BUDGET BULLETIN
A Weekly Bulletin produced when the Senate is in session.
Committee on the Budget Republican Staff
Judd Gregg, Ranking Member
202/224-0642 http://budget.senate.gov/republican

111th Congress, 1st Session: No. 2 April 23, 2009

INFORMED BUDGETEER

CONGRESSIONAL BUDGETS BAMBOOZLE WITH DNRFs

At the start of the Congressional recess that just ended, the *Washington Post* ran an editorial comparing the President's budget to the House- and Senate-passed budget resolutions for 2010. The editorial criticized the two versions of the Congressional budget for adding "more gimmicks and dishonesty."

Beyond the trick of hiding the years 2015-2019 by doing only a five-year budget instead of the 10 years covered by the President's budget, the *Post* singled out for criticism the omission of the President's $250 billion placeholder for a possible TARP II, the skimping (House) or the omission (Senate) of the President's effort to budget for emergencies, and the assumption that certain tax policies (Make Work Pay tax credit, fixing the Alternative Minimum Tax) will not be extended, even though their continuation is supported by the President, House, and Senate.

Curiously, the editorial notes that "given the Democrats' monopoly and President Obama's popularity, his major policies were ***accepted***; both resolutions ***call for*** expanding health care, increasing education funding and implementing a new cap-and-trade regime to limit greenhouse gas emissions." [Emphasis added]

The Advertising. Here is what the majority's PR says about how the two budget resolutions deal with the President's major policies.

U.S. House of Representatives
COMMITTEE ON THE BUDGET
207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov

> HOUSE fact sheet: The budget ***supports*** the President's goals for health care reform that will lower costs, improve quality, and expand coverage to help the 46 million Americans who now lack health insurance. Like the President's plan, the budget ***assumes health care reform will be paid for and leaves it*** to the relevant committees to determine the best way to accomplish it. [Emphasis added]

SENATE BUDGET COMMITTEE
KENT CONRAD, CHAIRMAN

> SENATE press release: The critical investments we make in energy, education, and health care will help lay the foundation for long-term economic strength. We ***invest in*** energy to reduce our dependence on foreign oil, create green jobs, and tackle the problem of climate change. We ***invest in*** education to prepare our workforce to compete in the global economy. And we ***invest in*** health care to bend the cost curve on health care, reduce the burden of health care on businesses and families, and improve the health of our citizens. [Emphasis added]

What's a Budget? What does it mean for a budget resolution to "call for," "support," or "invest in" as alleged above?

A common-sense understanding of the term "budget" would suggest a document or someplace where you write down the amount of money you expect to bring in and where it will come from, along with everything you want to spend money on and how much each item will cost. Since its creation in the Congressional Budget Act of 1974, the budget resolution has been the planning document where Congress writes down the budgetary amounts associated with all the policies that Congress wants various congressional committees to pursue over the period of the budget window. If Congress says it will pursue a policy and the policy has a budgetary effect, then the totals in budget resolution should reflect that policy.

The President's approach to health care and energy is consistent with this understanding of a budget. He suggests his pursuit of health care reform will result in a minimum amount ($634 billion over 10 years) of additional costs, which are counted in his budget (although both the President and others seem to think that the actual costs of such legislation could be higher than the amount specified in his budget request). His budget also says that those costs should be offset, and therefore describes what offsets he proposes and counts those amounts as well.

Regarding clean energy technologies, the President says we should spend $15 billion a year (along with extending the Make Work Pay tax credit) and pays for these amounts by auctioning allowances under a carbon-emissions cap-and-trade proposal (raising at least $646 billion in revenues).

The Reality. In contrast, the House and Senate budget resolutions ignore this part of the concept of budgeting – that is, the part where you plan what you want to do (what is the desired legislation?), figure out the amount of costs and/or savings associated with those plans (which committees are going to draft the legislation and what is the budgetary impact?), and then write them down and count them in your budget totals (how do you allocate the amounts to the relevant committees? how big or small do you want government to be?).

