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THE HOUSE REPUBLICAN STUDY COMMITTEE'S PROPOSALS TO OFFSET THE COSTS OF HURRICANE RELIEF

by James Horney and Robert Greenstein

KEY FINDINGS

- Some $375 billion in cuts over ten years– or nearly 40 percent of the cuts in the RSC package – would come from programs that assist people with low incomes. The package includes large cuts in Medicaid, the Earned Income Tax Credit, and help to the world's most poverty-stricken nations to fight AIDS and other diseases.
- The package also would squeeze millions of middle-class households; for most elderly couples, premiums and co-payments under Medicare would be raised an average of $1,700 in 2006 and about $10,000 over five years.
- The RSC package also includes large reductions in grants to help local governments improve "first responders" capabilities, in funding for the Centers for Disease Control and Prevention, and in funding for environmental protection and energy conservation, among other areas.
- While including these cuts, the package would *not* delay or scale back any tax cuts or close any tax shelters. It would leave fully in place tax cuts that now average $103,000 a year for people with incomes over $1 million a year, and would allow two *new* tax cuts exclusively for high-income households to take effect January 1.

On September 21, the Republican Study Committee of the House of Representatives, a group of that chamber's most conservative Republican members, released a large package of program cuts that it proposes be used to offset the cost of relief and recovery from Hurricanes Katrina and Rita.[1] The recognition that deficits are a problem is welcome, and some of the cuts proposed by the RSC should be considered as part of any deficit reduction plan. Yet the package as a whole is highly unbalanced. It calls for deep cuts in basic programs for the poorest and most vulnerable Americans. It also would hit the middle class substantially, raising the costs of health care sharply for elderly Medicare beneficiaries with modest incomes and increasing the costs of school lunches for middle-income families. Yet it calls for virtually no sacrifice from the most well-off Americans, who have benefited heavily and disproportionately from the tax cuts enacted over the last four years. In fact, it leaves in place generous *new* tax cuts — predominantly for millionaires — that are slated to start taking effect on January 1, 2006, even as the package cuts deeply into programs for poor families and for elderly people getting by on modest incomes.

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[1] House Republican Study Committee, "RSC Budget Options 2005: Summary and Explanation of Offsets," September 21, 2005, http://johnshadegg.house.gov/rsc/ .

House Leaders Focus on Cutting Programs for the Poor to Finance Hurricane Relief

When the Republican Study Committee issued its recommendations on September 21, both the House Leadership and the White House quickly made clear their disagreement with aspects of the RSC package, such as the proposed delay of one year in implementing the new prescription drug benefit. House Republican Leaders and RSC leaders then met on September 27.

Both *Roll Call* and *Congress Daily* have reported that at this meeting, the list of RSC budget cuts was narrowed down, and a focus was placed on pursuing cuts in Medicaid, food stamps, welfare reform programs and domestic discretionary programs outside homeland security.[a] This suggests that proposals to cut major benefit programs affecting the middle class — such as the RSC proposals to raise Medicare premiums and co-payments — are likely to be shelved. It also suggests that the bulk of the cuts the House pursues in entitlement programs are likely to be cuts in basic programs for low-income families and individuals.

Thus, four weeks after the plight of impoverished New Orleans residents seemed to elevate concerns about Americans who are living in poverty, and five weeks after the government reported that poverty rose again in 2004, political leaders in Washington apparently are discussing plans to make poor people bear the largest load in paying for the hurricane-related costs.

[a] Ben Pershing, "GOP Still Seeking Spending Cuts," *Roll Call*, September 28, 2005; and John Stanton, "Frist, GOP Leaders Move to Regain Footing in Debate Over Katrina Relief Spending," *CongressDailyAM*, September 28, 2005.

- Nearly 40 percent of the cuts proposed in the package would come from programs that provide basic assistance to people with low incomes. The package includes $343 billion in cuts over ten years from programs that assist low-income families and individuals in the United States, principally poor families with children and poor people who are elderly or have serious disabilities.

- These cuts include $246 billion in reductions in the Medicaid program, which provides health care to low-income children, parents, seniors, and people with disabilities, and an $85 billion cut in the Earned Income Tax Credit, which helps working families trying to raise their children on income from low-wage jobs.

- The package also proposes to cut $32 billion from programs aimed at helping people in severely impoverished areas abroad survive the ravages of AIDS and other scourges. These cuts include wholesale elimination of the Millennium Challenge Fund.

- The package includes substantial cuts in programs upon which millions of middle-class Americans rely. It proposes to delay implementation of the Medicare prescription drug program for one year (a proposal immediately disavowed by the Republican leadership in the House). It also would substantially increase Medicare premiums and raise deductibles and co-payments in Medicare. For most Medicare beneficiaries, these changes would raise out-of-pocket costs by an average of about $1,700 per couple in 2006 and by larger amounts in subsequent years. The package also would terminate support for school lunches provided to middle-income families, requiring such families to pay more for their children's school meals.

