



CENTER ON BUDGET AND POLICY PRIORITIES

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PRESIDENT'S BUDGET CONTAINS LARGE CUTS IN DOMESTIC DISCRETIONARY PROGRAMS

Documents Not Made Widely Available Show Domestic Discretionary Programs to be Cut \$45 Billion a Year by 2009

by Richard Kogan and David Kamin

The President's budget proposes much larger cuts in domestic discretionary programs than has been generally understood. ("Discretionary" programs are those whose funding is determined by the 13 annual appropriations bills. The term excludes entitlements, such as Medicare or veterans' pensions.) By 2009, funding for domestic discretionary programs would be cut \$45.4 billion below the 2004 level, adjusted for inflation (i.e., below the Congressional Budget Office budget baseline). The large majority of domestic discretionary programs throughout the government would be cut, including popular programs that the Administration claims it is increasing based on its funding request for 2005. The cuts generally would start in years *after* 2005 and grow wider with each passing year.

There is a good reason that these cuts have generally been overlooked. The budget tables that would normally show these cuts are missing from the budget books that the Office of Management and Budget issued on February 2. To find these cuts, one must have access to 1,000-page OMB or Congressional Budget Office computer runs that cover all budget accounts and underlie the budget.¹

The President's Budget: Proposed Cuts in Domestic Discretionary Funding Outside Homeland Security

	<i>Relative to the 2004 Funding Level, Adjusted for Inflation</i>		<i>Relative to the 2004 Funding Level, Adjusted for Inflation and Population Growth</i>	
	Cut in Billions of Dollars	Percent Cut	Cut in Billions of Dollars	Percent Cut
2005	-\$8	-1.9%	-\$11	-2.7%
2006	-\$21	-5.3%	-\$28	-6.9%
2007	-\$29	-6.9%	-\$39	-9.2%
2008	-\$36	-8.5%	-\$51	-11.5%
2009	-\$45	-10.4%	-\$64	-14.1%

¹ For the purposes of this paper, we use the CBO estimates of the President's budget proposals. In most cases, CBO does not alter OMB's figures representing the President's budget policy. But, CBO and OMB differ in their inflation assumptions, with the CBO baseline being slightly lower in aggregate than OMB's because of lower inflation projections. If the Administration's fiscal year 2009 domestic discretionary funding levels are compared to the higher OMB baseline, the cut in 2009 is \$49 billion, rather than the \$45 billion figure shown here. For a detailed analysis of the President's discretionary proposals using OMB data, see "Administration's Budget Would Cut Heavily into Many Areas of Domestic Discretionary Spending After 2005," Center on Budget and Policy Priorities, Revised March 5, 2004.

What the Budget Proposes

The budget books show funding levels for discretionary programs only for fiscal year 2005. The Administration is proposing an increase of 0.5 percent in 2005 in domestic programs outside homeland security. When adjusted for inflation, this still represents a cut of \$8 billion — or 1.9 percent — relative to the 2004 funding level.

The OMB tables covering the years *after* 2005 show that once one gets past 2005, the cuts to domestic discretionary programs become much larger. Under the President's budget, most domestic discretionary programs throughout the government would be cut in 2006. The proposed funding levels for 2006 would generally be *below the 2004 and 2005 levels even before inflation is taken into account*. Even programs for which the Administration boasts it is seeking increases in 2005 — such as the National Institute of Health, Title I education, the Supplemental Food Program for Women, Infants, and Children (WIC), and the low-income energy assistance program — would be cut in 2006.

Although the precise pattern of funding for 2007-2009 varies by program, in general, funding levels for those years would grow at an annual rate of less than 0.5 percent, without adjustment for inflation. As a result, by 2009, funding for most domestic discretionary programs would be well below today's levels in inflation-adjusted terms.

