

# Avoiding an Own Goal

Protecting American Families from Attempts to Hold Hostage Policies that Support Them

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## Introduction

Thank you, Chairman Arrington, Ranking Member Boyle, and members of the committee. My name is Indivar Dutta-Gupta, and I am the President and Executive Director of the Center for Law and Social Policy (CLASP). CLASP is a national, nonpartisan nonprofit utilizing research and analysis to advance effective policy solutions that disrupt structural and systemic racism and sexism and remove barriers blocking people from economic security and opportunity, in turn building a more prosperous country for all of us. I am also a former House Ways and Means Committee staffer and have worked on policies promoting economic security and opportunity for my entire professional career. The issues we are discussing are ones I have researched, investigated, and otherwise worked on for much of my career.

I am honored to come before this committee to speak about the value to our economy and society of whole-of-government investments in the well-being of our families and communities. I am also pleased to discuss the risks posed by the House Republican bill that threatens to default on our nation's bills and send our economy into a tailspin if Congress doesn't cut the very investments—like Medicaid, Supplemental Nutrition Assistance Program (SNAP) benefits, income support, education and job training, child care, climate, and more—that tens of millions of families across every district rely on.

## Overview

This testimony first explains at a high level why many people in the United States rely on specific federal programs to achieve economic security and access economic opportunity and how federal policies—in particular—effectively meet many of these needs. Next, the testimony explains why the deep cuts mandated under the McCarthy debt ceiling bill would undermine the nation's well-being, including through counterproductive cuts to child care, workforce development, and postsecondary education. The testimony then explains why revenues must be a major part of the answer to concerns about deficits and debt. It concludes by highlighting the dangers of failing to raise our arbitrary threshold on the amount of outstanding obligations we allow ourselves to pay and urging Congress to act swiftly to avoid this self-inflicted wound to our prosperity.

## Background

Everyone needs enough resources to afford the basics including food, appropriate clothing, safe shelter and utilities, and health and dependent care. These necessities provide a basic foundation allowing families to access opportunity through education and in the labor market, help their children thrive, prosper regardless of disability status or health care needs, retire with dignity, and contribute fully to society.

But many people in this country cannot afford these necessities without public support. One reason is that the United States suffers from an unusual number of low-paid jobs. In fact, our nation ranked 39<sup>th</sup> in 2021 among the 42 OECD countries when considering the share of full-time jobs paying less than two-thirds of the median earnings.<sup>1</sup> The extraordinary prevalence of low-paid, and often unstable, jobs means that many adults who benefit from programs supporting a basic living standard are very much working but earning too little to make ends meet without these supports.<sup>2</sup> Others experience low incomes due to the hazards of life including illness (including mental illness), disability (including partial disability), death (especially of a family breadwinner), outliving their savings, underemployment (throughout the business cycle), escaping intimate partner violence, needing to care for a loved one, and

more. Notably, these conditions can and do affect even those adults who grew up relatively advantaged.<sup>3</sup>

The high prevalence of people with very low incomes in the United States is not harmful solely to people who experience such economic security—it harms us all. The consequences of poverty as experienced in this country impose significant costs on society as a whole through lost productivity and earnings, greater morbidity and mortality (which can be especially costly in a country with extraordinary health prices and spending), and increased law enforcement and prison and jail costs (due to policymakers' decisions to pursue a path of mass criminalization and mass incarceration). The evidence is particularly strong for child poverty, which lowers tax revenues and increases public spending unnecessarily, in turn hindering our nation's economic progress.<sup>4</sup> One estimate finds societal costs of child poverty to be approximately 5.4 percent of GDP in 2015.<sup>5</sup>

Our nation's response to the COVID-19 pandemic provides unmistakable validation of the role that government can play in addressing basic needs and reducing poverty. Public investments supported those with the greatest need and put our country on track to a historic recovery, preventing those in poverty from falling further behind. Record reductions in poverty in 2020 and 2021 were the result of government interventions during the ongoing epidemic that included stimulus payments; unemployment insurance expansions; paid sick and paid family leave; improvements to core benefit programs such as SNAP and Medicaid; enhanced subsidies through the Affordable Care Act; and the groundbreaking expansion of the Child Tax Credit.<sup>6</sup> Despite continued job creation in 2022 and 2023 to date, the termination of these measures is likely to reverse those gains.

