

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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### House Republican Budget Resolution: Harsh Spending Cuts and Large Deficits

#### Overview

The budget resolution passed by the House Budget Committee continues a pattern of misguided Republican budget policies. In the face of record deficits and mounting debt, the budget actually makes the deficit worse, not better, and offers no plan to bring the budget back to balance. At the same time, the budget makes harmful cuts to critical services for working families – including health, education, veterans’ services, and environmental protection – and uses these cuts to partly pay for new tax cuts rather than to reduce the deficit.

**Budget Makes Large Deficits Worse** — The Committee-passed budget resolution includes a deficit for 2006 of \$372 billion, and a deficit for 2007 of \$348 billion. These deficits mean that, under Republican policies, the five largest deficits in history will have occurred in five consecutive years. Over five years (2007-2011), the budget resolution calls for deficits totaling \$1.1 trillion. The budget resolution has no plan to bring the budget back to balance, and, in fact, its policies make the deficit \$410 billion worse over five years relative to the Congressional Budget Office’s (CBO’s) projection of deficits under current policies.

### Another Record Deficit

The Five Largest Deficits in History

Rank	Year	Deficit
1 <sup>st</sup>	2004	-\$412 Billion
2 <sup>nd</sup>	2003	-\$378 Billion
3 <sup>rd</sup>	2006	-\$372 Billion
4 <sup>th</sup>	2007	-\$348 Billion
5 <sup>th</sup>	2005	-\$318 Billion

Prepared by the Democratic Staff of the House Budget Committee

Source: CBO

3/29/06

**Budget Fails to Reveal True Size of Problem** — As bad as these numbers are, the true picture is in fact worse, because the budget resolution includes no funding after 2007 for military operations in Iraq and Afghanistan, and for 2007 includes only \$50 billion – less than half of the amount appropriated for 2006. The budget also omits the full cost of a long-term fix of the

Alternative Minimum Tax (AMT). Meanwhile, the budget provides no deficit numbers after 2011, thus masking the fact that costly Republican policies – such as the rest of the Republican tax agenda – are expected to drive deficits higher in those years.

***Budget Calls for Mounting Legacy of Debt*** — Since this Administration took office it has requested, and the Congress has provided, four increases in the statutory debt ceiling totaling \$3 trillion. Under this budget, the statutory debt by 2011 will increase by another \$2.3 trillion, for a total increase of \$5.3 trillion – leaving the statutory debt at a record level of \$11.3 trillion.

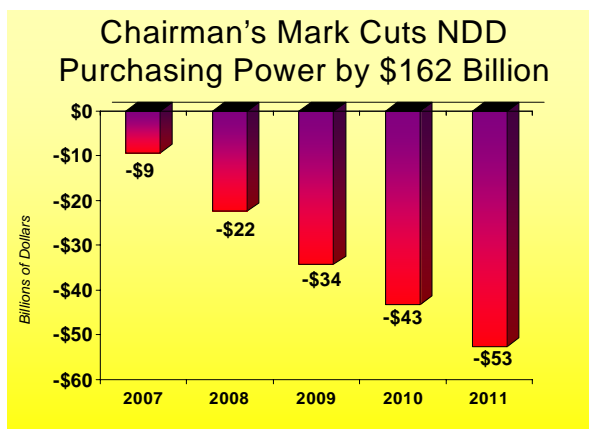
***Budget Cuts Funding for Key Domestic Services*** — The Committee-reported resolution matches the President’s regular 2007 funding level for non-defense discretionary funding and also includes \$4.3 billion in a reserve fund for non-defense emergencies. However, it then cuts non-defense discretionary funding in each subsequent year by one to two percent below the already low levels in the President’s budget. Over five years (2007-2011), the Committee-reported budget cuts non-defense discretionary funding by \$162 billion below the amount needed to maintain services at their current levels. The Committee-passed resolution also fails to include the additional \$7 billion in advance funding for health, education, and other services adopted by the Senate (the Specter-Harkin amendment) by a vote of 73-27; this funding was proposed by Democrats during the House Budget Committee markup but rejected by Republicans on a party-line vote. Over five years, the budget cuts funding below current services for veterans’ health care by \$6.0 billion, for the education function by \$45.3 billion, for health by \$18.1 billion, and for environmental protection by \$25.0 billion.

