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DEFICITS AND BASELINES: THE PRESIDENT'S BUDGET AND THE REPUBLICAN BUDGET

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Since last December, when the President's Fiscal Commission proposed roughly $4 trillion in deficit reduction, the figure has become a kind of de facto standard for measuring subsequent budgets; and in the past several months, House Republicans and the President have introduced fiscal plans that claim to meet or exceed that target. To assess whether the proposals are truly comparable, it is necessary to establish a common and impartial yardstick – a "baseline" – against which to measure them. But baselines include numerous variables that can significantly alter the results of the analyses for which they are used.

With that in mind, the discussion below aims to provide a true "apples-to-apples" comparison of the House-passed budget and the President's. It first describes several baselines currently in use, along with the various difficulties they present. It then establishes a "current policy" baseline, rooted in a realistic assessment of the existing budgetary setting and how it would unfold in the future. The discussion then evaluates the House-passed and administration budgets relative to this current policy projection.

Key Points

- A "baseline" is a projection of future spending, revenues, deficits, and debt. Claims of deficit reduction are measured against the underlying baseline chosen.

- Budget savings are only comparable if measured against the same baseline. The Congressional Budget Office [CBO] uses a "current law" baseline, which assumes a $3.5-trillion tax increase across all tax brackets, and trillions of dollars in spending increases – including $1.04 trillion in war spending that no one has requested.

- Relative to the current law baseline, the House Republican budget reduces the deficit by $1.6 trillion, while the President's budget– as reestimated by CBO – *increases* the deficit by $2.7 trillion.

- A "current policy" baseline – one that does not assume these spending and tax increases – is a better benchmark to determine the impact of budget proposals.

- Compared to a current policy baseline, the House Republican budget reduces the deficit by $4.8 trillion, and the President's budget reduces the deficit by $453 billion.

The 'Current-Law' Baseline

A baseline is a presumably neutral benchmark for comparing the budgetary impact of legislative proposals. Essentially, the baseline is an estimate of future spending, revenue, deficits, and debt resulting from policy choices expected to occur under projected economic conditions. The Congressional Budget Office [CBO] presents a baseline each January reflecting its projections for the current year and the next 10 years, and then updates these figures twice during the year, usually in March – when it estimates the President’s budget[1] – and in August. CBO also “scores” legislation – that is, estimates its projected budgetary effects – relative to its March baseline. The Office of Management and Budget [OMB] also constructs its own current law baseline, built on administration policy assumptions and economic projections, on which its budget submission to Congress is based.

Although different baselines can vary, for policy assumptions and economic and technical estimates, both the CBO and OMB projections start from guidelines codified in the Budget Enforcement Act [BEA].[2] In general, these BEA baseline figures reflect spending, revenue, deficit, and debt projections based on *current law*. The current law baseline assumes that annually appropriated discretionary spending, including war spending, grows with inflation from its most recently appropriated level. With respect to mandatory/entitlement spending, the baseline generally assumes these programs will continue even if their underlying authorizing laws are scheduled to expire during the 10-year budget window.[3] Revenue, on the other hand, is treated differently: the current-law baseline assumes that scheduled changes in tax laws – such as the expiration of tax rates and other provisions enacted in 2001 and 2003 – will occur, even though this outcome is highly unlikely.

Constructed this way, the BEA current law baseline can generate misleading projections – and this problem is especially pronounced today. For example, current policies, widely accepted, call for a reduction in spending over the next several years for operations in Iraq and Afghanistan; but because the baseline assumes the current level of war spending will continue and grow with inflation, it overstates future discretionary spending by sizeable amounts; and it is more than $1 trillion above the war spending request in the President’s fiscal year 2012 budget.

The discrepancy is even greater with taxes. Under current law – and due to a procedure imposed by the Senate[4] – the marginal tax rates enacted in 2001 and 2003 are scheduled to expire after 2012, as are relief from the alternative minimum tax [AMT] and the current estate tax compromise.[5] The expirations would cause tax rates to revert to their higher, pre-2001 levels, creating a $3.525-trillion tax increase over 10 years. Further, extending any of these existing tax policies beyond their scheduled expiration is treated as a new tax “cut” relative to the BEA baseline. Hardly anyone expects all these tax increases to occur; but, as noted, the BEA baseline assumes they will. Thus this tax baseline creates two significant sources of confusion: it vastly

[1] Congressional Budget Office: An Analysis of the President’s Budgetary Proposals for Fiscal Year 2012, April 2011: http://www.cbo.gov/ftpdocs/121xx/doc12130/04-15-AnalysisPresidentsBudget.pdf

[2] Although this provision of the BEA expired in 2002, it remains the most recent guidance from Congress, and CBO continues to use it.

