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August 4, 2006

BUDGET PROCESS BILL THREATENS VETERANS' PROGRAMS

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The Senate Budget Committee has approved a bill (S. 3521) that would radically alter federal budget procedures and could lead to deep cuts over time in the vast majority of domestic programs, including veterans' programs. While the odds are slim that the legislation will be considered by the full Senate this year, the bill is nevertheless important because it appears to reflect an emerging consensus among a growing number of conservatives about how to start addressing deficits while preserving the costly tax cuts that have been enacted since 2001. *Investor's Business Daily* has described this legislation — which was introduced by Senate Budget Committee Chairman Judd Gregg, has been co-sponsored by 26 other Senators (including Senate Majority Leader Bill Frist), and was approved by the Budget Committee with the support of all 12 majority party members — as a "vision statement."[1]

Senator Judd Gregg, Chairman of the Budget Committee, has described the bill as offering "common sense and fiscally responsible solutions" to problems like "duplicative and wasteful spending." In fact, the bill fails to include proven mechanisms for strengthening budget discipline, such as restoring the "Pay-As-You-Go" rules on both entitlement increases and tax cuts. Instead, the bill would target domestic programs for substantial cuts, including veterans' benefits, while shielding tax cuts from any fiscal discipline. A complete analysis of the legislation can be found at: http://www.cbpp.org/6-19-06bud.htm. The analysis presented in the following pages focuses on what the impact of the legislation would be on veterans' programs.

The bill poses significant threats to veterans' programs and the people they serve. Four of the most serious problems with the proposal, from the perspective of veterans' programs, are that it would:

- *Lock in deep cuts to discretionary programs,* which include veterans' medical care, for fiscal years 2007, 2008 and 2009. The bill sets caps on total discretionary funding in 2007, 2008, and 2009 at the levels proposed for those years in the President's budget. To stay within the overall level of funding proposed for 2009, the President's budget proposed to cut hospital and medical care for veterans by $2 billion below the budget baseline (i.e., below the 2006 funding level, adjusted

[1] Jed Graham, "GOP Budget Hawks Make Push to Require Broad Spending Cuts," *Investor's Business Daily*, July 3, 2006, p. A1.

only for general inflation). The President's budget would cut certain other discretionary programs important to veterans, including grants for the construction of state veterans' homes, still more deeply.

- *Set fixed deficit targets, enforced by automatic, across-the-board cuts in all entitlement programs* other than Social Security — including veterans' disability compensation, educational benefits, and pensions. The automatic cuts would be triggered in any year in which the deficit target that the bill sets would otherwise be missed. When similar targets were used in the 1980s as part of the "Gramm-Rudman-Hollings" legislation, Congress was careful to shield veterans' benefits from any automatic cuts. *No such protections are contained in S. 3521.*

- *Provide the President with a line-item veto authority* that would enable him to seek to cancel the funding Congress has provided for any discretionary program. The President could use this new power, for example, to seek the cancellation of funding for the National Veterans Business Development Corporation, as his budget proposed to do earlier this year. The provision also would enable the President to seek to cancel any provision that Congress enacts to strengthen an entitlement program, including veterans' disability compensation, educational assistance, or pensions.

- *Establish a partisan program termination commission* that would severely limit Members of Congress' ability to intervene on behalf of individual programs. The survival of programs already proposed for termination, like the National Veterans Business Development Corporation, and other small veterans' programs could be placed in question. The bill also would allow the commission to propose that federal programs be "realigned," which could result in recommendations to reduce the benefits provided in certain programs. In the past, commissions created by Congress have considered curbing veterans' benefits.

