

HOUSE BUDGET COMMITTEE

Democratic Caucus

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Actions Speak Louder Than Words: The Most Fiscally Damaging Budget in U.S. History

The \$5.6 trillion unified budget surplus projected less than two years ago is gone. In its place, the Administration offers a budget with a \$2.1 trillion deficit for the same ten-year period — an \$8 trillion fiscal reversal in just two years.

The Administration's budget spends the Social Security Trust Fund surplus for as far as the eye can see — with the baby boom's retirement beginning in just five short years. In the face of the worst fiscal reversal in U.S. history and a declining economy, the Administration's only response is to propose more of the same failed policies. The President continues to pursue large, multi-year tax cuts that do nothing to stimulate the economy now, while short-changing homeland security, education, transportation, health care, and law enforcement. To make the budget appear less dire, the Administration uses gimmicks and double-counting, even declining to show the long-run budget deterioration its budget causes.

Record Deficits

- ***The budget worsens the deficit outlook*** — The budget calls for deficits of \$304 billion in 2003 and \$307 billion in 2004, exceeding the \$290 billion record of the first Bush Administration. Without the President's policies, the unified budget would return to surplus in 2006, according to OMB. Within the five-year window that the Administration uses to cloak the long-term effects of its policies, the unified budget remains in triple-digit deficits every year. Beyond the budget's truncated five-year projection, the budget almost certainly stays in deficit, assuming enactment of the President's long-term tax-cutting agenda.
- ***The budget spends the Social Security Trust Fund Surplus*** — The President's budget spends the entire \$2.2 trillion Social Security surplus — and more — for the foreseeable future. Only a year ago last summer, the Administration's budget proclaimed that

“maintaining a surplus at least the size of the Social Security surplus” was the “threshold condition of public finance.”¹

- ***The budget calls for increasing public debt without end*** — Instead of approaching the fiscal challenges of the baby boom’s retirement with declining public debt and stronger government finances, the President’s budget increases debt for as far as the eye can see. Two years ago, the President claimed that his policies would reduce public debt in 2008 to an irreducibly low level. Now, the President’s own budget predictions show public debt in 2008 over \$5 trillion and rising.
- ***More than \$1.5 trillion in additional spending for interest on public debt will burden our children with a “debt tax”*** — Since the President proposed his first budget, projected spending for interest on the national debt has jumped from \$0.7 trillion for 2002 through 2011 to more than \$2.2 trillion. This additional \$1.5 trillion in federal spending for interest on the public debt represents resources that otherwise could be used to address priorities like retirement security, homeland security or national security. Instead, extra spending on interest will burden succeeding generations with a “debt tax” of more than \$200 billion dollars per year for the foreseeable future.

Continuing Failed Policies

- ***The Administration’s only answer to mounting budget and economic problems is to propose more expensive, back-loaded tax cuts*** — Not only has the budget outlook collapsed in the last two years, but the Administration’s policies failed to prevent the loss of 2.4 million private-sector jobs since the President was inaugurated. Rather than admit that the Republican tax-cut agenda has failed, the budget cuts taxes by an additional \$1.5 trillion over the next ten years (once one includes the budgetary costs concealed in the footnotes). With the interest spending on higher public debt that this causes, these tax cuts’ impact on the budget for 2004 through 2013 is more than \$1.9 trillion.
- ***The President’s budget offers only a trivial 2003 economic stimulus*** — The Administration’s putative “economic growth” policy puts less than 5 percent of its tax cut in 2003, when the struggling economy needs it. The 2003 impact of all the President’s tax-cut proposals is only 2.3 percent of their 2003 through 2013 cost. The Administration does not believe the economy needs stimulus, because it predicts real growth will average 3.4 percent over the four quarters of this calendar year, essentially the same as its pace during the last four years of the Clinton Administration.
- ***The President calls for tax cuts irrespective of conditions*** — Two years ago, the Administration argued that projected surpluses were so huge and so certain that only back-loaded, multi-year tax cuts would avoid the dreaded possibility of paying off too much public debt. One year ago, the Administration argued that, despite the re-

¹Mid-Session Review of the Budget of the United States Government, August 22, 2001, page 2.

emergence of budget deficits and growing debt, only back-loaded, multi-year tax cuts could get the economy moving. Now, facing huge, chronic deficits, the Administration proposes even larger back-loaded, multi-year tax cuts, claiming that they will return the budget to balance in the very long run.

- ***With supply-side magic facing widespread skepticism, the Administration now says that chronic deficits and growing public debt do not matter*** — The idea that tax cuts reduce deficits, rather than worsening them, has been disproved by events — most notably over the last two years. Because this supply-side notion flies in the face of common sense, the Administration feels obliged now to argue that chronic deficits do not actually hurt the economy. For instance, the President's chief economist, Glenn Hubbard, recently argued that the disappearance of \$5.6 trillion in prospective surpluses and the renewed prospect of out-of-control federal borrowing will not have an appreciable effect on long-term economic growth. This claim contradicts Dr. Hubbard's own 2002 economics textbook, which takes the widely accepted view that chronic budget deficits will undermine the growth of American living standards for years to come.

