# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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

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January 31, 2006

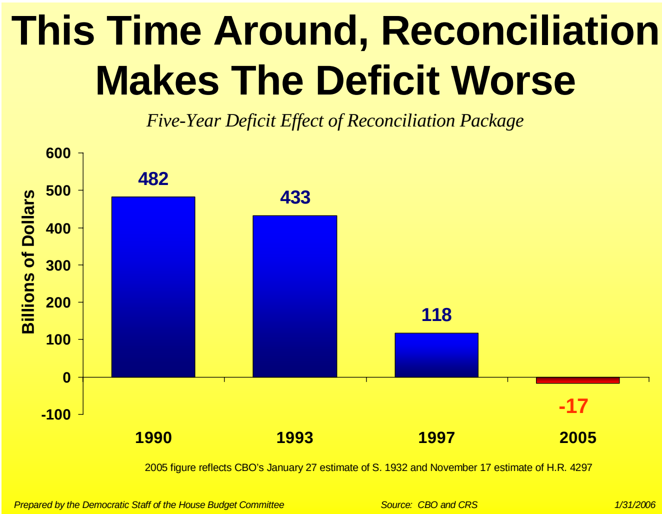
# Spending Reconciliation Bill: Harmful Cuts and Fiscal Irresponsibility

Tomorrow, the House is scheduled to vote on final approval of the spending reconciliation bill, S. 1932, which cuts funding for student loans, Medicare, Medicaid, and other important services. Despite the claims of its supporters, the bill is not fiscally responsible, but rather is paired with a larger reconciliation package of tax cuts to make the deficit worse, not better. At the same time, the bill protects special interests while cutting services for working families and seniors.

**Conference Report Reflects Special Interest Deals Made Behind Closed Doors —** The conference report contains a number of special interest deals struck in closed-door talks from which Democrats were entirely barred. For example, the conference report drops: a $9.6 billion increase in rebates paid by prescription drug companies under Medicaid; a Senate provision eliminating $10 billion in unnecessary Medicare payments to preferred provider organizations (PPOs); and a $65 million provision affecting sugar beet farmers. The conference report also modifies a Senate provision on Medicare risk-adjustment reimbursement payments, saving the health insurance industry $22 billion over the next ten years.

**Flawed Process Produces Errors in Conference Report** — Not surprisingly, one result of the closed-door, last-minute process that produced this legislation is that the bill contains a number of drafting errors. For example, the conference report raises the interest rate on parent loans only in the guaranteed Federal Family Education Loan program and not also in the Direct Loan program – despite the stated intention of the bill's Republican authors to raise the rate on both kinds of loans. Additionally, as the nonpartisan Congressional Budget Office (CBO) indicates in its January 27 cost estimate of the bill, the section of the legislation concerning bankruptcy fees apparently refers to the wrong section of the U.S. Code.

**Conference Report Needlessly Retains Harmful Cuts —** None of the savings from the cuts included in this legislation will be used to pay down the deficit, as the bill's supporters claim, but rather to help finance fast-track reconciliation tax cuts. Even within the spending bill itself, cuts to child support, student loans, and Medicaid could have been eliminated or reduced if savings from the PPO slush fund and from Medicare risk-adjustment payments were left intact.




**Republican Reconciliation Plans Increase the Deficit** — Though Republicans claim that the bill's $39 billion in savings over five years[1] will reduce the deficit, their reconciliation plans actually have the opposite effect of increasing the deficit. The reconciliation spending plan is part of a fast-track process pairing spending cuts with even larger tax cuts, producing a net increase in the deficit. The current budget resolution calls for $106 billion in tax cuts over the next five years – with up to $70 billion of these cuts protected under fast-track reconciliation procedures. In fact, the House has passed tax cuts this year exceeding even this total – $122 billion in all. Thus, despite the reconciliation bill's title, its purpose is not to reduce the deficit, but rather to facilitate passage of and partially offset the cost of tax cuts.

