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THE HOUSE-PASSED BUDGET PLAN

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Summary

In the early morning of May 18, the House passed a budget plan (or "budget resolution") for fiscal year 2007. In a separate vote later that day, the Housed "deemed" that the Congress has given final approval to the plan. As a result of this "deemer," the House budget plan is now in force in the House of Representatives (but not the Senate) as if it had been adopted by a House-Senate conference committee and then approved by both houses of Congress.

The plan would cut funding for domestic "discretionary" (or non-entitlement) programs by $10.3 billion in fiscal year 2007 and $167 billion over five years, relative to the Congressional Budget Office baseline. (The baseline reflects the amounts that CBO estimates to be needed to maintain current levels of service in these programs, and equals the 2006 funding levels adjusted for inflation.) The plan also would reduce entitlement programs by $5.1 billion over five years. House committees would be required to produce entitlement reductions of $6.8 billion, but $1.7 billion would be allowed for increased entitlement spending, apparently for outstanding flood insurance claims.

The savings from these program reductions would *not*, however, be used for deficit reduction. They would instead be used to offset a portion of the cost of the budget plan's $228 billion in tax cuts, as well as its defense spending increases. The net result would be significant further increases in the deficit. The plan would *increase the deficit over the next five years by $254 billion* above what deficits would be if current policy was left unchanged.

The House plan is harsher than the Senate plan in several respects. The House plan would provide $11.9 billion less funding for domestic discretionary programs in 2007 than the Senate plan. It would cut funding for these programs by $10.3 billion below CBO's current-services baseline, compared with a $1.6 billion increase above the baseline in the Senate. (Most of that $1.6 billion Senate increase would likely be consumed by the Administration's proposed increase in domestic homeland security funding.)

KEY FINDINGS

- **The plan would cut 2007 funding for domestic discretionary programs $12 billion below the Senate-passed level.**
- **The plan would allow much larger tax cuts in 2007 through 2010 than are currently allowed.**
- **Despite its proposals to reduce domestic programs, the plan would increase the deficit by $254 billion over five years, because of the effect of its tax cuts and defense spending increases.**

Table 1: The Three Budget Plans Each Would Increase Deficits Over the Next Five Years
(Cumulative total, 2007-2011, in billions of dollars)

	House-passed	Senate-passed	President (CBO est.)
CBO baseline deficit[a]	681	681	681
Tax cuts	228	218	282
Defense & international discretionary spending	134	133	141
Domestic discretionary spending[b]	-127	-89	-112
Entitlement/mandatory spending[c]	-5	-14	-47
increased interest payments because of policies above	24	24	17
Total increase in projected deficits	**254**	**272**	**281**
Additional amounts reserved for wars and emergencies[d]	156	191	150
Resulting deficits	1,092	1,144	1,113

NOTE: Tax cuts and expenditure increases are shown as positive because they increase deficits.

a. The baseline projections shown here do not assume that emergency funding appropriated in 2006 will be provided at the same level in 2007 and each succeeding year.
b. These figures reflect changes in outlays (or expenditures) over the five year period. The reductions shown here are smaller than the reductions in *funding* for domestic discretionary programs over the next five years; some of the cuts in funding made over the next five years would result in reductions in expenditures in years *after* the end of the five-year period.
c. The cost of the President's proposal to establish Social Security private accounts is excluded from the estimate of his budget shown here.
d. Amounts reserved for wars and emergencies include direct costs and additional interest payments caused by emergency spending.

Over five years, the House plan would reduce funding for domestic discretionary programs by $167 billion below the CBO baseline, as compared with a reduction of $123 billion under the Senate budget.

In addition, the House plan fails to include funding requested by the President — and contained in the Senate budget plan — to plug a 2007 funding shortfall in the State Children's Health Insurance Program and to extend the component of Medicaid that continues health care coverage for up to a year when a poor family works its way off welfare. If the SCHIP funding shortfall is not closed and "Transitional Medical Assistance" is not continued for families leaving welfare for work, hundreds of thousands of low-income working women and their children will lose coverage and be cast into the ranks of the uninsured.