[3] Specifically, legislation enacted prior to the Balanced Budget Act of 1997, with a cost of at least $50 million per year, is extended in the baseline. For legislation enacted subsequent to the Balanced Budget Act, CBO is to consult with the Budget Committees in making the determination.

[4] The 2001 and 2003 tax rates were originally passed in the House – where the Constitution requires all revenue bills to start – as permanent law (see House Report 107-7 on H.R. 3, the Economic Growth and Tax Relief Act of 2001). The expiration date resulted from the so-called Byrd Rule, which is applied in the Senate when budget reconciliation is employed, as it was with these tax provisions.

[5] The 2001 and 2003 tax provisions were scheduled to expire at the end of 2010, but in December of that year Congress and the President agreed to extend them through 2012.

overstates projected tax revenue, and it fosters the odd rhetorical twist in which simply keeping tax policies the same as they have been for the past 10 years is characterized as a new tax "cut."

Table 1 displays OMB and CBO current law baseline deficits, and then shows how deficits under the President's budget (as re-estimated by CBO) and the House-passed budget resolution compare to it. Note how much the baseline deficits can differ – nearly $1.3 trillion – just from differences in economic and technical assumptions. Note also the significant difference in deficits between the President's and the House budgets when both are measured against the same BEA baseline.

Table 1: Deficits Under BEA Baselines, the House-Passed Budget, and the President's Budget
(by fiscal year, in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
OMB February 2011 BEA Baseline	1,036	643	463	496	552	460	417	438	472	488	5,465
CBO March 2011 BEA Baseline	1,081	692	513	538	635	590	585	665	710	729	6,737
Baseline Difference due to Economic/Technical Assumptions	45	49	51	42	83	130	167	227	238	241	1,272
House-Passed Budget	995	698	489	431	478	407	378	415	405	391	5,088
Change from CBO Baseline	-86	6	-24	-107	-157	-183	-206	-250	-304	-338	-1,649
Pres. Budget (CBO Reestimate)	1,164	901	764	748	841	870	902	1,021	1,101	1,158	9,470
Change from CBO Baseline	83	209	251	210	206	279	318	356	391	429	2,733

Sources: Congressional Budget Office, Office of Management and Budget.
Figures may not add due to rounding.

'Adjusted' Baselines

Due to the problems with the BEA baseline, CBO, OMB, and others have created various "adjusted" baselines for estimating likely budgetary outcomes. One example is CBO's "alternative fiscal scenario" in the agency's long-range budget projections. This set of estimates, presented in addition to CBO's "extended baseline," incorporates major spending and tax policy choices widely expected to occur.[6]

The administration's modifications to the BEA baseline included in its fiscal year 2012 budget submission incorporate certain spending and tax provisions that OMB chooses to assume as a starting point for its budget presentation. Table S-7 in the President's budget shows the revisions OMB made from the BEA criteria, and Table S-2 claims deficit reduction of $2.2 trillion relative to this "adjusted baseline."[7]

The administration's most recent adjusted baseline differs from previous versions in at least two significant ways. For its fiscal year 2010 and 2011 budgets, the OMB baseline assumed full

[6] See the Congressional Budget Office: *The Long-Term Budget Outlook*, June 2010 (revised August 2010: http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf. CBO is expected to update the report later this year.

[7] All these summary tables can be found in the Office of Management and Budget's *Fiscal Year 2012 Budget of the U.S. Government*, and at: http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/tables.pdf.

extension of all the 2001 and 2003 tax policies. It also assumed extension of current payment rates for physicians under Medicare, providing them relief from the payment reductions scheduled under the sustainable growth rate [SGR] formula – the so-called "doc fix." In this year's submission, the budget for fiscal year 2012, the administration came up with a new adjusted baseline that raises the marginal tax rate on incomes above $250,000 (for joint filers). This is the same policy the President advocated last year, when the 2001/2003 rates were scheduled to expire at the end of 2010, before agreeing with congressional Republicans to retain *all* existing tax rates through 2012. In this way, the administration has built the President's proposed tax increase into the administration's underlying budget assumptions within its baseline, rather than presenting it as an explicit policy choice. The new OMB baseline also removed the extension of the doc fix.

