

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

October 18, 2005

Amended Budget Resolution Means Deeper Cuts In Important Services To Fund Tax Cuts

Dear Democratic Colleague:

On Thursday, the House is scheduled to consider a plan to amend the budget resolution with spending cuts even *deeper* than the budget resolution now requires. While the Republican leadership has not announced the final details of the legislation, the central component is likely to be a 44 percent increase in the reconciled cuts to mandatory spending, from \$35 billion to \$50 billion over five years. Additionally, the Budget Committee Chairman has proposed across-the-board cuts of 2 percent to appropriations – though it remains to be seen whether the appropriations cuts will be included in the final package or not.

Whatever the precise details of the legislation, it is clear that the proposed amendment makes a bad budget even worse – with deeper funding cuts to finance the latest round of Republican tax cuts. As Republicans attempt to rush this amended budget through the House, the following points should be kept in mind:

- **Any spending cuts will be used to offset tax cuts, not the costs of hurricane response.** Long before the hurricanes, the budget resolution called for \$35 billion in mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution.
- **Spending cuts threaten vital services, including services for hurricane victims.** A number of the programs that may be cut, like food stamps and Medicaid, benefit victims of Hurricanes Katrina and Rita.
- **The revised budget resolution will still increase the deficit by more than \$100 billion over five years.** By contrast, the House Democratic budget achieved balance in 2012.
- **Republicans' purported interest in offsetting hurricane costs reveals a double standard.** Why should the cost of rebuilding Biloxi be offset but not the cost of rebuilding Baghdad?

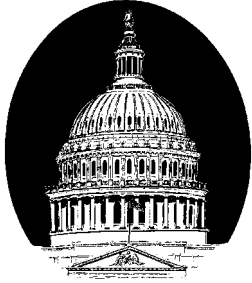
The attached document, prepared by the House Budget Committee Democratic staff, provides greater detail on what might be included in the budget resolution amendment. We will provide updated materials as more information becomes available.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member



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Overview

Revised Budget Resolution to Cut Funding — This week, the House is scheduled to consider a plan – in the aftermath of Hurricanes Katrina and Rita – to amend the budget resolution with even deeper spending cuts than the budget resolution now requires. While the precise details of the legislation have not yet been made public, the Republican leadership has indicated that the central component is likely to be a 44 percent increase in the reconciled cuts to mandatory spending, from \$35 billion to \$50 billion over five years. Additionally, the Budget Committee Chairman has proposed across-the-board cuts to appropriations of 2 percent, though it remains to be seen what magnitude of appropriations cuts, if any, will be included in the final package. The proposed amendment only makes a bad budget even worse – with deeper funding cuts to finance the latest round of Republican tax cuts.

Spending Cuts Offset Tax Cuts, Not Hurricane Costs — Long before the hurricanes, the budget resolution called for \$35 billion in mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution, \$70 billion of which is facilitated by fast-track reconciliation procedures. Because the amendment to the budget resolution is not expected to revise revenue policy, any spending cuts included in the resolution will continue to offset these tax cuts, not the cost of hurricane relief.

Republican Claims About Offsetting Hurricane Costs Reveal Double Standard — The Republican claim about offsetting the cost of hurricane relief is inconsistent with the decision in recent years not to offset tax cuts or supplemental funding for Iraq and other purposes. Why should the cost of rebuilding Biloxi be offset, but not the cost of rebuilding Baghdad?

Spending Cuts Threaten Vital Services, Including Services for Hurricane Victims — Committees are struggling to find the reconciliation spending cuts of \$35 billion. Even some Republicans are expressing concerns about cuts to programs like Medicaid, student loans, and food stamps. A number of the programs that may be cut, like food stamps and Medicaid, benefit people who have been affected by Hurricanes Katrina and Rita. An additional \$15 billion in mandatory spending reductions will mean deeper and more harmful cuts to programs such as these – a level of cuts that even Senate Republicans have shown no interest in pursuing. Meanwhile, across-the-board appropriations reductions, if included, could mean cuts to

programs like veterans' health, home energy assistance, law enforcement, public health, environment, education, and even defense and homeland security.

Revised Budget Resolution Will Still Increase Deficit — Republicans passed a budget resolution this spring that over five years was going to make the deficit \$168 billion worse than if they took no budgetary action at all. Now they plan to revise their budget resolution with additional cuts – likely an additional \$15 billion of cuts in mandatory spending and perhaps \$16.9 billion in cuts from a 2 percent across-the-board cut in all discretionary funding. Even with this \$32 billion in additional cuts – likely to fall on critical services – the Republican resolution still worsens the budget's bottom line by about \$135 billion.

Changes Make a Bad Budget Resolution Even Worse — The conference report on the budget resolution passed the House earlier this year on a very close 214-211 vote, with all Democrats who voted – and even 15 Republicans – voting against. This amended budget would be even worse than the budget passed earlier this year.

Democrats Support Fiscal Responsibility — Democrats have a strong track record on fiscal responsibility. The budget resolution offered by House Democrats this year balanced the budget by 2012, while the Republican budget never reaches balance, even with these proposed changes. Democrats also support reinstatement of the effective pay-as-you-go (PAYGO) rule that helped take the budget from record deficits in the early 1990s to a \$236 billion surplus just five short years ago. If the budget resolution is going to be revised, it should reinstate the PAYGO rule to be sure that new mandatory spending or revenue legislation does not make the deficit worse.

