REVIEW & ANALYSIS

OF THE PRESIDENT'S FY 2004 BUDGET

FEBRUARY 27, 2003

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GENERAL NOTES

All years referred to are fiscal years, unless otherwise noted.
In the case of tables, text, and charts, detail may not add to totals due to rounding.
An "(*)" means less than $500 billion, less than $500,000, or less than one-half percent.
All estimates of the President's policies are OMB's (except for estimates of the effects on interest) unless otherwise noted.

FROM THE RANKING MEMBER

February 27, 2003

In his State of the Union address to the nation this year, President Bush acknowledged that the country faces many challenges and rightly said that "[w]e will not deny, will not ignore, we will not pass on our problems to other Congresses and other generations." These were noble words that spoke to the true spirit of America.

Unfortunately, the President has submitted a budget for 2004 that denies or ignores many of the challenges we face and passes them along to our children and to future leaders.

By insisting on new tax cuts for the wealthiest that we simply cannot afford, the President's budget would explode federal deficits and debt for years to come. These piles of debt would be passed on to future generations and would severely weaken our ability to meet the funding challenges facing Social Security and Medicare because of the retirement of the baby boom generation.

Under the President's plan, deficits would approach $500 billion (excluding Social Security revenues) this year and next, marking the worst deficits recorded in our nation's history. And those deficits would quickly become part of the structure of our country's finances, exceeding $400 billion every year through at least 2008. The result would be higher interest rates, the crowding out of private sector investment, and a reduction in long-term economic growth.

Amazingly, in just two years, the $5.6 trillion surplus that was projected when the President took office has been wiped out. And, under the Bush policies, the nation will face deficits of more than $2.1 trillion over the 2002 to 2011 period – representing a dramatic downturn of more than $7.7 trillion in just two years.

And not surprisingly, to make room for his latest round of requested tax cuts, President Bush again proposes cutbacks in domestic priorities like education, health care, transportation, and law enforcement – cuts that would have a significant negative impact on the vast majority of Americans.

The unaffordability of the President's tax cutting proposals is highlighted further by the growing likelihood of a war in Iraq. Should the President take the nation to war, Congress will provide the resources necessary to ensure victory abroad and to protect our people at home. But that is all the more reason not to enact yet another dramatic reduction in federal revenue.

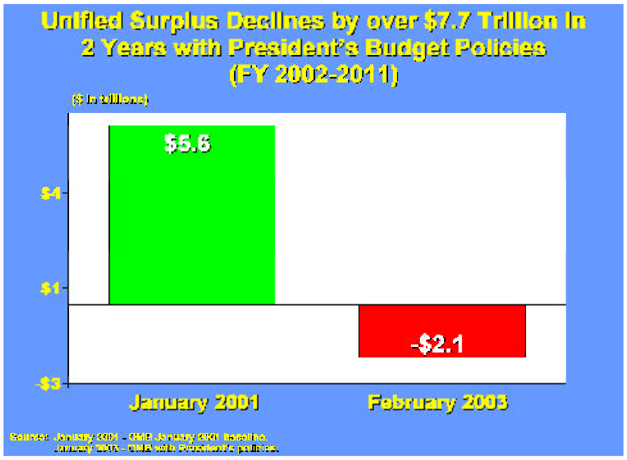
The sad truth is that in his budget submission the President is proposing to take us further down the wrong path. His policies threaten the long-term fiscal health of the nation. We need to stop these policies from taking effect before it is too late.

Sincerely,

Ranking Member
Senate Budget Committee

INTRODUCTION

PRESIDENT'S BUDGET CONTINUES FAILED ECONOMIC POLICIES OF PAST



President Bush submitted a budget that would continue the failed economic policies of his first two budgets. Despite the fact that enactment of the massive tax cut for the wealthy he proposed in his first budget has been followed by a sagging economy and a return to deficits, his new budget proposes another huge tax cut for the same people. The new tax cuts would push the nation even further into deficits and debt and would slow long-term economic growth. Enactment of President Bush's new budget proposals would complete the irresponsible process of turning projected 10-year surpluses of $5.6 trillion into a $2.1 trillion deficit. That is an historic reversal of more than $7.7 trillion in just two years in office.

The Promises

When President Bush submitted his first budget two years ago, both the administration and the Congressional Budget Office projected federal budget surpluses would total $5.6 trillion over the 10-year period from 2002 through 2011. In that budget, President Bush proposed using a large part of that projected surplus to pay for a tax cut and he promised that the nation could afford it:

> *"Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens."*
>
> President Bush
> Remarks at Western Michigan University
> March 27, 2001

Despite the President's assurances, after four straight years of surpluses, the enactment of the President's tax cut was followed by a return to deficits in 2002. So last year the administration revised its promise:

> *"[O]ur budget will run a deficit that will be small and short-term ..."*
>
> President Bush
> State of the Union Address
> January 29, 2002

The Reality

But the Congressional Budget Office last month confirmed that deficits will be neither small nor short-term. In fact, CBO now says that of the $5.6 trillion projected surplus for 2002 through 2011, only $20 billion remains. And instead of being debt free by 2008 as was projected in 2001, CBO now forecasts that the nation's publicly held debt will skyrocket to close to $4 trillion. Unfortunately, even these sobering projections seriously underestimate the extent of our return to deficits. CBO's projections assume no change in current policies – that is, the President's 2001 tax cuts will expire in 2010 as scheduled in current law, there will be no additional funds to fight a war in Iraq, there will be no Medicare prescription drug benefit, and there will be no other changes in current policies to meet any national need. Clearly, when these additional items are factored in, the deficit figures will be far worse.

Of the $5.6 trillion surplus projected in 2001, only $20 billion remains, under CBO's baseline.

Recent economic data have also confirmed that the President's tax cuts did not put the economy back on track. They show that the economy grew at an anemic rate of 0.7 percent in the last quarter of 2002 and that average annual growth has fallen by more than 60 percent during the Bush administration, relative to the growth achieved during the previous administration (1.4 percent per year in 2001 through 2002 versus 3.6 percent per year in 1993 through 2000).

The President's own budget confirms the deterioration of the budget and economic outlook during his first two years – it projects record deficits of more than $300 billion both this year and next, and forecasts economic growth of only 2.9 percent this year.

BUDGET OVERVIEW

OUTLOOK UNDER THE PRESIDENT'S BUDGET

Despite the clear evidence that the policies he proposed in his first two budgets have failed, the President's new budget proposes more of the same. The centerpiece of the new budget is tax cuts for the wealthiest Americans that would cost $1.8 trillion over the next 10 years. And, as in the past two years, the budget does not even pretend to pay for the costs of those tax cuts.

The budget deficit projected by OMB for 2003 is $304 billion – the largest deficit in U.S. history.

The administration estimates that deficits will be $304 billion this year and $307 billion in 2004 if the President's proposals are enacted. It assumes that deficits will begin declining in 2005, but will still total nearly $200 billion in 2008. In order to hide the fact that the President's policies will keep the budget deep in deficit after that, the budget does not provide any specific deficit estimates for years beyond 2008.

Table 1: President's 2004 Budget: Estimates Relative to OMB Baseline

($ billions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	04-08	04-13
Deficit/surplus	-304	-307	-208	-201	-178	-190	?	?	?	?	?	-1,084	?
Excluding Social Security	-468	-482	-407	-412	-406	-433	?	?	?	?	?	-2,140	?

More than $7.7 trillion fiscal reversal under Bush budget

But a backup table by OMB does demonstrate just how astounding the deterioration in the budget outlook has been under President Bush's policies. As indicated above, both the Bush administration and CBO projected that there would be a cumulative surplus of $5.6 trillion in 2002 through 2011 if the policies then in effect remained unchanged. Now, assuming the policies proposed in the President's new budget are adopted, OMB estimates there would be a deficit of $2.1 trillion over that 10-year period. That represents a stunning fiscal downturn of more than $7.7 trillion in just two years of the Bush administration.

The dramatic reversal from projected record surpluses to huge deficits also dramatically affects the amount of debt the federal government will have to issue. In January 2001, CBO projected that the federal debt held by the public would be virtually eliminated by 2008. But, under President Bush's budget policies, OMB estimates the debt held by the public in 2008 would be $5 trillion.

What is left out of the President's budget

Aside from tax cuts for the wealthy, the President's budget is most notable for what is not in his plan instead of what is in it. Key items with huge expenses are left out of the budget, making the President's tax cutting proposals appear more affordable. The President's budget is missing the following items:

Second half of decade. The Bush budget does not show deficits for the second half of the traditional 10-year budget window. This hides the fact that the President's tax cut proposals would keep the government in deficit for the next 10 years.

War. The Bush budget does not include any additional funds to pay for the current military buildup in the Middle East, much less to pay for the costs of an expected war against Iraq, which could cost hundreds of billions of dollars according to CBO projections.

AMT. The Bush budget does not propose a serious fix for the individual alternative minimum tax (AMT), despite the fact that under current policies the number of taxpayers affected by the AMT would grow from 3 million this year to about 40 million in 2012, and that the administration has acknowledged this problem.

Cost of new retirement account tax proposals. The Bush budget does not show the true costs of the President's back-loaded tax-free savings and retirement account proposals. The budget does not show or acknowledge the hundreds of billions of dollars in revenues that will be lost in future decades.

Social Security reform. The Bush budget does not include a proposal to fund reforms that would ensure that the government can meet its long-term commitments to Social Security beneficiaries.

Domestic priorities. The Bush budget does not include sufficient funds to meet high priority domestic needs in areas such as education, highways, the environment, and law enforcement. Cuts in most domestic programs more than offset highlighted increases for a few, select programs.

TAX CUT PROPOSALS

The centerpiece of the President's 2004 budget is a series of proposals to further reduce taxes by a total of nearly $1.5 trillion (including refundable credits which are recorded as outlays in the budget) over the 2003-2013 period (the cost grows to $1.8 trillion when associated interest costs are counted). President Bush proposes this additional massive reduction in federal revenues despite the fact that his 2001 tax cut is already the largest factor contributing to the nation's dive back into deficits. The irresponsibility of these proposals is highlighted by the huge unknown costs that the country faces for the ongoing war on terrorism and a possible war in Iraq, and the certain costs associated with the looming retirement of the baby boom generation.

