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REPUBLICAN STUDY COMMITTEE BILL WOULD REQUIRE DEEPEST CUTS IN PROGRAMS FOR THE POOR IN U.S. HISTORY

Over $2 Trillion in Cuts in Programs for Low-Income People in First Six Years Alone

by Robert Greenstein

Legislation unveiled last month by the Republican Study Committee, the powerful caucus that includes 176 House Republican members, would require the most severe cuts in programs for the poor in the nation's history. Introduced by RSC Chair Jim Jordan (R-OH), Tim Scott (R-SC), and RSC Budget and Spending Task Force Chair Scott Garrett (R-NJ), the legislation would require cuts of $2.2 trillion — or nearly 40 percent — in programs targeted on low-income Americans in just the first six years it would be in effect. The cuts would grow deeper in years after that.

The legislation would single out low-income programs for cuts of unprecedented depth. It would do so by creating a new budget category consisting of all domestic programs targeted on people with low incomes and by requiring that total expenditures in this category not exceed the total amount spent on these programs in 2007, adjusted for inflation (i.e., for increases in the Consumer Price Index). Although a majority of the expenditures in this category are for Medicaid and other health programs (like the Children's Health Insurance Program), there would be *no* adjustment in the cap for increases in health care costs, which rise significantly faster than general inflation. Nor would there be any adjustment for population growth, although the U.S. population grows each year, or for the aging of the population, a major factor in rising health-care program costs. (As the population ages, the proportion of low-income people who are elderly or disabled rises, and health care costs in Medicaid are about five times higher on average for elderly people than for non-elderly adults.)

Primarily because of these factors — rising health care costs, population growth, and the aging of the population — the cap would be inadequate to start with and would grow steadily more inadequate each year, requiring cuts of massive proportions.

The cap would take effect in the first fiscal year after a year in which the unemployment rate falls below 6.5 percent for at least one month. Once in effect, the cap would remain in effect *permanently*. It would not be suspended if unemployment subsequently climbs back above 6.5 percent, and it would apply with full force in future recessions. The legislation includes no waiver procedure to suspend the cap in recessions, when poverty grows significantly as unemployment mounts and the economy contracts.

The cap's $2 trillion in cuts for low-income Americans stands in sharp contrast to the generous treatment that the wealthiest Americans would receive under other legislation the RSC has said it favors. The RSC has called for making all of the Bush tax cuts permanent — including those exclusively for the top 2 percent of Americans (those with incomes over $250,000 a year, or $200,000 for singles), and Congressional Budget Office estimates imply that extending these high-income tax cuts would cost about $700 billion between 2013 and 2021 .[1] People with incomes over $1 million will receive an average tax reduction of more than $125,000 a year if all of the Bush tax cuts are extended, according to the Urban Institute-Brookings Tax Policy Center; this means such households could receive tax cuts that total more than $1 million over the coming decade, even as programs for the poorest Americans were being cut severely. (Moreover, this $125,000-a-year figure does not include the additional large tax cuts that very wealthy households would receive from repealing or greatly weakening the estate tax, which the RSC also favors.)

To make these tax cuts permanent while imposing the RSC's cuts on low-income programs would consequently represent a massive redistribution of income from the poorest Americans to the wealthiest.

Cap Would Undermine Health Reform and Force Large Cuts in Health Care Programs

The Affordable Care Act's Medicaid expansion and its premium and cost-sharing subsidies to help lower-income families afford private insurance did not exist in 2007, the year that would form the basis for the cap. Thus, there would be no room under the cap for the core elements of health reform that extend coverage to the uninsured. Theoretically, other programs could be cut far below their 2007 levels to make room for this additional health care spending, but it is difficult to imagine how total low-income spending could possibly be reduced anywhere close to the level of the cap without repealing these health reform measures — in which case coverage would *not* be expanded to the 34 million uninsured Americans expected to gain coverage under health reform.

