How Low Can You Go
House Appropriators Start to Carry Out FY 2012 Budget Cuts

New Table with Comparisons to FY 2010 and FY 2011:

Congress’ impetus to cut spending rushed along on many fronts this week. While Speaker John Boehner (R-OH) called for $2 trillion in cuts over ten years before he would support a debt ceiling increase (see article about the debt ceiling in this issue), appropriators in the House set about the work of divvying up the House Budget Resolution’s cuts for next year among the dozen subcommittees charged with making annual spending decisions.

The House Appropriations Committee released its allocations for FY 2012 to its subcommittees on May 10. The total, $1.019 trillion, is $31 billion less than the amount recently approved for the current fiscal year. However, that masks the extent of cuts to all programs except Defense,
because Defense subcommittee expenditures are slated to grow by $17 billion from FY 2011 to FY 2012 – the only subcommittee that does not sustain cuts. Leaving aside Defense, the cut to all other appropriations is $47.38 billion. When added to the substantial cuts enacted in FY 2011, many areas of domestic spending would see very large reductions over two years. All program areas besides Defense would be cut by about $92 billion compared to FY 2010. The largest percentage cut hits the Transportation/Housing subcommittee, at 29.8 percent since FY 2010. It is expected that low-income housing programs would experience large cuts if these numbers are approved. Other subcommittees with large two-year percentage cuts include Agriculture/FDA, with 26 percent, Commerce/Justice/Science, 22 percent, and Labor/HHS/Education, nearly 15 percent. For Labor/HHS/Education, the two-year cuts would total $24.4 billion; for Transportation/Housing, the cuts would exceed $20 billion.

The additional cuts appropriators would have to make to reach the FY 2012 levels are steep: more than $18 billion would be the one-year cut for Labor/HHS/Education, for example; Transportation/Housing would sustain a $7.7 billion cut.

(For a table showing subcommittee appropriations in FY’s 2010 and 2011 and the proposed allocations for FY 2012:  http://www.chn.org/pdf/2011/HouseCutsFY12.pdf)

The subcommittees now have the job of setting funding levels for all the specific programs within their jurisdictions, covering everything from education to public housing to environmental protection to homeland security. Two subcommittees are expected to approve FY 2012 bills on Friday, May 13: Homeland Security and Military Construction/Veterans Affairs. The Agriculture subcommittee is scheduled to act on its bill on May 24, with full committee approval expected the following week. Transportation/Housing and Labor/HHS/Education will not see subcommittee action until July. (For the full schedule as released by the committee: http://appropriations.house.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id =298&Month=5&Year=2011.)

Until the subcommittees report out bills, no information is available about how services will fare. But it is expected that many of the cuts proposed by the House leadership for FY 2011 which were not adopted will surface again. Those included deep cuts to Head Start, community health centers, other community services, job training, education programs, and nutrition assistance for the elderly. Recommendations in the House Budget Resolution will also be considered by appropriators, such as deep cuts to job training programs and eliminating the $1.7 billion Social Services Block Grant.

There will also be pressures from the most right-wing House Members to cut more deeply than the Appropriations Committee is now proposing. Members of the Republican Study Committee are expected to propose steeper cuts than the Appropriations Committee’s levels.

House and Senate Republicans also want to apply cuts to the programs that do not require annual appropriations – programs like Medicare, Medicaid, unemployment insurance, and SNAP/food stamps. The House Budget Resolution included major restrictions in Medicaid and Medicare which have proven very unpopular in public opinion polls and forums held by Members of Congress. (See HNR, April 19, at http://www.chn.org/humanneeds/110419b.html.)
Senate Budget Resolution: Maybe Next Week?

Senate Budget Committee Chair Kent Conrad (D-ND) has been working to secure support for his FY 2012 budget plan among committee Democrats. He needs every one of them if the budget is to pass, since no Republicans are expected to vote for it. In initial discussions, Senator Sanders (I-VT) has been prominent in seeking fewer spending cuts and more revenue increases. Chairman Conrad has been a strong supporter of increased revenues as part of any deficit reduction package. It is reported that his budget will reduce the deficit by $4 trillion over the next decade, with $2 trillion from increased revenues, $1.5 trillion from spending reductions, and $600 billion from the lower interest payments that would occur as borrowing decreased. Among the revenue raisers reportedly under consideration is a 3 percent surtax on millionaires. According to Congressional Quarterly, $900 billion of the spending cuts would come from the military, $300 billion from domestic appropriations other than homeland security or veterans’ services, and $300 billion from mandatory spending (such as Medicare, Medicaid, farm subsidies, etc.).

