



U.S. HOUSE OF REPRESENTATIVES

## COMMITTEE ON THE BUDGET

134 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ [democrats.budget.house.gov](http://democrats.budget.house.gov)

Chris Van Hollen,  
*Ranking Democrat*

UPDATED March 27, 2015

## The GOP Budget: Americans Are Working Harder Than Ever But Will Get Even Less

The Republican fiscal year 2016 budget is a dangerous recipe for national decline. It weakens the American middle class and chops down the ladders of opportunity that help hard-working Americans get ahead. It makes it harder to buy a home or pay for college, causes millions of struggling Americans to fall deeper into poverty, and makes it harder to have a secure retirement. It does nothing to help those Americans looking for jobs. It does nothing to boost the paychecks of working Americans, whose wages have stagnated for decades as the economic gains from their hard work have increasingly flowed to those at the highest income levels. This budget, instead of reversing that trend, makes it worse. It redistributes income away from the American middle class and those striving to join the middle class and directs it to the top one percent. The budget deliberately ignores the growing mountain of evidence that trickledown economics has been a miserable failure, having boosted nothing but budget deficits and the incomes of the already wealthy. The budget also disinvests in America by slashing our nation's commitments to education, research, infrastructure, and other crucial drivers of economic prosperity. And its phony claim of reaching "balance" is built on a shaky foundation of huge gimmicks. All in all, the budget rigs the rules to favor the wealthy and special interests at the expense of everyone else.

### Weakens Economy, Disinvests In America, Takes Away Ladders of Opportunity

In the aftermath of the economic crisis of 2008, a Democratic Congress rejected the advice of those who pushed for a European-style austerity program to slash federal investments. The Democratic approach worked. Since 2010, more jobs have been created in the United States than in Europe, Japan, and all advanced economies combined. The Republican budget ignores this evidence and instead guts investments critical to generating broad-based prosperity and sharpening America's competitive edge in a global economy.

**Guts strategic investments** — The budget funds non-defense discretionary programs at the level of the post-sequester cap for 2016. This is not enough to keep pace with inflation from this year's level. The story gets even worse from 2017 through 2025; the Republican budget cuts non-defense funding by \$759 billion below the already inadequate, post-sequester austerity caps. By 2025, the budget cuts overall funding for these programs by 25 percent below the amount needed to maintain purchasing power at this year's level. As a share of the economy, funding for these strategic national investments in 2025 will fall almost 40 percent below the lowest level seen in the last 50 years. These cuts will lead to severe underinvestment

in things like education, workforce training, scientific research, public health, clean energy, advanced manufacturing, and public safety. The United States is already falling behind other countries in research and development, ranking tenth place in overall R&D investment as a percentage of GDP among OECD countries. The Republican budget further risks America's standing as a powerhouse for innovation and technological prowess. For 2016, the Obama Administration has estimated that if the unallocated cuts in the Republican budget are spread proportionately across programs, this would lead to adverse outcomes such as:

- 35,000 fewer children in Head Start;
- \$1.2 billion less Title I education funding, equivalent to funding 17,000 teachers and aides serving 1.9 million students;
- \$347 million less funding through the Individuals with Disabilities Education Act, equivalent to 6,000 special education teachers, paraprofessionals, and related staff;
- more than two million fewer workers receiving job training and employment services;
- 1,300 fewer medical research grants at the National Institutes of Health;
- 950 fewer competitive science research awards at the National Science Foundation, affecting 11,600 researchers, technicians, and students;
- 133,000 fewer families receiving Housing Choice Vouchers, and another 20,000 fewer rural families receiving help for affordable housing, even though having stable, affordable housing is crucial to a family's ability to achieve economic success; and
- elimination of the Manufacturing Extension Partnerships, which serve 30,000 small manufacturers that contribute to the creation of middle-class jobs and economic growth.

**Abandons the nation's crumbling infrastructure** — The budget cuts \$187 billion, or more than 19 percent, from transportation funding over the coming decade, just when the country urgently needs to make significant investments in infrastructure. Many of our roads, bridges, and transit systems are in disrepair and fail to move as many goods and people as the economy demands. It makes no sense to defer these investments when roads and bridges are falling apart, and to forgo the many jobs and economic opportunities that would have been created in the interim.

