

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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February 2, 2004

### The Fiscal Year 2005 Bush Budget: Unfair and Unbalanced

#### Overview

Today the President has released a budget that further deepens the deficits that his policies have helped to create. The President lets the deficit increase by almost 50 percent this year and then makes the lame promise that he will cut it in half within five years. It is hard to take his claim seriously. This promise comes from an administration that has enlarged the deficit by \$648 billion since 2001 and has added \$1.7 trillion in gross debt.

These huge deficits are not just an accounting problem. They are a moral problem because our children and grandchildren will be forced to repay the record amounts of debt we are borrowing today. The Administration has dismissed these deficits as ‘manageable,’ but chronic deficits threaten our economic strength by crowding out private investment, driving up interest rates, and slowing economic growth. This budget heads in the wrong direction for five important reasons.

**Largest Deficits in History** — First, despite Administration claims of fiscal responsibility, this budget makes clear that the Bush Administration simply has no plan to eliminate the budget deficits we now face — and, indeed, is pushing headlong toward expanding the size of the deficits. The \$5.6 trillion ten-year surplus projected when the President took office has been replaced by deficits as far as the eye can see. For 2004, the budget proposes a record deficit of \$521 billion — \$146 billion more than the 2003 deficit, which was also a historic record. Deficits for every year are worse than projected a year ago.

<b>Budget Surplus or Deficit</b>							
Dollars in Billions							
Fiscal Year	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Unified	69	126	236	127	-158	-375	-521
On-Budget	-30	2	87	-33	-317	-536	-675

***More Oversized Tax Cuts*** — Second, in the face of this dramatic fiscal deterioration, the Administration builds its budget around yet another set of tax cuts, reducing revenues by more than \$1 trillion and driving the budget further into the red. The budget then refuses to acknowledge the true size of the tax cuts' impact by failing to provide any deficit figures at all after 2009.

***Squeezing Important Priorities*** — Third, while proposing huge new tax cuts with one hand, the Administration squeezes funding for the nation's priorities with the other. The Administration asserts that it is increasing non-defense, non-homeland security appropriations by less than one percent. When international affairs funding is factored out, non-homeland security domestic appropriations are actually cut below the 2004 level. This cut makes only a small dent in the deficit, but would reduce funding for transportation, environmental protection, small businesses, and other priority services that the American people want and expect.

***Record Job Losses*** — Fourth, the President has justified his deficit-financed tax cuts on the ground that they will create jobs. But the economy has lost 2.9 million private-sector jobs over the last three years under Administration policies, in spite of promises every step of the way that these tax cuts would create jobs.

***Omitted Costs Make True Deficit Picture Much Worse*** — Finally, this budget is neither credible nor realistic because it omits so many costly items. Once Administration initiatives like additional costs for military operations in Iraq and Afghanistan, Social Security privatization, and space travel to Mars are included, these record deficits in the Bush budget climb even higher. Although the Administration asserts that this budget is fiscally responsible, the evidence clearly does not support such a claim. The Administration has no plan to repair the deficit. Instead, it just proposes still more tax cuts that dig the budget deficit hole deeper.

## **Deficits**

***Squandering Historic Advantages*** — This is the last Administration budget in this Presidential term. It is, in that sense, a summing up; and to sum up an Administration's budgets is to measure its stewardship. When it took office, this Administration enjoyed *two* advantages that no other in modern memory has had: First, it inherited a budget surplus — the first budget surplus in almost three decades, and the first budget surplus *ever* to rely for not one dime on *either* Social Security *or* Medicaid's Trust Fund surpluses. And second, this Administration inherited the longest economic expansion in the nation's history, including the strongest business investment boom in the nation's history.

***Reversing Democratic Record of Progress on Deficit*** — Under a Democratic Administration, because of its vetoes of Republican Congressional budget plans, the budget improved every year. The nation's largest deficit ever, inherited from the first President Bush, became the nation's largest surplus ever. The budget improved for eight straight years, the longest string of budget improvement in the nation's history. In 1998, we achieved the first balanced budget in 29 years.

In 1999, we achieved the first balanced budget without reliance on the Social Security Trust Fund surplus in 39 years. And in 2000, we achieved the first balanced budget without reliance on either the Social Security or Medicare Trust Fund surpluses in the history of those programs.

***Administration's First Budget Headed in Wrong Direction*** — This Administration's first budget — as carried out in the Republican budget resolution — left absolutely no margin for error. It spent virtually every dime of projected budget surplus for the first seven years of the budget window. Its proponents claimed to have a “reserve” in case of trouble, but virtually all of that reserve came in the last three years — when budget projections are most uncertain and speculative. So if anything at all went wrong, the budget had absolutely nowhere to go but into the red. And that is precisely what happened.

***Today's Budget Deficits Set Another Record*** — The Bush Administration immediately took the budget right back into the deficit ditch. In 2001, it cut the surplus, and began again to raid the Social Security and Medicare Trust Fund surpluses. In 2002, it pushed the budget back into deficit, dissipating the entire Social Security and Medicare Trust Fund surpluses. In 2003, it enlarged that deficit to the largest in the nation's history. In the current fiscal year, 2004, it promises to break that record, with a unified deficit of a colossal \$521 billion — more than half a trillion dollars of public debt upon our children and grandchildren added in just one year. Excluding the Social Security Trust Fund surplus, this is a deficit of \$675 billion.

