

The Federal Budget Outlook: Challenges and Opportunities

Presentation for the Minnesota Budget Project
March 9, 2007

Martha Coven
(202) 408-1080
coven@cbpp.org

I. FEDERAL BUDGET BASICS

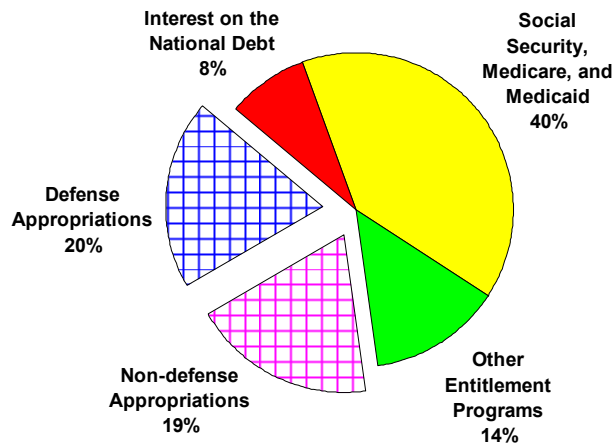
Why the Federal Budget Matters

- Top-line federal budget and tax decisions drive funding levels and policies for individual programs.
- These decisions significantly impact our nation's ability to meet the needs of children, the elderly, people with disabilities, and other vulnerable members of society.
- Federal budget decisions directly affect states as well. More than one-quarter of state budgets now consist of funds from the federal government. When federal funds are cut, costs get shifted onto states and local communities. Similarly, federal tax policy changes can affect state revenues.



What's in the Federal Budget

Funding for these two parts of the budget must be renewed each year.



Federal Revenues & Spending in 2006

How much the federal government can spend each year is largely driven by how much tax revenue it collects. Right now, the country is running a deficit because we are not bringing in enough revenue to cover current expenditures.

Revenues **\$2.407 trillion**

Expenditures **\$2.654 trillion**

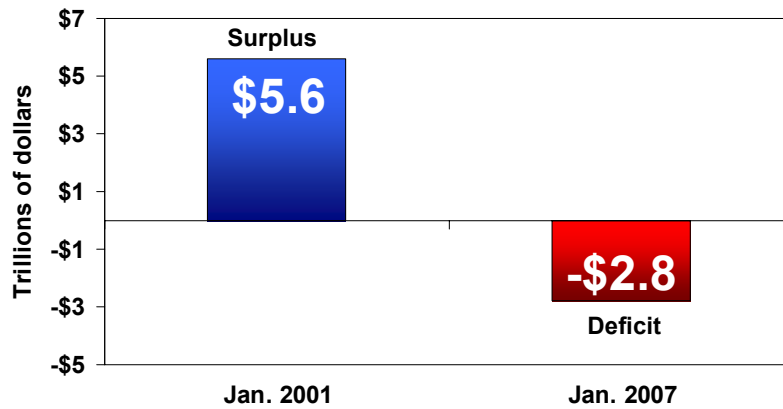
Deficit **\$ 248 billion**



II. THE FEDERAL BUDGET OUTLOOK

From Large Surpluses to Large Deficits in Just Five Years

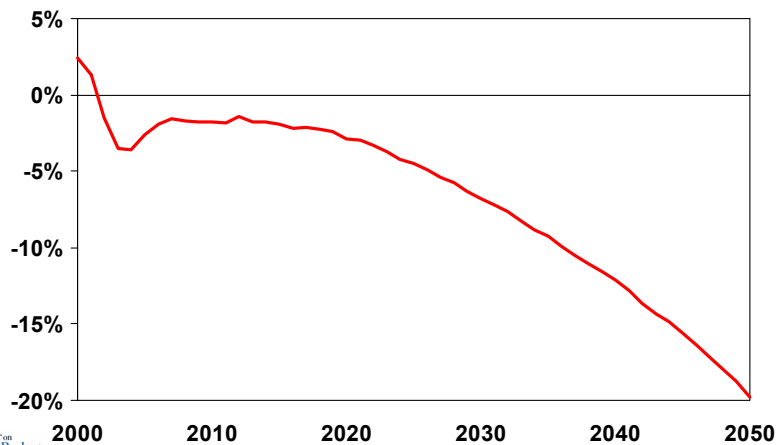
Projected surpluses/deficits over the 10-year period 2002-11



