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COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

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## BUDGET UPDATE

October 18, 2007

### The Fiscal Year Begins With Plenty Left to Accomplish

1) At \$163 billion or 1.2 percent of GDP, the FY 2007 **deficit** is not particularly troubling to us. While given how far along we are in the business cycle we would hope to see surpluses rather than deficits, this deficit is relatively small by historical standards. However, the long-term budget picture remains bleak and we hope the encouraging deficit numbers do not lead Congress and the White House to become complacent about addressing the nation's fiscal challenges.

2) Congress has done a good job of abiding by **PAYGO**, though it has used too many gimmicks to do so. We encourage Congress to stick to—and increase its commitment to—this important principle in the coming weeks and months.

3) We worry that the coming **veto fight** will leave the two parties, and Congress and the White House, increasingly at odds without having done much to improve the budget picture.

4) We are encouraged by the recent work of Senators Conrad and Gregg and Congressmen Wolf and Cooper to introduce plans for a task force to focus on **long-term budgetary challenges**. We hope other Members will support these ideas and/or offer other specific suggestions to tackle the long-term fiscal challenges facing the country.

### Happy New Year

The new fiscal year began on October 1, without a single appropriations bill completed. Instead, operations are being funded by a continuing resolution (CR) that sets discretionary funding at current levels and is in place through November 16. The measure also temporarily extended some programs that were set to expire at fiscal year-end including the State Children's Health Insurance Program (SCHIP), food stamps, and the Federal Aviation Administration.

Congress also increased the debt limit by \$850 billion. The increase should have been used as an opportunity for Congress and the President to begin addressing the country's long-term fiscal problems. The Committee for a Responsible Federal Budget expressed deep disappointment that both parties continue to go along with the charade of expressing dismay over the debt limit increases while supporting the policies that make the increases necessary.

Meanwhile, a "Veto Showdown" is looming. The White House has promised to veto most of the 12 appropriations bills needed to finance government operations because they would, in total, spend \$23 billion more than the President's proposed \$933 billion on discretionary spending. President Bush has already vetoed a bill to increase spending on SCHIP, and will likely carry out at least some of his veto threats. The real question, then, is how the President and Congress will resolve their differences after the vetoes. This is likely to turn into a heated political battle, where we fear everyone will come out looking bad. While \$23 billion is a significant amount of money, and the Committee for a Responsible Federal Budget applauds attempts to hold down spending, the veto threats come off as politically-driven given that the President did not veto any appropriations bills sent to him when his party controlled Congress. While we welcome the effort to control spending, we fear that this adversarial strategy will further fray relationships on Capitol Hill and will leave Members of both parties more at odds with each other and less able to concentrate on collaborating to make larger structural budget reforms.

### **Checking in on the Budget Resolution & PAYGO**

The central principle of the budget resolution that was passed last spring was the pay-as-you-go (PAYGO) principle, which requires that all new mandatory spending and revenue initiatives be deficit-neutral over a 5- and 10-year period.

Between the adoption of the conference agreement on May 16, and the start of fiscal year 2008, only nine laws affecting budget authority, outlays, or revenues have been enacted, including:

- The Iraq Supplemental
- Extending Andean Trade Preferences
- Extending Transitional Medical Assistance
- Extending Ban on Imports from Burma
- Implementing 9/11 Commission Recommendations
- College Cost Reduction and Access Act
- Food and Drug Administration Amendments
- Extending Trade Adjustment Assistance
- TMA, Abstinence Education, and QI Programs Extension

The Committee for a Responsible Federal Budget is pleased that Congress has adhered to the principle of PAYGO. We believe that the requirement has forced Congress to face important budgeting tradeoffs and delay actions they were unwilling to pay for, all of which helps to prevent the budget picture from deteriorating.

The one exception regarding PAYGO compliance is the 2007 Iraq Supplemental, which included an increase in the minimum wage that reduced revenues by \$43 million from 2007-2017, that was paid for on a unified basis but not on an on-budget basis.<sup>1</sup> As a result, the bill did not comply with the Senate PAYGO rule (contained in the 2008 budget resolution, which measures bills on an on-budget basis). There is some debate as to whether it complied with the House PAYGO rule (contained in H Res 6, which does not distinguish between on- and off- budget revenues). The non-partisan House Parliamentarian concluded that the bill did not violate the House PAYGO rule. Nonetheless, because the effect on the deficit is determined using estimates consistent with section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, which do not include off-budget amounts, there is a question as to whether the off-budget offsets can be used. No one raised the point of order in either body.

