

# Federal Budget Decisions Ahead: What's at Stake?

Douglas Rice

August 30, 2012

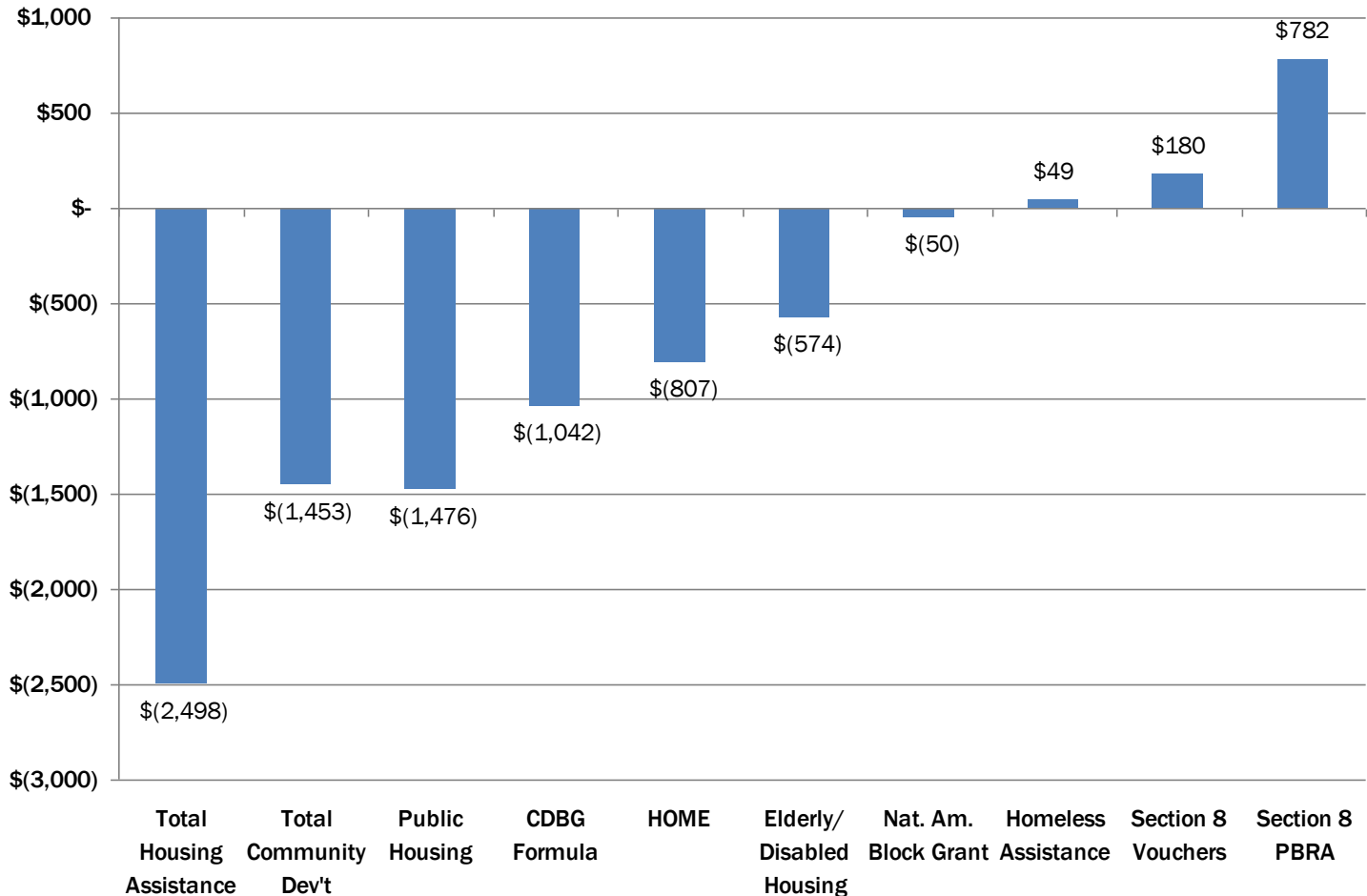
# The Budget Control Act of 2011 (BCA)