Enacted during a severe public health and economic crisis, the American Rescue Plan Act (ARPA) made a difference in the lives of tens of millions of Americans—expanding access to COVID-19 vaccines and testing, providing economic relief that kept millions out of poverty, preventing evictions and foreclosures, and helping small businesses keep their doors open. ARPA accelerated the economic recovery throughout 2021 and made it more resilient to future challenges.

Last year's Inflation Reduction Act included important and long-overdue investments to help restore fairness in our tax system, make prescription drugs and health insurance more affordable, and address the climate crisis – and it also reduced deficits overall by addressing tax evasion and making Medicare more efficient.

## Policymakers should choose to invest in and value our families and communities

We can invest in Medicaid so our veterans, children, seniors, and the uninsured have access to care. We can ensure that SNAP benefits stretch farther so families aren't staring down hunger amidst rising food costs. We can invest in child care, paid leave, and home- and community-based services, so our families can meet our responsibilities as workers and caregivers for our loved ones. And, yes, we can afford to do these things by ensuring that those who have benefited most from the American economy—the wealthiest individuals and highly profitable corporations—pay their fair share in taxes. Bobby Kogan of the Center for American Progress recently demonstrated that it is tax cuts—the Bush and Trump tax cuts—that have primarily contributed to our rising annual deficits, more so than federal spending in response to the past two recessions combined. Without those tax cuts and their extensions, debt as a percentage of our economic output would be declining indefinitely.<sup>7</sup>

The debt ceiling bill introduced by Speaker of the House Kevin McCarthy and passed on a narrow margin by the U.S. House of Representatives takes a very different path. It allows out-of-touch extremists in Congress to hold our economy hostage to their demands to slash domestic spending and cruelly limit access to public benefits that strengthen our nation. What's more, the plan racks up more debt by allowing billionaires to evade their taxes and then asks working families to foot the bill.

## The House-passed bill would force widespread & devastating cuts

Both annually appropriated (discretionary) and mandatory programs would face staggering cuts despite already modest spending on effective and vital programs.

First, the McCarthy debt ceiling bill would set indefensibly low, rigid, and arbitrary caps on appropriations, allowing no adjustments for inflation or population growth and no ability to respond to emerging needs, such as a recession—which the bill and legislative strategy would make more likely—a national security crisis, or the next pandemic. The legislation slashes everything including essential programs that support economic success such as child care, school meals, job training, and housing assistance as well as core public functions such as transportation and food safety.

Second, the bill also limits access to benefits and health coverage that help secure a basic foundation for families to access opportunity and thrive—including SNAP, Medicaid, and Temporary Assistance for Needy Families (TANF)—for people who can't prove they are working or exempt. We know from extensive evidence that such requirements do little to promote work and even less to boost incomes—even deepening poverty for many.<sup>8</sup> In fact, many people lose benefits even though they are working, or should qualify for an exemption, but fail to keep up with the paperwork requirements.<sup>9</sup>

## Annually funded programs that people count on would face draconian cuts

The McCarthy debt ceiling bill's cap on discretionary funding would cut overall FY 2024 funding to the FY 2022 levels, with no increase even to cover rising costs since then.<sup>10</sup> These programs are referred to as "discretionary" because Congress can set their spending levels through the annual appropriations process, but the bill's cuts include a wide swath of programs that the public depends on, from Head Start and housing assistance to air traffic control, public health, and the armed forces.