But the cap's effects on health care would go far beyond that. Wholly apart from the health reform law, Medicaid costs are already well above their 2007 level (adjusted for general inflation) and will rise much further above that level in the years ahead. Medicaid costs have been rising and are expected to continue rising considerably faster than general inflation for several reasons. First, costs throughout the U.S. health care system rise significantly faster than inflation, as medical advances continue to improve health and save lives but raise costs. (Medicaid costs per beneficiary have been rising more slowly in recent years than private-sector health costs per beneficiary, but they still far outstrip general inflation.) Second, more people are becoming eligible for Medicaid as the population grows and employer-based health coverage erodes. Third, the aging of the population will increase the number of poor elderly and disabled people enrolled in Medicaid; this is a major

[1] Congressional Budget Office, January and March 2011. About $640 billion of the cost would come from the individual income tax cuts: reducing the top two bracket rates from 39.6 and 36 percent to 35 and 33 percent, respectively, continuing the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP), and maintaining the tax rate on capital gains and dividends at 15 percent for married couples with incomes over $250,000 ($200,000 for others). The other $60 billion is the cost of continuing the recent estate tax cuts relative to the estate tax rules in effect in 2009. These figures measure the cost of extending these policies over 2013 to 2021 and do not include debt service.

factor in rising costs, since per-beneficiary health costs are much higher for older people than for younger ones.

By pushing up Medicaid costs, these factors would cause total expenditures for the low-income programs in the new budget category to rise farther and farther above the cap each year, in the absence of deep budget cuts. As a consequence, sharper and sharper cuts would have to be made each year to fit total program expenditures within the cap.

Cuts Would Total $2 Trillion in First Six Years and Far More Thereafter

Using historical data (including data on 2007 expenditure levels) and CBO's most recent budget and economic projections, we have estimated the magnitude of the cuts the RSC bill would require.[2] The results show the following:

- In fiscal year 2016, the first year that the cap would be in effect under current economic assumptions (CBO projects that unemployment will not fall below 6.5 percent until fiscal year 2015), the bill would require cuts of $305 billion in programs subject to the cap. These programs would have to be cut 35 percent in that year.

- The cuts would then grow deeper with each passing year. In final year 2021, the cuts would total $455 billion — or 42 percent.

- Over the first six years (fiscal years 2016 through 2021), the cuts would total $2.2 trillion.

Even that amount would be dwarfed by the magnitude of the reductions in low-income programs required to comply with the caps in succeeding years. Because total expenditures for low-income programs would have to fit within a cap that is permanently frozen at the 2007 level (adjusted only by the CPI) — while health care costs continued to grow faster than general inflation, the U.S. population continued to increase, and the proportion of the population that is elderly continued to rise — the required cuts would mushroom to almost unimaginable levels over time. Before too long, over 50 percent of low-income program expenditures would have to be eliminated. The safety net would be decimated.

Census data show that these programs keep millions of Americans out of poverty.[3] Cuts of this magnitude would plunge millions of Americans into poverty and make tens of millions who already are poor substantially poorer.

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[2] We estimated the level of the proposed caps by calculating the 2007 expenditure levels for the programs that the bill would place under the cap and adjusting those levels for actual inflation through 2010 and expected inflation (as forecast by the Congressional Budget Office in January 2011) for years after that. We then compared the estimated caps to the total outlays that CBO projects for the covered programs in 2016 through 2021 under its March 2011 budget baseline.

[3] Arloc Sherman, "Safety Net Effective At Fighting Poverty But Has Weakened For the Very Poorest," Center on Budget and Policy Priorities, July 6, 2009. http://www.cbpp.org/files/7-6-09pov.pdf.

Programs to Help People Support Themselves Through Work Also Would be Hit

The bill's sponsors portray one of its goals as moving people from dependency to self-sufficiency through work. Analysis of the legislation shows, however, that it would *impede* efforts to help low-income Americans work, achieve self sufficiency, and secure jobs that can support their families. The bill places under the cap — and thereby sets up for deep cuts — virtually every federal program to help low-income people achieve self-sufficiency, including Pell Grants to help low-income students afford a college education, job training programs, and the Title I "education for the disadvantaged" program.

The cap also applies to programs that provide child care assistance that enables many low-income mothers to work, and thus makes it likely these programs would be subject to steep cuts. Such cuts would make it harder for many low-income mothers to hold jobs. In addition, due to the cuts it would engender in education and training programs, the bill also would make it less likely that low-income mothers (and other low-income people) would receive education and training that they need to secure and retain adequate-paying jobs.