Specifically, the President's budget includes proposals that would reduce taxes by $31 billion in 2003, $110 billion in 2004, and $1.48 trillion for the period 2003-2013. When interest costs are taken into account, the President's tax cuts would cost more than $1.8 trillion over that period. The tax cutting proposals in the budget include:

- a so-called "economic growth" package;
- making permanent the 2001 tax cuts that are scheduled to expire in 2010;
- a dramatic expansion of tax-free savings for individuals;
- an enhancement of employer-based retirement savings options;
- the permanent extension of the research and development tax credit;
- a two-year extension of tax provisions expiring in 2003; and,
- a series of other charitable giving, health, education, and housing tax incentives.

"Economic Growth" Package

The President's budget calls for the enactment of the so-called "economic growth" package announced on January 7. OMB's estimate of the 11-year cost of the package (including outlay effects of the tax cuts) is $671 billion (this does not include $3.6 billion in "Personal Re-employment Account" funding that is part of the package but is not related to tax cuts). Despite the fact that these tax cuts are supposedly designed to help the nation emerge from the current economic slowdown, this package of tax cuts would provide only $31.4 billion of stimulus in fiscal year 2003. Instead, the package is heavily back-loaded, with more than 95 percent of the tax benefits from the package occurring after 2003, when stimulus may no longer be needed.

Almost four-fifths of the benefits of the economic growth package would go to the 20 percent of taxpayers with the highest incomes.

The "economic growth" plan is also poorly structured to lift the economy, because the bulk of the benefits from the package would go to wealthy individuals who are the least likely to spend whatever tax cut they receive. More than half of the total cost of the package comes from the President's proposal to eliminate the tax on corporate dividends for individuals. This tax cut is skewed to heavily benefit upper-income taxpayers who own corporate stocks outside of traditional retirement accounts such as 401(k)s and IRAs (dividends to such accounts are already exempt from taxation when they are paid to the accounts). The tax cut plan also calls for accelerating upper-bracket tax rate reductions for individuals, which would bring tax relief to fewer than 30 percent of taxpayers – again, those primarily with the highest incomes.

In reality, the "economic growth" plan, along with the President's other large tax cuts, is likely to retard long-term economic growth. The huge deficits created by these tax cuts will drive up interest rates, crowd out private sector investment, and bring the economy to a crawl over the long-term. Prominent economists, such as Mark Zandi of Economy.com and Macroeconomic Advisers, have actually calculated that the added deficits and debt will counteract whatever stimulus the tax cuts are intended to create and that the long-term GDP growth rate will be lower than if we passed no tax cuts at all.

Making 2001 tax cut permanent

The President's budget also proposes making permanent the tax changes enacted in 2001 that are scheduled to sunset in 2010. Eliminating the sunset would cost $523 billion over the period 2004-2013 and more than $4 trillion over the decade to follow, exactly when the baby boom generation will retire. Like most of the President's other tax cutting proposals, making the 2001 tax cuts permanent primarily benefits the wealthiest individuals in the country.

Notably, the budget proposes to increase the exemption amount under the individual alternative minimum tax (AMT) only through 2005. By not providing for a permanent fix to the AMT system, nearly 40 million taxpayers will be added to the AMT rolls by 2012 if the 2001 tax cuts are made permanent. The budget also fails to propose extending the deduction for college tuition that expires under current law in 2005.

Permanent extension of research and experimentation tax credit

The President's budget calls for the permanent extension of the research and experimentation tax credit, which under current law does not expire until 2004. This proposal would cost $67.9 billion over the 2004-2013 period.

Two-year extension of expiring tax provisions

The President's budget proposes extending for two years a provision limiting the effect of the individual alternative minimum tax that is scheduled to expire in 2004. That proposal would cost $17.9 billion over 10 years.

The budget also proposes a two-year extension of tax provisions scheduled to expire in 2003 under current law. These provisions include the work opportunity tax credit, the welfare-to-work tax credit, and qualified zone academy bonds, among others. This proposal would cost $3.8 billion.

Tax incentives for charitable giving

The President's budget proposes phasing in a $20.3 billion package over the 2004-2013 period to provide incentives for charitable giving. The most expensive provision in this package is the President's proposal to create a charitable contribution deduction for non-itemizers, costing $12.6 billion over 10 years. The President's 2003 budget proposal would have allowed non-itemizers a deduction of up to $1,000. Interestingly, this year's budget only allows a contribution of up to $250 (indexed after 2003). As a result, the charitable incentive package is roughly half the size of the package proposed in last year's budget. A charitable deduction for non-itemizers provision that was part of the law in the early 1980s was eliminated as part of President Reagan's 1986 tax reform effort because it was considered too complex and difficult to enforce.

Health-related tax incentives

The President's budget proposes a refundable tax credit for the purchase of health insurance, which would cost $89.2 billion (including credits counted as outlays) over the 2004-2013 period. Because the tax credit would cover only a fraction of the average cost of premiums for health insurance, the proposal would do little to help families who currently cannot afford insurance. For instance, a family of four with income of $40,000 would be eligible for a maximum tax credit of $1,714, which is only 22 percent of the $7,954 average cost in the private market for a health insurance policy for that family. It is extremely unlikely that family can come up with the $6,240 needed on top of the tax credit to purchase insurance.

For long-term care insurance, the administration is proposing an above-the-line deduction for individually purchased policies, costing $28.3 billion over the 10-year period. The benefit of an above-the-line deduction for the purchase of long-term care insurance would likely accrue initially to upper-income individuals who are already purchasing long-term care insurance on the individual market. The level of the incentive would not become large enough to benefit most taxpayers until it reaches 100 percent in 2007.

Expanded tax-free savings proposals

The President's budget also proposes a dramatic expansion of tax-free savings for individuals. The plan eliminates both deductible and non-deductible Individual Retirement Accounts (IRAs) and replaces them with Lifetime Savings Accounts (LSAs) that could be used for any type of saving, and Retirement Savings Accounts (RSAs) designed for retirement saving. These plans would have much higher contribution limits than traditional IRAs, no restrictions on contributors' income, and no deduction that would encourage lower-income individuals to participate. They would, in effect, allow wealthy individuals to shield large amounts of income from any taxation.

In the short-term, these new accounts would bring in revenue to the federal government as individuals pay taxes on savings they switch over to these new accounts. But over the long-term, these savings accounts would create a huge revenue drain, worsening the nation's growing deficit problem. The added short-term revenue helps hide the extent of the country's current deficits, while the true costs of this proposal lies outside the administration's limited five-year budget window.

LSAs would be subject to an annual contribution limit of $7,500. However, the limit would apply to LSAs held by an individual, not to a contributor. In other words, contributors could make contributions of up to $7,500 to LSAs held by others, and there would be no income limit for those contributors. Contributions to LSAs would be nondeductible, but earnings would accumulate tax-free and all distributions would be tax-free as well. Distributions could be made at any age and for any purpose. Taxpayers could convert current balances in Medical Savings Accounts (MSAs), Coverdell Education Savings Accounts (ESAs), and Qualified State Tuition Plans (QSTPs) to LSA balances.

RSAs would also generally be subject to an annual contribution limit of $7,500 per year ($15,000 for a married couple). Again, no income limits would apply. Like current Roth IRAs, contributions would be nondeductible, but earnings would accumulate tax-free, and all distributions would be tax-free as well. Qualified distributions could be made after age 58 or in the event of death or disability. Nonqualified distributions would be subject to tax to the extent they exceeded the RSA holder's basis. There would be no required distributions, and balances remaining at death could be passed on to heirs. Existing Roth IRAs would be renamed RSAs and subject to the RSA rules. Individuals could convert existing traditional, nondeductible IRAs into RSAs by paying tax on the amount converted.

Enhanced employer-based retirement savings options

The President's budget also calls for the consolidation of a number of current retirement saving options for employees into a single simplified plan called an Employer Retirement Savings Account (ERSA). Current law vehicles being folded into the ERSA scheme include 401(k), SIMPLE 401(k), Thrift, 403(b), governmental 457 plans, as well as SIMPLE IRAs, and SARSEPs. Employees would be able to put in $12,000 per year (increasing to $15,000 in 2006). Workers aged 50 and up would be able to make catch-up contributions every year of an additional $2,000 (increasing to $5,000 in 2006).

Under the President's proposal, beginning in 2005, all 401(k) plans would become ERSAs. Governmental 457 plans, 403(b)s, SIMPLEs and SARSEPs would be allowed to remain in place, but no new contributions would be permitted. The President's budget does not propose changes in the rules governing traditional pension plans.

Tax incentives for education and affordable single-family housing

The President's budget provides a refundable tax credit equal to 50 percent of the first $5,000 of qualifying elementary and secondary education expenses incurred by parents of a child who would otherwise normally attend a school identified as not making "adequate yearly progress" under the No Child Left Behind Act of 2001. This new tax credit would cost $3.8 billion (including outlays) over the period 2004-2013.

The budget also proposes a tax credit for developers of affordable single-family housing that would cost $16.1 billion over the 10-year period. However, the proposed volume cap ($1.75 per capita) may be insufficient, especially for low-population states, to generate much housing development.

A summary table from the President's budget with additional tax detail can be found at the end of this report.

Table 2: President's Tax Proposals

($ billions)	2003	2004	2004-2008	2004-2013
Tax Proposals				
"Economic growth" package	-31	-112	-378	-640
Make 2001 tax cuts permanent	*	*	-6	-523
Extend other expiring provisions	-1	-5	-47	-90
Charitable giving	*	-2	-9	-20
Credits for purchase of health insurance	0	*	-34	-89
Other health related tax cuts	0	-1	-14	-46
Other tax cuts	1	9	-6	-39
Total tax cuts a/	-31	-110	-494	-1,448
Memorandum:				
Refundable credits	*	-1	-53	-141
Treasury estimate	-29	-108	-493	-1,461

Notes: Estimates are those assumed in the President's budget. The Treasury estimates shown in the memorandum were revised after the budget was completed. Both sets of estimates include refundable tax credits, which are counted as outlays in the budget.

a/ Including associated interest costs, the President's proposed tax cuts would increase deficits by $1.8 trillion in 2004 through 2013.

DISCRETIONARY PROPOSALS

In an effort to make room for President Bush's tax cut proposals, the 2004 budget almost certainly understates the likely funding for defense and limits funding for domestic programs. While the tax cuts primarily benefit a small group of the wealthiest people in the country, the budget targets the harshest cutbacks on programs and services that benefit the vast majority of Americans.

