BUDGET BULLETIN
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COMMITTEE ON THE BUDGET Republican Staff
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INFORMED BUDGETEER

NEVER ENDING BUDGET CYCLES

- Sometimes it only seems as if the appropriations process never ends, while other times that is literally the case. The recent enactment of the supplemental appropriations bill for the war and Hurricane Katrina (PL 109-234) marked the unofficial end of the FY 2006 appropriations process, barring any further disasters in the coming months.

- In addition to providing more than $94 billion in war fighting and hurricane recovery spending (see table below for detail), the supplemental also carried deeming provisions to kick off the FY 2007 appropriations process in the Senate.

2006 Iraq-Hurricane Relief Supplemental Appropriations (H.R. 4939)
(budget authority in billions of $)

By Title & Purpose in Senate Bill	Req.	House	Senate	Conf.
I. Global War on Terror	**70.470**	**72.096**	**70.939**	**70.426**
Military Personnel	9.592	9.932	10.204	10.280
Operations & Maintenance	39.987	38.208	40.445	39.140
Procurement	14.602	17.680	15.454	14.910
R & D	0.736	1.002	0.712	0.710
State Dept. & Other	5.553	53274	6.024	5.386
Unsp. Red. in Def./Border Security	-	-	-1.900	-
II. Further Hurricane Relief	**19.762**	**19.105**	**28.857**	**19.336**
FEMA Disaster Relief fund	9.400	9.398	10.400	6.000
CDBG	4.200	4.185	5.200	5.200
Corps of Engineers – Levee[a]	1.460	1.460	1.460	-
Corps of Engineers – Levee[b]	2.234	-	2.473	3.679
Levee Offset –Disaster Relief Fund[c]	-2.234	-	-	-
NOAA Fisheries	0.021	-	1.135	0.118
Loans to Affected Universities	-	-	0.230	-
School Grants for Displaced K-12	-	-	0.650	0.235
Highway Aid	-	-	0.594	-
Public Transit	-	-	0.200	-
Railroad Relocation	-	-	0.700	-
Armed Forces Retirement Home	-	-	0.176	0.176
Other Hurricane Relief	4.681	4.062	5.639	3.928
III. Emergency Agriculture Dis. Relief	**-**	**-**	**3.944**	**0.409**
III. LIHEAP (Title III In House Bill)[d]	**-**	**0.747**	**-**	**-**
IV. Drought Emergency Assistance	**-**	**-**	**0.013**	**-**
V. Port Security	**-**	**-**	**0.648**	**-**
VI. Pandemic Flu[e]	**2.300**	**-**	**2.589**	**2.300**
VII. Border Security[f]	**1.939**	**-**	**1.900**	**1.900**
VIII. Legislative Branch	**0.041**	**-**	**0.028**	**0.028**
IX. Technical Corrections	**-**	**-**	**-0.020**	**-**
Other	**0.009**	**-**	**-**	**0.031**
TOTAL	**94.521**	**91.948**	**108.898**	**94.430**

a. In its initial supplemental request of February 16, 2006, the Administration requested $1.5 billion for the Corps of Engineers (designated as an emergency) for levee repairs.
b. On April 25, 2006, the Administration submitted an additional supplemental request for $2.2 billion more for the Corps. The Senate-passed bill provided the combined $3.7 billion requested by the President as well as $0.3 billion more for activities not requested by the Administration in California, Hawaii, Louisiana, Pennsylvania, and Texas.
c. In the Administration's revised request, the additional $2.2 billion for levee repairs was fully offset by reductions in the Disaster Relief Fund. The Senate-passed bill did not inlcude the offset.
d. Title III of the House bill, which provided funding for the Low-Income Home Energy Assistance Program, is not the same as Title III of the Senate bill.
e. The President did not include pandemic flu funding in his supplemental request for 2006, though his 2007 budget request included $2.3 billion in 2007 for this purpose. The Administration indicated that it now supports providing $2.3 billion for this purpose in the 2006 supplemental.
f. The Administration did not include border security funding in its original 2006 supplemental request of February 16, 2006. The Senate added $1.9 billion in border security funding, primarily for infrastructure projects, and offset the funds by reducing Department of Defense spending. Following Senate action, on May 18, 2006, the Administration revised its supplemental request to include $1.9 billion for border security funding, but requested the money for salaries and expenses rather than infrastructure. The administration offset the funds by reducing specific Department of Defense spending relative to the original request.

