



SUSTAINING CAPITALISM

A series focused on nonpartisan reasoned solutions in the nation’s interest to the central challenges we face in order to provide prosperity for all Americans.

The Reconciliation Bill

Finding an Affordable Way to Build Back Better

Introduction

Congress is considering a budget reconciliation bill that is touted as a transformational change in the role of government in the US economy. The precise contents of the bill are still under negotiation. But the House version of the bill (the only version partially made public) is said to undertake \$3.5 trillion of gross new spending or tax cuts over 10 years. The actual cost may be much higher because of budgetary “smoke and mirrors.” At that size, the reconciliation bill would be among the largest single pieces of legislation ever enacted, and so would have at least the sheer mass to move the economy and significantly increase the role of government. And the Democratic House and Senate leadership’s decision to use the reconciliation process for this massive budget bill expedites its enactment, but with the adverse side effects of making the bill and the process less transparent and obviating the need for careful committee consideration and bipartisan cooperation and support.

The sheer mass of the bill carries significant disadvantages. The public debt is growing unsustainably, and the acceleration of that growth caused by the reconciliation bill (with its budget gimmicks) will work against the leverage of its individual components in moving the economy in a favorable direction.

Our fiscal and monetary policymakers took vigorous action to offset the economic jolt of the business shutdowns in response to the pandemic, and the economy has recovered more rapidly than most economists projected at the worst of the COVID-19 outbreak. Even though progress is threatened by a number of factors, including the easily transmissible Delta variant, the economic recovery at this time appears on track. Therefore, major actions such as those contemplated in the \$3.5 trillion reconciliation budget bill need to be carefully

evaluated and transparently debated, not as short-term stimulus and relief in a crisis, but as a multitrillion-dollar budget bill that advocates and critics alike describe as a once-in-a-generation transformation of the role of government in the economy.

The intent of the reconciliation process is aligning budgetary objectives with spending and tax policy—with the goal of decreasing the deficit. But over the years, this objective has been gradually but increasingly distorted and the process misused, as the growing deficits and unsustainable accumulation of debt clearly demonstrate. This powerful parliamentary tool is broken and must return to its core objective of deficit reduction and address the nation's debt peril and its public needs—if America is to continue to prosper and lead.

This Solutions Brief puts the process into the context of the nation's serious ongoing budget problem, and concludes that significant revision is needed to build the fiscal foundation for a strong and robust economy that provides equal opportunity and prosperity for all Americans.

Insights for what's ahead

Whatever the merits of the initiatives contemplated in the reconciliation bill, their benefits would be quickly undermined by an exploding public debt. The economy is already at risk from the unsustainable federal budget deficits and debt, which even a truly "paid-for" reconciliation bill would not address. Worse, and not considered in the hasty deliberations thus far, the bill would use up budget savings that will be needed to fight the deficit. Rising deficits and interest costs will crowd out the economy's ability to invest and grow, as well as government's capacity to respond to threats and contingencies and to prepare for the future. Future generations will suffer for our unwillingness to face facts and to unite.

To address the nation's structural economic issues and its budget vulnerabilities, the next steps must include:

Put the budget deficit and debt problem into the calculations. The bottom line of the reconciliation exercise should be a future debt-burden path that is sustainable. The reconciliation bill should include the net savings needed to cap and ultimately reverse the growth of the ratio of the debt to the GDP.

No gimmicks. Costs of chosen initiatives should not be hidden through foot-in-the-door expirations or belated phase-ins that merely hide the intention of making the programs permanent. The looming budget crisis will not be fooled.

Set priorities. Once the nation has put the cost of a sustainable budget on the table, not all of the wishes in the current reconciliation debate will fit. Those initiatives must be transparently reviewed and prioritized.

Reform the tax system, don't just increase rates. Simply raising tax rates increases the burden where it already is the heaviest—on those who are already paying taxes. Tax reform removes preferential tax breaks because the best tax break for everybody is no tax breaks for anybody; tax neutrality also yields the most efficient allocation of both capital and labor, and therefore the strongest and most sustainable economic growth.

Consider the pandemic increment to the debt. CED urges consideration of a manageable first step of a separate federal financing authority with its own dedicated revenue source to service and ultimately retire the approximately \$6.5 trillion pandemic increment to the debt.

