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What's in the Budget Resolution?

The \$2.6 trillion budget resolution passed by Congress lays out an outline for federal tax and spending for the next five years. The resolution will cut services deeply for low-income people while allowing \$100 billion in new tax cuts, \$70 billion of which can be “fast-tracked,” or enacted by a simple majority in the Senate with no chance of filibuster.

Mandatory Program Cuts

The resolution directs certain committees in Congress to pass legislation that will cut mandatory programs within their jurisdiction. (Mandatory programs are those funded automatically, such as Medicare, Medicaid and Social Security.)

These directions – called “reconciliation instructions” – mark the start of the next phase of the budget for mandatory programs. The committees with instructions were originally instructed to produce a bill that cuts programs under their jurisdiction by a specified amount by September 16. The emergency caused by Hurricane Katrina has caused the Congressional leadership to postpone the deadline until after the Columbus Day recess (pushing consideration to no earlier than the week of October 17).

- ✂ **Medicaid will be cut by \$10 billion over five years.** The Senate Finance Committee and the House Energy and Commerce Committee will have to develop legislation that “saves” \$10 billion from Medicaid. If the Senate Finance Committee wants to add funding either within Medicaid or to other programs it oversees, it will have to cut more to arrive at a net reduction of \$10 billion.
- ✂ **Food Stamps are at risk.** The Agriculture Committees in the House and Senate must find \$3 billion from programs under their jurisdiction, which includes farm subsidies and Food Stamps.
- ✂ **Student loan programs** may also be tapped for cuts, by as much as \$7 billion over five years. The budget assumes that the maximum Pell grants award will be increased by \$100 per person in 2006, but other cuts in student aid may dwarf that modest step.
- ✂ **The total cuts in mandatory programs may be a floor – not a ceiling.** The total amount cut from mandatory programs in the budget is \$35 billion. But Chairman of the House Ways and Means Committee Bill Thomas (R-CA) says those cuts could climb higher. The House may choose to cut Medicaid more deeply, or may cut benefits or services not yet targeted. Mandatory programs under House Ways and Means include SSI, TANF, the Earned Income Tax Credit (EITC), child care, foster care and adoption assistance, child support collections, etc. These were not targeted for cuts under the budget resolution.
- ✂ **Any reconciliation bill will be very difficult to defeat.** Unlike most legislation, reconciliation bills cannot be filibustered and require just 51 votes for passage in the Senate.

Domestic Appropriation Cuts

Also included in the resolution is the total spending for programs that must be appropriated each year – also known as “discretionary” spending. Because the budget sets broad guidelines, it does not specify the level of funding by programs. The discretionary total approved in the budget resolution is divided up first by the House and Senate Appropriations Committees, giving funding amounts to each of their

subcommittees. The appropriation subcommittees will determine specific funding for each of their programs when they write appropriations bills.

- ✍ *Spending on domestic discretionary programs will be cut by \$23 billion in 2006, as compared to 2005 levels, adjusted for inflation.* This amounts to a 6 percent cut. Again, the resolution doesn't specify which program will be cut – that's a task left to the appropriators.
- ✍ *Cuts to discretionary programs will be even deeper in future years.* The resolution also sets spending guidelines over the next five years. If those guidelines are followed (and they need not be), domestic discretionary programs would be cut by \$212 billion over the next five years – a cut of about 15 percent after adjusting for inflation.
- ✍ Education, veteran's health care, housing and community development, workforce training, child care, Head Start, WIC, home energy assistance, environmental programs, certain child welfare programs and many others will be cut profoundly in coming years if Congress sticks to its appropriations guidelines.

Tax Cuts

The resolution makes room for \$100 billion in tax cuts over the next five years. The resolution does not specify which taxes will be cut. Reconciliation comes into play with tax cuts, too. Of the \$100 billion in the resolution, \$70 billion of the tax cuts will be protected in a reconciliation bill. The original resolution told the House Ways and Means and the Senate Finance Committees to pass a tax cut bill by September 23, which would also need just 51 votes to pass in the Senate. However, this has been put off until early November because of the impact of Katrina.

- ✍ ***Tax cuts expected to benefit the well-off.*** It is widely anticipated the tax cut bill will include extending capital gains and dividend tax breaks, which would otherwise expire in 2008. These tax breaks alone will give an average of \$38,000 per year to millionaires.

What's Next

Mandatory programs and tax cuts: Congress postponed the spending and tax cut reconciliation bills by at least a month because it must deal with the disastrous aftermath of Hurricane Katrina. Soaring need for Food Stamps and Medicaid by the survivors of the storm has made cuts in these programs highly problematic, and there have been bipartisan calls in Congress for indefinitely postponing the reconciliation spending legislation. Nevertheless, there will continue to be powerful efforts to enact both tax and spending cuts. Advocates can and must make an extremely strong case for rejecting the fast track approach of reconciliation bills, both because they will lead to cutbacks in programs that must now meet increasing needs and because the tax cuts are even more clearly irresponsible in the face of a national life-threatening emergency.

Discretionary programs: The House has passed all 11 of its appropriations bills. The Senate is less than half done with its versions. Only two appropriations bills have been fully completed. Complicating the Congressional schedule is the expected need for more supplemental appropriations bills for more of costs of recovering from Katrina. Advocates are proposing improvements in many programs to reduce or eliminate red tape and increase eligibility. Although the Appropriations chairs are resisting the idea so far, there is increasing speculation that many of the remaining appropriations bills will be folded into a large omnibus bill to be completed before the fiscal year's end, September 30. As with mandatory programs, advocates are pointing to the increasing demand for programs such as affordable housing, Head Start, and federal education aid to cope with the hundreds of thousands of displaced people.

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