Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Revised October 24, 2005

LARGER RECONCILIATION CUTS IN THE HOUSE WOULD PUT LOW-INCOME PROGRAMS AT GREATER RISK

By James Horney, Robert Greenstein, and Sharon Parrott

Although the House of Representatives has postponed a vote on altering the Congressional budget resolution to require House committees to make deeper cuts in mandatory (i.e., entitlement) programs, the House leadership has made clear that it is committed to achieving the additional cuts. The leadership has said it will direct House committees to increase the total cuts in mandatory programs to $50 billion over five years — up $15 billion from the $35 billion that the budget resolution approved in April calls for — regardless of whether the House votes to amend the budget resolution to require the deeper cuts. A substantial portion of these additional reductions is likely to be achieved by cutting more deeply into programs that provide basic assistance to vulnerable, low-income families and individuals.

The leadership has not officially released details concerning how the $15 billion in added cuts would be achieved, but media accounts consistently report that the House Ways and Means Committee will be responsible for $7 billion to $8 billion of the additional cuts and the Agriculture Committee will be expected to come up with additional reductions of between $1 billion and $1.5 billion. The remaining $5.5 billion to $7 billion of added cuts apparently will come from the Education and Workforce Committee and the Energy and Commerce Committee.

Unless the Ways and Means Committee is willing to ignore the reluctance of the House Republican leadership to secure savings from Medicare, the additional cuts that Committee imposes are likely to be made largely (or entirely) in programs that serve low-income families with children or low-income people who are elderly or have disabilities, such as the Earned Income Tax Credit, the Supplemental Security Income program, and the Temporary Assistance to Needy Families program. In addition, media accounts have reported that the Agriculture Committee is expected to take the bulk of its additional reductions out of the Food Stamp program.

The House Republican leadership and those conservative members of the House who have demanded deeper program cuts are likely to argue that their plan represents a balanced, fiscally responsible effort that is needed to offset the cost of relief and recovery efforts related to the recent hurricanes, to slow an unprecedented explosion in federal spending, and to bring down deficits that have been caused by an increase in domestic spending. But none of these claims are accurate.

- **The emerging House plan is not balanced, focusing on cuts in low-income programs and ignoring revenues**. The additional $15 billion in cuts that the House leadership has called for would come entirely from one part of the budget — mandatory programs — and would likely come disproportionately from entitlement programs that provide basic assistance to low-income families and individuals. (See the section below on where the additional cuts are likely to be made.)

While cutting low-income programs more deeply, the House plan does not call for sacrifice by affluent beneficiaries of any portion of the tax cuts they have received since 2001. Yet the cost of the various tax cuts enacted since 2001 far exceeds the cost of relief from Katrina and Rita. The tax cuts will reduce revenues by an average of $250 billion *per year* over the next five years, while the cost of hurricane relief is likely to total significantly less than $200 billion over the entire five-year period.

Moreover, the benefits of the tax cuts are accruing predominantly to higher-income taxpayers. The Urban Institute/Brookings Institution Tax Policy Center estimates that the tax cuts are now reducing the tax bills of people with annual incomes of more than $1 million by an average of over $100,000 a year. The Tax Policy Center also estimates that two tax-cut provisions that were enacted in 2001 and are scheduled to start taking effect on January 1, 2006 will increase the tax cuts for millionaires by an *additional $19,000* a year.[1]

The House leadership also has discussed a separate effort to cut discretionary (i.e., annually appropriated) funding for fiscal year 2006 below the level that the House and Senate agreed to in the Congressional budget resolution, although the leadership has been unable to secure an agreement among House Republicans on further cuts in this area. Opposition among many Republicans to reductions in spending for defense or homeland security makes it unlikely those programs will be cut, even though increases in defense and homeland security spending account for *two-thirds* of the total increase in federal spending (as a share of the economy) since 2000.[2]

- **The proposed House plan is not fiscally responsible**. The cuts in entitlement programs that the House leadership is calling for would *not* be used to reduce the deficit. These cuts are part of a two-step reconciliation process, with the legislation that will cut entitlement programs by $35 billion or $50 billion over five years to be followed by a second reconciliation bill, which will cut taxes by $70 billion over the same period. Thus, the spending cuts achieved through reconciliation will merely offset a portion of the cost of the reconciled tax cuts, with the result that the entire reconciliation process will *increase* the deficit by between $20 billion and $40 billion over five years (including the increased interest costs that would stem from the higher deficits and borrowing).