- While the Senate and the House have both debated and passed a FY 2007 Budget Resolution, the absence of a conference agreement and doubtful prospects for one necessitated legislative action in the Senate in order for the appropriations process to proceed. With no conference report on the budget resolution for FY 2007, there was no 302(a) allocation to the Appropriations Committee (unlike other committees that continue to work with five-year allocations provided under the FY 2006 budget resolution). Without a FY 2007 allocation, the Appropriations Committee could not issue subcommittee 302(b) allocations to its various subcommittees and have the benefit of 302(f) points of order to manage consideration of the bills on the Senate floor.

- The supplemental deemed a 302(a) allocation of $873 billion in budget authority to the Appropriations Committee, the same level as in the Senate-reported budget resolution, and equal to the level deemed in the House.

- In addition to the 302(a) for regular spending, the supplemental gave life to a new emergency procedure that was included in the Senate-passed budget resolution. That section capped FY 2007 emergency spending at $86.3 billion.

- The FY 2006 Budget Resolution raised the waiver requirement for a section 303 point of order to a 3/5 vote in the Senate to consider legislation with a budgetary impact prior to the adoption of an annual budget resolution. The assumption was a budget resolution could be adopted by June, which was not the case this year. Thus, without addressing section 303, appropriations bills enabled by the "deeming resolution" would still be subject to a Budget Act point of order. The Budget Committee Chairman and the Appropriations Conferees agreed to reduce Section 303 to a simple majority point of order until January 3, 2007.

- With its FY 2007 allocation in place, the Appropriations Committee released its subcommittee 302(b) allocations last week, including the widely reported $9 billion shift from the Defense subcommittee (relative to the President's request) and the $2.4 billion shift from the State and Foreign Operations subcommittee to other appropriations subcommittees that support domestic programs, including homeland security.

- As was the case last year, the House and Senate Appropriations Committees do not share identical jurisdictions. It is impossible to compare the subcommittees with different jurisdictions with only 302(b) allocations. A future *Bulletin* will compare the House and Senate bills after they are all reported. For now, a comparison of the FY 2006 levels and the FY 2007 302(b)s for Senate Appropriations subcommittees will have to suffice.

2006 levels and Senate 2007 302(b) allocations
(budget authority in billions of $)

Subcommittee	**2006 current status ***	**2007 302(b)**	**% change**
Agriculture	17.0	18.2	6.9%
Commerce, Justice, Science	48.3	51.0	5.6%
Defense	393.8	414.5	5.3%
DC	0.6	0.6	-1.0%
Energy & Water	30.5	30.7	0.8%
Homeland Security	30.8	31.7	2.9%
Interior	26.2	26.0	-0.6%
Labor/HHS/Education	142.5	142.8	0.2%
Legislative Branch	3.8	4.0	4.6%
Military Construction and VA	44.1	52.9	19.8%
State, Foreign Operations	30.5	31.3	2.9%
Transportation, Treasury, Judiciary HUD	65.2	69.0	5.8%
Subtotal non-emergency	**833.3**	**872.8**	**4.7%**
Emergencies	154.9	86.3	-44.3%
Grand total	**988.2**	**959.1**	**-3.0%**

* Reflects 2006 enacted level, as originally scored by CBO.

EATING MORE ICE CREAM CAUSES CRIME RATES TO RISE

- Ice cream sales rise by a high percentage in June; crime rates increase greatly in July. Therefore, higher ice cream consumption causes the crime rate to rise.

- Why should budgeteers be interested in this (obviously) logical fallacy? It is an example of "post hoc, ergo propter hoc," which translated from Latin means, "after this, therefore because of this." This line of reasoning is the basis for many superstitious beliefs and magical thinking.

- Some opponents of real budget process reform contend that we don't need new mechanisms to push Congress to act to reduce the deficit, we don't need commissions to help craft solutions to get entitlement growth to a sustainable level, and we don't need to give the President more power to shine the light on wasteful and inefficient spending. All we have to do is reinstitute old-style "Paygo."

