

# Understanding and Beating Slashonomics

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# Budget perplexed?

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Debt limit?

Global spending cap?

Balanced budget  
amendment?

Mandatory spending?

Discretionary spending?

Appropriations bills?

Block grants?



## It comes down to 3 simple principles:

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- Protect low-income and vulnerable people in budget debates.
- Rely on increased revenues at least as much as spending cuts in any deficit reduction plan.
- Oppose budget procedures that would force deep cuts in spending but shield tax breaks.

# Slash-onomics

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- Slash programs for the poor and middle class in the name of deficit reduction.
- Take revenues off the table and give more tax cuts to the wealthy. (Deficits don't matter when it comes to tax cuts.)
- Change budget rules to lock in these distorted priorities.

# Different ways to implement slash-

## onomics

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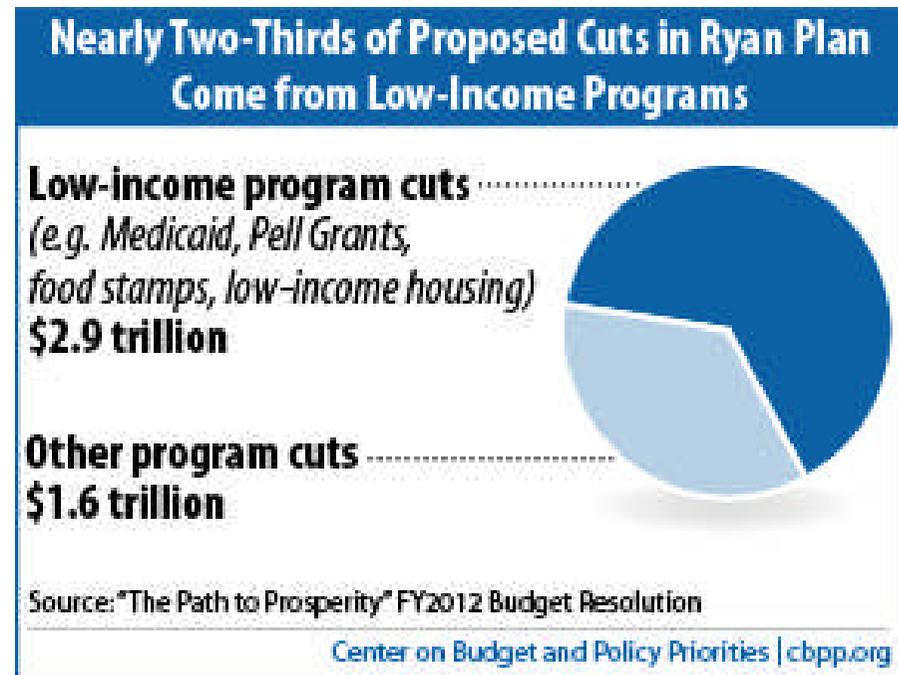
- Cut funding for “discretionary” programs in annual spending (“appropriations”) bills.
- Restructure “mandatory” programs (programs that don’t need annual appropriations).
  - E.g., block grant Medicaid, Food Stamps (passes costs on to states, reduces individual protections)
- Change budget rules (e.g., spending cap, balanced budget amendment, spending-only enforcement).
- *Hold must-pass bill to increase debt ceiling hostage to demand deep program cuts & budget rule changes.*

# House Republican (Ryan) Spending Cuts

## \$4.5 Trillion in Cuts, 2/3 from Low-Income Programs

- \$2.17 trillion cut from Medicaid and health care subsidies
- \$350 billion cut from low-income mandatory programs, e.g. SNAP (formerly Food Stamps), Supplemental Security Income, TANF, Pell grants.
- \$400 billion cut from low-income discretionary programs, e.g. Head Start, WIC, housing and energy assistance, meals-on-wheels.
- \$1.2 trillion cut from other “non-security” discretionary programs, e.g. food safety, environmental protection, medical research.
- \$369 billion cut from other mandatory programs.
- End Medicare as we know it.