1. Cuts discretionary spending by roughly \$1 trillion over ten years, enforced by binding annual spending caps
2. Tasked a bipartisan, bicameral committee to identify at least \$1.2 trillion more in deficit reduction
3. Because the “Supercommittee” failed, requires:
  - Automatic, across-the-board cuts in many programs in 2013; 8.4% cut below cap for nondefense discretionary programs
  - Reductions in each year from 2014 – 2021 in the annual caps on discretionary programs, as well as automatic cuts in non-exempt entitlement programs
  - These cuts total an additional \$1.2 trillion in deficit reduction over the decade



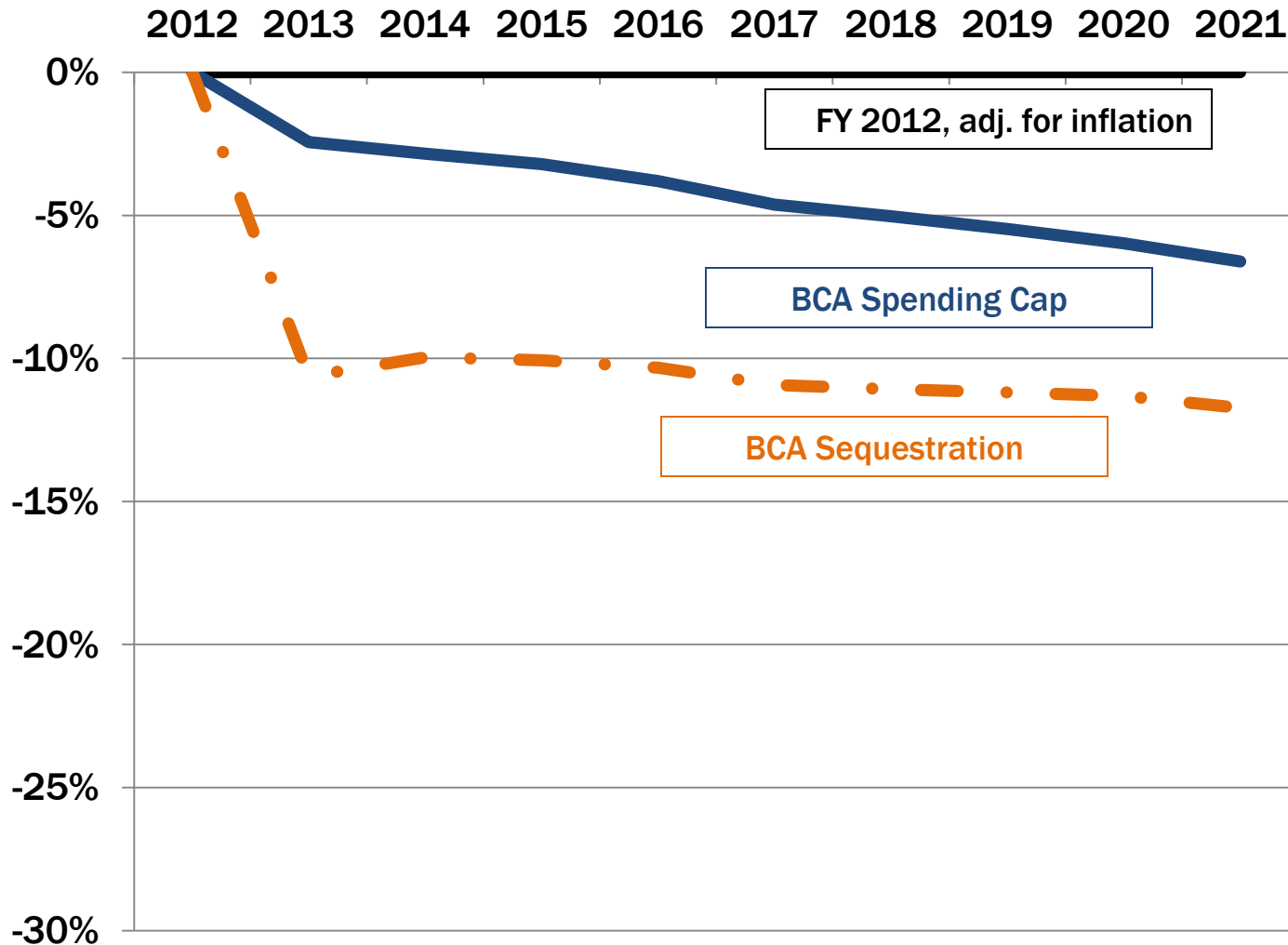
# Since 2010, Funding for Housing Has Been Cut by \$2.5B (6%) and CD by \$1.5B (24%)

