

April 20, 2015

## Ten Serious Flaws in the House and Senate Budget Plans

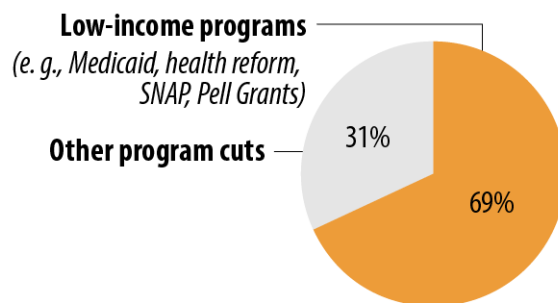
By Robert Greenstein

The House and Senate are resolving the differences between the budget plans they adopted in March. Despite some differences, the plans are largely aligned and have in common a number of serious flaws that likely will also apply to the final agreement between the two chambers.

- 1. Deficit reduction entirely through massive spending cuts, without any revenues.** The plans call for roughly \$5 trillion in cuts in domestic programs over ten years to reduce the deficit, with no revenue contribution. They seek no deficit reduction whatsoever from tax expenditures — the more than \$1 trillion a year in deductions, exclusions, credits, and other preferences that former Fed Chairman Alan Greenspan has called “tax entitlements” and former Reagan economic adviser Martin Feldstein has said are the best target for cutting wasteful government spending. Tax expenditures tilt heavily toward the affluent, with two-thirds of their benefits going to the top fifth of households.
- 2. Disproportionate cuts in programs for low- and moderate-income Americans.** Despite increasing inequality and bipartisan calls to expand opportunity for people from modest backgrounds, *69 percent* of the non-defense cuts in both the House and Senate budgets come from programs for the less fortunate. (See Figure 1.) Low- and moderate-income programs constitute just 23 percent of total federal program spending.<sup>1</sup>
- 3. More Americans uninsured and underinsured, and more living in poverty.** By 2025, both budgets would shrink programs for low- and moderate income households by about 40 percent,

FIGURE 1

### House and Senate Budget Plans Each Get 69% of Their Non-Defense Cuts From Low- and Moderate-Income Programs



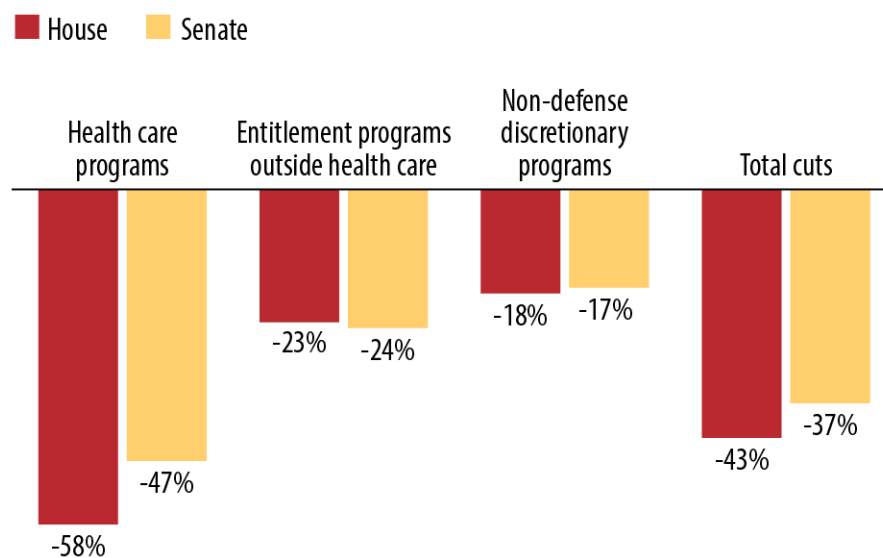
Note: Cuts in low-income discretionary and entitlement programs likely account for about \$3.7 trillion of the \$5.3 trillion in non-defense cuts in the House Budget Committee’s plan, and at least \$3.2 trillion of the \$4.7 trillion in non-defense budget cuts in the Senate Budget Committee’s plan.

Source: CBPP based on data from Congressional Budget Office and FY 2016 House and Senate Budget Resolutions and Committee markups.

on average.<sup>2</sup> (See Figure 2.) Both repeal health reform and cut Medicaid deeply on top of that. Both would likely reduce basic food assistance for low-income families and individuals substantially and would significantly cut grants to help low-income students afford college. Both also allow key provisions of tax credits for working-poor families to expire after 2017, which would push 16 million people into — or deeper into — poverty.<sup>3</sup> This overall approach contrasts sharply with the bipartisan deficit-reduction plan that Alan Simpson and Erskine Bowles, co-chairs of the presidential fiscal commission, issued in 2010; it adhered to the basic principle that deficit reduction should *not* increase poverty or widen inequality.

FIGURE 2

### Depth of Cuts to Programs for People with Low or Modest Incomes Under House and Senate Budgets, in 2025



Source: CBPP calculations based on data from Congressional Budget Office and the Congressional budget resolutions and markups.

