Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

March 22, 2007 (revised[1])

THE HOUSE BUDGET COMMITTEE'S BUDGET PLAN
A Brief Analysis

by James Horney and Richard Kogan

The House Budget Committee voted early this morning along party lines to approve a budget plan that the full House is scheduled to consider next week. This budget, which is very similar to the one approved by the Senate Budget Committee last week, marks an important first step in restoring fiscal responsibility in Congressional budgeting.

Restoring Pay-As-You-Go

The budget plan — known as a budget resolution — is notable for adhering to the Pay-As-You-Go rule the House adopted earlier this year. (The budget resolution being considered by the Senate would establish a similar rule in the Senate.) That rule requires that the cost of any increase in entitlement spending or tax cut be offset by reductions in other entitlements or increases in other taxes. (The Pay-As-You-Go rule does not apply to legislation providing funding for discretionary — or annually appropriated — programs; that funding is controlled by a separate limit the budget resolution places on the total amount that can be appropriated for those programs.) This represents a major shift in policy compared with other budget resolutions in recent years, which proposed tax cuts and entitlement expansions financed by additional borrowing and set the stage for enactment of tax and entitlement legislation that increased deficits and debt by $1.4 trillion over the 2001-2006 period.

The importance of the shift to pay-as-you-go budgeting is reflected in a joint statement issued today by four budget watchdog organizations — the Concord Coalition, the Committee for Economic Development, the Committee for a Responsible Federal Budget, and the Center on Budget and Policy Priorities. The four organizations stated: "Some … proposed new initiatives seek to address legitimate, important policy concerns. But there should be no exemptions from the pay-as-you-go rule. If one exemption is granted, advocates of other interests will demand that their priorities be exempted as well. … In this environment of already excessive red ink, no tax cuts or entitlement increases … should be enacted without offsets ensuring that they do not increase short- or long-term deficits and debt. It is not responsible to continue to promote legislation that is supposed to improve the lot of the American people without considering the corrosive effects that

[1] This analysis reflects the status of the budget resolutions reported by the House and Senate Budget Committees as of March 22, 2007. It has been revised to reflect subsequent information indicating that the discretionary funding provided by the resolution reported by the House Budget Committee (and subsequently approved by the full House) was $1 billion higher than was assumed in the original analysis issued on March 22.

the cumulative deficits and debt added by such legislation would have on current and future citizens."[2]

Discretionary Funding

The House Budget Committee plan provides a modest increase in funding for nondefense discretionary programs for fiscal year 2008 of $13 billion above the level enacted for these programs in 2007, adjusted for inflation (i.e., above the budget baseline). Since the President proposed that nondefense discretionary funding for 2008 be *cut* by $10 billion below the baseline level, the funding proposed for those programs in the budget resolution is $23 billion above what the President requested.[3]

The new budget resolution also proposes a change in rules restricting advance appropriations, which would effectively make an additional $2 billion in funding available for nondefense programs in 2008. Including that $2 billion, the amount proposed for nondefense discretionary programs would be $15 billion (or 3.5 percent) above the 2007 level adjusted for inflation. The level provided by the House plan for 2008 is $7 billion above that provided by the budget resolution reported by the Senate Budget Committee.

In 2009 through 2012, the plan assumes that funding for nondefense discretionary programs will grow at slightly less than the rate of inflation assumed in CBO's baseline.[4] By 2012, however, overall funding for these programs would be *below* today's level, adjusted for inflation and population growth, and well below the real per-person level of funding provided in 2004. As a share of the economy, by 2012 non-defense funding would fall to the lowest level in at least a half century.

The plan assumes that regular funding for defense will be provided at the level requested in the President's budget for 2008 through 2012. In addition, the plan includes $124 billion in emergency funding for 2007 (the amount provided in the emergency supplemental appropriation bill reported last week by the House Appropriations Committee, which consists primarily of funding for the war in Iraq and Afghanistan requested by the President) and $195 billion in additional emergency funding for the war in 2008 and 2009, as requested by the President. Even excluding the existing and proposed emergency funding for the war, the defense funding that the President has requested for 2008, and which the resolution contains, represents a $40 billion — or 8.5 percent — increase over the level enacted for 2007, adjusted for inflation.

