

Through The Fiscal Looking Glass: Looking Back at 2011, and Ahead at 2012

Ellen Nissenbaum

Senior Vice President, Government Affairs

www.cbpp.org

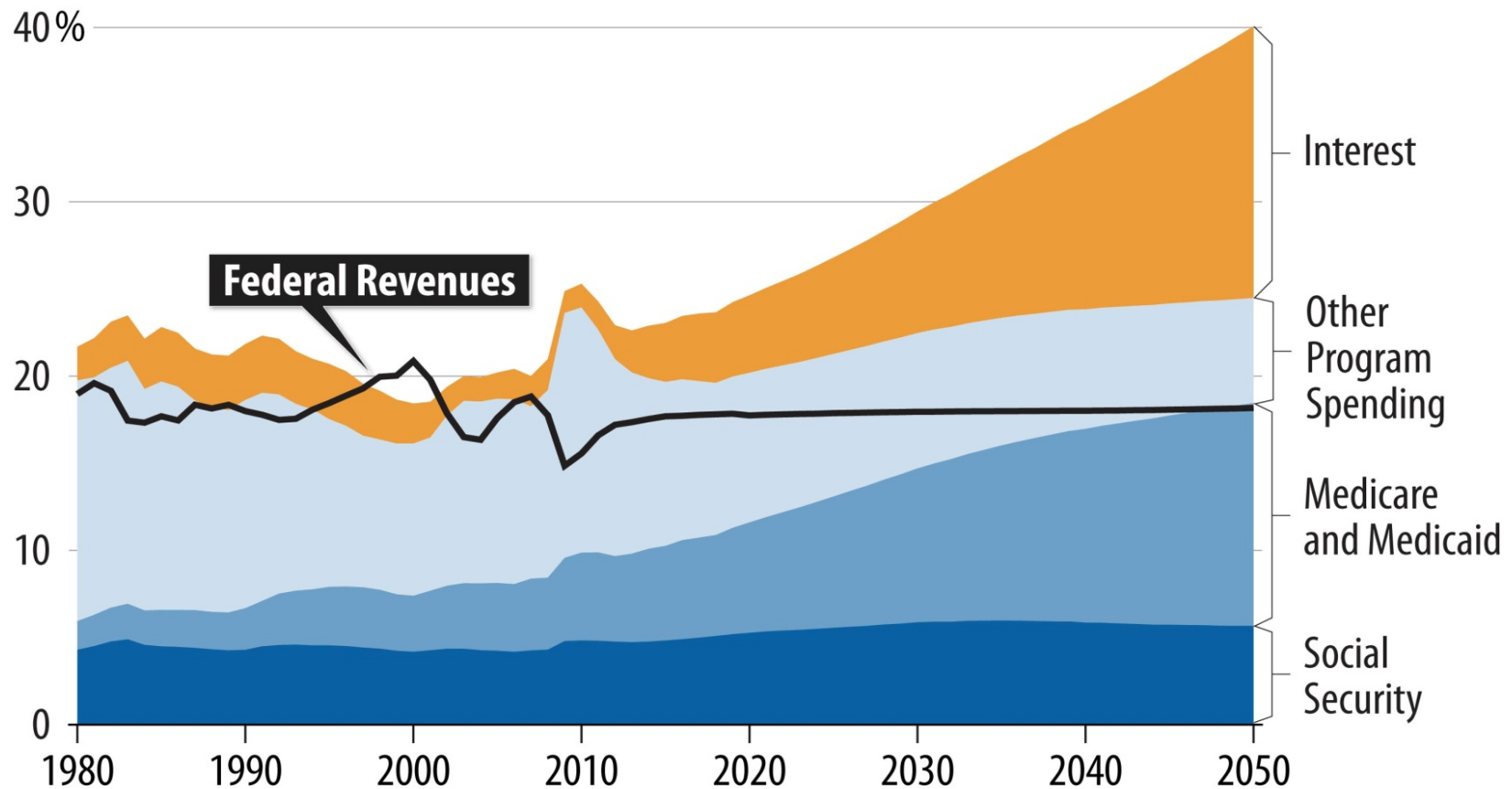
Ecumenical Advocacy Days

March 24, 2012

What Does Our Long-Term Budget
Problem Look Like?

Long-Term Deficits are Unsustainable

Spending and Revenues as a Share of GDP

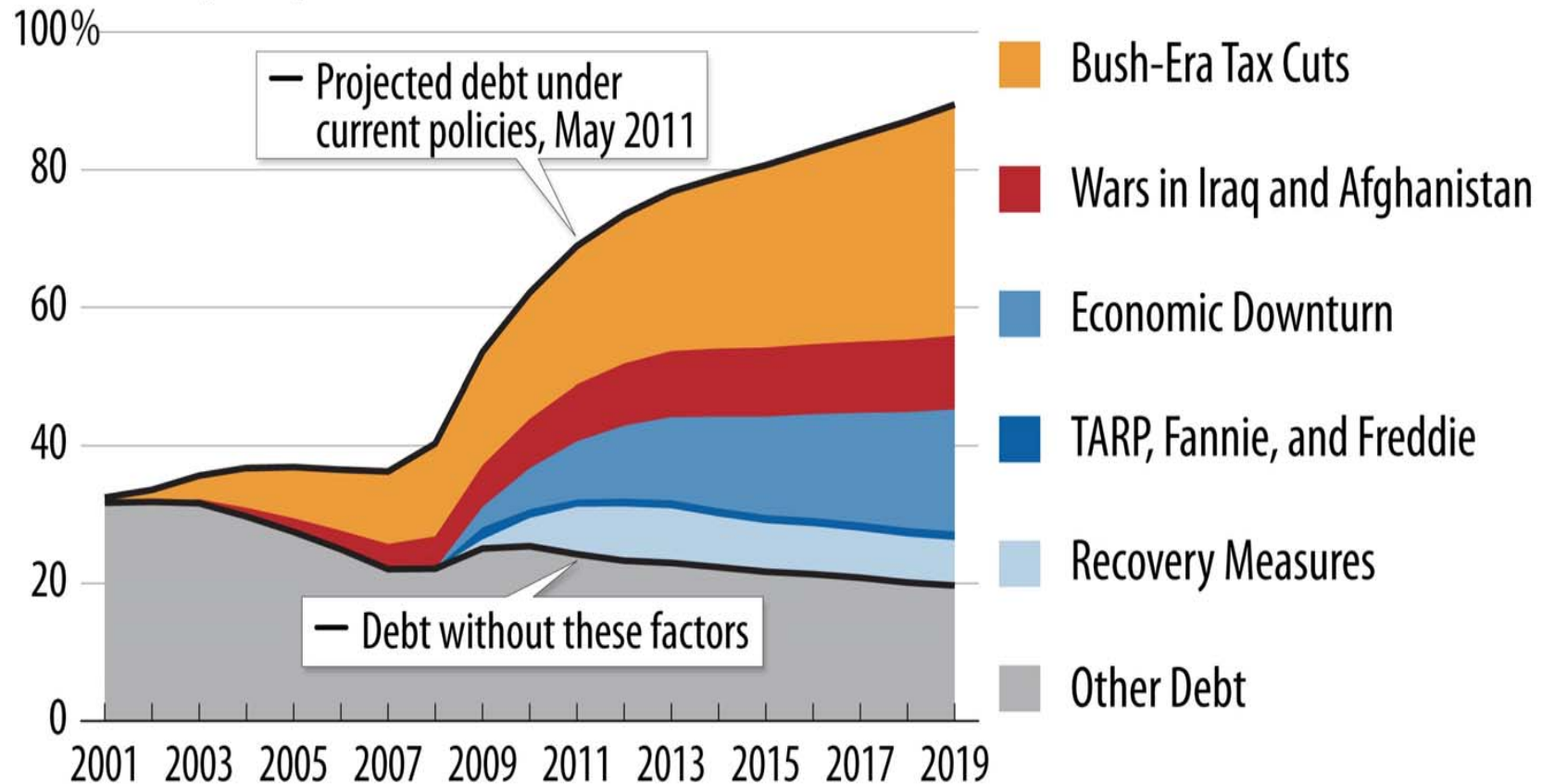


Source: CBPP based on Congressional Budget Office data, January 2010.

