

TAX CUTS AND CONSEQUENCES

Bush budget plan will require steep reductions in real spending over next decade

by Barbara Chow and Lawrence Mishel

After years of hard political decisions and self-imposed fiscal discipline, the deficits that ballooned in the 1980s are gone. This is a key moment for America's budget policy. For the first time in over two decades, the country has the opportunity to make significant spending choices based upon a solid budget foundation. Will it be tax cuts, debt reduction, defense, investment, social needs, or some combination of the above?

The budget presented by President Bush makes one choice: it embraces a significant \$1.6 trillion 10-year tax cut that significantly reduces the amounts available for debt reduction, new investments, social programs, and major changes in Medicare, Medicaid, and Social Security. Alternatively, his tax cut could force significant on-budget deficits, thereby repeating the cycle of the past 20 years.

The impact of Bush's choice will be felt immediately by some programs and become more pronounced for others over the long term. Even education, a Bush priority that receives a significant boost in FY 2002, would suffer steady erosion from current service levels under the Bush plan. Education is not alone:

- Bush's projections imply a 7.6% cut in non-defense discretionary spending by 2011 compared to spending this year, adjusted for inflation and population growth.
- All domestic spending areas, except health, will experience cuts ranging from 2.1% for education and training to 23.6% for natural resources and the environment.
- These budget cuts have real impacts on programs: 70,000 fewer Head Start slots; 125,000 fewer students in after-school programs; 60,000 fewer child care slots; 630 fewer drug enforcement agents; 1,830 fewer FBI agents; 195,000 fewer dislocated workers served; and 125,000 fewer young workers trained.

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Domestic spending priorities

The Bush budget provides specific program spending levels for the next fiscal year (FY 2002) plus aggregate spending levels for the next 10 years (through FY 2011). Thus, it is possible to assess the Bush Administration's short-term and long-term domestic spending priorities. (The analyses in this paper rely on Congressional Budget Office (CBO) re-estimates of administration projections.)

The Bush budget numbers likely provide only an upper bound on planned spending, given that several proposed tax and policy changes could seriously reduce future federal revenue. As Greenstein (2001) has pointed out, the estimated costs of repeal of the estate tax have been raised by the Joint Committee on Taxation, and the budget does not account for the likely weakening of the alternative minimum tax (AMT) to avoid having it apply to middle-class families. Furthermore, the budget does not reflect the likely continuation of several tax credits and payments to farmers, nor does it include any increase in defense spending, such as for missile defense, that is likely to emerge from the current administration's "review" of defense needs.

Yet even this upper-bound spending plan keeps total domestic discretionary spending at only about the same inflation-adjusted level in FY 2011 as it was in FY 2001. *And maintaining spending levels in inflation-adjusted terms is not enough for maintaining them at their current levels.* After all, the population will be 8.8% greater in 10 years and the economy will be 36.1% larger. Thus, most programs will need to expand over their inflation-adjusted spending levels in order to keep up with the needs of citizens and the economy.

Table 1 compares the spending levels in the Bush budget to two projections of spending needs: the CBO baseline, which adjusts only for inflation, and the CBO baseline converted to a per capita basis, which assumes that spending needs to grow with both inflation and population in order to maintain current services. A negative number in the table indicates lower spending under the Bush plan than inflation and population growth would call for. Against the inflation-only baseline, non-defense discretionary spending is slightly down (0.8%) in five years and slightly up (0.5%) in 10 years. Against a baseline that also adjusts for population growth, though, Bush anticipates significant cuts down the road: 5.1% by FY 2006 and 7.6% by FY 2011. Over the 10 years, the implied cut is \$215 billion.

Even against the conventional CBO baseline, the Bush budget shows significant reductions by FY 2011 in many domestic areas, including natural resources and the environment (6.9%), community development (10.5%), and veterans benefits (6.3%). The only areas to grow against the conventional CBO baseline are general science, energy, education, and health.

