



Setting the Wrong Priorities: An Analysis of the President's 2007 Budget

Center for American Progress

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Executive Summary

President Bush's 2007 budget sets the wrong priorities for the nation. The federal budget is a concrete embodiment of policy choices, and the budget that the president has put forward runs counter to many of our nation's longest and deepest held beliefs.

The report below analyzes many provisions in the president's budget proposal. Some of the findings include:

- The budget proposes to continue the downward spiral from record surpluses to massive deficits. In 2000, the federal government was running a surplus of 2.4 percent of GDP, or \$236 billion. In just a few short years, deficits have returned, and for 2006 deficits are estimated to be 3.2 percent of GDP, or about \$423 billion, according to the president's budget.
- The president proposes to reduce Medicare funding by \$36 billion through

provider payment cuts and through increasing premium payments for some higher-income Medicare beneficiaries. The budget also calls for further reductions in Medicaid funding.

- The budget proposes to cut \$276 million from the Centers for Disease Control and Prevention budget, eliminating the \$99 million block grant for preventive health and health services and cutting \$34 million in funds for health promotion.
- The president's budget proposes a 3.8 percent cut in the Department of Education's fiscal year 2007 budget. While the president has proposed several new education initiatives, they are more than offset by the underfunding of No Child Left Behind and other important programs.
- The president's budget proposes to cut funding for science and technology by approximately \$600 million; to cut funding for the Environmental Protection Agency by more than \$300 million; and to short-change renewable energy funding.
- The Bush administration proposes "on-budget" national security funding of at least \$541.5 billion for fiscal year 2007, a substantial increase over the estimated \$521 billion for fiscal year 2006.
- The president has requested an 11 percent increase in the International Affairs budget, a long overdue recognition of the importance of diplomacy, democracy and development to building a more safe and prosperous world. Yet the budget also underfunds African Union peacekeeping.

- The net increase in funding for non-defense homeland security programs (excluding some TSA fees), is a modest 3.3 percent, and much of the funding should be reallocated to more effective programs.
- The budget also proposes a number of tax changes that would reduce revenue by \$1.7 trillion over the next 10 years. Extending the tax cuts from 2001-2004, including those that overwhelmingly benefit people at the top of the income distribution, represents the majority of these changes.
- The overall outlook would be significantly worse if necessary changes were made to the Alternative Minimum Tax and if additional spending for Iraq were included in the final projections.

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1 Introduction

President Bush's 2007 budget sets the wrong priorities for our nation. The federal budget is a concrete embodiment of policy choices, and the budget that the president has put forward runs counter to many of our nation's longest and deepest held beliefs.

In this budget, the Bush administration proposes to again cut vital domestic investments and services for the middle class and poor, to extend unsustainable tax cuts for the wealthy, and to continue to accumulate huge budget deficits.

This budget accurately reflects the guiding principles and worldview of this administration. The conservative approach denies the idea that we can come together as a nation to build a stronger, more vibrant America, and rejects the notion that we as a nation can effectively solve national challenges. These budgetary priorities also run counter to a progressive vision of shared prosperity, a just society, and expanding freedoms. The choices made in the budget about how to protect the country-both through military and non-military means-are all too often driven by old philosophies and outdated strategies.

What America needs instead are responsible, effective policies that reflect our values as a nation, help bring the country together, and invest in the future by expanding opportunity and rebuilding communities. Americans deserve an honest budget that reflects their priorities and that honors their hard work. As lawmakers consider the budget, they have a choice about the direction in which we take our nation. However, all of us have a stake in the outcome.

The budget reflects priorities and values, and now as a nation we have the

chance to make the right choice. We must not follow the failed fiscal blueprint of this White House; instead, we must set priorities that reflect a positive, progressive vision of our nation's future.

The analysis below examines many of the economic, domestic, and international proposals included in the president's 2007 federal budget.

2 The Budget Situation: The Big Picture

The president's budget for 2007 again proposes a wide array of cuts to domestic and international priorities. The president proposes a \$29.5 billion increase in spending on the Department of Defense and Homeland Security for 2007 while cutting other programs by \$2.2 billion, or 0.5 percent. Over the next five years, the budget includes \$187 billion in overall cuts to non-defense programs,¹ and a net cut of \$60 billion in mandatory programs.² Many of the specific cuts are outlined below.

The budget also proposes a number of tax changes that would reduce revenue by \$1.7 trillion over the next 10 years (excluding interest payments). Extending the tax cuts from 2001-2004, including those that overwhelmingly benefit people at the top of the income distribution, represents the majority of these changes. For example, the president proposes to fully eliminate the estate tax—a tax that impacts only millionaires—at a cost of \$339 billion over the next decade. The

¹Figure includes both mandatory and discretionary reductions. See Center on Budget and Policy Priorities, "The President's Budget: A Preliminary Analysis," available at <http://www.cbpp.org/2-6-06bud.htm>.

²Estimate does not include increased spending for proposed Social Security private accounts, which the administration categorizes as "off-budget."

total cost of extending the tax changes in the 2001 and 2003 tax packages reaches \$1.35 trillion over 10 years.

The last five years have seen a sharp reduction in the federal government's ability to raise adequate revenue. At 17.6 percent of GDP, federal revenue is near 30-year lows. While revenue showed a slight surge in 2005 as a share of GDP, it was largely the result of temporary factors.³ The federal budget deficit is projected to reach \$423 billion in 2006 under the president's proposals.⁴

Federal spending on domestic programs is not "out-of-control" as many conservatives contend. Most of the recent increases in federal outlays have been primarily due to increased military and national security spending. The growth of spending on domestic discretionary spending has been significantly reduced-and the president again proposes cuts to programs such as Medicare and Medicaid, leaving many of the nation's problems unaddressed.