**Puts college out of reach for millions of students** — Even though student loan debt already exceeds \$1.3 trillion – more than the total of all credit card debt – the Republican budget slashes student grant aid, freezing the maximum Pell grant and eliminating \$89 billion for Pell grant increases that Congress already enacted and paid for. The budget also makes significant cuts to federal student loans that help students afford to go to college and manage their debt afterward. In total, the Republican budget guts current policy support for higher education by more than \$220 billion over ten years.

**Cuts funding for veterans' programs below President's request** — The budget cuts veterans' funding below the President's request by \$1.9 billion for 2016 and \$19 billion over ten years, making it more difficult for the Veterans Administration to provide timely access to quality health care and other benefits and services.

**Ignores immigration reform** — Once again, the Republican budget rejects comprehensive immigration reform, despite widespread agreement that our immigration system is broken. Immigration reform would expand the size of the U.S. workforce, and in turn would increase the size of the economy and reduce deficits. By rejecting reform, the budget squanders an opportunity to reduce deficits by an estimated \$900 billion over the next two decades, boost the economy by 5.4 percent, and extend the solvency of Social Security.

**Takes away health insurance from more than 16 million people** — Despite abundant evidence that the Affordable Care Act (ACA) is working to expand access to health coverage and dramatically slow down growth in health costs, Republicans continue to pursue their rigid, ideological obsession with repealing it. Under their budget, 15 million people would lose tax credits for affordable health care next year. An estimated 16.4 million uninsured people have gained coverage so far as a result of the law. Since October 2013, when the ACA marketplaces opened for business, the uninsured rate for working-age adults has dropped from 20.3 percent to 13.2 percent – a 35 percent reduction. Meanwhile, health spending growth has slowed dramatically over the last several years in Medicare, private insurance, and throughout the U.S. health sector. The Congressional Budget Office (CBO) now projects that the law’s coverage provisions will cost a full 33 percent less in 2019 than the agency originally estimated when the ACA became law in 2010. CBO also now projects combined federal spending for Medicare, Medicaid, the Children’s Health Insurance Program (CHIP), and the ACA coverage expansions will be \$682 billion less over the 2011-2020 period than CBO projected back in January 2010 without the ACA. Nevertheless, the budget insists on repealing the ACA without laying out a coherent alternative.

**Undermines financial oversight** — The budget renews the Republican Congress’ fight against the financial regulations put in place after the financial crisis that triggered a recession whose effects linger today. The budget seeks to end independent financing of the Consumer Financial Protection Bureau so they can use the appropriations process to cut its budget and limit its activities. The Bureau’s efforts have already won more than \$5.3 billion in refunds and relief for 15 million consumers. Republicans would also repeal regulators’ ability to address the problems of a large financial institution before it fails. This means that a large “too-big-to-fail” bank could again take excessive risks and leave taxpayers potentially on the hook for massive losses. The budget also calls for the elimination of Fannie Mae and Freddie Mac. These entities provide critical support to the housing sector, helping make it possible for many hard-working Americans to obtain a mortgage and buy a home.

**Republicans slash another \$300 billion from the federal workforce, including huge cuts to pay and benefits** — Republicans penalize the federal workforce for choosing to pursue public service by cutting hundreds of billions of dollars in pay and benefits and arbitrarily reducing its size. These cuts come on top of the more than \$150 billion in cuts federal employees have already contributed toward deficit reduction in the form of reduced pay and benefits since 2001. The Republican budget will affect many thousands of civil servants who provide key services and often get too little recognition. A summary of the cuts:

- **Raises retirement contributions by \$127 billion over ten years** – requires higher employee retirement contributions, which translates into a 6 percent pay cut for current employees.
- **Slashes more than \$60 billion by voucherizing federal employee health benefits** – converts the FEHB benefit for both current employees and retirees to a voucher that grows more slowly than growth in health care costs. Over time, a larger share of health care costs is pushed onto the individual.
- **Cuts \$32 billion from the Thrift Savings Plan G-fund** – Reduces the rate paid to retirees for investments in the G-fund, leaving retirees and employees near retirement in the lurch because they organized their financial futures around a set of promises the government made to them while they served the country.
- **Reduces the “non-security” federal workforce by ten percent, saving \$59 billion** – cuts the workforce of non-security agencies by ten percent without any assessment of the impacts of those reductions on government services.
- **Cuts \$40 billion from the U.S. Postal Service** – adopts cost cutting measures including one to reduce the health care and life insurance benefits for postal workers.

