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McCarthy Bill Uses Debt Ceiling to Force Harmful Policies, Deep Cuts

By Sharon Parrott, Samantha Jacoby, Allison Orris, LaDonna Pavetti, David Reich, and Dottie Rosenbaum

House Speaker Kevin McCarthy’s debt-limit-and-cuts bill puts the U.S. economy at grave risk by using the need to raise the debt ceiling as a bargaining chip to force a set of unpopular, harmful policies — policies that would make deep cuts in a host of national priorities; leave more people hungry, homeless, and without health coverage; and make it easier for wealthy people to cheat on their taxes. The bill would also repeal the Inflation Reduction Act’s funding to address climate change, and would undertake harmful changes that would undermine how regulations are crafted.

In exchange for these highly problematic long-term, and in some cases permanent, policies, the McCarthy bill would only raise the debt ceiling through early next year (March 31, 2024, at the latest), allowing House Republicans to use the deadline for another round of hostage-taking.

By putting forward this debt-limit-and-cuts bill but not a full budget, Speaker McCarthy hides the full House Republican fiscal agenda. House Republicans have made clear that they intend to make all of the expiring 2017 Trump tax cuts permanent, including those that benefit very wealthy households, at a cost of some $300 billion annually, without any effort to raise revenues to pay for them. This would erase most of the bill’s claimed fiscal savings. Examining the tax cuts and program cuts together shows that the House Republican agenda re-allocates trillions in resources to well-off households at the expense of investments that promote broader opportunity and growth.

Cutting a broad swath of public services — from schools, child care, and public health to environmental protection and college aid — and making it harder for people to afford the basics while permitting more tax cheating and cutting taxes for the wealthy is failed trickle-down economics at its worst. This agenda would narrow opportunity, deepen inequality, and increase hardship.

Our nation’s long history of racism and other forms of discrimination means that some groups, particularly Black and Indigenous people and other people of color as well as people with disabilities, are less likely than white people and people without disabilities to have wealth and high incomes that shield them from the harm of public sector austerity and disinvestment, shortchanging access to opportunity and diminishing the country as a whole.
Bill Would Make Deep Cuts in Discretionary Programs

The McCarthy bill would cut discretionary programs by $3.6 trillion over the next decade below the Congressional Budget Office’s (CBO) recent baseline projection. Discretionary programs — also known as annually appropriated programs — are the part of the budget that covers programs such as defense, veterans’ health care, child care and preschool, medical research and public health, food and drug safety inspectors, Pell Grants and college work-study, K-12 education, environmental protection, housing, and some transportation programs, among many others. (The CBO baseline funding levels for individual discretionary programs reflects 2023 funding adjusted for inflation and a few additional technical factors.)

The bill would institute austere caps on overall discretionary funding levels. Each year for the next ten there would be a single cap on funding across all discretionary programs — defense, veterans’ programs, and other non-defense programs. In 2024, the cap would be set at total overall discretionary funding in 2022, with no adjustment for inflation or other changes in need. The cap would then rise by 1 percent annually, significantly less than the projected inflation rate over the decade. The cuts would grow deeper (in inflation-adjusted terms) each year as funding falls further and further behind costs.

The cuts would be severe — 13 percent in 2024 rising to 24 percent by 2033 if they are spread evenly across all discretionary programs, including defense and veterans’ health care. (All of these figures are adjusted for inflation.) But many House Republicans have said that they won’t cut defense or veterans’ benefits, which means that other programs would have to be cut far more deeply.

- If they protect only defense (but not veterans’ health care), the cuts increase to 27 percent in 2024 and 49 percent by 2033.
- If they protect both defense and veterans’ health care from cuts, then all other non-defense discretionary programs would have to be cut 33 percent in 2024 and 59 percent in 2025. (See Figure 1.)