  The package would even cut $6.8 billion over ten years in grants that help local governments improve their "first responders" capabilities and be better prepared in cases of emergency, and would cut $25 billion over ten years in funding for the Centers for Disease Control and

Prevention, which helps protect the country from epidemics of infectious disease, biological and chemical terrorism, and environmental hazards. Grants to help state and local governments promote energy conservation and meet water quality standards would be slashed as well.

- Funding for the Corporation for Public Broadcasting, the National Endowment for the Arts, and the National Endowment for the Humanities would all be eliminated.

The cuts proposed in Medicaid and other low-income programs would significantly reduce aid to the most vulnerable Americans, while cuts in programs such as Medicare and school lunches would reach into the pockets of millions of Americans who are not affluent. For example, the increased premiums and co-payment charges in Medicare would make life significantly harsher for millions of elderly people struggling to get by on incomes modestly above the poverty line, such as elderly couples living on average Social Security retirement benefits of just over $17,000. The cuts in the Centers for Disease Control and Prevention and funding for first responders also could adversely affect millions of Americans. In addition, many of the RSC proposals would reduce federal support for vital services provided by state and local governments, leaving those levels of government with large budget holes.

In contrast to these large cuts aimed at people at the bottom and middle of the income spectrum, the RSC package proposes no scaling back of the large tax cuts enacted since 2001 that have been of greatest benefit to the nation's wealthiest individuals, and no action to close abusive tax shelters. The Urban Institute-Brookings Institution Tax Policy Center has reported that the tax cuts enacted in this decade are reducing the taxes of people who earn more than $1 million a year (the top 0.2 percent of taxpayers) *by an average of $103,000* this year.

In addition, the RSC does not suggest deferring or shelving two tax-cut measures enacted in 2001 that are not yet in effect, will start taking effect on January 1, 2006, and will benefit only people at high income levels. (See the box on page 4.) The Tax Policy Center reports that 97 percent of the tax-cut benefits from these two new tax cuts will go to people with incomes that exceed $200,000 a year, and that a majority of these tax cuts will go to people who make over $1 million a year. For people making over $1 million, the two new tax cuts will cut taxes an additional $19,000 a year, on average, when fully phased in. This will be *on top of* the $103,000 in average annual tax cuts these individuals are already receiving.[2]

In other words, under the RSC package, lower- and middle-income Americans would face substantial reductions in basic services and large increases in out-of-pocket costs, even as the already-hefty tax cuts for the wealthiest Americans were allowed to grow still more generous.

Consider, for example, the effects of the RSC's Medicare proposals on a 70-year old couple living on Social Security benefits of $17,250 in 2005, the average benefit level for a retired worker and spouse. In addition to waiting a year to begin receiving the new Medicare prescription drug benefit, the couple's Medicare Part B premium costs would be raised from $2,124 in 2006 to $2,549 a year, an increase of $425. And if the couple were among the 79 percent of Medicare beneficiaries

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[2] See Robert Greenstein, Joel Friedman, and Isaac Shapiro, "New Tax Cuts Primarily Benefiting Millionaires Slated to Take Effect in January," Center on Budget and Policy Priorities, September 19, 2005.

Two New Tax Cuts Are Slated to Start Taking Effect on January 1

Under the 2001 tax-cut law, two tax provisions originally enacted as part of the bipartisan 1990 deficit-reduction package developed by then-President George H.W. Bush and Congressional leaders of both parties would be phased out starting in 2006, and be repealed entirely in 2010. The tax-cut benefits from repealing these two provisions would go entirely to taxpayers with high incomes.

One of the two provisions that are slated to be repealed phases out the personal exemption for people at high income levels. The other provision being repealed limits the value of itemized deductions for taxpayers with high incomes.

Repealing these measures, a step that President Bush did *not* request in 2001, will benefit only high-income households. The Urban Institute-Brookings Institution Tax Policy Center reports that when these two tax cuts are fully in effect (i.e., when the two measures enacted in 1990 are repealed), 54 percent of the tax-cut benefits will go to households making over $1 million a year, with these households receiving an average annual tax cut of $19,234 from the two measures. Some 97 percent of these tax cuts will go to households with incomes exceeding $200,000. The remaining three percent of the tax cuts will go almost entirely to households between $100,000 and $200,000, but households in this income range will receive average tax cuts of just $25.

The cost of these two new tax cuts will be $146 billion over the first ten years they are in full effect (2010 through 2019). Including the added interest payments that will result, the total cost of the two tax cuts will be nearly $200 billion over that ten-year period. In other words, by 2020, the costs of these two tax cuts (assuming they are extended beyond 2010) will equal or exceed the costs of hurricane relief and reconstruction — and over the longer term, the cost of these new tax cuts will vastly exceed the costs stemming from the hurricanes.

that the Congressional Budget Office estimates would face higher deductibles and co-payment charges under the RSC proposal, the couple would pay an additional $1,300 in co-payments in 2006, as well.[3] The RSC Medicare proposals thus would cost such a couple $1,725 in 2006, or nearly 10 percent of its modest income. Over five years, this couple would have to pay about $10,000 more out of its own pocket for these health care services. (Because Medicare costs are growing faster than inflation, the additional costs imposed by the RSC proposal would, on average, grow faster than the couple's Social Security benefits and this would eat up a larger share of the couple's income with each passing year.)

