

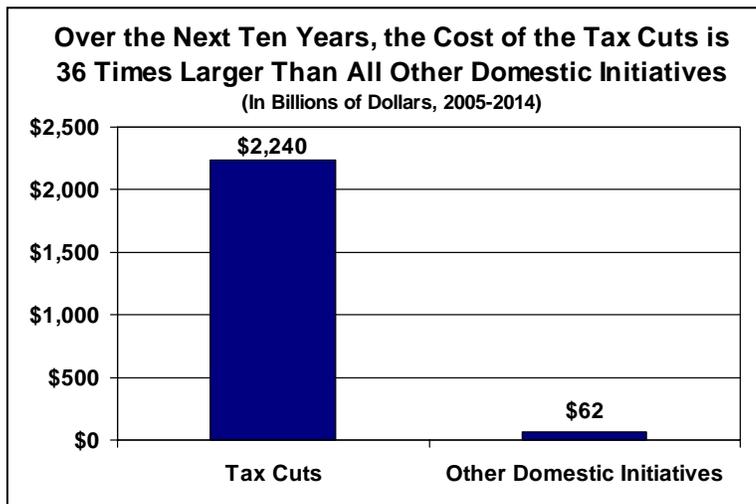
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LARGE TAX CUTS BUT LITTLE ELSE: ADMINISTRATION PROPOSES TAX CUTS THAT COST VASTLY MORE THAN OTHER DOMESTIC INITIATIVES COMBINED

by Richard Kogan and David Kamin

In recent weeks, the Administration has devoted much talk to new domestic spending initiatives. In his State of the Union address, the President lauded the benefits of new funding for education, anti-drug, and prisoner re-entry programs. The actual amount of resources proposed for these initiatives, however, is very small. Altogether, resources for the Administration's domestic program initiatives, as either proposed in the State of the Union address or reported by the media in recent weeks, constitute about *three percent of the cost* just of making the tax cuts permanent.

- The domestic initiatives (outside of tax cuts) that the Administration has rolled out in recent weeks or that have otherwise been discussed in the media add up to under \$6 billion in 2005. Projected over the next ten years, the President's new initiatives would total less than \$62 billion. The list of proposals and their individual costs are shown in the appendix.
- Moreover, two days after the State of the Union address, the White House stated that overall funding for annually appropriated domestic programs outside homeland security (which includes the domestic initiatives discussed in this analysis) would rise by only one percent in 2005, which means that such funding would decline after inflation is taken into account.
- By contrast, the tax cuts the President is proposing would cost more than \$2 trillion over the next ten years (not including the cost of increased interest payments on the debt.) *This is 36 times larger than the combined ten-year cost of the Administration's other recent domestic proposals.*
- Furthermore, the proposed tax cuts are back-loaded. As a result, the picture becomes even more skewed towards the end of the decade.



The President proposed the permanent extension of an array of tax breaks, many of which are scheduled to expire at the end of 2010. The full budgetary impact of the President's tax proposal would thus be felt only in years after 2010. The President's tax cuts would cost over \$490 billion in 2014 alone. This is 69 times the projected cost that year of the other domestic initiatives that have been reported on in recent weeks.

- In 2014, when the tax cuts would be fully in effect, the one percent of households with the highest incomes would receive tax breaks totaling approximately \$159 billion. This \$159 billion would be 22 times the projected cost that year of all of the other domestic initiatives he cited.

The appendix shows the cost in 2005, and projected over ten years, of the domestic spending initiatives that were proposed in the State of the Union address, rolled out separately in January by the Administration, or disclosed by the press in recent weeks. Although the Administration has yet to release final numbers on these proposals, the White House and press reports have generally given sufficient detail to allow estimation of the proposals' cost. There remain a few unknowns, but the total estimate should not change dramatically when the budget is released February 2. For years after 2005, we assume that the spending initiatives remain in effect and that funding for them is adjusted to keep pace with inflation and population growth.¹

The appendix also shows the projected cost of the tax cuts, based on prior estimates of these policies by the Congressional Budget Office and the Joint Committee on Taxation. The total cost of the tax cuts will rise once the budget is issued, since the current total does not include a health-care-related tax cut the President discussed in the State of the Union address but for which we lack a cost estimate at the current time.

These numbers remain preliminary, and their precise dimensions may change modestly with more budget information. But the overall picture is clear. The Administration has devoted many words to new domestic initiatives. But the new resources would go overwhelmingly to tax cuts. And the benefits of the tax cuts would be concentrated on households at high income levels.

