

# United States Senate

WASHINGTON, DC 20510-4504

April 20, 2015

Dear Colleagues:

With Republicans from the House and Senate currently negotiating the differences between the budget resolutions that have passed each chamber, it is clear that no matter the details of the budget conference agreement, the Republican plan will be an unmitigated disaster for working American families.

In addition to Republicans' brazenness in looking to balance the budget on the backs of the most vulnerable among us, Republican ignorance of our current fiscal situation is striking. Since August 2010, projections of our debt and deficits over the current 2016-2025 budget window have improved by more than we once thought possible. **Over the past five years, projections of cumulative deficits over the coming decade have fallen by nearly \$7 trillion.**

However, the current stability of our near- and medium-term debt and deficits has done nothing to inform Republicans' policy prescriptions:

- At a time when projected health care costs are declining rapidly, Senate Republicans have proposed **the largest percentage cut to Medicare in any budget resolution in well over a decade, and their House counterparts have proposed to end Medicare as we know it.**
- Even as the gains of the economic recovery have disproportionately benefited those at the very top of the income distribution, leading to the greatest level of income inequality seen since the Great Depression, **Republicans have proposed to cut income security programs – such as nutrition, child care, military retirement benefits, affordable housing, home heating assistance, and unemployment benefits, as well as tax benefits for working Americans – by more than any budget resolution in at least a decade.**

Although the reduction in projected deficits has been incredibly unbalanced – with more than four dollars in spending cuts for every dollar in new revenue – Republicans continue to oppose the closing of a single tax loophole that benefits the wealthiest individuals or largest corporations. Even worse, the Republican budget would provide a \$269 billion tax break to multi-millionaires and billionaires who represent the wealthiest 0.2 percent, while paving the way for a tax hike on 13 million working American families by not extending the full earned-income and child tax credits.

The Republican philosophy of cutting Medicare, cutting Medicaid, and cutting nutrition programs for hungry kids, while providing huge tax breaks for millionaires and billionaires, would move this country in exactly the wrong direction. Their budget is reckless and irresponsible and would decimate programs relied on by people at all stages of life.

Sincerely,



Senator Bernard Sanders

Ranking Member, Senate Budget Committee

## **THE REPUBLICAN BUDGET: A MASSIVE TRANSFER OF WEALTH FROM THE MIDDLE CLASS TO MILLIONAIRES AND BILLIONAIRES**

Since 2010, projected deficits have fallen dramatically. This is due to the combination of a dramatic slowdown in the growth of health care costs, interest rate projections that have repeatedly been revised downwards, and policy changes that have slashed federal spending while raising a relatively small amount of new revenue.

In 2010, projections indicated that the debt-to-GDP ratio would reach 100.9 percent in 2025. The most recent figures, released last month, foresee the same ratio that year to be 76.5 percent. This represents a cumulative deficit reduction over the decade of nearly \$7 trillion.

However, the current stability of our near- and medium-term debt and deficits has done nothing to inform the policy prescriptions of Senate Republicans.

**Even as we see the slowest growth rate for health care costs on record, the Senate Republican budget proposed the largest percentage cut to Medicare in any budget resolution in well over a decade, while House Republicans have called for an end to Medicare as we know it.**

**And at a time when the gains from our improving economy – still digging out of the Wall Street Crash and its aftermath – haven't yet “trickled down” to working families, the Senate Republican budget would cut income security programs – such as nutrition, child care, military retirement benefits, affordable housing, home heating assistance, and unemployment benefits – by more than any budget resolution in at least a decade.**

In order to make informed policy choices, it is essential to know where we stand. Manageable deficits in the near and medium term should lead to a call for immediate increases in public investments that would help working families and create broadly-shared economic growth. Deficit reduction should be confined to decisions about how to constrain health care costs in the long term and how to get the wealthiest individuals and largest corporations to contribute their fair share of taxes.

Republicans have instead chosen to ignore any kind of economic reality. Instead of increasing near-term investments, they've slashed them. Instead of holding off on deficit reduction, they've dived in head first, decimating programs on which working- and middle-class families rely.

Highlights of this report include:

- The Republican Senate budget would result in the largest percentage cut to the Medicare program of any budget resolution in well over a decade.
  - Republican claims that their cuts mirror the President's budget request are simply untrue. Senate Republicans actually propose cuts twice the size of the President's.

- The Republican Senate budget would cut more from income security programs – nutrition, rental, and cash assistance, as well as tax benefits for working Americans – by more than any budget resolution in at least a decade.
- Meanwhile, relative to projections from August 2010, cumulative deficits over the next decade are now projected to be \$6.9 trillion lower – a 50 percent reduction.
  - Projected outlays are down by \$10.4 trillion, or 18 percent.
  - Projected interest payments on the national debt are down \$5 trillion, or 48 percent.
  - Projected mandatory health care spending is down by \$2.7 trillion, or 17 percent.
  - However, projected revenues are down by \$3.5 trillion, or 8 percent, even though our 2010 baseline assumed all the Bush income tax cuts would be permanently extended.
- Of the reduction in projected 2016-2025 deficits we have seen since 2010, \$4.4 trillion has been due to legislative changes, which is overwhelmingly the result of spending cuts.
  - In total, revenues have accounted for only 19 percent of the deficit reduction, while spending reductions have made up to remaining 81 percent. In other words, for every dollar of revenue we have raised, we have decreased outlays by more than four dollars.

As the Republicans go to conference in order to hash out the differences between the Senate- and House-passed budget resolutions, it is essential to remember that regardless of the outcome of the conference committee, the Republican plan is a broad assault on essential programs Americans of all walks of life rely on – and one that makes little fiscal policy sense.