Forbid the use of reconciliation to increase the deficit. Reconciliation was created to help Congress take painful steps to reduce the deficit. Self-indulgence does not need a parliamentary head start. The budget law should be amended to make explicit that reconciliation may be invoked for deficit reduction only.

Consider another National Commission on Fiscal Responsibility and Reform. Under the right circumstances, a commission can focus attention and bring neutral expertise to bear. If today's elected policymakers cannot address this crucial issue, they should call for help.

The Pandemic and the Economy

In early 2020, as the first signs of the coronavirus pandemic were appearing, the US economy was comparatively strong. Output was growing, quarter to quarter, at around its estimated potential of about 2 percent at an annual rate. The job market was tight at under 4 percent unemployment, clocking the lowest unemployment rate in the history of the data series. On this positive economic setting, the response to the pandemic imposed the fastest and deepest economic downturn in history, driven by a combination of lockdowns, consumer fear, and overwhelmed local health care systems. Output fell about 2 1/2 times as much in the second quarter of 2020 as it had in the entire 2008-09 financial crisis. [Payroll employment](#) plunged by more than 22 million, or almost 15 percent, from the February peak to April. The [unemployment rate](#), which understated the shock for technical reasons, jumped from 3.5 to 14.8 percent in just those two months.

Fiscal and monetary policymakers acted swiftly. The Federal Reserve cut its policy interest rate to zero, stepped up asset purchases in the financial markets, and established lending facilities to ensure the flow of credit to troubled businesses. On the fiscal side, a total of [\\$5.3 trillion](#) of relief spending and tax cuts was signed into law. This included increased unemployment benefits, extended to people (such as contractors and "gig workers") who were not covered by the regular system; forgivable loans to small businesses; direct aid to state and local governments, to health care institutions, and to public and private education and childcare; an expanded child tax credit; and economic stimulus payments to households, among other forms of aid.

Combined with the unprecedented pace of vaccine development and rollout, and the reopening of the shuttered economy, the deepest and sharpest recession on record also became the shortest. [Inflation-adjusted GDP](#) in the second quarter of 2021 already exceeded the previous peak of the fourth quarter of 2019 (which does not make up for intervening population growth, but nonetheless reaches a key milestone unexpectedly quickly). And as of August of 2021, the labor market has recovered more than 17 million of the payroll jobs it had lost.

But economic recovery is vulnerable to many challenges—including inflation, supply chain bottlenecks, and the highly transmissible Delta variant of the coronavirus—which slows getting Americans back to work. Seventeen million jobs recovered means 5 million still lost, and the fact that aggregate GDP has recovered but employment has not is, in part, an indication that those still unemployed are lower-wage, vulnerable workers. They are concentrated in the service, hospitality, and retail industries, as well as education and childcare.

Barring any worsening of the pandemic, fiscal and monetary policy do not require the massive levels of response that were needed in the recession and the early months of the recovery. The macroeconomic problem is no longer a massive drop in aggregate demand and a risk of a severe downturn; it is, rather, substantial dislocations in individual sectors of the economy, and job loss for former employees in those sectors. The \$3.5 trillion reconciliation bill is promoted as an opportunity for transformational structural change in the role of government in the economy to address those and other focused issues, rather than relief and stimulus. Its expansive breadth and economic impact need to be clearly understood, debated, and addressed on those terms.

But beyond these structural challenges, long-term economic recovery and growth has become even more vulnerable to the high and exponentially growing levels of public debt. The relief and stimulus bills have added to the nation's already heavily debt-burdened balance sheet.

The Budget and the Pandemic

Unlike the economy generally, the federal budget was in a very sorry state even before the pandemic. As of January 2020, the Congressional Budget Office (CBO) budget "baseline" (assuming no change in policy, which is a slippery concept) saw [deficits](#) rising from \$984 billion (or 4.6 percent of GDP) in fiscal year 2019 to \$1.742 trillion (or 5.4 percent of GDP) in fiscal year 2030, the end of the regular 10-year projection period. These growing deficits would increase the accumulated public debt from 79.2 percent of the GDP at the end of fiscal year 2019 to 98.3 percent at the end of fiscal year 2030. The debt would therefore approach its highest historical level of 106.3 percent of GDP as of the end of 1946 (the end of World War II), and more than quadruple the subsequent minimum level of the debt burden at 23.2 percent at the end of fiscal year 1974. Having the debt grow so much faster than the economy out of which it must be serviced is obviously unsustainable, and so the nation clearly had a job to do.

