



820 First Street, NE, Suite 510, Washington, DC 20002
 Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

Revised March 26, 2003

**HOUSE BUDGET PLAN CALLS FOR CUTS IN KEY
 DOMESTIC ENTITLEMENT PROGRAMS**
Cuts Average Four Percent Over Ten Years, Grow Deeper Each Year
 By Richard Kogan

The budget plan approved by the House on March 21 calls for deep reductions in domestic programs, including both annually appropriated programs and entitlement, or “mandatory,” programs. This analysis focuses on the reductions in entitlement programs. It finds that while the cuts generally start at one percent in fiscal year 2004, they grow deeper with each passing year. Over the ten-year period from 2004 through 2013, the entitlement reductions average four percent (excluding Social Security and other programs exempted from reductions).

The budget plan would require committees of Congress to write legislation, called a “reconciliation bill,” that would enact these cuts into law this year. The cuts would remain in effect at least through 2013, unless a future Congress enacted another law overturning some or all of the cuts.

Dollar and Percentage Cuts Built Into the House Budget Plan
 Selected Entitlement Programs, Dollars in Billions

	Total dollar reduction, 2004-2013	Average percent reduction, 2004-2013	Percent reduction when cuts are deepest
Medicaid	92	3.7%	7.1%
Supplemental Security Income	19	4.6%	6.6%
Veterans benefits	14	3.7%	5.3%
Earned Income Tax Credit	14	4.6%	6.6%
Food Stamps	13	4.6%	6.6%
Temporary Assistance for Needy Families	8	4.6%	6.6%
Farmers’ assistance	7	3.7%	5.4%
Child Nutrition (including school lunches)	6	4.6%	6.6%
Foster Care and Adoption Assistance	4	4.6%	6.6%
Child Support Enforcement	3	4.6%	6.6%
Child Tax Credit	3	4.6%	6.6%
Student loans	2	3.9%	5.4%
State Children’s Health Insurance Program (SCHIP)	2	3.7%	7.1%
Child Care grants to states	1	4.6%	6.6%

Of the \$265 billion in entitlement cuts called for by the plan, about \$225 billion would come either in three budget functions that provide assistance primarily to middle-class, low-income, elderly, and disabled people with the costs of health care, food, other necessities, and post-secondary education, in a fourth budget function that provides assistance to veterans, or in a fifth budget function that provides assistance to farmers.

In most cases, the percentage reductions are deepest in 2010, perhaps because the budget resolution as initially reported appeared to reach balance in that year. In the case of the health function, however, the cuts grow deeper with each passing year. (The appearance of balance at any time in the ten-year period the budget plan covers is almost certainly a mirage, given that the House budget plan omits several costs that are certain to occur, such as the costs of war in Iraq and its aftermath, the costs of providing relief from the exploding Alternative Minimum Tax after 2005, and the costs of extending expiring tax credits such as the Research and Experimentation Credit that Congress always extends when they come up for renewal. For a discussion of this issue, see “The Extent To Which House and Senate Budget Plans Would Increase Deficits and Debt,” available at <http://www.cbpp.org/3-17-03bud.pdf>.)

Waste, Fraud, and Abuse

Given the large dollar and percentage reductions that would be made in these programs, the notion that this amount of budget reduction can be squeezed out of “waste, fraud, and abuse” is not credible. If it were possible, why did Congress not do so long ago? Perhaps more significantly, even if savings of this magnitude were possible without cutting benefits or removing beneficiaries from the rolls, attempting to secure such savings would entail providing large increases in federal funding for administration of these programs; the General Accounting Office has explained that more time, money, and manpower must be put into such efforts if they are to yield any sort of reduction in costs. Such additional resources would have to be provided through the annual appropriations process, however, and it is unlikely such resources would be available under the House budget plan, since the plan calls for reductions in annual funding for appropriated non-defense programs every year for the next ten years. The funding reductions in appropriated non-defense programs would amount to about \$200 billion over ten years under the plan, as compared to the funding levels for fiscal year 2003, adjusted only for inflation.

How These Figures Are Calculated

The specific figures shown in the table on page 1 are not listed in the House budget plan. But the plan shows the amount that would be spent on “mandatory” (or entitlement) programs in each of the 20 components of the budget — which are known as budget “functions” — each year. And the Congressional Budget Office has issued data on the corresponding amount that would be spent on entitlement programs in each budget function under current law. By comparing the amount that the House plan intends be spent with the amount that CBO says will be spent under existing law, one can readily see the amount of the reductions that the House plan entails in entitlement expenditures in each budget function.