#### **Methodology**

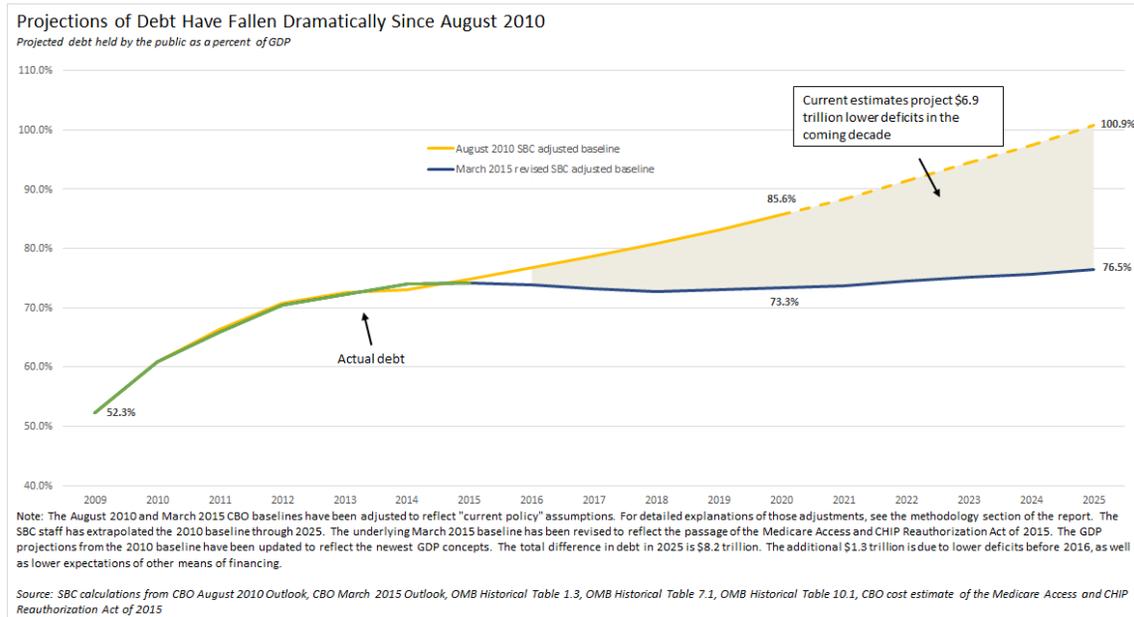
This report extrapolates data from CBO’s August 2010 baseline in order to provide for estimates of what CBO could have projected for the current (2016-2025) budget window. Senate Budget Committee staff adjusted the August 2010 baseline to 1) phase down the overseas troops to 60,000 by 2015; 2) permanently extend the refundable tax credits from ARRA; 3) freeze Medicare physicians’ payment rates (doc fix); 4) permanently extend the Bush tax cuts, except for the estate tax, which is set to Lincoln-Kyl levels; and 5) index the AMT for inflation. Extrapolation was performed using the geometric growth rate between the last two years of the 2010 projections and adjusting for timing shifts. The GDP projections from the 2010 baseline have been updated to reflect the newest GDP concepts.

All comparisons to Republican budget plans are relative to CBO’s January 2015 baseline to be consistent with the baselines used in developing the Republican budgets. The Senate Budget Committee staff adjusted that baseline to 1) phase down the overseas troops to 30,000 by 2017; 2) permanently extend the refundable tax credits from ARRA; 3) freeze Medicare physicians’ payment rates (doc fix); and 4) remove the extrapolation of Ebola funding.

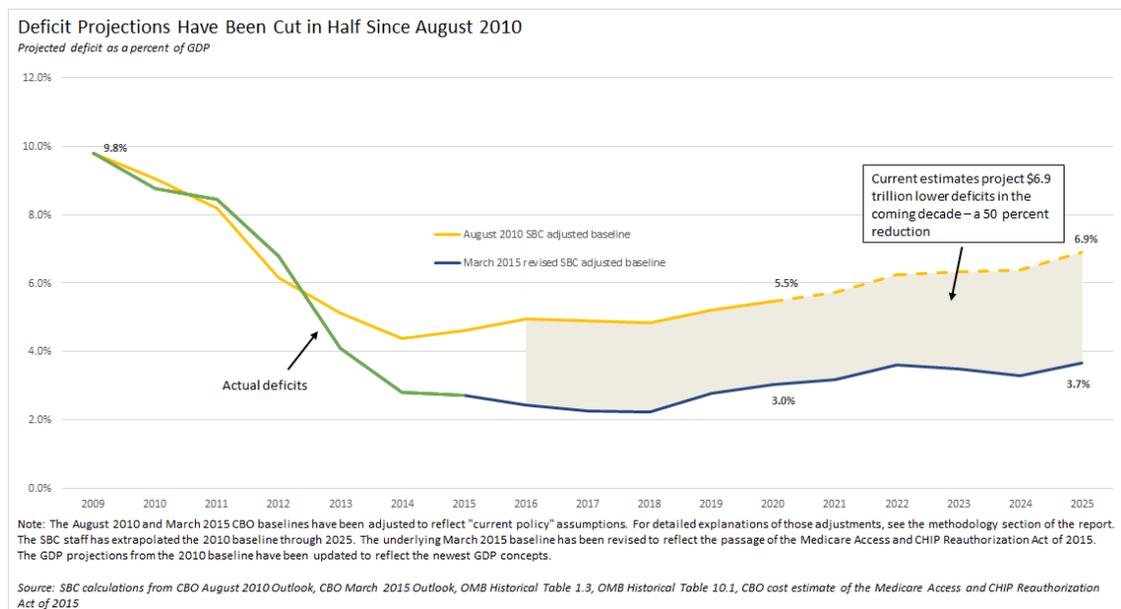
For figures involving current projections, Senate Budget Committee staff adjusted CBO’s March 2015 baseline to 1) phase down the overseas troops to 30,000 by 2017; 2) permanently extend the refundable tax credits from ARRA; and 3) remove the extrapolation of Ebola funding; the underlying baseline has been revised to reflect the passage of the Medicare Access and CHIP Reauthorization Act of 2015. This, of course, also assumes that sequestration spending cuts will occur as scheduled.