***Budget Includes Another Round of Spending Reconciliation*** — The resolution includes reconciliation instructions to eight House authorizing committees to reduce the mandatory spending within their jurisdictions by a total of \$6.8 billion over five years. The two largest pieces of this total are assigned to the Ways and Means Committee (\$4.0 billion) and the Education and the Workforce Committee (\$1.3 billion).

***Budget Includes More Tax Cuts*** — The Republican budget resolution includes \$228 billion in new tax cuts over the next five years. Unlike last year, the budget resolution does not include reconciliation instructions to the Ways and Means Committee to put tax cuts on the legislative fast track. Although the budget resolution does not specify tax policy, the \$228 billion total is sufficient to allow for permanent extension of the expiring components of the 2001 and 2003 tax cuts, as well as for a one-year extension of AMT relief. The \$228 billion five-year total included in the resolution represents only a fraction of the ten-year cost of the Republican tax agenda. Indeed, according to CBO, extending the President’s tax cuts costs \$1.3 trillion in the second five years, more than six times the \$200 billion cost over the first five years. The \$26 billion cost in 2007 of a one-year AMT patch represents less than five percent of the \$844 billion ten-year cost estimated by CBO.

## Cuts Non-Defense Discretionary Appropriations

The Committee-reported budget resolution provides \$929.5 billion in discretionary appropriations for 2007, consisting of \$873.5 billion of regular appropriations and another \$56.0 billion of emergency funding. These levels match the President's budget for defense. For non-defense discretionary (NDD) appropriations, the Committee-reported resolution matches the President's regular 2007 funding level and also includes \$4.3 billion in a reserve fund for NDD emergencies. However, it then cuts NDD funding in each subsequent year by one to two percent below the already low levels in the President's budget. Over five years (2007-2011), the Committee-reported budget cuts NDD funding by \$162 billion below the amount needed to maintain services at their current levels.



### House Committee-Reported Resolution Cuts Non-Defense Discretionary Funding

(Billions of Dollars)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2007-11</u>
CBO March Baseline	410	422	432	444	452	463	2213
President's Budget	410	413	414	417	417	418	2078
House Committee-Reported Budget	410	413	409	410	409	410	2051
Committee v. President	0	0	-5	-7	-7	-7	-27
Committee v. March Baseline	0	-9	-22	-34	-43	-53	-162

*all levels exclude emergency funding*

The Committee-reported resolution rearranges some of the President's NDD funding. It reduces the President's increases for international affairs and science, and cuts funding for income security and general government programs in order to spend more than the President for administration of justice, veterans' health care, and community development programs. However, these three budget functions are still cut below the amount needed to maintain current services every year.

### Discretionary Funding in House Committee-Reported Resolution

(Billions of Dollars)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Defense: regular	432	460	482	502	512	523
Defense: war emergency	125	50	0	0	0	0
Non-Defense Discretionary: regular	410	413	409	410	409	410
NDD: avian flu, emergencies	25	7	0	0	0	0
<b>House Committee-Reported Budget's Discretionary Total</b>	<b>992</b>	<b>930</b>	<b>891</b>	<b>912</b>	<b>921</b>	<b>933</b>
President's Discretionary Total	993	925	896	919	929	941

***Restrains NDD Emergency Funding*** — The resolution imposes new restrictions on NDD emergency appropriations – but not defense emergency funding – if they exceed \$4.3 billion for the entire five-year period. Once NDD emergency funding reaches that inadequate five-year limit of \$4.3 billion, the House Budget Committee must meet and agree to authorize any new emergency funding, or the Chairman must do so himself, before Congress can enact it. This step could slow the provision of immediate funding needed to respond to an emergency. NDD emergency funding has averaged \$31.9 billion annually for the last five years, ranging from a low of \$7.0 billion in 2001 to a high of \$81.2 billion in 2005.

***Matches President's Defense Totals*** — For defense, the Republican resolution exactly matches the President's defense budget; both budgets provide sizeable annual increases in regular defense funding but include only \$50 billion for the war for 2007 and nothing for the war thereafter.

### **Harmful Cuts to Critical Services**

The President's budget imposes many harmful cuts that the Committee-reported resolution matches. Some of the deepest cuts are described below. For detailed examples of additional damaging cuts, see the House Budget Committee Democratic staff's "Summary and Analysis of the President's Fiscal Year 2007 Budget" at [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats).

