

September 5, 2017

## How Would the House Budget Plan Reduce Deficits?

By Richard Kogan

In early September, the House will reportedly consider the ten-year budget plan that its Budget Committee approved in July. This analysis examines the main ways that the plan would affect the deficit, starting with the Congressional Budget Office (CBO) projections of \$9.4 trillion in cumulative deficits over the next decade and then applying the dollar figures reported by the committee, taking them at face value (see Table 1). We also highlight the impact of the plan's proposed cuts on programs serving low- and moderate-income people, which represent roughly half of the plan's non-defense cuts.<sup>1</sup>

TABLE 1

### Deficit Reduction Under House Budget Committee Plan 2018-2027 total, in trillions of dollars

	Total	Low-income spending
<b>Baseline deficits (+), Congressional Budget Office</b>	<b>9.4</b>	
<b>Tax cuts (+)*</b>	<b>+1.1</b>	
<b>Spending cuts (-) or increases (+):</b>		
<u>Discretionary programs:</u>	<u>-1.1</u>	<u>-0.3</u>
Overseas Contingency Operations (OCO)	-0.6	0.0
Defense (except OCO)	+0.9	0.0
Non-defense (except OCO)	-1.4	-0.3
<u>Entitlement programs:</u>	<u>-4.4</u>	<u>-2.6</u>
Social Security	0.0	0.0
Medicare	-0.5	0.0
Other health (Medicaid, Affordable Care Act, etc.)	-1.5	-1.5
Education, social services, income security	-1.1	-0.8
Other specified budget functions	-0.5	0.0
"Improper payments" savings	-0.7	-0.3

<sup>1</sup> For more detail, see Isaac Shapiro, Richard Kogan, and Chloe Cho, *House GOP Budget Cuts Programs Aiding Low- and Moderate-Income People by \$2.9 Trillion Over Decade*, CBPP, August 3, 2017, <https://www.cbpp.org/research/federal-budget/house-gop-budget-cuts-programs-aiding-low-and-moderate-income-people-by-29>.

TABLE 1

**Deficit Reduction Under House Budget Committee Plan****2018-2027 total, in trillions of dollars**

	<b>Total</b>	<b>Low-income spending</b>
<i>Other “government-wide” cuts</i>	-0.1	0.0
<b>Subtotal: Non-defense program cuts</b>	<b>-5.8</b>	<b>-2.9</b>
<b>Net interest savings</b>	<b>-0.6</b>	
<b>Total deficit reduction: discretionary, mandatory, and net interest savings, less tax cuts</b>	<b>-5.0</b>	
<b>Resulting deficits</b>	<b>4.4</b>	
Addenda:		
<i>Claimed deficit reduction due to budget proposals’ impact on economic growth</i>	-1.5	
<i>Deficits counting claimed economic growth bonus</i>	2.9	

\* Positive because tax cuts increase deficits.

Note: Figures may not add due to rounding. Figures in the text that repeat those in this table are bolded and are rounded to the nearest \$100 billion.

Source: CBPP analysis based on data from the January 2017 Congressional Budget Office baseline and fiscal year 2018 House budget resolution

**Tax cuts.** By endorsing the House-passed legislation to “repeal and replace” the Affordable Care Act (ACA), the plan incorporates its deep tax cuts, which are concentrated almost entirely on the very well off.<sup>2</sup> Those tax cuts would reduce projected revenues by **\$1.1 trillion** over the next decade, increasing projected deficits and debt. (Note that the figures in the budget plan assume that any tax reform plan would not lose revenues. However, one of the enforcement provisions in the budget plan would allow revenue losses in a tax reform bill to be offset by entitlement cuts. We discuss that risk in other pieces,<sup>3</sup> but the figures in the budget plan do not reflect that risk.)

**Defense.** The plan assumes that spending for Overseas Contingency Operations (OCO) in the Middle East falls by **\$600 billion** over the coming decade, relative to its current level (adjusted only for inflation). Funding for OCO would drop from its 2017 level of \$84 billion to \$12 billion by 2022 and zero by 2025. But the plan also calls for a **\$900 billion** increase in regular, ongoing defense expenditures, resulting in a net increase in defense spending over the decade.<sup>4</sup>

**Non-defense appropriations.** About one-sixth of the federal budget is for non-defense discretionary (NDD) programs — i.e., non-defense programs that are not entitlements. These

<sup>2</sup> Chye-Ching Huang and Brandon DeBot, “House Health Bill: Tax Cuts for Wealthy, Insurers, and Drug Companies Paid for by Low- and Middle-Income Families,” CBPP, updated May 22, 2017, <https://www.cbpp.org/research/federal-tax/house-health-bill-tax-cuts-for-wealthy-insurers-and-drug-companies-paid-for-by>.

<sup>3</sup> See, for example, Chye-Ching Huang, “Decoding ‘Deficit Neutral’ Tax Bill: Low-Income Program Cuts Pay for Tax Cuts for Wealthy,” CBPP, June 15, 2017, <https://www.cbpp.org/blog/decoding-deficit-neutral-tax-bill-low-income-program-cuts-pay-for-tax-cuts-for-wealthy>.

<sup>4</sup> Funding for Overseas Contingency Operations (OCO) is primarily for defense programs, but small portion is also for the State Department and other non-defense programs. The budget resolution does not provide a breakdown of the defense and non-defense components of OCO, so it is impossible to determine precisely the net increase in defense after accounting for the decline in defense OCO.

include education, transportation, national parks, medical and scientific research, housing assistance, law enforcement, the Census Bureau, and the departments of Treasury and State. The House plan would reduce expenditures for these types of programs by **\$1.4 trillion** over the decade; by 2027, these expenditures would be one-third lower than CBO currently projects.