- **The additional cuts proposed in the House would not be used to offset hurricane relief costs**. The cuts proposed to be achieved in reconciliation are being used to offset part of the costs of the reconciled tax cuts. Since, as noted above, even $50 billion in program cuts would not fully offset the $70 billion cost of reconciled tax cuts, it does not make sense to claim that

---

[1] See Robert Greenstein, Joel Friedman, and Isaac Shapiro, "New Tax Cuts Primarily Benefiting Millionaires Slated to Take Effect in January: Should They be Implemented While Katrina Costs Mount?" Center on Budget and Policy Priorities, September 19, 2005.

[2] Expenditures for defense and non-defense homeland security programs (some defense spending is classified as homeland security spending) totaled 3.1 percent of GDP in 2000. According to Congressional Budget Office data, spending on defense and homeland security totaled 4.2 percent of GDP in 2005. This 1.1 percentage point increase (as a share of GDP) represents 64 percent of the 1.7 percentage point increase since 2000 in *total* federal spending (as a share of GDP), from 18.4 percent of GDP in 2000 to 20.2 percent of GDP in 2005.

these program cuts also are being used to offset the costs of relief and recovery from Hurricanes Katrina and Rita. The same dollars cannot be used twice.

- **Federal spending is not historically high relative to the size of the economy**. Even if spending for hurricane relief and recovery were to total as much as $200 billion over the next five years (which now seems unlikely), total federal spending would average only 20.1 percent of Gross Domestic Product (the basic measure of the size of the U.S. economy) over the next five years.[3] This is *lower* than the average level of federal spending, relative to the size of the economy, over the last 30 years.

- **Domestic spending increases have not played a large role in the return of deficits**. The primary reason for the shift from a surplus in 2000 to large deficits today is a reduction in revenues, relative to the size of the economy. In 2000, the federal government had a total budget surplus equal to 2.4 percent of GDP. The 2005 deficit equaling 2.6 percent of GDP thus represents a negative fiscal swing since 2000 equal to 5 percent of GDP. The decline in revenues relative to the size of the economy — from 20.9 percent of GDP in 2000 to 17.6 percent of GDP in 2005 — accounts for *two-thirds* of this swing.[4]

  Furthermore, while federal spending has increased over this period from 18.4 percent of GDP in 2000 to 20.2 percent of GDP in 2005, the bulk of this spending growth is due *not* to increases in expenditures for domestic programs but to increased defense and homeland security costs. Nearly *two-thirds* of the increase in federal spending in 2000, relative to the size of the economy, is accounted for by the growth in spending in these two areas. (Even with increases in spending on defense, domestic, and homeland security programs, total federal spending in 2005 was as low or lower as a share of the economy than in any year from 1975 through 1996.)

  The House leadership continues to focus its revised budget plan, which it says is aimed at reducing the deficit, on domestic spending. Doing so ignores the two parts of the budget — revenues, and defense and homeland security spending — that together account for *nearly 90 percent* of the turnaround from a surplus in 2000 to a hefty deficit in 2005.

Much of the Additional House Cuts Are Likely to Come from Low-Income Programs

The revised budget plan proposed by the House Republican leadership increases the size of the cuts in mandatory programs that House committees are told to achieve from $35 billion to $50 billion. A substantial part of the additional cuts required are likely to come from programs that provide assistance to low-income Americans.

---

[3] This projection adds $200 billion in hurricane relief expenditures to the Congressional Budget Office's August 2005 baseline projections of spending, adjusted by CBO's estimates of the costs of: 1) providing continued funding for the wars in Iraq and Afghanistan at phased-down levels; and 2) extending expiring tax cuts and Alternative Minimum Tax relief. (Note: extending the tax provisions affects spending levels by increasing federal interest costs).

[4] The reduction in revenues stems both from tax cuts enacted since 2000 (56 percent of the decline in 2005 is attributable to changes in tax laws) and from other factors such as the performance of the economy and "technical" factors that affect tax liabilities.

House Reconciliation Plan Calls for Real Program Cuts

Some proponents of the program cuts that the House plans to achieve in the reconciliation bill argue that the proposed changes do not represent "cuts" in programs because the costs of the programs will continue to increase in dollar (i.e. nominal, not adjusted for inflation) terms from one year to the next.[a] This argument ignores the fact that these changes would cut expenditures below the baseline level — that is, below the level of expenditure that the Congressional Budget Office projects will be needed to maintain current service levels, taking inflation, demographic, and similar factors into account.

