

Updated June 8, 2015

## Ten Serious Flaws in the Congressional Budget Plan

By Robert Greenstein and Richard Kogan

The conference agreement on the congressional budget resolution for 2016, which the House and Senate have approved, contains at least ten very serious shortcomings.

**1. Deficit reduction entirely through massive spending cuts, with no revenue contribution.** The budget conference agreement calls for<sup>1</sup> nearly \$5 trillion in cuts in

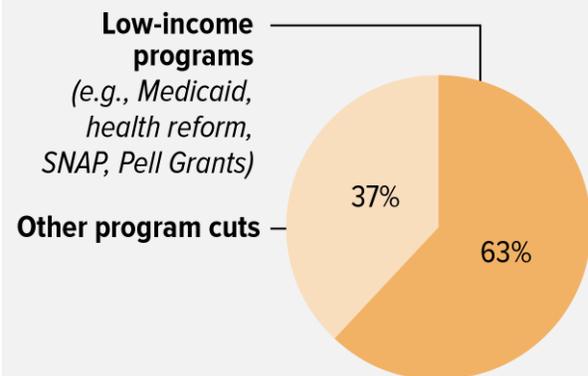
domestic programs over ten years, with no deficit-reduction contribution from revenue increases of any sort. Thus, it seeks no deficit reduction from reducing tax expenditures — the more than \$1 trillion a year in deductions, exclusions, credits, and other preferences that former Fed Chairman Alan Greenspan has called “tax entitlements” and former Reagan economic adviser Martin Feldstein has said are the best target for cutting wasteful government spending. Tax expenditures tilt heavily toward the affluent, with two-thirds of their benefits going to the top fifth of households.

**2. Disproportionate cuts in programs for Americans with low and moderate incomes.**

Despite wide inequality and bipartisan calls to expand opportunity for people from modest backgrounds, at least *63 percent* of the non-defense cuts in the budget plan over the decade come from programs for the less fortunate.<sup>2</sup> (See Figure 1.) This is despite the fact that such programs constitute just over one-fourth of total non-defense spending (and less than one-fourth of total non-interest spending when defense is included).

FIGURE 1

### Republican Budget Plan Gets 63% of Its Non-Defense Cuts from Programs for People with Low or Modest Incomes



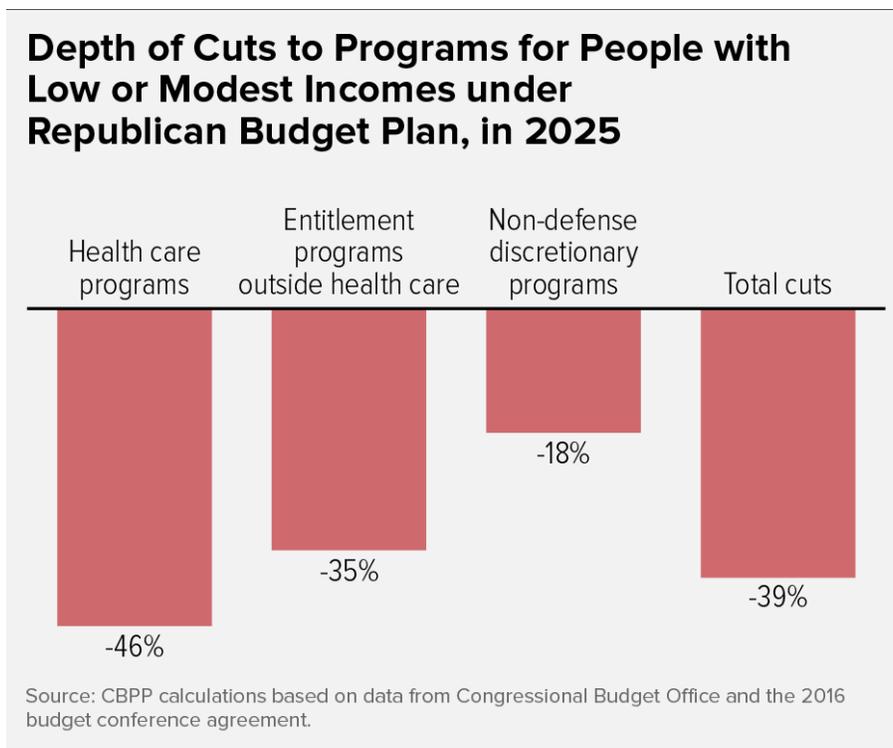
Note: Cuts in low-income discretionary and entitlement programs likely account for about \$3.1 trillion of the \$4.9 trillion in non-defense cuts over 2016-2025 in the Republican plan.

