

## The Triumph of the Beast Starvers?

By Jared Bernstein  
Economic Policy Institute

Last month, the Bush administration released its budget for fiscal year 2006 (which goes from October of this year to September 2007). While presidents' budgets aren't always big news, this one is particularly important for at least two reasons. First, the Bush administration serves up some big unprecedented spending cuts, and it's worth checking out for whom the ax falls. Second, more so than in any previous Bush budget, the longer-term priorities of the administration and its backers are apparent just under the budget's surface.

So steel your nerves, and read on. What follows is not for the faint of heart, and has consequences for the charitable sector.

### Take Me to Your Budget

Imagine you land on a distant planet. Aliens greet you and take you to their leader, who greets you warmly and asks, "What can we do to make you more comfortable?" Your goal is to learn about this alien population: Are the people warmongering or peaceful? What are their values, their preferences?

To the aliens' surprise, you ask if you might peruse their budget.

OK, I admit this is an economist's fantasy, but there's something to it. Our national budget may appear at first blush to be a mind-numbing balance sheet. But our budgets are actually powerful statements about what matters to us as a nation.

*U.S. Sen. Kent Conrad (D-ND) questions Joshua Bolten, director of the Office of Management and Budget, as Bolten testified before the Senate Budget Committee on Capitol Hill February 9, 2005 in Washington, DC. Bolten testified before the committee on the Bush administration's 2006 federal budget. (Photo by Win McNamee/Getty Images)*

To note that we ignore them at our peril is an understatement, because their impact can reverberate for generations. We ignore them at the peril of our progeny.

This is particularly the case with the recent budget from the Bush administration. This document reveals a set of priorities that has profound short- and long-run implications. The short-run impacts, primarily spending cuts to human services programs, have gotten the most attention, and such attention is well-deserved. The long-run implications are just as, if not more, worrisome. Lurking behind these reams of tables and numbers is a mission to significantly shrink government and its services. If this mission is successful, it will hobble not only our government's ability to perform its functions as we have come to know them, but also the ability of the nonprofit sector to complement these functions and services. Specifically, the sector would face both an increasing demand for services and budget slicing, as fewer government funds and grants are made available.

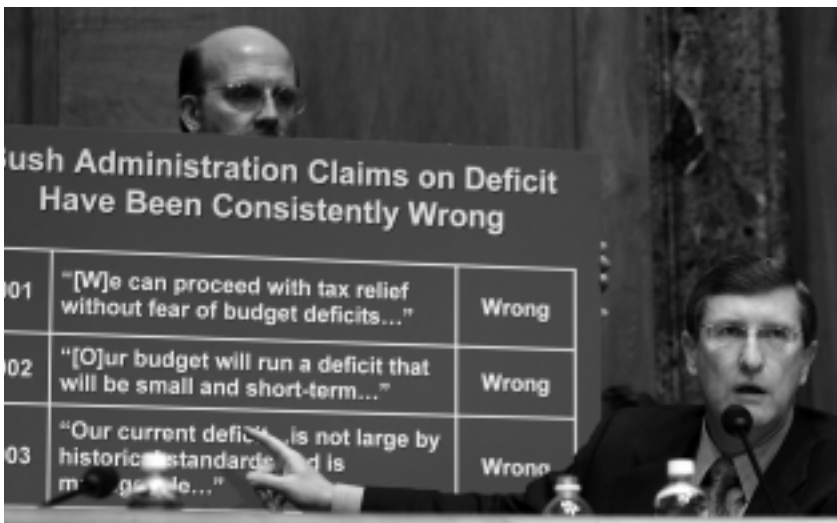
### The Long Run

My Economic Policy Institute (EPI) colleague and longtime budget-parser, Max Sawicky, begins a forthcoming paper about the current budget with the following quote from the budget document itself:

These long-run budget projections show clearly that the budget is on an unsustainable path."

At its heart, the problem is this: The government is collecting too few revenues to meet our spending obligations. This explains current deficits, of course. But unless we make big changes, the magnitude of the imbalance between what government takes in and what it's slated to spend grows to unsustainable levels (for the record, this is much more a function of health care spending than Social Security). Eventually, we will either have to raise more revenue to meet our commitments or noticeably reduce those commitments. The cuts we're arguing about today will pale by comparison.

