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TOOMEY BUDGET SIMILAR TO HOUSE-PASSED RYAN BUDGET

Contains Deep Cuts in Low-Income and Non-Defense Discretionary Programs And Likely Tax Cuts for the Most Well-Off

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The Senate may take up, as early as this week, a budget proposal from Senator Patrick J. Toomey (R-PA)[1] that is similar in most important respects to the budget resolution from House Budget Committee Chairman Paul Ryan (R-WI), which the House passed on March 29.[2] Like the Ryan budget, the Toomey plan (S. Con. Res. 37) would protect and extend tax cuts that disproportionately benefit higher-income Americans, while reducing deficits through steep cuts in programs that benefit average citizens and people on the bottom rungs of the economic ladder — from low-income programs like Medicaid, to Medicare, to the entire array of non-defense discretionary programs, such as Head Start and food safety inspections.

The main features of the Toomey plan are:

- **Deficit reduction solely through spending cuts.** Like Chairman Ryan, Senator Toomey proposes to achieve *100 percent* of his planned deficit reduction through cuts in federal programs, while (at best) maintaining revenues at the low level that would result from making President Bush's 2001 and 2003 tax cuts permanent.

- **New tax cuts on top of Bush tax cuts.** Like Chairman Ryan, Senator Toomey would cut individual income tax rates well below the Bush rates; he would cut all rates by one-fifth, dropping the top rate from 35 percent to 28 percent.[3] Also like Ryan, he says he would offset that cost (but not the cost of extending the Bush tax cuts) by reducing or eliminating various tax expenditures, without making the tax system less progressive, though Senator Toomey fails to

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[1] Senator Pat Toomey, *Restoring Balance: Fiscal Year 2013 Budget Resolution,* April 18, 2012, http://www.toomey.senate.gov/pdf/restoringbalance.pdf.

[2] Senate Republicans are expected to try this week to force debate on a budget resolution on the Senate floor, although there is no realistic likelihood that the House and Senate will agree on a fiscal year 2013 budget plan. If they succeed, Senator Toomey is expected to offer his plan for consideration.

Passage of a budget resolution in one house by itself has no impact, since a budget resolution does not take effect unless the House and Senate both agree to it or one or the other body "deems" that the resolution go into effect in that body. The rules of the House allow the House to deem a resolution into effect with a majority vote, but in the Senate, such an approach effectively requires agreement between the majority and minority (and unanimous consent or at least 60 votes).

[3] Chairman Ryan would reduce the top income tax rate to 25 percent.

specify which ones. As explained below, the proposed reductions in tax rates would likely lead to further reductions in revenues (and increases in deficits), to a less progressive tax code with tax *increases* on low- and middle-income families, or to some of both.

- **Large cuts in non-defense discretionary programs.** Like Chairman Ryan, Senator Toomey would cut funding for non-defense discretionary programs by $1.2 trillion over ten years *below* the levels agreed to in last year's Budget Control Act (BCA). It will be difficult to comply with the BCA limits themselves without damaging important programs such as law enforcement, veterans' health care, education, and biomedical and scientific research. Cutting funding by an additional $1.2 trillion would make it almost impossible to avoid such outcomes.

- **Replacing guaranteed Medicare benefits with vouchers.** Senator Toomey's proposal adopts the long-term Medicare changes in the Ryan budget. They include replacing Medicare's guarantee of health coverage with a premium support payment, or "voucher," that beneficiaries would use to help buy insurance. The vouchers would likely fail to keep pace with health care costs and thus would purchase less coverage with each passing year, pushing more costs on to beneficiaries.

- **Medicaid block grant and large cuts.** Senator Toomey's proposal would reduce Medicaid by about $990 billion over the next ten years — *$180 billion more* than under the Ryan budget — cutting federal funding for state Medicaid programs *40 percent* below current-law levels by 2022. This 40-percent reduction would be on top of the reductions that the Toomey budget (like Ryan's) would secure by repealing health reform, including its Medicaid expansion and subsidies to help people with modest incomes afford to purchase health insurance.