Overall, the budget requests $782.2 billion in discretionary budget authority, a decrease of 0.9 percent compared to what is needed to maintain the purchasing power provided to agencies and programs in 2003.[1] That overall decrease includes an increase of 10.5 percent in international affairs programs and cuts of 0.7 percent in defense and 2.0 percent in domestic programs. As Table 3 shows, when the President's proposal for obligation limitations on discretionary transportation programs is accounted for, the budget cuts funding for domestic programs by 2.4 percent.[2]

Table 3: Bush Budget for Discretionary Programs in 2004

Discretionary budget authority; $ billions	Baseline*	Bush Budget	Budget Above/ Below Baseline	% Difference
Defense	402.0	399.2	-2.8	-0.7%
International Affairs	25.9	28.6	+2.7	+10.5
Other Domestic	361.7	354.5	-7.3	-2.0%
Total Appropriations	789.6	782.2	-7.3	-0.9%
Memorandum:				
Transportation.......	42.0	39.6	-2.4	-5.8%
Adjusted Other Domestic.	403.7	394.1	-9.7	-2.4%
Adjusted Total Appropriations. .	831.6	821.8	-9.8	-1.2%

*CBO's revised baseline – which will incorporate the effects of the 2003 omnibus appropriations bill – was not completed at the time of this analysis. SBC staff adjustec amcunts provided to agencies and programs in 2003 using the rates of inflation provided by CBO in its January report on the budget and economic outlook.

Budget is missing 2003 supplemental request and cost of war in Iraq

The extent of deficits this year is understated because the President's budget says nothing about a supplemental appropriation for 2003, even though it is virtually certain that the administration will request additional resources in the next few months. The budget also fails to include funds for a possible war with Iraq, which could cost hundreds of billions of dollars in 2003 and succeeding years according to CBO projections. Based on CBO's October 2002 estimate, the cost of a war with Iraq could range from $21 billion for a one-month air war with no occupation, to more than $272 billion for a three-month ground war with a five-year occupation. That estimate does not include any macroeconomic impacts from higher oil prices. It also does not include any additional costs related to the reconstruction of Iraq, humanitarian assistance, or assistance to allies.

By omitting the supplemental request from his budget, as well as the cost of the war in Iraq, the President can project both a lower deficit estimate for 2003 and a smaller cut in discretionary spending for 2004 (by understating the real funding level for 2003).

MANDATORY PROPOSALS

MEDICARE

Forcing seniors to choose between their doctor and a prescription drug benefit

Although the Bush administration has denied it, it seems clear that the prescription drug benefit that the administration was planning to propose in its 2004 budget would have forced seniors to join an HMO, or some other private health plan, to get the drug benefit they need. Following the initial outcry of opposition to this proposal, the official release of the President's plan was delayed and may still not be released for several weeks. However, government documents that have been widely circulated suggest that the President's proposal would constitute a major restructuring of the Medicare program and include a greatly expanded role for private insurance companies.

Cost of the President's Medicare proposals

Medicare is the Federal health insurance program for people age 65 or older and people under age 65 who are disabled or suffer from end-stage renal disease. In 2004, the program will serve an estimated 41 million individuals. According to estimates from the Congressional Budget Office (CBO), Medicare will cost $269 billion in 2003. Spending is projected to rise to $521 billion in 2013, growing at an average annual rate of 6.8 percent.

Speaker Hastert on Bush Medicare Reform Proposal

"I don't think you can do it humanely.

I don't think you can do it politically.

I don't think it's practical."

– House Speaker Dennis Hastert in comments to President Bush
"Hastert warns Bush on Medicare ; Drug benefit plan inhumane, he says ", *Chicago Tribune*
February 11, 2003

The President's overall proposals to "modernize" Medicare would cost $6 billion in 2004 and $400 billion over the 10-year period 2004 to 2013. Based on the very limited information provided in the budget, Medicare "modernization," as the administration describes it, encompasses a wide range of reforms, including increased access to a subsidized prescription drug benefit for some but not all enrollees, a greatly expanded role for private health insurance plans, the addition of preventive benefits, and revised cost-sharing structures. In addition, physicians and Medicare+Choice plans would be slated to receive increased payments from the $400 billion allocated to Medicare, while other providers may see their payments reduced.

The administration's cost estimates of the proposed 10-year Medicare modernization program are shown in Table 4. It is not clear how much of the $400 billion is allocated for a prescription drug benefit and how much may be used for provider payments or preventive benefits. However, even if all $400 billion were allocated for drugs – an unlikely scenario – the government subsidy would amount to only about 22 percent of the $1.8 trillion projected spending on prescription drugs by or on behalf of Medicare beneficiaries.

Table 4: Medicare and Prescription Drugs											
($ billions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	04-13
Medicare Outlays a/	283	302	315	337	359	385	414	449	479	521	3,843
President's Proposals	6	10	33	38	43	46	49	53	58	64	400
Total Drug Costs b/	107	120	134	150	167	186	206	229	255	284	1,839

a/ CBO January 2003 estimate of Medicare spending excluding Part B premiums.
b/ CBO February 2003 estimate of projected spending on prescription drugs by or on behalf of Medicare enrollees.

What the Bush "modernization" plan could look like

The initial draft of the President's Medicare modernization plan would have offered Medicare beneficiaries three options:

- Option 1 would be the current, traditional Medicare plan, which includes no drug benefit.

- Option 2 would offer seniors a choice of fee-for-service plans within a network of private preferred provider organizations (PPOs). These private plans would offer a choice of enhanced benefits both with and without drug coverage. Seniors who chose the enhanced benefits without a drug benefit would pay a combined annual deductible of $420. The enhanced plan with drug benefits would charge a $275 deductible and monthly premiums of varying amounts. The plans would cover 50 percent of drug costs up to $3,050 and then pay nothing until the patient spent $5,500 out-of-pocket. After that point, the plan would cover 90 percent of drug costs.

- Option 3 would be a modified Medicare+Choice model, renamed "Medicare Advantage." These plans would be required to offer the same benefits as the enhanced options package, along with the standard prescription drug benefit, or an actuarially equivalent benefit. They could also offer enhanced benefits without drug coverage. Beneficiaries would pay a monthly premium for their drug benefits.

If this plan was adopted, the new options would go into effect on January 1, 2006. However, in 2004 and 2005, assistance would be available to low-income beneficiaries not eligible for Medicaid. During those years, seniors with incomes up to 135 percent of the federal poverty level could enroll in a Medicare+Choice plan and get a $600 drug benefit each year, or the plan would pay $600 to an account with a drug discount card. If a Medicare+Choice plan was not available, Medicare would contribute $600 to an account that would be used to pay for prescription drugs.

Concerns about the President's "modernization" plans

The President's plan does not provide drug coverage for beneficiaries who remain in the current Medicare program. Seniors would gain access to prescription drug coverage only if they leave traditional Medicare and join an HMO or government-subsidized private health insurance plan. According to Health and Human Services Secretary Tommy Thompson, a major objective of this approach is to use the drug benefit as the "dessert" that will help make the cost controls of managed care more palatable to seniors. This would result in many seniors having to choose between drug coverage and their family doctor. By making participation in HMOs and other private plans a condition for obtaining drug coverage, this proposal would limit, not expand, seniors' choices of treatment and certainty of coverage. As reported by the *Chicago Tribune* (Feb. 11, 2003), House Speaker Dennis Hastert told Bush, "I don't think you can pass a piece of legislation that takes an 80-year-old grandmother and says you have to give up your fee-for-service as you know it in order to get a drug piece on it."

Only 58 percent of all Medicare beneficiaries have access to a Medicare+Choice plan. For seniors residing in rural areas, that percentage drops to 5 percent. For seniors who do have access to a private plan, there is no guarantee that the premium charged by private plans will be affordable or that the coverage will be adequate.

The President's plan does not offer seniors the same benefits enjoyed by Members of Congress. The President has stated that seniors should receive the same health coverage as Members of Congress and their staff. However, Members of Congress are not required to join managed care plans to receive drug benefits and their coverage is far more generous. Members also do not have to pay a separate deductible for drugs, nor do they experience a "gap" in drug coverage. If seniors were given the same type of plans as Members of Congress, the cost could exceed $800 billion, twice the amount proposed by the President.

Private plans are unstable and put profit over service to seniors. The Medicare+Choice program has been characterized by annual announcements of health plan withdrawals, physician turnover, benefit reductions (particularly for prescription drug coverage), and premium increases. Since 1999, 407 private plans have either withdrawn from the Medicare+Choice program or reduced their service areas, affecting 2.4 million Medicare beneficiaries. To bolster profits, many HMOs have scaled back their coverage of prescription drugs, created strict formularies, and set up networks that deprive seniors of access to their local pharmacies. As a result, only 13 percent of Medicare beneficiaries (5.1 million) enrolled in Medicare+Choice plans in 2002. Current enrollment marks a 16 percent decrease since 2000, when the number of Medicare+Choice enrollees reached a high of 6.3 million beneficiaries. CBO projects that only 8 percent of Medicare beneficiaries will be enrolled in a Medicare+Choice in 2010.

Private plans may be less cost-effective than Medicare. Historically, Medicare's spending has tracked the growth in private insurance costs, but in recent years, government spending has increased more slowly on a per-capita basis. In 2002, average per-capita Medicare spending increased at an annual rate of 5.2 percent, while premiums for private employer-sponsored and FEHBP plans grew at a rate of about 13 percent. Medicare's administrative payments now account for less than 2 percent of benefit payments, a share significantly lower than that among private insurers.

The President's plan could increase out-of-pocket costs for beneficiaries. Medicare beneficiaries currently pay a deductible of $840 for hospitals and $100 for physicians. The new cost-sharing arrangement in the enhanced plan options would require all beneficiaries to pay a combined deductible of about $420. For the roughly 80 percent of Medicare beneficiaries who do not exhaust their hospital deductible, this would mean higher costs to see a doctor. The plan would also charge a new co-payment for home health services.

The President's plan does not reduce the responsibility borne by states to cover the drug costs of seniors who are eligible for both Medicare and Medicaid. Although both the House and Senate Republican drug plans debated last year phased out the states responsibility for low-income seniors, the President's reform proposal appears to require states to continue to pay the drug costs for the dual-eligible population. Over the next 10 years, these state expenditures are estimated to top $100 billion.