The pandemic made that job much, much harder. The \$5.3 trillion of pandemic relief went directly to the budget's bottom line, and to the debt. And in addition, the pandemic's hit on the economy reduced tax revenues and increased spending directly.

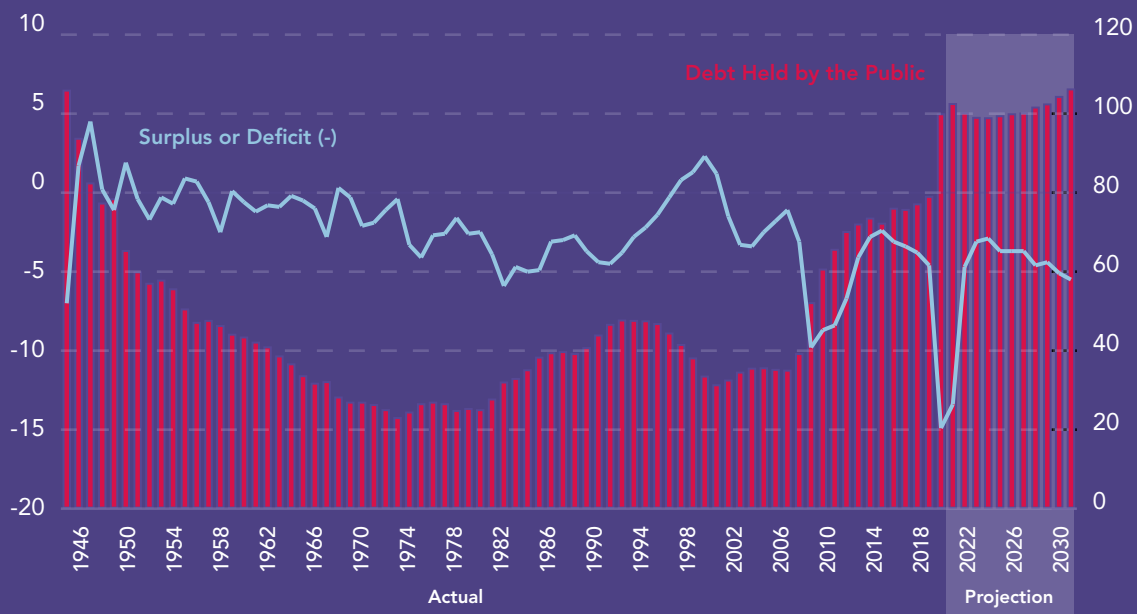
Between [January and September](#) of 2020, CBO increased its estimate of the fiscal 2020 budget deficit for economic and technical factors by \$769 billion, over and above the cost of relief legislation. The measured budgetary losses will continue as long as the economy remains below its prepandemic trajectory of output and employment.

The nation's fiscal outlook was clearly unsustainable before the pandemic. It is clearly worse after. Enormous budget deficits in the short run add substantially to the public debt (Figure 1). In the latest CBO projections, the debt burden as a percentage of the GDP exceeds its highest-ever historical levels by 2031. But the previous debt-burden peak occurred at the end of World War II, when the nation borrowed massively to defend the nation's freedom, and the postwar economic boom quickly made that burden easier to carry, because the nation had a larger economy out of which to service the debt.

Now, although the pandemic clearly added to the debt, it is by no means its primary driver. And even more importantly than the fact that the nation has no excuse, it also has no looming economic boom to ease the burden. Instead, with slowing labor-force growth from the retirement of the baby-boom generation, population aging generally, and trends to lower birth rates, growth fundamentals are unfavorable, and Social Security will exhaust its trust fund in an estimated 12 years, and Medicare in four.

Furthermore, the "baseline" debt picture is inherently optimistic. For one thing, Congress and the president have [habitually enacted tax cuts on a temporary basis](#), typically to get a "foot in the door" and to limit their apparent cost. As a prominent example of the literally dozens of such provisions, major tax cut components of the Tax Cuts and Jobs Act of 2017 are scheduled to expire at the end of 2025. The budget baseline is required to assume that such temporary tax cuts are allowed to expire as dictated by current law.

