



“You’ve Got to Cut the Butter.”*

Threats to Human Needs Priorities in the FY 2006 Federal Budget

* “This cannot afford to be a guns-and-butter term...You’ve got to cut the butter.” Senator Judd Gregg, incoming chair of the Senate Budget Committee, *Wall Street Journal*, 12/21/04.

Why Advocates for Human Needs Should Care – and *Take Action* – About the Federal Budget

When the incoming chair of the Senate Budget Committee says “You’ve got to cut the butter,” he is talking about cutting programs that invest in opportunities for all and protections for those in need through education, health care, job training, and other vital services. Critical choices are about to be made in the next federal budget – choices that will affect most Americans. The proposals will not merely make cuts in services or benefits – that would be bad enough. Beyond dollar cuts, there will be efforts to curtail the capacity of the federal government to respond or invest, by setting structural limits on programs that will cause them to shrink over time – to serve fewer, and to serve them less well.

Who will be affected? A *New York Times* story¹ reporting on likely initiatives in the President’s budget describes proposals being prepared that would curtail programs including Social Security, Medicare, Medicaid, veterans disability compensation, and federal employee health and retirement. In addition, the Administration is expected to continue its efforts

The rationale for cutting:

The Deficit: It’s projected to be \$4.4 trillion over the next 10 years – with deficits expected to be \$300 - \$400 billion each year for the next decade.

to cut rental housing vouchers for low-income households. The specifics are not yet known, but the Administration and Congressional leaders are signaling that they want to use the budget to place limits on basic programs.

Sick, young, old, low-income, veteran, public employee...do you know anyone like that?

Those who care about human needs must recognize how far-reaching these changes would be, for individuals, families, and communities. They must act.

Federal funds are an enormous source of revenue in every state.

~~///~~ Federal funds paid for 28.7 percent of total state government expenditures in FY 2003.²

~~///~~ **Examples of human needs programs funded mostly or fully with federal dollars:** Medicare, Food Stamps, SSI, WIC, housing vouchers, school meals, EITC.

~~///~~ **Examples of programs with half or more of funding from the federal government:** Medicaid, TANF, foster care and adoption assistance.

The rationale for cutting:

The Deficit: It's projected to be \$4.4 trillion over the next 10 years – with deficits expected to be \$300 - \$400 billion each year for the next decade.

(This assumes the tax cuts enacted since 2001 are kept in place, that the Alternative Minimum Tax is adjusted, and that higher defense spending continues.)

What is causing the deficit?³

~~///~~ **Not enough revenue:** Federal revenues have plunged from nearly 21 percent GDP* in 2000 to 16.8% of GDP in 2005. (The average from 1962 to 2001 was 18.3%.)

~~///~~ Some of the shift from projected surpluses to deficits over the long-term (2002-2011) resulted from unduly optimistic estimates (37%).

~~///~~ Of the large part of the deficits in 2005 caused by federal legislation, **49% is due to tax cuts** enacted since 2001, a large share of which favored the wealthy.

~~///~~ More federal spending did add to the deficit. But from 2001-2005, **72%** of the federal spending increases enacted came from defense, homeland security, and international affairs.

*GDP: Gross Domestic Product – the broadest measure of the economy; the value of all goods and services produced in USA.

Is human needs spending causing the deficit?

No. Only a small sliver (9%) of all the causes of the deficit over the long-term (2002-2011) was domestic spending unrelated to homeland security.

Federal revenues have been declining as a share of the economy – they are at their lowest point since 1959.

If tax cuts are such a big part of the deficit, that's where they're looking to fix it, right?

Well, no.

~~///~~ The Administration and Congressional leadership are committed to making the tax cuts permanent.

~~///~~ The radical right wants to continue the downward slide of federal revenues and to reduce the federal (or any government) role in meeting human needs.

~~///~~ Remember Grover Norquist, President of Americans for Tax Reform, who said "My goal is to cut government in half in twenty-five years, to get it down to the size where we can drown it in the bathtub."

The radical right is using a budget and tax strategy to shrink the federal role.

They are counting on you to:

~~///~~ Find it too boring to pay attention;

~~///~~ Ignore "procedural" decisions until it's too late to save vital services and benefits;

~~///~~ Fight amongst ourselves over a shrinking pool of federal dollars.

Perhaps we can surprise them.

The next pages provide a quick Budget 101 reference, so you can be a savvy advocate.

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The Quick Federal Budget Overview

February: President’s budget released by 1st Monday (this year Feb. 7). House and Senate Budget Committees hold hearings; other committees prepare letters to Budget Committees with proposed spending estimates.