Program costs can go up from year to year for a number of reasons, without *any* increase in a program's eligibility standards or the level of benefits provided. The cost of providing the same level of services and benefits can increase because of inflation. For example, if the federal government is providing states with funds to buy school textbooks and the price of textbooks rises, states will be able to buy fewer textbooks with federal funds next year if the dollar level of the funding provided next year is the same as it was this year. Providing fewer books, however, would represent a cut in the services that the textbook program provides.

Furthermore, in many cases, the number of people who are eligible for, and in need of, a program's services may increase from one year to the next. For instance, the number of people eligible for Social Security benefits is expected to increase by 704,000 people next year because of demographics. If only the same amount of money were available to pay benefits next year as is available this year, the average Social Security benefit would have to be cut in dollar terms to serve the new beneficiaries. Surely, existing beneficiaries who saw their monthly checks go down would view this as a cut in Social Security, even though total Social Security costs would remain the same next year as this year.

A real-life example of how there can be cuts in a program when total program expenditures are rising is presented by changes adopted in Tennessee's Medicaid program, TennCare, earlier this year. The changes terminate health insurance coverage for about 226,000 low-income adults, including senior citizens, people with disabilities, and parents, and scale back coverage for prescription drugs and other services for hundreds of thousands of others. These cuts are the deepest Medicaid cuts adopted by any state in the nation this year. Even so, the state expects that the dollar cost of TennCare will rise between 2005 and 2006, because the per-beneficiary costs of providing health care coverage continue to rise. Physicians, hospitals, pharmacies, nursing homes and other health care providers increase the amounts they charge each year.[b] Arguing that changes in Tennessee's program that are causing hundreds of thousands of people to lose health insurance do *not* constitute a cut, on the grounds that total Medicaid costs in the state will still be higher in 2006 than in 2005, would strain credulity.

In the same manner, the changes in Medicaid, Food Stamps, and other programs that the House will make in its reconciliation legislation will constitute cuts in these programs, even if the overall costs of some of these programs still rise. Fewer people will be served, or such people will receive fewer benefits or services, than would otherwise be the case.

a. House Budget Committee Chairman Jim Nussle was quoted as saying: "This means we are going to send instructions to [Medicaid authorizing] committees to say we want you to find savings in order to dip that growth curve slightly-*not cut*-just try to slow it down." (Emphasis added.) See: http://www.premierinc.com/all/advocacy/publications/outlook/05/feb-11.jsp

b. All parts of the health care sector are experiencing rapid growth in costs, not just government health care programs. In fact, recent studies show that the per-beneficiary cost of Medicaid has risen *more slowly* in recent years than the per-beneficiary cost of providing health care through private insurance.

The Ways and Means Committee

About half of the additional $15 billion in savings are to be achieved by the Ways and Means Committee. That Committee was instructed by the budget resolution to reduce programs within its jurisdiction by $1 billion over five years. It is now being told to achieve $8 billion or $9 billion in cuts.

The Ways and Means Committee has jurisdiction over two very large programs — Social Security and Medicare — that assist eligible people at all income levels. Under the Congressional Budget Act, no cuts in Social Security can be considered in a reconciliation bill. Cuts in Medicare *could* be used by the Ways and Means Committee to achieve some or all of the cuts that the Committee is supposed to recommend, but it is not clear whether the Committee will take that approach. According to news reports, Committee Chairman Bill Thomas has not ruled out reducing Medicare in reconciliation,[5] but there are signs of resistance to doing that among the House Republican leadership. House Budget Committee Chairman Nussle stated during mark-up of the budget resolution last spring that he assumed Medicare cuts would *not* be a part of the reductions that the Ways and Means Committee would make. In addition, when the Republican Study Committee (a group of very conservative House members) recently proposed, as part of a large package of program cuts, to delay implementation of the new Medicare prescription drug benefit for a year and to make various cuts in Medicare (by such means as increasing the premiums and co-payments that Medicare beneficiaries must make), the House Republican leadership immediately disavowed delaying the prescription drug benefit and sought to steer discussion of spending cuts more generally away from any substantial cuts in Medicare.[6]

The Ways and Means Committee also could achieve $2.7 billion in savings by adopting the President's proposal to eliminate spending of funds recovered through the resolution of trade "dumping" cases. In addition, the President proposed a $1.1 billion cut in the unemployment insurance program, which is within the Committee's jurisdiction, but that cut would achieve only a little more than the $1.0 billion in reductions the budget resolution adopted last spring calls for. It is unlikely that the Committee will cut unemployment insurance more deeply than the President suggested.

