The Budget and the Poor: Will Policymakers Address Fiscal Challenges in Ways that Make Poverty Worse?

Bob Greenstein

April 12, 2012
Current Policies Are Not Sustainable

Spending and Revenues as a Share of GDP Under Current Policies

Source: CBPP projections based on CBO data.
Debt as Share of GDP, 1940-2050, Under Current Policies

Source: CBPP based on Congressional Budget Office data, January 2010.
Economic Downturn and Legacy of Past Policies Drive Record Deficits in the Decade Ahead

Source: CBPP analysis based on Congressional Budget Office estimates.
Current Policies Are Not Sustainable

Spending and Revenues as a Share of GDP Under Current Policies

Source: CBPP projections based on CBO data.
Medicaid Costs 27% Less for Children, 20% Less for Adults Than Private Insurance

Source: CBPP analysis.
Medicare and Medicaid Controlled Costs Better than Private Insurance Over the Last Decade

Average Annual Growth Rate, 2000-2009

- Medicaid Per Beneficiary: 4.6%
- Medicare Per Beneficiary: 5.1%
- Private Per Capita, Comparable to Medicare: 7.2%
- Private Employer Premiums: 7.7%

Source: CBPP analysis.
“[F]ederal health spending trends should not be viewed in isolation from the health care system as a whole. For example, Medicare and Medicaid cannot grow over the long term at a slower rate than cost in the rest of the health care system without resulting in a two-tier health care system.”

— David Walker, then Comptroller General of the United States, 2005

“Thus sustaining a lower rate of spending growth per capita in Medicare will only happen if there is a comparable rate of spending growth in the private sector.”

— Gail Wilensky, Senior Fellow, Project Hope, former head of Medicare/Medicaid for administration of President George H.W. Bush
Crucial Importance of Systemwide Health Care Reform

- The largest factor behind the grim long-term budget forecast is the rising cost of Medicare and Medicaid.

- But the rising costs of these programs essentially reflect the rapidly rising costs in the entire U.S. health care system.

- To cut future costs in Medicare and Medicaid sharply without restraining costs in the health care system as a whole would necessitate draconian cuts in these programs and make ours more of a two-tier health care system, with greater rationing of care on the basis of income.

- A key to fiscal sustainability thus is to reform the overall health care system and slow cost-growth systemwide.
Half of Medicare Beneficiaries Have Incomes Below $23,000
Median Annual Income, 2006 = $22,800

Median Annual Income, 2006 = $22,800

NOTES: Annual income includes that of individual respondents and their spouses, if applicable. Estimates do not sum to totals in text due to rounding.
Deficit in 2021 Would Be Cut Nearly in Half Simply by Letting All of the Bush Tax Cuts Expire

Projected deficits as a share of GDP (as of May 2011)

- Under current policies: 6.0%
- Without extension of Bush tax cuts: 3.4%

Source: Center on Budget and Policy Priorities based on data from the Congressional Budget Office.
Long-Term Cost of Making Bush Tax Cuts Permanent is More than Double the Social Security Shortfall

As a Share of GDP Over 75 Years

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of tax cuts</td>
<td>1.8%</td>
</tr>
<tr>
<td>Cost of upper-income tax cuts</td>
<td>0.7%</td>
</tr>
<tr>
<td>Social Security shortfall</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: Social Security Trustees Report; CBPP based on Congressional Budget Office and President Obama’s FY 2012 Budget.
Debt held By the Public as a Share of GDP

Source: CBPP projections based on Congressional Budget Office data, January 2010.
Federal Income Taxes Historically Low

Average federal income tax rate for a median-income family of four

Average Dollar Benefit From Extending All of the 2001 and 2003 Tax Cuts By Income Group

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Dollar Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom Fifth</td>
<td>$45</td>
</tr>
<tr>
<td>Second Fifth</td>
<td>$511</td>
</tr>
<tr>
<td>Middle Fifth</td>
<td>$880</td>
</tr>
<tr>
<td>Fourth Fifth</td>
<td>$1,802</td>
</tr>
<tr>
<td>Top Fifth</td>
<td>$7,820</td>
</tr>
<tr>
<td>Income over $1 million</td>
<td>$128,832</td>
</tr>
</tbody>
</table>

