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Senate SCHIP Bill Makes a Mockery of PAYGO Budget Rules

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Democrats are committed to ending years of irresponsible budget policies that have produced historic deficits. Instead of piling trillions of dollars of debt onto our children and grandchildren, we will restore "Pay As You Go" budget discipline.

—House Speaker Nancy Pelosi (D–CA)[1]

No new deficit spending, no new bridges to nowhere, heaping mountains of debt on our children.

—Speaker Nancy Pelosi[2]

If you want to have a new program, figure out a way to pay for it without raising taxes.

—Senate Majority Leader Harry Reid (D–NV)[3]

Following their promise made to the American people during the 2006 campaigns, the House and Senate Democratic majority recently enacted Pay-As-You-Go (PAYGO) budget rules requiring that all tax and entitlement legislation be deficit-neutral. However, they are already turning their back on that promise, as the Senate bill (S. 1893) to reauthorize the State Children's Health Insurance Program (SCHIP), authored by Senator Max Baucus (D–MT), would put into motion $60 billion in new deficit spending over the next decade. This is a clear violation of PAYGO and an assault on America's taxpayers.

Hiding $60 Billion. The Senate bill would gradually increase federal funding for SCHIP from the current $5.6 billion level to $14.1 billion in 2012. Then, suddenly, funding would plummet to $6.2 billion and $4.7 billion over the subsequent two years, and not top $5.0 billion again through 2017 (see Chart 1).[4] If Congress enacts this legislation, lawmakers in 2013 will face two options:

1. Drop SCHIP funding 70 percent, substantially reducing the number of enrollees, or
2. Add approximately $60 billion in new spending over the next five years to maintain current enrollment.[5]

It is no mystery that lawmakers will select option two. After all, Congress has a long and rich tradition of masking the true costs of new federal programs by adding in future budget cuts they have no intention of keeping. For example, Congress wrote into the Medicare laws a trigger that is supposed to reduce physician payments if they begin rising too quickly. The rising payments are a symptom of a profoundly flawed physician payment system, which is grounded in administrative pricing and price controls. Rather than reforming the system, Congress sidesteps the tough policy issues and routinely passes "emergency" legislation to reverse the scheduled cuts. Even on the tax side, Congress passes legislation each year pre-

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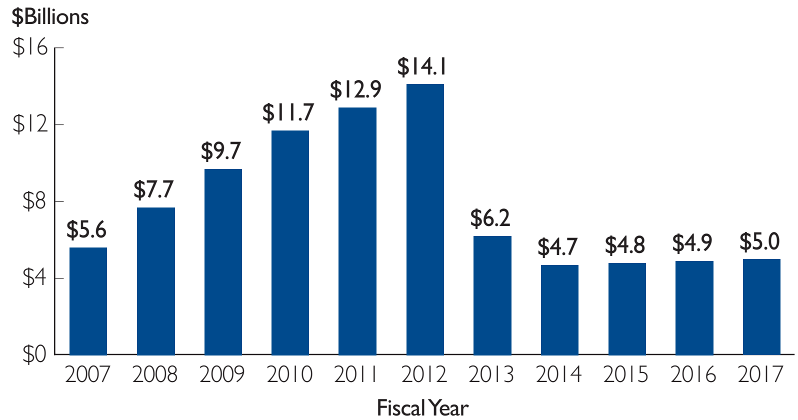
venting the scheduled increase in the Alternative Minimum Tax and extends dozens of expiring tax cuts. Despite the inclusion of option one in the bill, the chances that Congress would allow millions of children to be cut from SCHIP in 2013 are virtually zero. A $60 billion "emergency" package in 2013 would be a forgone conclusion.

Chart 1 WM 1576

SCHIP Funding Under the Senate Bill



Source: Congressional Budget Office.

Bypassing PAYGO. Once the eventual emergency bailout comes, the Senate SCHIP expansion will have added approximately $60 billion to the budget deficit over 10 years. This is a clear violation of the PAYGO budgeting promised by the new Democratic majority. The Senate PAYGO rule requires that all new tax and entitlement legislation be deficit-neutral over one, five, and 10 years. The gimmick of temporarily excluding the $60 billion in deficit spending, and then eventually designating it as an "emergency," will allow the Senate to avoid an official PAYGO point of order. However, the loophole clearly violates the spirit of the law. After Congress violates PAYGO for SCHIP, it will be more likely to violate PAYGO elsewhere. Nearly identical loopholes have been employed to cover up a $15.3 billion PAYGO violation in the House higher education reform bill.[6] Congress is also under pressure to violate PAYGO and add billions of dollars in new farm subsidies. Despite PAYGO's convenient use as a fiscal discipline talking point, lawmakers are not allowing it to actually put a brake on new deficit spending.

Conclusion. The Senate SCHIP bill contains numerous problems. The program was originally designed for children in low-income families but would continue enrolling children in middle-class families. Many families eligible for SCHIP would end up losing the private health insurance they already have, a phenomenon known as the "crowd-out" effect. The bill rejects free market principles that should govern health care policy, retreats from any serious health policy reform, and raises taxes. And after all that, the Senate bill would violate congressional Democrats' own PAYGO pledge and add approximately $60 billion to the budget deficit over the next decade. With Congress's approval rating at a record low, lawmakers should rethink the decision to break the PAYGO promises they made to the American people.

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1. House Democrats, "A New Direction for America," December 12, 2006, at *www.speaker.gov/pdf/thebook.pdf.*
2. Representative Nancy Pelosi, Interview with Brian Williams, MSNBC, November 8, 2006, at *www.msnbc.msn.com/id/15627215.*
3. Senator Harry Reid, Interview with Bob Schieffer, CBS News, November 12, 2006, at *www.cbsnews.com/htdocs/pdf/face_111206.pdf.*
4. Congressional Budget Office, "Cost Estimate for Children's Health Insurance Program Reauthorization Act of 2007," July 26, 2007, at *www.cbo.gov/ftpdocs/84xx/doc8489/BaucusSCHIP7-26-07.pdf.*
5. This estimate assumes a 6 percent annual spending increase is needed to maintain current enrollment after 2012. That would require $84.3 billion from 2013 to 2017, rather than the $25.6 billion included in the bill.
6. H.R. 2669. A Congressional Budget Office letter exposing the higher education bill's gimmicks and their costs is located at *www.cbo.gov/ftpdocs/83xx/doc8303/hr2669Ryanltr.pdf.*