

# WebMemo



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## Congress Again Lards Iraq War Spending Bill

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Despite vowing to rein in spending, cut the budget deficit, and implement pay-as-you-go (PAYGO) rules, the Democratic Congress recently voted to cast these promises aside. Rather than making the success and safety of American troops a top legislative priority, both the House- and Senate-passed versions of the Iraq war spending bill (H.R. 2642, now in conference committee to reconcile the two versions) focus on adding tens of billions of dollars in new spending unrelated to the war on terrorism. This new spending, among other things, would:

- Create a new \$52 billion entitlement for veterans, which the House pays for with new taxes and the Senate does not pay for at all;
- Prevent the Department of Health and Human Services from eliminating as much as \$42 billion in waste, fraud, and abuse;
- Spend \$15 billion to extend unemployment benefit eligibility up to 52 weeks even though the economy is near full employment; and
- In the Senate, add \$10 billion more for programs that should be funded in the regular appropriations bills.

Amazingly, the House of Representatives also voted down the funding for the troops that was the very purpose of the Iraq war bill. In a revealing display of congressional priorities, the House defunded the troops serving in Iraq and Afghanistan in order to fund \$100 billion in new domestic spending. The Senate version restores this troop funding.

President Bush has vowed to veto any attempt by Congress to hold American troop funding hostage to domestic spending demands. Lawmakers should debate domestic spending within the regular appropriations process, and proposals to create permanent new entitlement programs should be considered on their own merits rather than being fast-tracked through an emergency bill intended to fund American troops. If Congress does not remove—or at least offset—these new domestic spending initiatives, President Bush should fulfill his veto pledge.

### **A Pattern of Runaway Spending**

*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),  
November 12, 2006.<sup>1</sup>

While Democrats have criticized the Republican Congress's runaway spending and budget deficits, they have used their majority to increase spending even faster. This spending binge began in early 2007 when the new Democratic majority effectively told President Bush that they would not pass legislation funding the troops serving in Iraq and Afghanistan until he agreed to an additional \$17

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billion in mostly unrelated domestic spending. After months of delay, President Bush, recognizing the need to secure funds for the troops, agreed to the Democrats' spending demands.

Later that year, the President offered a budget that would increase non-war discretionary spending by a generous 6.9 percent (in nominal dollars). In response, Congress passed a budget resolution providing for a 9.4 percent increase. While the President initially opposed the Democrats' spending explosion, he eventually approved Congress's plan to fund nearly the entire 9.4 percent increase by declaring most of the final \$20 billion to be for "emergencies." And even this bloated 9.4 percent spending increase did not count the additional funding approved for American troops serving in Iraq and Afghanistan.

Budgeting is about setting priorities and making trade-offs. By engaging in a domestic spending spree, Congress has ducked the necessary trade-offs of governing and in favor of fiscal recklessness. Furthermore, Congress's repeated designation of regular spending as "emergencies" in order to bypass all spending limits has strongly undermined Members' rhetoric about paying for new spending and reining in the budget deficit.

**Hijacking Another War Supplemental.** President Bush has requested supplemental funding for the wars in Iraq and Afghanistan totaling \$196 billion in supplemental funding for the wars in Iraq and Afghanistan for fiscal year (FY) 2008 and an additional \$70 billion for FY 2009. Because Congress has thus far provided \$86.8 billion for FY 2008, President Bush has called on Congress to provide the remaining \$108 billion for the current year as well as the \$70 billion for next year.