Source: Tax Policy Center
Tax Expenditures are Substantial

Tax expenditures and other major spending categories in 2010

$1,200 billion

$1,053 billion

- Corporate

$719 billion
- Medicare & Medicaid

$701 billion
- Social Security

$689 billion
- Defense discretionary

$658 billion
- Nondefense discretionary

Note: Tax expenditure figures exclude Recovery Act provisions that were allowed to expire, but include those that have been extended. Source: Office of Management and Budget.
“[E]liminating tax expenditures does not increase marginal tax rates or reduce the reward for saving, investment or risk-taking. It would also increase overall economic efficiency by removing incentives that distort private spending decisions. In short, cutting tax expenditures is not at all like other ways of raising revenue. … Cutting tax expenditures is really the best way to reduce government spending.” (emphasis added)
### Poverty Worst in Decades by Several Measures

<table>
<thead>
<tr>
<th></th>
<th>Highest ...</th>
<th>In 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of overall population in poverty</td>
<td>since 1993</td>
<td>15.1%</td>
</tr>
<tr>
<td>Number of people in poverty (in millions of people)</td>
<td>on record*</td>
<td>46.2</td>
</tr>
<tr>
<td>Share of people below \textit{half} of the poverty line</td>
<td>on record*</td>
<td>6.7%</td>
</tr>
<tr>
<td>Share of \textit{poor} people below half of the poverty line</td>
<td>on record*</td>
<td>44.3%</td>
</tr>
<tr>
<td>Share of children in poverty</td>
<td>since 1993</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

*Data on the number of people in poverty are available from 1959. Data on the share of people below half of the poverty line are available from 1975.

Source: U.S. Census Bureau.
Income Inequality Has Increased Sharply in Recent Decades

Percentage Change in Real After-Tax Income, 1979-2007

- Bottom Quintile: 18%
- Second Quintile: 28%
- Middle Quintile: 35%
- Fourth Quintile: 43%
- 81st-99th Percentiles: 65%
- Top 1 Percent: 275%

Source: Congressional Budget Office.
62 Percent of Ryan’s Cuts in First Ten Years Come From Low-Income Programs

Other program cuts
$2.0 trillion

Low-income programs
(e.g. Medicaid, Pell Grants, food stamps, job training)
$3.3 trillion

Source: CBPP based on data from Congressional Budget Office and FY2013 House Budget Resolution and Committee markup.
Percentage Cuts in Nondefense Discretionary Funding in 2021 Under Ryan Budget (relative to CBO’s March 2012 baseline)

- BCA: 6.6% before sequestration, 5.1% additional cuts due to sequestration, 11.7% total cut
- Ryan: 27.5% cut

Source: Center on Budget and Policy Priorities based on Congressional Budget Office data.
Cuts in Nondefense Programs Under Romney Plan (excluding Social Security)

With balanced budget requirement, and assuming half of Romney’s tax cuts are offset by other tax increases

Source: CBPP calculations based on Congressional Budget Office estimates, February 2012. Assumes half of Romney’s $4.9 trillion in tax cuts are offset by increases in other taxes; namely by curbing unspecified tax expenditures.
Spending Outside Social Security, Medicare, and Interest Payments Set to Fall Below 50-Year Average

Spending as a percent of GDP

- Medicare
- Social Security
- Other programs

Sources: CBPP analysis; OMB
SNAP is Projected to Shrink as a Share of GDP

Source: Congressional Budget Office, August 2011 outlay and economic forecast.
If we remain on the current course, “we will have created a society that contains a sizable contingent of long-term jobless, dependent on government benefits for survival …. Government dependency can only foster passivity and sloth.”
Over Nine-Tenths of Entitlement Benefit Spending Goes to the Elderly, Disabled, or Working Households

Share of entitlement benefits, 2010

- Age 65 and up: 53%
- Disabled (non-elderly): 20%
- In a working household (non-elderly, non-disabled): 18%