March-April: House and Senate work on **budget resolutions**; supposed to be completed by April 15. They may include **reconciliation** directives (see next page) and changes in budget process rules. They might work on a separate bill to change budget rules, to place permanent caps on spending.

May-July: Congressional appropriations committees start work on setting amounts for the programs that need their funding levels approved annually – so-called “**discretionary**” programs. Other committees may be required to work on **reconciliation** legislation to cut programs that don’t need annual appropriations – called “**mandatory**” programs.

Sept.-Oct.: Finish work on appropriations, reconciliation bill (if not yet done), by October 1, the beginning of the new federal fiscal year.

Or not.

(Congress routinely misses deadlines and passes short-term spending bills as needed to keep the government from shutting down.)

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Definitions

President’s FY 2006 budget: provides program-by-program recommendations for funding for the fiscal year that starts October 1, 2005. Also projects spending and revenues into the future (usually 5 years). Details of projected discretionary appropriations weren’t in last year’s printed budget, but were provided to congressional committees. May include proposals for tax and entitlement policy changes, with estimated costs or savings.

Congressional Budget Resolution: an agreement between the House and Senate that sets spending totals for broad categories (called functions) for the next fiscal year (also including estimates for the next 5 or 10 years). It also includes total revenues anticipated, and the estimated surplus or deficit. (Yes – it’s okay for the budget to run a deficit.) Not a law – does not require the President’s signature.

Example of a function category: *Income security*: includes TANF, Food Stamps, SSI, EITC, housing, unemployment compensation.

Mandatory programs (aka entitlements): Programs that are not controlled by yearly appropriations. Examples: Medicaid, Medicare, TANF, and Food Stamps. The laws governing these programs establish how they operate, and the federal funds needed to carry out the services required flow without the need for annual approval. To change or cut these programs, Congress must change the legislation. For instance, Congress may convert open-ended funding into a fixed sum (called a block grant), or may restrict eligibility. Mandatory programs are also known as entitlements because funding for them must flow unless the law is changed.

Discretionary programs: Programs whose funding must be appropriated each year. Examples: Section 8 housing, WIC, K-12 education aid, military spending. Congress can cut or increase these programs simply by appropriating fewer or more funds.

It's not so easy to cut entitlements

Congress has to change the law governing mandatory (entitlement) programs in order to cut them. Major changes in law affecting eligibility, benefits, or the certainty of federal funding are likely to attract opposition. In the House, options for amending legislative proposals may be restricted and debate stringently limited. These controls, along with strong majority party unity, increase the likelihood that entitlement cut proposals will be adopted.

But in the Senate debate is more rarely limited. One or more senators opposed to cutting Medicaid, for example, can stop it from coming to a vote by filibustering – continuing to talk at length on the Senate floor. Because the Senate has historically prized open

debate, it takes at least **60** votes – three-fifths of the Senators – to shut off a filibuster. If the Senate operates in a strictly partisan way (it often doesn't), there are not enough Republican senators to stop a filibuster – only 55.

This is where reconciliation comes in

Congress created a mechanism to make it easier to cut, by limiting the time for Senate debate on mandatory (entitlement) spending and revenue legislation. With no filibuster allowed, the **reconciliation bill** only needs

51 votes to pass – a simple majority.

It works like this:

Suppose you're a member of Congress who wants to save billions of dollars from entitlement programs that serve low-income people – Food Stamps, welfare, SSI, and Medicaid. To do it, you convince your fellow members of Congress **to pass a budget resolution that includes reconciliation directives** in the budget resolution. These directives require the committees with jurisdiction over these programs to recommend changes in law that would accomplish the targeted cuts over a 5- or 10-year period. The directives say how much

money to cut without dictating how. Each committee with jurisdiction must provide legislative changes that achieve the cuts by a set deadline. If they don't do it, the budget committees will. The House and Senate Budget Committees pull together all the proposals into one piece of legislation – such as making most legal immigrants ineligible for benefits, limiting food stamps for childless but poor adults, placing a time limit on cash assistance for families with children, and replacing open-ended welfare spending with a fixed block grant to states. ***That's the reconciliation bill.***

In the Senate, a reconciliation bill limits debate to only 20 hours – and no filibuster. It can be amended, but any proposal that costs money must be offset by another proposal that will cut a like amount from another program (or elsewhere in the same program). Once it passes, differences between the Senate bill and the House version must be resolved in conference committee – then the final version returns to the House and Senate floors for an up-or-down vote. The bill then requires the President's signature for enactment.

