

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats)

June 17, 2004

### Flawed Budget Process Legislation Expected on Floor

Dear Democratic Colleague:

As early as next week, the House may consider H.R. 3973, the Spending Control Act of 2004. This budget process bill reportedly is being brought to the floor at least in part to fulfill a pledge made by the Republican leadership to encourage reluctant conservative Republicans to vote in favor of this year's budget resolution. Democrats support strong and effective budget enforcement rules, but the unfortunate reality is that this bill proposes rules that likely would worsen the deficit rather than improve it.

The attached document provides an analysis of the Spending Control Act of 2004, the amendment that I intend to take to the Rules Committee, and other amendments that may be offered by Republicans and Democrats. One of the most harmful of the likely Republican amendments would impose an entitlement cap that, if passed into law, would set the stage for potentially dramatic cuts in an array of critical mandatory programs such as Medicare, Medicaid, veterans' benefits, and student loans. Its conclusions include the following points:

***Putting the Cart Before the Horse*** - This budget enforcement legislation is scheduled to come to the House floor at a time when the Congress has not approved a budget resolution conference report. The conference report passed by the House lacks credibility, providing no plan to bring the budget back to balance and failing even to specify multi-year policy numbers.

***Republican Proposal Would Worsen Deficit, Not Improve It*** - The Republican bill would actually worsen, rather than improve, the budget deterioration of the last three years because it exempts tax cuts from budget enforcement rules - inviting unlimited new tax cuts that would drive the budget even deeper into the red.

***Democratic Amendment Would Restore Effective Budget Enforcement Rules*** - Democrats will take to the Rules Committee an amendment to reestablish the effective PAYGO rules - for both spending and tax cuts - which helped turn record deficits into record surpluses in the 1990s. The House should be given an opportunity for an up-or-down vote to reestablish the rules that have worked in the past.

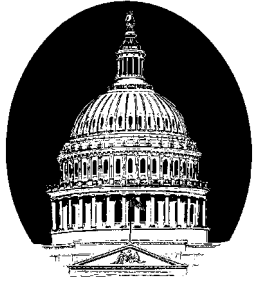
Once the Rules Committee has issued the rule for floor consideration of the bill, I will send you updated information about the amendments that have been made in order. In the meantime, please call me or have your staff contact the House Budget Committee Democratic staff if you have any questions.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member



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### Flawed Budget Process Legislation Expected on Floor Soon

Democrats support strong and effective budget enforcement rules. Indeed, Congressional Democrats wrote and passed the budget enforcement rules that led to balanced budgets in the 1990s. Unfortunately, the budget process bill expected on the floor soon — the Spending Control Act of 2004 — proposes rules that likely would worsen the deficit rather than improve it.

- ***Putting the Cart Before the Horse*** — This budget enforcement legislation is expected to come to the House floor at a time when, paradoxically, there is no credible budget resolution to enforce. The House has passed a budget resolution conference report which provides no plan to bring the budget back to balance, and which for the first time in more than twenty years fails even to specify multi-year policy numbers. The conference report also fails to provide the meaningful Pay-As-You-Go (PAYGO) budget enforcement point of order included in the Senate-passed budget resolution. As a result, a majority of Senators currently oppose the budget resolution conference report, and it has not yet been brought to the Senate floor for a vote.
- ***Republican Proposal Would Worsen Deficit, Not Improve It*** — Since President Bush took office in January 2001, a projected ten-year surplus of \$5.6 trillion over ten years has turned into a projected deficit of \$2.9 trillion over the same time period — an \$8.5 trillion reversal. The Republican bill would actually worsen, rather than improve, this situation, because it exempts tax cuts from budget enforcement rules — inviting unlimited new tax cuts that would drive the budget even deeper into the red. (See analysis below.)
- ***Democratic Amendment Would Restore Effective Budget Enforcement Rules*** — Democrats will take to the Rules Committee an amendment to reestablish the effective PAYGO rules — for both spending and tax cuts — which helped turn record deficits into record surpluses in the 1990s. These rules were overwhelmingly renewed in 1997 on a bipartisan basis. Most Democrats and almost the entire House Republican leadership supported them. The House should be given an opportunity for an up-or-down vote to reestablish the rules that have worked in the past. (See description below.)
- ***Other Amendments*** — Although it is not yet known precisely which amendments will be submitted and which will be made in order, this document also describes a number of

