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

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ASSESSING THE CONFERENCE AGREEMENT ON THE BUDGET RESOLUTION

by James Horney

Summary

House and Senate Republican conferees have reached agreement on a Congressional budget resolution for fiscal year 2006. The conference agreement calls for significant cuts in domestic programs — both entitlement and annually appropriated (so-called discretionary) programs — over the next five years. But because the conference agreement also calls for substantial new tax cuts and increases in funding for defense and international programs, the budget resolution would *increase* deficits over the next five years by $168 billion, compared with the deficits the Congressional Budget Office estimates would occur if there were no changes in policies.

The conference agreement includes:

- **Tax cuts, featuring more cuts in taxes for high-income individuals.** The budget agreement includes tax cuts totaling $106 billion over five years, with $70 billion to be achieved through the fast-track reconciliation process. These tax cuts are widely expected to include extension of the capital gains and dividend tax cuts, which primarily benefit people at high income levels.

- **Entitlement cuts, with a substantial share likely to come from low-income programs.** The budget features cuts in entitlement and other mandatory programs totaling $30.5 billion over five years, with $34.7 billion of the cuts to be included in a reconciliation bill and $4.2 billion in entitlement increases that would occur outside of reconciliation. That bill would include significant reductions in low-income programs — $10 billion in

Effect of the Conference Budget Plan on Projected Deficits

Cumulative deficit increases (+) or reductions (-) relative to CBO's March baseline projection over the five-year period 2006-2010, in billions of dollars

Cost of tax cuts.	+106.2
Reductions in entitlement benefits.	-30.5
Expenditure reductions from $212 billion reduction in funding (i.e., appropriations) for domestic discretionary programs.	-143.0
Expenditure increases for defense and international discretionary programs.	+198.7
Increased interest costs resulting from above policies.	+36.0
TOTAL increase in projected deficits.	+167.5

reductions in Medicaid, plus cuts in Agriculture Committee programs, some share of which will almost certainly come from the Food Stamp Program.

- **Domestic Discretionary Cuts**. The cuts in funding for annually appropriated (discretionary) domestic programs — the part of the budget that includes education, veteran's health care, environmental protection, housing, and many other program areas —total $212 billion over five years. (This amount refers to the level of cuts below the 2005 funding levels, adjusted for inflation.) This reduction in funding would reduce expenditures — or outlays — on domestic discretionary programs by $143 billion over five years.[1]

  In 2006, funding for domestic discretionary programs would be reduced by $23 billion, or 5.9 percent, in real terms. The cut would grow to $59 billion, or 13.5 percent, in 2010. (Since most homeland security programs are included in the domestic category and the new budget assumes *increases* for those programs, other domestic programs would have to be cut by *more* than the amounts cited here.)

- **Defense and International Increases**. Funding for defense and international discretionary programs would be increased by $186 billion over five years, with most of the increase going to defense. This additional funding (plus the 2005 supplemental appropriation for Iraq and Afghanistan that is now in conference) increase expenditures over the CBO baseline by $199 billion over five years.

- **Increased Deficits.** Including the $36 billion increase in interest payments on the debt that would result from these policy changes, the deficit would be $168 billion higher than the level that CBO projects will occur if *no* changes in policy are made.

The conference agreement on the budget resolution is a clear demonstration of the priorities of the Congressional leadership, with significant tax cuts, especially for wealthy investors, coming at the expense both of domestic programs — many of which serve vulnerable, low-income people — and of increases in the deficit.

Reconciliation

The conference agreement includes instructions that direct the relevant committees of the House and Senate to report so-called "reconciliation" legislation to achieve specified reductions in entitlement programs and taxes. The entitlement cuts to be achieved in the reconciliation bill — $35 billion over five years — are slightly more than twice as large as the $17 billion in reconciled cuts in the Senate-passed budget and about half the size of the reconciled cuts in the

[1] Because expenditures for discretionary programs can occur one or more years after appropriations are provided for those programs, the reduction in expenditures (outlays) over the next five years— $143 billion— is smaller than the $212 billion reduction in funding. The remaining expenditure reductions that would result from the funding cut would occur after the end of the five-year period.

House budget. House and Senate committees are to report legislation to achieve these entitlement cuts by September 16.

The reconciled *tax* cuts — $70 billon over five years — are to be achieved in separate legislation that the House Ways and Means and Senate Finance Committees are directed to report by September 23. Evidently, the two reconciliation bills are to be considered separately to obscure the fact that the cuts in entitlement programs, including significant cuts in programs that serve vulnerable, low-income families and individuals, are being used to offset a portion of the cost of tax cuts primarily benefiting high-income taxpayers.   (There is no procedural reason that entitlements and taxes cannot be dealt with in a single reconciliation bill, as was common from 1982 through 1993.)

The reconciliation bills are subject to special rules in the Senate that limit both the amendments that can be considered and the duration of debate on the bills. Since debate is limited, these reconciliation bills can pass in the Senate with just 51 votes, instead of the 60 votes needed to end a filibuster.

Entitlement Cuts

Some $10 billion over five years of the reconciled entitlement cuts would come from programs under the jurisdiction of the Senate Finance Committee. The conference agreement apparently assumes that most or all of these cuts will come from the Medicaid program, which serves low-income children and their families, people with disabilities, and the elderly.

