House-passed Republican Budget for 2001

A Summary

On March 23, the House approved a budget resolution for FY 2001 on a vote of 211 to 207.[1] The Senate Budget Committee (SBC) has tentatively rescheduled markup on their budget for Tuesday, March 29th at 3:30 p.m. and Wednesday, March 30th at 10:00 a.m.

This fact sheet summarizes the major elements of the House-passed budget. In essence, the House Republicans have adopted last year's unsuccessful approach to the budget, assuming huge tax cuts predicated on unrealistic domestic spending cuts, with no real resources for a prescription drug benefit or Medicare reform.

Facts about the House-reported Budget Resolution

- ***Rejecting the Bush Tax Cuts –*** The House budget assumes tax cuts of $10 billion in 2001 and $150 billion over five years. The resolution also allows an additional $50 billion to be allocated for tax cuts at some later date, along with any increase in the non-Social Security surplus reported in August by the Congressional Budget Office (currently estimated by Chairman Kasich to be at least $40 billion.) A $240 billion tax cut — although much larger than last year's (which cost $156 billion over five years) — remains substantially below Governor Bush's proposal, which would cost $483 billion over five years.

  Republicans argue that Governor Bush's proposal does not start until 2002 and that the cost of his tax breaks over its first four years is less than $483 billion. However, even ignoring the cost of the Bush tax plan in its fifth year, the plan *still* costs more than the entire Social Security surplus over five years. If the Bush tax cuts were substituted for the tax cuts in the Republican resolution after the first year, the resolution would use $112 billion of Social Security surpluses. (See the last line of Table 1.)

- ***Threatening Social Security surpluses*** – Including only the $150 billion tax cut contained in the resolution and the $17 billion in additional interest costs that these tax cuts would require, the House budget allocates roughly 98 percent of the $171 billion non-Social Security surplus to tax cuts ($171 billion assumes that discretionary spending is frozen at current real (inflation-adjusted) levels.) This leaves nothing for prescription drug coverage, defense or education increases, or any other priorities. The Republicans claim that these priorities can be accommodated through deep cuts in domestic discretionary programs. However, as in previous years, those unrealistic cuts are not likely to materialize, meaning that the resolution poses a real threat of a raid on Social Security surpluses.

- ***Debt Reduction –*** The House plan purports to reserve $110 billion of the on-budget

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[1]Five Republicans voted against the budget; 2 Democrats voted for the budget, 17 members did not vote.

surplus over five years for debt reduction. This same $110 billion is counted ***again*** as a reserve for more tax cuts ($50 billion), and ***again,*** as a prescription drug benefit ($40 billion) and ***again,*** as Medicare reform (which could include any change in payment rates for Medicare providers). The fact is, if domestic spending simply keeps pace with inflation there will be no on-budget surplus for any of these purposes. Although the resolution contains a directive to Ways and Means to reduce public debt by up to $20 billion in 2001, it's not clear how this would be achieved.

Table 1: The House Budget

($ billions; changes to inflated baseline)	2001	2002	2003	2004	2005	2001-05
CBO Non-Social Security Surplus	**15**	**29**	**36**	**42**	**48**	**171**
Tax cut (in budget)	10	22	31	42	45	150
Tax cut (in reserve)1/	*0*	*8*	*11*	*15*	*16*	*50*
Prescription Drugs (in reserve) . . .	*2*	*4*	*7*	*12*	*16*	*40*
Discretionary:						
Defense	3	2	2	3	2	12
Nondefense	-16	-13	-21	-30	-37	-117
Subtotal	-13	-11	-19	-27	-35	-105
Mandatory:						
Agriculture	1	1	2	2	2	7
Custom's user fees	0	0	0	-1	-2	-3
Debt service	1	1	2	3	4	11
Surplus claimed by Republicans	**17**	**16**	**20**	**24**	**33**	**110**
Surpluses assuming:						
$50 billion tax reserve	17	8	8	7	16	55
$50 tax and $40 Medicare	15	4	1	-6	-2	11
$317 Bush taxes & $40 Medicare	15	8	-26	-36	-74	-112

1/ Higher on-budget surplus projections in the CBO August update could increase the tax cut by an amount estimated by Republicans to be $40 billion over 5 years.
Note: Estimates in italic are based on reserve fund language and are not included in the budget resolution estimates.