Source: CBPP based on data from Congressional Budget Office and 2016 budget conference agreement.

3. **More Americans uninsured and underinsured, and more living in poverty.** By 2025, the budget conference agreement shrinks programs for low- and moderate-income households by at least 39 percent, on average. (See Figure 2.) The budget repeals health reform and cuts Medicaid deeply on top of that. It reduces basic food assistance for low-income families and individuals substantially and significantly cuts grants and loans to help low-income students afford college. The budget also allows key provisions of tax credits for working-poor families to expire after 2017, which would push 16 million people into — or deeper into — poverty.<sup>3</sup>

This overall approach contrasts sharply with the bipartisan deficit-reduction plan that Alan Simpson and Erskine Bowles, co-chairs of the presidential fiscal commission, issued in 2010. That plan adhered to the basic principle that deficit reduction should *not* increase poverty or widen inequality.

FIGURE 2



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4. **No sequestration relief for domestic priorities in 2016, but a gimmick to boost defense funding.** The budget conference agreement fails to address the inadequate funding levels that sequestration imposes on appropriated programs outside of the Pentagon in 2016, when sequestration takes full effect for the first time. At the same time, the plan evades and circumvents the 2016 sequestration cap on defense funding by pouring additional funding — beyond what the Pentagon says it will need for overseas military operations — into Overseas Contingency Operations (OCO). OCO funding does not count against the defense cap, and the budget plan is designed to enable the Pentagon to channel the excess dollars into the regular defense budget. Last year, the House Budget Committee, then chaired by Rep. Paul Ryan, denounced this gimmick as “a backdoor loophole that undermines the integrity of the budget process.”

**5. Dramatic reductions to important domestic investments after 2016.** The budget plan cuts non-defense discretionary programs another \$496 billion from 2017-2025 *on top of* the cuts that will be instituted under full sequestration through 2021 and the Congressional Budget Office's (CBO) estimate of the continuation of sequestration after 2021.<sup>4</sup> This component of the budget agreement *more than doubles* the cuts in non-defense discretionary programs over the coming decade. Sequestration is scheduled to impose cuts of as much as \$37 billion a year in non-defense discretionary programs in 2016 and subsequent years. The budget plan's \$496 billion in additional cutbacks imposes an average of about \$50 billion a year more in cuts on top of that.

