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

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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

- Projected debt under current policies, May 2011
- Debt without these factors

- Bush-Era Tax Cuts
- Wars in Iraq and Afghanistan
- Economic Downturn
- TARP, Fannie, and Freddie
- Recovery Measures
- Other Debt
Federal Spending, FY 2011

- Interest on the national debt: 6%
- Social Security, Medicare, and Medicaid: 41%
- Other entitlement Programs: 15%
- Defense discretionary: 19%
- Other nondefense discretionary: 14%
- Low-income discretionary: 3.9%

Source: Office of Management and Budget
Non-Defense Discretionary Spending Declining

The Federal Budget: Why Do We Care?

Non-defense discretionary budget authority as a percent of GDP

- as of March 2011
- after 2011 CR, BCA caps, and sequestration

Historical | Projected

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

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Public Health Coverage is Better at Cost Control

(Average Annual Growth Rate, 2000-2009)

- Medicaid Per Beneficiary: 4.6%
- Private Employer Insurance Premiums: 7.7%
- Medicare Per Beneficiary: 5.1%
- Private Per Capita, Comparable to Medicare: 7.2%

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

- Age 65 and up: 53%
- Disabled (non-elderly): 20%
- In a working household (non-elderly, non-disabled): 18%
Spending is Focused on Elderly, Disabled, & Workers

**Middle Income Households Receive Proportionate Share**

Share of population and entitlement benefits by income group, 2010

- **Share of population**
  - Bottom 20%: 20%
  - Middle 60%: 60%
  - Top 20%: 20%

- **Share of entitlement benefits**
  - Bottom 20%: 32%
  - Middle 60%: 58%
  - Top 20%: 10%
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.

Overwhelmingly, Program Dollars Go to Beneficiaries

*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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>$1,053 billion</td>
</tr>
<tr>
<td>Individual</td>
<td>$719 billion</td>
</tr>
<tr>
<td>Medicare &amp; Medicaid</td>
<td>$701 billion</td>
</tr>
<tr>
<td>Social Security</td>
<td>$689 billion</td>
</tr>
<tr>
<td>Defense discretionary</td>
<td>$658 billion</td>
</tr>
<tr>
<td>Nondefense discretionary</td>
<td></td>
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</tbody>
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Tax expenditures and other major spending categories in 2010

$1,200 billion

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.
The Safety Net Works, But Has Holes

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

- With No Government Assistance: 28.6%
- With Assistance Excluding 6 Temporary Initiatives: 17.8%
- With Assistance Including 6 Temporary Initiatives: 15.5%

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Income</th>
<th>Cash Income plus Food Stamps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>636,000 households with 1.4 million children</td>
<td>475,000 households</td>
</tr>
<tr>
<td>Start of 2011</td>
<td>1.46 million households with 2.8 million children</td>
<td>800,000 households</td>
</tr>
</tbody>
</table>

Income Growth has been Very Uneven Recently

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

Bottom 20 Percent: 18%
Second 20 Percent: 28%
Middle 20 Percent: 35%
Fourth 20 Percent: 43%
Next 19 Percent: 65%
Top 1 Percent: 277%

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.
• 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

- **Defense Discretionary**: 13.7%
- **Non-Defense Discretionary**: 16.2%
- **Medicare**: 2.0%
- **Other Mandatory**: 8.2%

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
• 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).
Budget Process 2012

• 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
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 $1.2 trillion 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

- 1993 Clinton Tax Increase (Aug. ’93 to March ’01)
- 2001 Bush Tax Cut (June ’01 to Dec. ’07)

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