## Change in Funding, 2010 - 2012, in millions



Source: OMB public budget database. Figures are for discretionary programs, in nominal dollars.

# BCA Funding Cuts for Nondefense Discretionary Programs



Source: CBPP analysis based on CBO data.



# Impact of Sequestration in 2013?

- \$1.6 billion cut from Section 8 vouchers; as many as ~185,000 families could lose vouchers in 2013 (~4,100 in WA)
- \$830 million cut from Section 8 PBRA
- \$385 million cut from public housing operations, leaving agencies with 85% of the funds they need under HUD formula. Capital funds would be cut by \$167 million (~\$2 million in WA)
- \$260 million cut from CDBG formula grants, which would mean a reduction of ~\$4 million in WA
- \$180 million cut from homeless assistance, leaving funding at just \$65 million above the 2012 level
- \$84 million cut from HOME, including ~\$1.7 million for WA

Note: All figures are estimated by assuming reductions of 8.4% below levels in the Senate FY 2013 bill.



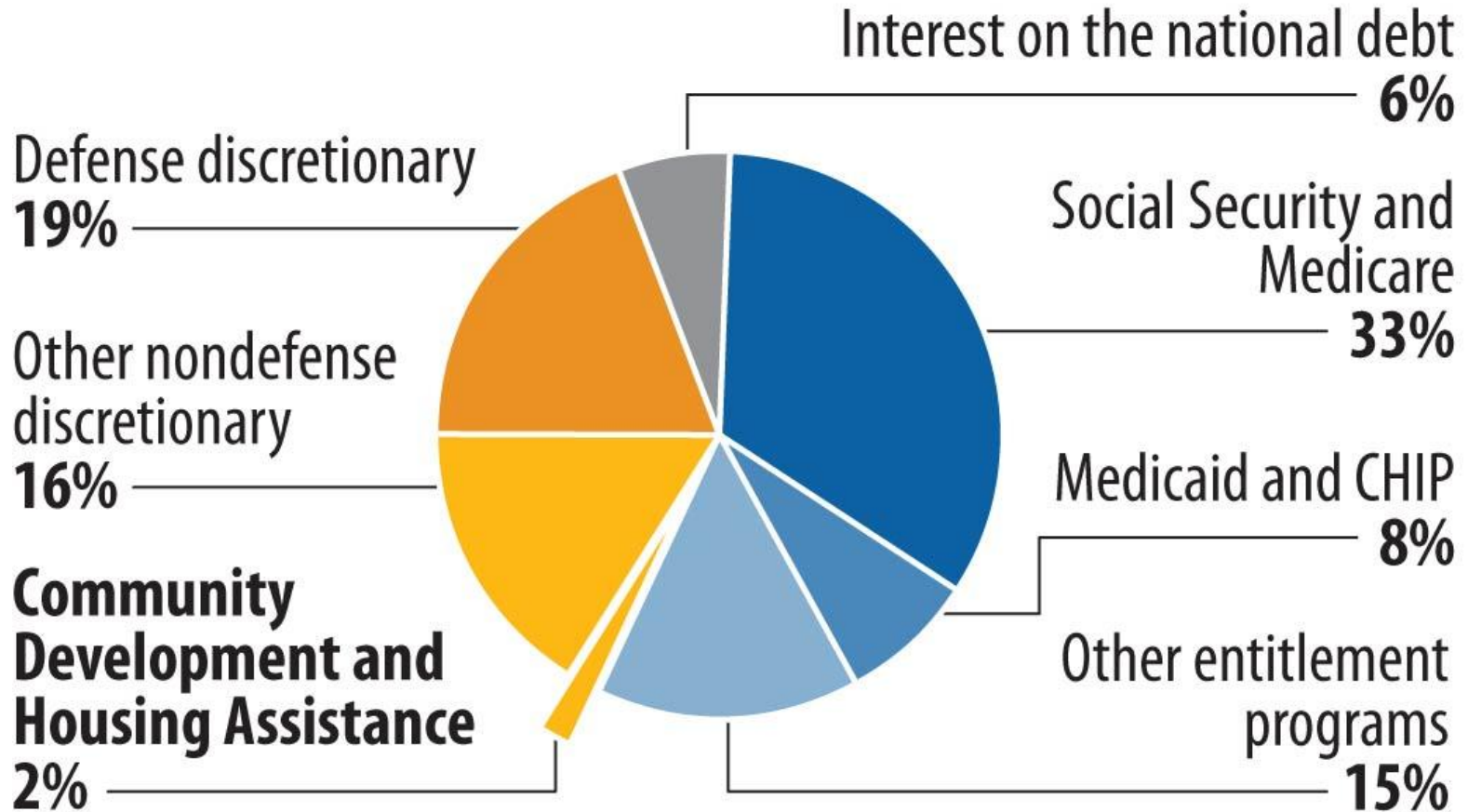
# The Coming Policy Showdowns

There is bipartisan concurrence (!) that we need *more than* \$3 trillion in deficit reduction over coming decade (compared to current policies) on top of the \$1 trillion in discretionary program cuts required under the BCA.

Meanwhile, the following are scheduled to occur at/near the end of 2012:

- Automatic across-the-board cuts in defense and non-defense programs will kick in (i.e., sequestration).
- The Bush-era tax cuts will expire; 10-year cost of these tax cuts is about \$4 trillion.
- We will hit the debt limit — and default if the limit isn't raised by Congress.

