accounting for priorities

Just in case you are desperately seeking some refuge from the pervasive blogland commentary on the fiscal stimulus proposal winding through the Senate (which already made its way through the House of Representatives), be forewarned: You won't find it here, but you will find an update to the old adage, There's no accounting for taste (de gustibus non est disputandum), which is to say that when it comes to the fiscal stimulus package, there's no accounting for priorities.

The Senate bill is not yet a done deal, of course, but a couple of clear differences between it and the House bill have emerged. According to the Congressional Budget Office—or CBO, from whom all figures in this post spring—the Senate bill is slightly bigger ($884.5 billion versus $819.5 billion) and would implement the stimulus at a faster pace. The current Senate bill would introduce about 79 percent of the expenditures and tax cuts in 2009 and 2010. The corresponding figure in the plan that came out of the House is 64 percent.

Perhaps more interesting—and maybe more confusing—are the priorities reflected in the separate bills:





The share of the stimulus devoted to discretionary spending—the place where, for example, infrastructure and education spending reside—is pretty similar in both stimulus plans (about 28 percent in the House version, about 26 percent in the Senate version). What is clearly different is the much greater reliance on tax cuts in the Senate bill, compared with the House bill's emphasis on "direct spending."

In a sense, this distinction is as much an issue of labeling as anything. The majority of the items in this category of direct spending are "provisions that would increase direct spending for unemployment insurance, health care, fiscal relief for states through the Medicaid program, and other programs," according to the CBO. In the language of economists and national income accountants these are "transfer payments," or funds that are transferred to individuals. Formally, they are subsidies for certain types of economic behavior—job seeking and purchasing health care, for example—and hence are really just a negative tax.

There is a certain arbitrariness to the distinction between increases in transfer payments and reductions in tax payments. This arbitrariness is illustrated by a change the CBO made between its initial assessment of the draft House bill and its (largely unchanged) summary of the bill that passed:

"The Congressional Budget Office, in consultation with JCT [Joint Committee on Taxation], has concluded that the subsidy for health insurance assistance for the unemployed should be treated as an increase in outlays rather than a decrease in revenues. Although this treatment is different from that in the table provided in our estimate for H.R. 1 as introduced on January 26, the overall effect on the budget remains the same for each year. JCT has also adjusted its estimates of the mix of revenue losses and outlay increases associated with certain refundable tax credits; that change also has no effect on the budget totals for each year."

Still, if you are likely to be on the receiving end of one of these programs, the distinction is probably not so arbitrary. From this end-user perspective, there is an important economic distinction between approaches taken in the competing plans. So then, which approach to "tax cuts" is better? At this point, I will send you to the aforementioned pervasive blogland commentary. You will find no shortage of opinions.

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