Figure 1
Budget deficits and debt are already on an unsustainable path
 As a percent of gross domestic product (GDP; fiscal years)



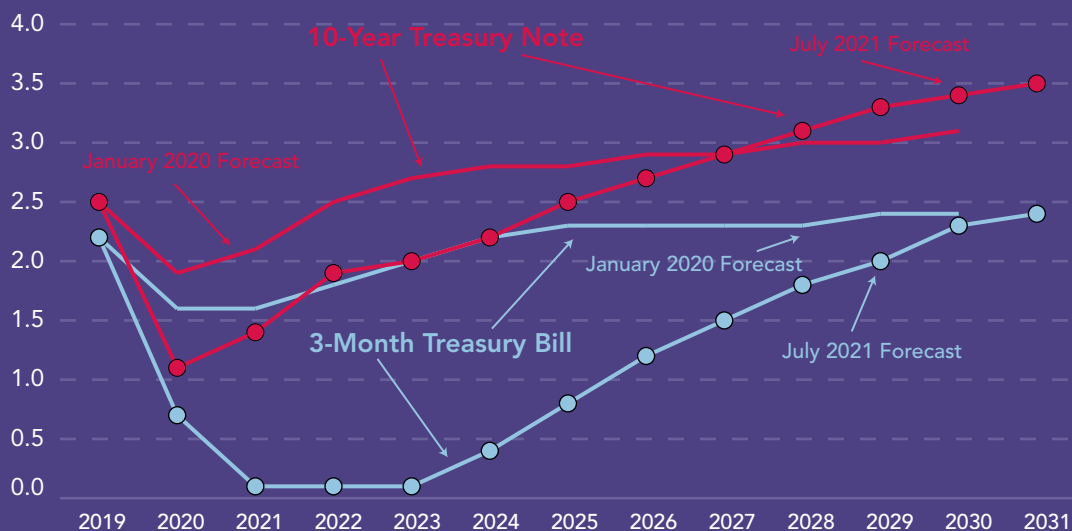
Source: The Conference Board

But in reality, it is very difficult for elected officials to allow tax cuts to expire, because that would be perceived by affected taxpayers as a tax increase, having already incorporated the lower taxes into their family budgets. Extension of those expiring tax cuts would add hundreds of billions of dollars to projected future deficits, and to the debt.

And notably, the baseline outlook is subject to considerable risk. The 2008 financial crisis and the current pandemic are obvious examples; natural disasters impose smaller unpredictable costs. But another potentially substantial risk comes from interest rates. The swollen debt in turn inflates interest costs, and the higher the market interest rates that the Treasury must pay, the larger those debt service costs become. No one knows future interest rates with anything approaching certainty, and so it is unwise to rely too much on the economic forecasts that underlie the budget projections.

But it is worth noting that the budget deficits projected for the remainder of this decade would be even larger were it not for the assumption that interest rates will be lower for several years because of the assumed tepid postpandemic economy (Figure 2). If interest rates were to rise sooner or more rapidly—whether because of expectations of more rapid inflation, concerns about the ability or willingness of the federal government to meet its debt-servicing obligations, merely a return to rates that prevailed before the financial crisis, or any other reason—the huge debt will give those interest rates even greater leverage on the budget bottom line, ultimately risking a vicious cycle of rising deficits, debt, and debt-service costs. And if the economy were to grow more rapidly—the usually cited solution for our deficit-and-debt woes—that faster growth would directly lead to higher interest rates, which would erode the expected budget benefits from a stronger economy.

Figure 2
Interest rates are now lower, but are expected to rise
Percent



Source: The Conference Board

Higher interest costs should not be ignored, even by advocates of existing federal programs. Rising interest costs will crowd out the funding of current programs, and will disproportionately rest on the federal government's investment programs (such as education, infrastructure, and research), and on programs that support vulnerable populations. In fact, even if interest rates remain benign, interest on the debt will exceed all appropriated spending—defense and nondefense—by 2050. Interest will soon be the fastest-growing line item in the budget. Higher interest costs will also require higher taxes, which beyond their direct effect on households will encroach on the ability of business to invest and grow, which will reduce the number of future jobs.