***More Realistic Deficit Picture Is Even Worse*** — And the deficits today are not the end of the story. By our reckoning, and assuming that the President and the Congressional Republicans get their way on extending all of the tax cuts, deficits will remain close to half a trillion dollars per year for a decade. The accumulating deficits will take their toll. By the end of 2014, we will have a debt held by the public of more than \$8.5 trillion, or almost half of our GDP. That will wipe out all of the progress made by the last Democratic Administration against the borrowing-and-debt spree of the Reagan and first Bush Administrations, during which the ratio of the debt to the GDP doubled, to 50 percent. And so the second President Bush is on track to leave the budget in even worse shape than did the first President Bush — because we are already at the door of the retirement of the baby-boom generation, with its new and added demands on the budget.

***Deficits and Debt Burden Future Generations*** — These deficits are more than black marks on the nation's books; they are a burden on future generations, and on our economy. Tomorrow's taxpayers must pay interest on this new and added debt in perpetuity. That interest expense means higher taxes. That interest expense will buy future taxpayers nothing; that money cannot be used for national security, for homeland security, for education for our children, or for health care for our parents.

***Deficits and Debt Weaken the Economy*** — Furthermore, these deficits will take a toll from the economy. Budget deficits drain our national savings, which could otherwise be applied to domestic business investment that would increase productivity and create jobs. The drain on national savings raises interest rates above where they otherwise would be, deterring investment.

If businesses choose to invest under such large budget deficits, they must borrow the money abroad. The federal government itself is already relying on foreigners as a source of essential credit. Should they merely cease purchasing new securities — much less choose to sell the securities they already own — it could cause U.S. interest rates to spike, spreading sudden dislocation throughout our economy.

## **Implausible Claims of Fiscal Responsibility**

While the President's budget claims to cut the deficit in half over the next five years, this is a mirage. The deficit appears to shrink only because the President's budget omits the costs of significant items on his agenda and relies on unrealistic offsets.

***Five-Year Budget Hides Exploding Costs*** — Once again, the President's budget covers only five years, through 2009. In the President's first budget, the Administration embraced ten-year projections, because the huge ten-year surplus projected at that time 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. Meanwhile, the budget includes policies with substantial long-term costs. For example, Lifetime Savings Accounts and Retirement Savings Accounts initially reduce the deficit somewhat, but their costs will grow steadily thereafter. And the real cost of the President's mission to Mars occurs beyond the five-year window.

***Additional Tax Cuts Approach \$1 Trillion*** — The President's budget makes his expiring tax cuts permanent at a cost of \$131.6 billion over five years. Over ten years, however, these costs will total \$936.3 billion. Over 75 years, the cost of extending the tax cuts exceeds the combined shortfalls in Social Security and Medicare.

***Budget Omits Costs of Iraq Conflict, Social Security Privatization, and Other Key Bush Policies*** — The President's budget is not a true budget because it omits significant policy costs. The budget fails to provide for ongoing military costs in Iraq and Afghanistan, even though U.S. involvement there is expected to continue beyond 2004. The President advocates allowing younger workers to redirect part of their Social Security payroll taxes into individual accounts — a first step toward privatizing Social Security. But the budget is silent on the transition costs of such a plan, estimated at \$1 trillion over ten years. The budget also avoids long-term reform of the Alternative Minimum Tax (AMT), even though the AMT will soon force millions of middle-class families to pay more taxes, contrary to the original intent of the AMT. Instead, the budget provides only a short-term fix. CBO estimates the cost of reforming the AMT — if other expiring tax cuts were extended — at over \$500 billion, including debt service costs.

***Budget Relies on Unrealistic Fees and Offsets*** — The budget assumes savings from user fees and offsets that Congress has rejected in the past, such as requiring certain veterans to pay enrollment fees for medical care, charging fees for meat safety inspections, and increasing patent fees.

***Budget Enforcement Plan Ignores Half of the Budget*** — The budget supports the revival of discretionary spending caps, as well as a pay-as-you-go rule (PAYGO) to require that any legislation increasing direct spending must be offset by corresponding spending cuts. The President's plan is based on provisions of the Budget Enforcement Act of 1990 (BEA), which expired in 2002, with one important exception — the BEA PAYGO rule applied to tax cuts, too, and the Bush proposal does not.

## **Tax Cuts**

***Extending Expiring Tax Cuts*** — To mask the full magnitude of their 2001 and 2003 tax cuts, Congressional Republicans added sunsets to numerous provisions in both packages. The budget makes these provisions permanent, adding more than \$1 trillion to the national debt over ten years. Over 75 years, the cost of extending the tax cuts exceeds the combined shortfalls in Social Security and Medicare.

***Minimal Extension of Alternative Minimum Tax Relief for Individuals*** — There is widespread acknowledgment that middle-income taxpayers who were not intended to be subject to the AMT are becoming so because of inflation and deep tax cuts enacted in 2001 and 2003. There is also consensus that some type of reform is necessary. A recent estimate by CBO put the full price tag of AMT reform at over \$500 billion. This budget hides the true cost of AMT reform by proposing only a one-year extension of higher exemption amounts at a cost of \$23.3 billion.

