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# Is Education the Administration's Top Budget Priority?

by Robert Greenstein

In his address to Congress and the American people on February 27, President George W. Bush stated: "Education is my top priority and, by supporting this budget, you'll make it yours, as well." This short analysis examines how much increased funding the President's budget devotes to education and what the numbers in the budget indicate about whether education should be considered the budget's leading priority.

## The Increased Funding for Education

The budget includes a table showing that education spending would increase by $3.5 billion next year and $41.4 billion over ten years.[1] Administration officials have acknowledged, however, that these figures overstate their education increases. These figures reflect the increases the Administration is proposing in certain education programs without subtracting the decreases the budget includes for some other education programs.[2] In addition, the $3.5 billion increase for fiscal year 2002 and the $41 billion increase over ten years shown in this budget table are measured relative to a budget baseline the Bush presidential campaign developed last fall. Congress subsequently increased education funding in December. As a result, a portion of the $3.5 billion increase shown for 2002 and the $41.4 billion increase shown for the next ten years does *not* represent new money but are funds already included in the current budget baseline.

Other figures contained in the President's budget show the Administration actually is requesting a net increase in operating levels for education programs (before adjusting for inflation) of $2.5 billion next year. This represents a three percent increase over the inflation rate. That is one-third the average rate of increase in education spending over the past four years, after adjusting for inflation. Thus, the area the President has identified as his highest priority — education — would have its recent rate of growth reduced by two-thirds.

## The Education Increase Compared to the Tax Cut

As noted, the budget shows a $41 billion increase in education spending over ten years, a figure that is an overstatement for the reasons just explained. The budget also includes $1.6 trillion in tax cuts over the next ten years, a figure that *under*states the size of the tax cut because, among other reasons, it does not include the nearly $300 billion that the Joint Tax Committee has reported it will cost to modify the Alternative Minimum Tax so the Bush tax cut does not cause 15 million more taxpayers to become subject to the AMT. Congress may largely defer action on that matter for a year or two, but virtually all observers agree that the problem related to the Alternative Minimum Tax ultimately will be addressed and this cost incurred. Even if this additional $300 billion in cost is ignored, the $1.6 trillion the budget shows for the cost of the tax cut over the next ten years is *40 times* the $41 billion the budget table shows as the amount slated for improving the nation's education system. (See Table 1.)

***The $1.6 trillion the budget shows for the tax cut over the next ten years is 40 times the amount the budget shows for increased funding to improve the nation's education system.***

**Table 1**

**Is Education the Highest Priority?**
(in billions of dollars)

| | 2002-2011 | 2011 |
|---|---|---|
| Gross Education Increases | 41.4 | 4.7* |
| Tax Cut, From President's Budget | 1,646.5 | 253.6 |
| Estate Tax Repeal | 266.6 | 57.9 |
| Estate Tax Repeal for estates of wealthiest 1 of every 1,000 people who die (largest 7% of taxable estates) | NA | 28.9 |

*CBPP estimate

This disparity would grow still larger as the years passed and the tax cut phased in. The figures from the President's budget suggest that by 2011, there would be more than $50 in tax cuts for each dollar in education spending increases.

The contrast between education and just one of the Administration's tax cut proposals — the proposal to eliminate the estate tax — is worthy of note. Estate tax is paid only on the estates of the wealthiest two percent of individuals who die. Under current law, estates of up to $1 million for individuals and $2 million for married couples will be exempt entirely from the estate tax by 2006, with larger exemptions for businesses and farms. The President's budget proposes to repeal the estate tax, at a cost of $58 billion in 2011. That is 12 times the size of the increase for education that year under the budget.