## **Redistributes Income to Top 1 Percent from Middle-Class and Poor Families**

Americans are working harder than ever, but their paychecks are flat. There is a disconnect – which dates back to the 1970s – between the increased value workers are creating in the economy and the size of the paychecks they are taking home. Instead, income gains from increased productivity have gone overwhelmingly to those at the very, very top of the income scale, the top one percent. CEOs now make 300 times what their workers make, incomes of the top one percent have grown more than five times faster than middle-class incomes, and the top one percent hold over 40 percent of the total wealth in the U.S. – wealth inequality that is nearing pre-Depression highs.

Even with growing inequality and stagnant paychecks, the budget punishes people with the least power in Washington to provide favors to those with the most. It refuses even one penny of deficit reduction from closing special-interest breaks like those for corporate jets, big oil, and overseas tax havens. Instead, it raises taxes on the middle class and guts safety-net programs that protect people from abject poverty and provide them with the stability they need to have a chance to get out of poverty, while providing more tax breaks to the top one percent.

**Greenlights tax cuts for millionaires and billionaires, paid for by the middle class** — The Republican budget is a green-light for passage of the Romney-Ryan tax plan, which would slash taxes for the wealthiest taxpayers by lowering top individual and corporate tax rates to 25 percent, financing the multi-trillion dollar cost on the backs of the middle class by canceling key tax benefits that middle-class households receive. Non-partisan analysis of the Romney-Ryan tax plan found it would increase taxes on a typical working family by \$2,000, while giving millionaires an average tax cut of over \$200,000.

**Increases taxes on workers and families** — The budget does nothing to help boost paychecks of American families, continuing to favor wealth over hard work instead of providing supports for Americans to work, go to college, and raise their children. The Republicans had an opportunity to support middle-class tax cuts, incentives for savers, and help for families to cover day care costs. Rather than make the tax code work for middle-class Americans, the Republican budget cuts higher education tax credits that help families afford college, and it lets vital improvements to the Earned Income Tax Credit (EITC) and the Child Tax Credit expire. It even refuses to take the broadly bipartisan step of increasing the EITC for working adults without children.

**Imposes destructive cuts to nutrition assistance and Medicaid** — Once again, the Republican budget makes steep cuts to the Supplemental Nutrition Assistance Program (SNAP) and Medicaid and converts them into block grants in the name of “state flexibility,” which really just means leaving it to states to do the hard job of reducing benefits or eliminating assistance altogether for some categories of vulnerable citizens. Slashing the safety net does not create jobs. All it does is put seniors, persons with disabilities, and poor children at greater risk of hardship.

- **SNAP:** The budget cuts \$125 billion from SNAP over ten years. Roughly 80 percent of SNAP beneficiaries are children, elderly, disabled, someone caring for a child under age six or a disabled person, or are working.
- **Medicaid:** The budget merges CHIP into Medicaid and slashes funding by \$913 billion over the next ten years (in addition to cutting more than \$900 billion by repealing the ACA Medicaid expansion). The cut to the base Medicaid program is 14 percent in 2017, rising to one-third in 2025. States already have substantial flexibility in how they run their Medicaid programs. Block-granting Medicaid and slashing funding will strain state budgets and lead many states to end care to millions of people. Seniors, persons with disabilities, and children account for about three-fourths of all Medicaid spending.

## **Makes It Harder to Have a Secure and Dignified Retirement**

**Ends the Medicare guarantee for future retirees** — The budget includes a plan that will shift risks of growing health care costs onto seniors. All new Medicare beneficiaries starting in 2024 would receive a fixed premium-support payment (or voucher) toward the purchase of either a private health plan or traditional Medicare. The budget claims this plan will “save” Medicare, but it does not say how. A CBO analysis of a similar plan found the magnitude of future savings to be “highly uncertain.” Yet the Republican budget claims to achieve significant long-term reductions in federal spending – at the same time that a growing population of retirees will put upward pressure on spending for Medicare, Medicaid, and Social Security. This is either an exercise in wishful thinking, or they are concealing certain features of their plan. Past CBO analyses of these types of plans indicate that a Medicare voucher program can be reliably estimated to reduce federal Medicare spending significantly over the long term only if it also markedly increases costs to beneficiaries.

