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ASSESSING THE BUDGET PROPOSAL PUT FORWARD BY THE SENATE BUDGET COMMITTEE

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This brief analysis examines the budget proposal adopted by the Senate Budget Committee on March 10, which the full Senate will begin to consider today. While the proposal calls for substantial reductions in many domestic programs, it would increase rather than reduce the deficit over time, largely due to its emphasis on further tax cuts.

Funding for "domestic discretionary" programs would be cut by $207 billion over five years, including significant reductions in areas such as education, veterans' benefits, environmental protection, and economic development.

- Over the period from 2006 through 2010, funding for annually appropriated domestic programs — so called "domestic discretionary" programs — would be cut by a total of $207 billion below their current level, adjusted for inflation. This reduction in funding would lower expenditures (outlays) by $139 billion over the five years.
- In 2010 alone, the funding cuts in domestic discretionary programs would amount to $57 billion, or 13 percent.
- A wide range of essential programs are targeted for reductions. Education and training programs would be cut by $34 billion over the five-year period, with the reduction in 2010 amounting to 13 percent. Reductions in natural resource and environmental programs would total $29 billion over five years, with the 2010 cut amounting to a severe 22 percent.
- The Committee's proposal sets caps on total discretionary appropriations for the next three years, locking in the proposed cuts in domestic discretionary programs if defense and international affairs are funded at the levels assumed in the plan.

The cuts in mandatory programs are likely to fall heavily on low-income households. Under the Committee's proposal, for instance, the cut to the Medicaid program is significantly deeper than the President's proposal. The Committee's proposal calls for $38 billion in cuts to mandatory (or entitlement) programs over the next five years, with $32 billion in savings to be achieved through the reconciliation process.[1] Although the documents released by the Committee do not specify in detail which mandatory programs should be cut in reconciliation, they do specify the dollar amount that individual committees must cut in programs in their

[1] The budget resolution includes "reconciliation" instructions to committees to achieve savings from programs within their jurisdiction. The legislation that is reported from these committees is packaged together and considered under special rules that limit amendments and do not allow a filibuster in the Senate.

jurisdiction. For example, the Senate Finance Committee is instructed to cut $15 billion over five years in programs over which it has jurisdiction. The Medicaid program is likely to account for the bulk of the cuts by the Finance Committee[2]. Thus, the Medicaid cuts may be far larger than the savings that would be achieved by enacting the Medicaid proposals in the President's budget that have drawn sharp criticism from the nation's governors; the Medicaid changes the President proposed would save $7.6 billion over five years, according to the Congressional Budget Office. These Medicaid cuts are likely to push hard-pressed states to eliminate coverage for a substantial number of low-income people, increasing the ranks of the uninsured and the underinsured.

At the same time that the proposal would reduce domestic programs sharply, it proposes substantial new tax cuts, likely tilted towards high-income households. This approach is proposed even though abnormally low revenues are the main reason behind the rise in the deficit. Revenues are now lower, as a share of the economy, than in any year in the 1960s, the 1970s, the 1980s, or the 1990s. Yet the proposal calls for $71 billion in additional tax cuts over the next five years, $70 billion of which would be achieved through a revenue reconciliation bill (which would be considered separately from the reconciliation legislation that would produce savings in mandatory programs). The Committee's plan assumes, for instance, an extension of dividend and capital gains tax cuts, which were enacted in 2003 but are slated to expire in 2008. The benefits of these two tax cuts flow overwhelmingly to those with the highest incomes. The Urban Institute-Brookings Institution Tax Policy Center estimates that nearly half — 46 percent — of the benefits of these tax cuts in 2005 will go to households with incomes over $1 million, which make up only 0.2 percent of all households. Nearly three-quarters of the benefits from the dividend and capital gains tax cuts will go to households making more than $200,000, which now make up 3.1 percent of all households.

Despite the cuts in domestic programs, the Committee's budget proposal fares poorly when it comes to fiscal responsibility.

- *The proposal* <u>*increases*</u> *rather than decreases the deficit*. As shown by its own figures, the effect of the budget proposal is to increase total deficits over what they would be during the next five years under current law by $130 billion. The deficit is increased because the tax cuts included in the

Effect of the Senate Budget Committee's Plan on Projected Deficits

Cumulative deficit increases (+) or reductions (-) relative to CBO's March baseline projection over the five-year period 2006-2010, in billions of dollars

Cost of tax cuts.	+70.7
Reductions in entitlement benefits.	-37.9
Expenditure reductions from $207 billion reduction in funding (appropriations) for domestic discretionary programs.	-138.6
Expenditure increases for defense and international discretionary programs.	+206.4
Increased interest costs resulting from above policies.	<u>+29.2</u>
TOTAL increase in projected deficits.	+129.8

[2] The Budget Committee's plan includes a $15.2 billion reduction in mandatory health spending, but briefing materials provided by Budget Committee Chairman Gregg state that the plan assumes Medicaid spending will be reduced by $14 billion over five years.

Committee's plan, along with an assumed $206 billion increase in defense and international affairs expenditures, more than offset the proposed cuts in domestic programs.

- *The proposal budgets for only five year, thereby masking the full cost of its tax cuts.* By failing to provide estimates of the effects of its proposals beyond 2010, the Committee's plan obscures the fact that its tax cuts would increase the deficit by a much larger amount in the second five years (2011 through 2015) than in the first five years (2006 through 2010). CBO estimates that the tax cuts proposed in the President's budget would increase the deficit by $1.4 trillion from 2011 through 2015.

- *The proposal would use a process originally established to ensure fiscal responsibility to pass more tax cuts that raise the deficit. This turns the purpose of the "reconciliation" process on its head.* The "reconciliation" process is a fast-track process that originally was used to facilitate the passage of deficit-reduction legislation. The process was intended to ensure that hard-to-pass legislation that would reduce entitlement expenditures or raise revenues could not be filibustered in the Senate, and thereby to ensure that such legislation would need 51, rather than 60, votes to pass. The Committee's budget proposal would use these procedural protections to make it easier to cut taxes by $70 billion over five years — and thereby to increase the deficit — the opposite of the way reconciliation was originally used.

The Committee's budget proposal also includes a new enforcement mechanism that would favor tax breaks and distort policy debates. The proposal includes a new Senate point of order that would prohibit consideration of legislation that would increase mandatory spending by $5 billion or more in any of the four 10-year periods from 2015 through 2055. The point of order could be waived only with 60 votes. This point of order would do nothing to prevent enactment of tax cuts that would substantially increase the deficit in future years, but it would make it impossible to consider modest increases in spending to deal with major problems, such as providing health care for the uninsured, without 60 votes or without cuts in other entitlement programs to offset these increases.

This new point of order would heavily and inappropriately skew debates on health care policy and the uninsured. Future costs to increase Medicaid to cover more of the uninsured would have to be offset. But legislation to provide new tax deductions for or other tax breaks related to health insurance (other than refundable credits) would *not* have to be offset, even though such proposals would necessarily be less well targeted on the uninsured population and likely be less effective at reducing the ranks of the uninsured. Thus, the new point of order is ideologically loaded and would make it difficult to have a balanced and carefully considered debate about the most effective and efficient ways to deal with the problem posed by 45 million Americans lacking health insurance.