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Proposed Changes Would Create Unbalanced, Flawed Budget Process

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Budget Process

The president's FY2005 budget contains several proposed changes to the congressional rules governing the process by which federal budget policy is legislated. These rules could have dramatic consequences for spending and tax policy over the next 5 years.

While, admittedly, changes in the budget process are not the most exciting of issues, the proposed process changes would likely cause large drops in domestic investments and a continuation of current tax policy and massive federal deficits.

The proposals, in sum, can best be described as "smash and grab." By changing PAYGO rules, altering budget baseline rules, shifting power to the executive branch, and a variety of other changes; the administration is warping the process in order to increase the likelihood of passing a budget reflecting their priorities – more reductions in revenue for corporations and higher-income individuals; and less funding for domestic investments.

Organizations concerned about current and future funding for vital programs and as well as those concerned about the mounting deficit problem, should oppose the process changes for three reasons – 1) because it increases the likelihood of dramatically lower levels of funding for domestic investments, 2) because it shifts a significant amount of budget authority from the congress to the president, and 3) because it harms the financial health of the nation by making it easier to reduce revenue without offsets.

Locking in Revenue Cuts and Lowering the Bar for Future Cuts

PAYGO changes

The proposed changes to the PAYGO rules (see box below) would require that all proposed spending increases would have to be offset so that they did not add to the deficit, but that *tax reductions would not have to be offset*. In addition, new or increased spending would have to be offset by reduced spending in other areas – and could not be offset by tax increases.

This proposal would thus make, for example, a health care benefit for seniors, or an increase in federal student loans more difficult to pass than a tax break for wealthy corporations.

Baseline changes

Celebrating 20 years: Promoting Government Accountability and Citizen Participation - 1983 - 2003.

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The president is proposing forcing the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) to incorporate certain extensions of the 2001 and 2003 tax changes in their “baseline” deficit projections. This effect of this change would be that, on paper and for PAYGO and budgeting purposes, extending the tax cuts would have a zero cost – making it more likely that 2001 and 2003 tax changes would be made permanent.

Spending reductions

Discretionary spending caps

The proposed changes to the budget rules reinstitute budget caps that correspond to the levels implied in the president’s budget. While many program areas are funded close to current levels for fiscal year 2005, *the spending levels consistent with the proposed caps decline significantly over the next five years, and the totals would be “locked-in” over this period.*

In addition, some have proposed capping *total* discretionary spending – so increases in military spending would have to be offset by declines in domestic services. Since the budget does not include any money for Iraq or Afghanistan after September of this year, there would have to be significant cuts in domestic programs in order to comply with the proposed rules.

Power grab

In addition to the rules that affect spending and levels of taxation, there are other changes that would shift power from the legislative branch to the executive branch.

For example, the proposals include:

- Allowing a presidential line-item veto, giving the president the authority to veto new appropriations, mandatory spending, or “limited grants of tax assistance” whenever he determines that the spending is not an “essential government priority.”
- Change from a “concurrent budget resolution,” which is passed by House and Senate, but not signed by the president, to a “joint budget resolution,” which agreed upon jointly by the House and Senate, *signed by the president, and having the force of law.* This change would give the president veto-power at an earlier stage of the budget process and would allow other items to be attached to the resolution.
- An automatic continuing resolution is proposed that would, in the absence of a regular appropriations measure, automatically find programs at the president’s request or at the previous year’s level, *whichever is lower.*

Summary

If enacted, the proposed changes to the budget process would likely mean significant reductions in domestic spending, permanency and expansion of all of the president’s tax changes, and bigger deficits. The modifications would essentially hobble a system that, during the 1990’s, contributed to record surpluses and a more financially secure government.

PAYGO

History – The impetus for many of the current proposals comes from the expiration of so-called PAYGO rules initially adopted under the Budget Enforcement Act of 1990, which were extended several times over the last decade. The rules expired in 2002, and were continued (in a modified form) in 2003, but are again set to expire unless renewed.

Purpose – The PAYGO rules were designed to reduce pressure on the deficit, which had ballooned in the 1980's. The idea was to curb spending and tax reductions by requiring that spending or tax legislation must not have an adverse impact on the deficit. Thus spending proposals had to be offset by tax increases, reduced spending in other areas, or a combination of both. By explicitly creating a tradeoff, PAYGO rules have been credited with keeping deficits from expanding as much as they would have without the rule.

Other Resources

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2005 (Chapter 14)
<http://www.whitehouse.gov/omb/budget/fy2005/pdf/spec.pdf>

Pay-As-You-Go Rules in the Federal Budget Process – Congressional Research Service
<http://www.house.gov/rules/98-20006.htm>

Summary and Analysis of the President's 2005 Budget: Budget Process Proposals – House Budget Committee Democrats
http://www.house.gov/budget_democrats/pres_budgets/fy2004/fy04update/fy2005/processes.htm

Biased Budget Rules Threaten Programs for Women and Their Families for Years – NWLC
<http://nwlc.org/details.cfm?id=1788§ion=infocenter>

Analysis Of The President's New Budget – CBPP
<http://www.cbpp.org/2-2-04bud.htm>

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Tax and Budget Staff Notes is an ongoing series of analyses of timely tax and budget issues.

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