



TO: ALLIES AND INTERESTED PARTIES
FR: CENTER FOR COMMUNITY CHANGE
RE: BUDGET UPDATE AND ASSESSMENT

Background

In late April 2005, Congress passed a final version of the FY06 federal budget resolution. This bill provides the basic guidelines for all federal spending for the rest of the year. Unfortunately, this year's federal budget reflects entirely the wrong priorities. Much as we expected, the budget resolution passed by Congress is extremely harmful to low and moderate-income families, while creating vast new benefits for a wealthy few.

Under the guise of reducing the federal deficit, the budget resolution includes deep cuts in spending on social programs, such as Medicaid, housing, Food Stamps, veterans' health care, environmental protection, housing assistance, and student loan programs. However, because the budget resolution also includes significant new tax breaks, this bill will actually *increase* the deficit by \$168 billion over the next five years.

This year's budget resolution addresses two kinds of federal spending: mandatory spending (also called entitlement spending) and discretionary spending (also called appropriated spending). Mandatory spending covers programs like Medicaid and Medicare, Food Stamps, TANF, the Earned Income Tax Credit (EITC), SSI, some child care funding, child welfare and student loans. Discretionary spending covers programs like housing assistance, WIC, education, environmental protection, and veterans' health care to name just a few.

Both types of spending face steep cuts this year. Mandatory spending programs must be cut by at least \$35 billion, while discretionary spending programs face more than \$200 billion in cuts. In contrast to these program cuts, the budget includes more than \$100 billion in new tax breaks widely expected to overwhelmingly benefit those at the highest income levels.

What Happens Now?

Now that the budget resolution is finished, Congress must begin the difficult task of making these cuts. This will happen through two separate processes:

1. ***The appropriations process.*** This process is how Congress will make cuts to discretionary programs like housing assistance, WIC, heating and energy assistance, education, and environmental protection programs. The Appropriations Committee has already begun working to write 13 different appropriations bills. Each bill deals with a different area of federal spending, although the ones that most directly affect low-income families are usually the

Labor-HHS-Education bill (which covers programs like job training, education, some child care spending, heating and energy assistance, and some nutrition programs) and the VA-HUD bill (which covers programs like housing assistance and veterans' health care). For a full list of the 13 bills, you can visit the [Senate Appropriations](#) website.

The Appropriations Committee should finish its work on most of these bills by mid- to late-summer. After that, each of the bills will be debated on the floors of the House and Senate, where they can be amended and changed (although this is often quite difficult to do) and will eventually be voted on by the full House or Senate. Because the appropriations bills passed by the House and Senate often differ in their details, the bills will then have to be “conferenced” to work out these differences. Finally, the conferenced version of each of the 13 bills will be sent back to both chambers for a final vote. All of this work should be done by the end of September (although Congress has missed this deadline several times in recent years).

2. **Reconciliation.** This is a special process that is sometimes included in the budget resolution, and is used to cut spending on mandatory programs such as Medicaid, Food Stamps, TANF, EITC and some child care spending. Reconciliation is entirely separate from the appropriations process. Under the reconciliation process Congress has no choice but write legislation that proposes how to cut programs by a predetermined amount. That amount this year is \$35 billion. Although the budget resolution doesn't specify which programs must be cut to achieve these savings, there are usually certain assumptions about which programs will be cut. For example, this year it is widely expected that the Medicaid program faces about \$10 billion in cuts, Food Stamps face as much as \$3 billion in cuts, and student loan programs face about \$7 billion in cuts.

It is important to understand that although it is still possible to try to protect individual programs from cuts, the committees do not have the option of simply refusing to make cuts. This creates an unfortunate dynamic where a number of programs that are equally important to low-income families wind up being pitted against each other. For example, the Senate Finance Committee must come up with \$10 billion in program cuts. Right now, it is assumed that almost all of those cuts will come from Medicaid. However, if the committee decides not to cut Medicaid so deeply, it still must find \$10 billion in total savings. Whatever is not cut from Medicaid must be cut from other programs in its jurisdiction, such as TANF, EITC, SSI, child welfare, or child care subsidies. At this point there is no way for the committees to avoid the overall cuts; it is now just a question of which programs will bear the worst of it.

Both the House and Senate must draft a “reconciliation bill” outlining how these cuts will be made by September 16th of this year. Because the reconciliation process creates special protections for the bill, it is very difficult

to stop the process from moving forward. In the Senate, in particular, the bill cannot be “filibustered” (a tactic used to prevent the bill from coming to a vote). However, the bill can be defeated on the floor if enough members of Congress oppose such cuts to programs that serve low-income people. If we are to stop these cuts from becoming law, it will be critical that our elected representatives hear from us in the strongest terms that we oppose these cuts and expect them vote against any reconciliation bill.

Congress is beginning its work on this reconciliation bill now, as different committees start to look at the programs under their jurisdiction for potential cuts. It is likely that this will take most of the summer, as the committees work toward the deadline of September 16th to produce legislation cutting or otherwise creating savings in these programs.

What Does this Mean?

Congress has used the problem of the growing federal deficit to justify cutting programs that serve low-income families. However, because the budget resolution includes significant new tax breaks it will *increase* the deficit by \$168 billion, not reduce it. What Congress is actually doing is using cuts to low-income programs to pay for tax breaks for the super-rich. This budget resolution puts the desires of an elite few above the most basic needs of many ordinary Americans. By slashing funding for social programs by nearly one-quarter of a trillion dollars, vastly increasing defense spending, and creating even more new tax breaks that overwhelmingly benefit only the very richest among us, this Congress has made clear that it has the completely wrong priorities.

Our ability to improve the federal budget process is very limited at this point. Congress must now act to make the mandatory program cuts outlined in the budget resolution. It is critical to understand that if we urge members of Congress to protect one program, it will almost inevitably come at the expense of another program that is equally vital to the well-being of low-income families. Adding to the difficulty, there are some signs that certain key members of Congress are considering even deeper cuts than those required by the budget resolution. In particular, Representative Bill Thomas (R-CA), chair of the powerful House Ways & Means Committee, has suggested that the cuts outlined in the budget resolution are “minimums, not maximums.”

Given these circumstances, it is difficult to imagine any acceptable way out of the reconciliation process, other than to simply oppose it entirely. While we understand the importance of protecting programs and services that are critical for low-income families and trying to limit the cuts to just those outlined in the budget resolution, we are deeply concerned about playing into a dynamic that pits these programs against each other. Low-income families depend on all of these programs for their well-being, and protecting one program at the expense of another ignores the reality of many low-income families’ lives. Advocates and allies must make clear to our elected representatives that:

- We understand that the program cuts now being contemplated by Congress are not necessary, do nothing to reduce the federal deficit, and instead are being used to pay for vast new tax breaks that will benefit only the richest people in the country.
- We recognize that the current budget resolution reflects a set of choices that this Congress made, and that their priorities are not our priorities.
- We strongly oppose any cuts to programs that serve low-income families. Efforts to cut multiple programs – like Medicaid, Food Stamps, housing assistance and the EITC – will have catastrophic effects for some low-income families who rely on all of these programs to meet their needs.

It is vitally important that members of Congress also oppose these cuts, and they should be urged to vote against any reconciliation bill that includes such dangerous and thoughtless cuts.