1. Requirements for large cuts in discretionary programs

The Gregg bill would lock in, for the next three years, the overall discretionary funding levels proposed in President Bush's most recent budget. To hit those levels, the President's budget proposes $66 billion in domestic discretionary cuts over the next three years (relative to the 2006 funding levels for those programs, adjusted for inflation), with the cuts growing deeper each year. By 2009, the President's cuts would hit *every* domestic discretionary program area in the budget, with the sole exception of space, science and technology. If Congress funds defense and international programs at the levels proposed by the President, it would have to cut total funding for domestic discretionary programs by the amounts proposed by the President in order to comply with the caps. Congress could, of course, choose to cut certain programs less deeply than the President has proposed. But then it would have to cut other programs even more deeply than the President has recommended to achieve the overall reduction in domestic discretionary funding that would be required to comply with the caps.

Under the President's budget, which is the only detailed plan showing how to comply with the proposed caps, hospital and medical care for veterans would be cut in 2009 by $2 billion,[2] or six percent, below the 2006 funding level adjusted for inflation. While this is substantial, it understates the true dimensions of the cut. For years, funding for veterans' hospital and medical care has been rising considerably faster than inflation, due to escalating health care costs economy-wide. From 2001 to 2006, Congress provided increases in funding for hospital and medical care for veterans averaging 5.7 percent per year *above* inflation. Under the President's budget, this trend would be sharply reversed. Not only would the program no longer receive such increases, but it would be subject to cuts significantly below the rate of inflation. The Congressional Budget Office has estimated that to continue providing the same level of services as today, VA medical care[3] would need an *increase in 2009 of $4 billion, or 11.8 percent, above the baseline* (i.e., above the 2006 level adjusted for inflation).[4] Yet the President's budget slates this area for a cut *below* the baseline in 2009.

If VA medical care is cut below the level needed to serve the current population, then the Department of Veterans Affairs is required by law to restrict eligibility and to turn away veterans with a lower enrollment priority.

The President's budget also calls for cuts in 2009 in other, smaller appropriations accounts that are important to veterans, including:

- a 9 percent ($8 million) cut in grants for the construction of state veterans homes, including domiciliaries, nursing homes, and adult care facilities;
- a 9 percent ($3 million) cut in grants for the construction of veterans' cemeteries;
- a 6 percent ($10 million) cut in funding for the National Cemetery Administration;
- a 10 percent ($5 million) cut in training programs for veterans administered by the Department of Labor; and
- a 5 percent ($80 million) cut in the funds used to administer the veterans' compensation and pension programs. Cutting these funds is likely to lead to delays in eligibility determinations and the appeals process. The funds used to administer veterans' housing loan programs also would be cut, by 10 percent ($16 million) in 2009.

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[2] A portion of this cut is attributable to difference between the level of existing and proposed fees anticipated in the President's budget and CBO's projection of fees under existing law. Since veterans would be required to pay these fees under the President's proposal, this represents a net reduction in the resources provided by the federal government for veterans' hospital and medical care.

[3] The phrase "hospital and medical care for veterans" refers to all of subfunction 703. The phrase "VA medical care" has varying meanings, but in this paragraph refers to gross spending on medical services, medical administration, and medical facilities.

[4] Congressional Budget Office, Potential Growth Paths for Medical Spending by the Department of Veterans Affairs, July 14, 2006 (figure cited for 2009 represents CBPP calculations based on comparing Scenario 3 to Scenario 4).

2. Fixed Deficit Targets Enforced by Automatic Budget Cuts

The deficit targets that the Budget Committee legislation would establish would be set at 2.75 percent of the Gross Domestic Product (the basic measure of the size of the economy) in 2007 and would shrink to 0.5 percent of GDP in 2012 and years thereafter. If the Office of Management and Budget projected that the deficit target for a year would be missed and Congress did not enact legislation producing large enough savings to hit the target, across-the-board cuts in all mandatory programs other than Social Security would be triggered automatically. The automatic cuts would be set at whatever percentage cut was needed to reach the deficit target.