Still, without question, compliance with PAYGO has helped prevent legislators from enacting legislation they were unwilling to pay for and that would have increased the deficit. The Committee for a Responsible Federal Budget applauds all efforts to comply with this important principle. Sticking to the promise to pay for new mandatory spending and tax cuts along with abiding by discretionary spending caps is a critical step in preventing further fiscal deterioration. It has taken a good deal of resolve on the parts of those who most value PAYGO to stick to the rule as others have tried to make exceptions, and this commitment should be commended.

That said, there has been a significant and disappointing amount of gaming of the PAYGO principle. Gimmicks include timing-shift games, double counting of offsets, unrealistic sunset provisions, and using appropriations bills to move legislation that should be subject to PAYGO. (The Senate has attempted to address this last item by establishing a new 60-vote point of order against changes in mandatory programs in appropriation bills, unless such changes are paid.) The SCHIP bill, for instance, relies on gimmicky sunsets to hide the long-run costs of the bill. The unrealistic decline in spending is similar to the structure of the 2001 and 2003 tax cuts. Disingenuous sunsets are an irresponsible way to mask the true costs of the policies and circumvent the choices that should go along with those costs. In SCHIP, the reality is that the bill will either cost significantly more than advertised or result in states having to abruptly kick off many of the new participants. If this gimmick is used, it is critical that when the time comes to reauthorize the bill, the reauthorization is subject to PAYGO as well, and the future costs are offset so that gaming doesn't provide a way for Congress to avoid facing up to the trade-offs involved in funding the program. This is the same position we have taken on the extension of the tax cuts. The student loan bill also contains a similarly unrealistic sunset by allowing a "cliff" or sudden decline in Pell Grant funding in 2013 and an abrupt spike in the lower interest rates paid by students on Stafford student loans. The gimmick, which was used to make long-run costs appear lower than they otherwise would be, should not be rewarded, and any changes in the future must be paid for.

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<sup>1</sup> Though the Supplemental was an appropriations bill, revenues losses must still be offset.

The Committee for a Responsible Federal Budget encourages Congress to strengthen its commitment by sticking to PAYGO without employing further gimmicks. It is only through a willingness to confront the trade-offs inherent in budgeting that Congress can responsibly allocate national resources. We believe there should be no exceptions made to PAYGO as the budget process unfolds and that the rule should not be waived even for popular legislation. While we were encouraged when in a recent speech House Majority Leader Steny Hoyer promised that the House would not violate PAYGO for all applicable upcoming legislation, we are concerned that PAYGO may be waived as part of plans to reduce the Alternative Minimum Tax and/or “fix” the Medicare physician payment formula. We strongly urge Members of Congress to increase their commitment to the PAYGO discipline for all upcoming budget choices.

**Reserve Funds Update**

The FY 2008 budget resolution (S. Con Res. 21) was heavily dependent on reserve funds to find the necessary offsets for the budget. All told, there were 43 policies held in reserve funds—20 in common for both House and Senate, 7 that applied only in the House, and 16 that applied only in the Senate.

The table below gives the policies for which reserves have been released in either the House or the Senate. As can be seen from the table, only reserve funds relating to Transitional Medicaid Assistance, SCHIP and Higher Education have been released in both chambers. The slow progress shows that while the reserve funds represented a Congressional wish list, those that are unpaid for have had to be put on hold. Time is running short in this session of Congress for the consideration of those matters, particularly since Appropriations bills must become a priority while the government operates under a CR. The large number of reserve funds not yet used in either chamber also suggests that many of these policies will not be considered under this budget resolution because of the need to find offsets.

