

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

April 28, 2005

Summary and Analysis of FY 2006 Budget Resolution Conference Report

Dear Democratic Colleague:

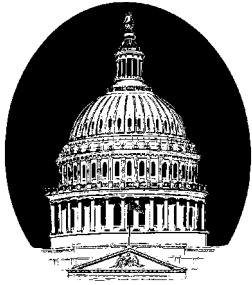
Last night, the House narrowly passed the budget resolution conference report by a vote of 214-211. Every Democrat and fifteen Republicans voted against passage of the budget. The conference report mirrors the same flawed policies and misplaced priorities contained in the President's budget.

- The budget resolution conference report follows the President's budget by **using every dollar of the Social Security trust fund surplus** to finance Republican tax cuts and other policies totally unrelated to Social Security.
- Like the President's budget, the budget resolution conference report **makes the deficit bigger**, not smaller, over the next five years — while failing to reveal the full extent of the fiscal damage caused by Republican policies.
- Like the President's budget, the budget resolution conference report **cuts funding for key services**, such as Medicaid, education, veterans' health care and environmental protection that are vital to millions of Americans.
- Like the President's budget, the budget resolution conference report **makes room for expensive new tax cuts** likely to be targeted largely to the most fortunate Americans.
- Adoption of the budget conference report by Congress automatically spins off a House bill to **increase the debt limit** without a separate vote. This means that those Members who voted for the conference report also voted to increase the debt limit by \$781 billion.

Attached is a summary and analysis of the budget resolution conference report, prepared by the House Budget Committee's Democratic staff. Please contact me or the staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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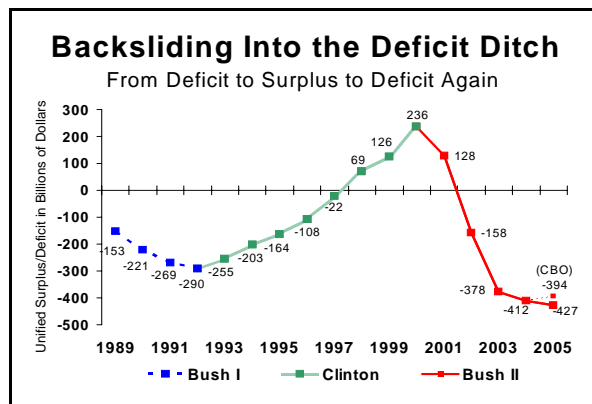
Summary and Analysis of FY 2006 Budget Resolution Conference Report

Overview

- The budget resolution conference report follows the President’s budget by **using every dollar of the Social Security trust fund surplus** to help finance the Republican deficits.
- Like the President’s budget, the budget resolution conference report **makes the deficit bigger**, not smaller, over the next five years – while failing to reveal the full extent of the fiscal damage caused by Republican policies.
- Like the President’s budget, the budget resolution conference report **cuts funding for key services, such as Medicaid**, that Americans rely on.
- Like the President's budget, the budget resolution conference report **makes room for new tax cuts** likely to be targeted largely to those who need help the least.
- According to House rules, adoption of the budget conference report by Congress automatically spins off a separate House bill to **increase the debt limit** without a separate vote.

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Conference Report Creates Larger Deficits — Since President Bush took office four years ago, a \$5.6 trillion projected ten-year surplus has vanished and been replaced with record deficits. Over the next ten years, the Congressional Budget Office (CBO) now estimates deficits totaling \$2.6 trillion under the President’s budget. Yet, the budget resolution conference report presents no plan to bring the budget back



to balance. In fact, it makes the deficit larger by \$167.5 billion over the next five years relative to current law (the CBO baseline). These deficits are even worse than those contained in the President's budget. As bad as these numbers are, the conference report fails to reflect the full extent of the fiscal deterioration caused by Republican policies, such as tax cuts and Social Security privatization.

Conference Report Includes Harmful Cuts to Important Services — To help finance its new tax cuts, the budget resolution conference report includes harmful cuts to key services.

- The conference report directs eight House committees and eight Senate committees to **cut mandatory spending under fast-track reconciliation procedures by a total of \$34.7 billion** over five years. Reconciliation instructions included in the budget resolution cannot specify how each committee will make the spending cuts required to meet its target, but the jurisdiction of each committee suggests what likely targets will be. The numbers assigned to the House committees appear to assume policy changes including cuts to Medicaid (reportedly \$10 billion), student loans, and agriculture programs, as well as receipts from drilling in the Arctic National Wildlife Refuge and savings from increased premiums paid to the Pension Benefit Guaranty Corporation.
- For appropriated programs, the conference report matches the President's budget by providing a total of \$843 billion in non-emergency funding for 2006, and by cutting non-defense discretionary funding below the amount needed to keep pace with inflation by \$12 billion for 2006 and \$150 billion over the next five years. These cuts to non-defense appropriations include cuts to veterans' health care, education, environmental protection, community development, and public health.

Conference Report Includes Costly Tax Cuts — Like the President's budget, the conference report includes costly new deficit-financed tax cuts – a total of \$106 billion in tax cuts over the next five years, with \$70 billion of this total included in fast-track reconciliation instructions. Every dollar of the tax cuts adds directly to the size of the deficit and is funded from the Social Security trust fund surplus. By providing only five years of numbers, the conference report dramatically understates the true size of the Republican tax agenda. According to CBO, the ten-year cost of the tax policies included in the President's budget is \$1.4 trillion; only \$100 billion of this total falls in the five years covered by the conference report (2006-2010). When the cost of a ten-year repair of the Alternative Minimum Tax (AMT) is included, the total for the Administration's tax agenda reaches \$2 trillion.

