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Despite Soothing Rhetoric, House's Planned "Reconciliation" Cuts Would Hurt Struggling Families

By Sharon Parrott and Joel Friedman

The House Budget Committee is crafting a 2018 budget resolution that will reportedly use the "reconciliation" fast-track legislative process to force roughly $200 billion in cuts over ten years in entitlement (mandatory) programs. A large share of those cuts likely will come from programs that provide basic assistance to families with low or modest incomes.

Committee Chair Diane Black has downplayed the cuts' negative impact, saying, "I'm insisting that we do it in mandatory spending because it is the greatest driver of our debt…. One penny is all I'm asking for on each dollar, and that can be done, because it will save this country for our children and grandchildren."[1] This statement is highly misleading, for several reasons:

- **House Republicans do not intend to cut all entitlement programs equally.** While the 1 percent figure apparently refers to entitlement spending outside Social Security, Rep. Black has stated that Medicare, the next largest entitlement program, will also be exempt from cuts. As a result, the programs that would be cut are likely to face deeper and more harmful cuts than Rep. Black implies. Most of the programs likely to be targeted help people with low and moderate incomes; moreover, they are unlikely to be cut across the board, but rather through specific changes that can affect particular households severely.
- **Rep. Black and the House Republicans ultimately plan far deeper entitlement cuts than the $200 billion being discussed.** For example, the House-passed bill to repeal the Affordable Care Act (ACA) — which Republicans are relying on the fast-track reconciliation process to pass as well — would cut Medicaid by $834 billion over the next ten years. Further, the budget plan that Rep. Black is developing will likely call for several *trillion* dollars in cuts to entitlement programs over the decade, with this year's reconciliation cuts just a first step (along with the ACA repeal bill) toward this broader fiscal vision.
- **Tax cuts, not just spending, contribute to rising deficits and debt.** Policymakers chose to finance the tax cuts enacted in 2001 and 2003 by borrowing (i.e., through deficit financing) — in sharp contrast to the ACA, which paid for expanding health coverage with revenue

[1] House Budget Committee, "ICYMI: 'A Penny on the Dollar," July 5, 2017, https://budget.house.gov/press-release/icymi-a-penny-on-the-dollar/.

increases and spending cuts. The Bush-era tax cuts that have become permanent will add more than $3.4 trillion to the national debt over the 2013-2022 period.[2]

- **Branding all mandatory spending as the "greatest driver of our debt" ignores important distinctions among programs and obscures the causes of our fiscal challenges**. For instance, entitlement programs for people with low and moderate incomes, other than health insurance programs, have been *declining* as a share of the economy in recent years and are projected to fall to their average over the past 40 years by 2020 and to continue falling thereafter.[3] The entitlement programs that are projected to *increase* as a share of the economy, principally Social Security, Medicare, and Medicaid, will do so not because their benefits have been made more generous but rather because of the effects of our aging population and rising costs throughout the entire U.S. health care system.

Rep. Black's remark lays bare the one-sided way in which House Republican leaders view the budget. While implying that cuts to entitlement programs will not hurt beneficiaries, House Republicans refuse to countenance any increase in taxes. *A 1 percent increase in the revenues paid just by the highest-income 20 percent of households would raise more than $200 billion over the decade,* which could be used to reduce projected deficits and debt or pay for key priorities.[4]

Further, a tax increase could be designed to affect only households much higher up the income distribution. Paying slightly higher taxes would not affect their ability to make ends meet. In contrast, cuts in assistance for struggling families can have a real impact on their ability to pay the rent and put food on the table. And, despite claims to the contrary, tax cuts for high-income families do *not* appear to materially improve economic growth.

Cuts to Low-Income Programs Could Be Larger than Rep. Black Claims

While Rep. Black has not unveiled her plan, media accounts report that it will require reconciliation cuts in the range of $200 billion over ten years. This total is, as Rep. Black suggests, about 1 percent of total mandatory spending over ten years outside of Social Security. (By law, the budget resolution cannot recommend changes to Social Security, and reconciliation cannot be used for legislation affecting Social Security benefits.)

