Senate Budget Committee Republican Staff
BUDGET BULLETIN
A WEEKLY BULLETIN PRODUCED WHEN THE SENATE IS IN SESSION.
Don Nickles, Chairman
Hazen Marshall - Staff Director
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INFORMED BUDGETEER

WORRY WAS – WHAT WILL HAPPEN WITHOUT PAYGO? NOW WE HAVE IT...

- Section 505 of H. Con. Res. 95, the Concurrent Resolution on the Budget for Fiscal Year 2004, modifies the supermajority, pay-as-you-go point of order in the Senate that has its origins in the 1994 budget resolution. While the original Senate paygo rule required all legislation that increased direct spending or reduced revenues to include offsets or else face a possible 60-vote point of order, the updated point of order exempts from the rule an amount of deficit increase that is equivalent to the total of the levels of direct spending and revenues assumed in the budget resolution.

- The latest paygo provision created a scorecard that sets out the total deficit increase in the budget resolution for direct spending and revenues. This scorecard, as maintained by the Chairman of the Budget Committee, is used to compare the budgetary effects of legislation against those balances. As with the previous incarnation of the pay-as-you-go point of order in the Senate, the current paygo rule covers the first year, the first five years, and the second five years covered by the budget resolution. Section 505 extended the paygo point of order through September 30, 2008. In spite of or because of this recent action, it is safe to say that confusion about this point of order generally exceeds understanding.

What Has Been – A Brief History of Senate Paygo

- The Senate pay-as-you-go point order was based on and evolved from the statutory paygo process that was established by the Budget Enforcement Act of 1990. Statutory paygo, which expired at the end of fiscal year 2002, sought to prevent direct spending and revenue legislation from increasing the deficit or decreasing the surplus. OMB enforced statutory paygo through a mechanism called sequestration, which involved automatic spending cuts in non-exempt programs to the extent that paygo increases were not offset. But during the 12-year life of the statutory paygo process, there was never a paygo sequester because balances were routinely eliminated from the statutory paygo scorecard by legislation.

- As summarized in a recent (June 2nd) CRS report, the Senate created its original paygo point of order in 1993 to thwart those who wished to use the deficit reduction expected to be achieved in a reconciliation bill that year as an offset for the costs of other direct spending or revenue legislation. In subsequent budget resolutions, the pay-as-you-go point of order has been modified and extended four times (including the most recent update in the 2004 budget resolution). The Senate paygo point of order has only been raised six times since 1993, but not once since 1998. Balances representing on-budget surpluses that began to materialize in 1999 were placed on the paygo scorecard, making it virtually impossible to violate the Senate paygo rule for the several-year period in which those surpluses were forecast.

- After the Senate paygo point of order expired at the end of fiscal year 2002 (because the Congress did not adopt a 2003 budget resolution, a paygo extension did not occur in time), the Senate decided to extend the rule using another legislative vehicle. In S. Res. 304, which was adopted on October 16, the Senate extended the pay-as-you-go discipline through April 15, 2003 (the statutory target for Congress to complete action on a budget resolution). S. Res. 304 not only set the Senate's paygo scorecard to zero, but also made the rule applicable to appropriations legislation. This was designed to frustrate any attempt to attach direct spending increases or revenue reductions to an appropriations bill while there was no 2003 discretionary allocation to the Appropriations Committee.

What It Is – Current Balance on the Senate Paygo Scorecard

- With the return of deficits, coupled with a desire to continue increasing spending and cutting taxes, the paygo scorecard has to work differently. Under section 505 of the 2004 budget resolution, the beginning balances on the paygo scorecard consist of all of the assumptions in the budget resolution for increasing direct spending outlays and decreasing revenues (on-budget only). Because the paygo scorecard already includes the monies assumed in the reserve funds in Title IV (even though none of the reserve funds has been released to date), no subsequent revisions to these beginning balances are necessary when a reserve fund is eventually released. The balances (1) exclude the debt service or interest costs associated with the policies in the resolution, since those are not enforced, and (2) do not include any of the resolution's discretionary assumptions.

- As illustrated in the table below, the initial policy balances were nearly \$65 billion in 2003, \$156 billion in 2004, \$680 billion in 2004 - 2008, and \$1.012 trillion dollars in 2009 - 2013. Because the budget resolution assumed policy changes for both 2003 and 2004, the "first year" (as defined for enforcement by Section 505) enforcement applies to both 2003 and 2004.

