What We Hope to See from the Budget Conference Committee
October 30, 2013

Congressional leaders have established a long overdue "budget conference committee" to allow the Senate and House to reconcile their respective budget resolutions into one plan. This committee represents a real opportunity to forge a compromise not only on this year's discretionary spending levels, but also on a long-term solution to our unsustainable fiscal situation.

The 29 budget conference members have been instructed to report their recommendations by December 13th, which must then be passed by the House and the Senate. Although a concurrent budget resolution would not have the force of law, it could represent a critical first step in enacting a budget agreement by putting forward an agreed-upon framework for budget policy and setting up a process for legislative changes to bring our national debt under control.

As the concurrent budget resolution is being negotiated, CRFB believes it should:

- **Put the debt on a downward path as a share of the economy**. The budget resolution should follow the examples of both the House and Senate budget resolutions, as well as the President's budget, which all put the debt-to-GDP ratio on a declining path this decade.

- **Set sustainable and responsible discretionary spending levels.** The budget resolution should agree to spending levels for all of FY2014 and set an achievable spending path for future years. ***All spending in excess of sequestration limits must be fully offset in other areas of the budget.***

- **Use reconciliation instructions to produce real deficit reduction and reform.** The budget resolution should use the reconciliation process to task the committees with achieving substantial deficit reduction from health programs, tax reform, and other areas.

- **Focus on the long-term.** The budget resolution should look past FY2014 and even beyond the ten-year window to truly improve our budget path.

- **Fix Social Security on a separate track.** Policymakers should agree to improve the program's finances on a parallel track.

- **Avoid budget gimmicks.** Using timing shifts or relying on phony savings is never acceptable; the budget should not rely on smoke and mirrors.

An Overview of the Budget Conference Committee

In theory, Congress is supposed to pass a "concurrent budget resolution" every spring to set its priorities for the upcoming year and future years. By April 1st, the Senate Budget Committee is supposed to report its budget proposal, while the House Budget Committee often sets its own deadline based on its legislative calendar.

Both houses passed their respective budgets by March 23rd of this year, but reconciling the two different budgets has proven difficult. No action was taken by April 15th, when the two chambers are supposed to have negotiated a single budget resolution. Missing this deadline is all too commonplace; the last time both chambers agreed to a single budget resolution was 2009, which is also the last time they both passed individual budgets. Despite being late, the conference committee for this budget resolution has been tasked to deliver its recommendations to Congress by December 13th of 2013.

A budget resolution represents a roadmap for future spending and revenue policies, but does not formally enact or even specify policies. Rather, budget resolutions set revenue and spending levels in each area of the budget along with other rules and procedures to govern consideration of tax and spending legislation.

While budget resolutions do not carry the force of law, they are important for at least three reasons. First, budget resolutions set discretionary spending levels for the appropriations committee, giving them an allocation for how much to spend and establishing process-based hurdles if those levels are exceeded. Second, budget resolutions can include a process known as reconciliation that tasks various committees with achieving a certain amount of deficit reduction and removes legislative obstacles (such as the filibuster) for legislation that meets the saving targets and other criteria. Perhaps most importantly, concurrent budget resolutions can serve as an important political agreement between the two chambers of Congress (and in the case of divided government, the parties) on how to set future fiscal policy.

This year's forthcoming budget resolution, which will hopefully come from the conference committee, is particularly important because it may help policymakers find agreement on continuing to fund the government beyond January 15, 2014 (when funding expires) and on reducing the sequestration and Medicare Sustainable Growth Rate (SGR) cuts currently in place. The budget resolution could look beyond FY2014 discretionary funding levels and also put in motion a long-term solution for replacing sequestration and controlling growing debt levels.

