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Commentary: What to Expect in the Coming Budgets Regressive Policies, Gimmickry, and Budget Balance Only on Paper

By Robert Greenstein

House and Senate Republican leaders this week will unveil their budget plans, which the House and Senate Budget Committees are likely to quickly approve. What can we expect to see?

Republican leaders have made clear that their plans will aim to achieve budget balance by their tenth year — without raising any revenues. That will require a massive \$4.5 trillion in budget cuts over ten years (not counting interest savings). They've also disclosed that they won't touch Social Security, and that they will likely include about the same level of Medicare savings as in the President's 2016 budget — about \$400 billion. At the same time, House Republican leaders reportedly will disregard the budget cap on defense, substantially increasing defense spending by using a budget gimmick, as explained below.

How, then, will they get their numbers to add up? Where will the roughly \$4 trillion in remaining budget cuts come from? Here's my assessment — which I hope proves incorrect but which I fear will not.

1. Sharply Cutting Core Programs for Less Well-off Americans

Look for both the Senate and House budgets to include huge cuts in core programs for Americans with modest incomes, including tens of millions of families working for low wages. I expect, along with the ritual Republican repeal of the Affordable Care Act, cuts of hundreds of billions of dollars in programs like Medicaid and SNAP (formerly known as food stamps). I also expect the budgets to be exceedingly vague about the details — such as merely stating that policymakers would convert Medicaid and SNAP to block grants to states, and letting the states decide what to do with them (and in the case of the Senate, possibly not even providing that much information). That would conveniently prevent analysts and reporters from assessing how many working-poor families, low-income children, poor seniors, and the like would see their basic food benefits or health care coverage eliminated or cut back sharply, and by how much. Tens of millions of Americans likely would be harmed.

The House and Senate budgets also are expected to maintain full sequestration for non-defense discretionary programs in 2016, and possibly to cut these programs — which include key programs

to promote opportunity such as education, job training, and early intervention services for disadvantaged children — *below* the already-severe sequestration levels in years after 2016.

The past few budgets from former House Budget Committee Chairman Paul Ryan, which the House then approved, followed a similar path, securing about two-thirds of their \$4 trillion to \$5 trillion in budget cuts from programs focused on low- and modest-income families and individuals, even though such programs account for less than one-quarter of all federal program costs. The percentage of cuts that the forthcoming House and Senate budgets will get from programs for those same families and individuals will likely remain high.

The budgets also will likely reflect a lack of equity: while cutting deeply into programs for less fortunate families and individuals, the budgets will seek *no* deficit reduction from the more than \$1 trillion per year in “tax expenditures” — the deductions, exclusions, credits, and other tax preferences that former Federal Reserve Chairman Alan Greenspan appropriately labeled “tax entitlements,” since they’re effectively spending delivered through the tax code. Conservative Harvard economist and former Reagan economic advisor Martin Feldstein has said that reducing tax expenditures is “the best way to reduce government spending,” and tax expenditures disproportionately benefit those at the top, with two-thirds of their benefits going to the top fifth of households.

With budget cuts disproportionately focused on people with modest incomes and no deficit-reduction contribution whatsoever from tax expenditures, the coming House and Senate budgets almost certainly would increase poverty and inequality. If the House and Senate budgets follow this course, they’ll violate core principles that underlay the budget plans of late 2010 both from the chairs of the Bowles-Simpson commission and from the Bipartisan Policy Center’s Rivlin-Domenici deficit-reduction task force. Those plans contained substantial revenue increases alongside their budget cuts, and they adhered to the principle that deficit reduction shouldn’t increase poverty or inequality. Moreover, neither of those plans sought budget balance in ten years; they sought to stabilize and then reduce the ratio of debt to gross domestic product (GDP) — an appropriate target for responsible fiscal policy — without chasing the bumper-sticker slogan of a balanced budget.

2. Balancing the Budget on Paper

Even with massive cuts in programs for needy Americans and full sequestration (or worse) in place outside of defense, the coming House and Senate budgets likely will still fall well short of balance by the tenth year. So how will GOP leaders get there?

