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HOUSE SPENDING-CAP BILLS WOULD ENACT RADICAL RYAN BUDGET INTO LAW

Bills Would Worsen Recessions, Rule Out Balanced Deficit Reduction, and Facilitate Deep Cuts in Social Security and Medicare

By Paul N. Van de Water

The House may soon consider two bills (H.R. 3576 and H.R. 3580) that would limit federal spending to levels similar to those in the House-passed budget resolution, authored by Budget Committee Chairman Paul Ryan (R-WI). These bills are part of a package of ten bills that Chairman Ryan and other committee members recently introduced to alter the federal budget process.[1]

These two bills would require large cuts in federal spending that would likely fall disproportionately on low-income people. They would exacerbate economic downturns by preventing the federal government's "automatic stabilizers" — programs like unemployment insurance and food stamps — from expanding as they are designed to do to help support a weak economy. They would effectively require that *all* deficit reduction come from program cuts and *none* from revenues, thereby precluding balanced deficit-reduction packages. They also would alter congressional budget procedures to make it easier to cut Social Security and Medicare *benefits* while erecting barriers to balanced Social Security and Medicare solvency packages that *combine* some reductions in benefits with increases in dedicated tax revenues.

In addition, the bills would reverse a quarter-century of bipartisan practice by repealing the protections built into the sequestration process for basic assistance programs for the poor, and subjecting these programs to automatic across-the-board cuts if the bills' spending caps would be exceeded. Moreover, while gutting these protections for less fortunate Americans, H.R. 3576 would repeal the Statutory Pay-As-You-Go Act. As a result, there would be no limit on tax cuts, including new tax breaks for the wealthiest Americans, which could be entirely deficit-financed.

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[1] For a description of the ten bills see Paul Ryan, *Repairing the Broken Budget Process*, December 11, 2011, http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=271552.

What the Bills Would Do

One of the bills would place tight limits on federal spending over the next ten years. The other would limit spending in the longer run.

- H.R. 3576 (the "Spending Control Act") would establish separate dollar limits on three categories of federal spending — Medicare, Medicaid and other mandatory health spending, and other mandatory spending programs (excluding Social Security and net interest) — for each of the next ten fiscal years. It would also impose limits on *total* federal spending — including Social Security — and the deficit as shares of gross domestic product (GDP). All of these limits would be set at the levels in the Ryan budget resolution that the House adopted in April 2011.[2]

  All these limits would be enforced through automatic across-the-board spending cuts, or "sequestration." First, within each category of mandatory spending, non-exempt programs would be reduced as necessary to meet the category's cap. Second, all non-exempt spending programs — both mandatory and discretionary — would be reduced to enforce the limit on *total* federal spending. Third, all non-exempt spending would be further reduced if needed to enforce the legislation's deficit target. Social Security and veterans' pensions and compensation would be exempt from sequestration. Most other programs — including Medicare, unemployment compensation, and basic programs for low-income families — would be fully subject to these across-the-board reductions.

- H.R. 3580 (the "Balancing Our Obligations for the Long Term Act") would establish caps on the same three categories of spending for 2030, 2040, and 2050 as shares of GDP.[3] Total federal spending would be limited to 20 percent of GDP in each of these years. This amount would be slightly below the level under the Ryan policies in 2030 and higher in 2040 and 2050.[4]

Bills Would Require Deep Cuts in Federal Programs

These bills — like the Ryan budget on which they are modeled — would require very deep cuts in Medicare, Medicaid, and other federal programs.

- The Ryan plan would cut Medicare in two major ways. It would gradually raise the age at which people become eligible for Medicare from 65 to 67, even as it repeals the health reform law's coverage expansions. This means that 65- and 66-year-olds would have neither Medicare nor access to health insurance exchanges in which they could buy coverage at an affordable price and receive subsidies to help them purchase coverage if their incomes are low. It would also

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[2] Committee on the Budget, U.S. House of Representatives, *Report to Accompany H. Con. Res. 34,* April 11, 2011.

[3] The description of this bill issued by the House Budget Committee (see footnote 1) says the bill would establish these caps "for the three decades following the [current ten-year] budget window" (rather than for the years 2030, 2040, and 2050), but that is not what the language of the bill does.

[4] Congressional Budget Office, *Long-Term Analysis of a Budget Proposal by Chairman Ryan,* April 5, 2011, http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan_Letter.pdf. CBO estimates that the Ryan policies would result in spending of 20 ¾ percent of GDP in 2030, 18 ¾ percent of GDP in 2040, and 14 ¾ percent of GDP in 2050 (Table 1, p. 3).

replace Medicare's guaranteed benefit with a premium support contribution, or voucher, that would grow only by the general inflation rate — much more slowly than health care costs have grown in recent decades. The Congressional Budget Office (CBO) has estimated that in 2022, the first year the voucher would apply, the typical 65-year-old Medicare beneficiary's out-of-pocket health costs would more than double, from $6,150 to $12,500.[5]

- The Ryan plan would replace Medicaid with a block grant to states that would grow each year only by the sum of the inflation rate and the U.S. population growth rate, a figure that is roughly four percentage points less than Medicaid's currently projected annual growth. CBO finds that federal Medicaid funding would fall 35 percent by 2022 — and 49 percent by 2030 — below the levels the federal government is now projected to provide.[6] States would have to impose severe cuts as a consequence. States also would have to make deep cuts in the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program), which the Ryan budget would convert to a block grant and cut by $127 billion over ten years.