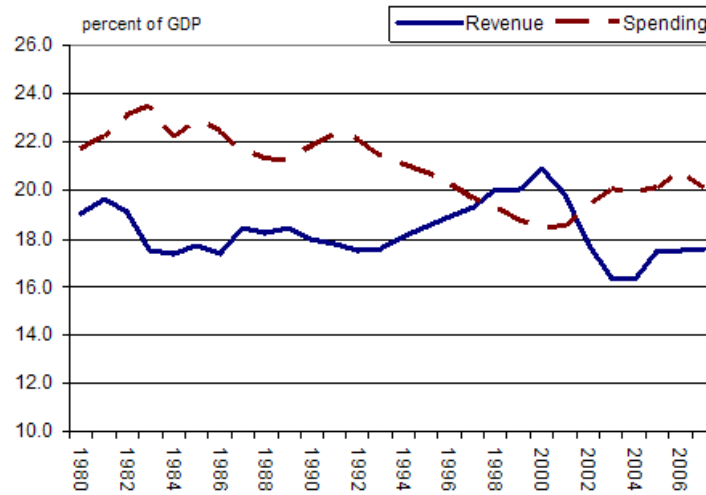
The result of the imbalance between outlays and revenues has resulted in a massive deficit. (See Figure 1 and "Deficits" section below.)

Taken together, the president's policies, as embodied in his new budget, put the government on an unsustainable path. Eventually the nation will have to alter current policy to correct for the imbalance between outlays and revenues. Unfortunately, the president's budget again avoids making responsible choices and continues the trend of additional tax reductions that benefit the wealthy,

³See statement by then CBO Director Douglas Holtz-Eakin, in N. Henderson, "Deficit Forecast Lowered for 2005," *The Washington Post*, August 16, 2005.

⁴This number should be treated with caution, however. In past years, budget observers have seen a tendency for the White House to overstate deficit estimates in order to claim improvement later. See J. Weisman, "Deficit Could Top \$400 Billion," *Washington Post*, January 13, 2006.

Figure 1: Total Federal Revenue and Spending, Share of Gross Domestic Product: 1980-2007



Source: Fiscal Year 2007 Budget of the U.S. Government: Historical Tables.
 Figures for 2006, 2007 are estimates.

while placing an unfair share of the burden of deficit reduction on the middle class through cuts to services.

3 The President's Proposals

3.1 Economic Policy

The president's economic and fiscal policy has been a failure on many fronts. Enacting the president's budget would result in (1) massive deficits, (2) cuts to services and investments vital to long-run growth, and (3) an increasingly unfair tax policy. Further, the budget proposes expanding savings programs

that overwhelmingly benefit wealthy taxpayers, and proposes shifting additional fiscal responsibility to states.

3.1.1 Deficits

Over the past several years the Bush administration has added massive sums to the debt, which puts at risk the long-term health of the economy and which will burden future generations. The current budget continues more of the same reckless policies.

It is important to remember where we were when the Bush administration took office and where we stand today. In just a few short years, the administration has turned the largest surplus in our nation's history into a massive deficit. In 2000, the federal government was running a surplus of 2.4 percent of GDP, or \$236 billion. In just a few short years, deficits have returned, and for 2006 deficits are estimated to be 3.2 percent of GDP, or about \$423 billion, according to the president's budget. The vast majority of that is a result of the administration's decisions to reward the country's richest with tax cuts and to launch a war in Iraq.

Economists worry about deficits because of the negative long-term impact large and persistent deficits pose to the economy. Deficits can lead to lower national savings and thus lower levels of future output. With the personal saving rate now less than zero, it is even more damaging for the federal government to run massive deficits. This reduction in national savings—personal plus government savings—puts at risk future economic performance. Also, with a large

share of federal debt in the hands of foreign governments, large deficits raise potential concerns in the international finance and trade arena.⁵

This historic swing in the budgetary outlook represents fiscal mismanagement on a grand scale.

The administration continues to claim that we are “on track” to cut the deficit in half by 2009.⁶ Despite similar claims in previous years, the deficit shows no sign of actual improvement.⁷ (See Figure 2.)

The entire claim of deficit reduction is based on projections that omit significant changes that are likely to occur prior to 2009 (such as further extension of Alternative Minimum Tax changes). The budget excludes a number of known costs, including likely supplemental funding for the wars in Iraq and Afghanistan past 2007. The budget also includes an estimate of funding for Social Security private accounts, \$81.6 billion in 2010-11 and \$712 billion over the next decade, but does not include the totals in the budget estimation.

Perhaps the most important concern with the deficit is that we are leaving a massive amount of debt to future generations and not responsibly addressing longer-term imbalances in the system. For example, the revenue lost from the 2001-2004 tax cuts is three times the amount that would have been needed to make the Social Security system solvent for the next 75 years.⁸

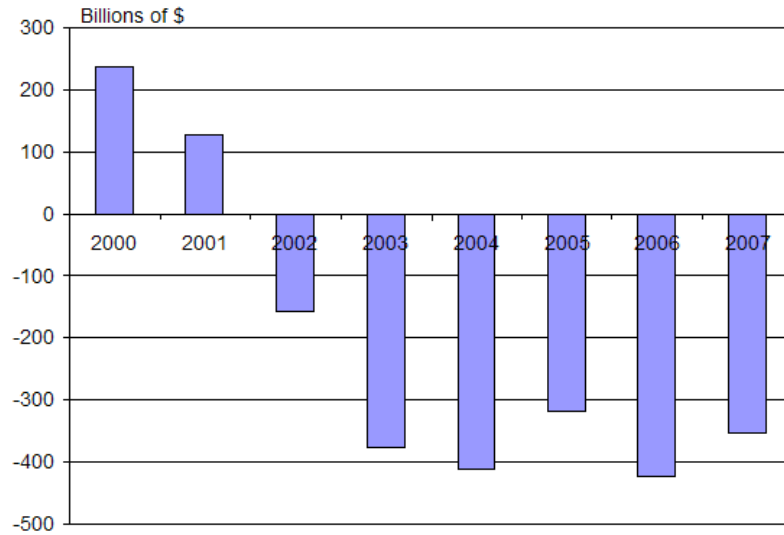
⁵Large U.S. trade deficits and the falling dollar have raised many concerns among economists and policymakers. While the deficit is not the only determinant of these international imbalances, there is a larger question of the overall sustainability of current fiscal and trade policy.

