U.S. House of Representatives
Committee on the Budget
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Republican Budget Makes the Wrong Choices

Analysis of the House Budget Committee

Fiscal Year 2013 Budget Resolution

March 21, 2012

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Republican Budget Makes the Wrong Choices

The Republican budget resolution for 2013 abandons the economic recovery, contains policies that ship American jobs overseas, and harms our nation's economic competitiveness. Like last year, the Republican budget ends the Medicare guarantee, shifts the burden of rising health care costs onto seniors, and shreds our nation's social safety net – all in order to expand tax breaks for millionaires and protect special interests. ***These are bad choices for America.***

The Republican priorities – cutting taxes for special interests and the wealthy while achieving deficit reduction solely through drastic spending cuts, particularly to Medicare and Medicaid – represent the wrong choices for America. The results of these choices will adversely affect American workers and families now and for years to come.

Democrats will preserve Medicare, spur job creation, and reduce the deficit responsibly — Democrats want to put the budget on a fiscally responsible path but do so in a different way – by making choices that protect working Americans, that preserve the Medicare guarantee, and that reduce the deficit responsibly by balancing spending cuts with increased revenue from closing special interest tax loopholes and asking the very wealthy to share responsibility for reducing the deficit.

This week, Democrats offered amendments to the Republican budget resolution in the House Budget Committee that reflect these priorities: investments to promote job creation, maintaining Medicare and the social safety net, and responsible deficit reduction through policy choices that ask everyone to pay their fair share. Next week, Democrats will offer a substitute budget resolution on the House floor that reflects the need to make wise investments to spur job growth, to provide security for the middle class, and to put the budget on a fiscally sustainable path.

Abandons Economic Recovery and Harms U.S. Competitiveness Globally

Ignores job creation — In February, President Obama proposed a budget that includes a number of job-creation initiatives worth pursuing. He proposed construction jobs to rebuild crumbling schools and make our roads safer. He proposed to keep first responders in our neighborhoods and teachers in our schools. The President's jobs package makes sense. We need to promote job creation now so that we can continue the economy's recovery. But we need to focus those jobs in areas that make the country even stronger in the future. Unfortunately, the Republican budget turns its back on Americans who are out of work and ignores the President's sensible proposals for economic growth and future competitiveness.

Outsources jobs through tax policies —The Republican budget would not only maintain, but would actually boost incentives in our corporate international tax system that encourage multinational companies to ship profits, intellectual property, and thousands of jobs overseas while costing the American economy billions of dollars. The prevalence of offshore tax havens – and the multinational corporations who seek to exploit them – is particularly egregious. According to a

comprehensive study by Citizens for Tax Justice, thirty corporations whose pretax profits totaled $160 billion over the 2008-2010 period not only did not pay any income tax but actually received tax refunds in those years.[1]

Breaks the Budget Control Act agreement — The 112th Congress already cut the projected deficit by a total of $1.7 trillion over ten years with spending cuts in the 2011 and 2012 appropriations bills along with the tight discretionary spending caps set by the Budget Control Act of 2011 (BCA). These spending caps will require tough choices about federal spending priorities, but Congress agreed to these spending levels as a necessary condition of reducing the deficit and debt to sustainable levels.

The Republican budget resolution abandons that bipartisan agreement, slashing discretionary spending dramatically below the already tight levels set by the BCA. To help pay for tax cuts for wealthy Americans and special interests, the Republican budget cuts non-defense appropriations for next year by $44 billion (8.5 percent) below the 2012 enacted level and $27 billion below the cap set for 2013. Over ten years, it cuts non-defense appropriations by more than $1 trillion below the levels agreed to in the BCA, down to levels that will do even more harm to national priorities.

- **Hides the true impact of its cuts** — As bad as it is, the Republican budget hides its additional discretionary funding cuts, including almost $1 trillion in unspecified cuts in the "allowances" function over the 2013-2022 period. The $897 billion in unallocated cuts are on top of the deep cuts shown in the categorical functions, and could hit any or all services.

- **Abandons investments in research and innovation** — The Republican budget cuts funding for research and development, ignoring the benefits of these important investments and their impact on future generations. This budget is a missed opportunity to support American innovation and develop emerging technologies that create the jobs of the future. Federal funding for research and development advances clean energy technologies, increases the competitiveness of American manufacturing, and brings discoveries from laboratories to businesses and everyday lives.