## Since 2010, Near- and Medium-Term Projections of Debt and Deficits Have Improved Dramatically

In August 2010, Congressional Budget Office projections indicated that the debt-to-GDP ratio would reach 100.9 percent in 2025. The most recent figures, released last month, foresee the same ratio that year to be 76.5 percent.

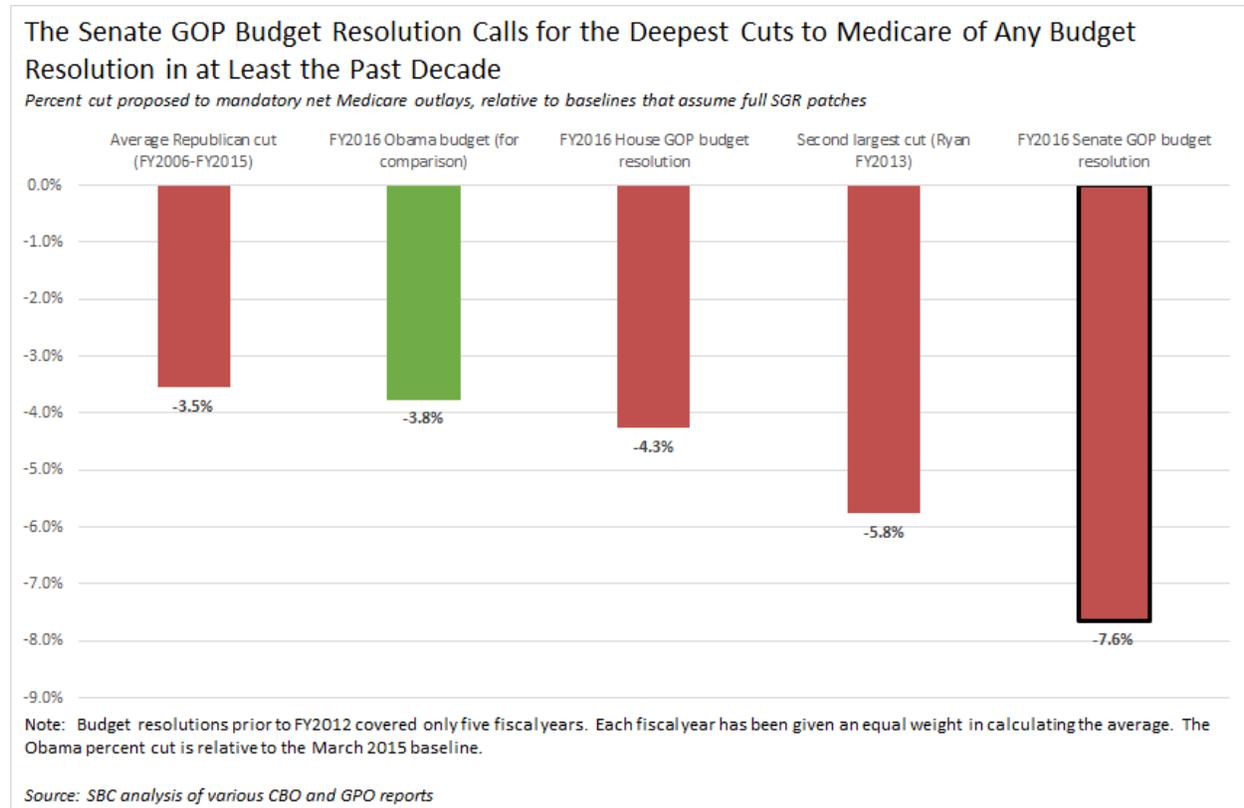


Relative to projections from August 2010, cumulative deficits over the next decade are now projected to be **\$6.9 trillion lower – a 50 percent reduction**. Instead of rising uncontrollably, reaching nearly 7 percent of GDP by 2025, deficits are now projected to remain below 4 percent of GDP throughout the decade.



## The Republican Budget Resolutions Propose Deep Cuts to Medicare and to Turn it into a Voucher Program

The Senate Republican budget resolution calls for the **deepest cuts to Medicare, in percentage terms, of any budget resolution or conference report in at least the past decade.** In addition to the Senate Republicans' deep cuts, **House Republicans want to end Medicare as we know it by turning it into a voucher program.** These policies are in spite of the fact that near- and medium-term deficits are projected to be stable and much of the reduction in projected deficits actually derives from the slowdown in health care cost growth.

