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THE CONFERENCE REPORT ON S. CON. RES. 13
THE OBAMA PLAN
FOR SPENDING, TAXES, AND DEBT

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SUMMARY

Not satisfied with the mounting debt already accumulated this year, the Democratic Majority has adopted the President’s plan for huge increases in spending, taxes, deficits, and debt. The conference report on the budget resolution exploits the current economic crisis to advance a sweeping expansion of government, and muscle through a government takeover of health care and student loans.

These outlays are financed with an accelerating flow of red ink: the budget deficits Democrats admit to never dip below \$523 billion – well above the previous record deficit of \$459 billion – and that figure substantially understates the real deficit impact, as described below. The budget spends too much, taxes too much, and borrows too much; it is a perfect formula for economic and fiscal decline, and is being pushed through just to meet an arbitrary, public relations deadline: the first 100 days of the Obama administration.

The most significant overall facts about the budget are these:

- Adopts the Obama Budget. However the Democrats couch it, this is the President’s budget, which produces unprecedented levels of spending and deficits, and nearly triples the debt, to \$17.3 trillion – or more than 82 percent of total U.S. economic resources (gross domestic product) – over the next 10 years.
Hides the True Fiscal Impact. But the budget disguises its explosion of spending and deficits through a series of gimmicks – such as budgeting for only 5 years, rather than the President’s 10; providing only a 3-year fix for the alternative minimum tax; and assuming the President’s “Making Work Pay” tax credit ends in 2010.
Abuses the Process. The budget employs the fast-track procedure of “reconciliation” in an entirely new way, to force through major changes in health care and student loans, and possibly the President’s cap-and-trade proposal as well – without a single Republican vote if necessary.

The following discussion summarizes the principal elements of the budget conference report.

KEY POINTS

- **Adopting the President’s Budget.** In his first 100 days in office, the President has signed a \$74-billion increase in the government’s already unsustainable rate of entitlement spending; a \$787-billion “stimulus” bill; and a \$406.7-billion omnibus, which increased nondefense appropriations by 10 percent just for this year, and included nearly 9,000 earmarks the administration dismissed as “last year’s business.” On the first day of spring, the Congressional Budget Office [CBO] released an updated projection indicating the deficit for the current year (fiscal year 2009) had increased by more than \$500 billion – to \$1.7 trillion. Now comes the Democrats’ budget, with its huge increases in spending, taxes, deficits, and debt.

Table 1: True Deficits in the Conference Report

	2009	2010	2011	2012	2013	2014	Total
Claimed Deficits in Conference Report							
In Billions of Dollars	1,693	1,233	916	620	581	523	
In Percentages of GDP	12%	9%	6%	4%	4%	3%	
Adjustments for Gimmicks (billions of dollars)							
Last 3 Years of ‘Doc Fix’				8	18	23	49
Last 2 Years of AMT					34	37	71
TARP II	125	125					250
Health Care Reform		4	32	88	102	146	372
Slimmed-Down Middle-Class Tax Relief			30	40	50	67	187
Extension of Making Work Pay Credit			29	42	43	43	157
Interest	0	2	6	12	24	42	86
Total Amount of Understated Deficits	125	131	97	190	271	358	1,172
Conference Deficits Corrected for Gimmicks							
In Billions of Dollars	1,818	1,364	1,013	810	852	881	
In Percentages of GDP	13%	9%	7%	5%	5%	5%	

Source: House-Senate Budget Committees, Republican staffs.

- **Disguising the Real Impact.** After boasting that the President had offered an “honest” budget – one that fully reflected its fiscal implications – the Democratic Majority has masked the budget impact of the plan through a series of gimmicks (see Table 1 above). Their sleight-of-hand hides approximately \$1.172 trillion in additional deficit spending, and also conceals the longer-term impact of the budget. The gimmicks include the following:
 - *A 5-Year Budget.* The President’s budget blueprint covered 10 years, revealing that after “cutting the deficit in half” by 2013, the red ink would grow again after that, reaching \$1.189 trillion in 2019, according to CBO. His plan also nearly tripled the debt over 10 years, to \$17.3 trillion – or more than 82 percent of total U.S. economic resources (gross domestic product). But the conference report hides these inconvenient facts by cutting off at 5 years.
 - *Health Care.* Because the Majority does not plan to pay for health care reform until year 6 (outside the 5-year budget window of this conference report), the cost for years 2010-14 are not reflected.

