THE PUBLIC POLICY CENTER OF
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POLICY BRIEF

WHAT WILL BE THE SIZE OF THE RECONCILIATION BILL?
WILL IT BE PAID FOR?

September 17, 2021

The budget reconciliation process in the House and Senate continues to get nowhere special at breakneck speed. Under pressure from a commitment by House Speaker Nancy Pelosi to hold a vote on a final reconciliation bill on September 27, the various House Committees that were charged to produce component bills for the reconciliation package have reported their legislation. This process is moving so fast that the publicly available documentation has not yet caught up. However, there are clear signs that the bill as it stands—in which serious issues remain unresolved, including one major difference between two House Committees—would not garner the necessary 50 votes in the Senate.

What will be the price tag on the pending budget reconciliation bill? No one knows. *Absolutely* no one knows.

The Budget Resolution for Fiscal Year 2022 allows a budget reconciliation bill with a maximum gross price tag of $3.5 trillion. Although there are some “progressives” in the House who say that $3.5 trillion is their floor, that tent seems to have folded in strong political and procedural winds.

There is no Republican support in the House and the Senate for any budget reconciliation bill. Therefore, to become law, the reconciliation bill must be agreed to by all Democratic Senators, and all but three Democratic Representatives.

Senate Budget Committee Chairman Bernie Sanders of Vermont says that he will not compromise on the $3.5 trillion total, because he always wanted $6 trillion, and so he has compromised already. But it is of course within the rules for the bill to come in below $3.5 trillion, and there are moderates in the House and in the Senate (Senator Joe Manchin of West Virginia gets much of the attention, but there is also at least Senator Kyrsten Sinema of Arizona, and probably more) who have said they will not accept a bill as large as the full $3.5 trillion. And there are reportedly Democrats in the House who feel the same way. One Democrat on the House Ways and Means Committee, Rep. Stephanie Murphy of Florida, voted against the paid family and medical leave provision of the bill in Committee markup, citing the absence of complete legislative language. The moderate Democrats of the Problem Solvers Caucus are likely to share some of those concerns.

While the outcome is indeterminate, one force that is driving the Democrats toward an agreement at this point is heavily political. They want something to motivate their voters to maintain their majority in 2022; and they want a legislative victory for President Biden now to motivate his voters in 2024. Neither party extreme will want to be blamed for defeat in either of those elections. And at the same time, many Democrats see this bill as a rare opportunity to accomplish some of their long-held objectives, regardless of the political consequences. Thus, there will be pressure for them to come together, somehow.

The various House Committees have completed the component bills that will be combined in the end product, the reconciliation package. (The term "reconciliation" denotes that the individual substantive Committees, not the Budget Committee, write the component bills that "reconcile" to the Budget Resolution's instructions.) The Ways and Means Committee, which has the broadest reconciliation responsibility, including important entitlement programs (notably Medicaid, and shared Medicare jurisdiction with two other Committees) and for revenues, has been the most active.

The Ways and Means spending increases were so aggressive that they elicited a thinly veiled rebuke from the White House, which said that the proposals had not been negotiated with or approved by the Administration. However, perhaps equally importantly, those proposals were not negotiated with the Senate, either. There is probably a temptation to hang on every section and subsection of any bill that comes out of a House Committee in this process. It seems like a concrete step revealed in an otherwise closed negotiation, a part of the final product in some form. However, the negotiators have not yet even taken their seats at the table; the House is working in isolation from the Senate and is dominated by Members who want more rather than less. There is painful consensus-building to undertake before the final product begins to take shape. And that consensus will clearly be below the $3.5 trillion ceiling.

The list of priority spending areas is long, in keeping with the gestation of the bill from a $6 trillion wish list. It includes, but is by no means limited to:

1. From the Ways and Means Committee: Paid family leave; tax credits for child and elder care; higher wages for child care workers; automatic enrollment of employees in 401(k) plans; and Medicare dental, vision and hearing coverage (which would be expensive, and would further shorten the life of the program's trust fund). (Chairman Sanders reportedly wants to reduce the Medicare eligibility age to 60, but that did not show up on the Ways and Means Committee agenda, though Chairman Sanders could try to insert it in the Senate.)
2. From the Education and Labor Committee: Universal pre-kindergarten; two years of free community college; larger Pell grants; rehabilitation of school buildings; job training; and making permanent the child nutrition programs from the pandemic relief bills.
3. From the Natural Resources Committee: Higher fees for oil drilling on public lands; increased offshore wind permitting; a "climate corps;" and programs for combatting wildfires and other resilience efforts against climate change.

Almost all of these initiatives either add to spending or reduce revenues, and hence increase the budget deficit.

Will the reconciliation bill be paid for? Not likely.

