Chairman's Mark

FY 2008 Budget

March 14, 2007

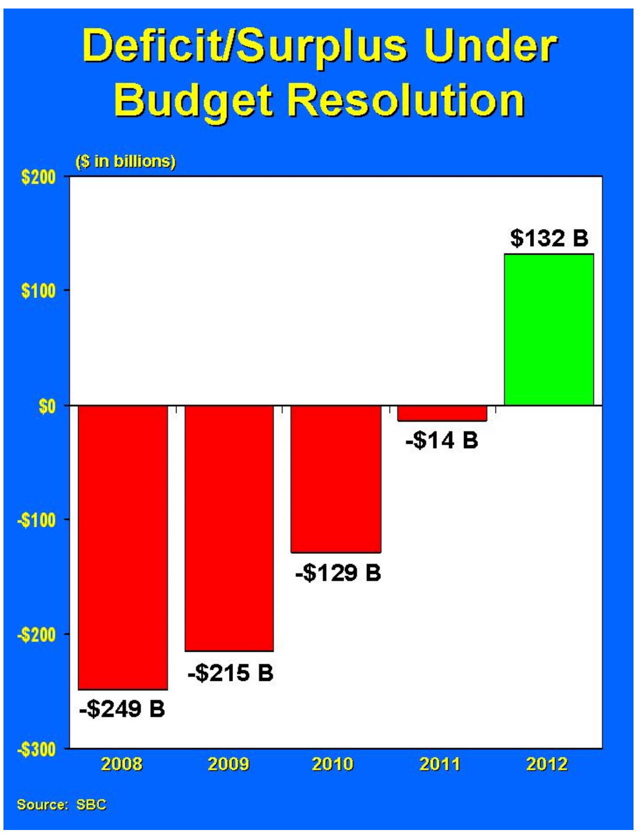
THE CHAIRMAN'S MARK: FY 2008 SENATE BUDGET RESOLUTION

Overview

The Chairman's Mark for the Fiscal Year 2008 Senate Budget Resolution provides a fiscally-responsible budget plan for our country. It funds critical national priorities and reaches balance without raising taxes. While no single budget resolution can solve all of our budget challenges, the Chairman's Mark will begin to put the nation back on a sound fiscal path.

Unfortunately, the nation's budget outlook has deteriorated dramatically over the last six years under Bush administration policies. When the President took office in 2001, we faced a record $5.6 trillion ten-year projected surplus. That surplus has been squandered. Gross debt has exploded – rising from $5.8 trillion in 2001 to $9 trillion by the end of this year. And this debt is accumulating at the worst possible time, just before the baby boom generation will begin to retire.

As an important first step in restoring our nation's fiscal security, the Chairman's Mark brings the budget back into balance – reaching a surplus of $132 billion in 2012. Gross debt as a share of GDP will begin to fall after 2009. And spending as a share of GDP will decline in every year after 2008. The plan also restores crucial budget enforcement provisions, such as a strong paygo rule and allowing reconciliation for deficit reduction only.

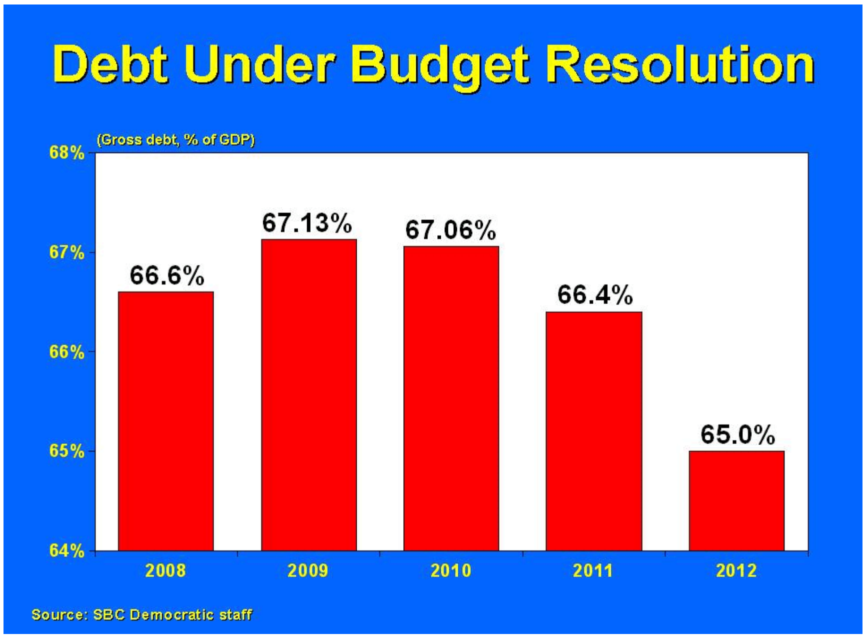


At the same time, the Chairman's Mark fully funds the President's core defense budget and the President's request for additional funding for the global war on terror in 2007, 2008, and 2009.

The Chairman's Mark rejects the President's proposals to again cut domestic priorities. It provides badly needed resources in key areas that have been underfunded by the Bush administration, such as kids' health, education, veterans' health care, law enforcement, and transportation.

To address the long-term fiscal challenges we face with the coming retirement of the baby boom generation, the Chairman's Mark includes a "comparative effectiveness" reserve fund. This reserve fund is designed to jumpstart a new initiative to determine the best ways to bring down spiraling health care costs, which are the largest factor driving up the cost of our health care entitlement programs. The plan also includes a new budget point of order against long-term deficit increases.

The Chairman's Mark reaches balance without a tax increase. It provides Alternative Minimum Tax (AMT) relief for 2007 and 2008, preventing millions of middle-class taxpayers from being subjected to the AMT. It also includes a reserve fund to allow for new tax relief or the extension of expiring tax provisions, if the cost of these measures is offset. It calls for new measures to close the tax gap, shut down tax scams, and address offshore tax havens. And it sets the stage for tax simplification and reform to help keep tax rates low over the long term.