This revenue/spending point is critical, both for historical context and to fend off partisan arguments. Federal tax revenues as a share of



**A few years ago, conservative activist Grover Norquist bragged that his agenda was to “starve the beast” of government spending, and the Bush administration’s tax cuts can certainly be viewed in that light. But the beast starvers did not count on the Bush administration to be both so open to new spending, and so unconcerned about deficits.**

gross domestic product (GDP) were 16 percent last year, their lowest level since 1959, while federal spending was not particularly high in historical terms. In fact, between 1975 and 2003, federal spending relative to GDP averaged 21 percent; last year, it was 20 percent.

A particularly misleading variant of the argument is that we’re overspending on domestic programs. The Center on Budget and Policy Priorities (CBPP, the best source for speaking truth to power on these issues; the group’s Web site is a treasure trove of information on the president’s budget), puts it this way: “Recent domestic spending increases come in a distant fourth as a cause of the current deficit, well behind tax cuts, spending increases for defense, homeland security, and operations in Iraq and Afghanistan, and the economic downturn.”

Thus, our current deficits are due in large part to the massive tax cuts enacted since 2001; we’ve choked off our revenue stream. Yet, we’re still devoting about the same share of our economy to federal spending. At least, that was the budget story of Bush’s first term.

Things are shaping up differently this time around. The administration claims to have gotten serious about deficit reduction (more on this later), and has constructed a budget that allegedly cuts the deficit, albeit temporarily. Predictably, they do so exclusively by cutting spending; in fact, the budget calls for further tax cuts amounting to \$1.4 trillion over the next 10 years (more than \$2 trillion if you include fixing the alternative minimum tax, a fix that is highly likely, since by 2010 the tax is expected to hit 33 million taxpayers, about a third of all returns, compared with less than 5 percent in recent years).

The thematic is not hard to spot. A few years ago, conservative activist Grover Norquist bragged that his agenda was to “starve the beast” of government spending, and the Bush administration’s tax cuts can certainly be viewed in that light. But the beast starvers did not count on the Bush administration to be both so open to new

spending, and so unconcerned about deficits.

It has thus taken a little longer for the starving to commence. The federal government is still spending about the same share of the economy as ever, but, as the above quote from the budget suggests, the administration knows that will have to change. As economists love to point out, “Unsustainable trends can’t be sustained.” The question is how will they be reversed.

### What’s Being Cut?

According to analysis by CBPP, the president’s budget proposes a 16 percent—\$214 billion—cut in domestic discretionary spending between 2006 and 2010, not including homeland security. Estimated cuts in mandatory low-income programs make up about \$30 billion, and include cuts to the following programs: Earned Income Tax Credit (EITC), Supplementary Security Income (SSI), Temporary Assistance to Needy families (TANF) and child care, foster care and adoption assistance, and the Social Services Block Grant. According to the Coalition on Human Needs (CHN), in 2010, “The funds lost to states would be enough to provide health coverage to 1.8 million children.”

Turning to entitlements, the president’s budget cuts Medicaid by \$45 billion over 10 years (the budget proposed \$60 billion in cuts and \$15 billion in increased spending), in part by enforcing stricter rules on how states finance their share of the program. Medicaid, along with these low-income programs, is a federal state match—if the feds give less, the states either have to pony up more or cut services. In the case of other low-income programs that states have to match, potential cuts cost the states millions of dollars for each program. For example, estimated state cuts of the EITC from 2006 to 2010 range from \$5.9 million in Wyoming to \$462 million in Texas.

As a result, it is estimated that as many as 300,000 working poor could lose food stamps as a result of the proposed cuts; the same number of children are projected to lose child care subsidies. Cuts in education services to adults are estimated to reduce such services to 470,000 persons. As many as 671,000 could fall off the rolls of Women, Infants, and Children, a nutrition and health program; 370,000 fewer households could get Section 8 housing vouchers; and 360,000 could lose low-income home energy assistance. There could be 90,000 fewer Head Start slots by 2009.

Given the long-term fiscal constraints noted above, these cuts could be only the beginning. For the Norquists of the world, they cause the beast to miss a meal or two—they don’t starve it. So a few other ideas are being floated that constitute much more lasting attacks on federal spend-

### Possible Cuts in Selected Low-Income Programs Under the Jurisdiction of the Ways and Means Committee (2006 – 2010)

Supplemental Security Income	\$4.8 billion
Earned Income Tax Credit (refundable portion)	\$4.2 billion
TANF and Child Care Block Grant (combined)	\$2.4 billion
Child Tax Credit (refundable portion)	\$1.6 billion
Foster Care and Adoption Assistance	\$900 million
Child Support Enforcement	\$600 million
Social Services Block Grant	\$208 million

Source: Center for Budget and Policy Priorities (CBPP)

ing. Here are three techniques for putting the starve function on autopilot.