Such an approach would be far more protective of low- and moderate-income people than the House Budget Resolution, and would most likely avoid restrictive changes in Medicaid, Medicare, and SNAP/food stamps that would hamper the federal capacity to respond to growing need in an economic downturn.

The Senate Budget Committee may take up the Budget Resolution on May 18, but the difficulties in winning enough support to get the resolution both through the Committee and the full Senate may result in further delay. Budget resolutions can be passed with only a majority vote in the Senate, so passage should be possible, since 53 Senators caucus with the Democrats. But since some Democrats have been supporting more spending cuts and fewer revenue increases, action next week remains uncertain.

Deficit Reduction and Raising the Debt Ceiling

Next week the U.S. Treasury Department is set to reach the $14.3 trillion limit on the amount the federal government can borrow, known as the debt ceiling. When spending on existing legal obligations to pay Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments exceeds the revenues coming in, the government must borrow. In a letter to congressional leaders dated May 2, Treasury Secretary Timothy Geithner stated them that his department would begin to take extraordinary measures that would allow the government to extend its borrowing until about August 2.

The U.S. federal debt is the amount of money the federal government owes to individuals, other countries, and its own government accounts (e.g. the Social Security Trust Fund). Authority to raise the federal debt limit was appropriated to Congress by the Second Liberty Bond Act passed in 1917. Since 1933 Congress has raised the debt ceiling 77 times under both Republican and Democratic Administrations including 17 times under President Reagan. If Congress were to fail
to raise the debt ceiling before August 2, the United States would default on its obligations, a prospect virtually all economists believe would have a catastrophic impact on the U.S. and global economy.

The growing size of the federal government’s debt has led many in both political parties to call for coupling legislation to increase the debt ceiling with deficit reduction measures. Because the parties are very far apart on how to do it, tying such a difficult negotiation to the debt limit is a form of brinkmanship that makes stewards of the economy like Federal Reserve Chair Ben Bernanke anxious. Testifying at a Senate Banking, Housing and Urban Affairs hearing, he cautioned that “Using the debt limit as a bargaining chip is quite risky.” Since it is must-pass legislation, it is also apparently irresistible to those who want to shrink the size of the federal government.

Over the next few months the debate will center on two key questions: ‘What mix of spending cuts and revenue raisers should be included to reduce deficits?’ and ‘What budget enforcement mechanisms will be put in place to assure that the goals are met?’ Reaching a deal will be difficult. Democrats tend to worry about a plan that would include cuts in benefits in entitlement programs, particularly Social Security and Medicare. Despite the fact that federal revenues are at a 60-year low as a share of the economy, Republicans have repeatedly insisted that the deficit is a spending and not a revenue problem and, therefore, tax increases should be off the negotiating table. This assertion is contrary to a report from the Center on Budget and Policy Priorities that shows that Bush-era tax cuts, along with the wars in Afghanistan and Iraq and the economic downturn have driven the sharp increase in deficits over the last decade and will continue to account for them in the years to come. (See the report at: http://www.cbpp.org/files/5-10-11bud.pdf.)

Budget enforcement mechanisms are not new. In 1985 the Gramm-Rudman-Hollings anti-deficit law was enacted which would trigger automatic spending cuts (termed ‘sequestration’) if deficit targets were not achieved. Certain low-income programs like Medicaid, food stamps, and Social Security were exempt from sequestration. Although sequestration was triggered three times – in 1986, 1988 and 1990 - the law was generally unsuccessful because Congress used gimmicks (including timing shifts and classifying certain expenditures as ‘emergency spending’) to avoid cuts to these programs. In 1990, Gramm-Rudman (Hollings disavowed the law) was replaced by the Budget Enforcement Act of 1990, which set discretionary (annually appropriated) spending caps and a pay-as-you-go rule that required Congress to pay for any increase in mandatory spending or tax cuts with other spending cuts or tax increases. The spending caps were eventually allowed to expire in 2002. Congress often voted to set aside the pay-as-you-go rule for particular pieces of legislation, and under the Republican-controlled Congress, the pay-go rule was applied to spending but not to taxes.

This year, in conjunction with the debate on the debt limit, House Republicans have introduced a balanced-budget amendment to the Constitution (H J Res 2) which currently has 221 co-sponsors. On March 2, the Senate narrowly failed, 58-40, to achieve the 60 votes needed to agree to a ‘sense of the Senate’ amendment sponsored by Senator Mike Lee (R-UT) in support of a balanced budget amendment to the Constitution. Those favoring the measure included all Republicans, 10 Democrats and 1 Independent. Congressional Budget Office Director Douglas
Elmendorf testified before Congress earlier this year saying that a balanced budget amendment would limit the federal government’s capacity to respond during a recession to increased need for programs like unemployment insurance, SNAP (food stamps), and Medicaid.