The House plan also would allow Congress to consider tax cuts that are considerably larger over the next five years than are currently allowed under last year's budget resolution, which remains in effect until a new plan is adopted. Last year's budget resolution allows tax cuts totaling $106 billion over the five years from 2006 through 2010, including $70 billion in the recently enacted tax-cut reconciliation bill. Taking into account the tax cuts included in legislation enacted since last year's budget resolution was adopted (primarily last year's energy bill), Congress could currently cut taxes by a total of $96 billion over five years (including the tax cuts in the recently enacted tax reconciliation bill) without exceeding the revenue reductions allowed by that resolution.[1]

One reason that House and Senate conferees on the tax reconciliation bill had trouble reaching agreement is that the ceiling imposed by last year's budget resolution limited the size of the tax cuts that could be considered to an amount that did not accommodate all of the tax cuts that conferees desired. The new budget plan approved by the House allows tax cuts totaling $228 billion in 2007 through 2011. The plan assumes that $145 billion of these tax cuts would occur in 2011 as a result of extending the 2001 and 2003 tax cuts beyond 2010, when they are scheduled to expire under current law. But legislation to extend tax cuts beyond 2010 is unlikely to be enacted this year. Consequently, Congressional tax writers can instead use that $145 billion to substantially increase the size of the tax cuts for 2007 through 2010 that the House can consider this year without breaching the limits the new budget resolution sets. (Note, however, that the Senate has not yet made this extra room available for tax cuts, because there is not a conference agreement on a congressional budget plan and the Senate has not yet adopted the House approach of "deeming" its own, Senate-passed budget plan to be in effect.)

How the Numbers Add Up

The House plan would reduce expenditures (as distinguished from funding) for domestic programs by a total of $132 billion over five years, with $127 billion in reductions in expenditures for domestic discretionary — or annually appropriated — programs and $5.1 billion in reductions in expenditures for entitlement programs. In contrast, spending for defense and international programs would be *increased* by $134 billion, with nearly all of the increase coming in the defense area, and tax cuts would total $228 billion over the next five years. When the additional interest costs are included, these policies would increase projected deficits by $254 billion over five years. (see Table 1)

It should be noted that the increases in the deficit that would occur under the House plan likely would be *considerably higher* than $254 billion. That figure does not include the $156 billion cost of the emergency appropriations that the House plan assumes for 2006 and 2007 (including the interest costs associated with this emergency spending). More important, the actual deficits that would result under the policies in the plan almost certainly would be higher than the plan acknowledges because the plan leaves out various costs that are extremely likely to be incurred.

- The plan includes no funding for operations in Iraq and Afghanistan after fiscal year 2007, and only $50 billion for that year. (Note that the level of 2006 funding for this purpose totals about $120 billion, including amounts in the pending supplemental appropriation bill.) It is inconceivable that no costs will be incurred after September 30, 2007, even if the number of U.S. troops in the region is reduced between now and then. The President recently indicated

[1] A separate rule that applies only in the Senate could further constrain consideration of the next round of tax-cut legislation. In the Senate, any *tax or entitlement* legislation that would increase the deficit by more than $93 billion in 2006 through 2010 would currently be subject to a so-called pay-as-you-go point of order that prohibits legislation that would increase the deficit by more than the budget resolution assumed. (If more than one piece of legislation is involved, only the one that causes the total deficit increase to exceed $93 billion would be subject to the point of order.) Until a new budget resolution is adopted by Congress, a reduction in revenues of more than $93 billion over five years would violate the Senate pay-as-you-go rule unless the reductions in excess of $93 billion are offset by cuts in entitlement programs. Adoption of a new budget resolution could raise the $93 billion ceiling.

that troops will still be in Iraq until at least 2009.

- The House plan sharply understates the cost of its tax cuts. The plan is designed so most provisions of the 2001 and 2003 tax cuts could be made permanent; the plan reflects the costs through 2011 of extending these tax cuts. But the House, like the Senate and the President, resorted to a large gimmick here — it artificially lowered the costs of extending these tax cuts by assuming that relief from the Alternative Minimum Tax would expire at the end of 2006, even though the chances of AMT relief actually terminating are essentially zero. By assuming that AMT relief will end, the plan implicitly assumes that the number of taxpayers subject to the AMT will skyrocket from fewer than four million today to 34 million in 2011, and that a swollen AMT will cancel out a sizeable share of the 2001 and 2003 tax cuts, making the cost of extending those tax cuts look considerably smaller than it actually is. Inclusion of AMT relief through 2011, which virtually every lawmaker, lobbyist, and tax policy expert expects to happen, would cause the cost of the House plan's tax cuts to more than double.

