
June 16, 2017

Robert Greenstein: Speech Before the City Club of Cleveland

Remarks as prepared for delivery

Good afternoon.

Thank you for that very kind introduction, and thanks to all of you for coming today. It's a pleasure to be with you.

I feel a little like I'm coming home. As a young boy growing up in Philadelphia who loved baseball, I didn't have a local team to root for in the postseason, since the Philly teams were awful. In 1954, I was pulling for the Indians in the World Series against the New York Giants, though they fell short that year in large part because of a guy named Willie Mays.

I've also become a huge fan of your Rock and Roll museum and always look forward to visiting it.

Unfortunately, I need to turn to more somber topics today — topics that should be of grave concern to our nation, the state of Ohio, and the city of Cleveland.

I'll start by talking about federal budget and health care debates in Washington and how they may affect us, and then turn to some related policy issues here in Ohio.

Each year, the President of the United States proposes a budget for the upcoming year, and President Trump unveiled his budget plan on May 23. Congress may begin working on the budget as early as next week.

The Trump budget is different from any that I've seen from any President of either party in the 45 years I've been working on these issues.

It's startling in two basic ways.

First, it is surprisingly unprofessional.

- President Trump has outlined a very large tax cut that he says will be one of the biggest tax cuts in U.S. history. Yet his budget makes a series of assumptions that few analysts find credible — such as assumptions of soaring economic growth year after year — and uses these assumptions to claim that his massive tax cut won't cost anything at all.

- The budget also proposes to repeal the federal estate tax but then continues to count the revenue from it as though the tax would remain in place.

And second, the budget proposes the most aggressive, Robin-Hood-in-Reverse, budget and tax policies that any modern President has ever proposed.

It proposes remarkably large tax cuts for those at the top and remarkably severe cuts in social programs for those who face hard times — cuts in one program after another for working-poor families, disadvantaged children, and others, which would push millions of Americans either into poverty or deeper into it. The budget is especially harsh on people who live paycheck to paycheck or otherwise struggle to get by, and on states and localities, including places like Ohio and Cleveland.

Consider the following:

The budget embraces the House-passed bill to “repeal and replace” the Affordable Care Act, which the Congressional Budget Office estimates will cause 23 million more Americans to become uninsured, leave millions of others with less coverage, and pose particularly serious problems for many people who are aged 50 to 64 or have pre-existing conditions. In fact, it adds even more Medicaid cuts on top.

The budget also cuts nearly \$200 billion over ten years from the food stamp program, both by cutting the program directly and by forcing states to pay about one-quarter of food stamp benefit costs. So, in Ohio, this would shift \$4 billion in food stamp costs to the state budget over the coming decade.

Ohio and other states would be allowed to lessen the hit of billions of dollars to their budgets by cutting food stamp benefits further. That is, the Trump budget proposes to end the national food stamp benefit standards, which President Nixon and Congress established on a bipartisan basis after researchers in the late 1960s found rates of child malnutrition and nutrition-related diseases in parts of our country that were akin to the rates in some third-world countries. The Trump budget would turn back the clock.

In other areas, the budget would turn the clock back even further, to decades well before the 1960s. There’s a part of the federal budget known as non-defense discretionary programs. This includes most of the federal spending for education, job training, scientific research, and transportation — important building blocks for a healthy economy in the future. It also includes funds for environmental protection, food safety, national parks, veterans’ health care, and a number of important programs to help low- and modest-income families, like low-income housing assistance, Head Start, and child care.

This part of the budget has already been squeezed heavily in recent years. But the Trump budget would cut it so much more deeply that by 2027, total non-defense discretionary spending would be at its lowest level, as a share of the economy, since Herbert Hoover was president. Yes, Herbert Hoover.

By the way, one-third of federal non-defense discretionary spending is for grants to state and local governments to help them deliver important services. The Trump budget cuts would hit Ohio and

Cleveland hard. As just one of many examples, in 2018 alone, Ohio would lose \$137 million in Community Development Block Grant funding, with a substantial part of that loss by Cleveland.

And, three-fifths of the non-defense cuts in the Trump budget would come from programs for people with low or modest incomes, even though those programs make up less than one-fourth of federal spending. The President would cut these programs by a remarkable \$2.5 trillion over ten years.

The White House defends those cuts by saying that the people who benefit from these programs should go to work. But that rings hollow. Most people on these programs who aren't children or elderly or disabled are working but earn low wages. Most of the rest are temporarily out of work, but worked in the past and will work again in the future.

