Policy Memorandum

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ALL WOULD SUFFER FROM CHAIRMAN RYAN'S BUDGET CUTS

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Last week, House Budget Committee Chairman Paul Ryan (R. Wisc.) released a budget proposal that, along with dismantling Medicare and Medicaid, would drastically slash non-security discretionary programs. Over 10 years this proposal would cut $1.8 trillion—or nearly 42%—from public investments, programs that promote economic mobility and opportunity, and funding that protects individuals from corporate excesses and abuses. These cuts total over a third of the total spending cuts and 10 times the total deficit savings in the proposal.[1] The proposal would also bring non-security discretionary (NSD) funding down to its lowest level as a share of gross domestic product in over 50 years, and to less than half of the average level of NSD funding during the Reagan administration.

The immediate impact of these cuts would be a significant loss of jobs in an economy already *11 million jobs* short of reaching pre-recession unemployment rates. Over the next two years, the proposed cuts to NSD programs total $196 billion. Using a standard macroeconomic model that is consistent with that used by private- and public-sector forecasters, we estimate that the shock to aggregate demand from near-term NSD spending cuts would result in roughly 900,000 jobs lost in 2012 and roughly 1.3 million jobs lost in 2013. Cumulatively, cuts of this magnitude would result in a loss of 2.2 million jobs over the next two years, or 3.1 million full-time equivalent (FTE) jobs.[2] These cumulative figures are in job-years, which refer to a job held for a single year, meaning that two jobs lost in a single year are equivalent to one job lost over two years. Expansionary fiscal policy is the *most effective policy lever remaining* to jump-start the economy. Ryan's cuts do exactly the opposite by draining economic demand in an already depressed economy.

But the pain of Ryan's plan goes beyond the near-term job loss. Non-security discretionary spending includes nearly all of the federal government's non-defense public investments—such as education, infrastructure, and research and development. These investments are vital to long-run economic growth and global competitiveness. There is a general consensus in the economic literature that public investments contribute to productivity growth, allowing the United States to produce more with less, and fueling higher incomes and living standards. A recent and comprehensive review of this literature finds that a sustained 1% increase in public capital growth translates into a 0.6

percentage-point increase in the private-sector GDP growth rate.[3] Certain investments—such as those in early childhood education—provide even greater bang for the buck. Overall, these public investments ensure a brighter future for our children and grandchildren.

Moreover, this spending category includes funds that are critical for promoting economic security and opportunity for all Americans. Cuts to Pell Grants and other financial aid programs would greatly reduce access to college for children from low- and middle-income households, preventing them from reaching their full potential. Cuts to Head Start, a program that already reaches only a small fraction of eligible children, would kick hundreds of thousands of kids out of the program. Cuts to rental assistance could cast thousands of families onto the streets. Cuts to environmental protection would lead to dirtier air and water, harming both our health and our children's health. And cuts to financial oversight will leave us vulnerable to the whims of an exploitative and volatile financial sector that, if left unchecked, could easily plunge our economy into another recession.

The non-security discretionary portion of the federal budget is not easily characterized because it funds a wide variety of government functions. Consequently, its broad scope lacks the backing of focused special interests protecting other areas of spending, such as the defense budget, leaving the NSD budget a favorite target for spending cuts. But these investments are the public goods that benefit us all by building a more capable workforce and a more dynamic economy. Deep cuts to this part of the budget are socially harmful and economically irresponsible because they will eliminate upward of millions of jobs and will lower economic growth for decades to come.

Endnotes

1. This incorporates re-estimates of the spending and deficit savings conducted by the Center on Budget and Policy Priorities to account for the overstatements of savings from war and interest costs. See: http://www.cbpp.org/cms/index.cfm?fa=view&id=3458
2. In this analysis, we employ the Congressional Budget Office's assumptions of a 1.5 fiscal multiplier for direct government spending, and the calculation that a 1% drop in GDP corresponds to 1.2 million jobs lost and 1.7 million FTE jobs lost.
3. Heintz, James. 2010. "The Impact of Public Capital on the U.S. Private Economy: New Evidence and Analysis." *International Review of Applied Economics*, 24(5): 619-32.