Proximate Causes of Short and Medium-Run Deficits

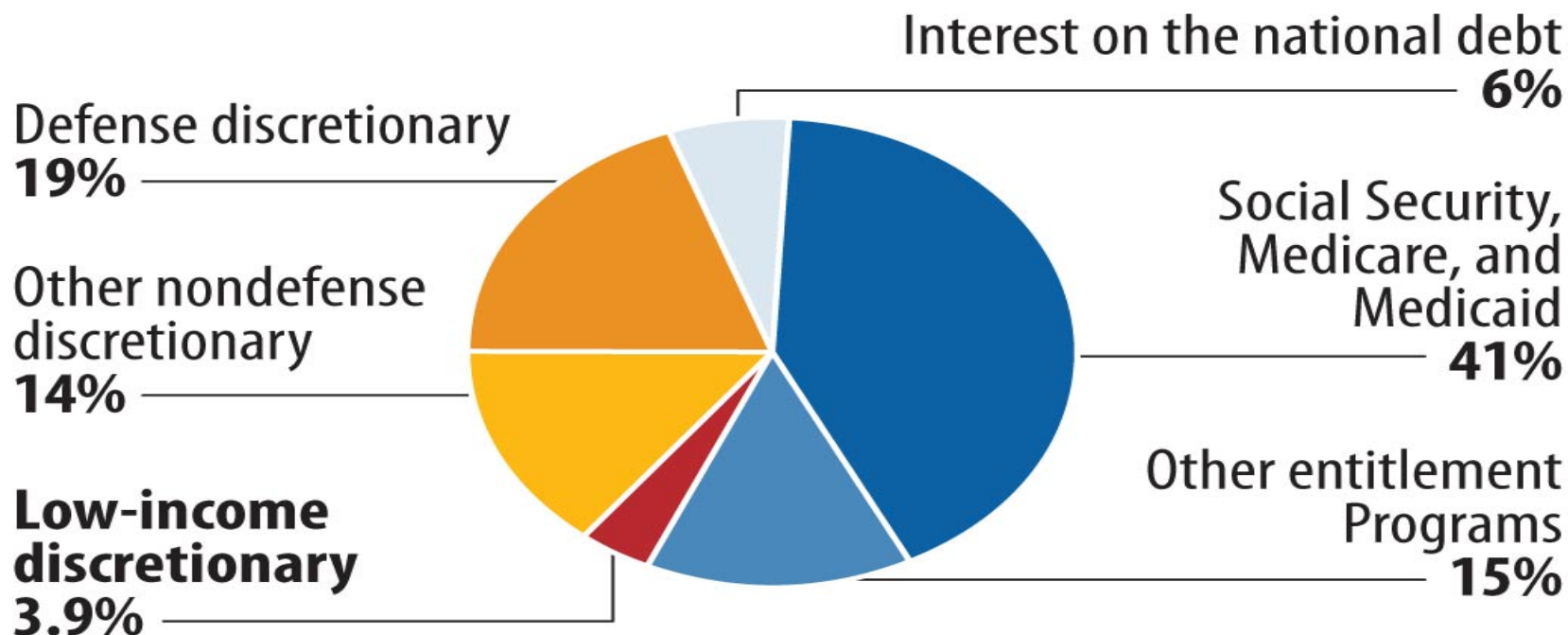
Tax Cuts, Wars Account for Nearly Half of Public Debt by 2019

Debt held by the public as a share of GDP



Breakdown of Federal Outlays, FY 2011

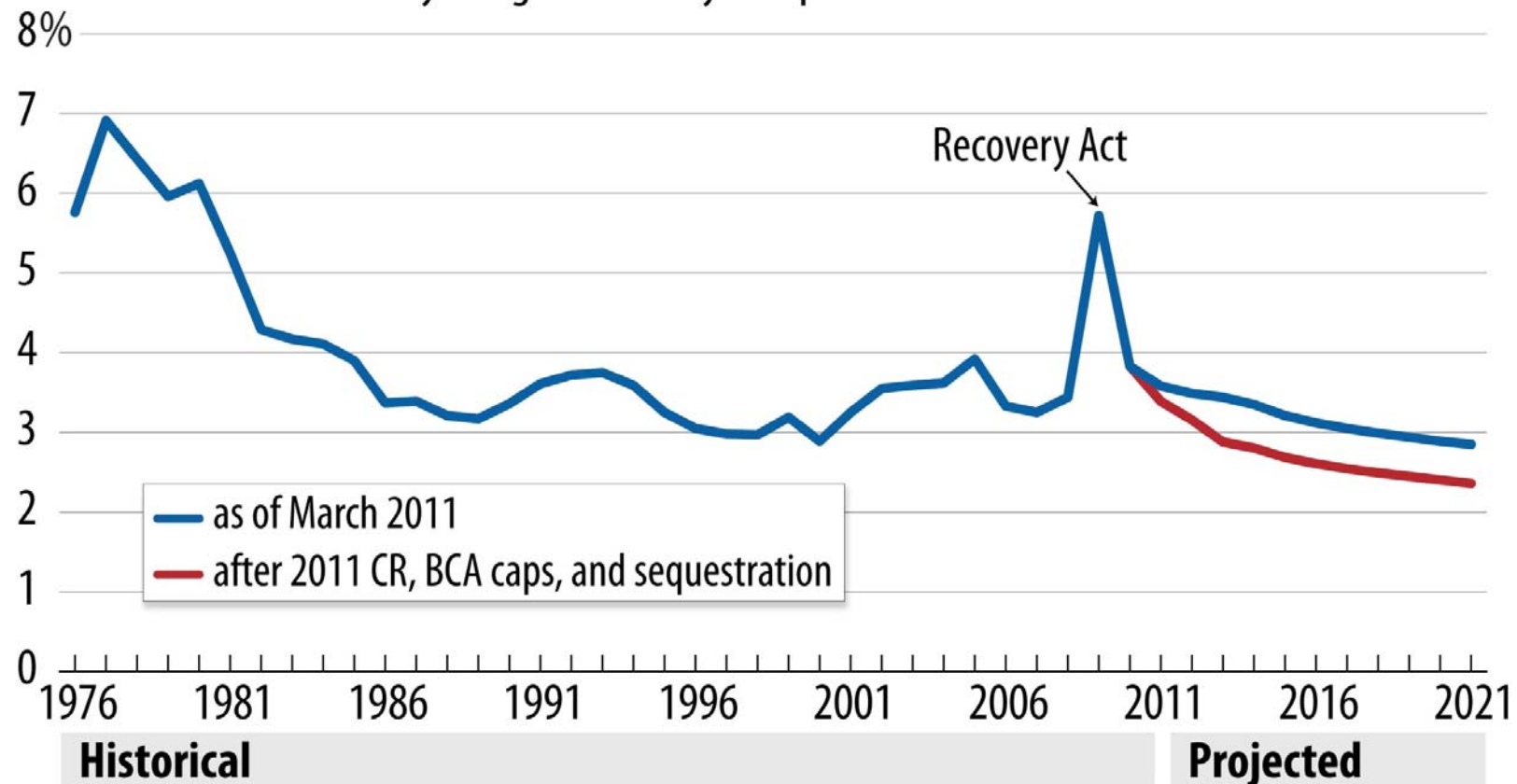
Federal Spending, FY 2011



Source: Office of Management and Budget

The Federal Budget: Why Do We Care? **Non-Defense Discretionary Spending Declining**