- **Fails students**— The Republican budget has almost $1 trillion in unspecified discretionary cuts, with $17 billion in 2013 alone. These cuts could devastate education funding. In addition, the Republican budget drastically cuts mandatory higher education funding – $285 billion below the President's request and $166 billion below current-law levels over ten years. This cut reflects lower aid and increased costs for college students because it eliminates the guaranteed inflationary increases for Pell grants that Congress already enacted and paid for, freezes the maximum Pell grant at the 2012 level, allows higher interest rates on student loans starting this July, and it eliminates the income-based repayment plans that help graduates manage their loans and that encourage public service. In fact, the so-called "Path to Prosperity" touts that the budget will limit the growth of financial aid.

- **Neglects infrastructure** — The Republican budget assumes deep cuts in transportation spending next year. These cuts will limit our ability to maintain and modernize this nation's

[1] http://ctj.org/ctjreports/2011/11/corporate_taxpayers_corporate_tax_dodgers_2008-2010.php

infrastructure. They will likely force construction job losses next year and hurt businesses' ability to transport goods and supplies in the long run, weakening future economic growth.

- **Demands fast-track cuts** — The Republican budget turns off part of the upcoming sequester of spending scheduled under the BCA, and instead gives six House committees just 38 days to come up with some $261 billion in deficit reduction[2] – a task that the 112th Congress has been unable to accomplish over the last 15 months. The cuts required under the fast-track reconciliation procedures would be targeted to areas such as cutting Medicaid and Medicare, reducing pensions for the nation's 2.1 million federal employees, rolling back protections against Wall Street malfeasance, and means-testing access to federal benefit programs.

Ends the Medicare Guarantee

The Republican budget ends the Medicare guarantee on which seniors depend and replaces it with a voucher for the purchase of insurance that fails to keep pace with health care costs over time. The plan does nothing to address the root causes of growing health care costs. Instead, it reduces federal spending by increasing costs for seniors and disabled individuals. The policy in the budget affects everyone who qualifies for Medicare in 2023 or later.

Federal payments for a senior's health care voucher will not be guaranteed to keep pace with costs – ***regardless of whether a senior enrolls in traditional Medicare or a private plan***. Future beneficiaries will either pay thousands more dollars out of their own pockets on premiums for a plan that provides the current Medicare benefit package, or else buy plans that may leave them significantly underinsured.

There is no reason to believe that the Republican budget's plan for unfettered market competition will result in affordable, acceptable coverage for seniors. Prior to the creation of Medicare in 1965, almost half of all American senior citizens had no health insurance. While health costs were rising steadily, the market did not respond to the cost constraints faced by seniors by creating an affordable insurance product that provided them adequate protection. Insurers did not rush to cover seniors.

Since 1965, we have experimented with private competition within Medicare, through the Medicare Advantage program and its predecessors. The result was that, in many areas of the country, private plans simply could not compete with traditional Medicare unless we paid them more than traditional Medicare.

Converting Medicare into a voucher system that fails to keep pace with health care costs will have drastic negative effects on our seniors. We cannot solve our budget challenge simply by unloading the financial risk of future health care cost growth onto elderly and disabled individuals.

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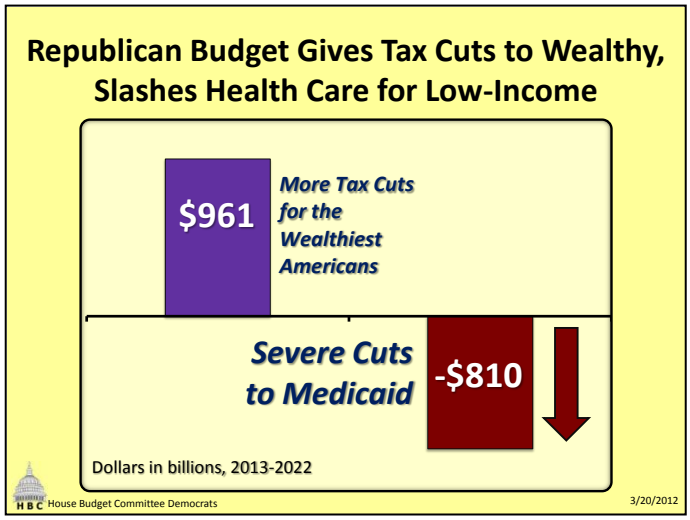
[2] Table 2, p 98, "The Path to Prosperity," http://budget.house.gov/UploadedFiles/BLUEPRINT_FINAL_3192012.pdf