Finally, given the magnitude of the cuts that would be required, the cap almost certainly would lead to deep cuts in assistance for all categories of poor Americans, including those who work but remain poor because their wages are low. Among the programs that would be under the cap and hence subject to hefty cuts are the Earned Income Tax Credit and the portion of the Child Tax Credit for low-income working families. The bill targets programs that serve *all* categories of low-income Americans — the working poor, the jobless poor, poor elderly people, poor people with severe disabilities, and poor children.

Cap Would Make Recessions More Frequent and Deeper

The cap would harm the U.S. economy by effectively preventing many programs that economists call "automatic stabilizers" from functioning appropriately during downturns. Today, when the economy weakens and unemployment and poverty increase, programs such as food stamps and Medicaid respond automatically by serving the additional people who qualify, and their costs rise accordingly. Under the cap, however, either these programs wouldn't be permitted to respond to the increase in need or other low-income programs would have to be cut dollar for dollar in the face of rising need to fully offset those new costs.

In addition to visiting serious hardship upon millions of Americans in tough economic times, these limitations on automatic stabilizer programs would damage the economy. The increased expenditures for programs like food stamps and Medicaid that occur automatically when the economy enters a recession help to keep the economy from contracting still more, because they inject purchasing power into the economy that offsets some of the reduction in purchases by consumers and businesses. Without the automatic increases in these programs (or if cuts were made in other programs to offset these increases), recessions would be longer and deeper, and even more Americans would lose their jobs when the economy turns down.

How the Cap Would Function

Starting the first fiscal year after the unemployment rate dips below 6.5 percent in one or more months, each year's congressional budget resolution would be required to impose a cap on total "means-tested welfare spending" at no more than the 2007 level of such spending, adjusted for inflation. The caps set in the budget resolution would cover five or ten years, depending on whether the budget resolution itself covers five or ten years.

Because of imprecise drafting, it is not clear whether the cap's adjustment for inflation since 2007 would occur *every* year or only for the years up to the year when the cap first takes effect, with the cap remaining constant in nominal terms after that. Over the initial five years, the size of the cuts, which would be extremely large in either case, would not be dramatically affected by whether the cap is adjusted each year for inflation. But the longer the caps remained in place, the more a failure to continue to adjust for inflation would affect the magnitude of the required cuts. (Note: this report's estimates of the size of the cuts in individual programs and in low-income programs overall assume that the inflation adjustment *would* remain in effect for all years; if it would cease when the cap first took effect, the cuts in these programs would be even deeper than is described here.)

The budget resolution would be required to divide the cap into discretionary and mandatory sub-caps. The *discretionary* spending sub-cap for the coming year would be enforced by limiting appropriations for means-tested programs for that year to the level of the sub-cap. The *mandatory* sub-caps for the next five or ten years would be enforced both by placing limits on the legislation that committees would be allowed to bring to the House and Senate floors and through "reconciliation instructions" that would direct committees to make cuts of sufficient magnitude to reduce total mandatory spending to the level of the sub-cap.

Cuts on a Program-by-Program Basis

We have estimated the depth of the cuts that would be made in individual programs if all of the low-income programs were cut by the same percentage (and that percentage were set at the level required to shrink costs sufficiently to fit within the cap). To be sure, policymakers could cut some of these programs less sharply. But then they would have to cut other low-income programs even more severely.

If all programs subject to the cap were cut by the same percentage:

- Medicaid and CHIP would be cut $144 billion in 2016 and more than $1.1 trillion over the cap's first six years (2016-2021).
- The Supplemental Nutrition Assistance Program (formerly called food stamps) would be cut $24 billion in 2016 and $153 billion over six years.
- Child nutrition programs, including school lunches for low-income children, would be cut $7.5 billion in 2016 and $55 billion over six years.
- The Earned Income Tax Credit would be cut $15 billion in 2016 and nearly $100 billion ($97.5 billion) over six years.

Proponents' Claims Regarding Low-Income Programs Are Misleading

RSC materials touting this legislation claim that poverty is no lower now than it was in the 1970s and that this shows the low-income programs have failed. This claim is invalid for several reasons. First, it relies on the federal government's official measure of poverty, which *does not count* benefits provided through the principal low-income programs that have grown substantially since the 1970s — Medicaid, food stamps, the Earned Income Tax Credit, low-income housing, assistance, and the like. Most analysts across the political spectrum favor alternative measures of poverty that count such benefits (except for health insurance coverage) as income; under such measures, poverty has declined substantially since the 1970s when one compares years with comparable economic conditions.