- Over the next five years, the President's budget proposes to slice away gradually at domestic discretionary funding outside homeland security. By 2009, the overall funding for domestic discretionary programs outside homeland security would be \$45.4 billion — or 10.4 percent — below the level needed to keep up with inflation. (In other words, funding in 2009 would be cut \$45.4 billion below the 2004 levels, as adjusted for inflation — i.e., below the CBO baseline.)²
- Many analysts prefer to measure changes in discretionary funding in *real per capita* terms — that is, after adjusting for both inflation and population growth. This approach measures the level of funding needed to maintain current service levels per person. The budget would cut domestic discretionary funding outside homeland security by \$64 billion in 2009 — or 14.1 percent — on a real per capita basis.
- As noted, the majority of domestic discretionary programs would be cut. For example, the President's budget itself, in a table on page 361 of the *Analytical Perspectives* volume, shows that the number of children from low- and moderate-income families who receive child care assistance would be cut by 200,000 by

² The figures cited here compare CBO's estimate of the Administration's funding levels with CBO's "baseline," which is the 2004 level adjusted for inflation. Both we and CBO represent funding for highway and mass transit programs by the requested "obligation levels." We also use expenditure comparisons rather than budget authority figures to measure the size of the cuts in the housing voucher program in order to correct for year-to-year fluctuations in the program's funding level that have no bearing on operating levels or actual expenditure levels for the program. (Funding levels in this program fluctuate depending on the renewal of multi-year housing contracts that are scheduled to expire in a given year and need to be renewed.)

2009. Moreover, this table uses an assumption about the amount of welfare block grant funds that will be made available for child care that is contradicted by data elsewhere in the budget. Once this discrepancy is corrected, the reduction in the number of child care slots climbs to about 365,000.³

While some of these cuts would create significant hardship, they would have only modest effects in reducing the deficit. Domestic discretionary spending outside homeland security makes up only one-sixth of the budget. The savings that would be achieved from the proposed cuts in domestic discretionary programs pale in comparison to the cost of the Administration's tax cuts. In 2009, the tax cuts enacted since 2001 and the new tax cuts included in the current Administration budget would cost either \$220 billion or \$250 billion, depending on whether the cost of related relief from the Alternative Minimum Tax (to prevent the AMT from canceling out some of the tax cuts for million of filers) is included. In 2009, the cost of the tax cuts, including AMT relief, is more than five times the \$45.4 billion in savings that would result from the cuts proposed in domestic discretionary programs outside homeland security.

In fact, the savings in 2005 through 2009 from all of the domestic discretionary cuts combined would be substantially less than the cost in those years of the income tax cuts just for the one percent of households with the highest incomes.

Should the Discretionary Spending Cuts be Taken Seriously?

People analyzing budgets often pay relatively little attention to funding levels that a budget proposes for discretionary programs for years after the coming year, since Congress only appropriates funds for these programs one year at a time. Furthermore, the White House has tried to deny that the budget cuts are even being planned. The White House has claimed that the reduced funding levels for 2006 and subsequent years that are contained in the President's budget have no meaning, are purely "formulaic," and are no way an indication that the Administration is seeking these budget cuts. The evidence is now abundant, however, that funding cuts of this magnitude are indeed what the Administration is seeking and that the budget proposals should be taken seriously.

In May, the *Washington Post* reported that OMB had recently sent a memorandum to federal departments and agencies directing them to include widespread funding cuts in the fiscal year 2006 budgets that they submit to OMB this summer. The memo directs agency heads to adhere to the funding levels that are contained in the 1,000-page OMB computer run from the President's budget. It tells agency heads that if they want to propose a higher level of funding

³ The Administration's table assumes that the funding that states allocate to child care programs under the Temporary Assistance for Needy Families block grant will remain constant. Yet elsewhere in the budget, the Administration shows (as CBO does, as well) that overall TANF expenditures will *fall* by \$2 billion — or 11 percent — between 2004 and 2009, even before adjusting for inflation. Experience with the TANF program confirms that when TANF expenditures are reduced, TANF expenditures for child care decline. Taking this decline into account yields an estimate that the number of children receiving child care assistance would be about 365,000 lower in 2009 under the Administration's budget than it was in 2004, and 445,000 lower than in 2003.