- ***Discretionary proposals --*** Overall discretionary spending in the House budget exceeds CBO's freeze in budget authority by $10 billion in 2001, *but is $3 billion below a freeze in outlays*. In real terms, the Republican plan cuts nondefense budget authority by $20 billion, **or 6.5 percent**. If congressional Republicans protect education, veterans' programs, and other high priority programs — as they have stated they would — all other nondefense programs would be subject to cuts approaching ten percent in 2001. Table 2 shows the discretionary assumptions for 2001 in the House budget, along with a freeze, the inflated baseline, CBO's reestimate of the President's gross discretionary totals, and the President's proposed limits on discretionary spending.

Table 2: Discretionary Alternatives for 2001

	Defense		Nondefense		Total	
($ billions)	BA	O	BA	O	BA	O
Freeze	290	290	296	335	586	625
Inflated	298	296	309	340	607	635
President's budget . . .	306	295	318	340	625	635
President's caps	—	—	—	—	614	626
House budget	**307**	**299**	**289**	**324**	**596**	**622**

For the period 2000-05, overall discretionary spending grows at an average annual rate of 1.6 percent a year in the House plan. Defense grows by 3 percent and domestic spending by 0.3 percent. The nondefense growth rates are highly unrealistic and hardly credible, considering that nondefense discretionary spending increased by 5 percent between 1991 and 2000 and by more than 10 percent between 1999 and 2000 (based on the levels for 2000 set forth in the Republican plan). Table 3 compares growth rates in the House budget with historical rates of growth.

Table 3: Historical Growth Rates in Discretionary Spending vs. House Plan

(Outlays; $ billions)	Defense	Nondefense	Total
1991-2000	-1.3%	5.0%	1.6%
1996-2000	1.6%	5.4%	3.6%
1999-2000	2.9%	10.7%	7.0%
House budget: 2000-05 . .	**3.0%**	**0.3%**	**1.6%**

Note: The estimate for 2000 is the level contained in the Hosue budget resolution, which assumes additional spending for emergency farm aid, supplemental appropriations, and spending shifts from 2001 to 2000 to restore budgetary conventions

- ***Five-year budget*** **–** Unlike last year's plan, the House resolution does not contain ten-year estimates. By leaving out the second five years (2006-10), the Republicans have tried to conceal the exploding costs of their tax cuts (which could cost at least $1 trillion over ten years), understate their unrealistic cuts in domestic programs, and obscure the fact that their plan includes less debt reduction than the President's.

- ***Prescription Drug Benefit*** **--** The House Republicans claim to have reserved $2 billion in 2001 and $40 billion over five years of the on-budget surplus for a prescription drug benefit that is included in legislation that "reforms" the Medicare program. However, unlike the tax cuts it requires, the resolution does not include enforcement provisions to ensure that a prescription drug benefit is actually approved. The additional $40 billion is not (1) counted in the budget, (2) reconciled to the Ways and Means Committee, or (3) given a specific reporting date. The materials distributed at the House markup do not describe this benefit or provide any details about how the $40 billion would be distributed over the first five years.

- ***Farm Aid.*** The House budget contains $6 billion in 2000 for emergency farm aid and $7 billion between 2001-05 for the federal crop insurance program. Although these resources are included in the budget totals, two separate reserve funds earmark the spending for specific purposes. The Chairman of the Budget Committee determines whether or not farm legislation qualifies for these funds.

- ***Customs user fees***. The plan adopts the President's proposal to extend custom user fees, which are scheduled to expire under current law.