Non-defense discretionary budget authority as a percent of GDP



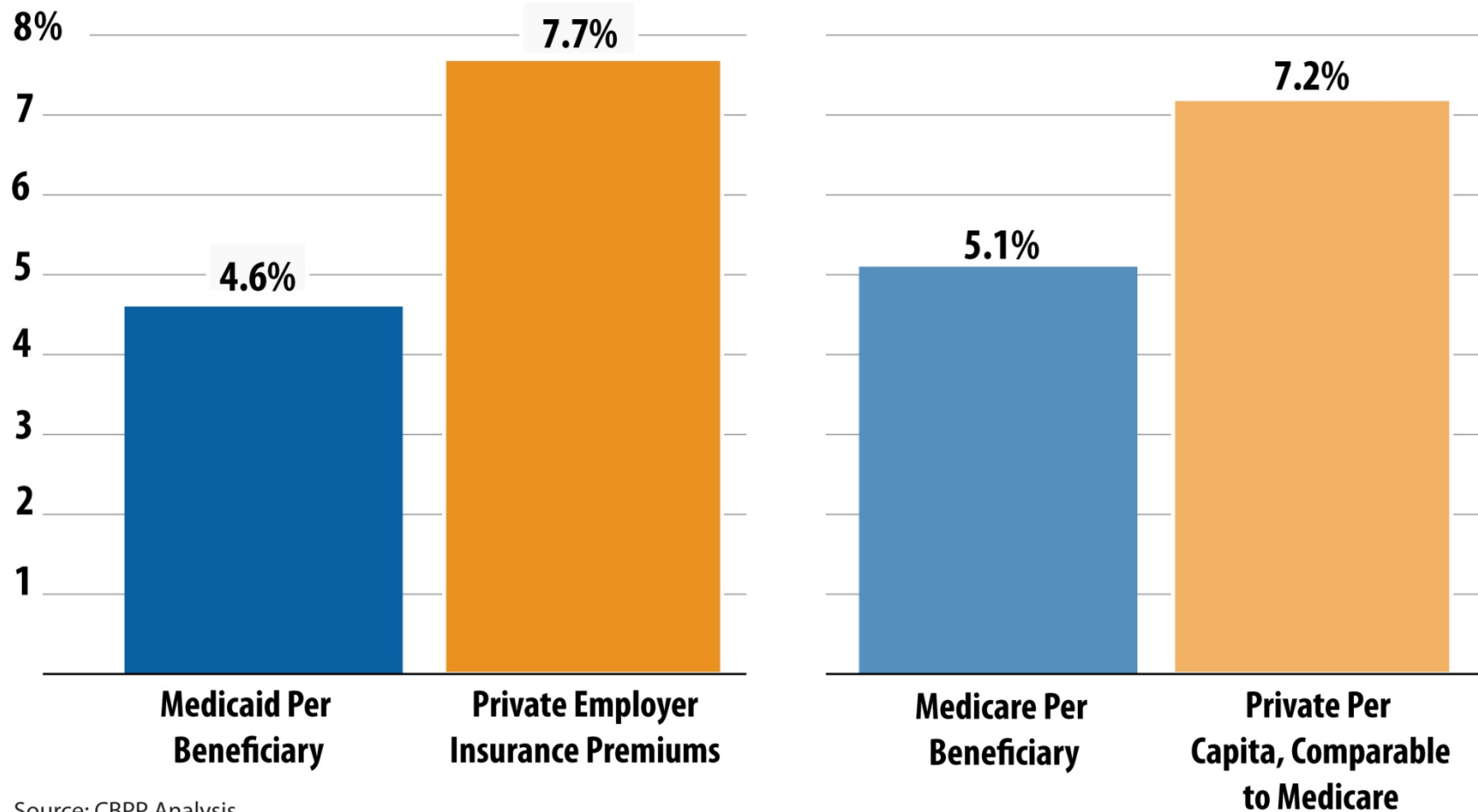
Source: Center on Budget and Policy Priorities based on Office of Management and Budget and Congressional Budget Office data.

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Programs We Care About are Affordable

Public Health Coverage is Better at Cost Control

(Average Annual Growth Rate, 2000-2009)



Source: CBPP Analysis

An “Entitlement Society”?

If we remain on the current course, “we will have created a society that contains a sizable contingent of long-term jobless, dependent on government benefits for survival Government dependency can only foster passivity and sloth.”

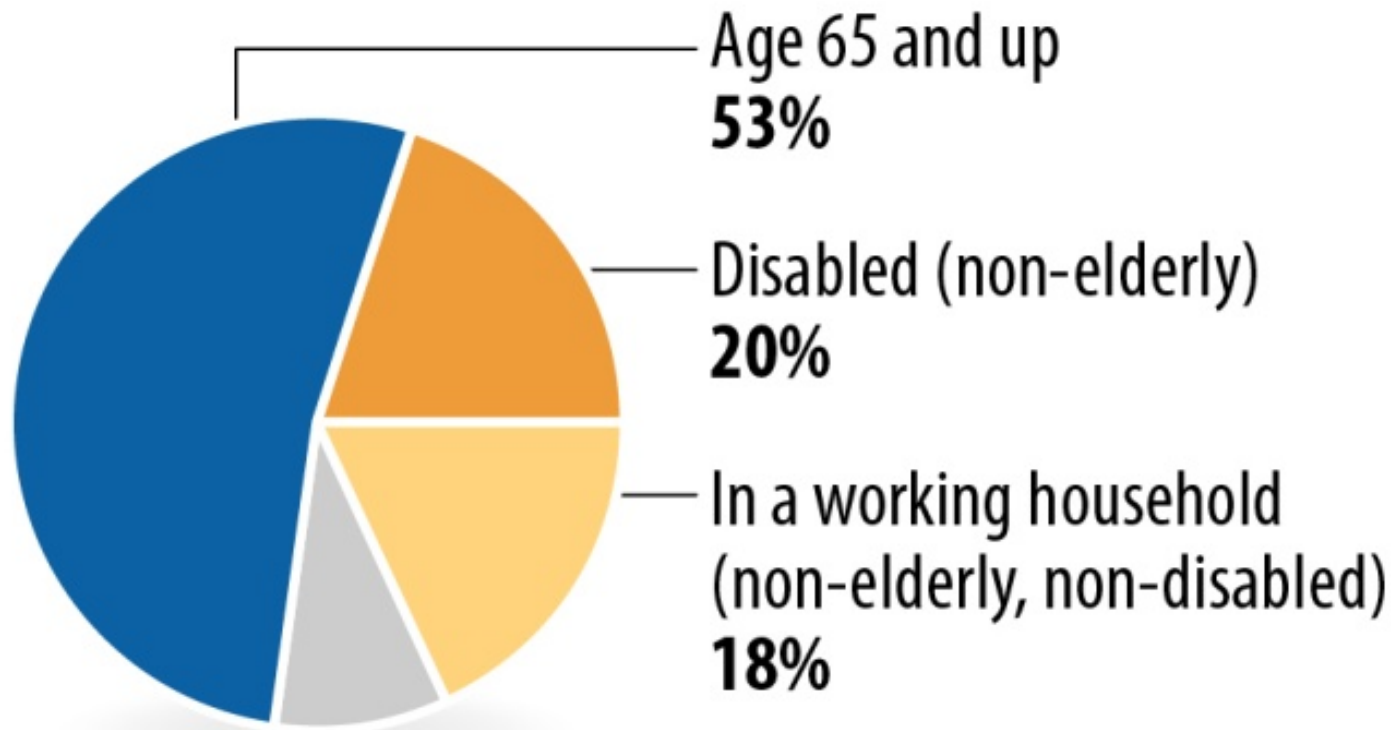
Attacks:

- Huge cost growth
- Inefficient and ineffective
- Foster dependence, undermine work
- Should convert programs to block grants like TANF