Misplaced Priorities

- ***The reality of the President's budget belies his rhetoric about American priorities*** — The Administration claims that budget deficits and the war preclude adequate resources for the priorities of America's working families, while simultaneously insisting on tax breaks measured in hundreds of billions of dollars. In reality, the President asks for wartime sacrifice from everyone except affluent beneficiaries of his repeated tax cuts. To fund these extravagant tax cuts, the President proposes shortchanging important priorities like homeland security, education, retirement security, and a real Medicare prescription drug benefit.
- ***The budget showcases selected funding increases for a few hallmark programs to cloak severe cuts to the overall budgets for those same priorities*** — The President singles out budget increases for hallmark programs as if to suggest that overall funding levels are adequate.
- ***The Administration cuts appropriated programs*** — The budget includes \$821.8 billion for all appropriated programs and transportation obligation limitations, a cut of \$7.3 billion below the level needed to maintain programs and services at their 2002 level. However, domestic non-homeland security funding is cut far more severely, by a total of \$18.7 billion (4.8 percent) below the amount needed to maintain purchasing power at the 2002 level. This is because defense receives an increase of \$7.7 billion above the amount needed to maintain purchasing power (though this does not include anything for war against Iraq).

Homeland Security

- ***The Administration provides a minimal increase for Homeland security*** — The President's budget includes a total of \$41.3 billion for homeland security activities for 2004. This total includes mandatory and discretionary programs, including homeland security funding for the Department of Defense. The Administration estimates comparable total homeland security funding for 2003 at \$41.0 billion. Thus, according to the Administration's own figures, the budget provides a mere 0.8 percent increase from 2003. This almost certainly is a cut in purchasing power.

Education

- ***Even education faces funding cuts*** — While the budget increases appropriations for the Department of Education by \$1.7 billion (3.4 percent) above the amount needed to maintain programs and services at the 2002 level, it eliminates many education programs, freezes most others at the CR level, while increasing funding for a few select programs like special education. Some of the programs facing cuts below the amount required to maintain purchasing power at the 2002 level include:

21st Century Community Learning Centers after-school program, at \$600 million, are down \$430 million (41.8 percent). This is \$1.2 billion below the level Congress authorized for 2004 for this program in the No Child Left Behind Act (NCLB).

Improving teacher quality, at \$3.1 billion, is cut \$173 million (5.2 percent).

Education technology funding, at \$722 million, is down \$77 million (9.6 percent).

Perkins loans, at \$68 million, are cut \$106 million (61.0 percent).

- ***The budget for the No Child Left Behind Act is inadequate*** — The budget provides \$22.6 billion to fund programs under the No Child Left Behind Act, more than \$9 billion below the amount authorized for 2004 and \$199 million below the amount needed to maintain purchasing power at the 2002 level.
- ***The budget provides no increase for the maximum Pell Grant*** — The budget increases Pell Grant funding to \$12.7 billion but freezes the maximum award at \$4,000, the second straight year that the President has proposed no increase in the maximum Pell Grant. In each of the five years prior to 2003, Congress raised the maximum grant by totals ranging from \$125 to \$450 to offset the growth in the cost of higher education for the most needy students.

Health Care

- ***The President offers inadequate prescription drug coverage and unspecified Medicare reforms that look to push seniors into private health plans*** — The President's 2004 budget includes \$400 billion over ten years (2004-2013) to reform Medicare and provide prescription drug coverage to seniors. Aside from prescription drugs, the total amount is also supposed to fund changes to Medicare+Choice payments, a fix to physician payments, and other reforms. However, the House Republicans' prescription drug package was inadequate last year at \$350 billion, and will surely cost more than \$400 billion to provide the same benefits. For the third year in a row the President fails to outline specifics of the planned Medicare reforms, but the overall intent is to push seniors into private health plans.
- ***The President attempts to dismantle Medicaid's guarantee of health care for low-income individuals under the guise of "state flexibility"*** — The budget provides \$3.3 billion in federal funding in 2004, and \$12.8 billion over seven years, for states willing to block grant their Medicaid programs. However, states would have to pay back all that money over three years, from 2011 to 2013. States that accept this option could cut benefits for certain Medicaid populations. States may also have to cut benefits further if block grants do not keep pace with enrollment and inflation increases.
- ***The budget cuts overall spending for Medicaid and SCHIP*** — The budget cuts Medicaid spending relative to current law by \$6.4 billion over ten years (2004-2013) by revising the base formula used to calculate the Medicaid drug rebate. While the Administration includes some spending increases for policies affecting individuals with disabilities and a five-year extension of Transitional Medicaid Assistance, the budget cuts overall Medicaid and SCHIP funding by \$2.5 billion over ten years.
- ***The budget reduces funding for rural health*** — Rural health activities are cut by \$52 million (39.2 percent) below the level needed to maintain purchasing power at the 2002 level.
- ***The Administration freezes family planning programs*** — The budget freezes Title X family planning programs at the 2002 enacted level of \$265 million. This funding is a cut of \$9 million (3.4 percent) from the level needed to maintain purchasing power at the 2002 level.

Other Priorities

- ***The Administration underfunds the National Aeronautics and Space Administration (NASA)*** — The budget includes \$15.5 billion for NASA, which is \$39 million (0.3 percent) below the level needed to maintain purchasing power at the 2002 level. Going back as far as 2000, Congress has appropriated more each year than the President's total request for NASA and also more than requested for the space shuttle. The 2004 budget provides \$6.1 billion for space flight (which includes the shuttle as well as other

programs such as the space station). This is \$990 million (13.9 percent) below the level needed to maintain purchasing power at the 2002 level.