⁶George W. Bush, “State of the Union,” January 31, 2006.

⁷George W. Bush, “State of the Union,” February 2, 2005.

⁸See William Gale, Matthew Hall, and Peter Orszag, “Key Points on Making the Bush Tax Cut Permanent,” The Brookings Institution, January 21, 2004, available at <http://www.brookings.edu/views/op-ed/gale/20040121taxcuts.htm>.

Figure 2: Federal Budget Surplus (Deficit): 2000-2007



Source: Fiscal Year 2007 Budget of the U.S. Government: Historical Tables.
Deficits for 2006, 2007 are estimates.

3.1.2 Investments in America

The health of our economy, both now and in the distant future, relies upon us making the right choices in our decisions about how to collectively invest in our future. As Hurricane Katrina vividly demonstrated, short-changing investments can have devastating consequences-both in human and financial costs.

A growing, modern economy relies upon public investments in a wide range of public services and structures. We all rely on public support for our nation's infrastructure-both physical and intellectual. Our roads carry goods across the country, and our schools help build our human capital. We rely on support for basic scientific research to grow the economy and for enforcement of regulations

designed to protect our natural resources.

To take but two examples of misplaced priorities, the president's budget proposes a 3.8 percent, or \$2.1 billion, overall cut in the Department of Education budget, and a cut of \$594 million in funding for science and technology.⁹ If these and other investments are cut, as the president proposes, our economy will suffer and we will become weaker as a nation.

3.1.3 Tax Policy

The president's tax policy can best be summed up by the phrase "more of the same." Despite appointing a presidential panel to investigate and present tax reform options, the president appears to have abandoned significant reform.

Instead the president's budget proposed extending, and making permanent, tax changes that are set to expire in 2010. The Congressional Budget Office has estimated that extending expiring tax provisions and reforming the Alternative Minimum Tax would add \$3.4 trillion to the national debt over the next 10 years.¹⁰ The president also retains tax changes that took effect at the start of the year and that only affect the richest 3 percent of the population. These tax changes will cost an estimated \$117 billion over the next 10 years (not including interest).¹¹

⁹See Fiscal Year 2007 Budget of the U.S. Government: Analytical Perspectives Table 5-1, page 51.

¹⁰Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007 to 2016," January 2006.

¹¹The 2007 budget also includes a continuation of two tax provisions known as "PEP" and "PEASE" that, until 2006, have limited the size of the personal exemptions and itemized deductions that the wealthiest taxpayers can take. Eliminating these two provisions alone would cost \$115 billion over the next decade, and \$197 billion from 2010-2019-the first decade after the repeal is fully phased in. Ninety-seven percent of this would go to households making more than \$200,000 a year. See Robert Greenstein, Joel Friedman, and Isaac Shapiro, "Two

The president's proposals continue to give preferential treatment for income generated from capital at the expense of work. Already, income from work for average Americans can easily be taxed at twice the marginal rate as the income from wealth for millionaires. Extending tax reductions for capital gains and dividends would cost \$203 billion over 10 years (not including additional interest costs). Eliminating the estate tax after 2010 would cost at least \$339 billion over 10 years (not including additional interest costs). The president's new Health Savings Account proposal also offers more tax windfalls for the most well-off, with little benefits for average Americans. The president's Health Savings Accounts would cost \$29 billion over the next five years, and \$87 billion over the next 10, while doing very little to solve a mounting health care problem. (See below for more information.) The Tax Policy Center has estimated that extending the provisions of the 2001-2004 tax changes would provide a tax cut of more than \$150,000 for those making more than \$1 million per year, while yielding middle-income taxpayers about \$800.¹² Middle-income taxpayers have seen any benefits wiped out by increasing fuel prices, higher state and local taxes, and lower incomes. In short, the tax changes proposed by the president will cost hundreds of billion of dollars in lost revenue, and the benefits will flow primarily to those who need the cuts the least.

For the first time, the president's budget includes estimates of the cost of

Tax Cuts That Benefit Only High-Income Households-Primarily Millionaires-Slated to Start Taking Effect in 2006," Center for Budget and Policy Priorities, February 4, 2005, available at <http://www.cbpp.org/2-4-05tax.htm>.

¹²The estimates also include indexing the AMT to inflation. See Tax Policy Center, Table T06-0031 and T06-0032, available at <http://www.taxpolicycenter.org>.

extending the tax cuts that are set to expire in 2010. Since the five-year horizon chosen by the president includes some time post-2010, we can now see what the White House estimates as the cost of the tax-change extension. In fiscal year 2011, the White House estimates extending the tax cuts will increase the deficit by \$120 billion. The full annual cost would be about one-third higher because the fiscal year only includes three quarters of the extension. Over the 10-year period, the direct cost of extending the 2001 and 2003 tax changes is \$1.35 trillion. However, once debt costs and the impact of making the AMT permanent are included, the cost of extending expiring tax provisions rises to \$3.3 trillion, according to estimates from the Congressional Budget Office.¹³

A more progressive and responsible tax approach would raise additional revenue to reduce the deficit and would reduce the tax share for lower- and middle-income taxpayers, while promoting opportunity for all Americans. The tax system should not punish work and allow the very wealthy to avoid paying their fair share.¹⁴

3.1.4 Savings Policies

For the fourth year in a row, the budget also calls for new Lifetime Savings Accounts (LSAs) and Retirement Savings Accounts (RSAs), which would provide those families already saving the most with new tax-free avenues to shelter their

¹³Figures are derived from Congressional Budget Office, see J. Friedman and A. Aron-Dine, "Extending Expiring Tax Cuts and AMT Relief Would Cost \$3.3 Trillion through 2006," Center on Budget and Policy Priorities, February 6, 2006.

¹⁴For a fully articulated tax plan that embodies these and other progressive ideas, see Center for American Progress, "A Fair and Simple Tax System for our Future," January 31, 2005, available at <http://www.americanprogress.org/tax/>.

income, while doing next to nothing for the 95 percent of Americans who do not or cannot save the maximum amount in their 401(k)s. Contributions to these new accounts would not be tax deductible, but appreciation and withdrawals would be free of taxes. Savers could withdraw funds from an LSA for any reason, while withdrawals from RSAs would be restricted to retirement (upon reaching age 58), death or disability.

