

# **Brief Analysis of President Bush's Budget Submission of April 9, 2001**

---



**Senate Budget Committee Democratic Staff**

Kent Conrad, Ranking Member

April 12, 2001

## Overview

The budget submitted by President Bush on April 9 largely mirrors the budget plan outlined in his February 28 document, "*A Blueprint for New Beginnings*." The new budget does not correct any of the shortcomings of that outline – shortcomings that are even more obvious in light of Senate action on a budget resolution during the week of April 2.

Even with more details than were provided in the February outline, the President's budget is almost entirely focused on a massive tax cut. The President proposes using most of the surplus outside of the Social Security and Medicare Hospital Insurance (HI) trust funds over the next 10 years to fund a \$1.6 trillion tax cut (plus the additional interest costs that would result from using part of the surplus for a tax cut instead of paying down the federal debt).

- The \$1.6 trillion for a tax cut included in the President's budget substantially understates the true cost of implementing the tax changes the President has proposed. Taking into account the Joint Committee on Taxation estimates of the House-passed portions of the President's plan, and the cost of fixing the alternative minimum tax (AMT) (to keep a substantial part of the cuts promised by the President from being taken away by the AMT), the President's tax plan would cost more than \$2.6 trillion (including interest) – or virtually all of the non-Social Security, non-Medicare HI surplus – over the next decade.
- The Senate concluded that even a \$1.6 trillion tax cut is too big. It passed a budget resolution that would limit a tax cut to \$1.188 trillion over the 2002-2011 period in order to ensure that resources are available to meet high priority national needs.

The President's budget proposes to devote \$153 billion over 10 years to provide a prescription drug benefit for the nation's seniors and to reform Medicare. That is less than one-tenth the amount the President proposes to devote to tax cuts.

- The proposed \$153 billion is clearly not adequate to pay for a reasonable and comprehensive prescription drug plan that seniors would voluntarily purchase. The Senate recognized this in voting to add \$147 billion to the President's proposal, bringing the total assumed for a prescription drug benefit in the Senate-passed budget resolution to \$300 billion over 10 years.

The President's budget ignores many high-priority national needs in order to leave room for a massive tax cut. For instance:

- The President's budget ignores the pressing needs of America's farmers. Despite the fact that farm income is projected to fall significantly in 2001 and 2002, the President proposes to end assistance to farmers over and above what is provided

under the Freedom to Farm Act. These payments have averaged roughly \$10 billion a year in recent years.

The Senate recognized that additional assistance to farmers is a high priority national need. It voted to provide \$58.5 billion over 10 years for such payments (after rejecting a Democratic amendment that would have provided \$88 billion in 2002 through 2011, plus \$9 billion in 2001).

- The President's budget also largely ignores the increases in defense spending that will inevitably follow the review of military needs that the Department of Defense is supposed to complete later this year. It completely ignores the cost of building a missile defense system that the President supports.

In order to make room for the burgeoning cost of his proposed tax cut over the next 10 years, the President's budget assumes deep cuts in future years in most areas of domestic discretionary spending. For instance, the President's budget assumes that by 2011, spending for natural resources and environmental programs will be cut by 21 percent below the level needed just to keep pace with inflation. Proposed spending for the administration of Medicare in 2011 is 22 percent below what is needed to keep up with inflation, much less what is needed to keep pace with inflation plus the increase in the number of Medicare beneficiaries. The President has also proposed funding for medical care for veterans that is 10 percent below the current level, adjusted for inflation, by 2011.

Even in education – the area of spending he says is his highest priority – the President's proposed increases in spending are not adequate to meet real national needs. For instance, the President proposes to increase funding for elementary and secondary education programs in 2002 by approximately \$1.9 billion above the 2001 level. After taking into account proposed increases for special education and Impact Aid construction, only about \$500-\$600 million would be available to cover increases in all other elementary and secondary education programs. This is far short of the \$10.2 billion increase for those programs included in S.1, the Better Education for Students and Teachers Act, which was reported by the Senate Committee on Health, Education, Labor and Pensions on a 20-0 vote.

