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# A COMPARISON OF THE SENATE AND HOUSE BUDGET PLANS

## Senate Budget Committee Plan Surpasses House Plan in Realism and Fiscal Prudence But Still Has Shortcomings

by Richard Kogan and Robert Greenstein

The Senate Budget Committee has set forth a budget plan for the coming fiscal year that is more realistic and fiscally prudent than the competing budget plan the House of Representatives passed on March 20 but also shares some shortcomings of the House plan. The Senate plan may be viewed as illustrating the limits of any budget plan that attempts to address significant needs — such as the need to prosecute the war, strengthen homeland security, and provide a prescription drug benefit — without scaling back any of the portions of last year's tax cut that are not yet in place.

## Summary

The first part of this analysis discusses the advantages of the Senate Budget Committee plan relative to the House plan. The second part discusses the weaknesses of the Senate plan. This analysis finds that:

- The House plan, by setting limits on tax cuts only for five years, opens the door to enactment of tax cuts that have *unlimited costs* starting in the sixth year, 2008.

  Moreover, by placing *ten*-year limits on the cost of Medicare improvements but no limits on the costs of tax cuts after the fifth year, the House plan erects a double standard that is unprecedented in the history of Congressional budget resolutions.

  The possibility of large revenue losses after 2007 under the House plan is not merely hypothetical: 87 percent of the tax cuts in the Administration's budget, amounting to $500 billion in cost, would come in the second five years (2008-2012). Furthermore, the Speaker, the House Majority Leader, the House Majority Whip, and the Chairman of the House Ways and Means Committee have all called in recent days for consideration as soon as possible of a series of tax cuts that would have very large costs after 2007.

  By contrast, the Senate Budget Committee plan provides for no further tax cuts over the ten-year period; any new tax cuts would have to be paid for with offsetting revenue increases. The differences in the approaches the two plans take to tax cuts is the most significant difference between the plans. It is the principal reason the Senate plan is much more fiscally responsible than the House plan.

- The House plan uses the rosier budget assumptions of the Office of Management and Budget. The Senate plan uses Congressional Budget Office assumptions. CBO assumptions traditionally are used in fashioning congressional budget plans because of the tendency of some administrations to provide overly optimistic forecasts that serve their political purposes. By using the less rosy CBO assumptions, the Senate Budget Committee plan makes clearer the fiscal challenges the nation faces.

- The House plan provides $350 billion over ten years for Medicare improvements. Since most observers expect enactment this year of legislation raising reimbursement rates for Medicare providers, at a cost that is likely to range between $50 billion to $100 billion over ten years, the House plan appears to leave no more than $250 billion to $300 billion for a prescription drug benefit. To fit within a constraint of $300 billion or less, however, a prescription drug benefit would have to leave out large numbers of seniors or impose very large co-payments, which would likely doom such a plan politically. Any broad drug benefit that can be enacted is likely to cost considerably more than $300 billion. In short, the House plan understates likely costs in this area. The Senate Budget Committee plan provides $500 billion over ten years for a combination of Medicare improvements and measures to reduce the ranks of the uninsured (an area entirely left out of the House plan). The Senate plan is somewhat more realistic in the amount it provides for a prescription drug benefit.

- The House plan cuts $82 billion of funding over five years from non-defense appropriated programs other than homeland security programs. History strongly indicates that cuts of this magnitude are unlikely to be achieved. The Senate plan also is unrealistic in this area, although not quite to the same degree as the House plan. The Senate plan cuts funding for these programs by $54 billion over five years.

- The Senate and House plans provide identical funding increases for defense in 2003 and 2004, setting defense funding for these years at the levels the Administration has requested. By 2004, defense funding would stand at $401 billion — $90 billion greater than the 2001 level provided by the previous Congress. Defense funding would grow at a rate not matched since the early years of the Reagan Administration. Starting in 2005, the plans differ; the House plan would continue to increase defense funding faster than the rate of inflation while the Senate plan would limit additional defense increases to the inflation rate.[1]

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[1] The Senate plan would place the additional defense funding increases the Administration has requested for 2005 (continued...)

Given the very large and rapid increase in funding that would have taken place by 2004 — and the warnings of some defense experts that opportunities for partially offsetting defense savings are being overlooked — the Senate approach seems more fiscally prudent.

- The Senate and House plans differ in their treatment of certain programs for low- and moderate-income families. In particularly, the House plan would likely lead to reductions in the numbers of children and working-poor families insured through Medicaid and the State Children's Health Insurance Program (SCHIP). The House plan omits funding that the President's budget requests to extend a widely supported program instituted under the Reagan Administration, under which families that work their way off welfare can qualify for up to a year of transitional Medicaid coverage. The House plan also drops an Administration proposal to extend the availability of $3 billion in federal SCHIP funds that otherwise will revert to the Treasury; OMB projects that without such a measure, the number of individuals insured through SCHIP will drop by 900,000 between 2003 and 2006. By contrast, the Senate plan's $500 billion health "reserve fund" contains ample resources to accommodate both of these Administration proposals — which are small in cost — as well as other, more substantial proposals to extend insurance to more Americans.