The House plan does not include substantial changes in the rules under which Congress considers the budget. Chairman Nussle and the House Majority Leadership have said that the Budget Committee will report legislation to alter the budget rules later this year.

Plan Would Increase the Deficit by $254 Billion

If current laws and policies remain unchanged and the tax cuts are not extended, CBO projects that deficits would total $681 billion in 2007 through 2011.[2] The deficit would decline from a projected $336 billion this year to $13 billion in 2011. If the policies in the House plan are adopted instead, deficits still would decline over the next few years (although the deficit would start back up in 2011) but by considerably less than CBO has projected. The deficit would be *higher* in every year than if no changes in policies are made.

Not counting the cost of the emergency appropriations proposed in the House plan (to be comparable to baseline projections that assume no future emergency appropriations), the deficit would be $254 billion higher in 2007 through 2011 than if no changes in policy are made. In 2011 alone, the deficit under the House plan would be $154 billion — or $140 billion higher than projected under current policies.

[2] This estimate is based on the current policy "baseline" projections of the Congressional Budget Office, which generally assume laws governing taxes and entitlements are not changed and that the level of discretionary funding appropriated for 2006, with an adjustment for inflation, will be provided in 2007 and subsequent years. Thus, the CBO baseline estimate and the adjusted baseline estimate used here do not assume that tax cuts scheduled to expire under current law are extended.

Unlike the published CBO baseline projections, the baseline used here does not assume that the emergency supplemental appropriations enacted in 2006 for military activities in Iraq and Afghanistan, hurricane relief, and the fight against avian influenza will mechanically be repeated every year from 2007 through 2011. As a result, the baseline deficit cited here is $391 billion lower than CBO's $1.072 trillion official baseline deficit for those years. For CBO's March 2006 baseline projections, see the March 3, 2006, letters from Acting CBO Director Donald Marron to Senators Thad Cochran and Robert C. Byrd at http://www.cbo.gov/ftpdocs/70xx/doc7055/03-03-Prelim_Analysis.pdf.

This increase in the deficit would come despite the $132 billion over five years in reductions that the House plan would make in expenditures for domestic programs (including both discretionary and entitlement programs). The proposed $134 billion increase in spending for defense and international programs, together with $228 billion in tax cuts and the increased costs for interest payments on the debt, would far outweigh the $132 billion in reduced expenditures for domestic programs. The net result, as noted, is $254 billion more in deficits.

Discretionary Programs

Not counting the emergency supplemental funding assumed in the House plan,[3] the plan assumes that total discretionary funding for fiscal year 2007 will be $873 billion, the level of non-emergency funding requested by President Bush. Compared with the President's budget, the House plan makes modest adjustments in how this discretionary funding is to be used. Under the plan, some $2.2 billion in funding that the Administration proposed for international programs would be shifted to domestic discretionary programs in 2007. As a result, the House plan would reduce domestic discretionary programs in 2007 by $2.2 billion less than the President would. Over the five-year period as a whole, however, the House plan would cut funding for domestic discretionary programs by $15.8 billion — nearly one percent — *more* than the President proposed. The House plan also proposes $10.8 billion less funding for international programs over five years than the President proposed. Defense funding under the House plan would equal the President's request in every year, 2007 through 2011.

The plan would result in significant reductions in domestic discretionary funding. The House plan assumes that funding for these programs would be reduced in 2007 by $10.3 billion, or 2.6 percent, below the level provided for these programs in 2006, as adjusted for inflation. The funding provided for these programs in 2007 would also be $11.9 billion below that provided in the Senate-passed budget plan.[4] The reductions in funding for domestic discretionary programs below CBO's baseline level would grow with each succeeding year and total $167 billion over five years.[5]

The actual reduction in domestic discretionary funding for 2007 will very likely be smaller than the House plan calls for. On May 4, the House Appropriations Committee issued targets for each of its 11 subcommittees that implicitly increased the funding for the domestic programs that are under the jurisdiction of the Labor-HHS appropriations subcommittee by $4.1 billion, at the expense of

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[3] The President proposed a total of $145 billion in additional emergency funding (or budget authority) for fiscal years 2006 and 2007 ($92 billion for 2006 and $53 billion for 2007). Of this, $124 billion is for defense and international programs and $21 billion for domestic programs. The House plan assumes $93 billion in 2006 emergency funding, and proposes a total of $57 billion in emergency funding for 2007. It proposes total emergency funding of $123 billion for defense and international programs over the two years and $27 billion for domestic programs, amounts very close to those the President requested.

