



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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## Republican Study Committee Budget Sacrifices National Priorities to Cut Taxes

### Overview

The Republican Study Committee (RSC) proposed an alternative to the House Republican 2005 budget last week that is notable for bigger tax cuts and deeper spending cuts than those contained in the Republican budget resolution (H. Con. Res. 393) ultimately approved by the House. The RSC budget, offered as an amendment in the nature of a substitute during floor consideration of the 2005 House budget resolution, includes \$182.6 billion in tax cuts over five years. It also includes \$61.3 billion in cuts to entitlements over five years, and it reduces funding for appropriated non-defense, non-homeland security programs for 2005 by \$21.4 billion below the amount necessary to maintain services at the 2004 level.

All in all, the RSC budget calls for \$36.8 billion more in tax cuts, and \$48.1 billion more in entitlement cuts, than the House Republican budget. The RSC budget also cuts 2005 appropriated non-defense, non-homeland security funding by about \$10.6 billion below the already-low level in the House Republican budget. The RSC budget amendment lost by a vote of 116 to 309.

The RSC budget at least recognizes that tax cuts have a price. The significant spending cuts in the RSC budget are an acknowledgment that tax cuts must be paid for one way or another. However, the RSC budget also includes certain budget process enforcement rules that stack the deck against responsible budgeting.

## RSC Budget Slashes Widely Shared Priorities to Pay for More Tax Cuts

The RSC budget authorizes a total of \$182.6 billion in tax cuts for the period 2005-2009. This is \$36.8 billion more than the net amount of revenue reduction recommended in the House Republican budget. Reconciliation instructions refer to two separate revenue measures. The first instructs the Committee on Ways and Means to report a \$137.6 billion extension of expiring tax cuts created in the 2001 and 2003 tax bills. The second instructs the Ways and Means Committee to make an additional \$45.0 billion in tax cuts. The amendment does not instruct Ways and Means to identify any offsetting savings in the tax code.

## RSC Budget Cuts \$61 Billion from Mandatory Programs

The Republican Study Committee budget resolution includes reconciliation instructions calling on 14 committees to cut mandatory spending by a total of \$61.3 billion, or 1.3 percent, over five years. This is \$48.1 billion more than the \$13.2 billion of mandatory cuts included in the main Republican budget. The RSC claims its spending cuts represent elimination of “waste, fraud, and abuse,” but cracking down on improper government payments is unlikely to be sufficient to achieve spending cuts of this magnitude. To meet the spending targets in the RSC budget resolution, authorizing committees would face the need to cut services or restrict eligibility for benefits. Republicans have controlled the Congress for ten years and the White House for three years. Waste, fraud, and abuse may in fact exist, but legislative remedies of the magnitude required by the RSC budget have yet to be identified.

***Republicans Failed To Meet Last Year’s Waste, Fraud, and Abuse Targets*** — The original 2004 Republican budget approved by the House Budget Committee included

| <b>Reconciliation Instructions<br/>in the RSC Budget</b><br>(outlays in billions of dollars) |               |                       |
|--|---------------|-----------------------|
|  | <b>2005</b>   | <b>2005-<br/>2009</b> |
| Agriculture  | -0.220        | -3.100                |
| Armed Services   | -0.050        | -0.250                |
| Education and<br>Workforce   | -0.090        | -0.750                |
| Energy and Commerce  | -1.530        | -12.750               |
| Financial Services   | -0.050        | -0.190                |
| Government Reform  | -0.200        | -2.000                |
| House Administration   | -0.001        | -0.003                |
| International Relations  | -0.150        | -1.125                |
| Judiciary  | -0.080        | -0.550                |
| Resources  | -0.050        | -0.350                |
| Science  | -0.001        | -0.006                |
| Small Business   | none          | none                  |
| Transportation and<br>Infrastructure   | -0.100        | -1.150                |
| Veterans' Affairs  | -0.010        | -0.125                |
| Ways and Means   | -4.784        | -38.947               |
| <b>TOTAL</b>   | <b>-7.316</b> | <b>-61.296</b>        |

reconciliation instructions calling for \$470 billion in mandatory spending cuts over ten years. That amount got reduced to \$265 billion on the House floor. The conference agreement on the budget abandoned the reconciliation instructions and instead required House and Senate authorizing committees to submit legislative recommendations to the Budget Committees to reduce mandatory spending by \$132 billion over ten years, by eliminating waste, fraud, and abuse. The Congressional Budget Office (CBO) analyzed the House committees' submissions and could identify only \$34 billion in mandatory savings. Some of these proposed savings have already become law. The remaining identified savings include proposals, such as oil and gas leasing in the Arctic National Wildlife Refuge, that fall in the realm of policy choice rather than reducing waste, fraud and abuse.

***RSC Budget Cuts Farm Programs and Food Stamps*** — The RSC budget requires the Agriculture Committee to reduce spending by \$220 million in 2005 and \$3.1 billion over five years. The major mandatory spending programs in the Committee's jurisdiction include conservation programs, commodity programs, and food stamps. The Congress approved comprehensive legislation updating these programs just two years ago. If the Agriculture Committee were to cut commodity programs by \$220 million in 2005, the grain sorghum program could be eliminated entirely, the cotton program cut by 16.2 percent, or the wheat program cut by 15.1 percent.

***RSC Cuts Medicaid by Nearly \$13 Billion*** — The RSC budget requires \$12.8 billion in cuts from the Energy and Commerce Committee over five years. Since the RSC intends to exempt "earned entitlement programs" such as Medicare from these cuts, Medicaid is really the only place the Energy and Commerce Committee could cut spending. Cutting Medicaid would jeopardize health care for the over 52 million children, parents, seniors, and disabled individuals who rely on the program for their health care.

