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Committee on the Budget
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Chairman Ryan's Poverty Plan Eliminates Crucial Safety-Net Guarantees, Opens Door to Republican Budget's Deep Cuts

This year marked the 50th anniversary of President Johnson declaring a War on Poverty. Earlier this year, the Council of Economic Advisers released a report that showed that, without the antipoverty measures that we have taken since that time, 45 million more Americans would be in poverty today. Still, there are 50 million Americans in poverty now, an unacceptable status quo. The task of expanding economic opportunity to all corners of American society is far from complete.

Budget Committee Chairman Ryan on July 24 released his own plan to address poverty. The plan contains some promising provisions that merit further discussion, but there is a fundamental disconnect between the rhetoric of the plan and the reality of Chairman Ryan's 2015 Republican budget resolution. While the poverty plan claims to be budget-neutral, the budget guts the safety net. Two-thirds of the budget's $5 trillion in spending cuts over ten years come from programs that benefit low- and moderate-income families. The core idea in the Chairman's plan has been around for years: consolidate federal safety-net programs into a block grant to states, which will be easier to cut in future budgets than programs that help a clearly defined set of individuals.

Some aspects of the plan have merit. For instance, the plan embraces ongoing bipartisan legislation to address known problems in the criminal justice system, such as inflexible mandatory minimum sentencing laws and the need to improve rehabilitation programs to reduce recidivism. The plan also supports the President's proposal to expand the Earned Income Tax Credit (EITC) for childless workers, a policy also endorsed by Congressional Democrats. And it supports evidence-based policy development by improving the data available to researchers. There is room here for Democrats and Republicans to work together to make improvements.

But the parts of the plan overhauling safety-net programs, education funding, and federal regulations raise serious concerns. The proposal is also notable for what it leaves out. It rejects raising the minimum wage. There are no new resources for activities where the need far outpaces available funds, such as affordable child care and quality pre-school programs. There is no provision to extend certain expiring tax credit provisions that help millions of low-wage workers and their families stay out of poverty. In fact, just one day after the Chairman released his plan, House Republicans held a vote to increase the Child Tax Credit for higher-income families while failing to extend the provisions that help low-income families – a policy choice that will increase, not reduce, poverty.

Actions speak louder than words, and the actions of the House Republican majority, through their votes, show what their priorities really are: slash programs that help the poor and middle class, while protecting tax breaks for powerful special interests.

Transform Safety-Net Services into One Block Grant

The core of Chairman Ryan's proposal is the "Opportunity Grant," which would combine the funding streams from 11 existing programs. The largest of these programs, the Supplemental Nutrition Assistance Program (SNAP), provides guaranteed food assistance to any individual who meets specified eligibility criteria. The proposal would take away that guarantee, by eliminating the individual entitlement to these benefits and merging SNAP into a system of cash block grants to states. SNAP has been enormously successful at reducing hunger and malnutrition in the United States, especially among children. Taking away the SNAP guarantee puts this success at serious risk. Among the other 10 programs, two are mandatory grants to states – child care and Temporary Assistance for Needy Families – and the remaining eight are programs funded through annual appropriations, including public housing and Section 8 housing vouchers.

States could volunteer to receive the new block grant as a pilot project. If they choose to participate, states would need to submit a plan for approval that meets four conditions:

- Funds could only be used to move people out of poverty and into independence and not diverted to other state needs. It is not clear if states would be required to maintain their current spending on behalf of their low-income residents. Without such a maintenance-of-effort requirement, states could substitute the new federal stream for some of their own spending, thus freeing funds for other purposes and reducing the overall level of state and federal resources dedicated to helping people in need.

- Able-bodied recipients would have to work or engage in work-related activities, and they would face time limits on assistance. There is no discussion of what happens to people who cannot find appropriate placements, or their children. While the U.S. unemployment rate is coming down, there are still two job seekers for every available job. The Chairman's plan, just like the Republican budget, does not provide resources to ensure that jobs will be available. It could lead to people being penalized simply because they cannot find a job.

- States would be required to encourage innovation and give aid recipients a choice of service providers by contracting with non-governmental groups to deliver benefits. States already have extensive flexibility, through federal waivers and other means, to innovate in service delivery. The Chairman's plan may lead some governors to view flexibility as a license simply to reduce or eliminate important safety-net benefits.

- State plans must provide for an independent third-party evaluation. There is bipartisan support for the principle of developing programs and policies based on evidence. The Obama Administration has put an emphasis on supporting innovation and evidence-based decision making to use government resources most effectively and get better results for those in need.

