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DEEP PROGRAM CUTS IN HOUSE BUDGET PROPOSAL WOULD BE EXCEEDED BY SIZE OF TAX CUTS FOR THE TOP 1%

By Isaac Shapiro

The budget proposal that passed the House on March 20 calls for a variety of essential programs to be reduced in order to save funds, at the same time it devotes a larger amount of resources to tax cuts for the highest-income segment of the population. This divergent treatment underscores the skewed priorities reflected in both budget proposals.

The proposal would cut basic “mandatory” programs for the elderly, veterans, and the poor by \$265 billion over the next ten years. The proposal would also contain cuts in discretionary programs of more than \$200 billion over the next ten years. In combination, these cuts would be steep, amounting to around \$475 billion. They are being justified in the name of fiscal discipline.

Yet as large as these programmatic cuts would be, they would be surpassed in size by the tax cuts proposed in the same budget that would be received by the top one percent of the population. In other words, if the budget contained no spending cuts but the top one percent did not receive any tax cuts, it would cause less of a dent in the nation’s fiscal outlook. (This calculation is based on the official cost estimates of the tax and spending proposals, as well as distributional data from the Urban Institute-Brookings Institution Tax Policy Center.)

Specifically, the budget contains widespread cuts in basic domestic programs such as Medicaid, veterans programs, student loans, school lunches, child care, food stamps, cash assistance for the elderly and disabled poor, and many other programs. The budget would require Congressional committees to cut these “mandatory” programs by \$265 billion over the next ten years. In addition, the proposal also would cut “discretionary” or non-entitlement programs (other than defense spending) well below the President’s request. Non-defense discretionary programs would be cut more than \$200 billion over ten years below the Congressional Budget Office baseline, which equals the 2003 levels for these programs, adjusted for inflation. These cuts could affect a wide variety of programs from education programs to environmental protection programs to programs for poor children.

These cuts measure up to the tax cuts in the proposal as follows:

- The package includes tax cuts totaling \$1.4 trillion through 2013, or approximately three times the size of the program cuts. So if the package reduced the size of the tax cuts by about a third and eliminated the program cuts it would have about the same effect on the budget picture.

- The tax cuts in the budget reflect most of the proposals put forward by President Bush, which are heavily tilted towards the top. The budget provides room for the President's entire "growth package," as well as the proposals to make the tax cuts passed in 2001 a permanent feature of tax law. In combination, the tax cuts in the growth package and making the 2001 tax cuts permanent would, over the next 10 years, provide more than \$500 billion in tax cuts for the one percent of taxpayers with the highest incomes.¹ So the tax cuts for the top one percent alone (of more than \$500 billion) would exceed the program cuts (of \$475 billion) affecting basic assistance for tens of millions of the nation's neediest citizens, as well as services to much of the middle class.

¹ This calculation was made as follows. The cost of making the 2001 tax cuts permanent, according to the Joint Committee on Taxation, was multiplied by the Tax Policy Center's estimate of what proportion of these tax cuts would go to the top one percent. The resulting amount (\$272 billion) was then added to estimates of the amount of the tax cuts from three provisions of the growth package — accelerating the rate reductions, eliminating the taxation of dividends, and Alternative Minimum Tax relief — that would go to the top one percent. These estimates were made by multiplying the costs of the individual provisions, again according to the Joint Committee on Taxation, by the distribution of the individual provisions, again according to the Tax Policy Center.

This yielded a figure of \$516 billion over 10 years for the total tax cuts that would be received by the one percent of taxpayers with the highest incomes. The figure is likely to underestimate the cuts received by this group, since not all of the provisions of the growth package were distributed. The understatement is likely to be modest, however, because the provisions of most benefit to the top one percent were distributed.