But more importantly, on a per capita basis only one area—health—shows an increase in spending in five years or 10. By FY 2011, in contrast, education and training is down 2.1%, income security (low-income housing, nutrition) is down 8.0%, discretionary veterans spending is down 13.9%, natural resources/environment spending is down 23.6%, and justice spending (e.g., law enforcement) is down 13.8%. The administrative expense to oversee Social Security will be 16.2% lower than needed, making it difficult to modernize recordkeeping, etc.

Using the growth of the economy as the baseline, the downsizing of domestic spending under the Bush plan looms even larger (**Table 2**). The drop from 3.1% in FY 2001 to 2.5% in FY 2011 implies a 20% cut in domestic discretionary spending.

TABLE 1
Changes in domestic discretionary spending levels, FY 2001-11

	Bush spending minus CBO baseline				Bush spending minus CBO per capita baseline			
	FY2006		FY2011		FY2006		FY2011	
	\$Billions	Percent	\$Billions	Percent	\$Billions	Percent	\$Billions	Percent
Total discretionary	\$2.8	0.4%	\$13.9	1.7%	\$-29.8	-3.9%	\$-59.5	-6.6%
Non-defense discretionary	-3.2	-0.8	2.3	0.5	-20.0	-5.1	-35.5	-7.6
General science, space, and technology	1.0	4.2	1.9	7.2	-0.1	-0.3	-0.4	-1.4
Energy	-0.3	-8.9	0.2	5.1	-0.5	-12.8	-0.1	-3.4
Natural resources and environment	-5.7	-17.1	-6.4	-16.9	-7.1	-20.6	-9.7	-23.6
Agriculture	-0.1	-1.2	-0.1	-1.3	-0.3	-5.4	-0.6	-9.3
Community and regional development	-1.7	-13.1	-1.5	-10.5	-2.3	-16.8	-2.8	-17.7
Education, training, employment, social services	1.8	2.6	5.0	6.5	-1.3	-1.8	-1.8	-2.1
Health	6.6	15.1	8.4	17.3	4.6	10.2	4.1	7.8
Medicare	-0.3	-8.4	-0.9	-16.8	-0.5	-12.3	-1.3	-23.5
Income security	-0.8	-1.7	0.0	0.1	-3.1	-5.9	-5.0	-8.0
Social Security	-0.3	-6.3	-0.4	-8.9	-0.4	-10.3	-0.8	-16.2
Veterans benefits and services	-1.1	-4.0	-1.9	-6.3	-2.2	-8.1	-4.7	-13.9
Administration of justice	-1.8	-5.2	-2.5	-6.2	-3.4	-9.2	-6.1	-13.8
General government	-0.6	-3.5	-1.2	-6.0	-1.3	-7.6	-2.9	-13.6

Note: Some functional categories with unique funding mechanisms (i.e., negative subsidies in Commerce and Housing and the trust fund in Transportation) have been omitted from this analysis.

Source: Authors' analysis of Bush spending projections (CBO re-estimates).

TABLE 2
Discretionary spending as share of GDP

FY 2001	FY 2006	FY 2011
3.1%	2.8%	2.5%

Source: Authors' analysis of Bush spending projections (CBO re-estimates).

The Bush spending plan compared to current services

To accommodate its planned tax cut and other budget priorities, the Bush Administration has presented spending projections that anticipate significant changes for many important programs. This analysis compares the 10-year projections in the Bush Administration budget to a CBO current services baseline adjusted to reflect population growth and describes the program impacts in 2011. (The methodology for computing the program impacts is described in the appendix.)

Education

Head Start: spending would be reduced by over \$500 million relative to current services, lowering the number of Head Start slots by nearly 70,000 in 2011. While the Bush budget does provide an increase of \$125 million for Head Start in 2002, this increase falls significantly short of the Clinton Administration's goal of serving one million children in Head Start by 2002. The Head Start and Early Head Start programs serve children from birth to age 5, pregnant women, and their families, with the goal of increasing the school readiness of young children in low-income families. Research has demonstrated the role that high-quality early childhood education can play in establishing positive long-term academic and social behavior.

Title I, Education for the Disadvantaged: spending would be about \$400 million lower in the Bush budget, eliminating funding for more than 360,000 disadvantaged students.