Conference Report Makes Use of Fast-Track Reconciliation Procedures — The conference report calls for reconciled tax cuts and reconciled spending cuts to be reported in two different bills. The authorizing committees are directed to report spending cuts by September 16, and the tax-writing committees are directed to report the tax cut bills by September 23. Such bills reported under reconciliation procedures are placed on the parliamentary fast track, and, like the budget resolution itself, are immune from filibuster and require only a simple majority to pass the Senate. The spending reconciliation instructions mark the first year since 1997 that multiple

committees have been given reconciled spending cuts. Under reconciliation procedures, in each chamber the spending cuts reported by the authorizing committees are packaged together by the Budget Committee into a single bill that is then brought to the floor for expedited consideration. Reconciliation was designed to make it easier to pass deficit-reduction packages, but since President Bush took office in 2001, reconciliation has been used to pass tax cuts increasing the deficit. The \$70 billion in tax cuts included as part of reconciliation – which increase the deficit – is twice as large as the savings generated from the reconciled spending cuts.

Enactment of Conference Report Spins Off Debt Limit Increase Bill — According to House Rule XXVII (the “Hastert Rule”), adoption of the budget conference report by Congress automatically spins off a separate House bill to **increase the debt limit** without a separate vote. According to the statement of managers accompanying the conference report, this bill would increase the debt limit by \$781 billion.

House Democrats Put Forward a Better Budget — The 2006 House Democratic budget had smaller deficits every year than the conference report, and accumulated less debt as a result. The House Democratic budget reached balance in 2012, while the Republican conference report never reaches balance. The House Democratic budget also rejected the harmful cuts included in this conference report, protecting the key services threatened by the Republican budget.

Deficits

Conference Report Deepens Deficits — The budget resolution conference report increases deficits relative to current law by \$167.5 billion, for a total deficit of \$1.4 trillion over the next five years. These deficits are even worse than those contained in the President’s budget. Like the President’s budget, the conference report never approaches balance, and the annual deficit never drops below \$200 billion. The House Democratic budget included smaller deficits every year relative to the Republican budgets, and brought the budget back to balance by 2012.

Budget Deficits in Republican Budgets						
Unified Deficits in Billions of Dollars						
	2006	2007	2008	2009	2010	2006-2010
CBO Baseline	-298	-268	-246	-219	-201	-1232
President’s Budget	-332	-278	-250	-246	-229	-1336
Conference Report	-383	-313	-254	-238	-211	-1400

Conference Report Understates Deficits By Omitting Key Costs — By omitting the full costs of significant policies, the conference report (like the President’s budget) substantially understates the true size of the deficits likely to occur under Republican policies.

- **Social Security Privatization** — The conference report includes nothing to reflect the cost of the President’s Social Security privatization plan, estimated to be \$754 billion over 2009-2015.
- **Repair of Alternative Minimum Tax** — The likely ten-year cost for AMT repair is \$642 billion if tax cuts are extended — \$774 billion including the cost of interest on the additional debt. At best, the conference report provides sufficient funding to address this problem for a single year, while the President’s budget provides no funding at all to address this growing problem.
- **Realistic Costs for Iraq and Afghanistan** — Based on a CBO analysis, costs for military operations in Iraq and Afghanistan could run as high as \$384 billion over the next ten years. The conference report includes \$50 billion for 2006, but nothing for subsequent years. The President’s budget includes no funding for 2006 or beyond for this cost.

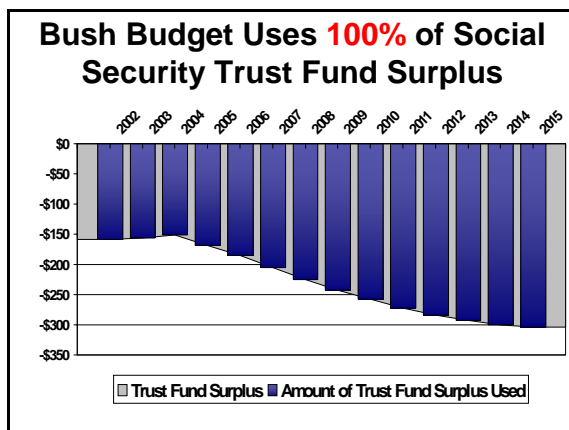
Five-Year Budget Window Masks Fiscal Deterioration Caused By Tax Agenda — By providing no deficit figures after 2010, the conference report masks almost all of the dramatic fiscal deterioration caused by the Republican tax agenda. According to CBO, the ten-year cost of the tax policies included in the President’s budget is \$1.4 trillion, with almost all of this total falling outside of the five years (2006-2010) covered by the budget resolution conference report.

Republicans Create More Debt — Republican policies already have required three increases in the debt limit totaling \$2.2 trillion over the last four years. In January, CBO estimated that the budget was on a course to require another debt ceiling increase by February 2006. Like the President’s budget, the conference report only makes the debt problem worse. The conference report calls for a debt limit increase this year of \$781 billion, and it would cause increases of \$3.1 trillion in the debt subject to limit over the next five years.

Republicans Increase the Debt Limit
Debt Limit Increases, Billions of Dollars

2002	\$450
2003	\$984
2004	\$800
Conference Report	\$781
Total	\$3,015

Prepared by the House Budget Committee Democratic Staff 4/28/05



Republican Budgets Use 100 Percent of Social Security Trust Fund Surplus — Since 2002, Republican budgets have spent every penny of the Social Security trust fund surplus. Like the President’s budget, the 2006 budget resolution conference report continues this practice.

Mandatory Spending Cuts

The conference report requires that the Congress cut \$34.7 billion from mandatory programs over the next five years using the expedited procedure known as reconciliation, which is immune from filibuster in the Senate and therefore can pass by simple majority vote. Reconciliation instructions included in the budget resolution cannot specify how each committee will make the spending cuts required to meet its target, but the jurisdiction of each committee suggests what likely targets will be. The conference report follows the President's lead of cutting vital services for the American people to help pay part of the cost of large tax cuts targeted largely to those who need help the least. The House Democratic budget rejected all of these cuts.