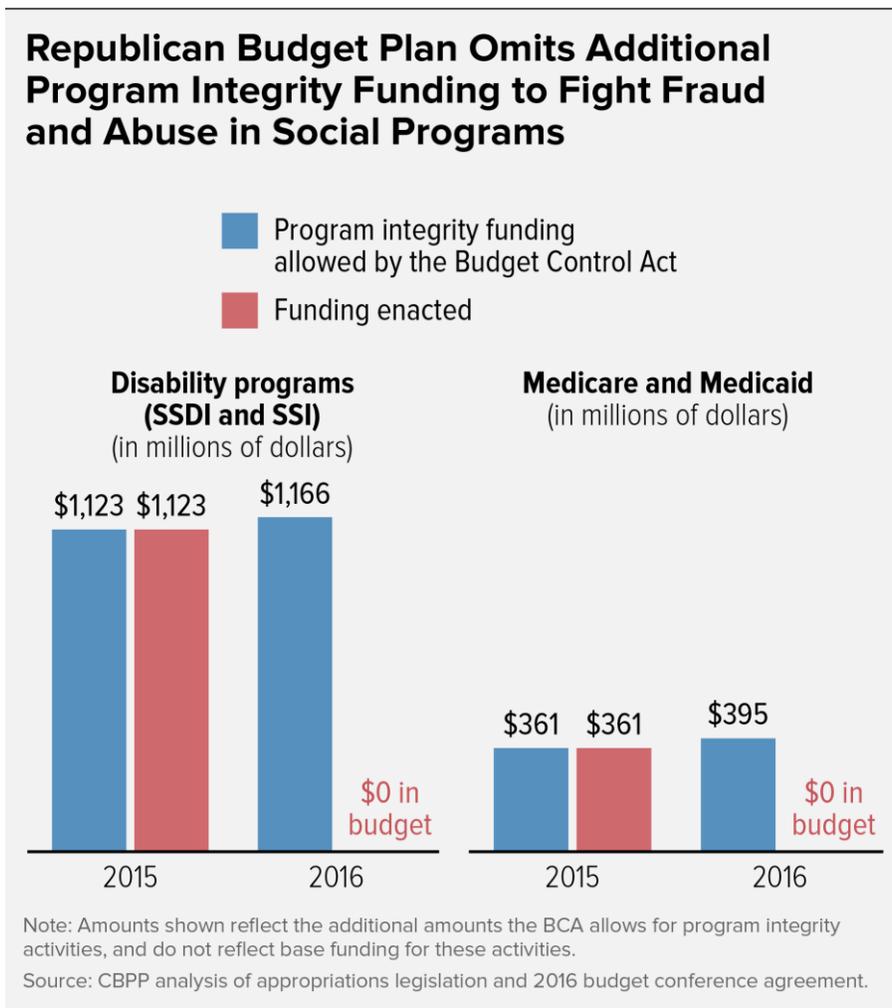
Non-defense discretionary programs include education, job training, infrastructure, scientific and medical research, veterans' health care, child care, and various other important areas.

**6. Deep cuts in transportation infrastructure.** The budget cuts highway and mass transit funding by 40 percent over the next decade. Gas tax revenues for the Highway Trust Fund have fallen as fuel efficiency has risen, leaving a shortfall in the financing of highways and mass transit. Rather than finding sufficient additional financing, as Congress has routinely done in recent years, the plan shrinks needed investment in transportation infrastructure sharply in an apparent effort to limit spending to what can be supported with gasoline tax revenues over the decade.

**7. Federal spending reduced to a strikingly low level as a share of the economy.** The budget cuts overall federal spending outside Social Security, Medicare, and interest payments on the debt to 7.2 percent of gross domestic product (GDP) in 2025 — *roughly 40 percent below the 12.2 percent average over the past 40 years*. Currently, such spending is 11.3 percent of GDP, and so is already below its historical average. The budget plan pushes it far below that, and well below the previous post-World War II low of 9.4 percent of GDP.

**8. Omission of funding to combat fraud and abuse.** The budget conference agreement leaves out the additional funding — over and above the base funding levels — that the Budget Control Act (BCA) specifically allows for “program integrity” activities to fight fraud and abuse in Medicare, Medicaid, and disability programs.<sup>5</sup> (See Figure 3.) These program integrity activities have a proven track record of saving more than they cost. In 2012-2014, for example, each dollar spent to detect and stop erroneous payments and outright fraud in Medicare and Medicaid generated about \$8 in savings.<sup>6</sup> The BCA allows for additional funding for program integrity activities to be provided outside the caps, and previous Congresses have exercised this option. The new plan omits such additional funding.

FIGURE 3



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9. **Tax cuts but no explanation of how to pay for them.** The budget conference agreement repeals health reform, including its roughly \$1 trillion of revenue increases over ten years, but assumes the *same* amount of total federal revenues each year as if these revenue-raising provisions remained in effect. Either the budget overstates revenues and understates deficits by about \$1 trillion or it assumes offsetting tax increases that are never explained and that appear to have virtually no support among the Republican congressional majority.
  