Class-size reduction program: the Bush budget essentially eliminates the class-size program, consolidating it into a block grant along with teacher quality programs. However, if the program were continued, it would provide sufficient funding to pay more than 47,000 teachers, effecting smaller classes for over 140,000 children. Studies show that reducing class sizes in early grades can boost student achievement in later years. The effects are strongest in inner-city schools with the poorest students (Council of the Great City Schools 2000).

After-school/summer school program: lower Bush spending of over \$95 million would reduce extended learning opportunities in safe, drug-free environments for over 125,000 students. Considering that over three-quarters of women with school-age children are in the workforce (most working full time),

that nearly five million children are left home alone each week, and that research shows that violent juvenile crime peaks in the hour after the end of the school day (CDF 2001a), the need for high-quality after-school programs is acute.

School renovation: the Bush plan eliminates the school repair program. If the program were continued at current levels, it would provide sufficient funding to repair over 1,600 schools in 2011. According to the General Accounting Office (report number HEHS-95-61, 1995-6), 25,000 schools—or one-third of all schools—need extensive repairs; the total funding needs are \$112 billion just to repair existing schools across the nation. Moreover, the average school is 42 years old, and schools begin to deteriorate more rapidly after 40 years (White House 2000).

Technology training for teachers: the Bush plan essentially eliminates the technology training for teachers program, consolidating it along with a number of other education technology programs. If the program were continued as a separate program, it would provide sufficient funding to pay for over 225,000 technology training opportunities.

GEARUP: lower Bush spending of nearly \$120 million could reduce by over 480,000 the number of students participating in the GEARUP program, which provides disadvantaged youth early college preparation and awareness activities, including mentoring, tutoring, college visits, and financial aid information.

Children and families

Child Care Development Block Grant: lower Bush spending of almost \$215 million would result in 66,000 fewer child care opportunities. Nationally, only one in 10 children who are eligible for child care assistance under federal law receive any help (CDF 2001b). In many states, the cost of child care now outstrips the cost of attending a public college. In 15 states, tuition (in-state) for a single year of public college is less than half that of child care tuition (CDF 2001c).

Family Caregiver Program: the Bush plan could reduce the number of families served by 5,100. According to the most recent National Long Term Care Survey, more than seven million persons are informal caregivers—providing unpaid help to older persons who live in the community and experience at least one limitation on their daily activities (Family Caregiver 2001).

Worker training and assistance

Dislocated workers: the Bush plan would cut assistance to dislocated workers by about \$440 million, affecting services for almost 195,000 workers. In FY 2002 alone, the Bush budget reduces the program by over \$200 million from 2001 levels, affecting nearly 110,000 workers immediately. The program serves those who have been permanently laid off or have received a termination notice or layoff notice from their employer. Over 3.3 million workers are laid off each year (U.S. Department of Labor 2001).

Re-employment services: the Bush plan would reduce the number of workers helped by this program by over 14,100. Re-employment services provide essential training, job placement, and other employment services.

Youth training: the Bush plan would reduce spending on the youth job-training program by over \$250 million, cutting services to nearly 125,000 young workers. In FY 2002, the Bush plan would reduce the program by over \$100 million (relative to 2001 levels), thereby cutting services to nearly 60,000 young workers. The youth job-training program assists low-income youth in finding summer employment, year-round counseling, mentoring, and internship opportunities.

Adult job training: the Bush plan would reduce spending on adult job training by \$170 million, reducing training opportunities for 54,000 adult workers. The adult job training program provides employment assistance for disadvantaged and low-income participants, including welfare recipients. For FY 2001, of those registered under this program 76% will be employed in the third quarter after program exit, with increased average earnings of \$3,600 (U.S. Education and Training Administration 2000).

Community Service Employment for Older Americans: the Bush plan would reduce the Older Americans Act employment program by \$50 million, resulting in 8,300 fewer participants. The program provides community service employment opportunities for older Americans.

