CENTER ON BUDGET AND POLICY PRIORITIES

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ASSESSING PRESIDENT BUSH'S NEW BUDGET PROPOSAL

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This short analysis examines the priorities reflected in the Administration's budget, the effects of its proposals on the deficit, and some budget gimmicks it contains.

The Priorities of the Budget

The budget makes very substantial cuts in domestic spending at the same time that it calls for large additional tax cuts. If the Department of Defense, homeland security, and international affairs are funded at the levels the President proposes, then by 2010, funding for the remaining annually appropriated programs — so called "domestic discretionary" programs — would have to be cut about $66 billion, or 16 percent, below the 2005 levels, adjusted for inflation. These cuts hit programs — in areas such as education, veterans' health care, and environmental protection — of importance to large numbers of Americans.

The budget proposes new tax cuts costing $1.4 trillion over 10 years (a figure that rises to $1.6 trillion when the resulting interest payments are added in), even though the paucity of revenues is 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 Administration's budget would make its tax cuts permanent and add a number of new tax cuts on top. It proposes, for example, a series of new tax cuts related to savings that, according to an analysis by the Tax Policy Center of the Urban Institute and the Brookings Institution, would go overwhelmingly to those with incomes above $100,000. Furthermore, these savings proposals are designed around a timing gimmick, so they produce increased tax revenues over the next five years but lose massive sums in future decades. The Congressional Research Service has estimated that these new tax cuts eventually cost the equivalent today of $300 billion to $500 billion over ten years.

Key low-income programs would be hit even though these programs have contributed little to the return of the deficit, and since 2000, poverty has risen and the number of Americans without health insurance has climbed. The number of poor went up for the third straight year in 2003, the share of total income that goes to the bottom two-fifths of households has fallen to one of its lowest levels since the end of World War II, and the number of people lacking health insurance rose to 45 million in 2003, the highest level on record. Yet the budget proposes food stamp cuts that will eliminate benefits for approximately 300,000 people primarily in low-income working families and a five-year freeze on child care funding that, according to tables in the Administration's budget, will result in cutting the number of low-income children receiving child care assistance by 300,000 in 2009. The budget also proposes to reduce Medicaid funding by at least $45 billion over 10 years; such a proposal would almost certainly push hard-pressed states to eliminate coverage for a substantial number of low-income people, increasing the ranks of the uninsured and the underinsured.

Effects on the Deficit

Despite cuts to scores of domestic programs, the Administration's budget <u>*increases*</u> *rather than decreases the deficit over the next five years.* As shown by its own figures, the effect of the Administration's budget is to *increase* total deficits over the next five years from $1.364 trillion under current law to $1.393 trillion. A main reason for this outcome is the tax-cut proposals the Administration has included in its budget.

Over the longer run, by proposing to make its tax cuts permanent, the Administration's budget proposals would dramatically swell the deficit. In 2015 alone, the Administration's tax proposals — including the cost of making the 2001 and 2003 tax cuts permanent — would reduce revenues by $287 billion. The total effect on the deficit, including the related interest costs, would be $358 billion. The Administration's proposal to replace part of Social Security with private accounts also would swell deficits further. It would add $1.4 trillion to deficits in its first ten years (2019 to 2028) and another $3.5 trillion in the decade after that. In 2015 alone, it would add $177 billion.

Budgetary Hide and Seek

For the first time since 1989, the budget fails to provide information about the funding of specific discretionary programs beyond the upcoming budget year, thereby hiding the impact of the large discretionary cuts it is proposing. The budget fails to show how much the Administration proposes to provide for individual discretionary programs — which include education, veterans' health care, and many other programs — after 2006. This is notable since the budget proposes a "hard freeze" on domestic discretionary spending for five years, to be enforced by binding caps on discretionary programs. As discussed, this would result in a $66 billion cut in these programs by 2010 (compared to today's level, adjusted only for inflation). But the budget omits the Administration's proposals for the specific cuts it envisions to comply with these caps.

The Administration also proposes a new budget rule that would require that legislation to make the tax cuts permanent be treated as if such legislation had already been enacted. When CBO and OMB are asked to provide estimates of the cost of legislation to extend the tax cuts or make them permanent, they would be required to produce estimates showing the cost to be *zero*. This proposal is significant: it would exempt legislation to extend the tax cuts, or make them permanent, from any Congressional budget enforcement. Such budgetary legerdemain would be unprecedented and shatter rules designed to promote some modicum of fiscal responsibility.

The Administration insists on its practice of budgeting for only five years, masking the full cost of its tax cuts, while it simultaneously insists on using "infinite" or 75-year time horizons in other contexts. A principal reason the Administration cites for providing only a five-year budget is that estimates of the budget beyond the fifth year are too uncertain. Yet the Administration contends that the traditional 75-year test of solvency used by the Social Security actuaries and most social insurance experts is not long enough and that Social Security solvency must be measured into eternity. The Administration also proposes that cost estimates for major entitlement legislation be produced for 75 years, although it wants the cost of tax bills estimated for only five or ten years.