¹ We employ this methodology for all spending initiatives with the exception of the funding for Mad Cow disease research. This \$178 million proposal is for the renovation of a USDA animal-disease laboratory. We assume that this is a one-time event in 2005 and that there will be no further costs for the renovation in later years.

Appendix

Annual Costs of Proposed Initiatives, in Billions of Dollars

Initiative	2005	2005-2014
<u>Tax Cuts</u>		
Make Tax Cuts Permanent ¹	\$28.10	\$2,169.41
Refundable Tax Credit for Health Insurance ²	\$6.22	\$70.79
Deduction for premiums for those participating in HSAs	<u>Unknown</u>	<u>Unknown</u>
Grand Total — Tax Cuts	\$34.32	\$2,240.20
<u>Spending Initiatives in the State of the Union</u>		
Remedial reading and math ³	\$0.22	\$2.56
AP courses in low-income schools ⁴	\$0.03	\$0.33
Math and science professionals in schools ⁴	\$0.04	\$0.47
Larger Pell Grants ⁴	\$0.05	\$0.52
Support for community colleges ³	\$0.25	\$2.91
Temporary workers' job matching ³	Unknown	Unknown
Drug testing in schools ³	\$0.02	\$0.27
Abstinence programs ⁵	\$0.14	\$1.57
Prisoner re-entry ⁶	\$0.08	\$0.87
Health technology demonstration ³	<u>\$0.05</u>	<u>\$0.58</u>
Total — Spending Initiatives the State of the Union	\$0.87	\$10.09
<u>Other Spending Initiatives Introduced in January</u>		
Promoting marriage ⁷	\$1.50	\$17.48
Title I and IDEA ⁸	\$2.00	\$23.30
National Institutes of Health ⁸	\$0.84	\$9.79
Social Security for guest workers ⁹	\$0.08	\$0.91
Mad Cow disease ¹⁰	<u>\$0.18</u>	<u>\$0.18</u>
Total — Other Spending Initiatives	\$4.60	\$51.65
Grand Total — Spending Initiatives	\$5.46	\$61.74

Note: The amounts shown above are apparently nominal increases in funding from 2004 to 2005. A number of these increases may be partially or fully offset by cuts in other programs that will become apparent until the budget is released February 2nd. Sources are listed below.

**Notes on Cost Estimates and Their Sources
(Numbers correspond to those in table)**

1. Joel Friedman and Bob Greenstein, "The President's Proposal to Make the Tax Cuts Permanent: \$2.5 Trillion Cost Poses Danger to Economy in the Long Run," CBPP, January 22, 2004. *The cost of extending the tax cuts is \$2.2 trillion, not including interest. Including interest, the cost of the tax cuts rises to \$2.5 trillion.*
2. Joint Committee on Taxation, JCX-15-03, March 4, 2003. *This total includes the cost of making the credit refundable. Officially, tax credit refunds are considered outlays, but, since this is part of a tax cut, we show the cost of the proposal in the tax-cut column.*
3. White House, "State of the Union Portal Page," <http://www.whitehouse.gov/stateoftheunion/2004/index.html>, accessed January 22, 2004.
4. White House, "Fact Sheet: Jobs for the 21st Century," January 21, 2004, <http://www.whitehouse.gov/news/releases/2004/01/20040121.html>, accessed January 22, 2004.
5. White House, "State of the Union Portal Page," <http://www.whitehouse.gov/stateoftheunion/2004/index.html>, accessed January 22, 2004. *For FY 2004, funding for for abstinence programs totals just over \$135 million. The White House website indicates that the President is proposing to raise funding to over \$270 million, amounting to roughly a \$135 million nominal increase over the previous year.*
6. White House, "State of the Union Portal Page," <http://www.whitehouse.gov/stateoftheunion/2004/index.html>, accessed January 22, 2004. *The President proposed spending \$300 million over four years on the prisoner re-entry initiative. We have assumed that the funds will be spent evenly over the four years, meaning that the annual increase in funding would be \$75 million.*
7. Robert Pear and David D. Kirkpatrick, "Bush Plans \$1.5 Billion Drive For Promotion of Marriage," *The New York Times*, January 14, 2004.
8. Robert Pear, "Bush '05 Budget Seeks to Rein in Domestic Costs," *The New York Times*, January 4, 2004.
9. Greg Hitt, "Bush Plan for Immigrant Workers Offers Social Security Benefits," *Wall Street Journal*, January 8, 2004.
10. Greg Hitt, "Bush to Outline Health Plan in State of Union Speech," *Wall Street Journal*, January 19, 2004. *This \$178 million proposal is for the renovation of a USDA animal-disease laboratory. We assume that this is a one-time event in 2005 and that there will be no further costs for the renovation in later years.*