[4] This estimate treats the amendment offered by Senator Arlen Specter that the Senate adopted as providing $7 billion in additional domestic discretionary funding for 2007. The amendment, which increased the cap on advance appropriations for 2008 by $7 billion, technically is scored as increasing 2008 budget authority. But, since it effectively makes room for an additional $7 billion of domestic funding in 2007, we treat it as 2007 budget authority for purposes of comparing the Senate-passed budget with the House-passed plan, the CBO baseline, and the President's budget.

[5] Because expenditures (or outlays) lag behind funding (i.e., appropriations or budget authority), this $167 billion reduction in funding over five years would result in the $127 billion reduction in expenditures over this period that is shown in the table on page 1.

funding for defense and international affairs. (Appropriation bills are not required to adhere to the priorities assumed in a budget plan but are required to live within the total amount allocated to the Appropriations Committee.) Moreover, to obtain the votes of some moderate House Republican members for the budget plan, the House Leadership agreed to support this shifting of funds, and, in addition, a statement was added to the budget plan that the "House of Representatives recognizes the need to increase…" funding for the Labor-HHS appropriation bill by an additional $3 billion. Neither the shift of $4.1 billion nor this additional $3 billion were reflected in the modifications made in the "managers' amendment" to the House budget resolution, so the funding levels shown in the House-passed budget plan still reflect the priorities contained in the plan the House Budget Committee approved on March 29, without the modifications that the House Leadership has agreed to make.

In 2011, the funding proposed for domestic discretionary programs would be $52.7 billion — or 12.3 percent — below the amount needed to maintain the current level of funding adjusted for inflation. That reduction is slightly deeper than the 11.1 percent reduction proposed in the President's budget.[6] With overall domestic discretionary reductions of this scope, it would be difficult to avoid cuts even in high-priority domestic programs.[7]

In contrast to the cuts proposed for domestic discretionary programs, the House plan calls for substantial increases for defense programs above the inflation-adjusted levels provided in 2006. These increases would be in addition to the emergency funding that the plan assumes will be provided for operations in Iraq and Afghanistan. The plan calls for an increase in non-emergency defense funding, above the 2006 appropriated level adjusted for inflation, of $16.5 billion in 2007 and $151 billion over five years.[8]

In addition to the increases proposed in regular defense funding, the House plan includes nearly $120 billion in new emergency funding in 2006 and 2007 for operations in Iraq and Afghanistan. The plan leaves out the costs of operations in those countries in years after 2007.

Entitlement Programs

The House plan calls for a net reduction in entitlement spending of $5.1 billion over five years. The plan "reconciles" (or requires House committees to produce) $6.8 billion in entitlement reductions, while allowing $1.7 billion in unreconciled entitlement increases (which appear to be for flood insurance claims in 2007, as requested by the President). Eight House committees would be

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[6] According to Administration data, the cuts proposed in the President's budget for 2011 for discretionary programs other than defense and homeland security would average 13 percent, compared with the 2006 level of funding adjusted for inflation. See Richard Kogan, Isaac Shapiro, and Katharine Richards, "The Hidden Cuts in Domestic Appropriations: OMB Data Reveal Deep Funding Cuts after 2007," Center on Budget and Policy Priorities, February 9, 2006. The estimates of the size of the cuts reported in this paper are slightly lower than those reported in the February 9 paper because the estimates cited here are based on CBO rather than OMB baseline data.

[7] For an analysis of the effect of the cuts in domestic discretionary funding proposed by the President's budget, see James Horney, Sharon Parrott, and Arloc Sherman, "Program Cuts in the President's Budget: Cuts Grow Deeper Over Time and Will Hit States Hard," Center on Budget and Policy Priorities, February 23, 2006.

