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HENSARLING ENTITLEMENT CAP AMENDMENT WOULD REQUIRE DEEP CUTS IN ENTITLEMENT PROGRAMS

by Richard Kogan and Robert Greenstein

Rep. Jeb Hensarling will offer an amendment to budget-process legislation on June 24 to establish an "entitlement cap" that limits total expenditures for entitlement programs other than Social Security and requires such programs to be cut $1.55 trillion over the next ten years. The amendment is scheduled to be the fourth amendment considered to the budget bill being brought to the House floor (H.R. 4663).

Under the amendment, which also will be included in a Hensarling "substitute" to be offered as one of the final amendments to the budget legislation, a cap would be set each year on allowable expenditures for entitlement programs other than Social Security. The cap would be set at a level well below what entitlement programs would cost under current law, necessitating deep cuts to reduce costs to the level of the caps. In any year in which Congress and the President did not cut entitlements enough to fit within the cap, *automatic* cuts in entitlement programs would be triggered.

The Congressional Budget Office issues entitlement-cost projections and related data that enable analysts to compute what the entitlement caps would be under the Hensarling proposal. The CBO projections and data indicate that over the next ten years, the entitlement caps would be a total of $1.55 trillion below what the entitlement programs will cost under current law. As a result, the amendment mandates $1.55 trillion in cuts over the coming decade.[1]

Entitlement Cuts Over 10 Years If All Entitlements Are Cut Proportionately Under Hensarling Amendment
(in billions of dollars)

Medicare	-674
Medicaid	-332
Federal civilian retirement and disability	-99
Unemployment Compensation	-59
Military retirement and disability	-56
Supplemental Security Income	-53
Earned Income Tax and Child Tax Credits	-46
Veterans' benefits	-45
Food Stamps	-37
Family Support	-31
Child Nutrition	-19
Commodity Credit Corporation	-18
Other federal retirement and disability	-12
TRICARE for Life	-11
Foster Care and Adoption Assistance	-11
Student loans	-9
Universal Service Fund	-8
State Children's Health Insurance	-6
Social services	-6
Other miscellaneous	-19
TOTAL	**-1,551**

[1] The amendment differs in a few respects from the entitlement cap contained in a bill that Rep. Hensarling introduced earlier in the year. The earlier bill would have required $1.8 trillion in cuts in entitlement programs.

Broad-based Opposition to Entitlement Cap Proposal

A broad array of organizations have expressed strong opposition to entitlement cap proposals. For example, in a letter to Speaker Dennis Hastert on June 22, the American Legion stated: "The American Legion opposes any and all entitlement cap proposals. Although we fully support deficit reduction, we consider an entitlement cap in any form to be the wrong approach, and a potential breach of national trust." Similarly, the Paralyzed Veterans of America wrote in a letter to Members of Congress on June 22: "PVA would also like to urge you to oppose any proposed amendment that would enact caps on entitlement spending." In a strong letter sent on June 21, the AARP stated: "AARP urges you to reject any entitlement caps because they would jeopardize the health and economic security of millions of vulnerable Americans."

The Hensarling cap requires such large cuts primarily because of its treatment of Medicare and Medicaid. Under the amendment, the entitlement cap for each year would be set at a level equal to the sum of the costs in the prior fiscal year of all entitlement programs except Social Security, with two adjustments. One adjustment would be made for projected increases or decreases in the number of people eligible for each entitlement program. The second adjustment would incorporate cost-of-living adjustments required by statute. If a program has no statutory COLA or only a partial inflation adjustment, an adjustment would be made equal to the projected increase in the Consumer Price Index.

The costs of Medicare and Medicaid rise with increases in the cost of health care. As is well known, health care costs are rising rapidly in the private and public sectors alike. The Hensarling entitlement cap, however, assumes that Medicare and Medicaid costs per beneficiary will rise an average of *only 2.2 percent per year* over the coming decade, the projected rate of increase in the CPI.

Hardly any employer in America can hold increases in health insurance premium costs to 2.2 percent per beneficiary per year; basic health care costs are climbing much faster than that. Mostly for this reason, the Hensarling entitlement cap would be set $1.55 trillion below projected entitlement costs. As a consequence, not only Medicare and Medicaid but *all* entitlements other than Social Security would be at risk of deep cuts.

The Hensarling proposal also includes interest payments on the debt as an entitlement program. This means that whenever interest payments rise faster than inflation, the entitlement cap would be breached by a larger amount, necessitating still deeper program cuts. This is significant because interest payments are indeed projected to rise over the coming decade, both because interest rates will rise from their current unusually low levels as the economy recovers more fully and because the amount of debt on which interest will be paid will continue to increase as the government racks up continued large deficits. Of particular note, if the 2001 and 2003 tax cuts are extended without being "paid for," deficits and debt — and hence interest payments on the debt — will rise further, requiring even deeper cuts in entitlement programs. In fact, under the Hensarling amendment, each time Congress enacts a new tax cut without paying for it, interest payments would increase more and entitlement programs would thus have to be cut even more severely.

The exact size of the cutbacks in each program would depend on decisions that Congress and the President would make. In theory, Congress and the President could initially decline to enact any legislation cutting entitlement programs and let *automatic* entitlement cuts do all the “dirty work.” Under the rules for automatic cuts contained in the Hensarling amendment, a few programs (such as Medicare Part A) would be exempt from the automatic cuts, and some other programs (such as veterans’ programs, Medicare Parts B and D, and Medicaid) could be cut no more than two percent per year through an automatic cut. (It should be noted that these programs would be cut an *additional* two percent each time an automatic cut occurred, so the automatic cuts in these programs could mount to substantial levels over time. If automatic cuts occurred each year, these programs could be cut 18 percent by 2014.)

It is unthinkable, however, that the bulk of the cuts would occur through *automatic* cuts; the automatic cuts are designed to be so unpalatable that Congress and the President would be compelled to enact legislation cutting entitlements in order to avert or minimize the automatic cuts. If all of the reductions needed to comply with the Hensarling entitlement cap were made through the automatic cuts, then programs fully subject to the automatic cuts — programs such as farm-price supports and crop insurance, extended unemployment benefits and trade adjustment assistance, the Earned Income Tax Credit, vocational rehabilitation, child care payments to states, and the Social Services Block Grant (Title XX) — as well as the salaries of Member of Congress and Senators — would be entirely *eliminated* by 2009.

It is inconceivable that Congress would sit idly by and allow these programs — and Members’ own salaries — to be eliminated. Congress clearly would seek to spread the pain more broadly, by enacting legislation that cut more heavily into entitlement programs that have some protection from the automatic cuts, such as Medicare and Medicaid.

The bottom line is that *all* entitlement programs except Social Security would be at serious risk of being subject to large cutbacks, since $1.55 trillion in reductions over ten years would be mandated by law. The table on page one shows the ten-year cuts that would be made in each entitlement program if all entitlements other than Social Security were cut by the same percentage.