

The Deficit Deal Explained:

**A Non-Wonky Guide to the New Law's Sweeping
Push to Cut Federal Spending: and Maybe
Increase Revenues Too?**

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What does the
nation need most
right now?

JOBS

Unemployment



Economic Policy Institute

What are we getting?

CUTS

The Budget Control Act of 2011

Its goals:

- Preventing loss of federal borrowing authority
- Deficit reduction over the next 10 years

Our goals:

- Millions of jobs
- Protect vulnerable people
- Restore U.S. long-term fiscal stability

POLL QUESTION

- What do Americans want – deficit reduction or job creation?
 - ___ the majority wants the deficit to be reduced
 - ___ the majority wants job creation
 - ___ Americans want both about equally

“Our” Goals: very big majority of Americans agree

- How would you rate the condition of the national economy these days?
 - Very good: zip
 - Fairly good: 12%
 - Fairly bad or very bad: 86%
- Which should be the higher priority for the nation right now – cutting govt. spending or creating jobs?
 - Cutting spending: 29%
 - Creating jobs: 62%
 - Both: 8%

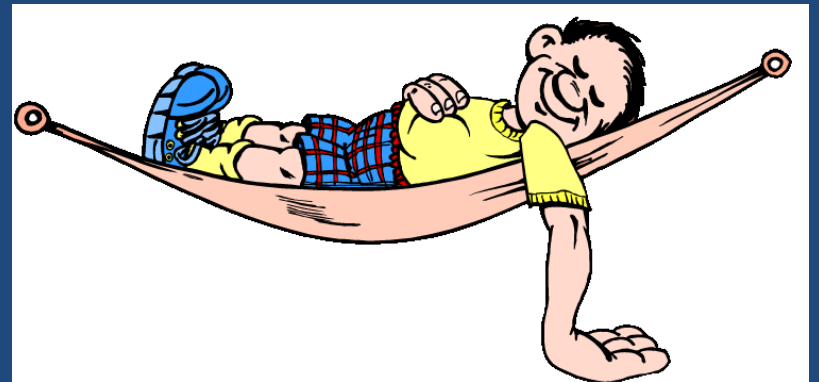
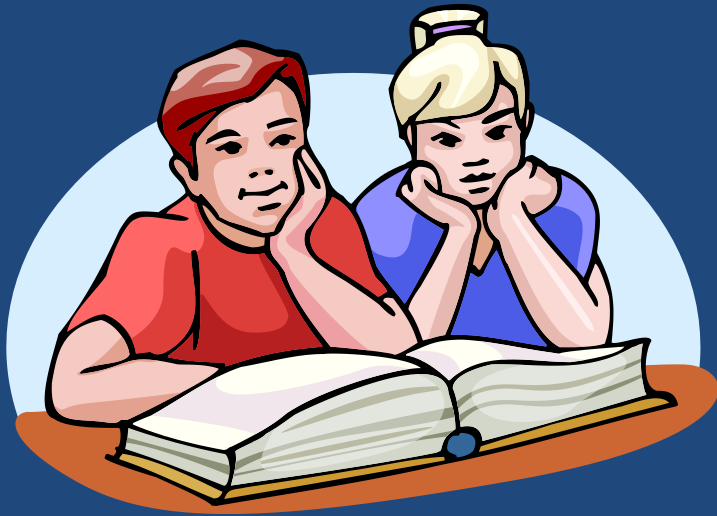
New York Times/CBS News Poll, August 2-3, 2011

Nevertheless...

Budget Control Act:

- **Spending capped** from FY 2012 – FY 2021, cutting about \$900 billion.
- **Federal debt limit is raised** in stages by about \$2.1 trillion; expected to last till early 2013.
- **Joint Select Committee on Deficit Reduction** (aka the Super Committee) charged with recommending by Nov. 23, 2011 at least \$1.2 trillion more in deficit reduction through FY 2021.
- Congress must vote on **constitutional amendment to balance the budget** by Dec. 31, 2011.
- Congress must **vote on Super Committee's bill** by Dec. 23.
- If it isn't enacted, **automatic cuts of up to \$1.2 trillion** are imposed, starting **January, 2013**.

Today's Words



Discretionary Spending

*(hint: does **not** mean optional)*

A program that needs annual appropriations from Congress for funding to continue.

Examples:

- Most education, training
- Subsidized housing, heating aid
- WIC
- Head Start
- Environmental protection
- Military
- Public health, medical research

Mandatory Spending

A program that is authorized by Congress to continue operating as provided by law without the need for annual appropriations. Entitlements are forms of mandatory spending.