Shreds the Social Safety Net

The Republican budget raises costs for seniors by ending the Medicare guarantee and shreds the social safety net, all while raising taxes on working Americans but cutting taxes for the very wealthy. In addition to Medicare and Medicaid, the Republican budget cuts SNAP food assistance – programs that serve our most vulnerable citizens. Their budget slashes student loan funding and Pell grants that help students afford to attend and graduate from college – cutting education and training by a total of $166 billion over ten years compared to current-law levels.



Slashes Medicaid — Like last year, the Republican budget abandons the millions of seniors in nursing homes and assisted living facilities and the low-income children and people with disabilities who rely on Medicaid. The budget uses the code words of "block-granting" Medicaid, but the reality is that the budget slashes $810 billion of the federal funding over ten years (roughly 20 percent in 2013, rising to one-third by 2022), and leaves it to the states to decide what to do next. In the economic downturn, states certainly do not have the funding to replace the federal dollars. When asked by Chairman Ryan to examine his budget, the Congressional Budget Office (CBO) reported that it cannot estimate how the Republican budget would affect access to health care, quality of care, or state budgets, which share the costs of Medicaid. However, CBO did say that even with significant efficiency gains, states will need to increase their own spending, cut back services, or both.[3] Devastating cuts to Medicaid hurt the most vulnerable people in our nation – senior citizens and disabled individuals who together account for two-thirds of all Medicaid spending.

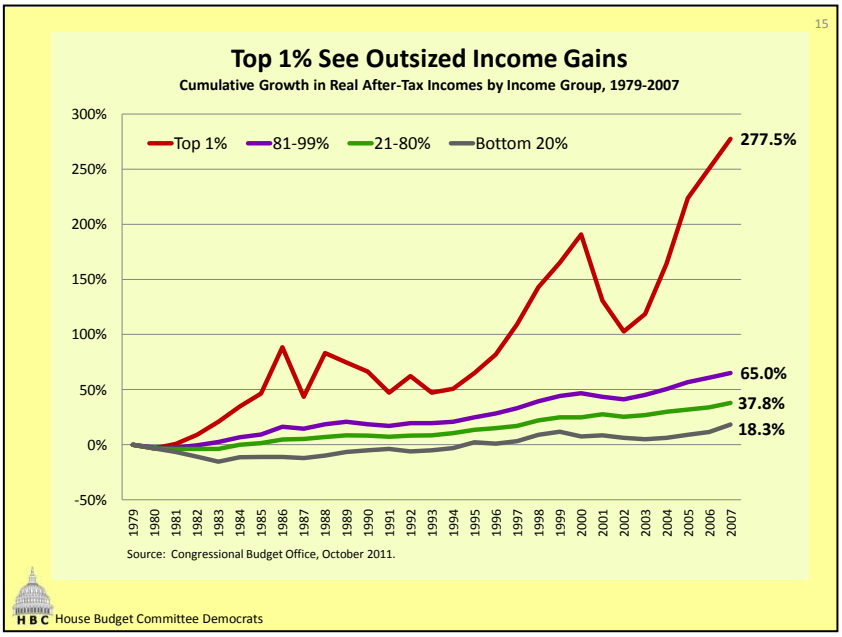
Repeals consumer protections guaranteed in health reform — Like last year, the Republican budget assumes repeal of the Affordable Care Act (ACA). This law makes health care more affordable for Americans and will increase the number of Americans with insurance by some 30 million. The law also will reduce the deficit by slowing the rate of growth in health care costs. Repealing the ACA will not only undermine cost-containment initiatives but also eliminate important protections for consumers. These protections include prohibiting insurance companies from denying coverage due to pre-existing health conditions, banning lifetime and annual limits on coverage, and allowing young adults to get insurance on their parents' plan. The ACA has many benefits targeted to seniors – including reducing prescription drug costs for seniors and completely closing the "donut hole" by 2020, providing free Medicare coverage of key preventive services, and helping seniors remain at home and stay out of nursing homes – all of which are eliminated under the Republican budget.