MEDICAID

The President's budget includes Medicaid proposals that increase spending by $9.8 billion over the next five years, but save $2.5 billion over the entire 2004-2013 period by severely limiting the funding available for the program and revising the Medicare drug rebate system. The centerpiece of the President's Medicaid plan is a proposal to entice states to accept a 10-year block grant of Medicaid and S-CHIP funds. That proposal would increase funding to the states by $12.78 billion over the next seven years, but would cut funding by slightly more than that amount over the following three years.

Block grants for Medicaid and SCHIP threaten programs

The President's budget proposes to provide an additional $3.26 billion to states in 2004 and $12.78 billion over seven years if states agree to block grant their Medicaid programs for 10 years. The funds for the State Children's Health Insurance Program (SCHIP) are included in the new block grant, essentially eliminating the SCHIP program. This new grant is provided to the states in two allotments: one for acute care and one for long term care. This new federal option provides states with the ability to cut their Medicaid programs and put at risk the country's most vulnerable populations.

In addition, the block grant proposal ends the federal financial entitlement to states that currently promises designated funding for each individual eligible for Medicaid. Under the Bush plan, states no longer receive matching federal funds tied to each individual and instead receive an aggregate federal payment that is capped. Federal Medicaid funding to states are no longer increased automatically to address increased demand for Medicaid services as a result of a recession or health epidemic. States are left to themselves to deal with increased demand due to economic or health emergencies. If the capped federal level proves to be insufficient over time, states would have to pay a greater share of the costs or cut their Medicaid programs – cuts that include implementing enrollment caps and waiting lists (needy families and individuals would be turned away), imposing cost-sharing requirements unaffordable for the poor, and slashing medical services and benefits.

The President's budget assumes that this proposal is budget neutral over 10 years, although budget tables indicate that the proposal would actually save $66 million over 10 years. The proposal assumes that the $12.78 billion spent in the first seven years for fiscal relief is offset by a $12.85 billion cut in Medicaid spending below current-law levels in the last three years of this 10-year proposal. If states choose to accept this block grant option, states are locked into this arrangement for a full 10 years.

Disability/new freedom initiatives to encourage at-home care

The President's budget includes $1.3 billion in funding over 10 years to promote at-home care as an alternative to institutionalization, including a demonstration for respite services for caregivers of disabled adults, respite services for caregivers of severely disabled children, and home and community services for children currently residing in psychiatric residential treatment facilities.

Other Medicaid proposals

The President's budget includes other Medicaid proposals that cost $2.7 billion over 10 years. These proposals include extending Transitional Medical Assistance, extending the availability of 2000 expiring SCHIP funds, and the extension of premium benefits to certain qualified individuals (QI-1s). The budget also includes a child support enforcement proposal that increases the number of state medical child support reviews, supposedly saving Medicaid $103 million over 10 years, and a Social Security disability determination proposal saving Medicaid $599 million over 10 years.

Medicaid rebate reform

In the budget, the Bush administration proposes to work with Congress to improve the Medicaid drug pricing and reimbursement system to generate over $6 billion in savings over 10 years. Pharmaceutical manufacturers must pay a rebate, shared between the states and the federal government, on prescription drugs dispensed to Medicaid beneficiaries. Under current law, this rebate equals the larger of 15.1 percent of the Average Manufacturer Price (AMP) or the difference between AMP and the manufacturer's best price.

WELFARE REFORM

The President's budget includes an increase of $147 million in 2004 and $3 billion over 10 years for the reauthorization of the Temporary Assistance for Needy Families (TANF) program and TANF-related programs. The President's proposal freezes TANF at current levels, reauthorizes the TANF Supplemental grants at the 2001 level of $319 million, and freezes the Social Services block grant at $1.7 billion. The focus of the President's proposal is to increase the work requirement for TANF recipients to 40 hours a week, without providing any additional federal funds to states to cover the cost of these extra work hours. In addition, child care mandatory spending is frozen at the estimated 2003 level of $2.7 billion. As a result of all the child care and development fund funding proposals in the budget, the administration estimates that the number of children who will receive child care subsidies will fall by 200,000, from 2.5 million children currently to 2.3 million children by 2007. The proposed child care funding levels include the mandatory child care entitlement to states, discretionary Child Care and Development Block Grant, and TANF transfers.

The budget proposal counts as a net $3 billion increase over 10 years only because the baseline assumes that TANF and most TANF-related programs are frozen at the current nominal dollar level, except TANF supplemental grants, which are assumed to expire. The budget essentially freezes most welfare/child care spending for the next five years, while increasing federal mandates on the states in the midst of severe state fiscal crises.

Along with a proposal to increase child support collections and to direct more of these payments to families ($221 million over 10 years), the President's budget includes an optional child welfare block grant ($40 million over 10 years) that states may choose to participate in to receive funds in the form of block grants with less federal administrative oversight. Although child welfare services are primarily a state responsibility, the federal government helps pay for these activities and the Congress has had an interest in the federal enforcement of child welfare laws. Currently the Administration for Children and Families' Child Bureau is conducting child welfare reviews of state programs. Initial reports show severe problems in state enforcement of child protection which are likely to complicate any proposal to reduce federal administrative oversight.

UNEMPLOYMENT INSURANCE ADMINISTRATION

The President's budget cuts the Federal Unemployment Tax Act (FUTA) payroll tax by 25 percent or $1 billion in 2005, with additional reductions over the following four years. By 2009, FUTA is reduced to 0.2 percent of the first $7,000 in wages. The proposal also lets states control all the costs of operating their unemployment insurance programs. It increases spending by $2.4 billion over five years and $17.3 billion over 10 years and reduces federal revenues by $13.4 billion over 10 years. This proposal is a major devolution of federal responsibility and undermines the federal government's role of enforcing uniform coverage of all employees in the unemployment insurance system. This proposal also does not expand the current temporary employment program that provides an additional 13 weeks of extended benefits to individuals who have exhausted their regular state unemployment benefits.

AGRICULTURE

In May of 2002, President Bush signed the new farm bill into law, calling it "important legislation" that "meets important needs." Now, less than one year later, the President in his budget is proposing to undo many features of the new farm bill, including its landmark conservation, rural development, and renewable energy provisions.

The President's budget estimates that mandatory outlays by the Department of Agriculture will be $53.9 billion in 2004, an increase of $1.7 billion above the 2003 level. Mandatory programs, including farm income support, conservation, and nutrition programs, account for 73 percent of the Department of Agriculture's budget.

Agricultural conservation programs cut

The budget proposes a reduction in mandatory agricultural programs of nearly $5.2 billion below current law levels over the period 2004 to 2013, largely by reducing required expenditures under the 2002 farm bill for the new Conservation Security Program – a program intended to provide incentives to farmers and ranchers who adopt conservation measures on working lands.

Rural development funds blocked

The budget also proposes to "block" tens of millions of dollars in new Commodity Credit Corporation funding provided in the 2002 farm bill to expand broadband service in rural communities, encourage renewable energy, spur rural business investment and innovation, and promote value-added agricultural product market development.

Bio-energy incentive program cut

The budget also proposes to reduce funding for the Commodity Credit Corporation bio-energy incentive program provided in the farm bill for 2004 from $150 million to $100 million.

Crop insurance capped

The budget proposes to reduce the cap on insurance company program delivery expense reimbursement to 20 percent of premiums (down from the current 24.5 percent), for a savings of $68 million in 2004.

SPECTRUM MANAGEMENT

The President's budget proposes to make permanent the Federal Communications Commission's authority to allocate the electromagnetic spectrum by competitive auction. That authority expires at the end of fiscal year 2007. The President's budget claims that extending the auction authority will generate additional offsetting receipts of $2.2 billion over 10 years. The budget also assumes that proposed changes in spectrum management will generate an additional $1.9 billion in offsetting receipts.

In addition, the budget again proposes to establish an annual lease fee on the use of analog spectrum by commercial broadcasters. OMB estimates additional receipts from the lease fee of $1 billion over the 2004-2008 period.

U.S. POSTAL SERVICE

The President's budget proposes to correct an apparent error in the amount the United States Postal Service (USPS) has been paying each year to the Civil Service Retirement Fund (CSRF). According to the administration, the overpayment is the result of higher than expected yields on past pension investments and statutory requirements that are too restrictive. Unfortunately, remedying the error will be expensive for the federal government. According to the Congressional Budget Office (CBO), which issued an analysis of this issue on January 27, 2003, lowering the USPS's payment to the CSRF would increase the deficit by $10 billion to $15 billion over the 2003-2007 period and by as much as $36 billion to $41 billion over the 2003-2013 period. According to CBO, the precise impact will depend on whether the Postal Service responds to the legislative relief by increasing postage rates at a slower pace, repaying debt owed to the U.S. Treasury, or some combination thereof. The budget assumes it will cost $31 billion over 10 years.

VACCINE BIODEFENSE

As part of the administration's Bioshield proposal, the President's budget calls for a new mandatory spending program at the Department of Homeland Security to purchase biodefense counter-measures. These funds would be used to purchase vaccines or drugs to treat smallpox, anthrax, and dangerous pathogens. For 2004, the administration request includes $890 million in budget authority for this program, resulting in $575 million in outlays. Over 10 years, this proposal costs $5.6 billion.

ANWR

The President's budget assumes receipts of $1.3 billion over the 2004-2008 period from private sector payments to the Federal Treasury for the right to drill for oil and gas in Alaska's Arctic National Wildlife Refuge and another $1.3 billion collected and dispersed to the state of Alaska. Drilling in this national wildlife refuge is not currently legal.

Table 5: President's Mandatory Spending Proposals

(by fiscal year, in billions of dollars)	2003	2004	04-08	04-13
Medicare	0	6	130	400
Medicaid/S-CHIP	*	3	10	-2
Welfare Reform	*	*	2	4
Unemployment insurance	0	0	2	17
Agriculture	0	0	-2	-5
Spectrum auctions and fee	0	0	3	-7
Postal Service Pensions	0	0	9	31
Vaccine biodefense	0	1	3	6
Extend customs user fees	0	-1	-8	-19
Other mandatory spending	*	3	4	2
Total mandatory spending proposals	2	11	153	427

Notes: These estimates exclude refundable tax credits, which are counted as outlays in the budget but are included in estimates of tax proposals in this analysis.