Proposed Cuts in Domestic Low-Income Programs

The cuts proposed in programs serving low-income Americans account for $343 billion, or 36 percent, of the $946 billion in program reductions over ten years that the RSC is proposing. These cuts would hit health care programs serving poor families and individuals particularly hard.

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[3] Because the proposal would cap the maximum amount that Medicare beneficiaries would have to pay in premiums, deductibles, and co-payments in a single year, the proposal would reduce costs for those with very high health care costs. As noted, however, most Medicare beneficiaries would pay higher costs, which would average $650 a person a year for those beneficiaries. See Congressional Budget Office, "Budget Options," February 2005, pp. 208-209.

Medicaid

The RSC package includes cuts in Medicaid that would reduce federal funding by a total of $246 billion over ten years, relative to what Medicaid funding levels would be under current law.

Medicaid provides more than 50 million economically vulnerable children, senior citizens, people with disabilities, and other adults with access to life-saving and life-preserving health care. When the economy weakened and employer-sponsored health insurance eroded in recent years, Medicaid played a particularly important role in enabling many of those with low incomes who lost private coverage to maintain health insurance. Without Medicaid, the number of uninsured Americans would be substantially higher than the record-high 45.8 million level identified by the most recent Census data.

The RSC package includes a battery of proposals to cut Medicaid. The most far-reaching is a proposal to eliminate the current Medicaid entitlement for acute care for eligible low-income children, parents, and elderly and disabled people and simply provide block grants to states instead. (This proposal would not affect Medicaid long-term care services such as nursing homes.) The shift from an entitlement to a block grant would radically change the nature of the federal commitment to provide adequate health care for low-income people in this country. Furthermore, this proposal would reduce federal contributions to state Medicaid programs by an estimated $225 billion over ten years.

Proponents of the block grant proposal argue that under this proposal, federal Medicaid funding for acute care services would grow with overall U.S. population growth and inflation, as measured by annual increases in a "health care input index." They suggest this would provide adequate resources to continue funding current Medicaid commitments.

But such claims do not withstand scrutiny. The health care inflation index that the RSC proposes to use would provide for annual increases in federal Medicaid funding well *below* the actual increases in the cost of health care in the United States. (See the box on page 6.) In addition, the adjustment that the RSC proposes for population growth fails to take into account that the U.S. population is aging and a larger proportion of Medicaid beneficiaries will be elderly in coming years. This is a crucial point, because the average health care costs of elderly are much higher that those of younger people. The proposed block grant makes no allowance for that.

Nor does the block-grant proposal take into account that the continued erosion of employer-sponsored health care coverage is pushing more low-income workers and their families on to Medicaid. The proposal also fails to include any mechanism to provide additional funding to cover the significant increases in Medicaid costs that will occur if a major flu epidemic hits the United States, or if another recession occurs and more Americans lose their jobs and fall into poverty. The current Medicaid entitlement, by contrast, takes all of these factors into account and ensures that benefits and eligibility are not limited by arbitrary funding limits that fail to respond to changes in health care costs and needs.

It is for these reasons that the proposed block grant for Medicaid acute care services would provide $225 billion less in federal funding to state Medicaid programs over the next ten years than the Congressional Budget Office estimates will be needed to fund health care services for the low-

Adjustment of Medicaid Block Grant for Heath Care Inflation Is Inadequate

The Medicaid block grant proposed by the Republican Study Committee includes an annual adjustment in the amount of the block grant to reflect population growth and inflation, as measured by the increase in a "health care input index." Proponents of the block grant imply that this inflation adjustment, based on this "health care input index," would fully account for the increased cost of providing Medicaid services in the future.

This claim is off the mark. The proposed health care inflation index is inadequate for many reasons. It would measure inflation in certain labor and related costs for a current market basket of health care services. But it would leave out the fast-rising cost of prescription drugs. More importantly, the index fails to adjust for changes in the utilization of health care services, which are occurring as a result of the development of new medical technologies and other advances in medical practice. As medicine develops or discovers new procedures and treatments that are effective, the use of health care procedures and treatments necessarily increases. This rise in health care utilization is one of the key forces driving the increase in per-person health care costs throughout the U.S. health care system, including the private sector every bit as much as Medicaid and other government health care programs. In fact, per-beneficiary costs in Medicaid has risen *more slowly* in recent years than per-beneficiary costs in private health insurance.[a]

a. See Center on Budget and Policy Priorities, "Future Medicaid Growth is Not Due to Flaws in the Program's Design, But to Demographic Trends and General Increases in Health Care Costs," February 4, 2005.

income people who will be eligible for Medicaid under current policies. Based on analyses of CBO cost estimates, if the funding reduction this proposal would require were achieved by reducing Medicaid eligibility for children, *between 14 million and 15 million low-income children who would otherwise have Medicaid coverage would be taken off the rolls*. Most of these children likely would become uninsured. (Children are used here as the example because they are the *only* group of Medicaid beneficiaries for whom the eligibility limit generally is set at or above the poverty line. For parents, the Medicaid income limit already is set at only about 70 percent of the poverty line in the median state. And adults without minor children who are not elderly or seriously disabled already are ineligible for Medicaid.)