Although the Senate voted overwhelmingly to continue sending supplies to the troops in Iraq and Afghanistan, the House voted to cut off this new military funding. Essentially, the House voted to pull the troops out of Iraq over the next 18 months, but without any funding for body armor or other needs in the meantime. While the House did not

consider American troops fighting abroad to be worthy of funding, they (along with the Senate) did tuck the supplemental bill with massive domestic spending initiatives, including:

1. *A New Entitlement for Veterans (\$52 billion over 10 Years)*. Currently, the Montgomery GI Bill provides enlisted service members who have two years of active duty with up to \$1,101 in monthly student aid for up to 36 academic months (the equivalent of eight semesters). In addition to increasing those benefit levels, both the House and Senate versions of the Iraq war spending bill would create a new program for those serving at least 36 months in the military post-September 11, 2001. Such veterans would receive 36 academic months of aid sufficient to afford full tuition (at most colleges), fees, books, and housing. Those serving fewer than 36 months would receive a prorated benefit.

Despite any merits such a proposal might contain, an emergency war funding bill is the wrong place to debate creating one of the largest new entitlements in recent history. Rather than be hastily thrown together and fast-tracked through a war funding bill, this proposal deserves to go through the normal legislative process where it can be thoroughly examined and debated on its own merits by all relevant committees. The only reason to put this legislation in an emergency bill is to bypass Congress's own PAYGO rules mandating that new entitlements be fully paid for, which is the likely outcome of the final legislation.

Veterans' educational assistance is a worthier use of tax dollars than many other federal programs. That is why lawmakers should offset its cost by reducing lower-priority spending by, for example:

- Eliminating the \$50 billion in direct payments scheduled to be paid to wealthy farmers over the next decade, regardless of how high crop prices climb and in addition to four other types of farm subsidies they may receive;
- Slightly trimming Medicare Parts B and D subsidy rates for the wealthiest seniors;

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1. Senator Harry Reid (D-NV) on *Face the Nation*, CBS News transcript, November 12, 2006, at [www.cbsnews.com/htdocs/pdf/face\\_111206.pdf](http://www.cbsnews.com/htdocs/pdf/face_111206.pdf) (October 20, 2007).

- Eliminating one-tenth of the \$55 billion reportedly lost annually to federal payment errors;<sup>2</sup> and
- Updating the inflation formula used to calculate government benefits.

Yet Congress has rejected all spending reforms to fund veterans' educational assistance. The Senate voted to add this new entitlement to the national debt, while the House voted to raise income tax rates by 0.47 percent on small businesses and families earning over \$500,000 annually (\$1 million for married couples). The House "Blue Dog" Democrats deserve credit for demanding that this new benefit be paid for, but they should have insisted on spending offsets rather than tax increases for three reasons.

*First*, Washington is not justified in raising anyone's taxes when there is so much waste in the federal budget that could be cut instead.

*Second*, while this tax affect would initially affect only "the wealthy," history suggests that Congress will not resist continually raising this tax rate and extending it down the income ladder.

*Third*, tax rate increases reduce incentives to work, save, and invest, and this small surcharge would need to reduce productivity only marginally to negate its intended effects. The better approach is for lawmakers to reform wasteful spending instead.

Additionally, such legislation should avoid reducing military re-enlistment rates. The Congressional Budget Office (CBO) estimates that these benefits by themselves would drop the re-enlistment rate by 16 percent as service men and women leave the military to take advantage of these benefits. Re-enlistment bonuses can help to offset those effects.<sup>3</sup>

*2. Protecting Waste and Fraud in Medicaid (Up to \$42 billion over 10 Years)*. The Government Accountability Office (GAO) has documented numerous cases of states engaging in improper (and possibly fraudulent) accounting in order to increase their federal Medicaid reimbursements. For example, some states have loaned money to local governments, claimed it as a Medicaid expenditure for partial federal reimbursement, and then had the local government return the money.<sup>4</sup>

In response to this and other concerns, the Department of Health and Human Services proposed seven new regulations to clamp down on abuses, saving \$42 billion over 10 years. Despite the clear need for reform, the House and Senate bills would place a one-year moratorium on these regulations, purportedly to buy time until the next President can make the moratorium permanent. The one-year moratorium is paid for slowly over 10 years with other small Medicaid tweaks that would not produce enough savings to offset an expected long-term extension.

