Policy Matters Ohio

Press statement

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Principles for a budget deal

We need a balanced approach to deficit reduction

Wendy Patton, senior project director for Policy Matters Ohio, joined Progress Ohio and the Progressive Legislative Caucus at a Statehouse press conference on federal deficit reduction. Her remarks addressed the importance of revenues in the budget and deficit discussions pending in Congress.

As the next phase of the budget debate shapes up again in Washington, the principles we recommended for the fiscal cliff negotiations remain the same. Policymakers must ensure that deficit reduction does not hurt families and children, deepen poverty and hardship and increase inequality.

Significant progress has been made toward reducing the deficit. In the last two years, Congress has enacted legislation that will reduce the deficit by $2.3 trillion over 10 years, ($2 trillion from policy changes plus $300 billion in interest savings). Nearly three-quarters of the policy changes came from the spending side and only a quarter came from revenues.

The spending cuts that have been enacted so far have been almost entirely from discretionary spending; that's the 40 percent of the federal budget that is controlled on an annual basis by the appropriations process.

About half of the discretionary budget funds what are often grouped together under the heading non-defense programs. These include critical investments in education; scientific and medical research; roads, bridges and ports; veterans' programs; environmental protection; public safety and other critical services. As a result of the Budget Control Act enacted in 2011, non-defense discretionary funding is now scheduled to be at its lowest levels relative to the economy in 50 years by 2017. So cuts in these important investments are inevitable over the next decade.

This will have a big impact on Ohio. More than a third of total, overall state funding flows from Washington. Medicaid – which is not a discretionary program – is the biggest source of funding to the state. Non-defense discretionary funds are particularly important for human services programs, but federal funds play a big role in many other services, from the Ohio Department of Agriculture (with a 20 percent share of total funding coming from federal sources) to Education (19 percent), Development (34 percent) and more.

We know that the job of putting the federal budget on a more sustainable path is not done. In his news conference on January 14, the President said about $1.5 trillion in additional savings is needed to stabilize the debt relative to the size of the economy.

Several steps already written into law were meant to hold Congress and the President's feet to the fire to get the job done. The 2011 Budget Control Act had called for another $1.2 trillion in deficit reduction and created a supercomittee to come up with those savings. The supercommittee failed to reach agreeemnt. As a result, $1.2 trillion in automatic spending cuts – sequestration – will go into effect over nine years unless Congress replaces them with other deficit reduction measures.

The first round of cuts – just over $85 billion – is now scheduled to go into effect on March 1. They will be evenly divided between defense and non-defense spending. Virtually every non-defense discretionary spending program will be cut by 5.1 percent. If they go into effect, these cuts will hit state and local budgets hard.

Representative Foley and Policy Matters Ohio have worked together to make sure we all understand the impact of sequestration on Ohio. Last March, at the representative's request, the Legislative Service Commission calculated federal funds for Ohio would be reduced by more than $300 million in the current federal fiscal year.

We found that more than $133 million would be cut from K-12 education. Federal work-study funding that could support 2,000 college students would vanish. Although Congress reduced sequestration by $24 billion in the fiscal deal, the impact of these cuts on Ohio will be significant.

Additional deficit reduction is needed. But it shouldn't all come just from spending cuts. Several bipartisan groups that have studied the deficit problem, including the President's deficit reduction commission, recommended proposals that would have resulted in half of the savings coming from spending cuts and half from revenue increases.

If it all comes from the spending side of the equation, the ratio of spending cuts to revenues would be nearly 5 to 1.

We need to fund important investments that help us educate our children, train our workforce, protect our communities and provide a basic safety net.

To achieve a balanced mix of spending cuts and tax increases, revenues must be part of the next round of deficit reduction.

The Coalition for Human Needs outlines some of the choices facing Congress. For example, for $21 billion over ten years we could maintain favorable tax treatment for hedge fund managers, or we could support housing vouchers and the Women, Infants and Children nutrition program. We could spend $156 million for two V-22 Osprey helicopters (expensive yet not as effective as hoped) or we could provide childcare to 22,000 children of families with low incomes.

The two-month rollback of sequestration in the fiscal cliff deal was paid for by an equal mix of spending cuts to revenue increases. Additional savings should come from closing tax loopholes that benefit big corporations and mainly wealthy people.

During his negotiations with the President late last year, Speaker Boehner offered to raise $800 billion in revenues exclusively from tax reform, which he later raised to $1 trillion. Clearly both sides recognize that savings can come from tax reform.

Smart choices now will mean less poverty, a stronger middle class, and a healthier economy in Ohio and all over the nation.

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Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.