

# ISSUE BRIEF

No. 3593 | MAY 7, 2012

## Why Budget “Reconciliation” Matters

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The spending reduction plan in the U.S. House of Representatives takes an important step toward fixing two huge budget and policy dilemmas facing Congress: the crude, across-the-board spending cuts mandated by last year’s debt ceiling agreement, and the unsustainable growth of entitlement spending, which threatens to overwhelm the budget and suffocate the economy.

This week’s scheduled House vote on meeting these challenges comes at a critical time, because: (1) Sequestration would do real damage to national defense and would slash other programs ineffectively; (2) with the entitlement crisis looming larger, Congress needs to get serious about spending reductions; (3) the legislation contains numerous beneficial policy reforms; and (4) delay is harmful and leads to ill-considered and poorly written policy.

Although it falls short in certain respects, the legislation—formally called budget “reconciliation”—is a key element for implementing the budget passed by the House in March. It is the only fully developed plan for addressing the near-term problem of sequestration and the longer-term issue of runaway entitlement spending.

**The Urgency of Reform.** The government’s trillion-dollar deficits and dangerously mounting debt are the products of undisciplined, rapid spending growth, mainly in the three largest entitlement programs: Medicare, Medicaid, and Social Security. Their combined spending, along with Obamacare, is projected to double by 2050. Even before that, they will begin consuming more than the government’s average annual tax revenues of the past 40 years, 18.1 percent of gross domestic product (GDP). When other entitlement programs are added, estimates show federal spending by mid-century will exceed an economy-smothering 40 percent of GDP. The longer Congress delays, the more likely are steep, sudden benefit cuts, sharply higher taxes, deeper deficits and debt—or all of the above.

Adding yet more urgency is the automatic enforcement

mechanism—“sequestration”—created by the Budget Control Act (BCA), the product of 2011’s debt ceiling debate. It forces \$1.2 trillion in across-the-board spending cuts with potentially disastrous consequences.

Half of the badly mismatched reductions come from national defense, which is less than one-fifth of total spending. This would produce catastrophic Pentagon cuts of about 10 percent each year through 2022, severely crippling the readiness of U.S. forces, curtailing long-standing security commitments at home and abroad, and leading to the loss of as many as 1.5 million defense sector jobs. Some of the damage has already started: The mere prospect of sequestration has caused defense companies to scale back their activities and lay off workers.<sup>1</sup>

The automatic enforcement, meanwhile, shields the very programs chiefly responsible for the looming entitlement crisis: Social Security and Medicaid are fully exempt from any automatic reductions, and all but 2 percent of Medicare is similarly protected. Hence a narrower band of nondefense programs, representing less than one-third of the budget, will be disproportionately subjected to the other half of the spending cuts.<sup>2</sup>

This paper, in its entirety, can be found at <http://report.heritage.org/ib3593>

Produced by the Thomas A. Roe Institute for Economic Policy Studies

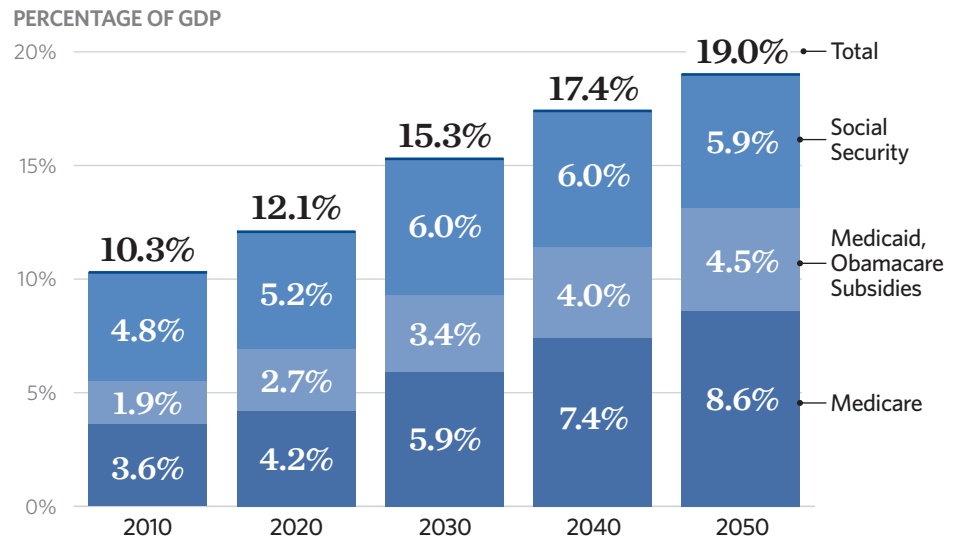
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CHART 1

