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Comparing the FY2010 Budget Resolutions March 31, 2009

Last week, the Budget Committees in both the House and Senate reported out their respective versions of the Budget Resolution, to be considered on the House and Senate floors. While each resolution would result in smaller deficit than would the President's Budget, as estimated by the CBO, we worry that both resolutions contain a number of assumptions that may be difficult to achieve.

Deficits and Debt

For the current fiscal year, both the House and Senate versions have set a deficit target of around \$1.7 trillion for 2009 and \$1.2 trillion for 2010. Although these numbers are smaller than the deficits which would be created under the President's budget, the difference would be virtually wiped away if either resolution included the \$250 billion in additional financial stabilization money requested in the Administration's budget. Over the 5 years of the budget resolution window (2010-2014) the differences are more substantial; the Senate resolution projects deficits that are \$129 billion below those in the House resolution, and \$608 billion below the Administration request. Whereas deficits never drop below 4.1 percent of GDP under the President's budget, they fall to 3.5 percent and 2.9 percent of GDP, respectively, under the House and Senate resolutions.

Under both resolutions, debt held by the public would be over \$1 trillion larger than under current law, by 2014, but over \$1 trillion smaller than under the President's Budget. Under CBO's current-law baseline, debt would increase from \$5.8 trillion (41 percent of GDP) in 2008 and roughly \$6.8 trillion today to \$10.4 trillion (60.2% of GDP) in 2014. Under the House Budget Resolution it would increase to \$11.6 trillion (67.1% of GDP) by 2014, compared to \$11.5 trillion (66.5% of GDP) in the Senate and \$12.6 trillion (73.2% of GDP) under the President's Budget.

Fig. 1: Deficit and Debt Projections

	2009	2010	2011	2012	2013	2014	2010-2014
Deficits (billions)							
CBO Baseline	-\$1,667	-\$1,139	-\$693	-\$331	-\$300	-\$310	-\$2,772
House Reported Resolution	-\$1,694	-\$1,222	-\$927	-\$617	-\$586	-\$598	-\$3,950
Senate Chairman's Mark	-\$1,719	-\$1,246	-\$896	-\$601	-\$570	-\$508	-\$3,821
President (CBO Reestimate)	-\$1,845	-\$1,379	-\$970	-\$658	-\$672	-\$749	-\$4,429
Deficits (percent of GDP)							
CBO Baseline	11.9%	7.9%	4.6%	2.1%	1.8%	1.8%	n/a
House Reported Resolution	12.1%	8.5%	6.2%	3.9%	3.5%	3.5%	n/a
Senate Chairman's Mark	12.2%	8.7%	6.0%	3.8%	3.5%	2.9%	n/a
President (CBO Reestimate)	13.1%	9.6%	6.4%	4.2%	4.1%	4.3%	n/a
Debt Held by the Public (billions)							
CBO Baseline	\$7,703	\$8,658	\$9,340	\$9,712	\$10,016	\$10,372	n/a
House Reported Resolution	\$7,730	\$8,768	\$9,684	\$10,344	\$10,934	\$11,577	n/a
Senate Chairman's Mark	\$7,754	\$8,817	\$9,702	\$10,346	\$10,920	\$11,472	n/a
President (CBO Reestimate)	\$7,987	\$9,319	\$10,292	\$11,055	\$11,770	\$12,628	n/a
Debt Held by the Public (percent of GDP)							
CBO Baseline	54.8%	60.1%	62.0%	61.6%	60.7%	60.2%	n/a
House Reported Resolution	55.0%	60.9%	64.3%	65.6%	66.3%	67.1%	n/a
Senate Chairman's Mark	55.2%	61.2%	64.4%	65.6%	66.2%	66.5%	n/a
President (CBO Reestimate)	56.8%	64.7%	68.3%	70.1%	71.4%	73.2%	n/a

Discretionary Spending, Mandatory Spending, and Interest Costs

The House and Senate agree on the level of discretionary spending that should be devoted to defense for each of the next five years, including \$130 billion for overseas deployments in 2010 and \$50 billion for such operations in each year thereafter. This is in contrast with non-defense appropriations, which the Senate has reduced by a cumulative total of \$213 billion over 5 years. For 2010, the House recommends non-defense appropriations of \$543 billion, which is \$18 billion above the level recommended by the Senate.