The Congressional Budget Resolution

The annual budget resolution allows Congress to express its collective judgment on the overall level of spending, revenue, deficit, and debt, and the priorities and values within those totals. Upon adoption by the House and Senate, the budget resolution serves as a blueprint that guides subsequent Congressional consideration of legislation.

Section 301 of the Congressional Budget Act of 1974 sets forth the requirements of the budget resolution. As a concurrent resolution – a special legislative vehicle that applies only to the operations of the House and Senate – a budget resolution is not presented to the President for signature and does not have the force of law. As such, it does not directly change spending, revenues, or debt levels, but does establish levels which are enforced by congressional points of order.

The Baseline

The baseline is a neutral benchmark of spending, revenues, deficits, and debt under current laws and policies and is the starting point for developing the annual budget resolution.

The Budget Committee uses as its baseline the projections made by the Congressional Budget Office (CBO) in its January 2007 *The Budget and Economic Outlook: Fiscal Years 2008 to 2017*, as revised and updated in CBO's March 2007 *Preliminary Analysis of the President's Budget Request for 2008*. In preparing those projections, CBO followed the rules and guidelines contained in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act).

For discretionary spending (which is controlled by annual appropriations acts), the baseline rules provide that projections assume that discretionary appropriations are maintained at the level enacted in the current year (in this case, fiscal year 2007), adjusted for inflation. These rules are the same for both emergency and nonemergency appropriations. For instance, the CBO March 2007 baseline projects throughout the baseline period the $70 billion in emergency funding provided for ongoing military operations in the 2007 Department of Defense Appropriations Act, but does not assume the President's requested, but not yet enacted, supplemental funding of $99.6 billion for ongoing military operations that accompanied his 2008 budget submission.

For mandatory spending and revenues, which are usually governed by permanent law and do not require annual Congressional action, the baseline rules generally require that projections reflect current law. There are exceptions. In the case of mandatory spending, programs in place in 1997 with outlays of $50 million or more in the current year are assumed to continue throughout the baseline period even if they actually expire under current law. (Table 3-6 on pages 66 and 67 of CBO's January 2007 *The Budget and Economic Outlook: Fiscal Years 2008 to 2017* lists the programs that the baseline assumes will continue beyond their expiration dates.) In the case of revenues, any excise tax dedicated to a trust fund is assumed to continue in the baseline even if it is scheduled to expire under current law. The Committee notes that the baseline and scoring rules combine to treat mandatory spending and revenues in a symmetrical and equivalent manner. Whether spending *or* revenue, the budget rules ensure consistency. That is, sunset dates are either *ignored* at both stages (scoring of legislation and baseline) or *recognized* at both stages.

Although section 257 of the Deficit Control Act expired on September 30, 2006, CBO continues to follow its guidelines and rules in constructing the baseline. The Committee expects CBO to continue this practice until Congress replaces or amends section 257.

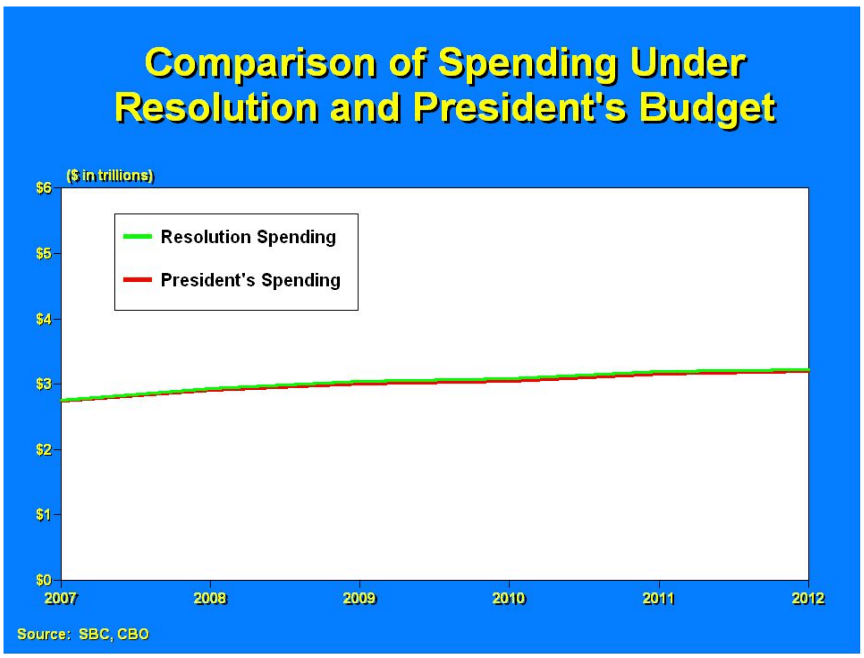
Spending

The Chairman's Mark takes a fiscally-responsible approach to spending, while ensuring that we adequately fund our nation's priorities.

Discretionary

The Chairman's Mark provides $948.8 billion in budget authority and $1,026.4 billion in outlays for discretionary programs in 2008. Over the five-year period, this spending will fall from 7.2 percent of GDP in 2008 to 6.3 percent in 2012. These totals exclude emergency and war funding.

The Chairman's Mark enhances fiscal responsibility by establishing discretionary spending limits on budget authority and outlays for 2007 and 2008. For 2007, it provides a cap of $951.1 billion in budget authority and $1,029.5 billion in outlays. For 2008, it provides a cap of $947.3 billion in budget authority and $1,025.2 billion in outlays. For 2008, the Chairman's Mark permits adjustments to this cap for certain program integrity efforts and wildfire suppression activities. These adjustments would bring funding, excluding emergency and war funding, up to the level assumed in the Mark (further discussion of cap adjustments is included in the "Budget Enforcement" section of this document).