Sound familiar? That's just what happened to enact the *Personal Responsibility and Work Opportunity RECONCILIATION Act of 1996* – the welfare law that created Temporary Assistance for Needy Families and cut \$53 billion over 6 years by eliminating most aid to most immigrants, and by denying Food Stamps and SSI to other poor people as well.

Just as Congress used the reconciliation process to bundle together cuts and damaging structural changes to many programs in 1996 and to enact them with only a simple majority, it might try to use it again this year.

What might a reconciliation bill look like this year – and what can we do about it?

There are four important things to know:

- 1) **If Congress cannot agree on a budget resolution, there is no reconciliation bill.** In 2002 and 2004, Congress was unable to pass budget resolutions. When that happens, they continue to use the overall framework for spending and revenues from the last resolution passed. That would leave human needs programs far better off than the threat of major cuts in reconciliation.
- 2) **The reconciliation directives tell certain committees how much to cut.** Committees are not directed about where to make cuts, but they will get non-binding guidance to seek savings in certain programs under their jurisdiction. The Senate Finance Committee has jurisdiction over Medicaid, Medicare, TANF, child care, the Earned Income Tax Credit, unemployment insurance, foster care and adoption services, and other programs. The Committee may be directed to make law changes in some or all of those programs that would result in, say, \$50 billion in cuts. If the Committee spared one of these programs they would have to cut more deeply in others. Because the Senate Finance Committee also has jurisdiction over tax policy, they could be directed to find ways to raise revenues as part of a deficit reduction target (although that is very unlikely to happen this year).
- 3) **A reconciliation bill only needs 51 votes in the Senate** (it can't be filibustered).
- 4) **There are limits to what can be included in a reconciliation bill.** Social Security is exempted. All provisions must have a budgetary impact within the 5 or 10 years the reconciliation directive covers – in this

case, they must reduce the federal deficit. So, changes in civil rights laws could not be included, because they would not save federal dollars or produce revenues.

The Bush Administration wants to do some spectacularly expensive things – dramatically change Social Security, make existing tax cuts permanent, and enact new tax reductions. If Congress wants to go along, they will be under pressure to cut spending, even though service and benefit cuts cannot plausibly cover the *trillions* of dollars needed to pay for tax cuts and their Social Security scheme.

A reconciliation bill, as we've seen, makes it easier to cut mandatory (entitlement) programs. Medicaid is likely to be among them, because it alone is about 7 percent of the federal budget (\$176 billion in FY 2004). Although Congress just increased Medicare spending when it enacted prescription drug legislation, Medicare may also be targeted for cuts. While most other human needs entitlement (mandatory) programs are far smaller, there might be proposals to place limits on Food Stamps, student loans, child nutrition programs, foster care and adoption, TANF, child care, the Earned Income Tax Credit or Child Tax Credit, or SSI. The bill might target existing guarantees that federal funds will cover rising costs of medical services or increasing Food Stamp caseloads in times of high unemployment. Instead, there could be fixed funding levels that do not keep pace with actual costs, leaving low-income people to lose some or all of the help they need.

Beyond Reconciliation: Other Ways to Shrink the Federal Role

Congress might take up other changes to the federal budget process. These could be part of or separate from a budget resolution. These too would be aimed at limiting federal spending.

Caps might be proposed that would not allow spending to grow enough to keep pace with rising program costs; over time, the quality and extent of services would decline. In 2004, Congress debated and ultimately rejected a number of proposals to cap entitlement programs. One especially harsh version would have slashed entitlements by more than \$1.5 trillion below their projected cost under current law over a 10 year period. Social Security was excluded, but Medicare could have been cut by \$674 billion and Medicaid by \$332 billion.

One-sided “pay-as-you-go.” Another strategy might be to require that any proposal to increase mandatory spending must be paid for only by cuts in other programs, not by raising taxes. In the past, the Senate operated under a more even-handed version of this “pay-as-you-go” rule. In order to prevent the deficit from growing, senators could neither cut taxes nor increase mandatory spending without paying for it either by reducing other spending or raising other revenues. Those rules have expired. Last year, the Bush Administration and some in Congress tried to create new rules that would allow new tax cuts to be passed without being paid for, making the deficit worse. They would apply pay-as-you-go only to mandatory spending. Adding funds for Medicaid or child care would require cutting other services or benefits. Permanently repealing the tax on stock dividends or adding another corporate tax break would not require an offsetting tax increase.