Examples:

- Social Security
- Medicare
- Medicaid
- SNAP/food stamps
- Unemployment Insurance
- TANF
- SSI
- Interest on the national debt

Budget Control Act Round 1

10 years of discretionary caps and cuts

In FYs 2012 and 2013,
separate caps for “security”
and “non-security” spending:

	Domestic	Security	
2011:	\$362b	\$688b	= \$1.05T
2012:	\$359b	\$684b	= \$1.043T
2013:	\$361b	\$686b	= \$1.047T
Deficit reduced through 2021:			\$915b
from discretionary cuts:			\$740b
from mandatory savings:			\$ 20b
from reduced interest:			\$155b

Discretionary Cuts: Round 1

Another Word for the Day:

Security Spending:

Includes military, veterans, homeland security, foreign aid, CIA, nuclear weapons in the Dept. of Energy. War costs are exempt from the caps.

- **Claim:** through 2021, security spending will be cut \$350 billion. True if the proportions in FYs 12, 13 hold. Not required.
- Total cut below CBO baseline
 - in FY 2012: **-\$44b**
 - in FY 2021: **-\$119b**

Cuts Have Already Started for Many Discretionary Programs

Some cuts from FY 10 – FY 11

WIA Job training:	-11%
Youthbuild:	-26%
Community Services	
Block Grant:	- 4%
LIHEAP:	- 9%
Juvenile Justice programs:	-35%
Adult Basic Education:	- 6%
Community Development	
Block Grant:	-17%
Housing for the Elderly:	-52%

The House wanted to cut far more in FY11; examples of cuts that might be proposed again:

✂ **290,000 low-income people could lose rental vouchers**

✂ **300,000 – 450,000 small children and moms could lose WIC**

✂ **3.5 million low-income households could lose LIHEAP**

✂ **1.4 million low-income students would not receive Pell Grants**

Budget Control Act Round 2

The Joint Select Committee on Deficit Reduction

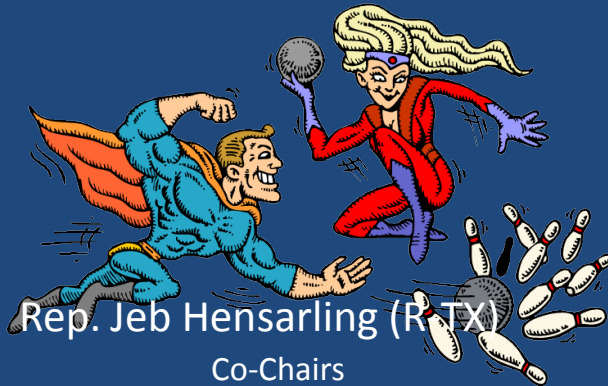
- Aka the Super Committee



- 12 members, 1 task: reduce deficit by \$1.5T (or at least \$1.2T) –their plan to be voted on in Committee by Nov. 23.

Super Committee

Sen. Patty Murray (D-WA)



Sen. John Kerry (D-MA)

Sen. Max Baucus (D-MT)

Sen. Jon Kyl (R-AZ)

Sen. Ron Portman (R-OH)

Sen. Pat Toomey (R-PA)

Rep. Dave Camp (R-MI)

Rep. Fred Upton (R-MI)

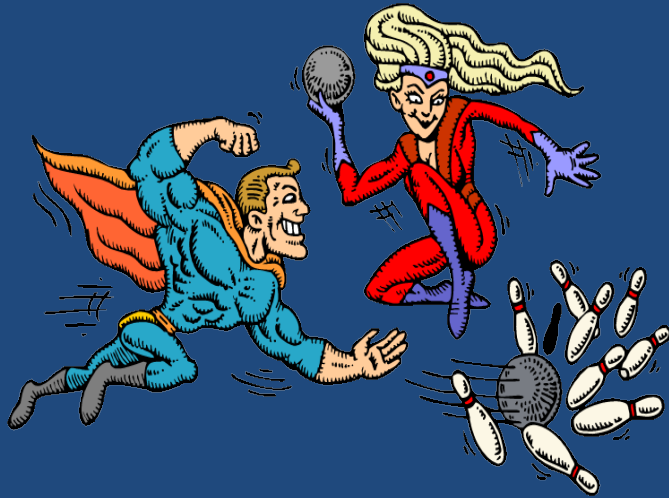
Rep. Chris Van Hollen (D-MD)

Rep. Xavier Becerra (D-CA)

Rep. James Clyburn (D-SC)

Deficit Reduction Plan:

- Can cut mandatory and/or discretionary programs
- Can cut military and /or domestic programs
- Can raise revenues as well as make cuts in spending
- Goal: save \$1.5T
- **Timetable:**
 - Vote in Committee by November 23
 - Report out by Dec. 2
 - Congress must vote by Dec. 23 – fast track, no filibuster



- Republicans will oppose including new revenues.
- Democrats will oppose cuts in Medicare, Medicaid, Social Security.

