BUDGET MONITOR

HOUSE COMMITTEE ON THE BUDGET
Majority Caucus

309 Cannon House Office Building
www.budget.house.gov (202) 226-7270

Vol.1, No. 7 2 November 2001

CBO'S SLOW-GROWTH REPORT

ITS MEANING AND IMPLICATIONS

Introduction

On 31 October, the Congressional Budget Office [CBO] sent notification to the Congress that the economy is either in recession or is growing by only a negligible amount. Under current law, this report can trigger a set of procedures culminating in a vote on legislation suspending enforcement of the concurrent budget resolution (H.Con.Res. 83) or the appropriations caps and so-called pay-as-you-go [PAYGO] rule for tax and entitlement legislation.

CBO's Notification and What It Means

Under the Deficit Control Act of 1985, CBO is required to notify Congress if the economy is in recession or is growing by less than 1 percent in two consecutive quarters. Its determination is based on the Department of Commerce's estimates of the change in "real" gross domestic product [GDP] in the 2d and 3d quarters of 2001. GDP is defined as the monetary output of all goods and services produced by labor and property in the United States. This measure of growth is further adjusted for inflation (making it "real," as opposed to "nominal," GDP). The estimates for the 3d quarter are preliminary and may be revised later in November.

According to the Commerce Department's report, the economy grew at 0.3 percent for the 2d quarter (March- June) and -0.4 percent for the 3d quarter (July-September). These levels are significantly lower than was assumed in the budget resolution adopted in May, but higher than some analysts had expected given the year's economic slowdown, exacerbated by the terrorist attacks of 11 September. Though the figures were low enough to trigger the CBO report, they did not indicate a technical "recession," which is defined as 2 consecutive quarters of *negative* growth.

Procedures for Suspending Budget Requirements

Upon receiving CBO's notification, both the Majority Leader and the Minority Leader have the *option* of introducing a joint resolution suspending the enforcement of the budget resolution. (A joint resolution is one that calls for signature or veto by the President.) In the Senate, the Majority Leader is *required* to introduce such a resolution. In both Chambers, the resolution is initially referred to the Budget Committees, which must report the resolution or be discharged from consideration within 5 legislative days. In the Senate, the resolution may not be amended indefinitely or filibustered. If such a resolution were enacted now, enforcement of the spending caps and PAYGO requirements would be suspended through all of next year.

Effects of Suspending the Budget

If enacted, such a joint resolution would suspend points of order used to enforce the congressional budget resolution, and automatic spending cuts ("sequesters") that enforce the appropriations caps and restrictions on tax and entitlement legislation. With respect to the budget resolution, Members of Congress would no longer be able to raise points of order on the House or Senate floor to prevent the consideration of legislation that does any of he following:

- Takes effect before the budget resolution is adopted.
- Increases discretionary appropriations or direct spending (spending not subject to annual appropriations) above the levels permitted by the budget resolution.
- Exceeds the total spending and revenue levels established in the budget resolution.

(continued on reverse side)

The President could not issue any order to sequester discretionary spending due to a breach in the caps, or selected entitlement spending due to a reduction in the surplus resulting from recently enacted entitlement or tax legislation. In other words, there would be no limit on appropriations bills or tax or entitlement legislation.

Alternatives to Suspending Enforcement Procedures

Under current law, there are several other ways to permit the consideration and enactment of legislation that breaches budget limitations during an economic downturn.

Congress and the President can designate a spending provision as an emergency, which automatically triggers an increase in the budget resolution, the accompanying allocations, and the statutory caps. This was done as part of the recent terrorist-related aviation and supplemental appropriations bills.

Congress and the President also can amend the budget resolution and the appropriations caps to accommodate some unanticipated contingency. In light of the current circumstances, the House Budget Committee recently reported a bill (H.R. 3084) that revised the budget resolution and increased the appropriations caps to accommodate additional defense spending.

When many factors are in flux – as with today's inevitable uncertainties about both the economy and the war against terrorism – it may be preferable to maintain as much stability in the budget as possible. This could be accomplished by keeping the current budget disciplines generally in place, and making exceptions only case-by-case.