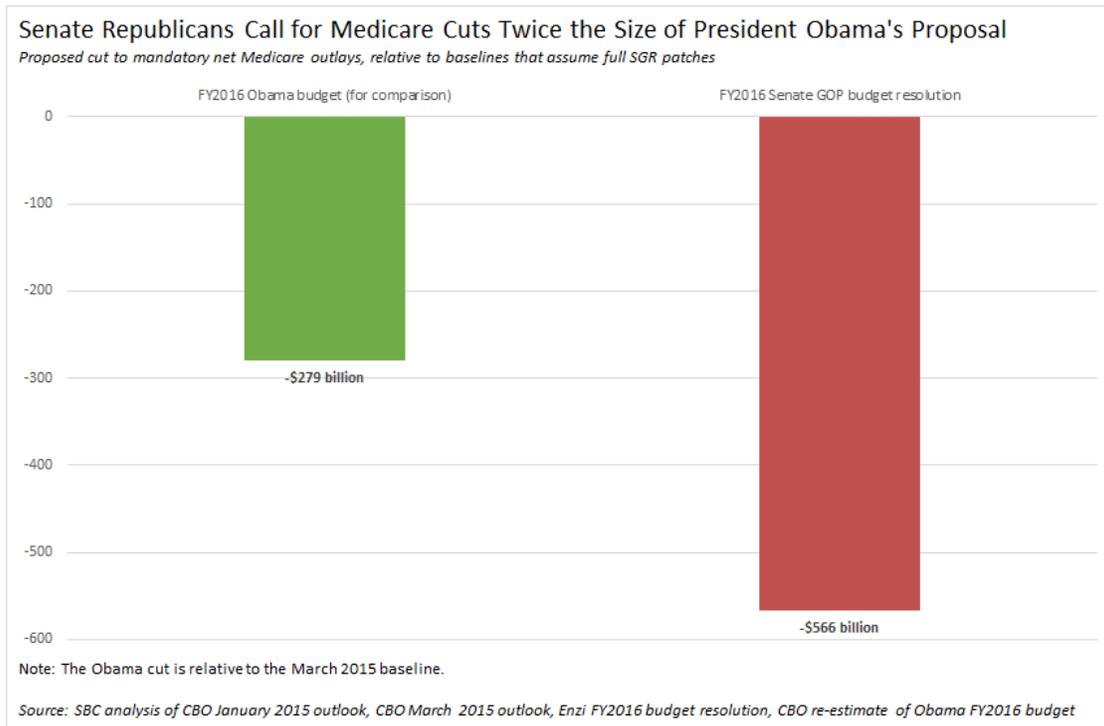


Despite Republicans' assertion that their Medicare cuts mirror those proposed by President Obama, their cuts are actually *twice as large*. This is for two key reasons. First, while the Office of Management and Budget estimated the President's budget request as reducing Medicare spending by \$435 billion over the 10-year window, the Congressional Budget Office estimated these policies would in fact reduce Medicare outlays by \$279 billion over the decade.

Additionally, while the Senate Republicans claim they cut \$435 billion from the Medicare program, they actually cut a total of \$566 billion. This is because the Republicans budget failed to address the Sustainable Growth Rate (SGR), allowing a cut of more than 20 percent to doctors' reimbursement under Medicare, which would have cut the Medicare program by an

additional \$131 billion, according to CBO’s January baseline.<sup>1</sup> Or, if they did somehow prevent *those* cuts, they would have been implicitly offset by other, unspecified cuts to Medicare.

**Therefore, in total, Senate Republicans are calling for Medicare cuts of 7.8 percent over the coming decade,<sup>2</sup> or \$300 billion more than the President’s request, for a total of \$566 billion in Medicare cuts.<sup>3</sup>**



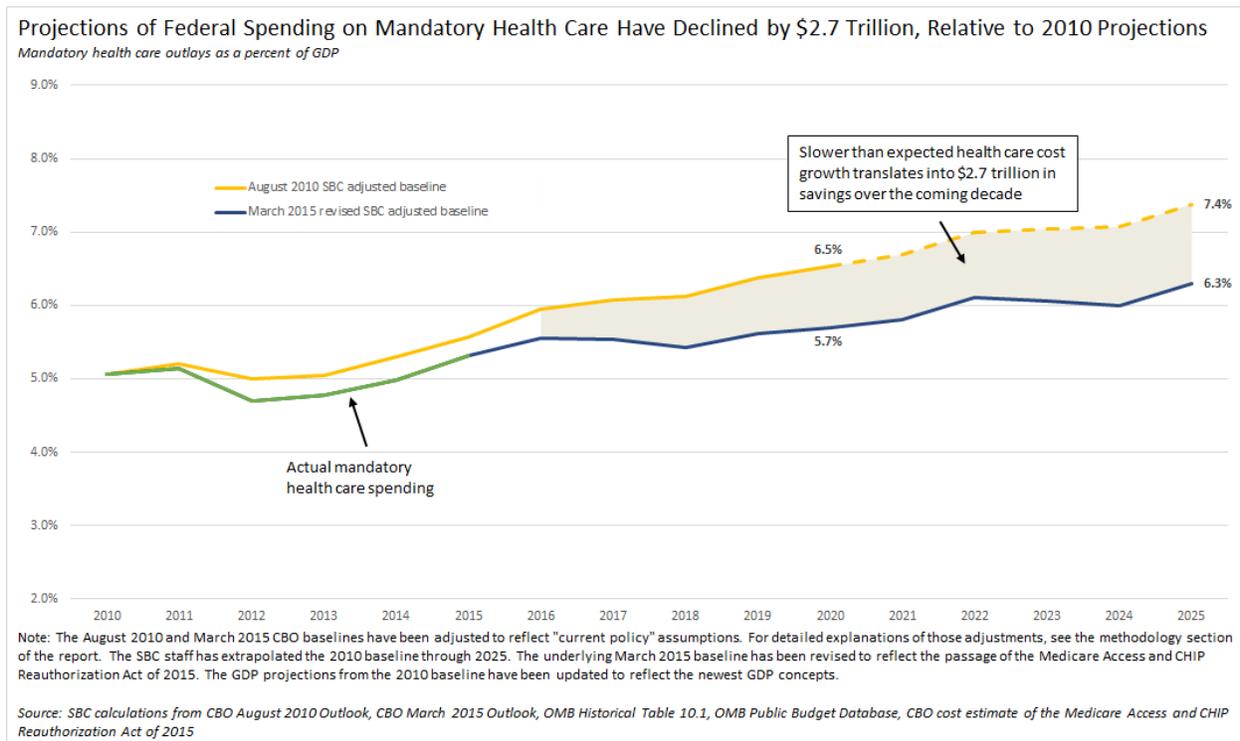
Both Republican budgets call for deeper cuts to Medicare than the average Republican plan in the last decade. Moreover, these massive cuts would take effect immediately, in spite of the fact that projections of health care cost growth have diminished considerably in recent years. Today, net mandatory health care spending over the next decade is projected to be **\$2.7 trillion, or 17 percent, lower than was projected in August 2010**. There have now been 13 new CBO baseline updates since August 2010 and in 12 out of 13 of those updates, CBO has reduced its

<sup>1</sup> CBO estimated patching the SGR would cost \$136 billion over the decade in its March 2015 baseline.

<sup>2</sup> This figure is likely an *underestimate* because it does not include any of the Senate Republicans’ additional \$242 billion in ten-year mandatory cuts, which their budget includes in its bottom line but fails to attribute to *any* program or budget function. This \$242 billion figure refers to Senate Republicans’ unallocated cuts in mandatory budget function 920 – “Allowances.” Senate Republicans included the existing across-the-board mandatory sequestration cuts, as well as their “dynamic score” in this function. This figure refers to *new* unspecified cuts and thus excludes both the dynamic score and unallocated mandatory sequestration.

