

## ANALYSIS OF FY 2012 BUDGET AND DEFICIT REDUCTION PLANS

APRIL 2011

*At a time when unemployment rates remain close to double digits, the primary focus of the budget should be on investment in programs that create jobs, not cutting spending back to pre-WWII levels.*



## INCLUSION.

Earlier this month, three separate budget proposals were released: one from the Chairman of the House Budget Committee, Paul Ryan, one from President Obama and one from the Congressional Progressive Caucus. Each proposal paints a very different vision for the future. On one side of the spectrum is Rep. Ryan's budget, which aims to fundamentally alter existing safety nets while decreasing taxes on the wealthy and lowering the corporate tax rate. Rep. Ryan's plan would also disproportionately affect communities of color as many of his spending cuts are targeted at programs that benefit low-income communities.

On the other side of the spectrum is the Congressional Progressive Caucus budget, which increases corporate tax and taxes on the wealthy while investing in communities and the economy of the future. The Congressional Progressive Caucus not only saves programs that impact communities of color but increases support to them, and in turn, takes significant steps to reduce poverty and increase employment. This policy brief presents the highlights of each proposal, as well as how they will impact women of color, their families and communities.

### **The Congressional Progressive Caucus Budget Proposal**

The Congressional Progressive Caucus (CPC) introduced its FY 2012 budget vision on April 13, 2011. Contrary to other budget plans, the CPC's budget, entitled *The People's Budget*, eliminates the deficit through increasing taxes on the wealthy, closing corporate tax loopholes, decreasing military activity—including withdrawing troops from Iraq and Afghanistan—and investing in job creation.<sup>1</sup> *The People's Budget* also reintroduces the public health care option, which would allow individuals to participate in a publicly-run health care insurance plan, decreasing costs and increasing coverage.

*The People's Budget* would eliminate the deficit and achieve a \$30 billion budget surplus by 2021. The budget increases revenue by \$3.9 trillion. Some of the revenue streams include:

- Allowing the Bush-era tax cuts to expire at the end of 2012
- Immediately rescinding the upper-income tax cuts in December's tax deal
- Establishing tax brackets for millionaires
- Taxing all capital gains and qualified dividends as ordinary income
- Taxing U.S. corporate foreign income as it is earned
- Eliminating subsidies for oil, gas and coal companies
- Enacting a financial crisis responsibility fee

*The People's Budget* cuts \$1.7 trillion from current spending, including:

- Eliminating all emergency defense funding, which saves \$674 billion from 2012-2016 and \$1.6 trillion between 2012-2021
- Reducing base discretionary defense spending

*The People's Budget* also includes a public investment of \$1.7 trillion in job creation, education, clean energy and broadband infrastructure, housing and research and development. These investments not only make the economy more competitive, they also result in stable, healthy economic growth as more people are put to work and investment is made in low-carbon growth industries.<sup>2</sup>

As opposed to other budget proposals that look to non-discretionary programs for significant cost savings, the CPC's budget provides for increased investment in some discretionary programs, particularly those that provide services for underserved communities. A sample of programs receiving increased funding includes:

- Dropout Prevention
- Job Training and Workforce Development
- Pell Grants
- Domestic HIV/AIDS
- Maternal Health
- Mentoring of Children of Prisoners
- Community Health Centers
- Child Nutrition
- Supplemental Nutritional Assistance Program (Food Stamps)
- Food and Nutrition Service (Including WIC)
- Temporary Assistance for Needy Families (TANF)
- Tenant and Project Based Rental Assistance
- Public Housing Capital and Operating Funds

*The People's Budget* focuses on reframing the role of government and economic growth. Instead of slashing programs that largely benefit communities of color and low-income communities while providing the wealthiest with tax cuts, *The People's Budget* reverses this trend and invests in communities while increasing the revenue intake from wealthy individuals and corporations. In the long term, *The People's Budget* manages to balance the budget, eliminate the deficit, and bring the economy to the forefront by investing in infrastructure, future growth industries and, most importantly, communities and individuals.

### **President Obama's Budget Proposal**

President Obama also released his deficit reduction vision on April 13, 2011. The President's plan reduces the deficit by \$4 trillion within twelve years<sup>3</sup> through a combination of spending freezes, spending cuts and tax reform. The President's proposal eliminates Bush-era tax cuts for individuals making \$250,000 or more and closes loopholes that favor the rich, allowing for lower overall tax rates.