## Entitlement Spending Will Nearly Double by 2050

*Spending on Medicare, Medicaid, Social Security, and the Obamacare subsidies will soar as 78 million baby boomers retire and health care costs climb. Total spending on federal health care programs will more than double. Future generations will be left with an untenable debt burden.*



**Source:** Congressional Budget Office, *2011 Long-Term Budget Outlook*, June 2011, Supplemental Data, <http://cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12212/2011-ltbo-supplemental-data.xls> (accessed May 4, 2012); and Budget and Economic Outlook, FY 2012-2022, Historical Budget Data, January 31, 2012, <http://www.cbo.gov/publication/42911> (accessed May 4, 2012).

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The House reconciliation package, fulfilling instructions in the House-passed budget resolution (H.Con. Res. 112),<sup>3</sup> addresses these significant problems with a pair of bills. One, the Sequester Replacement Act, replaces the sequestration for fiscal year 2013, setting the cap on annually appropriated (discretionary) spending at the House budget resolution level of \$1.028 trillion (\$19 billion below the \$1.047 trillion ceiling being used by the Senate, which has not passed a budget resolution).

The other bill, the Sequester Replacement Reconciliation Act, contains entitlement savings proposals

submitted by six House committees, as directed by the budget resolution, to take the place of the sequestration cuts. This second bill must be enacted before the first can take effect.

**Congress Must Act Now.** It is crucial that Congress act now to avert a disastrous spending and debt crisis and to halt the reckless depletion of national security.

Budget reconciliation was designed to help Congress slow spending growth and reduce deficits, mainly through changes in the exploding entitlements that are set largely on autopilot. But after several significant reconciliation

bills in the 1990s including the 1997 Balanced Budget Act, Congress drifted away from the practice and its original intent. The 2005 Deficit Reduction Act achieved a meager \$39 billion in savings over five years (about 0.2 percent of total spending for the period).<sup>4</sup> In 2010, Congress twisted the process to ram through two huge *expansions* of government: Obamacare and the government takeover of college loans.<sup>5</sup>

Congress clearly needs to restore the all-but-lost practice of moving legislation that *reduces* the size and scope of government. Shrinking the massive deficits and debt that

1. Baker Spring, "An Unacceptable Squeeze on Defense Modernization," Heritage Foundation *Webmemo* No. 3417, December 21, 2011, [http://thf\\_media.s3.amazonaws.com/2011/pdf/wm3417.pdf](http://thf_media.s3.amazonaws.com/2011/pdf/wm3417.pdf).
2. Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act*, September 12, 2011, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-12-BudgetControlAct.pdf> (accessed May 7, 2012).
3. *Concurrent Resolution On The Budget—Fiscal Year 2013*, U.S. House of Representatives, Committee on the Budget, pp. 131-135 and 144-145, <http://www.gpo.gov/fdsys/pkg/CRPT-112hrpt421/pdf/CRPT-112hrpt421.pdf> (accessed May 7, 2012).
4. Congressional Budget Office for the Conference Agreement on S. 1932, the Deficit Reduction Act of 2005, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/70xx/doc7028/s1932conf.pdf> (accessed May 7, 2012).
5. House Budget Committee, Republican Caucus, "The Costly Consequences of Health Care 'Reform,'" April 7, 2010, <http://budget.house.gov/UploadedFiles/HC-Ed-Final-7Apr10.pdf> (accessed May 7, 2012).

