



## 8 Things Everyone Needs to Know About The President's Proposed Budget

March 2005

1. **Despite significant spending cuts, the Budget would increase, not decrease, the federal deficit over the next five years.** The President's Budget would increase total deficits over the next five years from \$1.364 trillion in the current year to \$1.393 trillion by 2010. Why? Because the President's proposed tax cuts, coupled with increased spending on defense and homeland security, exceed his very significant proposed spending cuts.

2. **This growth in the federal deficit would be even greater if the budget did not omit other significant costs.** Not included in the President's proposed budget is funding beyond the \$80 billion upcoming supplemental appropriation for the war in Iraq and Afghanistan (~\$350 billion over ten years), the cost of the President's proposal to reform Social Security (~\$1.4 trillion in next ten years; ~\$3.5 trillion in following ten years), or the cost of extending current temporary relief from the Alternative Minimum Tax beyond 2005 (~\$700 billion over next ten years). The budget also uses a **trick in timing of a proposed major new tax cut** that means that its large long-term costs fall outside this budget's projections, while its short-term savings are counted *in* this budget.

3. **Despite the enlarging federal deficit and the war on terrorism, the Budget proposes to extend the large tax cuts adopted in 2001 and 2003 rather than allow them to expire as current law requires. The budget also proposes some new tax cuts.** Combined, these tax changes and extensions would reduce revenues by almost \$130 billion over five years, and \$1.4 trillion over 10 years (not counting \$0.2 trillion of added interest payments for the increased deficit). The President also proposes a new budget rule that would make it appear that there is no cost in extending the tax cuts (i.e., the legislation to extend the tax cuts would be treated as if the extension had already been adopted, so the Congressional Budget Office would be required to say the "cost" of the extension was \$0).

The *new* tax cut the President proposes would allow families who are wealthy enough to shift up to \$30,000 *every year* from taxable investment accounts into tax sheltered Lifetime Savings Accounts and Retirement Savings Accounts. Virtually no family with income under \$100,000/year would benefit, and the long-term cost of the proposal would be significant (more than \$35 billion/year in lost revenues).

4. **The Budget proposes deep cuts to non-discretionary (entitlement) programs.** Included in the President's budget are proposals to cut funding for mandatory programs by \$138 billion over the next ten years:

- **Cut Medicaid by \$45 billion over the next 10 years**, reducing funding for states even though the number of uninsured and the costs of health care are both rising.
- **Cut Food Stamps by \$1.1 billion over the next 10 years**, eliminating about 300,000 people from the program.

- **Freeze Child Care funding for the next 5 years** (a cut in “real” funding), resulting in a loss of assistance for 300,000 low-income children by 2009.

**5. The Budget also proposes deep cuts in domestic discretionary programs.** The President’s proposed budget includes significant cuts in domestic discretionary programs (i.e., non-entitlement programs other than those in the Defense Department, International Affairs and Homeland Security):

- In 2006, the Budget proposes an \$18 billion (5.5%) cut in funding for *domestic* discretionary programs. By comparison, in 2006 funding for defense and homeland security would increase.

<b>Changes in Real (Inflation-Adjusted) Funding for Programs That Are Funded Through Annual Appropriations (“discretionary” programs) Change from 2005 to 2006</b>		
	<b>\$B</b>	<b>%</b>
<b>Defense</b> (excluding funds for war in Iraq and Afghanistan)	\$7.2	+1.7%
<b>Homeland security</b>	\$2.7	+9.3%
<b>Domestic</b> (non-defense, international, homeland security)	<b>(\$18.0)</b>	<b>-5.5%</b>

- Cuts in domestic discretionary programs would increase each year between 2006 and 2010.
- By 2010, annual spending on domestic (non-defense/homeland security-related) programs would be cut by a total of \$66 billion, or a 15.7% real reduction in funding (as compared to current funding levels, adjusted for only inflation).
- Over the 5-year period from 2005-2010, a total of \$214 billion would be cut from these budget functions. By 2010, these cuts would reduce expenditures for domestic discretionary programs to their lowest level (as a share of the economy) since sometime before 1962 (the earliest year for which these data are available).

<b>Proposed Real Reductions in Domestic Discretionary Appropriations by Program Area: 2006-2010</b>	
	<b>% real reduction by 2010</b>
<b>Energy</b>	<b>-33.7%</b>
<b>Natural resource &amp; environmental programs</b> (including national parks, environmental protection)	<b>-22.5%</b>
<b>Community and Regional Development</b>	<b>-20.8%</b>
<b>Agriculture programs</b> (including agricultural research, animal and plant inspection programs)	<b>-17.0%</b>
<b>Veterans’ programs</b> (including health care for veterans)	<b>-16.4%</b>
<b>Education, Training, Employment and Social Services programs</b> (including education and training programs, community college funding, and K-12 education funding)	<b>-15.3%</b>
<b>General Government</b> (including White House, Congress, IRS)	<b>-14.9%</b>
<b>Health</b> (including NIH, CDC, medical research, community health)	<b>-13.9%</b>

centers, and HIV/AIDS treatment, but not including Medicaid or Medicare)	
<b>Income Security</b> (including housing, WIC, child care)	<b>-11.4%</b>
<b>Transportation</b>	<b>-11.1%</b>
<b>Administration of Justice</b>	<b>-10.1%</b>
<b>General Science, Space and Technology</b>	<b>-3.9%</b>