Details on Mandatory Spending Cuts

Revised Budget Resolution to Increase Mandatory Cuts by 44 Percent — The original budget resolution instructed eight House authorizing committees to find a total of \$35 billion over five years in spending reductions – a number that the revised budget is expected to increase by \$15 billion (44 percent) for a total of \$50 billion in cuts.

Proportional Increase Is One Possible Scenario — While Republicans have not announced how they intend to allocate the mandatory cuts, the accompanying table presents one plausible outcome.

Potential New Reconciled Spending Cuts in Republican Budget Amendment (billions of dollars)			
<i>House Committee</i>	<i>Original Reconciled Cuts</i>	<i>Illustrative Additional Cuts*</i>	<i>Total</i>
Agriculture	-3.000	-1.328	-4.328
Education and the Workforce	-12.651	-5.600	-18.251
Energy and Commerce	-14.734	-6.522	-21.256
Financial Services	-0.470	-0.208	-0.678
Judiciary	-0.300	-0.133	-0.433
Resources	-2.400	-1.062	-3.462
Transportation and Infrastructure	-0.103	-0.046	-0.149
Ways and Means	-1.000	-0.443	-1.443
Total, 2006-2010	-\$34.658	-15.342	-50.000

*Assumes new cuts are prorated based on committee share of original reconciled cuts.

In this scenario, the additional \$15 billion in cuts is allocated to the same eight committees affected by the original reconciliation instruction, in the same proportion as the original \$35 billion cut – increasing each committee’s instruction by about 44 percent.

Changes Could Mean Deeper Cuts to Services Already Slated for Cuts — If the additional cuts are distributed to these eight committees proportionally, cuts currently under discussion could grow 44 percent larger. For example:

- **Medicaid** — A \$10 billion cut to Medicaid could be increased by \$4.4 billion, to \$14.4 billion; or the cut could even be as much as the entire spending target assigned to the Energy and Commerce Committee;
- **Student Loans** — The \$8.7 billion in reductions slated for the student loan programs could be increased by \$3.8 billion, to \$12.5 billion – or even higher, given that the Education and the Workforce Committee does not appear to have identified sufficient spending cuts to meet its original target; and
- **Nutrition and Agriculture** — If the House Agriculture Committee takes the Senate’s reported cuts as a starting point, a food stamp cut of \$574 million could go up by \$253 million, to \$827 million; a conservation program cut of \$1.1 billion could increase by \$484 million, to \$1.6 billion; and a cut to commodity programs of \$1.3 billion could increase by \$572 million, to \$1.9 billion.

Alternative Scenarios Might Cut Medicare, Veterans — The increase in the size of the spending cuts will make it much harder to avoid certain programs, and if the Republican leadership does not decide to distribute the additional cuts proportionally, other important programs may become more highly targeted for spending cuts. For example, while Medicare is under the jurisdiction of both the Committees on Energy and Commerce and Ways and Means, an increase in the reconciliation target for Ways and Means may make Medicare cuts a more realistic possibility. (The House-passed budget resolution earlier this year included an \$18.7 billion cut to the Ways and Means Committee, which was reduced to the current \$1 billion cut in conference.) Furthermore, cuts could be assigned to committees not currently included in the reconciliation instructions, such as the Veterans Affairs Committee. (The House-passed budget resolution earlier this year included a reconciled cut of \$798 million to the Veterans Affairs Committee, which was later dropped in conference.)

Details on Possible Discretionary Spending Cuts

Revised Budget Resolution Might Cut Appropriations Across the Board — Chairman Nussle has proposed revising the budget resolution to reflect an across-the-board cut in 2006 discretionary spending, including defense and homeland security, of 2 percent. Because some House Republicans have disagreed with this proposal, it is not yet clear whether appropriations cuts will be included in the final package, and, if so, at what level. If included, a 2 percent cut would eliminate \$16.9 billion from the planned spending level of \$843 billion – the level in both the Republican budget resolution and the President’s budget for 2006. Senate Republicans have not indicated any intention to pursue a similar cut.

2 Percent Cut Would Be Larger Than Previous Cuts — Congress has enacted across-the-board cuts in omnibus appropriations bills in five of the last six completed appropriations cycles (FYs 2000, 2001, 2003, 2004, and 2005). The across-the-board cuts varied in size from 0.22 percent for 2001, to 0.8 percent in 2005. If pursued, a cut of 2 percent – as Chairman Nussle has proposed – would be more than twice as big as the next largest cut enacted.

2 Percent Cut Would Mean Less Funding in 2006 Than in 2005 — Cutting the 2006 appropriations bills by 2 percent would represent a cut of \$3.4 billion below the 2005 non-emergency level of \$829.5 billion.

