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HOUSE BUDGET BILLS WOULD TARGET PROGRAMS FOR LOWER-INCOME FAMILIES WHILE BREAKING LAST SUMMER'S BIPARTISAN DEAL

Package Would Enable Defense Funds to Be Set Above the Agreed-to Caps, While Non-Defense Discretionary Funds Are Cut Nearly As Much As Under Sequestration

by Robert Greenstein and Richard Kogan

The House Budget Committee approved on May 7 a package of two bills that would alter the bipartisan deal between President Obama and congressional leaders that was reflected in last summer's Budget Control Act (BCA). It would eliminate the "sequestration" (automatic cuts) in discretionary programs scheduled for 2013 as a result of the failure of the Joint Select Committee on Deficit Reduction (the "supercommittee") to achieve $1.2 trillion in deficit reduction, and replace it with a package that is strikingly unbalanced in how it affects different parts of the budget and, in particular, programs for low- and moderate-income people.[1]

The House Budget Committee package contrasts with the Obama Administration's proposal—which would eliminate all sequestrations through 2021 (rather than just the discretionary part of sequestration and just in 2013), and would instead achieve more than the scheduled savings with a balanced package of revenue increases and reductions in mandatory programs that would not have a substantial impact on the most vulnerable families and individuals.

The legislation that the House Budget Committee approved would also break the agreement on the BCA caps — which set separate limits on the overall amounts of defense and non-defense discretionary funding allowed each year from 2013 through 2021 — by reducing the total amount of discretionary funding allowed for fiscal year 2013 by $19 billion while allowing an *increase* in fiscal year 2013 defense funding *above* the level of the BCA defense cap.

Under the BCA, a sequestration of $109 billion in fiscal year 2013, split equally between defense and non-defense programs, will take effect in January. The Budget Committee-approved package would cancel the sequestration of discretionary programs, leave the sequestration of mandatory programs in place (except for a few small mandatory defense programs), drop the overall 2013 cap on discretionary funding *below* the BCA's level, and cut mandatory programs by $309 billion over ten years through a "reconciliation" bill.

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[1] For a more detailed examination of the legislation's changes to sequestration, see Richard Kogan, "A Closer Look at Chairman Ryan's 'Sequestration' Proposal," Center on Budget and Policy Priorities, http://www.cbpp.org/cms/index.cfm?fa=view&id=3770.

All told, the two bills would cut programs for low- and moderate-income people disproportionately and allow non-defense discretionary programs to be cut nearly as deeply as if full sequestration took place — while allowing defense funding to be boosted *above* the BCA's cap and failing to close or narrow a single tax loophole.

More specifically:

- The House legislation would repeal the BCA "firewall" establishing separate defense and non-defense funding caps for fiscal year 2013 and also cut the overall discretionary funding cap more than $19 billion below the BCA level, matching the discretionary funding levels in the budget plan of House Budget Committee Chairman Paul Ryan that the House passed in March. Under the Ryan budget, total funding for *non-defense* discretionary programs in 2013 would be cut below the BCA caps by almost three-quarters as much as if sequestration took effect, while defense funding would be set *above* the BCA cap.

- If sequestration occurs, non-defense discretionary (NDD) appropriations will be cut *$37.2 billion* below the BCA cap, while under the House budget plan that the new package is designed to advance, NDD funding would be cut *$27.3 billion* below the BCA cap. In other words, overall NDD funding would be cut 74 percent as much. Meanwhile, defense would not only avoid its scheduled sequestration, it would receive *$8.2 billion more* than the BCA allows.

- In offsetting the costs of cancelling the scheduled sequestration of discretionary programs, the new House legislation does not close or narrow any tax expenditures, and does not secure any savings from much-criticized programs like farm price supports.[2] Instead, it relies disproportionately on cutting assistance for low- and moderate-income families, children, and elderly and disabled people.

- Some $128 billion of the $309 billion in mandatory program savings — 42 percent of the total — comes from cutting assistance targeted to low- and moderate-income families, including SNAP (formerly known as food stamps), Medicaid, the Children's Health Insurance Program (CHIP), and social services for vulnerable children and elderly and disabled people.

Policymakers could cancel sequestration and offset the lost savings in other ways, including balanced approaches that raise revenues — especially by closing unwarranted tax breaks — and secure entitlement savings in ways that don't increase poverty and hardship. The House legislation, however, charts the opposite path.