<u>Defense and War Costs</u>
With defense of the nation as the number one priority, the Chairman's Mark fully funds the President's core defense budget request over the five-year period. It also fully funds the President's request for $295 billion in additional war funding for 2007 through 2009.

The Chairman's Mark provides for a three percent pay raise for military personnel and rejects the

President's proposals for new TRICARE enrollment fees and deductibles for military retirees under the age of 65.

Domestic Discretionary

The Chairman's Mark provides $410.7 billion for overall domestic discretionary funding in 2008 (excluding emergencies). This represents a small increase in an area badly underfunded by the Bush administration.

Education and Training

The Chairman's Mark recognizes that strong education and training programs at all levels are critical for the future of our nation. It makes this effort a high priority by providing an increase for discretionary education funding of $9.2 billion (including $2 billion in additional 2009 advance appropriations) above the President's request, or $4.3 billion above the 2007 level adjusted for inflation.

The Chairman's Mark rejects the President's proposed cuts and program terminations in education, training and social services programs administered by the Departments of Education, Labor, and Health and Human Services. It assumes that the additional funding will be invested in critical areas from birth through post-secondary education, including Head Start, the Individuals with Disabilities Education Act (IDEA), programs authorized under the No Child Left Behind Act, and Pell grants. The increased investments will:

- ensure that more preschool children from disadvantaged backgrounds will be ready for school;
- help grade schools, middle schools, and high schools close achievement gaps, increase graduation rates, and reduce the need for remedial education later;
- ensure that all schools can attract, train, and retain high-quality teachers;
- keep our commitment to educate students with disabilities; and
- make college more affordable so that eligible students can gain the skills and experience they need to succeed in the workplace, and ensure that employers have increasingly well-educated employees to compete in the global marketplace.

With regard to the Department of Education, the Mark increases overall funding by $6.1 billion above the President. This level is $4 billion, or 6.8 percent, above the 2007 level adjusted for inflation. In contrast, the President cuts Department of Education funding by $2.1 billion in 2008, or 3.9 percent below the 2007 inflation-adjusted level. To help schools meet the requirements of the No Child Left Behind Act and IDEA, the Mark provides the largest increase for elementary and secondary education programs since 2002.

Veterans

The mistreatment of soldiers recuperating from wounds at the Walter Reed Army Medical Center has highlighted the Bush administration's lack of focus on the well-being of our nation's veterans and military personnel. The Chairman's Mark recognizes the deep debt our nation owes to those who have served in defending our country and provides critical resources to ensure that they get the quality health care they deserve.

The Chairman's Mark provides $43.1 billion in 2008 for discretionary veterans programs, including medical care. This amount is $3.5 billion more than the President's proposed funding level and represents 98 percent of the level requested in The Independent Budget, a plan developed by four leading veterans' groups. The funding in the Chairman's Mark will ensure that the Veterans Health

Administration within the Department of Veterans Affairs (VA) can provide the highest quality health care for all veterans.

In 2005, the President's budget underfunded the Veterans Health Administration, and the VA was forced to ask Congress for two supplemental funding requests. The Chairman's Mark provides full funding to ensure that the VA can meet its obligations to veterans.

COPS

The Chairman's Mark rejects the President's proposal to cut the Community Oriented Policing Services (COPS) program by $520 million, or 94 percent, below the 2007 level adjusted for inflation. The Chairman's Mark instead funds the COPS program at the 2007 inflation-adjusted level of $552 million. The COPS program has put over 100,000 police officers in communities across the country. It provides valuable support for communications and equipment needs of local law enforcement. And this program has been critical in helping local law enforcement efforts, particularly in rural areas, to fight the production, distribution and use of methamphetamine.

Homeland Security

The Chairman's Mark rejects the President's proposal to cut crucial first responder grant programs at the Department of Homeland Security (DHS). For example, the President proposes to cut Firefighter Grants by $375 million, Local Law Enforcement and Terrorism Prevention Grants by $108 million, Urban Area Grants by $185 million, and State formula grants by $348 million below the 2007 level adjusted for inflation. The Chairman's Mark provides sufficient funding to keep all of these programs at or above the 2007 level adjusted for inflation.

In addition, the Chairman's Mark provides increases above the President's request for other priority homeland security programs, providing an additional $190 million to fund port security grants at $400 million, an additional $175 million to fund transit and rail security grants at $350 million, and an additional $50 million to fund chemical security at $100 million.

CDBG

The Chairman's Mark rejects the President's proposal to cut the Community Development Block Grant (CDBG) program by $807 million, or 21 percent, below the 2007 level adjusted for inflation. The Chairman's Mark instead funds the CDBG program at the 2007 inflation-adjusted level of $3.8 billion. The CDBG program is the largest source of federal grant assistance in support of state and local government housing and community development efforts.

LIHEAP

The Chairman's Mark rejects the President's proposal to cut the Low Income Home Energy Assistance Program (LIHEAP) by $420 million, or 19 percent, below the 2007 level adjusted for inflation. It instead funds LIHEAP at $2.45 billion, $250 million above the 2007 level adjusted for inflation and $670 million above the President's request. These increased funds for LIHEAP will help to continue providing heating and cooling assistance to over five million low-income households, including the working poor, disabled persons, elderly, and families with young children.

Amtrak

The Chairman's Mark provides $1.78 billion for Amtrak, a funding level that is $880 million above the President's request and $480 million above the 2007 level adjusted for inflation. As in previous years, the President's request would significantly underfund Amtrak and is well below the level Congress typically appropriates. Amtrak is a vital link to many small communities, and the

Chairman's Mark will help Amtrak pay off debt and continue to improve its operations.

Community Health Centers
The Chairman's Mark provides $2.6 billion for Federally Qualified Health Centers (FQHCs) in 2008 – $536 million more than the 2007 level adjusted for inflation and $575 million more than the President's request. These health centers are community-based providers of comprehensive primary and preventive health care that serve more than 16 million people, many of whom are uninsured or are on Medicaid.

