Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Revised May 29, 2007

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

by James Horney, Richard Kogan, and Matt Fiedler

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 *non*defense 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.

### Pay-As-You-Go Discipline is Important

The importance of the shift to pay-as-you-go budgeting is reflected in a joint statement issued on March 21 by four budget watchdog organizations — the Concord Coalition, the Committee for Economic Development, the Committee for a Responsible Federal Budget, and the Center on Budget and Policy Priorities. The four organizations stated: "Some … proposed new initiatives seek to address legitimate, important policy concerns. But there should be no exemptions from the pay-as-you-go rule. If one exemption is granted, advocates of other interests will demand that their priorities be exempted as well. … In this environment of already excessive red ink, no tax cuts or entitlement increases … should be enacted without offsets ensuring that they do not increase short- or long-term deficits and debt. 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."

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.

---

[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.

[2] See Richard Kogan, "Funding for Non-Defense Programs: Does the New Budget Plan's Discretionary Funding Represent a Big Increase or a Modest Offset to Recent Cuts?" Center on Budget and Policy Priorities, May 16, 2007.

### How Would the "Tax Cut Trigger" Work?

**The conference agreement on the budget resolution includes a "trigger" that would apply only in the House of Representatives. Under this new procedure, tax-cut legislation that is *not* paid for must include a "trigger" provision that makes the tax cuts *contingent* on a sufficiently large 2012 surplus. Here are the specifics.**

The House and Senate PAYGO rules would continue to apply: legislation increasing entitlement costs or reducing revenues — including any extension of expiring tax cuts — must be fully offset or "paid for," unless the PAYGO rules are waived.

The new "trigger" is *in addition* to the PAYGO rules. Under the new procedure, if a tax cut that is *not* paid for is nonetheless considered by the House under a waiver of the PAYGO rule, that legislation will be subject to a Budget Act point of order* *unless the legislation contains a special proviso making the tax cut contingent.*

The "trigger" proposed in the budget plan actually encompasses two distinct triggers. First, tax cuts that are not fully paid for will trigger a House point of order under the Budget Act *unless* the legislation contains language making the actual implementation of the tax cuts contingent on a later determination about the 2012 surplus and the legislation's cost. And that "contingency" language — assuming it is included in the tax cut legislation — would establish a second trigger: the tax cuts will "trigger on" only if the Administration projects a unified budget surplus for 2012 and determines that the tax cuts meet two limits. Specifically, the tax cuts must cost less than $180 billion cumulatively through 2012, *and* they must not cost more than 80 percent of the projected 2012 surplus.**

The contingency language contained in the tax cut legislation would instruct the Administration to issue a projection of the 2012 surplus six months before the tax cuts in the legislation would take effect (the tax cuts could not take effect before 2010) and certify whether, based on the Administration's projections at that time, the tax cuts will breach either the $180 billion limit or the 80 percent limit.*** If the Administration determines that tax cuts will breach the limits, the tax cuts would not take effect; otherwise, they would go into effect as scheduled. The Administration's certification is made once and is final.

* The trigger procedure is a mechanism under which the "revenue floor" established under the new congressional budget plan, which would accommodate almost $180 billion in tax cuts through 2012, would automatically be raised — so that it would *no longer* accommodate those tax cuts and the tax cuts thus would violate the Congressional Budget Act and be subject to a Budget Act point of order — *unless* the tax-cut legislation contains the required trigger language.

** The congressional budget resolution assumes that if tax cut legislation is not enacted (or is fully paid for) there will be a surplus of $156 billion in 2012. The *2012* costs of the tax cuts assumed in the budget resolution — $109 billion of the five-year, $180 billion total — would, along with associated interest costs, reduce the surplus to $41 billion in that year. (In deciding whether a tax cut costs 80 percent of the 2012 surplus, the Administration is not supposed to account for the effect of the tax cut on interest payments.)

*** In making its projection for 2012, OMB would use its own projections of existing tax law, entitlement law, and discretionary spending, and its own estimate of the cost of the tax legislation.

- 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

TABLE 1

**Conference Budget Plan vs. House- and Senate-Passed Budget Plans and the President's Budget**

(in billions of dollars)

| | Cumulative Totals Fiscal Years 2007 – 2012 | | | |
|---|---|---|---|---|
| | Conference | House | Senate | President |
| CBO baseline deficits[a] | 94 | 94 | 94 | 94 |
| Proposed policy changes (increases are increases in deficits) | | | | |
| Defense discretionary (non-emergency)[b] | 194 | 194 | 194 | 198 |
| Nondefense discretionary (non-emergency)[c] | 66 | 73 | 21 | -104 |
| Entitlements[c,d] | -1 | 0 | 17 | -108 |
| Revenues[d] | 180 | 0 | 180 | 533 |
| Interest costs[e] | 41 | 29 | 34 | 42 |
| Total increase in deficits | 481 | 296 | 447 | 561 |
| Deficits (without new emergency funding) | 574 | 390 | 540 | 655 |
| New emergency funding (primarily Iraq and Afghanistan) | 318 | 316 | 293 | 293 |
| Interest costs | 61 | 60 | 56 | 56 |
| Total increase in deficit | 860 | 673 | 796 | 911 |
| Deficits (with new emergency funding) | 953 | 766 | 890 | 1,004 |

Sources: House Rpt. 110-153, House- and Senate-passed budget resolutions, and CBO's *Reestimate of the President's Budgetary Proposals for Fiscal Year 2008*.

Notes:

a. These are the deficits for CBO's baseline, adjusted to remove projections that emergency supplemental appropriations enacted in 2007 will be repeated each year from 2008 through 2012.

b. The defense numbers vary slightly for technical reasons that do not reflect a difference in policies.

c. Increased FAA fees (which are counted as negative outlays) are shown as offsets to discretionary spending in the President's budget but are shown here as a reduction in mandatory spending.

d. Outlay effects of tax proposals are reflected in the revenue estimate.

e. The Senate-passed interest amount reflects the full interest effects of amendments adopted in the Senate even though some amendments did not explicitly include interest effects.

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.