# US Senate passes budget bill slashing social programs

**Joe Kay**
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The US Senate finished up the final days of its session for the year by pushing through a top priority measure—a budget reconciliation bill that will cut spending in entitlement programs for students, the poor and the elderly. Once the bill is signed into law, it will mark the first cutback in entitlement spending in nearly a decade.

Vice President Dick Cheney cut short a trip to Afghanistan and the Middle East to attend the final proceedings. The vote was 51-50, with Cheney using his constitutional authority as president of the Senate to break the tie and pass the austerity measure.

The bill includes $40 billion in spending reductions over five years that come largely from major rollbacks in federally-subsidized student loans, the Medicaid health program for the poor, and welfare benefits.

The bill passed by the Senate was the product of a House-Senate conference committee, which reconciled separate bills passed by the House of Representatives and the Senate in November. The resulting bill includes most of the cuts in the original House bill. However, because the Senate version was amended slightly from the conference report, it must be voted on again by the House, either later this month or early next year, before being signed by the president.

In relation to the overall federal budget, the $40 billion over five years is minimal. It is less than one tenth of what the US government spends on the military alone every year. However, the cuts will have a major impact on some of the most vulnerable sections of the population. They are seen as an important step in the drive to undermine entitlement programs and all government spending not aimed at enriching the wealthy or expanding the military-police apparatus.

The blatant class character of government policy is highlighted by the fact that the budget bill is to be followed early next year with a tax-cutting measure worth $60 billion to $70 billion that will overwhelmingly favor big business and the wealthy.

The budget measure gives broad authority to state governments to increase co-payments for Medicaid recipients and reduce their health benefits. Among the changes are increases in out-of-pocket costs for doctor visits, prescriptions and other services.

Medicaid programs are administered at the state level, but they must follow guidelines established by the federal government. Funding for the programs is shared between the federal government and the states.

The cuts in the budget bill are estimated to reduce federal Medicaid spending by $11 billion over five years and $42 billion over ten years, but the actual reduction in services to the poor and elderly could be much greater. Many states have already begun implementing severe cuts in services and restrictions on eligibility, and Florida has gained approval from the federal government to shift to a program that essentially privatizes the provisioning of health care through Medicaid.

Because the bill allocates money to partially cover costs incurred by states that are providing Medicaid coverage to victims of Hurricane Katrina, the net cut for Medicaid amounts to $4.8 billion over five years. This is the figure that has generally been reported in the media. However, it underestimates the level of cutbacks targeted at the bulk of Medicaid recipients.

Increases in co-payments will be felt most directly by working class families earning incomes just over the federal poverty line—a threshold that grossly underestimates the actual income needed to sustain a family. An analysis by the Center on Budget and Policy Priorities (CBPP) found that, for those beneficiaries, co-payments for some services could rise from $3 to between $20 and $100 or more. States would be allowed to charge co-payments of up to 10 percent of the cost of services. This would make what is supposed to be an entitlement benefit unaffordable for many recipients.

For those who earn above 150 percent of the official federal poverty line, co-payments could be as high as 20 percent. Moreover, the CBPP notes, “For many beneficiaries with incomes *below* the poverty line, the legislation intends that states could increase the existing nominal co-payment charge of $3 per health care service or medication each year by the percentage increase in the medical care component of the Consumer Price Index. The medical care component of the CPI has been rising *twice as fast* as the general inflation rate, however, and thus at least twice as fast as poor beneficiaries’ incomes.”

The bill also restricts the ability of elderly people to transfer assets such as homes to family members in order to qualify for Medicaid services, including nursing home care.

About a third of the cuts, or $12.7 billion over five years, come from changes in federal student aid programs. “This is the biggest cut in the history of the federal student loan program” David Ward, president of the American Council on Education, told the *New York Times*.

The bill fixes the interest rate for federally-subsidized Stafford loans at 6.8 percent and sets the rate for loans to undergraduate parents (PLUS loans) at 8.5 percent. Currently, these rates are allowed to float with the market, and are as low as 4.7 percent for Stafford loans and 6.1 percent for PLUS loans, according to figures reported Thursday in the *Wall Street Journal*. The bill also reduces subsidies to many banks that provide loans to students.