Within each of these budget functions, *few* subcategories of programs would be immune from cuts. For example, the overall “health” function is to be cut by 13.9%. Included in this is a 13.4% cut to health care research and training (including the National Institutes of Health) and a 15.9% cut to consumer and occupational health and safety (which includes the Occupational Safety and Health Administration and the Consumer Product Safety Commission). Within the education function (which is to be cut overall by 15.3%), K-12 and vocational education would be cut by 15.7%, higher education by 10.1%, and employment and training programs by 17.1% by 2010 (see Table A, below, for more detail).

**6. The Budget proposes a spending cap for overall discretionary (non-entitlement) spending for each year through 2010, but fails to provide details about *which individual programs would be cut in any year after 2006*.** Because the President’s budget proposes spending *increases* for defense, homeland security and international affairs programs, this spending cap will *force spending cuts* for remaining discretionary programs – the domestic programs – over this period. However, the President’s budget does *not* give any detail about which specific domestic programs and services will be cut to stay under the cap. *No* President’s budget since at least 1989 has failed to provide this information.

**7. The final Budget may make even deeper cuts.** As troubling as *this* proposed budget seems, the *final* budget that emerges from Congress could be *much worse!* It could include a global cap on federal spending, a cap on growth in entitlement programs such as Medicaid, the block granting of additional programs, or even deeper cuts than the President has proposed.

**8. Absent from the President’s budget are ways to reduce the deficit that would be more balanced and that would better address the underlying causes *for* the deficit.** Information from the Congressional Budget Office shows that changes in law enacted since January 2001 will have increased the federal deficit by \$539 billion in 2005. If this legislation had not been enacted, the federal government would have a *surplus* this year.

Nearly half of the federal government’s \$539 billion deficit (45%) results from tax cuts enacted beginning in 2001. Increases in spending for defense, homeland security and international affairs account for 37% of the growth, while only 6% of the \$539 billion deficit results from growth in federal spending for programs that serve low-income individuals and 12% from growth in non-low-income programs.

Because *federal tax cuts* contributed so significantly to the emergence of the current deficit, *restoration of federal revenues* should also be a part of the solution. The President’s budget *could*, for example, cancel or defer two tax cuts enacted in 2001 that have not even begun to take effect and that would provide nearly all their benefit to households with incomes over \$200,000/year.<sup>1</sup> It also could allow some of the tax

---

<sup>1</sup> These cuts involve the repeal of two provisions enacted in 1990 as part of the deficit reduction plan negotiated by then-President George H.W. Bush and Congressional leaders. The provisions in question phase out the benefits of personal

cuts enacted in 2001 and 2003 to expire (as is the current law) and not be extended because they are unaffordable. More than 70% of *these* tax cuts benefit the wealthiest 20% of taxpayers; more than 25% of the cuts benefit the wealthiest 1%.

Indeed, previous *successful* efforts to reduce federal deficits by the first President Bush and President Clinton relied on such a *balanced* approach – one that not only cut spending, but also increased revenues.<sup>2</sup>

**TABLE A**

<b>% Change in Discretionary Budget Authority: 2004-2010<sup>3</sup></b>	
<i>Function &amp; Subfunction</i>	% change by 2010
<b>050 National Defense</b>	<b>5.9%</b>
051 Department of Defense-Military	7.0%
053 Atomic energy defense activities	-16.4%
054 Defense-related activities	-13.8%
<b>150 International Affairs</b>	<b>7.5%</b>
151 International development & humanitarian assistance	24.7%
152 International security assistance	-7.5%
153 Conduct of foreign affairs	-5.1%
154 Foreign information & exchange activities	-4.5%
155 International financial programs	110.4%
<b>250 General science, space and technology</b>	<b>-3.9%</b>
251 General science and basic research	-12.9%
252 Space flight, research and supporting activities	1.3%
<b>270 Energy</b>	<b>-33.7%</b>
271 Energy supply	-33.6%
272 Energy conservation	-16.4%
274 Emergency energy preparedness	-19.3%
276 Energy information, policy and regulation	-57.2%

exemptions and some itemized deductions for taxpayers with high incomes. While the 2001 tax bill repealed these two provisions, the repeal was not to begin until 2006, with the phase-out fully in effect in 2010.