  In addition, the House bill freezes funding for the next five years for both child care services and state welfare reform efforts. This likely would lead to reductions over time in child care slots and employment-related services, due to the effects of inflation in eroding what states could purchase with these frozen funds. The Senate plan includes an increase in funding over a five-year freeze level, although the Senate increase is considerably smaller than what would be needed for the child care and welfare-reform block grants to keep pace with inflation over the full ten-year period.

- Finally, the Senate budget plan contains a new "circuit breaker" procedure. Starting next January, if CBO projects there will be a deficit outside Social Security in any of the following ten years, any budget plan that does not contain policies to eliminate such deficits within five years would be ruled "out of order." This would mean that Congress could not debate or vote on such a budget plan unless it first voted to waive the circuit breaker procedure. Since the procedure could be waived if a majority in Congress voted to do so, this provision is largely hortatory in nature.

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[1] (...continued)
and subsequent years in a reserve fund that could be tapped in those years if Congress determined at that time that the funds were needed.

In these respects, the Senate Budget Committee plan is sounder than the House plan. Nevertheless, there are areas in which the Senate plan bears similarities to the House plan and both plans raise concerns.

- As mentioned above, both plans assume levels of funding for non-defense appropriated programs that are unrealistically low over an extended period of time (and also are likely to be too low to meet national needs adequately). The actual costs of these programs are likely to be higher than either budget plan acknowledges.

- Both plans omit some inevitable costs. In particular, they omit the costs of preventing the individual Alternative Minimum Tax from encroaching heavily upon the middle class in coming years. Approximately two million tax filers will be subject to the AMT this year. Once a temporary provision of current law expires at the end of 2004, the number of filers subject to the AMT will soar to 25 million by 2007 and 39 million by 2012. Policymakers across the political spectrum, and virtually all observers, agree this matter will be dealt with by 2004. Doing so will have a considerable cost, a cost that neither budget plan reflects. (Both plans also do not include the costs of the long-anticipated 2002 supplemental appropriations request, which the Administration finally requested on March 21 and which would provide additional funding for defense, homeland security, New York City reconstruction, foreign aid, and other items. Some of the expenditures from this additional funding will occur in 2003 and subsequent years.)

- Lastly, both plans increase deficits or decrease surpluses over the next five years — by $379 billion in the case of the House plan and $358 billion under the Senate plan. Because both plans likely understate some costs and omit others, government expenditures are likely to be higher and revenue collections lower than either plan shows. The gap between the rhetoric surrounding the plans and fiscal reality is likely to be especially large under the House plan, since it opens the door to very large tax cuts for years after 2007. Neither plan achieves the level of surpluses that would be optimal once the economy returns to full capacity, given the need to prepare for the looming retirement of the baby-boom generation.

The Senate plan appears to represent about the maximum amount of fiscal restraint that a budget plan can reasonably entail in the current political environment. It restrains the rate of growth in defense appropriations starting in 2005, it cuts the real value of annually appropriated non-defense programs in all years (as noted, we believe this to be unrealistic, and also to be too austere to meet national needs adequately), it limits the allowance for prescription drugs and other health costs to about the smallest level that might provide for a universal Medicare drug benefit that could secure popular support, and it allows no further tax cuts unless they are financed by offsetting revenue-raising measures. The fact that such a plan still does little to pay off the publicly held debt during the next ten years — a step that would assist in preparing the nation and the budget for the baby-boomers' retirement— suggests it is not possible to develop a more fiscally responsible budget plan without scaling back the costly tax cut enacted last year, probably by limiting various provisions of the tax cut not yet in effect.

## I. Major Differences Between the Senate and House Budget Plans

The House and Senate plans set aside differing amounts to cover the costs of various policy proposals, such as proposals to cut taxes, expand entitlement benefits, and increase or decrease the level of appropriations for non-entitlement programs such as defense, education, and highways. These differences are shown in Table 1.[2]

This section of the analysis discusses differences between the two budget plans in six areas: 1) tax policy and the use of five-year or ten-year budget constraints; 2) the use of CBO or OMB estimating assumptions; 3) the amounts set aside for prescription drugs and other health