ECONOMIC OVERVIEW

Despite Bush administration claims that the tax cut of 2001 would spur the economy back to life, the nation's economy remains in a slump. Growth remains sluggish, the job market is stagnant, and wage gains no longer exceed inflation.

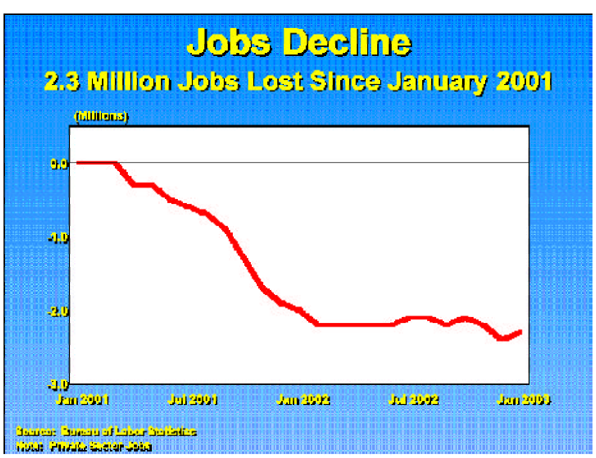
Objective economists have concluded that the new Bush tax package is poorly designed to stimulate the economy in the short run. In addition, they believe that, by substantially increasing deficits, it will crowd out investment, increase interest rates, and retard economic growth in the longer run.

In its forecast for the economy, the administration ignores the pressures of larger deficits on both short- and long-term interest rates. It estimates the President's "economic growth" package creates a sizeable short-run boost to the economy by assuming implausibly low short-term rates. The administration also forecasts notably lower long-term interest rates over the next 10 years than either the Blue Chip consensus or CBO assumed in making their forecasts, despite faster growth and larger deficits assumed by the administration.

Review of the economy

Hopes for a self-reinforcing recovery in 2002 gradually faded during the course of the year as a solid rebound in investment failed to materialize. The recession in 2001 was caused by reduced investment in plant and equipment and by production cuts to work off inventories. Consumption slowed in 2001 but never declined.

The headline GDP numbers – real growth increased from 0.3 percent in 2001 to 2.4 percent in 2002 – give a misleading picture of improvement from 2001 to 2002. Final demand for U.S. goods and services grew by only 1.8 percent in 2002, little more than the 1.5 percent growth in 2001. GDP growth improved because businesses met more demand from overstocked inventories in 2001. When restocking of inventories caused GDP to rebound in early 2002, the consensus of economists – in the private sector as well as at CBO and in the administration – was that a rebound of plant and equipment investment would follow in the second half of the year. In fact, overall investment remained flat in the second half as the continued downturn in structures, telecommunications, and aircraft offset the gains in other investment.



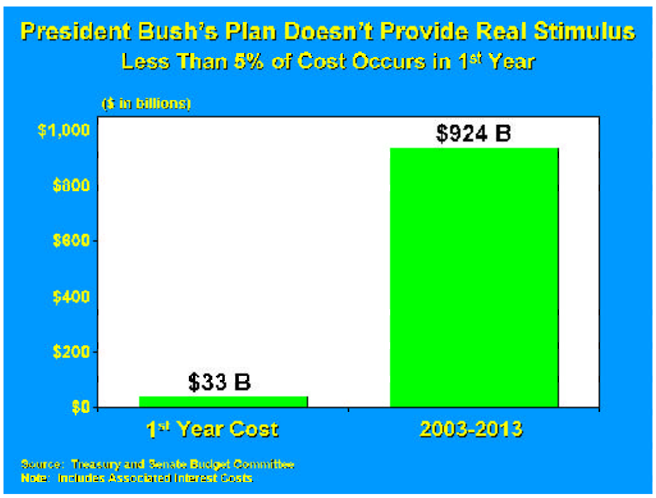
In contrast to past recoveries, employment remained stagnant in 2002. Between January 2001 and January 2003, private sector employment declined by 2.3 million jobs. Although real wages grew at a relatively strong 2 percent rate during the recession year of 2001, the weak labor market caused wage growth to slow down in 2002. By the fourth quarter, wages were growing at roughly the same 1-1/2 to 2 percent rate as inflation. This trend could restrain consumer demand if employment does not rebound.

Unlike all recessions since the Great Depression, the 2001 recession saw no decline in spending for either housing or autos. As a result, although spending for housing and autos remained strong in 2002, there was no possibility of a strong rebound in such spending that provides a bounce to a typical recovery.

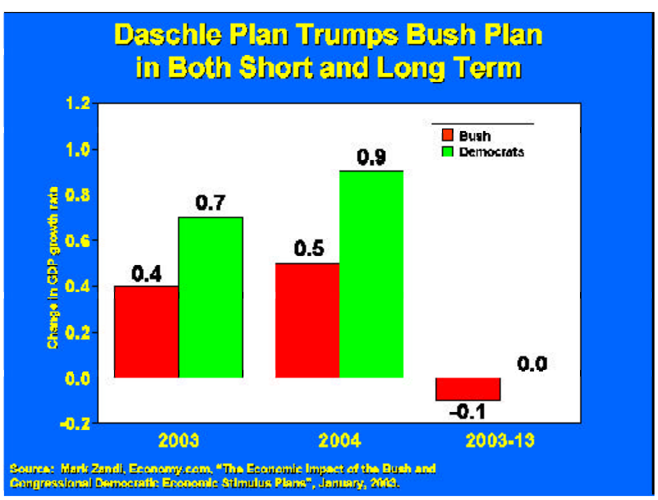
For the first time since the Great Depression of the 1930s, the stock market declined for a third consecutive year in 2002. While most measures of equity wealth have registered record or near-record declines in value over those three years, the markets remained overvalued by some standard measures.

Slow growth and depressed equity markets have caused federal revenues to fall short of expectations. Despite the prospect of larger-than-anticipated deficits, the administration has developed an economic policy package that substantially increases the deficit.

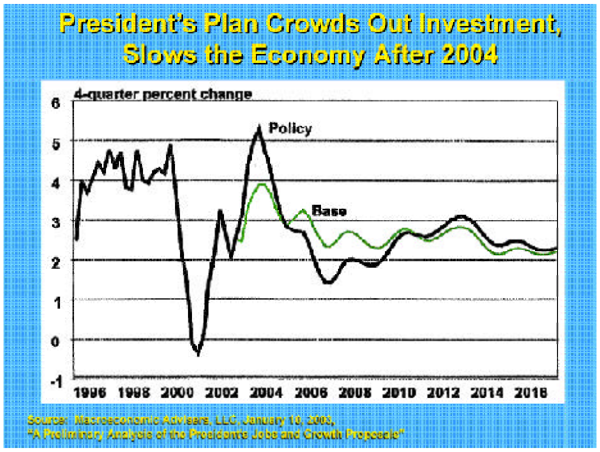
Budget does not propose a credible growth plan



The President's so-called "economic growth" plan would provide only $33 billion in stimulus in fiscal year 2003. At less than 5 percent of the total $924 billion 10-year cost (including increased interest costs) of the President's package, the plan provides a trivial "bang for the buck" as a stimulus plan.



Mark Zandi, chief economist at Economy.com, has estimated that the stimulus plan proposed by Senator Daschle provides almost twice as much boost to the economy as the Bush plan in both 2003 and 2004. Just as importantly, he finds that the Bush plan *reduces* growth over the next 10 years, while the Daschle plan does not.



Another economic consulting firm, Macroeconomic Advisers, has also concluded that the President's tax plan would "raise equilibrium real interest rates, 'crowd out' private-sector investment, and eventually undermine potential GDP." Macroeconomic Advisers (which provides the economic model used by both the administration and CBO) estimates that the President's plan would cause growth in 2005 and beyond to be lower than under a scenario with no new stimulus. In other words, long term growth would be better if we did nothing than if we pass the President's plan.

Administration's rosy forecast for interest rates

When Macroeconomic Advisers made its estimates of the effects of the Bush plan, it made the realistic assumption that any increase in growth would cause the Federal Reserve to raise interest rates. The administration's analysis of the economic effect of its "economic growth" plan, however, assumed that the Federal Reserve would keep interest rates the same over the next two years with or without enactment of its "economic growth" plan. With such an unrealistic assumption, the administration implausibly forecasts that its plan would boost growth from the 2.5 percent it assumed would occur without the plan to 3.5 percent growth in both 2003 and 2004. Ironically, in making these estimates, the Council of Economic Advisers (CEA) used the econometric model developed by Macroeconomic Advisers.

The administration also forecasts long-term interest rates that are significantly lower than either the Blue Chip consensus or CBO. This is particularly striking because economists generally believe that both faster growth and larger deficits raise long-term interest rates. The administration forecasts faster growth than either CBO or Blue Chip. In developing its forecast, the administration also knew that both current and future deficits would be much larger than expected by Blue Chip forecasters before the budget was released or projected by CBO in its baseline forecast. With a scenario for both faster growth and larger deficits than both CBO and Blue Chip, the administration forecast of consistently lower rates than either Blue Chip or CBO reflects a blind spot about deficits and interest rates.

Table 6: Comparison of Economic Assumptions

	Forecast					
	2002*	2003	2004	2005	2006	2003-08
Nominal GDP (year or end of period, $ billions)						
OMB	10,442	10,884	11,447	12,031	12,637	12,364
CBO	10,442	10,880	11,465	12,092	12,749	12,463
Blue Chip	10,442	N.A.	N.A.	N.A.	N.A.	N.A.
Real GDP (percentage change)						
OMB	2.4	2.9	3.6	3.5	3.3	3.3
CBO	2.4	2.5	3.6	3.4	3.3	3.2
Blue Chip	2.4	2.8	3.6	3.3	3.1	3.2
GDP price index (percentage change)						
OMB	1.1	1.3	1.5	1.5	1.7	1.6
CBO	1.1	1.6	1.7	2.0	2.1	2.0
Blue Chip	1.1	1.6	1.9	2.1	2.1	2.0
Consumer price index (percentage change)						
OMB	1.6	2.2	2.1	2.1	2.2	2.2
CBO	1.6	2.3	2.2	2.5	2.5	2.4
Blue Chip	1.6	2.2	2.2	2.5	2.6	2.4
Unemployment Rate (percent)						
OMB	5.8	5.7	5.5	5.4	5.3	5.3
CBO	5.8	5.9	5.7	5.1	5.1	5.5
Blue Chip	5.8	5.9	5.5	5.2	5.1	5.3
Three-month treasury bill rate (percent)						
OMB	1.6	1.6	3.3	4.0	4.2	3.6
CBO	1.6	1.4	3.5	4.8	4.9	4.1
Blue Chip	1.6	1.6	2.9	4.2	4.4	3.7
Ten-year treasury note rate (percent)						
OMB	4.6	4.2	5.0	5.3	5.4	5.2
CBO	4.6	4.4	5.2	5.6	5.8	5.4
Blue Chip	4.6	4.4	5.2	5.6	5.8	5.4

Sources: Office of Management and Budget; Congressional Budget Office; Blue Chip Economic Indicators, Aspen Publishers, Inc.
Notes: January Blue Chip consensus for 2003-04; Blue Chip for 2005-2008 based on October 2002 long-run survey; *Current official numbers for 2002 where available.

