CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

Revised April 17, 2003

OVERVIEW OF FINAL BUDGET RESOLUTION AGREEMENT

Large Tax Cuts In Budget Would Worsen Long-Term Fiscal Outlook

By Joel Friedman

Summary

The House and Senate approved on April 11 a final budget resolution that calls for $1.3 trillion in tax cuts through 2013. Of this total, up to $550 billion can be included in a fast-track "reconciliation" bill, which will be protected from filibuster in the Senate.

The ultimate size of the reconciliation tax-cut package remains in doubt; Senate Finance Committee Chairman Charles Grassley announced that he has agreed to limit to $350 billion the tax cuts he will bring back from the conference that will be held on the reconciliation bill. Senator Grassley's pledge does not affect the *total* amount of the tax cuts allowed under the budget resolution, which will remain at $1.3 trillion regardless of whether the level of tax cuts in the reconciliation bill is $350 billion or $550 billion.

Increase in Deficit Reflected in Final Congressional Budget Resolution
(in trillions of dollars, relative to CBO baseline)

	2003-2013
Tax cuts	$1.3
Program changes:	
Medicare prescription drugs	0.4
Defense appropriations	0.2
All other	*
Subtotal, program changes	0.6
Debt service costs	0.5
Total increase in deficit	**2.4**

*Reflects various offsetting changes that net to savings of less than $100 billion.

In total, the budget resolution adds $2.4 trillion to deficits and the national debt between 2003 and 2013. This reflects the impact of the tax cuts, as well as of spending increases for defense and a prescription drug benefit and the increase in interest payments that will result from the higher debt. Under the budget resolution, which includes the $75 billion the President requested to fund the initial costs of the war in Iraq, the deficit is estimated to be $347 billion in fiscal year 2003 and $385 billion in fiscal year 2004.

On paper, the resolution shows a return to a balanced budget in 2012. Most budget analysts, however, do not regard this claim as credible. The budget achieves balance in 2012 by relying on highly unrealistic assumptions. For example, the budget resolution includes none of the costs needed to address the looming problems associated with the Alternative Minimum Tax after 2005; as a result, the resolution assumes that the number of taxpayers subject to the AMT

will balloon to 40 million by 2012 from about 3 million today, something that neither the Administration nor Congress will allow to happen. The budget also fails to include the funds that will be needed to extend an array of expiring tax credits that come up for renewal every few years and always are extended; these costs are widely regarded as inevitable. In addition, the budget includes cuts in domestic discretionary (i.e., non-entitlement) programs later in the decade that are deeper than those recommended by the President, which themselves were probably not realistic. It is unlikely that cuts in domestic discretionary programs of the magnitude assumed in the budget resolution will be achieved.

- **Reconciliation tax cuts —** The budget resolution provides "reconciliation" status for $550 billion of the resolution's $1.3 trillion in tax cuts through 2013. An unusual provision in the resolution limits the reconciliation tax cut to $350 billion when the Senate *first* considers the measure. This lower limit, however, does not apply to the conference agreement on the reconciliation bill, which will resolve the differences between the House and Senate versions of this legislation and could contain up to the full $550 billion in tax cuts without requiring 60 votes on the Senate floor.

  Senator Grassley announced on the Senate floor on April 11, however, that he had entered into an agreement with Senators Olympia Snowe and George Voinovich to limit the tax cuts in the reconciliation conference agreement to $350 billion. According to Senator Grassley's statement, the agreement to limit the reconciliation tax cut was needed to secure the support of Senators Olympia Snowe and George Voinovich for the budget resolution so that it would pass in the Senate. He stated that the agreement had the support of Senate Republican leaders. The White House and House Republican leaders, on the other hand, have vehemently criticized the agreement and said they would not abide by it. (For more information, see the Center analysis by Richard Kogan, Robert Greenstein, and Joel Friedman, "How Will Tax Cuts Be Handled Under the 2004 Budget Resolution?" April 15, 2003.)

- **Tax cuts outside reconciliation —** Some of the resolution's $1.3 trillion in tax cuts will be considered under the reconciliation rules, as just noted. No matter how large the tax cuts ultimately enacted through a reconciliation bill — whether they amount to $550 billion or $350 billion — the budget resolution still allows for a *total* of $1.3 trillion in tax cuts. The tax cuts not included in the reconciliation bill would need to go through the normal legislative process, which means they could be subject to filibuster in the Senate and thus could require support from 60 Senators to pass.

