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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RECONCILIATION BILLS WOULD INCREASE THE DEFICIT AND FAVOR THE WELL-OFF

By James Horney

As a result of the need to devote attention to legislation dealing with the aftermath of Hurricane Katrina, Congressional leaders apparently plan to delay scheduled action on reconciliation legislation (the deadline for committees to act on the first of two reconciliation bills was September 16) by two or three weeks. As Congressional committees strive later this month to meet to meet the new deadline to report reconciliation legislation cutting mandatory programs by $34.7 billion over five years, we are likely to hear committee leaders claim that "we have to use the reconciliation process to make these painful cuts in Medicaid, Food Stamps, Student Loans and other programs because we must reduce deficits that are unacceptably large."

Such statements, however, would not be accurate. While projected deficits are too large, the reconciliation process this year will *not* reduce them. To the contrary, if the reconciliation bills envisioned by this year's Congressional budget resolution are enacted, deficits will be *increased* by more than $35 billion over the next five years.

Just one week after Congressional committees are to act on legislation to reduce mandatory (i.e., entitlement) programs by almost $35 billion, the House Ways and Means and Senate Finance Committees are supposed to report separate reconciliation legislation that will cut taxes by $70 billion. This $70 billion reduction in revenues would more than offset the effect on the deficit of the program cuts in the first reconciliation bill. Taken together, the two reconciliation bills would increase the deficit by more than $35 billion over five years, not counting the effects of this increase in deficits and debt on federal interest payments. When the increases in interest payments are taken into account, the increase in the deficit is likely to be closer to $40 billion over five years. (See Table 1.)

KEY FINDINGS

- Taken together, the two planned reconciliation bills — one cutting programs, the other cutting taxes — would increase the deficit by more than $35 billion over five years.
- Never before has Congress split reconciliation into two separate bills when the overall effect of reconciliation would be to increase deficits, rather than reduce them.
- The separation into two bills may be intended, in part, to divert attention from the fact that the cuts of almost $35 billion in programs such as Medicaid, Food Stamps, and student loans would be used not to reduce the deficit, but to offset partially the $70 billion in tax cuts.
- A significant part of the budget cuts would come in programs serving low- and moderate-income Americans, while the benefits of the tax cuts are likely to go overwhelmingly to the best-off taxpayers.

Indeed, Congress appears to be using two separate reconciliation bills, rather than a single bill, at least in part to mask the fact that reconciliation is being used this year to increase deficits rather than shrink them. The reconciliation process has been in use for 25 years. *Never before in this 25-year span has Congress split reconciliation into two bills when the net effect of reconciliation was to increase the deficit.* Presumably, Congressional leaders hope that separating the two bills will keep journalists and the public from realizing that the program cuts in areas such as health care, food assistance, and student aid are not contributing to deficit reduction but instead are being used to offset part of the cost of the tax cuts.

TABLE 1

Effect of Reconciliation on the Deficit
(Fiscal Years 2006 through 2010,
in billions of dollars)

Mandatory program cuts	-$34.7 B
Revenue cuts	-70.0 B
Net increase in deficit	35.4 B
Increase in interest payments (approximately)	5 B
Total increase in deficit (approximately)	40 B

A significant portion of the reductions that will be achieved in the reconciliation bill that affects mandatory programs is likely to be achieved through cuts in programs for low- and moderate-income Americans. For instance, the budget resolution assumes that the Medicaid program, which provides health care for low-income children, parents, and people who are elderly or have disabilities, will be cut by approximately $10 billion over five years. It also seems likely that Food Stamps will be cut significantly, perhaps by more than the $600 million over five years that the President proposed in his budget. In addition, the student loan program, which is essential to the education of millions of low- and middle-income students, is likely to be cut by some billions of dollars.