“What unfortunately happens is with all the multiplicity of federal programs, you have massive overhead, with government bureaucrats in Washington administering all these programs, very little of the money that's actually needed by those that really need help, those that can’t care for themselves, actually reaches them.”
Program Dollars Go Overwhelmingly to Beneficiaries, Not Federal Bureaucracy

Percent of total federal and state expenditures

<table>
<thead>
<tr>
<th></th>
<th>Benefits and Services</th>
<th>Federal administrative costs</th>
<th>State administrative costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid*</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNAP* (Food Stamps)</td>
<td>96%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Housing* vouchers</td>
<td>96%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>SSI</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>School meals</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EITC</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Federal administration costs as a percent of total federal and state expenditures for Medicaid, SNAP, and housing vouchers are just 0.1%, 0.3%, and 0.3%, respectively.
Impact of Safety Net in Recession

Poverty Rate Would Have Been Nearly Twice as High in 2010 Without the Safety Net

Percent of population in poverty, National Academy of Sciences poverty definition

- With No Government Assistance: 28.6%
- With Assistance Excluding 6 Temporary Initiatives: 17.8%
- With Assistance Including 6 Temporary Initiatives: 15.5%

Note: The six temporary initiatives are federal measures enacted in 2009 and 2010 including expansions of the Earned Income Tax Credit and Child Tax Credit, the new Making Work Pay tax credit, expansions in the duration and level of unemployment insurance benefits, and expansion in SNAP benefits. The 2007 poverty line is the 2010 National Academy of Sciences poverty line adjusted for inflation.

Source: CBPP estimates based on data from U.S. Census Bureau
People Kept Out of Poverty in 2010 by Selected Programs

Number of People Kept Out of Poverty in 2010 by Program
(Using National Academy of Sciences’ Poverty Measure)

- Unemployment Insurance: 4.6 million
- EITC and Child Tax Credit: 9.2 million
- SNAP (Food Stamps): 4.4 million

Source: CBPP estimates based on Census data.
### Poverty Rates, Using National Academy of Sciences (NAS)-Based Poverty Measure

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>15.3%</td>
</tr>
<tr>
<td>2009</td>
<td>15.7%</td>
</tr>
<tr>
<td>2010</td>
<td>15.5%</td>
</tr>
</tbody>
</table>
Number of Families with Children Receiving AFDC/TANF Benefits for Every 100 Such Families in Poverty

Source: CBPP analysis.
• Benefits fell 25% from 1996 to 2011, after adjusting for inflation, in the typical (or median) state.

• Benefits now are below 50% of poverty line in every state.

• Benefits are below 30% of poverty in majority of states.

• In a majority of states, TANF benefit does not equal half of the Fair Market Rent
Number of U.S. Households Living Below World Bank Measure of Serious Poverty in Developing Nations:
Living on Less Than $2 a Day, Per Person

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Income</th>
<th>Cash Income plus Food Stamps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>636,000 households with 1.4 million children</td>
<td>475,000 households</td>
</tr>
<tr>
<td>Start of 2011</td>
<td>1.46 million households with 2.8 million children</td>
<td>800,000 households</td>
</tr>
</tbody>
</table>

Collapse in Effectiveness of TANF in Lifting Children Out of Deep Poverty

Children Lifted Above Deep Poverty by Major Means-Tested Benefits

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stamps</td>
<td>2,140,000</td>
<td>1,730,000</td>
</tr>
<tr>
<td>TANF/AFDC</td>
<td>1,730,000</td>
<td>1,730,000</td>
</tr>
<tr>
<td>EITC</td>
<td>650,000</td>
<td>550,000</td>
</tr>
<tr>
<td>Housing Assistance</td>
<td>770,000</td>
<td>770,000</td>
</tr>
<tr>
<td>SSI</td>
<td>590,000</td>
<td>590,000</td>
</tr>
</tbody>
</table>

TANF Lifts Many Fewer Children out of Deep Poverty Than AFDC Did

**TANF (2005)**
Lifted 21% of children who otherwise would have been in deep poverty

650,000 children

**AFDC (1995)**
Lifted 62% of children who otherwise would have been in deep poverty

2,210,000 children

Research Suggests Boosting Incomes Among Poorest Families Increases Young Children’s Earnings as Adults