Most of the remaining programs within the jurisdiction of the Ways and Means Committee are targeted to individuals and families who have low incomes. These include the Earned Income Tax Credit, the Supplemental Security Income program, Temporary Assistance for Needy Families (i.e, the welfare reform block grant), child care funding, Child Support Enforcement, and Foster Care, adoption assistance, and other child welfare services. Unless the Ways and Means Committee turns to Medicare for a significant amount of savings, much of the additional $7 billion to $8 billion in mandatory cuts that the House leadership is now calling on the Ways and Means Committee to make is likely to come from these low-income programs.

- **TANF and Child Care:** Some in the House have suggested that savings could be secured by cuts in "welfare reform" related programs. The two programs most closely associated with welfare reform are the TANF and child care block grants — programs designed to help poor

[5] Steven T. Dennis, "House Struggles With Spending Cuts," *CQ Today*, October 18, 2005.

[6] Ben Pershing, "GOP Still Seeking Spending Cuts," *Roll Call*, September 28, 2005.

families with children make ends meet, prepare and find employment, avert non-marital births, and pay for the child care they need to work. Funding for the basic TANF block grant has been frozen since the block grant was established in 1996 (with no adjustment for inflation in nine years), and has already lost 17 percent of its purchasing power as a result. Funding for the child care block grant has been frozen since 2002. Moreover, the child care program serves only a fraction of the children in low-income working families who qualify for it. If the Ways and Means Committee secures savings from these programs, the programs will be cut *below* their current levels, even in nominal terms.

Cuts in these two programs would lead to a reduction in key benefits for some of the poorest children in America and would represent a turnaround from the TANF and child care reauthorization bills that the House has passed over the past two years. The House TANF bills modestly increased funding for child care, by $1 billion over five years. The most recent version of the TANF bill passed by the House Ways and Means Committee's Subcommittee on Human Resources cost a total of $2.5 billion over five years.[7]

If the Ways and Means Committee sought to secure half of the reported $7 billion in additional savings assigned to the Committee through reductions in child care or TANF, the one-year funding cut would be equivalent to the cost of providing child care subsidies to 122,000 children in low-income working families or providing income assistance to 147,000 families with children.

The Ways and Means Committee also may seek to extract savings from other basic low-income programs, such as SSI or the EITC. No information is currently available on how the Committee would achieve these savings, but the following shows the impacts that sizable cuts in these programs could have:

- **EITC:** Earlier this year, House Budget Committee Chairman Jim Nussle suggested that the Ways and Means Committee could cut the EITC. If the Committee chose to secure the full $7 billion in cuts from the EITC and achieved those cuts by reducing the number of families receiving the EITC, some 750,000 fewer low-income working families would receive the EITC each year. (Alternatively, denying the credit to 380,000 families per year would achieve $3.5 billion in savings, or half of the additional cuts the Committee is reportedly charged with achieving.) Even a cut of $1 billion over five years that was achieved by reducing the number of families receiving the EITC would mean that 110,000 families would lose the credit.[8]

---

[7] This includes the cost of extending TANF "supplemental grants" (i.e., the additional TANF funding that 17 states receive). The House bill would extend these supplemental grants at a cost of $1.2 billion over the next four years. While this provision of the House bill simply extends grants that are available under current law, CBO scores this extension as having costs above the baseline, because the 1996 TANF law directed CBO not to include these grants in the long-term baseline. The $2.5 billion figure cited here does not include the cost of extending a component of the Medicaid program that is outside of the jurisdiction of the Ways and Means Committee.

[8] Claims that substantial savings could be achieved in the EITC simply by improving the process of verifying the eligibility of EITC recipients are inaccurate. Analyses of IRS pilot testing of more intensive verification procedures raise concerns that the procedures could lead significant numbers of eligible filers to be deterred from participating (or to be incorrectly denied the credit by the IRS). Many unanswered questions remain regarding these procedures, which also result in increases in IRS administrative costs. The IRS believes the procedures are not ready to be applied beyond a pilot test basis.

- **SSI:** The SSI program provides basic income assistance to poor individuals who are elderly or who have disabilities. To qualify, an person must both be poor and have very few assets. If the Committee sought to achieve $3.5 billion in cuts by reducing the number of individuals receiving SSI benefits, it would have to terminate assistance to 131,000 poor elderly individuals and people with disabilities. Achieving even a $1 billion cut over the five-year period in this manner would require terminating assistance to 37,000 such individuals.