Source: CBPP, [Nearly 2/3rds of Cuts Come from Low-Income Programs](#)



# House Republican (Ryan) Tax Cuts

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- \$6.7 trillion in new tax cuts
  - \$3.8 trillion (extend Bush tax cuts & reduction in Alternative Minimum Tax but *not* recent Child Tax Credit & EITC improvements)
  - \$2.9 trillion (cut top individual and corporate tax rates, repeal progressive taxes for health reform, repeal AMT)
- Raise \$2.5 trillion in revenues from unspecified reductions in tax expenditures.
- Net tax cuts: \$4.2 trillion

Source: CBPP, [House Budget Places Top Priority on High-Income Tax Cuts, Ignores Deficit Reduction](#)

# Who benefits from the tax cuts in the Ryan budget?

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- The really rich. Average tax cut in 2013:
  - Income over \$1 million: \$192,500
  - Income over \$10 million: \$1,450,650
- The top 5% of taxpayers get:
  - virtually all the benefit of the new tax cuts
  - nearly half of the benefits of extending the Bush-era tax cuts.

Sources: CTJ, [Ryan plan would give huge tax cut to millionaires](#); [Bush tax cuts after 10 yrs](#)

# Who loses from the tax cuts in the Ryan budget?

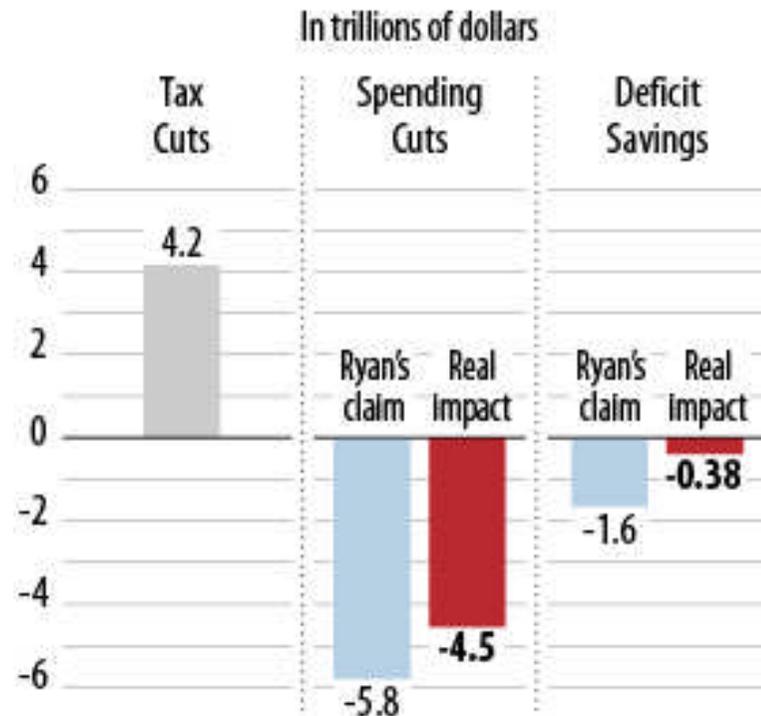
Low- and moderate income people lose 4 ways:

- Get little or nothing from the new tax cuts.
  - Average tax cut for bottom 60% less than \$500 in 2013.
  - 30% of single mothers and their children get zero.
- Lose tax benefits from *not* extending recent Child Tax Credit, EITC improvements.
  - Loss for single mother with 3 kids: \$2,100.
- Multiple cuts to public services and benefits outweigh any benefit from the specific tax cuts in the Ryan budget.
- Taxes may increase for the middle class and poor from the \$2.5 trillion in reductions in unspecified tax expenditures.

Sources: CTJ, [Bush tax cuts after 10yrs](#); NWLC, [McConnell tax plan leaves single mothers behind](#)

# What about deficit reduction?

## Ryan Plan's Deficit Reduction Much Smaller Than Claimed



Sources: Congressional Budget Office, CBPP analysis of the Manager's Amendment to the Fiscal Year 2012 Budget Resolution

Center on Budget and Policy Priorities | [cbpp.org](http://cbpp.org)

# But the Senate defeated the Ryan budget!

## Why worry about it?

Back-door ways to get to the Ryan budget:



**Global spending cap**



**Balanced budget amendment**



**Spending-only enforcement**

# Polling slide: What's a global spending cap?

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- A limit on spending on foreign aid.
- A prohibition on new programs that aren't paid for with spending cuts or new revenues.
- A limit on total federal spending to a fixed share of the economy.
- A prohibition on the federal government's spending more than it receives in revenues.

# Behind Door #1: Global Spending Cap

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- It's a limit on total federal spending, including mandatory and discretionary spending, to a fixed share of the economy (Gross Domestic Product) each year.
  - Its cousins: “mandatory spending cap” (aka “entitlements cap”); “health care spending cap;” “multi-year discretionary cap.”
- A spending cap of any type **only** applies to the **spending side** of the budget.

