breadfortheworld
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Background Paper

April-May 2011, No. 214

The U.S. Budget: Myths and Realities

by Michele Learner

Did your attention begin to wander as soon as you saw "U.S. Budget" in this headline? Perhaps the most pervasive "myth" of all is that the issues and unfamiliar terms swirling around the budget make it nearly impossible to understand. And there's all that political posturing–how can we possibly cut through the rhetoric and decide who's right about which budget decisions?

But keeping in mind a few realities enables us, as advocates for hungry and poor people, to explain our budget priorities to decision makers and to respond when we hear common myths. As Congress votes on annual funding levels, and the U.S. debt ceiling, each of us can be a stronger voice against hunger and poverty.

Domestic safety-net programs did not cause the budget deficit. Cutting them would harm low-income families without improving our country's fiscal health.

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Myth: We can balance the budget by cutting the funding that Congress approves in spending bills each fiscal year (which runs from October 1 to September 30).

Reality: Cuts to non-security discretionary spending—the non-military portion of the funding Congress must renew each year by passing appropriations bills—cannot solve the deficit problem.

Non-security discretionary spending is less than one-fifth of the total U.S. budget, but it includes many programs that meet the needs of low-income people (such as WIC and international food aid) as well as other spending that is in the public interest (such as repairing bridges and running poison control hotlines).

In February 2011, the House of Representatives passed an appropriations bill (H.R. 1) that targeted non-security discretionary spending for deep cuts during the remainder of fiscal year 2011. Proponents argue that the cuts are necessary to balance the federal budget.

But U.S. discretionary spending is simply too small an amount to either cause or reduce the deficit. Speaking of the cuts to international nutrition programs in the House bill, Don Kraus of Citizens for Global Solutions said, "Fiscally [the cuts] would have the same impact as withholding my daughter's allowance to pay down our family's mortgage."

The sheer size of our current and projected deficits means that if lawmakers are to solve the problem, they must consider the primary causes of the deficit and work with the budget as a whole rather than individual line items.

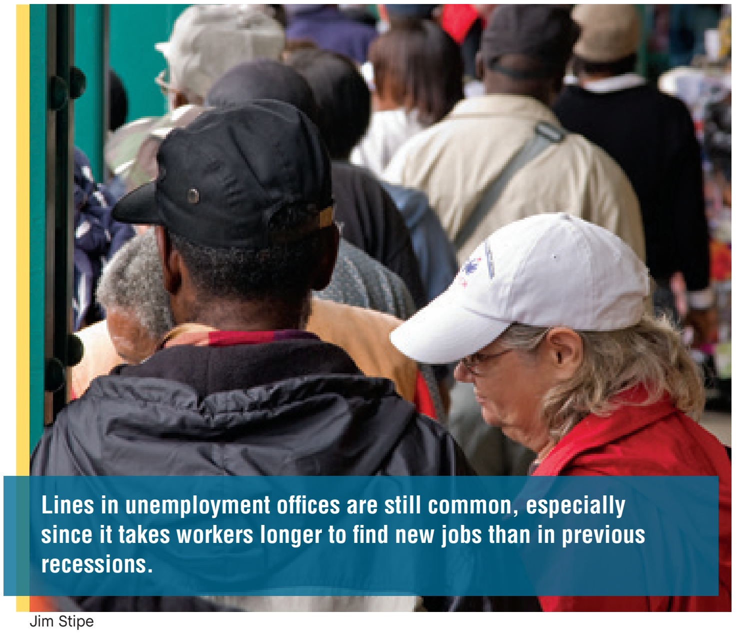
According to the Center on Budget and Policy Priorities, three items explain "virtually the entire deficit over the next 10 years": the recession, the tax cuts of 2001 and 2003, and the wars in Afghanistan and Iraq.

In addition to addressing these causes, Congress needs to develop strategies to respond to the projected deficits in the longer term, beyond the next decade. These come from "big-picture" aspects of our society: an aging population, rising health care costs, and insufficient revenue.

The U.S. budget as a whole is not dominated by line items such as international food aid and nutrition assistance for low-income Americans. Together, the military, Social Security, Medicare, Medicaid, and interest on the national debt total more than 70 percent of the annual budget.

But these items have support from established political interests. The House chose instead to target smaller spending categories with weaker political constituencies. Food aid, for example, provides humanitarian assistance to people in faraway countries who are desperately poor. WIC benefits low-income pregnant women, babies, and children younger than 5—nearly 9 million people last year but relatively few voters.

Rather than do what appears to be easiest and quickest, decision makers need to consider—in thoughtful, flexible, and creative ways—significant contributors to the deficit and sizeable budget line items. There is no easy answer to the nation's budget imbalance. But looking at all causes and weighing all response options is a more realistic solution than attempting to solve the entire problem with cuts to just a small portion of the budget.