***Permanent Extension of the Research and Experimentation (R&E) Tax Credit*** — The budget permanently extends the 20 percent tax credit for qualified R&E at a cost of \$78.4 billion.

***Retirement/Lifetime Savings Accounts*** — The budget creates scaled-down versions of last year's RSAs, which allow tax-free deposits and withdrawals into an account that could be drawn down by the owner after age 58. Unlike the current-law IRAs and 401(k)s, funds deposited into RSAs are completely sheltered from taxation, creating a substantial drain on the national tax base. LSAs are similar to RSAs except that distributions may be made tax-free for any purpose. In effect, LSAs would allow affluent taxpayers to shelter up to \$5000 from taxation without guaranteeing any real net new saving. In the short run, these provisions may actually prove to be revenue positive, as taxpayers cash out tax-deferred instruments such as IRAs to take advantage of these new accounts. According to an analysis by the Urban Institute - Brookings Tax Policy Center, the drain on federal revenues could be as high as \$50 billion *annually* once the program reaches maturity.

***Charitable Contributions Deduction for Nonitemizers*** — Under current law, nonitemizers receive a standard deduction covering all deductible expenses including charitable contributions. This initiative allows nonitemizers to claim a deduction for charitable contributions up to a maximum of \$250. This provision would be extremely difficult and cumbersome for the IRS to verify and would cost \$12.0 billion over 10 years.

***Rules to End Tax Avoidance Transactions*** — To reduce the growing tax avoidance and tax

sheltering by large corporations, Treasury is requiring detailed documentation and explanation of differences between accounting net income and taxable income. It is hoped that these new requirements will aid auditors in allocating scarce compliance resources. These measures will raise \$1.1 billion over ten years.

## **Job Losses**

***Worst Jobs Record Since Herbert Hoover*** — President Bush has claimed for three years in a row that his economic program would create jobs. Instead, the nation has lost more than 2.3 million jobs in total — and 2.9 million jobs in the private-sector — since the President took office. This is the worst jobs performance of any Administration since Herbert Hoover.

***Past Tax Cuts Have Coincided with Job Losses*** — The President asserted in his State of the Union address that additional tax cuts would create additional jobs, but his record does not support this claim. After three rounds of the President's unbalanced tax cuts, the nation still has 2.3 million fewer jobs than when the President took office — and \$1 trillion of new debt has been passed on to our children and grandchildren.

***Claims About Job Growth Overstated*** — The President said in his State of the Union address that “jobs are on the rise.” Last month, the economy created only 1,000 new jobs. At that rate, it will take 192 years and eight months for the economy to return to the number of jobs at the beginning of President Bush's term of office.

## **Appropriations**

***Freeze Total Appropriations Near Level That Maintains 2004 Services*** — The President's 2005 budget provides \$820.9 billion for all appropriated programs, only \$5.7 billion (0.7 percent) above the amount that CBO estimates is needed to maintain purchasing power at the 2004 level; this is virtually a freeze. (Because the President's 2005 budget includes no funding for ongoing operations in Iraq and Afghanistan, discussions of the 2004 enacted level and the amount needed to maintain its purchasing power also exclude those costs — funded in the 2004 Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan — to provide a fair comparison.) The 2005 budget is \$32.6 billion (4.1 percent) above the comparable 2004 enacted level.

***Large Domestic Cut Offsets Defense, Homeland Security, and International Increases*** — Although the President's budget slightly increases total funding, it cuts domestic non-homeland security funding by \$14.5 billion (4.1 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level, and by \$1.9 billion (0.6 percent) below the 2004 enacted level. This is because of large increases in the other parts of the discretionary budget: domestic homeland security increases by 5.5 percent (\$1.6 billion) over the amount needed to maintain purchasing power, international affairs increases by 15.8 percent (\$4.3 billion), and defense increases by 3.5 percent (\$14.3 billion) — even though the President's budget does not include any 2005 funding for Iraq and Afghanistan, which is expected in a supplemental request.

The Administration's budget shows non-homeland non-defense funding increasing by 0.4 percent from the 2004 enacted level, but that figure includes the large increase in international affairs.

## Education

***Education Faces Some Cuts*** — Although the President's budget provides \$57.3 billion for the Department of Education, an increase of \$1.2 billion (2.2 percent) above the amount needed to maintain purchasing power at the 2004 level, the budget cuts many education programs. It eliminates 38 programs that received \$1.4 billion this year, cuts many other programs, freezes many at the 2004 enacted level, while increasing funding for only a relatively few high-profile programs such as Title I and special education. For example:

- ***Reading programs*** are cut by \$22 million below the amount needed to maintain purchasing power at the 2004 level, even though the President touts a new \$100 million reading program for high school students and an increase for Reading First of \$129 million above the amount needed to maintain purchasing power at the 2004 level. To pay for these increases within the \$1.4 billion for all reading programs, the budget eliminates the \$247 million Even Start family literacy program.
- ***Vocational education*** programs, at \$1.0 billion, are cut by \$322 million (24.1 percent) below the amount needed to maintain purchasing power at the 2004 level. The budget creates a block grant to replace current vocational education programs.