In contrast, the benefits of the tax cuts that will be included in the second reconciliation bill are likely to go overwhelmingly to high-income taxpayers. The tax reconciliation bill is expected to extend through 2010 the provisions enacted in 2003 (and scheduled to expire at the end of 2008) that lower the tax rate on capital gains and dividend income. According to the Urban Institute-Brookings Institution Tax Policy Center, 53 percent of the benefits from these two provisions — or more than half of these tax cuts — now are going to the 0.2 percent of households with incomes over $1 million a year. More than three-quarters of these tax cuts — 78 percent — are going to the 3.3 percent of households with incomes exceeding $200,000 a year.

Reconciliation Instructions in This Year's Budget Resolution

Under the reconciliation procedures set forth by the Congressional Budget Act, changes in mandatory programs and revenues can be, and very often have been, combined in a single reconciliation bill. The Congressional budget resolution adopted this year,[1] however, calls for separate reconciliation bills for mandatory program cuts and for tax cuts.[2] It seems likely that this

[1] House Concurrent Resolution 95, the "Concurrent Resolution on the Budget for Fiscal Year 2006". See House Report 109-62.

[2] The budget resolution also calls for a third reconciliation bill to increase the statutory limit on the federal debt. This legislation is supposed to be reported by the House Ways and Means Committee and the Senate Finance Committee by

was intended to obscure the fact that the reconciled spending cuts are not being used to reduce the deficit, but instead are being used to offset partially the cost of the reconciled tax cuts.

The budget resolution calls for eight House and eight Senate committees to report legislation by cutting mandatory programs by $34.7 billion over five years. (See Table 2.) The program cuts approved by each of these committees will be submitted to the House and Senate Budget Committees, which will package the proposed cuts into single bills (one House bill and one Senate bill) for consideration by the full House and full Senate.

TABLE 2

Reconciled Mandatory Program Cuts by Committee

(Fiscal years 2006 through 2010, in billions of dollars)

House Committee	
Agriculture	-3.000
Education and the Workforce	-12.651
Energy and Commerce	-14.734
Financial Services	-0.470
Judiciary	-0.300
Resources	-2.400
Transportation and Infrastructure	-0.103
Ways and Means	-1.000
Total	-34.658
Senate Committee	
Agriculture	-3.000
Banking	-0.470
Commerce	-4.810
Energy	-2.400
Environment	-0.027
Finance	-10.000
Judiciary	-0.300
Health, Education, Labor, and Pensions	-13.651
Total	-34.658

Separately, the budget resolution calls for the House Ways and Means Committee and the Senate Finance Committee to report legislation that will reduce revenues by no more than $11 billion in 2006 and $70 billion over five years. Because the reconciliation instructions for tax cuts are separate from the instructions for program cuts and because the tax cuts involve only one committee in each house, the tax-cut reconciliation legislation that the Ways and Means Committee and the Finance Committee approve will go straight to the House and Senate floors, without any action by the Budget Committees.

Although it is clear that the budget resolution envisions separate reconciliation bills for mandatory programs and taxes, it is possible that the two bills could be combined at some point in the process, such as in conference.[3] This might make more obvious that reconciliation is being used to increase

September 30. Since the Department of Treasury (and the Congressional Budget Office) have estimated that the debt limit will not have to be increased until next year, however, it is possible that action on the debt limit increase will be deferred.

[3] In some years, the House or the Senate have considered separate reconciliation bills in the initial legislative stages and then combined those separate bills into a single bill at a later stage (see Robert Keith and Bill Heniff, Jr., "The Budget Reconciliation Process: House and Senate Procedure," Congressional Research Service, August 10, 2005). Given current interpretations of the reconciliation rules, it is not clear under what circumstances this would be allowed in the Senate without a unanimous consent agreement. (In the House, the Rules Committee can report a special rule that would accomplish such a combination.)

the deficit. But whether the two bills are considered separately or ultimately are combined, the net effect of this year's reconciliation process will be the same — to increase the deficit.

Reconciliation Priorities Likely to be Skewed

Enactment of the two reconciliation bills not only would increase the deficit, it also could make it harder for many low- and moderate-income Americans to obtain health care, feed their families, or send their children to college.