Lines in unemployment offices are still common, especially since it takes workers longer to find new jobs than in previous recessions.

Jim Stipe

Myth: Reducing the budget deficit must be the United States' top economic priority.

Reality: Reducing the budget deficit is important, but it is not the only goal. It must be part of a larger strategy to build a strong economic future for the United States.

There is no doubt that Congress must develop an effective plan to reduce the projected budget imbalances. If the national debt stays on its current path (extending tax cuts that are already in effect, for example), there will come a point when the interest payments it incurs will consume the *entire federal budget*. Current projections indicate that the debt will reach 100 percent of the country's total annual economic production (known as the GDP or Gross Domestic Product) by 2023. This is less than one generation.

But Congress must reduce the deficit in a way that will harm neither those who can least afford it nor the country's economic future. Americans are just beginning to recover from the worst recession in decades. The federal government's steps to make money available to maintain economic activity (such as production, spending, credit, jobs) kept the recession from becoming even worse. It was the right thing to do even though initiatives such as the American Recovery and Reinvestment Act (ARRA) were carried out with borrowed money.

Perhaps even more urgently, during a recession the government needs additional money for safety-net programs such as SNAP (formerly food stamps). Some programs expand as more families need help buying groceries and other necessities in a weakened economy. More than 43 million people (or one in eight Americans) currently participate in SNAP—an all-time high. Unemployment insurance is keeping many other families afloat as the unemployment rate stalled for months at nearly 10 percent.

Investing in these programs is not only the right thing to do but highly effective in stimulating the economy, since people who qualify for benefits promptly reinvest the money in goods and services in their local communities.

New York Times columnist Paul Krugman responds succinctly to the budget cut fervor in Washington, DC: "The nation is not, in fact, 'broke.' The federal government is having no trouble raising money. ... So there's no need to scramble to slash spending now, now, now; we can and should be willing to spend now if it will produce savings in the long run."

Even aside from our concern about preventable human suffering, hunger and poverty cost the United States economically. When full-time, year-round workers do not earn enough to eat fresh vegetables and whole grains regularly, the country's productivity suffers today. When millions of children don't have enough nutritious food to concentrate in school, the country's future becomes bleaker. Ample data shows that hunger and poverty increase the healthcare costs of both adults and children, today and tomorrow. It's not in any country's best interest to allow its people to go without basic necessities.

Myth: Cutting spending is the only way to reduce federal budget deficits.

Reality: Spending cuts are only half the story. Congress should also work to increase revenues—just as a family faced with financial shortfalls tries to cut costs and increase family income.

As mentioned earlier, insufficient government revenue is one of the three main causes of the country's projected long-term deficits. As advocates, our job is to remind our elected leaders that revenue is the other half of the budget story.

For example, the 2001 and 2003 tax cuts are a major cause of the expected budget deficits of the next several years, adding literally trillions of dollars to the 2009-2019 deficits. In 2019, they will account for roughly three-fifths of the total budget deficit. Arguably, the country could not afford these tax cuts in the first place. The Center for American Progress lists specific tax breaks that, combined, cost nearly as much as the low-income programs at risk in H.R. 1—among them, the annual cost of recent tax cuts on large estates ($11.5 billion) and of removing limits on itemized deductions for high-income taxpayers ($5.2 billion). The Center report added, "Most Americans would be surprised to learn that tax breaks are not on the table during any budget negotiations."

In the absence of credible evidence that the tax cuts benefit the overall U.S. economy in ways that clearly outweigh their significant contribution to budget deficits, we can't afford to continue them now.

Crista Friedli

The new House rule "cut-go" required additional spending on programs, *but not tax cuts*, to be balanced with cuts somewhere else.

Myth: The most important time for advocates to contact their members of Congress about the budget is during appropriations discussions.

Reality: A prerequisite for annual appropriations that help end hunger is fair rules on how spending decisions are made.

Changes in how decisions about the budget are made are even more far-reaching than cuts to annual program budgets or changes in program eligibility criteria. Because such changes in the process can be made during meetings of congressional leadership or lower-profile committees such as rules committees, they may not be obvious. Bread staff keep track of these decisions so that grassroots activists have this information when they communicate with members of Congress.

Bread is very concerned about a change in spending rules that the House made this January. Known as "cut-go," the rule replaces "paygo" or pay as you go, the rule that is still in use in the Senate. Paygo requires that a funding increase be paid for with increased revenue or lower spending on another line item. Under cut-go, however, a funding increase may no longer be balanced by an increase in revenue—for example, by closing a tax loophole. Instead, all increases must be paid for with cuts somewhere else. However, cut-go *does not apply* to proposals that would reduce taxes—those do not have to be paid for, no matter how much they add to the deficit. The exception is refundable tax credits such as the Earned Income Tax Credit (EITC), which, although they are part of the tax code, are treated as spending and thus must be offset with cuts.