***"No Child Left Behind" Is \$9.4 Billion Below Authorized Level*** — The budget provides \$24.9 billion for programs funded under the No Child Left Behind Act, which is still \$9.4 billion below the amount Congress authorized for 2005 even though it is an increase of \$448 million (1.8 percent) over the 2004 enacted level and of \$276 million above the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. The total includes funding for Impact Aid (frozen at the 2004 enacted level), teacher quality improvement grants (frozen), after-school programs (frozen), comprehensive school reform (eliminated), Title I (increased \$1 billion), and other programs to improve student achievement.

***Pell Grant Awards Frozen*** — Although the budget increases funding for the Pell Grant program by \$856 million, it freezes the maximum Pell Grant at \$4,050 and results in a lower average award of \$2,399. This is the third straight year with a frozen maximum award and a cut in the average award, even though college costs have risen dramatically. The Pell Grant funding includes \$33 million for enhanced grants of up to \$1,000 to 36,000 students who complete the State Scholars curriculum, offered in high schools in 14 states.

## **Environment**

***Budget Once Again Cuts Environmental Protection Agency (EPA) Funding*** — For 2005, the President's budget once again cuts EPA funding, providing \$7.8 billion in appropriations, a 7.2 percent (\$606 million) decrease from the 2004 level. As in previous years, the majority of this decrease is attributed to reduced funding for water infrastructure programs that protect public health and the environment.

***Administration Continues To Press For Drilling in Arctic National Wildlife Refuge*** — Despite unpopularity in Congress, for the fourth consecutive year the President's budget assumes opening the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. Although it is assumed in the budget, the Administration cannot implement this highly controversial proposal without Congressional approval. Over the 2005-2009 period, the budget includes \$1.3 billion from lease bonuses for the federal treasury and \$1.3 billion collected and disbursed to the state of Alaska.

## **Transportation**

***Budget Once Again Cuts Funding for Our Nation's Highways*** — The President's budget provides 2005 federal-aid highway funding of \$33.3 billion, a cut of nearly \$300 million from the 2004 enacted level of \$33.6 billion. This follows proposed cuts by the President of \$2.3 billion in 2004 and \$8.6 billion in 2003. Congress has consistently rejected the President's calls for large cuts in highway spending.

***Budget Shows Lack of Commitment to Mass Transit Needs*** — The President's 2005 request for the Federal Transit Administration (FTA) is \$7.3 billion, the same as the 2004 enacted level. The demand for mass transit has seen dramatic increases in recent years and the lack of a federal funding commitment undermines the ability to satisfy the public's rising demand.

## **Health Care**

***Budget Offers Little Help for the Uninsured While Undermining Existing Health Insurance*** — The number of individuals lacking health insurance increased by 2.4 million from 2001, for a total of 43.6 million uninsured individuals in 2002. The Administration's response to this problem is a package of ineffectual and potentially damaging health policies that will assist only a fraction of the uninsured.

- ***Tax Credits*** — The budget recycles a proposal from earlier years, creating a refundable tax credit to purchase health insurance for those who do not have public or employer-provided health plans, at a ten-year cost of \$70.1 billion. However, the tax credits are not sufficient to make insurance affordable for individuals who are older or in poorer health. Individuals who take advantage of these tax credits are likely to be younger and healthier employees, who may



depart their employer-sponsored insurance, destabilizing that market by leaving it with a sicker pool of people. Furthermore, independent analyses estimate that these tax credits reduce the number of uninsured by only 1.9 million individuals.

- *Health Savings Accounts* — The recently enacted Medicare legislation created Health Savings Accounts (HSA's), which allow tax-free deposits and withdrawals for qualified medical expenses. To participate in the program, an individual must purchase a high-deductible, catastrophic health insurance plan. The budget goes further, making premiums for catastrophic health insurance tax deductible, at a cost of \$24.8 billion over ten years.

This policy mainly benefits the healthy and the wealthy, because this type of coverage is most attractive to those who have low health-care costs. Furthermore, the design of HSA's allows the greatest benefits to accrue to affluent workers. Pulling those individuals out of comprehensive insurance leaves an older and sicker pool of workers, driving up premiums and destabilizing the comprehensive insurance market.

***Medicare: Budget Estimates Much Higher Costs for Medicare Prescription Drug Law*** — The Administration estimates spending for the Medicare Prescription Drug, Improvement and Modernization Act (P.L. 108-173) at \$534 billion over ten years, an increase of \$139 billion - or more than one-third - over CBO's estimate. The Administration attributes the difference in estimates to assumptions regarding beneficiary participation, market behavior, and cost-growth rates. However, a large portion of the increase is due to higher payments to private plans. The Administration predicts many more seniors will move into private plans under the new law, as compared to CBO's assumptions, and the law significantly increases payments to private plans. Therefore, the combination of more people in private plans at higher payment rates results in a higher cost.