- ***The President's budget cuts federal-aid highway funding by 7.9 percent from the 2002 enacted level*** — The \$2.5 billion cut in federal-aid funding for 2004 follows the highly controversial \$8.6 billion cut the President proposed last year. Congress rejected the President's proposal for 2003 and will undo at least half of that cut in the pending omnibus appropriations bill. Cuts to federal highway aid will exacerbate the already severe fiscal difficulties that states are facing.
- ***The President's budget sharply cuts state and local law enforcement and justice assistance*** — The President's budget cuts state and local law enforcement programs by \$3.4 billion below the level needed to maintain purchasing power at the 2002 level. This includes a cut to the Community Oriented Policing Services (COPS) program of \$929 million (85 percent) below the level needed to maintain purchasing power at the 2002 level. The budget eliminates funding for juvenile justice block grant programs and the Violence Against Women Act programs, and the Weed and Seed program.
- ***The President's budget requires widespread cuts to community development programs*** — The President's budget cuts the Community Development Block Grant Program by \$3.3 billion below the level needed to maintain purchasing power at the 2002 level. It also reduces the Community Development Financial Institutions Fund Program by \$31 million below the level needed to maintain purchasing power at the 2002 level. The Rural Community Advancement Program is cut by \$356 million below the level needed to maintain purchasing power at the 2002 level. The budget reduces funding for Bureau of Indian Affairs programs by \$19 million below the level needed to maintain purchasing power at the 2002 level. The Appalachian Regional Commission is cut by \$39 million below the level needed to maintain purchasing power at the 2002 level. The President's budget *eliminates* funding for Brownfields Redevelopment programs and Empowerment Zones/Enterprise Communities.
- ***The budget converts Section 8 tenant-based housing assistance to a block grant*** — The budget converts Section 8 housing vouchers for low-income renters into a block grant program administered by states. Project-based vouchers continue to be administered by the Department of Housing and Urban Development. The budget's funding for these two programs and related activities in 2004 is \$17.1 billion. Combined with a recapture of \$1.1 billion in unobligated balances, total funding in 2004 is comparable to the amount necessary to maintain purchasing power at the 2002 level. However, the block grant proposal has implications for funding levels in future years.

Gimmicks Mask the Size of Deficits

- ***The President's budget uses gimmicks and double-counting to camouflage the deterioration of the budget outlook*** — The budget hides its long-term fiscal effects, omits the cost of huge and inevitable events, understates costs of its tax cuts, and overstates the resources devoted to other priorities.
- ***The Administration conceals the re-emergence of long-term budget deficits by showing only five years of numbers*** — Contrary to the practice OMB followed before last year, the budget shows numbers only through 2008. In the President's first budget, the Administration embraced ten year projections because the huge surplus projected for the next decade supposedly justified imprudent, back-loaded tax cuts. Now, with the return of large, chronic deficits, the Administration claims that ten-year forecasts cannot be trusted.
- ***The President's putative budget leaves out the cost of huge items, like the conflict with Iraq and protection of the middle class from the alternative minimum tax*** — The President's submission today is not really a budget because it omits important items. For instance, the budget omits the cost of war with Iraq and that country's subsequent occupation. Similarly, the President's budget last year took notice that the alternative minimum tax (AMT), unless changed, will affect 39 million tax filers by 2010, up from less than 2 million currently. Eventually, the AMT will burden more than half of all families with children. Even though the AMT will take away many of the tax cuts the President is promising and will oblige millions of middle-class families to figure their taxes twice and pay more, the President's budget shows no cost for comprehensive AMT reform.
- ***The Administration insists that budget discipline should not apply to additional tax cuts*** — On page 29 of the budget, the President calls for renewing the expired pay-as-you-go rule for mandatory spending only. Before it expired, this mechanism for budget discipline required that tax cuts, as well as entitlement spending, had to be budget-neutral unless Congress specifically chose to override this rule. Now, the Administration wishes to claim credit for budget discipline while ignoring the effects of its extravagant tax cuts.
- ***The Administration's new saving account proposal hides its long-run cost*** — Because withdrawals from the President's proposed new savings accounts would be tax-free, the revenue loss from this item occurs years in the future — beyond the budget's truncated five-year projection window. In 2003 through 2006, the new accounts actually increase revenue, because people pay taxes when converting existing savings vehicles into the new accounts. However, as people start making withdrawals from these accounts, the revenue loss grows.

