

On April 28, the U.S. House and Senate each passed the Budget Conference Report for Fiscal Year 2006.<sup>1</sup> The budget lays out the broad outlines of federal tax and spending policies which will be worked out further in specific appropriations bills and in a final omnibus reconciliation bill in September, prior to the start of the new federal fiscal year on October 1. One of the oft-stated purposes of passing a budget resolution is to eliminate deficits and control federal spending by getting Congress to match spending with revenues. Unlike most other legislation, the budget resolution does not go to the President for his signature, but instead is used to provide guidance to the various congressional committees that have jurisdiction over tax and appropriations legislation.

The budget conference agreement calls for significant cuts in domestic programs. But contrary to what one might expect, these cuts do not result in deficit reduction. In fact, because the budget resolution also provides for substantial new tax cuts and increases in funding for defense and international programs, the budget resolution passed by Congress would **increase** deficits over the next five years by \$168 billion, compared with the deficits that would occur if spending and tax policies continued at current levels.<sup>2</sup>

Below is a closer look at some of the specific details in the budget agreement passed by Congress. It describes how the budget resolution would result in \$30.5 billion in cuts to entitlement programs, including up to \$10 billion in cuts in Medicaid, as well as severe reductions in Food Stamps and other programs serving low-income Minnesotans. It also describes how, although the budget resolution was negotiated to set the *maximum* cuts that would occur, the House may push for even larger cuts in appropriations bills. The budget resolution also includes \$212 billion in cuts to discretionary spending over five years, as well as \$106 billion in new tax cuts for high-income Americans.

### Entitlement Cuts Hit Medicaid, Food Stamps

Under the budget resolution, a number of congressional committees must report legislation no later than September 16 to make a specified level of cuts in mandatory (or entitlement) programs.<sup>3</sup> These bills will then be merged into a single bill known as a “reconciliation” bill. This reconciliation bill will move through a fast-track legislative process which protects it from a filibuster in the Senate and also makes it difficult to amend.

The budget resolution features cuts in entitlement or mandatory programs totaling \$30.5 billion over the next five years, including up to \$10 billion in cuts to Medicaid, as well as cuts in Food

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<sup>1</sup> The House passed the budget by a vote of 214 to 211. Minnesota Representatives Kennedy and Kline voted for the Conference Report. Representatives Gutknecht, Oberstar, McCollum, Peterson, Ramstad, and Sabo voted against the Conference Report. The Senate passed the budget by a vote of 52 to 47, with Senator Norm Coleman voting for the budget agreement and Senator Mark Dayton voting against it.

<sup>2</sup> Except where otherwise noted, data in this document is from the Center on Budget Policies and Priorities, *Assessing the Conference Agreement on the Budget Resolution*, [www.cbpp.org/4-28-05bud.htm](http://www.cbpp.org/4-28-05bud.htm).

<sup>3</sup> Under “mandatory” or “entitlement” programs, program parameters continue as established under law unless changed by Congress. In contrast, “discretionary” programs must have their funding levels passed each year by Congress.

Stamps. As of April 2005, over 585,000 Minnesotans, including low-income families with children, seniors, and people with disabilities, were covered by Medical Assistance or other state health care programs funded in part by federal Medicaid dollars.<sup>4</sup>

If \$10 billion is cut from Medicaid, Minnesota could lose up to \$160 million in Medicaid funding over the next five years. Cuts of this size would undoubtedly lead to some Minnesotans losing access to health care. People do not stop becoming sick or needing operations simply because the federal government chooses to cut its spending on Medicaid. Those who lose their health care coverage will show up in greater numbers at emergency rooms of local hospitals for treatment, the most expensive type of health care. Additional financial pressures will be placed upon state and local governments to provide health care for those who may be trimmed from state health care programs because of cuts to Medicaid.

The Food Stamp Program was created in the 1960s in response to widespread concern about hunger in poor communities. While hunger still exists in the U.S., the Food Stamp Program and the Women, Infants, and Children (WIC) nutrition programs have significantly reduced hunger and malnutrition in America. In 2004, Food Stamps helped 25.5 million families buy food each month by providing them with electronic debit cards that can be used only to purchase food. Over 253,000 Minnesotans participate in this important federal anti-hunger program.<sup>5</sup>

The federal budget resolution includes cuts to Food Stamps that are expected to be at least \$600 million and could be as high as \$3 billion over five years. These cuts will be considered in the House and Senate Agriculture Committees, where the Food Stamp Program is pitted against popular agriculture commodities subsidies. The chairmen of the House and Senate Agriculture Committees have previously indicated their willingness to make deep cuts to Food Stamps, even though most of those cuts would fall on low-income working families with children.

Food Stamp benefits currently average less than \$1 per person per meal. Here in Minnesota, community food banks report that the demand for food has increased significantly in recent years, and that many people who are currently eligible to participate in the Food Stamp Program have not done so. Against this backdrop of increasing need here in Minnesota, any cuts to Food Stamps will increase the incidence of hunger and malnutrition among low-income families.

## Entitlement Cuts Could Be Even Bigger

More alarming than the size of the cuts described above is the possibility that the actual cuts in entitlement programs could be even bigger than those included in the final budget resolution. At a press conference the day after the budget conference agreement passed, Representative Bill Thomas, the Chairman of the House Ways and Means Committee, said that, "The numbers in the budget are minimums, not maximums...And I think you'll find in dealing with minimums and maximums, the House wants to make a far bolder statement than the budget act legislation looks like right now. Our job was to get the House and Senate in agreement. We'll now go to work on the House's version of the budget."

