Joint Economic Committee Democrats

Senator Jack Reed (D-RI) – Ranking Democrat

Economic Policy Brief **March 2006**

The Impact on Families of the President's Fiscal Year 2007 Budget Proposals

If the Congress were to use the President's budget proposals as its guide, the fiscal year 2007 budget resolution would call for larger deficits, lower taxes for the well-to-do, and reduced spending for programs that benefit middle- and lower-income families. As the following analysis shows, the burden of the cuts in programs providing benefits to individuals would fall disproportionately on families in the bottom 40 percent of the income distribution. The share of spending cuts borne by those families would be far out of proportion to their share of aggregate family income and to the share of any benefits they could expect to receive from the proposed tax cuts.

Overview of the President's Budget

The Congressional Budget Office (CBO) estimates that the tax cuts proposed in the President's budget would add $282 billion to the budget deficit in the 2007-2011 budget window (**Table 1**). Of that total, $197 billion would result from extending the expiring provisions of the 2001 and 2003 tax cuts. Because there is little impact until 2011 from extending the expiring provisions and making the tax cuts permanent, the five-year cost of the President's tax proposals is only a fraction of the 10-year cost, which CBO estimates is over $1.7 trillion.

CBO estimates that the net effect of the President's spending proposals would be to reduce the FY 2007-2011 budget deficit by $231 billion, or $51 billion less than the cost of the tax cuts. That difference, together with the associated debt service costs of $10 billion, means that the President's budget adds $61 billion to the cumulative FY 2007-2011 budget deficit. Because the cost of the tax cuts is so back-loaded, CBO estimates that the President's proposals would add $1.4 trillion to the 10-year (FY 2007-2016) deficit. The actual budget deficit under the President's policies is likely to be larger, however, because the President's proposals do not include likely expenditures such as funding the cost of activities in Iraq and Afghanistan beyond FY 2007 or alternative minimum tax relief after this year.

Table 1

Impact on the Deficit of the President's FY 2007 Budget Proposals

(billions of dollars)

	2007-2011	2007-2016
CBO baseline deficit	-1,072	-726
Effect of the President's proposals		
Revenues		
Extension of 2001and 2003 tax cuts	-197	-1,545
Other proposals	-85	-199
Subtotal, effect on revenues	-282	-1,744
Outlays		
Defense	-33	-171
Non-defense discretionary	-170	-567
Social Security private accounts	19	312
Other mandatory	-47	-86
Net interest	10	179
Subtotal, effect on outlays	-221	-333
Net impact on deficit	**-61**	**-1,411**
Total deficit under President's proposals	-1,133	-2,137

Source: Congressional Budget Office.

Impact on Families

The President's budget calls for cuts of $170 billion in non-defense discretionary spending and $47 billion in non-Social Security mandatory spending over the next five years. Approximately $77 billion of those cuts are for spending that provides payments for individuals, including about $29 billion in Medicare and over $20 billion in education programs (**Table 2**).

This analysis does not allocate the $154 billion of net spending cuts that do not directly reduce payments for individuals, such as cuts in health research, resource conservation, and food safety programs. Nevertheless, some of the unallocable cuts would hurt vulnerable families. These include cuts in community development programs and protections against environmental hazards, to which low-income families may be disproportionately exposed.

The President's budget uses the proposed spending cuts to help pay for $282 billion in tax cuts over the next five years. This analysis is able to allocate $255 billion of extensions of existing provisions based on information from the Urban-Brookings Tax Policy Center (**Table 3**). This analysis has not allocated the remaining $27 billion in proposed new tax cuts. However, the bulk of those cuts—particularly the health care and tax-free savings proposals—would primarily benefit upper-income families.

When the allocable spending cuts are distributed among families in each fifth of the income distribution, it is clear that low- to moderate-income families would be asked to bear a disproportionate burden. For example, families in the bottom 20 percent of the income distribution would absorb 32 percent of the cuts in payments for individuals, even though their share of aggregate family income is only 3 percent (**Table 4**). Families in the next lowest fifth of the income distribution, with 8 percent of aggregate family income, would bear 23 percent of the budget cuts in payments for individuals.