The conference agreement also directs the House and Senate Agriculture Committees to report legislation cutting entitlement programs by $3 billion. These reductions could be achieved by cuts in farm and conservation programs and increases in agriculture-related fees proposed in the President's budget (which CBO estimates would save more than $8 billion over five years). But resistance to these cuts by agriculture interests could lead the Agriculture committees to turn to the Food Stamp Program for a significant portion of the savings those committees are supposed to achieve.

The U.S. Department of Agriculture estimates that implementation of the $600 million cut in Food Stamps contained in the President's budget would cause 300,000 people — mostly low-income working families with children — to lose food stamps. If the Agriculture Committees cut the Food Stamp Program considerably more deeply than the President proposed, as the House Agriculture Committee Chairman is said to favor, many more low-income families and individuals would lose some or all of their food stamps.

The remaining $21.7 billion in reconciled entitlement cuts are assumed to come from changes in a variety of areas, such as the Pension Benefit Guaranty Corporation ($6.6 billion), student loans ($7 billion), and proceeds from granting rights to portions of the electromagnetic spectrum to television broadcasters and other communications companies ($4.7 billion). In addition, the reconciliation instructions to the Senate Energy Committee and the House Resources Committee will allow those committees to include in the reconciliation bill a provision authorizing oil drilling in the Arctic National Wildlife Refuge (ANWR).[2] This will enable the Senate leadership to shield the ANWR provision from the fuller debate and filibuster that has blocked its passage in the past.

The budget agreement also assumes that increases in entitlement spending totaling $4.2 billion will be achieved outside of the reconciliation process, in legislation to be considered under the regular rules of the House and Senate.

Tax Cuts

The conference agreement proposes to use the reconciliation process to cut taxes by $70 billion over five years. Although the conferees have not detailed what tax cuts should be included in reconciliation, the reconciliation bill is widely expected to include a two-year extension of the dividend and capital gains cuts enacted in 2003, which are slated to expire at the end of 2008.

The benefits of these two tax cuts flow overwhelmingly to those with the highest incomes. The Urban Institute-Brookings Institution Tax Policy Center estimates that slightly more than half — 53 percent — of the benefits of these tax cuts in 2005 are going to households with incomes over $1 million, which make up only 0.2 percent of all households. Nearly four-fifth — 78 percent — of the benefits from the dividend and capital gains tax cuts are going to households making more than $200,000, which now make up 3.1 percent of all households.

The conference agreement assumes an additional $36 billion in tax cuts will be achieved in legislation other than the reconciliation bill. The conference agreement thus calls for new tax cuts totaling $106 billion over five years, despite the fact that we face large deficits over this period (and in ensuing years as well) and that revenues today are lower as a share of the economy than in any year of the 1960s, 1970s, 1980s, or 1990s.

Discretionary Appropriations

The conference agreement sets the total level of funding for annually appropriated (discretionary) programs in 2006 at $893 billion. This figure exactly equals the $843 billion proposed in the President's budget, plus $50 billion in 2006 supplemental funds for Iraq and Afghanistan. (The President's budget included no funds for Iraq and Afghanistan in 2006 or subsequent years, but the President clearly plans to request such funds at a later date.)

The conference agreement assumes that funding for domestic discretionary programs (programs outside of the defense and international areas) will total $373 billion in 2006, representing a cut of $23 billion (5.9 percent) below the level enacted for 2005, adjusted for inflation. Over five years, the cuts in domestic discretionary funding reflected in the new budget

[2] The ANWR provision would generate net receipts of about $2.5 billion over five years, which are considered as offsets to spending, or spending reductions.

total $212 billion.[3] In 2010 alone, the cut would be $59 billion (or 13.5 percent) below the level needed to maintain the 2005 level of funding, after adjustment for inflation.

The cuts in discretionary programs would affect practically every area of the domestic budget. The budget agreement assumes, for example, that funding for education and training programs would be cut by $35 billion over five years, with a cut of 13.2 percent in 2010. The reductions assumed in natural resource and environmental programs would total $30 billion over five years, with the 2010 cut amounting to a harsh 23 percent.

In contrast, the conference agreement calls for an increase in funding for defense and international programs above the 2005 level, adjusted for inflation. Funding for defense would increase by $178 billion over five years. In 2006, funding (including the $50 billion in supplemental funding for Iraq and Afghanistan) would increase by $57 billion. By 2010, the increase would be $36 billion, or 7.5 percent.

Funding for international programs would increase by $7.5 billion over five years, $1 billion (2.7 percent) in 2006, and $1 billion (1.7 percent) in 2010. The conference agreement does not indicate how these increases will be used, but the increase in international funding proposed in the President's budget is in the international development and humanitarian assistance category of the budget. The funding increases for defense and international programs together would boost expenditures (outlays) for those parts of the budget by $199 billion over five years.

[3] Because expenditures for discretionary programs can occur one or more years after appropriations are provided for those programs, the reduction in expenditures (outlays) over the next five years— $143 billion— is smaller than the $212 billion reduction in funding. The remaining expenditure reductions that would result from the funding cut would occur after the end of the five-year period.