Cuts Could Include Defense and Homeland Security — Chairman Nussle has proposed applying the across-the-board cut to all areas of discretionary funding, including defense and homeland security. If included, a 2 percent across-the-board cut from the budget's planned 2006 discretionary levels would mean:

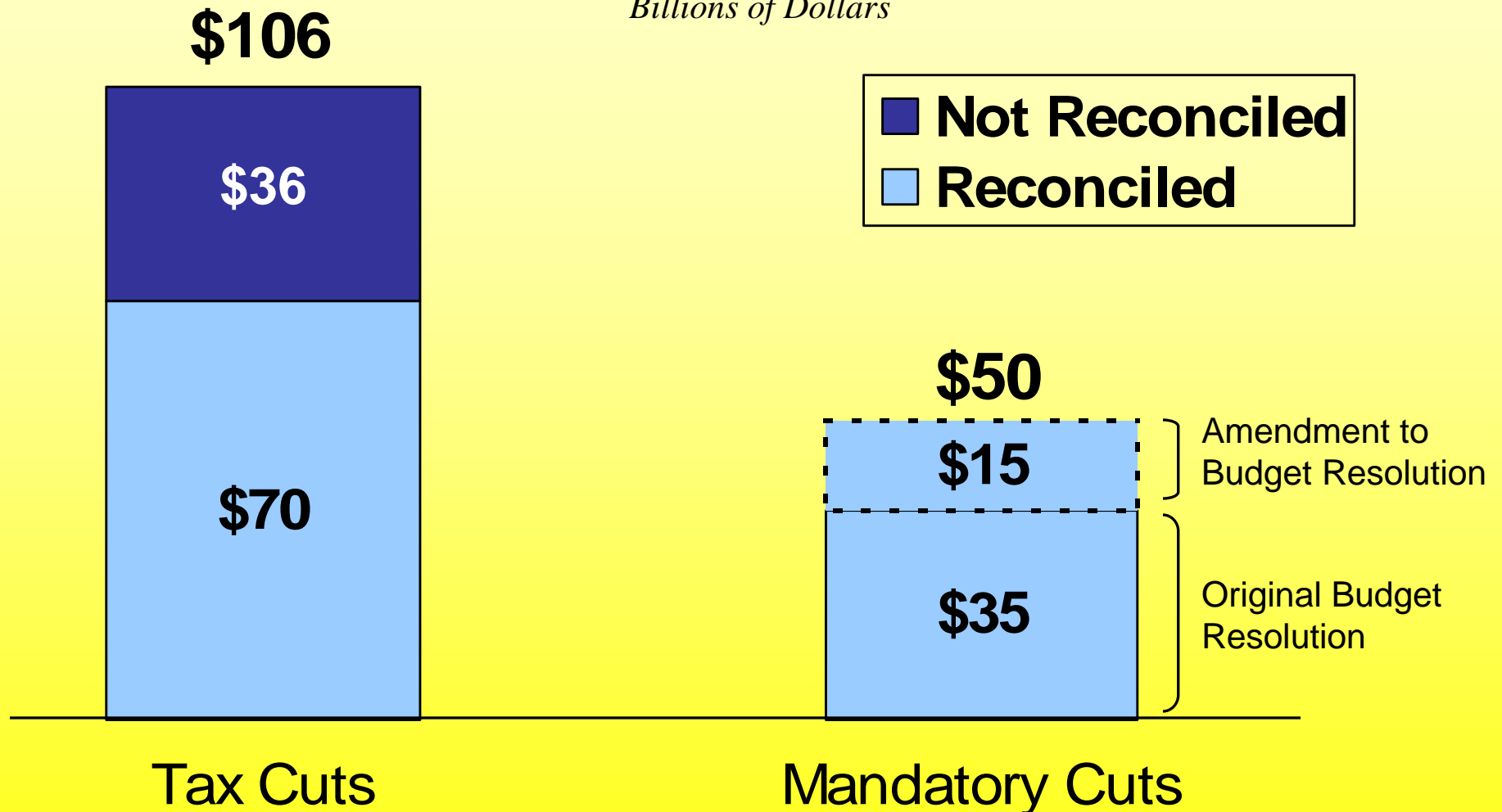
- **Defense** — a \$9 billion defense cut (this does not include emergency war funding);
- **Homeland Security** — cutting non-defense homeland security programs by \$583 million below the level requested by the President and provided in the budget resolution, by \$252 million below the amount needed to maintain services at the 2005 level, and by \$53 million below the comparable 2005 enacted level; and
- **Non-Defense, Non-Homeland Security** — slashing the remaining non-defense, non-homeland security programs to a level that is \$14.0 billion below the amount needed to maintain services at their current levels, \$10.4 billion below the 2005 enacted level, and \$7.5 billion below the level provided in the President's budget and the budget resolution.

2 Percent Cut Would Have Harmful Impact on Critical Services — If the 2 percent cut were pursued and distributed equally across all programs, the following are some examples of the impact on funding for critical services:

- **Energy Assistance (LIHEAP)** — The House-passed appropriations already cut funding for the Low-Income Home Energy Assistance Program (LIHEAP) by 8.0 percent (\$175 million) below the 2005 enacted level. An additional cut of 2 percent would reduce funding by another \$40 million, leaving overall funding \$215 million (9.9 percent) below the 2005 enacted level. Given the sharp increase in heating prices expected this winter, any additional cut will further jeopardize the well-being of the people — 35 percent are elderly and 24 percent are working families who do not receive other public assistance — in every state who rely on LIHEAP to help cover their energy bills.
- **Veterans' Health Care** — The Administration recently submitted a \$2 billion budget amendment to address acute shortfalls in the 2006 budget for veterans' health care. These additional resources are needed to maintain current services and to care for a greater than anticipated number of veterans returning from the wars in Iraq and Afghanistan. An across-the-board 2 percent reduction would reduce veterans' discretionary funding by more than \$600 million, making the shortfall much worse. Based on VA projected health care costs, this reduction translates to nearly 100,000 fewer veterans receiving health care in 2006.
- **Environmental Protection** — EPA received \$7.7 billion in the already-enacted 2006 appropriations bill, which was a \$327 million (4.2 percent) cut below the 2005 enacted level. A 2 percent cut would reduce 2006 spending for the EPA by an additional \$154 million, further jeopardizing clean water and drinking water infrastructure programs, leaking underground storage tank cleanup efforts, the ability to clean up Superfund sites, and other important programs.
- **Special Education** — A 2 percent cut in special education funding would cut 2006 funding to below the 2005 level, and would further reduce the share of costs that the federal government covers to only 17.7 percent, far less than half of the 40 percent "full funding" authorized to help more than 6.9 million students receive special education.

Republican Spending Cuts Only Partly Offset New Tax Cuts

Billions of Dollars



Reconciled Spending Cuts Unfairly Target Working Families

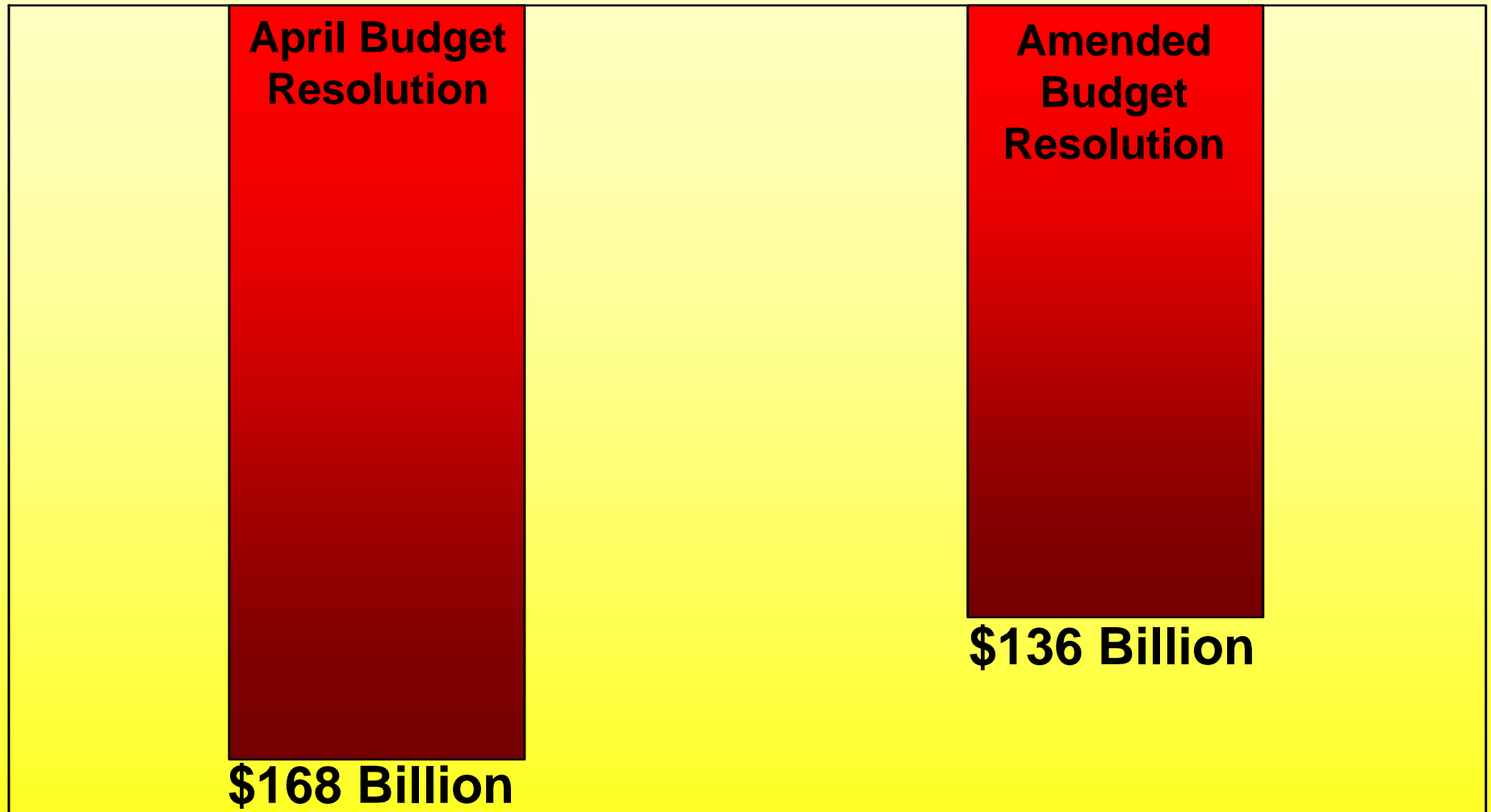
Reported Size of Cuts

Medicaid	\$10 Billion
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Student Loans	\$9 Billion
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Food Stamps	\$574 Million
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Republican Budget Resolution Still Increases the Deficit