- **Entitlement spending —** The final budget resolution includes none of the cuts in entitlement programs that would have been required under the House-passed budget. The resolution does require numerous authorizing committees in the House and Senate to identify changes in law needed to produce specified amounts of savings in programs in their jurisdictions (ostensibly by eliminating "waste, fraud, and abuse"), and to submit their findings to the Budget Committees in

September. (The authorizing committees will not have to pass these legislative proposals; they are required only to submit these proposals to the Budget Committees. The Conference Committee report accompanying the budget resolution states that the Budget Committees are to use these proposals in fashioning future budget resolutions.)

The final budget resolution also includes funds to accommodate changes in various entitlement programs, including $400 billion for a Medicare prescription drug benefit.

- **Discretionary appropriations —** The budget resolution provides discretionary funding for discretionary (or non-entitlement) programs in fiscal year 2004 at levels essentially identical to those requested by the President. The budget resolution follows the President's request for appropriated programs through 2008. It proposes lower levels than the President requested in both defense and domestic funding in years after 2008.

  For domestic discretionary programs, the levels set in the resolution for fiscal year 2004 are $7.2 billion below the "baseline" (that is, below the 2003 level, adjusted for inflation). Over ten years, the amount the budget provides for domestic discretionary programs represents a reduction of $168 billion below the baseline, and $36.3 billion below the President's request. The resolution also includes enforcement provisions that establish *caps* on funding for discretionary programs at the levels set in the new budget, through fiscal year 2005.

- **"Pay-as-you-go" rule —** The resolution includes a version of the Senate "pay-as-you-go rule" but the version included in the conference agreement is very weak and is a marked departure from the version adopted on the Senate floor. Past pay-as-you-go rules have generally required that all tax cuts or entitlement increases be "paid for" through offsetting tax increases or entitlement cuts. The new version of the rule, however, applies only to tax cuts and entitlement increases that are *on top of* those reflected in the budget resolution. In other words, all tax cuts and entitlement increases reflected in the new budget are exempt from the pay-as-you-go rule.

  Stated another way, only after the $1.7 trillion of tax cuts and entitlement increases included in the budget resolution are enacted will the pay-as-you-go rule go into effect. The budget resolution that the Senate had passed would have applied the pay-as-you-go requirement to all tax cuts and entitlement expansions, except for the $350 billion of measures the Senate budget would have allowed through a reconciliation bill.

Tax Cuts

The final 2004 budget resolution includes tax cuts totaling $1.3 trillion through 2013. This is much closer to the $1.4 trillion in the House-passed resolution than to the approximately

$850 million in the Senate resolution. (The President's budget included tax cuts of $1.6 trillion.) As noted, a portion of the resolution's tax cuts will be considered under "reconciliation" rules that protect a reconciliation bill from filibuster in the Senate. The remainder of the $1.3 trillion in tax cuts can be considered under the normal legislative process. The budget resolution does not specify which tax cuts must be considered as part of reconciliation and which under the normal rules. Those decisions are left up to the tax-writing committees and ultimately to the full Congress.

Proposed Size of Tax Cuts, 2003-2013
(in billions of dollars)

	Under budget resolution	Under Grassley agreement
Total tax cuts	$1,276	$1,276
Under reconciliation	550	350
Outside reconciliation	726	926

As noted above, the resolution of the dispute over whether the reconciliation bill will cost $350 billion or $550 billion will not affect the overall level of tax cuts the budget allows. If the reconciliation tax-cut package is limited to a cost of $350 billion, the remainder of the nearly $1.3 trillion total tax cut permitted under the budget resolution — or $926 billion — could be considered under normal legislative rules.

Most likely, these additional tax cuts will be considered as a number of separate measures. These bills can be filibustered in the Senate, with 60 votes being needed to end such filibusters and proceed with consideration of the measures. However, some of these tax cuts — such as making the 10 percent bracket and the child tax credit permanent — may prove difficult for large numbers of Senators to oppose; it may be difficult to find sufficient numbers of senators to mount and sustain filibusters to block consideration of such tax-cut proposals. Some additional tax cuts, beyond those in the reconciliation bill, appear likely to pass.

Discretionary Spending

The budget resolution sets the total for funding for discretionary programs in 2004 at $784.5 billion, essentially equal to the President's request. The resolution also matches the President's request for discretionary programs through 2008, but then provides lower levels than the President between 2009 and 2013.

Discretionary Funding Levels in Final Budget Resolution
(in billions of dollars, relative to CBO baseline*)

Discretionary Budget Authority	**2004**	**2004-2013**
Defense	-$2.0	+$208.0
International	+2.8	+51.0
Domestic	-7.2	-167.7
Total	**-6.4**	**+91.3**

* The CBO baseline reflects 2003 levels adjusted for inflation.