Super Challenges

What they should do...

A Smart Deficit Reduction Plan

- ✓ Incorporate job creation and protections for vulnerable people in the early years
 - Examples: **FAST** (Fix America's Schools Today): \$50b will create 450,000 – 500,000 jobs; **Emergency Jobs to Restore American Dream Act** (Schakowsky): \$227b will create 2 million jobs
 - Prevent federal UI program from expiring in Dec. 2011
- ✓ Include substantial revenues
- ✓ Seek savings from wasteful contracting in military and elsewhere, as well as other military savings
- ✓ Protect programs that serve low-income people

Revenues

Warren Buffett: “Billionaires like me should pay more taxes...My friends and I have been coddled long enough by a billionaire-friendly Congress. It’s time for our government to get serious about shared sacrifice.”

Richest 400 households
(incomes averaged \$270m in 2008): from 1992-2008, incomes zoomed up by more than 700%, while average share of federal taxes dropped from 26% to 18%!

Fair Revenue Sources:

- * Raise capital gains tax rate: **\$500b**
- * End Bush tax cuts for wealthiest 2%: **\$690b**
- * Reduce extra benefits richest taxpayers get from itemized deductions: **\$321b**
- * Reduce subsidies for foreign profits: **\$129b**
- * End subsidies for oil and gas companies: **\$44b**
- * End loophole for hedge fund, private equity fund mgrs: **\$21b**
- * End tax breaks for vacation homes and yachts: **\$10b**

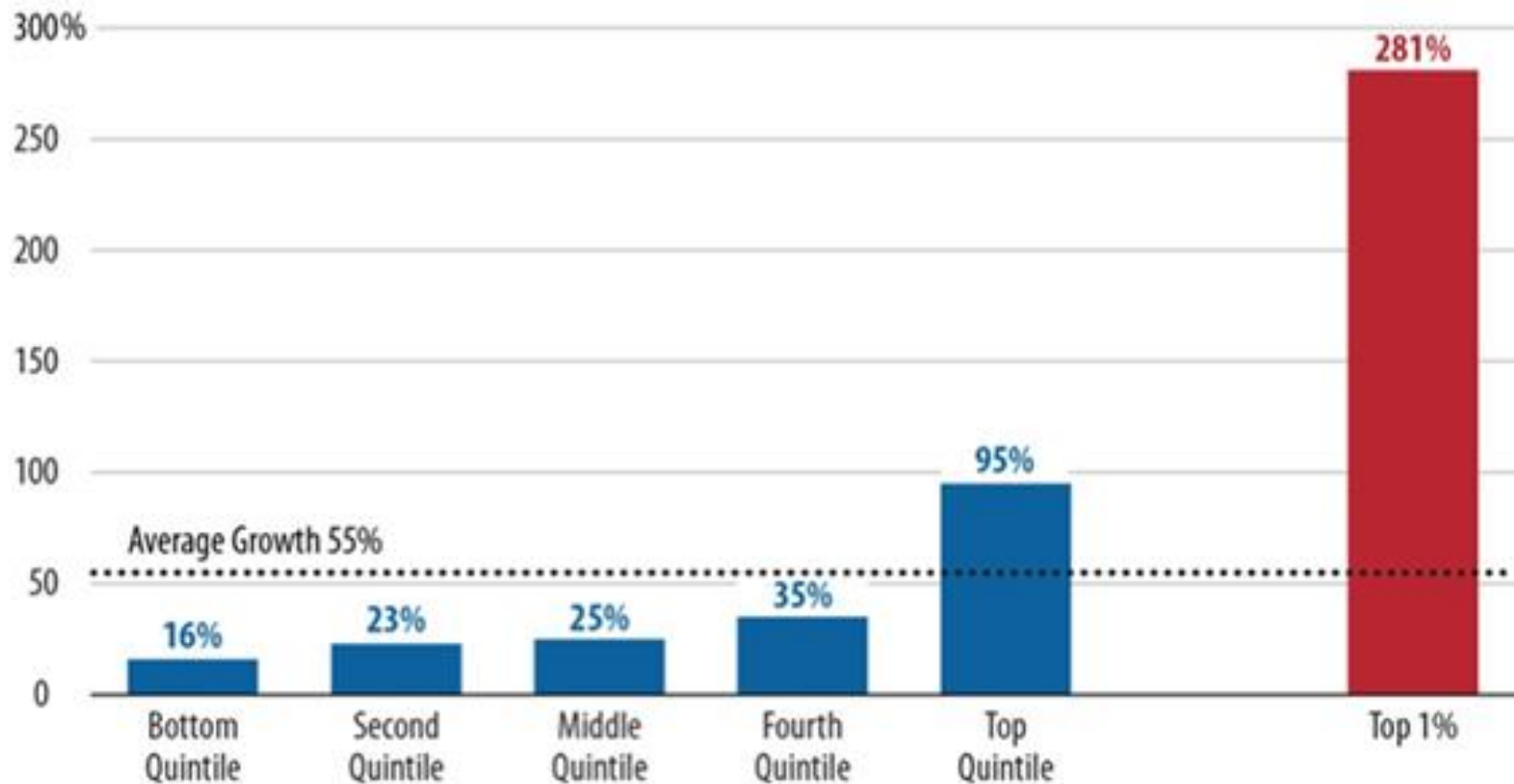
We can save billions from cutting wasteful military spending