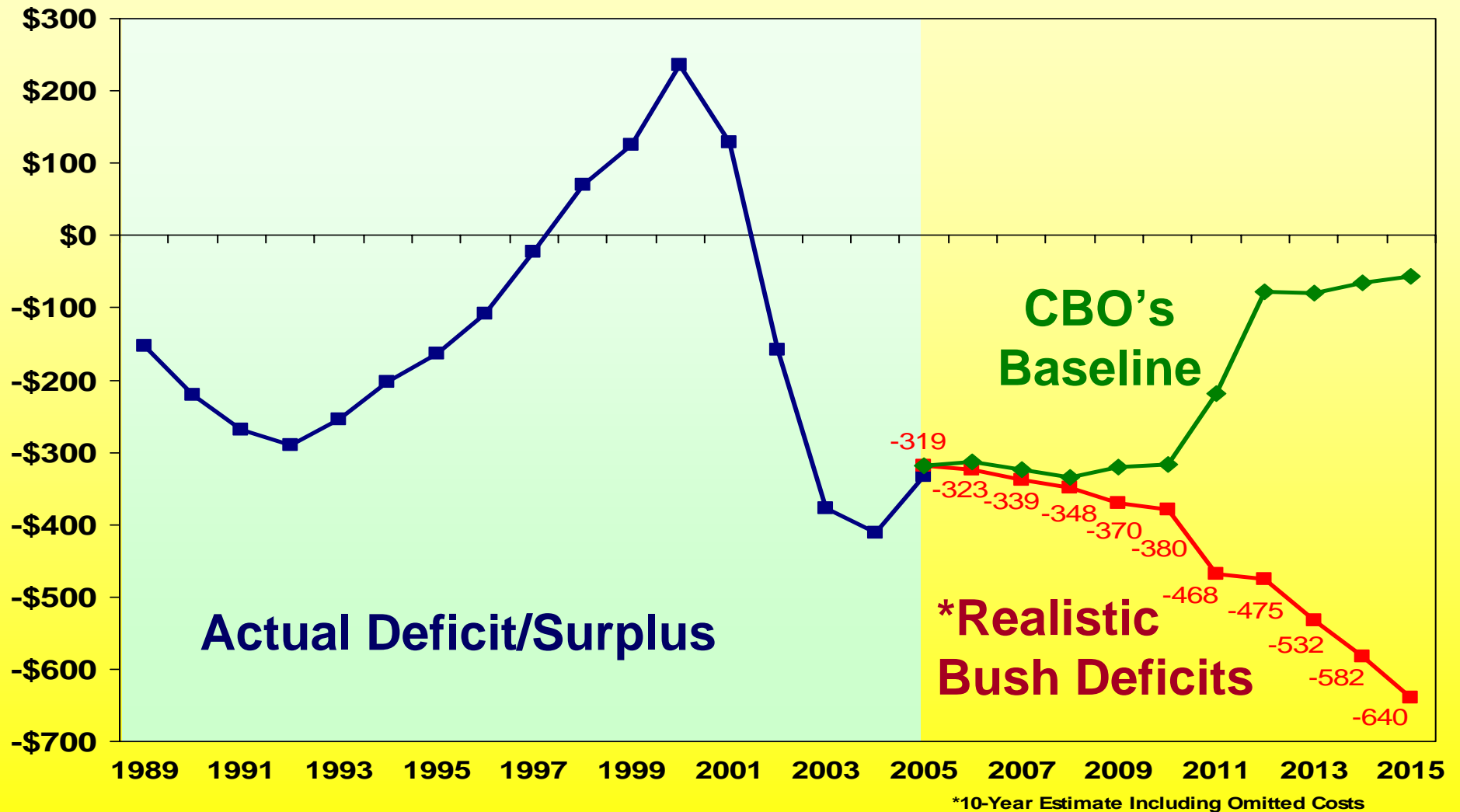
**Figures assume \$15 billion in additional mandatory cuts and \$17 billion in discretionary spending cuts.*

