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Congress Should Pursue a 2019 Budget for Reconciliation

Justin Bogie and Adam N. Michel

Reconciliation is one of the most powerful tools available to Congress to pass meaningful legislation. Letting a chance to use it slip away would be a major failure. The Congressional Budget Office estimates the national debt will grow by \$13 trillion in the next decade.¹ Following the budget process and passing reconciliation legislation in 2018 is critical to restoring fiscal sanity. Delaying reforms will make the nation's fiscal situation even more dire, leaving Congress with limited options in the event of another crisis, creating pressure to either increase taxes, significantly and suddenly cut spending, or both. Both could have long-term negative economic impacts. For the future of our country, it is imperative that Congress pass reconciliation legislation this year.

Reconciliation allows Congress to expedite consideration of legislation impacting current spending and revenue levels and those effecting the statutory debt limit. The budget resolution sets spending, revenue, and debt levels, and then reconciliation bills are used to “reconcile” the targets in the budget.

These broad goals allow Congress to use reconciliation to implement major legislative changes. Most recently, Congress leveraged reconciliation for the first comprehensive tax reform legislation in over 30

years. It is a particularly powerful tool in the Senate because reconciliation bills are privileged, and debate time is limited to 20 hours and not subject to filibusters.² This allows the Senate to pass reconciliation legislation through a simple majority vote instead of the normal 60-vote threshold required to invoke cloture. The original intent of the process was to ease partisan gridlock and ensure that spending and tax bills could be passed before the start of the next fiscal year.³

The Reconciliation Process

Reconciliation takes place in several stages. First, the House and Senate craft and adopt a budget resolution that include reconciliation instructions to specific committees so that they can develop legislation that meets a budgetary goal. Next, the designated committees craft legislation intended to fulfill those instructions. The legislation is then grouped into one bill and reported to the full House or Senate. Once the bill has been assembled and reported out by the budget committee, the House and Senate take up their own reconciliation bill. If differences arise, a conference committee is formed to resolve them. Finally, the conferenced bill receives a vote in each chamber and is then sent to the President to approve or veto.⁴

In 2017, Congress passed the first major tax-reform legislation since the 1980s. While the long-term effects of tax reform should provide a much needed boost to the nation's economy, in the short term, the Congressional Budget Office and the Joint Committee on Taxation estimate that the act will reduce federal revenues by up to \$1.8 trillion on a static basis.⁵ Static budget scores provide little use-

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

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ful information about how tax reform will actually affect debt levels. Over the long term, tax reform should lead to a larger economy and higher wages, which will result in more tax revenue.⁶

In February, Congress passed the Bipartisan Budget Act of 2018, which lifted the Budget Control Act discretionary spending caps for 2018 and 2019, among other provisions. Estimates indicate that the budget deal could increase debt by as much as \$2 trillion over the next decade.⁷

A Missed Opportunity

Pursuing tax reform was an important part of fulfilling the President's agenda, as well as updating the tax code with pro-growth changes that were long overdue. Tax reform should have been followed up with significant spending cuts and reforms. Instead, Congress did the opposite by boosting spending. If Congress does not quickly turn to significant spending reforms, much of the progress made through tax reform could quickly be undone or completely reversed—leaving the country with higher tax rates and a larger debt than before. Pairing tax and spending reforms can strengthen the permanency of tax reform and put the federal budget on a more sustainable path.⁸

Congress still has an opportunity to implement spending reforms this year through the reconciliation process. This would go a long way toward reducing the newly created spending resulting from the Bipartisan Budget Act of 2018 and beginning to stabilize unsustainable entitlement programs.

The Major Players

There are any number of both large and small reforms that Congress could pursue through reconciliation in the 2019 budget. The three biggest drivers of federal spending are Social Security, Medicare, and Medicaid. While the reconciliation process walls off Social Security from reforms, Congress can still make significant reforms to Medicare and Medicaid through this process, streamlining health care systems and ensuring benefits are there for those who truly need them.

President Trump and Congress have also shown interest in pursuing welfare reform. The current system has failed the poor, undermining human well-being and promoting destructive behaviors—all at an extreme cost to taxpayers. Congress should utilize reconciliation to pursue welfare reform this year, such as by strengthening work requirements and requiring states to assume a higher share of welfare costs.

Agriculture is another area in which Congress could pursue reforms through reconciliation. The last version of the farm bill was passed in 2014, and Congress could take additional action before the end of this year. Congress should pursue reforms to the food stamp programs and the safety net programs provided to farmers through commodity programs.