Spending is Focused on Elderly,
Disabled, & Workers

90% of Entitlement Benefits Goes to These Households

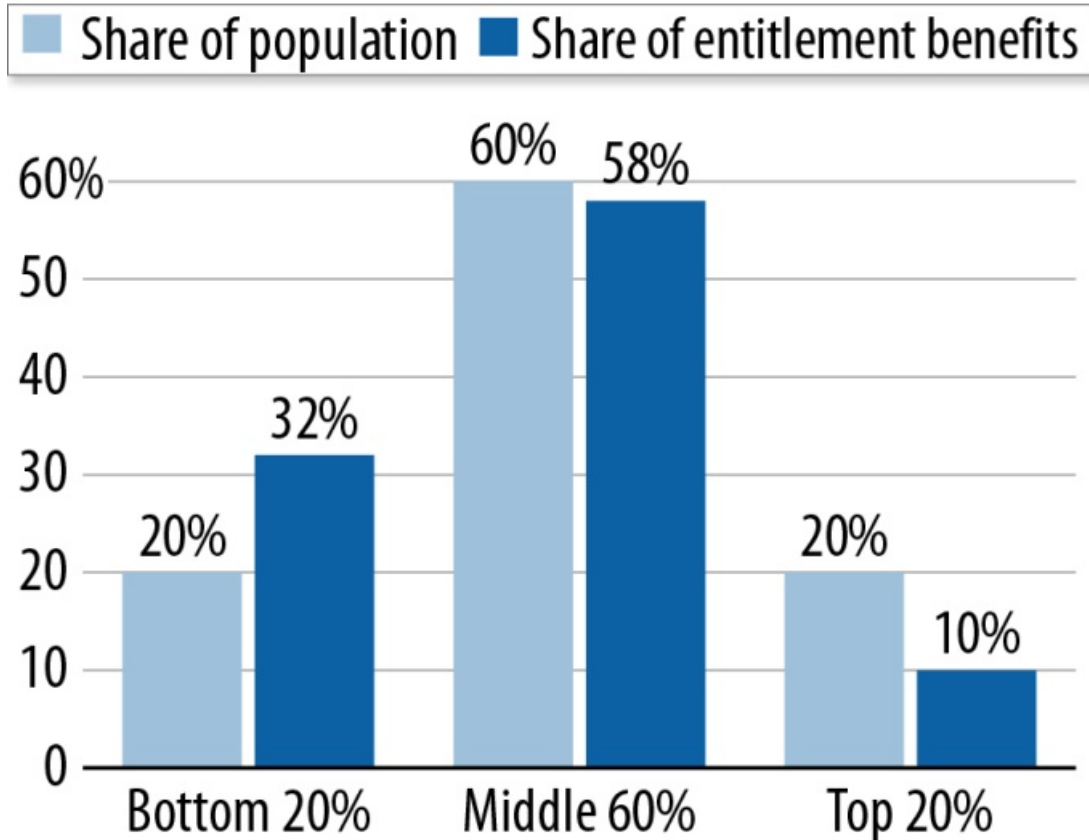
Share of entitlement benefits, 2010



Spending is Focused on Elderly,
Disabled, & Workers

Middle Income Households Receive Proportionate Share

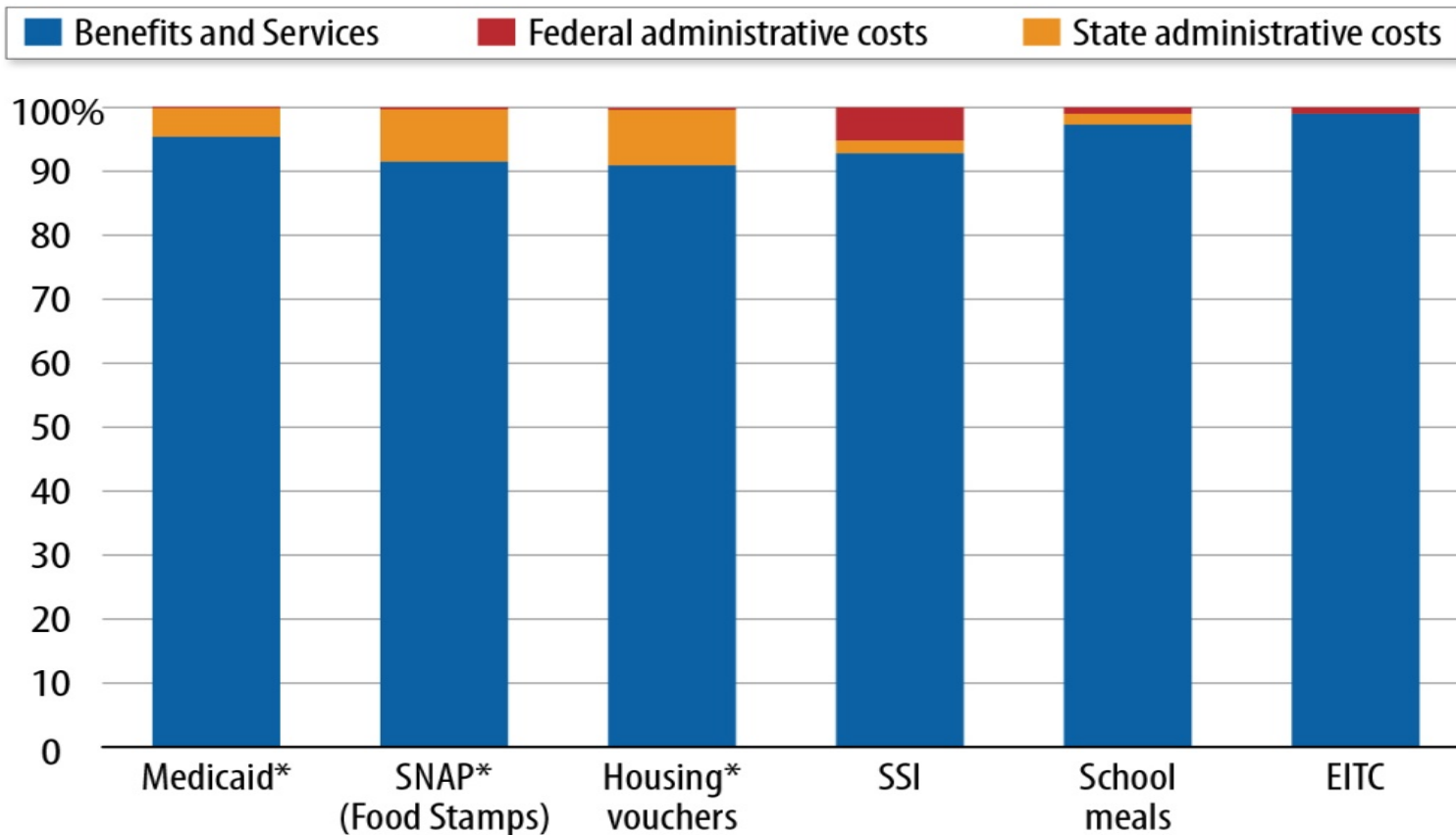
Share of population and entitlement benefits by income group, 2010