Prepared by the House Budget Committee Democratic Staff

10/18/2005

Realistic Estimate Shows Bleak Deficit Outlook

Deficits in Billions of Dollars

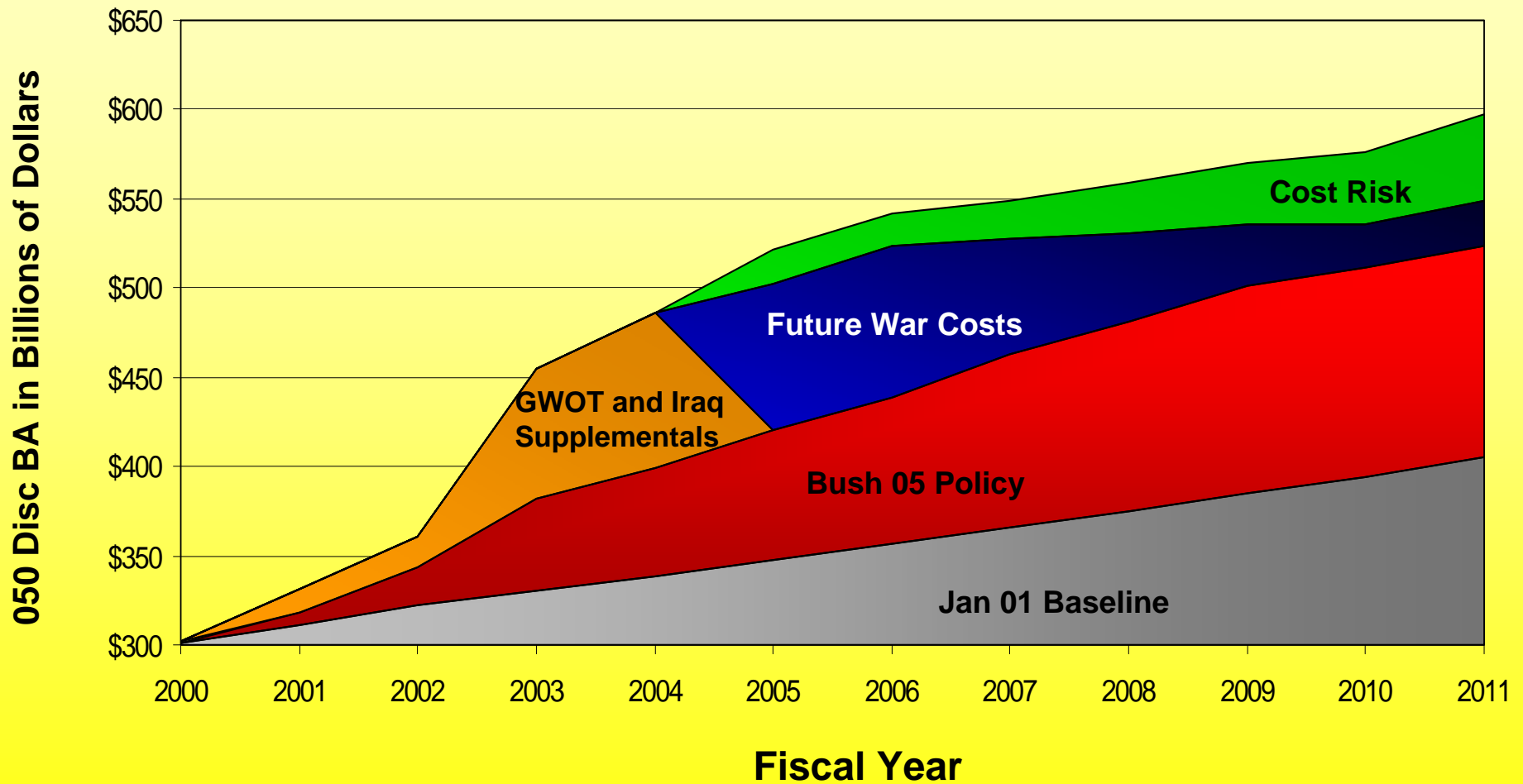


Budget Bottom Line With Bush Agenda Before Katrina

	2005	2015
Deficit	\$319 Billion	\$640 Billion
Debt	\$4.6 Trillion	\$9.2 Trillion
Debt Service	\$182 Billion	\$458 Billion
Debt as a Percentage of GDP	37.7%	46.5%