On 13 April 2011, the President unveiled a new budget "framework" – presumably a revision of the administration's official February budget submission. It claims $4 trillion in deficit reduction over 12 years (rather than the more customary 10-year budget window). The administration has not provided the specific proposals that constitute this new framework, what baseline it employs, or any details on how it would change his 2012 budget request. In the absence of such fundamental information, CBO is unable to develop estimates of this new "framework."

Despite the substantial lack of detail in the President's budget "framework," the Committee for a Responsible Federal Budget [CRFB] has attempted an analysis of the proposal, using "adjusted" baseline concepts similar to those of the administration. Like the administration, the CRFB assumes in its baseline an increased tax rate for incomes at or above $250,000 after 2012. Thus the CRFB accepts the President's tax policy as a given. The CRFB also assumes the President's war spending policy in its adjusted baseline. Unlike the President, however, the CRFB assumes annual doc fixes in its baseline.[8]

The 'Current Policy' Baseline

As the preceding discussion shows, the criteria of the BEA baseline can draw a significantly misleading picture of projected budgetary trends. On the other hand, various "adjusted" baselines require judgments about major policy expectations, and these judgments influence – often in important ways – the conclusions drawn about any set of budgetary proposals.

To provide a true apples-to-apples comparison of the President's original budget submission and the House Republican budget, it is necessary to establish a single, consistent baseline against which to measure both. That baseline should be policy-neutral; that is, it should incorporate a realistic and impartial assessment of what are genuinely existing, and expected, policies. This analysis employs a "current policy" baseline that seeks to meet these aims.

The current policy baseline, which makes no changes in CBO's economic assumptions, is derived as follows (see Table 2 below for a crosswalk from the CBO baseline to current policy):

- *Outlays.* The construction begins with the March 2011 CBO baseline, which assumes that current levels of war spending will continue, and will rise with inflation, throughout the

[8] Committee for a Responsible Federal Budget: *Analyzing the President's New Budget Framework*, 21 April 2011: http://crfb.org/sites/default/files/Analyzing_the_Presidents_New_Budget_Framework.pdf.

budget window. The *current policy* baseline then assumes the President's budget request, consistent with a broad consensus in Congress, calling for $630 billion in war spending over the next 10 years – a reduction of $1.043 trillion from the BEA baseline. It also incorporates the outlay effects ($160 billion) related to extension of the 2001 and 2003 tax rates, as well as the debt service effect ($544 billion) resulting from the differences between the BEA and current policy deficits.

Table 2: Crosswalk From CBO Baseline to Current Policy Baseline
(10-year totals, in billions of dollars)

	2012-21
CBO March 2011 Baseline Outlays[a]	**45,770**
Assume President's War Request of $630 Billion Over 10 Years[b]	-1,043
Outlay Effect of Current Policy Tax Assumptions (see below)[c]	160
Debt Service Effect from Current Policy Outlay and Revenue Assumptions	544
Total Current Policy Outlays	**45,431**
CBO March 2011 Baseline Revenue	**39,032**
Revenue Effect of Extending 2001/2003 Tax Policies, AMT Patch, and Estate Tax Compromise	-3,525
Total Current Policy Revenue	**35,507**
CBO March 2011 Baseline Deficit[d]	**-6,737**
Revenue Effect of Extending 2001/2003 Tax Policies, Patch AMT, Include Estate Tax Compromise[e]	-3,525
Outlay Effect of Current Policy Tax Assumptions	-160
Adopt President's War Policy	1,043
Debt Service Effect of Current Policy Outlay and Revenue Assumptions	-544
Total Current Policy Deficit	**-9,923**
Memorandum: Debt Level in 2021 (billions of dollars)	
CBO March 2011 Debt Held by the Public	**18,008**
New Debt Resulting from Current Policy	3,186
Total Current Policy Debt Held by the Public	**21,194**

Source: House Budget Committee, based on Congressional Budget Office figures. Figures may not add due to rounding.

