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## Serious Problems with a Federal Spending Cap

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On April 26, 2011, Senator Manchin endorsed a Senate plan to limit total federal spending to 20.6 percent of the Gross Domestic Product (GDP).<sup>1</sup> While on the surface the plan looks like a benign proposal to handle the federal deficit and debt, it eventually would lead to major cuts in Medicare, Medicaid, and possibly Social Security.

The proposal, also known as the Corker-McCaskill bill, would impose automatic, across-the-board cuts to keep federal spending levels below 20.6 percent of GDP. According to the Corker-McCaskill formula, the cuts needed to comply with the cap would total \$1.2 trillion in Social Security, \$856 billion in Medicare, and \$547 billion in Medicaid over the first nine years that the cap was in effect, based on Congressional Budget Office projections (**Table 1**).<sup>2</sup>

Unlike the Bowles-Simpson deficit reduction plan, or President Obama's proposal, the Corker-McCaskill bill does not allow for increases in revenue to play a part in reducing the deficit and debt, taking an unbalanced and irresponsible approach to the nation's fiscal situation.

### Cuts to Medicare, Medicaid, and Social Security impossible to avoid under spending cap

When endorsing the proposal to cap federal spending, Senator Manchin said that one of his top priorities is keeping our promises to seniors by protecting Social Security and Medicare.<sup>3</sup> However, it would be nearly impossible to comply with the spending cap without major cuts to these programs upon which seniors rely.

Under current policy, spending for Medicare, Medicaid, and Social Security will be 45 percent higher than spending for all other programs combined in 2021.<sup>4</sup> If the Corker-McCaskill formula for cuts was changed to exempt cut to these programs, the required cuts for everything else — including defense, veterans' benefits, education, and infrastructure — would be even more dramatic and unrealistic. There is little possibility that cuts to Medicare, Medicaid, and Social Security could be avoided.

Table 1

### Cuts in Medicare, Medicaid, and Social Security Over the Next Decade Under Corker-McCaskill's Automatic Mechanism (billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2013-2021
<b>Medicare</b>	-28	-47	-66	-93	-97	-101	-122	-141	-161	-856
<b>Medicaid</b>	-14	-27	-41	-59	-64	-67	-80	-91	-105	-547
<b>Social Security</b>	-14	-71	-100	-138	-147	-157	-184	-210	-237	-1,285
<b>Percentage Cut</b>	-5%	-8%	-11%	-15%	-15%	-15%	-16%	-18%	-19%	

Source: Center on Budget and Policy Priorities analysis based on Congressional Budget Office data.

## Spending cap ignores the needs of an aging population

The 20.6 percent of GDP under the spending cap proposal is equal to the average share of GDP that federal spending has represented over the last three decades. This historical average is irrelevant when confronting the challenges and responsibilities of the federal government today and in the future.

The percentage of Americans who are 65 or older will grow from 13 percent in 2010 to 20 percent by 2035, increasing the demands on Social Security and Medicare.<sup>5</sup> In addition, health care costs - both public and private - are expected to rise with the aging population, causing programs like Medicare and Medicaid to become more expensive. These factors are not captured when using the historical average as a cap, meaning there would be no practical way to meet the target without making large cuts to Medicare, Medicaid, and Social Security.

Also, the federal government faces costs today that it did not face in most of the previous decades. These costs include additional costs for homeland security, for benefits and services to veterans of the Iraq and Afghanistan wars, for the Medicare prescription drug benefit, and for the increasing interest on the federal debt which has grown dramatically after costly tax cuts and the cost of programs in response to the Great Recession.

These factors make a spending cap based on historical averages very unrealistic and impossible to achieve without major cuts, particularly to Medicare, Medicaid, and Social Security.

Cuts to these programs are of particular concern in West Virginia, where we have 380,000 Medicare beneficiaries,<sup>6</sup> 330,000 Medicaid beneficiaries,<sup>7</sup> and 444,000 Social Security beneficiaries.<sup>8</sup> These numbers are expected to grow as West Virginia's population ages. The Census Bureau projects that one in four West Virginians will be over the age of 65 by 2030, significantly increasing the number of West Virginians eligible for these programs, and increasing the number likely to be harmed by the dramatic cuts needed to meet the spending cap.

## Spending caps are unwise economic policy

A federal spending cap, like a balanced budget requirement, would slow economic recoveries and deepen recessions. Federal programs like food stamps, unemployment insurance, and Medicaid are designed to expand automatically during economic downturns, offsetting losses in business activity and protecting those who lose their jobs, wages, and health coverage. A federal spending cap would prevent these automatic stabilizers from responding and expanding during recessions. According to Congressional Budget Office Director Douglas Elmendorf, hindering these programs through a cap on federal spending, "risks making the economy less stable."<sup>9</sup>

## Deficit reduction needs balance

It is important for Congress to act to put the nation on a more sustainable fiscal path and provide a solid foundation for long-term growth and prosperity. But it is equally important that Congress does so in a balanced approach that includes both reductions in spending and increases in revenue, while protecting programs for the most vulnerable and the investments necessary for future economic growth.

## Endnotes

- 1 The Associated Press, "Manchin backs spending cap, balanced budget plans," *The Charleston Gazette*, April 26, 2011.
- 2 Edwin Park, Kathy Ruffing, and Paul N. Van de Water, "Proposed Cap On Federal Spending Would Force Deep Cuts In Medicare, Medicaid, and Social Security," (Washington, DC: Center on Budget and Policy Priorities, April 15, 2011).
- 3 Steven T. Dennis, "Manchin Endorses Spending Caps, Giving Bill Momentum," *Roll Call*, April 26, 2011, accessed at <http://www.rollcall.com/news/manchin-endorses-spending-caps-debt-ceiling-bill-205139-1.html>.
- 4 Congressional Budget Office, "The Long-Term Budget Outlook: June 2010" (June 2010, Revised August 2010), accessed at <http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf>.
- 5 U.S. Bureau of the Census, 2009 National Population Projections, accessed at <http://www.census.gov/population/www/projections/2009projections.html>.
- 6 The Kaiser Family Foundation, "West Virginia: Total Number of Medicare Beneficiaries, 2010," accessed at <http://statehealthfacts.org/profileind.jsp?cmprgn=1&cat=6&rgn=50&ind=290&sub=74>.
- 7 The Kaiser Family Foundation, "West Virginia: Total Medicaid Enrollment, FY2007," accessed at <http://statehealthfacts.org/profileind.jsp?ind=198&cat=4&rgn=50>.
- 8 U.S. Social Security Administration, Office of Retirement and Disability Policy, "Number of OASDI beneficiaries in current-payment status and total monthly benefits, December 2010," accessed at [http://www.ssa.gov/policy/docs/factsheets/cong\\_stats/2010/vv.html](http://www.ssa.gov/policy/docs/factsheets/cong_stats/2010/vv.html).
- 9 Douglas W. Elmendorf (Congressional Budget Office), "Transcript of Testimony before Senate Budget Committee, January 27, 2011," accessed at [http://budget.senate.gov/democratic/index.cfm/files/serve?File\\_id=42f268b2-d347-4676-894e-2b03ad78a605](http://budget.senate.gov/democratic/index.cfm/files/serve?File_id=42f268b2-d347-4676-894e-2b03ad78a605).