***Medicaid: Advocates Medicaid Block Grant, Dismantling Guarantee of Health Care for Low-Income Individuals*** — The budget pushes for last year's flawed legislative proposal to block-grant Medicaid. In last year's budget, states received additional money in the first seven years which they then had to pay back in the following three years. Furthermore, in last year's budget, states that accepted this option could cut benefits for certain Medicaid populations and were also at risk of having to cut benefits further if block grants did not keep pace with enrollment and inflation increases. This year's budget includes no money, nor any real details for this proposal.

***Medicaid: Budget Creates Options for People with Disabilities*** — The budget repeats several policies from last year to promote home and community-based care options for people with disabilities. The combination of Medicaid spending policies costs \$7.9 billion over ten years.

***Medicaid: Budget Cuts Medicaid Spending*** — The budget also cuts Medicaid spending by \$23.6 billion over ten years by curbing intergovernmental transfers and the use of the upper

payment limit and by limiting Medicaid provider payments to the cost of providing services. When combined with spending increases from other policies, the total effect on Medicaid is a cut of \$15.7 billion over ten years.

## **Other Underfunded Priorities**

***Cuts Funding for Veterans Medical Care*** — The budget provides \$29.8 billion for appropriated veterans programs, which is \$257 million below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Almost all appropriated funding for veterans goes to provide medical care and hospital services. Over five years, the budget for appropriated programs for veterans is \$13.5 billion below the amount needed to maintain programs and services at the 2004 level.

***Enrollment Fee and Increased Copayments for Priority Level 7 and 8 Veterans*** — The budget imposes a \$250 annual enrollment fee on nonservice-connected Priority 7 (higher income, nonservice-connected) veterans and all Priority 8 veterans who wish to receive medical care from the Department of Veterans Affairs. The budget assumes five-year savings of \$1.5 billion from this proposal. The budget also assumes five-year savings of \$747 million from increasing pharmacy copayments for Priority 7 and 8 veterans from \$7 to \$15. Both of these were proposed in last year's budget and rejected by the Congress.

***Cuts State and Local Justice Assistance*** — State and local criminal justice and juvenile justice assistance programs center on combating and deterring crime. The budget provides only \$2.8 billion for state and local justice assistance, a \$1.0 billion cut below the amount needed to maintain programs at the 2004 level. The budget eliminates the Local Law Enforcement Block Grants program, the State Criminal Alien Assistance Program, and Edward Byrne Grants. The budget also guts the Community Oriented Policing Services (COPS) program.

## **Increased Funding for Defense, Homeland Security, International Affairs, and NASA**

***No Funds for Operations in Iraq and Afghanistan*** — The President's budget fails to live up to his State of the Union claim that "In two weeks I will send you a budget that funds the war." The budget includes no funding for the 2005 costs of ongoing military operations in Iraq and Afghanistan. Supplemental funding that would further increase the deficit will be required to pay for the costs of these operations in 2005 and future years. Because the Department of Defense does not plan to seek another supplemental in calendar year 2004, the Administration may fail to provide an estimate of these additional costs before November.

***Increased Funding for National Defense*** — The budget request for appropriated Function 050 (National Defense) programs is \$420.7 billion. This represents an increase of \$25.8 billion, or 6.5 percent, above the 2004 enacted level, and an increase of \$14.3 billion, or 3.5 percent, above

the amount that CBO estimates is needed to maintain purchasing power at the 2004 level, after excluding supplemental funding for operations in Iraq and Afghanistan in 2004 for comparability (since the budget includes no funds for these ongoing activities in 2005). Over the next five years, the budget increases funding for appropriated defense programs by \$194.7 billion, or 9.2 percent, above the amounts needed to maintain purchasing power at the 2004 level (again excluding the supplemental funding provided in 2004). If the supplemental funding provided in 2004 is included, the budget request is \$39.4 billion below the 2004 enacted level and \$52.0 billion below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level.

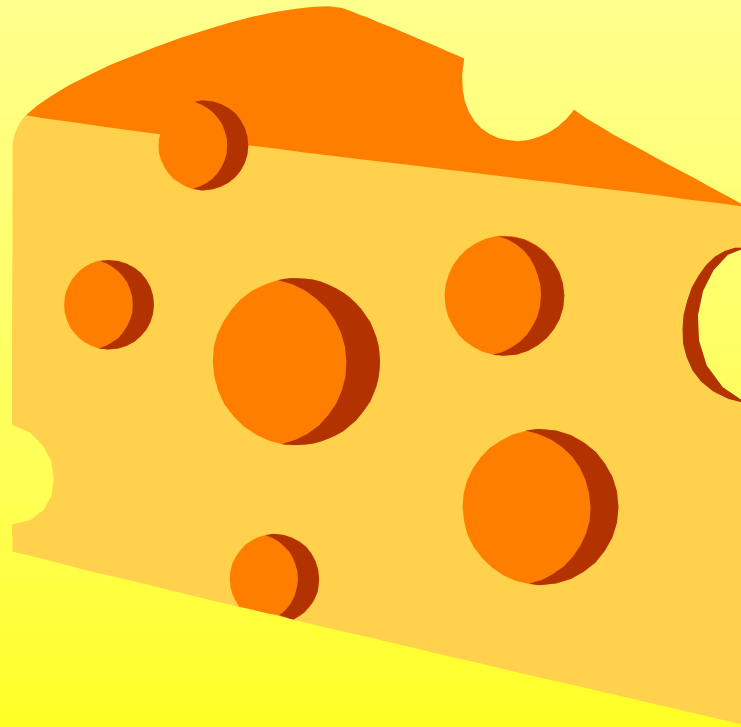
***Homeland Security Funding*** — The President’s budget includes a total of \$47.4 billion for all homeland security activities for 2005, \$6.1 billion more than comparable homeland security funding for 2004. These totals include mandatory and discretionary programs (including homeland security funding for the Department of Defense and homeland security activities that are fee-funded.) Net appropriations for domestic homeland security activities (a total that excludes all national defense funding as well as fee-funded activities) for 2005 total \$30.6 billion, an increase of \$1.6 billion (5.5 percent) over the amount needed to maintain purchasing power at the 2004 level for comparable programs.