Table 2

Budgetary Effects of Major Spending Proposals in the FY 2007 Budget

(billions of dollars)

Provision	**Change in Outlays 2007-2011**
Payments for individuals, allocable by income group	
Mandatory	
Medicare[a]	-28.5
Farm programs	-3.5
Unemployment insurance	-1.1
Medicaid/SCHIP[b]	-4.1
Food stamps[c]	-0.2
Program expansions[d]	3.3
Subtotal, mandatory	-34.2
Discretionary	
Elementary, secondary, and vocational education	-13.9
Higher education	-6.7
Social services[e]	-6.8
Housing assistance	-6.1
Training and employment	-5.3
Other income security[f]	-2.6
Food and nutrition assistance	-1.9
Substance abuse and mental health services	-1.0
Veterans benefits	1.7
Subtotal, discretionary	-42.5
Net impact, payments for individuals	**-76.7**
Other provisions	
Mandatory[g]	6.3
Discretionary[h]	-160.6
Total, other provisions	-154.3
Total	**-231.0**

Source: JEC Democratic staff calculations based on the Congressional Budget Office's analysis of the President's FY 2007 budget.

Notes:

[a]Excludes savings that would not have a direct impact on beneficiaries, such as changing oxygen equipment vendor rental terms and other provisions.

[b]Includes offsetting program costs resulting from "Cover the Kids" outreach.

[c]Includes offsetting costs associated with eligibility changes.

[d]Includes funding for state grants for chronically ill, TANF, and costs associated with child welfare program option and foster care rate increase for D.C.

[e]Includes Head Start, CSBG, SSBG, and other programs.

[f]Includes LIHEAP, child care, and other programs.

[g]Includes costs associated with Social Security private accounts and offsetting receipts from PBGC premium increases, various user fees, and other provisions.

[h]Includes net impact of all non-allocable provisions.

Table 3

Budgetary Effects of Major Tax Proposals in the FY 2007 Budget

(billions of dollars)

Provision	Change in Revenues 2007-2011	Change in Revenues 2007-2016
Tax cuts allocated by income group		
Extension of expiring EGTRRA and JGTRRA provisions		
General tax rates, child tax credit, and brackets	-94	-906
Estate and gift taxes	-35	-369
Tax rates on dividends and capital gains	-48	-197
Expensing for small businesses	-16	-23
Education, retirement, and other provisions	-4	-50
Subtotal, proposed extensions	-197	-1,545
AMT extension	-26	-26
Research and experimentation tax credit	-32	-80
Total, allocated tax cuts	**-255**	**-1,651**
Unallocated tax cuts		
Expansion of expensing for small businesses	-9	-12
Expansion of Health Savings Accounts	-5	-16
Deduction for high-deductible health insurance	-11	-24
Refundable health insurance tax credit	-4	-10
Expansion of tax-free savings accounts	15	0
Other proposals	-12	-30
Total, unallocated tax cuts	-27	-92
Total, tax cuts	**-282**	**-1,744**

Source: Congressional Budget Office.

Table 4

Distributional Impact of Tax and Spending Cuts in the FY 2007 Budget

Shares of Tax Cuts, Spending Cuts, and Family Income by Family Income Group
(percent)

Income Group	Spending Cuts	Tax Cuts	Family Income
Bottom 20 percent	32	1	3
Second 20 percent	23	5	8
Middle 20 percent	16	9	14
Fourth 20 percent	14	14	23
Top 20 percent	14	72	52

Source: JEC Democratic staff calculations using CBO's analysis of the President's FY 2007 budget, Census Bureau public use files for the Current Population Survey, and Urban-Brookings Tax Policy Center Tables T06-0041and T05-0281.
Notes: $76.7 billion of net cuts in payments for individuals allocable by income group from Table 2; $255 billion of allocated tax cuts from Table 3.