For a blueprint document that almost entirely consists of the numbers that represent the policies assumed therein, the two congressional budget resolutions for 2010 (and their associated House and Senate committee reports) are remarkable for the fact that they **do not include any numbers that reflect two** (health care and energy) **of the three policies** that are at the very top of the list, repeated mantra-like, of Presidential priorities that the budget resolutions are supposedly "investing in" or "supporting." Instead, the budget resolutions include zeros for these policies – no spending amounts and no offset amounts.

Indeed, the claims that the two resolutions "call for" or "invest in" major public policy undertakings are rhetorical rather than numerical. But isn't there *something* in the resolutions that such rhetoric is pointing to? In fact, such rhetoric hangs its hat on the inclusion in the resolutions of something called a "deficit neutral reserve fund" (DNRF).

Trading SoSs for DNRFs. What is a deficit neutral reserve fund and why would you ever need one? Ordinarily, a budget resolution (and its accompanying report) outlines the changes to current law that Congress should pursue and then allocates the budget authority and outlays associated with those changes to the appropriate committees. To the extent the budget resolution assumes that taxes will be increased or decreased, those revenue changes are not allocated to any committee (even though the changes are most likely to be enacted by legislation originating in the Senate Finance or House Ways and Means Committees); revenues are not allocated to committees and are simply reflected in the revenue totals of the budget resolution.

If an authorizing committee wants to move legislation that increases spending beyond its allocation, **it can always do so** without facing a committee allocation point of order (302(f) under the Congressional Budget Act) as long as it offsets the spending increase with a corresponding spending decrease for the relevant enforcement periods for its allocation (usually the budget year, in this case 2010, and the sum of the five years of the budget resolution period, which is 2010-2014 in this case). A committee could even use spending offsets from other committees' jurisdictions as long as it has the cooperation of the majority leader in bringing the bill to the floor. **A DNRF is not needed to accomplish any of this**.

One thing a committee cannot ordinarily do is tax and spend. Even if a committee offsets all the spending increase in its legislation by increasing revenues, the increase in revenues does not count for purposes of evaluating whether the committee has exceeded its 302(a) spending allocation (though the revenues would be counted for avoiding the Paygo point of order). Therefore, budget resolutions have increasingly resorted to deploying dozens of DNRFs in order to claim that committees will be able to move certain legislation without facing a point of order, as long as increasing taxes are part of the equation in coming up with sufficient offsets. DNRFs usually take the following basic form:

> The Chairman of the Committee on the Budget may revise the allocations of a committee – for one or more pieces of legislation that provides for [*describe purpose/contents of legislation in as much or as little detail as desired*] – by the amounts provided by that legislation for those purposes, provided that such legislation would not increase the deficit over either the period of the total of fiscal years 2009 through 2014 or the period of the total of fiscal years 2009 through 2019.

Translation – as long as the legislation does not violate Paygo over 6 years and 11 years, then the Chairman can increase the spending allocation of the committee (for 2010 and for 2010-2014) so that the legislation does not have a 302(f) point of order against it.

Number of Deficit Neutral Reserve Funds in 2010 Budget Resolution

Senate-reported	27
Senate-passed	68
House-passed	17

Note: During Senate consideration of the budget resolution, the Senate adopted by amendment 41 additional DNRFs on top of those already included in the reported resolution.

Basically, the proliferation of DNRFs calls into question the relevance of the budget resolution at all. If the three top priorities of the President are NOT actually reflected in the amounts in the budget resolutions, yet the advertising about the budget resolutions always begins with the claim that those resolutions "preserve" these Presidential priorities, then the congressional budgets are basically saying: "we don't know yet what we are going to do on these most important of public policy issues, so we'll give ourselves maximum flexibility on these three pieces of legislation to figure it out later and protect such legislation from points of order."

Puzzled budgeteers would be forgiven for wondering – why should Congress do a budget resolution with any policy numbers at all? Instead, one could draft a budget resolution at the current law baseline and then have one monster-size DNRF that listed all the pieces of legislation that the Chairman could adjust committee allocations for later, as long as each one was deficit neutral (although the House seems intent on massive exceptions to this condition; see article in next column).

