

WILL THE ADMINISTRATION CUT THE DEFICIT IN HALF? AND IF SO, HOW?

by Richard Kogan and Martha Coven

Both President Bush, in his State of the Union address, and other Administration officials have said they have a plan to cut the deficit in half in five years. The plan, however, is likely to be largely a public relations device. The Administration will print a budget that, on paper, has figures for the fifth year (2009) that show the deficit being cut in half. But that will be possible only because, as has been the case with previous Bush Administration budgets, it omits major, costly items that the Administration favors and intends to request in subsequent budgets.¹

Cutting the Deficit by Smoke and Mirrors

A series of analyses — including analyses by the Brookings Institution, Goldman-Sachs, and a joint analysis by the business-led Committee for Economic Development, the Concord Coalition, and the Center on Budget and Policy Priorities — have all found that official budget projections omit a number of likely costs that must be added back to gain a realistic sense of the budget deficits we face in coming years. *The Administration's forthcoming budget is expected to have approximately \$200 billion in missing costs in the fifth year.* Once these missing costs are taken into account, the deficit is seen as being in the range of \$500 billion in 2009, or around 3.5 percent of GDP. That is not close to cutting the deficit in half.

In his State of the Union address, the President said his budget will limit the growth in discretionary spending to less than four percent and suggested that is how he will achieve the goal of halving the deficit. But the analyses just cited that show continued large deficits in future years themselves generally assume growth in discretionary programs in the years ahead of four percent or less. This aspect of the forthcoming budget does not get the budget anywhere close to halving the deficit in five years.

Moreover, as many outside observers — most recently including the International Monetary Fund and the Congressional Budget Office — have emphasized, even if the deficit is reduced somewhat in the next few years, deficits will again begin growing substantially after that, and will eventually reach economically unsustainable levels.

Examples of the costs likely to be missing from the President's plan include:

1. Pentagon Buildup. The Administration has published a “future year defense plan” showing its force structure and weapons goals. According to analysis by the Congressional Budget Office and the Center for Strategic and Budgetary Assessments, the figures in the *last* Bush budget were as much as \$500 billion short of the

¹ This issue brief is drawn from Richard Kogan, “Will the President's 2005 Budget Really Cut the Deficit in Half?,” Center on Budget and Policy Priorities, January 16, 2004.

Administration's plan over ten years. The coming budget likely will take the same approach of not showing the full costs of the plan in future years.

2. War on Terrorism. The previous budget showed *zero* costs for fighting terrorism worldwide beyond last September. The new budget may do the same, even though we won't stop the long-term and ongoing international hunt for terrorists.

3. Relief from the Alternative Minimum Tax. The Alternative Minimum Tax was established to make sure wealthy investors don't evade their tax obligations through excessive use of tax shelters and avoidance schemes. But in the years ahead, because of flaws in its structure, the AMT will explode into the middle class. Currently, only 2 to 3 million mostly well-off people are subject to the AMT because Congress has enacted AMT relief through this coming December. If relief is not extended, an estimated 30 million people will be subject to the AMT in 2009, and many of them will be middle class. The Administration has said on the record that it intends to propose permanent AMT relief, but will wait until 2005 to do so. Next year's budget will only show relief for a year or so; it will omit an estimated \$70 billion in 2009 costs, as though the Administration really intends 30 million people to be subject to the AMT that year.

4. "Tax extenders." A lot of ostensibly "temporary" tax breaks have been in law for many years and are always extended a few years at a time. The coming budget is likely to pretend most of them will expire before 2009. They won't. This will cost about another \$10 billion in that year.

Cutting the Deficit by Cutting Domestic Programs

Suppose instead that the Administration wanted to cut the deficit in half for *real*, while maintaining (and expanding) its tax cuts and maintaining its defense build-up and anti-terrorism spending. The Administration would reflect the missing costs noted above in its budget and then reduce spending enough to cut the deficit in half by 2009. The Administration is unlikely to cut Social Security or Medicare benefits. That means that cutting the deficit in half — to about 2 percent of GDP in 2009 — would require cutting \$150 billion from other programs. That amount is equivalent to:

- *Twice* the entire veterans budget; or
- *Twice* the entire education budget; or
- *14 times* the environmental budget.

To put it another way, if we cut all programs *except* defense, homeland security, Social Security, and Medicare by \$150 billion in 2009, we'd have to cut all other programs by *15 percent*. This includes education, health research, unemployment benefits, Medicaid, veterans' benefits, military pensions, school lunch, and dozens of others.

If we limited the cuts to the domestic programs funded annually through the appropriations process, such programs — which include education, veterans health, and environmental protection — would have to be cut nearly *one third*. These results reflect the effect of taking the tax side of the budget "off the table" in considering how to reduce the deficit.