Energy
The Chairman's Mark assumes $1.6 billion for the Department of Energy's Energy Efficiency and Renewable Energy program. This funding level is $385 million above the President's request. In addition, the Chairman's Mark rejects the President's proposed cuts to the fossil energy research and development program.

Environmental Protection
The Chairman's Mark includes $8.1 billion for the Environmental Protection Agency. This is $877 million above the President's request and $170 million above the 2007 level adjusted for inflation. In nominal dollars, the President's proposed 2008 funding level of $7.2 billion would be the lowest budget for EPA since 1997. The Chairman's Mark assumes $1.5 billion for Superfund, an increase of $211 million above the President's request. The Chairman's Mark assumes full funding for EPA's programs to support clean and safe drinking water. It rejects the President's proposal to cut a variety of environmental protection programs.

NASA
The budget resolution fully funds the President's 2008 request for NASA at $17.3 billion. For the agency, this represents an increase of $696 million, or 4 percent, above the 2007 level adjusted for inflation.

The United States' goals for space exploration were defined in the President's "Vision for Space Exploration" and included in the National Aeronautics and Space Administration Authorization Act of 2005. The Chairman's Mark recognizes the importance of our nation's space program and endorses the Act's balanced goals of exploration, science, and aeronautics. The Act calls for retirement of the Space Shuttle by 2010 and first flight of its replacement by 2014. The Mark recognizes the strategic importance of uninterrupted access to space and supports efforts to reduce this four-year gap in U.S. human space flight.

Small Business and Commerce
The Chairman's Mark rejects the President's proposal to cut assistance to America's small businesses. The President has tried repeatedly to reduce the Manufacturing Extension Program (MEP), which helps small businesses adopt advanced manufacturing technologies, but Congress has consistently restored the funding. The Chairman's Mark restores cuts to this vital program.

Mandatory

On the mandatory spending side, the Chairman's Mark follows the paygo, or pay-as-you-go, principle – with any new spending done in a deficit-neutral manner.

Kids' Health - SCHIP

The Chairman's Mark recognizes that providing for our children's health care should be one of the most important priorities of our nation. It therefore rejects the inadequate funding level proposed by the President for reauthorization of the State Children's Health Insurance Program (SCHIP).

The President proposes to provide a net increase of $2 billion over five years ($5.5 billion over five years, excluding Medicaid interactions). However, this proposed funding level will not cover the funding shortfalls facing SCHIP. CBO estimates that $7.9 billion ($13.4 billion, excluding Medicaid interactions) over five years will be needed to cover state shortfalls.

The Chairman's Mark provides for up to $50 billion for SCHIP – including up to $35 billion in a deficit-neutral reserve fund – to expand coverage of the estimated six million children eligible but not enrolled in either SCHIP or Medicaid, and maintain coverage for all currently-enrolled children.

<u>Education and Training</u>
The Chairman's Mark recognizes that education is critically important to maintaining our nation's competitiveness in today's globalized economy and promoting our nation's long-term economic growth. It provides a deficit-neutral reserve fund to facilitate enactment of the long-overdue reauthorization of the Higher Education Act and improvements in education tax credits and deductions. These initiatives serve the national interest by improving college affordability, reducing the indebtedness of student borrowers, and ensuring that qualified students can obtain a post-secondary education.

The Chairman's Mark rejects the proposal in the President's budget to cut the Social Services Block Grant program.

<u>Veterans</u>
The Chairman's Mark rejects the President's proposal to impose three additional mandatory fees on priority level 7 and 8 veterans. These are veterans without compensable service-connected disabilities, who have incomes as low as $27,790. Instead of using the money to offset the VA discretionary spending he proposes, the President directs the fees into the general Treasury. The President has proposed similar fees in previous years, and Congress has rejected them.

Specifically, the Chairman's Mark rejects the President's proposed increase in the pharmacy co-payment from $8 to $15, rejects the creation of a tiered annual enrollment fee based on a veteran's family income, and rejects billing veterans for treatment of non-service connected disabilities for their entire co-payments. The VA estimates that if the enrollment fee and the increase in pharmacy co-payments are enacted in 2008, over 111,000 veterans would leave the VA health care system.

<u>Energy</u>
The Chairman's Mark includes a deficit-neutral reserve fund for energy legislation that would reduce our nation's dependence on foreign sources of energy, expand production and use of alternative fuels and alternative fuel vehicles, promote renewable energy development, improve electricity transmission, encourage responsible development of domestic oil and natural gas resources, and reward conservation and efficiency. Such legislation may include tax incentives. It is deeply concerning that we currently depend on imports for 60 percent of our oil and that in 2006 imports of petroleum-related products accounted for $291 billion, or 38 percent, of our $764 billion trade deficit. This reserve fund will provide committees increased flexibility in finding offsets for legislation that addresses the energy challenges facing our nation.

The Chairman's Mark rejects the President's proposal to increase the interest rates Power Marketing Administrations pay when they borrow funds from the Treasury. The proposal could lead to higher rates for rural power customers.

The Mark also rejects the proposal to accelerate the Bonneville Power Administration's (BPA's) debt repayment. The BPA proposal could lead to higher electricity rates for power customers in the Northwest and circumvent the regional decision making process. It is unfortunate that the President's budget proposed this again after it was explicitly rejected by Congress last year. The Mark does not assume any savings from the proposal. The levels for the energy function assume funding to accommodate legislation blocking the proposal.