- The full Senate has also recognized that the new funding the President proposed for education and related programs for the next 10 years is inadequate. Amendments adopted to the budget resolution increased budget authority for education and related programs by \$328 billion above the President's proposal. (Under the Senate-passed budget resolution, actual expenditures – outlays – would be \$308 billion above CBO's baseline projections over the next decade.)

The supposed "contingency" fund in the President's budget is not nearly adequate to provide the funds needed to meet real national priorities. The President's budget claims the contingency fund totals \$845 billion over 10 years. But that includes \$526 billion that, according

to Administration estimates, will come from Medicare HI Trust Fund surpluses. (The Congressional Budget Office estimates that the Medicare HI Trust Fund surpluses will total only \$393 billion over that period.) The remaining \$319 billion in the contingency fund is not enough to cover even the additional spending that the Senate added to the President's budget during consideration of the budget resolution.

### **Mandatory Spending**

The Bush budget allocates \$153 billion over the next decade for a prescription drug benefit and unspecified Medicare reform. That is less than one-tenth the amount that is allocated for the Bush tax cut, and less than one-fourth of the amount of benefits from the tax cut that go to just the one percent of taxpayers with the highest incomes

The budget contains a small number of specific proposals affecting mandatory spending other than Medicare. Altogether, these proposals would reduce spending by about \$9 billion. The Administration estimates that new initiatives would increase outlays by almost \$29 billion. More than \$26 billion of that is attributable to proposals for refundable tax credits, primarily proposed new tax credits that are intended to help individuals and families without access to employer-provided health insurance to purchase insurance on their own. (Under existing budget concepts, the refundable part of a tax credit – the amount of a credit in excess of a taxpayer's tax liability – is recorded in the budget as an outlay not as a reduction in revenues.) The Administration estimates that other proposals for changes in mandatory programs will save a total of \$38 billion over the next 10 years. The largest single savings would come from changes in the Medicaid and State Children's Health Insurance Program (S-CHIP). The budget states that "The Administration will also focus over the next few months on Medicaid and S-CHIP and recommend reforms that will improve the way these programs provide health care coverage to the poor and near-poor." The Administration assumes that these reforms will save \$17 billion over the next 10 years. The next largest savings would come from proposals involving Federal Communications Commission auctions of portions of the electromagnetic spectrum. The proposals are not detailed in the budget, but the budget assumes savings of nearly \$9 billion over 10 years from the proposals.

### **Discretionary Spending**

The Bush budget proposes \$660.6 billion in budget authority for discretionary programs in FY 2002, about the same level as the current services baseline and about 4 percent above the FY 2001 enacted level. This statistic is misleading because, according to CBO, the President's proposed spending level is not enough to maintain current spending levels adjusted for inflation.

**Table 1: The President's Discretionary Request in 2002 compared to the Baseline**

(Budget authority; \$ billions)	OMB Baseline	Bush Budget	Difference
Defense . . . . .	321.3	325.1	+3.8
Nondefense . . . . .	<u>339.3</u>	<u>335.5</u>	<u>-3.7</u>
<b>Total discretionary . . . .</b>	<b>660.6</b>	<b>660.6</b>	<b>+(*)</b>

Over the next ten years, total discretionary spending in the Bush budget grows at an average annual rate of 2.8 percent - slightly below the rate of inflation. Between 2002 and 2006 spending rises by about \$16 billion, however, between 2007 and 2011 spending declines relative to the baseline by a nearly equal amount. The table which follows shows reductions in key discretionary program areas relative to the OMB baseline for FY 2002 and FY 2011.

**Defense**

The Bush budget request for defense is \$325.1 billion in 2002, which represents an increase of \$3.8 billion over OMB's current services baseline and a 4.4 percent increase above the 2001 enacted level. The levels in the budget have been described as "placeholder" amounts, which may be revised based on the outcome of the Administration's defense policy review. However, most defense analysts believe that the defense review will recommend increases that far exceed the increase assumed in the budget.

