

KEY ISSUES IN THE BUDGET RESOLUTION CONFERENCE

As the House and Senate seek agreement on a fiscal year 2005 budget resolution conference report, the decisions that are reached in the following areas could have critical implications for 2005 and beyond.

Budget Discipline Must Apply to Tax Cuts As Well As Entitlement Increases

Under the Senate budget, new tax cuts or entitlement expansions must be offset by other tax increases or spending cuts. This balanced approach to fiscal discipline, followed during the 1990s, played a large role in the shift from deficits to surpluses during that decade. The House budget includes no such “paygo” rule. The House Budget Committee has approved a separate bill that would impose “paygo” requirements on entitlements only — new tax cuts would not have to be paid for — which the full House is expected to consider before Memorial Day.

Failure to include the Senate “paygo” provision in the conference report would pave the way for large new deficit-expanding tax cuts. The House budget plan instructs the Ways and Means Committee to approve \$138 billion in tax cuts over five years, which is the cost of extending virtually all of the 2001 and 2003 tax cuts. Over the next ten years, extending the tax cuts would cost roughly \$1.1 trillion. If not paid for, that would substantially worsen deficits at the same time the baby-boomers’ retirement is placing new strains on the federal budget.

Harmful Cuts Should Not Be Required in Basic Low-Income Programs

The House budget *requires* the Energy and Commerce Committee to cut entitlement spending by about \$2 billion over five years. The committee would likely secure these savings primarily by cutting Medicaid, the largest available program under its control. The House budget also requires the Agriculture Committee to cut entitlement spending by about \$370 million over five years. Much or all of this cut could come from reductions in the Food Stamp Program.

In addition, the House budget requires the Ways and Means Committee to reduce deficits by \$8 billion over five years, much of which could come from cuts in low-income entitlement programs. (The Government Reform Committee would have to cut entitlement spending by about \$2 billion; this could come from federal employee retiree or health benefits.)

The Senate budget also contains entitlement cuts: \$11 billion from Medicaid and \$3 billion from the Earned Income Tax Credit. Under the Senate budget, however, these cuts — unlike those in the House budget — are not binding because they do not have a “reconciliation directive” attached to them. Thus, the cuts in the Senate budget are much less likely to take place. A bipartisan majority in the Senate rejected the proposal to make these cuts binding.

Mandating large Medicaid cuts would virtually guarantee an increase in the number of low-income families without health coverage. Over the past two years, states have eliminated Medicaid eligibility for up to 1.6 million people for budgetary reasons. National Governors Association heads Dirk Kempthorne (R-Idaho) and Mark Warner (D-Virginia) have warned that a reduction in federal Medicaid funding would “force states to implement even deeper cuts,” which in turn “could add millions more to the ranks of the uninsured.”

Similarly, *mandating large EITC cuts would significantly harm low-income workers.* For example, one cost-saving option suggested by the Senate Budget Committee is to eliminate the credit for 3.7 million very poor workers without children. This is the only group of taxpayers who must begin paying income taxes while still living in poverty. Without the EITC, they would begin paying income taxes at an income of around \$8,000 — nearly \$2,000 below the poverty line. Such a change would literally tax these workers deeper into poverty.

House’s Five-Year Spending Caps for Discretionary Programs Should Be Avoided

Both the House and Senate budget plans would cut more than \$100 billion from domestic discretionary programs outside homeland security over the next five years, cutting everything from environmental protection to education, veterans’ health, transportation, and housing.

The House Budget Committee has passed legislation that would essentially lock in cuts of this size by imposing caps on discretionary spending for each of the next five years. The Senate wrote discretionary caps — although for two years, not five — into its budget resolution. The House approach of establishing five-year caps is unwise:

- The cuts in domestic discretionary programs reflected in both the House and Senate resolutions — which the caps could lock in — are too severe. Under both the House and Senate budgets, by 2009, domestic discretionary programs outside homeland security would be at least \$36 billion below their 2004 level, adjusted for inflation. Nearly every area of domestic discretionary spending would be hit.
- Unlike when discretionary spending caps were set in the 1990s, the new caps are not part of a balanced deficit-reduction package that spreads the pain across all areas of the budget. To the contrary, the House and Senate budgets would enlarge deficits, not shrink them, because of their substantial tax cuts.
- The caps cover total discretionary spending, including defense and anti-terrorism spending. As a result, domestic programs would have to be cut even deeper if actual defense and anti-terrorism spending in coming years is higher than the budget plans now assume. This may well occur: a major CBO analysis indicates that the defense and anti-terrorism spending levels in the House and Senate budget plans *significantly underfund* the likely costs of the Administration’s multi-year defense plan.

The House’s five-year spending caps thus constitute unsound policy. *If multi-year caps are adopted, the Senate approach of imposing caps for two years is superior.*