Speaker Pelosi has said that it would be a positive if the bill were fully paid for, and that we would see at the end of the day. But perhaps the most discouraging early development was Chairman Sanders saying that the bill would be paid for with "a combination of new tax revenues, health care savings, and long-term economic growth."

The referenced health care savings are centered on Medicare price bargaining over pharmaceutical prices, which is betting on another zero-sum negotiation (in that instance between the public and private sectors rather than within the legislative branch), with estimates of the outcome being all over the lot. This provision is both huge in terms of budget savings and hugely controversial. Advocates of price negotiation point to large pharmaceutical company profits. Opponents point to the high cost of generating new drugs, and reference the COVID-19 vaccine. At this stage, Medicare drug negotiation has proved so controversial that while it passed in the Ways and Means Committee, it failed (on a tie vote, with three Democratic defections—the precise number of votes that Democrats can afford to lose for House passage on the floor) in the Energy and Commerce Committee, which has joint jurisdiction over Medicare. The Congressional Budget Office (CBO) has estimated the savings from drug price negotiation at over $450 billion over 10 years, and so this provision is clearly material in any claims that reconciliation is paid for.

And there are dueling estimates of the economic effects of a package of this sort; Moody's Analytics says that it would increase growth, while the Penn Wharton Budget Model says the opposite. But it is worth noting that with many of the benefits of initiatives in the plan being non-monetary (for example, better health and quality of life for seniors because of the expensive expansions of Medicare to hearing, vision and dental care), it will take a lot of economic growth to generate sufficient tax revenue to pick up the tab.

A numerical table of the impacts of the tax provisions in the Ways and Means bill, which will carry the largest load of paying for the bill, snuck out from under the Committee doors during the process. Not all of the provisions of the bill had been estimated, and the missing items will probably cost revenue.

But putting the pieces all together, the tax title of the bill would raise about $2.1 trillion, but would "spend" (through tax cuts) about $1.2 trillion, leaving a net revenue gain of only about $0.9 trillion. If the sum of spending and tax cuts were truly $3.5 trillion, that would leave a $1.4 trillion budgetary hole—which is a lot of drug price negotiating and a lot of economic growth.

The table showing the tax bill's provisions runs more than 11 pages, but here are some of the highlights, with a little commentary on the key provisions:

1. Infrastructure and Community Development: Tax credits for infrastructure, housing, and related purposes would cost $132 billion over ten years.
2. The "Growing Renewable Energy and Efficiency Now (GREEN) Act:" Tax cuts for renewable electricity, other renewable fuels, building modifications, electric vehicles (with a very small provision for fuel-cell vehicles), and related purposes would cost $235 billion. There will be debate over whether the green technologies gathering the headlines today are in fact fully ripe for long-term investment, or whether better technologies are not far beyond the horizon. Senator Manchin has indicated that he does not believe these incentives are necessary because the markets have been moving over the past several years toward the development and deployment of these technologies, and toward substitution of natural gas for coal.
3. Social Safety Net (the term used by the Committee):
    a. $556 billion would be spent on extending—but not making permanent—the temporary child tax credit provisions of the American Recovery Plan; so the nation would be left with yet another sunset and another debate over the merits and the costs of that tax credit increase. Making it permanent would more than double the price tag, and would further erode the limited stated budget savings from this title of the bill.
    b. With additional provisions including making permanent the temporary increases in the child and dependent care tax credit and the earned income tax credit, and a payroll tax credit for child care workers, this title of the bill would cost $835 billion. This title also

includes provisions for "expanding access to health coverage and lowering costs," which have not yet been priced and likely would add to the cost of the bill.