The largest benefits from these plans would go to high-income earners, who already save the maximum in other tax advantaged savings vehicles, such as 401(k)s. Also, these provisions would explode our deficit in decades to come. The president's budget shows that any potential savings from eliminating currently tax advantaged IRAs in the first five years would be quickly eliminated. Between 2011 and 2016, the accounts would cost the government \$26.8 billion in lost tax revenues.

And yet again, one of the only tax provisions the president's budget does not extend is the modest "Savers Credit" to help low-income families beyond its current expiration date of 2007.

Private pensions are also an important form of savings for millions of middle-class households: 44 million people depend to some degree on benefits from private sector pensions. The president's budget proposes increasing employer insurance premiums for the Pension Benefit Guaranty Corporation (PBGC), which insures private pension plans. These increases would come on top of recent increases in fixed insurance premiums and would generate an estimated \$16.7 billion from 2007 through 2011, the second largest saving item in the

president's budget.¹⁵

However, the implied premium increases are unrealistically high and could drive employers to abandon their pensions. As Doug Elliott of the Center on Federal Financial Institutions put it, "the President's proposed budget shows much larger future PBGC premiums than are likely to be practically or politically feasible."¹⁶ Variable, or risk-based, insurance premiums would have to climb to 1.8 percent by 2008, or twice as high as the proposed 0.9 percent rate, to cover the projected PBGC shortfalls.¹⁷ This would mean a quadrupling of the premium increases that were recently enacted and vigorously opposed by the business community.¹⁸ Substantially sharper increases in premiums could ultimately contribute to employers abandoning their pension plans at an even faster pace. This could force the government to lower its premiums. Either way, the projected \$16.7 billion in premium income for the PBGC from 2007 through 2011 that are included in the president's proposed budget appear unrealistically high.

3.1.5 States and Localities

The fiscal year 2007 budget proposes to increase total grants to state and local governments by just 0.26 percent-failing to keep up with inflation. This budget thus continues the trend of shifting budget responsibility to states in many areas,

¹⁵C. Daniel and S. Kirchgaessner, "Business Told to Pay More on Pensions," *Financial Times*, February 7, 2006.

¹⁶Doug Elliott, "PBGC: Budgeted Premium Increases Seem Improbable," Washington, D.C.: Center on Federal Financial Institutions (<http://www.coffi.org>), February 6, 2006.

¹⁷*Ibid.*

¹⁸C. Daniel and S. Kirchgaessner, "Business Told to Pay More on Pensions," *Financial Times*, February 7, 2006.

while undermining their ability to meet those needs.

For example, the community development block grant program is currently providing over \$4 billion to cities and towns this year. Under the president's budget, that program will be cut to just over \$3 billion.¹⁹

Although the president often cites state and local law enforcement as America's first line of defense against terrorism, the budget cuts vital funding for these very agencies. The budget slashes aid to state and local justice programs by 60 percent, from \$2.9 billion to \$1.2 billion. Entire programs are eliminated or substantially scaled back. The Community Oriented Policing Services (COPS) program, which provides grants for state and local agencies to hire new officers, is eliminated, as are the Department of Justice state and local law enforcement assistance and juvenile justice programs. The budget not only increases the burden on communities already suffering from crippled state budgets, but weakens our national security.

3.2 Domestic Policy

In the long run, the health of our nation's economy depends upon maintaining our commitment to investing in our nation and promoting opportunity for all in Americans. On important issues such as health care, education, science and the environment, the president's budget falls short.

¹⁹Totals and state-by-state breakdowns can be found in Fiscal Year 2007, Budget of the U.S. Government: Analytical Perspectives, Table 8-30, p. 144.

3.2.1 Health

There is little disagreement that the American health care system leaves much to be desired. American families and businesses struggle to cope with rising health care costs, approximately 46 million Americans go without health insurance, millions of Americans suffer from chronic diseases, and Americans pay more but get less for their health care dollar than the residents of other industrialized nations. The administration's budget proposals will compound these problems, by spending billions of dollars on proposals that will not address our nation's health coverage and cost problems, underfunding critical prevention services, and making further cuts in programs that help vulnerable populations access needed health services.

Medicare and Medicaid

The administration's budget targets the Medicare and Medicaid programs. Millions of Americans rely on these programs to pay for their health care needs - particularly America's seniors, low-income and working families, and individuals with disabilities.

The president proposes to reduce Medicare funding by \$36 billion through provider payment cuts and increasing Part B premium payments for some higher-income Medicare beneficiaries. Several of these payment cuts will be keenly felt by lower-income people with Medicare coverage. For example, the administration proposes saving \$3.4 billion over five years by phasing out bad-debt payments to hospitals - which will force hospitals to more aggressively

collect inpatient deductibles and other charges from low-income beneficiaries who have no way to pay these costs.

Significantly, the administration proposes an arbitrary cap in federal support for the Medicare program that would result in across-the-board payment cuts, to all providers for all services, whenever general revenue support for Medicare services exceeds 45 percent of total program spending. As a nation, we must make sure that Medicare continues to provide health security for the Americans who rely on it - but across-the-board cuts will not provide the financial stability the program needs. Instead, this approach will threaten the viability of health care institutions and individuals' access to critical services without regard to effective, efficient treatments or providers.

Just one week after Congress passed a budget bill that will cause 65,000 people to lose Medicaid coverage, including 39,000 children,²⁰ the administration has requested significant new cuts to the Medicaid program - including legislative changes that would reduce Medicaid funding by \$1.5 billion over five years, and regulatory changes that would cut Medicaid by \$12.3 billion over five years. These proposals include some policy changes that Congress rejected in the 2005 budget debate, and others which shift some Medicaid costs to the states. These changes will be hotly contested, which means that low-income Americans who rely on Medicaid for health coverage may, at the end of the day, again bear the weight of any Medicaid cuts. In addition, the president proposes

²⁰Congressional Budget Office, "Additional Information on CBO's Estimate for the Medicaid Provisions in the Conference Agreement for S. 1932, The Deficit Reduction Act of 2005," January 26, 2006.

a new Medicaid waiver initiative that would enable states to push people with Medicaid coverage into the insurance market to shop for health coverage. This initiative further threatens comprehensive coverage for low-income and working families who rely on Medicaid for their health care security.