Congress needs to debate this legislation on its own merits, in its own bill, rather than attaching it to a must-pass bill funding the troops. Additionally, if Congress is unwilling to allow the Department of Health and Human Services to close waste, fraud, and abuse loopholes, how can Members be expected to undertake the larger, more serious health reforms that are needed?

*3. Extending Unemployment Benefits (\$15 billion over Two Years)*. Both the House and Senate bills would lengthen the eligibility period for unemployment benefits from the current 26 weeks to at least 39 weeks and as long as 52 weeks in some states. Yet the current 5.5 percent unemploy-

2. U.S. Government Accountability Office, "Improper Payments: Federal Executive Branch Agencies' Fiscal Year 2007 Improper Payment Estimate Reporting," GAO-08-377R, January 23, 2008, at <http://www.gao.gov/new.items/d08377r.pdf> (June 11, 2008).
3. Congressional Budget Office, "S. 22, Post 9/11 Veterans Educational Assistance Act of 2008," letter to Senator Judd Gregg, May 8, 2008, at <http://www.cbo.gov/ftpdocs/92xx/doc9212/s22.pdf> (June 11, 2008).
4. Dr. Marjorie Kanof, U.S. Government Accountability Office, "Medicaid Financing: Long-Standing Concerns About Inappropriate State Arrangements Support Need for Improved Federal Oversight," testimony before the Committee on Oversight and Government Reform, U.S. House of Representatives, November 1, 2007, at <http://www.gao.gov/new.items/d08255t.pdf> (June 11, 2008).

ment rate is what used to be considered full employment and is below the unemployment rate during the past three benefit extensions. And while critics contend that unemployed workers are having more difficulty finding jobs, the 1.0 percent long-term unemployment rate (defined as those unemployed for more than 26 weeks) is lower than the rate the last few times Congress *ended* extended benefits. In other words, the current unemployment picture more closely reflects times when Congress has ended—rather than implemented—extended benefits.<sup>5</sup> Accordingly, lawmakers should remove this provision.

4. “*Emergency*” Additions (*Approximately \$10 Billion over Two Years*). The Senate version also adds approximately \$10 billion more in domestic “emergency” spending. Approximately half of this spending was added to the President’s \$5.8 billion request for Hurricanes Katrina and Rita relief and reconstruction. The other half includes:

- \$1 billion for the Low-Income Home Energy Assistance Program (LIHEAP);
- \$451 million for highway repairs;
- \$275 million for the Food and Drug Administration;
- \$210 million for the Census Bureau;
- \$178 million for federal prisons;
- \$590 million justice grants;
- \$200 million for NASA;
- \$200 million for the National Science Foundation;

- \$100 million in additional science funding;
- \$110 million to pay states to run their unemployment insurance programs; and
- \$400 million for the National Institutes of Health.

Congress is free to fund any of these programs within the regular appropriations bills this summer. The only reason to divert this funding into the war funding bill is to evade this year’s \$1,016 billion discretionary spending cap that Congress recently enacted in its budget resolution. Declaring an “emergency” any time that Congress doesn’t want to balance priorities makes a mockery of the entire budget process. Congress should strip these provisions from the war funding bill and debate them in the appropriations bills.

**Veto the Added Spending.** Congress has established a pattern of using war funding bills to add billions of dollars in unrelated domestic spending. The current House- and Senate-passed incarnations of the Iraq war spending bill would set the stage for over \$100 billion in additional domestic spending over the next decade. Some of the spending, such as spending on veterans, is certainly a justifiable use of tax dollars, but these programs deserve their own debate in their own legislation subject to the above-noted spending caps. If Congress continues to use war bills as an excuse for domestic spending excess, President Bush should hold firm to his veto threat.

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5. James Sherk, “Congress Should Not Attach Extended UI Benefits to Troop Funding,” Heritage Foundation WebMemo No. 1934, May 20, 2008, at <http://www.heritage.org/Research/Labor/wm1934.cfm>.