



COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

The FY 2018 Senate Budget and Budget Gimmicks October 18, 2017

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The Senate Budget Committee recently passed a Fiscal Year (FY) 2018 budget resolution that [proposes](#) a path to on-budget balance after ten years exclusively by cutting spending. Unfortunately, the budget relies on several gimmicks to achieve these savings.

Prior to the budget's release, we [warned](#) of eight possible "budget gimmicks" that could be used to make the budget appear more responsible than it actually is. This budget unfortunately relies on a number of these gimmicks, including rosy growth assumptions and "magic asterisks" (unspecified savings). At the same time, the budget does include small positive steps to reduce the use of certain gimmicks.

The budget claims \$4.7 trillion of on-budget savings over a decade versus its chosen baseline that assumes a quick drawdown in war spending, and \$6 trillion of savings compared to current law (see our summary at [Senate Budget Committee Releases FY 2018 Budget](#)). As a result, debt would fall from 77 percent of Gross Domestic Product (GDP) today to 70 percent by 2027. However, half of this \$6 trillion in savings comes from budget gimmicks rather than real policy choices.

Without the budget's rosy economic assumptions and unspecified savings, the debt would rise to 81 percent of GDP and roughly stabilize there, rather than falling to 70 percent. Making matters worse, the legitimate savings are not included in reconciliation. While the budget claims trillions of savings, its reconciliation instructions would actually facilitate a \$1.5 trillion *increase* in deficits.

Specifically, the budget includes a large process gimmick by exempting a deficit-increasing reconciliation bill from the Senate Pay-As-You-Go (PAYGO) rule, while attempting to strengthen the rule otherwise. Though not a gimmick, the budget also creates some confusion by focusing on "on-budget" deficits instead of unified budget deficits.

The budget's positive steps crack down on other gimmicks that would affect legislation, including by restricting the use of phony Changes in Mandatory Programs (CHIMPs) as offsets and creating a point of order against use of the Overseas Contingency Operations designation. These improvements would affect actual legislation and should be included in any future conferenced budget.

The budget's gimmicks, however, should be removed.



Rosy Growth Assumptions (\$1.2 trillion on-budget)

For the past 25 years, every budget resolution but one has based their assumptions for economic growth on the Congressional Budget Office's (CBO) projections. Given an aging population, CBO projects real economic growth will average a modest 1.8 percent over the decade, while [other forecasters](#) estimate growth rates between 1.6 and 2.1 percent per year.

In contrast, this resolution (like its [House companion](#)) assumes 2.6 percent average real GDP growth after its enacted policies, well outside of the mainstream and over 40 percent (0.8 percentage points) higher than CBO's baseline. The budget does not include important details on tax, immigration, or regulatory reforms to explain its growth assumption. CBO [estimated](#) the growth from the budget's deficit reduction, but it only explains less than one-tenth of the additional growth claimed by the budget. Actually getting to 2.6 percent sustained growth [will require](#) many pro-growth policy changes and significant luck.

These rosy assumptions make the budget's deficit numbers look \$1.2 trillion better by assuming higher revenue collection and GDP, thus decreasing debt and deficits as a share of the economy. The budget does not provide any information to support this large of an effect on growth or what effects that growth might have on the off-budget portions of revenue.

To be sure, a few previous budget resolutions have incorporated some economic feedback as do all President's budgets. But this feedback has always been calculated by official scorekeepers at the CBO and generally been modest. Indeed, this budget [also](#) counts that feedback, resulting in a further \$178 billion of deficit reduction on top of the \$1.2 trillion.

Congress should not simply make a rosy economic growth assumption and build its budget based on that (nor should [the President](#)). To be credible, the Congressional budgets should instead rely on CBO's growth assumptions and make the tough choices from there to achieve its fiscal goal.

Magic Asterisks and Unspecified Savings (\$1.8 trillion)

We've warned about "magic asterisks" in the past, when a budget takes credit for savings without specifying the policies that produce them. Savings levels in each budget function (like defense, transportation, and education) should be backed up with specific policies that could legitimately be expected to produce those savings. More egregious in budget resolutions are undistributed cuts. Undistributed cuts should be used only sparingly to reflect policies that may cut across multiple functions or legitimate rescissions, not as a mechanism to make the numbers add up without providing substance behind them.

Unfortunately, the Senate budget contains \$1.6 trillion in undistributed outlay savings (of which about \$1 trillion are from mandatory spending and \$600 billion are from discretionary spending). After accounting for the interest cost, the unspecified cuts account for \$1.8 trillion over ten years.



Thought of another way, of the \$6.2 trillion of spending cuts and related interest savings in the budget, only \$4.4 trillion are specified in terms of where they would apply. Making matters worse, only a minimum of \$1 billion need to be “reconciled,” suggesting the Senate may only intend to enact 0.02 percent of its claimed spending reductions.