Service providers would work with beneficiaries to develop goals and timelines, both short- and long-term, designed to lead ultimately to no longer needing assistance. While additional case management might be helpful for some families, many others do not need that sort of intensive service. Requiring everyone who needs assistance to develop a detailed plan before they can receive benefits creates additional hurdles for struggling families to navigate. The proposal appears to provide very wide latitude for case managers to set requirements and choose the benefits for the individuals they serve, even devising a system of incentives and punishments for those who exceed or fall short of their goals. While individualized plans may have some benefits, arbitrary variation of benefit levels decided by local providers raises concerns about fairness across households.

For those who do need additional services, it is not clear how the new grant could provide for them without weakening the safety net for others. Existing funding for child care, for example, serves only 18 percent of federally eligible children. The lack of affordable, quality child care is one of the biggest barriers to work low-income families face. The plan seems to be predicated on the idea that resources for things like more child care could be freed up by reducing or ending benefits from other low-income people eligible for and receiving federal benefits such as SNAP. Stated differently, if some individuals receive more benefits under the grant, like child care, other individuals could see their benefits, like food assistance, cut.

Chairman Ryan argues that giving service providers the ability to “customize” benefits to individuals seeking help will address a concern about benefit “cliffs” – sudden drops in a person’s federal benefits that can occur due to a small increase in earnings. It is unlikely that customizing benefits would adequately address the cliff issue. If the problem is that income supports phase out too quickly or steeply – before a person earns enough money to manage well without them – then fixing the problem requires more funding, not less. Moreover, the Chairman supports repeal of the Affordable Care Act, which eliminated one of the most significant benefit cliffs (especially in states that have expanded Medicaid eligibility) by allowing workers to maintain eligibility for financial assistance for health insurance coverage on a sliding scale up to 400 percent of poverty.

The proposal claims to be deficit-neutral, but it is unclear how that would work in practice. Under the proposal, states would receive a fixed amount of funding for the year. Under current law, the amount of money going to each state for SNAP is not determined in advance – it depends on the number of eligible people who apply for benefits in that state. As economic conditions or other factors change, the SNAP amount going to a state goes up or down. This automatic stabilizer not only helps keep food on the table of struggling families who receive SNAP, but also helps the overall economy by keeping more money in the economy at a time when demand is low. This feature would be lost under the pilot project. The proposal discusses several options for creating a counter-cyclical component if this were fully implemented nationwide, but none would respond in real time in the way that SNAP currently does.

Even if the counter-cyclical component of SNAP could be duplicated by a block grant, the history of block grants suggests that the Opportunity Grant is likely to fail to grow to offset cost increases and is likely to become a target for budget cuts. Ironically, in this very proposal, Chairman Ryan proposes to eliminate the Social Services Block Grant, which already provides a flexible funding source for states to address the needs of low-income communities. And the Republican budget includes nearly $300 billion in cuts to the programs identified for inclusion within the Grant. If the proposal became law, the deficit neutrality is very likely to give way to pressure to achieve savings.

EITC for Workers without Children

Chairman Ryan's plan includes a proposal to expand the EITC for workers without children (the "childless EITC"). This provision is nearly identical to a proposal by President Obama and House Democrats, underscoring the emerging consensus that a stronger EITC is needed to increase opportunity and labor force participation among workers without children. However, a key difference is how the increase is paid for, and whether it works in tandem with or in opposition to other anti-poverty policies.

The proposal would double the maximum amount of the "childless EITC" (which also includes non-custodial parents), raise the income level above which the credit phases out, and reduce the minimum age from 25 to 21. Chairman Ryan's proposal differs from the President's in that it keeps the maximum age for claiming the childless EITC at 65, while the President increases it to 67 to keep pace with increases in the Social Security retirement age. The Chairman's proposal emphasizes that the EITC provision is an alternative to raising the minimum wage, while President Obama and Democrats believe that a higher minimum wage and a more robust EITC are complementary policies to lift working families out of poverty. The expansion of the childless EITC is included in the President's budget and the House Democratic budget, but not in Chairman Ryan's House Republican budget.

The President's EITC proposal costs $61 billion over ten years and is offset by closing certain tax loopholes for high-income taxpayers. The Chairman's policy presumably costs slightly less. He would pay for it by eliminating many programs that he deems ineffective, including the Social Services Block Grant, the Economic Development Administration, various USDA programs, and subsidies for "favored energy technologies."[1] It also denies the refundable Child Tax Credit to taxpayers filing with Individual Taxpayer Identification Numbers, eliminating the credit for about 5 million low-income families with children – children who are mostly U.S. citizens.