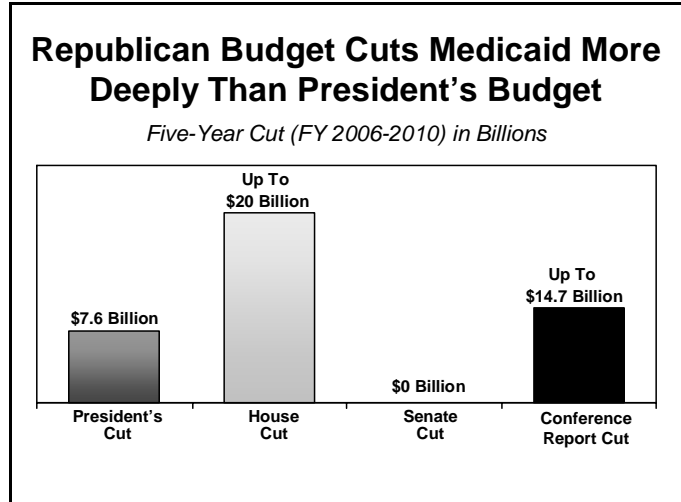
Budget Resolution Conference Report Reconciled Spending Cuts, 2006-2010 (Billions of dollars)			
<u>House Committees</u>		<u>Senate Committees</u>	
Agriculture	-3.000	Agriculture, Nutrition, and Forestry	-3.000
Education and the Workforce	-12.651*	Banking, Housing and Urban Affairs	-0.470
Energy and Commerce	-14.734	Commerce, Science, and Transportation	-4.810
Financial Services	-0.470	Energy and Natural Resources	-2.400
Judiciary	-0.300	Environment and Public Works	-0.027
Resources	-2.400	Finance	-10.000
Transportation & Infrastructure	-0.103	Health, Education, Labor, and Pensions	-13.651*
Ways and Means	-1.000	Judiciary	-0.300
Total, 2006-2010	-\$34.658	Total, 2006-2010	-\$34.658

The resolution requires House and Senate committees to report reconciliation bills cutting spending by September 16, 2005.

*The resolution specifies that this cut is for the period 2005-2010.

Conference Report Cuts Medicaid By \$10 Billion, and By Possibly Up To \$14.7 Billion — The conference report directs the House Energy and Commerce and Senate Finance Committees to cut spending in their jurisdictions by \$14.7 billion and \$10 billion over five years, respectively. Reportedly, the intent of the budget is to cut Medicaid spending by \$10 billion, with the rest of the savings from the House Energy and Commerce Committee to come from changes to spectrum policy. However, the authorizing committees can meet their reconciliation targets in any manner they choose, as long as the savings come from programs under their jurisdiction. As a result, the Medicaid cut in the House reconciliation bill could be as high as the entire Energy and Commerce instruction of \$14.7 billion over five years.

The Medicaid cut runs contrary to the Senate-passed budget, which protected Medicaid from any cuts. Any Medicaid cut is also clearly inconsistent with the will of the House, which passed a Democratic motion to protect Medicaid by an overwhelming vote of 348 to 72. This cut is also more than the President's budget, which incorporated a package of spending and savings for a net cut of \$7.6 billion over five years for health programs within the Energy and Commerce Committee's jurisdiction.



Education and Pension Cuts — The

conference report requires the House Education and the Workforce Committee to cut mandatory spending by \$12.7 billion over six years (2005-2010). The Senate Health, Education, Labor, and Pensions Committee is directed to cut mandatory spending by \$13.7 billion over the same period. The resolution reportedly assumes \$6.6 billion in savings from changes to the Pension Benefit Guaranty Corporation (on the House side, \$1 billion of that is reportedly reconciled to the Ways and Means Committee). The rest of the reconciled savings to these committees (\$7.1 billion) would likely come from cutting student loan programs, although the committees could also cut vocational rehabilitation, the Federal Employees' Compensation Act, or, in the House, child nutrition programs such as free and reduced-price school lunches.

Conference Report Cuts Farm and Nutrition Programs — The conference report requires the House and Senate Agriculture Committees to cut spending on programs in their jurisdiction by \$3.0 billion over five years. The major mandatory programs under the jurisdiction of these committees are farm subsidies, conservation programs, and food stamps. The conference report does not specify whether it assumes these cuts would fall primarily on agriculture programs or on nutrition programs. The President's budget calls for cuts in agriculture spending totaling \$7.7 billion over five years, and it calls for cuts in food stamps of \$566 million over five years. Farm subsidies and food stamps were both addressed in the 2002 Farm Bill. Fifty-nine House Members from both sides of the aisle sent a letter to the House Budget Committee Chairman on March 3 expressing their opposition to cuts to Farm Bill programs. The letter opposed cuts to commodity programs, as well as to the nutrition safety net and conservation programs.

Drilling in the Arctic National Wildlife Refuge — Although the budget resolution conference report does not explicitly assume revenues from drilling in the Arctic Refuge, this policy could be accommodated in a reconciliation bill under the terms of the budget resolution. The House Resources Committee and the Senate Energy and Natural Resources Committee each have reconciliation instructions to cut spending by \$2.4 billion over the 2006-2010 period. (CBO estimates that opening the Arctic to drilling will net \$2.5 billion in receipts to the federal government, after distribution of the same amount to the State of Alaska.) The Senate Budget Committee Chairman noted that those reconciliation instructions make it possible to use the

budget process to open the Arctic Refuge to drilling while protecting this initiative from a Senate filibuster. H.R. 6, the energy bill that passed the House on April 21, 2005, explicitly authorized drilling in the Arctic National Wildlife Refuge.

Appropriations

The budget resolution conference report increases defense funding, but cuts non-defense funding. The conference report provides \$843.0 billion for non-emergency discretionary funding for 2006; it also provides an additional \$50 billion in emergency funding for military operations in Iraq and Afghanistan for 2006. The 2006 non-emergency level is a nominal increase of 1.7 percent above the 2005 enacted level, but is comprised of an \$18.4 billion increase for national defense and a \$4.0 billion cut in non-defense discretionary (NDD) funding. Compared with the amount needed to maintain services at the current level (the CBO “baseline”), the 2006 budget increases national defense funding by \$7.7 billion, but cuts NDD programs by \$12.1 billion.