What We Hope to See from the Conference Committee

The conference committee affords lawmakers an opportunity to harness public attention on the debt into a real process for reforming entitlement programs, reducing wasteful and low-priority spending, and reforming the tax code. It is worth reminding elected leaders in Washington that part of the challenge in reaching a bold agreement is *not taking options off the table* – both during the committee deliberations and afterwards as part of any budget reconciliation process. In addition, we would recommend the conference committee do the following:

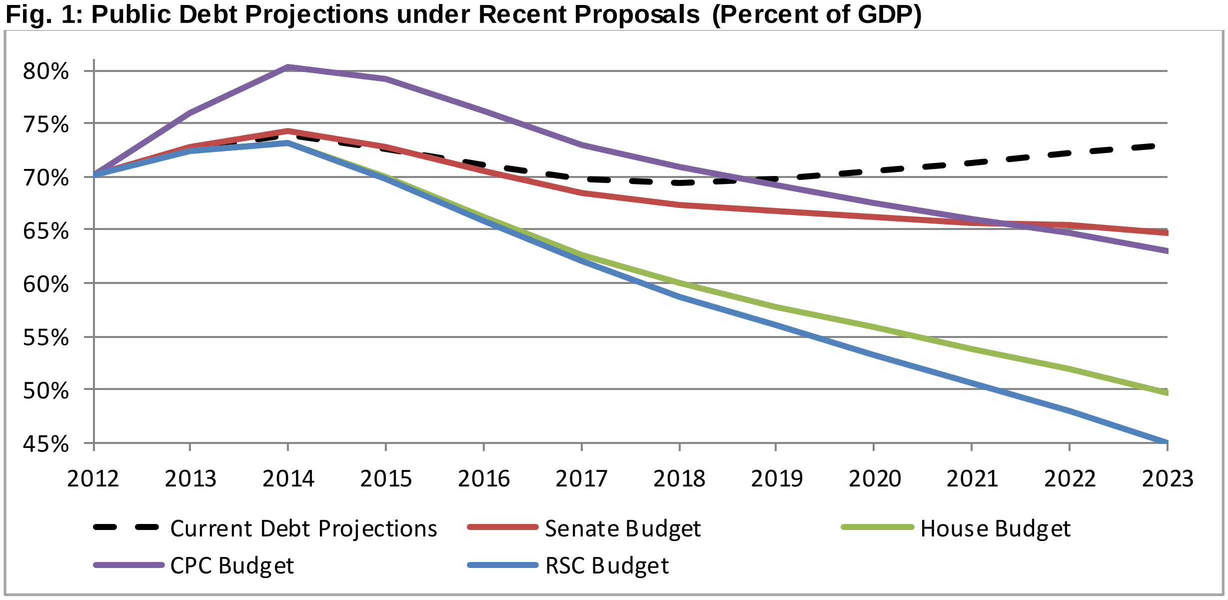
Put the Debt on a Downward Path

At nearly 73 percent of GDP, debt as a share of the economy is currently about twice its historical average and the highest it has been since the aftermath of World War II. Although lawmakers cannot and should not attempt to reduce debt levels to their historical averages *overnight*, they should put the debt on a gradual and sustained downward path.

Recently-enacted deficit reduction, in combination with the economic recovery, has helped to reverse our growing debt levels temporarily; however, under both current law and CRFB Realistic Baseline projections, debt levels will begin to grow again after 2018 as health care costs grow and the Baby Boom generation retires. As CBO Director Doug Elmendorf recently warned "the fundamental federal budgetary challenge has hardly been addressed."[1]

Relative to the CRFB Realistic Baseline, which assumes sequestration is repealed but the original Budget Control Act caps remain in place, about **$2.2 trillion** of deficit reduction through 2023 is needed to put debt on a clear, robust downward path relative to the economy.[2]

Fig. 1: Public Debt Projections under Recent Proposals (Percent of GDP)



Note: Projections reflect nominal debt projections taken from the budget proposals but updated to reflect changes in May to CBO's baseline projections and new GDP projections from August 2013.

Despite significant policy differences between the various budget proposals this spring, all would meet the challenge of putting the debt on a declining path relative to the economy. This is true not only of the House and Senate budgets, but also of the budget proposals from the Congressional Progressive Caucus, the House Republican Study Committee, and others – underlying the extent to which there is bipartisan agreement about doing substantially more to

[1] Elmendorf, Doug. "Has the Fundamental Federal Budgetary Challenge Been Addressed?" Congressional Budget Office, blog post, September 12, 2013. http://www.cbo.gov/publication/44577.

[2] For more discussion on the minimum savings needed, see CRFB, "Our Debt Problems Are Still Far from Solved." May 15, 2013. http://crfb.org/document/report-our-debt-problems-are-still-far-solved.

control future deficits. The conference committee must maintain this commitment to debt reduction in the concurrent budget resolution.