<sup>3</sup> CBO scored the President’s budget using the March 2015 baseline as its starting point, whereas the Senate Republican budget used the January 2015 baseline. These figures reflect the differences between the 10-year totals proposed and the baseline. Each baseline has been adjusted to assume physicians’ reimbursement rates would not be cut. Without those adjustments, CBO estimated the President’s budget would cut \$143 billion over the decade, and the proposed Senate GOP cut was \$435 billion. In addition, because these figures assume the SGR would be replaced, they remain accurate even accounting for the fact that the prospect of a cut to Medicare physicians’ reimbursement rates was eliminated in subsequent legislation.

projections of mandatory health care spending, with an average savings per update of 1.4 percent – or \$181 billion.<sup>4</sup>



Furthermore, **the Senate Republican budget fails to explain how its drastic cuts would be carried out or what the impact would be on seniors and other Medicare beneficiaries.** However, the blueprint for drastically cutting Medicare can be found in the House Republican budget – **ending Medicare as we know it** by turning it into a voucher program that would, by design, raise out-of-pocket costs for beneficiaries. While exact details of this are unknown, similar policies proposed by House Republicans in the past have been estimated to increase premiums for those still on traditional Medicare by anywhere from 25 to 50 percent.<sup>5</sup>

What is particularly bizarre is even as Republicans in both chambers seek to dismantle the private insurance exchanges established by the Affordable Care Act, they propose moving Medicare onto a private insurance exchange that mimics the ACA exchanges. The key difference between the two systems is that the Republican budgets fail to provide sufficient funding for these exchanges, therefore raising out-of-pocket costs for beneficiaries.

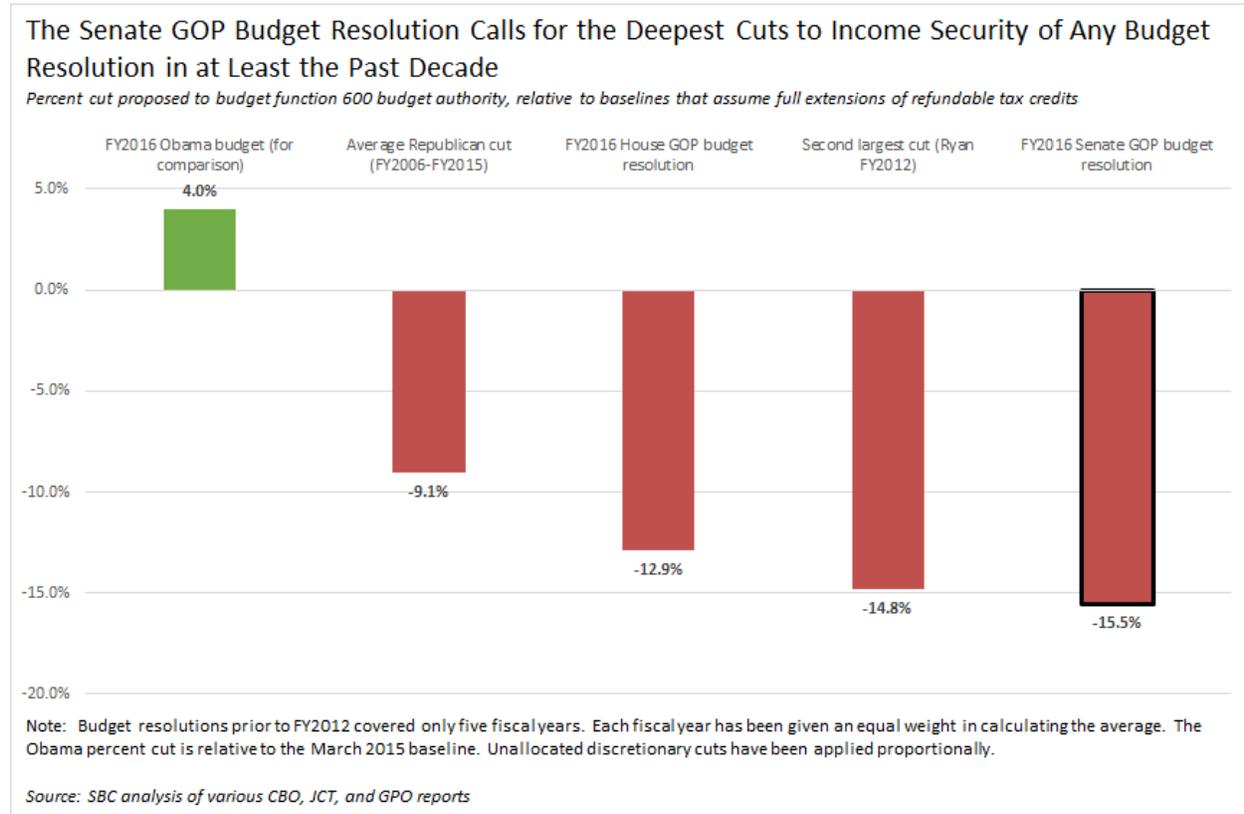
In short, cuts of the magnitude proposed by Senate Republicans would undoubtedly leave Medicare beneficiaries worse off. It is impossible to imagine a Medicare cut of nearly 8 percent that would not lead to significant benefit cuts or increased out-of-pocket costs.

<sup>4</sup> And this \$181 billion understates the decline because the budget windows shift (and therefore health savings grow) over time.

<sup>5</sup> Congressional Budget Office. "A Premium Support System for Medicare: Analysis of Illustrative Options," [September 2013](#).

## **The Senate Budget Resolution Calls for the Deepest Cuts to Income Security in at Least a Decade**

The Senate Republican budget resolution calls for the deepest cuts to income security programs of any budget resolution in at least the past decade.



