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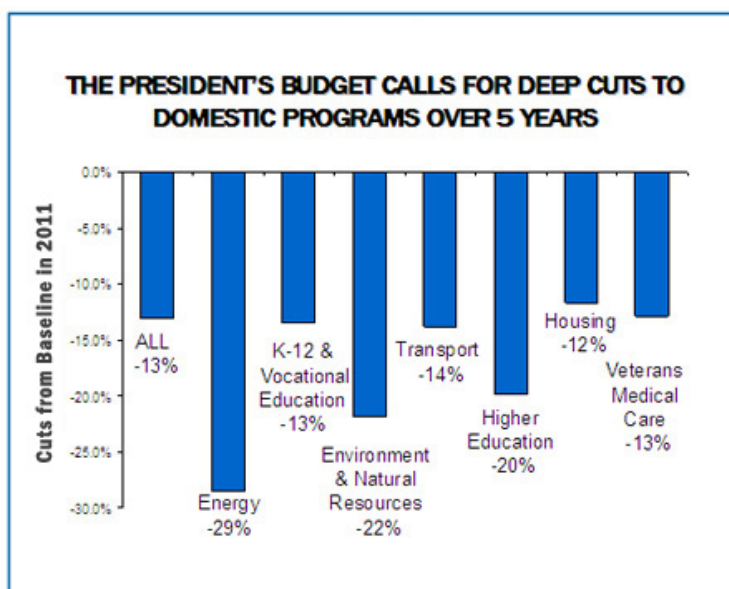
ADMINISTRATION'S BUDGET FAILS TESTS OF FISCAL RESPONSIBILITY, FAIRNESS, AND OPENNESS

The Test of Fiscal Responsibility: Does the Budget Reduce the Deficit?

- The budget would increase the deficit over both the short run and the long run. It proposes \$191 billion in reductions in a broad array of domestic discretionary and entitlement programs, but those reductions would not be used to reduce the deficit. Instead, they would be used to offset part of the \$285 billion in tax cuts the President proposes.
- The budget also includes a \$79 billion increase over five years in defense and homeland-security spending. (This does not include the expected cost of supplemental appropriations for 2006 and 2007 for military operations in Iraq and Afghanistan.)
- Since the tax cuts and the defense and homeland-security increases the Administration is proposing would cost nearly \$200 billion more than its domestic program cuts would save, the net effect of the new budget would be to make deficits *larger* than they otherwise would be.

The Test of Balance: Does the Budget Call for Shared Sacrifice?

- Although the fiscal consequences of the tax cuts enacted in recent years are becoming increasingly apparent, the Administration has responded not by reassessing any of those tax cuts, but by proposing sharp cuts in many domestic programs, alongside an array of costly new tax breaks. The tax cuts would favor the most well-off, while a significant share of the effects of the program cuts would be felt by low- and middle-income Americans.
- The budget targets domestic discretionary programs for increasingly large cuts over the next five years, even though total funding for these programs actually *declined* between 2001 and 2006 as a share of the economy. Over the next five years, the budget would cut veterans programs by \$10 billion, energy programs (including energy conservation) by \$4 billion, environmental programs by \$28 billion, education, job training, and social services programs by \$53 billion, and health programs such as medical research and HIV/AIDS treatment funds by \$24 billion.



By 2011, key areas of discretionary spending would be cut by substantial percentages (see graph), and total outlays for domestic discretionary programs would fall to their lowest level since 1962 when measured as a share of the economy.

These cuts would have substantial human impacts. To take just two examples: more than 420,000 low-income seniors would lose food aid under the proposal to eliminate the Commodity Supplemental Food Program, which provides seniors with basic food packages costing less than \$20 per month. Also, more than 400,000 low- and moderate-income children would lose child care assistance by 2011 under the proposed cut in child care funding.

- At the same time, the budget would permanently extend the 2001 and 2003 tax cuts, which will provide people who make over \$1 million a year with \$136,000 apiece in tax benefits each year when fully in effect, according to the Urban-Brookings Tax Policy Center. The tax cuts would provide an estimated \$600 billion in tax benefits to these millionaire households over the next decade if they are made permanent.
- The budget's *new* tax cuts are also skewed toward those with higher incomes. For example, the tax breaks for Health Savings Accounts would be much more valuable to affluent households. Not only are they in the top income tax brackets (and thus receive a larger deduction for each dollar they put into an HSA than people who pay taxes at a lower rate), but they also can afford to set aside larger amounts in the accounts and have them grow tax-free.

Moreover, a new study by Jon Gruber of MIT, one of the nation's leading health economists, finds that the HSA tax breaks would cause a net *increase* in the number of uninsured Americans. While some uninsured people would use the tax breaks to help them obtain coverage, a larger number of people would lose coverage because the tax breaks would encourage many employers to drop coverage for their workers (or not offer it in the first place).

- The budget also accelerates a recent pattern of shifting costs from the federal government to the states. Federal grants to states and localities, which were cut by \$7 billion in 2006, would be cut another \$7 billion in 2007. Also, more than four-fifths of the \$36 billion in federal Medicaid "savings" in the budget would be achieved simply by shifting costs to the states, not by reducing the cost of providing health care. Such cuts and cost-shifts leave states with the option of cutting back state programs or increasing taxes to compensate for the withdrawal of federal support.

The Test of Openness: Does the Budget Conceal or Omit Basic Information?

- The budget omits the costs of funding U.S. operations in Iraq and Afghanistan after 2007. While the exact costs of these operations after 2007 are unknown, no one believes they will be zero. The budget also omits the cost of extending relief from the Alternative Minimum Tax for more than a single year, though there is no way Congress will allow the AMT to reach deeply into the middle class. The Congressional Budget Office estimates that extending AMT relief will reduce revenues by \$914 billion over the next ten years if the tax cuts are made permanent.
- Given the omission of these large costs, the Administration's claim that the deficit will be cut in half by 2009 appears hollow. Even if the Administration manages to reach its target on paper, deficits will rise sharply soon after 2009, in part as a result of Administration policies.

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