In sum, the budget backdrop conveys a threatening environment. Yet, the budget process employed for the reconciliation bill avoids deliberative consideration of the potential downside, and fails to incorporate the fiscal reality in its choices.

The Infrastructure Investment and Jobs Act

Beyond the reconciliation bill, there is another piece of budget-related legislation before Congress: the bipartisan \$1.2 trillion Infrastructure Investment and Jobs Act (IIJA).

After an intensive effort, a bipartisan group from both the House and the Senate defied the odds in an intensely partisan environment. The much-needed IIJA, H.R. 3684, passed the Senate in amended form, and is awaiting action in the House. It is understood that the House will not change the Senate version of the bill. A scheduled vote is being challenged within the Democratic House caucus because of commitments from the Speaker to take it up at the same time as the reconciliation bill, which is not yet completed.

The IIJA would reauthorize the federal highway program, whose authorization expires at the end of fiscal year 2021 (that is, September 30, 2021). In addition to that important step, the IIJA would increase core funding for that program, and fund a number of new programs. Spending under the bill totals \$1.2 trillion, \$550 billion of which is new spending (in excess of a mere extension of the previous law).

The bill's modernization initiatives have considerable merit and are arguably long overdue. However, according to CBO scoring, the IIJA would [add \\$256 billion to projected budget deficits over fiscal years 2021-2031](#). [Advocates have asserted that the bill is fully paid for](#), in part because of savings attributed to lower-than-anticipated spending in pandemic relief programs (which already have occurred, and will not yield future budget savings), and in part because of an assumed 33 percent return on the infrastructure investments in the bill. However, even meritorious programs are most unlikely to "pay for themselves" through economic growth.

There are two key takeaways from the IIJA debate as Congress approaches the reconciliation bill. First, the budget already is set to take a hit from the IIJA, despite all of the talk of its being "paid for." And second, the difficulty of finding truly valid offsets for the IIJA's spending and the tendency to reach instead for budget gimmicks including "economic growth" do not bode well for the reconciliation bill, especially considering that some legitimate budget offsets have already been used for the IIJA and cannot be reused or counted again.

The Reconciliation Bill

Prospects for the proposed budget reconciliation bill remain highly uncertain. The budget process rules (a reconciliation bill requires only a majority vote, including the intervention of the vice president in a tie, in the Senate) and the political balance of power dictate that the bill pass with only Democratic votes—which requires that the Democrats hold all 50 of their members in the Senate, and lose no more than three of their members in the House.

What will the reconciliation bill cost?

The Budget Resolution for Fiscal Year 2022 allows a budget reconciliation bill with a maximum gross price tag of \$3.5 trillion. While this is seen as a “compromise” number by Democratic progressives, because they would have preferred \$6 trillion, it is within the rules for the bill to come in below \$3.5 trillion, and there are moderates in the House and in the Senate who have said they will not accept a bill as large as the full \$3.5 trillion. Removing the smoke and mirrors and budget accounting tricks, some analysts calculate that the real cost of the current \$3.5 trillion bill is almost double that amount.

Reconciliation was created (in the Congressional Budget and Impoundment Control Act of 1974) to allow painful deficit-reduction legislation to short-circuit the Senate’s supermajority requirement (under which unlimited debate, a “filibuster,” can be halted only by a three-fifths vote for “cloture”). Senate traditionalists, led by the late Senator Robert C. Byrd of West Virginia, wanted to ensure that deficit reduction would be the only purpose so facilitated. Senator Byrd squared the circle with a set of rules that prevent a reconciliation bill from addressing nonbudgetary matters, appropriating funds, or modifying Social Security, among other restrictions. Recent history has seen continuing attempts to shoehorn more purposes into reconciliation—including increasing rather than reducing the deficit. This year’s effort has also included changing immigration policy; that attempt has thus far, but not yet finally, been rebuffed by the Senate parliamentarian.

The list of priority spending areas included in the bill as of this date is long, in keeping with the gestation of the bill from a \$6 trillion wish list. Based on the parts of the House bill that have been made public (there is no Senate version), it includes, but is by no means limited to:

- 1 From the Ways and Means Committee (with the spending programs not yet formally scored): Paid family leave; tax credits for child and elder care; higher wages for childcare 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, absent other changes such as an aggressive drug-pricing provision discussed below).
- 2 From the Education and Labor Committee (not yet scored): 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 (not yet scored): Higher fees for oil drilling on public lands; increased offshore wind permitting; a “climate corps”; and programs for combating wildfires and other resilience efforts against climate change.