It has been several months since the military services sounded the alarm about billions of dollars of shortfalls in critical FY 2001 personnel and readiness accounts. The Bush budget has missed an opportunity to make good on a pledge that "help is on the way." Despite a warning from the Acting Navy Secretary that failure to pass an FY01 supplemental could force "drastic" Navy budget cuts, readiness and personnel needs were not addressed in the final budget for this fiscal year.

The Senate amended the President's budget to raise defense spending by roughly \$9.9 billion in budget authority and \$7.5 billion in outlays over the President's request for FY 2002.

**Table 2: Bush Discretionary Cuts by Major Program Area**  
(Budget authority; \$ billions)

<u>Budget Function</u>	<u>Changes from OMB Baseline</u>	
	<u>2002</u>	<u>2011</u>
Defense	1.2%	1.2%
International Affairs	2.8%	1.9%
Space and Science	-0.8%	-0.1%
Energy	-10.4%	-16.5%
Environment	-10.8%	-20.6%
Agriculture	-8.6%	-13.1%
Commerce and Housing	-147.5%	-78.0%
Transportation (BA)	-13.9%	-17.5%
Transportation (Outlays)	-0.0%	-1.9%
Community and Regional Develop.	-12.4%	-13.6%
Education, Training, Social Services	1.7%	-3.1%
Health	3.0%	11.6%
Medicare (Admin.)	-1.2%	-21.5%
Income Security	-3.3%	-2.0%
Social Security (Admin.)	-1.8%	-12.4%
Veterans	0.5%	-10.0%
Justice	-4.0%	-9.3%
General Government	-0.2%	-11.0%
<b>TOTAL</b>	<b>0.0%</b>	<b>-1.1%</b>

### Nondefense

For nondefense spending, the Bush budget reduces budget authority by \$3.5 billion in FY 2002 compared to the baseline. Over the next ten years, nondefense spending declines by about \$44 billion relative to the current services baseline. These spending cuts are heavily backloaded: \$41 billion in cuts occur between 2007-2011.

Between 2001 and 2002 nondefense discretionary spending increases by 3.7 percent; however, this figure is overstated for several reasons. First, the 2002 level contains spending that was advanced from 2001 to 2002, in an effort to minimize spending levels 2001. The increase also includes spending for international affairs programs and a new emergency reserve, which cannot be spent for any other nondefense purposes. When these resources are excluded from the totals, the adjusted nondefense increase from 2001 to 2002 is a mere 0.4 percent.

**Education.** For FY 2002, the President's budget requests \$44.5 billion in discretionary budget authority for the Department of Education, an increase of \$2.5 billion, or 5.9 percent, over the FY 2001 program level. This is an increase of \$1.8 billion, or 4.4 percent, over levels adjusted for inflation. By comparison, last year's appropriations bill provided an increase of \$6.5 billion over the previous year, an increase of 18.2 percent over a freeze. Congress has increased education spending by an average of 13 percent-per-year over the last 5 years.

- **Elementary and secondary education programs.** The budget provides for an increase of approximately \$1.9 billion over the FY 2001 levels, including \$1 billion for special education grants to states and \$137 million for Impact Aid construction. This leaves \$500-600 million for increases in all other elementary and secondary (ESEA) programs, falling far short of the \$10.2 billion increase included in S.1, the Better Education for Students and Teachers Act, which was reported out on a 20-0 vote by the Senate Committee on Health, Education, Labor and Pensions.
- **ESEA.** Among the major increases for ESEA programs are: \$459 million for Title I grants to Local Educational Agencies (S.1 provides for an increase of more than \$6.0 billion); \$614 million for a Reading First program and \$75 million for an Early Reading First program; \$375 million for teacher quality state grants (S.1 provides for an increase of \$775 million); \$389 million for state and NAEP testing requirements (S.1 provides for an increase of \$474 million); \$175 million for a Charter School fund for school facilities; and \$30 million for Transition to Teaching.

