

## PETERSON-PEW COMMISSION ON BUDGET REFORM

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### Content of the Budget Resolution - Introduction

This memo reviews the classes of information included in the budget resolution. It then examines potential changes to the contents in an attempt to focus deliberations and debate on core budgetary and fiscal questions. A more detailed discussion of fiscal information is included in a separate paper.

The Congressional Budget Act of 1974 (CBA) identifies both required and optional information to be included in the budget resolution and the accompanying report.

Some of this Commission's recommendations would be modified if the budget resolution were to be converted into a joint resolution.

The major recommendations are summarized below:

- Include Social Security and the U.S. Postal Service in the budget totals
- Permit inclusion of budget enforcement provisions in reconciliation
- Shift committee allocations from report to resolution
- Eliminate functional categories
- Add totals for direct spending
- Add set-aside for natural disasters

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## Content of the Budget: The Congressional Budget Act of 1974

The CBA governs what provisions must or may be included in the concurrent budget resolution and accompanying report. Figure 1, below, summarizes the CBA’s requirements:

**Fig. 1: CBA required and optional provisions included in the budget resolution**

REQUIRED	OPTIONAL
<p><b><u>BUDGET RESOLUTION</u></b></p> <p>Totals of new budget authority and outlays</p> <p>Total revenues and amount of proposed change</p> <p>Surplus or deficit in the budget</p> <p>Budget authority and outlays distributed across 20 functional categories</p> <p>The public debt</p> <p>Social Security outlays and revenues for purposes of Senate point of order</p> <p><b><u>ACCOMPANYING REPORT</u></b></p> <p>Comparison of the budgetary totals for the president’s budget request and the congressional budget resolution</p> <p>Economic assumptions</p> <p>The information that underlies how the budget committee determined matters in the resolution</p> <p>Estimated levels for tax expenditures (for both the resolution and the president’s request)</p> <p>302(a) allocations (see section below, <i>302 Allocations</i>)</p>	<p><b><u>BUDGET RESOLUTION</u></b></p> <p>Reconciliation instructions – directives to authorizing committees to report legislation making changes in direct spending in order to achieve a specified amount of savings (or spending increases)</p> <p>Amount the federal debt would change</p> <p>“Elastic clause” – other matters and procedures relating to the budget appropriate to carry out the CBA</p> <p>Balances of the federal retirement trust funds</p> <p>Senate procedures for considering deficit-neutral bills (reserve funds)</p> <p>House PAYGO procedures</p> <p>“Delayed enrollment” – requirement that all or some bills providing new budget authority or entitlements will not be enrolled until Congress completes action on reconciliation</p> <p>Direct loan obligation and primary loan guarantee commitment levels (made obsolete by the Credit Reform Act of 1990)</p> <p>Employment targets (Humphrey-Hawkins)</p> <p><b><u>ACCOMPANYING REPORT</u></b></p> <p>Any significant changes in proposed federal assistance to state and local governments</p> <p>Allocation of federal revenues recommended in the resolution among the major sources of such revenues</p> <p>Information on the share of total federal outlays and GDP devoted to investment (for both the resolution and the president’s request)</p> <p>Levels of budget authority and outlays for public buildings, divided by construction/repair and rental</p> <p>Other matters pertaining to the budget and fiscal policy (catch-all)</p>

## Content of the Budget: Current practice and proposed changes

### Budget aggregates

**Current law** The budget resolution sets targets for overall spending – both budget authority and outlays – and revenue, the deficit or surplus, and public debt.<sup>1</sup> These amounts provide basic information on the fiscal policy of Congress, the budgetary draw on public resources, its impact on the economy, and its borrowing requirements. The totals for spending and revenue are binding on the Congress when it considers tax and spending legislation. These levels are enforced through points of order that may be raised when tax and spending measures are considered on the House and Senate floors. By law, the totals do not include the Social Security trust fund’s receipts and outlays, or those of the Postal Service. Under House rules, the public debt levels may also trigger the engrossment of a bill increasing the statutory limit on the debt to limits consistent with those assumed in the budget resolution.<sup>2</sup> Through this procedure the House is able to pass a bill changing the debt limit without a separate vote on the measure.

**Recommendation Include Social Security and the U.S. Postal Service in the budgetary totals.** The exclusion of these “off-budget” federal entities distorts the fiscal picture of the federal budget. It also sends the signal that Social Security and the Postal Service should be exempt from the basic trade-offs inherent in any budget process. Bringing them both back “on-budget” must be part of any comprehensive effort to improve the long-term fiscal posture of the United States.

