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July 12, 2017

"Budget Cut" Means the Same Thing Everywhere

Determining whether a federal budget proposal counts as a budget cut is simple. If the proposal would reduce funding for a program's benefits or services or reduce the number of people who qualify for benefits relative to the levels that would occur under current law, it is a cut. Reducing a program's funding level in nominal terms is the most obvious form of a spending cut. However, budget cuts show up in other ways – such as by failing to account for inflation, population growth, or other factors that determine the funding level necessary to meet the current statutory requirements of a program. Budget cuts often take the form of specific policy changes that reduce the level of services or benefits provided or reduce the number of people eligible for benefits, resulting in a reduction in program spending relative to current law. Therefore, a budgetary proposal can cut a program even though it may provide a dollar level that is the same or even increasing from the current year to a future year. For example, programs like Medicaid, military retirement, and Social Security provide a defined set of benefits to all who qualify. If a budget proposal does not provide sufficient resources to maintain these defined benefits for everyone who is eligible under current law, this means fewer people will receive benefits, or some people will receive lower levels of benefits. That is a budget cut.

Some Republicans in Congress and the Administration, however, deride this definition of a budget cut as "Washington-speak." They argue it is not a budget cut if a program receives the same number of dollars from year to year, even though inflation means that a dollar will buy less goods and services next year than this year. They assert

Hypothetical example: Flat-funding Social Security spending

The federal government will spend an estimated $673 billion on Social Security benefits for retired workers in 2017. The Congressional Budget Office (CBO) projects spending for these benefits will reach $1.3 trillion in 2027 under current law. Spending will rise for three reasons: the number of retired workers receiving benefits will increase from 43 million today to 59 million in 2027; current beneficiaries will receive annual cost-of-living adjustments averaging an estimated 2.4 percent per year so their benefits can keep up with inflation; and newly eligible beneficiaries have higher average benefits because today's workers generally have higher real lifetime earnings than earlier generations of workers. Under Republican logic, spending $673 billion on Social Security benefits for retired workers in 2027 would not be a budget cut, because the dollar amount does not decrease from the level spent in 2017. What would that mean for people receiving benefits? Dividing the same amount of money by more people means everybody would get less money – 27 percent less than retirees receive today, *before* accounting for inflation. That's a cut, in Washington or anywhere else.

that providing a smaller dollar increase than would occur under current law for a benefit program such as Social Security, food assistance, or Medicaid is not a cut, even though staying within the budgeted amount will require a change in law to restrict the number of people receiving benefits or reduce benefit levels. Republicans prefer their overly simplistic definition of "budget cut" because it hides the true impact of their budget proposals on the people affected by them.

How does "Washington" measure cuts?

Determining the true effect of a budget proposal requires a meaningful frame of comparison. Over time, federal budgeteers on a bipartisan basis have developed principles for measuring proposals' effects. The guiding rule is to estimate the difference between what would occur under the proposal and what would occur if current policies continue unchanged. This means comparing a proposal with a spending baseline that in essence reflects the continuation of current policies. For discretionary programs, for which Congress generally budgets one year at a time, the baseline assumes spending rises just enough each year to keep pace with inflation, thereby maintaining stable purchasing power. For mandatory programs, the baseline reflects current law, which determines who is eligible for the program and the benefit amount they receive.

Why is comparing this year's spending to last year's spending not a useful approach?

Comparing proposed program spending for some future year to spending this year provides a mathematical estimate of how much program spending will grow under the proposal. But without examining what would happen in the program under current law, this calculation provides little useful information about the true impacts of a proposed level of spending.

Not-so-hypothetical example: Republican Medicaid bill

House Republicans in May passed the so-called (and misnamed) Affordable Health Care Act, which among other things would reduce Medicaid spending by $834 billion over ten years relative to current law. Republicans argue this is not a cut, because total Medicaid spending would still increase from $393 billion in 2017 to $474 billion in 2026 – $150 billion, or 25 percent, below the level projected under current law for 2026. The bill achieves this lower spending level by reducing funding to states for their Medicaid programs. States, in turn, would likely meet the new budget constraint through some mix of restricting who can get coverage, cutting payments to health care providers, and eliminating some services. CBO estimates that 14 million people would become uninsured as a result of the House bill. When millions of people lose health insurance altogether and millions more find it harder to get care they need, that's a cut, in Washington or anywhere else.