The Safety Net Works, But Has Holes

Overwhelmingly, Program Dollars Go to Beneficiaries

Percent of total federal and state expenditures

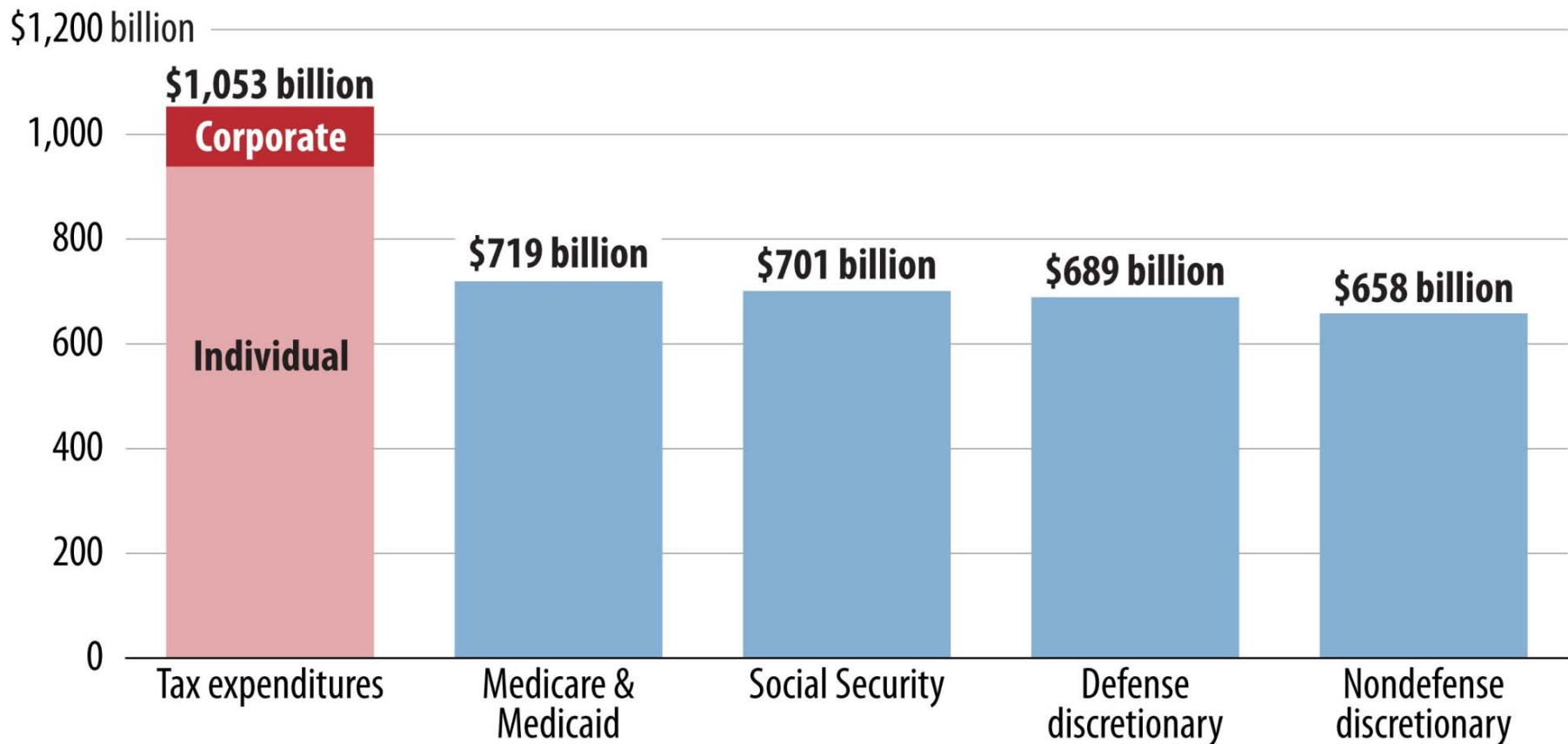


*Federal administration costs as a percent of total federal and state expenditures for Medicaid, SNAP, and housing vouchers are just 0.1%, 0.3%, and 0.3%, respectively.

“Tax Entitlements”

Tax Expenditures are Substantial

Tax expenditures and other major spending categories in 2010



Note: Tax expenditure figures exclude Recovery Act provisions that were allowed to expire, but include those that have been extended.

Source: Office of Management and Budget.

Safety Net Dramatically Reduces Poverty

Poverty Rate Would Have Been Nearly Twice as High in 2010 Without the Safety Net

Percent of population in poverty, National Academy of Sciences poverty definition



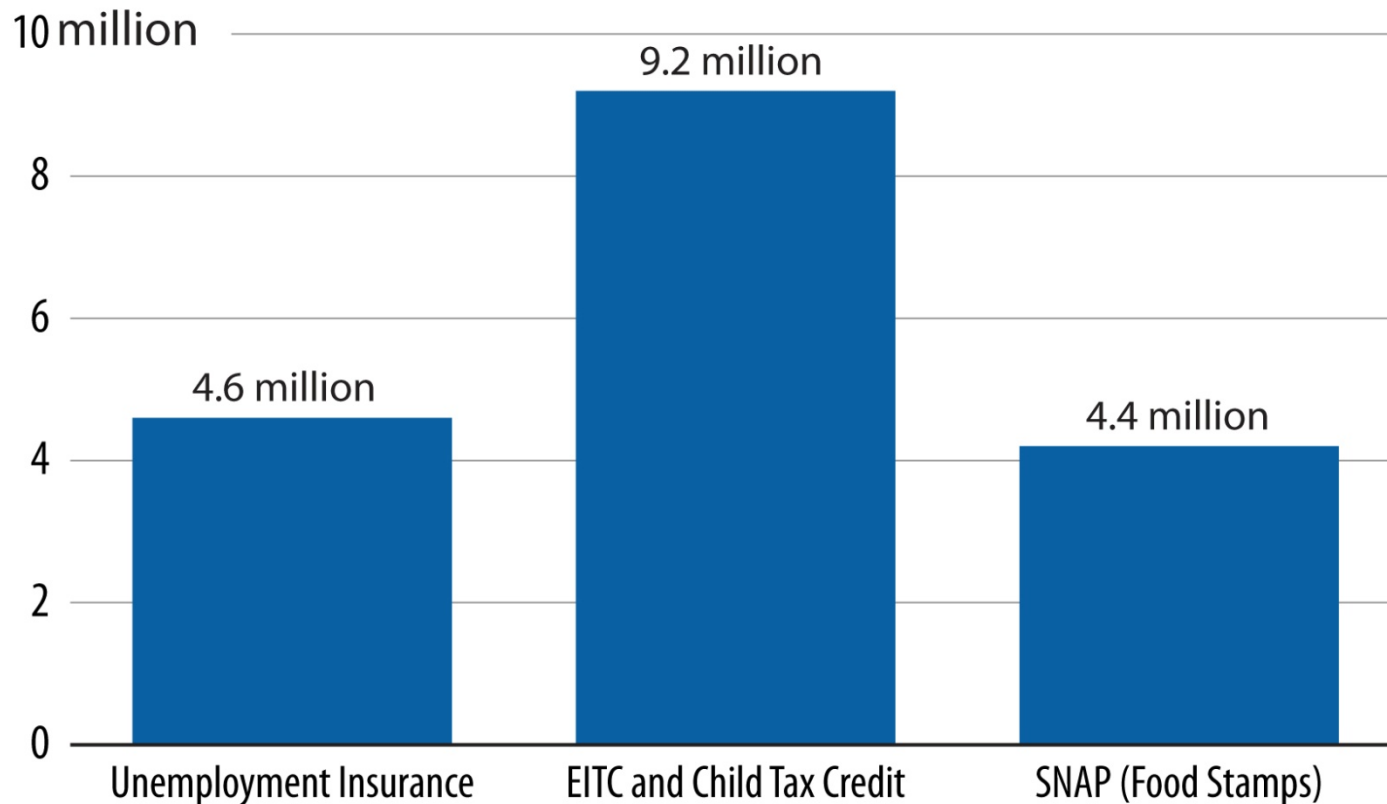
Note: The six temporary initiatives are federal measures enacted in 2009 and 2010 including expansions of the Earned Income Tax Credit and Child Tax Credit, the new Making Work Pay tax credit, expansions in the duration and level of unemployment insurance benefits, and expansion in SNAP benefits. The 2007 poverty line is the 2010 National Academy of Sciences poverty line adjusted for inflation.

Source: CBPP estimates based on data from U.S. Census Bureau

People Kept Out of Poverty in 2010 by Selected Programs

Number of People Kept Out of Poverty in 2010 by Program

(Using National Academy of Sciences' Poverty Measure)



Source: CBPP estimates based on Census data.