# Federal Spending, FY 2011



Source: Office of Management and Budget



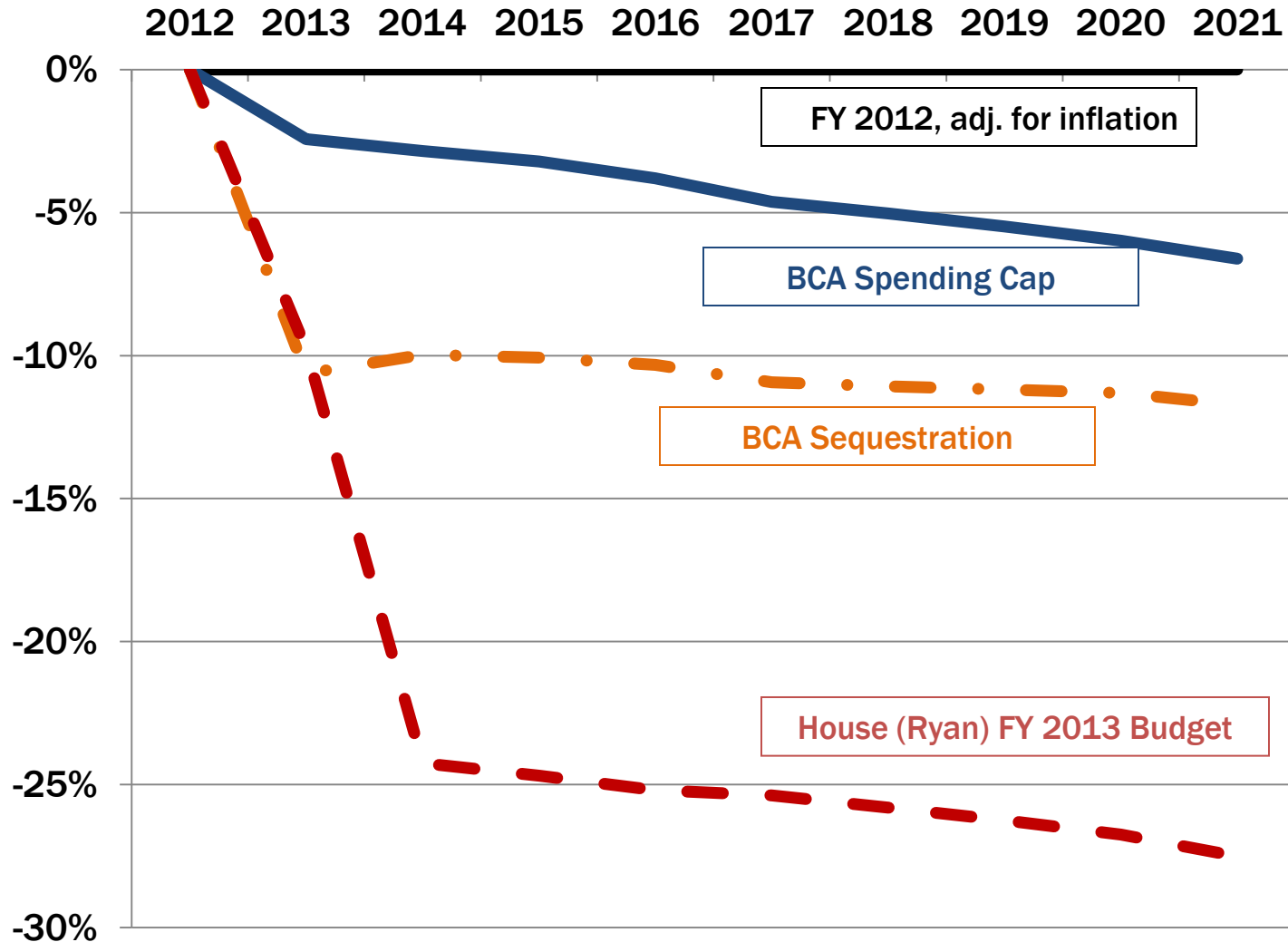
# How to Get \$3 Trillion+ in Deficit Reduction?

- If Social Security, Medicare, and defense are largely protected...
- And there is little or no new revenue...
- Then there are only two major parts of the budget left from which the bulk of the savings will have to come:
  - 1) the *entitlement safety net for low-income households*; and
  - 2) *Nondefense discretionary programs*, including employment and training, education, Head Start, WIC, low-income housing, research, infrastructure, environmental protection, and international.
- *Revenues are key*: without them, nondefense discretionary programs and anti-poverty programs will face massive cuts. The Ryan budget is an illustration of this.





# House (Ryan) Plan Forces Very Deep Cuts in Nondefense Programs



Source: CBPP analysis based on OMB and CBO data.



# Strategies for Deficit Reduction

- Goal is a balance of spending cuts and revenues in a comprehensive deficit reduction package that will not increase poverty or inequality.
- Cancel/modify sequestration only as part of a comprehensive plan that meets the goal above.
- Do not extend the Bush-era tax cuts for households with the highest incomes (top 2% with incomes above \$250K).
- Reduce inefficient, regressive tax subsidies (loopholes, deductions, e.g., mortgage interest deduction).
- Make no further cuts in nondefense discretionary spending.
- Make Medicaid/Medicare sustainable without major structural changes that undermine the ability to serve needy recipients.