Over ten years, the overall level that the budget resolution provides for discretionary programs is $91 billion above the "baseline" — that is, above the 2003 level adjusted for inflation. This figure, however, hides sharply different treatment of defense, international, and domestic discretionary programs. Both defense and international programs are slated for significant increases over the decade, while domestic programs would be reduced sharply. (See table at bottom of page 4.)

In 2004, the budget resolution funds domestic programs at $7.2 billion below the 2003 levels, adjusted for inflation. Over ten years, domestic discretionary programs would be reduced $168 billion below current levels, adjusted for inflation. The reduction in such programs would equal two percent in 2004, rising to 7.3 percent by 2013. Since some areas of domestic discretionary spending are virtually certain to increase — such as spending for homeland security — other areas would need to be reduced by larger percentages.

The budget resolution establishes caps in fiscal years 2003, 2004, and 2005, both on appropriations for discretionary programs and on actual expenditures by such programs. These caps are set at the levels for discretionary programs that are contained in the budget resolution. (There are separate caps for highways and mass transit.) The new caps will be enforced in the Senate by a point of order that requires 60 votes to overturn. A point of order can be raised against any appropriations bill that exceeds these caps. A point of order also be raised against the 2005 budget resolution if it contains levels for discretionary programs that exceed the caps.

Entitlement Spending

The conference agreement on the budget drops all of the entitlement cuts included in the House-passed budget resolution. In place of these cuts, the resolution calls on authorizing committees to identify "waste, fraud, and abuse" in entitlement programs in their jurisdictions. Under the resolution, the chairmen of the Budget Committees are to publish specific dollar targets for spending reductions for each of the covered authorizing committees by May 16. The authorizing committees are then required to provide the Budget Committees by September 2 with materials identifying legislative proposals that would achieve these savings. The resolution also directs the General Accounting Office to prepare a study that identifies program changes that can "improve the economy, efficiency, and effectiveness of Federal programs." This GAO report must be submitted to the Budget Committees by August 1. The conference report accompanying the budget resolution states that "[t]hese findings will be used by the Budget Committees in the development of future budget resolutions."

The budget resolution also includes six "reserve funds" to accommodate specified changes in selected entitlement programs. A "reserve fund" provides money for a designated purpose; the money is made available only if used for that purpose.

The largest reserve fund in the budget resolution is for Medicare prescription drug benefits and includes $400 billion over ten years. The budget resolution also provides $50 billion over ten years to increase health insurance coverage for the uninsured; these funds may be used either for public program expansions or for health-insurance-related tax cuts.

The resolution includes several smaller reserve funds for other purposes. These include $7.3 billion over ten years to allow families not otherwise poor enough to qualify for Medicaid to "buy into" Medicaid for their disabled children, and $975 million between 2003 and 2013 to extend the availability of funds for the State Children's Health Insurance Program (SCHIP) that either recently expired and reverted to the Treasury or that are scheduled to expire on September 30 of this year.

The budget resolution also provides funding, but does not establish reserve funds, for the following: $3.9 billion to extend for five years and improve the Transitional Medical Assistance program, which provides health coverage for families moving from welfare to work; $1.1 billion to extend for five years the "QI-1 program," which helps certain low-income Medicare beneficiaries pay their Medicare premiums; $3.5 billion to reauthorize TANF-related activities; $1.9 billion for increasing the Child Care Development Block Grant above a "freeze" level; and $700 million for the Administration's proposal to block grant child welfare programs, including foster care and adoption assistance.

"Pay-As-You-Go" Rules

Finally, the budget resolution includes a weak version of the "pay-as-you-go" rule. The budget conference dropped the tougher version of this rule that was offered by Senators Russell Feingold and Lincoln Chafee and added to the Senate budget on the Senate floor.[1]

The Feingold-Chafee amendment would have applied the pay-as-you-go requirements — under which all tax cuts and entitlement expansions must be offset by corresponding tax increases or entitlement cuts, unless 60 Senators vote to override the rule — to all tax cuts and entitlement increases except for the $350 billion that would have been given reconciliation status under the Senate-passed budget. Under the new budget resolution, the pay-as-you-go rules apply *only after all of the tax cuts and entitlement increases assumed in the budget resolution have been enacted*. Thus, only after tax cuts and entitlement expansions totaling $1.7 trillion through 2013 have become law — essentially the agenda of the White House and the Congressional majority — will the pay-as-you-go rule take effect.

[1] See Richard Kogan, "Will the Senate's "Pay-As-You-Go Rule" Make Budget Plans Less Costly?" Center on Budget and Policy Priorities, April 7, 2003.