**Number of U.S. Households Living Below
World Bank Measure of Severe Poverty
in Developing Nations:
Living on Less Than \$2 a Day, Per Person**

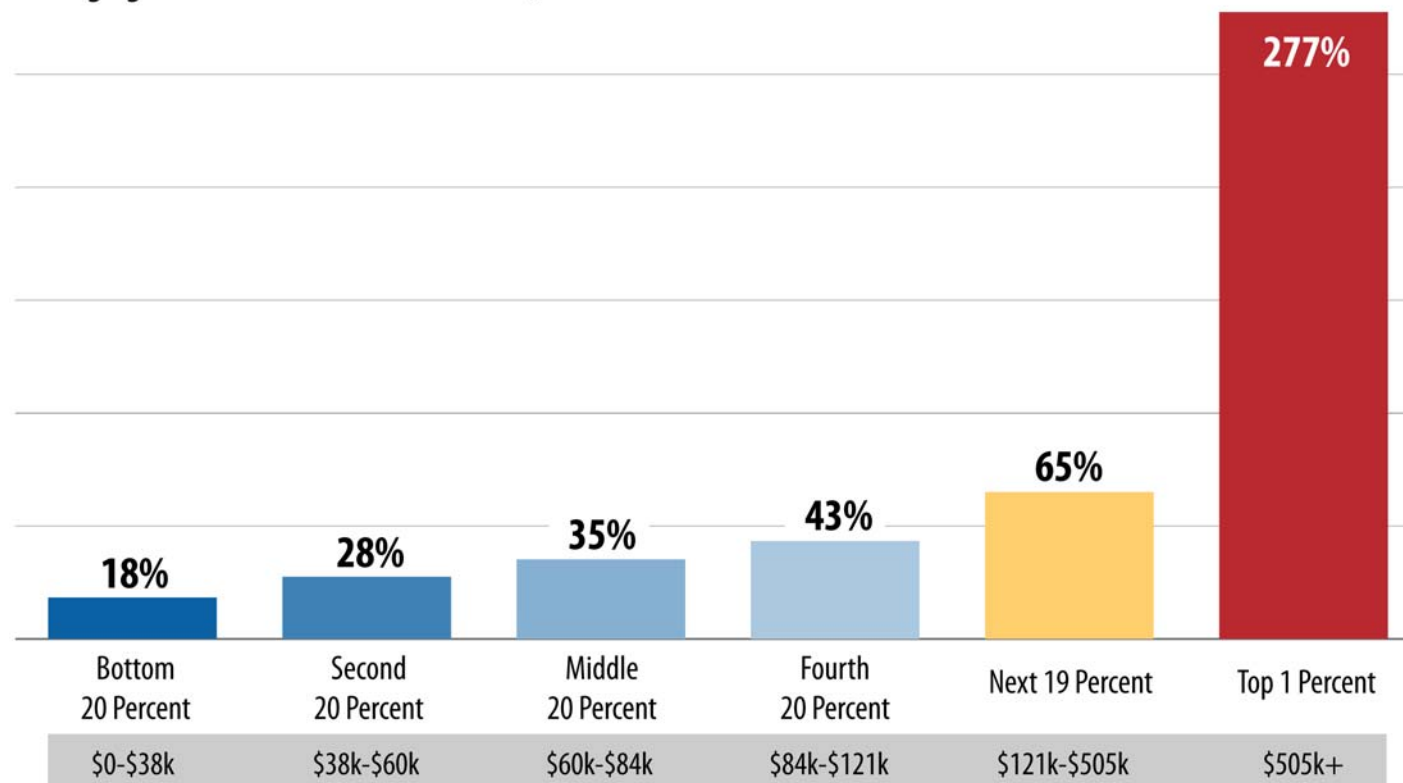
	Cash Income	Cash Income plus Food Stamps
1996	636,000 households with 1.4 million children	475,000 households
Start of 2011	1.46 million households with 2.8 million children	800,000 households

Source: Shaefer and Edin, "Extreme Poverty in the United States," 1996 to 2011.

The Federal Budget: Why Do We Care?

Income Growth has been Very Uneven Recently

Average growth of real after-tax income, 1979-2007



Note: CBO figures are adjusted to make incomes comparable across different family sizes. The ranges above have been readjusted to represent incomes for a family of four in 2007 dollars.
Source: Congressional Budget Office.

Deficit Reduction under Budget Control Act (BCA)

- Cut discretionary spending by nearly \$1 trillion over ten years.
- Set up a second stage to secure another \$1.2 trillion in deficit reduction.
- Bipartisan, Joint Select Committee tasked with identifying an additional \$1.5 trillion or more, failed to reach agreement by November 23.
- \$1.2 trillion, 9-year sequestration—triggered by JSC failure—begins January 2013.

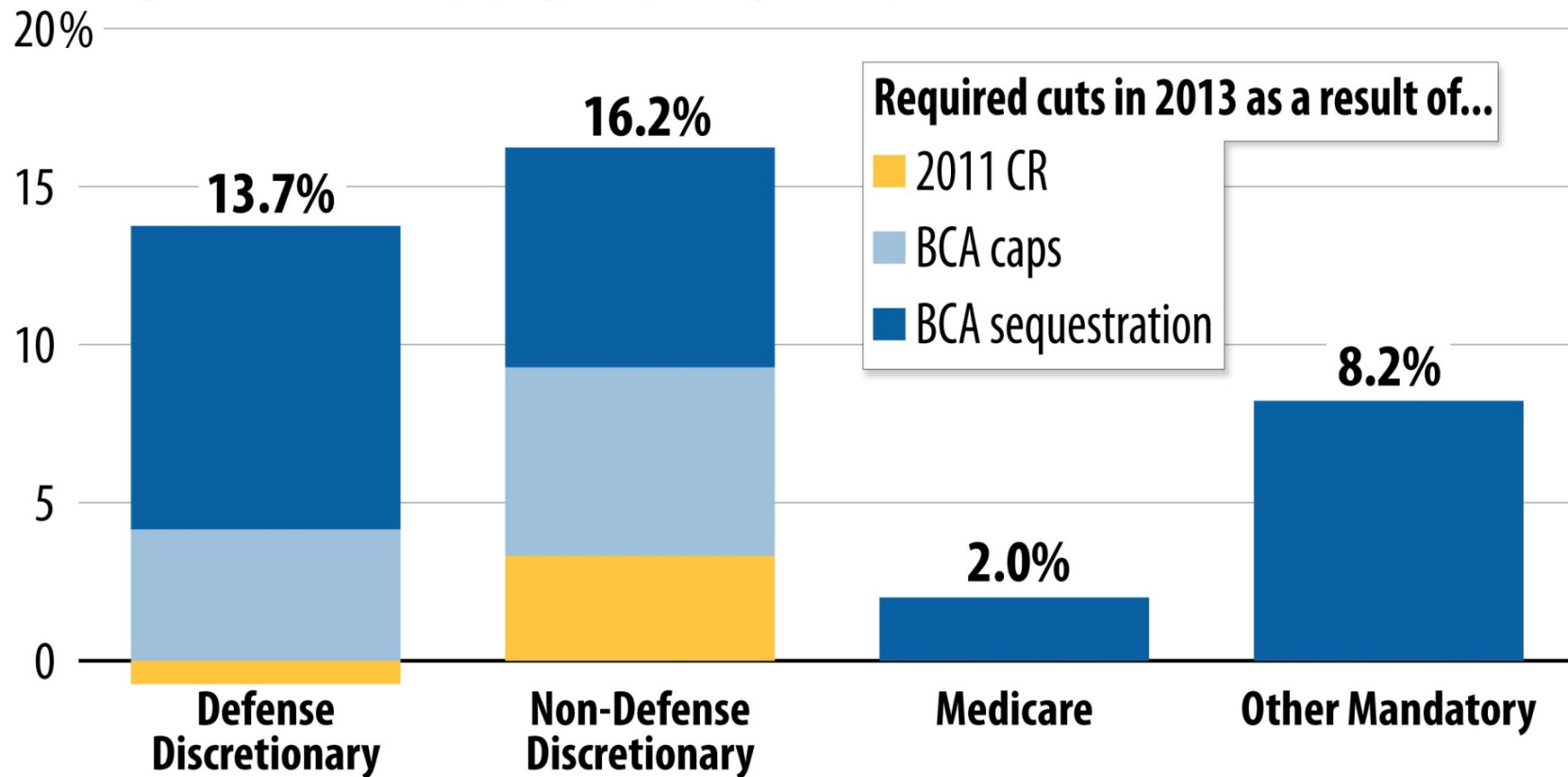
Success Protecting Core Low-Income Programs from the Sequestration

- Low-income, individual entitlement programs exempt:
- Medicaid and Children's Health Insurance Program
- Supplemental Security Income (SSI) and Temporary Assistance to Needy Families (TANF)
- Supplemental Nutrition Assistance Program (formerly Food Stamps)
- Child Care Entitlements (mandatory) and Child Nutrition
- Earned Income Tax Credits (EITC), Child Tax Credit (CTC)

Where Have We Already Agreed to Cut?