***International Affairs Funding*** — The budget provides \$31.6 billion in funding for appropriated international affairs programs. This amount is \$4.6 billion (17.1 percent) more than the \$27.0 billion in non-emergency funding enacted for these programs for 2004 and \$4.3 billion (15.8 percent) more than the amount needed to maintain purchasing power at the 2004 level. These 2004 levels exclude the \$21.7 billion in emergency funding that was provided for 2004 in the supplemental appropriations.

***National Aeronautics and Space Administration (NASA) Budget Increases*** — The budget provides \$16.2 billion for NASA, an increase of \$866 million (5.6 percent) above the 2004 enacted level and of \$640 million (4.1 percent) above the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Over five years, the budget provides \$6.1 billion above the amount NASA would need to maintain purchasing power at the 2004 level. This increase only begins to fund NASA’s newly announced plan to create a new vehicle to carry robots and then humans to the moon by 2008, and then to Mars by 2020. While the 2005 budget increases funding for space flight (the shuttle, the space station, and support activities) by \$799 million over the 2004 enacted level, NASA plans to cease funding the shuttle by 2012 and stop funding the space station by 2017 in order to add funding to exploration missions, human and robotic technology, and creating a new flight vehicle.

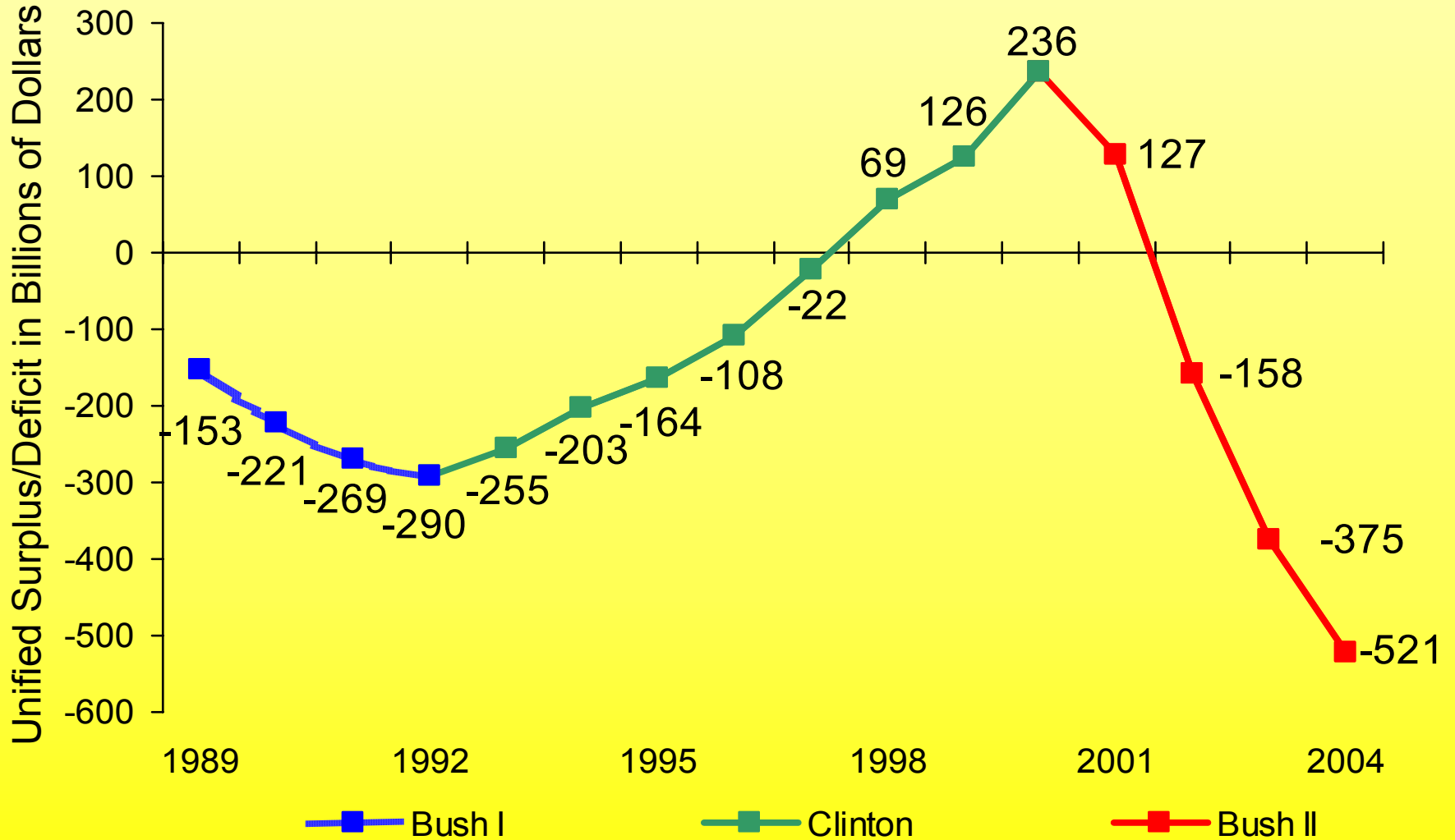
# The President's Budget

High Deficits, Heavy Debt, and Holes



# Backsliding Into the Deficit Ditch

## From Deficit to Surplus to Deficit Again



# Costs Omitted from Bush Budget



Numbers for the Second Five Years



Cost of Making Tax Cuts Permanent



Cost to Repair AMT

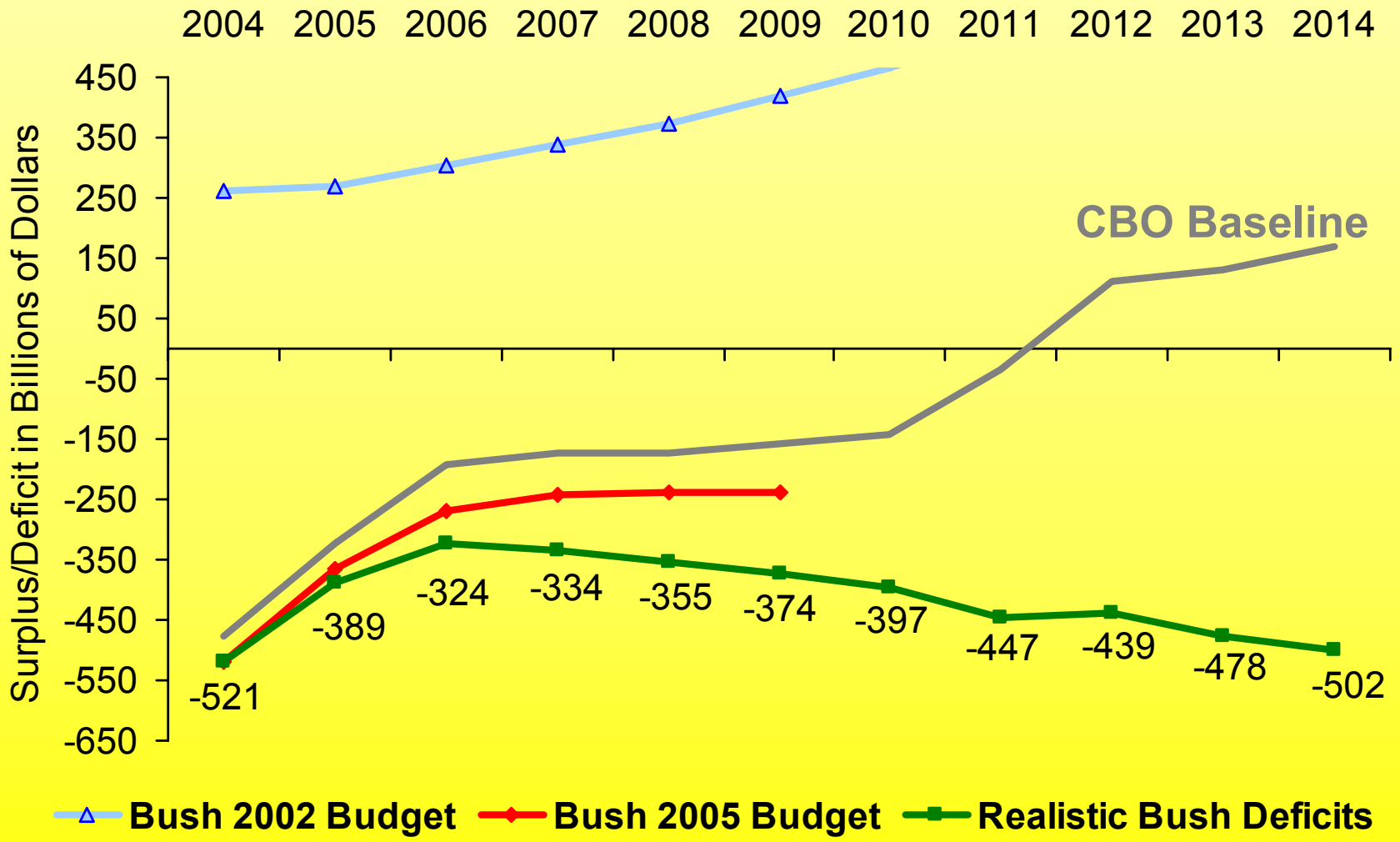


Additional Costs for Defense, Including  
Iraq and Afghanistan Operations



Genuine Offsets – Budget Uses  