[8] The emergency funding proposed in the House Budget Committee plan for 2006 and 2007 is not included in these figures. Similarly, the emergency funds already appropriated for 2006 are excluded from the base level of funding for 2006 that is used here for comparison purposes. Note also that, as explained above, the House Appropriations Committee has already agreed to reduce the 2007 funding levels for defense and shift those funds to domestic programs.

directed to produce the $6.8 billion in savings by June 9. Some $4 billion would come from the Ways and Means Committee. Another $1.3 billion would from the Committee on Education and the Workforce. Although the Senate plan also assumes entitlement reductions in net, it does not use a reconciliation directive to attempt to compel enactment of the reductions.

As noted in the summary section of this paper, the House plan would apparently lead to an increase in the ranks of the uninsured. The President's budget requests, and the Senate budget plan includes, funding to continue Transitional Medical Assistance (TMA) — a program established as part of President Reagan's 1988 welfare reform law that enables families who have worked their way off welfare to maintain Medicaid coverage for up to a year. The President's budget and the Senate budget plan also contain several hundred million dollars to address a shortfall in funding for the State Children's Health Insurance Program in 2007. The House plan, however, does not include funds either to extend TMA or to address the looming SCHIP shortfall. Without such funds, hundreds of thousands of women and children in low-income working families will lose coverage and become uninsured. The HHS actuary estimates that if the SCHIP funding problems are not addressed, SCHIP enrollment will decline by 500,000 children in 2007.

Revenues

The House plan assumes tax cuts totaling $228 billion over five years. This amount accommodates the tax cuts in the recently enacted tax reconciliation bill. It also would accommodate the extension beyond 2010 of most of the tax cuts enacted in 2001 and 2003, which all are slated to expire by the end of 2010. (Note: like the Senate budget plan, the House budget plan does not include new tax reconciliation instructions.)

The $228 billion in tax cuts over five years is somewhat less than the cost of the tax cuts in the President's budget. The Congressional Budget Office estimates that the President's tax proposals would reduce revenues by $282 billion over the five-year period. The primary difference is that the House resolution does not appear to assume certain new Administration tax proposals such as those related to Health Savings Accounts.

The House plan does, however, play some of the same budget games that the President's budget uses to heavily understate the cost of its tax cuts. In particular, the House plan follows the President in assuming only a one-year extension of relief from the Alternative Minimum Tax.[9] According to estimates by the Urban Institute-Brookings Institution Tax Policy Center, if AMT relief expires at the end of 2006, the number of taxpayers affected by the AMT will explode from about 3.6 million taxpayers last year to 33.9 million in 2011 (assuming the 2001 and 2003 tax cuts are extended). The House plan implicitly assumes that this swollen AMT will cancel out some of the benefits of the tax cuts for millions of taxpayers, making the extension of the tax cuts appear much less costly on paper that it actually would be. This lower cost is an illusion, because no one believes that AMT relief will be allowed to expire and that the AMT will be allowed to hit 34 million taxpayers. Rather, it is universally expected that Congress will continue providing relief from the AMT to mitigate its impact, particularly on middle-class taxpayers.

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[9] A provision of the House plan and statements made during markup apparently open the door to providing AMT relief for two years rather than one. However, the resolution requires that any AMT relief beyond one year fit within the $228 tax-cut total over five years that the resolution allows.

Congressional Budget Office estimates indicate that if the tax cuts the House would extend are made permanent and the AMT relief in place for 2005 is continued year after year and indexed for inflation, the $228 billion five-year cost of the House's tax-cut agenda rises to $605 billion — or $377 billion more than the amount the budget resolution acknowledges. If the House plan had reflected the full cost of continuing AMT relief and other popular tax cuts that are slated to expire but always are routinely extended, the deficits it shows would be much higher and would be about $300 billion in 2011.

Conclusion

The House-passed budget plan does not score well on either fiscal responsibility or fairness. It calls for substantial cuts in domestic discretionary programs in 2007 and the following four years, but at the same time proposes substantial tax cuts and substantial defense increases unrelated to the wars in Iraq and Afghanistan. Despite the sacrifices it would demand of millions of Americans who rely on various domestic programs related to health care, education, public safety, environmental protection, and other such activities, the plan would cause deficits to be considerably larger than if none of its policies were adopted.