additional amendments that may be submitted to the Rules Committee by Republicans and Democrats. This section of the document will be updated once the Rules Committee has reported the rule for consideration of the bill.

## **SUMMARY OF H.R. 3973 —THE SPENDING CONTROL ACT OF 2004**

On March 17, 2004, the House Budget Committee approved H.R. 3973, the Spending Control Act of 2004, introduced by Committee Chairman Jim Nussle, on a 24 to 18 party-line vote. Following is a summary outlining the details and implications of this legislation.

- ***Establishes Discretionary Spending Limits, Possibly Based on Levels Adopted in the FY 2005 Budget Resolution*** — As reported from Committee, H.R. 3973 proposes to establish overall budget authority and outlay caps for years 2005 through 2009. (The bill does not subdivide discretionary categories, nor does it amend the existing cap for conservation programs through 2006.) As with prior law, the caps would be enforced through sequestration. At the time the bill was reported out of Committee, the dollar amounts for the cap levels were blank, and the Chairman expressed his intention to insert into the bill the discretionary levels that Congress would set in the fiscal year 2005 budget resolution conference report.

Although the budget resolution conference report includes spending totals for five years in order to comply with the Congressional Budget Act, House Republicans have stated that it is a one-year budget resolution, and have disavowed the numbers beyond the first year. So if H.R. 3973 includes discretionary caps from the conference report on the budget resolution beyond 2005, the bill will have enforceable discretionary levels that, even according to the majority, are meaningless.

More recently, it has been reported that both the level and duration of the caps in the bill that will come to the floor are the subject of negotiations within the Republican conference. An updated analysis of the discretionary spending caps will be issued once more information becomes available. In any case, the best approach would be for Congress and the President to come together to reach a bipartisan agreement to establish realistic spending caps as part of an overall plan to reduce the deficit.

- ***Establishes an Unprecedented PAYGO Rule that Applies Only to Mandatory Spending*** — The bill rewrites expired PAYGO provisions so that the net cost of increases in mandatory spending each year would trigger sequestration of mandatory programs, but the net costs of tax cuts would not. The bill applies PAYGO to direct spending enacted prior to October 1, 2009, and maintains a scorecard for such legislation through 2013. Although the bill continues to treat refundable tax cuts as mandatory increases which should, therefore, be paid for, the bill exempts extensions of specific refundable tax credits that were enacted in 2001 and 2003.

A PAYGO rule that applies only to mandatory spending ignores the major portion of the deficit that is attributable to tax cuts. In Committee, Democrats offered an amendment to H.R. 3973 that would reinstate PAYGO in its original form, applying it to both tax cuts and mandatory spending. Although the amendment did not pass in Committee, it is

imperative that Democrats be offered an opportunity to bring this amendment to the floor if we are seriously to debate how best to address the deficit and restrain growth of the debt. The original two-sided PAYGO was instrumental during the 1990s in bringing us from record deficits to record surpluses. That is why the original PAYGO approach enjoys such broad support, such as from Alan Greenspan, the Concord Coalition, and the majority of the Senate. This amendment is discussed more fully in the next section of this document.