- **Large cuts in entitlement programs.** The Toomey plan contains roughly the same deep level of cuts as the Ryan budget in mandatory (or entitlement) programs other than health-care programs; its cuts in this area total about $1.2 trillion over ten years. Senator Toomey singles out means-tested programs for significant cutbacks. He would convert an unspecified list of these programs, likely including SNAP (food stamps) and possibly Supplemental Security Income, into block grants to states and cap their overall spending. As a result, his plan would prevent these programs from responding when the need for income assistance expands due to a recession or for other reasons.

- **Defense spending at BCA levels.** *Unlike* the Ryan budget, the Toomey plan conforms to the Budget Control Act's caps on defense spending. Ryan raises defense spending above the current caps.

Revenues

Senator Toomey and Chairman Ryan take a similar approach to revenues. Both assume a level of revenues consistent with a continuation of current policies, including the Bush tax cuts, and propose large reductions in individual income tax rates *below* the Bush levels — which they say will be paid for by eliminating or reducing unspecified tax preferences (or "tax expenditures").[4]

[4] There is no commonly accepted definition of "current policy" for revenues. Various organizations and individuals — the Congressional Budget Office, the Committee for a Responsible Federal Budget, the Center on Budget and Policy

This proposal is troubling in two respects. First, the current-policy level of revenues is inadequate to meet the funding needs of the federal government. Senator Toomey and others justify this level by saying that it essentially equals the average level of revenues as a share of the economy over the last 40 or 50 years. But the historical level was not adequate in the past and will be even less adequate in the future. The budget was balanced in only five of the past 50 years, and in many years, deficits were unacceptably high.

In addition, federal funding needs are greater now — and will be greater still in coming years and decades — than they have been over the course of the last 50 years. Forty or 50 years ago, for example, no one had heard the term "homeland security," while we now spend tens of billions on it. The federal government has taken on additional responsibilities in K-12 education, particularly in helping states and localities meet the requirements of the bipartisan No Child Left Behind Act. And the large, continuing increases in per-person health care costs throughout the U.S. health care system, as well as the aging of the population, are raising the cost of providing income support and adequate health care to older people and will continue to do so.

In short, revenues at 1960s or 1970s levels are not sufficient to meet 21st century needs.

Second, Senator Toomey's proposal would likely lead to revenues that are *below* the historical average — and to a tax system less progressive than the one we have today. He would cut all individual income tax rates 20 percent below their current levels (thus, the top rate would fall from 35 percent to 28 percent).[5] He would maintain the current estate-tax parameters — thereby extending the lavish estate-tax cuts provided in 2010 to the estates of the wealthiest one-quarter of 1 percent of people who die — rather than go back to the parameters in effect in 2009 (or 2001). He also would maintain (or lower) the Bush-era preferential rates for capital gains and dividends, the benefits of which go overwhelmingly to high-income taxpayers.

Senator Toomey's proposed income tax rate reductions would be extremely costly. Cutting rates by 20 percent below the Bush levels would reduce revenues by $268 billion in 2015, or about *$2.6 trillion* over the next ten years.[6] Toomey says his plan "fully offsets lost revenue for each tax bracket by limiting deductions and exclusions" but provides no details, and, as noted, he would maintain the preferential capital gains and dividends rates — the single biggest tax break for very-high-income taxpayers. He also says that "[tax] preferences directed toward lower-and middle-income families,

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Priorities, the economists William Gale and Alan Auerbach, and others — have produced baseline projections using somewhat different assumptions about which expiring provisions are continued under "current policy." The materials released by Senator Toomey do not specify his assumptions about current policy. This analysis assumes that the current-policy level of revenues is equal to the level of revenues in Senator Toomey's plan, since he says he would offset the effects of the tax cuts that he proposes beyond current policy. That level of revenues is higher than the level Chairman Ryan assumes or CBPP has used in other analyses.

[5] If the upper-income Bush tax cuts are allowed to expire as scheduled at the end of this year, the top rate would revert to 39.6 percent.

[6] CBPP calculations based on estimates from the Tax Policy Center, Table 11-0394, http://www.taxpolicycenter.org/numbers/Content/PDF/T11-0394.pdf. This estimate assumes that the alternative minimum tax rates will also be reduced by 20 percent (with the AMT's current income exclusion continued and adjusted for inflation). Otherwise, Toomey's reductions in regular income tax rates would provide little benefit to many taxpayers, who would be newly subject to the AMT or pay a considerably higher AMT amount, which would cancel out much of the effect of the tax-rate reductions.

such as the child tax credit and earned income tax credit, will remain unchanged." (As explained below, however, Toomey's budget apparently would not extend certain expansions of the child tax credit and earned income tax credit for low-income working families.)