Implausible Fees, Copays

# More Accurate Estimate Shows Even Bleaker Budget Outlook








CBO Baseline adjusted for President's omitted costs



# Still More Costs Omitted from Bush Budget

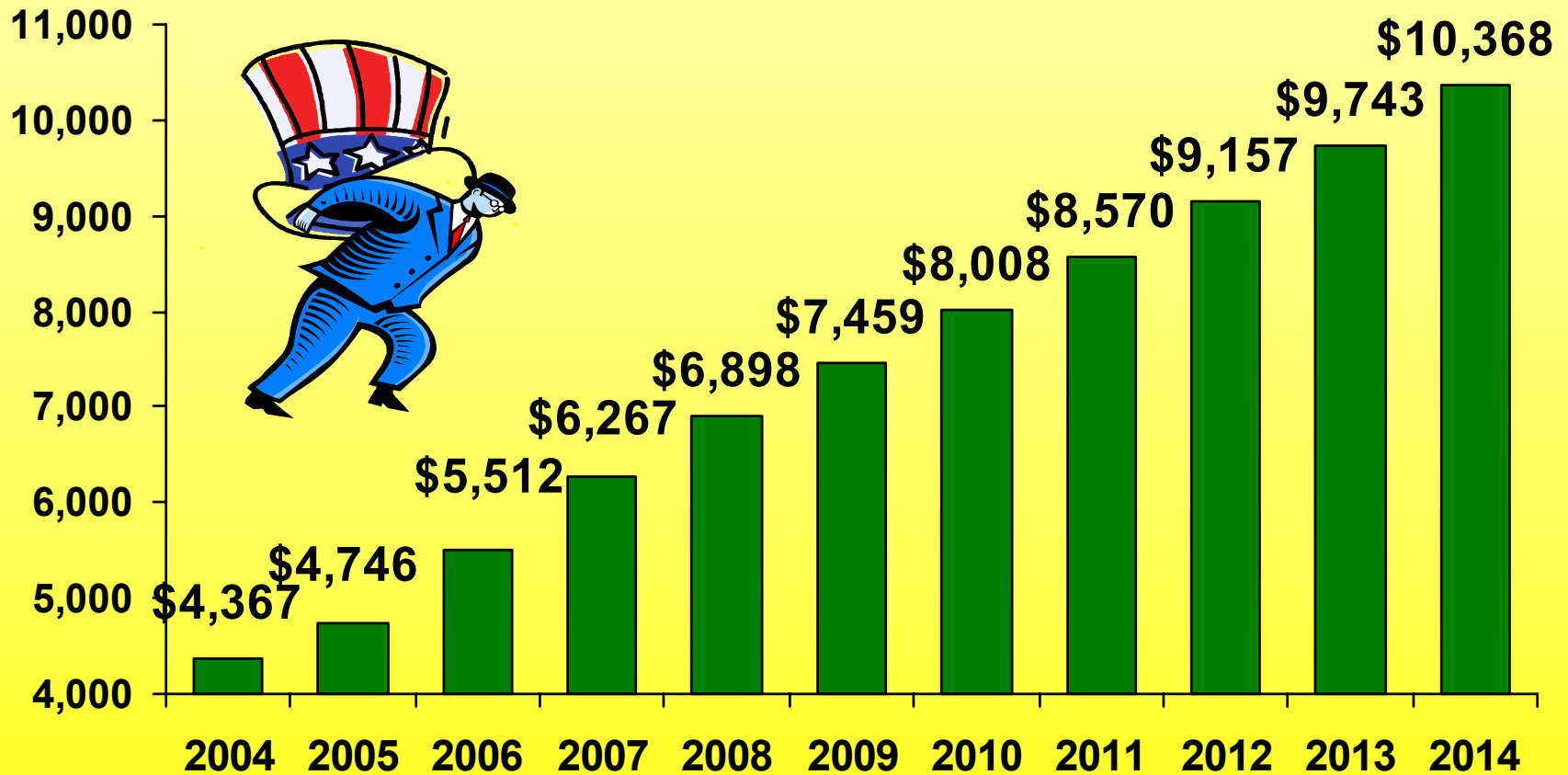


-  Social Security Privatization
-  Lunar-Based Mission to Mars
-  Realistic Funding for the Energy Bill
-  Realistic Highway Funding
-  Tax Extenders and Other Tax Cuts



# Bush Budget Raises the Debt Tax

Federal Gross Interest per Family of Four



# Winners and Losers in Bush Budget

## Winners

- Affluent Americans: Another \$1.1 Trillion in Tax Cuts
- Polluters: EPA Cut \$606 Million
- Big Oil: Drilling in ANWR

## Losers

- Social Security & Medicare Solvency
- Middle-Class Families: No AMT Fix
- Environment
- Poor & Uninsured: Medicaid Block Grant
- Veterans: Health Care Cut \$257 Million, Fees & Copays Imposed
- Students: Pell Grant Frozen, NCLB Cut \$9.4 Billion
- Law Enforcement: \$1.0 Billion Cut