The two reconciliation bills envisioned by the Congressional budget resolution would not only swell the deficit but also would likely skew national policies further in favor of Americans with the highest incomes. A substantial portion of the recommended cuts in mandatory programs is likely to come from programs that assist low- and moderate-income Americans, while the benefits of the tax cuts in the tax reconciliation bill are likely to go overwhelmingly to taxpayers with the highest incomes. This would be consistent with the policies of the past several years, epitomized by the tax cuts enacted in 2001 and 2003. According to the Urban Institute-Brookings Tax Policy Center, in 2005, more than two-thirds (68 percent) of the benefits of the tax cuts enacted to date are going to the 20 percent of households with the highest incomes. Only a little more than 5 percent of the tax cuts are going to the 40 percent of households with the *lowest* incomes.

A substantial portion of the $34.7 billion in reconciled mandatory program cuts is likely to come from reductions in programs that help low- and moderate-income people. The budget resolution assumes that approximately $10 billion of the reductions will come from cuts in Medicaid, the program that is the primary source of health care for more than 50 million low-income children, parents, senior citizens, and people with disabilities.

The reconciliation bill also is likely to include significant cuts in the Food Stamp program, which serves the neediest and most vulnerable people in the nation and provides them, on average, with $1 per person per meal. The President proposed cuts in mandatory programs within the jurisdiction of the Congressional agriculture committees that totaled $9 billion over five years, with about 7 percent of these cuts, or $600 million, to come from the Food Stamp Program. The Administration estimated that these cuts would terminate Food Stamp aid for approximately 300,000 low-income people, most of whom are members of low-income working families with children. The Congressional budget resolution shrank the total savings to be achieved by the Agriculture Committees in reconciliation from $9 billion to $3 billion over five years. But commodity groups and some key Members of Congress now are proposing to limit cuts in farm programs even farther by substituting deeper Food Stamp cuts instead, which could increase the cuts in Food Stamps to well above the $600 million over five years that the President proposed.[4]

The reconciliation bill also is likely to include significant cuts in the Student Loan Program. The budget resolution requires the House Education and Workforce Committee to

[4] See Dorothy Rosenbaum, "Food Stamps and the Cuts that the Agriculture Committees Must Make," Center on Budget and Policy Priorities, July 5, 2005.

Reconciliation Procedures

The reconciliation process provides for expedited consideration of specified legislation affecting mandatory spending or revenues. The Congressional Budget Act provides that the annual Congressional budget resolution may include reconciliation instructions directing specified House and Senate committees to propose changes in mandatory program or tax laws within their jurisdictions. According to the Congressional Research Service, all if the reconciliation directives included in budget resolutions through fiscal year 1998 were intended to produce net reductions in the deficit. By contrast, the reconciliation directives in budget resolutions since then (i.e., the directives in the budget resolutions for fiscal years 2002, 2004, and 2006), all have been intended to reduce projected surpluses or to *increase* the deficit.[a]

The budget resolution specifies by how much each committee is to increase or reduce mandatory programs or revenues, but the budget resolution may not direct how the required changes are to be accomplished. It is up to each committee to decide which programs within its jurisdiction to cut or increase and what changes in laws to propose. If multiple committees in the House or Senate are given instructions, those committees report their proposed changes to their body's Budget Committee. The Budget Committee then combines the proposed legislation from all of the committees into one bill. (It is not allowed to make substantive changes to the legislation sent to it.) The Budget Committee reports the consolidated bill to the full House or Senate, and the legislation is then considered by the House and Senate under special procedures set forth in the Budget Act, which limit the amendments that can be offered to the reconciliation legislation and the time allowed for debate on it.