Farm Bill

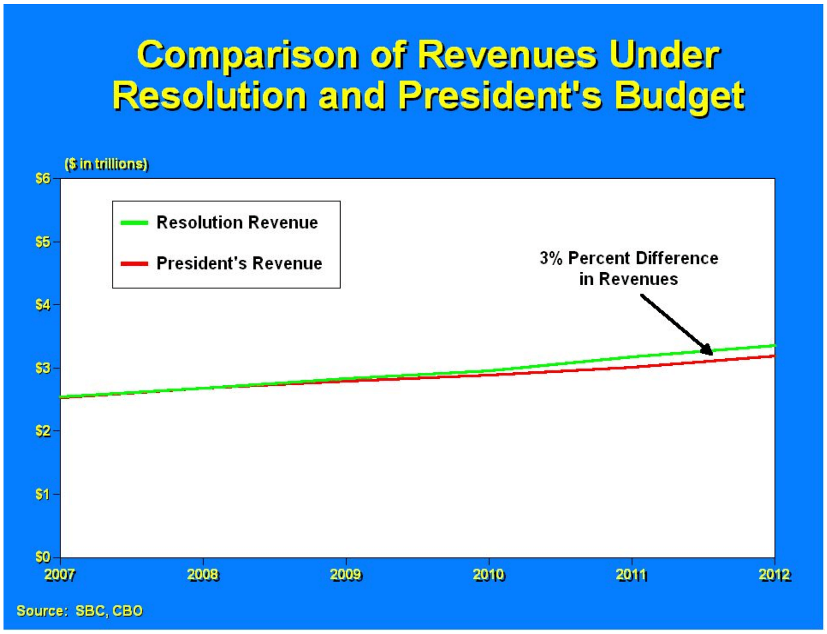
With the 2002 Farm Bill expiring this year, the Chairman's Mark provides a deficit-neutral reserve fund for the reauthorization of agricultural programs. To address the needs of rural America and promote new sources of renewable energy from U.S. farm products, it would allow for a $15 billion increase in mandatory agriculture funding between 2008 and 2012. The reauthorization of the Farm Bill will provide an economic safety net for agricultural producers, enhance the stewardship of our natural resources, address domestic nutrition needs, increase agricultural research, and improve our export competitiveness.

Arctic National Wildlife Refuge & Land Sales

The Chairman's Mark rejects the President's proposal to permit oil and gas leasing in the Arctic National Wildlife Refuge (ANWR) and does not assume savings from the proposal. The Chairman's Mark also does not assume any savings from the President's proposal to sell federal lands.

Revenues

The Chairman's Mark balances the budget without a tax increase. It provides middle-class tax relief by ensuring that the Alternative Minimum Tax (AMT) does not hit more taxpayers over the next two years. At the same time, it raises enough revenue to meet the nation's most urgent needs and put the budget on a more sustainable long-term fiscal path. And it sets the stage for tax simplification and reform.



AMT Relief for Middle-Class
The Chairman's Mark takes steps to prevent the spread of the Alternative Minimum Tax, so that it does not impose higher taxes on middle-class families. It provides AMT relief for 2007 and 2008 – one year more than the President – giving Congress and the administration time to come up with a permanent solution. Under the resolution, the number of taxpayers subject to the AMT would not be allowed to increase – protecting some 20 million middle-class taxpayers from being subjected to the AMT in those years. The cost of providing this relief is fully offset.

No Tax Increase
The revenue levels in the Chairman's Mark assume that Congress will take steps to counter the effects of the expiration of tax cuts in 2010 in a manner that does not add to the nation's debt burden. The resulting revenue levels are only 3 percent above revenues in the President's budget over the next five years. This additional revenue can be achieved without raising taxes by closing the tax gap, shutting down illegal tax shelters, addressing tax havens, and simplifying the tax code.

Reserve Fund For Tax Relief
The Chairman's Mark provides a reserve fund allowing for new tax relief and the extension of expiring provisions, but only if the cost of these measures is offset. Failure to offset those tax cuts

would severely damage our nation's finances just at the time it is trying to grapple with the retirement of the baby boom generation.

Closing Tax Gap, Shutting Down Tax Shelters, and Addressing Offshore Tax Havens
The Chairman's Mark calls for collecting taxes that are already due, while at the same time improving taxpayer services for honest citizens who need help complying with the code.

The Chairman's Mark assumes that Congress will take aggressive steps to close the tax gap, the amount of taxes owed under current law but not collected. According to the IRS's latest estimate, the tax gap in 2001 was $345 billion. In the years since 2001, it is likely that the tax gap has grown even larger. And this total does not even include the billions of tax dollars lost to illegal tax shelters and offshore tax havens.

Closing the tax gap is not about raising taxes on anyone. It is simply collecting taxes that are already due under current law. While we will never be able to close the tax gap entirely, it is clear that much more can and should be done. To help close the tax gap, the resolution supports steps to increase reporting and withholding requirements. It also fully funds the President's budget request for the IRS, including additional resources available through a discretionary cap adjustment that directs $399 million to IRS enforcement activities.

Setting the Stage for Tax Simplification and Reform
The Chairman's Mark rejects the notion that tax cuts pay for themselves. The fact is that deficit-financed tax cuts, and proposals to make them permanent without offsets, add significantly to the nation's debt. This harms the economy and passes on an unfair burden to our children and grandchildren. According to the Center on Budget and Policy Priorities, extending all of the President's tax cuts without offsets would double the nation's projected debt burden in 2050.

It is important to remember that the problem of expiring tax cuts was created by a Republican-controlled Congress trying to conceal the true cost of its policies. We now have more than three years to deal with the expiration of these tax policies, and we should use that time wisely. The Chairman's Mark, therefore, provides a reserve fund allowing for new tax relief and the extension of expiring provisions, but only if the cost of these measures is offset.

The Chairman's Mark reflects the belief that Congress will adopt tax simplification. By requiring that tax changes be deficit neutral, it sets up the right incentives for bipartisan tax simplification and reform. Working toward genuine tax simplification is better for the American taxpayer than merely extending the existing, flawed tax code. We can collect the revenues needed to meet the nation's needs in a simpler, fairer way.

