

Alarms Sounded On Cost of GOP Bills

Lawmakers Increase Spending to Win Votes

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As Congress rushes to conclude its 2003 session, Republican leaders are trying to garner votes for controversial legislation by loading the bills with billions of dollars in added costs that analysts said would expand the budget deficit for years to come. The year-end binge has alarmed analysts in Washington and on Wall Street, coming as it does after three years of presidential and congressional initiatives that have both substantially boosted government spending and shrunk its tax base.

"The U.S. budget is out of control," the Wall Street investment firm Goldman Sachs & Co. warned Friday in its weekly newsletter to clients.

In the final days of the congressional session, GOP leaders added billions of dollars to energy and Medicare bills to help persuade key factions to support the legislation. Overall, the energy bill would cost \$33 billion and the Medicare bill \$400 billion.

Less noticed were congressional moves to expand veterans' benefits by \$22 billion and increase spending on forest-thinning projects from \$420 million a year to \$760 million to ensure passage of forest legislation promoted by the White House. Lawmakers are also trying to extend 14 expiring tax cuts through 2004, at a cost to the Treasury of more than \$7 billion.

All those actions come in the face of a federal budget deficit already projected to rise from a record \$374 billion in the fiscal year that ended Sept. 30 to close to or above \$500 billion in the current fiscal year.

"The only thing I can tell you is evidently the word 'tomorrow' no longer exists in the vocabulary of otherwise responsible members of Congress," said Warren Rudman, a former New Hampshire Republican senator and long-standing budget hawk. "They are acting as if there is no tomorrow."

Former Treasury secretary Robert E. Rubin said, "Our political system has simply lost its willingness to take the very difficult path of maintaining fiscal discipline."

Some rank-and-file GOP lawmakers expressed concern that the burgeoning deficit is happening under the watch of the Republican Party, which came to power in Washington preaching fiscal restraint and less government.

"I'm very troubled by the possibility that the party of Ronald Reagan, the party that came to Washington

to change the welfare state, could fall into that 75-year parade of entitlement makers," said Rep. Mike Pence (R-Ind.), citing the new Medicare bill. "This will be the third time in history, first with the New Deal, then in Great Society, and now 2003, that Congress created a massive new entitlement."

At several points in recent weeks, when opposition was voiced to controversial legislation, congressional leaders simply increased the price.

The energy bill that passed the House -- but stalled in the Senate -- contains \$23.5 billion in tax breaks, most of them for oil and gas producers and nearly triple the total in President Bush's original proposal. The support of farm-state Democrats was secured by a major expansion of subsidies for ethanol, a corn-based fuel additive. Balking lawmakers from the Midwest and Appalachia were offered provisions to benefit the producers of high-sulfur coal and a last-minute \$2 billion addition to help older coal-burning plants comply with the Clean Air Act.

In a nod to Louisiana's two Democratic senators, the bill would even provide financing assistance for a mall in Shreveport that is to house, among other things, a Hooters restaurant.

The Medicare bill took a similar tack. The concerns of worried private health plans were assuaged by \$12 billion more in subsidies than either the House or the Senate envisioned in the Medicare bills they passed in June. Rural lawmakers, concerned that any expansion of managed health care would leave their doctors and hospitals behind, won an unprecedented increase in payments to rural health providers, totaling at least \$25 billion.

After health policy experts warned that a prescription drug benefit offered through Medicare might prompt corporations to drop drug benefits for their retirees, negotiators added an \$18 billion credit for employers that maintain their coverage.

When the Congressional Budget Office concluded that the cost of the Republican bill would fall \$5 billion shy of its \$400 billion allotment, congressional leaders could have not spent that money. Instead, they sweetened the pot, reducing patient deductibles from \$275 to \$250, and raising the drug coverage limit from \$2,200 to \$2,250.

For disabled veterans, Congress amended rules established in the 1890s that reduced retirement benefits by \$1 for every dollar received in disability pay. More than a century later, Congress decided such rules were churlish and approved a change, to be phased in over 10 years, that will cost \$22 billion, far more in the second decade once fully phased in.

Bush's \$87 billion request for military operations and assistance for Iraq and Afghanistan was initially met with sticker shock and disbelief. Under pressure from constituents, the House and Senate passed versions that shaved the total slightly. But when the measure emerged from final negotiations, it had actually grown by \$500 million.

And all of that has come on top of three consecutive tax cuts totaling more than \$1.7 trillion over the next decade.

White House officials remain sanguine. A brightening economic picture should offset some of the additional costs, said J.T. Young, a spokesman for the White House Office of Management and Budget. The deficit will peak this year but is still on course to be cut in half by 2008, he said.

Stuart Roy, spokesman for House Majority Leader Tom DeLay (R-Tex.), said the "hundreds of thousands of jobs" that would be created by the energy bill would more than offset its cost, and by injecting free-market competition into Medicare, the prescription drug bill should actually restrain costs.

But some budget experts say such optimism is a large part of the problem.

"It's very hard for Congress to show fiscal restraint when the White House hasn't raised the deficit as a primary issue," said Robert D. Reischauer, a former Congressional Budget Office director who now heads the Urban Institute. "Spending restraint and tax increases are unnatural acts on Capitol Hill. It takes some political leadership from White House, some external motivation, to get Congress to focus on the deficit, and there doesn't seem to be any of those forces at work."

Goldman Sachs economists concluded last week that tax cuts and surging spending will push the deficit this year to half a trillion dollars, and "any thoughts of relief thereafter are a pipe dream until political priorities adjust."

Even conservatives who support tax cuts have begun to note the imbalance. Government spending now totals \$20,000 per household, a level not seen since World War II, said Brian Reidl, a federal budget analyst with the Heritage Foundation. Meanwhile, taxes total \$17,000 per household.

"Conservatives are so afraid of losing their majority status right now that they feel a need to . . . pass the other side's legislation to prove how moderate they are," Reidl said. "But they're showing an astonishing willingness to spend now and dump all the cost in our children's laps, and an amazing unwillingness to reconcile the size of government with the amount of taxes needed to fund it."

Maya MacGuineas, executive director of the Committee for a Responsible Federal Budget, said the biggest impact of the new legislation will come toward the end of the decade, when baby boomers begin to retire.

The true cost of the Medicare bill, for instance, would not begin until 2007, but it would escalate rapidly from there. In 2007, the Congressional Budget Office estimated, the bill would cost \$40.2 billion. By 2013, that price tag would be \$65.2 billion. CBO Director Douglas Holtz-Eakin has told members of Congress that the bill's cost in its second 10 years could reach between \$1.7 trillion and \$2 trillion.

Likewise, analysts said, the cost of the energy bill is understated by unrealistic "sunsets" that would

eliminate nearly half of the legislation's 46 tax cuts well before the bill's overall expiration date of 2013. If all those tax cuts were extended the full decade, the bill's cost would roughly double, according to the liberal Center on Budget and Policy Priorities.

Rudman puts the long-term costs of these commitments in dire terms: inevitable currency devaluations, massive tax increases, collapsing retirement accounts.

"It is puzzling, unless you take the most cynical political view of 'I've got to do what I've got to do, and whatever bad that's going to happen is not going to happen on my watch,' " he said, trying to explain lawmakers' motivations. "If that is what's happening, we are facing the Titanic of fiscal crises in eight to 10 years."

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