To partially fund these increases, the budget eliminates the \$1.2 billion program for school renovation and consolidates the \$1.6 billion class size reduction program into the new teacher quality program. It also combines 10 programs into a new Choice and Innovation State grant program and cuts the funding by \$462 million. Education technology assistance is reduced by \$55 million and funding is frozen at last year's levels for after-school, safe and drug-free schools, bilingual education, vocational assistance, Even Start, and comprehensive school reform programs.

- **Pell Grants.** The budget provides an increase of \$1 billion, but that only increases the maximum award by \$100. By comparison, Congress increased the maximum award last year by \$450.

- **Higher education.** The President provides a \$50 million increase for TRIO programs, \$15 million for Historically Black Colleges and Universities, and \$4 million for Hispanic Serving Institutions. However, the budget cuts the GEAR-UP program by \$68 million and Teacher Quality Enhancement grants by \$44 million, providing only enough funds in each program for continuation grants. The budget freezes institutional aid to tribal colleges at last year's level. Other student aid programs, including work study, supplemental grants, Perkins loans and leveraging educational assistance partnerships (LEAP) are frozen at last year's levels.

**Employment and Training programs.** The President's budget cuts funding for employment and training programs by \$541 million or 9.5 percent below the 2001 level. This represents a cut of 10.7 percent below the amount needed to maintain constant purchasing power. Specifically, the budget cuts youth activity grants by \$147 million (12.8 percent) below the 2001 level, dislocated worker assistance by \$207 million (13 percent), adult employment and training programs by \$50 million (5.3 percent), and national activities by \$62.4 million (24.2 percent). It eliminates funding for the \$75 million Responsible Reintegration for Youth Offenders program begun in 2001. Finally, funding for Job Corps and Youth Opportunity grants are frozen at their 2001 levels.

**Environment and Energy.** The Bush budget significantly cuts funding for programs that protect public health and the environment. It cuts environmental and natural resource programs \$3.3 billion (11.2 percent) in FY 2002 below the level needed to maintain current purchasing power, and \$19.6 billion (12.5 percent) over five years. Programs affected include the Environmental Protection Agency (EPA)'s wastewater loan and grant program (the Clean Water State Revolving Fund), cut by \$497 million; the Fish and Wildlife Service, cut by \$168 million; the Army Corps of Engineers, cut by \$600 million; and the Natural Resources Conservation Service's Wetlands Reserve Program, which declines from \$162 million in FY 2001 to \$0. In the Senate Budget Resolution, Democrats voted to restore \$50 billion in funding for natural resource and environmental programs over 10 years to protect our nation's health and environment; unfortunately this amendment did not pass.

- **EPA.** The Bush budget proposes to cut EPA's regulatory enforcement staff by 280 employees in FY 2002, and to transfer certain Federal environmental enforcement responsibilities to the states, who will have less ability to curb pollution that crosses state lines or to fight powerful corporations. It slashes science programs in the Interior Department and EPA, making it harder for the government to produce sound science to examine environmental problems.
- **Energy.** The budget cuts Department of Energy programs encouraging use of renewable energy sources and energy conservation by \$156 million, or 13 percent, from FY 2001. While the Administration says it will announce new energy programs in the next few months, it does not identify additional funding to finance any additional work – because new work would require other cuts.



- **Science.** The Bush budget provides only \$21.2 billion in appropriations for the National Science Foundation, NASA and science programs at the Department of Energy. This is \$200 million less than the amount needed to maintain constant purchasing power at the 2001 level, and violates a bipartisan consensus on the need to increase funding for scientific research. The budget resolution passed by the Senate increased funding in this area by \$1.4 billion over the President's request for 2002.

