



Tax Expenditures

Maya C. MacGuineas

July 2008

The Federal Budget:

- Favors consumption over investment
- Favors the elderly over the young
- Focuses on the short term
- Lacks necessary investment in children

The Fiscal Challenge:

Structural budget deficits

- Current law baseline - \$350 billion in 2008
- Alternate baseline - \$400 billion in 2008
- Deficit projections that assume the budget reaches balance rely on major budgetary omissions (tax cuts, AMT, war spending)
- No budget surpluses – EVER – under realistic assumptions
- Leads to a crowding out of other priorities

The Fiscal Challenge:

The entitlement squeeze

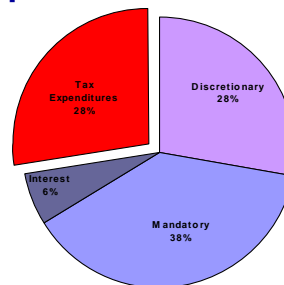
- Social Security will grow from 4.3% of GDP today to 6% by 2030
- Medicare and Medicaid will grow from 4.2% of GDP today to 6% by 2020, 10% by 2040, and 20% by 2082
- Total non-interest spending will grow from 18% today to 24% by 2030, 28% by 2050, and 35% by 2082
- Total unfunded liabilities are \$52.7 trillion

Tax Expenditures:

The forgotten piece of the budget

- One of the fastest growing pieces of the budget
- \$1,000,000,000,000
- Likely to continue growing faster than most areas of the budget

Tax Expenditures:



Tax Expenditures:

Shortcomings

- Costly
- Receive too little scrutiny when they are created
- Receive too little oversight once they are in place
- Complicated
- Regressive
- Distortive

Budgeting – A New Approach:

- Increase the value placed on long-term interests
- Evaluate economic returns
- Subject all areas of the budget to comparable treatment in the budget process
- Regularly compare new and existing funding opportunities