- ***Now Is Not the Time to Cut Medicaid*** — These cuts would come at a time when the recent state fiscal crisis has forced nearly every state to cut its Medicaid program, including cutting eligibility (25 states), cutting benefits (18 states), raising co-payments (17 states), and cutting provider payments (every state). Over one million individuals lost health coverage due to state cuts. States still face budget shortfalls of \$35 billion for 2005.
- ***There is Widespread Opposition to Medicaid Cuts*** — The Senate rejected Medicaid cuts, with 53 Senators voting to strike instructions from the Senate budget resolution directing the Finance Committee to cut the program. In addition, 177 national provider, hospital, consumer, and advocacy groups oppose Medicaid cuts, including the American Medical Association, American Hospital Association, March of Dimes, and Alzheimer's Association. Both Republican and Democratic governors oppose Medicaid cuts.

***RSC Budget Jeopardizes Essential Air Service (EAS) Program*** — The RSC budget requires the Transportation and Infrastructure Committee to cut \$1.2 billion in spending over five years. Among other programs, this could affect the EAS program, which provides approximately \$100 million per year to ensure that small rural communities maintain reliable air service and a connection to the nation's aviation and commerce system. Absent this funding stream, carriers would no longer find it economical to service these communities, choking off tourism, business and consumer travel, and job creation in the process.

## **RSC Budget Slashes Appropriations for Priority Programs**

The RSC states that its budget provides \$860.6 billion for 2005 appropriations, including \$50 billion in a reserve fund for the war in Iraq. It also asserts that it matches the House Republican budget on defense and homeland security funding, and cuts all other funding by 1 percent below the 2004 enacted level.

However, to stay within its discretionary total and match the House Republican budget on defense and homeland security, the RSC budget actually would slash non-defense, non-homeland security funding for 2005 by \$21.4 billion (5.6 percent) below the amount needed to maintain services at the 2004 level and by 2.2 percent below the 2004 enacted level. It translates into cuts for non-defense, non-homeland security programs of \$11.9 billion (3.2 percent) below the already-low levels in the President's 2005 budget, and of about \$10.6 billion (2.9 percent) below the levels in the House Republican budget.

Because the RSC budget does not allocate funding to separate budget functions, it is impossible to know exactly which programs it intends to cut the most. Assuming an across-the-board cut of 2.2 percent below the 2004 enacted level for non-defense, non-homeland security appropriations, the RSC budget would include the following cuts:

- ***Veterans' Health Care*** — The RSC budget would cut appropriations for veterans health care by \$1.4 billion (4.7 percent) below the amount needed to maintain services at the 2004 level, and by \$2.4 billion (7.7 percent) below the level in the House Republican budget. Veterans funding in the RSC budget would be a total of \$3.7 billion below the amount recommended by the House Veterans' Affairs Committee.
- ***Education*** — The RSC budget would cut education, training, and social services by \$2.6 billion below the level needed to maintain services at the 2004 level, and by \$4.5 billion (5.6 percent) below the 2005 level in the House Republican budget.

- ***Law Enforcement*** — The RSC budget would cut funding for law enforcement and justice programs by \$1.4 billion (5.2 percent) below the level needed to maintain services at the 2004 level. This hurts not only the programs that keep police on the street, but also the FBI, and Customs and Border Protection.
- ***Safety Net Programs*** — The RSC budget would slash funding for programs that help low-income working families by \$5.9 billion (11.9 percent) below the amount needed to maintain current services. This huge cut would affect Section 8 housing voucher programs the most, since they account for almost half the funding, but the cut would also hit the child care and development block grant, low-income home energy assistance (LIHEAP), and nutritional assistance for women, infants, and children (WIC).
- ***Public Health and Research*** — The public health system prevents disease, advances medical knowledge, delivers key health care services, strives to ensure food safety, and trains the public health workforce. Despite the importance of this system, the RSC budget would cut funding for public health by \$1.7 billion below the amount needed to maintain services at the 2004 level. Funding for science, including the National Science Foundation and the National Aeronautics and Space Administration, would be cut by \$826 million below the amount needed just to maintain programs at the 2004 levels.
- ***Agriculture*** — The RSC budget would cut appropriated agriculture programs by \$226 million below the amount needed to maintain services at the 2004 level. This cut could diminish not only the Farm Service Agency staff who administer farm loan programs, disaster assistance, and other direct aid to farmers, but also the Animal and Plant Health Inspection Service, which protects U.S. animal and plant resources from pests and disease, and serves a vital role in safeguarding homeland security through its inspection and quarantine services.
- ***Environmental Protection*** — The budget would reduce funding for environmental protection programs by \$1.4 billion below the amount needed to maintain services at the 2004 level.

## **RSC Budget Includes Lopsided Budget Enforcement Rules**

The RSC budget erects a “one-way firewall” around defense spending. No savings from cutting defense could be used to fund increased non-defense discretionary spending; however, cuts in other discretionary spending could be used to finance increased defense spending. The amendment also creates “Family Budget Protection Accounts,” which would allow lawmakers to make amendments to appropriations and direct spending bills and specify that the resulting cuts be credited to a “Deficit Reduction Safeguard Balance” which would effectively cancel budget

authority. The RSC budget instructs the Joint Committee on Taxation to use “realistic scoring” which would take into account positive economic effects of tax cuts when determining their cost. However, CBO, the Joint Committee on Taxation, and other non-partisan analysts have produced work showing that the secondary economic effects of tax cuts are ambiguous. Finally, the RSC budget prohibits revenue increases from being used to comply with the budget resolution. Congress would therefore have no incentive in the budget process to remove even the most egregious tax loophole.