Because the costs of providing goods and services have grown due to inflation, this would mean immediate cuts of **13 percent in 2024** if spread across all discretionary funding. However, House Republicans have said they do not intend to cut defense or veterans' benefits—though veterans participate in virtually every other key program facing cuts, including nearly 900,000 in Medicaid<sup>11</sup> and 1.1 million in SNAP<sup>12</sup>. If they protect both defense and veterans' health care from cuts, then all other non-defense discretionary programs would have to be cut by **33 percent in 2024**. The caps would then grow by 1 percent in each of the next nine years, considerably less than projected inflation. As a result, in real terms, the cuts would rise to **24 percent by 2033** if they were spread across all discretionary programs, and **59 percent** if defense and veterans' benefits were excluded.<sup>13</sup> That 59 percent figure appears to represent the largest 10-year cut for nondefense discretionary funding on record (with data going back to 1976).<sup>14</sup> Even the 24 percent cut would be more extreme than the cuts in the Budget Control Act of 2011—cuts that Congress could not sustain even with Republican control of Congress and

the White House.<sup>15</sup> In other words, those milder cuts were unpalatable to Republicans when the abstraction of percentage cuts was turned into the reality of reduced government services. The McCarthy bill should have been at least as unpalatable.

Importantly, these cuts would be applied to funding levels that have already failed to keep up with inflation and population growth due to the harmful squeeze on non-defense appropriations brought about by the Budget Control Act of 2011. Even with the proposed increases in President Biden's 2024 budget, non-defense appropriations other than veterans' medical care would remain under 2010 levels adjusted for population and price growth. When measured as a percentage of gross domestic product (GDP), the president's proposed spending in these areas is below the long-term average of the previous 47 years.<sup>16</sup>

Though the House bill does not specify how the caps would be applied to different spending areas, I will now offer a few plausible examples of what these cuts would look like in key areas that fuel our long-term prosperity.

### Impacts on child care

Child care and early education programs, like Head Start and the Child Care and Development Block Grant (CCDBG), are lifelines for the families who access them. Yet, due to limited federal funding, CCDBG only served 1 in 6 eligible children in 2019,<sup>17</sup> Head Start is estimated to only reach around 30 percent of eligible children,<sup>18</sup> and Early Head Start reaches far less at 10 percent of eligible children served.<sup>19</sup>

The potential impacts of the House Republican bill on children, families, child care providers, and the programs that meet their diverse needs are alarming. According to analysis released by the White House, the bill would mean 200,000 children lose access to Head Start slots and 180,000 children lose access to child care<sup>20</sup>—undermining our children's education and making it more difficult for parents to join the workforce and contribute to our economy.

To make matters worse, the pandemic relief resources, including those supporting providers and the sector through CCDBG, for example, will expire by the end of FY24 with some of the funds that support providers directly already fully expended in some states. These resources saved the sector from a total collapse, but they were never intended to address the long-term challenges of the sector. As concerns about economic recovery, unemployment, and inflation continue, significant and sustained increases—and not decreases—are necessary. Given the fragile nature of the child care sector<sup>21</sup> and decades of insufficient federal funding,<sup>22</sup> the need for long-term and sustainable increases for child care remains ever-present.

### Congress Must Quickly Build on ARPA Child Care Funding

While the American Rescue Plan Act (ARPA or ARP) and other federal child care relief is temporary, these investments have had significant, positive impacts on children, families, and child care providers. Although the use of the resources varied by state based on needs, many states sought to stabilize the child care workforce, ease the burden of high costs and lack of access for families, and improve policies within their subsidy programs.<sup>23</sup> According to the Department of Health and Human Services Administration for Children and Families, "As of December 31, 2022, the ARP Child Care Stabilization

Program had served more than 220,000 child care providers, impacting as many as 9.6 million children. Providers are using awards to help with operational costs like wages and benefits; rent and utilities; program materials and supplies; and cleaning and sanitation.”<sup>24</sup>

Nationally, states have used pandemic relief resources to sustain, grow, and equitably compensate the workforce<sup>25</sup> build or upgrade child care facilities; make child care programs more affordable for families;<sup>26</sup> expand access to child care and pre-K;<sup>27</sup> and make state-wide improvements such as developing or enhancing data systems. These changes, which are now at risk of being overturned as the expiration of the relief funds nears, have had positive impacts on providers and families. States worked hard to efficiently and equitably implement funds and, in some cases, leveraged opportunities to expand access. Many are now left in tough situations without resources to sustain progress.