Reconciliation

The House budget directs the Ways and Means Committee to report reconciliation bills for tax cuts (including the Patient's Bill of Rights) and debt reduction, as described below. The prescription drug benefit is not reconciled and there are no instructions to other Committees.

- ***Tax reconciliation***. In section 4 of the resolution, the Ways and Means Committee is directed to produce reconciliation legislation that includes $10 billion in tax cuts in 2001 and $150 billion over the full five years. The Ways and Means Committee is instructed to report an unprecedented four tax cut reconciliation bills - no later than May 26, again by June 23, again by July 28, and again by September 22. The reporting dates in the House are scheduled to occur before each major recess and near the end of session.

  In addition to the $150 billion contained in the budget resolution, a $50 billion tax reserve and any additional surpluses reported by CBO in their August update can be incorporated in any of the four reconciliation bills. The House has already passed three major tax bills that use up about $107 billion of the basic new tax-cut reconciliation amount of $150 billion.

- ***Debt reconciliation***. Section 4 of the resolution instructs the Ways and Means Committee to report two reconciliation bills to reduce debt — one by May 26 which shall reduce debt by $10 billion in 2001, and the second by September 22 that reduces debt by not more than $20 billion in 2001. The Committee report explains that the two-bill instruction was needed in case the President does not agree to the first bill.

Reserve Funds

The budget resolution contains several reserve funds to allow additional spending or tax cuts to occur at some later date without facing Budget Act points of order. These include two tax cut reserve funds, a Medicare reserve, and two reserve funds for agriculture spending. If all of these reserve funds were triggered there would be no non-Social Security surplus and it appears that in some years, even if all the claimed discretionary cuts were enacted, debt service costs would create a raid on the Social Security surplus. Such a raid is likely to be exacerbated by unanticipated emergencies and other spending that is not accommodated in the House budget.

- ***$50 billion tax reserve fund***. Section 8 of the resolution says that the Budget Chairman may lower the revenue floor by $50 billion over five years to allow for an additional tax cut in response to legislation reported by Ways and Means. This additional $50 billion can be included in one of the four reconciliation bills described above. This section includes Senate of the Congress language saying that the reserve fund "assumes" $446 million in 2001 and $4.4 billion for 2001-05 to cover the costs of health-related tax provisions comparable to those contained in H.R. 2990 (as passed by the House) and $17 million in 2001 and $107 million for 2001-05 for legislation that permits Federal employees to immediately participate in the Thrift Savings Plan..

- ***Tax reserve fund for CBO August Update***. Section 9 of the resolution says that the Budget Chairman may lower the revenue floor and revise reconciliation instructions to the extent that CBO produces more optimistic budget surplus projections for fiscal years 2000-05 in their updated budget forecast, which typically is released in August. These additional tax cuts presumably would be included in the September 22nd reconciliation bill.

- ***Medicare reserve fund***. Section 10 of the resolution says that the Budget Chairman may adjust the spending amounts in the budget upward by $2 billion in 2001 and by up to $40 billion over five years in response to legislation from the Ways and Means Committee that reforms the Medicare program and provides coverage for prescription drugs. In Committee, Chairman Kasich noted that this $40 billion could also accommodate Medicare reforms like providing additional funds to rural hospitals, home health, or nursing homes. As noted above, neither the prescription drug benefit nor the Medicare reforms are reconciled.

- ***Agriculture reserve funds --*** Sections 11 and 12 of the resolution contain reserve funds for agriculture for fiscal years 2000 and 2001, respectively. The reserve fund in 2000 provides up to $6 billion in FY 2000 for legislation that provides income support to owners and producers of farms. Section 12 provides up to $1,355 million in budget authority and $595

million in outlays in 2001 and $8,539 million in budget authority and $7,223 million in outlays for the period 2001-05 for legislation that provides risk management or income assistance for agricultural producers. These allocations are counted in the budget resolution and the reserve funds merely earmark the funding for these specific purposes.