**Table 1**
**Comparison of Budget Policies**
**Senate and House budget proposals relative to the current policy baseline**
**multi-year costs or savings(-) in billions of dollars**

| | Senate plan | | | House plan | | |
|---|---|---|---|---|---|---|
| | **2003** | **5-yr** | **10-yr** | **2003** | **5-yr** | **10-yr** |
| Revenue reductions | * | 2 | 6** | 4 | 28 | ? |
| Medicare increases | 3 | 109 | 500 | 5 | 89 | 350 |
| Education for disabled children | * | 22 | 91 | 0 | 0 | ? |
| Farm bill and other entitlements | 14 | 45 | 77 | 8 | 55 | ? |
| Defense increases | 26 | 143 | 323 | 24 | 197 | ? |
| Non-defense "discretionary" cuts | 8 | -4 | -82 | -2 | -31 | ? |
| Debt service on above policy changes | 1 | 42 | 233 | 1 | 41 | ? |
| Total costs | 52 | 358 | 1,148 | 41 | 379 | ? |

May not add due to rounding.
* Means less than $0.5 billion.
** Although the Senate Budget Committee plan does not assume any tax cuts, it does provide room for a proposal of Senator Pete Domenici to require private insurance plans to have parity between their reimbursements for the treatment of mental health conditions and their reimbursements for the treatment of physical health conditions. CBO estimates that such a policy would reduce federal revenues by $5.5 billion over ten years. These costs would occur, according to CBO, because the proposal would make health insurance slightly more costly for business. The extra costs, in turn, would result in a larger share of employees' compensation coming in the form of untaxed health benefits and a smaller share in the form of taxed wages. As a result, federal income and payroll taxes would decrease slightly.

[2] Because the House plan relies on OMB estimating assumptions while the Senate Budget Committee plan uses CBO assumptions, the two plans show modestly differing estimates in some areas for the cost of identical proposals. As a result, the Senate figures in Table 1 are not exactly comparable to the House figures. For example, the Senate and House plans call for identical funding increases for defense in 2003, but CBO assumes these funding increases will translate into higher expenditure increases *in 2003* than OMB does. OMB assumes that a modestly larger share of the resulting increase in defense expenditures will occur in years after 2003. As a result, some small differences in the table are apparent, rather than real.

care needs; 4) the amounts allotted for non-defense appropriations; 5) defense spending increases; and 6) the amounts provided for certain low-income benefit programs.

**1. Tax Policy and the "Budget Window."** Except for its "reserve" for Medicare increases, the House budget plan contains five-year budget targets while the Senate budget plan sets forth ten-year targets. This difference is most significant with respect to tax cuts.

Although the House plan shows relatively modest numbers on paper — $28 billion over five years — for further tax cuts, it opens the door to large additional tax cuts that could materially worsen the nation's long-term fiscal outlook. As noted, the plan places a ceiling on the cost of allowable Medicare increases over the next *ten* years. But it sets a ceiling on the level of allowable tax cuts only for the next *five* years and thereby allows the enactment of tax cuts with unlimited costs in the sixth year and years after that. The use of such a double standard with respect to Medicare and tax cuts is unprecedented and may hold considerable significance, since the overwhelming bulk of the tax cuts in the President's budget — $500 billion, or 87 percent of the tax cuts the President has proposed for the next ten years — would occur in the sixth through the tenth years.[3] Furthermore, the President's proposal to make last year's tax cut permanent could, by itself, cost almost $4 trillion in the subsequent ten-year period (i.e., in 2013-2022). The House Budget Committee plan is silent about such tax cuts, but House Republican leaders have been explicit in recent weeks in stating their intention to move tax cuts such as these in the months ahead. (See box on page 7.)

The Senate plan, in contrast, constrains the cost of tax cuts over ten years, not just five. Moreover, it limits the net cost of further tax cuts to zero. Additional tax cuts could occur under the Senate plan, but only to the extent that they were accompanied by offsetting revenue increases.

The procedural significance of the two differing approaches to tax cuts could not be clearer. Under the House plan, tax cuts considered this year by the House of Representatives could cost unlimited amounts after 2007, yet no rule of the Congressional Budget Act would be violated and no "waiver" of the House rules would be needed. Under the Senate plan, any bill or amendment that produced a net revenue loss over the next ten years would violate the tax-cut targets and therefore be subject to a point of order;[4] the votes of 60 of the 100 Senators would be needed to overcome that point of order and to allow consideration of the proposed tax cut.[5] The

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[3] This figure represents the Joint Committee on Taxation's estimate of the cost of the tax cuts in the President's budget. The President's "stimulus" proposals are not included in these figures because stimulus legislation was enacted after the President submitted his budget and has superseded his request.

[4] Technically, any measure that produced a net revenue loss of more than $5.5 billion over ten years — the amount needed for the Domenici mental health parity provision described in the note below Table 1 — would violate the tax-cut targets.

[5] It should be noted that neither the House plan nor the Senate plan goes into effect until a *joint* plan is adopted in
(continued...)

**The House Budget Plan and the President's Tax Cut Proposals**

The House plan allows $28 billion for tax cuts over the next five years, well below the five-year figure of $78 billion in the President's budget. But this lower target does not mean the House Leadership has decided to shelve many of the President's proposed tax cuts. To the contrary, House Republican leaders have announced plans to bring large tax cuts to the House floor as early as April.

