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Price's Budget Process Changes Would Harm Key Programs, Favor Tax Breaks

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House Budget Committee Chairman Tom Price, selected by President-elect Trump to be Secretary of Health and Human Services, recently proposed wide-ranging changes to the congressional process for developing and enforcing budgets.[1] Although the Price budget process plan includes dozens of proposals, two key themes stand out: the harsh treatment of social and other programs versus the lenient treatment of tax breaks, and the risks posed by Chairman Price's proposed entitlement cap to the economy and people in need. These changes would amount to an attack on spending and key programs — such as Social Security, Medicare, Medicaid, and SNAP (formerly food stamps) — at the expense of vulnerable people, even as they opened the door to ever more tax breaks primarily benefitting affluent households.

Making an Even-Handed Process Highly Unbalanced

The current budget process for guarding against higher deficits is fundamentally even handed. The statutory Pay-As-You-Go (or PAYGO) rule applies equally to entitlement spending and revenues. It requires any legislation that would increase projected entitlement costs or reduce projected revenues to be offset by any combination of reduced entitlement benefits or higher revenues.

The Price plan would radically change this approach, repealing the PAYGO rule against deficit-increasing legislation and, in its place, erecting myriad special rules against entitlement programs while placing no comparable restrictions on tax breaks. New spending restrictions — and very likely, deep spending cuts — are at the plan's core, even as it allows unlimited tax cuts and new or expanded tax breaks. Specifically, Chairman Price's plan would:

- <u>Establish entitlement caps but not revenue floors</u>. The Price plan would end PAYGO's requirement that legislation to increase entitlement costs be fully offset, replacing it with a far more restrictive entitlement cap (see the next section for a more detailed discussion of the cap). The cap would not only require Congress to pay for new entitlement programs or

[1] Our analysis is based on the proposals laid out in two documents, dated November 30, 2016. See Price's short summary at http://budget.house.gov/uploadedfiles/bpr-shortsummary-30nov2016.pdf (6 pages) and his longer description at http://budget.house.gov/uploadedfiles/bpr-longsummary-30nov2016.pdf (27 pages).

expansions of existing ones, but the cost could be offset *only* with cuts in other entitlement programs — not with higher revenues. Further, the entitlement cap would also require Congress to pay for any increases in entitlement costs that are due to factors beyond its control, such as a slowdown in the economy that causes increased spending on unemployment insurance or lower commodity prices that cause higher spending on farm programs. But while the Price plan would likewise end PAYGO's requirement that legislation to reduce revenues be fully offset, it imposes no comparable revenue floor. Congress would be free to enact any tax cuts of any size, without offsetting any of the cost. Nor would Congress have to make up for lost revenue if it fell below projected levels.

- <u>Develop a process to end entitlements but not tax breaks</u>. The Price plan would establish an outside commission to recommend converting entitlement programs such as Medicare, Medicaid, SNAP, unemployment compensation, and farm programs to annual appropriations. As entitlements, these programs are open-ended and serve everyone who is eligible. If converted to appropriated programs, there would be no guarantee of benefits, even for those eligible. In contrast, Price proposes no such commission to review open-ended tax breaks — the credits, deductions, exemptions, or preferential rates that abound in the tax code — even though they function the same way as open-ended entitlements. Often referred to as "tax expenditures" or "tax entitlements," they amount to about $1 trillion per year in forgone revenues.
- <u>Require special steps for creating new entitlements but not new tax breaks.</u> New entitlement programs would first have to be specifically endorsed in the annual congressional budget plan, even if paid for with offsetting entitlement cuts; not so with new tax breaks.
- <u>Impose a tight limit on future-year spending increases but not on revenue losses</u>. The Price plan would prohibit any legislation estimated to increase entitlement spending by more than a very small amount in any year that is more than a decade in the future. It imposes no comparable restriction on new tax breaks or other revenue losses.
- <u>Prohibit spending gimmicks but not tax gimmicks</u>. Timing shifts and other gimmicks would not count in determining the costs of entitlement legislation — that is, the savings from such maneuvers could not count as offsets for measures to increase the benefits that an entitlement program provides. But there would be no such bar on tax cuts; gimmicks could be used to claim that some or all of the cost of tax cuts was being offset.

This highly disparate treatment of entitlement programs versus tax breaks would likely fuel further increases in inequality. Entitlement programs such as Social Security, Medicare, and safety-net programs such as SNAP and Supplemental Security Income overwhelmingly benefit middle-class and low-income families; relative to their incomes, the upper middle class and the very wealthy have less need for, and benefit less from, these programs. Yet the various special exemptions, deductions, credits, and preferential rates in the tax code — such as the special low rate on capital gains income and the mortgage interest deduction — disproportionately benefit the well off, even relative to their high incomes. While the distribution of income is already very unequal in the United States, and has been growing more unequal over the past 35 years, the Price plan would likely make matters worse.

Capping Entitlement Programs Would Pose Great Risks

At the heart of the Price plan's attack on federal programs is its proposal to cap entitlement spending. Most existing entitlement programs are designed to be flexible, responding automatically and immediately to changes in economic or other conditions. This automatic response has two main virtues. First, it assists people immediately, when need arises; for instance, when a person loses her job, she can collect unemployment insurance. Second, it provides immediate support to the entire population by injecting money into the economy when it is weak and then withdrawing the support as the economy recovers. Spending more on unemployment insurance, SNAP, and Medicaid during a recession, when jobs are scarce, not only helps the families that receive the benefits, but also helps preserve the remaining jobs of those who produce or sell groceries, school supplies, health care, and other essentials.

