The Concurrent Budget Resolution
April 29, 2009

On Monday night, House and Senate negotiators reached an agreement on the FY2010 Budget Resolution, which has been reported to both chambers for a vote. If implemented, the resolution would reduce the deficit from $1.7 trillion (12% of GDP) in FY2009 to $523 billion (3% of GDP) in FY2014. While we welcome Congressional efforts to improve the deficit picture, we worry that this budget resolution falls short of putting us on a fiscally sustainable path. We are also concerned that it relies on some unlikely assumptions and does not contain sufficiently strong budget rules.

Taxes and Spending

Under the resolution, outlays will total $3.56 trillion (24.7% of GDP) in 2010, compared to revenues of $2.32 trillion (16.1% of GDP). For 2010, the agreement calls for the same amount of defense discretionary spending as President Obama: $556.1 billion; and $10 billion less than the President in non-defense non-emergency discretionary spending: $529.8 billion. Largely because of stimulus spending, discretionary outlays will be somewhat higher – but will ultimately stabilize, and in fact shrink as a percent of GDP. Mandatory spending will also shrink and then stabilize as the stimulus wears off. As revenue recovers to around 19% of GDP, deficits will decline to $523 billion, or 3% of GDP. Over the next five years, under this budget resolution, $3.9 trillion in deficits will have accumulated.

Fig. 1: Revenues and Outlays under Conference Agreement (billions and % of GDP)

	2009	2010	2011	2012	2013	2014	2010-2014
Revenue	**$2,186**	**$2,322**	**$2,624**	**$2,856**	**$3,057**	**$3,298**	**$14,157**
Outlays	**$3,879**	**$3,555**	**$3,541**	**$3,476**	**$3,639**	**$3,821**	**$18,031**
Mandatory	*$2,462*	*$2,010*	*$2,006*	*$1,934*	*$2,022*	*$2,117*	*$10,089*
Discretionary	*$1,247*	*$1,376*	*$1,328*	*$1,271*	*$1,269*	*$1,276*	*$6,521*
Interest	*$170*	*$168*	*$208*	*$270*	*$348*	*$428*	*$1,422*
Deficit	**-$1,693**	**-$1,233**	**-$916**	**-$620**	**-$581**	**-$523**	**-$3,874**
Revenue	**15.5%**	**16.1%**	**17.4%**	**18.1%**	**18.5%**	**19.1%**	**17.9%**
Outlays	**27.6%**	**24.7%**	**23.5%**	**22.0%**	**22.1%**	**22.2%**	**22.8%**
Mandatory	*17.5%*	*14.0%*	*13.3%*	*12.3%*	*12.3%*	*12.3%*	*12.8%*
Discretionary	*8.9%*	*9.6%*	*8.8%*	*8.1%*	*7.7%*	*7.4%*	*8.3%*
Interest	*1.2%*	*1.2%*	*1.4%*	*1.7%*	*2.1%*	*2.5%*	*1.8%*
Deficit	**-12.0%**	**-8.6%**	**-6.1%**	**-3.9%**	**-3.5%**	**-3.0%**	**-4.9%**

The conference agreement roughly splits the difference between the House and Senate resolutions, spending $114 billion more than the Senate resolution over five years and $228 billion less than the House resolution while raising $61 billion more in revenue than the Senate and $151 billion less than the House. The resolution proposes $39 billion more in revenue raised than does the President's budget request, along with $515 billion less in spending. Compared to the CBO baseline, the resolution reduces revenue by $613 billion and increases spending by $566 billion.

Much of the difference between the proposals is due to varying assumptions regarding the renewal of the 2001/2003 tax cuts, the treatment of the Alternative Minimum Tax (AMT), physician payment patches, and financial recovery efforts. Like the President's budget (but unlike the CBO baseline), the conference report assumes the 2001/2003 tax cuts will be renewed for families making under $250,000 a year. With regards to the AMT and Medicare, however, the conference does not assume patches after 2012, whereas the President's budget assumes patches every year (and the CBO baseline, which reflects current law, assumes no patches beyond this year). The conference agreement also accounts for a number of tax and spending provisions, as well as financial recover efforts, through reserve funds, rather than presenting them in the budget numbers.

