On May 16, House and Senate negotiators reached agreement on a Congressional budget plan for fiscal year 2008 (S Con Res 21). Both the House and the Senate passed the conference report (S Rpt 110-153) the next day, and the report has now gone into effect as the approved fiscal year 2008 budget plan. This paper provides a brief overview of the conference agreement’s major provisions.

Restoring Pay-As-You-Go

The conference agreement represents a major step toward restoring fiscal responsibility in the Congress by reinstating a Pay-As-You-Go rule in the Senate. (The House already instituted such a rule earlier this year when it adopted the House rules package for the 110th Congress.) The rule prohibits the Senate from considering any legislation that would cut taxes or increase entitlement spending unless the costs of those provisions are offset by increases in other taxes or reductions in other entitlements. This rule can be waived only with the votes of 60 Senators.

Although the conference agreement retains elements of an amendment adopted during Senate consideration of the budget resolution that suggests the Senate will waive the Pay-As-You-Go rule to allow consideration of legislation extending some expiring tax cuts, the conference agreement does not provide an exception to the Pay-As-You-Go rule for that or any other legislation. (The agreement does add a so-called “trigger” provision that would prohibit the House from considering tax cuts that are not paid for unless the actual implementation of those cuts is made contingent on a future certification that a budget surplus will be achieved in 2012; see the box on page 3.)

Establishing a 60-vote hurdle in the Senate for legislation that would increase the deficit is an important step. The real test of Congressional commitment to fiscal discipline will come, however, when the Senate and House are faced with legislation providing popular tax cuts and entitlement program improvements and must decide whether to find offsets to pay for them, to forgo them, or simply to waive the Pay-As-You-Go and “trigger” requirements and thereby add to deficits.

Discretionary Funding

The conference agreement also sets a limit on total discretionary appropriations for fiscal year 2008 (other than funding for the war in Iraq and other funding designated as emergency spending). If, as the conference agreement assumes, appropriations for defense activities other than the war in
Iraq are provided at the level the President requested in his budget, then the funding allowed under the conference agreement for nondefense discretionary programs in 2008 would effectively equal $452.3 billion.1 This is $1.7 billion below what was assumed in the House-passed budget resolution and $5.2 billion above what was assumed in the Senate-passed plan.

The amount available for nondefense programs represents a $13.5 billion (3.1 percent) increase above the Congressional Budget Office’s baseline projection for 2008 (that is, above the amount enacted for fiscal year 2007, adjusted for inflation). Since the President proposed an aggregate $9.7 billion cut below the baseline for nondefense programs, the amount assumed in the conference agreement represents a $23.2 billion increase above what the President proposed.

The modest increase in 2008 funding for nondefense discretionary programs above this year’s level (adjusted for inflation) that is allowed under the conference agreement would leave such funding at relatively low levels by historical standards.

- Since 1990, nondefense funding has averaged 3.8 percent of the Gross Domestic Product. Under the conference agreement, funding for nondefense discretionary programs would equal 3.6 percent of GDP, lower than in any year from 2001 through 2006 and well below the nondefense discretionary funding level of 4.1 percent of GDP that was provided in 2002, 2003, and 2004. (Most budget analysts believe that changes in spending and revenues as a share of the economy provide the best measure of budget trends over time.)2

- Similarly, the amount of funding for nondefense discretionary programs allowed under the conference agreement is not particularly high in real per-capita terms (i.e., when adjusted for inflation and population growth). Real per-capita nondefense discretionary funding has been cut every year since 2004, with the funding level for 2007 being 9 percent below the 2004 level. The increase in real per-person funding for 2008 under the conference agreement — 2.2 percent — goes only a modest way toward restoring the cuts made since 2004.

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1 This takes into account the effect of a provision in the conference agreement that increases by $2 billion the amount of advance appropriations allowed for fiscal year 2009. This effectively increases the amount of program funding available for fiscal year 2008 by $2 billion.

In years after 2008, funding for nondefense discretionary programs would shrink as a percentage of GDP, falling to 3.2 percent by 2012. This would be the lowest percentage since at least 1962, and probably since the Hoover Administration.

**Revenues and Entitlement Spending**

The conference agreement includes a very small net reduction in entitlement expenditures of $750 million through 2012. This reduction is reflected in reconciliation instructions to the House and
Senate committees that have jurisdiction over education programs; the conference agreement instructs those committees to produce legislation that achieves savings of $750 million in 2007 through 2012.

On the tax side, the conference agreement assumes that the extension of $180 billion in expiring tax cuts may be enacted without offsets, subject to the new House requirement that such extensions be made contingent upon a projected budget surplus in 2012 and to the House and Senate waiving the Pay-As-You-Go rules. The conference agreement assumes that any other tax cuts or entitlement increases will be paid for. (See the box on page 3.)

The conference agreement also includes a number of deficit-neutral reserve funds to facilitate consideration of legislation — for instance, legislation to reauthorize the State Children’s Health...
Insurance Program (SCHIP) — that would make improvements in entitlement programs or tax cuts but also contain tax increases or spending cuts to pay for those measures. These reserve funds allow the budget resolution’s aggregate levels of spending and revenues — and the spending limits (or allocations) set for each committee — to be adjusted so that legislation achieving specified policy aims will not run afoul of budget rules as long as the legislation does not increase the deficit.

Deficits

Because the conference agreement accommodates the President’s proposed increases in funding for defense and the war in Iraq, assumes that $180 billion in expiring tax cuts may be extended without offsets, and assumes modest increases in funding for nondefense discretionary programs, the plan would increase the deficit by $953 billion above the levels that CBO projects for 2007-2012 under current policies (see Table 1).3

Not counting the cost of emergency spending, primarily for the war in Iraq, the conference agreement would increase deficits by $574 billion in 2007 through 2012. (That is more than under the House- or Senate-passed budget plans because the conference report accepts the Senate-passed plan’s assumption that some expiring tax cuts may be extended without offsets and assumes levels of nondefense discretionary spending close to the higher levels assumed in the House-passed plan.) This still is less than the $655 billion increase in deficits that would occur under the President’s budget (not counting emergency spending). While the President assumes deep cuts in nondefense discretionary spending that the conference agreement rejects, the cost of the President’s proposals to enact large tax cuts (by extending expiring tax cuts and enacting new ones) dwarfs the savings that would be achieved if his proposals to cut domestic programs were adopted.

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.