**Penalizes seniors who choose traditional Medicare** — CBO found if a voucher plan along these lines were in effect in 2020, the average Part B premium charged in that year across the country for the traditional Medicare option would be 50 percent higher than it would be under current law. Many beneficiaries would be deterred by this and would choose private plans instead, especially in areas of the country where the differential is even larger. Those remaining in traditional Medicare would pay 25 percent more, on average. Seniors in poor health tend to prefer traditional Medicare to private plans, meaning the sick and the frail would end up paying a 25 percent surcharge to use the option they think best meets their needs. Private plans in Medicare already employ strategies to “cherry pick” the healthiest enrollees. Such tendencies would get worse under premium support. The sick and frail seniors remaining in what’s left of traditional Medicare under the GOP plan will face the risk of skyrocketing costs and less access to care. This will send the traditional program into an insurance death spiral as the pool of patients left in Medicare becomes sicker and more costly over time.

**Increases costs for current retirees** — The budget increases costs to current seniors by repealing Medicare benefit improvements in the ACA. Since the ACA was enacted, 9.4 million seniors have saved more than \$15 billion on prescription drugs, thanks to a provision in that law that closes the Part D coverage gap, or “donut hole.” In 2014, 39 million seniors and individuals with disabilities took advantage of at least one preventive service with no cost sharing, thanks to the ACA. If Republicans had succeeded at one of their numerous prior attempts to repeal the ACA, nearly 5.1 million seniors and people with disabilities in Medicare would have paid an additional \$4.8 billion – or an average of \$941 per beneficiary – for their drugs in 2014. Overall, the budget includes \$184 billion in net Medicare savings over ten years. The budget also includes \$168 billion in new spending to reflect bipartisan Medicare physician payment reform. Gross Medicare savings assumed in the budget are about \$325 billion. Included in this gross number, in addition to repealing the ACA Medicare benefit improvements, are the following policy changes:

- \$94.1 billion from restructuring Part A and Part B cost-sharing, including creating a catastrophic cap on out-of-pocket costs, and making changes to Medigap supplemental coverage;
- \$36.9 billion from changes to medical malpractice law;
- \$104 billion from increasing Part B and Part D income-related premiums; and
- \$6.1 billion from gradually increasing the Medicare eligibility age and implementing premium support, both starting in 2024.

The budget also assumes savings from policies reforming payments to providers, including increased bundling of payments and value-based purchasing.

## **Includes Fast-Track Procedures to Push Through Controversial Policies**

**Reconciliation** — The budget includes procedures that will allow fast-track consideration of legislation to repeal the ACA, as well as make it easier to enact tax breaks for the wealthy and to cut spending in many areas. The budget provides so-called reconciliation instructions that require almost all House authorizing committees to achieve specified levels of deficit reduction

by cutting spending or increasing revenues under their jurisdiction. The levels are a floor, not a ceiling, of the amount of savings the committees must approve by July 15 to be then packaged into one reconciliation bill. Reconciliation bills receive special protections to ease their passage, since they were designed to reduce the deficit and often contain items that would be difficult to pass piecemeal. However, Republicans most recently used reconciliation procedures to increase the deficit by providing unpaid-for tax breaks; in 2006 they passed one reconciliation bill that cut spending by \$39 billion and another that cut taxes by \$70 billion.

**Social Security** — The budget calls for a fast-track process for Congress to consider Social Security reform. This process could be used by Republicans to force passage of Social Security privatization or other benefit cuts. The process even requires the President to submit Social Security reform proposals that are supported by a Republican political appointee. The budget would also impose on the Senate a new House rule that could block efforts to allow the Social Security Administration to use its existing resources to finance disability benefits, making it harder for Congress to protect those benefits from being cut as early as next year.

## **Builds Phony Claim of “Balance” on Shaky Foundation of Huge Gimmicks**

**Counts Affordable Care Act savings that the budget claims to repeal** — The budget’s accompanying text claims it repeals the Affordable Care Act in its entirety, but the budget numbers include all of the more than \$2 trillion worth of Medicare savings and revenues from the health law. The budget only repeals the parts of the law providing access to affordable health coverage, strengthening patient rights, and improving Medicare benefits. If this budget actually reflected full repeal, it would fall short of reaching balance in 2024 and 2025 by several hundred billion dollars.