BUDGET PROCESS

Discretionary caps and pay-as-you-go extended two years

Annual caps on discretionary spending and the pay-as-you-go provisions of the Budget Enforcement Act (which require that new mandatory spending and tax cuts be offset in order to avoid across-the-board cuts at the end of the fiscal year) expired on September 30, 2002. The President's 2004 budget proposes renewing and extending the discretionary caps and pay-as-you-go ("paygo") provisions for 2004 and 2005. The proposed caps on discretionary spending for 2004 are $782.2 billion in budget authority and $818.8 billion in outlays. For 2005, the proposed caps are $813.5 billion in budget authority and $850 billion in outlays. These amounts include the effects of the Bush administration's proposal to adjust the discretionary spending caps for costs associated with developing the nuclear waste repository at Yucca Mountain (up to $591 million in 2004 and $1.055 billion in 2005); Social Security Administration Continuing Disability Reviews, SSI redeterminations, and overpayments workload ($1.446 billion in 2004 and up to $1.473 billion in 2005); and, the Earned Income Tax Credit Compliance Initiative ($100 million above the 2004 base amount in both 2004 and 2005). In addition, the budget proposes an unspecified reserve for fully accruing federal employees' retirement.

The President proposes to renew and extend expired discretionary caps and pay-as-you-go provisions of the Budget Enforcement Act for 2004 and 2005.

Emergency designations would need approval of President

The President's budget proposes requiring that the President and Congress agree in designating individual spending and tax items as emergencies, to prevent Congress from bundling such items. Under the President's proposal, if the President determined that a particular item is not an emergency, the provision would not be scored as an emergency for purposes of the Budget Enforcement Act. In addition, the President adds to the Budget Enforcement Act a definition of what constitutes an "emergency requirement." The item would have to be necessary, sudden, urgent, unforeseen, and temporary.

Advance appropriations capped

The President's budget caps advance appropriations for 2004 at the 2002 level. Advance appropriations provide budget authority that first becomes available for obligation one or more years beyond the year for which the appropriations act is passed.

Baseline calculations would have to exclude emergency funding

The President's budget proposes to change the Budget Enforcement Act's provisions regarding calculation of the budget baseline. The Bush administration proposes adding to the Budget Enforcement Act a provision to preclude extending discretionary funding for emergencies in subsequent years, so that the baseline includes emergency funding only for the year in which it was enacted. In addition, the President proposes to revise baseline rules concerning budgetary resources for costs relating to pay raises, and to delete provisions allowing for adjustments for expiring housing contracts and social insurance administrative expenses.

Sequestration exemptions changed

The President's budget proposes reviewing and updating the Budget Enforcement Act's list of accounts that are exempt from sequestration, to reflect legislation enacted since 1997, resolve technical issues, and account for new programs added to the budget.

Automatic continuing resolution

The President's budget proposes that if Congress and the President fail to complete action on all 13 appropriations bills by the October 1 start of each fiscal year, an automatic continuing resolution should go into effect to provide funding at the lower of the President's budget or the prior year's level.

Joint budget resolution to be subject to Presidential veto

To give the budget resolution the force of law, the President's budget advocates a joint budget resolution requiring the President's signature, and suggests that it could be enforced by sequesters requiring automatic across-the-board cuts by category to offset any excess spending. Currently, the budget that Congress considers each year is a concurrent resolution, meaning that it is considered by the House and Senate, but is not subject to Presidential signature and does not become law.

Bring back line-item veto

The Line Item Veto Act of 1996 attempted to give the President the authority to cancel spending and tax line-items, but the Supreme Court struck down that law as unconstitutional. The President's budget proposes giving the President the authority to decline to spend new appropriations, to decline to approve new mandatory spending, or to decline to grant new tax benefits that are limited to 100 or fewer beneficiaries whenever the President determines that the spending or tax items are not essential government priorities.

Move to biennial budgeting and appropriations

The President's budget envisions switching from the current annual budgeting and appropriating system to a two-year budget and appropriations process, whereby Congress would consider authorizing bills one year and appropriations bills the next.

ENDNOTES

[1] CBO's revised baseline – which will incorporate the effects of the 2003 omnibus appropriations bill – was not completed at the time of this analysis. SBC staff adjusted amounts provided to agencies and programs in 2003 using the rates of inflation provided by CBO in its January report on the budget and economic outlook.

[2] The budgetary treatment for transportation programs is unique. For most transportation programs, the budget records budget authority as mandatory and outlays as discretionary. It is the annual appropriations process, however, that controls the level of new transportation spending through the use of obligation limitations. Thus, adding the amount of obligation limitations to the President's request for discretionary budget authority provides a more accurate picture of his proposal for spending in appropriations bills.

SUMMARY TABLES FROM THE PRESIDENT'S BUDGET

Budget Authority by Function

(Dollars in billions)

Agency	Actual	Estimate					
	2002	2003	2004	2005	2006	2007	2008
National defense	362.1	382.7	399.7	420.0	440.0	460.3	480.7
International affairs	25.1	20.5	23.8	28.0	30.6	32.1	33.3
General science, space and technology	22.0	22.4	23.5	24.3	25.1	26.0	26.7
Energy	0.4	0.7	0.9	1.7	1.8	1.3	2.2
Natural resources and environment	31.1	29.4	30.4	31.4	32.1	32.8	33.5
Agriculture	23.8	20.1	21.1	24.3	23.9	23.0	21.5
Commerce and housing credit	11.3	8.5	9.6	9.5	9.6	11.6	11.3
On-Budget	(8.2)	(8.5)	(8.7)	(8.7)	(8.6)	(10.0)	(10.6)
Off-Budget	(3.1)	(0.1)	(0.9)	(0.8)	(0.9)	(1.5)	(0.7)
Transportation	68.9	63.6	63.8	65.1	66.8	68.4	70.0
Community and regional development	23.1	15.4	13.6	13.9	14.2	14.5	14.9
Education, training, employemnt, and social services	79.9	88.5	86.0	86.1	87.5	89.3	91.5
Health	206.1	228.6	247.3	267.9	292.0	313.2	336.2
Medicare	234.4	245.0	258.6	275.9	305.3	327.2	349.4
Income security	309.7	326.5	322.9	337.7	346.2	354.0	369.9
Social security	462.4	479.9	498.8	517.5	539.7	565.9	594.6
On-Budget	(14.0)	(13.1)	(14.0)	(14.4)	(15.4)	(16.7)	(18.2)
Off-Budget	(448.4)	(466.8)	(484.8)	(503.1)	(524.3)	(549.2)	(576.4)
Veterans benefits and services	52.1	57.7	61.6	64.8	66.9	69.0	71.3
Administration of justice	36.2	36.0	38.8	37.0	37.7	38.5	39.4
General government	18.4	18.3	20.2	22.1	20.7	21.2	21.6
Net interest	171	161.4	176.4	204.0	224.5	239.8	254.1
On-Budget	248	245	265	301	331	357	383
Off-Budget	-77	-84	-89	-97	-106	-117	-129
Allowances[1]	---	2.4	-0.3	-0.3	-0.3	-0.3	-0.3
Undistributed offsetting receipts	-48	-50.3	-53.7	-67.6	-68.3	-66.0	-68.5
On-Budget	-39	-41	-44	-57	-57	-54	-55
Off-Budget	-9	-9	-10	-11	-11	-12	-13
Total	2090.1	2157.2	2243.0	2363.3	2496.2	2621.6	2753.3
On-Budget	(1,724.7)	(1,783.4)	(1,856.1)	(1,967.1)	(2,088.5)	(2,200.0)	(2,318.5)
Off-Budget	(365.3)	(373.8)	(387.0)	(396.3)	(407.7)	(421.6)	(434.8)

* $50 million or less.

[1] The allowances adjust for the Presidentially approved spending level (the House passed budget resolution, adjusted for mass transit) and includes a $1.3 billion adjustment for the reclassification of the Crime Victim's fund as mandatory.

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Outlays by Function

(Dollars in billions)