2006 Budget Resolution Conference Report Cuts Non-Defense Appropriations (Budget Authority in Billions of Dollars)

	2005 Enacted	2006 Baseline	2006 Budget	Budget +/- Baseline
Non-Defense Funding	408.0	416.1	404.0	-12.1
National Defense	420.6	431.2	439.0	7.7
Total Non-Emergency Funding	828.6	847.3	843.0	-4.3
Iraq supplemental funding	pending	n.a.	50.0	n.a.
Disaster/other emergencies	11.5	n.a.	n.a.	n.a.
Total including emergencies	840.0	n.a.	893.0	n.a.

To date, no 2005 funding for the war has been enacted, but the House and Senate have passed separate supplemental funding bills of about \$81 billion for 2005. National Defense is Function 050, which includes the Department of Defense and nuclear weapons-related activities of the Department of Energy.

Increases Defense Funding, Providing \$50 Billion for the War for 2006 — The conference report matches the President’s \$439 billion request for regular 2006 defense discretionary spending, which reflects a \$7.7 billion increase over the amount CBO estimates is needed to maintain purchasing power at the 2005 enacted level. Over the five-year period, the conference report matches the President’s request for defense dollar for dollar, providing \$133.8 billion above the amount needed to keep pace with inflation. The conference report also adds \$50 billion to finance the cost of operations in Iraq and Afghanistan for 2006 – funding not included in the President’s budget. It provides no war-related funding beyond 2006.

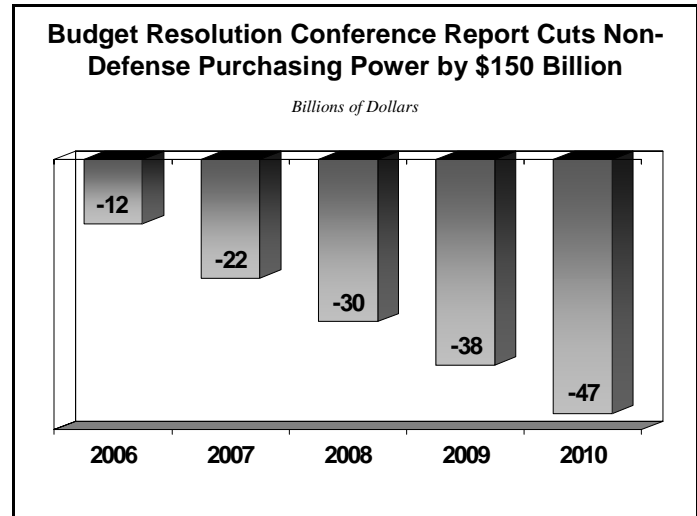
Slashes Non-Defense Funding — As noted above, the 2006 budget resolution conference report cuts funding for NDD programs by \$12.1 billion below the amount needed to maintain purchasing power at the current level, and by \$4.0 billion below the 2005 enacted level. This is the same level of funding as in the President’s budget, although the conference report shifts some funding among functions. Cuts in the conference report are spread across the budget, including key services such as the following:

- ***Veterans’ Health Care*** — For veterans’ appropriated programs, the conference report is \$13.5 billion below the level CBO estimates is needed to keep pace with inflation over the five-year period (2006-2010). By comparison, the House Democratic budget included \$1.5 billion more than the conference report for veterans’ discretionary programs for 2006 and \$16.4 billion more over five years.
- ***Education*** — The conference report cuts 2006 appropriations for education, training, and social services by \$1.5 billion below the amount needed to maintain purchasing power at the current level. The conference report matches the President’s 2006 funding for these programs except that, according to the statement of managers, it envisions increasing the maximum Pell Grant by \$100 in 2006 and restoring the Community Services Block Grant, which the President eliminated. The conference report includes the other cuts in the President’s budget, such as: eliminating 48 education programs funded at \$4.3 billion, reducing funding for 17 other education programs, eliminating three training programs, and cutting almost \$200 million from other training programs. Over five years, the conference report provides \$35.1 billion less than needed to maintain purchasing power.
- ***Environmental Protection*** — The conference report provides only \$28.0 billion for environmental protection and conservation programs for 2006, a cut of \$3.3 billion (10.6 percent) from the 2005 enacted level. Over five years, the conference report cuts funding by \$25.6 billion below the amount needed to maintain purchasing power. Simply stated, the Republican conference report cuts the federal commitment to vital environmental protection and conservation programs. (As discussed in the previous section on mandatory spending, the conference report also includes reconciliation instructions to the House Resources Committee and the Senate Energy and Natural Resources Committee that could allow for the opening of the Arctic National Wildlife Refuge to oil and gas exploration.)
- ***Community Development and First Responders*** — The conference report cuts funding for Function 450 (Community and Regional Development) by \$920 million below the 2005 enacted level and by \$1.2 billion (7.9 percent) below the amount needed to maintain purchasing power at the current level. The cuts in this function could fall on the Community Development Block Grant and first responders, among other programs.
- ***Public Health System*** — The conference report cuts funding for public health programs by \$898 million below the 2005 enacted level, and by \$22.4 billion below the amount needed

to maintain purchasing power over the next five years. The combination of public health and Medicaid cuts in the Republican budget is particularly problematic – if Medicaid is cut, more people may turn to the public health system, and the Republican budget fails to meet that need.

Continues to Cut NDD Over Five Years —

The budget resolution conference report continues the 2006 pattern of funding over its entire five years; it cuts NDD funding deeply below the amount needed to maintain purchasing power at the current level (CBO’s “baseline” level of funding) but increases defense funding. As shown in the table below, over the next five years, the conference report cuts NDD funding by \$149.7 billion below the amount needed to maintain current services.



As shown in the table below, over the next five years, the conference report cuts NDD funding by \$149.7 billion below the amount needed to maintain current services.