- 4 From the Small Business Committee: \$22 billion in incentives for small business venture capital investment.
- 5 From the Homeland Security Committee: Almost \$1 billion for cybersecurity.
- 6 From the Committee on Oversight and Reform: \$14 billion for the federal government to acquire or lease electric vehicles.
- 7 From the Committee on Veterans' Affairs: \$17.6 billion for veterans' health care.

Some of these initiatives are highly controversial; some have in the past enjoyed substantial, even bipartisan, support. However, almost all of these initiatives either add to spending or reduce revenues, and hence increase the budget deficit, which is why the reconciliation bill claims to have the necessary budget savings to pay for them.

Will the reconciliation bill be paid for?

Not likely, judging from the provisions made public to date. Perhaps the most discouraging early development was a fact sheet from the Senate Budget Committee, which manages reconciliation in that body, stating 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 bargaining over pharmaceutical prices, which is betting on a zero-sum negotiation between the public and private sectors, 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 research to generate new drugs, and reference the COVID-19 vaccine as a poster child for success. Medicare drug negotiation 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 of a final bill on the floor) in the Energy and Commerce Committee, which has joint jurisdiction over Medicare. The 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 as to "economic growth" paying for otherwise costly legislation, the history is long and sad. There are dueling estimates of the economic effects of a package like the current reconciliation draft; Moody's Analytics says that it would increase growth, while the Penn Wharton Budget Model says the opposite. And it takes a lot of growth to generate only a little tax revenue. The assumed "rate of return" on a spending "investment" in the budget yields a flow that is only a fraction of the budgetary cost, and the revenue that reflows into the budget is only a fraction of that return (equal to the tax rate that applies to that income). And unlike a dollar "invested" in a bank account or other vehicle that remains there and can be withdrawn later, a budget expenditure dollar is consumed when it is spent.

But perhaps a more important constraint on the presumed budgetary offset of "economic growth" is that, as with the IJJA, many of the benefits of initiatives in the reconciliation draft would be nonmonetary. For example, the better health and quality of

life for seniors because of the expensive expansions of Medicare to hearing, vision, and dental care can be fully justified in the eyes of many, but making retirees healthier and happier will not increase taxable incomes, and so cannot possibly pay for itself. Many provisions in the very large “Social Safety Net” (see below) tax section of the bill merely transfer income with no likely positive effect on economic output. Other provisions, like preschool education, are arguably highly productive, but their returns arrive well into the future, long after the cost of the bill has added to the debt and incurred compounded interest costs over many years. The economic benefits of even free community college education are delayed for at least a few years, and to the extent that some beneficiaries would have attended community college (or four-year college) without the benefit, there is no incremental economic return.

A [list](#) of belated phase-ins and early phase-outs of spending provisions, plus cost shifts of programs to the states, adds substantially to the stated cost of the bill (a major revenue gimmick will be addressed later).

- Grants to the states to provide two years of community college are cut from 100 percent to 80 percent of the cost by 2027.
- Similarly, grants to the states for universal pre-K fall from 100 percent to 60 percent of the cost by 2028. Grants to families are likely understated in the later years, after a fixed sum for the early years runs out.
- The Medicare dental benefit will begin only in 2028. That reduces the 10-year impact on the deficit and the debt (and therefore makes room for other initiatives to be included in the bill), but understates the effect beyond the budget window.

There are more issues on the revenue side, which is the most important source of reliable budget savings. A numerical table of the impacts of the tax provisions in the Ways and Means bill has been released. Not all of the provisions of the bill have been estimated, and the missing items will probably cost revenue. Putting all of the latest known pieces of the tax title of the reconciliation bill together, it 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 the spending increases and tax cuts were truly \$3.5 trillion, that would leave a \$1.4 trillion budgetary hole—which would take a lot of drug price negotiating and a lot of economic growth to fill. With scoring gimmicks, the hole is even larger.