TABLE 1

## Reconciliation Instructions vs. Estimated Actual Savings, by Committee

IN MILLIONS OF DOLLARS

Committee	Budget Resolution Savings Instruction 2012-2022	Estimated Savings from Committee Submissions, 2012-2022
Agriculture	\$33,200	\$33,684
Energy and Commerce	96,760	113,370
Financial Services	29,800	30,363
Judiciary	39,700	48,623
Oversight and Government Reform	78,900	83,301
Ways and Means	53,000	68,245
Gross Savings	331,360	377,586
Remove Overlap*	69,900**	49,556***
Net Savings	261,460	328,030

\* Some proposals fall under the jurisdiction of more than one committee, resulting in overlapping savings estimates. This figure eliminates double counting.

\*\* House Budget Resolution figure.

\*\*\* Congressional Budget Office.

**Note:** Savings estimates are preliminary figures from the Congressional Budget Office and assume enactment around October 1, 2012.

**Source:** U.S. House of Representatives, Committee on the Budget, Legislation and Reports, Reconciliation Submissions by Committee, <http://budget.house.gov/BudgetAnalysis/Reconciliation.htm> (accessed May 4, 2012).

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threaten the budget and the economy will require a sustained commitment to spending control and several installments of spending reduction bills. The House reconciliation plan should be seen as a first step in a long-term process, with more such savings legislation to come.

A fundamental imperative of this plan is protecting national security capabilities. Reversing sequestration's deep defense cuts is crucial to the readiness of U.S. forces. It will also begin to restore a degree of predictability critical to the Pentagon's planning and the stability of the defense contractor base—a vital

contributor to the national security structure.

In addition, the entitlement savings legislation contains a number of beneficial policy reforms. It eliminates categorical eligibility in the Supplemental Nutrition Assistance Program, which ignores income and asset limitations in granting food stamps to people receiving cash welfare assistance. It also accelerates the sunset date for a temporary food stamp benefit increase provided by the 2009 stimulus bill. The bill implements an overdue reform of the National Flood Insurance Program that reduces the program's cost and

encourages its replacement by the private sector. The plan also terminates the Obama Administration's ineffective housing bailout, the Housing Affordable Modification Program. These are just a few of the legislation's constructive proposals.

Also noteworthy is that every one of the six committees contributing to the package overshot its savings target as defined by the budget resolution—some by substantial amounts (see table). Overall, the legislation will achieve about \$67 billion more in net deficit reduction (by preliminary estimates) than required by the budget resolution.

**Stronger Reforms Needed.** The legislation does have weaknesses. It suspends only one year of the sequestration, meaning Congress would have to address the issue again in 2013. Its first-year savings of about \$15 billion offset less than one-fifth of the \$78.5 billion sequestration reductions it would replace. Beyond that, the measure's \$328 billion in net savings trim just slightly more than 1 percent from federal entitlement spending over the next 10 years.<sup>6</sup>

Nevertheless, the measure reflects deliberate choices; it offers specific policy changes fleshed out in legislative form; and it is the product of an orderly legislative process, not a blunt-instrument enforcement regime.

It is also important that the House is acting now. When Congress procrastinates, the result is bad policy. In a crisis atmosphere, and facing tight deadlines, lawmakers tend to produce huge, hasty, and poorly developed legislation that typically spends more than necessary. By moving its reconciliation plan early

6. Congressional Budget Office estimates assuming enactment around October 1, 2012; see *Reconciliation Submissions by Committee*, Committee on the Budget, U.S. House of Representatives, <http://budget.house.gov/BudgetAnalysis/Reconciliation.htm> (accessed May 7, 2012).

in the year, the House is allowing time to work it thoughtfully through the legislative process. The Senate should promptly follow suit.

**Serious Steps to Meet Serious Problems.** As the practice of congressional budgeting has deteriorated in recent years, the government's fiscal condition has worsened. Last year's ad hoc debt ceiling agreement failed to make any significant progress in taming entitlement spending growth. Its alleged spending caps are perforated with loopholes, and the government's profligate spending continues.

By passing a serious budget resolution in March, the House took a key step toward restoring fiscal discipline. This week's reconciliation legislation would go a long way toward meeting the budget's goals. It should be taken seriously and should be viewed as a first step toward tackling the serious spending and debt challenges confronting the nation.

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