Moreover, if the President truly wants more people to work, why does his budget:

- Cut job training by 40 percent; and
- Make college less affordable for many low-income students, even though a college education increases people's employment prospects; and
- Cut child care, which is essential for many low-income mothers to go to work.

Rather than promote work, this budget proposes the deepest cuts in programs for working-poor and modest-income working families — many of whom voted for Donald Trump — of any budget by a modern President.

Meanwhile, it proposes lavish tax cuts for people at the top.

Now, you may have heard it said that the Trump budget is dead on arrival in Congress. Please don't believe it.

The Trump budget is, in large part, an exaggerated version of the budget plans that the very conservative House Republican majority has advanced every year since 2011, as well as of the last budget plan that the House and Senate jointly adopted, in 2015. Every one of those budgets would have deeply cut programs for Americans of limited means, deeply cut non-defense discretionary programs, shifted costs to states and localities, and provided substantial tax cuts for those at the top. None of those budgets made their way into law because Barack Obama was president. But now, the White House, House, and Senate are controlled by the same party, and they all have the same general idea about budget cuts and tax cuts.

In fact, House Republican leaders are now developing a budget that reportedly includes big cuts in programs like food stamps and maybe more cuts in Medicaid on top of those in the House health bill. Some arch-conservatives — like Ohio's Jim Jordan — are insisting that the budget mandate big cuts in programs like food stamps and assistance for poor mothers and children to provide financing to make the tax cuts larger than they otherwise could be.

Which leads me to health care.

The Senate may vote as soon as the week of June 26 on its version of the bill to repeal and replace the Affordable Care Act. This will be one of the most important Senate votes in years. And the stakes for Cleveland and Ohio are enormous.

As I mentioned, the House bill would cause 23 million people to lose insurance, make coverage more expensive for millions of people, greatly weaken protections for people in the 50-64 age range and people with medical conditions, and cut Medicaid by more than \$830 billion over ten years. Altogether, it would generate more than \$1 trillion from a combination of the Medicaid cuts and cuts in subsidies that help people of modest incomes afford decent health insurance, and it then takes the majority of those dollars to provide tax cuts, with nearly half of those tax cuts going to the top ½ of 1 percent of Americans, those making over \$1 million a year. The richest 400 Americans — whose incomes average over \$300 million a year — would get average tax cuts of \$7 million a year each.

These tax cuts, by the way, are separate from — and in addition to — the other huge tax cuts for wealthy Americans that the President has proposed.

The impacts on Ohio would be especially severe. Ohio's Medicaid expansion under the Affordable Care Act, which insures 700,000 people, would end. On top of that, the bill cuts federal funding for Ohio's entire Medicaid program, with the cuts growing larger with each passing year; this would place the state's 3 million Medicaid enrollees, and Ohio's health care providers, at risk. And many of the 210,000 Ohioans who now get health coverage through the Affordable Care Act's health insurance marketplace would be at serious risk as well, especially those who have medical conditions or are 50 or older.

The Medicaid cuts should be of particular concern here, since Ohio has the highest number of deaths from opioid overdoses of any state. This will almost certainly get worse if the Medicaid expansion ends. In addition, Ohio already pays doctors serving Medicaid patients less than most other states, and Ohio already has placed most of its Medicaid beneficiaries in managed care to economize. To respond to big federal Medicaid funding cuts, Ohio would have to cut its Medicaid program further, ending coverage for more low-income people or scaling back the health services Medicaid covers, or cut provider payments even more and risk having more providers decline to see patients — or, cut state funding for things like education to free up money to offset the big federal Medicaid cuts.

With action now shifting to the Senate, Senator John Cornyn, the Senate's #2 Republican leader, has said that the Senate health bill will likely retain 80% of the House bill.

Based on the reporting on what's happening behind closed doors, the emerging Senate Republican bill apparently will still kill the Medicaid expansion — but just take a few more years to do so. But, make no mistake, the ultimate result would be the same — the 700,000 Ohioans covered through the expansion would lose that coverage. And also like the House bill, the Senate bill apparently will cut federal Medicaid funding and shift more of Medicaid's costs to the states.