### Reconciliation and statutory budget controls

**Current law** The budget resolution may also include special directions, called reconciliation instructions, to authorizing committees to report legislation to make changes in direct spending programs designed to achieve a specified amount of savings (or spending increase). Similarly, it can include directions to the tax-writing committees to make the changes in tax law necessary to meet revenue targets. These reconciliation measures have been critical in enacting major changes in tax and entitlement law because reconciliation bills can pass with a simple majority in the Senate.

Congress has occasionally incorporated budget enforcement mechanisms within reconciliation bills, as was the case with the Budget Enforcement Act of 1990 (P.L. 101-508) and the Balanced Budget Act of 1997 (P.L. 105-33). Such legislation has taken the form of statutory pay-as-you-go (PAYGO) requirements and discretionary spending caps.

<sup>1</sup> Allen Schick, *The Federal Budget: Politics, Policy, and Process* (Washington, DC: Brookings Institution Press, 2007), 123.

<sup>2</sup> House Rule XXVII, commonly referred to as the “Gephardt Rule,” causes a joint resolution specifying the amount of the debt limit contained in the budget resolution to automatically be engrossed and deemed to have passed the House by the same vote as the conference report on the budget resolution, thereby avoiding a separate vote on the debt-limit legislation.

These controls were enforced through automatic spending cuts in a process known as sequestration.

However, budget enforcement provisions are not protected from filibuster in the Senate, and can be stricken from the bill through a point of order supported by a simple majority.

***Recommendation – Permit inclusion of budget enforcement provisions in reconciliation.*** As noted above, under current law budget enforcement provisions can be removed from reconciliation legislation through a member raising a point of order, supported by a majority vote. In practice, this means that when budget rule provisions – such as statutory discretionary spending caps or pay-as-you-go – are included in reconciliation legislation, they are not protected from filibuster as entitlement and tax provisions would be.

### **Section 302 Allocations**

***Current law*** An important element of the budget resolution is the allocations that provide that are provided to the appropriations and authorizing committees with jurisdiction over direct spending programs. These allocations are actually included in the report accompanying the budget resolution rather than in the text of the budget resolution. Congress is bound by these allocations when it considers tax and spending bills – although it frequently waives this requirement. The allocations are binding on Congress when it considers spending and tax bills.

There are significant differences between the allocations for appropriations committees and each of the authorizing committees that has jurisdiction over entitlements:

*Discretionary spending.* The budget resolution provides a single, lump-sum allocation to the appropriations committees in the House and Senate. The appropriations committees subdivide this amount across 12 appropriations subcommittees in what are called 302(b) allocations. The 302(b) allocations serve as a limit on the amount that can be appropriated by each subcommittee when it reports its annual appropriations bill for the upcoming fiscal year.<sup>3</sup> The individual appropriations bills may not exceed the 302(b) allocations, which are enforced through points of order that may be raised immediately prior to the consideration of the bill or amendment.

*Mandatory spending.* Few realize that allocations are also provided for the authorizing committees with jurisdiction over entitlements and other direct spending programs. Since spending for such programs is provided under

<sup>3</sup> This 302(b) limit, however, does not include so-called “advanced appropriations,” or budget authority first available in a fiscal year beyond the fiscal year for which the appropriations act is enacted – in essence, budget authority provided for in a previous fiscal year. Government Accountability Office, “A Glossary of Terms Used in the Federal Budget Process.” Recent budget resolutions have both capped and imposed limits on the use of advance appropriations.

authorizing statutes, the operative element of the allocations is the assumed change from the baseline. If, for instance, the budget resolution were to accommodate an expansion in the Supplemental Security Income program at a cost of \$1 billion in the first year and \$5 billion over five years, the 302(a) allocations to the Ways and Means and Finance committees would reflect this amount. Since the authorizing committees, like the Appropriations Committees, are bound by their respective allocation, a bill or amendment that would increase net direct spending would be subject to a point of order.

It should be noted that the 302(a) allocations to the authorizing committees have taken on less importance under House and Senate PAYGO rules. To the extent that bills must be deficit-neutral to meet PAYGO requirements, it is no longer considered necessary to accommodate assumed entitlement legislation in the appropriate committee's allocation.

***Recommendation – The allocation should be shifted from the report to the text of the budget resolution.*** The allocation of spending authority is one of the basic functions of budgeting, and yet the mechanisms through which Congress effects this – the 302 allocations – are contained within the statement of managers accompanying the budget resolution. The statement of managers is intended to provide an explanatory summary of the legislation it accompanies, not to set forth policy for the government's budget blueprint.