Moreover, the budget would use $29 billion in 2011 — six times the total increase in education funding — just to eliminate estate taxes on the 4,500 largest estates in the nation. A small number of extremely large estates pay half of the estate tax; in 1998, some 2,900 estates paid half of estate taxes, while in 2011, some 4,500 estates are expected to do so. These are the estates of the wealthiest one of every 1,000 people who die. The tax reductions that these 4,500 extremely large estates would reap from estate tax repeal in 2011 would total $29 billion, with the average tax reduction being more than $6 million per estate for these huge estates. By contrast, the total increase in education programs for the millions of U.S. schoolchildren would amount to less than $4.7 billion that year, or less than one-sixth as much. Relatively little money would be available to raise teachers' salaries to attract more qualified people to enter the teaching profession or remain in it, in part because so many resources would have been used for large tax cuts for the nation's most affluent members.

## Where Does the Money for the Education Increases Come From?

Where does the Administration find the resources in its budget for the modest education increase it proposes, given the size of the tax cut? At first glance, the answer to this question might seem obvious — the money comes from the surplus. But in fact, the answer is more complicated than that.

The Congressional Budget Office projects that the surplus outside Social Security will be $3.1 trillion over the next ten years. Members of Congress of both parties and Administration officials have said that the portion of the surplus that occurs in the Medicare Hospital Insurance

***The President's budget request for education for fiscal year 2002 represents a three percent increase over the inflation rate — which is one-third the average rate of increase in education spending over the past four years. Education would have its recent rate of growth slowed by two-thirds.***

trust fund should be reserved for Medicare and not used for tax cuts or other program initiatives. When the Medicare Hospital Insurance surplus is set to the side, $2.7 trillion remains.

Not all of this $2.7 trillion is available, however. Some of it will be used simply to maintain certain popular policies that enjoy bipartisan support. For example, there are about 20 popular tax credits that expire every couple of years and always are extended. Because these tax credits are scheduled to expire under current law, the Congressional Budget Office assumes, when projecting the size of the surplus, that these tax credits all will terminate. Knowledgeable observers agree that the chances of that actually happening are virtually zero. Similarly, in recent years, payments to farmers averaging about $10 billion a year have been made one year at a time. Since these payments are not governed by an ongoing law, CBO's surplus projection reflects an assumption that these payments, too, will end. Once again, the chances of that happening are essentially zero. The costs of continuing these policies thus must be taken into account in determining how much of the projected surplus is available for tax cuts and program initiatives. (For a fuller discussion of costs that need to be taken into account in determining the size of the available surplus, see the Center analysis "What the New CBO Projections Mean," January, 2001.)

Consequently, the amount available is significantly less than $2.7 trillion. The Center estimates the projected surplus that actually is available for tax cuts and program initiatives at 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 of Brookings and Alan Auerbach of the University of California at Berkeley ($1.7 trillion over ten years).

The Administration's tax cut would consume virtually all of these available surpluses. The President's budget shows the tax cut as consuming $2.0 trillion in surpluses over the next ten years — $1.6 trillion in revenue reductions plus $400 billion in added interest payments on the debt. (Any tax cut or program increase results in higher interest payments, since resources that otherwise would be used to shrink the debt are used for a tax cut or program increase instead.) Moreover, this $2.0 trillion figure understates the tax cut's ultimate cost. As stated above, the Joint Committee on Taxation has found that the Bush tax cut would cause 15 million taxpayers to become subject to the complicated Alternative Minimum Tax by 2011 and that it would cost $292 billion to prevent this from occurring. There is little question this change in the AMT will be made, even if not this year. As a result, the Bush tax cut ultimately would consume at least $2.3 trillion of the surplus over the next 10 years. That exceeds the amounts that the Concord Coalition, the Center on Budget and Policy Priorities, and experts at Brookings have estimated is available when realistic assumptions are used.

Since the tax cut would use up virtually all (or more than all) of the projected surplus that is likely to be available for tax cuts and program initiatives,

**Table 2**

**Function 500: Education, Training, Employment, and Social Services, as Compared with the Baseline**

| | Outlays for Discretionary Programs 5-year Total (2002 - 2006) |
|---|---|
| Bush budget, as re-estimated by CBO | $328.2 billion |
| CBO Baseline | $328.2 billion |

the modest education increases in the Bush budget ultimately must be financed in other ways. A closer examination of the Bush budget shows where the financing comes from.