Fig 2: Revenues and Outlays under Alternative Budget Proposals (billions and percent of GDP over five years)

	CBO Baseline	President's Budget	Budget Resolution		Conference Report
			Senate	House	
Revenue	**$14,921**	**$14,118**	**$14,096**	**$14,308**	**$14,157**
Outlays	**$17,693**	**$18,546**	**$17,917**	**$18,259**	**$18,031**
Mandatory	*$10,053*	*$10,526*	*$10,052*	*$10,205*	*$10,089*
Discretionary	*$6,310*	*$6,523*	*$6,444*	*$6,630*	*$6,521*
Interest	*$1,330*	*$1,497*	*$1,421*	*$1,423*	*$1,422*
Deficit	**-$2,772**	**-$4,429**	**-$3,821**	**-$3,950**	**-$3,874**
Revenue	**18.9%**	**17.9%**	**17.8%**	**18.1%**	**17.9%**
Outlays	**22.4%**	**23.5%**	**22.7%**	**23.1%**	**22.8%**
Mandatory	*12.7%*	*13.3%*	*12.7%*	*12.9%*	*12.8%*
Discretionary	*8.0%*	*8.3%*	*8.2%*	*8.4%*	*8.3%*
Interest	*1.7%*	*1.9%*	*1.8%*	*1.8%*	*1.8%*
Deficit	**-3.5%**	**-5.6%**	**-4.8%**	**-5.0%**	**-4.9%**

Reconciliation, Rules, and Reserve Funds

The conference agreement includes several measures beyond budgetary allocations.

For one, keeping with the House-passed budget resolution, the conference report includes reconciliation instructions for health reform and student loan reform. Reconciliation allows the Senate to pass legislation in these areas without the threat of a filibuster, thereby requiring only a majority of votes—rather than the normal 60 required to overcome a filibuster. However, the resolution allows for reconciliation only if reform has not been passed by October 15th, giving the Senate time to negotiate under the normal legislative process. Because Senate rules require reconciliation to include deficit reduction, both sets of instructions call for $1 billion in savings over five years. No reconciliation instructions are offered for climate change legislation.

Like the Senate's resolution, the conference agreement fails to call for the reenactment of statutory pay-as-you-go (PAYGO) rules. Under the House budget, the deficit-financed extension of the 2001/2003 tax cuts would have had to be accompanied by legislation to reinstate PAYGO laws. In lieu of this measure, the Senate renewed their own rules that would allow for a budgetary point-of-order requiring 60 votes to overrule PAYGO violations. Among other measures, the resolution also includes rules to limit advanced appropriations and prevent reconciliation legislation from increasing the deficit.

The agreement also includes a number of reserve funds, which are procedures that permit the Congress to consider spending and tax legislation not accommodated in the budget resolution if the measures are offset or other conditions are met. Fourteen of these funds exist for the House and twenty for the Senate, including deficit-neutral funds for health care reform, student loans reform, climate change legislation, and certain tax relief. Other funds, primarily in the Senate, allow for infrastructure investment, economic stabilization, child nutrition, and other measures.

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Despite some positive features, we are concerned that this budget resolution keeps the country on a dangerous fiscal path. Although large deficits are an acceptable and in fact desirable consequence of stimulating the economy and stabilizing financial markets in the short run, they cannot continue indefinitely (see Good Deficit/Bad Deficit). And while we would strongly urge the President and Congress to find a way to reform the AMT and Medicare physician payments in a deficit-neutral manner, we worry that by assuming them away in the out-years, Congress is painting a more optimistic fiscal picture than what is likely to occur, given their resistance to paying for these policies in the past. Finally, given the severity of the fiscal situation, we are disappointed that both houses could not agree to codify tough budget rules into law – especially since they have already exempted themselves from paying for the renewal of most existing commitments.