Upcoming FY2013 Budget Cuts, Deconstructed

Percentage cuts in non-exempt program spending in 2013, relative to CBO's March 2011 baseline



Notes: Defense discretionary excludes war funding. The 2011 CR increased defense discretionary relative to the March 2011 baseline. Most mandatory spending, including low-income entitlement programs, are exempt from sequestration.

Source: Center on Budget and Policy Priorities based on Congressional Budget Office data.

Why Did the Joint Committee Fail?

1. Ratio of spending cuts to revenues

2. Revenues

- Republicans agreed to consider revenues for deficit reduction– but substantially less compared to the bipartisan deficit commission's (Bowles-Simpson) recommendation.
- Republicans proposed to lock tax cuts (especially for the wealthy) at rates even lower than the 2001 tax cut levels

3. Medicare — demanded structural change

4. Medicaid — moving towards a cap or block grant

Congress DID Reduce the Deficit This Year!

- Under current law...
- the deficit will be reduced by about \$2.1 trillion over the period 2012-2021, through legislation enacted this year.
- This amounts to 40% of what's needed to stabilize our debt as a percent of our economy if the tax cuts for the wealthy are extended (50% if they end in 2012)
- BUT 100% of this comes from spending cuts, not from a balanced deficit reduction plan with both spending cuts and additional revenues as recommended by every major bipartisan deficit reduction group.
- Of the program cuts, about half comes from nondefense domestic appropriations, about 40% comes from defense and the rest from mandatory (sequester).

- Administration's FY13 budget
 - September plan redux
 - Eliminates sequester
 - Adheres to the Budget Control Act discretionary caps
 - Medicaid changes
- Congressional Budget Resolution
- Appropriations process
- Lame Duck

RYAN BUDGET PROPOSAL FOR FY 2013

- Massive cuts in spending to historically unprecedented levels
- Major tax cuts beyond Bush 2001, especially for the top
- Ends Medicaid and SNAP entitlements; converts them to block grants
- Ends Medicare as we know it; eliminates Medicare for 65-66 yrs old seniors
- Cancels the discretionary 2013 sequestration; replaces it with spending cuts
- Violates bipartisan principle: deficit reduction shouldn't increase poverty.
- Cuts nondefense appropriations well beyond (\$1.2 billion) the cuts agreed to this summer (Budget Control Act).
 - Cuts NDD funding by \$1.2trillion below the BCA caps from 2012-2022
 - Cuts NDD funding by \$800 billion below the sequestered levels from 2013-2022

Little Action Before Lame Duck Session...

- House Budget Resolution/no final budget resolution
- Senate Vote on Buffet Rule
- Appropriations (likely temporary Continuing Resolution)
- Efforts to Delay and Shift Sequestration Burden

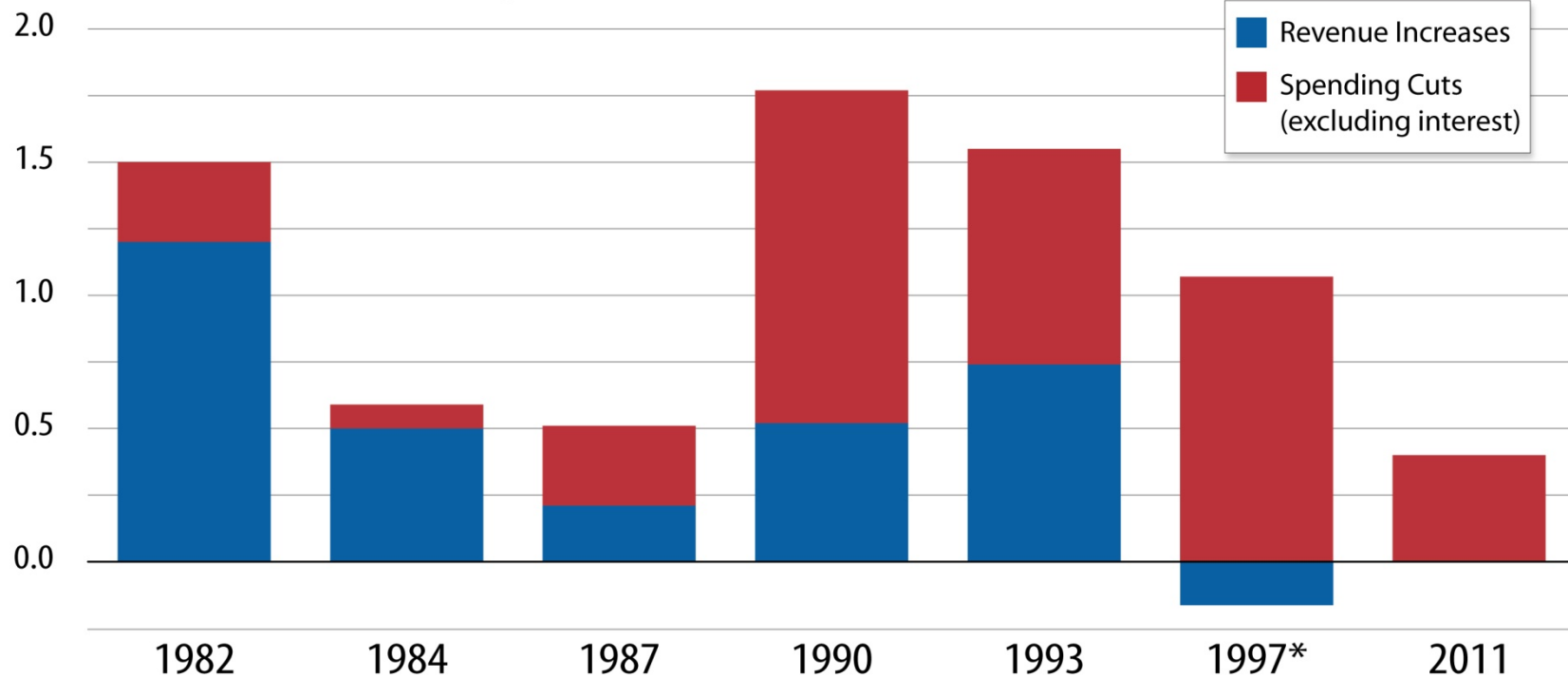
...Major Policy Fights in Lame Duck

- Action to avert the sequester
- Appropriations (Omnibus likely)
- Extending the 2001 tax cuts?
- Possible Debt Limit Increase needed/more deficit reduction
- One big negotiation on all of these...

Or...Policymakers may “kick the can” until early 2013.