I expect them essentially to balance the budget only on paper, through the use of very large “magic asterisks” — that is, assumptions of very large savings for which they won’t specify the details or even the programs from which they’ll come.

Some past Ryan budgets relied heavily on this approach. For example, his fiscal year 2014 budget included over \$650 billion in budget cuts that he didn’t specify. It indicated that these cuts would come from entitlement programs outside of Social Security, Medicare, Medicaid, the Affordable Care Act, and SNAP. But which programs? What cuts? His budgets didn’t say.

That obfuscation is particularly noteworthy now. The news reports of this past weekend indicated that Republican senators believe the Ryan budgets contained *too much* information on budget cuts —

and that their budget will have still less. To be sure, Congressional committees of jurisdiction have the central role in determining how the actual budget cuts are made, but when Congressional leaders include cuts of this magnitude in a budget resolution, there is no reason for them to conceal from the public their broad intentions about where the cuts would come from, and many past budget resolutions have included such information.

3. Ignoring the Defense Caps While Pretending Not To

The House budget may purport to maintain the sequestration caps for *both* defense and non-defense discretionary funding in 2016 while doing precisely the opposite with respect to defense. If reports are accurate, the House budget will substantially increase the fund for overseas military operations, perhaps by as much as \$30 billion to \$40 billion, even though the nation is winding down its military presence in Afghanistan — and thereby enable the Pentagon to use the tens of billions of additional dollars placed in the fund for regular defense purposes. Since this fund (known as the Overseas Contingency Operations fund, or OCO) isn't subject to the budget caps, this gimmick would allow House Republicans to claim that they're maintaining the sequestration caps on both defense and non-defense programs in 2016 while, in fact, ignoring the defense cap by channeling tens of billions of additional dollars for defense through the overseas fund.

4. Imposing Deeper Cuts in Key Investments

While the House and Senate budgets are expected to maintain the non-defense discretionary cap (after sequestration) in 2016, it is less clear how the budgets will treat these programs in later years. The last Ryan budget proposed to cut these programs *below the caps* as already lowered by sequestration by nearly \$800 billion over ten years. The budget used those savings partly to offset higher spending levels in defense and partly to achieve additional deficit reduction in pursuit of budget balance in ten years.

Even if the new Republican budgets maintain the sequestration levels in non-defense discretionary programs, overall spending for those programs will fall in 2016 to a level that ties the lowest on record, as a share of GDP (with data back to 1962), and then set a new record low in 2017 and every year thereafter. These sequestration cuts are already squeezing investments in education, job training, research, transportation, and other programs that can boost the future opportunities and productivity of today's youth and the overall economy. Cutting these non-defense programs even further in future years would exacerbate this dangerous trend, likely reducing long-term economic growth. In our view, responsible budget plans should propose eliminating or easing sequestration coupled with ways to offset the cost.

5. Reflecting a Dose of Hypocrisy?

Finally, I'll be intrigued to see what House Republicans propose to do about the "tax extenders" — the collection of largely business tax cuts that policymakers routinely renew for about a year at a time.

Last year's House budget assumed the tax extenders would expire on schedule or, if renewed, that policymakers would offset the cost. After adopting that budget, however, the House proceeded to pass measure after measure last year to make the tax extenders *permanent without offsetting any of the costs*; in fact, some of the measures not only made these tax cuts permanent, but enlarged them as well. In

total, the measures would have added about half a trillion dollars to the deficit over ten years. The House has begun to pass similar measures again this year.

Score one for hypocrisy if, in their budget, House Republican leaders make their numbers add up on paper by assuming once again that the tax extenders will either expire or be paid for, but then, once the budget is approved, return to passing bills to make the measures permanent without offsetting the costs.

Again, I hope I'm wrong. But if the forthcoming House and Senate budgets come out as I expect — with very deep cuts in programs for the least well-off and obfuscation and gimmickry to make the numbers add up — they will do justice to neither economic fairness nor fiscal honesty.