The House leadership can move large tax-cut bills without violating the House budget plan. First, the Administration's proposals to make last year's tax cut permanent would have little cost in the next five years. In recent days, both Speaker J. Dennis Hastert and Majority Whip Tom DeLay have said they plan to move measures to make permanent the estate tax repeal and "marriage penalty" provisions of last year's tax-cut legislation, while Ways and Means Chairman Bill Thomas has similarly stated that he plans to move bills making at least part of last year's tax cut permanent.

Second, the House could squeeze most or all of the President's other tax-cut proposals within the $28 billion target by delaying the effective dates of some of these proposed tax cuts until after 2007 (2007 is the last year of the five-year "window"), phasing in some of the proposals more slowly, or starting some proposals immediately and having them expire in a year or two (under the expectation that future Congress would feel pressure to extend these expiring tax breaks). All three of these gimmicks were used last year when the bulk of the President's proposed tax cut, and some additional tax cuts as well, were squeezed into a smaller box, while hardly scaling back the overall magnitude of the tax cuts. In a recent interview with the *Washington Times*, Chairman Thomas implied that House leaders may consider using similar gimmicks again this year. Thomas said that his committee would send a full range of tax cut bills to the House floor and pointedly noted, "There's a lot you can do with $28 billion."*

* See "Tax Cuts, Spending Priorities Set the Stage for Budget Fight," *Tax Notes*, March 14, 2002; Joyce Howard Price, "House leaders plan to seek bigger boost," *Washington Times*, March 6, 2002; Juliet Eilperin, "House Republicans Seeking to Make Tax Cuts Permanent," *The Washington Post*, March 18, 2002; Stephen Donan and Donald Lambro, "House panel to send tax-cut bills to floor," *Washington Times*, March 20, 2002.

situation would be the same for increases in entitlement programs other than Medicare. Under the House plan, the costs of entitlement legislation could grow by unlimited amounts after 2007 without violating the targets in the plan; under the Senate plan, the costs of such legislation would be constrained through 2012. Entitlement legislation that breached the Senate entitlement targets would require the concurrence of 60 Senators.

**2. CBO versus OMB estimating assumptions.** The House plan is based on the estimating assumptions of the President's Office of Management and Budget, while the Senate plan is based on the estimating assumptions of the Congressional Budget Office. By themselves, differences in estimates make little or no difference in the size of the policy initiatives that

[5] (...continued)
identical form by both the House or Senate. Given the wide divergence between the two budget plans in some respects, concurrence on a single plan may not be achieved. To explain the intent of each plan, however, this analysis discusses each plan as though it would ultimately by agreed upon by both the House and the Senate.

Congress can consider. But another important function of a budget plan is to set forth fiscal goals appropriate to the short-term and long-term challenges the nation faces.

As the economy returns to normal (and as threats of major terrorist attacks recede, it is hoped), the nation will need to tackle certain unaddressed problems and to prepare for the increases that will occur in the costs of major benefit programs when the baby-boom generation retires. These looming budgetary pressures necessitate making special efforts to get ready now, in advance of the baby boomers' retirement. That entails returning the budget to surplus during good economic times, since those surpluses would constitute public saving that could help to pay for the boomers' retirement.[6]

The desirability of achieving future surpluses means we should look at the competing budget plans to see whether they would produce those surpluses. Here, the choice of estimating assumptions matters. The estimating assumptions issued by OMB in February make any given set of budget policies appear to produce more favorable budget results than the Congressional Budget Office and many independent analysts consider likely. For any given set of policy proposals, the use of OMB assumptions will produce a five-year surplus that appears to be $180 billion to $190 billion larger than if CBO assumptions are used. The Senate's use of CBO estimates consequently may make the degree to which fiscal restraint is needed clearer to policymakers.

**3. Health care initiatives.** The House plan sets aside $350 billion for Medicare over ten years. The Senate budget plan sets aside $500 billion for Medicare and other health insurance initiatives over the same period. Both plans hold these amounts "in reserve," which means the committees of jurisdiction could not use the funds for other purposes.[7]

The $350 billion in the House plan is intended to cover the costs of both a new Medicare prescription drug benefit and increased reimbursement rates for Medicare providers. The $500 billion in the Senate plan is intended to cover both of these costs, as well as the cost of measures to increase health care coverage among the uninsured. One question is whether the amounts the plans make available for a prescription drug benefit are realistic; if not, it is unlikely such a drug benefit can be enacted this year. (Alternatively, it is possible that a drug benefit that appeared to fit within constraints that were unrealistic might initially be enacted, but if so, the benefit almost certainly would be made more generous in subsequent years at public insistence, once its significant coverage limitations or large co-payment requirements became clear.)