SENATE BUDGET COMMITTEE PAYGO SCORECARD
108TH CONGRESS, FIRST SESSION
by fiscal year, in millions of dollars

	2003	2004	2004-2008	2009-2013
Budget Resolution policy balances a/	64,787	155,946	679,563	1,011,605
Direct Spending Increase Assumptions	*8,066*	*15,028*	*208,285*	*314,544*
Revenue Decrease Assumptions	*-56,721*	*-140,918*	*-471,278*	*-697,061*
INCREASE (+) or DECREASE (-) IN OUTLAYS				
American 5-Cent Coin Design (H.R. 258, P.L. 108-15)	--	-1	-2	--
Postal Civil Service Retirement System Funding Reform Act of 2003 (S. 380, P.L. 108-18) b/	3,479	2,746	15,578	22,614
Gila River Indian Community Judgment Fund Distribution Act of 2003 (S. 162, P.L. 108-22)	1	--	--	--
Unemployment Comp. Extension (H.R. 2185, P.L. 108-26)	3,165	4,730	4,730	--
Jobs & Growth Tax Relief (H.R. 2, P.L. 108-27)	11,347	13,312	18,126	52
INCREASE (+) or DECREASE (-) IN REVENUES				
Emergency Wartime Supplemental (H.R. 1559, P.L. 108-11)	2	--	--	--
Unemployment Comp. Extension	--	145	1,200	200
Jobs & Growth Tax Relief	-49,489	-135,370	-263,909	-6,746
TOTAL ENACTED SINCE APRIL 11, 2003 c/				
Total change in outlays	17,992	20,787	38,432	22,666
Total change in revenues	-49,487	-135,225	-262,709	-6,546
Increase in Deficit	67,479	156,012	301,141	29,212
Difference between Budget Resolution Policy Balances and Enacted Legislation	-2,692	-66	378,422	982,393
SBC PAYGO POINT-OF-ORDER BALANCE REMAINING	0	0	378,422	982,393

Source: CBO as of May 29, 2003
a/ Total of on-budget revenue and direct spending policy assumptions in the conference agreement on the 2004 budget resolution, H Con. Res. 95.
b/ Only on-budget amounts shown.
c/ Date that Congress approved the conference agreement on the 04 budget res., H. Con. Res. 95.

- The table shows that legislation enacted to date exceeds the paygo balances that were available for 2003 and 2004. **This means that any legislation now considered in the Senate that increases direct spending or reduces revenues in 2003 or 2004 would have a paygo point of order against it, even if the legislation fits within the committee's allocation and there is no 302(f)**

point of order. (Note that legislation that has been enacted since Congress adopted the budget resolution has remained well within the paygo balances that exist for 2004 - 2008 and 2009 - 2013. There are remaining balances of about $378 billion in 2004 - 2008 and about $982 billion in 2009 - 2013.)

- How did Congress use up the entire paygo balance on the Senate scorecard for 2003 and 2004 so soon after passage of the budget resolution? Mostly three ways. First, Congress enacted the Postal Civil Service Retirement System Funding Reform Act of 2003 exactly as it was assumed in the budget resolution. In addition, Congress enacted the Unemployment Compensation Amendments of 2003, which the Congress did not assume in its 2004 budget. Most significantly, Congress enacted the Jobs and Growth Tax Relief Reconciliation Act of 2003, which has a total 10-year cost that is actually less than that assumed by the budget, but also has a cost that is more front loaded than the resolution provided for in 2003 and 2004.

- What can a Senate committee do during the rest of this session to ensure that a piece of legislation does not have a Senate paygo point of order against it? The simplest answer is: produce direct spending and revenue legislation that does not increase the deficit in 2003 or 2004. If a piece of legislation (or an amendment) includes offsets to balance the increased direct spending or reductions in revenue, then no pay-as-you-go point of order will lie against the bill (or amendment). Otherwise, a bill (or amendment) that does have a cost in either 2003 or 2004 must garner at least 60 votes to waive in the event that a Senator raises the paygo point of order.

WHEN MORE IS NOT ENOUGH

- When Republicans gained the majority in both Houses in 1995, they tried to reverse some of the federal tax burden by moving forward with many of their "Contract with America" tax policies, among them the child tax credit. But President Clinton vetoed the tax cut legislation that Congress sent to him that year.