Proposals have been made to limit spending as a percentage of economy activity (Gross Domestic Product or GDP). One proposal by Senators Corker (R-TN) and McCaskill (D-MO), the CAP Act of 2011 (S. 245), would cap spending at 20.6 percent of the GDP. The rationale for the 20.6 percent target is that it was the yearly the average from 1970 to the early 2000’s. However, this ignores the reality that spending since then has increased to accommodate two unpaid-for wars, increases in veterans’ benefits and homeland security costs, an aging population and a recession. In order to achieve the dramatically lower spending target required by the cap, the Center on Budget and Policy Priorities estimates that Congress would have to make drastic cuts to Medicare, Medicaid and Social Security. (See the report at: http://www.cbpp.org/files/4-14-11bud.pdf.) All Senate Republicans have united around the concept of reducing spending even more deeply to 18.5 percent of the GDP which would result in gutting the federal government.

The President has released a deficit reduction plan that includes a ‘failsafe debt trigger.’ If the debt does not fall by 2014, the plan calls for across-the-board cuts. Unlike S. 245, cuts would apply to spending programs and tax expenditures, and would exempt low-income programs. Another proposal by the Bipartisan Policy Center called ‘SAVEGO’ would set annual savings targets, rather than deficit targets. Under SAVEGO, Congress would set an annual amount of savings to be achieved through legislation, putting the government on a path to fiscal stability. Failure to meet the targets would require both spending cuts and revenue increases. Unlike the President’s plan, low-income programs would not be exempt.

There are a number of efforts taking place that could lead to a deficit reduction proposal package. For months the so-called “Gang of 6” in the Senate has been meeting regularly to hammer out a proposal that incorporates some of the recommendations from the President’s National Commission on Fiscal Responsibility and Reform released in December 2010. Members of the bi-partisan group include Senators Saxby Chambliss (R-GA), Tom Coburn (R-OK), Kent Conrad (D-ND), Michael Crapo (R-ID), Dick Durbin (D-IL) and Mark Warner (D-VA). Reports of an imminent plan evaporate each week as agreement on tax revenues and changes to entitlement programs eludes the group. In another effort to broker an agreement, the President in mid-April called for negotiations with congressional leaders to start in May to develop a plan to reduce deficits. This working group, led by Vice President Joe Biden, includes Representatives Eric Cantor (R-VA), James Clyburn (D-SC), Chris Van Hollen (D-MD) and Senators Max Baucus (D-MT), Daniel Inouye (D-HI) and Jon Kyl (R-AZ), all appointed by House and Senate leadership, has met three times. Reports indicate that the group is striving to find areas of commonality that may include cutting programs including farm subsidies. President Obama met separately this week with all Senate Democrats and all Senate Republicans to encourage flexibility in the negotiating process. According to press accounts, he emphasized his opposition to global spending cuts that would force deep cuts in Medicare and Social Security. He plans to meet later with members of the House. In the end the agreement, much like the final deal on FY 2011 appropriations, could come down to negotiations between
Advocates are very concerned about the direction the deficit reduction talks are heading. Low-income discretionary programs and entitlements like Medicaid and SNAP seem to be particularly vulnerable to cuts. Advocates further believe that there must be a balanced approach to deficit reduction that includes increasing revenues in a way that makes the tax system more progressive. Cutting programs immediately ignores a central caution of the President’s Fiscal Commission that such actions should not start immediately, but rather wait until the economy is stronger. Persistently high unemployment in the 9 percent range is an indication that the economy is still very fragile. The need to create jobs has been lost in the discussion. Already significant cuts to domestic discretionary programs in the FY 2011 appropriations have lowered the spending baseline on which future year budgets are based. All of the plans for multi-year spending caps, capping spending as a percentage of GDP, or setting ‘savings’ targets continue the cuts and all result in job losses. Advocates, many who never before worked on budget and tax issues, are organizing in coalitions and campaigns including the SAVE for All Campaign (see endorsers and Statement of Principles at: http://www.chn.org/pdf/2011/StatementwithSigners.pdf), to educate people across the nation about the high stakes involved and are advocating on Capitol Hill for a fair and balanced approach to deficit reduction.

As the federal debt has grown it has become more politically difficult to cast a vote to raise the debt limit ceiling. The majority in Congress including the leaders in both parties understand the necessity of raising the debt ceiling. Some, mostly newly elected Tea Party conservatives, seem willing to risk letting the United States default on its obligations. Business leaders are among those imploring Congress to act soon and not wait until August to raise the debt limit lest it destabilize the economy. If the inability of Congress to reach agreement on the FY 2011 appropriations bill until narrowly averted a government shutdown is any indication of what to expect, the weeks leading up to August 2 could be grueling.