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[6] Increased public saving would have several benefits. It should result in moderately faster economic growth, which would make it somewhat easier for the nation to absorb the rise in retirement-related costs. It also would result in lower interest payments on the debt, which would free up some room in the budget for such costs. Finally, it would produce a reduced debt-to-GDP ratio, which would make it safer for the government to borrow if necessary in future decades to help cover the increased costs caused by the baby boomers' retirement.

[7] In addition to the amounts in reserve, the House includes $3 billion over five years to improve access to Medicaid for disabled children (see footnote 13), while the Senate includes $5.5 billion over ten years for legislation to provide mental health parity in private insurance plans.

In assessing the levels the House and Senate plans would make available for a prescription drug benefit, a first question is how much of the amounts that the plans would place in their health reserves would likely be consumed by increases in Medicare provider rates. Medicare providers — physicians, hospitals, home health agencies, and the like — have requested increases in the Medicare reimbursement rates, compared with the rates set under current law. (In some cases, the reimbursement rates set by law have recently dropped or are scheduled to drop or be frozen this year. Some proposed increases above current law would not result in growth in actual reimbursement rates.)

The Medicare Payment Advisory Commission (MedPAC), an independent federal body that advises the Congress on Medicare policy, recently recommended increases for Medicare physicians costing $126 billion over ten years and also has proposed increases in rates for certain other providers such as home health care agencies. The Ways and Means Committee estimates that, in total, the MedPAC proposals would cost $174 billion over ten years. The Chairman of the House Ways and Means Committee earlier suggested that the total cost of provider increases to be enacted this year might reach $100 billion over ten years. Medicare providers are reported to favor a figure twice as high.

Because of these high costs, Congress may use a gimmick this year: Medicare providers may be granted substantial relief but for only a couple of years, with the notion that this relief would be extended when it was scheduled to expire. That way, the apparent cost of increasing payments for Medicare providers would be minimized, leaving more of the reserves for prescription drugs. Of course, the costs of extending the relief for Medicare providers beyond the first few years would eventually be borne, but those costs would be reflected in future budgets rather than in the current budget plan. Even with the use of such a gimmick, however, the "scored" cost over ten years of the provider increases that are enacted this year is likely to range between $50 billion and $100 billion.

If Congress uses $50 billion to $100 billion of the reserves to address perceived problems with provider reimbursement rates, then $250 billion to $300 billion of the $350 billion House reserve would be available for prescription drugs. A drug benefit that could be provided within that price range, however, would be likely to cover only a minority of Medicare beneficiaries or to be spread so thin that it would relieve most beneficiaries of only a relatively modest fraction of their prescription costs. This can be seen by examining a prescription drug proposal designed last year by Senator Bob Graham. That proposal would require beneficiaries to pay *half* of the premiums for prescription drug insurance — about $55 per month, or $660 per year — *plus* about half the cost of purchasing prescription drugs.[8] Last year, CBO estimated the bill would cost $318 billion over ten years; CBO now believes the bill would cost substantially more, perhaps approaching $400 billion over ten years. The ultimate costs might prove to be still higher: many analysts, such as Robert Reischauer, former director of CBO and now president of

[8] Under the proposal, beneficiary cost-sharing would drop from 50 percent to 25 percent once a beneficiary incurred $3,500 in out-of-pocket costs (except for premiums) in a year. In addition, the government would pay 100 percent of prescription drug costs once a beneficiary has paid $4,000 in out-of-pocket costs in a year.

the Urban Institute, have questioned whether the public will find acceptable a drug benefit that requires such substantial payments by beneficiaries.[9]

As a result, the level provided for prescription drug coverage in the House plan appears unrealistically low. Any broad proposal that could be enacted would likely cost considerably more than the House plan acknowledges.

The situation under the Senate Budget Committee plan is more complicated. Assuming enactment this year of provider reimbursement-rate increases costing $50 billion to $100 billion over ten years, some $400 billion to $450 billion would remain of the Senate plan’s $500 billion reserve. This amount would be available for both a prescription drug benefit and initiatives to reduce the ranks of the uninsured. Some modest-cost health insurance items with small costs are likely to be enacted this year, such as the extension of a program that provides transitional Medicaid coverage for families that work their way off welfare and the extension of SCHIP funds that otherwise will expire and revert to the Treasury. The fate of broader health insurance initiatives is much more uncertain, however, especially in light of the seemingly unbridgeable differences in Congress over whether to institute individual health insurance tax credits or to expand programs such as SCHIP and Medicaid to cover more low- and moderate-income uninsured families and individuals. The Senate Budget Committee plan allows up to $95 billion over ten years of the health reserve to be used for health insurance initiatives; if this full amount were used, that would leave $305 billion to $355 billion for a prescription drug benefit, after the anticipated increases in provider payments are taken into account. While somewhat more realistic than the level for prescription drugs in the House budget plan, this amount, too, seems to understate the cost of a drug benefit that could pass. On the other hand, the approval of $95 billion in health insurance initiatives seems highly unlikely this year. If only the two modest-cost health insurance measures described above and other small health insurance items that enjoy broad bipartisan support are approved this year, the amount remaining for prescription drugs could be in the $385 billion to $435 billion range. That could accommodate something like last year’s Graham proposal (or a similar proposal with modestly smaller co-payments than the Graham proposal contained).

