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POLICY POINTS

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ADDRESSING SOME MISCONCEPTIONS ABOUT THE NEW SENATE BUDGET PLAN

The new Senate budget resolution is a bigger break with recent congressional budget practices — and a larger step in the direction of fiscal responsibility — than some initial media reports suggest.

The plan's most important element is the restoration of "pay-as-you-go" rules on *all* new entitlement increases *and* tax cuts.

- In recent years, congressional budgets have simply assumed that new tax cuts and entitlement expansions would be financed by additional borrowing. The Senate budget plan represents a fundamental change from that approach, requiring that even widely popular expansions of entitlement programs and tax cuts be fully offset by reductions in other entitlement spending or increases in other taxes.

- Chairman Kent Conrad came under pressure to exempt from the "pay-as-you-go" rules popular initiatives such as expansions of children's health insurance or of farm programs (which are important in his home state of North Dakota). But Conrad declined to allow exceptions to the new "pay-as-you-go" policy.

Criticisms of the plan for not specifying exactly how various program expansions and tax-cut measures would be paid for rest on a misunderstanding of the nature and purpose of a budget resolution. The issue is *not* that the budget resolution is deficient in this respect, but that Congress will face a real test in adhering to the fiscal discipline the new budget plan sets.

- Some have criticized the Senate budget plan for not specifying how Congress should pay for the priorities it sets forth, such as the continuation of relief from the Alternative Minimum Tax. Unlike a detailed budget plan such as the President's budget, however, the purpose of a budget resolution is to set forth Congress's budget priorities in broad terms, rather than to specify how all of its proposals would be paid for. The Budget Committee is not empowered to use the budget resolution to tell other committees exactly what actions they should take on the budget. What is significant is that, under the new "pay-as-you-go" policy, legislation to achieve goals such as continuing AMT relief, extending expiring tax cuts, or expanding health insurance coverage would go forward *only* if the costs are offset.

- This same point holds true for suggestions that the budget makes deficits look artificially low by leaving out costs, such as the cost of AMT relief after 2007 or extending tax cuts scheduled to expire after 2010. This criticism is off the mark, because the costs of continuing such measures will not increase deficits if the costs are offset, as the "pay-as-you-go" rule would require.

- The central question is what will happen when congressional committees have to produce offsets to pay for the entitlement expansions and tax cuts they favor: will the "pay-as-you-go" rule that the budget resolution laudably reinstates be adhered to when these tough choices have to be made, or will it be waived?

The plan does not contain significant domestic spending increases or tax increases. Comparing the budget plan solely to the President's budget — rather than also comparing it to current policies — creates a misleading impression of its spending and tax proposals.

- Some media accounts have noted that the Senate budget plan provides $16 billion more in funding for non-defense discretionary programs for 2008 than the President's budget, *without* noting that the President's proposed funding level is $10 billion *below* this year's funding level, adjusted for inflation (i.e., below the budget baseline). What may appear to be a proposed $16 billion increase is, in fact, an increase of $6 billion, Including an additional $2 billion effectively made available for non-defense programs in 2008 by a change in the rule restricting advance appropriations for 2009, the increase in funding provided for nondefense programs in 2008 would be 1.9 percent above baseline — which is quite a modest increase for what is the first congressional Democratic budget plan in some years.

  In addition, funding for non-defense discretionary programs would *decline* slightly in inflation-adjusted terms after 2008 and be *below* today's levels in real terms by 2012.

  This is hardly the massive spending increase that some of the plan's opponents have claimed. Moreover, 90 percent of the total spending increases in the plan simply reflect President Bush's requests for defense spending increases and more money for the wars in Iraq and Afghanistan.

- Similarly, while the Senate budget plan assumes higher revenues than the President's budget, this is *not* because the Senate plan calls for tax increases. Rather, consistent with the "pay-as-you-go" requirement that all tax cuts (like all entitlement increases) be paid for, the plan assumes the *same* level of revenues over the next five years as the Congressional Budget Office baseline, which essentially assumes no change in tax laws. In other words, the plan does not call for a tax increase; what it does require is that any tax cuts be paid for.

  The President's budget, in contrast, calls for revenues to fall well below the CBO baseline over the next five years because of the large, unpaid-for tax cuts it contains. These include not only the extension of existing tax cuts, but also significant new tax cuts that the President has proposed and that, like his earlier tax cuts, would be largely deficit-financed.

Another element of the Senate plan, concerning the fast-track "reconciliation" process, also will promote fiscal discipline.

- Reconciliation procedures were originally designed to ensure that hard-to-pass legislation that would reduce deficits by reducing entitlement expenditures or raising revenues could not be filibustered in the Senate. But in recent years, Congress has turned the purpose of reconciliation on its head by using the fast-track process to pass tax cuts that *add* trillions of dollars in deficits.

- Budget watchdog groups have repeatedly criticized Congress's perversion of the reconciliation process and recommended that reconciliation be reserved for its original purpose.

- The Senate budget plan establishes a new rule barring reconciliation from being used to pass measures that would increase entitlements or cut taxes. Along with the new "pay-as-you-go" rules, this change marks a break with the fiscally profligate policies of recent years.