**Reserve Funds Released by Budget Committee Chairs**  
(As of September 30, 2007)

	<u>Senate</u>	<u>House</u>	<u>2008 Budget Resolution Section</u>
Transitional Medicaid Assistance	X	X	320(c)
Farm Bill		X	307(b)
State Children’s Health Insurance	X		301(a)
State Children’s Health Insurance		X	301(b)
Medicare Doctors’ Reimbursement Rates		X	304(a)
Comparative Effectiveness Research		X	305(b)
Mental Health Parity		X	314(d)
Delay Medicaid Intergovernmental Transfer Regs		X	320(a)
Energy Bill		X	308(b)(1)
Higher Education	X		306(a)
Higher Education		X	306(b)

## **Appropriations Unlikely to Be Completed Soon**

As was the case in 2006, the House of Representatives was able to complete consideration of each appropriations measure before the summer break at the aggregate level provided for in the budget resolution. The Senate was able to complete consideration of the appropriations bill funding the Department of Homeland Security before the recess, and passed three other measures (for Veterans Affairs, the State Department, and the Transportation Department) before the new fiscal year began. Every appropriations bill has been reported by the Senate Appropriations Committee.

Last year, Congress did not complete the appropriations measures on time, and chose to operate on a CR until after the November 2006 election. With the change in majority in both chambers, the CR was extended until a new Congress convened in 2007. Once again, the government will operate under a CR until mid-November; it remains to be seen whether additional CRs will be needed to allow time to resolve differences both between the House and Senate and Congress and the President.

The administration has stated that the \$23 billion in discretionary spending above the President's request authorized by the budget resolution is not fiscally responsible, and has issued veto threats against seven appropriations measures considered in either the House or Senate. Which appropriations bill the Congress sends to the President first will be important.

### **Veto Threats Over Spending Levels Fiscal Year 2008 Appropriations Measures**

<u>Subcommittee</u>	<u>Senate</u>	<u>House</u>
Agriculture		Yes
Commerce, Justice, Science	Yes	Yes
Defense	No	No
Energy and Water		Yes
Financial Services		
Homeland Security	Yes	Yes
Interior and Environment		Yes
Labor/HHS		Yes
Legislative Branch		
Military Construction and Veterans Affairs	No	No
State, Foreign Operations	No	No
Transportation, HUD	Yes	Yes

## **Recent Positive Steps**

The Committee for a Responsible Federal Budget has praised both Senators Conrad and Gregg and Congressmen Wolf and Cooper for their recent efforts to focus attention on long-term budgetary challenges. The Conrad Gregg Bipartisan Task Force on Responsible Fiscal Action would review all areas of the budget including Social Security, Medicare, and taxes. The task force would be responsible for submitting a set of policy recommendations to improve the federal government's fiscal imbalances, which would then be considered by Congress on an expedited basis.

In the House Congressmen Wolf and Cooper are offering a companion Task Force bill as well as a bill to establish a commission to reform tax and entitlement policies. The commission is designed to examine ways to improve the nation's fiscal imbalances, low levels of saving, and low levels of knowledge about foreign ownership of U.S. debt, as well as a budget process that fails to focus sufficiently on the long-term. The Committee points to these efforts as encouraging signs of a bipartisan effort to tackle the nation's long-term fiscal challenges and we hope more Members will join in the effort.

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## **Event: “The Unavoidable Challenge: Confronting Our Nation’s Fiscal Crisis”**

**When:** Tuesday, October 23  
9:00 a.m.–12:15 p.m.

**Where:** Hyatt Regency on Capitol Hill  
400 New Jersey Avenue, NW  
Yorktown Room, Lower Level

### **9 am — The Policy Challenge**

Alison Fraser, *The Heritage Foundation*  
Maya MacGuineas, *New America Foundation*  
Paul Weinstein Jr., *Progressive Policy Institute*  
Chris Edwards, *CATO Institute*  
Jason Furman, *The Brookings Institution*  
Eugene Steuerle, *The Urban Institute*

### **10:30 am — Remarks**

The Honorable Tom Carper (D-DE)  
The Honorable Lindsey Graham (R-SC)

### **11:15 am —The Political Challenge**

The Honorable Don Nickles, *Former U.S. Senator and The Nickles Group*  
Stan Collender, *National Journal*  
The Honorable Bill Frenzel, *Former U.S. Representative and CRFB*  
Michael Bocian, *Greenberg Quinlan Rosner*

**To RSVP for this event, e-mail [CRFB@newamerica.net](mailto:CRFB@newamerica.net) or call Liz Wu at 202-986-2700.**