The RSC package also includes a proposal that would allow increases in the co-payments that could be charged to poor Medicaid beneficiaries, despite an extensive body of evidence demonstrating that significant increases in co-payments lead many low-income beneficiaries to cut back on essential health care and medications and often result in a worsening of their health status.

State Children's Health Insurance Program

SCHIP, which was established in 1998, supplements Medicaid by providing funding to states to provide health care to more than five million children with family incomes modestly above the Medicaid income limits (generally, the family incomes are between 100 percent and 200 percent of the poverty line). The Centers for Disease Control and Prevention has found that the percentage of low-income children who are uninsured has fallen by more than one-third since 1997 despite the decline in private health coverage for these children during that period. This improvement in coverage is due entirely to higher enrollment in Medicaid and SCHIP.

The RSC package would cut SCHIP by $1.8 billion over ten years. The proposal would achieve these savings primarily by barring SCHIP funds not used by one state from being reallocated to other states that need the funds. It is impossible for the federal government to design a state allocation formula that precisely matches every state's SCHIP allocation with that state's particular needs and health care costs, child enrollment patterns, changes in the state economy, and other factors. As a result, a basic part of the SCHIP funding mechanism has always been to reallocate unused funds to states that need them. By removing this $1.8 billion in funding from the SCHIP program, this proposal would cause as many as 100,000 low-income children to lose their health care coverage and join the ranks of the uninsured.

Community Health Centers

The federal government provides grants to Community Health Centers that provide care for medically underserved populations. These centers provide health services to more than 15 million patients in 50 states, the District of Columbia, and the territories and commonwealths. In 2003, some 90 percent of these patients had incomes below 200 percent of the poverty line.[4]

The White House has recognized the importance of Community Health Centers in fighting HIV/AIDS, among the many other functions these centers perform. The Administration has noted that it has supported increases in funding for "programs helping Americans afflicted with HIV/AIDS: …Community Health Centers, which in low-income or rural areas, may provide the only source of treatment and support to HIV-infected individuals."[5]

The RSC proposes to freeze funding for Community Health Centers at current dollar levels, without any adjustment for increases in the cost of providing health care. By 2005, this would reduce funding by 17 percent (compared to the 2005 funding level, adjusted for general inflation). The RSC estimates this would save $1.4 billion over ten years. This reduction in funding would be *in addition* to reductions in payments to Community Health Centers for health care services provided to Medicaid patients, which almost certainly would occur as a consequence of the proposed $225 billion in cuts in federal funding for acute-care services under Medicaid. Reimbursements from Medicaid represent the single largest source of funding for Community Health Centers.

The combined effect of these Medicaid cuts and the freeze in appropriated funds for Community Health Centers likely would prove devastating for many of these centers.

Earned Income Tax Credit

The RSC package includes a proposal to cut $85 billion over 10 years from the Earned Income Tax Credit. The EITC was established in 1975 and has enjoyed substantial bipartisan support, with President's Reagan, George H.W. Bush, and Bill Clinton all praising it and proposing expansions in it. It has been found to produce substantial increases in employment and reductions in welfare receipt among single parents, as well as large decreases in poverty. Research indicates that families use the EITC to pay for necessities, repair homes and vehicles that are needed to commute to work, and in some cases, to help boost their employability and earning power by obtaining additional education or training.[6]

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[4] Jessamy Taylor, "The Fundamentals of Community Health Centers," National Health Policy Forum, August 31, 2004.

[5] Office of National AIDS Policy: http://www.whitehouse.gov/infocus/hivaids/ .

[6] See Robert Greenstein, "The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor," Center on Budget and Policy Priorities, revised August 17, 2005.

The RSC claims that the proposed $85 billion reduction over 10 years in EITC payments could be achieved by an improved process for verifying the eligibility of EITC recipients and that the Government Accountability Office has called for such a change. Both of these statements are incorrect.

The IRS is currently pilot-testing a method of requiring more intensive verification from EITC filers for whom the IRS is not otherwise able to verify that a child being claimed for EITC purposes is a "qualifying child." The GAO has issued several reports that detail potential problems with the method being tested and raise concerns that these methods could lead significant numbers of *eligible* filers to be deterred from participating (or to be incorrectly denied the credit by the IRS). Indeed, the IRS is testing these procedures in part to determine both their efficacy in reducing participation by ineligible filers and whether they do cause a decline in participation by eligible filers.

The results available to date from the pilot testing suggest that use of these procedures results in about a 10 percent drop in EITC claims among the group of EITC filers asked to provide this verification. No data are available yet on the extent to which this 10 percent decline consists of *ineligible* families and the extent to which it consists of *eligible* families. The IRS clearly believes that many unanswered questions remain regarding these procedures (which also result in increases in IRS administrative costs) and that the procedures are not ready to be applied on anything beyond a pilot test basis.