***Slashes Education, Training, and Social Services Funding*** — The Committee-reported budget matches the President's discretionary cuts in education, training, and social services (Function 500) dollar for dollar, containing the same \$2.2 billion cut to the Department of Education for 2007, the same cut to virtually every job training program in the Department of Labor, and the same sweeping cuts to social services programs in the Department of Health and Human Services, including flexible funding for localities by eliminating the \$637 million Community Services Block Grant and cutting \$500 million from the Social Services Block Grant. Over five years, both the Republican resolution and the President's budget cut purchasing power for education, social services, and training programs by \$45.3 billion – but the real effect of the cut is even greater because the recent reconciliation legislation eliminated all mandatory spending to administer student aid programs, so Congress is squeezing that extra \$600 million out of the appropriations budget every year.

***Cuts Veterans' Health Care and Taxes Military Retirees*** — The Committee-reported resolution rejects the President's proposal to increase health care fees on Priority 7 and 8 veterans. However, similar to the President's budget, the Committee-reported resolution cuts veterans' health care beyond 2007. From 2008 through 2011, the Republican budget resolution cuts funding for veterans' appropriated programs by \$8.6 billion below the level that CBO estimates is needed to maintain current services. Additionally, the Committee-reported resolution matches the President's budget for defense, which includes significant increases in TRICARE's health care fees for military retirees under the age of 65 – health care fees will triple for retired officers, double for retired senior enlisted personnel, and increase by 40 percent for junior enlisted retirees.

***Leaves Room for Cuts to Homeland Security*** — Over five years, the Committee-reported resolution cuts two of the main budget functions that finance homeland security activities –

Community and Regional Development, and Administration of Justice – by \$6.1 billion below current services. These budget functions fund port security grants to tighten the physical security of our ports, the Container Security Initiative to identify and inspect high risk U.S.-bound cargo, procurement of radiation portal monitors to screen for nuclear material in shipping containers, law enforcement terrorism prevention grants for first responders, and Byrne Justice Assistance Grants and State Criminal Alien Assistance to strengthen state and local criminal justice systems. Additionally, the Republican budget matches the President’s defense request that reduces Army National Guard troop strength by 17,100, which will inhibit our ability to respond to crises at home and abroad. It also includes a \$39 million cut to the Cooperative Threat Reduction program, a critical initiative to prevent loose nuclear material from falling into the hands of terrorists.

***Squeezes Programs for Low-Wage Workers and Vulnerable Families*** — The Committee-reported resolution’s 2007 funding level for appropriated income security programs such as housing and child care assistance is \$100 million below the President’s budget and falls \$447 million short of the amount needed to maintain the current level of services. Over five years, funding for these programs is \$500 million below the President’s budget, and falls short of the amount needed to maintain current services by \$14.9 billion. Examples of cuts to income security programs in the President’s budget include:

- elimination of the \$111 million Commodity Supplemental Food Program, which provides nutritious food packages to 420,000 low-income elderly and 50,000 mothers and children;
- a freeze on child-care funding;
- elimination of the Hope VI program, which was created to transform distressed public housing projects into vibrant mixed-income neighborhoods; and
- a cut of nearly 50 percent to housing for persons with disabilities, and a cut of nearly 26 percent to a similar housing program for the elderly.

***Slashes Environmental Protection and Conservation Funding*** — The Committee-reported resolution slashes funding for critical environmental needs that protect public health and preserve our nation’s most treasured resources, matching the President’s cuts dollar for dollar. Programs affected by these cuts for 2007 include:

- the Environmental Protection Agency, including a cut to the Clean Water State Revolving Fund of \$199 million;
- a cut to the Army Corps of Engineers of \$596 million;
- a \$102 million cut to the National Park Service; and
- the Land and Water Conservation Fund, which is cut by \$42 million, including the elimination of the stateside program.

***Cuts Funding for Public Health Programs and Medical Research*** — The Committee-reported budget matches the President’s insufficient level of funding for public health programs, shortchanging critical medical research, treatment, prevention and training programs. These cuts come at a time when public health programs are struggling to respond to sharply increased demand in the wake of Hurricanes Katrina and Rita. The budget includes \$2.3 billion to prepare for an influenza pandemic; after this one-time money is excluded, funding for health programs

for 2007 is \$1.1 billion below the amount needed to maintain purchasing power at the 2006 level. Over the five-year period of 2007 to 2011, this shortfall for public health programs is more than \$18 billion. Programs that face cuts include:

- 18 of 19 institutes at the National Institutes of Health;
- prevention programs at the Centers for Disease Control;
- children’s hospital graduate medical education;
- rural health activities; and
- scores of other health programs that the President cut or eliminated.

