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THE CONGRESSIONAL BUDGET PLAN: A Brief Analysis of the Conference Agreement

by Richard Kogan and James Horney

On May 20, House and Senate negotiators reached agreement on a Congressional budget plan for fiscal year 2009 (S.Con.Res. 70), which the House and Senate plan to vote on by the end of this week. This paper provides a brief analysis of the plan and how it compares with the budget President Bush submitted earlier this year.

Overview

Current policy projections of federal spending and revenues show sizable surpluses in 2012 and 2013 primarily because the large tax cuts enacted in 2001 and 2003 are scheduled to expire at the end of 2010 under current law (and relief from the Alternative Minimum Tax ends under current law).¹ Both the congressional budget plan and the President's budget assume enactment of legislation that will largely consume these projected surpluses, but the legislation assumed in the congressional plan differs substantially from what the President's budget proposes.

As shown in Table 1, the congressional plan assumes:

- Revenues will be \$340 billion below CBO's baseline projection of revenues for fiscal years 2008 through 2013. This reflects the assumption that some of the tax cuts scheduled to expire in 2010 will be extended without offsets (subject to a future congressional decision on setting aside procedural hurdles, such as Pay-As-You-Go rules, that would bar consideration of such legislation; see the box on page 2).
- A very minor increase in entitlement funding reflecting recently enacted legislation and the farm bill, which would apparently be offset by revenue increases contained in such legislation.
- An \$81 billion increase over six years in defense expenditures (relative to what would occur if appropriations for coming years were maintained at the 2008 level, adjusted for inflation). This increase *does not include* funding for the wars in Iraq and Afghanistan. According to the Congressional Budget Office, this is the same level of increase in defense spending that the President's budget proposes. The congressional budget plan also assumes a \$59 billion increase in expenditures for non-defense discretionary programs over the six-year period (relative to the level of expenditures that would result from maintaining the 2008 appropriations levels,

Procedural Hurdles for Tax Cuts Under the Congressional Budget Plan

The revenue and spending figures in the budget resolution conference agreement reflect the extension of some expiring tax cuts, which would reduce revenues by \$340 billion below CBO's baseline projections for 2008 through 2013, *without* offsetting these costs. At the same time, however, the conference agreement does *not* exempt legislation extending the tax cuts from House and Senate Pay-As-You-Go rules that require such offsets.

The conference agreement also establishes two additional hurdles that legislation to institute unpaid-for tax cuts would have to surmount. First, the conference agreement retains the "trigger" mechanism included in last year's Congressional budget plan, under which the House is barred from considering legislation containing certain unpaid-for tax cuts unless that legislation stipulates that the tax cuts will take effect only upon a future determination being made that there would still be a budget surplus in 2012 and 2013.^a Second, the conference agreement establishes a new prohibition in the Senate against considering any legislation that would increase the deficit by \$10 billion in any year through 2013, unless that increase is fully offset over the 2008-2013 period as a whole. As is the case with the Pay-As-You-Go rule in the Senate, the new Senate rule could be waived if 60 senators voted to do so. The House prohibition could be waived if a "rule" to waive it were approved by the Rules Committee and adopted by the full House.

In short, the conference agreement assumes that some expiring tax cuts will be extended without offsets, but decisions regarding whether to remove procedural hurdles against considering such legislation would be left to the future.

^a For a more detailed description of the "Tax Cut Trigger" in last year's budget resolution, see the box on page 3 in James Horney, Richard Kogan, and Matt Fiedler, "The Congressional Budget Plan: A Brief Analysis of the Conference Agreement," Revised May 29, 2007. The procedure in this year's conference agreement works the same way, except that under this year's agreement, the cost of the tax cuts through 2013 cannot exceed the lesser of \$340 billion or 80 percent of the combined surpluses projected for 2012 and 2013 (excluding the effect of the proposed tax cuts) at the time the tax-cut legislation is considered.

adjusted for inflation). With this increase, total non-defense discretionary expenditures would be about 2 percent higher in 2009 through 2013 than under the baseline projections.

- These tax cuts and expenditure increases would generate higher deficits and debt than is projected under current policies. As a result, the Treasury would have to make \$46 billion in additional interest payments on the debt over the next six years.
- Finally, the congressional plan assumes \$212 billion in expenditures resulting from a) 2008 and 2009 supplemental appropriations that the President has proposed for the wars in Iraq and Afghanistan; b) new Katrina reconstruction funding in 2008; and c) interest payments resulting from these costs. This amount is exactly the same as in the President's budget.

The congressional budget plan and the President's budget are identical with respect to regular defense funding and supplemental funding for the wars and Katrina relief, but differ substantially in other respects, as Table 1 indicates. The President's budget assumes much deeper tax cuts — \$797 billion over six years, compared with Congress's \$340 billion. In addition, the President would cut entitlement programs — primarily health care benefits and payments in Medicare, Medicaid, and the children's health insurance program — by \$183 billion over six years, while the congressional plan does not include these cuts. Finally, the President proposes \$128 billion in expenditure reductions over six years resulting from funding cuts in non-defense appropriated (or "discretionary")

programs, while Congress assumes a \$59 billion increase for these programs. The differences between the levels of discretionary funding that the congressional plan and the President's budget propose for fiscal year 2009 are discussed below.

