Insight

What Does A $3.5 Trillion "Budget Deal" Mean?

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Executive Summary

- Senate Democrats have reportedly agreed to a $3.5 trillion "budget deal."
- This figure likely reflects the assumed gross cost of the spending and revenue reductions proposals that will be included in a forthcoming reconciliation bill.
- The necessary precondition for a reconciliation bill is the passage of a budget resolution, which should inform but not fully illuminate the public's understanding of what tax and spending congressional Democrats intend to enact into law.

Introduction

Senate Democrats have reportedly agreed to a $3.5 trillion "budget deal," variously characterized as a "top-line number" or "price tag" for the package of policies that will comprise a forthcoming tax and spending bill. These descriptors leave observers and policymakers somewhat in the dark over just what exactly this agreement means, and what it portends for policy development over the course of the year. What we *do* know is that these consultations and agreements are preparatory to the consideration of a budget reconciliation bill that can overcome Republican opposition in an evenly divided Senate.

Budget reconciliation first requires the passage of a budget resolution. By law, a budget resolution must contain certain budgetary information such as overall spending, tax, debt, and deficit levels over the next several years. Further, to enable the consideration of filibuster-proof reconciliation bills, a budget resolution must provide broad parameters to congressional committees to report legislation, known as reconciliation instructions. That said, neither the high-level content of a budget resolution nor the incrementally more granular reconciliation instructions contain policy provisions. Rather they reflect the budgetary flows associated with the policies that Congress intends to enact. But those gross budgetary flows do not necessarily represent the precise fiscal effects of forthcoming policies, nor do they illuminate the assumed policies. Indeed, it is most likely that to whatever extent Congress approves a budget resolution pursuant to enacting a progressive reconciliation bill, members will not know what policies are assumed in the budget resolution because they likely have not yet been agreed to.

What is a Budget Resolution?

A budget resolution is a strictly congressional measure – it is not signed by the president and does not become law – that sets forth total levels of federal spending, tax revenue, deficits, and debt. It establishes these levels and puts in place certain enforcement mechanisms to ensure adherence to these levels. It is a guideline for Congress to consider as it takes up future legislation. In this sense, it is both limiting and enabling. In setting forth budgetary levels, it restricts (to the extent Congress does not subsequently override these limits) Congress's ability to consider legislation that would increase spending, or the deficit, or reduce revenues beyond the limits previously agreed-upon in the budget resolution.

A budget resolution can enable policymaking insofar as the budgetary levels contained in the budget resolution are established to provide "room" to adopt future policies that would change spending, revenue, debt, or deficits levels. As such, a budget resolution can be an important precursor to passing future legislation, as is contemplated now. A budget resolution can also provide a unique legislative pathway, known as reconciliation, which limits congressional debate on certain types of policy changes and allows for Senate passage with a simple majority.

Unpacking $3.5 trillion in Policy Proposals

Senate Democrats have reportedly agreed to a "top-line" number for their forthcoming reconciliation bill. It is also likely that many of the proposals will be drawn from proposals set forth in the President's Budget, although the final legislation will necessarily reflect congressional negotiations and policy priorities. It is unclear, however, what is specifically meant by this figure. Is it the deficit effect? Is it the gross total of spending? Is it the amount of tax increases that must offset it? Reviewing the Biden Administration's proposals, it is likely this figure reflects the gross deficit effects – the combined spending, tax expenditures, and revenue losses associated with major policies in the forthcoming reconciliation bill, and to the extent those gross costs are financed with tax increases, the offsetting tax increases. The table below details the gross deficit effects of the Biden Administration's major policy proposals: the American Jobs Plan and the American Families Plan.

Gross Budgetary Effects of American Jobs Plan and American Family Plan

Policy	Gross Deficit Increases		Gross Deficit Reductions
American Jobs Plan			
Major Spending Proposals			
Transportation infrastructure	$595,709		
Drinking water, electrical grid, broadband	$308,781		
Housing; School Construction, community colleges, early learning facilities, veterans' hospitals and Federal	$325,983		
Medicaid home and community based services and home care workforce	$400,000		
Invest R&D, manufacturing and small businesses, and job training	$565,519		
Made in America Tax Plan			
Gross Revenue Expenditures/Reductions			
Housing and infrastructure:	$60,642		
Total, extend and enhance renewable and alternative energy incentives	$265,306		
Total, extend and enhance energy efficiency and electrification incentives	$18,714		
Additional Clean Energy Tax Expenditures	$83,578		
Gross Revenue Increaseases			
Corporate tax Increases			-$2,034,949
Total, eliminate fossil fuel tax preferences			-$35,043
Additional Clean Energy Tax Increases			-$25,296
Sub-Totals	$2,624,232		-$2,095,288
American Jobs Plan Net Cost		**$528,944**	
American Families Plan			
Major Spending/Tax Expenditure Proposals			
Four years of free public education	$436,995		
Education and preparation for teachers	$7,947		
Direct support to children and families	$498,266		
Workers, families, and economic security Tax Proposals	$799,301		
Major Individual Tax Increase Policies			
High Income Tax Increases			-$754,783
Program integrity and tax administration			-$245,119
Comprehensive financial account information reporting			-$462,646
Oversight of paid tax return preparers			-$817
Tax information provisions			-$1,811
Taxpayer noncompliance provisions			-$5,396
Tax administration rules provisions			-$1,847
Sub-Totals	$1,742,509		-$1,472,419
American Families Plan Net Cost		**$270,090**	
Grand Total (Gross)	**$4,366,741**		**-$3,567,707**
Grand Total (Net)		**$799,034**	