## Mandatory Spending

Spending levels for mandatory programs are determined by the laws authorizing the programs rather than by annual appropriations decisions. Mandatory spending currently makes up about 60 percent of the budget. The biggest mandatory programs are Social Security, Medicare, and Medicaid. Other important mandatory programs include food stamps, student loans, farm support programs, the Earned Income Tax Credit (EITC), Supplemental Security Income (SSI) for low-income elderly and disabled, Temporary Assistance for Needy Families, federal employee retirement benefits, Unemployment Insurance (UI), and veterans’ benefits.

### ***Budget Includes Reconciled Spending Cuts*** —

The Committee-reported Republican budget resolution includes reconciliation instructions to eight committees to cut spending by a total of \$6.8 billion over five years. The resolution requires the committees to submit their recommendations for spending cuts to the Budget Committee by May 12. More than half of the reconciled cut, \$4 billion, is assigned to the Ways and Means Committee. Some of the policies that could be accommodated in the reconciliation targets include:

- **Agriculture:** lift the cap on fees for an export loan guarantee program, and allow states to use the federal new-hires database as part of income verification procedures for determining food stamp eligibility.
- **Armed Services:** authorize additional sales from the National Defense Stockpile.
- **Education and the Workforce:** increase variable-rate premiums paid to the Pension Benefit Guaranty Corporation (PBGC), consistent with pension reform legislation that passed the House in December.
- **Financial Services:** establish more actuarially sound rates on National Flood Insurance Program policies and end flood insurance subsidies for certain structures not used as primary residences.

<b>Reconciled Spending Cuts in Committee Budget, 2007-2011</b> (Billions of dollars)	
<i>House Committees</i>	
Agriculture	-0.055
Armed Services	-0.175
Education and the Workforce	-1.323
Financial Services	-0.400
International Affairs	-0.250
Judiciary	-0.500
Transportation & Infrastructure	-0.050
Ways and Means	-4.000
<b>Total, 2007-2011</b>	<b>-\$6.753</b>

- **Ways and Means:** increase states' ability to detect and recover erroneous UI payments, as proposed in the President's budget, which reduces spending by \$1.1 billion over five years (reducing UI payments also leads to a reduction in revenues, for net savings of \$827 million). It is unclear what policy assumptions underlie the rest of the \$4 billion reconciliation instruction to Ways and Means. Programs under the Committee's jurisdiction include Medicare and an array of safety-net programs and supports for working families, such as SSI, EITC, and foster care assistance.

**Budget Rejects Most of the President's Mandatory Cuts** — The President's budget calls for mandatory spending cuts ten times as large as those in the Republican budget – \$51.7 billion over five years. The President's budget achieves these cuts through a combination of service reductions and fee increases, with the biggest cuts affecting Medicare and PBGC.

**Budget's Treatment of Medicare** — The numbers in the budget resolution indicate no change in Medicare spending relative to current law over the next five years, whereas the President's budget cuts Medicare by \$37 billion over that period. Although House Budget Committee Chairman Nussle stated at the markup that the reconciliation instructions do not assume any cuts to Medicare, this assumption is not binding, and the Ways and Means Committee could choose to cut Medicare in order to meet its reconciliation target.

**Budget Includes Other Spending Changes** — The budget includes spending increases and decreases outside the reconciliation process that net out to a \$1.7 billion increase. The increase is primarily related to payment of 2005 flood insurance claims. Taken together, the reconciled cuts and other changes outside of reconciliation cause total mandatory spending (excluding net interest) to decline by \$5.1 billion over five years relative to current law.

## Tax Cuts

**Budget Resolution Cuts Taxes by \$228 billion** — The budget resolution calls for \$39 billion in tax cuts in 2007 and \$228 billion in tax cuts over five years, but specifies no specific policies. The aggregate revenue reduction is sufficient to incorporate an extension of the President's tax cuts, a one-year patch of the AMT, certain other expiring provisions, and pension reform. The resolution also includes a provision that would allow a second year of an AMT patch as long as the total cost of all tax cuts remained below \$228 billion over five years, meaning that the resolution's revenue levels are insufficient to include both the President's tax cuts and a two-year AMT fix. The tax cuts in the Committee-reported budget resolution are about \$55 billion smaller than in the President's budget, in large part due to the omission of the President's health savings accounts proposals.