Health Savings Accounts

The administration proposes a range of favorable tax incentives and policy changes to promote greater enrollment in high-deductible plans combined with Health Savings Accounts (HSAs), particularly through the individual market. These expensive proposals will cost more than \$59 billion over five years, and \$156 billion over 10 years,²¹ yet fail to address America's crisis in health coverage and health care costs. Even with the proposed tax subsidies, most people without health insurance will not be able to afford to purchase these policies, much less contribute to their HSAs or cover the out-of-pocket spending they will incur when they need services. A 2004 study, for example, estimated that expansion of HSAs may reduce the number of Americans with health coverage by 350,000 people.²² Similarly, these proposals will not control health care costs - instead, they are policies that discourage care that prevents and controls disease, raise administrative costs within the health care system, and fail to control the real drivers behind health costs - the very few, very sick people who account for 70 percent of our nation's health care spending, whose needs far exceed the

²¹Note: A previous version of this document dated February 7 did not include the outlay effects of the proposals in the cost estimates.

²²"Coverage and Cost Impacts of the President's Health Insurance Tax Credit and Tax Deduction Proposals," Henry J. Kaiser Family Foundation, March 2004.

thresholds of any high-deductible insurance policy.²³

The administration even undercuts its own proposals by skimping on quality and cost information that would be critical to making so-called consumer-driven health care workable. Instead of providing new funding for consumer-friendly information on provider charges, quality of care and cost-effective treatment, the administration will leave this critical component to the private sector. A recent GAO study of enrollees in the HSA options within the Federal Employees Health Benefits Program (FEHBP) demonstrates that even within this federally administered program, HSA enrollees have had only limited access to information on cost and quality - and no plan provided information on actual payment rates enrollees would be charged for services with specific hospitals or physicians.²⁴ This information is key to exercising any degree of consumer control over health care decisions.

Prevention

Any workable proposal to fix the problems in the American health care system must make health promotion and disease prevention a national priority. Disease prevention and health promotion efforts are a cost-effective means of addressing the root causes of health spending growth.

Diseases as simple as the common flu and as complex as heart disease are among the most preventable health problems, yet 35 percent of the elderly

²³Blumberg, et al, 2005.

²⁴General Accounting Office, "Federal Employees Health Benefit Program: First Year Experience with High-Deductible Health Plans and Health Savings Accounts," GAO-06-271, January 2006, p. 18.

population do not receive yearly flu vaccinations and heart disease remains the leading cause of death in the United States.²⁵ Yet the administration will undermine preventive care through the expansion of health savings accounts - increased cost-sharing discourages needed as well as unneeded care²⁶ - and through its other budget priorities. For example, the president proposes to cut \$276 million from the Centers for Disease Control and Prevention budget, eliminating the \$99 million block grant for preventive health and health services and cutting \$34 million in funds for health promotion.

In other prevention policy, the Bush administration continues to waste money on misleading and harmful abstinence-only-until-marriage programs. The president's budget requests a \$27 million increase in abstinence-only education, for a total of \$204 million in fiscal year 2007, with further increases to \$270 million by 2009. Even the 2005 federally sponsored evaluation could not conclude that these programs were effective.²⁷ Independent studies have shown that virginity pledges, a key part of abstinence-only programs, lead to higher frequencies of anal and oral sex, less use of condoms and contraception, and the same rates of sexually transmitted infections as among peers who had not made a pledge.²⁸ Comprehensive sexuality education programs (programs that are medically accurate, age appropriate, and teach abstinence and contraception), in contrast, have been found to be effective in delaying the onset of sexual intercourse, re-

²⁵National Center for Health Statistics, *Health, United States, 2005 with Chartbook of Trends on the Health of Americans*, Hyattsville, MD: 2005.

²⁶Emmet B. Keeler, "Effects of Cost Sharing on Use of Medical Services and Health," *Journal of Medical Practice Management*, Vol. 8, Summer 1992, pp. 317-321.

²⁷Sexuality Information and Education Council of the United States Fact Sheet, "What the Research Says," available at http://www.siecus.org/policy/research_says.pdf.

²⁸Id.

ducing the number of sexual partners, and increasing contraception use among teens who do have sex,²⁹ yet states have to use their own money to fund such programs.³⁰

Similarly, the administration's new proposals for controlling HIV/AIDS emphasize testing and pharmacological treatment, particularly through new funding for the Centers for Disease Control and Prevention's HIV/AIDS testing program, and the Ryan White CARE Act program, with little emphasis on comprehensive education and prevention. And at least a third of global funding for HIV/AIDS prevention will continue to be earmarked for abstinence-only programs.³¹

3.2.2 Education

The president's budget proposes a 3.8 percent cut in the Department of Education's fiscal year 2007 budget. While the president has proposed several new education initiatives, they are more than offset by the underfunding of No Child Left Behind (\$15.4 billion) and the elimination of other important programs including: vocational education, GEAR UP, TRIO, comprehensive school reform, Safe and Drug-Free School Zones, dropout prevention, arts in education, parental information and resource centers, school mental health programs, school counseling, programs for incarcerated youth, migrant and seasonal farm

²⁹Id.

³⁰Brian H. Kehrl, "States Abstain from Federal Sex Ed Money," Stateline.org, Nov. 29, 2005, available at <http://www.stateline.org/live/ViewPage.action?siteNodeId=136&languageId=1&contentId=70529>.

³¹Center for Health and Gender Equity (CHANGE) Policy Brief, "Prevention Funding Under the President's Emergency Plan for AIDS Relief: Law, Policy and Interpretation," December 2005, available at <http://www.genderhealth.org/pubs/PEPFARpreventionfundingpi.pdf>.

worker programs, community technology centers, teacher quality enhancement, and civic education.

