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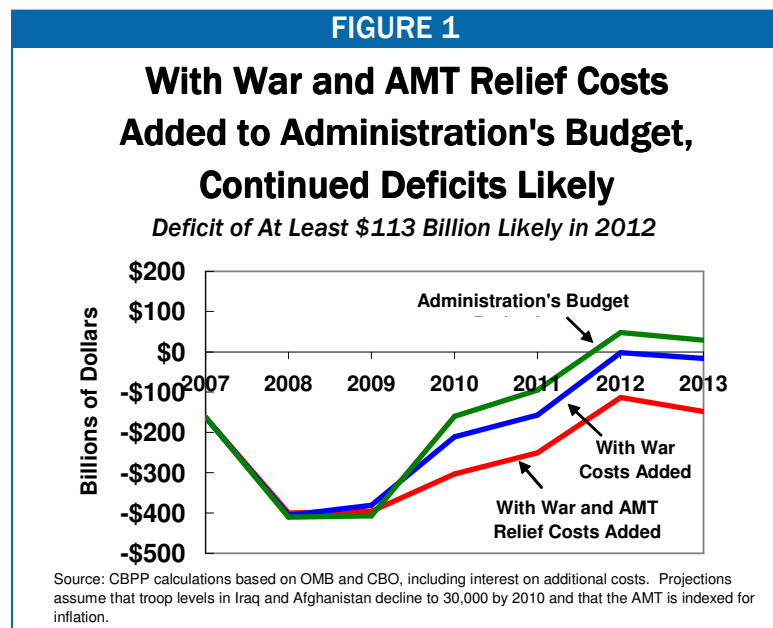
ADMINISTRATION'S BUDGET DOES NOT REFLECT ADMINISTRATION POLICIES:

Administration Policies Would More Likely Lead to a \$113 Billion Deficit in 2012 than a \$48 Billion Surplus

By Kris Cox

The Administration's fiscal year 2009 budget released on February 4 did not fully reflect the Bush Administration's policies. While claiming to reach a surplus of \$48 billion by 2012, the budget projections omitted the costs of two policies central to the Administration.

- The Administration says it is committed to staying the course in Iraq and Afghanistan, but its budget provides only partial funding for military operations in 2009 — just \$70 billion — and no funding beyond 2009.
- The Administration's tax policy priority is to extend the 2001 and 2003 tax cuts, yet its budget leaves out the costs after 2009 of extending Alternative Minimum Tax (AMT) relief, without which tens of millions of taxpayers would not receive the full value of their tax cuts.¹



While the Administration's policy proposals can be debated, the costs of the Administration's own stated policies — a presence in Iraq and Afghanistan through the foreseeable future and receipt by taxpayers of the full value of their promised tax cuts — ought to be included in the Administration's

¹ The Administration's budget proposed AMT relief for tax year 2008, with the resulting revenue reduction occurring largely in fiscal year 2009.

budget projections for the next five years. Including these costs brings the projected deficit under the Administration’s budget to at least \$113 billion in 2012 (See Figure 1).²

Limited Funding Included for the Wars in Iraq and Afghanistan

Although the Administration supports keeping U.S. troops in Iraq and Afghanistan, it failed to include the costs of supporting these troops in its budget. In 2004, President Bush said that, “In terms of how long we’ll be [in Iraq]: as long as necessary, and not one day more.” He reaffirmed his position in this year’s State of the Union address, stating, “American troops are shifting from leading operations, to partnering with Iraqi forces, and, eventually, to a protective overwatch mission.” To support military operations in Iraq and Afghanistan, the Administration requested \$197 billion for 2008 alone. Given the level of last year’s funding request, \$70 billion seems a sharp underestimate for 2009, let alone as a total for the next five years.

Table 1
Funding for Iraq and Afghanistan Will Likely Exceed \$70 Billion Dollars Over the Coming Years
Funding proposed for the wars in Iraq and Afghanistan: Administration and CBO estimates
(Billions of dollars)

	2008	2009	2010	2011	2012	2013
Administration’s Fiscal Year 2009 Budget	\$197	\$70	\$0	\$0	\$0	\$0
Congressional Budget Office - scenario 1 Troop levels decline to 30,000 by 2010	\$193	\$118	\$50	\$33	\$34	\$33
Congressional Budget Office - scenario 2 Troop levels decline to 75,000 by 2013	\$193	\$161	\$147	\$128	\$101	\$79

The Administration claims that funding levels for this year can not be accurately estimated until Congress has fully provided the funding requests the Administration submitted over the course of 2007. But whether or not these funding requests have yet been met in full, it is not reasonable to project future deficits or surpluses without factoring in any estimate of future war funding. Table 1 shows the level of funding for these military operations, both as proposed in the President’s budget and under two alternative funding scenarios that CBO has developed.

If funding follows the *less* expensive CBO scenario (scenario 1) — which assumes a faster phasedown of troops — the total amount of *expenditure* on the wars in 2012 (including additional interest payments brought about by higher debt) will be \$50 billion higher than shown in the Bush budget. This converts the Administration’s reported \$48 billion surplus into a \$2 billion deficit. The deficit would be further increased by the cost of AMT relief (see Figure 1).