The Congressional Budget Office estimates that under the Administration's budget, overall expenditures for the next five years for discretionary (i.e., non-entitlement) programs in the areas of education, training, employment, and social services would total $328.2 billion.[3] This amount *includes* the Bush education initiatives. Yet CBO also estimates that if there are *no* increases in any programs in these areas — and all of the programs simply remain at their current levels, adjusted only for inflation — the cost would be $328.2 billion, precisely the same amount. (See Table 2.) In other words, the Administration is proposing *no overall increase* in this part of the budget over the next five years.[4] What this signifies is that under the President's budget, every dollar of increases in expenditures for education *is* offset by a dollar reduction in expenditures for job training or employment programs, services for children or frail elderly and disabled individuals, or other programs in this part of the budget.

The specific nature of the offsetting reductions is not yet known. These reductions are not identified in the budget documents the Administration sent Congress on February 28. Some of these reductions may be specified in more detail in the budget documents the Administration plans to send to Congress in early April. Many of these cuts, however, may remain unspecified in the April budget materials, as well. The documents that the Administration will transmit in April need to provide specific budget levels for discretionary (i.e., non-entitlement) programs only for fiscal year 2002. Most of the budget cuts in discretionary programs that the Administration's budget framework requires would come in years *after* 2002.

It is possible that little or no detail will be provided about those cuts for some time. Delaying the provision of such detail helps the Administration to promote its tax cut, since many of the budget reductions the proposed tax cut would entail will be shielded from public view until after the tax cut has been written into law. (It may be noted that after initially indicating it would send to Congress on April 2 the details on the funding levels it is seeking for programs in fiscal year 2002, the Administration pushed this date back to April 9, the week *after* the Senate is scheduled to vote on the fiscal year 2002 budget

**Table 3**

**Discretionary Spending in the Budget**

| | **10-year Totals** (in billions of dollars) |
|---|---|
| Total Discretionary Spending Increase (from Table S-2) | +30 |
| Discretionary Spending Initiatives for Education, Defense, Health Research and seven other smaller areas (from Table S-5) | 260* |
| Necessary but Unspecified Discretionary Cuts | -230* |

*The $260 billion figure for initiatives appears to overstate funding for domestic initiatives and understates funding for defense initiatives. For domestic initiatives, the increases appear to be relative to a baseline used in the campaign, rather than the current CBO baseline. As a result, the size of the domestic initiatives is overstated. On the defense side, these figures do not include funds for national missile defense and other defense spending increases that will be submitted after completion of the defense review.

Each dollar of additional defense spending increases will have to be accompanied by a dollar of reductions in non-defense discretionary programs to fit within the discretionary spending caps the Administration is proposing.

plan. The House voted on the budget on March 28.)

Some sense of the size of the as-yet unspecified budget cuts can be gleaned from budget tables appended to the back of the budget book the Administration issued on February 28. One table shows a total increase in discretionary spending (above current levels, adjusted for inflation) of $30 billion over ten years. Another table lists increases of $260 billion over ten years in discretionary spending levels for education, defense, health research, and seven other smaller areas for which the Administration wants to increase funding. If there are $260 billion in discretionary spending increases in these favored areas but the *total* increase in discretionary spending amounts to just $30 billion, there must be $230 billion in unspecified cuts in discretionary programs over the next ten years. (See Table 3.)

Furthermore, the $260 billion figure may understate the intended increases the Administration will seek in areas that it favors, because this figure does not include the sizeable defense spending increases the Administration is expected to request after it completes the defense review it is conducting. For example, the Administration's budget documents do not contain funds for a national missile defense system, for which the President expressed strong support during the campaign. The funding request for this item, which could be very expensive, will come later. Since the Administration is proposing tight spending caps on *total* discretionary spending, each dollar of increased defense spending the Administration requests after completing its defense review will have to be accompanied by an additional dollar of cuts in non-defense discretionary programs. (The Administration could avert such an outcome if it were to accompany the defense increases it will later propose with a request to raise the discretionary spending caps it now is calling for. But if the Administration's tax cut has been enacted, such a step might not be possible without causing a return of deficits outside the Social Security and Medicare Hospital Insurance trust funds.) As a result, the level of reductions in discretionary programs outside the Administration's favored areas might have to be significantly greater than $230 billion over the next ten years.[5]