The repeal bill can't pass the Senate without support from Republican senators from states that have adopted the Medicaid expansion, which gives those senators great leverage. So, I'm amazed — and disappointed — that these senators are merely calling for taking a few more years to phase out

the Medicaid expansion. The ultimate result would be exactly the same for 700,000 Ohioans, as this graph illustrates.

Senator Rob Portman, a key player here, says he hopes the hundreds of thousands of Ohioans who would lose coverage from the end of the Medicaid expansion would buy coverage on their own, with the help of tax-credit subsidies. But few analysts think that will work. Most people covered under the Medicaid expansion live below the poverty line. Research shows that even modest premiums keep poor people from obtaining coverage. And the premiums for those people would not be modest, especially since the House bill cuts the subsidies way back, compared to the subsidies the Affordable Care Act now provides.

Under the House bill, a 60-year-old in Ohio with income at or below the poverty line — that’s at or below \$12,060 — would, on average, have to spend half or more of her meager income just to pay the premiums for individual market coverage that is comparable to a standard plan in today’s insurance marketplace — and that’s before counting the deductibles and copayments. Even with modifications that Senate Republicans are discussing, such an individual would likely still have to spend at least a third of her income on premiums. Poor people struggle just to pay rent, heat, and other bills. Faced with premium charges like these, these low-income Ohioans would become uninsured.

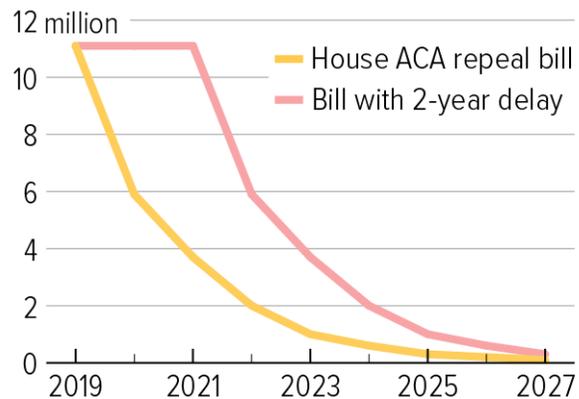
Nor is the push that Senator Portman is making for some new funding to states for opioid addiction treatment a solution for the effects of ending the Medicaid expansion. People don’t just need treatment after they’re addicted. They need health coverage to address problems that drive so many to opioids in the first place — chronic pain, an acute health event, depression, other mental illness. And, for people already suffering from addiction, they don’t just need anti-opioid medication; they also need treatment for their underlying health conditions, which means they badly need insurance. So, make no mistake: ending the Medicaid expansion will make the opioid problem worse.

Many of these problems would be especially serious for people with pre-existing conditions. Some Republican senators say their bill will protect these people by retaining an Affordable Care Act provision that bars insurers from charging people with pre-existing conditions more than other people who buy the same policy. But that won’t solve the problem, because the Senate bill likely will also keep a House provision that lets states scale back the ACA’s “essential health benefits”

FIGURE 1

Delaying End of Medicaid Expansion Would Ultimately Produce Same Result

ACA Medicaid expansion enrollees who would be eligible for continued enhanced federal funding rate



Note: ACA = Affordable Care Act. The ACA provided enhanced federal funding to cover the costs of Medicaid enrollees under the ACA’s Medicaid expansion. The House-passed ACA repeal bill would lower that federal funding rate for expansion enrollees in 2020. Some Senate Republicans are considering delaying that provision for two years.

Source: CBPP analysis, based on Centers for Medicare & Medicaid Services data and Congressional Budget Office assumptions about enrollment

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standard, under which insurance policies must cover various important health services and treatments.

Consider what would happen. Insurers would have strong incentive to offer stripped-down policies that carry lower premiums so they can compete for the business of younger and healthier people. But people who have medical conditions and need treatments that the stripped-down policies wouldn't cover would have to buy comprehensive insurance plans like those offered under the ACA today or supplemental policies. And, because those who would buy the comprehensive plans or supplemental policies would largely be sicker than average, the premiums for those plans would be very high — and likely unaffordable for many people. The bottom line is that many people with pre-existing conditions would be left high and dry.

As we meet here today, time is short. We're fast approaching a Senate vote. I see two possible paths.

Along one path, the Senate's Republican majority passes its bill, making tens of millions of Americans uninsured or underinsured, imposing intense financial pressure on health care providers who serve large numbers of lower-income people, and creating serious problems for state budgets. That also will mean considerable job losses in the health care sector — a particular concern for Cleveland, where health care is one of the biggest sectors of employment.