Furthermore, fewer than one-fifth of EITC filers fall into the category that would be subject to these procedures if the procedures were applied nationally. A 10 percent reduction in participation among those filers would yield savings of well under $1 billion per year, a far cry from the exaggerated $85 billion figure that the RSC claims. In addition, these would be *gross* savings; the IRS would require a large infusion of additional funding to administer these verification requirements, and that would reduce the net savings. If no additional funding were provided to the IRS to cover these costs, the agency would have to cut back on other enforcement activities, such as efforts to curb abusive tax shelters and to audit high-income taxpayers and corporations that have made questionable tax claims. Since the dollar amounts involved in tax issues involving those taxpayers tend to be much larger than the amounts involved when low-income EITC tax filers are involved, such a diversion of IRS resources might even end up losing money for the Treasury.

If the RSC is intent on securing $85 billion in savings over ten years from the EITC, there would be only one way to do so — to cut millions of eligible low-income working families off the EITC (even though they are fully complying with the rules) or to cut the EITC tax-credit amounts that eligible low-income working families receive. Either of these approaches would amount to one of the largest tax increases (if not the largest) imposed on low-income working families in decades.

Legal Services

The Legal Services Corporation was chartered by Congress in 1974 to provide poor people with access to the civil justice system. The Corporation distributes competitive grants to local non-profit entities to provide free civil (as distinguished from criminal) legal assistance to low-income families and individuals, helping them to resolve cases that deal with issues such as domestic violence, access to health care, child custody and unemployment and disability claims.

The RSC proposal would eliminate funding for the Legal Services Corporation. This would cut an estimated $4.6 billion over ten years. It would leave millions of poor Americans without access to basic legal services.

Proposed Cuts in Programs for Impoverished People Around the World

In addition to the $343 billion in cuts proposed in programs serving low-income Americans, the RSC proposes cuts totaling $32 billion over ten years in foreign aid programs that provide assistance in poverty-stricken areas of the world. These cuts are proposed even though the level of U.S. development aid (including humanitarian aid) is the second lowest, relative to the size of the American economy, of the 22 major industrialized countries.

Millennium Challenge Account

Established in 2004, the Millennium Challenge Account is one of the two pillars of President Bush's pledge that the United States will increase development assistance to poor nations in coming years. It is designed to fight global poverty by giving aid to developing countries that implement sound economic and political reforms. MCA funds can be used for a variety of purposes such as education, health care, and programs to help businesses and farms. Congress provided nearly $1 billion in initial funding for 2004 and $1.5 billion for 2005. The President has requested $3 billion for fiscal year 2006 and pledged to increase annual funding for the MCA to $5 billion in the future.

The RSC proposes to eliminate Millennium Challenge Account funding, reducing spending by an estimated $24 billion over ten years. By eliminating substantial amounts of promised aid to needy but reasonably well-governed nations, this proposal would undermine the pledge the President has made to the world to boost U.S. foreign aid to such countries.

Total Proposed Cuts in Low-income Programs
(Fiscal years 2006-2015)

Domestic Low-Income Programs	$343 billion
Foreign Aid Aimed at Poverty Stricken Areas of the World	$32 billion
Total Proposed Cuts	$375 billion

Global HIV/AIDS Initiative

This initiative supports U.S. HIV/AIDS programs in more than 75 countries, providing treatment to infected individuals, funds for prevention, and care for more than one million children orphaned by the disease. In his 2003 State of the Union address, President Bush announced a $15 billion, five-year program to focus on the international HIV/AIDS problem. This is the second pillar of the President's commitment to boost U.S. foreign aid. According to the Congressional Research Service, $2.3 billion was appropriated in 2004 and $2.9 billion was appropriated in 2005. The President's budget has requested a little less than $3.2 billion in funding for 2006. The Administration anticipates funding the remaining $6.6 billion commitment in the following two years.

The RSC proposes to freeze funding for the largest single account receiving global HIV/AIDS funding — the State Department Global HIV/AIDS Initiative account — at the 2005 dollar level.

(That account received $1.4 billion of the total $2.9 billion appropriated for global HIV/AIDS activities for 2005; the remaining $1.5 billion was distributed among 15 other programs dealing with global HIV/AIDS). The RSC estimates this would reduce spending by an estimated $7.6 billion over 10 years. In addition to significantly slowing global efforts to close the gap between the number of people with HIV/AIDS and the number who are receiving treatment, this cutback in the promised amount of U.S. funding would almost certainly undermine our standing in the world.

Proposed Cuts in Programs Assisting Middle-Income Americans

The RSC package includes substantial cuts in programs that provide assistance and services to a wide array of individuals, families, and communities, including services and benefits on which millions of middle-income Americans rely. Among the programs proposed for cuts are the following.