**4. Annually appropriated non-defense programs.** The House and Senate plans both include unrealistically low levels of funding for non-defense “discretionary” (or non-entitlement) programs. For 2003, the House funding target for these programs is $12 billion below the fiscal year 2002 level, adjusted for inflation. Over the five-year period from 2003 to 2007, the House

[9] CBO estimates suggest that if a proposal such as Senator Graham’s were modified so that beneficiaries still had to pay half of the premiums but their required co-payments for prescription drug purchases were set at 25 percent rather than 50 percent, the cost of the plan would increase by one-third. That would bring the cost close to or above $500 billion over ten years. (Note: Reducing the required copayments from 50 percent to 25 percent would not assist beneficiaries as much as one might think. Such a reduction would increase the federal costs of the drug benefit; if the premium to enroll in the drug program is set at 50 percent of the those federal costs, the premium would increase substantially. As a result, CBO estimated last year that reducing copayments from 50 percent to 25 percent would reduce total out-of-pocket drug payments by enrolled beneficiaries by only 17 percent.)

plan assumes reductions in overall funding for non-defense discretionary programs totaling $54 billion.[10]

**Table 2**

**Funding for Non-defense "Discretionary" Programs in the Competing Plans**
**budget authority and highway cuts in billions of dollars**

| | Senate Plan | | | House Plan | | |
|---|---|---|---|---|---|---|
| | **2003** | **5-yr** | **10-yr** | **2003** | **5-yr** | **10-yr** |
| Non-defense funding relative to the baseline | -3 | -26 | -114 | -12 | -54 | ? |
| Homeland security | +5 | +28 | +60 | +5 | +28 | ? |
| All other non-defense programs | -9 | -54 | -174 | -17 | -82 | ? |

May not add due to rounding

Note: The House reduction of $12 billion for 2003 includes a reduction of $7 billion in budget authority (or appropriations) for non-defense programs other than highways, and a reduction of $5 billion in highway programs that, for technical reasons, is not treated as budget authority. Likewise, the Senate reduction of $3 billion for 2003 reflects a $3 billion reduction in highway programs. Similarly, the House and Senate figures for 2003-2007 include reductions in both highway programs and other non-defense discretionary programs.

Moreover, the House funding reductions in 2003 — as well as the funding reductions over the next five years— reflect the net effect of substantial *increases* in funding for "homeland security" programs and still larger *reductions* in other non-defense programs. According to the President's budget, the funding increases for homeland security total more than $5 billion in 2003; they are likely to total approximately $28 billion over five years. Outside of homeland security, therefore, the House plan would reduce non-defense appropriations by $17 billion in 2003. Over five years, these cuts total approximately $82 billion under the House plan (assuming that the 2003 funding level for homeland security is maintained with adjustments for inflation in subsequent years).

Even this $82 billion figure may understate the depth of the proposed reductions. The $82 billion reduction is measured relative to CBO's baseline, which adjusts the previous year's

[10] The $12 billion reduction in funding for non-defense discretionary programs in fiscal year 2003 would result in a reduction of $2 billion in outlays, or actual expenditures, in fiscal year 2003, as Table 1 shows. The remaining $10 billion in expenditure reductions would occur in fiscal years after 2003. Similarly, the $54 billion reduction in funding over the next five years would result in a $31 billion reduction in outlays over that period and an additional $23 billion in outlay reductions in years after 2007.

Funding (or appropriations, or "budget authority") represents the amount of money that Congress allows an agency to commit during a fiscal year. Some of the amounts committed during a year are expended in that year, but some of these funds are expended in subsequent years. This is especially the case with large construction or procurement projects that typically take a number of years to complete, or with grants that are typically awarded near the end of one year but expended over the following 12 months (or over a period longer than that). Consequently, reductions in funding initially produce smaller reductions in outlays, or actual expenditures. Over a multi-year period, this gap between funding cuts and expenditure reductions diminishes.

funding level only for inflation.[11] A number of analysts believe it is more appropriate to adjust the previous year's funding level for both inflation and increases in the size of the U.S. population. Doing so would provide a baseline in which the real, or inflation-adjusted, amount of funding *per person* remains constant from year to year. On this basis, the House funding cut in appropriations other than defense and homeland security would be $135 billion over five years. If actually implemented, a funding reduction of this magnitude would likely result in sizeable cuts in a number of important domestic programs, including programs that serve lower-income persons and other vulnerable constituencies that lack significant political clout.