As the statement of managers is not legislation, members have no ability to offer amendments to it. This impedes Congress' ability to make budgetary decisions with the 302(a) allocation – Congress has no ability to debate and amend the decision on how to prioritize funding between discretionary and mandatory spending.

### **Functional categories**

***Current law*** Both the president's budget request and the congressional budget resolution classify federal budgetary activities into functional and subfunctional categories that represent the major tasks and purposes of the federal government.<sup>4</sup> All government budgetary actions are classified according to their function without regard to the agency responsible for it. These functional categories include national defense, agriculture, health, and others. The intent of this distribution was to provide some sense of congressional priorities across the major functions of the federal government. These categories can also be used to make comparisons between the budget resolution and the president's budget submission. The functional categories are on the next page.

<sup>4</sup> *Functional Categories of the Federal Budget*, Bill Heniff Jr., Government Accountability Office, 2008.

National Defense (050)  
International Affairs (150)  
General Science, Space, and Technology (250)  
Energy (270)  
Natural resources and environment (300)  
Agriculture (350)  
Commerce and housing credit (370)  
Transportation (400)  
Community and regional development (450)  
Education, training, employment, and social services (500)  
Health (550)  
Medicare (570)  
Income security (600)  
Social Security (650)  
Veterans benefits and services (700)  
Administration of justice (750)  
General government (800)  
Net interest (900)  
Allowances (920)  
Undistributed offsetting receipts (950)

***Recommendation – Eliminate functional categories.***<sup>5</sup> The distribution of spending across the categories is illustrative. The budget resolution’s role is limited to determining the total level of discretionary appropriations and the amounts by which the authorizing committees can increase or reduce entitlements and other mandatory programs from current law levels. It is the appropriations committees that determine how to divide the overall discretionary 302 allocation among the 12 subcommittees and within each subcommittee across the individual programs, projects, and activities in the 12 appropriation bills. The functional distribution in the budget resolution implies that the budget resolution has a role in allocating discretionary resources across categories that it does not have.

Further, the functional categories in the budget resolution do not correspond to the categories for which resources are provided in appropriations and authorization bills that actually make budgetary resources available. For instance, appropriations are generally provided at the program, project, or account levels – appropriations are not provided for entire functional categories. As a consequence, it is not possible to compare the amount that the budget assumed would be devoted to a specific program or area with what is ultimately provided in the actual appropriations bill. A single functional category can encompass the spending authority vested in multiple committees that in turn administer multiple agencies through multiple appropriation bills. Another distortion is that the functional categories include both discretionary spending established by appropriations committees and mandatory spending controlled by the authorization committees – two entirely different funding processes within the government. If the budget functions are eliminated, the congressional budget process would be rationalized and streamlined.

<sup>5</sup> The recommendation to eliminate the functional categories is provisional, however. If the Commission adopts some sort of programmatic sequester relating to Social Security, Medicare, or similar, the corresponding budget functions could prove useful in tracking the outlays and receipts of those accounts.

Lastly, the amounts used in the functional totals are misleading because they reflect an amalgamation of discretionary spending, controlled by the appropriations committees, and mandatory spending, controlled by the authorizing committees. Adding to the confusion, the totals for the authorizing committees reflect resources both already in law and those proposed in the budget. This is misleading because what is relevant for the authorizing committees are the changes assumed in the program rather than the totals.

**Fig. 2: Functional Category Income Security (600) Committee Crosswalk**

SUBFUNCTION	MANDATORY/ DISCRETIONARY	COMMITTEE
General retirement and disability insurance (excluding Social Security)	Mandatory	Ways and Means
Federal employee retirement and disability	Mandatory	Oversight and Government Reform
Unemployment compensation	Discretionary	Ways and Means
Housing assistance	Discretionary	Appropriations - Transportation/ HUD
Food and nutrition assistance	Mandatory and Discretionary	Agriculture Appropriations – Agriculture
Other income security	Mandatory and Discretionary	Various

### **Mandatory spending**

**Current law** The CBA does not require the budget resolution to clearly identify and measure the total amount of mandatory spending. Mandatory spending currently constitutes the majority of all government spending, is projected to grow faster than discretionary spending in the future, and its growth is expected to be the prime driver of future deficits.