## Impacts on postsecondary education

The proposed cuts to postsecondary education would be profoundly harmful for students and families, and these cuts would only exacerbate the skyrocketing cost of education and mounting national student debt. The House Republican bill would end President Biden’s debt relief program completely, denying alleviation for over 40 million Americans. This elimination would directly worsen the country’s enormous racial wealth gap, as the almost 50 percent of Latino/a/x and 25 percent of Black loan borrowers who would see all their debt forgiven would no longer have that economic lifeline available.<sup>28</sup>

According to White House estimates, the House Republican bill is projected to cut the maximum award for Pell Grants by close to \$1,000 and eliminate Pell Grants completely for 80,000 students.<sup>29</sup> Forty-four percent of all undergraduate students received Pell awards in 2017-2018.<sup>30</sup> Pell recipients overwhelmingly have lower incomes, as an estimated 97 percent of all recipients had a total household income at or below \$60,000 in 2020-2021, about \$10,000 below the median household income for the entire country that same period.<sup>31</sup> Cutting Pell would also substantially reduce enrollment levels at both 2-year and 4-year public institutions. Over half of both dependent and independent Pell Grant recipients attended a public institution.<sup>32</sup>

## Impacts on workforce development

In the late 1970s, Congress provided an all-time high of \$24 billion investment in our workforce training and employment services at the U.S. Department of Labor. However, federal policymakers have reduced investments in these programs over time. Today, we only invest approximately \$6 billion a year in workforce training and employment services.<sup>33</sup> These services play a vital role in helping people who are unemployed and those earning low incomes move out of poverty and into good jobs with family-sustaining wages.

Current funding levels are not sufficient to provide the employment and training services that individuals with barriers to employment need to move to economic security and into good jobs—or that small businesses need to be able to hire and develop the employees with the skills required for today’s jobs. Congress has neglected to provide sufficient Workforce Innovation and Opportunity Act (WIOA) programs, even in the face of rising inflation and population growth. This lack of investment has hindered the program from delivering effective and equitable services.<sup>34</sup>

The House Republican bill would contribute to our nation's under-resourced workforce development system. According to White House projections, the bill would result in nearly 700,000 fewer workers receiving job training and employment services provided through the U.S. Department of Labor,<sup>35</sup> in turn limiting their career pathways to high-quality jobs. Investing in workforce development programs is particularly important to support Black and Latino/a/x workers; immigrants; youth; and people who face barriers to employment by providing equitable pathways to good jobs with family-sustaining wages. These workforce development cuts likely would include a sizeable reduction in apprenticeships—an equitable, earn-and-learn model that can help workers get the skills for today's in-demand high-quality good jobs and help employers diversify their workforce. In FY 2021, there were over 800,000 registered apprentices in the national apprenticeship system. Many of these positions could be threatened under a 33 percent cut in funding.<sup>36</sup>

The bill would also underfund and strip our nation's progress on infrastructure and the creation of new jobs by gutting the climate and energy provisions of the Inflation Reduction Act (IRA), which has already created more than 142,000 clean energy jobs.<sup>37</sup>

## Backdoor cuts through new work reporting requirements are counterproductive

The House Republican bill also includes provisions that would deny Medicaid and SNAP benefits to people unless they consistently document that they work a certain number of hours per week. These provisions would put 1 million older (ages 50-55) adults at risk of losing SNAP benefits<sup>38</sup> and between 10 and 21 million individuals at risk of losing health insurance.<sup>39</sup> The bill also includes requirements for states operating cash assistance programs under TANF that would be so daunting for states to meet that many would likely simply stop providing cash at all to families with children facing unemployment, eviction, or domestic violence. This mandate would risk benefits for more than half-a-million families experiencing deep poverty, including nearly a million children.<sup>40</sup> Because TANF provides states with a fixed amount of funding through “block grants,” the TANF provisions would not even save the federal government money; states could simply reallocate their federal TANF funds to other purposes.

These requirements are solutions in search of a problem. They are based on stereotypes that people with low incomes do not wish to work; these narratives are demonstrably grounded in racism<sup>41</sup> and will disproportionately harm those who are already the most excluded and marginalized by racism's pervasive and persistent effects. Yet these requirements harm us all, including by dishonoring the unpaid caregiving and other work—such as addressing one's behavioral health and other health-related challenges—that supports our society.