***Each dollar of increases in expenditures for education would be offset by a dollar reduction in expenditures for job training or employment programs, programs that provide services to children or elderly or disabled people, or other social services programs.***

Might the "budget reserve" the Administration says its budget includes lessen the need for reductions in discretionary spending? It is doubtful. The Administration contends the budget contains a reserve of $842 billion over ten years to meet additional needs. Unfortunately, the reserve turns out to be a chimera. More than half of the funds in it are simply the surpluses building in the Medicare Hospital Insurance trust fund. Once the Medicare HI surpluses are set aside, only a few hundred billion dollars remain, all of which are needed for expenditures that the Administration's budget leaves out but that will surely be made. These include the costs of extending the approximately 20 tax credits that come up for renewal every couple of years, maintaining payments to farmers, and addressing the problems in the Alternative Minimum Tax so it does not hit millions of middle-class families. The costs of these three items alone *are greater than the entire reserve*.

In other words, the budget does not really establish a reserve for unmet needs. To the contrary, because of the magnitude of the tax cut, the budget would be likely to precipitate deficits outside of the Social Security and Medicaid Hospital Insurance trust funds unless the budget surpluses turn out to be considerably larger than is

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currently projected or sizeable reductions are enacted in domestic programs.

**Tax Cuts Outweigh Program Initiatives by 10 to 1**

It is instructive to examine the tax cut and program initiative levels that the Administration's budget proposes for 2011. That year — the final year of the ten-year budget period — is the most appropriate year to use since it would be the first year in which the tax cuts, as President Bush proposed them, would be phased in fully.

Using numbers directly from the Administration's budget, we find there would be $25 billion in increased program expenditures in 2011, the majority of which would come from a modest prescription drug benefit for seniors, but $254 billion in tax cuts (a number the House of Representatives is raising in the tax bills it is passing). Thus for each dollar in tax cuts, there would be a dime of program increases.[6]

In short, although President Bush called education his highest priority in his address to the nation, his budget accords by far its highest priority to tax cuts. The resources for the tax cut dwarf the resources for education and all other domestic, international, and defense initiatives combined. In fact, as explained in other Center analyses, just the portion of the tax cut that would go to the wealthiest one percent of Americans is larger than the total amount requested for all education, health, and other initiatives. (For a more in-depth examination of the priorities in the President's budget, see the Center report *Following the Money: The Administration's Budget Priorities*, April 3, 2001.)

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1. See Table S-5, Discretionary Policy Initiatives, *A Blueprint for New Beginnings*, OMB, Feb. 28, p. 189.
2. This acknowledgment was made by a senior policy official of the Office of Management and Budget at an Urban Institute budget roundtable on March 6.
3. This is CBO's estimate of the spending levels proposed in the budget that the Administration sent to Congress on February 28. CBO has provided these figures to the Budget Committees.]
4. Over ten years, this part of the budget would rise 1.5 percent.
5. The degree to which the discretionary spending cuts in non-favored areas would have to exceed $230 billion would likely be moderated, however, by another factor. The $260 billion figure shown in the Administration's budget for discretionary spending initiatives in education, defense, health research, and other favored areas appears to overstate the increases the Administration is proposing for these areas. The increases shown for these areas are relative to a budget baseline used in the Bush presidential campaign that does not reflect the funding increases enacted in December, rather than relative to the current baseline. This makes the proposed increases in these areas look larger than they really are.
6. If we use CBO's re-estimates of the spending levels in the Bush budget, along with the figures cited earlier for the cost of the tax cut including House Ways and Means Committee action to date, the result is much the same — for each dollar in tax cuts, there would be 13 cents of program increases.