But there's another possible path. One of Governor Kasich's advisors recently indicated that the governor doesn't support health care legislation that, and I quote, "would dislodge millions from health care coverage." End quote. That indeed should be a key test. Unfortunately, it's one that the Senate bill almost certainly will fail. Accordingly, Senate Republicans should turn that bill aside, and congressional leaders should then launch a bipartisan effort to build on the progress in extending coverage to over 20 million Americans and make improvements to stabilize insurance markets, improve access, and hold down costs.

But there's a precondition for that: we first need three Republican Senators to step up and reject the emerging Senate bill so that it does not secure the 51 votes it needs to pass. This crucial vote could be just days away.

Ohio Policy Issues

Finally, I want to talk briefly about a couple of Ohio policy issues, particularly regarding state tax policy.

Two weeks ago, the Republican-controlled legislature in Kansas repealed very large tax cuts that it had enacted starting in 2012. Governor Sam Brownback had promised that they would ignite economic growth and create many new jobs and, as a result, would largely pay for themselves. Instead, Kansas' economic growth lagged behind that of the nation as a whole. The tax cuts caused huge budget shortfalls, forcing legislators to cut deeply into education and other priorities.

This year, Kansas legislators concluded that the tax cuts have caused more harm than good, and two weeks ago, the legislature repealed most of the tax cuts on a bipartisan basis. When Brownback vetoed the bill, the legislature overrode him.

The Kansas tax cuts represent an important cautionary tale from which both state and federal policymakers should learn. And there are few states where these lessons are more applicable and important than Ohio. Your state has actually cut its top income tax rate even more deeply than Kansas did. Kansas cut its rate 29% since 2012. Ohio has cut its top rate one-third since 2005 — from a top rate of 7.5% to just under 5%.

Moreover, one of Kansas’ most damaging tax cuts was eliminating state income tax on what is known as “pass-through income” — profits on which the owners of S corporations, sole proprietorships, and partnerships pay tax as individuals rather than as corporations. Ohio enacted a similar provision — eliminating state income tax on the first \$250,000 a year of pass-through income and taxing the rest at just 3%.

As in Kansas, the Ohio tax cuts have not delivered the promised results.

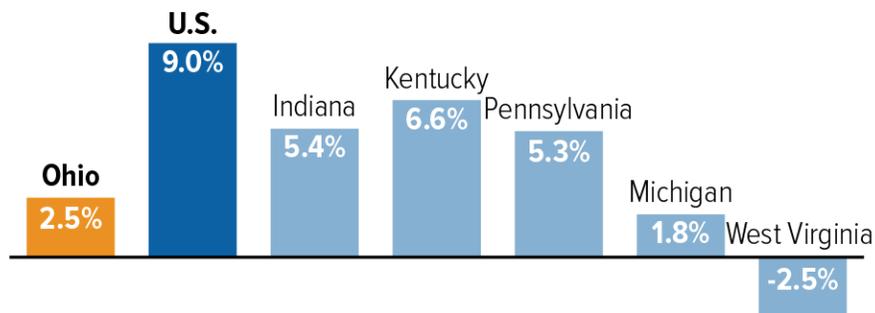
- As this graph shows, since Ohio started down this path, private employment growth in Ohio has been far below that in the nation as a whole, and below most states that border Ohio.

FIGURE 2

Tax Cut Experiment Has Not Boosted Employment in Ohio

Since the tax cutting started in 2006, Ohio’s growth in private sector employment has underperformed the U.S. as a whole and all but two of its neighbors.

Total private employment growth, December 2005 - March 2017



Source: Bureau of Labor Statistics

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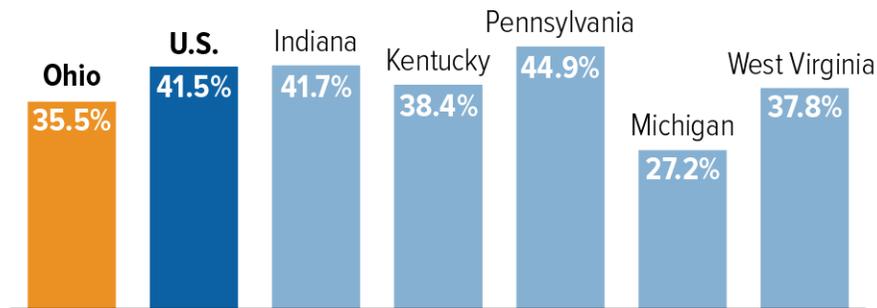
- And this graph shows that Ohio’s rate of economic growth has been below the nation’s as a whole and below all neighboring states except one.