## Research and evidence undermine arguments for work requirements

Before agreeing to raise the debt ceiling—a necessary step for the nation to pay our bills and avoid financial catastrophe—House Republicans are demanding deep spending cuts. Work requirements, which would limit access to food and health care for millions of people, help them achieve their target. Yet strong evidence refutes the idea that work requirements in Medicaid or SNAP have a meaningful effect on labor supply.<sup>42</sup> In other words, work requirements do little to lead people into jobs. To the contrary, in the long run, expanding programs like Medicaid and SNAP will raise employment and earnings.

In the short run, the restrictions cause people struggling with poverty to lose critical benefits because of the paperwork required to fulfill work requirements or receive an exemption from them—which is precisely the point.<sup>43</sup>

Arkansas' experiment with Medicaid work requirements disproves the claim that work requirements will move people into employment. In 2018, Arkansas implemented work requirements in Medicaid as part of a Trump administration effort to get states to condition eligibility for the health insurance program on work. More than 18,000 beneficiaries lost their health coverage until a federal judge halted the program in 2019.<sup>44</sup> The work requirements also didn't increase employment for people subject to these rules over the next 18 months.<sup>45</sup> Empirical studies of work requirements that certain SNAP recipients must meet or lose benefits after three months confirm a similar outcome. One study found no effects on employment but a 53 percent decline in program participation.<sup>46</sup> Another study found the time limit reduced participation in SNAP and no evidence of increased employment or earnings among those subjected to it.<sup>47</sup>

Why are work requirements counterproductive? The reality is that millions of workers rely on SNAP and Medicaid because of their jobs' low wages, unpredictable schedules, and lack of benefits.<sup>48</sup> That same lack of control over their hours also puts workers at risk of losing benefits when policymakers impose work requirements. People who are supposed to be exempt—such as people with disabilities—are also vulnerable to losing benefits because of reporting requirements and red tape.<sup>49</sup>

## An evidence-based approach to improving employment & earnings includes meeting basic needs & funding other investments

The research also shows that consistent access to cash, health care, and nutrition is more likely to promote work than work requirements. An assessment by the state of Ohio of its Medicaid expansion population found 83.5 percent of participants who were already employed said Medicaid made it easier to work, while 60 percent of unemployed participants said having Medicaid made it easier to search for work.<sup>50</sup> A recent study found that SNAP participation increased the likelihood of employment among households with low incomes.<sup>51</sup> Quality employment and training programs provided by the SNAP program—although far from universal—can allow people to gain new skills or receive job placement services. And cash assistance prevents a temporary crisis caused by domestic violence, eviction, or a health challenge from creating a downward spiral that traps families in poverty.

If Congress is sincere about increasing labor force participation and economic mobility among people experiencing poverty, lawmakers should pursue policies that would help individuals achieve their goal. State-level paid leave policies have been shown to increase labor force participation, and women with access to paid leave are 40 percent more likely to return to work after giving birth than those without it.<sup>52</sup> Affordable and accessible child care not only increases parents' labor force participation but, in turn, raises economic output. In addition, policies that support family-sustaining wages and provide employees with greater control over scheduling would go a long way toward not simply getting people into the workforce—but making it possible for them to remain in it.<sup>53</sup>

The United States is already rife with work requirements—for many health coverage programs, income supports, savings subsidies, and more—even as we lack an employment guarantee. We know how to promote employment and boost earnings without making people worse off. Conditioning supports and



services that help meet our most fundamental needs on documenting a specific definition of work has no place in a just and prosperous society.

## Much deficit reduction is achievable through growing revenues

Our current deficit is driven by reckless tax giveaways to large corporations and wealthy individuals. Without the Bush and Trump tax cuts and their extensions, debt as a percentage of our economic output would be falling today.<sup>54</sup> The Bush and Trump tax cuts alone are responsible for 57 percent of the increase in the debt ratio (debt as a percent of the economy) since 2001 and more than 90 percent of the increase in the debt ratio if the extraordinary costs of combating COVID-19 (\$5.6 trillion)<sup>55</sup> and the Great Recession (\$787 billion)<sup>56</sup> are excluded.