Medicare

The RSC proposes substantial cuts in Medicare, the federal program that provides health care services for more than 40 million Americans who are elderly or seriously disabled. Total Medicare cuts under the RSC package would exceed $200 billion over ten years.[7]

The package includes a proposal to delay implementation of the Medicare prescription drug program for one year. That program is scheduled to go into effect on January 1, 2006. This proposal would reduce expenditures by an estimated $30.8 billion in 2006. It would do nothing, however, to constrain the longer-term cost of the prescription drug plan and thus would have virtually no effect on long-term deficits. It would not curb the excessive payments that MedPAC, Congress' official advisory body on Medicare payments, has said the prescription drug legislation will provide to private managed-care companies. Nor would it enable Medicare to save money by using its large purchasing power to negotiate lower prices from pharmaceutical companies. Instead, it would simply force Medicare enrollees to wait another year before benefiting from the drug benefit that was enacted two years ago.

The RSC package also includes a proposal that would increase the premiums that Medicare beneficiaries must pay for physicians' coverage under Medicare Part B. Under current law, Medicare Part B premiums are set each year at the level that is estimated to cover 25 percent of the costs of the health-care services provided under Part B. For 2006, each Medicare Part B enrollee is required to pay a premium of $88.50 a month, or $1,062 a year.

Under the RSC plan, the premium paid by each enrollee in 2006 would be increased by $212, to $1,274 a year. Paying this premium increase would not be a major problem for higher income beneficiaries. But for many seniors who already are struggling to get by on Social Security and limited savings, such an increase would represent a significant hardship.

The RSC package also includes two proposals that would increase the cost-sharing payments that Medicare enrollees must make. One proposal would establish, for the first time, a co-payment equal

[7] The sum of the estimated savings of each of the RSC's Medicare proposals is $235 billion, but two of the proposals overlap.

to 10 percent of the cost of the home health services that Medicare covers. For frail beneficiaries who need extensive home health services, the increased charges could be very large. This proposal would cut Medicare expenditures by an estimated $31.5 billion over ten years.

The other such proposal would be an alternative to establishing a new home-health services co-payment. It would restructure many of Medicare's cost-sharing requirements. It would establish a single deductible covering *all* services provided by Parts A and B of Medicare, set a uniform *20 percent* co-payment for all of those services (including home health services), and place an annual cap on each beneficiary's total cost-sharing liability. This would cut Medicare expenditures by an estimated $87.5 billion over ten years.

CBO estimates that the cap on cost-sharing expenses for individuals would reduce cost-sharing liabilities for about 7 percent of Medicare beneficiaries who have very high annual Medicare costs. For another 14 percent of Medicare beneficiaries, cost-sharing liabilities would remain about the same. But for the remaining 79 percent of Medicare enrollees — nearly 34 million people — CBO expects that cost-sharing liabilities would *increase* by an average of $650 per person per year under this proposal. Here, too, higher-income enrollees would not have a problem paying the additional amounts, while many beneficiaries with more modest incomes would have to struggle to pay them.

School Lunch Program

The National School Lunch Program subsidizes nutritious meals for more than 29 million school-children each day. The program provides per-meal reimbursements to schools that vary with the income of the students receiving the meal. The program currently provides $2.50 per lunch for students who receive free meals (those with family incomes at or below 130 percent of the poverty line), $2.10 per lunch for students who receive "reduced-price meals" (students with family incomes above 130 percent of the poverty line but at or below 185 percent of the poverty line), and $0.39 per lunch for students who pay the full price of the meal (those with family incomes above 185 percent of the poverty line). The program also provides subsidies for breakfasts served.

The RSC package includes a proposal that would eliminate the 39 cent per lunch and 23 cent per breakfast subsidy for students whose household income is above 350 percent of the poverty line.[8] This would save an estimated $6.7 billion over 10 years.

The reduction in the subsidy proposed by the RSC would force schools to raise meal prices for students. If a family with two school children faced increased meal charges equal to the amount of the per-meal subsidy that would be eliminated, the family would have to pay an additional $1.24 a day — or $223 per year — if its children ate both school lunches and breakfasts.

Meal prices, however, would likely rise more than this. Research in the field, as well as past program experience, strongly suggests that a substantial number of middle-income children would stop purchasing school lunches if these subsidies were eliminated and school meal prices were raised significantly to compensate for the loss of federal funds. This drop in participation, in turn, would lower the volume of meals served and thereby cause the *per-meal* costs that schools incur in preparing and serving the meals to increase. To address the rise in the average cost of producing a meal,

[8] The proposal would also increase the subsidy for reduced-price meals by 20 cents per meal.

schools would have to raise meal prices further. These additional price increases could apply to students between 185 percent and 350 percent of the poverty line, as well as to those over 350 percent of poverty.

Research and past experience also demonstrate that with a subsidy cut of this magnitude, a substantial number of schools would be expected to drop out of the programs altogether. Adding to the likelihood that schools would drop out is the fact that the proposal would make the school meal programs more cumbersome and costly to administer than at any time in the programs' history, because schools would be required to ascertain into which of *four* different income categories each student should be placed and would have to collect and process school meal applications from a much greater number of children than they do now. (Applications would have to be sought from all children below 350 percent of the poverty line, instead of just from those below 185 percent of poverty.) When a school drops out of the program, low-income children at the school lose access to free and reduced-price meals and consequently may be at risk of missing meals and developing nutritional deficits.