Despite emphasizing the EITC's successful record of rewarding work and combatting poverty, Chairman Ryan's plan does not address the fate of recent improvements to the EITC that are scheduled to expire after 2017 or a related improvement to the Child Tax Credit for low-income

[1] Chairman Paul Ryan, *Expanding Opportunity in America,* p. 29.
http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf

working parents. And, in fact, the House Republican leadership brought a bill to the floor on July 25 to increase the Child Tax Credit for higher-income families while failing to extend the provisions that help lower-income families.

The expiration of these provisions would reduce refundable tax credits for working families by more than twice as much as the "childless EITC" proposal expands them. It would have the effect of increasing marginal tax rates on many low-wage workers, worsening the EITC marriage penalty, and taking away the additional EITC amount for families with three or more children. Allowing the EITC and Child Tax Credit improvements to expire would push 17 million people, including 8 million children, into or deeper into poverty. About 800,000 veteran and armed-forces families would lose all or part of their Child Tax Credit or EITC.[2]

Education

Beyond the Opportunity Grant, the proposal condenses many deliberately targeted federal education and job training programs into just a few block grants that states can use in ways that may not achieve the existing goals. This would reduce the number of federal programs and give states the ability to use the federal funds for other purposes, but it is not clear how that will reduce poverty, improve education, or help people train for and find jobs. And while the proposal claims that it does not reduce education funding, it does eliminate and consolidate many programs – just as laid out in the House Republican budget, which cut more than $360 billion in funding over ten years from education and job training.

For example, the House-passed Republican budget cut the federal investment in higher education by $260 billion below the level needed to continue current policy over ten years, with $145 billion alone cut from Pell grants. Yet this proposal states that "Pell grants help more students go to college."[3] It goes on to eliminate the $733 million annually appropriated for the Supplemental Educational Opportunity Grant – in essence, a block grant with a matching requirement to colleges who have the flexibility to award it to needy students, which is just the type of grant Chairman Ryan advocates in education and other budget areas – to use the funding for Pell grants instead. In general, this proposal argues that federal college aid restricts access to education by encouraging higher tuition, and that programs that reduce student loan debt "would make things worse" by encouraging "reckless borrowing."[4] Therefore, like the Republican budget that raised the cost of student loans to the neediest students, the proposal caps some loans, restructures income-based repayment programs, and hints at a return to bank-financed loans.

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[2] Center on Budget and Policy Priorities, "House Child Tax Credit Bill Leaves Behind Millions of Low-Income Working Families," July 22, 2014 http://www.cbpp.org/cms/index.cfm?fa=view&id=4171

[3] Ryan, p. 45.

[4] Ryan, p. 47.

Federal Regulations

The Chairman's proposal requires federal agencies to analyze whether proposed regulations would overly burden low-income households. The proposal specifically highlights energy regulations and the disproportionate burden they impose on low-income households. His plan claims to "protect low-income communities against an overzealous bureaucracy" and "allow Congress to reclaim some of the authority currently abused by some regulatory agencies."[5] If an agency finds regressive effects from a regulation, the rule could not take effect without advance Congressional approval unless it involves an immediate risk to public health or safety. This would allow Congress to block regulations simply by failing to approve them. A minority of the Senate could effectively block the President's ability to execute existing laws.

Almost any regulation could theoretically be argued to have a disproportionate impact on low-income households. It is easy to see how a Republican Congress could use the process Chairman Ryan proposes to block the Administration from enforcing laws such as the Clean Air Act and Clean Water Act that protect the health of all Americans, including low-income households.

The plan creates a private right of action to enforce these requirements if an agency bypasses them. This would allow businesses or anyone opposed to regulations to sue – or finance a suit by a more sympathetic party. This could further tie up regulations in the court system.

Taken together, these steps would be a radical attack on the Executive Branch's ability to use its regulatory powers to implement existing laws. It would make the regulatory process more unwieldy, give businesses and other opponents of regulation a further tool to oppose regulations in court, and allow Congress to block an Administration's effort to execute a law by simply failing to approve it.

Occupational Licensing

The Chairman's plan argues that state and local occupational licensing requirements have encroached across a broad swath of low-wage occupations, creating barriers to entry for low-income workers without any real public health or safety justification. The plan does not call for federal preemption of occupational licensing requirements, consistent with its principle of devolving authority to lower levels of government. It is notable that the plan criticizes what state and local governments have done in this area even as it urges the federal government to devolve more responsibilities to those levels of government in other areas. The critique of occupational licensing begs the question of whether state and local efforts to select groups to work with in administering the plan's Opportunity Grants would be hindered by the same sorts of crony capitalism and rent-seeking behavior that have contributed to the occupational licensing problem that the plan identifies and criticizes.

[5] Ryan, p. 65.