In their place, the president is proposing \$1.7 billion to reform high schools by extending the reach of NCLB. His request includes \$1.5 billion to develop language arts and math assessments and effective interventions, and an increase of \$70 million to extend the Striving Readers program (for a total of \$100 million).

The president is also requesting \$380 million for the American Competitiveness Initiative to increase K-12 math and science learning by investing in research and teacher training and recruitment; \$200 million in NCLB Title I funds for schools identified in need of improvement; \$100 million for low-income students to attend private school or receive intensive supplemental educational services; \$100 million for IDEA Part B State Grants for special education; and \$35 million for the National Security Language Initiative to promote the study of languages critical to our security.

Despite the president's pronouncements that we must "keep America competitive" and "encourage innovation throughout our economy," the president's funding of financial aid programs stands in stark contradiction. The current Pell Grant maximum is \$4,050. Last year, the president proposed a \$100 increase to the maximum with a \$500 total increase over the next five years. Instead of a \$4,250 Pell Grant maximum for fiscal year 2007, the president is backing away from last year's modest proposal and freezing the maximum at the current dollar amount. In addition, the president is proposing to terminate Perkins

Loans and the Perkins Loans Institutional Recall, which will force institutions of higher education to pay back capital in revolving loan funds to the tune of \$664 million.

At a time when our nation's education system requires greater federal investment, a 3.8 percent overall cut in the name of "innovation" and "competitiveness" will be detrimental.

3.2.3 Energy

The president's declaration that "America is addicted to oil" and his promise to reduce Middle Eastern oil imports captured the nation's attention during his 2006 State of the Union Address. His fiscal year 2007 budget provides the opportunity to answer the question: was this merely rhetoric or would he take serious steps to make reductions a reality?

Although the Biomass and Biorefinery R&D program request in the Department of Energy gets a \$29 million boost over the estimated fiscal year 2006 levels for a total request of \$120 million,³² other important programs for reducing our oil consumption are cut. For example, a variety of programs that would improve engines, help develop lightweight materials, and deliver other efficiency gains are cut from \$183 million last year to a \$166 million request for fiscal year 2007.³³

The president's requests are nowhere near the nearly \$800 million in biomass R&D programs that the Energy Policy Act authorized this August when it

³²Fiscal Year 2007 Budget of the U.S. Government Appendix, p. 390.

³³Alex Kaplun, "Bush boosts alternative-fuel technology as critics decry other R&D cuts," *Greenwire*, February 6, 2006.

became law.³⁴ Tellingly, the budget once again proposes to open the currently protected Arctic National Wildlife Refuge to oil drilling, a proposition that the Congress has rejected for the last five years. Drilling for more oil hardly qualifies as kicking the oil habit.

While the president proposes to increase some renewable energy programs—most notably solar energy programs with a \$66 million boost—the overall energy efficiency and renewable energy budget is cut by a proposed \$26 million from last year's appropriations.³⁵ This is on top of a \$30 million cut last year leading to the lay-offs of 11 percent of the scientists and engineers at the National Renewable Energy Lab. This is a regrettable and avoidable loss of expertise at a time when we need them most.³⁶ The president's \$1.147 billion proposal is lower than any amount appropriated during his administration, demonstrating the president's real energy priorities.³⁷

Furthermore, at a time of record energy prices, the president's budget does not provide an adequate safety net for low-income Americans struggling to meet their energy needs. The Department of Energy's weatherization program, which helps households become more energy efficient and decrease their long-term energy costs, was cut by nearly a third from \$243 million last year to \$164 million. By comparison, the Energy Policy Act authorized \$600 million for fiscal year 2007 for this important program. While the president does request

³⁴Center for American Progress, "America is Addicted to Oil," February 2006, available at <http://www.americanprogress.org/site/pp.asp?c=biJRJ8OVF&b=1408771>

³⁵Fiscal Year 2007 Budget of the U.S. Government, Appendix, p. 390.

³⁶Elisabeth Bumiller, "Bush's Goals on Energy Quickly Find Obstacles," *New York Times*, February 2, 2006, available at <http://www.nytimes.com/2006/02/02/politics/02energy.html>

³⁷Fiscal Year 2007 Budget of the U.S. Government, Appendix, p. 390.

a \$600 million increase for the Low Income Home Energy Assistance Program (LIHEAP) in fiscal year 2007, his approximately \$2.8 billion request falls far short of the \$5.1 billion that the Energy Policy Act authorized.

3.2.4 Science

The president's budget proposes to cut funding for science and technology by approximately \$600 million.³⁸ A large amount—\$728 million—is cut from defense research, while the Department of Energy is slated for a \$519 million increase for science and technology work. This increase includes \$143 million for research on nuclear energy and \$37 million for energy efficiency and renewable energy sources.

The president is also proposing to cut the National Oceanic and Atmospheric Administration (NOAA) science and technology budget by \$32 million and overall appropriations by \$133 million. NOAA's cuts include \$18 million from oceanic and atmospheric research; \$113 million from the National Ocean Service; \$37 million from the National Marine Fisheries Service; and \$31 million from the National Environmental Satellite, Data, and Information Service. These reductions are partially offset by a proposed \$29 million increase for the National Weather Service. The president also proposes to increase NOAA research on climate change by \$23 million, while cutting climate change research by \$18 million at the National Aeronautics and Space Administration,³⁹ whose chief

³⁸Office of Management and Budget, Fiscal Year 2007 Budget of the United States Government, Analytical Perspectives, p. 51.

³⁹Office of Management and Budget, Analytical Perspectives, Budget of the United States Government, Fiscal Year 2007, p. 52.

climate scientist, James Hansen, reportedly angered administration officials by revealing that 2005 was the hottest year on record.

Meanwhile, the president is proposing to either flatline or cut most programs at the National Institutes of Health. The National Cancer Institute, for example, is slated for a \$39 million cut, while the National Institute of Allergy and Infectious Diseases is set for a \$20 million reduction. The situation is similar at the Centers for Disease Control and Prevention, where the president proposes a \$5 million cut for occupational safety and health (after a \$28 million cut last year) and a \$9 million cut for environmental health and injury. The president is also proposing to cut the Food and Drug Administration's National Center for Toxicological Research by \$6 million and the U.S. Geological Survey by \$17 million.