- ***Extends Expired Provisions that Place Emergency Spending Outside the Discretionary Caps*** — H.R. 3973 continues expired law provisions that place funding for emergencies designated by Congress and the President outside the discretionary spending caps. In addition, the bill addresses emergencies as follows:
  - ▶ ***Defines “Emergencies”*** — The bill establishes a definition for emergencies under the Balanced Budget Emergency and Deficit Control Act (BBEDCA) that is taken from an Office of Management and Budget Circular. In summation, “emergencies” are defined as “sudden, urgent, unforeseen, temporary, and not part of an aggregate level of anticipated emergencies.”
  - ▶ ***Creates an Additional Category for “Contingency Operations Related to the Global War on Terrorism”*** — The bill establishes a new category for supplemental appropriations that are designated by the President and the Congress for contingency operations related to the global war on terrorism. Funding for these supplemental appropriations would also be placed outside the discretionary caps.
  - ▶ ***Excludes Emergencies from Baselines*** — The bill provides that baselines shall not assume the continuation of funding for “emergencies” and “contingency operations related to the global war on terrorism” in subsequent years.
- ***Advance Appropriations*** — The bill adds a new subsection under the BBEDCA to limit advance appropriations to an unspecified amount for each year through 2009. The bill provides that advance appropriations exceeding the unspecified amount shall count as budget-year funding for purposes of enforcing discretionary spending caps. The report accompanying the bill indicates that the limit will be set at \$23.548 billion, an amount similar to the amount contained in recent budget resolutions.

## **SUMMARY OF SPRATT AMENDMENT**

- ***Spratt Amendment Restores Balanced and Effective PAYGO Rule*** — The Spratt amendment extends through September 30, 2009, the PAYGO requirement which lapsed after September 30, 2002. PAYGO as originally defined by the 1990 Budget Enforcement Act required that the cost of all net mandatory spending increases and all tax cuts enacted during a session be fully offset. If Congress failed to meet its obligations, at the end of the year all non-exempt mandatory programs would face across-the-board cuts in a process known as “sequestration.” This amendment restores the original intent of the PAYGO requirement, which was renewed in 1997 on a bipartisan

basis. On July 30, 1997, a large majority of House Republicans — including most of the Republican leadership — joined a large majority of House Democrats in voting to extend the PAYGO requirement applying to both tax cuts and mandatory spending. This amendment would strip out language in the bill offered by Chairman Nussle that changes PAYGO to apply only to mandatory spending.

- ***Applies PAYGO to Both Tax Cuts and Spending*** — Tax cuts have played a central role in producing the staggering deficits we now face. Measured over the 2002-2011 budget window, \$2.3 trillion of the fiscal reversal that has occurred since January 2001 has been caused by tax cuts and the associated debt service, according to the Congressional Budget Office. Extending PAYGO to cover only mandatory spending — as the Republican bill proposes — takes a critical cause of the problem off the table. The Spratt amendment remedies this flaw.
- ***Widespread Support for Balanced PAYGO Rules*** — The consensus that PAYGO rules should apply to both sides of the ledger includes Senator John McCain, Federal Reserve Chairman Alan Greenspan, the Committee for a Responsible Federal Budget, and the Concord Coalition. The Republican bill mirrors the PAYGO proposal in the President’s 2005 budget, about which the Concord Coalition stated: “the specific enforcement proposals would be ineffective in practice because they only seek to control spending and allow a rather inviting loophole for additional tax cuts by redefining the concept of pay-as-you-go. ... [A] tax cut can be every bit as fiscally irresponsible as a spending increase.”

## SUMMARY OF OTHER LIKELY AMENDMENTS

### Republican Amendments

It is expected that a number of the individual provisions contained in Republican budget process bills such as H.R. 3800 (the Family Budget Protection Act, introduced by Rep. Jeb Hensarling) and H.R. 3925 (the Deficit Control Act of 2004, introduced by Rep. Mark Kirk) will be submitted to the Rules Committee as separate amendments. (One or both of these bills may also be submitted as a complete substitute.) It is not yet clear which of these amendments the Rules Committee will make in order, but the following paragraphs provide background on some of the major provisions that may be offered as amendments.