Combined, these two policy programs would cost, in gross terms, $4.4 trillion over the next decade. These costs include direct spending, some revenue losses, and tax expenditures. The Biden Administration has also proposed more than $3.5 trillion in offsetting tax increases, for a net deficit effect of these major policy proposals of about $800 billion over 10 years. Based on these estimates, the tax increases could offset an equal amount in spending/revenue losses of more than $3.5 trillion, which accords with the reported "top-line" figure of this recent deal. Key members of the slim Democratic congressional majority, however, have already objected to the scope and scale of some of these policies, suggesting that the gross cost figure of $3.5 trillion is very much the upper limit of possible budget outcomes under this policy.

To What Extent Will the Budget Resolution Reflect Policy Choices?

As noted above, a budget resolution is required to include major budgetary aggregates – e.g. annual revenue, spending, deficits, etc. – for the period covered by the budget resolution. In general, these totals reflect the effects of policies that Congress intends to enact. Accordingly, the budget resolution that congressional Democrats must first pass to enable the reconciliation process should reflect the gross spending increase and gross revenue increase assumed to stem from the follow-on reconciliation bill. This resolution should provide some additional insight into the overall fiscal effect of the forthcoming reconciliation bill. Recall, however, that a budget resolution is not a law – it is an agreement between chambers. Accordingly, within the budget resolution, the chambers can agree to give themselves some leeway. This flexibility was seen most recently after the passage of the American Rescue Plan (ARP), for example. The FY2021 Budget Resolution, which provided the reconciliation instructions that enable the passage of the ARP, assumed certain revenue and spending effects of forthcoming policies. Yet when the Congressional Budget Office scored the proposal, the estimated revenue losses, for example, exceeded those provided for in the budget resolution. All else equal, this score could have exposed the legislation to a Point of Order, but the budget resolution also included a provision that provided the Senate Budget Committee chair with the authority to revise the budget resolution's revenue levels, among other aspects, to accommodate the budget effects of reconciliation legislation. Senate Budget Committee Chairman Bernie Sanders did just that in March, with a filing in the Congressional Record. In short, the budget resolution provided some insight into major tax and spending effects of the legislation it enabled, but not necessarily to a high degree of detail.

The formulation of reconciliation legislation begins with the inclusion of an optional reconciliation instruction in the budget resolution. A reconciliation instruction directs an authorizing committee (such as the Senate Finance and House Ways and Means Committees) to report legislation that achieves a change in direct spending, revenue, or a change in the public debt limit. To the extent changes in deficits reflect the difference between spending and revenue, reconciliation instructions can also direct committees to achieve specific deficit outcomes. The dollar amount of these changes is included in the instruction. If it is the case that the legislation is to be fully offset, these instructions may not be altogether illuminating. For example, for the House Ways and Means and Senate Finance Committees, a simple instruction to reduce the deficit by $1 over the next decade, while on net a small budgetary change, could give rise to a $3,500,000,000,000 spending increase offset with a $3,500,000,000,001 tax increase.

Most significantly, reconciliation instructions do not include policy language – those details are left to the authorizing committees. Indeed, the instructions to the Senate Finance and Health, Education, Labor and Pensions Committees that gave rise to the reconciliation bill that enabled passage of the Affordable Care Act were simple instructions to reduce deficits by $1 billion over 5 years.

Conclusion

The upshot of the reported "budget deal" is that there appears to be agreement to consider a budget resolution that assumes additional spending and revenue losses totaling $3.5 trillion over the next decade, in part drawn from two major tax and spending proposals put forward by the Biden Administration. The budget resolution will necessarily shed additional light on the parameters of congressional Democrats' forthcoming tax and spending legislation, but it will not provide clear detail. To the extent Senators vote to advance the budget resolution, at this stage they will very likely be voting for legislation without knowing what policies they are enabling.