The President's Fiscal Year 2004 Budget

House Budget Committee

Democratic Staff

February 3, 2003

Surplus Declines \$7.8 Trillion Under Administration Policies

Unified Budget Surplus, Trillions of Dollars

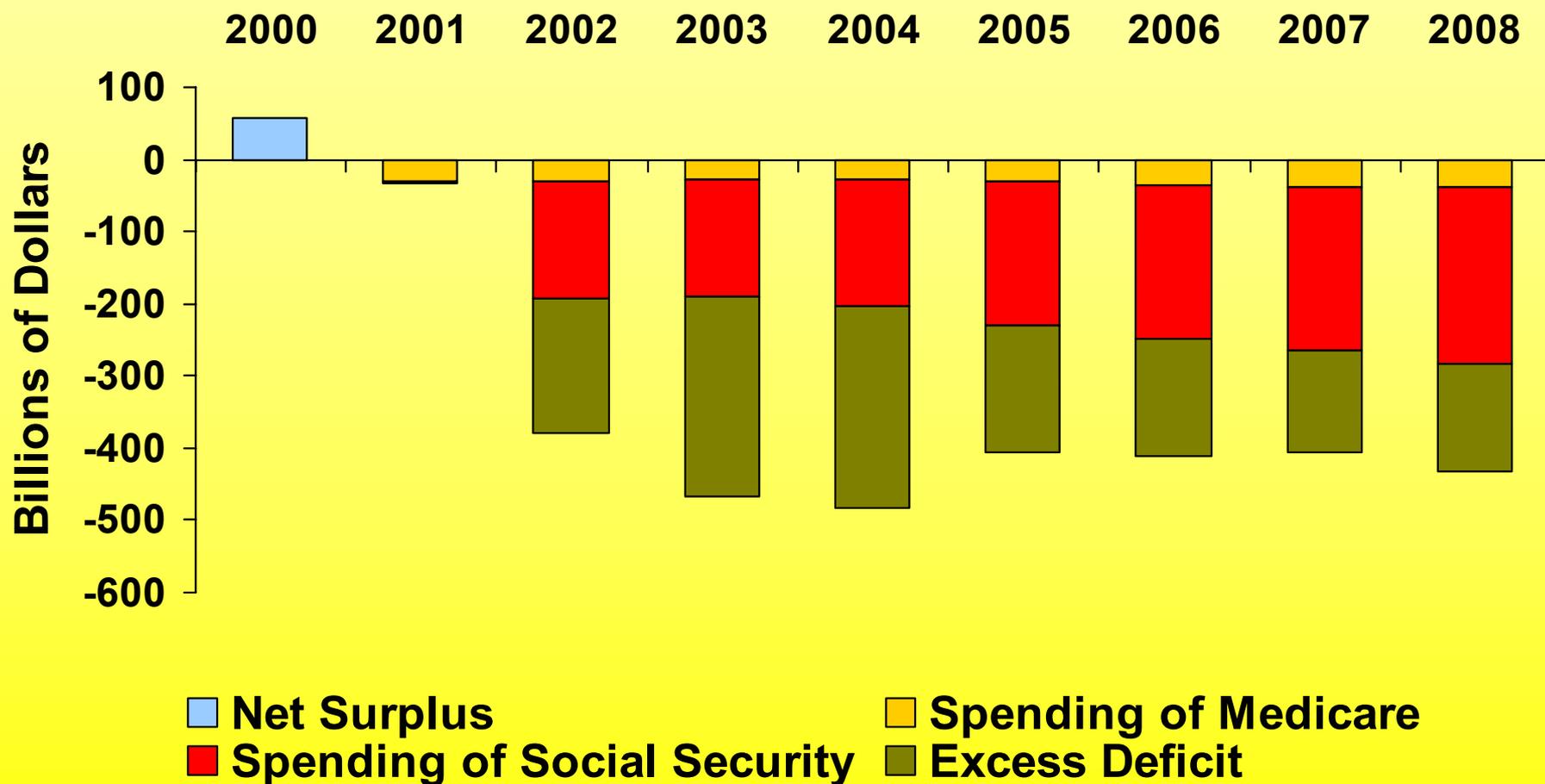
| | 2002-2011 |
|--------------------|------------------|
| February 2001 Base | 5.644 |
| July 2001 | 3.113 |
| February 2002 | 0.739 |
| July 2002 | 0.444 |
| February 2003 | -2.122 |