Conference Report Cuts NDD Over Five Years						
Discretionary funding vs. CBO’s 2006 baseline excluding 2005 supplemental (Budget Authority in Billions of Dollars)						
	2006*	2007	2008	2009	2010	2006-2010
Non-Defense Funding	-12.1	-22.4	-29.8	-38.5	-46.9	-149.7
National Defense	7.7	21.7	29.3	38.2	37.0	133.8
Total	-4.3	-0.8	-0.5	-0.3	-9.9	-15.8

* Excludes the \$50 billion in Iraq War costs.

Revenues

The budget resolution conference report includes tax cuts of \$106 billion over five years, slightly more than the \$100 billion called for in the President’s budget. By covering only five years, the conference report fails to reflect the vast majority of the costs of the President’s tax agenda, which totals \$1.4 trillion (excluding interest costs) over the next ten years. Almost all of these costs occur in the second five years.

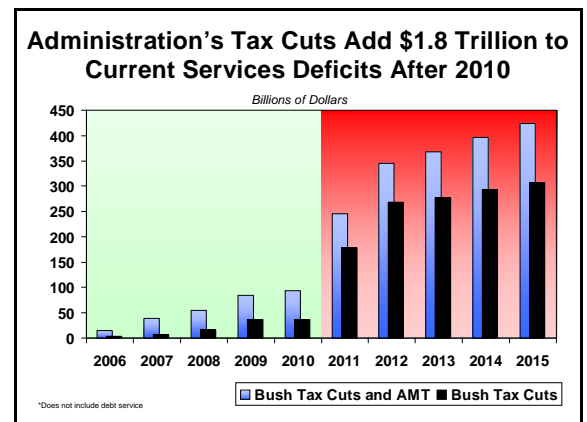
The conference report includes \$70 billion of its total tax cuts in reconciliation instructions. Bills reported under reconciliation move through the legislative process under a set of rules designed to expedite their consideration. In the Senate, such bills cannot be filibustered and can be passed by a simple majority. The conference agreement directs the Ways and Means Committee and the Finance Committee to report the tax cut bills by September 23, 2005.

Tax Cuts in Republican Budgets					
Billions of Dollars					
	2006 Total	2006 Reconciled	2006-10 Total	2006-10 Reconciled	2006-15 Total
President	3	---	100	---	1,425
Conference	18	11	106	70	---

Date for tax-writing committees to report reconciliation bills: Sept. 23, 2005

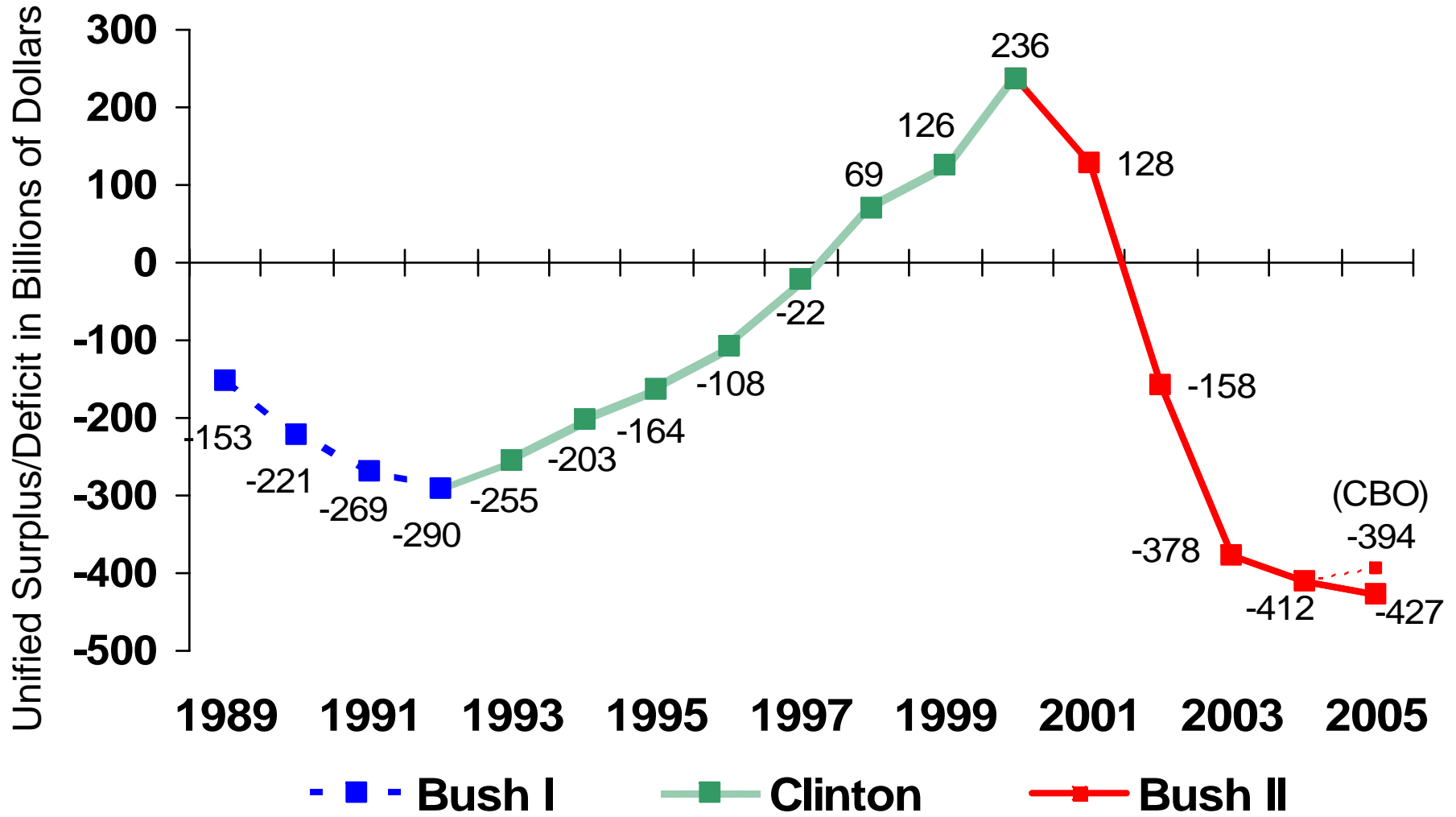
Conference Report Includes Part of Its Tax Cuts In Reconciliation — Although the conference report does not make any explicit policy assumptions, its \$106 billion in tax cuts is sufficient for a one-year extension of relief from the Alternative Minimum Tax, extension of the capital gains and dividend rate structures through 2010, extension of expensing provisions for small businesses, and several smaller tax cut provisions. Of this \$106 billion five-year total, the conference report includes \$70 billion in reconciliation instructions. While it is the prerogative of the Ways and Means and Finance Committees to draft the resulting legislation, the reconciliation instructions would accommodate the capital gains and dividend extensions as well as small business expensing and a few other extensions of expiring tax cuts.