The budget agreement calls for total entitlement cuts of \$30.5 billion, which is already twice as much as the \$17 billion in reductions that were part of the Senate's original budget resolution.

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<sup>4</sup> Minnesota Department of Human Services.

<sup>5</sup> Minnesota Legal Services Advocacy Project, *What If It All Came Home?*, [www.lsapmn.org/documents/168461Food Stamp Report.pdf](http://www.lsapmn.org/documents/168461Food%20Stamp%20Report.pdf).

Chairman Thomas' statement, however, suggests that at least the Ways and Means Committee may be looking to make much deeper cuts. While congressional budget rules technically *allow* committees to make cuts that are deeper than those called for in the budget resolution, it is unprecedented for committees to do so. By doing so, the House could effectively force the Senate to renegotiate the terms of the budget resolution itself, with the possibility of undoing some of the concessions which the Senate won from the House to reduce the level of entitlement cuts. To avoid reopening the overall level of entitlement cuts, the Senate would have to reject *all* of the additional cuts that might be proposed by the House — which is a difficult position to maintain, especially in a conference committee.

What is at risk if there are additional cuts in the Ways and Means committee? The final budget resolution only requires the committee to achieve \$1 billion in entitlement cuts over the next five years — much smaller than the original House budget resolution, which called for \$18.7 billion in cuts. Larger cuts in the Ways and Means Committee would threaten many services for low- and moderate income Minnesotans that were shielded from cuts by the congressional budget resolution, including:

- Supplemental Security Income (SSI), which provides income support to low-income elderly individuals and people with disabilities;
- the Earned Income Tax Credit (EITC), which lowers taxes on low-income working families; and
- Grants to states for human services, including Temporary Assistance to Needy Families (TANF), child care, foster care and adoption assistance, child support enforcement, unemployment insurance, and the Social Services Block Grant.

## Domestic Discretionary Spending Cut, Defense Spending Increased

Domestic discretionary spending includes education, veterans' health care, environmental protection, housing, and many other funding areas. The congressional budget resolution cuts funding in these areas by a total of \$212 billion over the next five years, compared to what funding levels would be if they simply kept up with inflation.

Under the budget resolution, funding for domestic discretionary programs would be reduced by \$23 billion in 2006 alone, or 5.9%, in real terms. The cut would grow to \$59 billion, or 13.5% 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.)

In contrast, funding for defense and international discretionary programs would be increased by \$186 billion over five years under the Congressional budget resolution, with most of this increase going to defense. This additional funding — plus the 2005 Supplemental Appropriation for Iraq and Afghanistan — increase expenditures by \$199 billion over five years.

## Tax Cuts for the Wealthy

The budget agreement includes new tax cuts totaling \$106 billion over five years, with \$70 billion of these cuts to be achieved through a fast-track reconciliation process. The tax cuts are widely expected to include extension of the capital gains and dividend tax cuts, which cut taxes on unearned income and disproportionately benefit people at the highest income levels.

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% – of the benefits of these tax cuts in 2005 go to households with incomes over \$1 million, which make up only 0.2% of all households. Nearly four-fifths (78%) of the dividend and capital gains tax cuts go to the 3.1% wealthiest households (those making more than \$200,000 annually). The extension of these tax cuts would come in addition to billions of dollars of tax cuts already enacted over the past four years.

Ongoing efforts in Congress to repeal the estate tax, if successful, will reduce federal revenue even more and ensure ever-deepening deficits into future years. Contrary to the claims of the proponents of these additional tax cuts, federal government revenues today are lower as a share of the economy than in any year of the 1960s, 1970s, 1980s, or 1990s.

### **Conclusion: More Pain for Low- and Moderate-Income Minnesotans**

Regrettably, the budget resolution passed by Congress is fiscally irresponsible because it will actually **increase** the size of the federal deficit by \$168 billion over the next five years – a result plainly at odds with the original purpose of passing a budget resolution, which is deficit reduction. This increased deficit will force the federal government to spend \$36 billion more in interest payments on the national debt over the next five years – money that won't be spent productively on health care, nutrition, housing, child care, and other vital services. The increase in the federal deficit is largely attributable to the \$106 billion in new tax cuts aimed at the wealthiest people in America. In contrast, Medicaid could be cut by up to \$10 billion over the next five years, and up to \$3 billion could be cut from Food Stamps. The outcome could be even worse if the House moves forward with legislation making bigger entitlement cuts than those agreed to in the final budget conference report. In addition, discretionary spending for education, veterans' health care, environmental protection, housing, and other programs could be cut by \$212 billion over the next five years.

By approving this budget resolution, Congress has failed to provide a fair and balanced approach to deficit reduction. Instead, they have passed a budget that will increase the number of Minnesotans without access to health care, will increase the number of families without access to Food Stamps, and will increase the financial burdens facing state and local governments to make up for these cuts at the federal level

Over the next four months, the appropriations committees in both the House and Senate will be working out the final details of exactly when and how much will be cut from vital human services that serve thousands of low- and moderate-income Minnesotans, including seniors and people with disabilities. Because the budget resolution does not provide specific details in every instance, Congressional committees will have some latitude to determine the scope and impact of any cuts. While the debate over the budget resolution is now over, the debate over specific appropriations bills, which must be passed by the start of the new fiscal year on October 1, is just beginning.