Current Budget Spends \$4 Trillion of Social Security Surplus

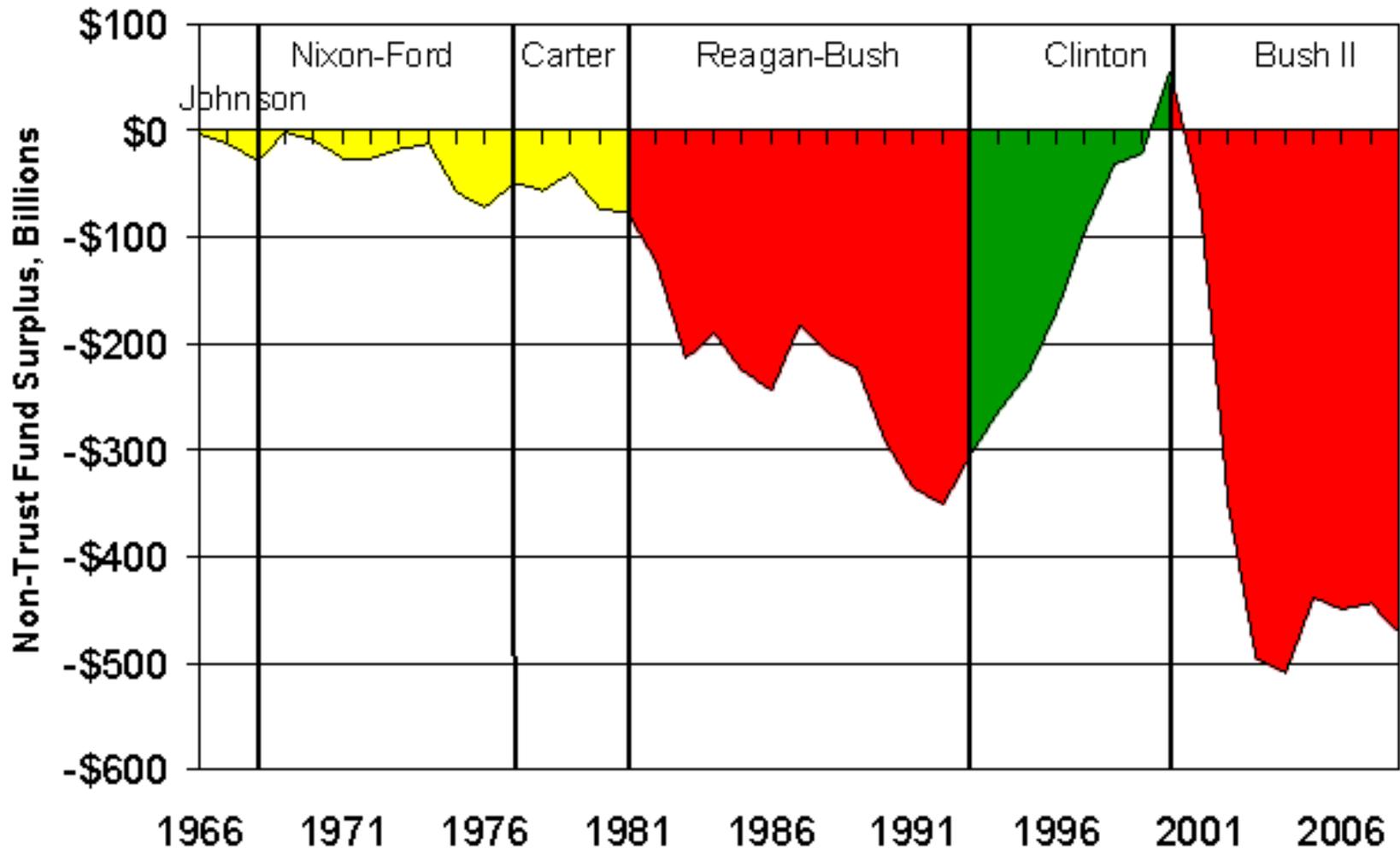
Trillions of Dollars

| | 2002-2011 |
|--------------------|------------------|
| February 2001 Base | 3.053 |
| July 2001 | 0.575 |
| February 2002 | -1.651 |
| July 2002 | -1.968 |
| February 2003 | -4.363 |

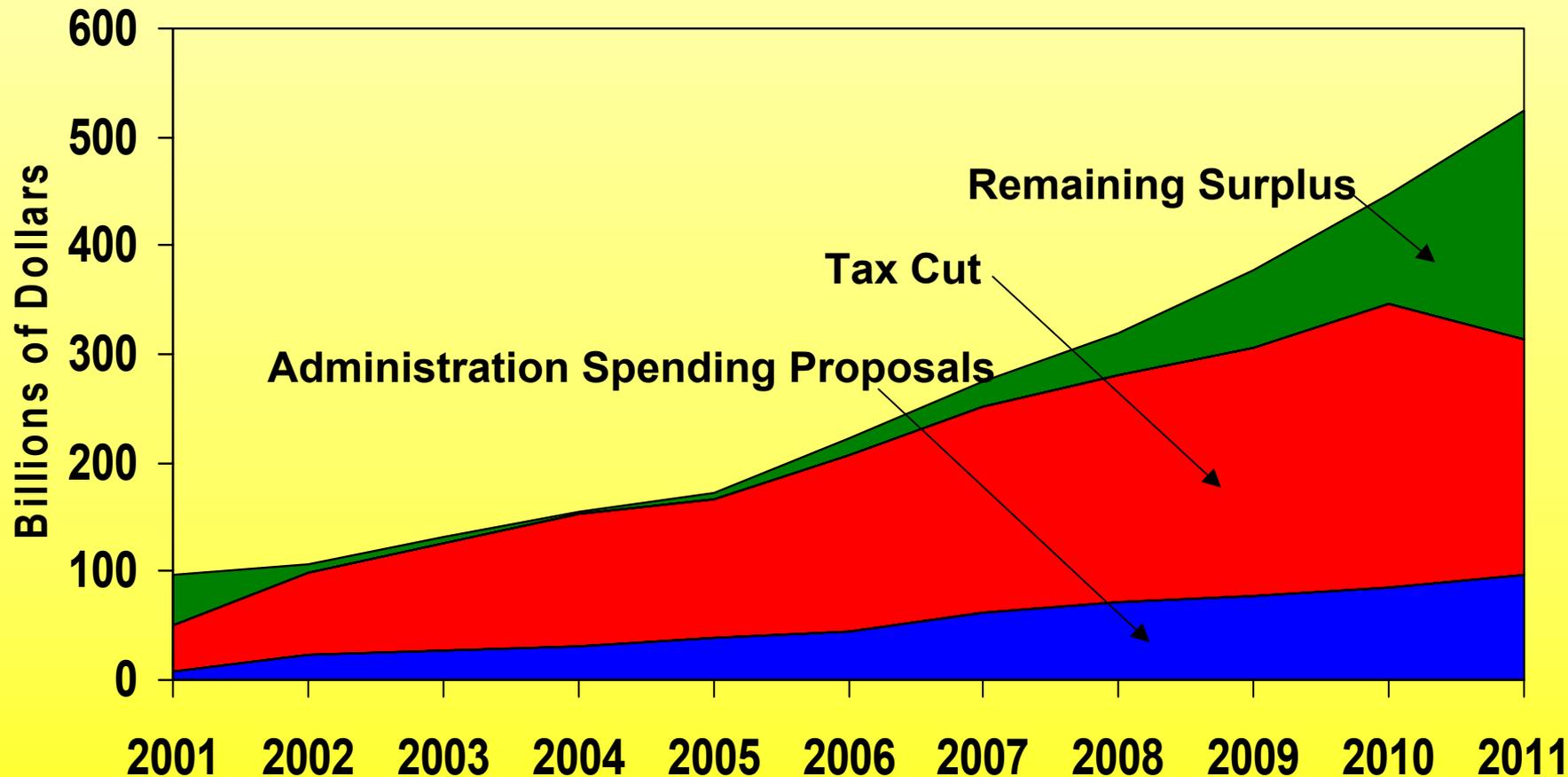
Bush's New Policies Spend Social Security and Medicare