Three additional pieces of information about the plan also are of use. First, pensions and health benefits for retired career military personnel are exempt from the cuts; the plan’s “reconciliation directive,” which shows how much each House committee would be required to reduce entitlements, excludes the Armed Services Committee, which has jurisdiction over these programs. Second, a fact sheet on the House Budget Committee’s website states that under the plan, unemployment benefits will not be reduced and the 2001 tax cut will be accelerated and made permanent, as the President has proposed.¹ Third, the Chairman of the House Budget Committee has stated that the entitlement reductions are generally assumed to be proportional.

¹ The acceleration of parts of the 2001 tax cut and the extension of the tax cut beyond 2010 results in increased costs for the Child Tax Credit. This is a “refundable” tax credit. The refundable component of such tax credits is

The figures in the table on page 1 are based on this information. The programs in the table cover five of the 20 budget functions: Agriculture (function 350); Health other than Medicare (function 550); Education, Training, Employment, and Social Services (function 500); Income Security (function 600); and Veterans' programs (function 700).

The Budget Committee figures for Function 550 (Health) show a year-by-year reduction in entitlement spending relative to current law totaling \$98 billion over ten years. Exempting health care for military retirees from the reduction (because it falls under the jurisdiction of the House Armed Services Committee, which is exempt from making cuts) and distributing the \$98 billion in reductions proportionally over the remaining entitlements in that function yields the Medicaid and SCHIP cuts shown in the table.

In much the same way, the Budget Committee figures for Function 500 (Education, Employment, Training, and Social Services) show a year-by-year reduction in entitlement spending relative to current law totaling \$1 billion over ten years. Within that amount is an *increase* of almost \$4 billion for the President's proposed "personal re-employment accounts." This is known both because the Budget Committee says that it has included the President's entire "growth" package, of which the re-employment accounts are a part, and because a different part of the budget plan directs the committee with jurisdiction over PRAs to report legislation costing that amount. Entitlements in this budget function other than the re-employment accounts thus must be cut more than \$4 billion. The reduction in student loans shown in the table is the proportional share which that program would bear.

Finally, the Budget Committee figures for Function 600 (Income Security) show a year-by-year reduction in entitlement spending relative to current law totaling \$56 billion over ten years. Within that amount is an increase of \$45 billion for the "refundable" component of the Child Tax Credit and the Earned Income Tax Credit (see footnote 1), which is assumed in the budget plan because it is results from the President's tax-cut proposals (particularly the extension of the Child Tax Credit provisions of the 2001 law). Outside the increase for these credits, therefore, entitlements in this budget function must be reduced by almost \$102 billion over ten years. The other program reductions shown in the table are based on the assumption that this \$102 billion in required reductions is taken proportionally across all entitlements in the function except military retirement and unemployment compensation, both of which are exempt from the cuts.²

scored as mandatory spending and, in this case, is included in function 600 of the budget (the Income Security function). As a result, the mandatory spending figures for that function under the House plan reflect the increases in costs for the refundable component of the Child Tax Credit (and to a lesser degree, the Earned Income Tax Credit). This increase in costs must be taken into account in determining the size of the budget cuts the House plan assumes in other mandatory programs in this function.

² Four House committees have jurisdiction over the remaining major entitlement programs in this function: Agriculture has jurisdiction over Food Stamps, Education and the Workforce has jurisdiction over Child Nutrition, Government Reform has jurisdiction over Civil Service Retirement (not shown in the table on page 1), and Ways and Means has jurisdiction over the other entitlements such as Supplemental Security Income, the Earned Income Tax Credit, and TANF. The size of the "reconciliation directives" to these four committees is broadly consistent with the figures in this table. The reconciliation directives to Ways and Means and to Government Reform suggest that the cut in Civil Service Retirement benefits may be somewhat larger than that program's proportional share of the function; the cuts in entitlements under the jurisdiction of the Ways and Means Committee might therefore be somewhat smaller than their proportional share of the function, shown in the table. However, the substitute amendment, in an unprecedented move, permits the Government Reform Committee to meet its "reconciliation directive" by cutting programs not in its jurisdiction.