² We project war costs by assuming that troop levels in Iraq and Afghanistan will decline to 30,000 by 2010, as estimated by the Congressional Budget Office (CBO) in its January 2008 alternative policy scenarios. CBO also projects costs for a scenario in which troop levels decline to 75,000 by 2013; this assumption brings projected deficits to \$195 billion in 2012. Calculations include interest on additional costs.

Congressional Budget Office Reestimate of Administration's Budget Shows Persistent Deficits

The numbers highlighted in this paper use the Administration's budget projections released on February 4 to calculate future deficits under Administration policies, taking into account the costs of the war and AMT relief. The Congressional Budget Office's (CBO) reestimate of the Administration's budget, published March 3, projects still larger deficits over the next five years under Administration policies.

If we factor the costs of the war and AMT relief into the CBO estimates of deficits under Administration policies, the result is deficits in 2012 that are about *\$50 billion higher* than the deficits we cite here. Deficits in 2012 would range from \$161 billion to \$244 billion, rather than from \$113 billion to \$195 billion.

Administration's Budget Also Omits AMT Relief

The Administration also failed to include the costs of extending AMT relief, without which taxpayers would receive, on average, only about two thirds of the value of their promised tax cuts in 2012.³ (Taxpayers are subject to the AMT whenever their income tax liability, as calculated under the AMT, is higher than their tax liability as calculated under the regular income tax system. The 2001 and 2003 tax cuts sharply reduced households' tax liability under the regular income tax without changing the structure of the AMT, causing millions of additional households to be subject to the AMT and to owe tax based on their AMT liability, rather than their regular income-tax liability. As a result, they will not receive their full tax cuts unless AMT relief is continued.)

According to the Urban Institute-Brookings Institution Tax Policy Center, in the absence of continued AMT relief, the AMT will take back almost a third of the total value of the President's tax cuts by 2012. The impact of the AMT would be greater for households with incomes between \$100,000 and \$500,000; the Tax Policy Center estimates that in the absence of AMT relief, households with incomes between \$100,000 and \$200,000 would lose more than *half* of their promised tax cuts in 2012, on average, and households with incomes between \$200,000 and \$500,000 would lose almost three quarters of their tax cuts.

When the President urges that his tax cuts be made permanent, he presumably does not mean only the two-thirds of the tax cuts that would remain if AMT relief were not continued. Furthermore, the Administration's policy to date has always been to extend AMT relief, consistent with the promises it made regarding the 2001 and 2003 tax cuts. The 2001, 2003, and 2004 tax cuts each extended AMT relief; in other years, including this year, the Administration's budget proposed extending AMT relief for another year or two. It is clear that continued AMT relief is part of the Administration's policy. Leaving the costs of AMT relief — estimated at \$75 billion in 2009 alone — out of budget projections for years after 2009 understates future deficits under Administration policies.

³ See Tax Policy Center Table T07-0040.

Administration Lacks Credible Justification for AMT Omission

To be sure, Office of Management and Budget director Jim Nussle recently told the House Ways and Means Committee that the Administration supports permanent revenue-neutral AMT reform — in other words, that the Administration supports paying for the cost of AMT relief through offsetting changes in other provisions of the tax code.⁴ It would be reasonable to leave the costs of AMT relief out of budget projections for the next five years *if* the Administration actually were backing up these commendable words with action and submitting a proposal for revenue-neutral AMT relief. But every year for the past few years, the Administration has: 1) proposed a one- or two-year extension of AMT relief that is *not* paid for; 2) omitted AMT relief costs for years after that from its budget; 3) claimed that its long-term policy is for relief to be revenue-neutral; but 4) failed to make any proposal for revenue-neutral relief. Moreover, the Administration opposed last year's Congressional attempt to provide AMT relief in a revenue-neutral manner, on the grounds that the revenue-raising offsets in that legislation constituted a tax increase.⁵

This repeated pattern of Administration activity, and the absence of any revenue-neutral AMT reform proposal once again in the budget it submitted this year, severely weaken the Administration's contention that it has omitted the costs of AMT relief in years after 2009 because its policy is for AMT relief to be revenue-neutral.

Conclusion

The Administration's claim that its budget would produce a surplus in 2012 rests on two assumptions that strain credulity — that the Administration's policy is for no more funding (after the next \$70 billion) for the wars in Iraq and Afghanistan and that the Administration wants AMT relief to be continued only if its costs are fully offset. The omission of the likely war and AMT costs is inconsistent with the Administration's policies. Once those two costs are taken into account — and without even addressing other highly unrealistic proposals or assumptions in the Administration's budget, such as that the deep reductions scheduled in payments to physicians in Medicare will be allowed to take effect — the supposed budget surplus in 2012 evaporates and is replaced by projected deficits ranging from \$113 to \$195 billion.

⁴ Jim Nussle, testimony before the House Ways and Means Committee, February 13, 2008.

⁵ When testifying before the House Ways and Means Committee on November 2, 2007, U.S. Treasury Assistant Secretary for Tax Policy Eric Solomon said that the Administration opposed paying for that year's AMT relief (tax year 2007).