Revenues

Consistent with the Pay-As-You-Go requirement that all tax cuts and entitlement increases be paid for, the plan assumes the same level of revenues over the 2007-2012 period as projected by the Congressional Budget Office under its current-policy baseline; the baseline essentially assumes no

[2] "Joint Statement On The Need For Pay-As-You-Go Discipline," March 21, 2007.

[3] The amount of budget authority we show for the House Budget Committee plan includes $842 million that is set aside for "program integrity" initiatives and is usable by the Appropriations Committee only for those purposes.

[4] The plan also assumes a temporary funding increase in 2010 to cover the costs of the decennial census.

TABLE 1

HBC Budget Plan vs. SBC Budget Plan and the President's Budget

(in billions of dollars)

	Cumulative Totals Fiscal Years 2007 – 2012		
	HBC	SBC	President
CBO baseline deficits[a]	94	94	94
Proposed policy changes (increases are increases in deficits)			
Defense discretionary (non-emergency)[b]	194	194	198
Nondefense discretionary (non-emergency)[c]	73	21	-104
Entitlements[c,d]	0	2	-108
Revenues[d]	0	0	533
Interest costs	29	26	42
Total increase in deficits	296	244	561
Deficits (without new emergency funding)	390	337	655
New emergency funding (primarily Iraq and Afghanistan)	316	293	293
Interest costs	60	56	56
Total increase in deficit	673	593	911
Deficits (with new emergency funding)	766	687	1,004

Sources: HBC Chairman's Mark,; SBC-reported budget resolution; Congressional Budget Office's March 21, 2007 *Reestimate of the President's Budgetary Proposal for Fiscal Year 2008*.

Notes:

a. These are the deficits for CBO's baseline adjusted to remove projections that emergency supplemental appropriations enacted in 2007 will be repeated each year from 2008 through 2012.
b. The defense numbers vary slightly for technical reasons that do not reflect a difference in policies.
c. Increased FAA fees (which are counted as negative outlays) are shown as offsets to discretionary spending in the President's budget but are shown here as a reduction in mandatory spending.
d. Outlay effects of tax proposals are reflected in the revenue estimate.

change in current laws governing taxes.[5] The budget plan assumes Congress will enact relief from the Alternative Minimum Tax and extend middle-income tax cuts scheduled to expire at the end of 2010, and will fully pay for such measures.[6] The plan includes "deficit-neutral reserve funds" to accommodate legislation to provide AMT relief and extend some tax cuts as long as these tax cuts are offset by increases in other taxes or by reductions in entitlement spending, so that no increase in

[5] The level of revenues would grow as a share of the economy in 2011 and 2012 largely because, under current law, the 2001 and 2003 tax cuts are scheduled to expire at the end of 2010.

[6] Section 401 of the budget resolution states that the resolution assumes that the costs of providing AMT relief and extending middle-income tax cuts will be offset by increases in revenues that are achieved by such means as reforms that "promote a fairer distribution of taxes across families and generations,..." However, neither the pay-as-you-go rule in place in the House nor the deficit-neutral reserve funds for tax relief included in the budget resolution require that the offsets come from increases in other taxes.

the projected deficit occurs. As this brief description indicates, charges that the plan requires multi-hundred-billion dollar tax increases are not correct.

Entitlements

Similarly, the plan assumes — consistent with the proposed Pay-As-You-Go rule — that spending for entitlement programs will essentially be held at the current-policy baseline level projected by CBO. The budget resolution also contains a number of *deficit-neutral* "reserve funds" that would accommodate legislation to make improvements in certain entitlement programs — for instance, a reserve fund that would allow legislation providing up to $50 billion over five years so the State Children's Health Insurance Program (S-CHIP) and Medicaid can cover more uninsured children — *if* such improvements are fully paid for.

Deficits

Because the new budget plan accommodates the President's proposed increases in funding both for defense generally and for the war in Iraq — and to a very small degree, because of a proposed modest increase in nondefense discretionary funding — the plan would increase the deficit by $673 billion above the levels CBO projects for 2007-2012 (see Table 1).[7] There would be a surplus of $153 billion in 2012.