# A global spending cap would:

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- force destructive cuts to programs that millions of people depend on;
- require radical changes to Medicaid, Medicare and Social Security;
- reduce funding for other key domestic priorities like education and services for children; and
- prevent the government from responding to recessions.

# Let's get more specific.

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- Corker-McCaskill bill, limit = 20.6% of GDP. That's:
  - Lower than average spending (22%) during Reagan years – before baby boomer retirements, health care costs surged.
  - About the same as the Ryan budget over next 20 years.
- Automatic enforcement would cut Social Security, Medicare and Medicaid by 19% in 10 years:
  - Average Social Security benefit of \$12,000/year for elderly women cut to \$9,720, below poverty.
- Cuts even deeper after 10 years:
  - Rising # of elders, health care costs, force deeper cuts

# A global spending cap would *not*:

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- Limit tax breaks for the wealthy and corporations.
  - Congress could give away trillions in new tax cuts.
- Provide any incentive to Congress to close tax loopholes or raise taxes on the wealthy.
  - Congress couldn't spend above the cap even if it were fully paid for by closing tax loopholes.
- Ensure deficit reduction.

# Behind Door #2: Balanced Budget Amendment

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The “plain vanilla” version (1990s):

A constitutional amendment prohibiting the federal government from spending more than it receives in revenues each year, unless a supermajority of both houses approves additional spending.

## Why shouldn't the federal government have to balance its budget? States and families do.

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- States have separate capital budgets to borrow for roads, schools. Families can borrow to buy a home, start a business, finance an education.
  - Federal government couldn't borrow for investments.
- States and families can save for a rainy day.
  - Federal surplus couldn't help balance the budget the next year.
- States and families both rely on the federal government's ability to help out during economic downturns and other emergencies.

# Economists condemn “plain-vanilla” balanced budget amendment

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Statement on 1997 BBA by over 1,000 economists including 11 Nobel laureates:

“We condemn the proposed ‘balanced-budget’ amendment to the federal Constitution. It is unsound and unnecessary. . . . The proposed amendment mandates perverse actions in the face of recessions. In economic downturns, tax revenues fall and some outlays, such as unemployment benefits, rise. These so-called ‘built-in stabilizers’ limit declines of after-tax income and purchasing power. To keep the budget balanced every year would aggravate recessions.”

See CBPP, [Greenstein Statement on Senate GOP BBA](#) (3/31/11)

# Current versions of the BBA are far more extreme and dangerous!

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Balanced budget amendments in this Congress add:

- Global spending cap (proposed: 18% of GDP)
- Super-majority (proposed: 2/3) of both houses needed to increase revenues.

These rules would be written into the Constitution!

*“Dopiest Constitutional Amendment of All Time?”*

– Bruce Bartlett, Advisor to Presidents Reagan and George H.W. Bush

## Behind Door #3: “Spending-Only” Enforcement

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- This is a budget enforcement mechanism that calls *only* for automatic spending cuts, not tax increases, if a deficit- or debt-reduction target isn’t met.
- A deficit- or debt-reduction target isn’t inherently one-sided like a spending cap. It could be met by cutting spending, raising revenues, or a combination of both.
  - But if only automatic *spending* cuts occur if Congress fails to meet the target, the impact is like a spending cap, and
  - Policymakers who want *only* spending cuts would have no incentive to compromise on a balanced plan that includes increased revenues.

# Protecting Vulnerable People in Deficit-Reduction Plans

- Insist that deficit-reduction plans and budget enforcement mechanisms protect low-income and vulnerable people.
- Past deficit-reduction agreements exempted low-income assistance programs from automatic budget enforcement:
  - 1985 and 1987 Gramm-Rudman-Hollings laws, 1990 Budget Enforcement Act, 1993 Deficit Reduction Act, 1997 Balanced Budget Act, 2010 pay-as-you-go statute.
- Past deficit-reduction packages helped the vulnerable and reduced poverty:
  - 1990 package raised the EITC, 1993 package increased the EITC and Food Stamps, 1997 package created the Children's Health Insurance Program.

Source: Bob Greenstein, CBPP

# Conclusion

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- Budget policies that are both fair and fiscally responsible are possible –
- But only with your help, and
- Only if the very wealthy and corporations pay their fair share of taxes.