Center on Budget and Policy Priorities

Under Current Policies, Deficits Will Grow Dramatically Deeper in Coming Decades

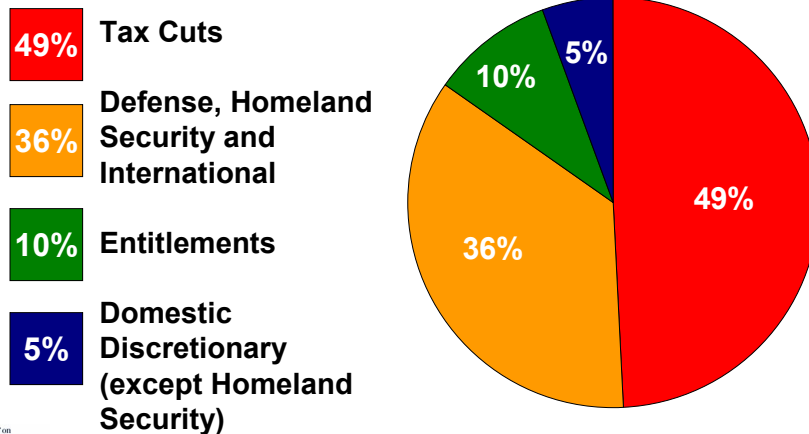
Surplus or Deficit as Share of GDP



Center on Budget and Policy Priorities

Legislation Adding to Deficits: Mostly Tax Cuts and Defense

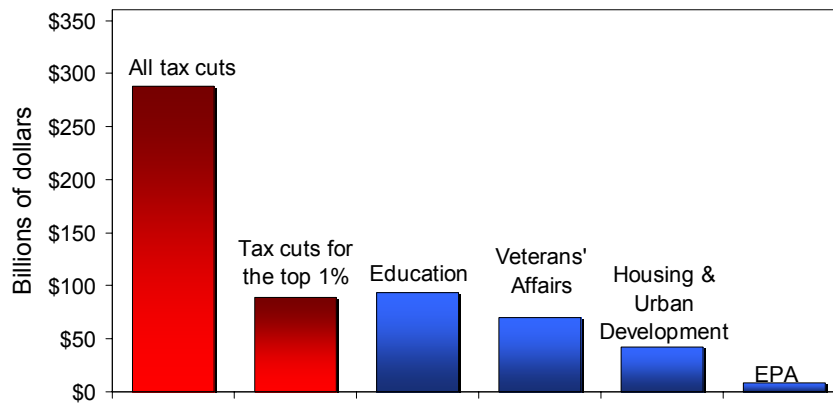
Cost, 2002-2011, of policy changes since January 2001



Center on Budget and Policy Priorities

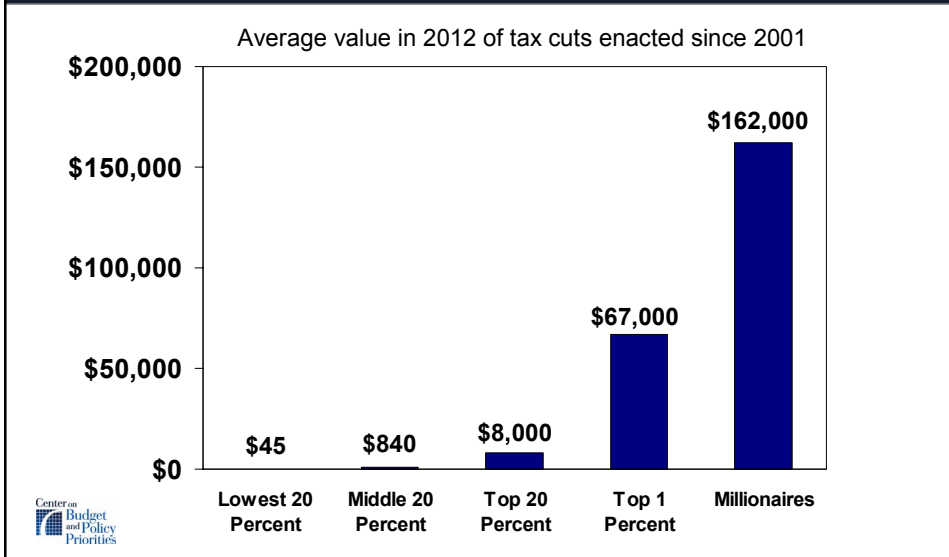
Tax Cuts Cost More Than Most Agency Budgets

2006 Federal Agency Budgets Compared to Tax Cuts if Fully in Effect in 2006

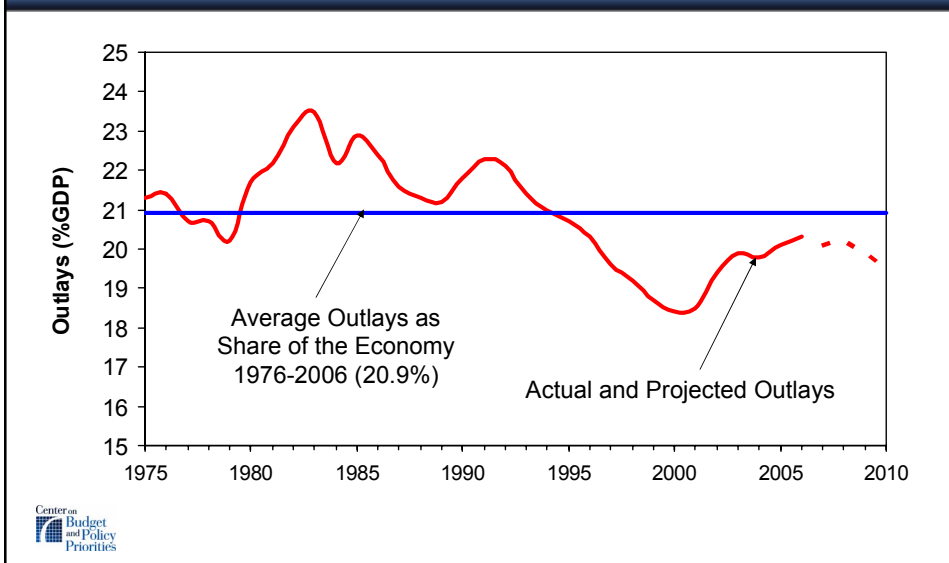


Center on Budget and Policy Priorities

Who Benefits from the Tax Cuts?