In response to a request from Rep. Rosa DeLauro, ranking member of the House Appropriations Committee, federal agencies estimated the impact of cuts in a broad swath of areas in March. They analyzed the impact of cuts to non-defense discretionary programs if Congress protected defense, but not veterans’ health care, from cuts and cut all other programs by the same percentage. ¹

They found, for example, that in 2024 the cuts would cause 926,000 households to lose Housing Choice Vouchers or project-based rental assistance, which helps families with low incomes afford rent; this would cut the programs by roughly one-quarter. They also found that the cut would reduce the maximum Pell Grant that helps students afford college by $1,000; cut the number of children in Head Start by 200,000; and force Social Security field offices to close and staff to be laid off — a catastrophic hit to their ability to serve those applying for or receiving Social Security.
Bill Would Take Health Coverage, Food Assistance, and Income Assistance Away from People Who Can’t Document That They Meet a Work-Reporting Requirement

The McCarthy bill includes provisions in Medicaid, SNAP (formerly known as food stamps), and the Temporary Assistance for Needy Families (TANF) program that are designed to take help away from people who don’t meet a work-reporting requirement or who aren’t properly determined to be exempt. While the specifics differ, the bill would take health care, food, and cash assistance away from people who need it while doing little to improve employment opportunities and outcomes.

In a fact sheet released along with the bill, Speaker McCarthy indicates that the cuts to Medicaid, SNAP, and TANF would total $120 billion over the next decade. These cuts are nearly identical to the cost associated with the bill’s provisions to hinder IRS enforcement efforts, which CBO has previously estimated would be about $114 billion over ten years as less legally owed revenue would be collected. (See Figure 2.)
Most adults with low incomes who are able to work for pay do so; those who aren’t are often between jobs, in school or training, are ill or have disabilities that impede their ability to work, or are caring for loved ones, some of whom are ill or disabled. For example, among SNAP participants who are working-age, non-disabled adults, more than half work while receiving SNAP — and 74 percent work in the year prior to or the year after receiving SNAP.\(^4\)

Low-paid work is unstable and often lacks paid sick or family leave; people working in jobs that pay low wages can see their hours fluctuate or can lose their jobs when their employers downsize or terminate them because they missed work due to illness or the need to care for a family member.

Evidence from already harsh work requirements in SNAP and TANF, as well as temporary work requirements that Arkansas implemented for Medicaid in 2018, show that these policies take help away from large numbers of people, including those who are working or who should be exempt but get caught in a maze of red tape.

Both the Medicaid and SNAP work requirements in the McCarthy bill target non-elderly adults without dependents at home, a group that has access to little assistance when they fall on hard times. This group isn’t eligible for ongoing cash assistance unless they have a disability that qualifies them for Supplemental Security Income or Social Security Disability Income. If they have earnings, they have little, if any, tax-based assistance available. The maximum Earned Income Tax Credit (EITC) for an adult without children is $600 and those earning above $17,640 make too much to qualify.

Because people of color often face more barriers to education as well as employment discrimination, they are more likely to receive Medicaid, SNAP, or TANF cash assistance benefits,

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**Figure 2**

**House Republican Plan Gives Billions to Tax Cheats, Takes Billions from Low-Income Families**

- **Unpaid taxes due to cuts in IRS enforcement**: $114 billion
- **Cuts to health coverage, food assistance, and support for low-income families with kids**: $120 billion

Note: Unpaid taxes are net of IRS spending cuts.

Source: Congressional Budget Office and CBPP analysis

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which means that while policies that take away this help from people who need it affect people of all races and ethnicities, they disproportionately affect people of color. Moreover, evidence from TANF has shown that caseworkers are more likely to take assistance away from Black recipients than white recipients.\(^5\)

**Medicaid**

The McCarthy bill would take Medicaid health coverage away from adults aged 19-55 who do not have children in their household and who aren’t able to document that they are working or to secure an exemption.\(^6\) Most of the people likely to lose coverage are eligible for Medicaid because of the Affordable Care Act’s Medicaid expansion; the McCarthy provision is one more attempt by House Republicans to undermine the expansion.