The President's plan would bring down the deficit with three dollars of spending cuts and interest savings for every one dollar from tax reform that contributes to deficit reduction. Spending cuts include:

- \$770 billion in non-discretionary spending by 2023
- \$400 billion in defense spending by 2023
- \$360 billion from mandatory program spending by 2023, including agricultural subsidies, the federal pension insurance system and anti-fraud measures

The President's budget also generates savings by building on the Affordable Care Act and including new reforms that aim to reduce the growth of health care spending. The reforms will save \$480 billion by 2023 and at least an additional \$1 trillion in the subsequent decade.<sup>4</sup> The new reforms proposed include:

- Holding Medicare cost growth per beneficiary to GDP per capita plus 0.5 percent starting in 2018
- Strengthening the Independent Payment Advisory Board, whose mandate is to find ways to reduce the growing costs of Medicare without changes to access or quality<sup>5</sup>
- Making Medicaid more flexible, efficient and accountable
- Reducing Medicare prescription drug spending and lowering drug premiums for beneficiaries

The President also proposed a "Debt Failsafe" trigger that would be implemented in 2014 if the projected ratio of debt-to-GDP is not stabilized. This mechanism would trigger automatic reductions in programs and tax expenditures if the debt exceeds a certain threshold, which is measured as a share of the GDP.<sup>6</sup> However, some analysts are concerned that such a trigger suffers from a fatal flaw in that it requires the deepest budget cuts when the economy is the weakest and the smallest cuts when the economy is strongest.<sup>7</sup>

While the President's proposal reinforces the role of government in providing basic social safety nets, it does call for budget cuts for two-thirds of its deficit reduction measures, including cuts to mandatory programs. These cuts are likely to affect low-income families, which would in turn increase poverty and hardship.<sup>8</sup>

## House Budget Committee Chairman Paul Ryan's Budget Proposal

Rep. Paul Ryan (R-WI), Chairman of the House Committee on the Budget, unveiled the GOP budget plan for FY 2012 on April 5, 2011. The proposal, *The Path to Prosperity: Restoring America's Promise*, claims to reduce the federal deficit by \$1.6 trillion by 2021, though most of the deficit reduction is drawn from already-planned decreased war spending in Iraq and Afghanistan.<sup>9</sup> Real deficit reduction amounts to less than \$400 billion.<sup>10</sup> Rep. Ryan's plan achieves some of this deficit reduction through program cuts and the privatization and/or restructuring of Social Security, Medicare, Medicaid and the Supplemental Nutrition Assistance Program (SNAP) as state block grants, fundamentally altering the existing safety net. As block grants, these programs would no longer be able to automatically respond to increased need during periods of national economic hardship.

*The Path to Prosperity* would also fully repeal and defund President Obama's health care reform legislation, which extends coverage to 32 million uninsured individuals, half of whom are people of color.

*The Path to Prosperity* increases revenue by extending Bush-era tax cuts for the wealthiest Americans and lowering the top individual and corporate tax rate from 35 percent to 25 percent. Additionally, the GOP's proposal would cut \$4.3 trillion from government programs, \$2.9 trillion of which come from programs for low-income families.<sup>11</sup> Rep. Ryan's plan would reduce or impose a funding cap on the following:

- Medicaid
- Medicare
- Social Security
- Pell Grants
- Housing Assistance
- Supplemental Nutrition Assistance Program (Food Stamps)

The restructuring and defunding of these critical programs would disproportionately affect low-income communities of color, who rely on many of them as safety net supports. As an example, reducing Pell Grants will considerably increase the cost of higher education for Black undergraduates, 46 percent of whom utilize Pell Grant funds to help pay for their college and tuition expenses.<sup>12</sup> Similarly, by slashing federal spending for Medicaid by \$771 billion over the next decade and by nearly 50 percent by 2030, *The Path to Prosperity* would reduce access to free or low-cost health care for more than 44 million enrolled individuals under the age of 65, over half of whom are people of color.<sup>13</sup>