The president does propose to increase the budget of the National Science Foundation by \$439 million (to \$6.145 billion). However, the president signed a bill in December 2002 authorizing the doubling of the NSF budget in five years.⁴⁰ The president's proposal is \$3.655 billion short of this goal.⁴¹

3.2.5 Environment

The president's budget proposes to slash funding for the Environmental Protection Agency by more than \$300 million to \$7.315 billion. This cut hits clean water programs especially hard. Specifically, the president is proposing to cut \$199

⁴⁰Despite passage of this bill, the NSF budget was actually cut by \$105 million, or almost 2 percent, in fiscal year 2005.

⁴¹See Senate testimony of the National Council for Science and the Environment at http://ncseonline.org/SciencePolicy/Testimony/NCSE_FY2006_SenateTestimony_NSF.pdf.

million from the Clean Water State Revolving Fund (which provides states with low-interest loans to improve wastewater treatment plants), \$43 million from targeted water infrastructure funding, and \$8 million from the program to clean up leaking underground storage tanks (one of the chief threats to groundwater supplies).

Across government, the president is proposing to cut funding for water resources by \$1.187 billion from current funding levels of \$8.958 billion. This includes cuts to the Corps of Engineers, the Bureau of Reclamation, and watershed protection and flood prevention, even in the aftermath of the flooding of New Orleans.

The president also proposes to cut funding for conservation and land management. The Department of Interior faces cuts of \$322 million, including \$100 million in cuts from the National Park Service (from \$2.256 billion to \$2.156 billion) and \$16 million from the Fish and Wildlife Service (from \$962 million to \$945 million). Meanwhile, the Bureau of Land Management is slated for a funding increase of \$28 million to \$1.76 billion, primarily because of new work associated with permitting oil and gas companies. "A dramatic increase in oil and gas development on federal lands over the past six years has lessened BLM's ability to meet its environmental protection responsibilities," according to a 2005 report by the Government Accountability Office.⁴² The president is also proposing to boost funding for farmers to set aside and conserve wetlands

⁴²Government Accountability Office, "Oil and Gas Development: Increased Permitting has Lessened BLM's Ability to Meet its Environmental Protection Responsibilities," GAO-04-418, June 2005, available at <http://www.gao.gov/new.items/d05418.pdf>.

by more than \$150 million to \$403 million.

In total, the president's budget cuts funding for conservation and land management by \$120 million from current funding levels of \$9.301 billion.

3.3 National Security

One of our highest priorities as a nation is ensuring the safety and security of our citizens. Security, however, comes at a price, and maintaining adequate funding for vital national security goals is essential. Furthermore, setting the right priorities about how best to use our national resources within and across defense and security-related departments and agencies is also critically important in ensuring our national safety.

In the president's budget, regular funding for national defense and intelligence, international affairs and homeland security would increase. However, while we are largely funding the war in Iraq, we are not making the long-term investments and resource adjustments necessary to convert the "long war" into a durable and sustained peace. Roughly 86 percent of what we spend on national security relates to military operations and defense-related programs; 9 percent on homeland security, much of that to protect government facilities; and 5 percent on international affairs, and only a budgetary pittance on building institutions of democracy and civil society that will prevent the emergence of future descendants of al Qaeda.⁴³

There is no unified national security budget per se, but by evaluating what

⁴³Total expenditures in each area are affected by supplemental funding for operations in Iraq and Afghanistan and associated programs.

the federal government proposes to spend for defense, intelligence, international affairs and homeland security together, it creates an opportunity to evaluate whether resources are properly aligned with our broader strategy to reduce the threat of terrorism and extremism to the United States and the American people.

The Bush administration proposes “on-budget” national security funding of at least \$541.5 billion for fiscal year 2007, a substantial increase over the estimated \$521 billion for fiscal year 2006. Beyond normal appropriations, the Departments of Defense, State and Homeland Security have become dependent on supplemental funding to support ongoing operations in Iraq and Afghanistan and other emergencies. Particularly within the Pentagon, supplemental appropriations have become a permanent adjunct to the usual budget process—money has in the past been included to support military transformation, not just actual combat.

Just prior to the release of the president’s budget, the White House acknowledged that it will request additional supplemental funding of \$70 billion for Iraq and Afghanistan in addition to the \$50 billion that Congress appropriated last fall. At least \$50 billion more will be required in fiscal year 2007 as well. By the end of next year, the invasion and occupation of Iraq will likely exceed \$400 billion, a far cry from the self-sustaining operation described by then Deputy Secretary of Defense Paul Wolfowitz in 2003.

Thus, taking the costs of Iraq and Afghanistan into account, the actual

national security budget for fiscal year 2007 will be at least \$591.5 billion.⁴⁴ Given an estimated “burn rate” of \$6.8 billion per month to maintain current troop levels in Iraq,⁴⁵ the size of the supplemental for fiscal year 2007 could be much greater, potentially pushing total national security spending as high as \$650 billion.

3.3.1 Defense

The budget proposes \$439.3 billion in military spending, a 7 percent increase over 2006. However, the proposed Pentagon budget fails to take the necessary steps to keep America safe or rein in unnecessary spending.

Despite the budget’s contention that military transformation is a priority and that transformation requires “more than new weapons systems or platforms,” the budget does not eliminate a single major weapons program. Instead, the administration proposes to actually increase the budget by 8 percent for weapon systems, requesting \$84.2 billion for weapons procurement and \$73.2 billion for weapons research and development. Even with this funding, the Pentagon simply cannot afford all the weapons systems currently on the drawing board. While the Quadrennial Defense Review released last week made clear that “irregular warfare” is the greatest challenge we face, the defense budget continues to overly invest in conventional weapon systems like the F/A-22 Raptor and DD(X) destroyer. The president proposes \$9.3 billion for missile defense in fiscal year 2006, which remains largely untested and is being deployed on ideological

⁴⁴The figure includes national defense, government-wide homeland security, international affairs and Department of State administrative funding.