This builds on a failed policy that Arkansas temporarily applied, which resulted in large numbers of people losing coverage and no impact in employment outcomes. Like the Arkansas policy, the McCarthy proposal would require monthly verification of employment and require many people to navigate a complicated system and provide proof that may be difficult to get to secure an exemption.

In some ways, the McCarthy proposal is more expansive than Arkansas\(^7\): it applies to a wider age range that includes more older adults; it is not explicitly limited to adults who receive coverage through the Medicaid expansion; and it does not exempt some groups exempt under the Arkansas policy, including postpartum people, people identified as “medically frail,” and people receiving unemployment benefits.

The Arkansas policy was in place for seven months before being shut down by the courts, which found that the requirements ran counter to Medicaid’s statutory purpose of providing health coverage. During that time, 18,000 people lost coverage, or about 1 in 4 adults subject to the requirements.\(^7\) Researchers found that the requirements had no impact on employment.\(^8\) Many of those who lost coverage were working or should have been exempt but were caught up in the bureaucratic requirements, which can be particularly challenging for people with disabilities or other health conditions, those without stable housing or internet access, and those with language barriers.

Similar requirements were temporarily in place in New Hampshire and Michigan as well. These policies were halted before Medicaid beneficiaries were terminated, but in New Hampshire some 40 percent of those subject to the requirements would have lost coverage if the policy had not been stopped. That figure was nearly 1 in 3 Michiganders, or some 80,000 people.\(^9\)

Under the McCarthy bill, more than 10 million people in Medicaid expansion states would be at significant risk of having their health coverage taken away because they would be subject to the new requirements and could not be excluded automatically based on existing data readily available to states.\(^10\) In expansion states, some would be able to meet the requirements and navigate the reporting and exemption system, but many would not. This could include low-income adults with disabilities or chronic medical conditions for whom red tape barriers could result in loss of coverage.

When CBO previously analyzed a nationwide proposal similar to the Arkansas approach, it projected that 2.2 million fewer adults per year would have Medicaid coverage because of the requirements.\(^11\)
In addition, some people — such as former foster youth up to age 26 — in states that have not expanded Medicaid also would lose coverage if they could not meet work reporting requirements, though this is a smaller group than in expansion states because most adults without disability benefits or serious health conditions aren’t eligible for coverage in those states.

When people lose Medicaid, they lose access to preventive and acute care as well as medications and other therapies for managing chronic conditions, such as diabetes or depression. Losing access to health care can lead to serious health consequences and financial strain, making it harder for people to engage in the workforce successfully. Moreover, because the bill includes work requirements in both SNAP and Medicaid, people unable to document that they meet a work requirement or secure an exemption could lose both benefits, further jeopardizing their health. (See Figure 3.)

### FIGURE 3

**Adults in Households With Less Food Security Are Likelier to Have a Chronic Illness**

<table>
<thead>
<tr>
<th>Food Security Level</th>
<th>Probability of Chronic Illness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low food security</td>
<td>53%</td>
</tr>
<tr>
<td>Low food security</td>
<td>47%</td>
</tr>
<tr>
<td>Marginal food security</td>
<td>43%</td>
</tr>
<tr>
<td>High food security</td>
<td>37%</td>
</tr>
</tbody>
</table>

Note: When food security is “high,” a household didn’t report problems with food access over the past year. When “marginal,” a household may experience anxiety over food adequacy, but little to no change in diets; when “low,” it reduces diet’s quality or variety sometime in year; when “very low,” food intake has been disrupted or reduced.

Source: Christian A. Gregory and Alisha Coleman-Jensen, “Food Insecurity, Chronic Disease, and Health Among Working-Age Adults.”

**SNAP**

SNAP already includes a harsh policy that takes food assistance away from many people aged 18-49 who don’t have children at home and can’t secure an exemption. Such individuals can receive SNAP for only three months (in a 36-month period) if they don’t meet a 20-hour-per-week work requirement. Speaker McCarthy’s bill would expand that policy to include people aged 50 through 55.