The structural changes proposed by the plan are equally detrimental for vulnerable populations. *The Path to Prosperity* raises the age at which individuals are eligible for Medicare from 65 to 67 and converts the program to a voucher-based system for private health insurance plans, leading to increased economic insecurity among America's seniors. The "defined contribution amounts" of the vouchers would not keep pace with rising health care costs and would impose increased out-of-pocket medical expenses on Medicare beneficiaries, especially low-income individuals.<sup>14</sup>

The cuts and revisions to these vital programs not only jeopardize the economic security of millions of Americans, they also do very little to actually decrease the nation's deficit as claimed. Any savings achieved by \$4.3 trillion in program cuts are offset by the \$4.2 trillion lost in tax cuts to wealthy individuals and corporations.<sup>15</sup> Government spending, besides Medicaid, Medicare, Social Security and interest payments, would be reduced from 12 percent in 2010 to 3.5 percent in 2050. Spending in this category has exceeded 8 percent in every year since World War II.

## Conclusion

At a time when unemployment rates remain close to double digits, the primary focus of the budget should be on investment in programs that create jobs, not cutting spending back to pre-WWII levels. This year's budget battle has been contentious and programs aiding struggling families and communities have been cut under the guise of balancing the budget. The three budget proposals lay out very different visions of the future. Rep. Ryan's budget puts more money into the hands of the wealthy and imposes the bulk of the fiscal burden on working families and communities. The CPC's budget invests in workers and communities for a stronger future with a balanced budget by 2021. As the debate moves forward, a balanced budget cannot come on the backs of struggling workers and families. Instead, the focus must be on building a strong future with investments in infrastructure, people and communities.

## (Endnotes)

- <sup>1</sup> Congressional Progressive Caucus, *The People's Budget, Budget of the Congressional Progressive Caucus Fiscal Year 2012*, accessed April 14, 2011, <http://grijalva.house.gov/uploads/The%20CPC%20FY2012%20Budget.pdf>
- <sup>2</sup> Economic Policy Institute, *A Rescue Plan for Main Street*, accessed April 14, 2011, <http://www.epi.org/publications/entry/pm132/>
- <sup>3</sup> The White House, *Fact Sheet: The President's Framework for Shared Prosperity and Shared Fiscal Responsibility*, accessed April 14, 2011, <http://www.whitehouse.gov/the-press-office/2011/04/13/fact-sheet-presidents-framework-shared-prosperity-and-shared-fiscal-resp>
- <sup>4</sup> Ibid
- <sup>5</sup> American Medical Association, *Independent Payment Advisory Board*, accessed April 15, 2011, <http://www.ama-assn.org/ama1/pub/upload/mm/399/hsr-payment-advisory-board.pdf>
- <sup>6</sup> Center on Budget and Policy Priorities, *Statement: Robert Greenstein on President Obama's Deficit Reduction Plan*, accessed April 14, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3469>
- <sup>7</sup> Ibid
- <sup>8</sup> Ibid
- <sup>9</sup> House Committee on the Budget, *The Path to Prosperity*, accessed April 15, 2011, <http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf>
- <sup>10</sup> Center on Budget and Policy Priorities, *House Budget Committee: Mistakes Were Made*, accessed April 15, 2011, <http://www.offthechartsblog.org>
- <sup>11</sup> Center on Budget and Policy Priorities, *Chairman Ryan Gets Roughly Two-Thirds of His Huge Budget Cuts From Programs for Lower-Income Americans*, accessed April 15, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3451>
- <sup>12</sup> Journal of Blacks in Higher Education, *Pell Grants: The Cornerstone of African-American Higher Education*, accessed April 14, 2011, [http://www.jbhe.com/features/65\\_pellgrants.html](http://www.jbhe.com/features/65_pellgrants.html)
- <sup>13</sup> Henry J. Kaiser Family Foundation, *Distribution of the Nonelderly with Medicaid by Race/Ethnicity, States (2008-2009)*, U.S. (2009), accessed April 15, 2011, <http://www.statehealthfacts.org/comparebar.jsp?ind=158&cat=3>
- <sup>14</sup> Center on Budget and Policy Priorities, *CBO Report: Ryan Plan Specifies Spending Path that would Nearly End most of Government other than Social Security, Health Care, and Defense by 2050*, accessed April 14, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3453>
- <sup>15</sup> Center on Budget and Policy Priorities, *Ryan Budget Plan Produces Far Less Real Deficit Cutting Than Reported*, accessed April 15, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3458>