820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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ASSESSING THE BUDGET PROPOSAL ADOPTED BY THE SENATE

by James Horney, Joel Friedman, Richard Kogan, and Isaac Shapiro

This brief analysis examines the budget proposal adopted by the Senate on March 17. While the proposal calls for substantial reductions in many domestic programs, it nonetheless would increase the deficit by $217 billion over the next five years, due in part to its emphasis on further tax cuts. Amendments adopted during Senate consideration of the budget somewhat softened the cuts in domestic programs proposed by the Budget Committee (although not as much as proponents of many of the amendments would have people believe), but they also significantly increased proposed tax cuts and deficits.

Funding for "domestic discretionary" programs would be cut by $204 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 programs other than defense or international affairs — so called "domestic discretionary" programs — would be cut by a total of $204 billion below their current level, adjusted for inflation. (This reduction in funding would lower expenditures — outlays — by $135 billion over the five years.[1])
- 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 $27 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 Senate's proposal sets caps on total discretionary appropriations for the next three years, locking in the proposed cuts in the overall level of domestic discretionary programs if defense and international affairs are funded at the levels assumed in the plan.

[1] Because expenditures for discretionary programs can occur one or more years after appropriations are provided for those programs, the reduction in expenditures over the next five years is smaller than the $203 billion reduction in funding. The remaining expenditure reductions that would result from the funding cut would occur after the end of the five-year period.

The Senate plan also cuts domestic mandatory programs. The Senate's proposal calls for $23 billion in cuts to mandatory (or entitlement) programs over the next five years, with $17 billion in savings to be achieved through the reconciliation process.[2] Although the documents released by the Budget 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 jurisdiction

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 $129 billion in additional tax cuts over the next five years, $128 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 Senate'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.

Effect of the Senate's Budget 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.	+129.1
Reductions in entitlement benefits.	-22.7
Expenditure reductions from $204 billion reduction in funding (appropriations) for domestic discretionary programs.	-134.8
Expenditure increases for defense and international discretionary programs.	+208.0
Increased interest costs resulting from above policies.	+37.9
TOTAL increase in projected deficits.	+217.5

The plan adopted by the Senate calls for even more tax cuts than were proposed by the Budget Committee. The Budget Committee plan called for tax cuts totaling $71 billion over five years. The Senate, however, adopted an amendment offered by Senator Jim Bunning (R-KY) that increased the proposed tax cuts by $64 billion over five years. With the adoption another amendment that slightly reduced proposed tax cuts, the total tax cuts in the Senate plan were increased to $129 billion over five years.

Senator Bunning argued that the additional amount for tax cuts was needed to allow the Finance Committee to eliminate a provision enacted in 1993 that deals with the taxation of Social Security benefits. Social Security reform legislation enacted in 1983 requires Social Security beneficiaries with income above $25,000 for individuals and $32,000 for

[2] 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.

married filers to include up to 50 percent of their Social Security benefits in their adjusted gross income for purposes of calculating their income tax liability.[3] The provision enacted in 1993 requires taxpayers who exceed a higher income threshold ($34,000 for individuals and $44,000 for married couples) to include up to 85 percent of their Social Security benefits in their income when they calculate their tax liability. The revenues resulting from the 1993 provision go to the Medicare Hospital Insurance Trust Fund.

Repealing the 1993 provision as called for by the Bunning amendment would provide tax cuts only for the 27 percent of Social Security beneficiaries with the highest incomes at the cost of increasing Federal deficits by $71 billion over five years (including increased interest costs). Because it also would deprive the Medicare HI Trust Fund of a significant source of revenues, repealing the 1993 provision would also accelerate the projected insolvency of the Trust Fund by four years (from 2020 to 2016), according to the Medicare actuaries.[4]

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

- *The proposal* <u>*increases*</u> *rather than decreases the deficit.* The effect of the Senate's budget proposal is to increase total deficits over what they would be during the next five years under current law by $217 billion. The deficit is increased because the tax cuts included in the Senate's plan, along with an assumed $208 billion increase in defense and international affairs expenditures, more than offset the proposed cuts in domestic programs.

- *The proposal budgets for only five years, thereby masking the full cost of its tax cuts.* By failing to provide estimates of the effects of its proposals beyond 2010, the Senate'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. Repealing the 1993 provision dealing with taxation of Social Security benefits — which was not proposed by the President — would reduce revenues by $116 billion more over that period.

- *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

[3] In determining whether a beneficiary's income is above the thresholds, taxable income, tax exempt interest, and 50 percent of Social Security benefits are counted.