**Spending Cuts Threaten Important Services** — To help finance more tax cuts, this bill cuts funding for a number of key services. Although the impact of these cuts on the budget's bottom line will be relatively small – given more than $100 billion in new tax cuts and annual budget deficits of more than $300 billion – the cuts will have a harmful impact on many Americans. The programs cut include:

**Reconciliation Highlights**

| Billions of Dollars, 2006-2010 | Conference Report |
|---|---|
| Student Loans | -11.9 |
| Medicare | -6.4 |
| Spectrum | -7.4 |
| Medicaid and SCHIP | -6.9 |
| Pension Insurance | -3.6 |
| Farm & Conservation Programs | -2.7 |
| Child Support: Incentive Payments & Other Provisions | -1.5 |
| Supplemental Security Income | -0.7 |
| Byrd Amendment | -0.3 |

Prepared by the House Budget Committee Democratic Staff 1/10/06

- **Medicaid and SCHIP** — The conference report cuts Medicaid and the State Children's Health Insurance Program (SCHIP) by $6.9 billion over five years, including harmful increases in cost-sharing and premiums, tightened asset rules governing eligibility for long-term care, and other benefit cuts. As a report issued just last week by CBO confirmed, these changes to Medicaid would cause 13 million people to face new or higher copayments for medical services, of which 4.5 million are children. Twenty million individuals will see higher co-pays for their prescription drugs, of which 6.6 million are children. By 2015, CBO estimates that

[1] The official CBO score for the legislation is $38.8 billion over five years. CBO notes that if two apparent drafting errors in the legislation are corrected in subsequent legislation, the revised score would be $39.5 billion.

65,000 people would lose coverage because of higher premiums, 60 percent of them children, and 1.6 million individuals would see cuts in their benefits.

- **Student Loans —** The conference report includes $11.9 billion in funding cuts to student loans, including higher fees on students, higher interest rates on parent loans, elimination of mandatory spending to administer higher education programs, and cuts in lender subsidies. (The cuts will rise to $12.6 billion if an apparent drafting error in the bill is subsequently corrected.)
- **Medicare —** The conference reports cuts Medicare spending by $6.4 billion**,** in part by increasing Part B premiums for certain Medicare beneficiaries, while leaving in place unnecessary subsidies to private health plans.
- **Child Support Enforcement and Other Safety Net Programs —** The conference report cuts $2.6 billion from programs serving single-parent families, foster children, and low-income elderly and disabled individuals. These cuts consist of $1.5 billion from child support enforcement, $320 million from foster care programs, and $712 million from Supplemental Security Income for the elderly and disabled.

**Majority of House Has Voted to Oppose Key Provisions —** The original House vote on the conference report in December came just a few hours after the bill was filed, denying Members adequate time to review the legislation. Full review of the legislation, however, makes clear that the bill includes a number of provisions that contradict instructions to conferees passed by the House on December 16 on a bipartisan vote of 246-175. In particular, the conference report rejects the motion to instruct conferees in the areas of: child support enforcement; Medicaid beneficiary cost increases and cuts to benefits; student loan fees; the Medicare "slush fund" for PPOs; Medicare physician payments; and the Byrd Amendment.

**Democrats Support Fiscal Responsibility —** Democrats have a strong track record on fiscal responsibility. In the 1990s, President Clinton moved the budget from record deficits to record surpluses. This year, the alternative budget resolution offered by Ranking Member Spratt balanced the budget by 2012, while the Republican budget never reaches balance, even with these reconciled changes. We 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.

**Why Is The House Voting Again on This Bill? —** The conference report on S. 1932 was approved by the House on December 19, and the Senate approved it on December 21 by a vote of 51-50, with Vice President Cheney casting the tie-breaking vote. However, the version passed by the Senate is not identical to the House-passed version because the Senate struck three provisions as a result of a point of order prohibiting the inclusion of non-budgetary provisions. (One provision limited the liability of hospitals and physicians who require individuals to pay certain costs as a condition of receiving non-emergency care in hospital emergency rooms. The other two provisions required reports on aspects of Medicare.) As a result, the legislation cannot be enacted without another vote by the House.

**Republican Policies Require Another Debt Limit Increase** — When the Bush Administration took office in 2001, its first budget estimated that no debt limit increase would be required until 2008. In reality, starting in 2002, Congress has had to enact three debt ceiling increases – totaling $2.2 trillion – as a result of current policies. Just last month, Treasury Secretary Snow wrote to Congress to request a fourth such increase. An increase at the $781 billion level included in last year's budget resolution would bring the total increases in the debt limit since 2002 to $3.0 trillion.