Second, the claim overlooks findings that low-income Americans have seen major improvements in areas like malnutrition, infant mortality, and access to health care in recent decades, in substantial part due to the strengthening of Medicaid, food stamps, WIC, and other such programs.

Finally, the claim overlooks the fact that since the 1970s, wage and income inequality have widened substantially and real incomes before government benefits for the bottom fifth of Americans have actually declined — a development that has pushed poverty up and that low-income programs have had to work harder to mitigate.

- The Supplemental Security Income program for the aged and disabled poor would be cut $23 billion in 2016 and $148 billion over six years.
- Pell Grants to enable low-income students to get a college education would be cut $12 billion in 2016 and $140 billion over six years.
- Education programs for low-income children would be cut $6 billion in 2016 and $41 billion over six years.
- Job training programs would be cut $1.4 billion in 2016 and $10 billion over six years.
- Head Start and child care programs would be cut $4.5 billion in 2016 and $46 billion over six years.

Bill's Other Provisions Are Also Harsh

While the bill's central feature is its expenditure cap, the bill also contains other provisions, particularly provisions affecting the SNAP (or food stamp) program. A full examination of those provisions lies beyond the scope of this paper. It bears noting here, however, that a number of those provisions are extremely harsh.

For example, the bill would disqualify poor children from food stamps unless their parents also were eligible and participating in the program. Thus, poor children who are U.S. citizens but whose parents are ineligible (because of their immigration status or for other reasons) would be terminated from the program. In addition, the bill would give states financial incentives to reduce the number of people receiving food stamps to below a state's 2006 caseload level, regardless of whether poverty and unemployment in the state were higher than they had been in 2006 or whether the state's food stamp participation rate was very low in 2006 and had subsequently improved. These incentives would encourage states to serve a smaller share of the people who meet all of the program's eligibility criteria.

Conclusion

The RSC bill would single out programs for the poor for the most draconian cuts in U.S. history and subject them to harsher treatment than any other part of the budget. It would produce substantial increases in poverty and hardship.

Appendix
Methodology for Computing Estimated Budget Reductions

The RSC bill (H.R. 1167) sets an overall cap on "means-tested welfare spending." It defines this category as spending by a program "that is designed specifically to provide assistance or benefits exclusively to low-income Americans," excluding programs that satisfy certain criteria, such as being "designed exclusively or primarily for veterans of military service." It also lists about 75 budget areas, programs, and accounts that "shall be considered to be means-tested welfare spending."

To calculate the cap set by H.R. 1167, and how much would have to be cut from projected spending to comply with the caps, we first identified the specific budget accounts or portions of accounts that would be subject to the cap under the definition included in the bill. We started with the list of budget areas, programs, and accounts listed in the bill. Because that list includes terms (such as "programs") and names of programs or budget activities that are not clearly defined for budget purposes (such as "General Assistance to Indians") — and because the items listed include some broad areas that cover all or parts of several budget accounts or programs that constitute only a portion of spending in a budget account — we used our best judgment in identifying exactly the spending covered by the list. We then identified other programs or activities that were not specifically referenced in the bill but fall within the bill's definition of "means-tested welfare spending." This added some programs that would be subject to the cap, but the spending from these programs constitutes only a very small portion of the overall spending subject to the cap.

We calculated the spending on the covered programs in fiscal year 2007, based on historical budget data, and adjusted the spending as required under the bill for inflation since 2007 through the fiscal year before the fiscal year to which a cap applies. In making this adjustment, we used actual inflation data through calendar year 2010 and the Congressional Budget Office's January 2011 projections of inflation beyond 2010. We used the Congressional Budget Office's March 2011 baseline projections to determine what "means-tested welfare spending" subject to the cap would be in years in which the cap is likely to apply and how much such spending would have to be cut in order to comply with the cap each year through 2021.

Because of the uncertainty about how the definition of "means-tested welfare spending" would actually be interpreted, the precise amounts subject to the cap and the cuts needed to comply with the cap could vary slightly even if CBO's projections of inflation and the growth of spending are on the mark and there are no changes in policies before the caps apply. But, because the overwhelming bulk of spending subject to the cap is clear (most is in a relatively few programs that are clearly subject to the cap, such as Medicaid and SNAP), the basic conclusion and the approximate size of the cuts required are not in doubt.