Conference Report Does Not Reflect True Costs of Republican Policies — According to CBO, the tax policies included in the President’s budget – such as making the 2001 and 2003 tax cuts permanent – total \$1.4 trillion over the next ten years, with all but \$100 billion of this total falling outside the five-year window covered by the budget resolution conference report. Additionally, the likely cost of a ten-year repair of the AMT is \$642 billion if tax cuts are extended; at best, the conference report provides funding to address this problem for only a single year. Neither of these totals includes the added cost of paying interest on the additional debt that would result from these policies.



Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again

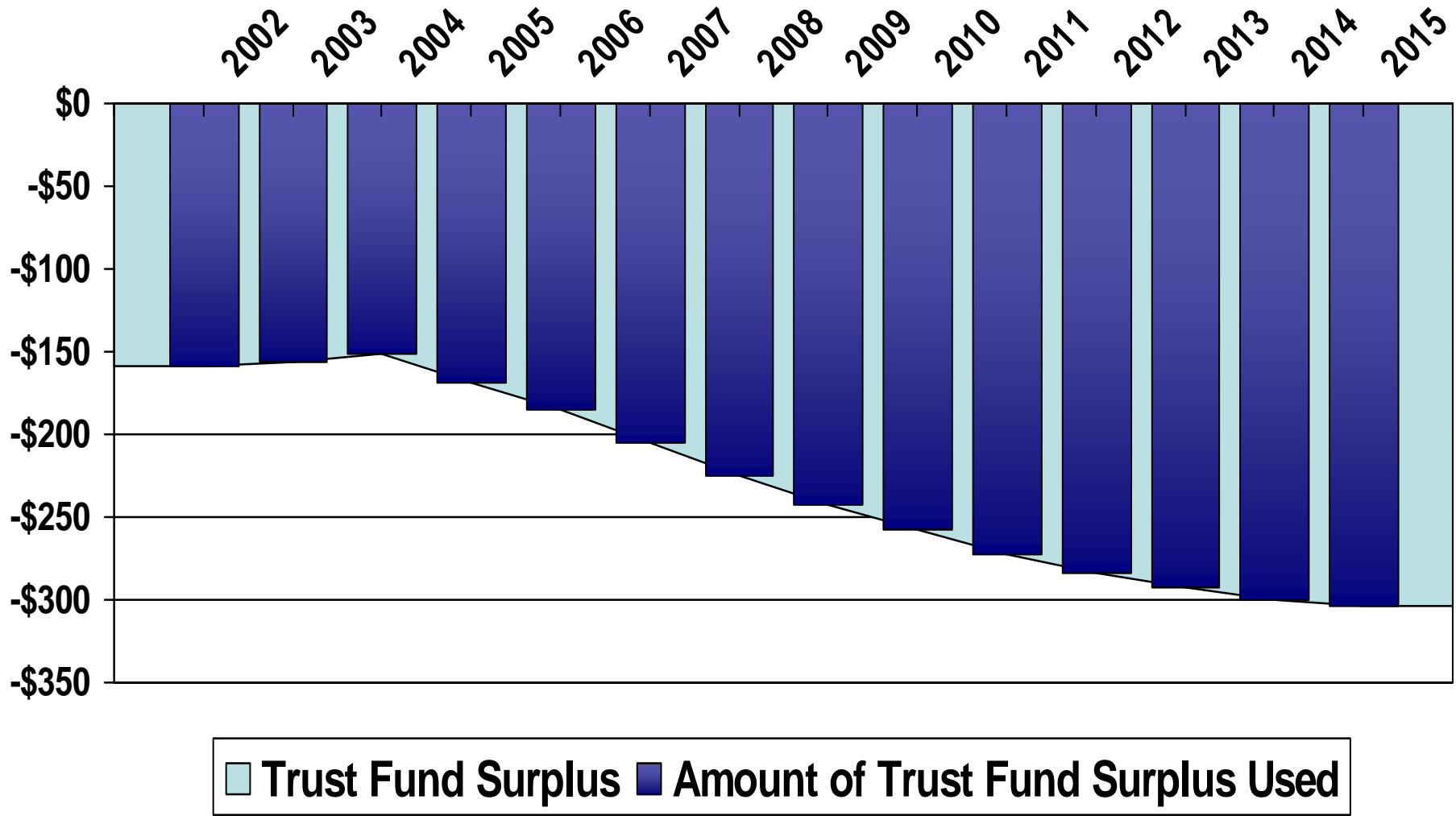


Republicans **Increase** the Debt Limit

Debt Limit Increases, Billions of Dollars

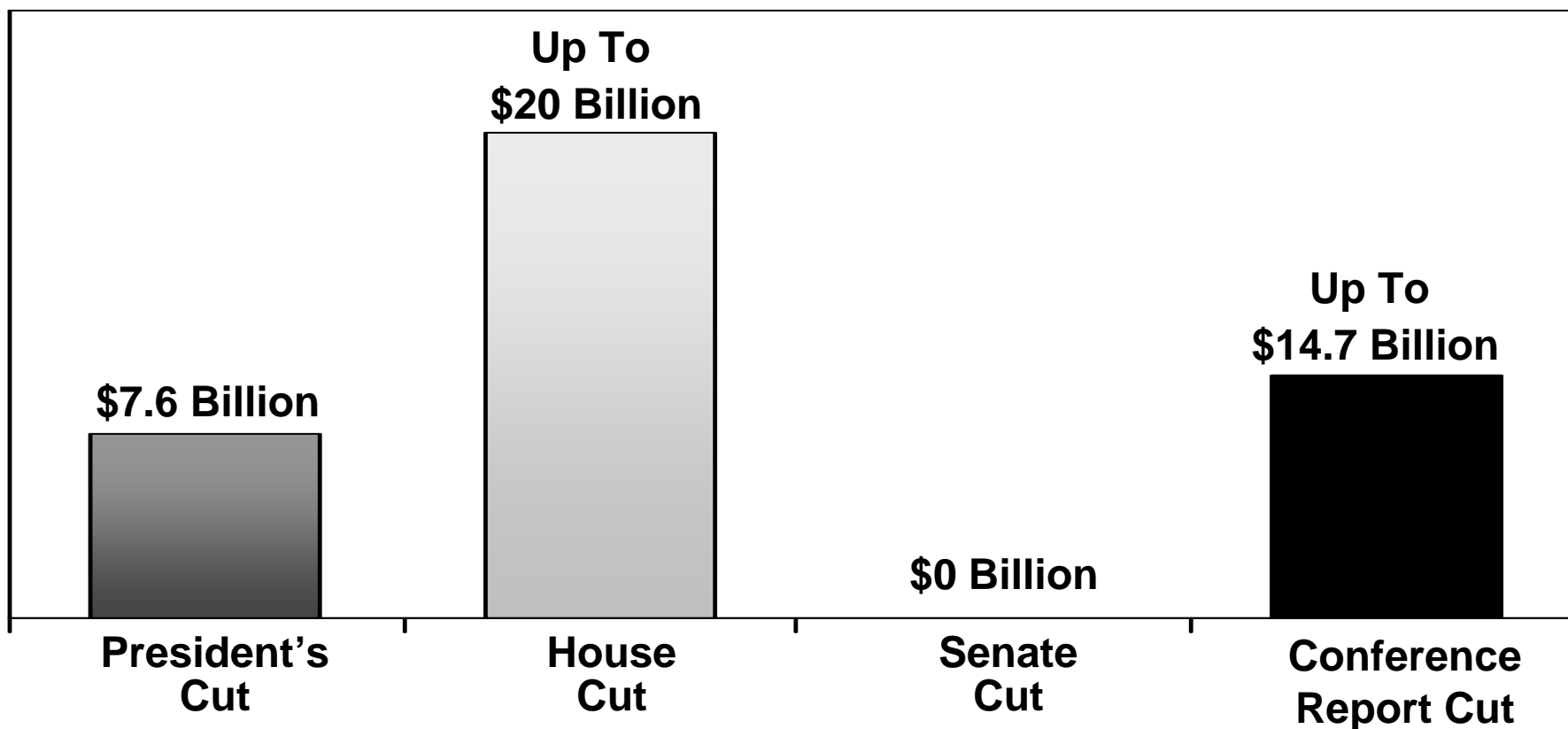
2002	\$450
2003	\$984
2004	\$800
Conference Report	\$781
Total	\$3,015

Bush Budget Uses **100%** of Social Security Trust Fund Surplus



Republican Budget Cuts Medicaid More Deeply Than President's Budget

Five-Year Cut (FY 2006-2010) in Billions



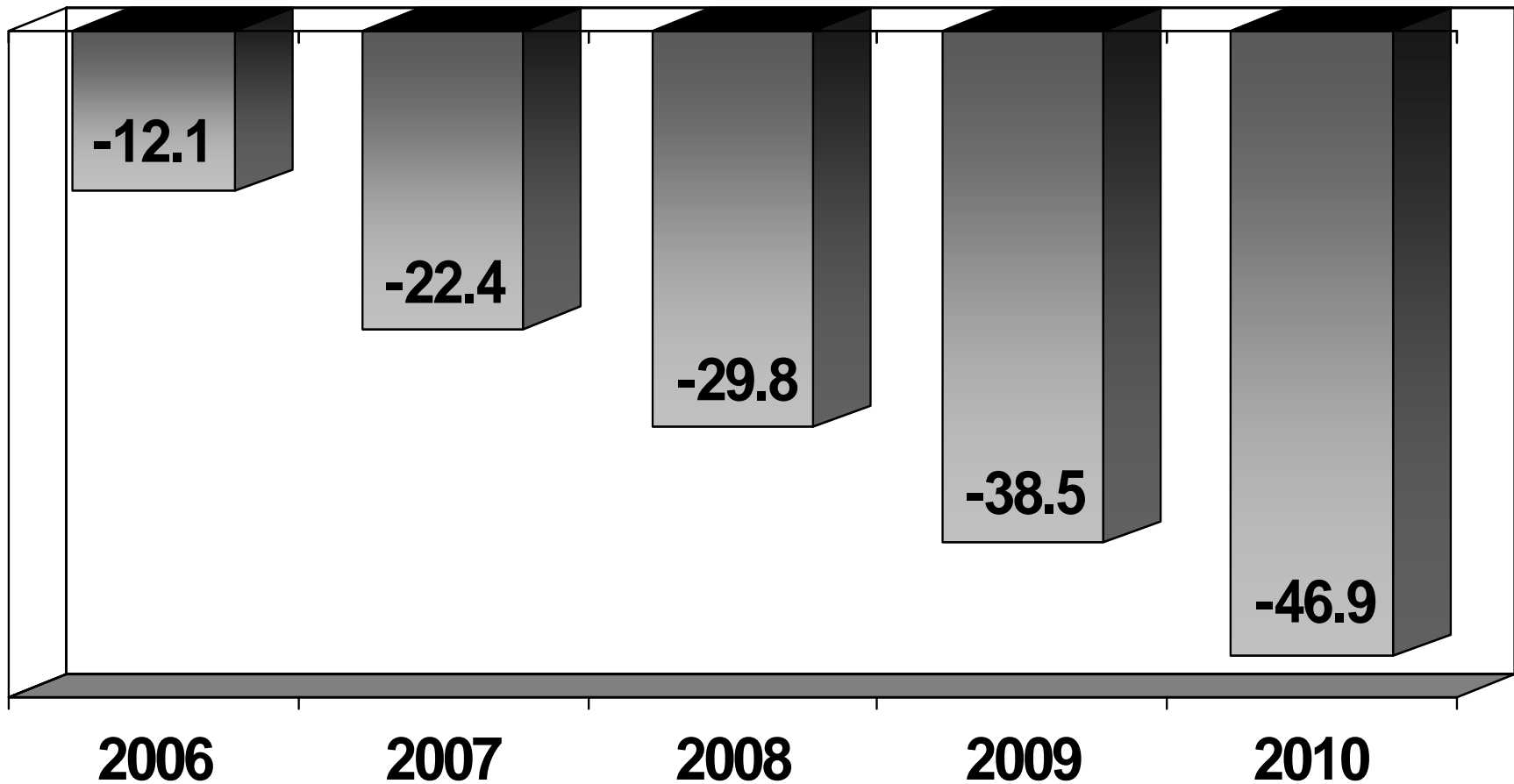
Source: CBO Re-estimate of the President's Budget for FY06; House and Senate-passed Budget Resolutions; Concurrent Resolution on the Budget