A summary table of the tax bill’s provisions runs more than 11 pages, but following are some highlights, with commentary on the key provisions:

- **Infrastructure and Community Development:** Tax credits for infrastructure, housing, and related purposes would cost \$132 billion over 10 years.
- **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 (for example, some believe that plug-in electric vehicles might soon be rendered obsolete by hydrogen fuel cells). And moderates in the Senate argue that these incentives are

unnecessary because markets are already moving toward the development and deployment of new technologies, and toward substitution of natural gas for coal.

- **Social Safety Net** (the term used by the Ways and Means Committee):
 - Child Tax Credit: \$556 billion would be spent on extending—but not making permanent—the temporary child tax credit provisions of the American Rescue Plan; the reconciliation bill would pay for only another four years in a bill that otherwise extends for 10. This is arguably a major scoring gimmick. Making these provisions permanent (which advocates clearly want and expect) would more than double the price tag, and would further erode the limited stated budget savings from this title of the bill.
 - Additional Child-related Tax Credits: 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 childcare workers, this title of the bill would cost \$835 billion.
 - Expanding Access to Health Coverage: 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.
- **Responsibly Funding Our Priorities:** The revenue-raising part of the bill is the most controversial.
 - 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. In other instances, including assumed gains from improvements in tax compliance, the White House estimates were thought to be overly optimistic, and congressional estimates are lower.
 - 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. Among the big-money provisions are:
 - an increase in the corporate income tax rate to 26.5 percent (the president proposed 28);
 - 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 multinational minimum income tax);
 - restoring the top-bracket individual income tax rate to 39.6 percent (the rate before the 2017 Tax Cuts and Jobs Act, which reduced it to 37 percent);

- increasing the highest tax rate on capital gains to 25 percent (the president wanted the full 39.6);
- closing a loophole in the net investment income tax for Medicare;
- a surtax on very-high-income individuals; and
- higher taxes on tobacco.

There is serious concern in some quarters that the Ways and Means bill will hinder the ability of the US economy to compete globally for investment and jobs. Over half of the revenue raised by the “corporate and international tax reforms” part of the bill comes from the increased corporate tax rate, but other significant provisions affect the highly complex treatment of foreign operations of US firms. Budget reconciliation was created to ease the enactment of painful deficit reduction, but complicated changes such as to international tax law arguably need more deliberation than the current rushed process, apart from complaints about a one-party vote. Alternative proposals include 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).

Any deficit reduction—tax increases or spending cuts—reduces people’s incomes. The cost offsets in the reconciliation bill were always sure to attract criticism. With the bill already on (or over) the knife’s edge of being “paid for,” any reduction in these revenues would require dollar-for-dollar reductions in spending initiatives. Progressive Democrats have responded with strong support for the total size of the bill, and have threatened to allow the bipartisan IJA to fail if the reconciliation bill does not meet their standards.

But “paid for” is only part of the problem

There is an apparent lack of understanding of the true depth of the nation’s fiscal problem. And troublingly, even if the reconciliation bill is paid for, which is unlikely given its questionable provisions, all of the tools in the tool kit are being used to pay for the trillions of dollars of spending and tax cuts, leaving nothing to deal with the massive debt we have accumulated.

Some policymakers, by all appearances, seek to use any viable true budget savings—plus whatever “gimmicks” they can get away with—and to spend it all to pass the largest possible reconciliation bill. Down that road lies disaster. That approach will leave us with a budget hole just as large—larger, to the extent of the gimmicks—as the unsustainably rising public debt that we have today, with no remaining viable budget savings to address it. When the nation inevitably is forced to face up to the problem, it will be left with impossible options—including reneging on commitments and promises just made in this reconciliation bill, and reviving painful savings that died in this reconciliation negotiation.

Clearly and simply, the reconciliation bill now under consideration suffers from a lack of foresight. The huge stimulus and recovery bills have serious side effects, which are not negated by the fact that the depth of the economic crisis required action. Our elected policymakers seem to have become so inured to large numbers that they believe that such enormous bills can be enacted seriatim forever. They cannot. A reconciliation bill today that pushes tax yields to the limit while if anything making the deficit problem worse will make a budget crisis only a matter of time. Interest rates and inflation will rise,

crowding out investment and growth. However meritorious the initiatives in the reconciliation bill, their benefits will be washed away by the growing budget shortfall.