Most of the difference between the two budgets in 2010 non-defense discretionary is found in "allowances." While the House adds \$10 billion for distribution among the budget functions, the Senate assumes \$7 billion in reductions from the other budget functions. (The appendix contains a comparison by function of the discretionary assumptions in the House and Senate resolutions.)

For years after 2010, the Senate resolution assumes an average annual growth rate for non-defense appropriations of 1.4 percent and the House assumes a 3.3 percent figure. The Senate's growth rate is consistent with CBO's estimate of the Consumer Price Index

(CPI-U) for those years, while the House figures are a little more than 1 percentage point below CBO's estimate of nominal GDP growth.

Total discretionary outlays in the Senate mark are virtually the same as in the President's request for 2010 and 2011, but lower thereafter. Outlays in the House resolution are above CBO's estimate of the request in all years, and are a total of \$187 billion above those in the Senate resolution.

Fig. 2: Spending by Category (billions)

	2009	2010	2011	2012	2013	2014	2010-2014
CBO Baseline							
Discretionary	\$1,221	\$1,302	\$1,285	\$1,240	\$1,239	\$1,244	\$6,310
Mandatory	\$2,463	\$2,004	\$1,988	\$1,921	\$2,023	\$2,118	\$10,053
Net Interest	\$170	\$167	\$203	\$256	\$320	\$385	\$1,331
Total Outlays	\$3,854	\$3,473	\$3,476	\$3,417	\$3,582	\$3,747	\$17,694
House Reported Resolution							
Defense Discretionary	\$667	\$693	\$659	\$638	\$637	\$642	\$3,269
Non-Defense Discretionary	\$581	\$678	\$683	\$660	\$666	\$675	\$3,362
Mandatory	\$2,462	\$2,011	\$2,006	\$1,965	\$2,062	\$2,161	\$10,205
Net Interest	\$170	\$168	\$208	\$270	\$348	\$430	\$1,423
Total Outlays:	\$3,880	\$3,550	\$3,556	\$3,533	\$3,713	\$3,908	\$18,259
Senate Chairman's Mark							
Defense Discretionary	\$667	\$690	\$657	\$637	\$636	\$642	\$3,262
Non-Defense Discretionary	\$791	\$525	\$529	\$538	\$546	\$555	\$2,693
Mandatory	\$2,462	\$2,003	\$1,988	\$1,921	\$2,023	\$2,118	\$10,053
Net Interest	\$170	\$169	\$208	\$270	\$347	\$427	\$1,421
Total Outlays:	\$4,090	\$3,387	\$3,382	\$3,366	\$3,552	\$3,742	\$17,429
President's Budget (CBO Reestimate)							
Discretionary	\$1,246	\$1,362	\$1,315	\$1,273	\$1,279	\$1,294	\$6,523
Mandatory	\$2,588	\$2,135	\$2,025	\$2,020	\$2,121	\$2,225	\$10,526
Net Interest	\$170	\$172	\$216	\$282	\$367	\$460	\$1,497
Total Outlays	\$4,004	\$3,669	\$3,556	\$3,575	\$3,767	\$3,979	\$18,546

In their budget resolution, the Senate holds mandatory outlays to the CBO baseline. In the House, meanwhile, mandatory outlays are \$152 billion above the baseline, largely due to \$87 billion worth of increases in Medicare (likely for Medicare pay patches) and \$81 billion in increases for income security; this is partly offset by \$17 billion in unspecified reductions in allowances (Function 920). Although above the baseline, mandatory spending in the House resolution is \$197 billion below the levels in the President's request (after taking into account the \$250 billion in additional financial stabilization included in the President's budget). It appears that the lower spending largely stems from not extending some of the refundable tax credits included in the recent stimulus legislation.

Revenues

While the House resolution includes higher mandatory spending than the Senate, the Senate calls for larger tax reductions. Revenues in the House resolution roughly track the baseline in 2009 and 2010, while revenues in the Senate are similar to the President's budget for those years. It appears that the House expects to offset the cost of an AMT patch this year, while the Senate agrees with the administration that the AMT patch and the President's proposal to extend the period to which firms can carry back net operating losses need not be deficit neutral in those years.

For years after 2010, House and Senate revenue streams begin to diverge from each other, the baseline, and the President's request in ways that are not readily explained by the available data. This may result from the assumption in both chambers that the tax gap will begin to be closed, resulting in increased revenues from the baseline perspective. Over five years, the Senate resolution raises revenue similar to the President's budget while the House resolution raises roughly \$200 billion more – although still \$600 billion less than under the baseline.