Long-Term Fiscal Challenges

With the coming retirement of the baby boom generation, our nation faces a significant long-term imbalance between revenues and spending. While the Chairman's Mark takes the important near-term step of returning the budget to balance by 2012, this represents only a first step in the difficult path of restoring our long-term fiscal security.

As many budget and economic experts have noted, the next few years are really the "sweet spot" in our fiscal outlook. For example, in testimony before the Budget Committee in January, GAO Comptroller General David Walker stated: *"We are on an imprudent and unsustainable long-term fiscal path, and while the short-term deficits have improved in recent years, the long term is getting worse every second of every minute of every day and the time for action is now."* And in testimony before the Budget Committee in January, Federal Reserve Chairman Ben Bernanke stated: "*... [O]ne might look at these projections and say, 'Well, these are about 2030 and 2040 ... so we don't really have to start worrying about it yet.' But, in fact, the longer we wait, the more severe, the more draconian, the more difficult ... the adjustments are going to be. I think the right time to start is about 10 years ago."*

The Chairman's Mark therefore also includes a number of measures to address our long-term fiscal challenges. These measures include:

Comparative Effectiveness Reserve Fund
Given that underlying rising health care costs are the largest factor driving the growing cost of our health care entitlement programs, it is crucial that we take steps to control those costs. One of the best ways to better control health care costs is to provide health care providers and patients with objective, transparent, and rigorous analysis about the comparative effectiveness of alternative technologies, devices, procedures, and pharmaceuticals.

To address this need, the Chairman's Mark includes a Comparative Effectiveness Reserve Fund. This deficit-neutral reserve fund would allow for legislation to establish a new federal or public-private initiative for comparative effectiveness research. The purpose of such research would be to evaluate technologies, devices, procedures, and pharmaceuticals for both effectiveness and value. This information could lead to savings over the long-term by allowing providers to avoid treatments that may be clinically ineffective and overly expensive, while at the same time improving health care outcomes.

Medicare Savings
The Chairman's Mark assumes $384.6 billion in mandatory budget authority and $384.7 billion in outlays for Medicare in 2008. As a down payment to reign in excessive growth in health care costs, the Chairman's Mark provides $15 billion in Medicare savings over five years by reducing certain overpayments to health care providers. The savings assumed in the Chairman's Mark will improve efficiency, quality, and value in the Medicare program, without harming seniors' access to care.

The Chairman's Mark rejects the President's proposal for additional arbitrary across-the-board provider payment cuts if general revenue financing exceeds 45 percent of Medicare costs in the future.

The primary consequence of most of the President's Medicare proposals would simply be to shift existing health care costs to seniors, health care providers, and the private health sector. Most of his proposals would do little to address the real problem of health care cost growth in the overall health care system.

Point of Order Against Long-Term Deficit Increases

The Chairman's Mark would create a point of order against legislation that increases the deficit over the long term – specifically in the four decades beyond the next ten years (2018-2027, 2028-2037, 2038-2047, and 2048-2057).

Under the Chairman's Mark, the long-term point of order will apply against any net deficit increases in excess of $5 billion (including changes in revenues and mandatory spending, but excluding debt service) in any of the four ten-year periods.

The provision sunsets at the end of fiscal year 2017, and effectively repeals the previous version of the point of order in Section 407 of H. Con. Res. 95, the fiscal year 2006 budget resolution conference report.

Budget Enforcement

While budget process cannot replace a bipartisan commitment to fiscal discipline, there are a number of budget enforcement provisions that can help to put us back on a sound fiscal path. The Chairman's Mark would adopt or reinstate the most important of these enforcement provisions.

Paygo

The Chairman's Mark would restore the strong paygo, or pay-as-you-go, rule in the Senate. The paygo rule requires that new mandatory spending and tax cuts be offset or get 60 votes. Reinstating a strong paygo rule represents a crucial first step in restoring fiscal discipline. Paygo works. It was instrumental in our turning deficits into surpluses in the 1990's.

Paygo doesn't prohibit new mandatory spending or new tax cuts. It simply says that they should be paid for so that the deficit isn't worsened. Paygo ensures that if something is not paid for, it can only pass if it has broad bipartisan support.

The Chairman's Mark would extend the paygo rule through 2017. The Chairman's Mark assumes that all existing balances on the Congressional pay-as-you-go ledger would be eliminated, and the scorecard reset to zero for all time periods.

The Chairman's Mark also clarifies language in the paygo rule which prohibits any net savings enacted in any reconciliation bill from being made available on the paygo ledger. In 1993, the Senate originally created the paygo rule as a provision in the FY1994 budget resolution (H. Con. Res. 64), specifically for the purpose of preventing the deficit reduction expected to be achieved in a subsequent reconciliation bill from being used to offset the costs of any new mandatory spending or revenue legislation. The Chairman's Mark restores this original intent, by clarifying that savings enacted in any reconciliation bill shall not be placed on the paygo ledger and used as offsets for another reconciliation bill (even if enacted pursuant to reconciliation instructions in the same budget resolution) or as offsets for any other legislation. All net savings enacted in reconciliation are to be dedicated solely to deficit reduction.

Reconciliation for Deficit Reduction Only

Reconciliation is a fast-track process that was intended to be used for deficit reduction. Unfortunately, in recent years the reconciliation process has been abused, as a fast-track means of enacting legislation that has dramatically worsened deficits and increased our debt.
In fact, since 2001, the Republican-controlled Congress has abused reconciliation by using the procedure to pass tax cuts that have increased the deficit by more than $1.7 trillion.

The Chairman's Mark creates a new 60-vote point of order against reconciliation measures that would cause or increase an on-budget deficit or decrease an on-budget surplus.

Discretionary Spending Caps

Currently, there are no discretionary spending limits for any fiscal year. The Chairman's Mark would strengthen fiscal responsibility by establishing discretionary spending limits for fiscal years 2007 and 2008, and enforce them with a point of order in the Senate that could only be waived with 60 votes. For 2007, it provides a cap of $951.140 billion in budget authority and $1,029.456 billion in outlays. For 2008, it provides a cap of $947.312 billion in budget authority and $1,025.157 billion in outlays.