Disparities in the impact of the President's budget proposals on families in different parts of the income distribution are even more pronounced when the tax cuts are taken into account. Families in the bottom 40 percent of the income distribution would receive only 6 percent of the benefits from tax cuts while bearing over half the burden of the spending cuts. In contrast, families in the top 20 percent of the income distribution would receive over 70 percent of the benefits of the tax cuts while bearing only 14 percent of the burden of the spending cuts.

Chart 1 contrasts the distribution of the $77 billion in spending cuts allocable to families with that of the $255 billion of tax cuts. The net impact of those cuts would leave families at the bottom of the income distribution shouldering nearly all of the pain while families at the top of the income distribution would reap nearly all of the net benefits.

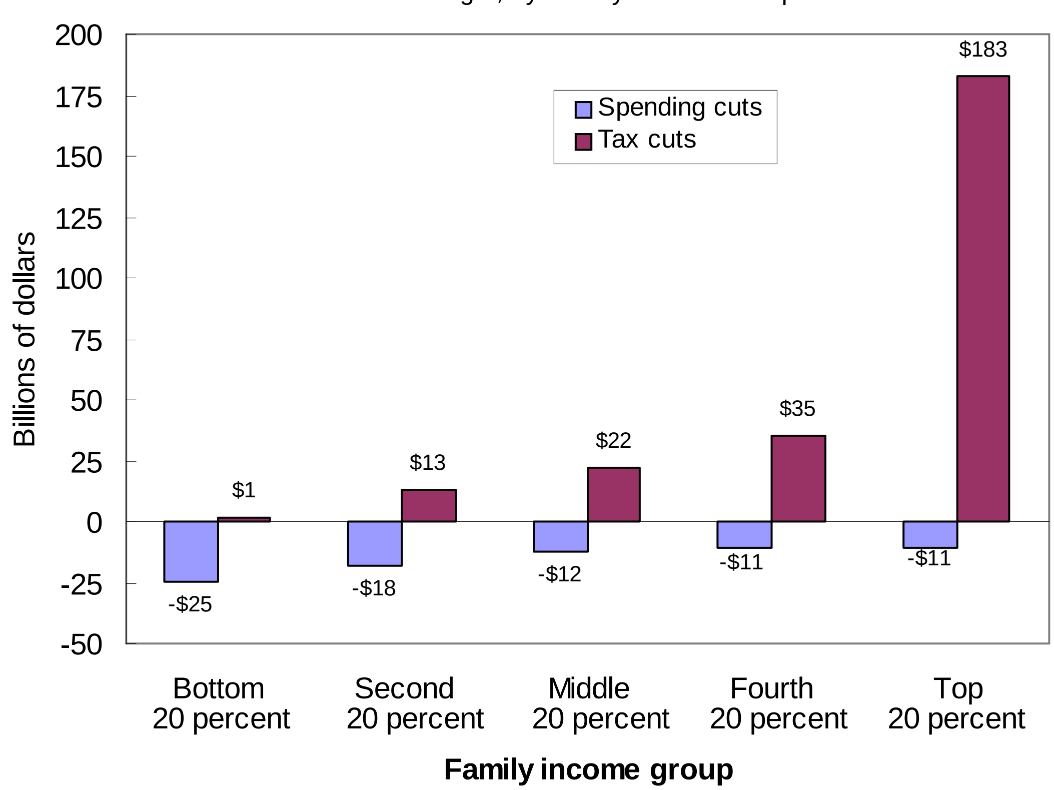
Conclusion

The President has submitted a budget to the Congress that would reduce spending on programs benefiting moderate- and lower-income families in order to pay part of the cost of tax cuts going disproportionately to those with very high incomes. It is also a budget that would add to the deficit. Congress has the opportunity to make different choices beginning with the FY 2007 budget resolutions being taken up in the House and the Senate.

Chart 1

Distributional Impact of Proposed Tax and Spending Cuts on Families

2007-2011 Tax and Spending Cuts Affecting Families in the FY 2007 Budget, by Family Income Group



Source: See Table 4.