⁴⁵Department of Defense, News Briefing on Fiscal Year 2007 Budget, February 6, 2006.

rather than strategic grounds.

The all-volunteer military, particularly the Army, remains under serious strain due to open-ended operations in Iraq and Afghanistan. Recent reports by the National Security Advisory Board, retired Colonel Andrew Krepinevich, and the Congressional Budget Office have all concluded that the Army needs to grow to sustain these commitments. While the budget calls for a 15 percent increase in special operations forces and a 33 percent increase in psychological and civil affairs units, these are not additional personnel. Rather, they reflect a rebalancing of the current force. While rebalancing is prudent, it is not enough. The United States expects to maintain the current tempo of global operations for the foreseeable future. There are also potential confrontations over the nuclear ambitions of North Korea and Iran. The 2007 budget pays for an active-duty army of 482,400, the same end strength as this year. The Department of Defense initially envisioned holding the end strength of the Army National Guard 17,000 soldiers below its authorization, despite expanding commitments at home and abroad. It has since reversed this decision and will allow the National Guard to recruit to its maximum authorized strength of 350,000 soldiers.

The Department of Defense remains overly reliant on supplemental funding to sustain transformation that is really unrelated to ongoing operations in the war on terror. As a result, the Pentagon continues to avoid difficult decisions and necessary trade-offs that must be made to put the defense budget on a more sustainable path. The growth of defense spending cannot be sustained, given emerging strains in domestic discretionary spending, competing priorities

related to Hurricane Katrina recovery, growing deficits and unrealistic assumptions regarding expiring tax cuts.

3.3.2 International Affairs

The president has requested an 11 percent increase in the International Affairs budget, a long overdue recognition of the importance of diplomacy, democracy and development to building a more safe and prosperous world. However, even as the White House finally begins to place real resources behind the president's rhetoric regarding the advance of freedom, the question is whether the administration will use its rapidly eroding political capital to get the Republican-led Congress to agree.

The Bush administration addresses funding shortfalls in the Millennium Challenge Corporation (MCC) and Global HIV/AIDS Initiative. The president has repeatedly pledged to increase MCC funding to \$5 billion. This year, he moves a step closer to this target by requesting \$3 billion. The president has also requested a \$900,000 increase in funding for the Global HIV/AIDS Initiative. However, areas of serious concern remain. Despite rightfully terming the violence in Darfur as genocide, the Bush administration allowed Congress to strip \$50 million in peacekeeping funds to support the vital African Union (AU) mission in Sudan from the fiscal year 2006 budget. AU peacekeepers on the ground in Darfur are essential to the very survival of hundreds of thousands of refugees. A minimum increase of \$50 million is necessary to maintain AU operations. The Bush administration must fight to sustain peacekeeping funding

for Darfur in its fiscal year 2007 budget. The proposed \$300 million reduction in development assistance funding is short-sighted. Development assistance is the key to long-term social and economic development, which together provide the foundation for capable and functioning states. The new director of foreign assistance (dual-hatted as the administrator of the U.S. Agency for International Development) must ensure that long-term development projects receive the resources that they require.

3.3.3 Homeland Security

According to the Bush administration, the president's budget provides \$58.3 billion for homeland security, a 6 percent increase from last year. However, removing the proposed increase in the aviation security fee to offset the cost of the Transportation Security Administration's (TSA) federal screening operations, the net increase in funding for non-defense homeland security programs is a much more modest 3.3 percent.

With the threat to the United States increasing, not decreasing, we are simply not moving far enough and fast enough to improve the security and preparedness of the homeland. Homeland security today remains largely an unfunded mandate.

Three examples illustrate this point. First, despite Hurricane Katrina and the London transit bombings last year, the Bush administration proposes to cut funds to cities and states for first responders and critical infrastructure protection by 26 percent. Under the plan, the Department of Homeland Security

(DHS) would reduce homeland security grants to \$2.46 billion from \$3.34 billion. President Bush has called the response to Hurricane Katrina “inadequate,” and administration officials were quick to point out failures at the state and local level. However, DHS’ response is to eliminate tailored grants to law enforcement and medical personnel and significantly reduce funding for firefighters. Despite the London transit attacks, the Bush administration requested the same \$600 million as last year to secure the nation’s critical infrastructure. That level of funding continues to be insufficient to protect the nation’s ports, freight rail lines and passenger transit systems.

Second, DHS once again fails to address air cargo security, the Achilles heel of aviation security. TSA continues to devote a disproportionate share of its resources to passenger aviation security, in essence fighting the last war. However, while adding significant amounts in new technology for air passenger checkpoints and in-line luggage screening, only 1 percent of TSA’s 2007 \$4.7 billion budget, or \$45 million, is devoted to the air cargo that is carried in passenger aircraft. While passengers and their baggage are thoroughly scanned, the vast majority of air cargo is not, a vulnerability well known since September 11.

Third, while some want to make border security the only answer to illegal immigration, it must be a significant part of the solution to the estimated 700,000 people who slip through our borders each year. Despite congressional approval to hire 10,000 new border agents over five years, the administration

only requested funding for 210 new hires for 2006.⁴⁶ For 2007, the administration wants to hire 1,500 new border agents, a move in the right direction but still less than what was authorized by the December 2004 intelligence reform legislation.

While more border agents are necessary, along with better technology, genuine border security is not possible without dealing with “demand” for undocumented workers. Comprehensive immigration reform is required. The administration eliminated grant money to help states implement last year’s REAL ID to strengthen identification procedures behind the issuance of state driver licenses. The federal contribution to its state partners thus far is just \$40 million.

4 Conclusion

The president’s budget articulates a set of misguided priorities for our nation. The budget fails to provide for the health, safety, security and opportunity of all our citizens. The consequences for our country will be significant if this budget is enacted.

The budget should be rejected in favor of a positive, progressive vision that will secure our long-term economic future, restore our nation’s well being, and reflect our nation’s values.

⁴⁶Congress eventually increased that figure to 1,000.