The Price plan, however, could end all that. Chairman Price proposes that if Congress adopts an annual budget resolution, the entitlement levels in the budget would be sent to the President as separate legislation. The legislation would show a single dollar figure for each year's total dollar target for all entitlements, combined. If the President signed the measure, those dollar figures would become *legally binding entitlement caps*, enforced through automatic across-the-board cuts, or sequestration, to all entitlement programs, including Social Security, Medicare, Medicaid, SNAP, and veterans' benefits; for a discussion of these automatic cuts, see the box below.

- <u>Dangerous even with reasonable caps</u>. Suppose the entitlement caps for the coming ten years are set at what appear to be reasonable levels — for example, levels that reflect the projected costs of entitlements under existing law. In that case, the caps would *initially* be similar to PAYGO, requiring Congress to offset the cost of any entitlement increase to avoid triggering an offsetting sequestration (although unlike PAYGO, Congress would no longer be allowed to pay for part or all of the entitlement increase by closing special-interest tax breaks or otherwise raising revenues). But if the economy slowed, the automatic but temporary increase in unemployment insurance, SNAP, the EITC, Medicaid, and other entitlement costs would have to be *completely offset by immediate entitlement cuts enacted by Congress or by automatic sequestration*. These caps thus would harm both families in need and the overall economy. The safety net would stop acting as insurance; in effect, unemployment compensation would be fully

Entitlement Sequestration Under the Price Plan

The Price plan would radically change the nature of automatic across-the-board budget cuts, known as sequestration, for entitlement programs. It would require that sequestration be applied to *all* entitlement programs, including programs that have never been subject to it, such as Social Security, veterans' benefits, and safety net programs for impoverished families and children. Thus, Medicaid, SNAP, and Supplemental Security Income would be subject to automatic cuts. Current limits on the sequestration of Medicare would also be eliminated. Apparently only interest costs and similar contractually obligated payments, and salaries for federal judges and similar constitutionally protected payments, would be exempt.

This broadening of the sequestration base is *not* the key reason to object to the Price entitlement caps — they are fundamentally misguided no matter how they are enforced. But the proposal to broaden the base of entitlement programs that would be subject to cuts when sequestration is triggered may be designed, in part, to facilitate Congress's retreat from making actual, program-by-program policy decisions.

available only when the economy is strong, but not when there is a downturn when more people need it. The same would be true for the rest of the safety net.

- Facilitates draconian cuts. The law establishing the entitlement cap would only establish the dollar level for all entitlements taken together, for each year covered by the budget plan. There would be no requirement that Congress or the President indicate which programs would have to be cut to comply with the cap. Indeed, the cuts could be achieved through sequestration without any further action by Congress. This would be a serious abnegation of congressional accountability: Congress could first vote for restrictive dollar caps with no plan for how to meet them, and then let presidential sequestration orders enforce those caps through across-the-board cuts for the next decade without ever having to vote for the cuts that occur or to take responsibility for them.

  Imagine, for example, a budget like the one that the House Budget Committee — chaired by Rep. Price — reported in March 2016, which purported to balance the budget over the decade with no new revenues.[2] To achieve its goal, the plan called for $5 trillion in entitlement cuts over ten years, starting at $185 billion in 2017 and growing to $780 billion by 2026. If these cuts were enforced by automatic across-the-board sequestration, they would ultimately shrink every entitlement program by one-fifth, including Social Security, Medicare, veterans' disability, military retirement, and the entire safety net. If Congress protected the big, popular programs like Social Security or veterans' benefits, the cuts in the remaining programs would have to be far deeper.

Both beneficiaries and the economy need entitlements to expand and contract automatically in response to changes in incomes, caseloads, and inflation. The role of automatic stabilizers in mitigating the worst effects of the Great Recession has been well documented, with the conclusion that more robust automatic stabilizers are need to better protect us from such downturns in the future.[3] But Chairman Price's entitlement cap would move in the opposite direction, effectively dismantling the fundamental structure of these programs. In turn, by ending entitlements' automatic stabilizing effect on the economy, the Price plan would also almost certainly lead to more frequent and deeper recessions.

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[2] See House Report 114-470, re the Concurrent Resolution on the Budget for Fiscal Year 2017 (H Con Res 125), at https://www.congress.gov/114/crpt/hrpt470/CRPT-114hrpt470.pdf.

[3] See Alan Blinder and Mark Zandi, "The Financial Crisis: Lessons for the Next One," Center on Budget and Policy Priorities, October 15, 2015, http://www.cbpp.org/research/economy/the-financial-crisis-lessons-for-the-next-one; Jared Bernstein and Ben Spielberg, "Preparing for the Next Recession: Lessons from the American Recovery and Reinvestment Act," Center on Budget and Policy Priorities, March 21, 2016, http://www.cbpp.org/research/economy/preparing-for-the-next-recession-lessons-from-the-american-recovery-and; and Chad Stone, "The Best Economic Bang for the Buck," *U.S. News & World Report*, March 25, 2016, http://www.usnews.com/opinion/economic-intelligence/articles/2016-03-25/strengthen-unemployment-insurance-and-food-stamps-to-fortify-the-economy.