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THE RSC BUDGET PLAN: Republican Study Committee Plan Would Cut Domestic Programs Severely to Fund Deep Tax Cuts

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The Republican Study Committee, a group of very conservative members of the House of Representatives, issued a budget plan on March 8, 2006. That plan may be offered as an amendment later this week to the congressional budget resolution reported by the House Budget Committee. The RSC plan includes the following features (also see the table on page 2):

- **Tax cuts:** the RSC plan calls for \$630 billion in tax cuts over the next five years, which is hundreds of billions more than the amounts called for by the President, the Senate, and the House Budget Committee. (The HBC plan has \$228 billion in tax cuts over five years.) This is more than would be needed to make all the 2001 and 2003 tax cuts permanent, continue all tax “extenders,” and provide permanent relief from the Alternative Minimum Tax.
- **Defense:** The plan increases defense spending by \$140 billion over five years, largely to continue funding the wars in Iraq and Afghanistan through 2007.
- **Non-defense discretionary programs:** The plan cuts expenditures for non-defense discretionary programs, which constitute only about one-sixth of the budget, by \$478 billion over five years. These cuts are nearly five *times as large as the comparable cuts in the House Budget Committee plan*. The RSC’s cuts in non-defense discretionary programs would reach \$164 billion in 2011 alone. That would shrink these programs by an average of *one-third* by that year (relative to what the programs would cost if their funding remained unchanged, except for an adjustment for inflation).
- **Highways and infrastructure:** One fifth of the cuts in expenditures for non-defense discretionary programs — \$103 billion in cuts over five years — would come in highways, roads, bridges, mass transit, and other infrastructure development and repair. After accounting for inflation, these activities would be cut *more than 60 percent* by 2011.

Comparison of RSC Budget, President's Budget, and Budget Committee's Plan.

Five-year totals (2007-2011) in billions of dollars

	President a	House - reported	RSC
Tax cuts ^b	282	228	630
Defense expenditure increases ^c	227	227	140
Non-defense discretionary expenditure cuts ^d	-78	-96	-478
Entitlement cuts	-47	-5	-359
Changes in interest payments	<u>47</u>	<u>54</u>	<u>-18</u>
Total increase (+) or decrease (-) in projected deficits	431	407	-85

a excludes costs of proposed Social Security private accounts.

b shown as positive amount because tax cuts increase the deficit.

c includes amounts assumed for Iraq and Afghanistan.

d includes amounts assumed for domestic emergencies.

- **Education and other domestic programs:** Some \$82 billion in five-year cuts would from the part of the budget that funds education and job training. By 2011, this part of the budget would be cut about one-third, relative to the 2006 levels adjusted only for inflation. Housing and medical research also would bear deep cuts.
- **Entitlement cuts:** The RSC budget plan includes \$359 billion of cuts in entitlement programs over five years. This is nine times as much as the controversial budget reconciliation bill enacted in February.
- **Medicare:** The RSC plan includes Medicare cuts of \$218 billion over five years, which the RSC says could be achieved through a combination of such options as *doubling* the Medicare Part B premium (now \$88.50 per month), raising Medicare deductibles and co-payments, and setting payments to hospitals, home health agencies, and skilled nursing facilities at levels that fall further behind health care inflation with each passing year. There is a risk that if reimbursements to providers are reduced well below private-sector reimbursement rates, providers will stop accepting Medicare patients.
- **Medicaid:** The RSC budget also would replace Medicaid with a block grant that does not keep pace with health care costs and that would lower projected federal Medicaid payments to states by \$92 billion over five years. As with Medicare, if reimbursements to providers are reduced too far below private-sector reimbursement rates, many providers will stop accepting Medicaid patients. To keep providers in the program, states either would have to make up for the large federal cuts by providing more of their own resources, which would likely be difficult for many states to do, or deny eligibility (or coverage for various health care services) to millions of low-income children, parents, and people who are elderly or have serious disabilities.
- **Other entitlement reductions:** Some of the other entitlement reduction proposals in the RSC budget would eliminate student loans for graduate students, eliminate the trade adjustment assistance programs, and cut farm programs substantially.

- **Very little deficit reduction:** These very deep cuts in domestic programs would do little more than fund the rather massive tax cuts that the RSC plan calls for. Even with its deep cuts in health care, education, and other domestic areas, the plan would reduce the deficit by an average of less than \$15 billion a year between now and 2011, relative to the projections issued by the Congressional Budget Office of the deficits that will occur if no changes in current law are made.

- **Entitlement cap:** The RSC plan announced in March also calls for an “entitlement cap” that requires increasingly deep entitlement cuts every year. This proposed entitlement cap would establish a formula in law that would limit the total size of all entitlement programs taken together, other than Social Security. The limit would be far below the projected costs of entitlement programs under current law, and so would require the enactment of deep cuts. If Congress did not voluntarily make the required entitlement cuts (and Congress could choose which entitlements to cut and by how much), the President would be required to implement automatic cuts by formula to specified

Medicare	-766
Medicaid	-405
Federal civilian retirement and disability	-114
Earned Income Tax and Child Tax Credits	-67
Military retirement and disability	-66
Unemployment Compensation	-63
Supplemental Security Income	-63
Veterans benefits'	-56
Food Stamps	-50
Family Support	-31
Child Nutrition	-23
TRICARE for Life	-16
Commodity Credit Corporation	-14
Other federal retirement and disability	-14
Foster Care and Adoption Assistance	-11
Universal Service Fund	-11
State Children's Health Insurance	-7
Social services	-7
Student loans	-5
Other miscellaneous	-23
TOTAL	-1,809

entitlements. The table above shows how much would have to be cut from each entitlement program other than Social Security over the next ten years to meet the proposed entitlement cap, assuming that Congress distributed the required cuts proportionately. Even if the painful and highly controversial entitlement-cut proposals mentioned in the paragraphs above *all* were enacted, thereby reducing projected entitlement costs by \$359 billion over five years, the proposed entitlement cap still would require an additional \$50 billion of entitlement cuts over the next five years.