Social Security and Debt Reduction Lock-boxes

The budget includes three sections that establish new points of order against a budget resolution that would show a Social Security deficit, or against legislation that would cause the non-Social Security surplus to be less than the amounts in the budget resolution.

- ***Lockbox for Social Security surpluses***. Section 5 of the resolution creates a point of order against revisions to this year's resolution or against a resolution for FY 2002 (next year) that would show a deficit in the non-Social-Security budget for any fiscal year that is larger than the on-budget deficit (if any) in this year's resolution. This provision also includes a sense of the Congress resolution stating that Congress should enforce the reduction in debt held by the public assumed in this resolution by the imposition of a statutory limit on such debt or other appropriate means.

- ***Debt reduction lock-box***. Section 5 also creates a point of order against legislation that would cause the non-Social-Security surpluses to be less than the amounts in the budget resolution for 2001 as adjusted by the various reserve funds described above. *The surplus would not be revised, however, to reflect emergency or other adjustments to the budget resolution that are currently permitted in budget law.* This could allow a minority of senators to block legislation that would provide funding in response to a defense-related national security threat, or that would provide relief to victims of hurricanes or floods, agricultural disasters, or other emergencies.

- ***Point of order against directed scorekeeping/advance appropriations.*** Section 31 creates a new point of order (that expires January 1, 2001) in the House against any legislation that contains a directed scorekeeping provision as well as advance appropriations that exceed $23 billion (the level contained in the 2000 appropriation bills). The new point of order against directed scorekeeping is ineffectual since the budget committees simply use their own estimates of legislation or direct CBO verbally to adjust the numbers rather than include language in legislation. This point of order would not have precluded the Budget Committee's directed practices nor does it apply to non-committee-reported language.

Sense of the Congress Resolutions

The House-passed budget contains Sense of the House or Sense of the Congress provisions that recommend the following:

- The President should reduce waste, fraud, and abuse and the budget resolution should dedicate any such savings to debt reduction and tax relief. (Section 14)
- Congress should enact legislation that would consolidate 31 K-12 education programs and ensure that not less than 95 percent of all funds appropriated for elementary and secondary programs be spent on children in the classroom. (Section 15)
- Congress should, as a part of a comprehensive reform of the budget process, develop a definition of, and a process for, funding emergencies. (Section 16)
- The House should pass legislation authorizing CBO to prepare regular estimates on the impact of proposed Federal regulations on the private sector. (Section 17)
- The issue of biennial budgeting should only be considered within the context of comprehensive budget process reform. (Section 18)
- Access to affordable health care coverage for all Americans is a priority for the 106th Congress and Congress and the Administration to avoid the implementation of the 15 percent reduction in the interim payment system for home health care. (Section 19)
- Redressing regional disparities among reimbursement rates for Medicare+Choice providers and full funding of the Medicare+Choice program should be a priority in any Medicare reform legislation. (Section 20)
- Congress should direct the IRS to count any net loss of income in determining the proper rate of taxation. (Section 21)
- Federal revenue-sharing payments to States, counties, and boroughs should be stabilized. (Section 22)
- Function 270 (Energy) levels assume an amount of funding which ensures that the National Science Foundation is a priority in the resolution. (Section 23)
- Congress should pass legislation to assure quality skilled nursing care if needed. (Section 24)
- Congress and the President should increase funding for special education. (Section 25)
- Describes assumed funding levels for special education in the 2001 budget resolution. (Section 26)
- The pay increase for Federal employees in January 2001 should be at least 3.7 percent. (Section 27)
- The Health Care Financing Administration should substantially revise or abandon the current draft Medicaid School-Based Administrative Claiming (MAC) Guide. (Section 28)
- The resolution revenue assumptions include Individual Development Account provisions. (Section 29)
- Recognizes the importance of supporting the Nation's emergency first-responders. (Section 30)

Prepared by Senate Budget Committee Democratic Staff
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