As in past years, the Chairman's Mark permits adjustments to the discretionary spending limits in

2008 for program integrity initiatives, such as Social Security Administration continuing disability reviews (CDRs) and Supplemental Security Income redeterminations, enhanced Internal Revenue Service tax enforcement to address the tax gap, appropriations for Health Care Fraud and Abuse Control (HCFAC) program at the Department of Health and Human Services, and unemployment insurance improper payments reviews at the Department of Labor. In addition, it allows the discretionary limits to be revised for wildfire suppression in the Forest Service and the Department of the Interior. It also provides for adjustments in fiscal years 2008 and 2009 for expenses related to the global war on terror.

Point of Order Against Emergency Designations

Under the Chairman's Mark all emergency designations would be subject to an emergency designation point of order, which can only be waived with 60 votes.

Economics

Chairman's Mark Based on CBO's Economic Assumptions

The Chairman's Mark is built on CBO's assumptions about the future path of the U.S. economy. CBO predicts that the economy will weather the slowdown this year without falling into recession and grow along a healthy long-term trend thereafter. Inflation and interest rates remain relatively low in CBO's projection.

CBO's projection is somewhat more conservative than OMB's and the Blue Chip average of private-sector economists, as shown in the table at the end of this section. The most notable difference between CBO's and OMB's forecast is that the administration believes that nominal GDP in 2012 – when the President claims his budget reaches balance – will be $581 billion higher than does CBO. This difference boosts the administration's revenue projections in 2012.

OMB's projection of higher nominal GDP and a better fiscal balance in 2012 reflects its assumption that two measures of inflation, the GDP deflator and the CPI, will diverge somewhat more than in the past. OMB's assumptions boost nominal GDP, while holding down growth of programs indexed to the CPI. These assumptions increase OMB's projected 2012 revenues, without also boosting its projected spending outlook.

Growth Continues Despite Current Slowdown

U.S. economic growth slowed during 2006, with real GDP growth averaging a 2.2 percent annual rate over the last three quarters of the year. The collapse of residential construction over that period has subtracted about one percentage point from the growth rate. At the same time, goods production has slowed as firms have sought to trim inventories, which grew substantially last year.

Continuing strong gains in consumer spending have helped to offset weakness in housing and reduce the risk that the inventory adjustment might worsen. Unusually warm weather in December and January, coupled with lower energy prices, put money in consumers' pockets during the holiday sales season, supporting growth at a crucial juncture. The ongoing strength in spending, along with healthy growth abroad, suggests that the economy will weather the current slowdown without falling into outright recession.

Economic Expansion Remains Below Average

The U.S. economy is not performing as well as it should. Compared with earlier economic expansions, growth of real GDP, real business investment, and employment are all below average. This sub-par performance contradicts claims of supply-side advocates who have argued that the administration's repeated tax cuts would create exceptional economic growth through strong investment and hiring. Instead, these engines of economic growth have been relatively weak.

In the nine business cycles since World War II, real GDP at this point had typically surpassed its previous business-cycle peak by 20.8 percent, or 3.3 percent per year on average. The most recent data, though, shows 21 percent less growth in this cycle, with real GDP only 16.5 percent above its pre-recession level, for an annual growth rate of only 2.7 percent.

Real business investment lags far behind its usual business-cycle performance and actually fell in the most recent quarter. The recovery of capital spending has lagged the typical business-cycle by 68 percent. So far, real investment has grown only 7.4 percent from its pre-recession peak, compared to the 23.5 percent recovery that has been typical.

Similarly, job growth in the current recovery has failed to match employment gains in earlier cycles. The number of nonfarm payroll jobs did not return to its pre-recession level until February 2005, almost four years after the downturn began. In earlier recoveries, the job count typically returned to its previous peak after two years. The job count still stands 6.7 million jobs short of average, and this administration's net employment gain of 4.9 million jobs pales by comparison to the 18.1 million jobs created in the first 73 months of the Clinton administration.

Economy's Gains Not Widely Shared

Despite the administration's claims, its fiscal policies have done little to help most Americans. While the wealthiest have received large tax cuts, middle-class living standards have stagnated.

In fact, real median household income and real median family income – the most comprehensive measures of Americans' living standards – both show declines under the Bush administration. In 2005, the last year for which data are available, real median household income was $1,273 below its level in 2000, while real median family income was down $1,314. And both median household and median family income fell in real terms for four consecutive years after 2000 before recovering slightly in 2005.

Corporate profits have more than doubled since early 2001, up 112 percent. And high-income earners, whose pay is closely tied to profits through stock options, capital gains, and executive bonuses, have also benefitted.

Meanwhile, the inflation-adjusted value of Americans' hourly wages is actually somewhat lower than three years ago; and real labor compensation, which includes wages and benefits, has substantially lagged productivity growth.

Debt Growth Threatens Future Economic Growth

While the economy has been underperforming in recent years, the real threat to the economy comes from the projected long-term growth in federal debt. This federal borrowing will increasingly undermine economic growth by raising interest rates and crowding out private sector investment. In testimony before the Senate Budget Committee in January, Federal Reserve Chairman Ben Bernanke stated: *"Ultimately this expansion of debt would spark a fiscal crisis which could be addressed only by very sharp spending cuts or tax increases or both. ... [T]he effects on the U.S. economy would be severe. High rates of government borrowing would drain funds away from private capital formation, and thus slow the growth of real incomes and living standards over time."*

Our increasing reliance on foreigners to buy our debt and finance our deficits also poses a threat to the economy. We now owe Japan more than $600 billion, China more than $300 billion, the United Kingdom more than $200 billion, and "oil exporters" about $100 billion. It took 42 Presidents 224 years to run up a trillion dollars of external debt. This administration more than doubled that amount of external debt in five years.