Housing

Community Development Block Grant (CDBG): the Bush plan would reduce the CDBG program by nearly \$780 million, denying affordable housing assistance to nearly 24,000 households. CDBG provides flexible funding to cities and smaller communities to meet local housing and economic development needs.

Housing Opportunities for Persons With AIDS (HOPWA): the Bush plan would reduce the number of units funded by nearly 5,200. A 1999 report by the Centers for Disease Control estimated that 650,000 to 900,000 persons are living with HIV infection, including those living with AIDS (HUD 1999b).

HOME Investment Partnerships Program: Bush cuts would reduce the HOME program by \$440 million, resulting in nearly 21,000 fewer available housing units and over 58,000 fewer families receiving rental assistance. A 1999 HUD report found that 13 million Americans pay more than half their household income for rent or live in substandard housing. Between 1993 and 1995, 900,000 affordable rental units were lost, a 9% reduction (HUD 1999a).

HOPE VI: the Bush plan would reduce the number of housing units replaced by over 1,850. HOPE VI pays for demolition of obsolete and severely distressed public housing, as well as community service and self-sufficiency initiatives.

Law enforcement

Drug Enforcement Agency (DEA): the Bush plan would reduce DEA spending by \$110 million, equivalent to slots for 630 agents.

Community Oriented Policing Service (COPS): the Bush plan would reduce spending on COPS by \$435 million, which would reduce the number of law enforcement officers hired by over 4,200. To date the program, which the Bush Administration plans to phase out, has funded more than 110,000 officers through approximately 31,000 grants. Police departments that rely on community policing serve 85% of American communities (U.S. Department of Justice 2001).

Federal Bureau of Investigation: the Bush plan would reduce the FBI budget by \$275 million, which could result in a reduction of approximately 1,830 agents.

U.S. Marshals Service: the Bush plan would reduce U.S. Marshals Service spending by nearly \$50 million, which could lead to a reduction of over 1,700 criminal detention beds if the cuts are made in the Federal Prison Detention Program.

Conclusion

The Bush budget will have major implications for the nation's budget, economy, and well-being for years to come. At the center of the controversy is President Bush's \$1.6 trillion tax cut proposal that, if enacted, could significantly affect future budget decisions by putting additional pressure on discretionary spending or by creating on-budget deficits. Service levels for many key federal programs would deteriorate significantly under the Bush plan. Even education programs, Bush's highest priority, would suffer reductions compared to services available today.

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Appendix: Assumptions and methodology

The analysis is based on the difference in 2011 between the Bush proposals for selected appropriated programs and what those programs would cost using CBO current services baseline estimates adjusted for population growth (yielding a per capita baseline). The estimation of the program impact starts with the figures presented in the Bush budget released April 9. These figures are then inflated using the growth from FY 2002 to FY 2011 derived from the Bush 10-year functional growth figures in which the program resides. Each number is then compared to a baseline estimate for that same program that uses the CBO current services baseline adjusted for population growth. This produces a budgetary difference for a given program in 2011. The budgetary gap is then divided by the per participant cost (adjusted for inflation) to determine the number of participants affected by the budget gap. This calculation produces the “program impacts” presented in the text.

Take, for example, the Title I program, the principal federal program that funds elementary/secondary education for disadvantaged students. It was funded at \$9.1 billion in the Bush FY 2002 budget and is part of Function 500 (Education and Training). The Bush budget for Function 500 provides for about 25.5% growth between 2002 and 2011. Thus, the Title I program under the Bush framework would be funded at \$11.4 billion in 2011. Using the growth rates for Function 500 included in the CBO baseline and adjusting these for population growth, the program would be funded at about \$11.8 billion in 2011, for a difference of \$400 million. The average cost of a Title I slot today is \$890; in 2011, using the CBO functional current services growth rates, that student slot will cost \$1,118. The Bush framework, then, would mean that 363,000 fewer Title I slots could be funded in 2011 (\$400 million divided by \$1,118).

Key assumptions

- The unit costs of a given program will vary at the same rate as the function in which it resides (as estimated by the CBO current services baseline).
- All programs within a function grow at the same rate as the function as a whole.

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