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- 4. No sequestration relief for domestic priorities in 2016, and a gimmick to boost defense spending.** Neither plan addresses the inadequate funding levels in 2016 for appropriated programs outside the Pentagon that are required under sequestration. At the same time, both plans circumvent the 2016 sequestration cap for defense by pouring additional funding — *beyond* what the Pentagon says it will need for overseas military operations — into the Overseas Contingency Operations (OCO) fund. OCO funds don't count against the defense cap, and the Pentagon could channel the excess dollars into the regular defense budget. Last year the Republican-controlled House Budget Committee denounced this gimmick as “a backdoor loophole that undermines the integrity of the budget process.”
- 5. More cuts in essential domestic investments after 2016.** Both plans cut non-defense discretionary (NDD) funding well *below* the already damaging sequestration levels after 2016. This part of the budget funds education, job training, early intervention programs for children,

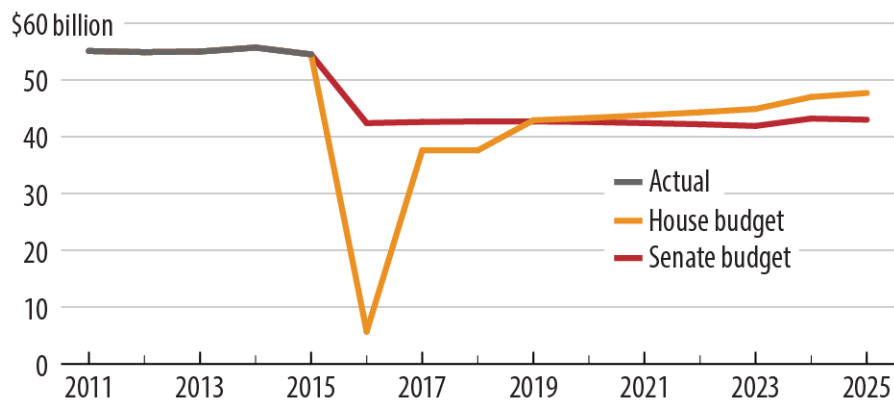
basic scientific and medical research, and infrastructure — which increase opportunity, raise productivity, and thereby boost long-term economic growth.

- 6. Deep cuts in transportation infrastructure.** The House and Senate budgets cut highway and mass transit funding by an average of about 28 and 22 percent, respectively, over the next decade.<sup>4</sup> (See Figure 3.) To be sure, gas tax revenues for the Highway Trust Fund have fallen as fuel efficiency has risen, leaving a shortfall in the financing of highways and mass transit. But rather than finding new financing to avoid cuts in this funding — as Congress has routinely done over the past decade — the House and Senate budgets both chose to reduce needed investment in transportation infrastructure. Notably the House proposes to cut funding dramatically in 2016, by roughly 90 percent, as a way to address the shortfall in the trust fund. While the House funding reductions would be less severe in future years, funding would still remain significantly below the current level for the entire decade.

FIGURE 3

### Senate and House Budgets Would Cut Highway Funding

Mandatory transportation funding (not adjusted for inflation)



Sources: CBPP based on Office of Management and Budget, Congressional Budget Office, and Senate and House Budget Resolutions.

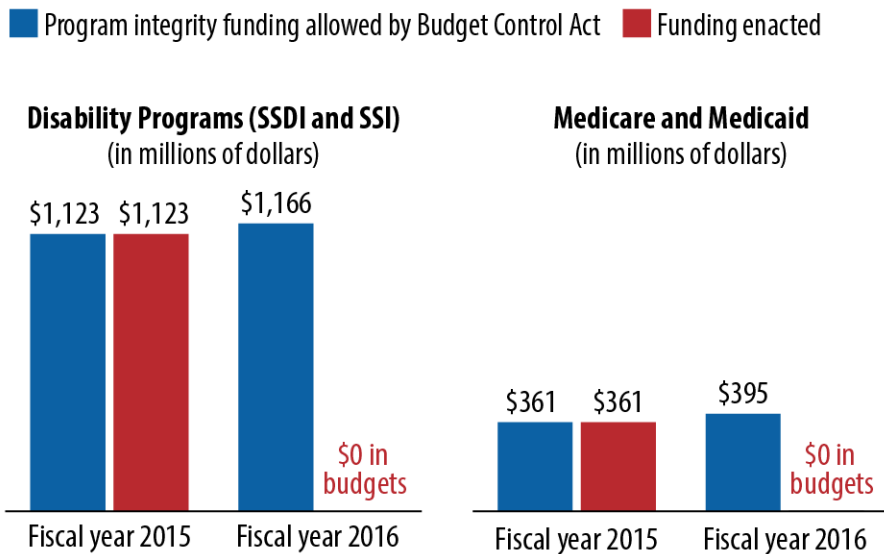
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- 7. Federal spending shrinks to strikingly low levels as a share of the economy.** The House plan would cut overall federal spending outside Social Security, Medicare, and interest payments on the debt to 7.2 percent of gross domestic product (GDP) in 2025, while the Senate plan would cut it to 7.3 percent of GDP — both roughly 40 percent below the 12.2 percent average over the past 40 years. Currently, such spending is 11.3 percent of GDP, and so is already below its historical average. But the budget plans would push it far below even the previous post-World War II low of 9.4 percent.
- 8. Omission of funding to combat fraud and abuse.** The budgets leave out the “extra funding” — over and above the base funding levels — that the Budget Control Act (BCA) specifically allows for “program integrity” activities to fight fraud and abuse in Medicare, Medicaid, and disability programs.<sup>5</sup> (See Figure 4.) Program integrity activities have a proven