In addition, Rep. Black reportedly told a Rotary Club audience that the budget would not affect Medicare, and cited then-candidate Trump's promise not to cut the program.[5]

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[2] Chye-Ching Huang, "Budget Deal Makes Permanent 82 Percent of President Bush's Tax Cuts," Center on Budget and Policy Priorities, January 3, 2013, http://www.cbpp.org/research/budget-deal-makes-permanent-82-percent-of-president-bushs-tax-cuts. The $3.4 trillion figure reflects the Joint Committee on Taxation's estimate of the American Taxpayer Relief Act of 2012, which made 82 percent of the tax cuts enacted in 2001 and 2003 permanent. These costs were not offset by spending cuts or alternative revenues. Because they were financed by borrowing, the true cost is higher than $3.4 trillion due to the interest costs on that borrowing.

[3] Isaac Shapiro, "The Myth of the Exploding Safety Net," Center on Budget and Policy Priorities, May 22, 2017, https://www.cbpp.org/blog/the-myth-of-the-exploding-safety-net-0.

[4] A 1 percent increase in total revenue would raise more than $400 billion over the next decade, if all forms of revenues are considered.

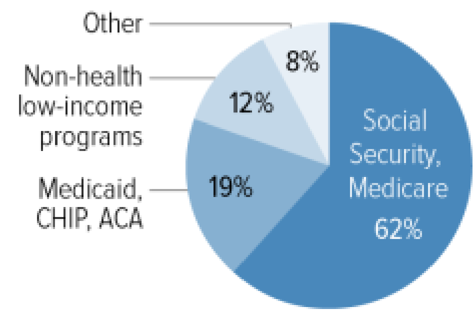
[5] Jennifer Shutt, "Black Predicts Markup of FY 2018 Budget Next Week in House," *Roll Call,* July 7, 2017, http://www.rollcall.com/news/policy/black-predicts-markup-fy-2018-budget-next-week-house.

So, how would the House achieve savings totaling close to $200 billion? If Social Security and Medicare are exempted, as we expect, the large majority of cuts could well come from programs serving people with low and moderate incomes, given that a large majority of the remaining mandatory spending is in programs that serve this population.[6] (See Figure 1.)

FIGURE 1

Mandatory Spending Outside Social Security and Medicare Largely Supports Health and Low-Income Programs

Percent of spending on mandatory programs, fiscal year 2016



ACA = Affordable Care Act

CHIP = Children's Health Insurance Program

Note: Reflects mandatory spending including offsetting receipts.

Source: Office of Management and Budget

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One obvious source of cuts is Medicaid. However, the House has already made deep cuts in Medicaid — to the tune of $834 billion over the decade — in the House bill to repeal the ACA. The Congressional Budget Office (CBO) estimates that these cuts would cause 14 million low-income people to lose health coverage through Medicaid; any additional Medicaid cuts would put benefits and services at risk for even more people.

If the House chooses not to further slash Medicaid, then all of the fast-track entitlement cuts will have to occur in other programs — all of which are smaller than Social Security, Medicare, and Medicaid. These include programs that help low- and moderate-income families, such as: SNAP (formerly food stamps), Supplemental Security Income (SSI) (which provides income assistance to poor seniors and people with disabilities), payments for foster care families, child care assistance, the child support enforcement system, Pell Grants to help lower-income students afford college, and the refundable portion of the Earned Income Tax Credit and the Child Tax Credit.

Various other entitlement programs are not specifically for low- and moderate-income individuals, such as military and civil service retirement benefits, veterans' compensation, unemployment insurance, student loans, and farm price supports, and also could be cut. Some of these programs, particularly student loans and unemployment insurance, also help struggling families.

Of course, House Republicans would likely spare some programs from cuts altogether, cut some others modestly, and cut others more deeply. To determine the impact of the cuts requires understanding which programs would be targeted for cuts and how the cuts would be achieved. Comparing an aggregate cut figure to total entitlement spending or total entitlement spending outside of Social Security does more to obscure than illuminate.