The special procedures for consideration of reconciliation legislation are not especially important in the House of Representatives, since the House Rules Committee routinely limits amendments and debate time anyway on important bills. In the Senate, however, the reconciliation procedures have a very significant effect. In the Senate, legislation ordinarily is open to unlimited amendment and debate. If opponents of legislation insist on extending debate on a bill indefinitely, the only way to bring the legislation to a final vote is to invoke cloture, which requires the support of at least 60 out of the 100 Senators. Under the special Senate rules for consideration of reconciliation legislation, by contrast, amendments must be germane and generally must not reduce the amount of savings provided in the reported bill, and the total time for debate is limited to 20 hours. This means that Senators cannot offer amendments to add new matters to the legislation (for instance, to replace a proposed tax cut with another tax cut not related to any proposals already in the bill), cannot pare back the total amount of spending cuts in the bill, and cannot indefinitely delay a final vote on the bill. The limit on debate time means that reconciliation legislation can pass the Senate with the support of a majority of Senators, rather than the 60 needed to invoke cloture. (The special rules for consideration of reconciliation legislation also limit the time for debate on a reconciliation conference agreement to 10 hours, so that a conference agreement, too, can be passed with the support of a simple majority of Senators and cannot be filibustered.)

a. Robert Keith and Bill Heniff, Jr., "The Budget Reconciliation Process: House and Senate Procedure," Congressional Research Service, August 10, 2005, page CRS-18.

produce $12.7 billion over five years in cuts in mandatory programs and the Senate Health, Education, Labor, and Pensions to produce $13.7 billion in cuts. The House Education and Workforce Committee has already adopted legislation(H.R.609) to reauthorize the Higher Education Act that contains provisions that reportedly would reduce expenditures for student financial assistance by $8.6 billion over five years.[5] These cuts are expected to be used to meet the bulk of the

[5] Since the Education and Workforce Committee has not yet officially reported H.R. 609, the Congressional Budget Office has not released an official estimate of the legislation. It has been reported, however, that CBO has estimated that the Committee's proposals would reduce mandatory spending by $8.6 billion over five years. See Stephen Burd,

reconciliation reductions that the Education and Workforce Committee is required to produce. While a significant portion of the proposed reductions would come from lenders, the legislation could make financial aid that low- and moderate-income students depend on more expensive. (Student financial assistance advocates also point out that if the savings from lenders were not used to meet the Committee's reconciliation instructions, these savings could be used to provide more assistance at a lower cost to students so that more low-income students could afford to go to college.)

In contrast to the burdens that many of the program cuts expected to be in the first reconciliation bill would impose on low- and moderate-income Americans, the benefits from the tax cuts in the revenue reconciliation bill are likely to go overwhelmingly to people at the top of the income scale. For example, the tax-reconciliation bill is expected to extend the tax cuts enacted in 2003 that reduced taxes on dividend and capital gains income. The dividend and capital gains tax cuts are slated to expire at the end of 2008. Extending them through 2010 would cost nearly $23 billion, with the bulk of the benefits going to the most well-off.

It also is likely that the tax reconciliation bill will keep the exemption amount for the individual Alternative Minimum Tax at its temporarily higher level for at least one year. (Under current law, the exemption is slated to decline at the end of this year from $58,000 for a married couple filing jointly to $45,000 for that couple.) While an increasing number of middle-income taxpayers are affected by the AMT, the overwhelming bulk of the revenues that the AMT raises continues to come from people with relatively high incomes. According to the Tax Policy Center, 89 percent of the tax revenues that the AMT will produce in 2010 will be paid by the one-sixth of taxpayers with incomes above $100,000.

In short, enactment of the two reconciliation bills not only would increase the deficit. It also could make it harder for many low- and moderate-income Americans to obtain health care, feed their families, or send their children to college, and could do so at the very time that the reconciliation bills are providing sizeable tax cuts to people with very high incomes. At a time when the tragedy of Hurricane Katrina is revealing the stark differences in our country between those who are poor and those who are affluent, and is raising fundamental questions about whether the government is collecting sufficient revenue to maintain an infrastructure that is adequate to make Americans safe and secure, the planned reconciliation bills would aggravate these problems.

"House Lawmakers May Have to Reduce Student Benefits to Find More Savings in Higher Education Act," *Chronicle of Higher Education*, August 26, 2005.