Increased Cost of Defense Under Bush Administration

With Estimate of Future Contingency Costs



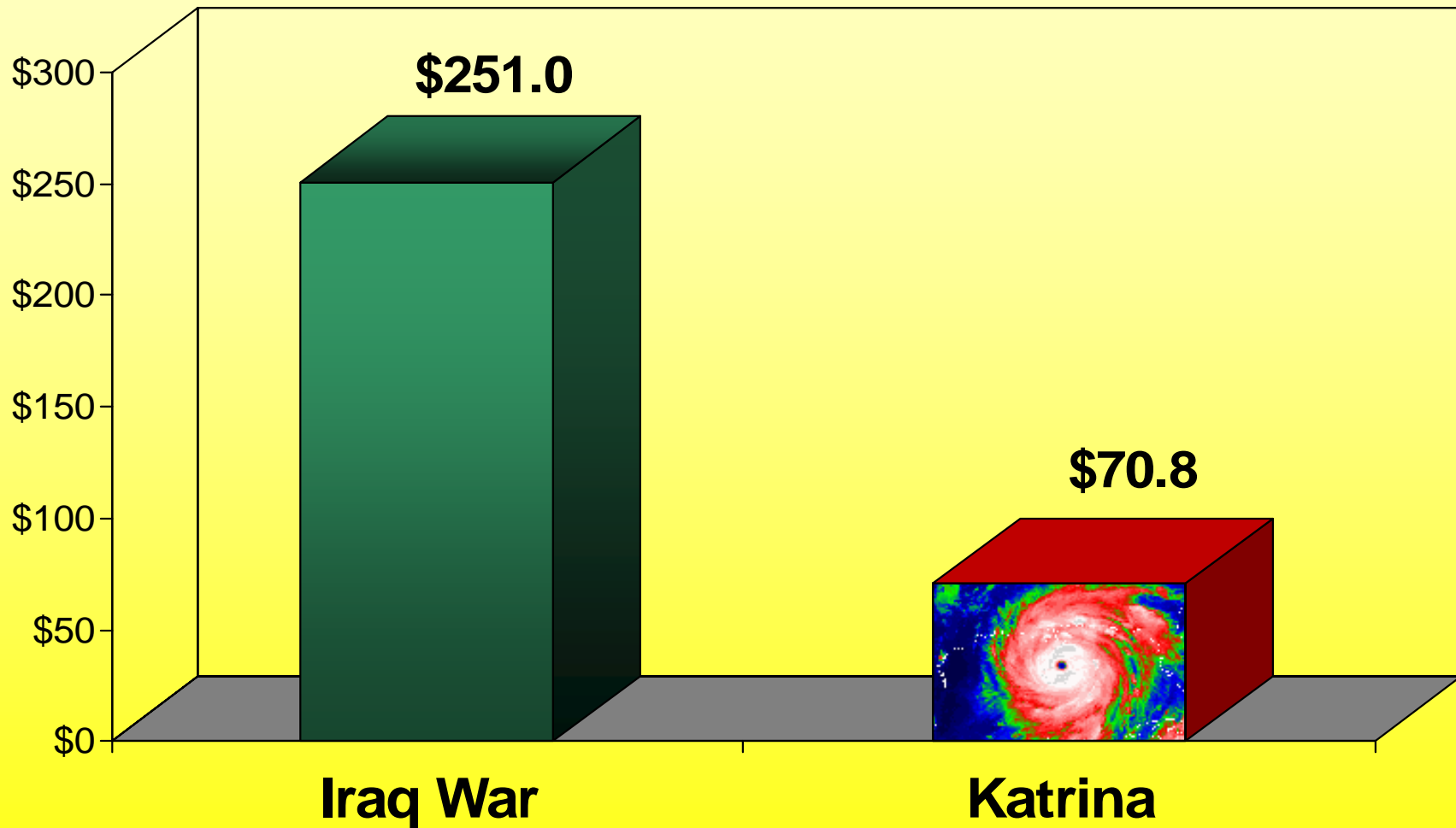
Republicans Increase the Debt Limit by **\$3 Trillion**

Debt Limit Increases, Billions of Dollars

June 2002	\$450
May 2003	\$984
November 2004	\$800
FY2006 Budget Resolution	\$781
Total Increases	\$3,015

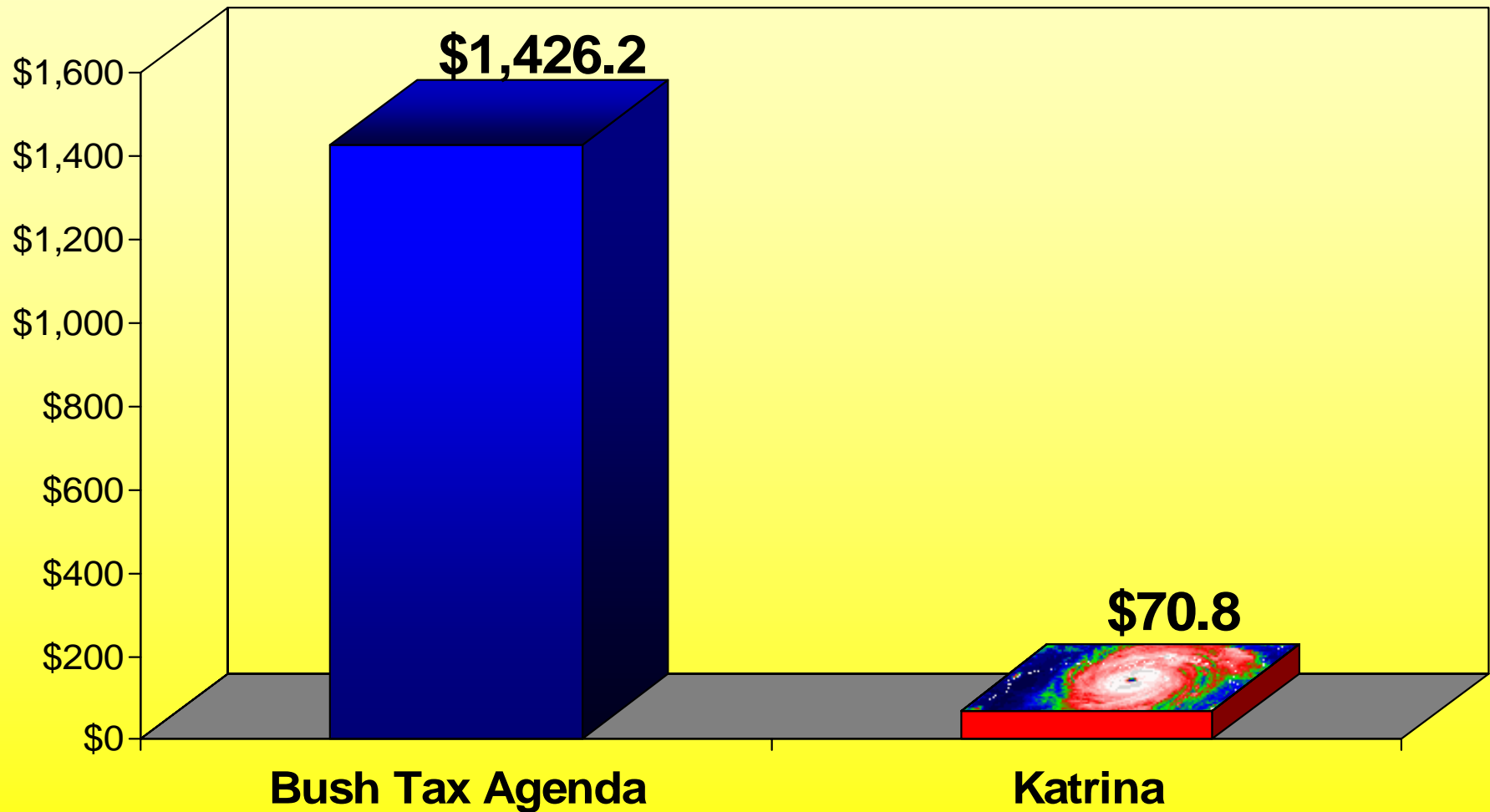
Republicans Propose Offsets For Katrina, But Not For Iraq War Costs