The $673 billion increase in the deficit under the House plan is somewhat greater than the increase that would occur under the Senate Budget Committee plan (because it provides more emergency funding for 2007 and has modestly higher levels of funding for nondefense discretionary programs in 2008 through 2012), but is significantly smaller than the amount by which the President's budget would increase the deficit. Even though the President's budget proposes large cuts in domestic programs (which the neither the House nor Senate Budget Committee plan accepts), CBO estimates that the President's budget would increase the deficit by $911 billion in 2007 through 2012 and would result in a deficit of $31 billion in 2012.[8] The House and SBC plans increase deficits considerably less because they adhere to the Pay-As-You-Go rule and reject the President's proposals to cut taxes without offsetting the costs.

---

[7] The CBO baseline from which this increase is measured is one that does *not* assume annual extension of the $70 billion supplemental funding for Iraq that was enacted last fall.

[8] The estimates of the President's budget are based on the Congressional Budget Office's March 21, 2007, Reestimate of the President's Budgetary Proposals for Fiscal Year 2008, which includes an adjustment to CBO's March 2 preliminary estimate of the President's budget to account for the Joint Committee on Taxation's March 13, 2007 revised estimate of the effect of the President's proposal regarding the taxation of health insurance premium payments. The revised estimate lowered JCT's estimate of the increase in revenues (net of refundable credits) in 2007 through 2017 that would result from this provision from $526 billion (the estimate that JCT originally provided to CBO) to $334 billion. The Administration has asserted that the health insurance proposal would essentially be revenue neutral over ten years. It is worth noting that, *if* the revenue effects of the health tax provision followed the path the Administration assumes (instead of the path in the revised JCT estimate), the *increase* in deficits resulting from the President's policies would be $1,032 billion in 2007 through 2012, deficits under the President's budget policies would total $1,126 billion over that period, and the deficit would stand at $72 billion in 2012.

Lack of Detail on Pay-As-You-Go Offsets is Not a Failing

The difference between the House and Senate plans and the President's budget illustrates the importance of those plans' adherence to, the Pay-As-You-Go rule. Some critics of the plans have criticized them for not specifying exactly what offsets will be used to pay for the program expansions and tax-cut extensions assumed in the plans. But this represents a misreading of the big picture, and a misunderstanding of the role that the budget resolution plays in the Congressional budget process, particularly under a Pay-As-You-Go regime.

By the design of those who drafted the Congressional Budget Act in 1974 (and those who have modified it in the years since), the budget resolution is *not* a detailed budget plan like the President's budget. A budget resolution is, instead, a vehicle that allows the Congress to set and enforce overall targets for federal spending and revenues, to indicate Congressional budget priorities in broad terms, and to serve as a blueprint for the consideration of subsequent legislation that fills in the details of the budget. The Budget Committees are not allowed to use the budget resolution to dictate to other committees exactly which actions they should take on the budget. The Budget Act does not even allow the Budget Committee to determine how overall discretionary funding will be distributed among the various Appropriations Subcommittees.

When the Pay-As-You-Go requirement helped to turn deficits into surpluses in the 1990s, budget resolutions regularly included "deficit neutral reserve funds," which indicated a goal of enacting certain high-priority program expansions or tax cuts, while allowing legislation to achieve those goals to be considered *only* if the costs of the legislation were offset. The new budget plans follow the same course. Consistent with the role that the budget resolution plays in the Congressional budget process, deficit-neutral reserve funds are built into the budget plans, which leave it to the relevant Congressional committees to determine the details of both the program increases or tax cuts *and* the entitlement reductions or revenue increases to pay for them. With the renewed commitment to Pay-As-You-Go, it is appropriate that budget resolutions rely on deficit-neutral reserve funds to identify high-priority goals and permit legislation to achieve those goals, while maintaining the requirement that even legislation to achieve the high-priority goals must be paid for.

The real test of the commitment of this Congress to the Pay-As-You-Go rule will come later, when the legislation that provides for the assumed program expansions and tax cuts is considered. Will Congressional committees report costly legislation *without* paying for it, and will the Senate waive its PAYGO and other budget rules to consider such legislation? Or will the PAYGO requirements be honored, as they almost invariably were in the 1990s (until surpluses emerged)? That is the real question — *not* whether the Budget Committees have identified the specific offsets that will eventually be used by Congress to meet the PAYGO requirement. The development of a budget resolution that reinstates the Pay-As-You-Go requirement and does not deviate from it is a crucial step in the return to fiscal responsibility. Further steps will need to follow.