Exempting Reconciliation from Senate PAYGO

The Senate budget resolution contains changes to the existing Senate PAYGO rules. Senate PAYGO is a Senate-only rule that provides for a 60-vote point of order against legislation that increases the deficit over the first five or ten years following a bill’s enactment. Senate PAYGO is in place to remind Senators that they should pay for legislation and to prohibit actions that do add to the debt unless they get 60 votes to waive the point of order.

The Senate budget in some ways strengthens PAYGO by adding a first-year test. But at the same time, it substantially weakens PAYGO by exempting a \$1.5 trillion reconciliation package from enforcement.

The \$1.5 trillion exemption from Senate PAYGO comes in the form of a reserve fund allowing the Chairman of the Senate Budget Committee to essentially clear PAYGO consideration for the bill. While this provision does not change the numbers in the budget itself, it allows policymakers to evade the rules that help ensure a bad debt situation does not continue to get worse.

Any positive gains from adding one-year PAYGO would be more than wiped out by clearly and blatantly avoiding PAYGO rules.

Other Issues and Improvements

Though the Senate budget resolution uses several gimmicks, it also contains a couple praiseworthy provisions to limit specific budget gimmicks in future legislation. If the proposed budget were to be adopted, these limits would restrict this year’s legislation from using these gimmicks. These provisions should be contained in a future concurrent budget resolution.

The budget resolution limits the use of two gimmicks. First, it continues to phase down the use of phony CHIMPs with no outlay savings as offsets for appropriations. The limits were originally in place for 2018 and 2019 and are now extended to 2020 as well. Limits were first established in the FY 2016 budget. Additionally, there is a separate point of order against CHIMPs in excess of \$11.2 billion from the Crime Victims Fund in FY 2018.

Second, the budget adds a point of order against spending that is designated as war spending, also known as Overseas Contingency Operations (OCO). While there are many legitimate uses of the OCO designation, in [past years](#) it has been [abused](#) as a way of backfilling capped defense and non-defense discretionary spending. The point of order applies to any designation of OCO and thus will force appropriators to take an extra look to evaluate how reasonable the OCO funding



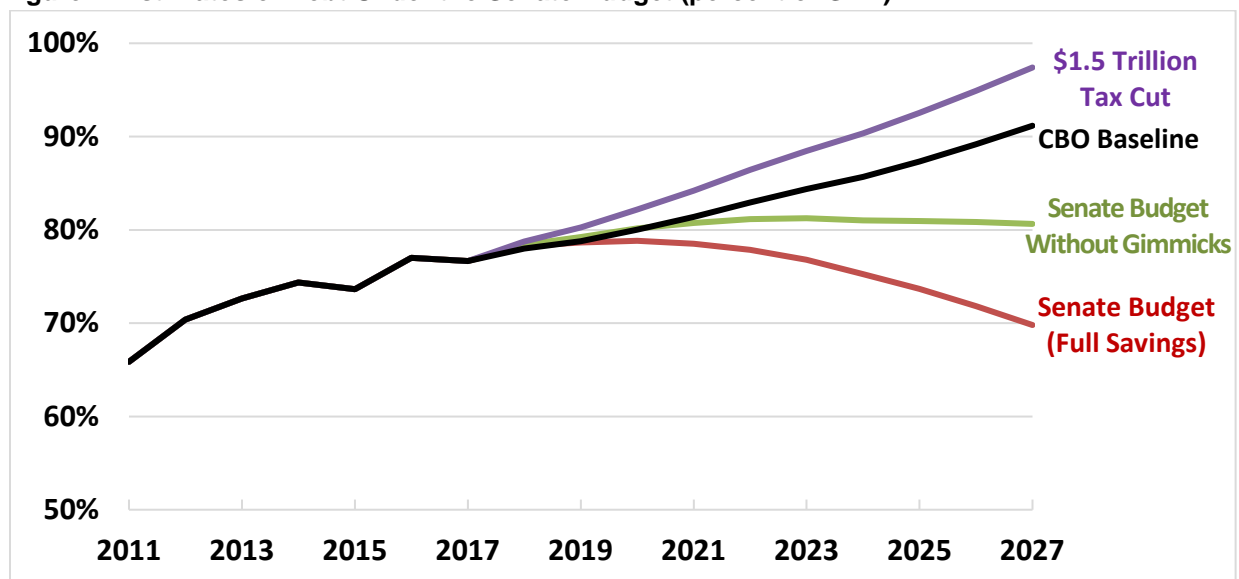
is. One such test might be to see if OCO funding is larger than the President's request for that year.

On the other hand, the budget does make one internal change that – while not a gimmick – could create confusion. In the past, budgets have measured the “unified” budget deficit, which includes the “on-budget” deficit as well as “off-budget” deficits attributable to Social Security and the Post Office. This year, the budget switched to only focusing on the “on-budget” deficit. As a result, the budget claims to achieve balance but actually leaves a unified budget deficit of \$149 billion. This level of deficit is not particularly problematic as a fiscal matter, but it does create some confusion and misperception.