Republican Senators voted for an \$893 billion<sup>6</sup> – or 15.5 percent – cut to the part of the budget that includes:

- Food stamps (SNAP)
- Nutrition assistance for women, infants and children (WIC)
- Temporary Assistance for Needy Families (TANF)
- Public Housing
- Section 8 rental assistance
- Supplemental Security Income (SSI)
- Heating assistance (LIHEAP)

<sup>6</sup> This figure represents the total cut to budget function 600. The Senate Republican budget called for \$786 billion in cuts to mandatory programs. Similar to the calculation of the Republicans' cut to Medicare, this figure likely understates their proposed cut to income security programs because it does not count any of their budget's unallocated cuts. The Senate Republican budget also called for \$107 billion in discretionary cuts. The Senate Budget Committee staff has distributed the unallocated discretionary cuts across the board; the above figure includes function 600's share of those cuts.

- The Child Care and Development Block Grant
- Civil Service Retirement benefits
- Military Retirement benefits
- Unemployment Insurance
- The refundable portions of the Earned Income Tax Credit and Child Tax Credit

Again, Senate Republicans have remained silent as to which of these programs they would cut and by how much in order to achieve their desired savings. However, House Republicans have provided more detail about their proposed cuts to income security programs, which at \$742 billion or 12.9 percent, are slightly less draconian than those proposed by their Senate counterparts.<sup>7</sup>

For instance, the House Republican budget resolution would turn the Supplemental Nutrition Assistance Program (SNAP, or food stamps) into a block grant to states that would result in \$125 billion in cuts to struggling families between 2021 and 2025.<sup>8</sup> As the Center for American Progress notes, this cut would “kick up to 12 million people off of food assistance or cut nutrition benefits that primarily serve children, seniors, people with disabilities, and working families by an average of almost \$55 per person per month.” By cutting needed support from those who would spend the benefits and spread them throughout the economy, cutting SNAP would severely harm the economy – costing it 286,000 jobs in the first year of block-granting alone.<sup>9</sup>

Without any detail about how the Senate Republicans would distribute their onerous cuts, their impacts on people who rely on these essential programs remain hidden. However, if the cuts were distributed evenly across income security programs, the Senate Republican budget could in an average year:

- Eliminate WIC benefits for 1.2 million people.
- Zero out heating assistance for nearly 900,000 families– cuts that are in addition to the 420,000 families that will go without heating assistance if sequestration spending cuts occur as scheduled.
- Eliminate Section 8 rental assistance for nearly a half a million families, effectively evicting them from their homes. That’s beyond the more than 200,000 removed from their homes because of sequestration.

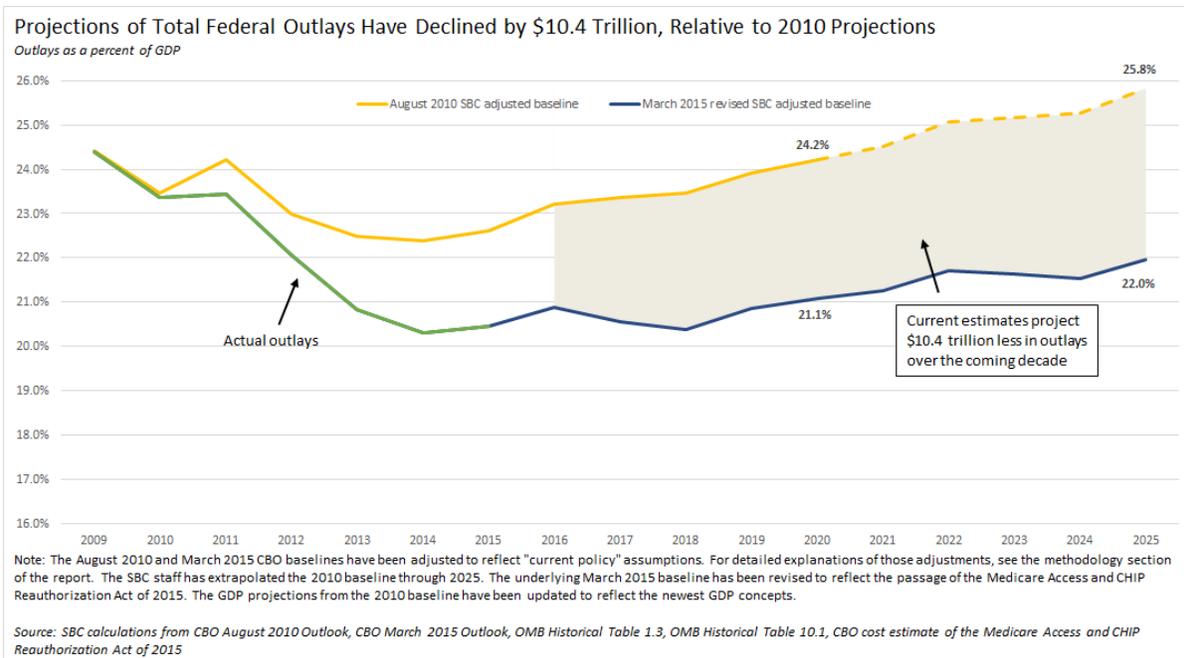
The Republican attack on income support programs comes at a time when spending on these programs is already declining. Since August 2010, **projections of total federal outlays over the next decade have fallen by \$10.4 trillion, or 18 percent.**

