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Reconciliation and the Deficit in FY2006 and Through FY2010: Fact Sheet

Philip D. Winters
Analyst in Government Finance
Government and Finance Division

Summary

The budget resolution for FY2006 (H.Con.Res. 95), adopted by Congress on April 28, 2005, included reconciliation instructions for three bills.¹ The first reconciliation bill would cut mandatory spending by \$1.5 billion in FY2006 and by \$34.7 billion over FY2006 — FY2010. The second would reduce revenues by \$11.0 billion in FY2006 and by \$70.0 billion over the five-year period. Another \$35.7 billion in revenue reductions over five years was assumed in the budget resolution, but was not part of the reconciliation instructions. The third would raise the statutory public debt limit by \$781 billion to \$8,965 billion to accommodate the government's ongoing borrowing needs to finance its deficits. Only the first two instructions would have any direct effect on the deficit over those five years (the debt limit has no direct effect on the deficit).

In FY2006, the budget resolution set total spending (outlays) at \$2,577.4 billion, of which \$1,598.1 billion (62.0%) is mandatory. It set total revenues at \$2,194.7 billion in FY2006. Over the five-year period, the budget resolution set cumulative total spending at \$13,840.1 billion, of which \$9,068.1 billion (65.5%) was for mandatory spending. Total cumulative revenues over the five years were set at \$12,440.5 billion. These totals assume the adoption of both the spending and revenue cuts required by reconciliation and any other policy changes affecting outlays or revenues.

The budget resolution assumes that total spending and revenues will increase each year during FY2006-FY2010. The reductions from baseline estimates (not in year-to-year dollar reductions) in mandatory spending and revenues modestly slow their growth rates. The deficit would decrease in each year under budget resolution policies.

Reconciliation instructions to reduce mandatory spending would reduce total mandatory spending in FY2006 by 0.094% and the five-year cumulative mandatory spending by 0.383%. The FY2006 mandatory reduction would reduce the deficit estimate by 0.409% in that year. The five-year reductions in mandatory spending would reduce the

¹ The House and Senate reconciliation instructions are set forth in sections 201 and 202 of the budget resolution; see pages 11-14 of the Conference Report on H.Con.Res. 95, H.Rept. 109-62 (April 28, 2005).

adjusted five-year cumulative deficit estimate by 2.612%. Reconciliation instructions to reduce revenue would reduce total revenues in FY2006 by 0.497% and reduce five-year cumulative revenues by 0.558%. Some of the tax cuts that might be included in reconciliation legislation would extend existing tax cuts that otherwise would expire during the five-year period. The tax cuts called for in reconciliation would increase the FY2006 deficit estimate by 3.002% and would increase the five-year cumulative deficit estimate by 5.269%.

Although the reconciliation instructions to cut mandatory spending (from baseline estimates) is an attempt by Congress to reduce the deficits (from baseline levels) expected over the next five years, the reconciliation instructions to cut taxes move in the opposite direction and would lead to an increase in the deficit (from baseline levels). The net effect of the reconciliation legislation required by the budget resolution would be to increase, from baseline levels, the deficit in FY2006 (by 2.593%) and over the five-year period (by 2.657%).

Potential Effects of Reconciliation Legislation on Spending, Revenues and Deficit Levels²

	FY2006	FY2006-FY2010
	In Billions of Dollars	
Budget Resolution Totals (without reconciliation)		
Spending	2,578.9	13,874.8
Mandatory Spending	1,599.6	9,102.9
Revenues	2,212.5	12,546.2
Deficit	-366.4	-1,328.6
Reconciliation Instructions		
Mandatory Reductions	-1.5	-34.7
Revenue Reductions	-11.0	-70.0
Budget Resolution Totals (with reconciliation)		
Spending	2,577.4	13,840.1
Mandatory Spending	1,598.1	9,068.2
Revenues	2,194.7	12,440.5
Deficit	-382.7	-1,399.6
	In Percent	
Reconciliation Reductions in Totals		
Total Spending	0.058%	0.250%
Total Mandatory Spending	0.094	0.381
Total Revenues	0.497	0.558
Reconciliation Change in Deficit ^a		
Mandatory Reductions	-0.409	-2.612
Revenue Reductions	3.002	5.269
Net Change	2.593	2.657

a. Negative numbers are reductions in the deficit, positive numbers are increases in the deficit.

Source: H.Rept. 109-62 (April 28, 2005), tables on pp. 50-55 and p. 71, and calculations prepared by CRS.

² Figures reflect the unified budget, which include transactions of the off-budget Social Security Trust Funds and the Postal Service Fund.