In his testimony before the Senate Budget Committee in January, Government Accountability Office Comptroller General David Walker stated: *"When, not if – when – foreign investors decide as a matter of mere prudence and diversification that they're not going to expose themselves as much to U.S. debt, then interest rates will rise, and that will start a compounding effect. And so what's important is that we act so that they don't take that step..."*

Comparison of Economic Assumptions

Calendar Years

	2007	2008	2007-12 Average
Nominal GDP (Year-Over-Year, Percent Change)			
President's Budget	5.3	5.5	5.2
CBO	4.3	4.8	4.7
Blue Chip Survey	4.7	5.1	5.1
Real GDP (Year-Over-Year, Percent Change)			
President's Budget	2.7	3.0	3.0
CBO	2.3	3.0	2.8
Blue Chip Survey	2.5	3.0	3.0
GDP Deflator (Year-Over-Year, Percent Change)			
President's Budget	2.5	2.4	2.2
CBO	1.9	1.8	1.8
Blue Chip Survey	2.2	2.1	2.1
Consumer Prices (Year-Over-Year, Percent Change, CPIU)			
President's Budget	2.1	2.6	2.4
CBO	1.9	2.3	2.2
Blue Chip Survey	2.0	2.4	2.3
Unemployment Rate (Annual Average, Percent)			
President's Budget	4.6	4.8	4.8
CBO	4.7	4.9	4.9
Blue Chip Survey	4.7	4.8	4.8
3-Month Treasury Bill Rate (Annual Average, Percent)			
President's Budget	4.7	4.6	4.4
CBO	4.8	4.5	4.5
Blue Chip Survey	5.0	4.9	4.6
10-Year Treasury Bond Rate (Annual Average, Percent)			
President's Budget	5.0	5.1	5.2
CBO	4.8	5.0	5.1
Blue Chip Survey	4.8	5.0	5.2

Other Reserve Funds

The Chairman's Mark includes a number of other reserve funds not mentioned above. They allow the Chairman to revise committee allocations, budgetary aggregates, and other levels in the resolution for deficit-neutral legislation to address the following priorities:

Wounded Service Members
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that provides for improved medical or disability benefits for wounded or disabled military personnel, including improvements to the physical disability evaluation system of the Department of Defense. This reserve fund will provide for increased flexibility in finding offsets to pay for these benefit and process improvements.

Medicare Improvements

Prescription Drug Price Negotiation
The Chairman's Mark includes a deficit-neutral reserve fund for prescription drug price negotiation under Medicare Part D. Specifically, the reserve fund allows for legislation that repeals the non-interference clause in Section 1860D-11(i)(1) of the Social Security Act, while preserving access to prescription drugs and price competition and without requiring a particular formulary or instituting a price structure for reimbursement of covered Part D drugs. The reserve fund requires that all savings from the measure must be used either to improve the Part D benefit or to reduce the deficit.

Other Medicare Part D Improvements
As many as four million Medicare beneficiaries remain eligible for the low-income subsidy in Medicare's prescription drug program, but they have not signed up for the drug benefit. It is understood that some beneficiaries who signed up for the benefit did not apply for or know about the low-income subsidy, even though they would qualify for it. In addition, a Kaiser Family Foundation study shows that approximately one million widows and widowers meet the income test to qualify for the low-income subsidy, but have assets that exceed the limit. In half of these cases, the assets exceed the limit by less than $35,000.

The Chairman's Mark includes a $5 billion reserve fund to make improvements to the Medicare Part D benefit, such as changing asset requirements for the low-income subsidy, improving outreach efforts for the low-income subsidy, or providing coverage for certain mental health medicines currently excluded under the Medicare Modernization Act. The reserve fund allows the Chairman of the Budget Committee to change the allocations, aggregates, and other levels in the resolution by up to $5 billion, provided the spending in such legislation is fully offset.

Medicare Part B Physician Reimbursement
The Chairman's Mark includes a reserve fund to increase the reimbursement rate for physician services under Medicare Part B. Under current law, without further Congressional action, physician payments under Medicare Part B will be cut by ten percent in 2008, and by up to five percent in subsequent years. The President's budget does not propose to prevent this cut. If no adjustments are made, over time, more and more physicians will stop providing services to Medicare patients, reducing seniors' access to care. The reserve fund allows the Chairman of the Budget Committee to change the allocations, aggregates, and other levels in the resolution for legislation that increases the

reimbursement rate for physician services, provided the spending in the legislation is offset.

Small Business Health Insurance
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that makes health insurance coverage more affordable and available to small businesses and their employees.

County Payments
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that provides for the reauthorization of the county payments provided by the Secure Rural Schools and Community Self-Determination Act of 2000. The expiration of the law would have a significant impact on rural communities where assistance is often most needed. This reserve fund will provide increased flexibility in finding offsets to pay for the reauthorization.

Terrorism Risk Insurance
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that would provide for a continued federal role in ensuring the availability of terrorism insurance after the expiration of the Terrorism Risk Insurance Extension Act. The expiration of the law could have a significant impact on policyholders' ability to obtain insurance coverage for acts of terrorism.

Affordable Housing
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that would establish an affordable housing fund to finance low-income housing investments, financed by contributions from the government-sponsored enterprises.

Bonneville Power Administration
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that will prohibit the Bonneville Power Administration from making early payments on its Federal bond debt to the United States Treasury. The proposal in the President's budget could potentially have a detrimental impact on electricity rates in the Northwest.

Indian Trust Fund Settlement
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that will provide a statutory settlement for the Cobell v. Kempthorne litigation involving Indian trust funds management.

FDA Tobacco Regulation
The Chairman's Mark includes a deficit-neutral reserve fund for legislation that authorizes the Food and Drug administration (FDA) to regulate tobacco products and assess user fees on tobacco manufacturers and importers to cover the cost of FDA's tobacco regulatory activities.