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Revised March 18, 2005

ASSESSING THE BUDGET PLAN APPROVED BY THE HOUSE OF REPRESENTATIVES

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This brief analysis examines the budget plan approved on March 17 by the House of Representatives. In short, while the budget plan calls for substantial reductions in many domestic programs, it would increase rather than decrease the deficit over time, largely due to its emphasis on further tax cuts.

Funding for "domestic discretionary" programs would be cut by $216 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 domestic programs — so called "domestic discretionary" programs — would be cut by a total of $216 billion below their current level, adjusted for inflation.[1] These funding cuts would reduce *expenditures* for these programs by an estimated $144 billion through 2010.
- In 2010 alone, these funding cuts would amount to $60 billion, or 14 percent.
- A wide range of essential programs are targeted for reductions. Education and training programs would be cut by $38 billion over the five-year period, with the reduction in 2010 also amounting to 14 percent. The cuts to natural resource and environmental programs would total $28 billion over five years, with the 2010 cut amounting to a severe 21 percent.

The cuts in mandatory programs are likely to fall heavily on low-income households. Under the House-passed plan, for instance, the cut to the Medicaid program may be significantly deeper than the President's proposal. Although the documents accompanying the budget plan do not specify which mandatory programs should be cut, the plan does specify the dollar amount that individual committees must cut in programs in their jurisdiction. For example, the House Ways and Means Committee is instructed to cut $19 billion over five years in programs over which it has jurisdiction. These cuts will likely fall on low-income programs such as the Earned Income Tax Credit, because other programs under this committee's jurisdiction — such as Medicare and Social Security — are likely to be off limits to deficit-reduction efforts, leaving the low-income programs that remain to take the bulk of the hits. In

[1] The $216 billion figure represents the reduction proposed in total funding for all domestic discretionary programs, including homeland security. The President's budget proposes increases in homeland security. If funding for homeland security is increased, as would be likely, funding for other domestic discretionary programs would have to be reduced by more than $216 billion.

another example, the Food Stamp Program may very well bear the brunt of the cuts that would be made by the Agriculture Committee.

The Medicaid program also would be the target for cuts. The Energy and Commerce Committee would have to make reductions of $20 billion over five years in the programs within its jurisdiction. The bulk of these cuts are expected to come out of the Medicaid program (a modest portion is likely to come from the sale of broadcast spectrum rights). Thus, the Medicaid cuts may be far larger than those proposed by the President over this period (which would be $7.6 billion over five years, according to the Congressional Budget Office). These Medicaid cuts are 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.

At the same time the budget plan would reduce domestic programs sharply, it proposes substantial new tax cuts — likely tilted toward 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 $106 billion in additional tax cuts over the next five years. The total 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 will go to households making more than $200,000, which make up 3.1 percent of all households.

Despite the cuts to domestic programs, the House budget plan fares poorly when it comes to fiscal responsibility.

- *The plan increases rather than decreases the deficit*. As shown in the table, the effect of the budget plan is to increase total deficits over what they would be during the next five years under projections of current law by $127 billion. A main reason for this outcome is the tax-cut proposals included in the proposal.

Effect of the House-Passed 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.	+105.7
Reductions in entitlement benefits.	-67.0
Expenditure reductions from $216 billion reduction in funding (appropriations) for domestic discretionary programs.	-144.0
Expenditure increases for defense and international discretionary programs.	+201.9
Increased interest costs resulting from above policies.	+30.3
TOTAL increase in projected deficits.	+126.9

- *The plan budgets for only five years, masking the full cost of the tax cuts the President and the House support.* By failing to provide any estimates of the effects of its priorities beyond 2010, the proposal 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.

- *The proposal would use a process originally established to ensure fiscal responsibility to pass more tax cuts, which will 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 originally ensured that hard-to-pass legislation that would reduce entitlement expenditures or raise revenues could not be filibustered in the Senate, and thereby ensured that such legislation would need 51, rather than 60, votes to pass. The House budget resolution would use these procedural protections to make it easier to cut taxes by $45 billion over five years, and thereby to increase the deficit — the opposite of the way reconciliation was originally used.`