- What magical cure-all process are they referring to? The statutory Paygo rules, which were in effect from 1991 through 2002, provided that legislation increasing mandatory spending or decreasing revenues for a fiscal year would be offset by an across-the-board sequester of mandatory spending. The Office of Management and Budget maintained a scorecard, and mandatory spending subject to sequester was supposed to be cut if direct spending increases or tax reductions were enacted and were not offset.

- From 1994 through 2000, there was also a super-majority Paygo point of order in the Senate which made it out of order to consider direct spending or revenue legislation that increased the unified deficit. From 2000 through 2002, the point of order was modified to make it out of order to consider direct spending or revenue legislation that increased the on-budget deficit.

- The table below shows that while old-style Paygo was in effect, the deficit declined an average of 2.8 percentage points per year over that period -- therefore, it must be true that statutory Paygo was responsible for the reduction in the deficit.

- Consider this: revenues rose more than 7 percent per year in the decade prior to statutory Paygo. While Paygo was in effect, revenues rose 5 percent per year. Therefore, Paygo surpressed revenue growth. Or this: defense discretionary spending rose 8 percent per year in the decade prior to Paygo. While Paygo was in effect, defense discretionary spending rose 1 percent per year. Therefore, Paygo substantially slowed the growth in defense spending.

- Perhaps the deficit turned to surplus during the 1990s for other reasons – we should at least consider the possibility that the peace dividend, the stock market bubble, and discretionary spending limits had something to do with it.

- The truth is, despite statements like "Paygo proved to be effective in reducing the deficit," no one can show any evidence that there was a cause and effect relationship.

- In fact, we do know how many pieces of legislation were enacted between 1991 and 2002 that increased the deficit or reduced the surplus, the effects of which were either legislatively exempted from Paygo or wiped clean from the statutory Paygo scorecard.

- All told, $96.4 billion worth of deficit-increasing legislation was exempted from counting for Paygo. The direct spending and revenue effects of TEA-21, the Consolidated Appropriations Act of 2000 (which contained Medicare givebacks), the Agricultural Risk Protection Act and the Job Creation and Worker Assistance Act were never posted to the scorecard and therefore never contributed to the threat of a sequester.

- In addition to that amount, a total of $724.7 billion of deficit increases were erased from the scorecard at various times (including the outlay and revenue effects of EGTRRA, the 2002 farm bill, new mandatory health care for Department of Defense retirees over 65, and new spending for Medicare, Medicaid and SCHIP contained in the 2001 Consolidated Appropriations Act), negating the need for a sequester.

- The old-style Paygo point or order was raised in the Senate only 6 times – it was waived for legislation twice and sustained to prevent the consideration of amendments four times.

- In the twelve years that statutory Paygo was in effect, there was never a sequester, despite the fact that Congress acted to increase the deficit by $821 billion.

- Moreover, informed budgeteers should not forget Paygo is still around. The Budget Resolution for FY 2004 set out the version of the Paygo point of order that is currently in place. The current Paygo point of order, like statutory Paygo, does not act to reduce the deficit; instead , it works to enforce the deficit levels assumed in the Budget Resolution.

- The *Bulletin* will continue to examine the evidence to look for the cause and effect relationship between Paygo and deficit reduction. But for now, it is clear that when statutory Paygo was in effect, unoffset new direct spending was enacted and unoffset new tax relief was enacted – Paygo did not reduce the deficit – it did not even prevent the deficit from getting worse.

The Statutory Paygo Experience

	1980	1990 (Paygo in effect)	2002 (Paygo in effect)	Average annual compound growth 1980 to 1990 (before Paygo)	Average annual compound growth 1990 to 2002 (with Paygo)
	($ billions)				
Revenues	517.1	1032.1	1853.4	7.2%	5.0%
Outlays	590.9	1253.1	2011.2	7.8%	4.0%
Mandatory	291.2	626.9	1196.9	8.0%	5.5%
Social Security	117.1	246.5	452.1	7.7%	5.2%
Medicare	34.0	107.0	253.7	12.1%	7.5%
Medicaid	14.0	41.1	147.5	11.4%	11.2%
Discretionary	276.3	500.6	734.3	6.1%	3.2%
Defense	134.6	300.1	348.9	8.3%	1.3%
Nondefense	141.7	200.5	385.4	3.5%	5.6%
Deficit	-73.8	-221.0	-157.8	11.6%	-2.8%