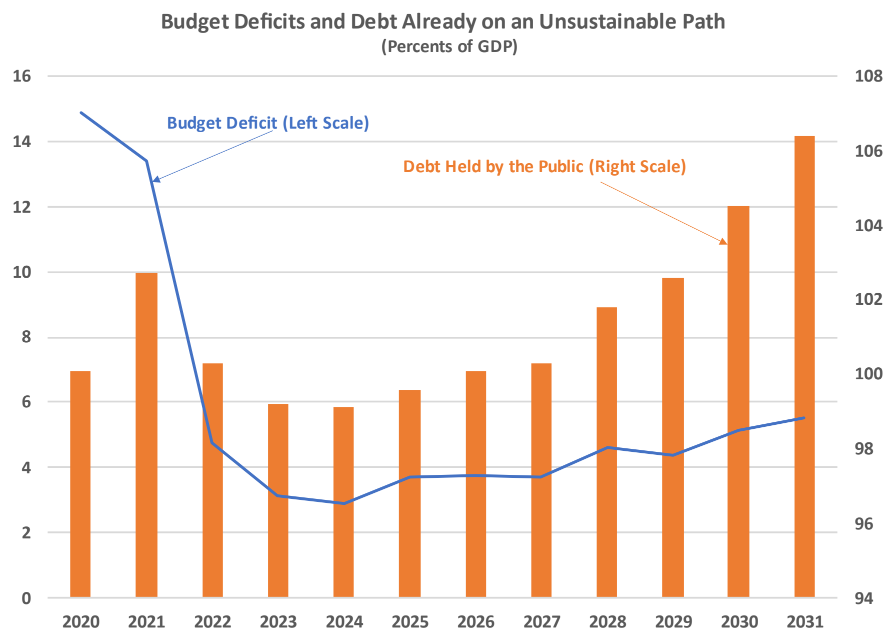
4. Responsibly Funding Our Priorities: The revenue-raising part of the bill is the most controversial.
    a. President Biden's budget claimed to raise more than $3.5 trillion with tax increases on upper-income and wealthy taxpayers and improvements in compliance, but the Ways and Means bill cuts that to less than $2.1 trillion. In many instances this is because the President's proposals have raised both political and substantive concerns, and therefore would be unlikely to survive the legislative process, and so Ways and Means has trimmed them back.
    b. In other instances, including assumed gains from improvements in tax compliance, the White House estimates were thought to be overly optimistic.
    c. A recurring theme in the Ways and Means bill is reliance on simple increases in tax rates rather than structural reform. A weakness of increasing tax rates is that it imposes a heavier burden on people who are already paying tax on their income, while missing those who have found stratagems to avoid tax.
    d. Among the big-money provisions is
        i. an increase in the corporate income tax rate to 26.5 percent (the President proposed 28);
        ii. increases in the corporate minimum tax on global income (which might affect the bargaining position of the United States in the effort to impose a consistent multi-national minimum income tax);
        iii. restoring the top-bracket individual income tax rate to 39.6 percent;
        iv. increasing the highest tax rate on capital gains to 25 percent (the President wanted the full 39.6);
        v. closing a loophole in the net investment income tax for Medicare;
        vi. a surtax on very high income individuals; and
        vii. higher taxes on tobacco.
    e. Despite raising little more than half the amount that the President claimed in his budget, there is continuing talk that the Ways and Means bill will need trimming to retain a majority in the House, much less hold all of the Democrats together in the Senate.

The meaningful negotiations over this bill will take place in private. However, we got some insight into where this process is going in television interviews with Joe Manchin and Bernie Sanders over the weekend.

- Senator Manchin is concerned that tax changes will make the US economy less competitive internationally; he wants a 25 percent corporate tax rate, down from the 26.5 in the Ways and Means bill (as of now) and the 28 percent in the President's budget (but up from the 21 percent in current law). Senator Manchin clearly wants a much lower price tag on the bill, does not believe all of the new spending is warranted on top of the trillions that have already been enacted, and seems to indicate that he wants the bill nearly or fully paid for.

- Chairman Sanders said that he would not give an inch (or a dollar) on the total size of the bill, and issued a veiled threat to allow the bipartisan Infrastructure Investment and Jobs Act to fail if the reconciliation bill did not meet his standards. There are some long and noisy nights in the Congress's future.

But resources *are* scarce—made even more dramatically so by the trillions of dollars already spent since the first pandemic relief and stimulus bill in 2020. And as we think about the spending provisions of the bill, we need to think not only about the costs of the revenue-raising provisions, but also about the further revenues that will need to be raised (and the spending that will need to be cut) to tame the underlying deficits. The Congressional Budget Office (CBO) baseline (which by law makes optimistic assumptions about expiring tax cuts, and assumes only modest increases in interest rates despite rising debt and hoped-for future economic growth) shows a brief respite from the current numbers, followed by an inexorable climb to the highest debt burden on record (see chart). Any deficit increases in the reconciliation bill will make this picture even worse. So as we weigh the benefits of reconciliation bill's provisions against their costs, we need to factor in the further impending costs to stop the growth of the public debt burden, which otherwise will weigh down the living standards of future generations of Americans far more than the benefit of the spending and tax cut programs.



Bottom line: The reconciliation bill can pass the closely divided Congress only with virtual unanimity among the Democrats, which empowers minorities at the party's ideological extremes. Progressives want a bigger bill; moderates question the size of the bill and the need for some of the spending and tax cut provisions, and whether the tax increases that pay for the bill are being accurately scored and will hurt economic growth and undermine US competitiveness. The outcome of the process is unknowable, but there is considerable negotiating leverage to downsize the bill.

Beyond this battle, the Congress and the President must think long and hard about the wisdom of expedited legislative procedures to spend money and cut taxes. Such self-indulgence needs no parliamentary advantage. The reconciliation process should return to its original intent of debt and deficit reduction only.