Most SNAP participants who can work for pay do work, and growing evidence shows the policy is a failure: it takes assistance needed to afford food away from a large number of people while having no impact on employment outcomes. Research also finds that many people who should be
exempted from the time limit because of a disability or who are working lose benefits because they are not properly screened or get caught up in the red tape.

The group has very low income — households with people subject to the current SNAP work requirement have average incomes of just 33 percent of the poverty line, or $343 per month for a single individual.

Losing SNAP increases the likelihood that a household won’t be able to afford adequate food, leading to food insecurity and hunger. The loss of SNAP can also increase the risk of housing instability and homelessness, as people have to divert what little income they have to buy food. Moreover, as noted above, under the bill, people unable to document employment could lose both SNAP and Medicaid.

Hunger, housing instability, and poor health can make it harder to apply for or retain a job.

Extending this failed policy to older adults will result in more people losing basic food assistance. About a million such individuals participated in SNAP and met the criteria in the McCarthy proposal in a typical month of 2019, which is the most recent year for which a full year of data are available.

Not everyone newly subject to the requirement would lose benefits. Some would live in areas with a waiver from the requirement based on insufficient jobs in their communities. Typically during past non-recessionary periods, about one-third of the U.S. population has lived in areas that qualify for waivers in states that seek the m from the U.S. Department of Agriculture.

Older workers are more likely to have health issues that impede their employment but that caseworkers may not catch as a reason for an exemption. They can also face age-related challenges in the labor market, including age-based discrimination, and some jobs they may have held when they were younger may have physical demands they can no longer meet.

**TANF**

The bill would also make already harsh work requirements in TANF harsher, which will take away basic income assistance away from more families with children. Loss of TANF’s very modest income assistance can leave families unable to pay the rent and, research shows, makes it more likely that families’ circumstances will become so unstable and stressful that parents are at higher risk for accusations of child maltreatment and child neglect and abuse rates increase, resulting in more engagement with the child welfare system.13

TANF provides funding to states that they can use for a broad range of services and assistance for families with low incomes. States use some of the money (only about 23 percent) to provide cash assistance to families with children who generally have incomes well below the poverty line.

The federal rules already provide states with strong incentives to divert funding away from cash assistance and cut their caseloads. Indeed, TANF only provided cash assistance to 21 families for every 100 families with incomes below the poverty line in 2020, the last year for which we have data. (See Figure 4.)
The bill would make existing work requirements in TANF more stringent by effectively raising the share of parents receiving TANF that states are required to have participating in a narrow and rigid set of federally approved work activities for a certain number of hours each month. This would be done through technical changes to the complex TANF work participation requirements that would eliminate or significantly restrict the strategies states have used both to provide cash assistance to families for whom the rigid federal requirements are not well-suited and to construct more effective, tailored employment strategies for parents.

To comply with the bill’s far more rigid TANF requirements, states would have to assign more parents to employment programs that meet federal requirements but aren’t well-suited to their circumstances. If parents don’t comply with those unreasonable requirements, the state would deny their application for assistance or take away the already low cash assistance they receive ($492 per month for a family of three in the median state).

That’s what happened in response to the 2005 Deficit Reduction Act (DRA), which imposed restrictions that made it harder for states to meet the work participation rate. Between 2005 and 2008, caseloads nationally declined by 18.5 percent, after a four-year period in which the caseload had been relatively stable.14

The McCarthy bill’s restrictions on states’ ability to get financial assistance to families are even more severe than the DRA and would be so serious that some states could dramatically restrict access such that few families would qualify for TANF as a result.
Research related to these kinds of requirements in cash assistance programs generally finds that they take help away from a large number of people and that those whose benefits are taken away often have barriers to employment — such as health conditions or caregiving responsibilities. Research also consistently finds that states are more likely to take cash assistance away from Black parents than white parents under these policies.\(^\text{15}\)