[6] Over the 2018-2027 period, programs for people with low and moderate incomes account for about two-thirds of *gross* mandatory spending outside Social Security and Medicare (spending without considering off-setting receipts), or about three-quarters of *net* mandatory spending (spending reduced by offsetting receipts), based on data from the Congressional Budget Office.

Seemingly Modest Cuts Can Mean Real Trouble for Struggling Families

Rep. Black's comments ignore how cuts in basic assistance affect low-income families.

For example, consider SSI. Two-thirds of SSI beneficiaries have cash incomes below the poverty line before their SSI benefits are considered. For a single beneficiary, this means that his or her income is below about $12,000 in 2017. In addition, some 1.2 million low-income children with serious disabilities receive SSI benefits. These children live with conditions such as Down Syndrome, cerebral palsy, autism, intellectual disability, and blindness. These families face higher costs, more demands on their time, and more insecurity than families not caring for a child with a disability, and SSI helps address these challenges.[7] SSI benefits help individuals and families pay for housing and put food on the table. Cuts — whether for all recipients or targeting specific groups — would put significant added strain on these already struggling families and individuals.[8]

Similarly, the vast majority — 90 percent — of SNAP benefits go to households with monthly cash incomes below the poverty line and 60 percent go to households with monthly incomes below *half* the poverty line, or below just $10,000 annually for a family of three.[9] A family of three with income equal to half the poverty line receives about $450 per month to help it afford an adequate diet. This reflects a large share of their food budget; cutting this family's benefits would leave them with fewer resources to buy food at the grocery store.

Moreover, SNAP cuts are unlikely to be across the board. For example, recent Republican proposals have included denying benefits entirely to very poor childless adults in areas of high unemployment. The typical jobless adult kicked off SNAP entirely would lose $150-$170 in monthly food assistance — modest benefits that make a meaningful difference for very poor individuals. More than 90 percent of SNAP goes to benefits for purchasing food, and most of the rest covers state administrative costs to determine program eligibility and operate SNAP properly. As a result, it is not possible to cut SNAP deeply without cutting eligibility or benefits.

Finally, the emerging House Republican budget plan likely will call for cuts in a number of low-income assistance programs, not just one — and these cuts would come on top of the deep Medicaid cuts in the House ACA repeal bill. Thus, some individuals and families would get hit from multiple sides at the same time, losing both health care and other assistance. The negative impacts could have a significant cumulative effect.

Modest Revenue Increase on Wealthy Would Have Far Smaller Impact

A 1 percent increase in revenues on just the one-fifth of households with the highest incomes would produce roughly the same amount of deficit reduction as the $200 billion in entitlement savings that House Budget Committee Chair Black is contemplating. The tax increase would reduce

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[7] Kathleen Romig, "SSI: A Lifeline for Children with Disabilities," Center on Budget and Policy Priorities, May 11, 2017, https://www.cbpp.org/research/social-security/ssi-a-lifeline-for-children-with-disabilities.

[8] Social Security Administration, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update," February 2014, https://www.ssa.gov/policy/docs/rsnotes/rsn2014-02.html.

[9] Kelsey Farson Gray, Sarah Fisher, and Sarah Lauffer, "Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2015," prepared for the Food and Nutrition Service, USDA, November 2016, p. 37.

their after-tax incomes, which average $250,000, by just 0.3 percent on average.[10] Given these households' economic status, such a change is unlikely to affect what they can afford at the grocery store.

Alternatively, policymakers could target a tax increase to households even higher up the income distribution, which have seen the largest increases by far in income over recent decades. In any event, given the much higher incomes of the households affected by a tax increase — regardless of how it is structured — a modest tax increase would unquestionably have a smaller impact on their economic security than cuts in programs like SNAP or SSI would have on low-income families' ability to afford the basics.