for a budget account than the amount shown in the OMB computer run, than they must offset the increase by proposing deeper budget cuts in other budget accounts within their agency.⁴

Furthermore, the budget proposes to lock in place for each year through 2009 the overall discretionary funding levels and discretionary spending levels that the budget proposes. This would be done through the enactment of binding discretionary spending caps. The caps would tie the hands of future policymakers. If approved, they would make the proposed funding cuts likely to occur. On April 2, the White House formally transmitted this legislation to Congress.

Under the Administration's discretionary "cap" proposal (which is outlined in Chapter 14 of the budget volume entitled "Analytical Perspectives"), there would be a single funding cap and a single spending cap for discretionary programs for each of the next five years. If policymakers exceeded the caps, the law would require across-the-board cuts in discretionary funding to ratchet discretionary funding and spending back to the caps.⁵

The caps would make it more likely that cuts of the magnitude the budget proposes in domestic discretionary programs would be enacted. In fact, the President's budget may *understate* the likely dimensions of the cuts in domestic discretionary funding outside homeland security if the caps are enacted. Defense, homeland security programs, and domestic programs would all be under one overall funding cap (and one overall spending cap); the caps for each year would be set at levels equal to the total amounts the Administration's new budget shows for discretionary programs in that year. As a result, reducing the size of the President's proposed cuts in domestic discretionary programs outside homeland security, while still fitting within the caps, would entail cutting national security funding below the President's budget request. Given the current environment, this is unlikely to occur.

What is more likely is that the funding levels provided for defense in years after 2005 will be *greater* than the amounts shown for those years in the Administration's new budget. The findings of a major analysis the Congressional Budget Office issued last year indicate that the President's budget significantly understates likely defense costs in coming years.

CBO has found that the amounts which the Administration's budget shows for defense in the "out-years" are significantly below the costs in those years of the Administration's own Future-Year Defense Plan, which serves as the Administration's multi-year defense blueprint. This suggests the Administration may request higher levels for defense in future budgets than the levels shown in the Administration's current budget. Adding to this likelihood is the fact that the Administration's current budget leaves out all costs for continuing the war on terrorism after fiscal year 2004. CBO estimates the ongoing costs in this area, after operations in Iraq and Afghanistan are completed, at about \$25 billion a year.

⁴ For more details, see David Kamin, Richard Kogan, and Bob Greenstein, "Administration Memo Confirms Plans for Budget Cuts in Many Domestic Discretionary Programs in 2006," Center on Budget and Policy Priorities, Revised June 1, 2004.

⁵ It should be noted that the discretionary spending caps were respected through much of the 1990s; they were widely flouted only after surpluses returned. The new fiscal environment would mean the caps would be likely to be enforced if enacted.

If the proposed caps are enacted and higher amounts are provided for defense and anti-terrorism efforts in years after 2005 than the levels that the current budget shows, domestic discretionary programs outside homeland security will face larger cuts than those described here. Each additional dollar of funding for defense and fighting terrorism would mean an additional dollar of cuts in domestic programs.

Conclusion

The budget would lead to significant hardship even as it made the deficits larger than they would be in the absence of the proposals the budget contains. The budget would cut domestic discretionary funding outside homeland security by at least \$45.4 billion in 2009, reducing funding for many basic services like child care, low-income housing, and job training. But the budget also would make the tax cuts permanent and add new tax cuts on top. The cost in 2009 of the tax cuts that have been enacted and the new tax cuts that are proposed would be more than six times as great as the amount that would be saved by cutting domestic discretionary programs. The tax cuts just for the top one percent of households would cost more than would be saved from all of the domestic discretionary cuts.

A President's budget is about priorities. This budget gives short shrift both to domestic discretionary programs and to meaningful fiscal discipline.