<b>Budget Resolution Insufficient to Accommodate All Republican Tax Changes</b>	
<i>Five-Year Costs of Reform</i>	
<b>Budget Resolution Tax Cuts</b>	<b>\$228 B</b>
<b>Republican Tax Agenda</b>	<b>\$299 B</b>
Extend President's Tax Cuts	\$196 B
Two-Year AMT Patch	\$60 B
Research Credit	\$32 B
Pension Reform	\$ 11 B
<b>Shortfall</b>	<b>-\$71 B</b>

Prepared by the Democratic Staff of the House Budget Committee      Source: JCT, Staff Calculations      3/31/2006

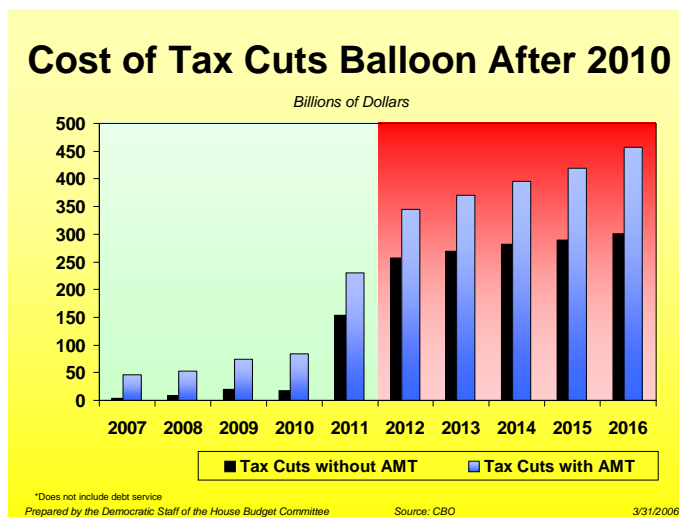


**Budget Gimmicks Used to Hide Total Cost of Tax Cuts** — While AMT reform is widely expected, the assumed Republican tax policy in the budget resolution fails to provide for more than a one-year patch in the AMT. In omitting significant AMT reform, House Republicans severely understate the true cost of the President’s tax agenda. Adding permanent AMT reform to the President’s tax cuts increases the cost of the Republican tax agenda by \$257 billion over five years, which would more than double the cost of the Republican tax cuts.

**House Republicans Rubber-Stamp President’s Tax Cuts** — Other than omitting the cost of HSAs, the tax agenda included in the Republican budget resolution is nearly identical to the one presented in the President’s budget, with a few minor exceptions. By calling for extended reductions in investment taxes while failing to repair the AMT beyond 2007, House Republicans largely rubber-stamp the President’s tax agenda and continue to promote a policy of growing deficits and mounting debt.

**Tax Cuts Leave Working Families With Little Tax Relief** — The bulk of the Republican tax cuts are focused on those taxpayers at the top of the income distribution who are least in need of tax relief. The Brookings-Urban Tax Policy Center estimates that the extension of the President’s tax cuts will result in almost half of the total tax cut, 46 percent, going to the four percent of filers with incomes over \$200,000, while working families making \$50,000 and less would receive just 16 percent of the total tax cut. Tax filers with incomes in excess of \$1 million will receive an average tax cut in 2011 of approximately \$158,000, about one hundred times the tax cut for the average taxpayer.

**Costs of Tax Cuts Explode Outside of Five Year Budget Window** — The budget window only reveals the costs of the fiscal policy changes through 2011, masking the true costs of the assumed Republican tax policies. If the assumed Republican tax cuts are continued beyond the five-year budget window, the cost of the tax cuts balloons to \$2.5 trillion over ten years, without accounting for extra debt-servicing costs. The trend of back-loaded costs is even evident in the five-year budget window, with the budget resolution calling for more tax cuts in the 2011 than in the first four years of the budget window combined.



**Another Missed Opportunity to Reform AMT Beyond a One-Year “Patch”** — The assumed tax policy endorsed by the Committee-reported budget resolution again fails to repair the AMT. Inadequate AMT reform not only makes tax planning more difficult for taxpayers, but also distorts and understates the costs of Republican-favored tax code changes, such as extensions in investment income tax rates.