track record of saving more than they cost. In 2012-2014, for example, a dollar spent to detect and stop erroneous payments and outright fraud in Medicare and Medicaid generated about \$8 in savings.<sup>6</sup> The BCA allows for extra funding for these activities to be provided outside the caps, an option previous Congresses have exercised to generate the bulk of program integrity funds. The new plans omit such additional funding.

FIGURE 4

### Republican Budgets Omit Additional Program Integrity Funding to Fight Fraud and Abuse in Social Programs



Note: Amounts shown reflect the additional amounts the BCA allows for program integrity activities, and do not reflect base funding for these activities.

Source: CBPP analysis of appropriations legislation and House and Senate Budget Resolutions

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9. **Tax cuts but no explanation of how to pay for them.** Both budgets repeal health reform, along with its roughly \$1 trillion of revenue increases over ten years, but both assume the same amount of total federal revenues each year as if these revenue-raising provisions remained in effect. In addition, the House plan calls for repealing the Alternative Minimum Tax, and the Senate plan proposes continuing certain expiring business tax provisions. These proposals, combined with repeal of health reform taxes, would reduce revenues by more than \$1 trillion over the decade. But the budgets propose no measures to recoup the lost revenue.
10. **Misguided focus on balancing the budget by 2025.** Enshrining budget balance as the preeminent policy goal is neither necessary nor appropriate.<sup>7</sup> As Alice Rivlin, a former director of both the Congressional Budget Office and the Office of Management and Budget, has said: “There’s nothing magic about exact balance. . . . The really important thing is to keep the debt from growing faster than the economy.” Pursuing a balanced budget within ten years, and above all else, becomes especially damaging when combined with the budgets’ no-new-revenue stricture. The nation would be better served if policymakers put the budget on a

sustainable path while encouraging full employment and a broader sharing of the benefits of economic growth.

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<sup>1</sup> Richard Kogan and Isaac Shapiro, “Congressional Budget Plans Get Two-Thirds of Cuts From Programs for People With Low or Moderate Incomes,” Center on Budget and Policy Priorities, March 23, 2015, <http://www.cbpp.org/cms/index.cfm?fa=view&id=5289>.

<sup>2</sup> Isaac Shapiro, “Congressional Budgets Would Ultimately Cut Programs for Low- or Moderate-Income People by About 40 Percent,” *Off the Charts* blog, March 24, 2015, <http://www.offthechartsblog.org/congressional-budgets-would-ultimately-cut-programs-for-low-or-moderate-income-people-by-about-40-percent/>.

<sup>3</sup> Bryann DaSilva, “Congressional Budget Plans Hurt Low-Income Working Families,” *Off the Charts* blog, March 19, 2015, <http://www.offthechartsblog.org/congressional-budget-plans-hurt-low-income-working-families/>.

<sup>4</sup> David Reich, “House, Senate Budgets Have Big Cuts in Transportation Infrastructure,” *Off the Charts* blog, March 27, 2015, <http://www.offthechartsblog.org/house-senate-budgets-have-big-cuts-in-transportation-infrastructure/>.

<sup>5</sup> Robert Greenstein, “Despite Anti-Fraud Rhetoric, Republican Budgets Omit Funding to Combat Fraud and Abuse,” *Off the Charts* blog, March 25, 2015, <http://www.offthechartsblog.org/despite-anti-fraud-rhetoric-republican-budgets-omit-funding-to-combat-fraud-and-abuse/>. The House budget expresses support for program integrity activities but states that they must be funded *within* the caps — meaning that fully funding them would require even deeper cuts in other NDD programs, which already must adhere to the austere sequestration levels in 2016. And after 2016, the House budget cuts NDD programs below the sequestration levels, leaving even less room for program integrity funding.

<sup>6</sup> U.S. Department of Justice and U.S. Department of Health and Human Services, *Annual Report of the Departments of Health and Human Services and Justice: Health Care Fraud and Abuse Control Program FY 2014*, March 19, 2015, <http://oig.hhs.gov/publications/docs/hcfac/FY2014-hcfac.pdf>.

<sup>7</sup> Robert Greenstein and Joel Friedman, “Balancing the Budget in Ten Years and No New Revenue Are Flawed Budget Goals,” Center on Budget and Policy Priorities, March 13, 2015, <http://www.cbpp.org/cms/index.cfm?fa=view&id=5282>.