- **Bipartisan support for military reductions**
 - Bowles-Simpson (\$100b by 2015); Senator Coburn (\$1t over 10 years)
- Former Reagan Defense official Lawrence Korb, now at Center for American Progress, proposes **\$400 billion** through 2015 in military cuts, not counting war reductions

Figure 4

Highly Uneven Income Growth Has Substantially Worsened Income Inequality

Percentage change in real after-tax income, 1979-2007



Source: CBPP calculations based on Congressional Budget Office data.

What they should do vs. what they might do:

- If revenues are not a substantial part of the plan, damaging cuts to Medicaid, Medicare, and other entitlements are very likely:
Boehner-Obama non-deal would have saved up to \$700b by raising Medicare eligibility age to 67, requiring Medicare recipients to pay more, shifting more Medicaid costs to states, and reduced COLA's for Social Security and other programs. **That's only *half* the savings the Super Committee has to achieve.**

House-passed Budget Proposed Deep Cuts

- **Medicaid:** changed into a block grant to states; would slash Medicaid by \$750b over 10 years.
- **Repeal Affordable Care Act:** \$610b cut over 10 years.
 - » Together, these cuts would reduce Medicaid caseload by nearly **half** (or require big reductions in benefits and/or higher costs for low-income people).
- **SNAP/Food Stamps:** block-granted, cut by \$127b over 10 years.
 - » Would require either eliminating **8m people** from caseload or cutting monthly benefits for family of four by **\$147**.

If the Super Committee can't get a deal:

Congress needs to take an up or down vote on Joint Committee's plan by Dec. 23. If Congress enacts it, President can veto it.

Another scenario: the Committee agrees on partial cuts/savings; then fewer auto-cuts.

Another of today's words:

Sequestration: automatic cuts applied as a fixed percentage.

If no deal is enacted, auto-cuts will take place, starting in **January, 2013** (a year later) = \$1.2T. Applied this way:

- Low-income entitlements exempted!
- Defense cut \$55b a year.
- Non-defense cut \$55b a year, including \$17b in mandatory programs and \$38b in discretionary.

The Sequester (auto-cuts)

- **Defense cuts:** much narrower: mostly military (not homeland security, etc.)
- **Mandatory cuts:**
 - exempts low-income programs like Medicaid, SNAP, TANF, etc.
 - Exempts Medicare services, but allows up to 2% in Medicare provider payments.
- **Non-Defense Discretionary cuts:** another whack at them; could also hit foreign aid

What might really happen?

