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Deficit Reduction

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Plans to Reduce Annual Deficits Should Not Increase Poverty or Inequality

Federal policymakers have elevated the public discourse on the nation's annual deficits. There is widespread bipartisan agreement that the nation can't sustain its current levels of debt and deficit spending, but that's where the accord ends. Balancing the budget will require tough choices about how the nation invests its financial resources and raises revenue, but it also requires answering moral and philosophical questions about the kind of nation we want to be now and in the future.

Today, one in seven of us is poor, including one in four children under age five, and nearly one-third of us are low-income.[1] In the last three decades, the income gap between rich and poor has widened.[2] Unemployment has hovered around 9 percent or higher for the last two years and economists project it will remain high in the foreseeable future. Yet some pending deficit reduction proposals would decimate programs that alleviate poverty and provide education and training while leaving tax breaks for the wealthiest and corporate tax loopholes untouched. As lawmakers move forward with deficit reduction talks, they should commit to ensuring final legislation doesn't harm the most vulnerable among us and does not increase poverty and inequality.

Background

In December 2010, the presidentially appointed bipartisan National Commission on Fiscal Responsibility and Reform released a proposal for reducing the nation's deficits and addressing long-term debt.[3] The plan was far from perfect, but it tacitly acknowledged that annual deficits cannot be eliminated solely by focusing on the small percent of the budget represented by domestic, discretionary, non-defense spending. It called for shared sacrifice, and one of its guiding principles was protecting the truly disadvantaged. It included program cuts as well as tax reforms. Advocates and policymakers alike have pointed to these principles as key for ongoing negotiations around the budget and deficit reduction, but much of current political discourse is focused on proposals that fundamentally defy these principles by placing a significant percent of the burden for deficit reduction on programs that benefit low-income and vulnerable Americans while outright protecting tax breaks for the wealthy and corporations.

In early April, House Budget Committee Chairman Paul Ryan released an FY 2012 budget proposal, widely known as the Ryan budget, which purports to reduce the nation's deficit by drastically cutting domestic spending.[4] It would adversely and disproportionately affect low-income people by cutting workforce development, reducing spending on child care and early education programs, raising the real cost of tuition and college expenses for low-income students by decreasing Pell grant aid, slashing spending on health care and nutrition assistance for low-income people by block granting Medicaid and the Supplemental Nutrition Assistance Program (SNAP), and undoing health care reform. At the same time, the Ryan budget would cut taxes for the richest households and set an arbitrary cap on revenues below the levels needed to meet the nation's critical priorities. Rep. Ryan called the budget a path to prosperity and a "choice for America's future."

It is in fact a path to scarcity and a poor "choice" for America's future. The soaring rhetoric belies a limited approach to government that would stymie the ability of those at the bottom to get the education and training necessary to acquire a good job, get nutritious food for their children or to access child care and health care. The approach fails to recognize that for the nation to be economically competitive, it must invest in its human resources.

In January, Rep. Bob Goodlatte introduced (*H.J.Res.1 Proposing a Balanced Budget Amendment to the Constitution of the United States),*[5] which the House Committee on the Judiciary passed along party lines on June 15. The bill would make an annual balanced federal budget constitutional law and limit federal spending to 18 percent of the nation's Gross Domestic Product (GDP). While capping spending at 18 percent of GDP, the bill makes raising revenue all but impossible by requiring a super majority (two-thirds vote) to raise revenue in any way, including ending tax breaks for the wealthy or closing corporate tax loopholes. Not since FY 1966–an era that preceded aging Baby Boomers and critical expansions in national security, health care, education and other critical programs that provide support to Americans at every income level–has federal spending been less than 18 percent of GDP.[6] During the Reagan Administration, federal spending averaged 22 percent of GDP. By comparison, spending in FY 2010 was about 24 percent of GDP due in part to increased spending because of the recent recession and decline in federal revenue. Constitutionally capping spending at 18 percent of GDP is unrealistic and arbitrary, particularly with this vehicle. See the CLASP fact sheet *Off Balance: Proposal to Balance the Budget Drastic, Unrealistic and Harmful to All Americans.*

As lawmakers are weighing budget proposals, they also have to address the nation's debt ceiling or the amount of money the nation can borrow to meet its obligations. The U.S. Department of Treasury has said Congress must vote to increase the debt ceiling by Aug. 2 so the government can continue to function at its current capacity. The necessary vote has turned into political brinksmanship as some lawmakers have drawn a line in the sand and said they will not vote to raise the debt ceiling unless there is a parallel vote to cut spending in the short term and limit spending through caps over time. Such posturing conflates multiple issues for political purpose but does nothing to address long-term deficits. Instead, it holds the needed increase in the debt ceiling hostage to budget cuts that likely would result in drastic cuts to domestic, non-discretionary programs, as proposed in the FY 2012 House budget resolution. Economists have warned that failure to increase the debt ceiling could be disastrous for the nation.[7]

Protect the Truly Disadvantaged

We are a nation that rewards innovation and achievement and that believes everyone should have the opportunity to thrive. But deficit reduction talks have focused almost exclusively on how much to cut and from where. Substantial cuts to domestic, discretionary programs would limit opportunities for our most disadvantaged children and families and ultimately for the nation as a whole. A better approach would be a concurrent conversation about the true costs of investments and cuts both now and into the future and how each choice would impact the nation.

We have a choice about our future, and the decisions we make now will weigh heavily in the kind of nation we are in the short- and long term. Making the right choice requires all of us to recognize that America needs government, and our government must have sound leadership and adequate revenue to function. Government fixes the roads we drive on, pays for public safety officials, ensures the food we eat and medicine we take is safe, and provides public education opportunity for us all. Making the right choice also requires policy decisions that ensure everyone has access to a pathway to prosperity and that government works as well for Main Street Americans as it does for the wealthy few. The "choice" we make for America's future must be driven by the nation's shared, core values. Cutting programs that help children thrive, help families make ends meet in tough times, help youth and adults access education and work is contrary to our shared values.

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[1] U.S. Census Bureau, *Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race: 2009*, Current Population Survey, 2010, http://www.census.gov/hhes/www/cpstables/032010/pov/new01_100_01.htm.

[2] U.S. Census Bureau, "Table A-3: Selected Measures of Household Income Dispersion: 1967-2008," *Income, Poverty, and Health Insurance Coverage in the United States: 2008*, http://www.census.gov/prod/2009pubs/p60-236.pdf, 38-39.

[3] The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, December 2010, http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf.

[4] House Committee on the Budget, "The Path to Prosperity: Restoring America's Promise," *Fiscal Year 2012 Budget Resolution*, April 2011, http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf.

[5] *Proposing a balanced budget amendment to the Constitution of the United States*, H. J. Res.1, 112th Congress, 1st sess., http://www.gpo.gov/fdsys/pkg/BILLS-112hjres1rh/pdf/BILLS-112hjres1rh.pdf.

[6] "Table 15.3 – Total Government Expenditures as Percentages of GDP: 1948-2010," *Budget of the United States Government, Fiscal Year 2012*, Office of Management and Budget, February 2011, http://www.whitehouse.gov/omb/budget/Historicals/.

[7] Ben Bernanke, "Fiscal Sustainability," Remarks at the Annual Conference of the Committee for a Responsible Federal Budget, Washington, D.C, June 2011, http://www.federalreserve.gov/newsevents/speech/bernanke20110614a.pdf, 5.
Michael Barr, "Default is Unthinkable," Brookings Institution, May 6, 2011, http://www.brookings.edu/opinions/2011/0506_debt_ceiling_default_barr.aspx.