[3] March 20, 2012, CBO report on the long-term impact of Chairman Ryan's plan, page 9, at: http://cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan_Specified_Paths_2.pdf

Drastically cuts nutrition assistance — As in other areas, the Republican budget repeats last year's attempts to drastically reduce SNAP food assistance (formerly called "food stamps"). SNAP is currently serving 47 million people, nearly three-quarters of whom are in families with children. The Republican budget would reduce the program's funding very deeply relative to projected levels, which already assume the program's scope and costs decline as the economy improves. Regardless of the mechanism used to achieve these savings, the only ways to significantly reduce costs in SNAP are to throw people off the roles or reduce the allotment per person, making it virtually impossible for people to afford a nutritionally sound diet.

Provides Tax Breaks for the Wealthy and Special Interests

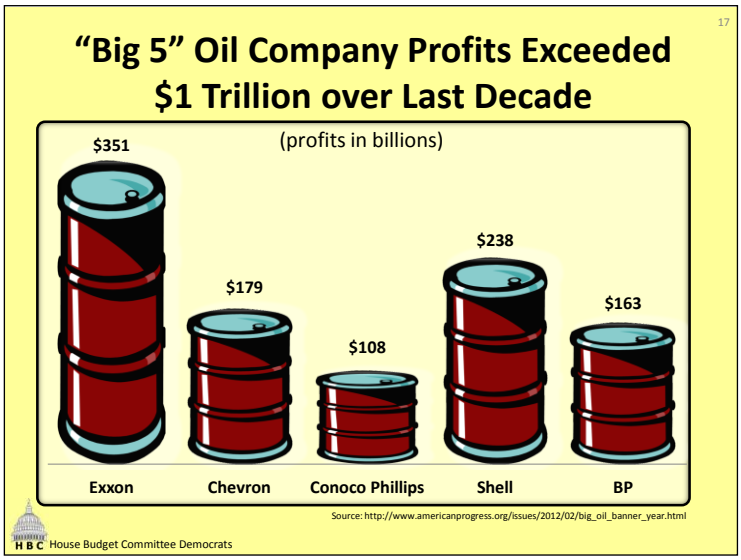
The overwhelming majority of the House Republican conference has signed a pledge vowing not to close one special-interest tax loophole or ask millionaires to pay one cent more for deficit reduction. Because they do not want millionaires to pay more, they place the entire burden of reducing deficits and debt on the backs of middle-income families and seniors.



CBO tells us that between 1979 and 2007, real after-tax incomes of the top 1 percent soared 278 percent, or a whopping $973,000 per household — compared with increases of just 25 percent for the middle fifth of households and 16 percent for the poorest fifth of the population. Moreover, American families lost ground during the 2000s as median incomes slipped 4.8 percent in real terms between 2000 and 2009, according to the Census Bureau.

Cuts taxes by an additional $4.6 trillion, primarily for the wealthy — Despite the rising income disparity, the Republican budget slashes top tax rates to 25 percent for individuals and corporations. The nonpartisan Urban-Brookings Tax Policy Center estimates that the additional cost of lowering top tax rates to 25 percent and repealing the AMT would provide another $4.6 trillion in tax cuts over ten years, primarily to the wealthy – a cost *above and beyond* the $5.4 trillion cost of permanently extending all of the Bush-era tax cuts.

Raises taxes on working families — While the rich get richer under the Republican resolution, middle-class and poor Americans are worse off. It is very difficult for the Republican tax plan to give

away another $4.6 trillion in tax cuts and remain revenue-neutral without raising taxes on working Americans by cutting critical tax benefits like the deductions for mortgage interest and charitable donations. The Joint Committee on Taxation recently estimated that a Republican proposal that would have cut tax rates across the board, lowering the top rate to 27 percent, would require repeal of all itemized deductions, personal exemptions, most above-the-line deductions, and all personal credits (except the Earned Income Tax Credit, or EITC).

Maintains billions of dollars of tax spending —The Republican budget maintains costly tax breaks and loopholes that distort the economic behavior of investors and consumers alike while unnecessarily forcing tax rates to be higher. These egregious tax breaks are simply wasteful spending done through the tax code. For example, their budget continues billions of dollars a year given to the "Big 5" oil companies in the form of tax breaks. Together, these companies have pocketed more than $1 trillion in profits over the past decade.