[4] Estimate provided to Congressional staff on March 24, 2005, by the Medicare Office of the Actuary. For more on the effect of the Bunning amendment, see Robert Greenstein, "With Bunning Amendment, Senate Budget Would Move Up Medicare Insolvency by Four Years and Increase the Deficit by More than $200 Billion," Center on Budget and Policy Priorities, Revised March 25, 2005.

than 60, votes to pass. The Senate's budget proposal would use these procedural protections to make it easier to cut taxes by $128 billion over five years — and thereby to increase the deficit — the opposite of the way reconciliation was originally used.

The Senate'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.

Was the Senate Budget Plan Improved By Amendments Adopted During Senate Consideration? Unlike the House — where the budget resolution was passed without any amendments — the Senate modified the budget plan proposed by its Budget Committee by adopting almost 50 amendments during four days of consideration of the plan. Two amendments improved the plan by reducing proposed cuts in important domestic programs; one made the plan significantly worse by increasing proposed deficit-financed tax cuts; and many had less real effect than their sponsors would have people believe.

One amendment that significantly improved the plan was offered by Senator Gordon Smith (R-OR) and adopted by a 52-48 vote. As proposed by the Budget Committee, the budget plan called for a $15 billion cut in mandatory programs to be achieved by the Finance Committee through the reconciliation process. According to Budget Committee Chairman Gregg, $14 billion of these cuts were assumed to come from the Medicaid program. Such cuts would 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. The proposed Medicaid cuts would be 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. The Medicaid cuts proposed by the Budget Committee, and the entire reconciliation spending instruction to the Finance Committee, were stripped from the plan by the Smith amendment.

An amendment offered by Senator Ted Kennedy (D-MA) increased the total amount of discretionary funding that would be allowed under the budget plan by $5.4 billion in 2006, with the intent that the additional funds will be available for education. This would reduce the proposed cut in funding for domestic discretionary programs in 2006 (compared with the 2005 level of funding, adjusted for inflation) from $25.4 billion to $19.6 billion. That increase in funding for discretionary programs was offset by a reduction in proposed tax cuts.

An amendment offered by Senator Jim Bunning (R-KY) and adopted by a 55-45 vote made the budget plan significantly more irresponsible fiscally. As noted above, the Bunning amendment added $64 billion in additional tax cuts to the tax cuts proposed by the Budget Committee, with the intent that the Finance Committee use the additional reductions to repeal a 1993 provision of law dealing with the taxation of Social Security benefits received by higher-income beneficiaries. Despite the fact that Chairman Gregg criticized Senators who voted for the Smith amendment because he believed it was fiscally irresponsible to reduce proposed spending cuts by $15 billion, he and most other Senators who opposed the Smith amendment voted for the Bunning amendment, which increased deficits in the Senate plan by more than four times as much as the Smith amendment.

A number of other amendments were adopted that, according to their sponsors, increased funding for domestic discretionary programs (compared with the levels proposed by the Budget Committee) by an additional $6.8 billion in 2006. The proponents said that the amendments provided additional funding for education, health care research, veterans health care, community development programs, and other high priority programs, but the amendments are unlikely to produce additional funds for the specified programs.

The reason is that none of these other amendments increased the total amount of discretionary funding that is allowed under the budget plan. Instead, they all proposed to "offset" proposed increases with cuts in other discretionary areas: a small amount of cuts in the international affairs and general government categories and a far larger amount of cuts in the "allowances" category of the budget. The proposed cuts in the allowances category — which total $6.1 billion in 2006 — are essentially meaningless since there was no money in the allowances category in the budget plan the Senate was considering.[5]

The resulting negative amounts in the allowances category represent cuts that will have to be made in programs in other real categories when appropriation bills are considered — cuts that the proponents of these amendments did not want to detail or defend. Proposing offsetting cuts in allowances is simply a way to claim credit for increasing funding for one area of the budget without increasing total discretionary spending or taking heat for proposing additional cuts in other specific programs (or risking defeat of the amendment by supporters of those other programs). The unwillingness of Senators even to propose offsetting cuts in specific areas makes it clear that real offsets would be politically unpopular and unlikely to be achieved. Thus, without any increase in overall discretionary funding, the increases in particular programs promised by these amendments are also unlikely to be achieved.

[5] There are no programs in the allowances category. Occasionally, a budget will include funds in the allowances category with the intent that the funds will be distributed among programs in a number of other real categories at a later time. Amounts for federal pay raises used to be treated in this manner.