Large Deficit-Reduction Packages Have Included Large Revenue Increases

Percent of GDP in Fifth Year of Package



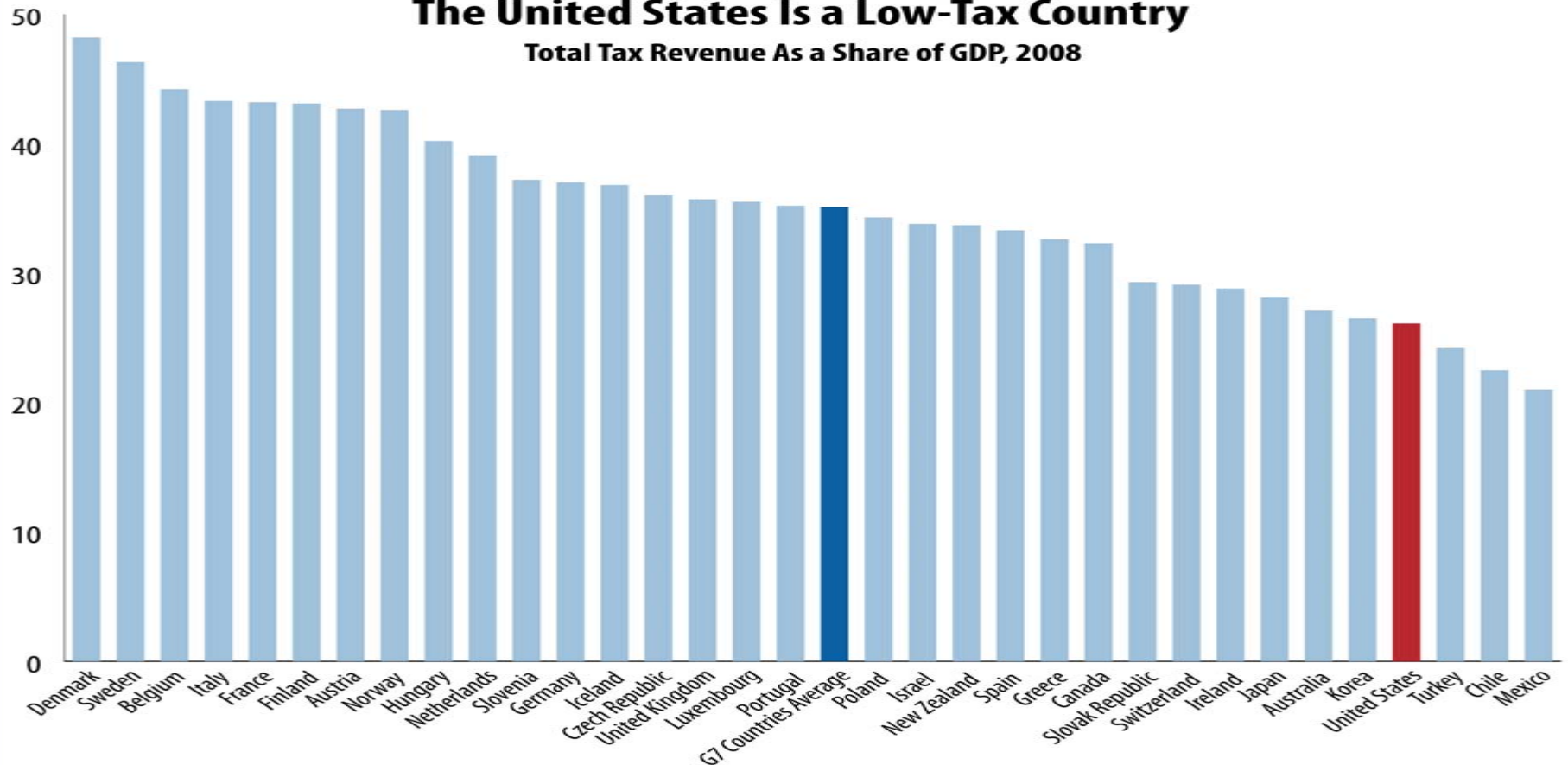
Source: CBPP based on data from Congressional Budget Office. Figures omit debt service savings. TEFRA (1982) and its accompanying reconciliation bill contained significant spending cuts, but five-year data are not available; for that package only, spending cuts represent the average over three years. 2011 package refers to Budget Control Act and does not account for as yet to be determined savings from the Joint Select Committee or sequestration.

*BBA and TRA 1997 included tax cuts, rather than revenue increases.

International Tax Revenue as a Share of GDP – Where Does the U.S. Rank?

The United States Is a Low-Tax Country

Total Tax Revenue As a Share of GDP, 2008



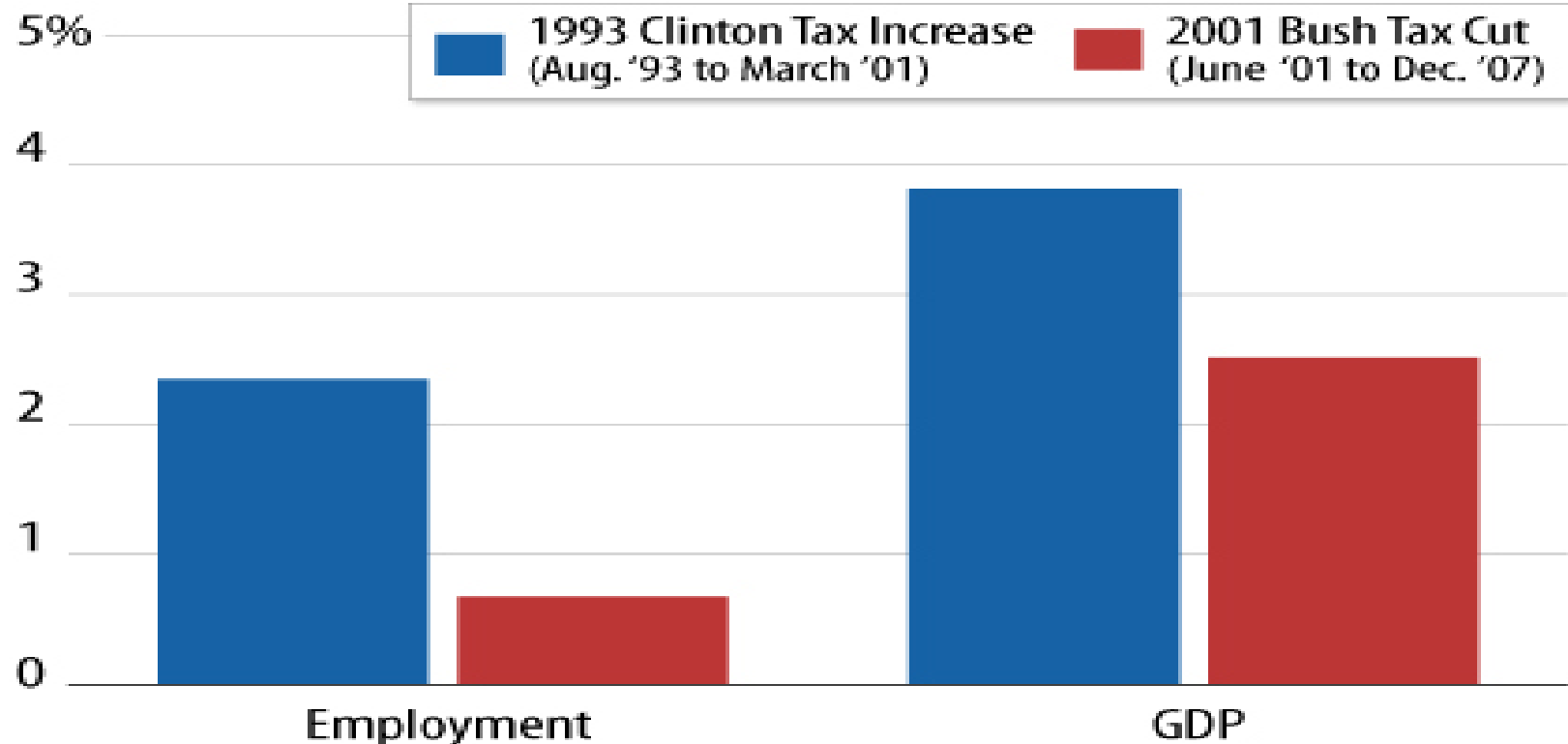
*Unweighted average of G-7 member countries

Source: OECD (Organisation for Economic Co-operation and Development)

Taxes and Economic Growth?

Taxes No Barrier to Growth in 1990s

Average annual growth in period following tax change



Source: CBPP calculations from Bureau of Labor Statistics and Bureau of Economic Analysis

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Policies for Deficit Reduction

- Ensure a balance of spending cuts and revenues in a comprehensive budget plan
- No further cuts in non defense discretionary spending
- Gradually let 2001-2010 tax cuts expire, or pay for extension for low and middle income
- Reduce inefficient, regressive tax subsidies
- Control system-wide health cost growth
- Reject converting the key low- income entitlements to block grants.
- Ensure deficit reduction does not increase poverty or income inequality