Assuming that the President's tax cuts (except for estate tax repeal) are extended and relief from the Alternative Minimum Tax is continued, the projected deficit in 2012 will exceed the bill's target for that year by more than $200 billion even after the cuts that the bill calls for in discretionary programs are taken into account.[5] This means that unless Congress scaled back the President's tax cuts, raised other taxes, or cut discretionary programs even more deeply than the bill calls for, $206 billion in savings from entitlement reductions would have to be produced for 2012 alone. This figure for a single year dwarfs the $39 billion in savings *over five years* that were contained in the Deficit Reduction Act that Congress narrowly approved earlier this year.

If Congress were unable to pass legislation achieving cuts of this magnitude, as would likely be the case, automatic entitlement cuts would be triggered. Over the next ten years (2007-2016), a cumulative total of $1.6 trillion in entitlement cuts would be required.[6]

Impact on Veterans' Benefits

A number of veterans' benefits would be subject to these automatic entitlement cuts. They include:

- disability compensation, which is provided to veterans with a service-connected disability and their survivors;
- educational assistance, including education and job training under the Montgomery GI bill and educational assistance for spouses and children of disabled or deceased veterans;
- pensions, which provide basic support for very low-income survivors of veterans, and very low-income veterans who are elderly or have a disability;
- home loan guarantees; and
- life insurance.

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[5] These deficit projections are based on the latest projections issued by CBO. In these projections, we assume that most, but not all, of the estate tax will be repealed, as would occur under legislation approved by the House of Representatives on July 29, 2006.

[6] The need for $1.6 trillion in entitlement cuts assumes that in years after 2009, overall funding for discretionary programs would be held to the 2009 cap level that the bill would establish, adjusted only for inflation.

Over the ten-year period from 2007 to 2016, these programs would be cut by a total of $50 billion. (In addition, military retirement, which some veterans receive, would be cut by $60 billion over this period.) This cut would reduce projected spending on veterans' benefits by an average of 12 percent over the 2007-2016 period.

In size, such a cut is equivalent to eliminating the pension program entirely. The size of the cut also is equivalent to eliminating the disability compensation and pension programs entirely in 20 states.

The automatic across-the-board cut in mandatory programs would most likely take the form of reducing the benefits provided through each of these programs.

- For example, in 2012, instead of receiving an average disability compensation benefit of $9,866, veterans would receive an average of $8,324, which represents a cut of $1,543.

- Average pension benefits would drop from $8,737 to $7,371, a cut of $1,366.

- Average annual tuition assistance for a retired active-duty soldier under the Montgomery GI Bill would be cut from $6,791 to $5,729, a cut of $1,062.

In Break with the Past, No Exemption for Veterans' Benefits

The fixed deficit targets and automatic cuts that the Gregg bill includes are modeled on provisions of the Gramm-Rudman-Hollings deficit reduction law enacted in 1985 and modified in 1987. But the new bill differs fundamentally in a key respect from the GRH legislation. The GRH legislation *shielded veterans' disability compensation and veterans' pensions from its automatic cuts*, along with basic programs for the poor. All budget process laws enacted since 1985 that have contained mechanisms for automatic program cuts have similarly exempted these programs.

By contrast, the Gregg bill fails to contain this exemption. Under the Gregg bill, *all* entitlement programs except Social Security — including the full array of veterans' benefits — would be hit when the automatic-cut axe fell. Yet *tax* cuts — including costly tax cuts for very high income Americans who had never served in the armed forces — would be entirely exempt from the automatic cuts.

3. Line-Item Veto Authority

The legislation would also give the President a line-item veto authority. Although such authority is often described as a mechanism to address inappropriate "earmarks" in appropriations bills or "pork-barrel spending," the line-item veto provisions of the Gregg bill go far beyond that. These provisions would give the President increased power to try to cut off funding for various discretionary programs. These provisions also would give the President unprecedented authority to *reject* provisions of legislation improving or expanding mandatory programs, including veterans' disability compensation, educational assistance, and pensions. This could occur even if the cost of provisions to improve and expand these programs was fully offset by spending cuts elsewhere in the same bills.