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- *A Temporary AMT Fix.* The plan also provides only a 3-year fix for the alternative minimum tax [AMT], after which it assumes huge revenue increases by applying the tax to tens of millions of additional taxpayers.
 - *A 2-Year 'Doc Fix.'* Similarly, the budget reflects only 2 years' worth of adjustments in physicians' Medicare reimbursements, lowering their outyear costs, even though the "doc fix" is almost certain to continue every year.
- **Abusing the Reconciliation Process.** Despite their alleged resistance, Senate conferees swiftly caved to the House plan for using reconciliation to rush major changes in U.S. health care and student lending – and possibly including cap-and-trade as well – and they leverage these spending commitments with token \$1-billion "savings" instructions over 5 years. Reconciliation is supposed to be used for controlling the size of government. This budget employs the process in an unprecedented way: to vastly expand the size and scope of government (see further explanation in Appendix 2).
- *Government-Run Health Care.* The Majority is determined to force through what they call health care "reform" – but which in fact will enlarge the role of government bureaucrats in the medical decisions that should be left to doctors and patients. Not only will Democrats smother health care delivery and financing under new regimes of regulation, they are actively considering a new government insurance program that could eventually crowd out private financing altogether.
 - *Government-Run Student Loans.* Another element of the Majority's government takeover strategy appears in student loans, where the Obama budget calls for eliminating private lending in favor of a 100-percent direct lending program. Whether the Education Department can manage a program of this size is doubtful. In any case, the costs will inevitably rise well beyond what the budget projects – and students and taxpayers will suffer the consequences.
 - *Cap-and-Trade.* Although the Democrats claim no intent to use reconciliation for cap-and-trade, the instruction to the Energy and Commerce Committee could be used for it – even if only to pay for health care reform. There is nothing to stop that.
- **Why Reconciliation Matters.** In the House, reconciliation is less important because the House Rules Committee sets the terms of debate on major legislation. It is critical in the Senate, however, because there legislation can be jammed through with little debate or amendment.
- A reconciliation bill has limited debate, and can be passed by a simple majority of 51 Senators. This means the Majority and the President can abandon any pretense of bipartisanship, and force major changes in health care and student loans onto the American public on a purely party-line vote.
 - In addition, the Congressional Budget Act places strict limits on Senate amendments to reconciliation bills.

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- Senator Conrad, the Budget Committee Chairman, has warned: “Once you’ve unleashed reconciliation, you can’t get it back in the barn, and it could be used for lots of different things that are completely unintended at this moment. People need to think about that very carefully.” Nevertheless, he has quickly endorsed this plan.
 - **Tax Hikes.** The budget contains tax increases totaling \$1.5 trillion over the next 10 years. These include tax hikes on families, small businesses, and workers.
 - **Spend and Tax: the Budget’s ‘Reserve Funds.’** The conference report contains 34 “reserve funds” that call for additional major spending programs with an unspecified amount of total spending. These funds employ the euphemism “deficit-neutral,” requiring the new outlays to be “offset” – which means they are almost guaranteed to be chased by higher taxes in addition to the tax hikes cited above.
 - **Deficits and Debt.** Even the understated deficits the Democrats admit to reach record levels every year, with the “lowest” deficit occurring in 2014, at \$523 billion – still well above the previous record deficit of \$459 billion. By cutting off their budget at that point, Democrats hide what the President’s 10-year budget revealed: deficits that get larger again, reaching \$1.189 trillion in 2019 (-5.7 percent of GDP). Without their deficit-disguising gimmicks described above, the Democrats’ budget, like the President’s, doubles debt held by the public in the next 5 years, and triples it in the next 10 years.
 - **Phony ‘Savings.’** The Majority claims to have “reduced” annually appropriated discretionary spending by \$10 billion from the President’s request. But in fact the budget increases nondefense discretionary spending by *\$43 billion* over the enacted 2009 level; and this follows increases in these programs of 10.3 percent this year under the omnibus appropriation and the “stimulus” bill. Because the appropriations process runs on an annual basis, only the 2010 level is relevant. The Democrats assume a dramatic slowdown in nondefense discretionary spending after 2010, and then highlight this alleged spending restraint, which is not binding and is highly unlikely to occur.