So, let's break this down: if increased funds are budgeted to pay for Jane's $50 calculator for algebra class, this must be balanced with a cut somewhere else—maybe Andrew's $50 geometry textbook will have to go. But if the government takes in $50 less because it offers a larger tax deduction to Mr. Smith across town, the drop in revenue does not have to be balanced with a tax increase for someone else. How will the $50 that Mr. Smith is not paying in taxes be made up? Cut-go does not tell us.

The Center for American Progress explains how a House bill with such deep cuts came to be: House Appropriations Committee staff members were instructed to cut $60 billion from the non-security discretionary budget. The day after the desired amount in cuts was set, the committee released a package of cuts to more than 500 programs. In the second half of FY2011, programs would suddenly be operating at levels 30 percent lower than in the first half of the year.

The Center says, "This dramatic alteration in the level and quality of government service and activity was done without a single hearing, without any opportunity for experts in the various fields of activity affected to offer formal comment, and in fact without even a single meeting of the committee of jurisdiction."

This bill and other proposals for structural change focus on spending rather than revenue, which means they disproportionately affect the one-third of all Americans living in or near poverty. The proposals ignore the fact that this group's standard of living has been steadily dropping for a number of years.

Myth: **Many government benefits are designed especially for low-income people. So it's only fair that they sacrifice along with everyone else.**

Reality: **The U.S. tax structure contains many benefits for upper-income and middle-income families that are not available to low-income people. Moreover, low-income people simply cannot afford to sacrifice any further because their sacrifices would be not of conveniences but of basic necessities.**

Government benefits are so pervasive that many people don't think of them as coming from the federal government. For example, a recent poll reported by the Coalition on Human Needs found that more than half the people who take the home mortgage deduction and/or the child and dependent care tax credit don't believe they have ever used a government social program. Yet the U.S. government spends about $1 trillion each year on tax deductions, credits, and other measures that lower its revenue, and upper-income people are more likely to qualify for most of these. Wealthier people are also more likely to have significant investment income, which is taxed at a lower rate than they would pay on income from work.

Income inequality in the United States has increased sharply over the past generation. Given that the United States has an economy where some people work full-time, year-round and still live well below the poverty line, we need strong safety-net programs—without gaps that leave significant numbers of people in poverty.

Myth: **The United States already gives plenty of international assistance, so reducing it (even cutting programs in half) is not a big problem.**

Reality: **The United States spends less than 1 percent of its budget on development assistance to reduce hunger and poverty. Nearly 1 billion people are chronically malnourished. Many U.S. development programs literally save lives, so funding cuts risk lives.**

For years, public opinion polls have shown that Americans believe the United States spends between 20 percent and 25 percent of its budget on foreign aid. Respondents generally suggest that the country should be spending about 10 percent. Polls also show consistent majority support for helping hungry people overseas even when resources are tight at home.

Cuts to international hunger and poverty programs would affect the lives of real people, right away, at a time when the prices of basic grains—wheat, rice, maize—have again spiked, pushing millions more people into poverty.

The House bill contains cuts to food aid programs of up to 50 percent. These programs supply food to refugees forced away from the land where they grow their crops by natural disaster or war. They also make our world safer by easing the desperation of people who have lost their homes and sometimes families. The cuts would eliminate food aid for about 15 million refugees.

The programs also fund school lunches for children from some of the world's poorest families. Often, the lunch makes the difference not only in whether a child has a nutritious meal that day, but in whether she enrolls in school at all or instead works to help support her family. The cuts would eliminate school lunch funding for up to 3 million children.

Poor families spend up to 80 percent of their income on food, so the recent spike in food prices leaves them with no option but to cut the size and/or quality of their meals.

Richard Lord

Budget Realities: Getting the Message Out

It's important that Congress act on realities, not myths.

The budget details might get complex, but we can all grasp key principles and share them with our families, fellow worshippers, and elected representatives:

- Cuts to non-security discretionary spending, particularly low-income programs, cannot solve the deficit problem.
- Reducing the budget deficit is important but must be part of a larger long-term strategy to build a strong U.S. economy.
- Spending cuts are only half the story. Increasing revenue is the other half.
- Thoughtful, fair rules on how spending decisions are made is a fundamental prerequisite for annual appropriations work.
- Low-income people cannot afford to sacrifice any further. They would be sacrificing not conveniences but basic necessities.
- Many U.S. humanitarian and nutrition programs literally save lives. Cuts to their funding risk lives.