- Under the Ryan plan — which these bills are designed to enforce — all federal spending other than Medicare, Medicaid, Social Security, and interest payments on the debt would drop from 12 percent of GDP in 2010 to 6 percent in 2022 and 5 ¼ percent in 2030. These figures are extraordinary. This category includes such major federal functions as national defense, veterans benefits, law enforcement, transportation, education, and medical and scientific research. Spending for this category has averaged 11 percent of GDP over the last 30 years and, as CBO notes, "has exceeded 8 percent of GDP in every year since World War II."[7] Thus, the Ryan budget envisions deep cuts across the budget.

- Overall, the Ryan plan would get nearly two-thirds of its budget cuts over the first ten years from programs that serve people of limited means, even though programs for low-income families constitute only about one-fifth of the budget. The plan of Erskine Bowles and Alan Simpson, who co-chaired the Commission on Fiscal Responsibility and Reform, established as a basic principle that deficit reduction should not increase poverty or inequality or hurt the disadvantaged. The Ryan budget turns that principle upside down.[8]

Bills Contain Other Troubling Features

In addition to requiring draconian cuts in spending, these two bills have several other very troubling features.

- *Imposing arbitrary limits on federal spending and the deficit would risk tipping a faltering economy into recession, deepening recessions, and slowing economic recoveries.* Federal programs like unemployment insurance,

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[5] Paul N. Van de Water, *Converting Medicare to Premium Support Would Likely Lead to Two-Tier Health System*, Center on Budget and Policy Priorities, September 26, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3589.

[6] CBO, p. 26.

[7] CBO, p. 19.

[8] Robert Greenstein, *Chairman Ryan Gets Nearly Two-Thirds of His Huge Budget Cuts from Programs for Lower-Income Americans*, Center on Budget and Policy Priorities, April 20, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3451.

food stamps, and Medicaid are designed to expand automatically when the economy turns down. Tax collections also shrink when incomes fall. These responses are crucial for the economy because they offset some of the loss in business activity that occurs when the economy weakens and consumer and business spending decline. This is why economists call these programs "automatic stabilizers." Statutory limits on spending and the deficit would prevent these programs from responding in recessions. CBO Director Douglas Elmendorf has warned policymakers that taking away these stabilizers "risks exacerbating the swings in the business cycle"[9] — that is, making recessions longer and deeper with the loss of more jobs.

- *The bills would, for the first time, subject programs for low-income people to automatic across-the-board cuts.* In the past, both parties have embraced the principle that automatic budget cuts to enforce budget or deficit targets should spare basic assistance programs for low-income Americans, so that they are not driven into, or deeper into, poverty. This principle is reflected in the budget enforcement mechanisms established by the Gramm-Rudman-Hollings law of 1985, the Budget Enforcement Act of 1990, the Statutory Pay-as-You-Go Act of 2010, and the Budget Control Act of 2011. *All* of these laws exempted the core means-tested mandatory programs from across-the-board cuts when deficit targets were missed or pay-as-you go standards violated. These bills would reverse a quarter-century of bipartisan practice by eliminating all these exemptions. They would put low-income programs at particular risk during and after recessions, when the need for them is greatest.

- *The bills would effectively require that all deficit reduction come from program cuts and none from revenues, precluding a balanced package of spending cuts and tax increases.* They would constrain spending — including Social Security and Medicare — but not tax cuts, whether reductions in tax rates or new tax loopholes for the powerful and well-connected.

  H.R. 3576 would repeal the Statutory Pay-as-You-Go Act, which requires policymakers to pay for both spending increases and tax cuts with either spending cuts or tax increases. Instead, it would establish a "cut-as-you-go" requirement that would *not* apply to tax cuts and would bar Congress from offsetting program increases with revenue-raising measures, such as curbing unwarranted or unproductive tax breaks.

  H.R. 3580 would create two new budget procedures that would make it easier for Congress to cut Social Security, Medicare, and other mandatory spending programs but that could *not* be used to strengthen these programs' financing through raising the programs' tax revenues. Under current law, Congress cannot use reconciliation to cut Social Security. H.R. 3580 would establish a new fast-track long-run reconciliation procedure that Congress could employ to cut Social Security and Medicare benefits with only 51 votes in the Senate — but that could *not* be used to raise Social Security or Medicare tax revenues. The bill would also establish a "five-year fiscal sustainability review" — an additional fast-track process that Congress could use to cut Social Security and Medicare benefits, with passage in the Senate requiring 51 votes rather than 60. The new procedures could *not* be used to enact any Social Security or Medicare solvency package that combines reductions in benefits with increases in the programs' tax revenues, in the manner of the 1983 bipartisan Social Security legislation.

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[9] Douglas W. Elmendorf, Director, Congressional Budget Office, Transcript of Testimony before the Senate Budget Committee, January 27, 2011, Federal News Service.