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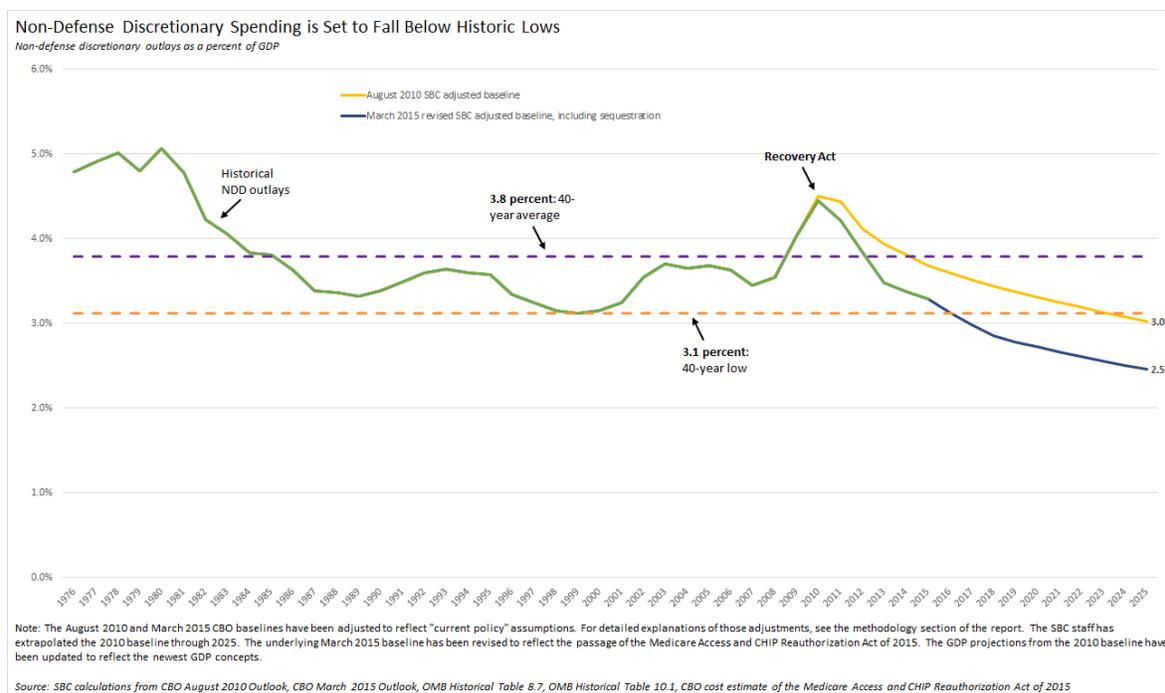
<sup>7</sup> Like the Senate-passed budget resolution, the House Republican budget also called for a large amount – \$104 billion – in discretionary cuts. The Senate Budget Committee staff has distributed the unallocated discretionary cuts across the board; the above figure includes function 600’s share of those cuts.

<sup>8</sup> Keith-Jennings, Brynne and Rosenbaum, Dorothy. “House Budget Would Slash SNAP by \$125 Billion Over Ten Years.” Center on Budget and Policy Priorities. [March 20, 2015](#).

<sup>9</sup> Boteach, Melissa. “Proposed Congressional Cuts to Nutrition Assistance Would Cost Jobs.” Center for American Progress. [April 13, 2015](#).



What’s more, cuts to non-defense discretionary outlays – the budget category that includes many of the federal government’s income security programs, not to mention spending for education, economic development, law enforcement, health and science research, and more – have already resulted in spending decreases of \$1.3 trillion over the coming decade. By 2025, non-defense discretionary outlays as a percentage of GDP are expected to be 0.7 percentage points below the lowest recorded level, and 1.3 percentage points below the 40-year average. By 2025, non-defense discretionary outlays relative to GDP are expected to be 0.6 percentage points below the August 2010 baseline.



## **Deficit Reduction to Date Has Been Incredibly Unbalanced and Would Be Even More So Under the Republicans' Budget**

The large decline in projected non-defense discretionary outlays is indicative of the unbalanced approach to deficit-reduction legislation Congress has taken since 2010.

Since 2010, Congress has enacted approximately \$4.4 trillion in deficit-reduction legislation over the 2016-2025 period. Of that total, nearly \$2.7 trillion comes directly from programmatic spending cuts, the vast majority of which – about 92 percent – is the result of cuts to discretionary spending. In addition the programmatic cuts, legislated deficit reduction has also led to an additional \$940 billion in interest savings.

New revenues represent a relatively small share of legislated deficit reduction. The American Taxpayer Relief Act – which averted the “fiscal cliff” by returning tax rates for household income above \$450,000 to Clinton-era levels – represents vast majority of the \$836 billion in new revenues achieved through legislation over the 2016-2025 period.<sup>10</sup>

In total, revenues have accounted for only 19 percent of the deficit reduction, while spending reductions have made up to remaining 81 percent. In other words, for every dollar of revenue Congress has raised, it has decreased outlays by four full dollars. However, if plans called for the in Senate Republican budget were to become law, this inequity would grow to 11 dollars of spending reductions for every dollar of revenue raised.

<b>Enacted deficit reduction since August 2010, 2016-2025</b>		
	<b>Total (billions)</b>	<b>% of total enacted</b>
Discretionary spending cuts	\$2,464	55%
Mandatory spending cuts	\$206	5%
Net interest savings	\$940	21%
<i>Total spending reductions</i>	<b>\$3,610</b>	<b>81%</b>
<i>Total revenue increases</i>	<b>\$836</b>	<b>19%</b>
<b>Total deficit reduction</b>	<b>\$4,446</b>	<b>100%</b>

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<sup>10</sup> New revenues were also enacted in the Bipartisan Budget Act of 2013, the Agricultural Act of 2014, and the Medicare Access and CHIP Reauthorization Act of 2015.

However, even with the additional revenues from returning to the same top marginal tax rates of the economy-expanding 1990s, projections of overall revenues over the next decade are \$3.5 trillion lower than they were in August 2010. This is the case even though the Senate Budget Committee’s adjusted 2010 baseline assumed all the Bush income tax cuts would be permanently extended.