The House budget plan lacks specifics about how it intends these cuts to be distributed, but we estimate that if the composition of funding for this set of programs matches the contents of the 12 annual appropriations bills that the House Appropriations Committee has produced this year, then about **\$300 billion** of these cuts could come from low-income programs such as Section 8 housing vouchers and education assistance for school districts and college students. Measured as a percent of the economy, the House plan would shrink NDD expenditures to levels likely not seen since Herbert Hoover was President.

**Entitlement programs.** The House plan calls for **\$4.4 trillion** in cuts to entitlement programs over ten years; we estimate that **\$2.6 trillion** or 58 percent of those cuts would come from programs assisting low- or moderate-income families, even though low-income programs constitute only 28 percent of all mandatory expenditures.

- Medicare. The plan does not cut Social Security but does cut Medicare, by almost **\$500 billion** over ten years. It proposes gradually increasing Medicare's eligibility age and eventually converting the program a "premium support" system, which would replace Medicare's guarantee of health coverage with a flat payment, or voucher, that beneficiaries would use to purchase either private health insurance or traditional Medicare.
- Other health entitlements. The biggest single set of cuts, totaling **\$1.5 trillion** over ten years, would come from Medicaid and the ACA. Virtually all of those cuts would fall on low- and moderate-income families and individuals. The plan explicitly endorses the "repeal and replace" legislation that the House approved in May, which CBO found would reduce health insurance coverage by 23 million people by the tenth year and raise premiums for many others, including those with pre-existing medical conditions. The House-passed "repeal and replace" bill ends the ACA's Medicaid expansion and caps Medicaid growth at a level insufficient to cover current benefits and beneficiaries. Beyond that, the House budget plan would cut Medicaid by \$114 billion more than House's ACA repeal bill. Overall, nearly three-quarters of these health cuts would come from Medicaid.
- Education, social service, and income security entitlements. The House budget plan also calls for cutting education, social service, and income security entitlements by **\$1.1 trillion** over ten years. The cuts would be targeted on SNAP (formerly food stamps), Pell Grants for college students, the Social Services Block Grant, Supplemental Security Income, and civil service pensions; as much as **\$800 billion** of the cuts in these areas would come from low-income programs.
- Other budget functions. The House budget plan would cut **\$500 billion** from other parts of the budget that do not contain low-income programs, in some cases by raising fees.
- Improper payments. The House budget plan assumes savings of **\$700 billion** from reducing government-wide "improper payments" in mandatory programs. These savings might be illusory; it is difficult to tighten administration of federal programs, *especially* while cutting federal staff (which would inevitably occur under the dramatic NDD cuts discussed above). For instance, the Trump budget claimed it would reduce improper payments by almost \$140

billion over ten years but CBO later estimated that the Administration would achieve *none* of these savings.

Actually achieving **\$700 billion** in savings in the programs where improper payments tend to occur would ultimately result in denying benefits to many eligible recipients. If so, this would just be a benefit cut by a different name. The programs the Budget Committee identifies as targets suggest that **\$300 billion** of the cuts would come from low-income programs.

- Government-wide savings. The House budget plan calls for **\$100 billion** in other government-wide mandatory savings. Roughly half would come from capping the amount that juries can award to victims of medical malpractice.

**Deficits.** The House plan's cuts in non-defense expenditures, both discretionary and mandatory, would total **\$5.8 trillion** over the decade — with half, or **\$2.9 trillion**, from low-income programs. (These totals take the figures in the House budget plan at face value, and so give full credit for unspecified cuts and the reductions in improper payments.) After accounting for the net defense/OCO spending increase of **\$300 billion** over ten years and the **\$1.1 trillion** ten-year tax cut, projected deficits would fall substantially, thereby lowering Treasury interest payments by **\$600 billion** over ten years. Counting the interest savings, deficits would be **\$5.0 trillion** lower than in CBO's projection, totaling **\$4.4 trillion** over ten years rather than **\$9.4 trillion**. In the plan's final year, 2027, the deficit would be \$351 billion.

For many years, Republican legislators have promised ultimately to eliminate deficits, though that goal goes far beyond what is necessary for debt held by the public to shrink relative to the size of the economy. The deficit-reduction proposals in the House budget plan do not by themselves achieve this goal. However, the House Budget Committee also asserts that its proposed policies would generate significantly more economic growth than would otherwise occur — enough to reduce projected deficits by another **\$1.5 trillion** over the coming decade, and enough to eliminate the \$351 billion deficit that would otherwise occur in 2027.<sup>5</sup>

CBO generally agrees that reducing deficits will ultimately boost economic growth (though it could harm growth in the short run, especially if the economy is already weak). But CBO generally expects a far smaller boost from reducing deficits than the House budget plan does. For example, CBO estimated that *last year's* House plan would generate an economic bonus of about \$240 billion, far smaller than the **\$1.5 trillion** bonus the House Budget Committee has awarded itself.

---

<sup>5</sup> The \$1.5 trillion economic bonus is not officially part of the budget resolution's legislative language, but rather is presented in the report that accompanies the budget resolution. The report presents and discusses the budget plan based on its impact on the total (or unified) budget. This is the standard convention, even though by law the budget resolution covers only on-budget expenditures and revenue (i.e., excluding Social Security and the Postal Service).