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April 3, 2001

Following the Money:
The Administration's Budget Priorities

The full report can be viewed at http://www.cbpp.org/3-28-01bud.pdf

On March 28, the Center on Budget and Policy Priorities released a report, *Following the Money: The Administration's Budget Priorities.* The report examines the Administration's budget in the context of President Bush's February 27 address to Congress and the American people, in which he called education his highest priority and pledged to devote new resources to education, health care, national defense, and other areas. The report examines how education and other priorities would fare, especially in comparison to the Administration's tax cut. It finds that the budget would commit virtually the entire available surplus to tax cuts. The report's main findings are summarized below.

The Dimensions of the Available Surplus

- Both the Congressional Budget Office and the Office of Management and Budget project a $5.6 trillion total budget surplus over the next ten years. However, roughly $2.5 trillion of this amount consists of the surpluses currently building in the Social Security Trust Fund; another several hundred billion dollars consists of surpluses in the Medicare Hospital Insurance Trust Fund. Members of both parties say the surpluses in these trust funds should be set to the side and not be used for tax cuts or program increases outside Social Security and Medicare. That reduces the available surplus to $2.7 trillion under the CBO estimates and $2.5 trillion under OMB's estimates.

- The available surplus is further reduced when one uses reasonable assumptions regarding future Congressional actions in such areas as renewing popular tax credits, maintaining payments to farmers, and addressing problems in the Alternative Minimum Tax so it does not hit millions of middle-class taxpayers. The virtually inevitable actions in these three areas alone will consume several hundred billion dollars of the officially projected surpluses. In addition, it will cost an additional several hundred billion dollars to maintain discretionary (i.e., non-entitlement) spending at its current level in real per-capita terms — that is, to compensate for population growth as well as inflation. (The official forecast adjusts only for inflation.)

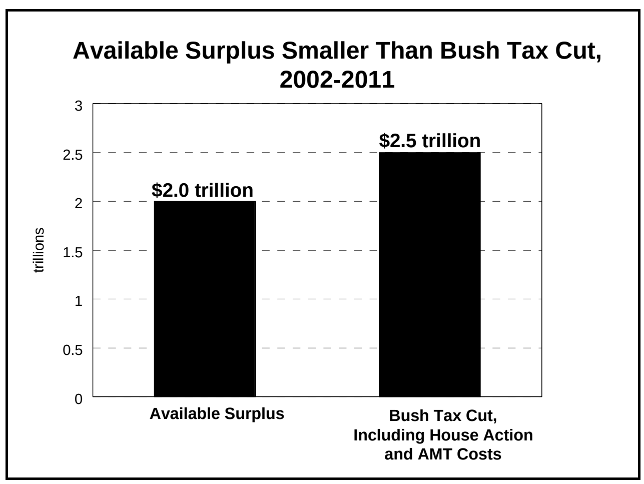
- As a result, the Center estimates that the projected surplus that is available for tax cuts and program initiatives is about $2 trillion over ten years. This estimate is similar to those of the Concord Coalition ($2.2 trillion over ten years) and economists William Gale and Alan Auerbach of the University of California at Berkeley ($1.7 trillion over ten years).

- The surplus forecasts are highly uncertain; a substantial portion of the projected surpluses might not materialize. CBO has reported that if its surplus estimate for the fifth year (2006) proves to be off by the average amount that its projections for the fifth year have been off in the past, that year's surplus forecast will be too high or low by more than $400 billion. CBO's analyses indicate there is more than a one-in-three chance that surpluses over the next five years will turn out to be only half as large as the surpluses it is currently projecting. Moreover, the CBO projections for the second half of the ten-year period — the sixth through tenth years — are subject to even larger errors. Some 70 percent of the surplus that CBO projects for the next ten years (outside the Social Security and Medicare Hospital Insurance trust funds) would come in the second five years of this period.

The Dimensions of the President's Tax Cut

- The President's budget indicates that the tax cut would cost $2 trillion — more than $1.6 trillion in revenue reductions and almost $400 billion in added interest payments on the debt (due to the use of part of the surplus for tax cuts rather than debt repayment).

- The Congressional Joint Committee on Taxation has found that the tax cuts approved to date by either the full House of Representatives or the House Ways and Means Committee would add $200 billion to the cost of the President's tax cuts. In addition, ensuring that the tax cut does not cause millions of additional taxpayers to become subject to the Alternative Minimum Tax would cost another $300 billion, according to the Joint Tax Committee. (This is in addition to the cost cited above of fixing problems in the AMT under current law.) Unless Congress scales back other components of the President's proposal, the total price tag of the tax cut would reach $2.5 trillion.



- In the second ten years the tax cut is in effect (2012-2021), the cost of the tax cut would rise to $5 trillion, not counting the added interest payments on the debt. (In constant 2001 dollars, the cost would be $3.7 trillion, not counting interest payments.)

- The 2012-2021 period is a time when the baby boom generation begins to retire in large numbers, Social Security and Medicare costs begin to swell, and, according to the General Accounting Office, budget surpluses are projected to start shrinking even if *no* tax cuts or program increases are enacted. Moreover, the Comptroller General of the United States (who heads the GAO) recently testified that if the Social Security surplus is saved but the *non*-Social Security surplus is consumed by tax cuts and/or program increases, deficits will reappear in the total budget in about 2019 and then rise to levels that are unprecedented for peacetime and eventually will damage the U.S. economy. The Comptroller General also cautioned that while the ten-year budget forecast has improved, the long-term budget forecast has worsened, as a result of a consensus that health care costs are likely to grow more rapidly over the long term than previous long-term forecasts had assumed. As a result, the budget room available for *permanent* tax cuts and program increases appears to have grown smaller, not larger.