Set Sustainable and Responsible Discretionary Spending Levels

Current discretionary spending levels are the result of mindless across-the-board sequestration, which was triggered upon the failure of the so-called "Super Committee" in 2011. These cuts are misdirected, front-loaded, and temporary. Lawmakers should replace the sequestration cuts in part or completely with more sensible and permanent deficit reduction measures.

The budget resolution can be used to set FY2014 discretionary spending levels, which would give the appropriators guidance as they allocate funds in advance of the January 15th expiration of the current CR. Discussions so far have focused on setting FY2014 levels somewhere between the $967 billion level called for under sequestration and the $1,058 billion level which would have been in place absent the sequester. The budget resolution should set spending levels for all of FY2014 and should also set discretionary levels for future years, at levels that both sides agree are sustainable and achievable. ***Importantly, any spending in excess of sequestration levels must be <u>fully offset elsewhere in the budget</u>*** with spending cuts and/or revenue increases.

Fig. 2: Base Discretionary Funding Levels under Various Scenarios (Budget Authority, Billions)

	Fiscal Year 2013		Fiscal Year 2014			
	Pre-Sequester	Post-Sequester	Current CR	Current Law	House Budget	Senate Budget
Defense	$544	$518	$518	$498	$552	$552
Non-Defense	$499	$469	$468	$469	$415	$506
Total Base Funding	**$1,043**	**$988**	**$986**	**$967**	**$967**	**$1,058**

Note: Totals exclude funding for wars, disasters, or program integrity measures.

Not only could setting full-year FY2014 discretionary levels help prevent the continual use of stop-gap measures, but replacing a portion of the sequestration cuts with other savings offers an opportunity to swap out mindless, anti-growth, temporary cuts with targeted, pro-growth, and permanent deficit reduction measures.

Importantly, any agreement to fund discretionary programs at more than $967 billion will require separate legislation to increase the sequester caps and therefore reduce the size of the sequester cuts.

Use Reconciliation Instructions to Produce Deficit Reduction Legislation

Although budget resolutions cannot directly make changes to mandatory spending programs or the tax code, they can issue special instructions, known as reconciliation instructions, to specific committees to produce legislation meeting certain savings targets. ***Conferees should include reconciliation instructions in the concurrent budget resolution in order to provide for consideration of legislation enacting health reform, other mandatory spending reforms, and tax reform to achieve substantial deficit reduction.***

By including these instructions, the budget would provide for expedited consideration of any recommendations, including passage by a simple majority in both chambers of Congress (meaning only 51 votes would be required in the Senate rather than the 60 needed to prevent a filibuster) and a limit on the extent to which lawmakers can amend any proposals. Importantly, reconciliation instructions would lay out specific dates by which lawmakers would have to present legislation meeting the savings targets, which would keep the process in motion.

Reconciliation instructions should be written for a number of committees with the goal of achieving the budget resolution's proposed savings target in every area. However, reconciliation instructions cannot dictate specific policies or even programs where savings should stem from. For example, the Armed Services committees could be tasked with achieving savings equivalent to the savings that would stem from reforming military retirement programs. The government affairs committees could be tasked with achieving savings equivalent to the savings that would stem from reforming civilian retirement benefits. But by far the most important instructions would be those calling for savings from the committees with jurisdiction over tax and health reform. Importantly, statements about where there is agreement on how and where the savings could be achieved could accompany any conference report.

The growing costs of Medicare and Medicaid, due both to population aging and rising overall health costs, represent the biggest threat to the country's fiscal future. Realistically, there is no way that lawmakers could truly address the long-term debt problem without addressing federal health spending. Beginning by identifying where there is common ground – for example, further means-testing Medicare premiums and reducing various overpayments to providers – reconciliation instructions can lead to ambitious but achievable health savings.

In addition to addressing growing health costs, the budget resolution should provide for an opportunity to fix our broken tax code in a way that better promotes economic growth and helps to reduce deficit levels. Chairmen Dave Camp (R-WI) and Max Baucus (D-MT), heads of the House and Senate tax-writing committees, have already begun the important task of rewriting the tax code. The budget resolution could formalize that process and provide for expedited consideration and passage of their recommendations. Currently, with $1.3 trillion of annual tax breaks, there is ample revenue available to reduce both rates and deficits.