Agency	Actual 2002	Estimate 2003	2004	2005	2006	2007	2008
National defense	348.6	376.3	390.4	410.1	423.2	436.4	460.5
International affairs	22.4	20.7	25.6	26.1	27.5	29.2	30.7
General science, space and technology	20.8	21.7	22.9	23.8	24.7	25.4	26.2
Energy	0.5	0.7	0.9	1.5	1.8	1.2	1.8
Natural resources and environment	29.5	30.6	31.6	31.8	32.5	32.8	33.5
Agriculture	22.2	20.8	20.8	24.2	23.9	23.1	21.5
Commerce and housing credit	-0.4	1.3	-0.7	-2.0	0.2	1.6	1.4
On-Budget	(0.3)	(5.5)	(2.3)	(1.7)	(1.2)	(2.5)	(2.6)
Off-Budget	(-0.7)	(-4.2)	(-3.0)	(-3.7)	(-1.0)	(-0.9)	(-1.2)
Transportation	61.9	64.2	63.4	64.3	65.1	66.8	68.9
Community and regional development	13.0	18.5	17.1	16.4	14.2	14.2	14.6
Education, training, employemnt, and social services	70.5	86.3	85.3	84.5	85.9	87.5	89.4
Health	196.5	223.1	246.6	267.0	291.2	311.7	334.7
Medicare	230.9	244.7	258.9	275.9	304.9	327.4	349.4
Income security	312.5	330.1	325.0	340.9	349.4	356.7	369.1
Social security	456.4	478.5	497.3	516.0	537.6	563.2	591.8
On-Budget	(14.0)	(13.1)	(14.0)	(14.4)	(15.4)	(16.7)	(18.2)
Off-Budget	(442.4)	(465.4)	(483.3)	(501.5)	(522.2)	(546.6)	(573.6)
Veterans benefits and services	51.0	57.1	62.0	67.0	66.6	65.9	70.9
Administration of justice	34.3	36.1	39.4	38.9	39.5	37.9	38.7
General government	17.4	19.0	20.5	22.0	20.5	21.0	21.5
Net Interest	171	161.4	176.4	204.0	224.5	239.8	254.1
On-Budget	(247.8)	(245.0)	(265.1)	(300.8)	(330.7)	(356.8)	(383.3)
Off-Budget	(-76.8)	(-83.6)	(-88.7)	(-96.8)	(-106.1)	(-117.0)	(-129.3)
Allowances[1]	—	2.4	-0.3	-1.3	-1.1	0.2	0.3
Undistributed offsetting receipts	-48	-50.3	-53.7	-67.6	-68.3	-66.0	-68.5
On-Budget	(-38.5)	(-40.8)	(-43.6)	(-56.8)	(-56.8)	(-53.8)	(-55.4)
Off-Budget	(-9.3)	(-9.5)	(-10.0)	(-10.8)	(-11.5)	(-12.2)	(-13.0)
Total	2011.0	2143.2	2229.4	2343.4	2463.7	2576.2	2710.5
On-Budget	(1,655.3)	(1,775.1)	(1,847.9)	(1,953.1)	(2,060.1)	(2,159.7)	(2,280.4)
Off-Budget	(355.7)	(368.1)	(381.5)	(390.3)	(403.6)	(416.5)	(430.1)

* $50 million or less.

[1]The allowances adjust for the Presidentially approved spending level (the House passed budget resolution, adjusted for mass transit) and includes a $1.3 billion adjustment for the reclassification of the Crime Victim's fund as mandatory.

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Table S–9. Mandatory Proposals
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Medicare Modernization	—	6,000	10,000	33,000	38,000	43,000	130,000	400,000
Economic Growth Plan: [1]								
Personal Re-employment Accounts	1,600	2,000	—	—	—	—	2,000	2,000
Refundable Child Tax Credit	300	1,074	4,783	4,272	4,195	4,142	18,466	25,239
Subtotal, Economic Growth Package	1,900	3,074	4,783	4,272	4,195	4,142	20,466	27,239
Medicaid/State Children's Health Insurance Program (SCHIP):								
Medicaid/SCHIP Reform	—	3,258	1,053	1,664	1,213	1,756	8,944	-66
Disability/New Freedom Initiatives	—	180	184	197	212	221	993	1,338
Medicaid Rebate Reform	—	-384	-432	-481	-531	-581	-2,409	-6,421
Other Medicaid Proposals	225	359	579	426	437	457	2,257	2,687
Subtotal, Medicaid/SCHIP	225	3,412	1,384	1,805	1,330	1,854	9,786	-2,462
Welfare Reform:								
Temporary Assistance for Needy Families Reauthorization	-4	147	310	334	325	324	1,441	3,069
Child Support Enforcement: Increase Collections and Improve Program Effectiveness	—	-61	-47	10	51	48	2	221
Child Welfare Program Option	—	31	88	127	-13	-205	28	40
Extend Abstinence Education	7	37	42	47	50	36	212	218
Subtotal, Welfare Reform	3	154	393	519	413	204	1,683	3,548
Other Proposals:								
Agriculture:								
Limit Conservation Security Program	—	—	-215	-332	-447	-603	-1,597	-5,200
Forest Service Recreation Fee Proposal	—	—	-17	-12	-7	-2	-38	22
School Lunch: Require Third-Party Verification of Income and Reinvest Program Savings	—	—	—	—	—	—	—	—
Subtotal, Agriculture	—	—	-232	-344	-454	-605	-1,635	-5,178
Education:								
Teacher Loan Forgiveness	—	178	47	50	54	55	384	696

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Energy:								
Power Marketing Associations to Directly Fund Corps of Engineers' Operation and Maintenance Expenses	149	145	148	151	154	158	756	1,603
Increase BPA's Borrowing Authority	—	—	85	430	185	—	700	700
Arctic National Wildlife Refuge (ANWR), Lease Bonuses	—	—	-1,200	—	—	—	-1,200	-1,200
Subtotal, Energy	149	145	-967	581	339	158	256	1,103
Homeland Security:								
Extend Customs User Fees	—	-1,398	-1,490	-1,588	-1,692	-1,804	-7,972	-18,939
Vaccine Biodefense	—	575	840	790	635	578	3,418	5,593
Subtotal, Homeland Security	—	-823	-650	-798	-1,057	-1,226	-4,554	-13,346
Interior:								
ANWR, Lease Bonuses:								
State of Alaska's share:								
Receipts	—	—	-1,201	-1	-101	-1	-1,304	-1,588
Expenditure	—	—	1,201	1	101	1	1,304	1,588
Federal share	—	—	-1	-1	-101	-1	-104	-388
Compacts of Free Association - financial assistance	—	19	20	21	22	23	105	235
Permanent Recreation Fee Authority	—	—	-13	12	49	88	136	587
Correct trust accounting deficiencies in individual Indian money investments	7	—	—	—	—	—	—	—
Increase Indian Gaming Commission Fees [1]	—	—	3	4	4	5	16	41
Bureau of Land Management Land Sale Authority:								
Receipts	—	-10	-25	-34	-42	-50	-161	-444
Expenditure	—	—	—	10	25	34	69	337
Subtotal, Interior	7	9	-16	12	-43	99	61	368
Labor:								
Reform Unemployment Insurance Administration	—	—	—	—	718	1,712	2,430	17,336
Reform Federal Employees Compensation Act (FECA)	—	-10	-17	-16	-9	-8	-60	-130
Refinance Black Lung Disability Trust Fund Debt:								
Black Lung Disability Trust Fund	—	1,851	-444	-433	-429	-423	122	-1,913
Interest Receipts on Repayable Advances	—	-1,851	444	433	429	423	-122	1,913
Subtotal, Labor	—	-10	-17	-16	709	1,704	2,370	17,206
Transportation:								
Federal-aid Highway Program: Increase Emergency Relief	—	27	68	84	94	100	373	873

Table S–9. Mandatory Proposals—Continued
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Treasury:								
Pay financial institutions for their services in lieu of providing compensating balances:								
Financial Agent Reimbursement Fund	—	386	396	400	408	416	2,006	4,169
Interest on Treasury Debt Securities	—	-386	-638	-540	-539	-540	-2,643	-5,321
Subtotal, compensating balances	—	—	-242	-140	-131	-124	-637	-1,152
Internal Revenue Service Collection Contractor Support	—	2	96	146	146	146	536	1,266
Move Asset Forfeiture Fund to the Department of Justice:								
Treasury Asset Forfeiture Fund	—	-221	-221	-221	-221	-221	-1,105	-2,210
Justice Asset Forfeiture Fund	—	221	221	221	221	221	1,105	2,210
Extend the Rum Carryover for Puerto Rico	—	57	78	19	—	—	154	154
Outlay Effects of Refundable Tax Credits: [1]								
Child Credit	—	—	—	—	—	—	—	20,781
Earned Income Tax Credit	—	—	—	—	—	—	—	3,744
Education Credit	—	213	543	714	796	886	3,152	3,626
Health Credit	—	—	3,546	8,166	9,251	9,827	30,790	87,608
Subtotal, refundable tax credits	—	213	4,089	8,880	10,047	10,713	33,942	115,759
Subtotal, Treasury	—	272	4,021	8,905	10,062	10,735	33,995	116,027
Veterans Affairs:								
Reverse Allen Case providing compensation for drug and alcohol abuse related disabilities	—	-127	-302	-392	-460	-502	-1,783	-4,559
Payment of full compensation to New Philippine Scouts and DIC survivors of Filipino veterans if they reside in the United States	—	3	4	4	4	5	19	46
Eliminate the "45 Day Rule" for Death Pension	—	1	1	1	1	1	6	13
Revision to Montgomery G.I. Bill to Provide for On-the-Job Training in Self-Employment	—	*	*	*	*	*	2	4
Retroactivity for Second Headstone or Marker Benefit	—	5	3	3	1	1	13	13
Allow states to receive a burial plot allowance for all veterans buried at no cost in state veterans cemeteries.	—	*	*	*	*	*	2	4
Alternate Beneficiary to Claim National Service Life Insurance and Veterans Special Life Insurance Policy Proceeds	—	—	—	6	5	4	15	17
Amend the law to provide the same extension of time for using education benefits for members of the National Guard	—	*	*	*	1	1	3	5

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Move Transitional Housing Program from a mandatory loan to a discretionary grant program	—	-5	-10	-10	-10	-5	-40	-40
Subtotal, Veterans Affairs	—	-122	-303	-387	-457	-495	-1,764	-4,498
Federal Communications Commission (FCC):								
Analog Spectrum Lease Fee	—	—	—	—	-500	-500	-1,000	-2,530
Extend Spectrum Auction Authority and Authorize Other Economic Mechanisms (Fees)	—	—	-10	-25	1,950	1,900	3,815	-4,060
Subtotal, FCC	—	—	-10	-25	1,450	1,400	2,815	-6,590
Federal Deposit Insurance Corporation:								
Merge Bank Insurance Fund and Savings Association Insurance Fund	—	440	824	295	—	21	1,580	1,805
Office of Personnel Management (OPM):								
Postal Service Pension Proposal:								
On-budget	3,490	2,658	2,851	2,873	3,065	3,411	14,858	36,719
Off-budget	-3,490	-2,658	-2,851	-176	—	—	-5,685	-5,685
Simplify computation of annuities under the Civil Service Retirement Service for part-time service	—	3	8	14	20	27	72	313
Subtotal, OPM	—	3	8	2,711	3,085	3,438	9,245	31,347
Social Security Administration (SSA):								
Close Loophole that Allows Some Workers to Avoid Government Pension Offset	—	—	—	-5	-5	-10	-20	-90
Reduce Improper Payments by Requiring Reporting of Non-Social Security Covered Pension Income	—	—	—	-195	-295	-260	-750	-2,180
Compensation for 2000-01 Military Wage Credits:								
On-budget	—	628	—	—	—	—	628	628
Off-budget	—	-628	—	—	—	—	-628	-628
Supplemental Security Income Pre-Effectuation Reviews and Other Technical Adjustments	—	—	-16	-36	-57	-85	-194	-1,062
Subtotal, SSA	—	—	-16	-236	-357	-355	-964	-3,337
Multi-Agency:								
Spectrum Relocation Fund	—	—	200	400	500	600	1,700	2,500

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Indirect Impact of Other Proposals (Third Scorecard):								
Medicare Program Management User Fee Effects on Supplemental Medical Insurance Premiums	—	—	35	12	—	—	47	298
Postal Service Pension Proposal Effect on Federal Financing Bank Revolving Fund	2	5	9	11	11	10	46	86
Enact FECA Surcharge	—	—	-4	-5	-5	-3	-17	-24
Total, Mandatory Proposals	2,286	12,764	19,557	50,846	57,870	64,836	205,872	567,666
Total, Excluding Medicare Modernization	2,286	6,764	9,557	17,846	19,870	21,836	75,872	167,666

* $500,000 or less.