### **Health and Income Security**

- **Community Health Centers.** The President proposes to raise Community Health Centers funding by \$124 million as part of an initiative to increase the number of centers by 1,200.
- **National Institutes of Health (NIH).** The budget includes a \$2.755 billion increase over the FY 2001 enacted level. This is the fourth installment of the five year goal of doubling NIH funding over five years relative to the FY 1998 NIH funding level.
- **Child Care Development Block Grant (CCDBG).** The budget increases CCDBG by \$200 million for a new total of \$2.2 billion, but earmarks \$400 million to create an After-School Certificate program within CCDBG. This new program earmark would cut current CCDBG activities by \$200 million.
- **Temporary Assistance for Needy Families (TANF).** The budget cuts TANF by proposing legislation to allow states to use Federal TANF funds to partially offset revenue losses from state tax credits for contributions to state-designated charities. The budget also does not renew \$319 million in TANF Supplemental Grants to States, resulting in a loss of resources to help low-income families make the transition from welfare to work.
- **LIHEAP.** The President proposes to freeze funding for Low-Income Home Energy Assistance at \$1.4 billion plus \$300 million for emergencies, despite the recent dramatic increases in energy costs.
- **Promoting Safe and Stable Families.** The President proposes to extend the Safe and Stable Families program and increase funding by \$200 million. This program, which enjoys bipartisan backing, provides family preservation services, family support, family reunification, and adoption promotion and support.
- **Social Services Block Grant (SSBG).** The budget funds SSBG at the \$1.7 billion level. The Senate-passed Budget Resolution increases SSBG by \$680 million.

- **Maternity Group Homes.** The budget includes \$33 million in 2002 for maternity group homes, which are community-based, adult supervised group homes for teenage mothers and their children.
- **Education for Older Foster Children.** The budget includes \$533 million over ten years to provide education and training for children who age out of foster care.
- **Public Housing Assistance.** The Administration proposes to cut over \$1 billion from low-income housing assistance programs. This includes a \$700 million cut from the public housing capital building repair funds, elimination of the \$316 million Public Housing Drug Elimination Program, and elimination of the \$25 million Rural Housing and Economic Development Fund.

### **Community Development and Transportation**

- **Community Development Block Grants (CDBG).** The CDBG is a 25-year old program which addresses the investment needs of underserved, distressed neighborhoods. The Bush budget cuts funding by \$534 million (10 percent) below the level needed to maintain current services.
- **Rural Community Advancement Program (RCAP).** The RCAP provides grants, loans, and loan guarantees to stimulate economic growth and development in rural areas. The Bush budget cuts funding by \$91 million (12 percent) below the level needed to maintain current services.
- **Economic Development Administration (EDA).** The EDA provides critical infrastructure investment funds to economically distressed areas and regions. The Bush budget cuts funding by \$86 million (20 percent) below the level needed to maintain current services.
- **Community Development Financial Institutions Fund.** The CDFI helps finance economic development in distressed communities. The Bush budget cuts funding by \$52 million (43 percent) below the level needed to maintain current services.
- **FEMA disaster relief programs** are cut by \$270 million (16 percent) below the level needed to maintain current services.
- **Other program eliminations.** The budget eliminates funding for several important community and regional development programs, including: the rural telephone bank program (a federal loan program), Project Impact (a hazard mitigation program), and the rural housing and economic development program.

- **Maritime Guaranteed Loan (Title XI) Program.** The Bush budget eliminates funding for the Maritime Guaranteed Loan program, which helps to facilitate and maintain the U.S. shipbuilding industry by providing for guaranteed loans for purchasers of ships and for the modernization of U.S. shipyards.
- **Essential Air Services.** The Bush Budget proposes to cut 18 communities from the Essential Air Service (EAS) program, which provides crucial funding to small communities that might not otherwise have the financial resources to maintain and operate airport facilities with regular air service.
- **Justice Grant Programs.** The President's budget cuts Justice programs by \$1.5 billion from CBO's inflationary baseline for Justice. This includes a \$270 million reduction in grants to hire new police officers under the Community Oriented Policing Services (COPS) program, and a \$20 million cut for Office of Justice programs. The Senate-passed budget resolution included a Leahy amendment which increased Justice programs budget authority by \$1.5 billion.