The budget resolution should set reconciliation savings targets relative to intended deficit reduction in each area. However, if it is unable to achieve this goal it should at least offer open-ended deficit reduction targets to give the committees an opportunity to agree to the deficit reduction on their own.

Focus on the Long-Term Debt Trajectory

Almost all of the savings lawmakers have put in place to date, including the automatic sequester cuts, have done little to address the upward trajectory of the long-term debt. Over the long term, the costs associated with an aging population and health care costs that rise faster than the economy will push debt to dangerous heights in the years and decades to come unless lawmakers act.

The Budget Control Act's spending cuts largely ignore entitlement programs and completely overlook all the special tax breaks in the tax code. *And the spending caps end after 2021* – providing little downward pressure on deficits and debt in future decades. Replacing the mindless sequester with targeted and long-term reforms to entitlement programs and the tax code would go much further in controlling the debt than the cuts in place today.

Focusing on the long term should factor heavily in conference committee members' minds, even if particular long-term reforms only generate modest savings this decade. The majority of the country's fiscal challenges lie outside of the 10-year window, so to the extent that the conference committee is able it should set savings targets as a share of GDP over the second decade or set other goals to encourage long-term reforms. In addition, the statement of managers accompanying the conference report should encourage congressional committees to meet savings targets with policies that generate much larger savings over time.

Importantly, the Senate's "Byrd Rule" (named after the late West Virginia Senator Robert Byrd) prevents reconciliation legislation to increase deficits beyond the ten-year window, and the leaders of the budget conference committee should reiterate their intent to strictly enforce that rule.

Fix Social Security on a Separate Track

While a budget resolution cannot set budget numbers or include reconciliation instructions for Social Security, which is considered "off-budget," the program is nonetheless in need of reform. As the population ages, the cost of the program has increased from 4 percent of GDP in 2006 to nearly 5 percent today, and will reach 6 percent of GDP before 2030. The trust fund for the disability program is projected to run out of reserves in 2016 and the retirement program in the 2030s.

Given this reality, the conference committee should set up a process to reform Social Security's old-age and disability programs' finances, on a separate track from deficit reduction, to set them on financially solvent courses for the next 75 years and beyond. This process could take the form of a special Social Security reform commission or a trigger to require recommendations from the President, the program's Trustees, or a combination from both.

The House budget resolution includes such a process, requiring the Trustees to submit recommendations for reform to the President, who would then eventually work with Congress to develop reform legislation. The House budget also included overarching principles for reform, including protecting those near retirement, preserving the safety net for those who count on the program, and reducing the burden on future generations.

Avoid Budget Gimmicks

Although it is important that the budget conference agree to a plan to put our debt on a sustainable downward path, they must also avoid taking shortcuts by relying on budget gimmicks to achieve that goal. Among the approaches the committee must avoid are:

- Counting savings from the ongoing military drawdowns or from not repeating Superstorm Sandy-level disaster spending to "offset" increased spending
- Ignoring the costs of delaying or waiving policies that Congress is unlikely to allow to take effect, such cuts to Medicare physician payments scheduled to take effect under the SGR
- Relying on savings assumptions in excess of what the conferees believe is achievable by the committees of jurisdiction
- Back-loading savings excessively with the hope future Congresses will reverse them
- Assuming certain program costs will expire when they are likely to continue
- Counting on savings which are known to be timing shifts or other legislative budget gimmicks, particularly those that would increase the deficit outside of the ten-year budget window
- Allowing general revenue transfers to the highway trust fund without offsets, which can appear deficit-neutral but will allow highway spending to exceed dedicated revenues
- Relying on one-time or temporary savings to offset permanent costs that will eventually dwarf the offsets over the long-run
- Reducing the size of sequestration in the short term by deepening sequestration cuts in future years

Conclusion

Achieving bipartisan agreement on a plan that addresses deficits and debt over the long term is no easy task. But it is vital that the conference committee reaches a substantive agreement. This agreement would help to put the debt on a clear downward path relative to the economy. However, even replacing temporary spending cuts from sequestration with permanent long-term reforms would represent a small step forward. Putting in place a process that allows for the possibility of further savings will keep the conversation going.

This budget conference represents an important opportunity to improve our economic and fiscal situations – both in the near-term and the long term. The longer we wait to confront these challenges, the larger the debt problem becomes and the more painful the adjustments will be. The budget conference should work toward lasting solutions that truly improve the country's finances over the long-term.