One big unfinished item is repealing and replacing the Dodd-Frank Act. Based on a 2017 Congressional Budget Office analysis of the Financial CHOICE Act, implementing reforms such as restructuring the Consumer Financial Protection Bureau (CFPB) and replacing Dodd-Frank's Orderly Liquidation Authority would reduce federal deficits by more than \$24 billion.⁹

1. Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*, April 9, 2018, <https://www.cbo.gov/publication/53651> (accessed April 26, 2018).
2. Megan S. Lynch and James V. Saturno, "The Budget Reconciliation Process: Stages of Consideration," *Congressional Research Service Report for Congress*, January 4, 2017, <https://fas.org/sgp/crs/misc/R44058.pdf> (accessed May 18, 2018).
3. Jeff Davis, "The Rule that Broke the Senate," *Politico*, October 15, 2017, <https://www.politico.com/magazine/story/2017/10/15/how-budget-reconciliation-broke-congress-215706> (accessed April 3, 2018).
4. The Heritage Foundation, "Heritage Explains Budget Reconciliation," <https://www.heritage.org/political-process/heritage-explains/budget-reconciliation>.
5. Congressional Budget Office, "Estimated Deficits and Debt Under the Conference Agreement of 1/2/2018 H.R. 1," January 2, 2018, <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/53437-wydenltr.pdf> (accessed May 18, 2018).
6. Adam Michel, "Congress's Spending Addiction Shouldn't Stop Tax Reform," The Heritage Foundation, December 1, 2017, <https://www.heritage.org/taxes/commentary/congresss-spending-addiction-shouldnt-stop-tax-reform>.
7. Committee for a Responsible Federal Budget, "Budget Deal Could Ultimately Add \$2 Trillion in Debt," February 8, 2018, <http://www.crfb.org/blogs/budget-deal-could-ultimately-add-2-trillion-debt> (accessed March 5, 2018).
8. Romina Boccia and Adam N. Michel, "Pathways for Pro-Growth, Fiscally Responsible Tax Reform," The Heritage Foundation *Backgrounder* No 3219, May 25, 2017, <https://www.heritage.org/sites/default/files/2017-05/BG3219.pdf>.
9. Norbert J. Michel, "Budget Reconciliation: A Viable Path for CHOICE Act Reforms," *Forbes*, September 4, 2017, <https://www.forbes.com/sites/norbertmichel/2017/09/04/budget-reconciliation-a-viable-path-for-choice-act-reforms/#5cb3e0a0496f> (accessed May 23, 2018).

Congress should also use reconciliation to continue updating the tax code. The Tax Cuts and Jobs Act of 2017 was a landmark achievement, but much of the reform is temporary and many pro-growth reforms were neglected.¹⁰ By simply extending the 2017 reform permanently and making other small changes, Congress could more than double the economic boost from the Tax Cuts and Jobs Act.¹¹ The next phase of tax reform should also comprehensively repeal targeted tax subsidies of all types, including “tax extenders” contained in the Bipartisan Budget Act of 2018. These corrupt policies distort markets and reduce opportunity for taxpayers without political connections.¹²

Conclusion

America’s current debt problem is the result of too much spending, not too little taxation. Mandatory or “auto-pilot” spending accounts for two-thirds of the federal budget. The congressional budget office projects that by 2039 federal spending on Medicaid, Medicare, Social Security, and interest on the debt will outpace

all revenues.¹³ The longer Congress waits to address reforms to these programs, the more dire the fiscal situation will become. Congress should use reconciliation to begin reforming Medicare and Medicaid now, and take other legislative action to reform Social Security.

When combined with all other mandatory reforms featured in *Blueprint for Balance*,¹⁴ Heritage experts estimate that as much as \$6 trillion in 10-year savings could be realized through reconciliation. Even implementing a fraction of that would be a first step toward implementing crucial reforms and putting the budget on a sustainable path.

Passing a budget is one of the fundamental duties tasked to Congress each year. This year more than ever, Congress must recommit to fiscal responsibility and pursue major reforms through reconciliation.

—**Justin Bogie** is Senior Policy Analyst in Fiscal Affairs in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation. **Adam N. Michel** is Policy Analyst in the Roe Institute.

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 11. Adam N. Michel and Parker Sheppard, “Simple Changes Could Double the Increase in GDP from Tax Reform,” Heritage Foundation *Issue Brief*, forthcoming.
 12. Adam N. Michel, “Stop Extending Bad Policy—Let the Tax Extenders Die,” The Heritage Foundation *Issue Brief* No. 4809, January 17, 2018, <https://www.heritage.org/taxes/report/stop-extending-bad-policy-let-the-tax-extend-ers-die>.
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 14. Romina Boccia et al., *Blueprint for Balance: A Federal Budget for Fiscal Year 2018*, The Heritage Foundation, March 28, 2017, <https://www.heritage.org/budget-and-spending/report/blueprint-balance-federal-budget-fiscal-year-2018>.
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