Centers for Disease Control and Prevention

The Centers for Disease Control and Prevention conducts research and undertakes active disease-control measures to protect the United States from epidemics of infectious disease, biological and chemical terrorism, and occupational and environmental hazards. The CDC is the first line of defense against public health threats such as anthrax, smallpox, avian influenza, SARS, HIV/AIDS and other infectious diseases.

The RSC document does not clearly state what level of funding is proposed for CDC — it simply says that "the CDC's funding increased 25% over last year" in the House-passed fiscal year 2006 appropriation bill and claims the RSC proposal would reduce funding for the CDC by an estimated $25 billion over ten years. $25 billion represents nearly half of the baseline funding for CDC projected by CBO for 2006 through 2015. (The baseline assumes that the 2005 funding level, as adjusted for inflation, will be provided each year in the future.) It is likely that the RSC is measuring its savings from an *adjusted* baseline that includes the effects of the increase for fiscal year 2006 contained in the House-passed appropriation bill; under that calculation, achieving savings approaching $25 billion would require funding for the CDC to be frozen for ten straight years at the dollar level of the 2005 appropriation, without any adjustment for inflation over this period. That would reduce CDC funding by almost 20 percent by 2015, relative to the real (inflation-adjusted) amount appropriated for the CDC in 2005.

First Responder Grants

First Responder Grants are provided by the Department of Homeland Security to help local authorities prepare for terrorist attacks. About $4 billion were appropriated for these grants in 2005. The RSC proposal would limit the availability of these grants to large communities deemed to be at high risk from terrorist attacks. The recent disasters have demonstrated, however, that emergency preparedness programs are crucial for all communities.

The proposal would cut an average of a little more than $650 million a year from the program, for a total reduction of $6.8 billion over ten years.

State and Community Grants for Energy Conservation

State and Community Grants for Energy Conservation help state and local governments support energy conservation efforts. Funds go to programs such as weatherization assistance for low-income households, carpooling programs, and initiatives to decrease energy consumption in public buildings. These programs could become increasingly important as energy prices rise in the wake of Hurricanes Katrina and Rita.

The RSC proposal would eliminate State and Community Grants for Energy Conservation, cutting $500 million over 10 years.

Federal Grants for Wastewater Infrastructure

Federal Grants for Wastewater Infrastructure allow states to help communities meet federal waste-water and drinking-water standards. The grants fund investment in wastewater infrastructure and programs to keep drinking-water safe and protect natural waters from contamination.

The RSC proposal would eliminate Federal Grants for Wastewater Infrastructure, a cut of $23 billion over ten years.

Corporation for Public Broadcasting

The Corporation for Public Broadcasting is dedicated to providing high-quality, non-commercial programming both by developing programming and by helping local stations better serve their communities. CPB provides educational programming for children, programs for underserved audiences, and informational programming.

The RSC proposal would eliminate all funding for the Corporation for Public Broadcasting. This would reduce federal expenditures by an estimated $5.6 billion over ten years.

National Endowments for the Arts

The National Endowment for the Arts has brought museums, theater, symphony orchestras, ballet and other art organizations to communities across the country and funded such projects as the design competition for the Vietnam Veterans Memorial, the American Film Institute, and arts education programs for children and adults.

The RSC proposal would eliminate funding for the National Endowment for the Arts, cutting an estimated $1.8 billion over ten years.

National Endowment for the Humanities

The National Endowment for the Humanities provides grants to museums, archives, libraries, universities and other cultural institutions to support education, research, and public access to resources. The NEH has funded such projects as the "Treasures of Tutankhamen" exhibition seen by more than 1.5 million people, the documentary “The Civil War” viewed by 38 million Americans, and 15 Pulitzer-prize winning books.

The RSC proposal would eliminate funding for the National Endowment for the Humanities. This would reduce federal expenditures by an estimated $2 billion over ten years.

A Balanced Deficit Reduction Package Would Include Program and Revenue Proposals

The RSC package of spending cuts seems based on the assumption that current and projected deficits are the result of an explosion of federal spending to dangerous and unprecedented levels — and that only reductions in such spending can bring deficits under control. This assumption is fundamentally inaccurate. Actions by Congress and the Administration to reduce revenues have played a larger role in the return of the deficits that the nation faces than actions to increase expenditures for federal programs. Moreover, it almost certainly will take a combination of carefully considered cuts in programs and revenue increases to put the nation back on a path to fiscal responsibility.