- ***Joint Budget Resolution*** — This provision would convert the concurrent resolution on the budget into a joint resolution that is signed by the President and has the force of law. Opponents believe that — by allowing the President to veto the budget resolution — this proposal would increase the power of the President and reduce the power of Congress. Opponents also suggest that a joint budget resolution might be used to directly legislate the policies it envisions — thus diminishing the role of the authorizing committees. Opponents also believe that a joint budget resolution might result in protracted negotiations between the Administration and Congress which would slow the passage of the budget resolution and delay consideration of appropriations bills and other legislation.

- ***Biennial Budgeting*** — This provision would allow for the annual budget and appropriations cycle to be converted to a two-year cycle. Proponents of biennial budgeting argue that a two-year cycle would free up the second session of each Congress for program review and oversight, and would allow agencies to improve their long-term planning process. Opponents of biennial budgeting argue that the annual budgeting process itself provides a critical tool for Congressional oversight and influence, which would be weakened under biennial budgeting. Opponents also believe that a biennial cycle would not allow Congress and the Administration to respond in a timely fashion to changes in economic conditions, budget projections, and national priorities.
- ***Automatic Continuing Resolution*** — This provision would provide for an automatic continuing resolution if appropriations bills were not passed by the beginning of the fiscal year. The automatic continuing resolution proposal in H.R. 3800 would set funding levels at or below the prior year's level. Opponents of this proposal believe that an automatic continuing resolution would violate the Congress's prerogative and obligation to appropriate funds, and would reduce the incentives for Congress and the President to complete annual appropriations bills on time. The President, for example, might veto appropriations bills freely, without fear of government shutdown. Members of Congress opposed to higher funding levels for certain agencies and programs might block passage of an appropriations bill in order to achieve the lower funding levels that the automatic continuing resolution would put in place, without an explicit debate and without a vote.
- ***Entitlement Cap*** — This provision would set a cap for each fiscal year for the total amount of mandatory (entitlement) spending that would be allowed. If necessary, an automatic sequestration would occur, cutting certain entitlement programs to prevent the cap from being breached. Opponents of this provision note that the caps set in the Hensarling and Kirk bills are far below the projected costs of entitlement programs under current law — by an estimated \$1.8 trillion over the next ten years — setting the stage for potentially large cuts in programs such as Medicare, Medicaid, veterans' benefits, and student loans.
- ***Expedited Rescissions*** — This provision would provide for expedited consideration by Congress of proposals by the President to eliminate specific spending items in appropriations bills. The President's proposals would be given fast-track consideration by Congress, and would not be subject to amendment. This provision does not allow for similar expedited consideration of proposals by the President to repeal targeted tax benefits.
- ***Commission on Program Elimination*** — This provision would establish a commission appointed by the President to recommend the elimination or realignment of agencies or programs that are considered to be duplicative, inefficient, or outdated. Legislation implementing these recommendations would be voted on by Congress without opportunity for amendment. Critics of this provision note that it cedes power to a commission appointed by the President, and does not provide for deliberate Congressional consideration of that commission's recommendations.

- ***Point of Order Enforcement*** — Currently, the rule for consideration of individual pieces of legislation on the House floor routinely waives points of order enforcing the budget resolution. This provision would make it more difficult to waive such points of order, by requiring two votes in the House rather than just one to waive budget points of order. Additionally, this proposal would increase to 67 the number of votes needed to waive most budget points of order in the Senate.

### **Other Democratic Amendments**

Blue Dog Democrats are expected to submit one or more amendments to the Rules Committee, likely drawing on a bill introduced earlier this year by Rep. Baron Hill and other Blue Dogs — H.R. 3995, the Deficit Control Act of 2004. Their legislation, which proposes credible and effective rules to reduce the deficit — unlike the Republican bill — renews the now-expired PAYGO rules through 2009 for both mandatory spending and tax cuts. It also sets discretionary spending caps for 2005 through 2007 at the funding levels proposed in the President's most recent budget. It includes other provisions, as well, such as a proposal to create points of order against legislation that would waive or suspend enforcement of discretionary spending caps and PAYGO rules.