This lack of specifics about what tax expenditures should be cut is indicative of how hard it will be to shrink them enough to offset the large costs of Senator Toomey's reductions in tax rates. Policymakers would have to cut large, popular tax expenditures — such as the exclusion of employer-provided health insurance and the deductions for mortgage interest payments, state and local taxes paid, charitable contributions, and high medical expenses — very sharply to produce anything close to the required savings. The Urban-Brookings Tax Policy Center has estimated that a 46 percent cut in the individual tax expenditures listed above would generate $2.4 trillion in revenue over the first decade (as noted, the Toomey rate cuts would cost $2.6 trillion).[7] A cut in tax expenditures of this magnitude is highly unlikely politically, however, especially when the plan's author is himself unwilling to identify *any* specific tax breaks he would close.

If, as is likely, reductions in tax expenditures are not sufficient to offset the full cost of the tax-rate reductions, revenues would fall below current-policy levels. And in that case, either deficits would be higher than proposed or the already extremely deep cuts in programs under the Toomey budget would have to be even steeper.

In addition, Senator Toomey's pledge to maintain the current progressivity of the tax code would prove very difficult — and likely impossible — to fulfill. His proposed 20-percent reduction in tax rates would provide a huge windfall to very-high-income taxpayers: the Tax Policy Center estimates that people who make more than $1 million a year would receive an average tax cut of $92,000 a year, or 100 times the benefit that an average family earning between $50,000 and $75,000 would receive. Even if policymakers sharply reduced tax expenditures such as the mortgage interest deduction, those reductions would not come close to offsetting the huge tax cuts that Toomey's reductions in tax rates would provide to high-income taxpayers.

Eliminating the preferential treatment of capital gains and dividends is the one change in tax expenditures that, in combination with other tax-expenditure reductions, might offset enough of the rate cut for high-income taxpayers to maintain the progressivity of the tax code — and thus avoid having to *raise* taxes on lower- and middle-income families if the changes are to be revenue-neutral. The Tax Reform Act of 1986 enacted under President Reagan, which reduced the top income rate to 28 percent, maintained the progressivity of the tax code only by taxing capital gains and dividends as ordinary income. But Senator Toomey has ruled that out.

Discretionary Spending

The Toomey budget, like the House-passed budget resolution, would make massive new cuts in non-defense discretionary spending, which funds everything from veterans' health care to medical and scientific research, highways, education, national parks, food safety, clean air and water

[7] Daniel Baneman, Joseph Rosenberg, Eric Toder, and Roberton Williams, *Curbing Tax Expenditures,* Tax Policy Center, January 30, 2012, http://www.taxpolicycenter.org/UploadedPDF/412493-Curbing-Tax-Expenditures.pdf. This estimate assumes current-law tax rates; the proposal would raise significantly less than $2.4 trillion relative to either current-policy tax rates or the lower rates in the Toomey plan.

enforcement, and border protection and other law enforcement. This part of the budget also funds a number of programs to assist poor or otherwise vulnerable people, such as low-income housing, child care for the working poor, Head Start, the WIC nutrition program for pregnant women and young children, and home-delivered meals for seniors. The Budget Control Act of last August cut funding substantially for non-defense discretionary programs by imposing tough annual budget caps. The Toomey budget would cut these programs nearly $1.2 trillion *below* the caps, about the same reduction as in Ryan's plan.[8]

In fact, the Toomey budget would slash funding for non-defense discretionary programs over the coming decade by $800 billion below the level to which that funding would fall if the Budget Control Act's automatic, across-the-board cuts ("sequestration") occurred every year through 2021 as scheduled. It would thereby put core government functions at substantial risk.

In one of the few significant departures from the House-passed budget resolution, Senator Toomey proposes to abide by the Budget Control Act's caps on defense spending. The Ryan budget, in contrast, would increase defense funding by about $230 billion above the caps.

