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THE SENATE BUDGET COMMITTEE'S BUDGET PLAN

A Brief Analysis

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The Senate is scheduled during the week of March 19 to consider a budget plan that the Senate Budget Committee adopted March 15 on a party-line vote. This budget 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 reinstating and adhering to the Pay-As-You-Go rule, which 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. 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 Pay-As-You-Go rule that the new budget plan would establish in the Senate is similar to the one established in the House at the beginning of this Congress. (It is difficult to make changes in budget rules in the Senate outside of a budget resolution.) 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 cap the budget resolution places on the total amount that can be appropriated for those programs.

Discretionary Funding

The plan provides a small increase in funding for nondefense discretionary programs for fiscal year 2008 of $6 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 $16 billion above what the President requested.

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 $8 billion (or 1.9 percent) above the 2007 level adjusted for inflation.

In 2009 through 2012, the plan assumes that funding for nondefense discretionary programs will grow less rapidly than inflation. By 2012, overall funding for these programs would be slightly *below* today's level, adjusted for inflation.

The plan assumes that funds for defense will be provided at the level requested in the President's budget for 2008 through 2012, including a total of $285 billion in "emergency" funding for the war in Iraq in 2007, 2008, and 2009. Even excluding the existing and proposed emergency funding for the war, the defense funding that the President has requested for 2008 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 change in current laws governing taxes.[1] (The budget plan assumes Congress will enact relief from the Alternative Minimum Tax for 2007 and 2008, and will pay for this relief by increasing other revenues somewhat over the five-year period 2008-2012. As a result, the resolution shows revenues that are slightly below current-law levels in 2007 and 2008 but slightly above current-law levels over the 2009-2012 period.) The plan also includes a "deficit-neutral reserve fund" to accommodate legislation that would reduce taxes — for instance, by extending tax cuts scheduled to expire under current law in 2010 — as long as the tax cuts are offset by increases in other taxes or reductions in entitlement spending so that no increase in the projected deficit occurs. At 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. It assumes that expenditures in the general health care category (Function 550), which includes the programs that provide health insurance to low-income children, will be increased by $15 billion over the 2007-2012 period but assumes that this increase will be fully offset by a reduction in spending for Medicare, presumably to be achieved through savings in payments to Medicare providers.[2] 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.

[1] 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.

[2] The plan also assumes expenditures of $4.7 billion for agriculture programs in 2007 and 2008, presumably to cover emergency farm disaster payments that are expected to be included in the 2007 emergency supplemental appropriation bill pending in the Congress, as well as a partially offsetting reduction in spending from an increase in "undistributed offsetting receipts" (such as user fees), which reduce net expenditures.

TABLE 1

SBC Budget Plan Vs. President's Budget

(in billions of dollars)

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

Sources: Chairman's Mark, FY 2008 Budget; Congressional Budget Office's Preliminary Reestimate of the President's FY 2008 Budget; Joint Committee on Taxation's March 13, 2007 revised estimate of the effect of President's proposal regarding the taxation of health insurance premium payments.

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.

Deficits

Because the new budget plan accommodates the President's proposed increase in funding 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 $593 billion above the levels CBO projects for 2007-2012 (see Table 1).[3] There would be a surplus of $132 billion in 2012.

[3] 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.

The $593 billion increase in the deficit under the Senate plan is significantly smaller, however, 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 Senate Budget Committee plan does not accept), CBO estimates that the President's budget would increase the deficit by $910 billion in 2007 through 2012 and would result in a deficit of $31 billion in 2012.[4] The Senate plan increases deficits less because it adheres to the Pay-As-You-Go rule and rejects the President's proposals to cut taxes without offsetting the costs.

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

The difference between the SBC plan and the President's budget illustrates the importance of the SBC plan's reinstatement of, and adherence to, the Pay-As-You-Go rule. Some critics of the SBC plan have criticized it for not specifying exactly what offsets will be used to pay for the program expansions and tax-cut extensions assumed in the plan. 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 plan follows 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 Senate budget plan, 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

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4 The estimates of the President's budget are based on the Congressional Budget Office's March 2, 2007, Preliminary Reestimate of the President's Budget, adjusted 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 $1,017 billion in 2007 through 2012, deficits under the President's budget policies would total $1,111 billion over that period, and the the deficit would stand at $67 billion in 2012.

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 Senate Budget Committee has 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.