The Senate plan calls for reductions that are not as deep as those in the House plan, but still are unrealistic. As Table 2 (on page 11) shows, the Senate plan assumes funding cuts outside of homeland security of $9 billion in 2003 and $54 billion over five years. If the growth of the population is also accounted for, the five-year cuts reach approximately $105 billion.

Measuring proposed reductions in funding for these programs relative to a baseline that adjusts for both inflation and increases in the size of the population also provides a useful political reality check. In 13 of the last 15 years, Congress provided funding for non-defense appropriations that exceeded the amount needed to cover both inflation and population growth.

**5. Defense increases.** The Senate and House plans provide identical funding increases for defense in 2003 and 2004, reflecting the levels requested by the President. By 2004, defense funding, at $401 billion, would be $90 billion greater than the 2001 level the previous Congress provided. This represents a funding increase of about 22 percent after taking inflation into account and constitutes the fastest growth of defense funding since the early years of the Reagan Administration.

Starting in 2005, the plans differ. The House continues to increase defense funding faster than the rate of inflation while the Senate limits defense funding increases to the inflation rate. (The Senate plan would place in a reserve the additional defense increases the Administration has requested for 2005 and subsequent years; this additional funding could be released if the Senate Armed Services Committee ultimately were to approve defense authorization bills for fiscal year 2005 and subsequent years that authorized these additional defense appropriations.) The Senate plan seems more fiscally prudent. Based on the experience with the defense build-up of the 1980s, there are risks that very large, rapid increases in defense funding maintained over an extended number of years may lead to inefficiencies and duplication in the armed services and excess profits for contractors, rather than simply to improved defense capabilities. Furthermore,

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[11] Supporters of the non-defense funding levels in the House Budget Committee's plan are likely to note that CBO's baseline is artificially high (and therefore the cuts relative to that baseline are artificially magnified) because the baseline continues the costs of cleaning up and repairing New York City that were funded in the second emergency supplemental appropriations bill last fall. While this point is correct, it is largely offset by the fact that the baseline has virtually no funding for natural disasters such as hurricanes, earthquakes, floods, and major forest fires. By coincidence, the amount of funding in the baseline for repairing New York is almost the same as the historical average annual amount of funding for natural disasters. Consequently, the total level of the baseline is not overstated.

some defense analysts have warned that multi-year increases of this magnitude may enable the Pentagon to avoid economizing on some weapons systems and other projects that were originally designed to respond to Cold War-era needs and to counter a Soviet threat, but that are of much lower priority in the current military and international environment.

**6. Assistance for Low- and Moderate-income Families.** The House plan and the Senate Budget Committee plan differ in their treatment of certain health insurance, child care, and other programs for low-income working families with children. For example, the President's budget proposes to extend Transitional Medical Assistance through fiscal year 2003; this is a program instituted during the Reagan Administration under which families that work their way off welfare may receive health care coverage through Medicaid for up to a year. The House plan excludes the funding for this extension and thus would have the program terminate on September 30, 2002. By contrast, the Senate plan includes funds in its health care reserve that could be used for this purpose. Since nearly all observers expect this program to be continued as part of welfare reauthorization, this is another area where the House plan unrealistically understates costs.[12]

Similarly, the House plan — but not the Senate plan — excludes funds the President's budget requests to moderate sharp cutbacks that otherwise will occur in the State Children's Health Insurance Program (SCHIP). Analyses in the President's budget show that under current law, the number of individuals insured through SCHIP will drop by 900,000 between 2003 and 2006, due to funding shortages in the program. To lessen somewhat the magnitude of this decline, the President's budget proposes to extend the availability of $3 billion in SCHIP funds that states have not yet used and that are scheduled to expire on September 30, 2002 or September 30, 2003. The House budget plan fails to accommodate this request. The Senate's health care "reserve" would accommodate this proposal or more substantial measures to avert more fully the anticipated decline in SCHIP coverage.[13]

Finally, in the area of welfare reform, the House plan reflects the Administration's budget request, but the Administration's request is itself problematic. The Administration has proposed to ratchet up the numbers of parents that must be enrolled in work programs and the number of hours for which these parents must be engaged in work activities. Yet the Administration's budget would freeze for five years the funding provided to states for both child care and the basic welfare reform block grant. Due to the effects of inflation, a five-year freeze in funding for these block grants would likely lead to significant reductions over time in the number of child care

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[12] The Administration's budget itself understates costs in this area by proposing only a one-year extension of this program. That enables the Administration to show the costs of this program for just one year. It is extremely unlikely this program will be allowed to expire either this September 30 or in later years. The program enjoys broad support among Members of Congress of both parties, governors, and policy experts. The Senate Budget Committee plan, which would accommodate ongoing operation of the program, is more realistic.