Re-Writing the Caps and Sequestration

The Budget Control Act established caps on funding for discretionary programs (e.g., for defense as well as for non-defense programs such as education, biomedical research, veterans' health, and others). Separate caps apply to defense and non-defense (NDD) funding. The caps first became effective for fiscal year 2012, and Congress adhered to them. They remain in effect through 2021. Relative to the discretionary funding levels for 2010, as adjusted for inflation, the BCA caps reduce funding by more than $1 trillion over ten years.

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[2] The overall Ryan budget secures some savings in farm programs, but the reconciliation bill includes none of them.

The BCA also established a "supercommittee" to negotiate at least $1.2 trillion in deficit-reduction policies and a backup "sequestration" if the supercommittee failed to produce the required $1.2 trillion in deficit reduction. With the supercommittee's failure, sequestration is scheduled to first take effect on January 2, 2013.[3]

The House legislation would cancel the defense and NDD sequestrations scheduled for 2013, while leaving in place the sequestrations in Medicare and certain other mandatory programs.[4] (It would not affect the sequestrations scheduled for 2014 through 2021.) The legislation also would merge the defense and NDD caps for 2013 into a single cap covering all discretionary funding and reduce the merged 2013 funding cap by $19 billion.

Because the legislation merges the two caps, the House and Senate Appropriations Committees (and then Congress as a whole) would set the actual allocation of funding between defense and NDD programs in 2013. But, through this legislation, the House Republican leadership clearly intends to write appropriations bills that conform to the defense and NDD levels in the House budget. This legislation removes all statutory obstacles to doing that.

The legislation would enable Congress to boost non-war defense funding $8 billion above the existing defense cap and $56 billion above the scheduled post-sequestration level. At the same time, Chairman Ryan and House Republican leaders intend for Congress to lower NDD funding $27 billion below the existing NDD cap, setting it just $10 billion above the scheduled post-sequestration level.

Budget Cuts in Programs for Low- and Moderate-Income Households

The House legislation contains an array of cuts covering a swath of basic assistance programs. Several of these cuts stand out.

- **SNAP.** Charged with finding $33 billion in savings, the House Agriculture Committee elected to exceed its target and to cut SNAP by $36 billion while shielding all other programs in its jurisdiction.[5] Despite calls from across the political spectrum for reforming farm subsidies — three-quarters of which go to the largest, most profitable farms, according to Agriculture Department data — the committee declined to take a single dollar from farm subsidies.[6]

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[3] For a detailed description of how sequestration will work, see Richard Kogan, "How the Across-the-Board Cuts in the Budget Control Act Will Work," revised April 27, 2012, http://www.cbpp.org/files/12-2-11bud2.pdf.

[4] The sequestration also makes automatic cuts to three tiny mandatory funding streams in the defense budget function; the House bill would also cancel those automatic cuts for 2013.

[5] Stacy Dean and Dottie Rosenbaum, "House Agriculture Committee Proposal Would Cut 2 Million Off Food Stamps & Reduce Benefits for More Than 44 Million Others," Center on Budget and Policy Priorities, April 18, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3749.

[6] These large commercial farms received an average annual government payment of more than $30,000 a year in 2009, while having an average annual household income of over $160,000. See, USDA, "Farm Income and Costs: Farms Receiving Government Payments," updated February 14, 2011, http://ers.usda.gov/Briefing/FarmIncome/govtpaybyfarmtype.htm.; USDA, "Farm Household Economics and Well-

House Policies Ill-Advised for the Economy, As Well As for the Poor

The House last month passed a $46 billion "small business" tax cut, advertised as a job-creating measure. Yet according to standard "multiplier" or economic "bang-for-the-buck" estimates like those from CBO and Moody's Analytics, the SNAP cuts in the House reconciliation bill would likely do more damage to economic growth and job creation than any boost the tax cut would generate.

CBO consequently ranks policies like providing SNAP (and unemployment benefits) at the top of its list for effectiveness in boosting growth and job creation in a weak economy. CBO ranks business tax cuts like those the House passed as among the least effective ways to boost a weak economy. That's because SNAP benefits go to low-income people who will spend virtually every additional dollar they receive, while giving businesses a tax cut does not remedy the main problem businesses now face — that customers are spending less money.