A Fiscal Opportunity Lost



First Administration Budget Left No Margin for Error



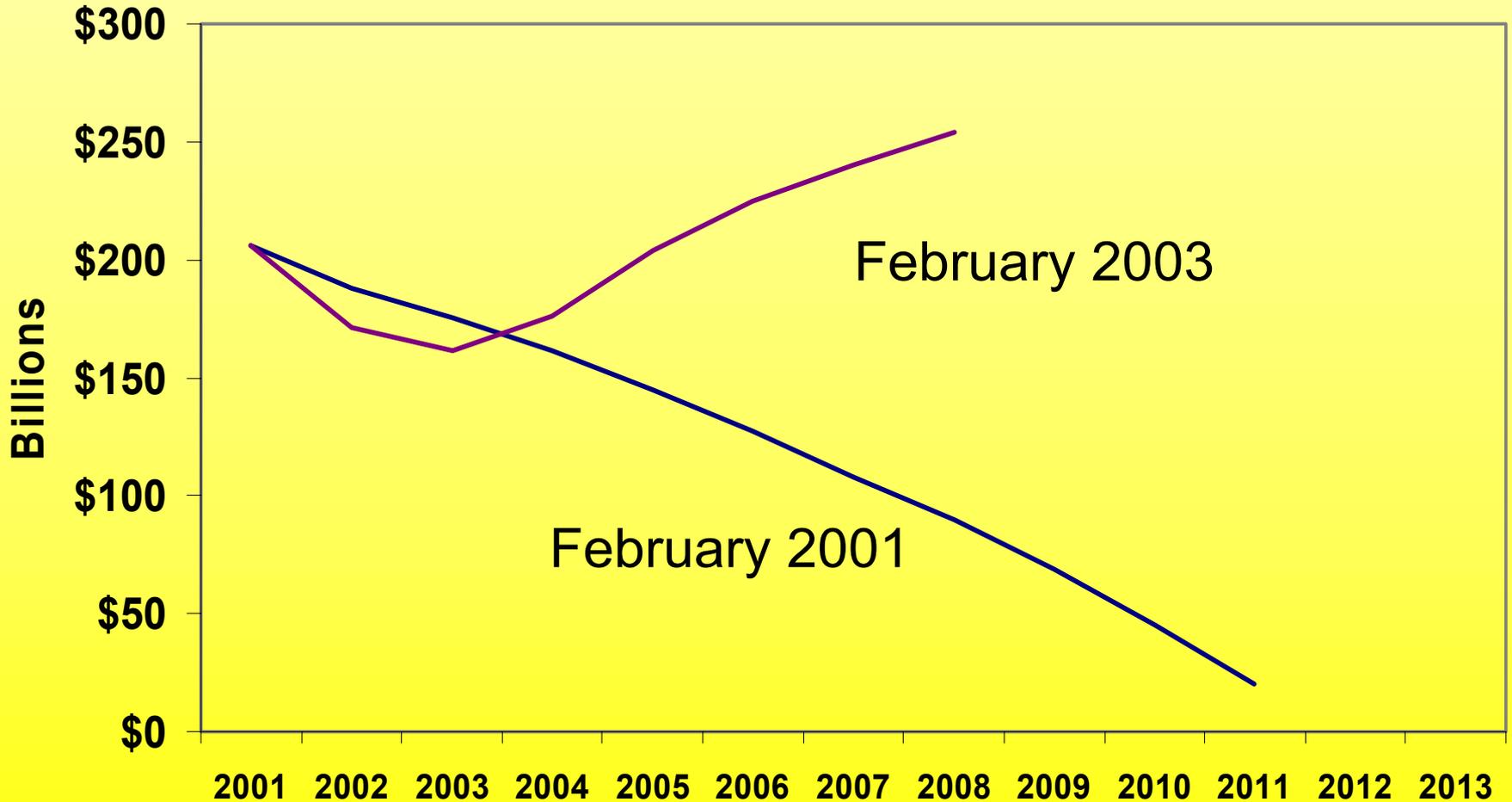
April 2001 Projection of Non-Medicare, Non-Social Security Surplus;
Tax and Spending Proposals in House-Passed Budget Resolution for FY2002

The Bush Administration's \$4.4 Trillion Tax Agenda

| | <u>2001 – 2013</u> |
|-------------------------------------|-------------------------|
| 2001 Tax Cut | \$1.349 Trillion |
| March 2002 Stimulus Package | \$0.042 Trillion |
| January 2003 “Growth” Package | \$0.615 Trillion |
| Other Tax Cuts in Budget | \$0.692 Trillion |
| Protect Middle Class from AMT | \$0.681 Trillion |
| Direct Effect of Bush Agenda | \$3.379 Trillion |
| Increased Debt Service | \$1.000 Trillion |
| TOTAL IMPACT ON DEFICIT | \$4.379 Trillion |