[13] The House plan does include $3 billion over five years for a bipartisan proposal to allow families with disabled children that have incomes too high to qualify for Medicaid to "buy into" Medicaid for their children. This measure could be accommodated under the Senate's health reserve as well.

slots and the employment-related services that these funds can support, with the reductions coming at the same time that states were being required to expand their work programs for low-income parents rather dramatically. A freeze on TANF funding would be made still more problematic by the fact that in 2001, states expended $2 billion more than their annual TANF block grant allocations; they were able to do so by drawing on unspent TANF funds from the early years of TANF, when states were still developing their TANF programs. These reserves of unspent prior-year funds are dwindling, however, and most states will not be able to rely on them much longer to augment their annual TANF allocations. The combination of a five-year freeze and the exhaustion of these TANF reserves could force states to make quite significant cuts in their TANF-funded programs in the years ahead.

Unlike the Administration's budget and the House plan, the Senate Budget Committee plan contains some funding over a freeze level in this area; the Senate plan includes approximately $23 billion over ten years for these and related purposes, such as improving child support enforcement.[14] This amount itself, however, is below the amount than would be needed simply to adjust child care and TANF funding levels to keep pace with inflation over the ten-year period.

## II. Shortcomings of the Senate Plan

As noted, the Senate plan — like the House plan — provides unrealistically low funding levels for non-defense discretionary programs. Also like the House plan, the Senate plan appears to ignore the looming costs of providing relief from the individual Alternative Minimum Tax (unless it is assumed that the costs of AMT relief will be financed through offsetting revenue-raising measures). Addressing the problems associated with the AMT is likely to cost a minimum of $45 billion in the first five years and perhaps $300 billion to $500 billion over ten years.[15]

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[14] The House budget plan includes funding for Administration proposals that would cost $2 billion to $3 billion over five years to make modest improvements in child support enforcement and to extend certain small welfare-reform funding streams that otherwise expire at the end of 2002.

[15] The figures of $45 billion over five years and approximately $300 billion over ten years are based on an estimate the Joint Committee on Taxation provided last year of the cost of limiting the increase in the number of tax filers subject to the AMT to 21 million by the end of the decade. Prior to enactment of last year's large tax cut, the number of tax filers subject to the AMT was projected to mushroom to 21 million by the end of the decade. Last year's tax-cut legislation had the effect of swelling this number to 39 million. Simply limiting the increase in the number of filers subject to the AMT to the politically unsustainable levels that it was projected to reach under the pre-tax-cut law would cost approximately $45 billion in 2005 to 2007 and $300 billion over ten years. (Note: a provision of current law that expires at the end of 2004 limits the reach of the AMT through 2004.)

Most observers find it hard to believe, however, that Congress and the Administration will allow the numbers of filers hit by the AMT to swell to 21 million. A more realistic assumption is that the number of filers subject to the AMT will be held in years after 2004 to approximately the same number that it reaches in 2004, which is more than five million. Under this assumption, the cost in 2005-2007 would be approximately $60 billion and the costs over

(continued...)

In addition, both budget plans would increase the deficits that are projected in the short run and decrease the total budget surpluses projected after the next few years. Even with unrealistic levels for non-defense discretionary programs and (at least in the case of the House) for Medicare prescription drugs, as well as the omission of the cost of addressing the problems in the individual Alternative Minimum Tax, both the House and Senate budget plans would increase projected deficits or reduce projected surpluses by significant amounts — $379 billion over the next five years in the case of the House plan and $358 billion under the Senate Budget Committee plan.[16]

Given the coming retirement of the baby-boom generation and the nation's troubling long-term fiscal outlook, such increases in deficits (or decreases in surpluses) in years when the economy is doing well are undesirable. Most problematic is the apparent willingness of the House to facilitate the enactment of costly, permanent tax cuts whose substantial fiscal effects would not be felt until after 2007, conveniently outside of the restraint of the House budget plan.

## Conclusion

Both budget plans would increase defense and health care funding and, in the case of the House plan, add further, potentially unlimited tax cuts. The Senate plan may represent the maximum amount of fiscal restraint that a budget plan can reasonably include in the current political environment: it restrains the growth rate of defense starting in 2005, it cuts (unrealistically) the real value of appropriations for non-defense discretionary programs in all years, it limits the funds allowed for a prescription drug benefit and other health care costs to about the minimum level that might enable a universal Medicare benefit acceptable to the public to be passed, and it does not permit further tax cuts. The fact that such a plan still does little to pay off the publicly held debt during the next ten years — a step that would assist in preparing the nation and the budget for the retirement of the baby-boom generation — suggests that fiscally prudent budgets are likely to be unattainable until policymakers are willing to confront the need to scale back elements of the very expensive tax cut enacted last year that are not yet in effect.

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[15] (...continued)
ten years could be $500 billion or more. The House Budget Committee plan does not accommodate either approach; it contains a total of $18 billion for *all* tax cuts in 2005-2007. The Senate plan does not permit any tax cuts that are not fully offset.

[16] In some years, the plan would enlarge projected deficits. In other years, it would reduce projected surpluses.