[a] The Congressional Budget Office [CBO] current law baseline includes an assumption of current war spending levels carried forward and increased with inflation, totaling $1,673 billion over 10 years. Increases in outlays relative to the CBO baseline are shown as positive numbers, and decreases as negative numbers.
[b] The current policy baseline developed for this discussion assumes war spending requested by the President in his fiscal year 2012 budget ($630 billion over 10 years), yielding $1,043 billion in savings over 10 years relative to CBO's current law baseline, and thereby reducing debt service payments by $222 billion over 10 years.
[c] The 2001 and 2003 tax laws included certain refundable tax credits. The refundable portions of these tax provisions are recorded as outlays.
[d] Deficits and deficit increases appear as negative numbers; deficit reductions appear as positive numbers.
[e] The Congressional Budget Office presentation titled "Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline" (Table 1-7, page 22 of CBO's *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*) shows a $3.82-trillion deficit effect over 10 years from extending these tax policies. The figure includes the outlay effect of extending these provisions, resulting from the refundable portion of certain tax credits, and $134 billion from the extension of stimulus tax provisions, which are not included in this current policy baseline.

- *Revenue*. Whereas the BEA baseline includes a multi-trillion-dollar tax increase, the current policy baseline takes the neutral stance of extending, through the budget window, the 2001 and 2003 tax rates that are in place today; the AMT "patch" that Congress has repeatedly adopted; and the current estate tax compromise. These are the rates taxpayers currently experience, and they will have been in place for a dozen years by the time their newly scheduled expiration comes due; so any increase from these rates should be reflected as a *change* in policy – not incorporated in the baseline from which policy choices are to be measured. For these reasons, a change in these tax provisions is a fundamental *policy change*, and should be reflected as such. These policies are different, too, from certain tax provisions in the stimulus legislation, which was expressly intended to be temporary.

- *Deficits*. From the BEA deficits, the current policy baseline adjusts for the differences in tax assumptions, the President's war policy, and the debt service resulting from the change in deficits due to these policies. The 10-year deficit under this baseline is $9.9 trillion, compared to $6.7 trillion under the current law baseline. It should be remembered that this change is the result of extending a set of realistic and neutral fiscal assumptions, not from policy choices.

- *Debt Held by the Public*. The projected current policy debt level in 2021 is $21,194 trillion, compared with $18.008 trillion in the BEA baseline.

The Current Policy Baseline, the House-Passed Budget, and the President's Budget

With this current policy baseline, it is possible to measure both the House-passed budget and the President's against a common yardstick – one reflecting the budgetary outcomes from genuine changes in policy.

Table 3 below compares deficits under the House budget and CBO's re-estimate of the President's budget request relative to the current policy baseline. Table 4 compares the 10-year outlays, revenues, deficits, and debt under the President's and the House budget to both current law and current policy baselines.

Table 3: Comparison of Deficit Reduction Relative to the Current Policy Baseline
(by fiscal year, in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
Current Policy Baseline	1,083	859	756	819	947	940	974	1,097	1,189	1,260	9,923
House-Passed Budget	995	698	489	431	478	407	378	415	405	391	5,088
Change from Current Policy	-87	-161	-267	-388	-468	-533	-596	-682	-784	-869	-4,835
Pres. Budget (CBO Reestimate)	1,164	901	764	748	841	870	902	1,021	1,101	1,158	9,470
Change from Current Policy	81	42	8	-71	-106	-70	-72	-76	-88	-102	-453

Source: House Budget Committee Majority staff, based on Congressional Budget Office figures.
Figures may not add due to rounding.

Relative to a current policy baseline, the House-passed budget reduces spending by $5.5 trillion, revenues by $637 billion, and deficits by $4.8 trillion over the next 10 years. Debt held by the public under the House budget would be $5.1 trillion lower in fiscal year 2021. In contrast, the President's budget, measured against this same current policy baseline, would increase outlays by $741 billion, raise taxes by $1.2 trillion, and reduce deficits by only $453 billion over the next 10 years. Debt held by the public would be only $389 billion lower in fiscal year 2021 under the President's budget, compared to current policy.

Table 4: Comparison of Budget Proposals, Fiscal Years 2012-21
(10-year changes unless noted otherwise)

	House-Passed Budget vs. CBO Baseline	President's Budget vs. CBO Baseline	House-Passed Budget vs. Current Policy	President's Budget vs. Current Policy[a]	House-Passed Budget vs. President's Budget[a]
Outlays	-5,812	402	-5,473	741	-6,214
Revenue	-4,162	-2,331	-637	1,194	-1,831
Deficit	-1,649	2,733	-4,835	-453	-4,382
Debt Held by the Public in 2021	-1,941	2,797	-5,127	-389	-4,738

[a] Comparison uses the President's budget as reestimated by the Congressional Budget Office.
Source: House Budget Committee Majority staff, based on Congressional Budget Office figures.
Figures may not add due to rounding.

This document was prepared by the majority staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.