Adding It All Up – How Much Does the Budget Really Reduce Deficits and Debt?

In total, gimmicks reduce the Senate budget resolution's projected deficit reduction by half, from \$6.0 trillion to \$2.9 trillion. This means debt would rise to and then essentially stabilize at around 81 percent of GDP by 2027 rather than fall to 70 percent with all of the on-budget claimed savings. This would still be an improvement over CBO's June projection that debt will rise to 91 percent of GDP by 2027.

Figure 1: Estimates of Debt Under the Senate Budget (percent of GDP)



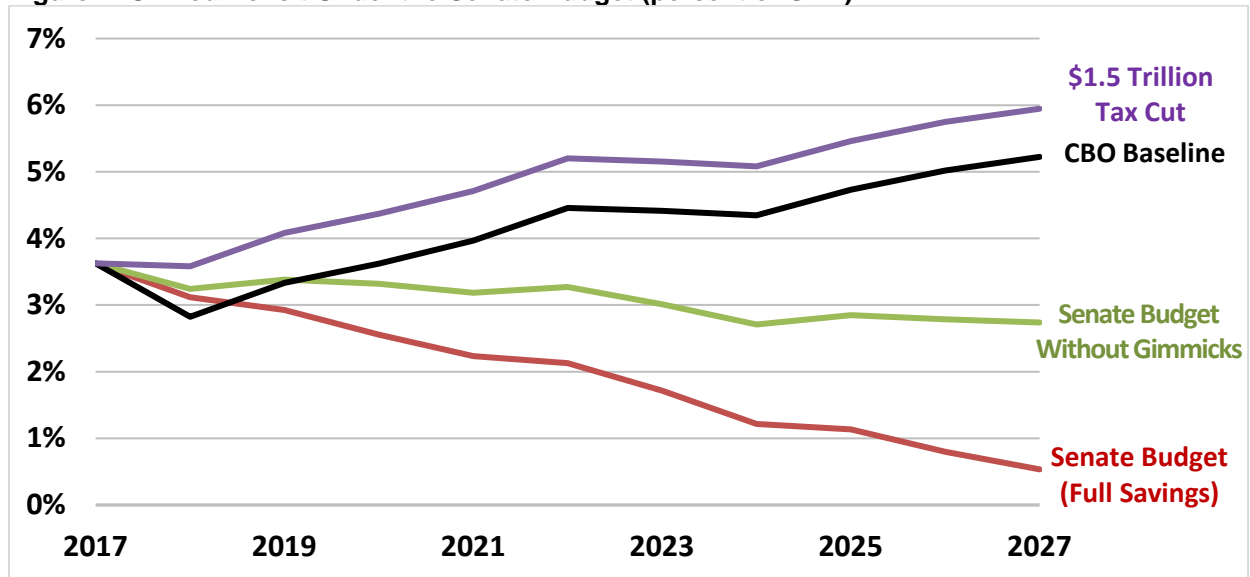
Sources: CBO, Senate Budget Committee, CRFB calculations.

Note: “Full Savings” refers to the budget's presented savings on a unified budget basis. GDP for this series is the June 2017 CBO baseline because the Budget Committee did not release an alternate GDP series. Using CBO's GDP series with macroeconomic feedback would slightly reduce debt in 2027 by less than 1 percent of GDP.

It also means the budget would not reach on-budget balance in 2027, instead showing a \$416 billion on-budget deficit. This translates to a \$767 billion unified deficit at 2.7 percent of GDP. Still, this is a noticeable improvement over CBO's projection of a \$1.5 trillion deficit in 2027 (5.2 percent of GDP).



Figure 2: Unified Deficit Under the Senate Budget (percent of GDP)



Sources: CBO, Senate Budget Committee, CRFB calculations.

Note: "Full Savings" refers to the budget's presented savings on a unified budget basis. GDP for this series is the June 2017 CBO baseline because the Budget Committee did not release an alternate GDP series. Using CBO's GDP series with macroeconomic feedback would marginally reduce the deficit in 2027.

Importantly, even these numbers may paint a misleading picture of what the Senate budget would do. While the budget shows real deficit reduction relative to current law, it facilitates large deficit increases through \$1.499 trillion of net deficit-increasing reconciliation instructions. If these instructions were followed, debt would rise to 97 percent of GDP by 2027 and unified deficits would reach \$1.66 trillion (5.9 percent of GDP).

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The United States faces serious fiscal challenges, with high and rising debt for the foreseeable future. Gimmicks make it difficult to take Congress's commitment to fiscal responsibility seriously. The Senate budget is not fiscally responsible as it relies on gimmicks to artificially improve its numbers and contains very real reconciliation instructions that could add up to \$1.5 trillion to the deficit.