Federal Spending is Below Average for Recent Decades



Drivers of the Long-Term Fiscal Problem

1. Large tax cuts
2. Rising health care costs in the private and public sectors alike
3. The aging of the population, which raises the costs of Social Security, Medicare, and Medicaid

Likely Consequences of an *Unbalanced* Approach to Deficit Reduction

- Large cuts over time in programs for the poor
- Increases in number of uninsured Americans
- Federal government may be unable to fulfill some core functions
- More costs shifted to states





The Goal: A Balanced Approach To Deficit Reduction

- Balanced approach would include revenue increases as well as spending cuts.
- Such an approach would include reforms aimed at slowing the growth rate of health costs *throughout* the US health care system, not just in Medicare and Medicaid.
- Cuts would not fall disproportionately on low-income programs and would focus on “weak claims,” not “weak clients.”
- Balanced approach was taken in 1990 and 1993 by Presidents Bush and Clinton.



III. THIS YEAR'S BUDGET DEBATE

The Federal Budget Calendar

<p>Winter</p> 	<p>The President sends his detailed budget request to Congress by the first week in February. The Senate and House consider the President's proposal and begin crafting their own budget resolutions.</p>
<p>Spring</p> 	<p>Congress finalizes its budget resolution. The President's signature is not needed, because it is not a law.</p>
<p>Summer</p> 	<p>Congress begins consideration of individual appropriations, entitlement, and tax bills.</p>
<p>Fall</p> 	<p>Congress finalizes appropriations and other budget and tax bills, as the White House begins formulating its budget for the following year.</p>

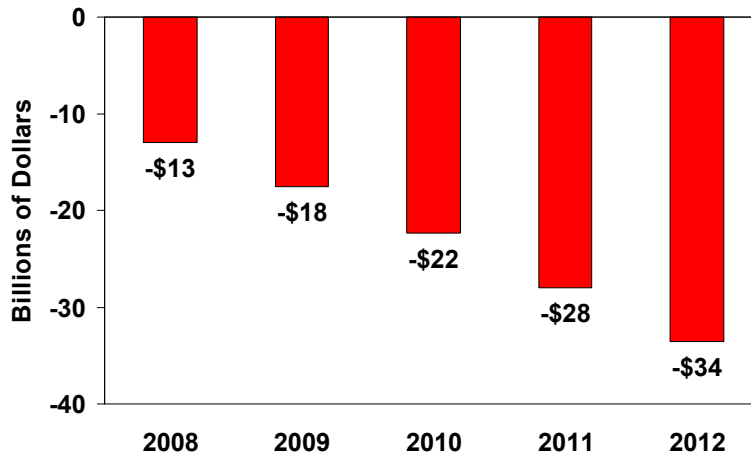
Center on Budget and Policy Priorities

Key Elements of the President's Budget Request

- Balances only “on paper” in 2012; makes long-term deficits worse
- Makes the very expensive 2001 and 2003 tax cuts permanent, while ignoring costs of Alternative Minimum Tax relief after 2007 (together they would cost \$3.5 trillion over the next 10 years)
- Large increase in defense funding, over and above what he is requesting for the war in Iraq
- Cuts in domestic discretionary programs that grow deeper over time
- Cuts in health care – including Medicaid cuts that shift significant costs to states and insufficient funding to continue coverage in the State Children's Health Insurance Program (SCHIP)

Center on Budget and Policy Priorities

President's Proposed Cuts in Domestic Discretionary Grow Deeper Over Time



Center on
Budget
and Policy
Priorities

Key Choices Facing Congress in the Budget Resolution

- 1. How much to provide to the Appropriations Committee for federal fiscal year 2008.** The President requested about \$392 billion for domestic discretionary; current services will cost about \$405 billion. A key question is how much above current services level will Congress go, to address unmet need and/or remedy past cuts.
- 2. Whether to adhere to the “pay-as-you-go” rule,** which requires any entitlement increases or tax cuts to be paid for.
- 3. Making compromises** that may be necessary to get a final agreement between the House and Senate.

Center on
Budget
and Policy
Priorities

Opportunities for Progress This Year

- A return to fiscal discipline, through reinstatement of the “pay-as-you-go” rule (and making sure Congress sticks to it – by paying for any tax cuts or entitlement expansions).
- Covering more uninsured children through the State Children’s Health Insurance Program (SCHIP) reauthorization.
- Improving food stamps through the farm bill
- An end to cuts in critical areas like education and housing, and possibly new investments.