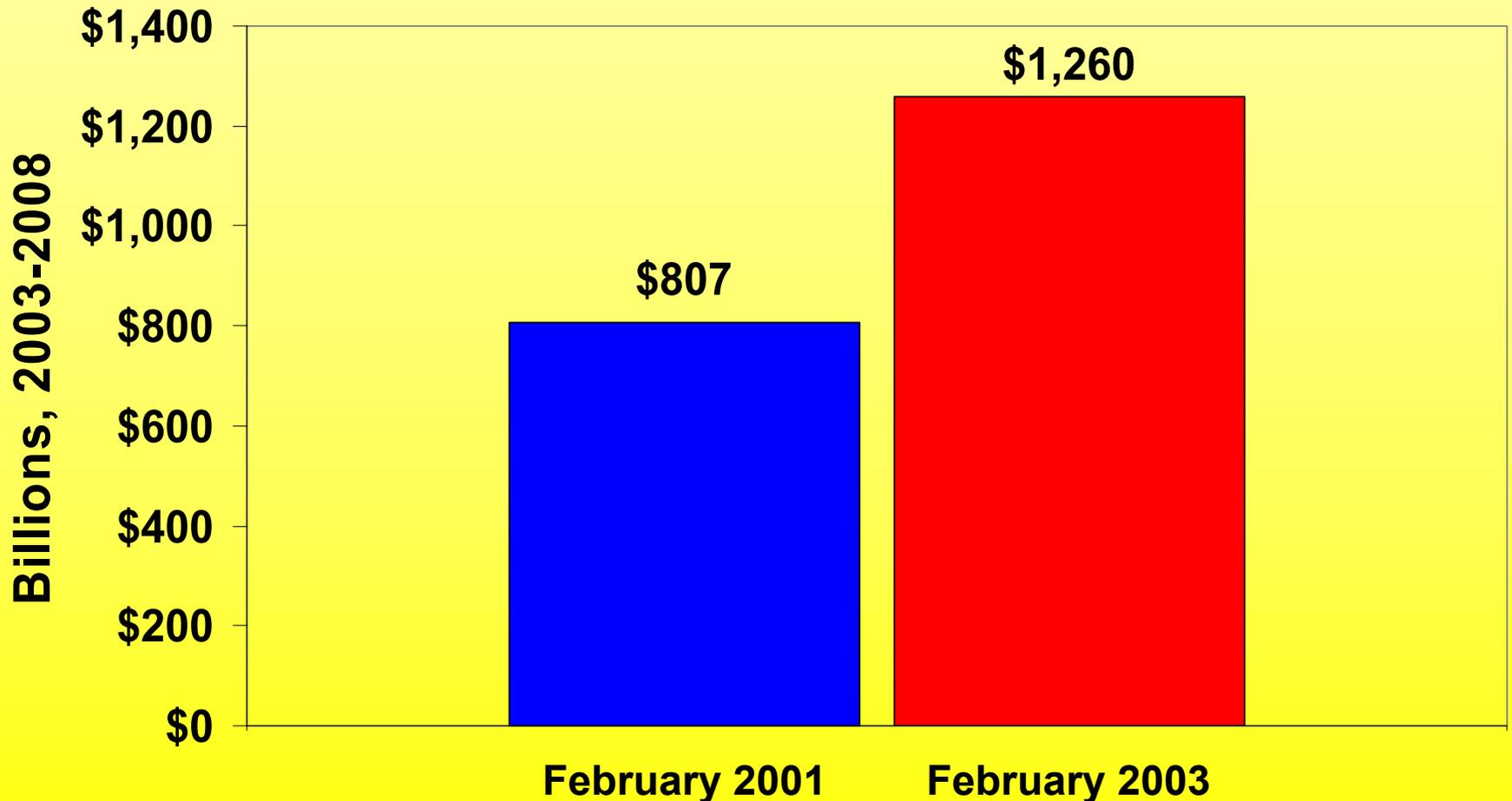
\$1 Trillion More in Debt Taxes

Federal Net Interest Payments



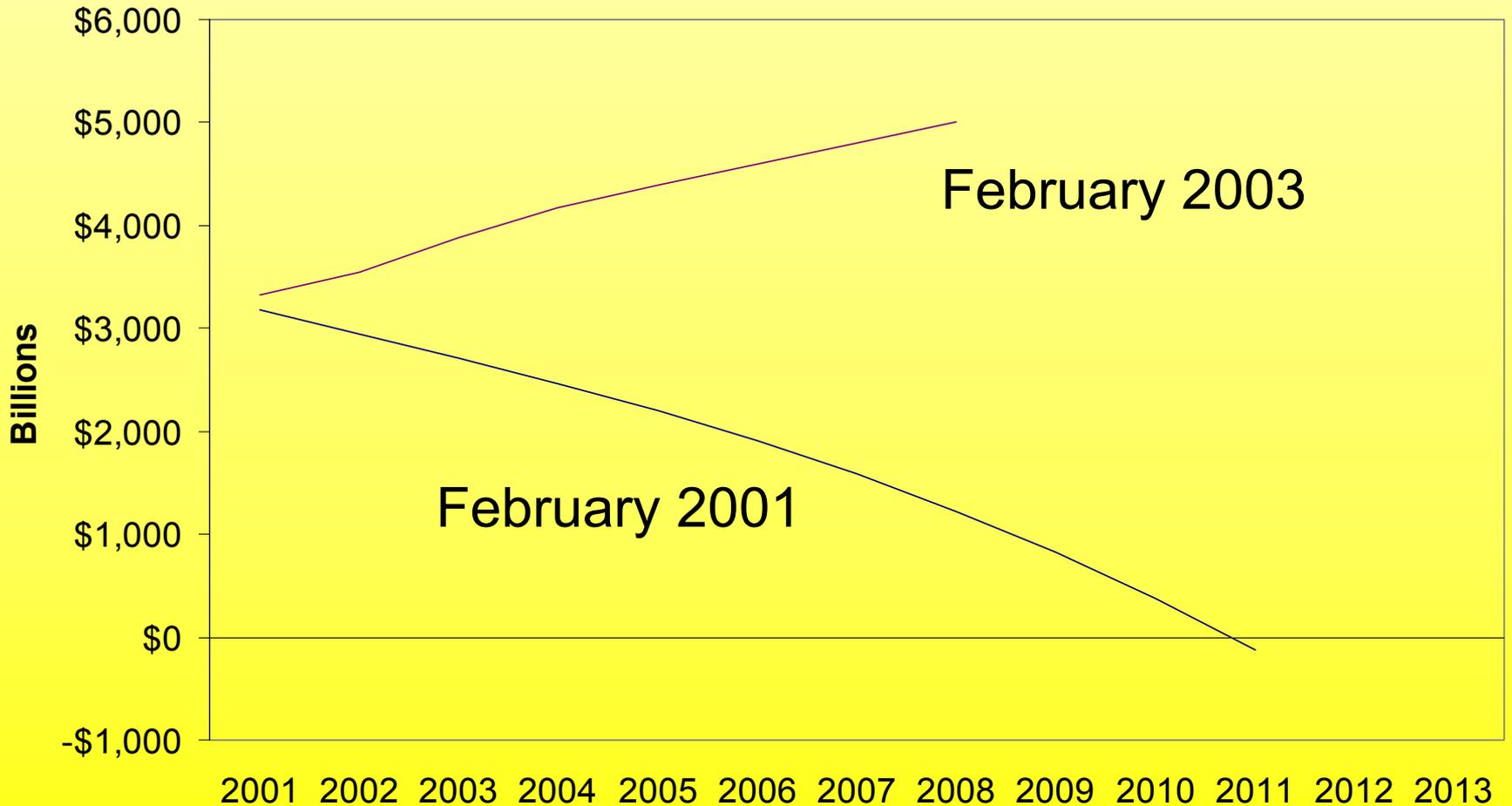
\$453 Billion More in Debt Taxes Over Just Six Years