10. **Misguided focus on balancing the budget by 2025.** Enshrining budget balance as the preeminent policy goal is neither necessary nor appropriate.<sup>7</sup> As Alice Rivlin, a former director of both the CBO and the Office of Management and Budget, has said: “There’s nothing magic about exact balance. . . . The really important thing is to keep the debt from growing faster than the economy.” Pursuing a balanced budget within ten years becomes especially damaging when combined with the budget’s no-new-revenue stricture. The nation would be better served if policymakers put the budget on a sustainable path while encouraging full employment and a broader sharing of the benefits of economic growth.

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<sup>1</sup> A congressional budget resolution is not a law, and therefore by itself does not change any funding levels or statutory language affecting expenditures and revenues. Rather, a budget resolution is a blueprint, and its proposed policy changes can be implemented only if Congress and the President subsequently enact legislation embodying those changes.

<sup>2</sup> The 63 percent figure is lower than CBPP's calculation of 69 percent for the original House and Senate plans, but a portion of the difference is simply due to the increased amount of *unspecified cuts* in the conference agreement. CBPP assumes that unspecified cuts are allocated proportionately across both low-income programs and other programs, even though there are reasons to believe that unspecified cuts, if implemented, would likely hit low-income programs harder than other programs. In addition, the savings that the budget conference agreement attributes to repeal of health reform are estimated to be lower (and thus the overall cuts in programs for people with low or modest incomes are smaller) than the savings attributed to repealing health reform under the House and Senate budgets, because the conference agreement uses an updated, but lower, cost estimate for health reform. For CBPP's original calculation and an explanation of the methodology used, see Richard Kogan and Isaac Shapiro, "Congressional Budget Plans Get Two-Thirds of Cuts From Programs for People With Low or Moderate Incomes," Center on Budget and Policy Priorities, March 23, 2015, <http://www.cbpp.org/cms/index.cfm?fa=view&id=5289>.

<sup>3</sup> Bryann DaSilva, "Congressional Budget Plans Hurt Low-Income Working Families," Center on Budget and Policy Priorities, March 19, 2015, <http://www.cbpp.org/blog/congressional-budget-plans-hurt-low-income-working-families>.

<sup>4</sup> This estimate of \$496 billion in additional non-defense discretionary cuts between 2017 and 2025, which is effectively relative to the CBO baseline, understates the total funding reductions the agreement imposes. When CBPP estimates future funding for non-defense discretionary programs, it incorporates not only the non-defense activities funded under the caps set by the Budget Control Act (and lowered further by sequestration) but also activities funded outside the caps, such as program integrity and emergencies. In addition, after 2021 when the caps expire, CBPP projects that this funding will rise to take into account not only the effects of inflation, as CBO does, but also population growth. Relative to these CBPP estimates, the congressional budget plan would reduce non-defense discretionary funding by \$657 billion through 2025.

<sup>5</sup> Robert Greenstein, "Despite Anti-Fraud Rhetoric, Republican Budgets Omit Funding to Combat Fraud and Abuse," Center on Budget and Policy Priorities, March 25, 2015, <http://www.cbpp.org/blog/despite-anti-fraud-rhetoric-republican-budgets-omit-funding-to-combat-fraud-and-abuse>. The House budget expressed support for program integrity activities but stated that they must be funded *within* the caps — meaning that fully funding them would require even deeper cuts in other non-defense discretionary programs, which already must adhere to the austere sequestration levels in 2016. Moreover, after 2016, the House budget — like the conference agreement — cuts non-defense discretionary programs *below* the sequestration levels, leaving even less room for program integrity funding. The Senate budget failed even to express support for program integrity funding.

<sup>6</sup> U.S. Department of Justice and U.S. Department of Health and Human Services, *Annual Report of the Departments of Health and Human Services and Justice: Health Care Fraud and Abuse Control Program FY 2014*, March 19, 2015, <http://oig.hhs.gov/publications/docs/hcfac/FY2014-hcfac.pdf>.

<sup>7</sup> Robert Greenstein and Joel Friedman, "Balancing the Budget in Ten Years and No New Revenue Are Flawed Budget Goals," Center on Budget and Policy Priorities, March 13, 2015, <http://www.cbpp.org/cms/index.cfm?fa=view&id=5282>.