In effect, DNRFs have become the latest incarnation of Sense of the Senate (SoS) amendments -- non-binding, throwaway, hand-waving provisions. SoS provisions used to be a favorite way for Senators to express a notion on the Senate floor that the numbers in a budget resolution "supported" some favorite policy, but the Chairman and ranking member of the Senate Budget Committee have collaborated to keep SoS provisions out of the budget resolution. DNRFs have come rushing in to replace the vacuum.

So the *Post* editorial is not only correct about the gimmicks in the resolutions; it is also (perhaps unintentionally?) correct about the stance of the resolutions towards the President's top three priorities. The two resolutions do "call for" later consideration of legislation, in the sense that they do not preclude consideration of the President's policies by providing immutable committee allocations. Instead, they include placeholder language (DNRFs) that they can point to when exhorting support for the resolution. But the resolutions do not "invest in" anything because, unlike the President's budget, they do not provide the dollar amounts needed to pay for the policies that they argue are the President's highest priorities. Not only do they not provide dollar amounts, they do not provide any guidance in terms of a floor or ceiling for spending increases and tax increases that will result from the legislation contemplated by the DNRFs.

BLUE DOGS BE BAMBOOZLED BY BUDGETS… AGAIN

Not only do DNRFs obscure the fact that the budget resolutions don't really include resources for the policies they claim to invest in, some DNRFs in the House budget resolution also obscure planned, purposeful deviations from the Paygo principle to which the majority in the Senate and House, and especially the House Blue Dogs, claim to be so dedicated.

Section 401 of the House-passed budget resolution says:

(a) Adjustments to Maintain Current Policy-
1. (1) Subject to the condition specified in paragraph (3), when the chairman of the Committee on the Budget evaluates the budgetary effects of a provision in any bill, joint resolution, amendment, or conference report for the purposes of the Congressional Budget Act of 1974, this resolution, or the Rules of the House of Representatives relative to baseline estimates that are consistent with section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, he shall exclude from his evaluation the budgetary effects of such provision if such effects would have been reflected in a baseline adjusted to maintain current policy.
2. (2) Paragraph (1) applies only to a provision with respect to which the chairman of the Committee on the Budget has exercised his authority to make budgetary adjustments under sections 314, 315, 316, and 317 of this resolution.
3. (3) Paragraph (1) shall apply only if the House of Representatives has previously passed a bill to impose statutory pay-as-you-go requirements, or ***the measure containing the provision being evaluated by the chairman of the Committee on the Budget imposes such requirements***, and only if such bill is designated as providing statutory pay-as-you-go-requirements under this subsection. [Emphasis added]

This language says that for certain legislation that has Paygo costs – doc fix (section 314), extending tax policy (section 315), extending AMT fix (Section 316), and extending estate tax policy (section 317) – the House can pretend there are no Paygo costs if that legislation also includes a provision to reinstate statutory Paygo or if the House has already passed a bill that would reinstate statutory Paygo.

A year ago, the Blue Dogs were bamboozled on their insistence for Paygo in the budget resolution conference report. A year later, they don't seem to realize that, under section 401, statutory Paygo does not have to be first ***enacted*** into law before the Blue Dogs allow tax cuts and the doc fix to proceed without a Paygo offset. Their "tough" condition is not so tough – it is a no-brainer for the House to pass a statutory Paygo bill (that will be sent over to the Senate to languish) or to include statutory Paygo language in each of the measures referenced in section 401(a)(2), only to drop it in conference.

As a result of section 401, the House would be waiving away about $2.5 trillion in deficit increases (over 10 years) from enforcement under the House Paygo rule. In effect, the House is embracing the concept of post-policy Paygo – the exact same concept of Paygo that the current majority had criticized vociferously and incessantly from 2003 through the election of 2006, and then some. The post-policy Paygo concept is premised on the idea that if Congress includes the budgetary impacts for particular legislation in its budget resolution, then that legislation should not face a Paygo (or any other budget enforcement) point of order. That is what the House has done in section 401 – it is saying: "because we mention these pieces of legislation specifically in the budget resolution, they will not be subject to the House Paygo rule."