By fixing rates at high levels, the bill eliminates the ability of students to lock in lower rates by using the Federal Consolidation Loan Program. Many students have been taking advantage of this program in recent years due to relatively lower interest rates.

The *Journal* notes: "When compared with today's low rates, switching to fixed rates would cost students and their parents thousands of dollars over the life of the loan... If a student consolidated a typical Stafford loan balance of $20,000 at the new rate compared with the current loan rate, he would be paying over $2,000 more in interest over a standard 10-year life of the loan. With PLUS, parents would be paying $3,000 more."

These moves come as college tuitions continue to increase far more rapidly than the rate of inflation. Last year, tuition and fees at a four-year public college or university rose more than 7 percent, while at private schools the increase was 5.9 percent. According to the Department of Education, over the past decade public college tuition has increased by an astonishing 54 percent, and private tuition by 37 percent, in real terms.

The indebtedness of college graduates has increased sharply during this period, and now averages nearly $20,000, according to some estimates. This coincides with a long-term trend of reduced grants for needy students. Students are increasingly resorting to high-interest private loans and credit cards to cover tuition and other fees.

The budget reconciliation bill does not increase the maximum funds available through the government Pell Grant program, meaning this maximum will once again decrease in real terms.

The bill enacts major changes in federal welfare policy, deepening cuts put in place in 1996 under the Clinton administration. In particular, the bill increases work requirements to qualify for Temporary Assistance to Needy Families (TANF).

The bill requires that for each state, 90 percent of all two-parent households participating in TANF must work at least 35 hours a week. States that do not meet this requirement could be fined. The measure will have the effect of encouraging states to further slash welfare rolls.

According to the CBPP, the new bill under-funds child care for working families that do not qualify for welfare. "By 2010," it reports, "an estimated 255,000 fewer children in low-income working families not receiving cash welfare assistance would receive child aid than received it in 2004."

The reconciliation bill excludes those limited measures in the original Senate version that were opposed by sections of big business. One of these proposals would have eliminated a fund to provide financial incentives to private insurers who join the new Medicare prescription drug program. The fund amounts essentially to a large cash handout to insurers. The measure was dropped after the White House threatened to veto any final bill that included it. Other proposals that would have limited Medicaid and Medicare payments to the giant pharmaceutical companies were also eliminated.

The reactionary character of the budget bill was reflected in the methods used to get it passed. In the House, the bill was pushed through in the early hours of the morning on December 19, only a few hours after it had been worked out by the House-Senate committee. The House leadership invoked a procedure known as "martial law" to evade long-standing House rules that require at least a day between the introduction of a major piece of legislation and the vote.

The assault on social programs, combined with tax cuts for the wealthy, comes at a time of deepening economic insecurity for the broad masses of the population. Many US families have begun to receive their first winter heating bills for the year, which are sharply higher from a year before. This is compounding the difficulties caused by several years of declining real wages. Record numbers are applying for emergency food aid during the winter months, and the *Wall Street Journal* reported on Thursday that housing affordability has hit 14-year lows.

Such an extraordinary attack on social programs can be passed under these conditions only due to the absence of any serious opposition to the economic policy being pursued by the White House and the Republican leadership in Congress. While they may posture as critics of the administration on this particular bill, the Democrats have no disagreements with the basic thrust of White House policy. As faithful representatives of the ruling elite, they have participated fully in an assault on social programs that has been ongoing for a quarter-century. No Democrat has proposed any serious measures to deal with the mounting social crisis in the United States.

The passage of the budget bill comes three-and-a-half months after Hurricane Katrina, which exposed the enormous level of social inequality in the United States. While even the Bush administration was forced to acknowledge the role of poverty in the catastrophe, Bush declaring on September 15 that his administration would "confront this poverty with bold action," the government has from the very beginning sought to use the disaster as a justification for continuing its policy of gutting social programs in favor of tax cuts for the rich.