One concern is that such a large and complex bill could be enacted into law through a one-party vote. But another, probably more important, is that the bill has been subject to limited consideration by congressional committees, and is being written and revised in private at double time (if not faster). Reconciliation's exemption from the filibuster in the Senate was intended to facilitate the enactment of painful deficit-reduction legislation; it was not intended to truncate the formulation and review of that legislation, and it was certainly not intended to move that consideration behind closed doors, and outside of the regular committee process. The reconciliation bill's potentially momentous change in the role of government in several important sectors of the economy, and in turn in those sectors themselves, deserves the most careful consideration.

Recommendations

The nation needs a renewed awareness of the budget problem, and to apply that awareness in a serious and thorough legislative process. The next steps must include:

Put the budget deficit and debt problem into the calculations. Whatever the merits of the initiatives contemplated in the reconciliation bill, their benefits would be quickly undermined by an exploding public debt. The bottom line of the reconciliation exercise should be a future debt-burden path that is sustainable. Debt matters. Available budget offsets should be set against not only the costs of new spending programs, but also the net savings needed to cap and ultimately reverse the growth of the ratio of the debt to the GDP.

No gimmicks. Costs of chosen initiatives should not be hidden through foot-in-the-door expirations that merely hide the intention of making the programs permanent. Likewise, budget savings should not be recognition of unspent past commitments (like funds of the pandemic relief bills that have been in excess of need), or mere promises of lower appropriations by future Congresses. The looming budget crisis will not be fooled.

Set priorities. Once the nation has put the cost of a sustainable budget on the table, not all of the wishes in the current reconciliation debate will fit. Those initiatives must be transparently reviewed and prioritized.

Reform the tax system, don't just increase rates. Simply raising tax rates increases the burden where it already is the heaviest, on those [already paying taxes](#). Tax reform removes preferential tax breaks because the best tax break for everybody is no tax breaks for anybody; tax neutrality also yields the most efficient allocation of both capital and labor, and therefore the strongest and most sustainable economic growth.

Consider the pandemic increment to the debt. CED [urges consideration](#) of a separate federal financing authority with its own dedicated revenue source to service and ultimately retire the approximately \$6.5 trillion pandemic increment to the debt. Once this debt is retired, the revenue source would sunset. Such a measured first step to

address the overall debt problem might help policymakers who are reluctant to take on the entire debt problem at one time.

Forbid the use of reconciliation to increase the deficit. Reconciliation was created to help Congress take painful steps to reduce the deficit. Self-indulgence does not need a parliamentary head start. The budget law should be amended to make explicit that reconciliation may be invoked for deficit reduction only. After undertaking such a reform in the budget rules, Congress should renew its commitment to the budget process, including timely budget resolutions that, as they were originally intended, call attention to the nation's fiscal situation and plot a course to stability. Also, Congress should undertake a serious annual appropriations process, with 12 separate bills that allow true oversight of the federal agencies, enacted on time, without a long series of continuing resolutions until well after the beginning of the fiscal year.

Consider another National Commission on Fiscal Responsibility and Reform.

Commissions are sometimes created to postpone or deflect consideration of important national problems. However, under the right circumstances, a commission can focus attention and bring neutral expertise to bear. A recent effort, the "Simpson-Bowles Commission," came close to success. If today's elected policymakers cannot address this crucial issue, they should call for help.

SUSTAINING CAPITALISM

Achieving prosperity for all Americans could not be more urgent. Although the United States remains the most prosperous nation on earth, millions of our citizens are losing faith in the American dream of upward mobility, and in American-style capitalism itself. This crisis of confidence has widened the divide afflicting American politics and cries out for reasoned solutions in the nation's interest to provide prosperity for all Americans and make capitalism sustainable for generations to come. In 1942, the founders of the Committee for Economic Development (CED), our nation's leading CEOs, took on the immense challenge of creating a rules-based postwar economic order. Their leadership and selfless efforts helped give the United States and the world the Marshall Plan, the Bretton Woods Agreement, and the Employment Act of 1946. The challenges to our economic principles and democratic institutions now are equally important. So, in the spirit of its founding, CED, the public policy center of The Conference Board, will release a series of 2021 Solutions Briefs. These briefs will address today's critical issues, including health care, the future of work, education, technology and innovation, regulation, China and trade, infrastructure, inequality, and taxation.



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