Fig. 3: Revenue Projections (billions)

	2009	2010	2011	2012	2013	2014	2010-2014
CBO Baseline	\$2,186	\$2,334	\$2,783	\$3,086	\$3,281	\$3,436	\$14,920
House Reported Resolution	\$2,186	\$2,328	\$2,628	\$2,916	\$3,127	\$3,310	\$14,308
Senate Chairman's Mark	\$2,159	\$2,288	\$2,614	\$2,850	\$3,053	\$3,292	\$14,096
President's Budget	\$2,159	\$2,289	\$2,586	\$2,917	\$3,095	\$3,231	\$14,118

Reserve Funds and Reconciliation

Both budget resolutions contain numerous deficit neutral reserve funds for specific policies. These include health care reform, clean energy, and higher education access (Pell Grants) championed by the President. In general, the reserve funds included in the resolution require that the policies be offset over the 6-year and 11-year periods commencing with the current year. The notable exception to this pattern is the health care reform reserve fund in the Senate, which only needs to be offset over the 11-year time frame. That formulation may make it easier to enact coverage expansion near-term, but carries the risk that savings will need to be greater than can be tolerated politically in future years.

In addition, the House resolution contains reconciliation instructions for health care reform. The Energy and Commerce and Ways and Means Committees are each directed to report legislation with \$1 billion in savings over 2010 – 2014 by September 29, 2009. The net savings are essentially being used to justify the use of reconciliation since the actual impact on the deficit is small relative to the jurisdiction of these two committees. The Senate did not include reconciliation in its resolution.

Appendix: Comparison of 2010 Discretionary Spending by Function (billions)

		House	Senate	Difference	
By Category					
Total Spending	BA	1,229.078	1,210.886	18.192	
	OT	1,370.565	1,362.557	8.008	
Defense	BA	686.128	686.128	---	
	OT	692.822	689.963	2.859	
Non-defense	BA	542.950	524.758	18.192	
	OT	677.743	672.594	5.149	
By Function					
National Defense (050)	BA	686.128	686.128	---	
	OT	692.822	689.963	2.859	
International Affairs (150)	BA	48.454	49.804	-1.350	
	OT	46.280	49.779	-3.499	
General Science, Space, and Technology (250)	BA	31.014	31.014	---	
	OT	32.329	32.329	---	
Energy (270)	BA	6.680	5.680	1.000	
	OT	10.031	8.974	1.057	
Natural Resources and Environment (300)	BA	35.085	35.085	---	
	OT	38.866	38.866	---	
Agriculture (350)	BA	6.131	6.131	---	
	OT	6.217	6.217	---	
Commerce and Housing Credit (370)	BA	13.211	13.211	---	
	OT	13.347	13.347	---	
	On-budget	BA	12.949	12.949	---
		OT	13.085	13.085	---
	Off-budget	BA	0.262	0.262	---
		OT	0.262	0.262	---
Transportation (400)	BA	31.436	31.436	---	
	OT	93.462	93.462	---	
Community and Regional Development (450)	BA	17.930	15.930	2.000	
	OT	26.904	26.522	0.382	
Education, Training, Employment and Social Services (500)	BA	88.676	89.417	-0.741	
	OT	138.575	138.899	-0.324	
Health (550)	BA	58.158	58.158	---	
	OT	64.667	64.667	---	
Medicare (570)	BA	5.595	5.595	---	
	OT	5.566	5.566	---	
Income Security (600)	BA	62.778	62.778	---	
	OT	67.860	67.860	---	
Social Security (650)	BA	6.072	6.072	---	
	OT	6.057	6.057	---	
	On-budget	BA	--	--	---
		OT	0.123	0.123	---
	Off-budget	BA	6.072	6.072	---
		OT	5.934	5.934	---
Veterans Benefits and Services (700)	BA	53.263	53.263	---	
	OT	52.474	52.474	---	
Administration of Justice (750)	BA	48.763	48.763	---	
	OT	49.470	49.470	---	
General Government (800)	BA	19.365	19.707	-0.342	
	OT	20.196	20.460	-0.264	
Allowances (920)	BA	10.339	-7.286	17.625	
	OT	5.442	-2.356	7.798	

¹--House as Reported and Senate Chairman's Mark.