Congress may take up such proposals again. If they are enacted, those who want to reduce the assistance that government provides will gain powerful tools.

The budget is a political process. While 51 million people receive health care through Medicaid, low-income people don't have as much political clout as corporations and big political contributors. This is not news.

But Congress is not accustomed to hear much from constituents about the budget. If

Senators started to get calls or emails from members of congregations, the elderly, low-income people, health and other service providers, educators, parents, local businesses, union members, state and local officials, and other advocates about how the proposed cuts will hurt their neighbors, their children, their parents, or themselves, it will make a difference.

The Message – and How to Deliver It

The message is simple: ***The President and Congress should reject federal budget proposals to cut vital services.***

Timing: When the President's budget is released on or before February 7, we will learn what he has chosen to cut. At that point, you can be specific in opposing cuts you believe will hurt low-income people and communities. Comment to the press about the President's budget on the day it is released. Set up meetings with staff people for your senators and house members. Also talk to state elected officials to make sure they understand the impact at home.

But don't wait to speak to elected officials. The intention to cut is no secret. In President Bush's first news conference after the election, he said, *"I've talked to a lot of members of Congress who are wondering whether or not we'll have the will to confront entitlements, to make sure that there is entitlement reform that helps us maintain fiscal discipline. And the answer is yes."*⁴ Make sure that members of Congress and state officials understand that “confronting entitlements” means cuts to programs like Medicaid and other basic human needs programs – cuts that will hurt low-income workers, people in nursing homes, and children, while also adding to the difficulties states have in balancing their budgets. **Tell your members of congress to let the House and Senate Budget**

Committee chairs* know that they will vote against a budget resolution that includes provisions to shrink entitlements that serve low-income people.

* Rep. Jim Nussle (R-IA) and Senator Judd Gregg (R-NH)

Making the Case

Here are some common assertions by those who favor cutting human needs programs, followed by responses supported by facts.

Government spending is going through the roof. We must get it under control.

Federal spending as a share of the economy was 19.8 percent in 2004, lower than in every year from 1975 through 1996.⁵

The increases that have taken place in the last few years have mostly been for defense, homeland security, and international affairs

We've got a huge deficit and we have to do something about it.

Temporary deficits in response to a poor economy or a national disaster are not harmful. The long-term deficits now projected will hurt our economy, and so Congress should address a major cause that is under its control: runaway tax cuts. The tax cuts enacted since 2001 add up to more than half of the cost of all the legislation passed by Congress since then. Congress should not make these prohibitively expensive tax cuts permanent. [source: endnote 3.]

Health care costs are too high; that's why Congress should limit federal Medicaid funding.

Health care costs are a big problem, affecting all forms of health coverage. But if we care about maintaining adequate care for the elderly in nursing homes, and for low-income families and people with disabilities, we must not shrink federal Medicaid funding below actual costs. Further, limiting federal expenditures places greater burden on states, many of which have already cut Medicaid services or eligibility because of state revenue shortfalls. The federal government should not make things worse, either for people or for state governments.

We're not going to cut. We're going to freeze some programs and let others grow at the inflation rate.

If funding does not rise over the years to match the actual cost of providing a specific service, that service will be cut. And allowing health care funding to rise at the general inflation rate (the Consumer Price Index, or CPI) is also a cut, because health care costs in the private sector rise faster than the CPI.

Do not let the federal government turn its back on vital priorities!

At each stage of the federal budget process (remember page 4?), there will be times when the voices of concerned people in states can prevent bad decisions from being made.

You can be a voice for the right priorities by being part of the Coalition on Human Needs' Opportunity for All Campaign. **Sign up at the CHN website: <http://www.chn.org>**

You'll get timely and accurate updates – what's going on, what it means, and what to do about it.

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¹ Robert Pear, "Applying Brakes to Benefits Gets Wide G.O.P. Backing," *New York Times*, January 9, 2005.

² National Association of State Budget Officers, *2003 State Expenditure Report*, available online at <http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf>

³ Ruth Carlitz and Richard Kogan, "CBO Data Show Tax Cuts Have Played Much Larger Role Than Domestic Spending Increases in Fueling the Deficit," Center on Budget and Policy Priorities, Rev. January 25, 2005, available online at <http://www.cbpp.org/1-25-05bud.htm>

⁴ Press conference, President Bush, November 4, 2004, full text available online at <http://www.whitehouse.gov/news/releases/2004/11/20041104-5.html>

⁵ Congressional Budget Office

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