Federal Interest Payments



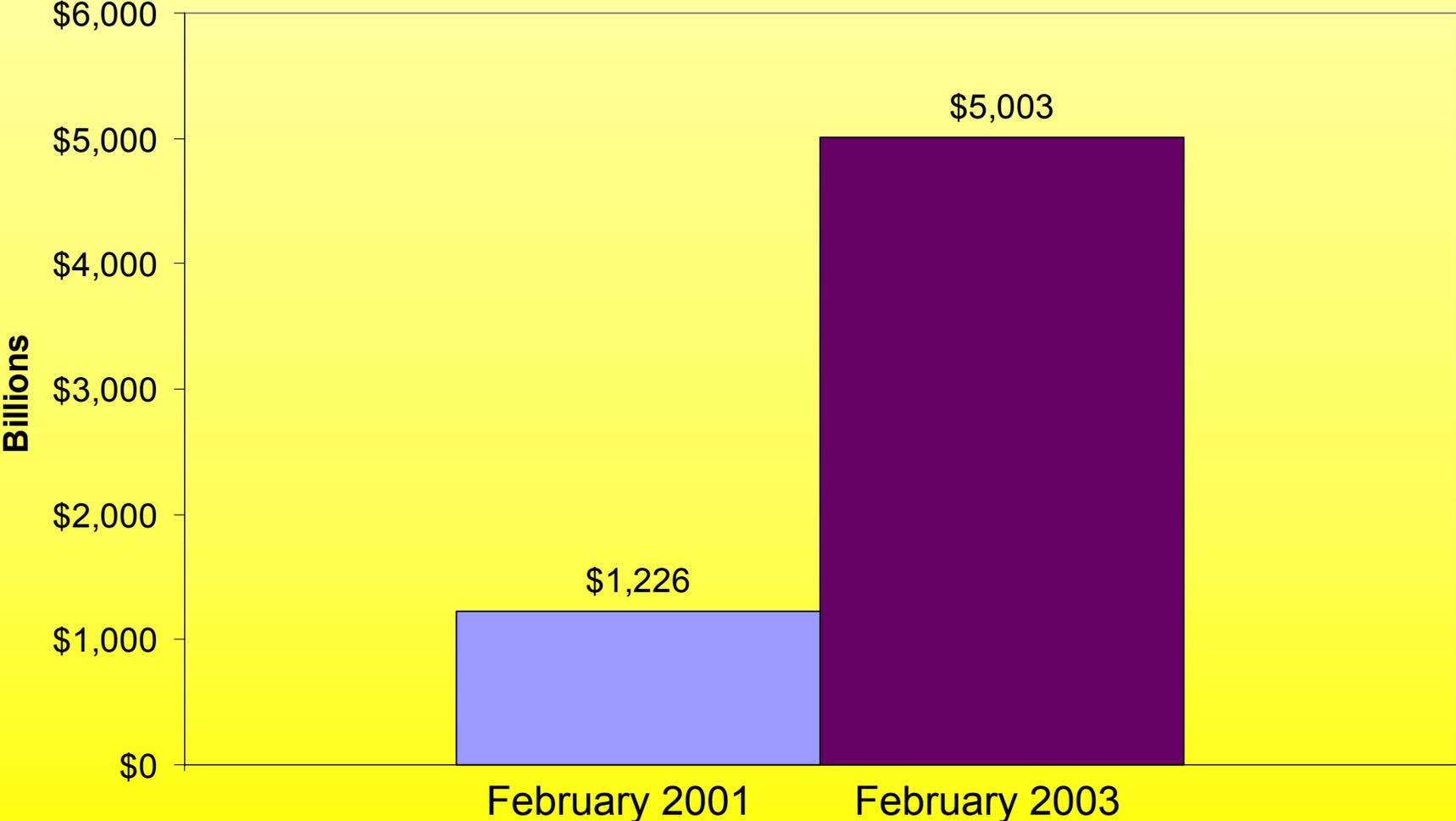
Bush Policies Create \$5 Trillion Debt by 2008

Debt Held by the Public



Bush Policies Create \$4 Trillion More In Debt

Debt Held by the Public in 2008



[We have] returned to an era
of deficits... [but]... We ought
not hyperventilate about this
issue.

OMB Director Mitch Daniels
January 2003

History suggests that an abandonment of fiscal discipline will eventually push up interest rates, crowd out capital spending, lower productivity growth, and force harder choices upon us in the future.

Fed Chairman Alan Greenspan
September 12, 2002