Ironically, the McCarthy bill would also reduce tax payments paid by wealthy and corporate tax cheats by cutting the IRS budget and making it harder for the federal government to collect the taxes that wealthy individuals and corporations are legally required to pay. This contrast makes clear the priorities of the bill's supporters.

Moreover, House Republicans are already preparing legislation to renew the Trump tax cuts expiring in 2025, which would cost \$3 trillion more<sup>57</sup>.

Last year's Inflation Reduction Act began an important process of making sure that those who benefit from our prosperity contribute to the services that make it possible. President Biden's 2024 budget proposes to raise almost \$5 trillion exclusively from tax reforms affecting the rich and corporations. Biden's budget invests \$2.8 trillion of that revenue to expand and improve public services vital to working families—and diverts additional existing revenue to guarantee that Medicare can pay all its bills for the next 25 years—while still bringing down deficits by \$3 trillion.<sup>58</sup>

## Breaching the debt ceiling would make life harsher for regular people

Refusing to meet any legally binding obligation due to an arbitrary debt limit likely would trigger a recession at home, worsening the already-fragile global economy and undermining the strength and status of the United States for years to come. **In the near term, a default could spark a financial crisis and a U.S. or global downturn of unknown severity**, with some experts predicting millions of lost jobs and an even bigger hit to retirement savings.<sup>59</sup>

Recessions disproportionately harm workers paid the lowest wages, young people, and communities of color, many of whom are among the last hired and first fired. Low-paid workers face substantially higher unemployment as it is and have the least access to unemployment benefits—and households with low incomes often have limited or no liquid savings. Young people's early labor market experiences follow them for years, with those entering the labor market during recessions seeing lifetime reductions in income. People of color, especially Black Americans, have a fraction of the wealth of white families, face widespread discrimination in the labor market that is typically overcome partially only as we approach full employment conditions, and disproportionately live in states with the most meager social protection programs. As a result, recessions, like the 2007-2009 financial crisis, can permanently reduce our nation's economic trajectory and cause long-term harm to working people and their families.<sup>60</sup>

While some have suggested that destructive consequences of default could be avoided through "prioritization" of federal obligations, prioritization is simply default by another name. Prioritizing

payments owed by the federal government is no way to manage a default. This approach does nothing to prevent dire, direct, and durable consequences for tens of millions of veterans, seniors, and working families—all of whom rely on essential federal programs to afford medical care, put food on the table, and meet other basic needs. And those whose payments are prioritized, such as holders of United States debt, for example, may nevertheless interpret prioritization as a default and lose trust in the nation's guarantees of payments already owed.

Regardless, millions of people would immediately feel the impact of a stop in government spending: delays in Social Security payments, government employee wages, and retirement benefits. While some government employees would be required to work even if not paid, other offices would shut their doors and stop answering phones. Medicaid and Medicare payments to doctors and hospitals would stop. Emergency rooms would still be required to treat people in crisis, but people seeking non "emergency" care might be turned away.

Defaulting on the debt would also have lasting impacts, even if Congress acted promptly to end such a manufactured crisis. Even today, the United States has the privilege of borrowing at some of the lowest rates in the world, because investors believe we will always honor our debts. Even a short default would make government debt even more expensive, crowding out other spending or forcing taxes to rise due to this self-inflicted wound for years to come. Default would also undermine the ability of families to build wealth through homeownership or entrepreneurship by making the already high cost of borrowing prohibitive.

## Conclusion

The House-passed bill is not a serious attempt to avoid the disastrous effects of defaulting on our debt. Rather, it is an ideological wish list that would also wreck our economy.

**Congress should not pass ANY deal that raises costs facing working- and middle-class families.**

**Congress should not pass ANY deal that increases hardship**—never mind a deal that asks struggling families to foot the bill for policies that allow the richest corporations and households to evade their taxes.

Congress should raise the debt ceiling without delay or condition and then get to the work of investing in our families and communities who make our nation strong.

## Endnotes

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