Even with the additional funding anticipated for relief and recovery from Hurricanes Katrina and Rita, federal spending over the next five years will not be high by historical standards. If funding for hurricane relief and reconstruction is as much as $200 billion (which is more than is likely to be needed if assistance is temporary and is appropriately targeted), total federal spending will average 20.1 percent of the Gross Domestic Product (the basic measure of the size of the economy) over the next five years. This is lower as a share of the economy than in any year from 1975 through 1997.[9]

- Deficits will be large over the next five years, primarily because revenues as a share of the economy have been reduced to unusually low levels. To be sure, revenues have risen in 2005 from last year's level of 16.3 percent of GDP, which was the lowest level since 1959. But revenues are projected to average only 17.2 percent of GDP over the next five years — lower than in any year from 1977 through 2002.

- Furthermore, the tax cuts enacted in 2001 and 2003 are costing more each year than the total amount expected to be spent on relief and recovery from Hurricanes Katrina and Rita. The tax cuts will cost $225 *this year alone*, and will climb to still higher levels in the future as more of the tax cuts enacted in 2001 take full effect. Assuming that expiring tax cuts are extended and relief from the Alternative Minimum Tax is continued, the cost of the tax cuts will average $250 billion a year over the next five years. The cost of tax cuts *in a single year* thus exceeds the *total* anticipated costs of all expenses related to the hurricanes over the years to come.

[9] Projections in this section start with the baseline in the Congressional Budget Office's August 2005 report, The Budget and Economic Outlook: An Update. That baseline is then adjusted to include the effects of the following alternative policies shown in Table 1-6 of CBO's report: (1) extending expiring tax cuts, except for the provision dealing with repatriation of profits held abroad by American corporations; (2) reform of the alternative minimum tax; and (3) a phase-down of activities in Iraq and Afghanistan.

The Real Fiscal Problem Is Not Hurricane-Related Costs but Mid- and Longer-Term Deficits

Contrary to the statements some policymakers have made in recent weeks, economists and fiscal policy experts broadly agree that the costs of hurricane relief and recovery do not by themselves represent a serious threat to the nation's fiscal or economic health. Even if hurricane-related expenditures total $200 billion over the next five years (and they ultimately may not be that high), that would increase total federal spending by less than 2 percent in 2006 through 2010. The key point is that as long as hurricane-related costs are temporary, one-time costs of this size would not have a significant effect on the long-term path of the federal budget or on the interest rates the Treasury must pay to borrow money to finance the deficit.

The cost of relief and recovery from the hurricanes does not represent the largest *immediate* pressure on the deficit either. Congress has already provided nearly $200 billion in funding over the last two years for the war in Iraq, and CBO estimates that expenditures over the next ten years for that war and activities in Afghanistan could total $383 billion even if military operations are phased down in the years ahead. Furthermore, the tax cuts enacted since 2001 will reduce revenues by an average of $250 billion *per year* over the next ten years if the tax cuts are extended beyond 2010. The RSC has not suggested that the much larger costs for Iraq and the tax cuts be paid for.

The serious fiscal threat facing the nation is the specter of unsustainable longer-term deficits. This threat existed before Katrina struck. It is being made only modestly worse by spending for hurricane relief and recovery. Assuming that the 2001 and 2003 tax cuts are made permanent, relief from the Alternative Minimum Tax is extended, and the costs of operations in Iraq and Afghanistan phase down over the next several years, the deficit is projected to total $4.1 trillion in 2006 through 2015, before any hurricane-related costs are taken into account. (The deficit picture grows worse in years after that.)

If as much as $200 billion in funding is provided for hurricane relief and recovery, the deficit over the next ten years will be increased by $300 billion (including the interest payments that will be made on the $200 billion of increased borrowing). This will raise the projected deficit over the next ten years from $4.1 trillion to $4.4 trillion, an increase of seven percent. In 2015, the effect of Katrina relief and recovery on the deficit would be limited to the $15 billion in higher interest costs that would result from having borrowed $200 billion. That $15 billion increase in the deficit would represent a three percent increase over the $530 billion deficit projected for that year without the Katrina spending.

By contrast, if the tax cuts are made permanent (and AMT relief is extended), the cost of these measures will be $732 billion in 2015 (including the increased interest payments on the debt) — nearly 50 times as much as the hurricane-related costs. In short, while deficit increases of $300 billion over ten years and $15 billion in 2015 are not insignificant, they pale in comparison with the underlying deficit problems we already face and with the contribution that tax cuts are making to those problems.

- The nation's serious deficit problem predated Katrina and Rita, and will be made only modestly worse by the spending associated with relief and recovery from them. (See the box above.)

Addressing the serious long-term deficit problems the nation faces will require a balanced approach that entails shared sacrifice and puts everything — spending and revenues both — on the table, and has everyone — the President and Congressional Republicans and Democrats alike — at the table. Such an approach was successful in 1990, when the current President's father negotiated a plan with Congressional Democrats and Republicans that raised taxes, constrained spending, and reduced the deficit by $500 billion over five years. This is the kind of effort that is needed now, not a proposal to move forward in implementing more tax cuts for the wealthiest Americans (and making permanent an array of existing tax cuts that heavily favor these individuals), while cutting deeply into programs for the poor, modest-income elderly people living on fixed incomes, and millions of other Americans who are not affluent.