APPENDIX 1
FACT SHEET ON THE BUDGET RESOLUTION CONFERENCE REPORT

- **Total Spending.** Outlays total \$3.555 trillion in fiscal year 2010. As a share of the economy, spending never falls below 22 percent of gross domestic product [GDP]. *Even with the full costs of the war, Katrina, and Medicare prescription drug coverage, spending during the Bush administration averaged 19.9 percent of GDP – and never exceeded 21 percent of GDP.*
- **Tax Increases.** Taxes increase by \$1.5 trillion over 10 years. These include higher taxes on families, small businesses, and workers.
- **Deficits.** Red ink totals \$1.233 trillion in 2010. The budget proposes record budget deficits in nominal dollars. Deficits never fall below \$500 billion.
- **Debt.** Debt held by the public increases by nearly \$2 trillion this year, and rises to more than two-thirds as a share of the economy by 2014. *The European Union requires its member countries to keep debt below 60 percent of GDP.*

Table A-1: The Obama-Democratic Budget

	2008	2009	2010	2011	2012	2013	2014	2010-14
In Billions of Dollars								
Receipts	2,524	2,186	2,322	2,624	2,856	3,057	3,298	14,157
Outlays	<u>2,983</u>	<u>3,879</u>	<u>3,555</u>	<u>3,541</u>	<u>3,476</u>	<u>3,639</u>	<u>3,821</u>	<u>18,031</u>
Deficits	-459	-1,693	-1,233	-916	-620	-581	-523	-3,874
Debt Held by the Public	5,803	7,729	8,778	9,683	10,345	10,931	11,499	—
As Percentages of GDP								
Receipts	17.7%	15.5%	16.1%	17.4%	18.1%	18.5%	19.1%	17.9%
Outlays	<u>21.0%</u>	<u>27.6%</u>	<u>24.7%</u>	<u>23.5%</u>	<u>22.0%</u>	<u>22.1%</u>	<u>22.2%</u>	<u>22.9%</u>
Deficits	-3.2%	-12.0%	-8.6%	-6.1%	-3.9%	-3.5%	-3.0%	-5.0%
Debt Held by the Public	40.8%	55.0%	60.9%	64.3%	65.6%	66.3%	66.7%	—
Gross Domestic Product [GDP]	14,222	14,057	14,405	15,061	15,774	16,496	17,241	—

Source: S.Con.Res 13.

- **Reconciliation.** Employs the Budget Act’s “reconciliation” procedures to fast-track passage of a health care bill and an education bill by 15 October 2009. Claims of \$2 billion in “savings” is simply a fig leaf figure to allow the use of reconciliation to jam through huge changes in health care and student loans of unspecified magnitudes.
- **Gimmicks.** The Obama administration has derided “gimmicks” such as temporary patches of the alternative minimum tax [AMT] and the Medicare physician payment increase (the “doc fix”), and declared that “honest budgeting” requires a 10-year budget that fully reflects these costs. Nevertheless, the Democratic Congress has written a 5-year budget conference report for fiscal year 2010, which includes only a 3-year AMT fix and a 2-year “doc fix,” and assumes the Making-Work-Pay tax credit ends in 2010.

- **Other Entitlement Spending.** Proposes a wish list of new spending programs in 34 “reserve funds” (20 in the Senate; 14 in the House) – meaning the spending can occur if “offset,” almost certainly by higher taxes.
- **Discretionary Spending.**
 - *Defense.* Proposes a “base” defense budget of \$556.1 billion in fiscal year 2010, and supports the President’s requested overseas contingency funding of \$130 billion in 2010, and \$50 billion each year after that.
 - *Nondefense.* Calls for \$529.5 billion in 2010, an increase of 8.9 percent from the 2009 enacted level, which adds to a 25-percent increase agencies received in 2009 from the omnibus and “stimulus” spending bills.

Table A-2: The Obama/Democratic Budget – Discretionary Spending (excluding ‘stimulus’)
(in billions of dollars)

	2009	2010	% Change
Base Discretionary			
Defense	535.8	556.1	3.8
Nondefense Discretionary ^a	486.4	529.5	8.9
<i>Subtotal: Base Discretionary Spending</i>	<i>1,022.1</i>	<i>1,085.6</i>	<i>6.2</i>
Other Discretionary			
Overseas Contingencies	90.7 ^b	130.0	
Other/Emergencies ^c	7.2 ^d	10.4	
Total Discretionary	1,120.0	1,226.2	9.5

^a Includes nondefense discretionary cap adjustment of \$3.3 billion for program integrity and the LIHEAP trigger.
^b For war and International Monetary Fund.
^c Does not include the \$369.4 billion in budget authority in the “stimulus” bill.
^d Placeholder for disasters.
Note: The 2009 discretionary amounts have been rebased. Scored levels were \$9.4 billion below these figures.
Figures may not add due to rounding.
Source: Congressional Budget Office estimates and levels in S.Con.Res. 13.