Dollars in Billions



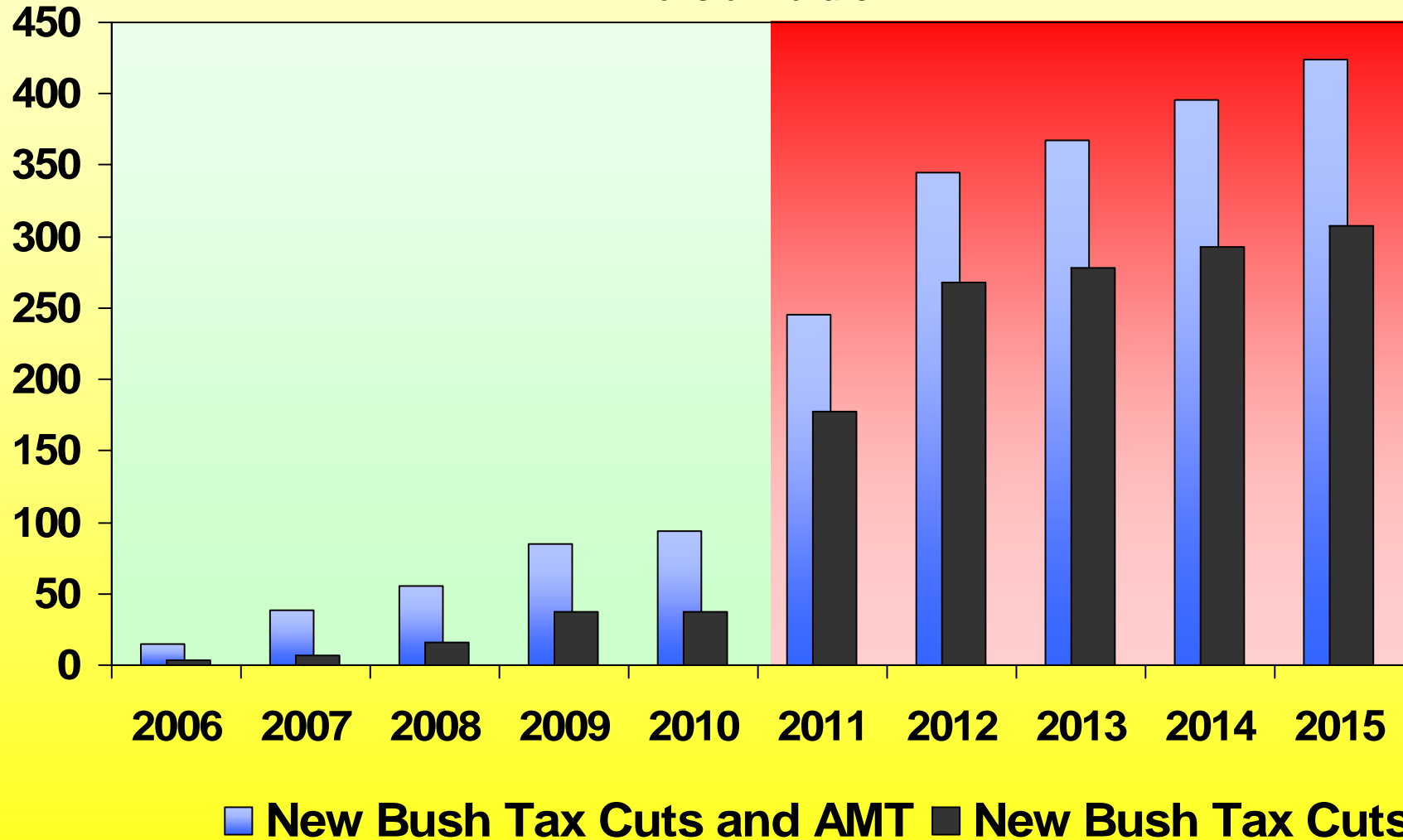
Republicans Propose Offsets For Katrina, But Not For Tax Cuts

Dollars in Billions



New Bush Tax Cuts Worsen the Deficit by **\$2 Trillion**

Billions of Dollars



*Does not include debt service

Republicans' Projected Surpluses Become Huge Deficits

Actual and Predicted Budget Surpluses and Deficits in Billions