## Republicans Increase the Debt Limit by $3 Trillion

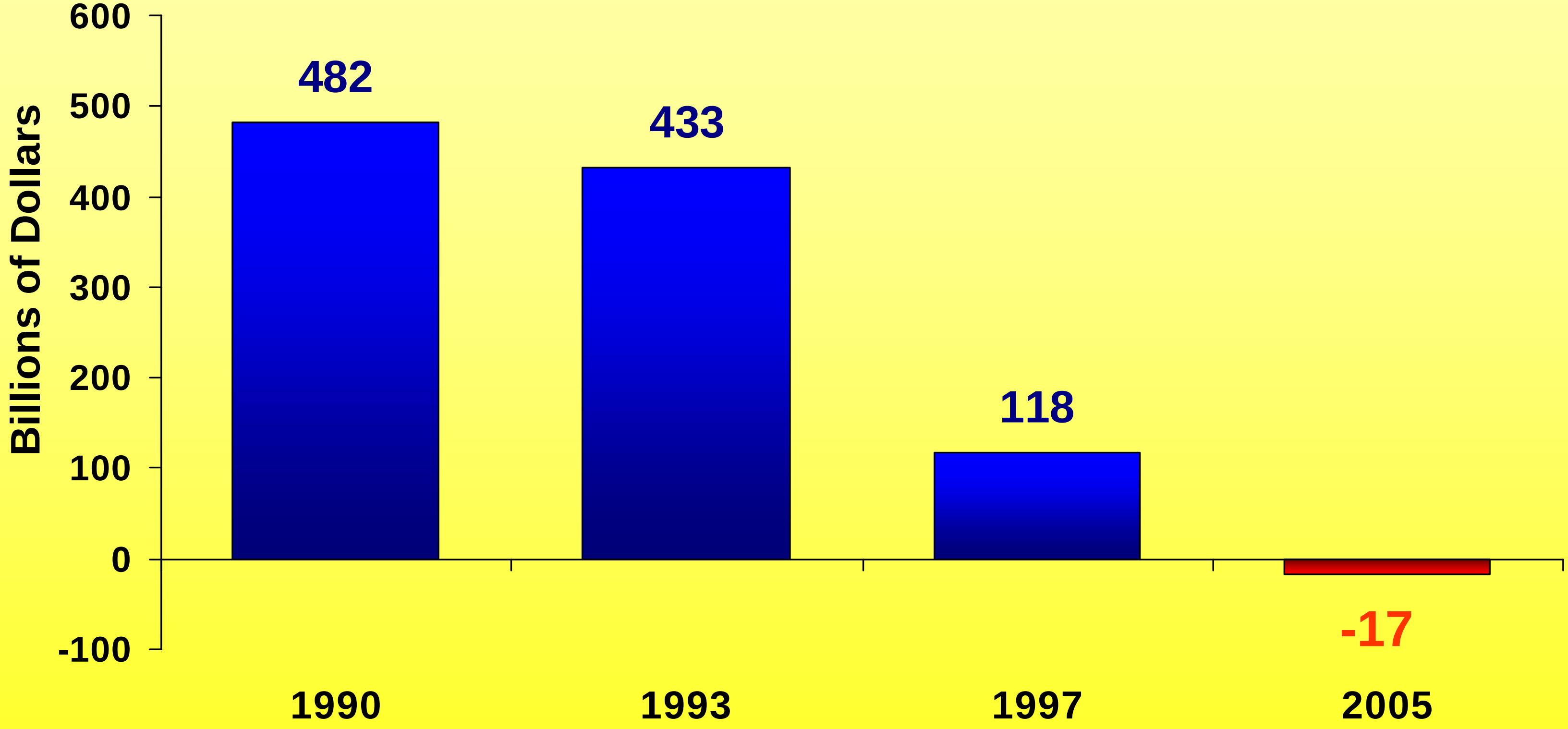
*Debt Limit Increases, Billions of Dollars*

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

*Prepared by the House Budget Committee Democratic Staff* 4/28/2005

# This Time Around, Reconciliation Makes The Deficit Worse

*Five-Year Deficit Effect of Reconciliation Package*




2005 figure reflects CBO's January 27 estimate of S. 1932 and November 17 estimate of H.R. 4297

*Prepared by the Democratic Staff of the House Budget Committee* *Source: CBO and CRS* *1/31/2006*

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