REPUBLICAN CAUCUS
THE COMMITTEE ON THE BUDGET
B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Ranking Republican*
Phone: (202)-226-7270
Fax: (202)-226-7174
Augustine T. Smythe, *Republican Staff Director*

MORE 'STIMULUS,' DEBT, AND STOPGAP SPENDING

THE FOUR-BILL ENDGAME

16 December 2009

The House is expected to stagger out of town late today after jamming through a monstrous jumble of costly bills, including a third "continuing resolution," and a $290-billion increase in the debt ceiling – to $12.4 trillion – as well as another "stimulus" bill that shovels more money onto the failed $787-billion measure enacted earlier this year. Also on the schedule is the Defense appropriations bill, the last of the 12 annual spending bills, with an increase one-third that given to total nondefense discretionary spending. Here is a rundown of the bills to be considered in the House's four-bill endgame.

DEBT LIMIT INCREASE (H.R. 4314)

The continued profligate spending by the administration and Congress has forced a second increase this year in the government's debt ceiling (the first was passed along with "stimulus" legislation in mid-February), and the fourth increase in the past year and a half. H.R. 4314 would increase the government's statutory debt limit by $290 billion, from $12.104 trillion to $12.394 trillion. With Treasury borrowing $30 billion to $40 billion *per week* in support of record government spending, this increase only provides a cushion of 2 to 2½ months. This increase in the limit highlights the sheer magnitude of exploding U.S. debt and the urgency of getting budget deficits under control.

But the President's budget plan would simply continue the recent trend of massive borrowing. Debt as a share of the economy is poised to exceed more than 50 percent this year (the highest share in more than 50 years), will rise to more than 60 percent next year, and will reach 82 percent of gross domestic product [GDP] by the end of the next decade under the administration's policies. (In nominal dollars, debt held by the public will *triple* over the next 10 years.) The U.S. has not seen debt at these expected levels since the tail end of World War II. Even the countries of the European Union, hardly exemplars of fiscal rectitude, are required to keep their debt levels below 60 percent of GDP.

Federal Reserve Chairman Bernanke has noted recently that the greatest long-term economic challenge facing the U.S. is its unsustainable fiscal situation. Foreign creditors have also started expressing concern about current and projected U.S. budget deficit levels. Their opinions and actions are important because foreigners now own more than half (53 percent) of U.S. publically held debt. China is the largest foreign creditor to the U.S., accounting for 24 percent of all foreign holdings of U.S. debt. In a worrisome development, Moody's Investor Services said this month that the U.S. and the United Kingdom may "test the boundaries" of their AAA sovereign credit ratings in coming years if they fail to shore up their debt levels. Moody's recently classified both countries as "resilient."

AAA is one notch below Moody's top-rated "resistant" rating. If this trend continues, foreign investors will begin to demand higher interest rates on U.S. Treasury debt.

'STIMULUS' (H.R. 2847)

The deficit-financed economic "stimulus" enacted earlier this year (H.R. 1) – expected to cost taxpayers roughly $1 trillion over 10 years, when interest is included – has demonstrably failed to "save or create" 3.5 million jobs, and hold unemployment to 8 percent, as the President promised. But like an alchemist certain he can turn lead into gold, the Democrats have conjured yet *another* Keynesian-inspired "jobs" bill – which will languish in the Senate at least until January.

In truth, the legislation simply adds more spending to prior "stimulus" bill programs. Those programs were supposed to be dominated by "shovel-ready" projects that would spend out briskly. But in fact, the programs getting more money in the latest "stimulus" bill have so far spent only 15 percent of their funds from the earlier measure.

If the new "stimulus" passes the House, the martial law rule governing floor consideration directs that H.R. 2920, the Democrats' flawed statutory pay-as-you-go [pay-go] bill, be added. (For an analysis of the pay-go bill, see the Budget Committee Republican document, "A Facade of Fiscal Responsibility," 22 July 2009.)

Title I

Title I provides an estimated $75 billion in new discretionary spending, including:

- *New Highway Spending, $28 Billion*. This is in addition to the $28 billion provided earlier this year in the first Democrat stimulus bill.

- *Transit, $9.2 billion; AMTRAK, $800 million*. Mass transit received more than $8 billion in funding in H.R. 1 while Amtrak received $1.3 billion.

- *Education Jobs Fund, $23 Billion.* H.R. 1 already provided $53.6 billion to states through a State Fiscal Stabilization Fund.