APPENDIX 2
THE ABUSE OF RECONCILIATION

BACKGROUND

The process of budget reconciliation is intended to control the size of government. This budget conference report exploits the process in an unprecedented way: to vastly expand government, with higher spending and higher taxes, with limited debate and amendments, and potentially with no bipartisan support.

As noted previously, reconciliation is critical in the Senate, because legislation there can be jammed through with little debate or amendment. A reconciliation bill has limited debate, and can be passed by a simple majority of 51 Senators. This means the Majority and the President can abandon any pretense of bipartisanship, and force major changes in health care and student loans onto the American public on a purely party-line vote. In addition, the Congressional Budget Act places strict limits on Senate amendments to reconciliation bills.

RECONCILIATION IN S. CON. RES. 13

Here is how the procedure is designed to work under this conference report.

- The conference report reconciles three House committees that share jurisdiction on health care – Education and Labor, Energy and Commerce, and Ways and Means – for \$1 billion in savings each. The assumption is that with the overlap among these committees on health care, their legislation ultimately will produce total deficit reduction of \$1 billion. Education and Labor is reconciled for an additional \$1 billion, presumably for student loan legislation.
- The corresponding Senate committees – Finance and Health, Education, Labor, and Pensions – also are reconciled for \$1 billion each.
- The premise of these instructions is that as long as the committees report legislation achieving net deficit reduction in the amount required, their legislation can include anything else the committees choose. That deficit reduction can be achieved by raising taxes by \$1 billion more than the legislation’s net spending.
- Democrats did this 2 years ago with a reconciliation bill for higher education that employed a token \$750-million savings instruction to leverage \$21.5 billion in new spending over 5 years, including five new entitlements. Though the Majority claimed to “offset” this spending, *the mere creation of these programs added to the already unsustainable growth of entitlement spending – the principal threat to the budget and the economy*. Meanwhile, the conference report did nothing to address the root problem in higher education: rising college costs.
- There are three key proposals in the President’s budget to which these directives are likely to apply.

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- *Health Care.* The President has proposed a health care reserve fund totaling \$606 billion over 10 years, according to CBO. In the President’s budget, half of the health reserve fund is offset with tax increases, the other half with reductions to the Medicare and Medicaid programs. But the conference report could finance all the amount with tax increases if the committees of jurisdiction chose that approach.
 - *Student Loans.* The President has proposed eliminating the Federal Family Education Loan Program [FFELP], a student loan program that leverages private sector capital, and is the largest source of student financial aid. In its place, the budget finances the entire Federal student loan program with U.S. Treasury borrowing. This major restructuring of college financing also would be done under reconciliation.
 - *Cap-and-Trade.* According to CBO, the President’s cap-and-trade proposal would raise \$629 billion over the 2012-19 period by increasing the cost of energy. Although Democrats have said they do not intend to include cap-and-trade in reconciliation, there is nothing to prevent it as long as the committee of jurisdiction – Energy and Commerce – has a reconciliation instruction. For example, cap-and-trade could be used to raise funding for health care.
- Clearly, all these proposals would greatly expand the size and scope of government – an unprecedented perversion of a process intended to do just the reverse.

RECONCILIATION IN PERSPECTIVE

In 1993, a Democratic Congress generated a reconciliation bill that included \$76.9 billion in mandatory savings (as well as \$240.6 billion in tax increases) over 5 years. At the time, CBO projected total mandatory spending of \$4.63 trillion during the same period. So the mandatory savings for which the Democratic Congress and Democratic President used reconciliation equaled about 1.7 percent of total mandatory spending for the period.

For additional perspective, total spending for fiscal year 1994 was projected at \$1.5 trillion (23.2 percent of GDP), and the deficit was projected at \$291 billion (-4.5 percent of GDP). Actual outlays for 1994 ended up at \$1.5 trillion (21 percent of GDP), and the fiscal year 1994 deficit was \$203 billion (-2.9 percent of GDP). The lower actuals were due largely to economic and technical changes, not legislation.

In contrast, for the fiscal year 2010 budget, a Democratic President and Congress are proposing mandatory reconciliation savings of \$2 billion over 5 years. CBO projects that total mandatory spending for the period will be \$10.526 trillion. The \$2 billion in savings represents 0.019 percent of total mandatory spending for the period.

From a different perspective, total mandatory spending this year, estimated at \$2.5 trillion, is more than \$1 trillion more than the entire budget in 1994. Total spending this year is projected at about \$4.0 trillion (28 percent of GDP), and the deficit under the Obama budget is estimated to be \$1.8 trillion, or 13.1 percent of GDP.