- ***Super committee will never get a deal:***
 - Members too partisan, intransigent
 - They'll either be willing to go along with the auto-cuts, or decide they can change the law before the cuts take effect in January 2013. Already powerful opposition to defense cuts (Sec'y Panetta, for one)
- ***Super committee will get a deal:***
 - Across-the-board cuts will be unacceptable
 - They won't want to be blamed for failure
 - They'll define tax loopholes as spending through the tax code, and cut some
 - Big worries about how they'll handle Medicaid

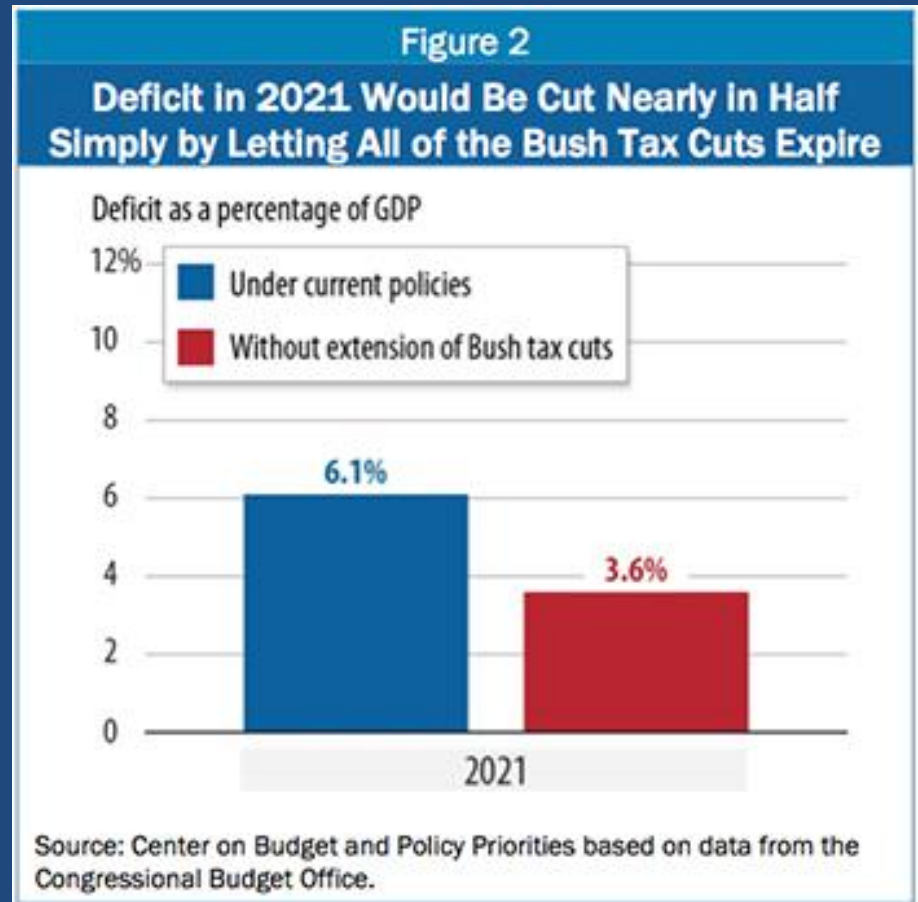
POLL QUESTION

- What do you think will happen?
 - ___ Congress will enact a plan proposed by the Super Committee.
 - ___ There will not be a deal; there will be automatic cuts.
 - ___ There will not be a deal; Congress will change the law before the auto-cuts take effect.

Interesting Alternative

If no action is taken, all the Bush tax cuts will expire in December 2012.

- That would save about \$2.5 trillion from FY 2012 to FY 2019.
- Would reduce deficit to 3% of the economy (GDP), an acceptable level.
- Lots of pressure not to raise taxes on the middle class.
- Would end gains made in Child Tax Credit and EITC.



What we have to do.

- **Be specific about the impact of proposed cuts.**
 - Develop estimates; incorporate info about cuts states have already made
 - Communicate analyses through reports, events, op-eds, direct contacts to Congress
- **Insist on rebuilding the economy and creating jobs;**
- **Insist on protecting low-income people.**
 - Call for this in Super Committee states – events, press, op-eds, group letters, etc.
 - Reach out to more allies – service providers, people of faith, businesspeople, the wealthy, environmentalists, educators...

There *are* alternatives to draconian cuts

- Revenues and military cuts *can* prevent cuts in essential services and benefits
- It *is* possible to incorporate job creation investments early, even though that costs money
- It *is* possible to protect low-income people
- **But not without more work together than we have ever done.**

If you're not part of SAVE for All, please join!

- **Strengthening America's Values and Economy for All:** more than 1,600 groups have signed principles (find at www.chn.org)
- Sign up by contacting Danica Johnson:
djohnson@chn.org

Thanks!



COALITION ON HUMAN NEEDS