Agriculture Committee

The Agriculture Committee reportedly will be charged with making $4 billion to $4.5 billion in cuts to farm, nutrition, and conservation programs — up from the $3 billion required under the budget resolution. House Agriculture Committee Chairman Goodlatte has previously indicated that he intends to achieve a significant share of the $3 billion in required savings by cutting the Food Stamp Program, which currently provides food assistance to 25 million low-income Americans, including 13 million low-income children.

The Committee may begin by adopting an Administration proposal to cut the Food Stamp Program by $600 million over the next five years; this reduction would drop an estimated 300,000 individuals, largely in working-poor families, from the Food Stamp Program. Deeper cuts would only increase the number of individuals who would be cut from the program or who would experience reductions in their food stamp benefits. Benefits already are modest; they average $1 per person per meal.

For example, if additional savings are sought by reducing the number of people receiving food stamps, each additional $1 billion in cuts (over the five-year period) would require terminating food assistance to an additional 170,000 low-income individuals. A $2 billion cut could mean denying assistance to 340,000 additional individuals.

Energy and Commerce Committee

The Congressional budget resolution adopted last spring called for the Energy and Commerce Committee to produce $14.7 billion in reductions in mandatory programs over five years. The budget resolution apparently assumed that $10 billion of this amount would be achieved by cutting the Medicaid program, with the remaining $4.7 billion in savings being achieved through measures dealing with auctions to telecommunication companies of rights to use portions of the electromagnetic spectrum.[9]

Various reports indicate that the Committee intends to achieve the Medicaid savings by adopting a number of proposals put forward by the National Governor's Association, including some that would risk reducing access to needed health care services for vulnerable, low-income beneficiaries. Among these are proposals that would allow substantial increases in the co-payments and premiums that Medicaid beneficiaries could be charged and to allow covered health care services to be scaled back significantly for many beneficiaries.[10]

---

[9] Receipts from these auctions are considered "offsetting receipts" rather than revenues, and increases in offsetting receipts are counted as negative mandatory spending that can be used to meet a reconciliation directive to cut spending.

[10] See Victoria Wachino, Leighton Ku, Edwin Park, and Judith Solomon, "An Analysis of the National Governors Association's Proposals for 'Short-Run Medicaid Reform,'" Center on Budget and Policy Priorities, October 14, 2005.

The House Republican leadership plan may direct the Energy and Commerce Committee to produce about $2 billion in additional reductions over five years. It is possible that the Committee will achieve the additional reductions by saving more from spectrum legislation than the budget resolution assumed, with total savings from spectrum provisions that could rise to as much as $10 billion.

Education and Workforce Committee

The Congressional budget resolution adopted last spring called for the Education and Workforce Committee to produce $12.7 billion in reductions in mandatory programs over five years. The resolution apparently assumed that these reductions would come largely from changes in programs that provide financial aid for higher education and from changes in the Pension Benefit Guaranty Corporation (including increases in premiums charged to companies with pension plans that are ensured by the PBGC).[11] The House Republican leadership plan could call on the Committee to achieve as much as $5.5 billion in additional savings.

The Education and Workforce Committee has already reported (not specifically for reconciliation) a bill dealing with financial assistance for higher education (H.R. 609) and a bill dealing with the PBGC (HR 2830). According to CBO estimates, those two bills together would reduce mandatory spending by $10.6 billion over five years.[12] It is not clear whether the Committee plans to submit these bills, or just some parts of the bills, to help meet its reconciliation directive. It also is unclear how the Committee will achieve the additional $2.1 billion cut needed to meet its original reconciliation target of $12.7 billion (assuming that the higher education and PBGC provisions submitted for reconciliation save $10.6 billion), much less which programs in its jurisdiction would be cut to achieve the *additional* cuts that the Committee may be asked to achieve as part of the leadership's plan to increase the overall reconciliation cuts to $50 billion.

Achieving a total of as much as $7.6 billion in cuts beyond those in the already-reported bills dealing with higher education and PBGC could lead the Committee to take steps that would make it harder or more expensive for college, graduate, and professional school students to obtain financial aid.

---

[11] Receipts from these premiums are considered "offsetting receipts" rather than revenues.

[12] The PBGC bill also would increase revenues over five years, although it would lose revenues and increase deficits in the five years after that.