- *Environmental Protection Agency Water and Wastewater Grants, and Other Programs, $2.3 Billion*. These programs already received some $6 billion in the stimulus bill earlier this year, most of which has yet to be spent.

- *TARP 'Offset.'* To pay for the new "jobs" package, this legislation reduces Troubled Asset Relief Program [TARP] authority by $150 billion, presumably freeing up $75 billion for spending [after applying CBO's 50-percent subsidy rate, or "reduction" in cost. This is just the latest exploitation of TARP, a program created to stabilize markets faced with a meltdown, and with careful statutory instructions to protect the taxpayer and *not* use authority to offset new spending. This package further enshrines TARP as Washington's latest slush fund. Reducing TARP will *not* reduce this bill's impact on the deficit. In addition, TARP was never intended to cover up the failures of the $787-billion "stimulus" the administration and the Majority in Congress enacted earlier this year.

Title II

Title II contains a 1-year extension of the Safe Accountable Flexible Efficient Transportation Equity Act: a Legacy for Users [SAFETEA-LU] highway, transit and safety transportation programs as well as increases the deficit with $20 billion or more in various transfers from the General Fund to the frequently bankrupt Highway Trust Fund.

Title III

Title III contains several mandatory spending extensions, including:

- *Extension of Increased Federal Medicaid Payments*. Rather than address the fundamentally broken Medicaid Program, this bill extends through June the increased Federal Medicaid payments to States established under the first "stimulus." According to the Department of Health and Human Services, the Medicaid improper payment rate is 10.5 percent, or $32.7 billion – more than three times the average improper payment rate of other Federal agencies; and earlier this year, the Government Accountability Office reported $32.7 billion worth of improper Medicaid payments in a single year (2007).
- *Extension of 'Temporary' Enhanced COBRA Payments*. Under the "stimulus" earlier this year, individuals eligible for health coverage under the Consolidated Omnibus Budget Reconciliation Act [COBRA] program were given financial assistance to afford their premiums for 9 months. Now the Democrats are looking to extend this effort through June – further adding to the Nation's debt and increasing costs to employers.
- *Temporary 'Doc Fix.'* Because the Democrats have dithered over the impending 21-percent reduction in Medicare payments, no action has been taken to prevent this cut or fix the broken formula. Rather than address this pressing issue, the Democrats are punting the problem into the new year, delaying the cuts until the end of February.

Table 1: Estimated Costs of 'Stimulus' Bill (compared with CBO baseline)
(dollars in billions)

	2010	2010-19
Title I (Discretionary BA)		
Highways	28	28
Transit	8	8
Education Job Funds	25	38
EPA STAG	2	2
COPS	1	1
Other	7	7
Subtotal	71	84
Title II		
SAFETEA-LU Extension and Expansion (BA)	–	–
Title III		
Unemployment Compensation	36	40
COBRA	0.4	1
FMAP	–	23
Child Care Tax Credit	–	2
Freeze Poverty Guidelines	0.1	0.3
Qualified Non-Attorney Provision	-0.003	-0.1
Subtotal	37	66
Total: Net Costs	**108**	**150**

DEFENSE APPROPRIATIONS (H.R. 3326)

The most important responsibility of the Federal Government is ensuring the Nation's security. Yet the House delayed the Defense appropriations bill until nearly 3 months after the start of the fiscal year – even as the President is sending 30,000 more troops into harm's way. The Defense bill – the twelfth and final appropriations conference report to be brought to the floor – provides $636.4 billion in discretionary budget authority [BA] primarily to the Department of Defense [DoD], including $128.3 billion to support "overseas contingency operations" in Iraq and Afghanistan. Despite the President's assurances to the contrary last February, when he submitted his budget outline, amounts provided by this bill will not be sufficient to fund the Department's operations through the year, and a supplemental spending bill will be needed in 2010.

For a full discussion of the DoD appropriations bill, please see the *Appropriations Alert* titled "Saving the Most Important for Last," by the House Budget Committee Republican staff.

CONTINUING RESOLUTION (H.J. RES. 64)

The House will consider the third continuing resolution [CR] of the year, extending a measure that passed the House in October and expires Friday this week. The new CR runs through next Wednesday (23 December 2009), and is intended to give the Senate time to finish Defense appropriations, the one appropriations bill still not passed.