Duncan and Magnuson’s findings on the effect of $3,000 annual income increase during early childhood (ages 0-6) on child’s later earnings

Source: Duncan and Magnuson, “The Long Reach of Early Childhood Poverty.”
U.S. Poverty Rate High After Taxes and Transfers Compared to Other Wealthy Countries, 2005

Note: The poverty threshold is defined as 50% of national median income, a widely accepted international standard. The comparison includes countries (for which comparable data are available) with median equivalized disposable incomes within 25% of US median income ($26,990) in 2005 US dollars converted by purchasing power parity. Source: OECD, Growing Unequal Income Distribution and Poverty in OECD Countries, 2006.
Ryan Proposals Would Give Millionaires Another $265,000 in Tax Cuts

Increase in after-tax income for an individual with yearly income over $1 million

New Ryan Tax Cuts: $265,000
Ryan + Extending Bush Tax Cuts: $394,000

Note: Does not include plan’s reductions in unspecified tax expenditures. Source: Urban Brooking Tax Policy Center, Tables T12-0078 & T10-0312
### Average Tax Cut and Percent Change in After-Tax Income in 2015 Under the Ryan Budget

<table>
<thead>
<tr>
<th>Income</th>
<th>Average Tax Cut (Increase)</th>
<th>Percentage Change in After-Tax Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10,000</td>
<td>-$112</td>
<td>-2.0%</td>
</tr>
<tr>
<td>$10-$20K</td>
<td>-$193</td>
<td>-1.2%</td>
</tr>
<tr>
<td>$20-$30K</td>
<td>-$58</td>
<td>-0.2%</td>
</tr>
<tr>
<td>$30-$40K</td>
<td>$209</td>
<td>0.6%</td>
</tr>
<tr>
<td>$40-$50K</td>
<td>$510</td>
<td>1.3%</td>
</tr>
<tr>
<td>$50-$75K</td>
<td>$975</td>
<td>1.8%</td>
</tr>
<tr>
<td>$75-$100K</td>
<td>$1,692</td>
<td>2.3%</td>
</tr>
<tr>
<td>$100-$200K</td>
<td>$2,818</td>
<td>2.5%</td>
</tr>
<tr>
<td>$200K-$500K</td>
<td>$11,089</td>
<td>4.8%</td>
</tr>
<tr>
<td>$500K-$1M</td>
<td>$47,040</td>
<td>8.8%</td>
</tr>
<tr>
<td>More than $1M</td>
<td>$264,970</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

Note: Does not include plan’s reductions in unspecified tax expenditures.
Source: Urban Brookings Tax Policy Center -- Table #T12-0126
Effect of Romney Tax Plan on Different Income Groups

Percent change in 2015 after-tax income by income group, relative to current policy

Source: Urban-Brookings Tax Policy Center (Table T12-0040)
*Note: Romney Tax Plan without unspecified base broadeners.
Who Receives the Entitlement Benefits?

Wealthy Households Receive Disproportionate Share of Tax Expenditures

Share of population and total individual tax expenditures by income group, 2011

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Share of Population</th>
<th>Share of Tax Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 20%</td>
<td>20%</td>
<td>3%</td>
</tr>
<tr>
<td>Middle 60%</td>
<td>60%</td>
<td>31%</td>
</tr>
<tr>
<td>Top 20%</td>
<td>20%</td>
<td>66%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>1%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Note: The bottom 20% means the 20% of tax units with the lowest incomes; the same is true for the other income categories.
Source: Tax Policy Center.
State Revenues
As a Percent of GDP

Source: CBPP calculations of data from BASBO, CBO.
State Sales Tax Bases Are Eroding

Median State Sales Tax Base as a Percent of Personal Income, 1970-2009

Source: CBPP analysis of data provided by John Mikesell, Indiana University.
Non-means-tested Tax Breaks for Seniors

30 states completely exempt Social Security income

32 states fully or partially exempt pension income

29 states give seniors additional personal exemptions/credits

Many also finance local age-based property-tax reduction programs.

Source: AARP
An Aging Population Will Increase Costs of Senior Tax Breaks

States where seniors are more than 17 percent of the population

Source: Census Bureau projections