Medicare

Senator Toomey's budget adopts the long-term Medicare changes included in the House-passed budget resolution. They include replacing Medicare's guarantee of health coverage with a flat premium-support payment, or voucher, that beneficiaries would use to purchase either private health insurance or a form of traditional Medicare. Premium support would apply to all new beneficiaries starting in 2023 and to all other beneficiaries who chose to participate. The House plan, and presumably the Toomey budget, also would raise Medicare's eligibility age from 65 to 67. Together, these changes would shift substantial costs to Medicare beneficiaries and (with the simultaneous repeal of health reform) leave many 65- and 66-year-olds without health coverage.[9]

The Toomey plan, like the House budget, would repeal health reform, apparently including its improvements in Medicare benefits — notably its closure of the "doughnut hole" in Medicare prescription drug coverage and its coverage of preventive services without cost sharing. These repeals would adversely affect current Medicare beneficiaries, as well as those not yet eligible.

The Toomey budget also includes a few other provisions related to Medicare. It would provide funding to prevent the large cuts in physician payments required by Medicare's sustainable growth rate (SGR) formula. It would apparently allow the Budget Control Act's 2-percent "sequestration" cuts in Medicare to go into effect starting in January. It would raise Medicare's income-related premiums for more-affluent beneficiaries, as the Obama Administration has proposed in its budget. It also would impose limits on medical malpractice litigation, including caps on noneconomic and punitive damages.

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[8] The Toomey budget resolution specifies levels for non-defense discretionary programs each year through 2022. These funding levels are $1.2 trillion below the levels in the CBO baseline that shows the overall funding levels for these programs under the Budget Control Act's caps before sequestration.

[9] For a detailed discussion of the House Medicare proposals, see Paul N. Van de Water, *Medicare in the Ryan Budget,* Center on Budget and Policy Priorities, March 28, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3731.

Medicaid

The Toomey budget plan proposes to convert Medicaid into a block grant starting in fiscal year 2013 (see box) and repeal the coverage expansions included in the health reform law.[10] The proposed block grant would slash Medicaid funding by about $990 billion — or 27 percent — over the next ten years, relative to current law. Toomey would cut another $1.7 trillion by repealing the health reform law's Medicaid expansion and its subsidies to help low- and moderate-income people purchase health insurance.

By 2022, federal Medicaid funding would be *40 percent below* what states would receive that year under current law — not counting the additional reductions from repealing the Affordable Care Act's coverage expansions. The percentage reductions in Medicaid would grow still larger each year after that.[11]

These funding cuts are even more severe than those in the Ryan budget, which would block-grant Medicaid and cut federal funding by $810 billion — or 22 percent — over the next ten years. By 2022, federal funding under the Ryan budget would be 34 percent lower than under current law (not counting the additional cuts from repealing health reform's Medicaid expansion).[12]

States would find it virtually impossible to compensate for the steep funding reductions under the Toomey budget without heavily restricting Medicaid eligibility and making deep cuts in payments to health care providers. The Urban Institute estimates that the Medicaid block grant in last year's House-passed budget plan — which is very similar to this year's Ryan block-grant proposal — would lead states to cut Medicaid enrollment by between *14 million and 27 million* people by 2021 (on top of the 17 million people who would no longer gain coverage due to repeal of the Affordable Care Act's Medicaid expansion) and cause states to reduce their already low Medicaid provider payment rates by about 31 percent by 2021.[13] Because the Toomey budget requires even more severe reductions in federal Medicaid funding than Ryan does, the ensuing cuts in Medicaid enrollment and provider payments would likely be even larger.

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[10] For the first five years, states' block-grant amounts would be frozen at the amount of federal Medicaid funding they received in 2012. Starting in 2018, these amounts would be adjusted annually for general inflation rather than for increases in health care costs, and with no adjustment for population growth or the aging of the population.

[11] The block-grant amounts would fall further behind expected growth in Medicaid costs each year because they do not adjust for increases in enrollment (for example, as the population ages) and because health care costs tend to rise faster than inflation.

[12] Edwin Park and Matt Broaddus, *Ryan Medicaid Block Grant Would Cut Medicaid by One-Third by 2022 and More After That*, Center on Budget and Policy Priorities, March 27, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3727.