Of course, opponents of any increase in revenues argue that it would hurt economic growth. But, despite claims to the contrary, tax cuts for high-income families do not appear to materially improve economic growth, and modest, well-designed tax increases would likely be *beneficial* to the economy over the long run if used to reduce deficits.[11] For example, there are many ways to raise revenues through limiting deductions, exclusions, and other tax breaks that would raise revenue in a way that is progressive and makes the tax code more efficient.[12]

Low-Income Entitlements Not Driving Longer-Term Fiscal Challenges

Finally, Rep. Black's statement suggests that entitlements are the main driver of the nation's deficits. As a matter of simple arithmetic, this is incorrect. Deficits result when spending exceeds revenues; deficits can be reduced by cutting spending or increasing revenues.

Tax cuts enacted in recent decades have benefited high-income households and been extremely costly. Just the Bush-era tax cuts that policymakers later made permanent will add more than $3.4 trillion to the debt over the 2013-2022 period. (While some of the tax cuts enacted in 2001 and 2003 were allowed to expire or were modified, 82 percent were made permanent.) High-income households benefited from large cuts in income, capital gains, and dividend tax rates and from major shrinkage of the estate tax.

To be sure, entitlements as a whole — including Social Security and Medicare — are growing as a share of the economy. This has long been forecast to occur as the large baby-boom generation moves into its retirement years, raising costs in Social Security, Medicare, and Medicaid. Indeed, this demographic reality is a key reason why ultimately the United States will need to increase revenues, unless it wants to significantly scale back Social Security and health benefits for older people.

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[10] CBPP calculations based on data from the Tax Policy Center, TPC Table T17-0003, http://www.taxpolicycenter.org/model-estimates/baseline-distribution-income-and-federal-taxes-march-2017/t17-0003-baseline.

[11] Chye-Ching Huang, "Recent Studies Find Raising Taxes on High-Income Households Would Not Harm the Economy," Center on Budget and Policy Priorities, April 24, 2012, https://www.cbpp.org/research/recent-studies-find-raising-taxes-on-high-income-households-would-not-harm-the-economy.

[12] Chuck Marr, Chye-Ching Huang, and Joel Friedman, "Tax Expenditure Reform: An Essential Ingredient of Needed Deficit Reduction," Center on Budget and Policy Priorities, February 28, 2013, https://www.cbpp.org/research/tax-expenditure-reform-an-essential-ingredient-of-needed-deficit-reduction.

But low-income entitlements outside of health care, which would likely be targeted for cuts under a reconciliation process for entitlement cuts, are *not* driving the nation's long-term fiscal problems. Spending on these programs rose markedly in response to the Great Recession and slow recovery but has fallen significantly in the past few years as a share of gross domestic product (GDP). And under current law, this spending is projected to fall by 2020 back to its 40-year average as a share of GDP (just 1.3 percent) and then fall below the 40-year average after that.[13]

Medicaid, in contrast, *is* slated to grow faster than the economy. But as with Medicare, that's due overwhelmingly to two factors: (1) the aging of the population, which will make more seniors — who have much higher average health care costs than younger people — eligible for coverage; and (2) rising costs throughout the U.S. health care system, due in part to medical advances that improve health and save lives but add to costs (such as the recently developed drugs to treat Hepatitis C). Medicaid actually costs substantially *less* per beneficiary than private insurance or Medicare, and Medicaid costs per beneficiary have risen *more slowly* in recent years than those for other insurance. Medicaid is the nation's most economical form of large-scale health insurance.

Moreover, CBO projects that over the coming decade, the rise in spending under current law in Medicaid and other low-income health programs (as a percent of GDP) will be fully offset by the decline in *other* low-income programs, including both low-income entitlements and discretionary programs. Overall spending on low-income programs — health and non-health combined and including both entitlement and discretionary programs — is expected to edge *down* from 4.7 percent of GDP in 2017 to 4.6 percent in 2027.

[13] For more information on the trends in spending for low-income programs, see Robert Greenstein, Richard Kogan, and Isaac Shapiro, "Low-Income Programs Not Driving Nation's Long-Term Fiscal Problem," Center on Budget and Policy Priorities, updated February 21, 2017, http://www.cbpp.org/research/long-term-fiscal-challenges/low-income-programs-not-driving-nations-long-term-fiscal. See also Shapiro, "The Myth of the Exploding Safety Net."