**Budget Reconciliation:** As CBPP analyst Sharon Parrot notes, this is a process in which Congress sets a multiyear deficit target and moves legislation on a fast track to make cuts in entitlement programs to meet the target. In practice, the various committees that determine spending levels are instructed to cut a set amount from the programs over which they have jurisdiction. The larger the reduction targets, the bigger the program cuts. Parrot warns that “the House has been trying to use this fast-track budget-cutting process for several years, and so far the Senate has stopped them. But ...with the elections safely behind congressional leaders, this is more likely to happen.”

**Entitlement Caps:** Think of these as a backup in case lawmakers don't slash sufficiently in the reconciliation process. If entitlement costs (excluding Social Security) are projected to exceed the cap, Congress must pass legislation to stay under the cap or across-the-board cuts are made automatically.

**Block Grants:** Most of us have come to know this approach through welfare reform, which became a block grant in 1996. Entitlements, such as food stamps and Medicaid, do not undergo annual appropriations because by law, they have to expand or contract to meet the needs of those who qualify for the program. Block grants, on the other hand, are chunks of money that undergo annual appropriations and are sent to the states to cover specific program functions. They give states more flexibility, but from a budgetary perspective, especially in the current environment, think of them as a way to revoke a program's entitlement status, setting up a chopping block that did not previously exist.

### Conclusion

The embodiment of “chutzpah” is traditionally that of the child who, having disposed of his parents, throws himself on the mercy of the court as an orphan. In that spirit, this is a budget with major chutzpah. After initiating massive, regressive cuts in taxes, the two most important messages in the current budget are:

- 1) Sorry, folks. We really think stuff like education, job training, food stamps, and child care are important. We just don't have, or refuse to make available, the resources to help.
- 2) Watch out ahead! This budget path we're on is unsustainable.

We're not supposed to notice that the administration itself, with Congress's approval, is responsible for these problems. And we're supposed to be resigned to the idea that our dimin-

ished revenue outlook means belt tightening. Forget national priorities like health care, education, and housing—can't afford 'em anymore.

The current operative agenda has two components: Put the budget on an unsustainable path and take tax increases off the table. Lawmakers then throw up their hands in despair, claiming they have no choice but to slash and burn.

But the president's budget goes way beyond this: It calls for billions more in tax cuts. And not included in the budget are the costs of the ongoing wars, fixing the alternative minimum tax and, biggest of all, more than \$750 billion of borrowing that would be necessary to partially privatize Social Security. Even ignoring these, the Congressional Budget Office finds that the president's budget would add \$1.6 trillion to the national debt, of which \$1.4 trillion would come from making the Bush tax cuts permanent.

Well, I suggest we not go so gently into that good night. There needs to be a “plan B,” and it needs to include tax increases. According to CBPP, we could get much of the way to 75-year solvency in Social Security simply by reversing the tax cuts that go to the top 1 percent income earners (75-year financing shortfall: \$3.7 billion; 75-year cost of permanent tax cuts to top 1 percent: \$2.9 billion). The cost of these high-end tax cuts is about what the feds spend on education, and a lot more than we spend on housing and urban development. According to the Coalition on Human Needs, undoing the repeal of the estate tax would hit a few multimillionaires, but it would return the resources needed to pay the full costs of the No Child Left Behind program and the Individuals with Disabilities Education Act for 10 years.

The point is that once we contemplate going back to historical levels of revenue collection (remember the factoid above: This value is at its lowest level since 1959), the chains that bind us fall away and the possibility of using government to meet a different set of priorities re-emerges.

The larger point is the one made by the economist space traveler: Budgets represent what we as a nation care most about. They are national statements about the depth of our connection to each other, or lack thereof. Conservative policymakers, with their focus on individualism and privatization, have been successful in breaking these connections, and this latest budget is a case in point. ○

*Jared Bernstein is Director of the Living Standards program at the Economic Policy Institute. He has published extensively in popular and academic journals, including The American Prospect and Research in Economics and Statistics, and is the co-author of six editions of the book “State of Working America.”*

**The administration claims to have gotten serious about deficit reduction, and has constructed a budget that allegedly cuts the deficit, albeit temporarily. Predictably, they do so exclusively by cutting spending; in fact, the budget calls for further tax cuts amounting to \$1.4 trillion over the next 10 years.**