Mark Zandi, chief economist for Moody's Analytics, has reached similar conclusions. Based on estimates such as CBO's and Zandi's, it would take roughly $6 to $8 of business tax cuts to generate the same economic growth and job creation as $1 of SNAP benefits.

It's also worth noting that SNAP benefits go overwhelmingly to people living in poverty, while nearly *half* (49 percent) of the House-passed tax cut would go to people making over $1 million a year, according to the Urban Institute-Brookings Institution Tax Policy Center — including many affluent doctors, lawyers, and stockbrokers who don't fit most Americans' image of a small business owner.

The SNAP cuts would reduce or eliminate benefits for *all* SNAP households, including the poorest, the very old, and the disabled. Two million people, disproportionately people in low-income working families and the elderly, would lose SNAP benefits entirely. The other 44 million individuals receiving SNAP assistance would see their benefits cut. Every family of four receiving SNAP assistance would face a benefit cut of $57 a month this September.

The legislation also would cut federal funding by *72 percent* for the SNAP employment and training program — which helps jobless SNAP recipients find work — thereby making it harder for these people to obtain jobs. In addition, the SNAP cuts in the House package would cause 200,000 low-income children to lose free school meals, the Congressional Budget Office estimates, because of interactions between SNAP and the school lunch program.

- **Social Services.** The bill would terminate the Social Services Block Grant (SSBG), producing $17 billion in savings over ten years.[7] The current block grant, established under President Reagan, provides $1.7 billion a year to states primarily to: 1) help people become more self-sufficient, especially by providing child care assistance to low-income working mothers; 2) prevent and address child abuse and provide adoption services; and 3) provide community-based care for frail elderly and disabled people so they can remain in their homes rather than

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Being: Farm Household Income," updated February 13, 2012, http://ers.usda.gov/Briefing/WellBeing/farmhouseincome.htm.

[7] Indivar Dutta-Gupta, LaDonna Pavetti, and Ife Finch, "Eliminating Social Services Block Grant Would Weaken Services for Vulnerable Children, Adults, and Disabled," Center on Budget and Policy Priorities, May 3, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3765.

being placed in institutions. About 23 million people, half of them children, receive services that SSBG supports. The services that SSBG funds are focused heavily on low- and moderate-income families and communities.

House leaders' claim that SSBG duplicates other programs does not withstand scrutiny. The Government Accountability Office's (GAO's) recent comprehensive survey of duplication and overlap in the federal government makes *no mention* of any duplication related to SSBG.[8] In fact, the GAO report's sole mention of SSBG comes when the GAO points out that there is insufficient funding to provide child care assistance to all low-income working families that qualify for it, even with several federal funding streams supporting child care. Only one in six eligible low-income working families receives any federally supported child care assistance, according to Department of Health and Human Services data.[9] Eliminating SSBG would worsen that shortage. It also would make it more difficult for many vulnerable elderly and disabled people to remain in their homes.

- **Health Insurance.** The legislation would scale back the support that many near-poor and modest-income families and individuals would receive under the Affordable Care Act (ACA) to help them purchase insurance in the new health insurance exchanges.[10] The Joint Committee on Taxation estimates these changes would cause 350,000 people to forgo coverage. The changes would also make it more difficult for the insurance exchanges to function effectively.

  Specifically, the legislation would substantially increase the repayment charges imposed at tax time on many people who have received subsidies to help them afford coverage during months of the year when their incomes are low but whose incomes increase later in the year because they have obtained a job, gotten a promotion, gotten married, or for other reasons. As a result, many people who are unemployed and receive subsidies for part of the year, but then find a job with employer coverage and cease receiving subsidies — as well as many people who get subsidies but then get married and join their spouse's plan — would owe the IRS thousands of dollars at the end of the year. (See the box on page 5 for further discussion of these issues.)

  For example, consider a low-wage mother with two children whose earnings equal 150 percent of the poverty line (a little over $28,500 in today's dollars and using today's poverty line) who receives subsidies to buy insurance for the first nine months of the year but gets married at the end of September, enrolls in coverage through her husband's plan, and stops receiving subsidies. Under the House bill, if the married couple's combined income for the year equaled a little over 350 percent of the poverty line, the couple would be required to pay the IRS *almost $5,000* when it filed its tax return.