**Recommendation** **The budget resolution should include totals for direct spending.** Absent this most basic of metrics, it is more difficult for members to make meaningful budgetary decisions relating to long-term growth in government spending, or to make trade-offs between discretionary and mandatory spending programs.

### **Emergency spending**

**Current law** Under current law, Congress does not budget for natural disasters. In the event that some natural disaster requires federal funds, Congress designates this spending “emergency” and thereby exempts the emergency funding from any budgetary limits. This allows policymakers to understate budgetary totals.

**Recommendation** Congress should include a “set-aside” in the budget to provide funding for natural disasters. Despite the fact that natural disasters are inevitable and that such occurrences can be accounted for more fully than is the present case, Congress does not budget for natural disasters. Including the response to natural disasters in the budget gives policymakers a more transparent and realistic view of the total spending of the U.S. government.

## Content of the Budget: Proposed changes and budget principles

The Commission has developed principles that guide its recommendations. The following table relates the recommendations with respect to the goals.

Fig. 3 Recommended changes to content and budget principles

COMMISSION GOAL	RECOMMENDATION
<p><b>Simplification/transparency</b> - Aggregates should include Social Security and the Postal Service in order to accurately reflect the budget’s impact on overall priorities</p>	<p><b>Include Social Security/Postal Service in the budget aggregates</b></p>
<p><b>Simplification/transparency</b> - Eliminating the functional categories simplifies the structure of the budget resolution</p>	<p><b>Eliminate functional categories</b></p>
<p><b>Priority setting &amp; enforcement</b> - Focus attention on the key distributional decisions made in the budget resolution; and permit members to offer amendments that will actually impact affect enforceable limits</p>	<p><b>Include the 302 allocations in the resolution rather than in the report</b></p>
<p><b>Priority-setting</b> - Permit trade-offs to be made between mandatory and discretionary spending, and mandatory spending and revenue levels.</p>	<p><b>Add a total for direct spending</b></p>
<p><b>Simplification/transparency</b> – These are costs that the government will incur, and as such, they should be incorporated into the budget for a more transparent view of government spending</p>	<p><b>Create set-aside for natural disasters</b></p>



Figure 4 illustrates what a current budget resolution contains, while Figure demonstrates how a budget resolution might appear if the above recommendations were adopted.

Fig 4: Current format of budget resolution, tabulated

		2010	2011	2012	2013	2014
<b>BUDGET AGGREGATES</b>						
<b>Total Spending</b>	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
Revenues		_____	_____	_____	_____	_____
Change in Revenue		_____	_____	_____	_____	_____
Deficit/Surplus		_____	_____	_____	_____	_____
Debt subject to limits		_____	_____	_____	_____	_____
		_____	_____	_____	_____	_____
<b>BUDGET FUNCTIONS</b>						
050: National Defense	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
150: International Affairs	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
250: Science, Space and Technology	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
270: Energy	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
300: Natural Resources	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
350: Agriculture	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
370: Commerce and Housing Commerce	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
400: Transportation	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
450: Community and Regional Development	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
500: Education, Training, Employment and Social Services	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
550: Health	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
570: Medicare	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
600: Income Security	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
650: Social Security	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
700: Veterans Benefits and Services	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
800: General Government	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
900: Net Interest	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
920: Allowances	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
950: Undistributed Offsetting Receipts	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____

**Fig 5: Recommended format of budget resolution, tabulated**

		2010	2011	2012	2013	2014
<b>Budget Aggregates</b>						
<b>Total Spending</b>	BA OT	_____	_____	_____	_____	_____
		_____	_____	_____	_____	_____
Revenues		_____	_____	_____	_____	_____
Change in Revenue		_____	_____	_____	_____	_____
Interest		_____	_____	_____	_____	_____
Deficit/Surplus		_____	_____	_____	_____	_____
Debt subject to limit		_____	_____	_____	_____	_____
		_____	_____	_____	_____	_____
<b>By Category</b>						
Total Direct Spending <sup>6</sup>	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
<i>Committee Allocations</i>	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
Total Discretionary Spending <sup>7</sup>	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____
<i>Emergencies</i>	BA	_____	_____	_____	_____	_____
	OT	_____	_____	_____	_____	_____

<sup>6</sup> In the event that the Commission recommends some sort of programmatic sequester or trigger, programs such as Social Security, Medicare, and Medicaid could be broken out individually.

<sup>7</sup> In previous global agreements on budget reforms, Congress has separated defense and non-defense discretionary spending, and subjected each category to different budgetary enforcement rules.