The President would have one year after a bill is enacted to propose the cancellation of items in it. And, the Gregg bill would allow the President to package items from different pieces of legislation into a single veto package, with Congress being required to vote on the package as a whole without being allowed to amend it in any way. Congress would have to vote up-or-down on the entire package exactly as the President presented it, using "fast-track" procedures.

This would enable the President to take a few egregious pork items (e.g. a new "bridge to nowhere") that had received damning publicity — and to package vetoes of those egregious items with vetoes of other, much more meritorious items that the President opposed on ideological grounds. Members who voted "no" on the package could then be attacked for refusing to curb the egregious pork.

The President could use the line-item veto to cancel or roll back new investments in veterans' benefits — whether modest improvements in benefit programs or larger initiatives like the Johnson/Evans Assured Funding for Veterans Health Care Act. The President also could use the line-item veto to seek to terminate small discretionary programs. For example, the President's budget this year sought to eliminate funding for the National Veterans Business Development Corporation. If Congress chose to fund such an item anyway, the President could use his line-item veto authority to package a veto of the funding for that item with vetoes of other provisions that Congress could find difficult to oppose.

Here, too, the Gregg bill provides for highly disparate (and inequitable) treatment of program expansions and tax cuts. The President would be able to propose a veto of any entitlement increase. He would be barred, however, from submitting vetoes of any new tax cuts — including special interest tax loopholes – unless they were specifically classified as "targeted tax benefits" by the Joint Committee on Taxation (JCT). Given that the JCT staff is appointed by the tax-writing committees of Congress, it is likely that few, if any, special-interest tax breaks would be identified as "targeted tax benefits" and made potentially subject to the line-item veto.

In other words, entitlement expansions — such as a measure to provide a modest increase in veterans' benefits — would be subject to the line item veto if a President so chose, but the vast preponderance of new tax breaks for wealthy investors and well-connected corporations would be shielded from the veto.

4. Terminating programs via a partisan "sunset-commission" process

The Gregg bill would establish a panel consisting of 9 Republican and 6 Democratic appointees that would produce a plan calling for various program terminations and realignments. Both entitlement and discretionary programs could be proposed for termination, or for consolidation and conversion to block grants. Only a simple majority vote of the commission would be needed for the commission to approve a plan. The commission thus could develop its plan on a purely partisan basis.

Congress would then be required to vote on the commission's plan on a "fast-track" basis, with 51 (rather than 60) votes being needed to pass it in the Senate. (Senate filibusters of legislation containing the commission's plan would be prohibited.) *No amendments would be allowed,* either in committee or on the House or Senate floors. Congress would have to vote up or down on the commission's plan as a whole.

This process would mean that some programs could be terminated even though they enjoy support from a majority of members of Congress, because they would be included in a *package* of terminations that would not be subject to amendment. When confronted with an up-or-down vote on the package as whole, a majority of Members might feel compelled to vote for it especially if it included termination of a few wasteful programs that had received damning publicity.

Particularly at risk would be smaller programs, such as the National Veterans Business Development Corporation, which the President proposed to eliminate in his budget proposal to Congress earlier this year.

The Gregg bill also would allow the commission to propose that federal programs be "realigned," which could result in recommendations that fall short of program elimination but change the nature of the benefits being provided. For example, the commission could propose to "realign" the veterans' medical care and Medicare programs so that veterans would receive fewer medical care services from the Department of Veterans Affairs or would have to pay higher co-payments or fees for those services.

Conclusion

The budget bill introduced by Senator Gregg and approved by the Senate Budget Committee poses significant threats to veterans' programs and the people they serve. The legislation would establish budget process mechanisms that would essentially require deep cuts in both discretionary and entitlement programs. The programs at risk include veterans' medical care as well as core veterans' benefits such as disability compensation, educational assistance, and pensions. The cuts that almost certainly would result from this legislation would diminish the availability of health care for veterans and cut the benefits on which many of them rely. These cuts would be instituted in the most affluent nation in world history even as lavish tax cuts for those at the top of the income scale were allowed to continue growing unchecked.