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POLICY POINTS

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NOW COMES THE HARD PART:

Can Congress Live Up To Its New Commitment To Fiscal Responsibility?

In a fundamental change from recent congressional budget practices, the House Budget Committee and the full Senate have approved budget plans that restore "pay-as-you-go" discipline and require that the costs of tax cuts or entitlement expansions be fully offset. In addition, contrary to some misleading claims, the House and Senate plans neither require large tax increases nor call for dramatic increases in spending.

Of course, the real test of Congress's new commitment to fiscal responsibility will come as the budget process unfolds over the course of the year. Will Congress come up with offsets to pay for the tax cuts and/or entitlement increases it favors? Or will it vote to waive pay-as-you-go in order to pass measures that are politically popular but widen the deficit? Some efforts on the Senate floor this week to evade pay-as-you-go for specific proposals (primarily tax cuts) demonstrate that Congress faces a difficult, year-long struggle in trying to live under this new budget discipline.

The House Budget Committee and the Senate should be commended for adopting pay-as-you-go rules *without* any exemptions.

- In recent years, Congress has approved budget plans that call for large, deficit-financed tax cuts (in 2001 and 2003) and a large, deficit-financed Medicare expansion (in 2003). The new pay-as-you-go rules will end this practice of simply assuming that new tax cuts and entitlement expansions will be financed by additional borrowing. Certainly, much more needs to be done to improve the nation's long-term fiscal outlook, but by making it harder to enact legislation that "digs the deficit hole deeper," Congress has taken an important step toward restoring fiscal responsibility.

- The new budget plans properly do not exempt any tax cuts or entitlement initiatives, however laudable their goals, from pay-as-you-go discipline. As a joint statement issued this week by four budget "watchdog" groups (the Concord Coalition, the Committee for Economic Development, the Committee for a Responsible Federal Budget, and the Center on Budget and Policy Priorities) explained, "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 the cumulative deficits and debt added by such legislation would have on current and future citizens."

Under the new budget plans, Congress can enact or extend any tax cuts it wants — as long as it pays for them.

- Under current law, the Administration's tax cuts are slated to expire by the end of 2010. However, Congress is free under both of the new budget plans to extend any or all of the tax cuts, as well as relief from the Alternative Minimum Tax, if it fully pays for these extensions through either increases in other taxes or reductions in entitlement programs.

- It should be recalled that the Administration's tax cuts expire in 2010 because their supporters *deliberately designed* them that way, in order to fit the tax cuts within the cost constraints imposed by the 2001 and 2003 congressional budget resolutions. While acknowledging that their real goal was to make the tax cuts permanent, supporters opted to "sunset" the tax cuts before the end of the ten-year budget window in order to obscure their true cost. Now, a few years from the tax cuts' expiration, some of these same elected officials are trying to act as though the tax cuts are already permanent and any proposal to offset the costs of extending them is a "tax increase."

  To extend the tax cuts without paying for them — and to attack those who seek to require that any extension of the tax cuts be paid for — only heightens the fiscal irresponsibility of the original actions.

The new budget plans call for modest increases in non-defense discretionary funding.

- For fiscal year 2008, the Senate plan increases non-defense discretionary funding by $8 billion (1.9 percent) above the 2007 level, adjusted for inflation (i.e., above the CBO baseline). The increase in the House Budget Committee's plan is somewhat larger, at $14 billion (3.3 percent) above the baseline. These increases are quite modest, and far less than what would be needed to reverse the effects of recent funding cuts and address unmet need for housing, education, child care, environmental protection, and some other critical domestic and international priorities.

- The President's budget, in contrast, would cut non-defense discretionary funding by $10 billion *below* the CBO baseline. Comparing the new congressional budget plans to the President's budget instead of the baseline makes the funding increases in the congressional plans appear larger than they actually are.

- Both the House Budget Committee and Senate plans assume that from 2009 through 2012, non-defense discretionary funding will grow no faster than inflation. By 2012, non-defense discretionary programs as a whole, when measured as a share of the economy, would fall to their lowest level in at least a half century.

Under the budget plans, any expansion of entitlement programs would have to be paid for.

- The plans would allow funding increases in specific areas such as children's health insurance, but such increases, like extensions of the Administration's tax cuts, would have to be fully paid for.

During the 1990s, when pay-as-you-go rules were last in effect, Congress almost invariably lived up to them (until the emergence of surpluses undermined budget discipline). It is unclear whether Congress can succeed this time as well, but it has at least taken the first necessary step.