How Would Other Parts of the Budget Fare?

- Since the amount of the projected surplus that is realistically available for tax cuts and program increases is approximately $2.0 trillion over ten years, while the tax cut would consume approximately $2.5 trillion over this period, paying for the tax cut will likely require either substantial budget cuts or the use of part of the Social Security or Medicare surpluses.

- In his address to Congress in late February, the President said there was enough room in his budget to fund both tax cuts and program initiatives in priority areas; he called for increases in programs such as education, defense, health research, and prescription drugs. The Administration's budget provides relatively little for initiatives other than the tax cut, however, and assumes substantial reductions in various programs, most of which are unspecified at this time. This reality is reflected in the headline the *Wall Street Journal* placed on a recent article it carried on the budget: "Bush Offers 'Compassionate' Budget Plan: However, Numbers Appear to Contradict Rhetoric; Many Areas Face Cuts."

- A table in the budget seems to show that education spending would increase $41 billion over ten years. This figure, however, is an overestimate. It reflects the increases the Administration is proposing in some education programs without subtracting the reductions being proposed in other education programs. In addition, this $41 billion counts various increases in education funding that Congress enacted in December — and that thus do not constitute new resources. Even if this overstatement is ignored, the amount the budget shows as being used for the tax cut over the next ten years is 40 times the amount the budget shows as being provided for education initiatives. Furthermore, while funding for education would increase somewhat, the rate of increase proposed for 2002 — which would be three percent above the inflation rate — is one-third the average rate of increase in education funding over the previous four years.

- The budget proposes *no increase whatsoever* over the next five years in the total amount of expenditures for non-entitlement programs in the part of the budget known as "Education, Training, Employment, and Social Services." This means that every dollar of proposed increases in expenditures for education must be offset by a dollar of cuts in expenditures for job training programs, services for children or frail elderly and disabled individuals, or other programs in this part of the budget. The budget documents the Administration sent to Congress on February 28 leave the offsetting reductions unspecified.

- In 2011, the first year in which the tax cut would be phased in fully, there would be $25 billion in increased program expenditures under the Administration's budget (the majority of which would come from a modest prescription drug benefit for seniors), but $254 billion in tax cuts. For each dollar in tax cuts, there would be a dime of program increases. Moreover, the tax cut bills moving through the House raise the cost of the tax cut in 2011 above the $254 billion level.

Policy Changes from Baseline in 2011 Under Bush Budget
(does not include effects of policy changes on interest payments)

Net spending increases	$25 billion
Tax cuts	$254 billion

- The budget either ignores or addresses only to a modest degree such problems as the 43 million Americans without health insurance, the lack of a Medicare prescription drug benefit, the need to restore long-term solvency to Social Security and Medicare, high poverty rates among children and elderly women living alone, and a deteriorating long-term budget outlook. For example, the budget proposes $153 billion over ten years for a prescription drug benefit, an amount about 25 percent smaller than a very modest drug benefit the House of Representatives approved last year. Urban Institute president Robert Reischauer has calculated that under that House bill, a beneficiary would pay more than half of prescription drug costs until the beneficiary's costs exceeded $12,900 in a year. In addition, the budget does not set aside any of the general fund surplus for transfer to the Social Security or Medicare Hospital Insurance trust funds, even though nearly every major Congressional proposal of recent years to restore long-term Social Security solvency has included substantial general fund transfers and no Medicare reform proposal has been advanced that closes more than a small fraction of Medicare's long-term financing gap.

Is the Top Priority Tax Cuts for the Affluent or Education, Health, and Other Initiatives?

- The one percent of Americans with the highest incomes would secure a larger share of the tax cuts the Administration has proposed than the bottom 80 percent of the population. When the tax cuts are phased in fully, the top one percent of families would receive 39 percent of the tax cuts, despite paying 24 percent of federal taxes and having less need than other families for additional after-tax income. The bottom 80 percent of families would receive 29 percent of the tax cuts. (These estimates use the Citizens for Tax Justice estimates of the distribution of the income tax cuts the Administration has proposed and the Treasury Department's established methodology regarding the incidence of the estate tax and corporate income taxes.)

- Using the figures in the Administration's budget for the cost of the tax cut, the top one percent of the population would receive $555 billion in tax cuts over the next ten years. The budget proposes to devote a total of $487 billion to all education, health, defense, and other initiatives *combined*. Thus, the wealthiest one percent would secure more in tax cuts than the total that would be provided for all initiatives in education, Medicare, defense, reducing the ranks of the uninsured, and other areas.

- The tax cut would widen disparities in after-tax income, which already are at their widest level on record. The after-tax income of the top one percent of families would rise by 6.2 percent, while that of the middle fifth of families would rise by 1.9 percent, and that of the poorest fifth of families would rise by 0.6 percent. The tax cut consequently would increase after-tax income by ten times as large a percentage for the top one percent of families as for the bottom 20 percent, and by three times as large a percentage for those at the top of the income spectrum as for those in the middle.

Conclusion: A Question of Priorities

The findings in this report raise several questions. Is it prudent to commit virtually the entire available surplus now, given that the surplus figures are only projections and are highly uncertain? Is it a proper reflection of the priorities of the American public to commit virtually all of the available surpluses to tax cuts, with little left for other problems or opportunities? Should very large tax cuts for the wealthiest of Americans, the group that by far has secured the biggest income gains of recent years, be a higher priority than providing an adequate prescription drug benefit to the elderly and disabled, substantially reducing the number of Americans without health insurance, helping to restore long-term solvency to Social Security and Medicare, and reducing child poverty? These are questions that not only policymakers, but also the American public, should debate. A tax cut that may consume virtually all of the available surpluses for a generation or more ought not be rushed through before such a debate can take place.