- As part of the Balanced Budget Agreement of 1997, Congress was finally able to enact a $500-per-child tax credit (made refundable for families with three or more children), which provided $28 billion in new government spending and $155 billion in tax relief over ten years.

- President Bush's first tax cut, The Economic Growth and Tax Relief Reconciliation Act of 2001, phased in an increase in the child credit from $500 to $1,000 by 2010 and made the credit refundable for all low-income families (10% of the taxpayer's earned income in excess of $10,000 for 2001-2004, increasing to 15% thereafter). The bill also created a new 10-percent marginal tax rate bracket (for the first $6,000 of income for singles and $12,000 for married couples through 2007, rising to $7,000 for singles and $14,000 for couples in 2008 and indexed thereafter). Together these provisions provided $88 billion in new government spending and $505 billion in tax relief over ten years. Only 12 Democratic Senators voted for final passage of the 2001 tax cut.

- H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act, was enacted on May 28, 2003. Among other provisions, H.R. 2 accelerated the increase in the child credit to $1,000 for 2003 and 2004, accelerated the scheduled 2008 expansion of the 10-percent bracket into 2003 and 2004, and accelerated the scheduled 2005 marriage penalty relief into 2003 and 2004. Together these provisions provided $10 billion in new government spending and $70 billion in tax relief over 2003-2013. Only two Democratic Senators voted for final passage of H.R. 2.

- The tax law changes in 1997, 2001 and so far in 2003 resulted in total increased government spending of $126 billion – all of which consists of the refundable portions of the child credit and the earned income credit. Savvy budgeteers know that this increased government spending – the refundable portion of tax credits – represents checks from the government paid out to individuals in excess of income tax liability.

- The *Bulletin* noted with interest two weeks ago the furious scrambling by Senators (some of whom voted against the 2001 tax law change) to spend an additional $3.5 billion by accelerating the increased refundability of the child tax credit (scheduled for 2005) to 2003. The *Bulletin* necessarily points out that most low income families have been enjoying the benefits of lower taxes – or, more correctly, higher government payments – since 2001.

- The combined effect of creating a 10-percent income tax bracket, doubling the child tax credit and making it refundable, and raising the standard deduction for married couples is illustrated below for a hypothetical family of four with two minimum wage workers.

TAX REFUND IN 2003 FOR A FAMILY OF FOUR WITH TWO MINIMUM WAGE WORKERS

BEFORE 2001 & 2003 BUSH TAX CUTS	
Wages	21,000
Personal exemptions	-12,200
Standard deduction	-7,950
TAXABLE INCOME	850
Tax rate	15%
INCOME TAX BEFORE CREDITS	-128
Earned income credit	2,888
Refundable child tax credit	0
NET INCOME TAX REFUND IN 2003 w/o TAX CUTS	**2,761**
Payroll taxes	-1,607
NET REFUND IN EXCESS OF ALL TAXES	**1,154**
AFTER 2001 & 2003 BUSH TAX CUTS	
Wages	21,000
Personal exemptions	-12,200
Standard deduction	-9,500
TAXABLE INCOME	0
Tax rate	10%
INCOME TAX BEFORE CREDITS	0
Earned income credit	2,888
Refundable child tax credit	1,050
NET INCOME TAX REFUND w/ TAX CUTS	**3,938**
Payroll taxes	-1,607
NET REFUND IN EXCESS OF ALL TAXES	**2,332**
INCREASE IN REFUND	***102%***

Source: SBC Republican Staff

LONG LIVE THE BLADE!

The *Bulletin* notes with regret the departure of Mitchell E. Daniels, aka "The Blade," from the Washington budget world and wishes him the best of luck in his future endeavours. Mitch's two-and-a-half year run as OMB Director was notable for a renewed focus on controlling government spending. From his high-profile clashes with Congressional appropriators, to his advocacy of performance-based program analysis, Mitch consistently and effectively delivered the President's message of fiscal discipline.

The *Bulletin* hopes it is only a coincidence that, in the one week following the Blade's departure, a host of new spending proposals has gained momentum, including refundable child credits ($3.5 billion), another supplemental ($1.6 billion), and an increase in 2004 appropriations for nondefense.