<sup>2</sup> Sources used in this summary include: J. Horney & R. Kogan, *Assessing the Administration's Five-Year Appropriation 'Caps'*, (Center on Budget and Policy Priorities, 3/1/05); S. Parrott, J. Horney, I. Shapiro, R. Carlitz, B. Hardy, & D. Kamin, *Where Would the Cuts Be Made Under the President's Budget?* (Center on Budget and Policy Priorities, 2/28/05); R. Carlitz, *Domestic Discretionary Funding Levels for 2006 Through 2010, Detailed Data* (Center on Budget and Policy Priorities, 2/28/05); R. Greenstein, J. Horney, & I. Shapiro, *Assessing President Bush's New Budget Proposal* (Center on Budget and Policy Priorities, 2/14/05); S. Parrott, I. Shapiro, D. Kamin & R. Carlitz, *Unpublished Administration Budget Documents Show Domestic Cuts Would Significantly Reduce Funding for Most Public Services* (Center on Budget and Policy Priorities, 2/9/05); I. Lav, *Deep Cuts In Federal Grants in FY 2006 Budget Will Squeeze States and Localities* (Center on Budget and Policy Priorities, 2/9/05); *What Is –and Isn't – in the President's Budget* (2/05); I. Shapiro & R. Greenstein, *Cuts to Low-Income Programs May Far Exceed the Contribution of these Programs to Deficit's Return* (Center on Budget and Policy Priorities, 2/4/05); J. Horney, R. Greenstein, & R. Kogan, *What the President's Budget Shows About the Administration's Priorities* (Center on Budget and Policy Priorities, 2/7/05).

<sup>3</sup> R. Carlitz, *Domestic Discretionary Funding Levels for 2006 Through 2010, Detailed Data* (Center on Budget and Policy Priorities, 2/28/05).

<b>300 Natural resources and environment</b>	<b>-22.5%</b>
301 Water resources	-21.8%
302 Conservation and management	-24.8%
303 Recreational resources	-20.4%
304 Pollution control and abatement	-20.4%
306 Other natural resources	-23.4%
<b>350 Agriculture</b>	<b>-17.0%</b>
351 Farm income stabilization	-11.2%
352 Agricultural research and services	-19.2%
<b>370 Commerce and housing credit</b>	<b>151.4%</b>
371 Mortgage credit	62.2%
372 Postal service	-86.6%
373 Deposit insurance	200.0%
376 Other advancement of commerce	163.2%
<b>400 Transportation</b>	<b>-11.1%</b>
401 Ground transportation	-20.5%
402 Air transportation	-19.0%
403 Water transportation	15.1%
407 Other transportation	-9.1%
<b>450 Community and regional development</b>	<b>-20.8%</b>
451 Community development	-88.3%
452 Area and regional development	74.1%
453 Disaster relief and insurance	-6.3%
<b>500 Education, training, employment &amp; social services</b>	<b>-15.3%</b>
501 Elementary, secondary and vocational education	-15.7%
502 Higher education	-10.1%
503 Research and general education aids	-16.3%
504 Training and employment	-17.1%
505 Other labor services	-23.2%
506 Social services	-19.1%
<b>550 Health</b>	<b>-13.9%</b>
551 Health care services	-14.4%
552 Health research and training	-13.4%
554 Consumer and occupational health and safety	-15.9%
<b>570 Medicare</b>	<b>6.1%</b>
571 Medicare	6.1%
<b>600 Income Security</b>	<b>-11.4%</b>
601 General retirement & disability insurance (exc. Social Security)	-26.0%
602 Federal employee retirement and disability	-34.1%

603 Unemployment compensation	-15.3%
604 Housing assistance	-10.1%
605 Food and nutrition assistance	-9.6%
609 Other income security	-15.2%
<b>650 Social Security</b>	<b>-14.4%</b>
651 Social security	-14.4%
<b>700 Veterans benefits and services</b>	<b>-16.4%</b>
701 Income security for veterans	-26.4%
702 Veterans education, training and rehabilitation	-16.1%
703 Hospital and medical care for veterans	-16.1%
704 Veterans housing	-19.7%
705 Other veteran benefits and services	-14.6%
<b>750 Administration of justice</b>	<b>-10.1%</b>
751 Federal law enforcement activities	0.8%
752 Federal litigative and judicial activities	-21.2%
753 Federal correctional activities	-9.9%
754 Criminal justice assistance	-47.7%
<b>800 General government</b>	<b>-14.9%</b>
801 Legislative functions	-5.5%
802 Executive direction and management	-16.8%
803 Central fiscal operations	-16.2%
804 General property and records management	-28.1%
805 Central personnel management	-27.6%
806 General purpose fiscal assistance	-22.6%
808 Deductions for offsetting receipts	-13.2%

Connecticut Voices for Children's work on state and federal budget issues is supported by the Stoneman Family Foundation, the Melville Charitable Trust, the Connecticut Health Foundation, the Charles Stewart Mott Foundation and Atlantic Philanthropies