Prepared by the House Budget Committee Democratic Staff

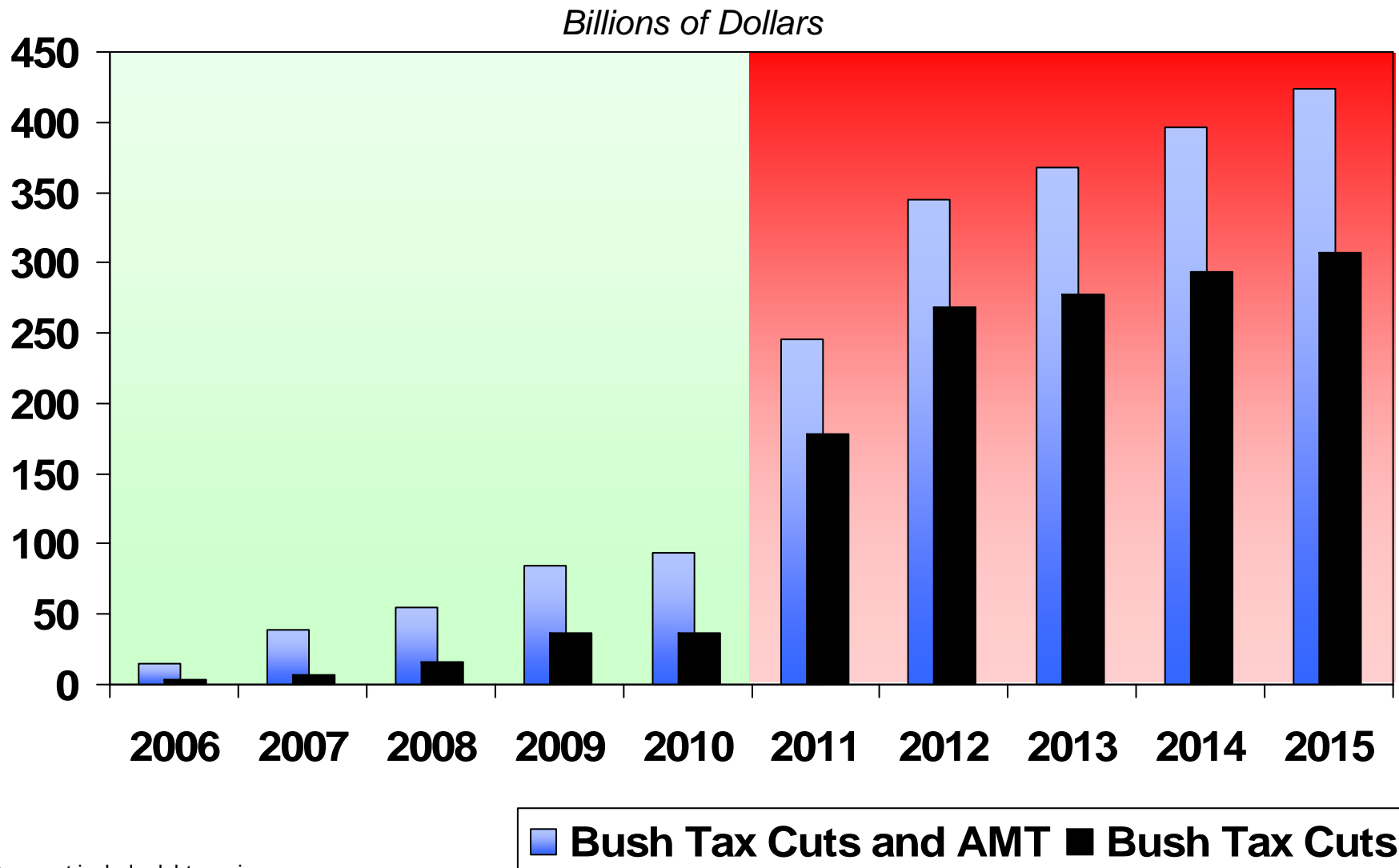
4/28/2005

2006 Budget Resolution Conference Report Cuts Non-Defense Purchasing Power by **\$150 Billion Over Five Years**

Billions of Dollars



Administration's Tax Cuts Add \$1.8 Trillion to Current Services Deficits After 2010



*Does not include debt service