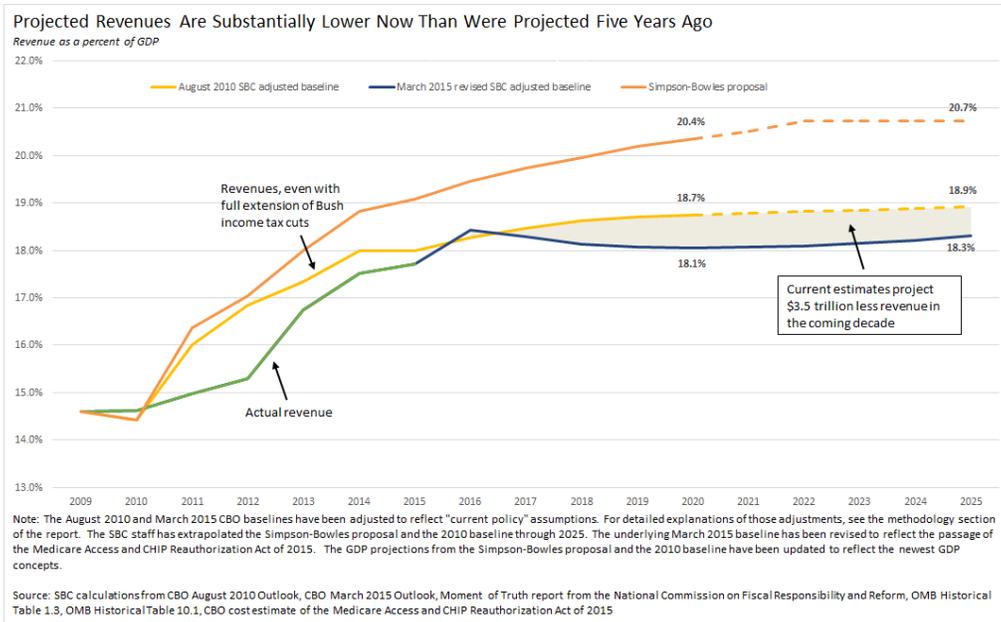
Even though the projections of what the federal government is expected to spend over the next decade have decreased by \$10.4 trillion since 2010, projected deficits are “only” down by \$6.9 trillion. This is because CBO has repeatedly lowered its projections of economic growth in the coming years, lowering projected revenues along with it.

In short, revenue losses due to the recession and slow recovery were significant enough to counteract nearly half of the improvement in projected deficits, which highlights the need for new revenue from the wealthiest Americans and largest corporations as part of any future deficit reduction effort. With American corporations legally avoiding up to \$100 billion a year in taxes by stashing profits offshore, there is clearly revenue available to be collected.<sup>11</sup>

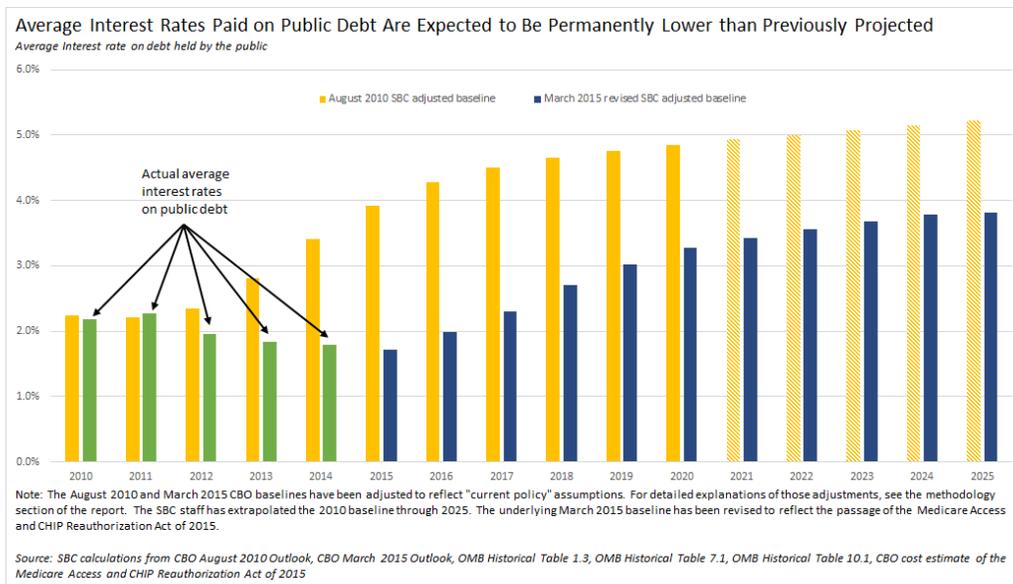
*Crosswalk, August 2010 to March 2015*

<b>Projected deficit in trillions, 2016-2015</b> <i>(negative numbers indicate smaller deficits)</i>	
<b>SBC August 2010 Adjusted Baseline</b>	<b>13.9</b>
<b>Effect of outlay changes on the deficit</b>	
<i>Legislative changes</i>	-2.7
<i>Mandatory health care changes*</i>	-2.6
<i>Debt service changes</i>	-5.0
<i>Other outlay changes</i>	<u>-0.1</u>
<b>Total effect on the deficit</b>	<b>-10.4</b>
<b>Effect of revenue changes on the deficit</b>	
<i>Legislative changes</i>	-0.8
<i>Economic and technical changes</i>	<u>+4.3</u>
<b>Total effect on the deficit</b>	<b>+3.5</b>
<b>SBC March 2015 Adjusted Baseline</b>	<b>7.0</b>
* excludes savings from mandatory health sequestration because those savings were included in "Legislative changes."	

<sup>11</sup>Gravelle, Jane G. “Tax Havens: International Tax Avoidance and Evasion.” Congressional Research Service. [January 15, 2015](#).



Finally, relative to projections from August 2010, net interest over the next decade is now projected to be **\$5 trillion lower – a 48 percent reduction**. Only \$603 billion of this total is due to reduced projections in primary deficits; the remaining \$4.4 trillion are the result of lower interest rates and technical revisions. Expected interest in fiscal year 2015 is now projected to be 59 percent lower than was projected in August 2010.



## Conclusion

Although our near- and medium-term debt and deficit outlooks are stable, the Republican budgets do not look to increase necessary public investments. Instead, they call for slashing Medicare and income support programs by more than has been proposed in major party budget resolution in at least 10 years.