**Counts on unrealistic non-defense funding cuts** — In order to appear to reach budget balance, Republicans have cut non-defense discretionary spending by \$759 billion below the already inadequate, post-sequester austerity caps. Republican budgets have taken a similar tack before, only to have their own appropriators reject the absurd top-line levels. It is easy to reject “government spending” in the abstract. However, non-defense appropriations fund important government services that Americans need and want, like homeland security and research. Congress was unable to pass appropriations bills at levels higher than these two years ago, which led to the Murray-Ryan budget deal that raised the caps for two years.

**Cooks the books using dynamic scoring** — Republicans know that they cannot reduce the top income tax rate to 25 percent without raising taxes on the middle class or increasing the deficit, so this budget tries a new strategy: cook the books. By adopting failed trickle-down economics under the fancy name of “dynamic scoring,” the Republican majority seeks to force Congress’s nonpartisan scorekeepers—CBO and the Joint Committee on Taxation—to adopt wishful thinking as an economic policy. Dynamic scoring uses smoke and mirrors to hide what the Republicans are trying to do – provide massive tax cuts to millionaires and billionaires while raising taxes on the middle class and those working their way into the middle class.



**Uses dishonest accounting of the cost of extending expiring tax provisions** — The budget relies on about \$900 billion of revenues coming in as various provisions of the tax code expire over the next ten years. But the budget also makes it official policy that extensions of expiring tax provisions do not have to be paid for. So far in this Congress, the Republican majority has pushed through bills to increase deficits by almost \$100 billion through 2025 by making expiring tax provisions permanent without any offset for the reduced revenues. And the Ways and Means Committee has put another \$200 billion of deficit increases in the pipeline by reporting even more bills to make expiring tax provisions permanent without paying for them.

**Abuses the Overseas Contingency Operations (OCO) Budget** — Republicans have made a mockery of the budget process by larding billions of dollars of unrequested OCO funds into the defense budget to avoid negotiating a budget deal to lift sequester caps for both defense and nondefense programs. The final House-passed budget includes \$38 billion more for OCO than the level our military leaders say is needed, none of which is paid for. The Committee-reported budget had increased funding for OCO by \$36 billion above the President's request and had required \$20.5 billion of that total to be offset from spending reductions elsewhere. These provisions were revised when Republicans passed a substitute on the House floor. The substitute is identical to the Committee-reported budget except it adds an additional \$2 billion of OCO funds and eliminates the requirement that some of the OCO increase be offset.

Disregarding the budget process and avoiding any attempt to address sequestration head on and in a transparent way perpetuates funding uncertainty and impedes efficient planning for the future. In testimony before the House Armed Services Committee on March 18, 2015, Secretary of Defense Ashton Carter said the Pentagon needs “stability” and if forced into this one-year-at-a-time approach, it “can’t spend [funds] efficiently” and it “can’t spend [funds] strategically.” In the same hearing, Chairman of the Joints of Staff General Martin Dempsey said, “my advice is that we need to fix our base budget” and “we won’t have the certainty we need” if Congress addresses defense needs through the OCO loophole one year at a time.

House Republicans highlighted in their budget last year that using the OCO budget as a way to get around discretionary funding caps “undermines the integrity of the budget process” and that the Budget Committee should provide greater oversight to prevent its abuse. Republicans have now abandoned these principles.

## **Conclusion**

The combination of policies in the Republican budget – cutting tax rates for the wealthy, increasing the tax burden on working Americans, and cutting vital public investments – will not result in sustained economic growth with more broadly shared prosperity. In fact, the budget will stack the economic deck even more heavily in favor of the wealthiest and most powerful in American society. This is the wrong direction for the nation. Too many families in America are working harder than ever but feel like they are running in place or falling behind. We must ensure that all people who work hard and play by the rules are rewarded with a fair share of a



growing economic pie. Our challenge is to implement a strategy to rapidly grow our economy in a way that leads to broadly shared prosperity for all, not just the wealthy few at the very top. There is no simple solution, but it is clear that the Republican budget will only make this problem worse. The policies in this budget are going to make life harder for everyone in the United States who has not already made it to the top of the ladder.

The country deserves better. Americans deserve a budget that promotes a more rapidly growing economy with more broadly shared prosperity. That is the right direction for America.