Discretionary Appropriations for Fiscal Year 2009

For fiscal year 2009, the congressional budget plan proposes total discretionary funding of \$1.016 trillion (excluding emergency funding the President has requested), which is a little less than \$25 billion above the amount the President proposed.ⁱⁱ (See Table 2 below.) Since the congressional budget plan assumes \$1.8 billion more in

discretionary funding for defense, international, and veterans' programs than the President proposed for those programs, most of the difference in the overall 2009 discretionary funding level between the congressional plan and the President's budget is in the level of funding for domestic programs other than veterans' programs. The President proposes to cut 2009 funding for those programs \$17 billion below the level appropriated in 2008, adjusted for inflation; the congressional plan proposes a

Table 1: Congressional Budget Plan vs Bush Budget Plan
(six-year cumulative totals, 2008-2013, in billions of dollars)

| | Bush ^a | Congress |
|---|-------------------|------------|
| Baseline deficits ^b | 240 | 240 |
| Tax cuts (net) ^c | 797 | 340 |
| Entitlement changes | -183 | 8 |
| Defense increases, except war costs | 81 | 81 |
| Non-defense discretionary changes | -128 | 59 |
| Increased interest payments | <u>51</u> | <u>46</u> |
| <u>Total effect on deficits/surpluses</u> | <u>618</u> | <u>533</u> |
| Resulting deficits | 858 | 773 |
| Supplementals for wars, etc. ^d | 212 | 212 |
| TOTAL, deficits | 1,070 | 985 |

Dollars in billions; may not add due to rounding.

^a Using CBO estimates.

^b This baseline uses CBO estimates and does *not* assume continuation of certain 2008 emergency funding (see endnote i).

^c Tax cuts are shown as positive numbers because they increase the deficit. Tax cuts also include the cost of extending refundable tax credits. The Bush proposal to impose new airline user fees (as a substitute for the airline ticket tax, which the Administration proposes to repeal) is treated as a revenue increase in this table, although the Bush budget shows it as a "non-defense discretionary cut" in some places.

^d Some 95 percent of the supplemental expenditures included on this line result from requested funding in 2008 and 2009 for war costs; the other 5 percent of supplemental expenditures are from requested 2008 funding for Katrina relief. This line also includes \$32 billion in increased interest costs that result from this supplemental funding.

Table 2: Discretionary Funding for Fiscal Year 2009
(in billions of dollars; excluding enacted or requested emergency funding)

| | Base-line ^a | House | Senate | Conference ^b | Bush |
|--|------------------------|--------------|--------------|-------------------------|------------|
| Defense, international affairs, & veterans: | 591 | 624 | 626 | 624 | 623 |
| All other domestic budget functions: | 386 | 393 | 388 | 392 | 369 |
| <i>In the form of 2009 funding:</i> | <i>386</i> | <i>390</i> | <i>384</i> | <i>388</i> | <i>369</i> |
| <i>Adjusted for increases in advance funding:</i> | <i>¢</i> | <i>2</i> | <i>4</i> | <i>4</i> | <i>¢</i> |
| Total, appropriated (discretionary) funding | 978 | 1,017 | 1,014 | 1,016 | 992 |

May not add due to rounding.

^a This baseline shows the 2008 funding level adjusted only for inflation. It uses CBO estimates and does *not* assume continuation of all 2008 emergency funding (see endnote i).

^b The functional distribution of Congress's funding levels are not binding on the Appropriations Committees. The distribution of congressional funding may end up modestly different from that shown in this table.

^c Less than \$0.5 billion.

\$6 billion increase.ⁱⁱⁱ (The funding that the congressional plan proposes for domestic programs other than veterans' programs is \$4 billion above the level in the Senate-passed budget plan and \$1 billion below the amount in the House-passed plan.)

ⁱ The current policy baseline projections of deficits and surpluses used in this analysis are taken from projections issued by the Congressional Budget Office in March, 2008. These projections differ from CBO's official baseline only in that they do not assume that all 2008 emergency funding will be repeated in 2009 and subsequent years. In our baseline, certain 2008 appropriations that Congress designated as emergencies are treated as true emergencies and thus are *not* projected to continue as regular appropriations in 2009 and subsequent years: appropriations for the wars in Iraq and Afghanistan, Katrina relief, suppression of the California wildfires, rebuilding the collapsed Minnesota bridge, security at the 2008 nominating conventions, and the administrative costs of the February "stimulus" bill. But in certain other cases where emergency designations were applied to 2008 appropriations, we have treated the costs as routine and ongoing and have included the continuation of these appropriations as part of the baseline for discretionary programs for 2009 through 2013; appropriations for medical care provided by the Veterans Administration, border security and immigrant enforcement, LIHEAP, WIC, the Centers for Disease Control, and the President's requested "cyber-security" funds fall in this category. In almost all of the latter cases, the President has requested continuation of these activities in 2009 with non-emergency funds.

ⁱⁱ These amounts include proposed increases in advance appropriations for fiscal year 2010 (shown in Table 2), which effectively would allow more funding for programs in fiscal year 2009.

ⁱⁱⁱ The President's budget proposes that domestic appropriation bills for 2009 include changes in mandatory programs that would save \$6 billion in 2009. Since mandatory savings achieved in an appropriation bill count as an offset to discretionary funding, including these provisions in the 2009 bills (which Congress is likely to do) would allow the actual funding provided for discretionary programs to be \$6 billion higher than either the presidential or congressional amounts shown here.