

# 4 Fiscal Flashpoints Await A Possible GOP Congress

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October 29, 2014

With control of Congress seemingly within their grasp, Republicans are looking forward to showing that they can govern.

But a series of budgetary time bombs — four potential flashpoints that are likely to spark clashes with the White House but may also expose rifts within the GOP — will complicate their ability to set the agenda.

## Highway Trust Fund

The first will come by May when the last fix for the Highway Trust Fund, a \$10.8 billion infusion approved in July, runs out of gas.

It's far from clear how that next tank will get filled. It took a \$6.4 billion gimmick called pension smoothing to pay for the bulk of the current patch. Budget analysts slammed the provision which raises money in the near-term — but not in the long-term — because tax revenue will suffer later on when corporations have to plow more pre-tax dollars into pensions.

While a divided GOP didn't stand in the way of the short-term fix last summer, the next one may require real money — and more of it.

"There is a giant gap," said Chris Edwards, director of tax policy studies at the Cato Institute. "It's not something you can use smoke and mirrors to close," he said.

Bridging the gap will require some \$15 billion a year — the difference between the \$38 billion in gas tax revenues that flow to the highway fund each year and the \$53 billion it spends.

"I don't know what the political solution is going to be," Edwards said.

In July, Sen. Bob Corker, R-Tenn., reached across the aisle to propose hiking the gas tax by 12 cents a gallon over two years and indexing it to inflation thereafter.

While there isn't broad GOP — or even Democratic — support for a gas tax hike, the plan pushed by Edwards, along with groups like the Club for Growth, may also be a hard sell.

His solution is to close the gap by sending the Highway Trust Fund revenue to states and letting them decide, on an individual basis, how to meet their unfunded transportation infrastructure needs, such as via public-private partnerships.

## **CHIP Funding**

Another battle is likely over funding for the Children's Health Insurance Program (CHIP), which is set to expire at the start of fiscal 2016 in October.

There is a history of GOP support for the program. In 2009, nine Republican senators joined Democrats in backing an expansion of CHIP in one of President Obama's earliest victories.

Among them were Corker and Lamar Alexander of Tennessee, Lisa Murkowski of Alaska and Susan Collins of Maine. In 2007, Orrin Hatch and Charles Grassley were among those who backed an expansion, which President Bush vetoed.

Yet next year's battle over CHIP will be complicated by its interaction with ObamaCare.

Originally, the plan was to phase out CHIP funding because children in families who earned too much for Medicaid could get subsidized exchange coverage. That was before Democrats understood how the law's family glitch works. If a worker is offered employer coverage that meets ObamaCare's affordability test — it costs no more than 9.5% of household income — the law denies both spouse and children any exchange subsidies.

The bottom line is that if CHIP funding goes away, some 1.9 million children may lose out on affordable coverage.

That outcome could create some nasty headlines for the GOP — but it also could give the party a push to take up health reform.

## **Defense Spending**

Next up is the battle over 2016 defense funding. The Pentagon is already applying pressure to roll back the automatic defense cuts that Congress passed in 2011 to avert a debt-ceiling crisis.

Army Chief of Staff Gen. Ray Odierno said last month that the 2016 budget, including \$9 billion in cuts to Army funding, would bring it to the "breaking point."

Troop levels of 510,000 would shrink by 20,000 annually over the next several years.

GOP defense hawks will try to use the party's greater influence and the escalating war against Islamic State militants to ease sequestration's military cuts.

At the end of last year, Rep. Paul Ryan and Sen. Patty Murray put together a budget deal that combined an easing of defense sequestration cuts for fiscal 2014 and 2015 with an allowance for

more nondefense spending. That kind of deal won't be easy to reach under a GOP Congress, but the alternatives also look difficult.

### **Disability Trust Fund**

The budget fireworks that may be too explosive for the GOP to fight could hit in 2016 .

That's when Social Security could face its first funding crisis in decades as its disability insurance trust fund dries up. All of a sudden, millions of Social Security's neediest beneficiaries could see benefits sliced about 20%.

Conservatives have watched with dismay as the ranks of the disabled have ballooned, and there are substantive complaints that the disability-claiming process removes people from the workforce. Yet seizing on a funding crisis to make good policy won't be easy.

"There is nothing that can be done in the short term that is politically feasible" to avert the need for more revenues, said American Enterprise Institute scholar Andrew Biggs, deputy Social Security commissioner under President Bush.

More revenue doesn't necessarily mean a tax hike. In this case, there is an easy out: simply allowing a transfer of trust fund reserves from the better-stocked Old Age and Survivors Insurance trust fund to the disability program.

That can't happen without an act of Congress, and some conservatives who have compared the Social Security trust fund to the Easter Bunny might do their best to avert such an outcome.

After easing slightly in 2015, the budget deficit is projected to turn higher, approaching \$1 trillion within a decade as the entitlement spending ramps up — even if the GOP wins all of these near-term budget battles.