

Iowa Fiscal Partnership *backgrounder*

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RED INK

A Deep Hole of Debt: Washington's Legacy to Young Iowans

HOUSE BUDGET COMMITTEE PLAN INCREASES THE DEFICIT, AND DEBT

Under current law, the Congressional Budget Office (CBO) projects a \$336 billion deficit for FY2007 and a total of \$681 billion in deficits from FY2007-11.¹ Like the Bush Administration plan and the Senate-passed budget resolution, the House Budget Committee plan would increase that deficit. It is not a plan for deficit reduction, but would make the deficit far worse than current law. The House could consider this plan, or something close to it, in the coming days.

HOW NUMBERS ADD UP — AND HOW DEBTS PILE UP

Start with the \$681 billion computed by the CBO to be the five-year “baseline” deficit, adding the total deficits projected for 2007-2011.

Next, combine *increases* in defense and international discretionary spending, and *cuts* in domestic discretionary and entitlement spending (Medicaid, etc.), all proposed in each budget plan noted. Now, figure revenues lost to proposed *tax cuts*. In each plan, this results in a net deficit, so don't forget to add higher interest payments on the debt. How much **MORE RED INK?**

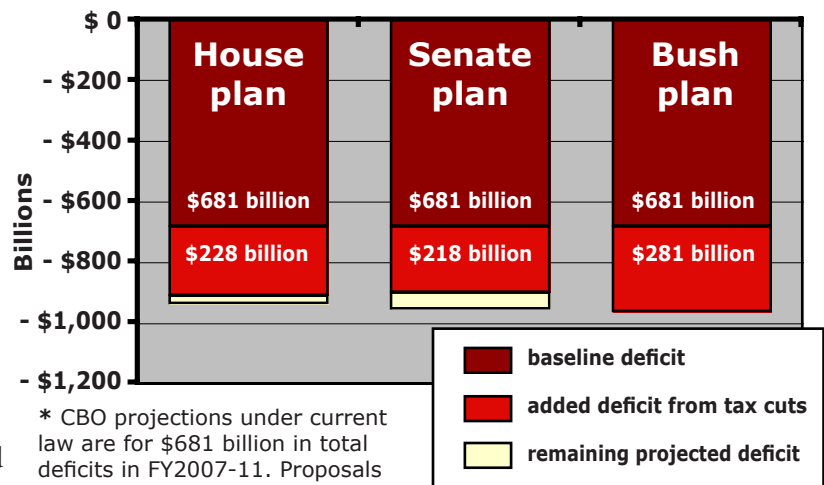
- Under President Bush's plan, an increased deficit of **\$281 billion** (total tax cuts of \$282 billion);
- Under the Senate-passed plan, an increased deficit of **\$272 billion** (tax cuts of \$218 billion); and
- Under the House Budget Committee plan, an increased deficit of **\$254 billion** (tax cuts of \$228 billion).

Those numbers are very conservative, even though *each plan means a five-year deficit of well over \$900 billion*. These plans do not include additional amounts reserved for wars and emergencies. They assume no funding for operations in Iraq and Afghanistan after FY2007, and put funding for FY2007 at only \$50 billion — which is \$70 billion less than for FY2006. They also leave out additional tax cuts being pushed in Congress — notably repeal or near-repeal of the estate tax that affects only extremely wealthy Americans, and relief from the Alternative Minimum Tax (AMT). Most observers expect this relief, which is set to expire at the end of this year — to be extended through 2011. This would more than double the cost of the House Budget Committee's proposed tax cuts.²

Impact On The National Debt — A \$30,000 Per Person Price Tag

Increasing deficits mean increased debt — and all the numbers are climbing. Anticipating the deficit to be passed for FY2007, the U.S. Senate in March voted to raise the nation's debt limit to nearly \$9 trillion — representing about \$30,000 for every man, woman and child in the United States.³

Deeper and Deeper in Debt
Tax Cuts Assure Bigger Deficits, FY2007-11



Source: Center on Budget and Policy Priorities

TAX CUTS OR LOST INVESTMENT: THE CHOICES FOR IOWA CHILDREN

Debt caused by tax cuts for the wealthy means future generations of taxpayers get to pay for today's tax cuts, either through higher taxes or lessened economic opportunity. What is the impact of today's choices on the ability of those future taxpayers to pay those debts? Let's look at two areas where investments today can better equip future adults to pick up the tab left them by today's adults: education and health care. As the House Budget Committee proposal stands, both education and health care resources from the federal government would be severely curtailed:

Education

■ Education funding – K-12 education, for example – is part of domestic discretionary spending that overall would take big hits in the House and Bush Administration plans. The House plan would cut domestic discretionary funding by \$10.3 billion in FY2007 from what would be needed to keep up with inflation – and by \$167 billion for FY2007-11. The 2007 number is \$2.2 billion more funding than the president proposed; the five-year figure is \$15.8 billion less. The Senate adopted an amendment that restored some spending that the administration would cut from domestic discretionary programs; the House Budget Committee declined. This is one of the issues that may be debated when the House takes up the budget.

■ ***IOWA-SPECIFIC:*** The five-year cuts projected for Iowa in the president's plan for K-12 spending total \$75.9 million; the largest share of that is a \$56.4 million cut for special education.⁴ These projections are from a state-by-state analysis of the president's budget by the Center on Budget and Policy Priorities. While a similar state-by-state analysis is not available for the House Budget Committee plan, the budget parameters it assumes are similar to the administration plan. (See above.) Also, see the backgrounder at Iowa Fiscal Central. <<http://www.iowafiscal.org/2006docs/060223-budgetpoints.pdf>>

Health Insurance

■ The State Children's Health Insurance Program (SCHIP), known as *hawk-i* in Iowa, is designed to expand health insurance to children whose families do not qualify for Medicaid but who are not likely to have access to affordable, quality employer-based coverage. Iowa is one of 18 states already projected to be short of federal funds needed for SCHIP. The House plan would do nothing to fix that despite a partial correction in both the Bush Administration and Senate proposals.

■ ***IOWA-SPECIFIC:*** More than 30,000 children in Iowa were served by *hawk-i* alone during FY2005; many thousands more benefit through a Medicaid expansion funded through SCHIP. See the backgrounder at Iowa Fiscal Central. <<http://www.iowafiscal.org/2006docs/060405-ifp-schip.pdf>>

WHAT ARE THE BUDGET ISSUES COMING SOON?

Extending or making permanent the Bush tax cuts of 2001 and 2003 are only part of the unbalanced equation. Coming soon are proposals to repeal — or effectively repeal — the estate tax, which is paid only by the extremely rich in this country.

1-2 Kogan, Richard, James Horney, Joel Friedman and Robert Greenstein. "The House Budget Committee's New Budget Plan: A Brief Analysis," Center on Budget and Policy Priorities, March 31, 2006.

³ Taylor, Andrew. The Associated Press, March 16, 2006.

⁴ Horney, James, Arloc Sherman and Sharon Parrott. "Program Cuts in the President's Budget," Center on Budget and Policy Priorities, Feb. 23, 2006.

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