While some employment programs, on average, have modest impacts on employment and earnings, the impacts tend to fade over time. Importantly, these findings rarely acknowledge a large number of families end up worse off because their cash benefits are taken away, but they do not find employment, often due to barriers that can be exacerbated when they lose assistance and can’t afford basic needs.\(^\text{16}\)

**Defunding the IRS Would Make It Easier for Wealthy to Cheat on Their Taxes**

The McCarthy bill would rescind nearly all of the \$80 billion in IRS funding that was included in the Inflation Reduction Act to bolster IRS enforcement capacity, rebuild the agency’s aging technology, and improve customer service. CBO has estimated that this would add \$114 billion to the deficit over the next decade because the reduced funding would mean the IRS could do less to enforce our tax laws and ensure that wealthy households pay the taxes they owe.

According to the IRS’s recent plan for the new resources,\(^\text{17}\) most of the enforcement funding will be used to ensure that taxpayers with “complex tax filings and high dollar noncompliance” pay what they owe. Because of steep cuts in funding since 2010 the share of millionaires audited annually has plummeted.\(^\text{18}\) (See Figure 5.)

Auditing these kinds of returns is complex and requires highly skilled auditors (who, in turn, cost more to employ), who are prepared to go head-to-head with high-income taxpayers’ high-priced tax attorneys. Reduced audit rates not only reduce the unpaid taxes recouped directly through audits, but high-income households are more likely to cheat on their taxes if they know the risk of getting caught is very low.

The McCarthy bill would also severely compromise the IRS’s ability to improve customer service. For example, while the bill preserves about \$8 billion in funding for technology upgrades and some customer service improvements, it eliminates \$25.3 billion in “operations support” (other than amounts that have already been obligated), which the IRS expects to fund activities including...
additional IT and customer service investments (in addition to a relatively small share to support audits).19

But the House Republican tax agenda goes well beyond making it easier for tax cheats. House Republicans have committed to making all of the expiring provisions of the 2017 tax cuts permanent — including the tax cuts that go to very high-income people — without offsetting the costs with other revenues.20 These tax cuts cost about $300 billion per year.21

The House Republicans have not included the tax cut extension provisions in the McCarthy bill, making it harder for the public to connect the dots. But the juxtaposition is striking. Making the expiring tax cuts permanent would give a roughly $49,000 annual tax cut to the top 1 percent,22 while new or expanded work-reporting requirements target people with incomes below the poverty line, or about $15,000 for a single individual.

3 This is the net cost of rescinding $71.4 billion in funding for the IRS, which CBO estimates would reduce tax collections by $185.8 billion, for a net increase in the deficit of $114.4 billion. https://www.cbo.gov/system/files/2023-01/hr23_IRS.pdf.
4 CBPP analysis of the 2014 panel of the U.S. Census Bureau’s Survey of Income and Program Participation.
5 There is less research on whether other caseworkers are more likely to sanction members of other racial or ethnic groups.
6 The bill terminates federally funded Medicaid coverage for those who don’t meet the work-reporting requirements. While proponents sometimes claim that states could continue coverage and pay the full cost, this is misdirection at best. States always have the option to use their own funds for health coverage and do not need a federal law to tell them they can do so. Currently the federal government pays 90 percent of the cost of coverage for expansion enrollees and states were not covering this group using only their own funds prior to the Affordable Care Act.

While the McCarthy Medicaid provision applies to adult enrollees in all states, it would heavily impact adults in the Medicaid expansion group. This estimate assumes that states would automatically exempt groups the McCarthy bill says the Medicaid requirement doesn’t apply to without requiring them to apply for an exemption, if the information is readily available to the state. For example, the bill says the Medicaid work requirement does not apply to people who are “physically or mentally unfit for employment, as determined by a physician or other medical professional,” and we
interpret this to include people who are eligible for Medicaid because they receive disability benefits such as Supplemental Security Income, which requires medical documentation. The statute does not require these automatic exemptions but rather directs states to use existing data and other verification measures “whenever possible.” Depending on federal and state implementation policies, the impact of the bill could be far greater.


19 IRS Strategic Operating Plan, op. cit.