1 Affects both receipts and outlays. Only the outlay effect is shown here.

Table S–10. Effect of Proposals on Receipts

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Economic Growth Package:								
Accelerate 10-percent individual income tax rate bracket expansion	-978	-7,782	-6,112	-6,117	-6,495	-4,275	-30,781	-47,194
Accelerate reduction in individual income tax rates	-5,808	-35,693	-17,470	-4,939	—	—	-58,102	-58,102
Accelerate marriage penalty relief	-2,776	-27,134	-14,680	-7,642	-3,595	-1,735	-54,786	-55,210
Accelerate increase in child tax credit [1]	-13,527	-5,060	-10,735	-8,534	-8,532	-8,502	-41,363	-53,306
Eliminate the double taxation of corporate earnings	-3,801	-24,874	-22,062	-28,218	-31,126	-33,952	-140,232	-360,324
Increase expensing for small business	-1,023	-1,652	-1,776	-1,912	-1,601	-1,431	-8,372	-14,583
Provide minimum tax relief to individuals	-3,141	-8,534	-10,353	-6,931	—	—	-25,818	-25,818
Total economic growth package	-31,054	-110,729	-83,188	-64,293	-51,349	-49,895	-359,454	-614,537
Tax Incentives:								
Provide incentives for charitable giving:								
Provide charitable contribution deduction for nonitemizers	-199	-1,358	-1,067	-1,128	-1,177	-1,214	-5,944	-12,571
Permit tax-free withdrawals from IRAs for charitable contributions	-66	-437	-361	-376	-382	-388	-1,944	-4,076
Expand and increase the enhanced charitable deduction for contributions of food inventory	-19	-54	-59	-66	-72	-79	-330	-872
Reform excise tax based on investment income of private foundations	-16	-264	-172	-178	-186	-198	-998	-2,192
Modify tax on unrelated business taxable income of charitable remainder trusts	-1	-3	-4	-4	-4	-4	-19	-51
Modify basis adjustment to stock of S corporations contributing appreciated property	—	-12	-11	-14	-16	-19	-72	-216
Repeal the $150 million limitation on qualified 501(c)(3) bonds	-2	-6	-9	-10	-9	-9	-43	-82
Repeal restrictions on the use of qualified 501(c)(3) bonds for residential rental property	—	-2	-6	-11	-17	-24	-60	-276
Strengthen and reform education:								
Provide refundable tax credit for certain costs of attending a different school for pupils assigned to failing public schools [2]	—	-13	-29	-38	-42	-46	-168	-192
Extend, increase and expand the above-the-line deduction for qualified out-of-pocket classroom expenses	—	-23	-229	-240	-249	-260	-1,001	-2,352
Invest in health care:								

Table S–10. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Provide refundable tax credit for the purchase of health insurance[3]	—	-324	-1,449	-889	-409	-139	-3,210	-1,550
Provide an above-the-line deduction for long-term care insurance premiums	—	-112	-559	-984	-1,923	-3,063	-6,641	-28,255
Allow up to $500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year	—	-367	-640	-723	-782	-830	-3,342	-8,385
Provide additional choice with regard to unused benefits in a health flexible spending arrangement	—	-19	-33	-39	-45	-52	-188	-595
Permanently extend and reform Archer MSAs	—	-26	-284	-432	-486	-549	-1,777	-5,134
Provide an additional personal exemption to home caregivers of family members	—	-70	-465	-437	-422	-417	-1,811	-3,892
Allow the orphan drug tax credit for certain pre-designation expenses	—	—	—	-1	-1	-1	-3	-8
Encourage telecommuting:								
Exclude from income the value of employer-provided computers, software and peripherals	—	-35	-51	-53	-54	-56	-249	-554
Increase housing opportunities:								
Provide tax credit for developers of affordable single-family housing	—	-7	-78	-315	-750	-1,316	-2,466	-16,133
Encourage saving:								
Establish Individual Development Accounts (IDAs)	—	—	-124	-267	-319	-300	-1,010	-1,347
Protect the environment:								
Permanently extend expensing of brownfields remediation costs	—	-185	-282	-268	-257	-248	-1,240	-2,356
Exclude 50 percent of gains from the sale of property for conservation purposes	—	-21	-44	-46	-48	-50	-209	-531
Increase energy production and promote energy conservation:								
Extend and modify the tax credit for producing electricity from certain sources	-124	-264	-355	-209	-90	-92	-1,010	-1,492
Provide tax credit for residential solar energy systems	-4	-7	-10	-18	-25	-11	-71	-71
Modify treatment of nuclear decommissioning funds	-14	-251	-180	-191	-201	-212	-1,035	-2,260
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	-44	-154	-316	-524	-793	-631	-2,418	-3,202
Provide tax credit for energy produced from landfill gas	-5	-28	-65	-88	-99	-112	-392	-707

Table S–10. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
Provide tax credit for combined heat and power property	-45	-71	-66	-64	-77	-14	-292	-250
Provide excise tax exemption (credit) for ethanol [4]	—	—	—	—	—	—	—	—
Promote trade:								
Implement free trade agreements with Chile and Singapore [5]	—	-25	-51	-68	-80	-92	-316	-913
Improve tax administration:								
Implement IRS administrative reforms	—	78	54	56	57	59	304	624
Permit private collection agencies to engage in specific, limited activities to support IRS collection efforts	—	46	128	111	94	97	476	1,008
Combat abusive tax avoidance transactions	12	45	83	98	99	103	428	1,007
Limit related party interest deductions	10	104	190	239	293	351	1,177	3,987
Reform unemployment insurance:								
Reform unemployment insurance administrative financing [5]	—	—	-1,068	-1,439	-3,368	-2,016	-7,891	-13,401
Total tax incentives	-517	-3,865	-7,612	-8,616	-11,840	-11,832	-43,765	-107,290
Other Proposals:								
Deposit full amount of excise tax imposed on gasohol in the Highway Trust Fund [5]	—	—	—	558	576	590	1,724	4,912
Increase Indian gaming activity fees	—	—	3	4	4	5	16	41
Total other proposals	—	—	3	562	580	595	1,740	4,953
Simplify the Tax Laws:								
Establish uniform definition of a qualifying child	-2	-43	-23	-24	-28	-19	-137	-211
Simplify adoption tax provisions	-4	-36	-37	-39	-40	-42	-194	-429
Expand tax-free savings opportunities	1,390	10,572	4,803	1,915	-648	-1,822	14,820	2,002
Consolidate employer-based savings accounts	-5	-185	-253	-263	-276	-292	-1,269	-3,011
Total simplify the tax laws	1,379	10,308	4,490	1,589	-992	-2,175	13,220	-1,649
Expiring Provisions:								
Temporarily extend expiring provisions:								
Combined work opportunity/welfare-to-work tax credit	—	-54	-201	-268	-181	-96	-800	-873
Minimum tax relief for individuals	—	-260	-7,286	-10,343	—	—	-17,889	-17,889

Table S–10. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004–2008	Total 2004–2013
DC tax incentives	—	-53	-116	-58	-1	-4	-232	-357
Authority to issue Qualified Zone Academy Bonds	—	-6	-18	-34	-52	-64	-174	-514
Deduction for corporate donations of computer technology	—	-74	-127	-52	—	—	-253	-253
Net operating loss offset of 100 percent of AMTI	-639	-3,028	-2,274	-1,442	420	367	-5,957	-4,890
IRS user fees	—	68	81	6	—	—	155	155
Abandoned mine reclamation fees	—	—	308	313	319	325	1,265	2,978
Permanently extend expiring provisions:								
Provisions expiring in 2010:								
Marginal individual income tax rate reductions	—	—	—	—	—	—	—	-286,952
Child tax credit [6]	—	—	—	—	—	—	—	-46,893
Marriage penalty relief [7]	—	—	—	—	—	—	—	-20,654
Education incentives	-2	-11	-19	-27	-33	-42	-132	-4,685
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	46	-292	-810	-1,319	-1,540	-1,736	-5,697	-125,991
Modifications of IRAs and pension plans	—	—	—	—	—	—	—	-11,236
Other incentives for families and children	—	—	—	—	—	—	—	-2,029
Other provisions:								
Research & Experimentation (R&E) tax credit	—	-1,005	-3,278	-5,187	-6,291	-7,129	-22,890	-67,922
Suspension of disallowance of certain deductions of mutual life insurance companies	—	-123	-137	-65	-36	-24	-385	-472
Total expiring provisions	-595	-4,838	-13,877	-18,476	-7,395	-8,403	-52,989	-588,477
Total budget proposals	-30,787	-109,124	-100,184	-89,234	-70,996	-71,710	-441,248	-1,307,000

1 Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $300 million for 2003, $1,074 million for 2004, $4,783 million for 2005, $4,272 million for 2006, $4,195 million for 2007, $4,142 million for 2008, $18,466 million for 2004-2008, and $25,239 million for 2004-2013.

2 Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $213 million for 2004, $543 million for 2005, $714 million for 2006, $796 million for 2007, $886 million for 2008, $3,152 million for 2004-2008, and $3,626 million for 2004-2013.

3 Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $3,546 million for 2005, $8,166 million for 2006, $9,251 million for 2007, $9,827 million for 2008, $30,790 million for 2004-2008, and $87,608 million for 2004-2013.

4 Policy proposal with a receipt effect of zero.

5 Net of income offsets.

6 Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $20,781 million for 2004-2013.

7 Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $3,744 million for 2004-2013.