FIGURE 3

Tax Cut Experiment Has Not Increased Economic Growth in Ohio

Ohio's growth in economic output has underperformed the U.S. as a whole and all but one of its neighbors.

Nominal GDP Growth, 2005:Q4 - 2016:Q4



Source: Bureau of Economic Analysis

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Also, as in Kansas, Ohio's extraordinarily generous pass-through loophole has incentivized tax avoidance, with many people reorganizing their affairs to turn regular income into "pass-through" income. The Columbus Dispatch reports that the number of Ohio tax filers using the pass-through tax break jumped by more than 50% between 2013 and 2015. As an Ohio state legislator recently noted, with this tax break, a lobbying firm with \$1 million a year in profits and four partners can organize itself so each partner is paid \$250,000 a year — and none of them pay any Ohio income tax.

Meanwhile, Ohio has experienced budget shortfalls that have squeezed vital areas like education. And as the Ohio group Policy Matters Ohio has reported, only 8% of Ohio 4-year-olds from low-income families now have access to preschool, as compared to 32% nationally, and near-poor working families find it harder to get child care assistance in Ohio than in over 40 other states.

The EITC

Finally, a few words on the Earned Income Tax Credit, one of the most successful anti-poverty measures we have.

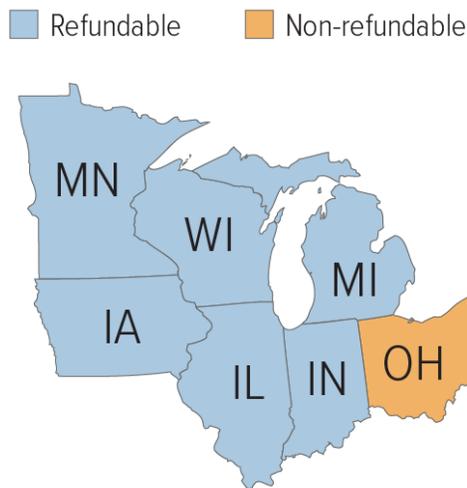
The EITC is a tax credit that supplements the wages of low-income working families with children. It draws large numbers of low-income mothers into the workforce, and it substantially reduces poverty. In addition, research indicates that the increased income it provides to working-poor families has long-term benefits for the children in these families. Children in families receiving the EITC do better in school, are likelier to attend college, and can be expected to earn more as adults.

With its impressive track record, the EITC is popular with conservative and progressive poverty and labor-force experts alike. In Washington, its fans range from House Speaker Paul Ryan to Senator Sherrod Brown, who is now seeking to strengthen the EITC for poor workers who aren't raising children, a group that's largely left out of the EITC today.

Along with the federal EITC, 30 states have adopted state EITCs, which can further strengthen low-income working families and their children while making state tax codes less regressive. Although Ohio is one of those 30 states, it has one of the stingiest EITCs in the nation. Ohio is one of only six states whose EITC is not refundable, meaning that working-poor families that don't earn enough to owe state income tax are shut out. In fact, as this slide shows, Ohio is the only Great Lakes state that lacks a refundable EITC. As a result, Ohio's EITC does nothing for 92% of the poorest fifth of Ohioans, those with incomes below \$21,000. And the 8% of them who do benefit receive an average EITC of only \$70 a year, the equivalent of less than \$6 a month.

FIGURE 4

Ohio is the Only Great Lakes State Without a Refundable* EITC



*Refundable EITCs give working households the full value of the credit they earn even if it exceeds their income tax liability.

Source: CBPP analysis

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Ohio's EITC also has other restrictive features that no other state EITC has and that lessen its work-promoting effects. Ohio's relatively low state minimum wage of \$8.15 an hour compounds these problems.

So, Ohio's tax code features an extremely costly tax loophole for pass-through income that fuels large-scale tax avoidance especially by the wealthy, while lacking a meaningful state EITC for Ohio families working hard at low wages. The contrast is glaring. To learn more about it, I urge you to read an excellent report on the need for reforms in the Ohio EITC that Policy Matters Ohio issued earlier this year.

With that, I thank you for listening.