[13] John Holahan, *et al., House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing*, Kaiser Commission on Medicaid and the Uninsured, May 2011.

Senator Toomey's Misleading Medicaid Arguments

Senator Toomey's arguments for radically restructuring and sharply cutting Medicaid do not withstand scrutiny.

Senator Toomey claims that Medicaid beneficiaries have considerably worse health outcomes than people without any health coverage. As experts have noted, however, the studies that Toomey cites do not fully account for the fact that people who enroll in Medicaid tend to be sicker, on average, than the uninsured, and some become eligible for Medicaid as a result of being sick; Medicaid coverage is therefore not the cause of their poorer health. [a]

Moreover, a path-breaking study issued last year — conducted by a group of prominent health economists, including a leading member of President George W. Bush's economic team — confirms a large body of research documenting the health benefits of Medicaid. The study finds that "enrollment in Medicaid substantially increases health care use, reduces financial strain, and improves self-reported health and well-being."[b]

The researchers looked at what happened when Oregon used a lottery to decide which low-income uninsured adults on a waiting list for Medicaid could apply for coverage. The lottery allowed the researchers to compare two groups of people who differed in only one major way (one group got Medicaid coverage and the other did not), which is the gold standard of scientific research. The study found that the people with Medicaid were more likely to receive doctor-recommended preventive care, more likely to have a regular office or clinic where they could receive primary care, less likely to have to borrow money or leave other bills unpaid in order to cover medical expenses, and less likely to experience a decline in their health.

Senator Toomey also argues that, in part because of Medicaid's low reimbursement rates, beneficiaries have poor access to health care providers. While some beneficiaries do have trouble finding specialists, the Toomey block grant would substantially *worsen* access to physicians, hospitals, nursing homes, and home health agencies. That's because, to compensate for the deep funding cuts the block grant would impose, states would likely cut payment rates heavily for health care providers. The Urban Institute estimates that states would cut reimbursements by roughly 31 percent by 2021 in response to the block grant in last year's House-passed budget, which is similar to this year's Ryan block grant, and the Toomey block grant would cut Medicaid funding even *more* deeply than the Ryan plan would. [c] As a result, the Toomey budget would likely cause more providers to stop serving low-income beneficiaries, which could jeopardize access to care.

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[a] See Austin Frakt, Aaron Carroll, Harold Pollack, and Uwe Reinhardt, "Our Flawed but Beneficial Medicaid Program," *New England Journal of Medicine*, April 21, 2011, and Leighton Ku and Christine Ferguson, "Misguided Attack on Medicaid," *First Focus*, June 2011.

[b] Amy Finkelstein and others, "The Oregon Health Insurance Experiment: Evidence from the First Year," Working Paper 17190, National Bureau of Economic Research, July 2011.

[c] Holahan *et al., House Republican Budget Plan,* Kaiser Commission on Medicaid and the Uninsured, May 2011.

Other Mandatory Programs

The Toomey budget would sharply cut spending for mandatory programs other than Medicare and Medicaid, as well. It would cut these programs by about $1.2 trillion over the next ten years relative to a current-policy baseline, roughly the same level of cuts as in the House budget.

Senator Toomey proposes to convert an unspecified list of means-tested programs, likely including SNAP (food stamps) and possibly Supplemental Security Income as well, into block grants to states. He would cap overall spending for these programs and impose a spending freeze — cutting them by $440 billion relative to their costs under current law. Because of the spending cap, his plan would prevent these programs from responding automatically when poverty — and the need for income assistance — rises due to a recession or for other reasons.

Toomey says that his plan would save an additional $305 billion from cuts in other mandatory programs: half from reductions in health and retirement benefits for federal employees, the other half from unspecified measures.

Although Toomey does not mention it, his plan apparently would not extend certain expansions of tax credits for low-income working households, thereby cutting nearly $400 billion relative to current policy. The 2001-2003 Bush tax cuts, as well as subsequent legislation, expanded the earned income tax credit and child tax credit; these expansions are scheduled to expire at the end of 2012, along with the rest of the Bush tax cuts and certain other tax-cut measures. By allowing these expansions to expire, Toomey would *raise taxes on low-income working families* at the same time that he makes permanent the extremely generous Bush tax cuts for the wealthy.