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[8] Government Accountability Office, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, February 2012, http://www.gao.gov/assets/590/588818.pdf.

[9] ASPE Staff, *Estimates of Child Care Eligibility and Receipt for Fiscal Year 2006*, Department of Health and Human Services, April 2010, http://aspe.hhs.gov/hsp/10/cc-eligibility/ib.shtml.

[10] Judith Solomon and Robert Greenstein, "Provision in House Reconciliation Bill Would Cause 350,000 People to Forgo Health Coverage and Could Jeopardize Health Reform," Center on Budget and Policy Priorities, April 18, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3748.

Repayments of Health Insurance Subsidies

Federal programs that provide means-tested assistance on a monthly basis generally base a household's (or individual's) eligibility on its monthly income. In contrast, under the Affordable Care Act, subsidies to help modest-income families afford monthly insurance premiums will initially be based on a family's expected income for the year — which typically will reflect its current rate of income — but then be recalculated retrospectively when the family files its tax return to reflect the income the family turned out actually to receive over the course of the year. (This process will be followed because the subsidies to help people afford insurance will be provided as tax credits, and the tax system is based on annual income as reflected on tax returns.)

This means that many families and individuals who receive subsidies for a number of months during the year when their incomes are low, but whose income rises or marital status changes later in the year, could owe substantial sums back to the IRS when they file their taxes. The health reform law places some limits on the amounts that modest-income families in these situations (those with incomes below 400 percent of the poverty line) will be required to pay back to the IRS, in order to avoid imposing crushing tax burdens and causing hardship, as well as to avoid inducing many healthy people to remain uninsured so they don't risk owing large amounts to the IRS.

The House legislation would abolish those limits. It would thereby increase substantially the amounts that many families with modest incomes would have to pay to the IRS, because they had received subsidies that properly reflected their incomes during the months they got the subsidies, but their incomes subsequently increased.

> The prospect of having to pay large sums to the IRS would deter a substantial number of people from receiving subsidies in the first place and cause them to remain uninsured, especially since the amounts that they would have to pay to the IRS could be *well over five times* the penalty they would owe in 2014 under the ACA if they remained uninsured. In the example just cited, the penalty would be about $600 if the mother declined coverage for the first nine months of the year, in contrast to $4,970 that she and her spouse would owe to the IRS if she received subsidies for the first nine months of the year, when her income was low. This is why the Joint Committee on Taxation estimates this House provision would cause 350,000 people who otherwise would purchase coverage to go without it. (The provision also would substantially increase marriage penalties for some households, as the example shows.)
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> The people forgoing coverage would disproportionately be healthier than average, so the pool of people seeking coverage through the health insurance exchanges would become sicker overall. That would push up premiums for insurance purchased through the exchanges and thereby weaken the exchanges' ability to function effectively.

The House legislation also contains other cuts in programs for low- and moderate-income families. For example, it would make substantial numbers of low-income children who are U.S. citizens but live in immigrant families with working parents ineligible for the Child Tax Credit. This provision of the House legislation would *retain* Child Tax Credit eligibility for the same children *if* their parents are more affluent, but not if they are low income. The legislation also includes cuts in Medicaid and the Children's Health Insurance Program, among other programs — including provisions that would allow states to scale back their Medicaid eligibility criteria and cause substantial numbers of low-income people to lose Medicaid and become uninsured between now and 2014, and a provision ending performance bonuses to states that simplify and improve their CHIP and Medicaid programs so that they can reach and enroll more uninsured low-income children. These Medicaid and CHIP cuts would likely cause more low-income parents and children to be uninsured.

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The report that the co-chairs and a majority of members of the "Bowles-Simpson" commission issued in December 2010 emphasized, as one of its core principles, that deficit reduction should not harm the disadvantaged or increase poverty, which is already higher in the United States than in most other advanced countries. The Bowles-Simpson plan did *not* call for reductions in any low-income programs, outside Medicaid. Similarly, last year, a group of Christian leaders ranging from the Catholic Bishops' Conference and the Episcopal Church to the Salvation Army and the National Association of Evangelicals issued a call for policymakers to safeguard poor families and individuals in deficit reduction and to draw a "circle of protection" around programs targeted on them. The House legislation fails on these tests.