



Federal Budget Year in Review...2001

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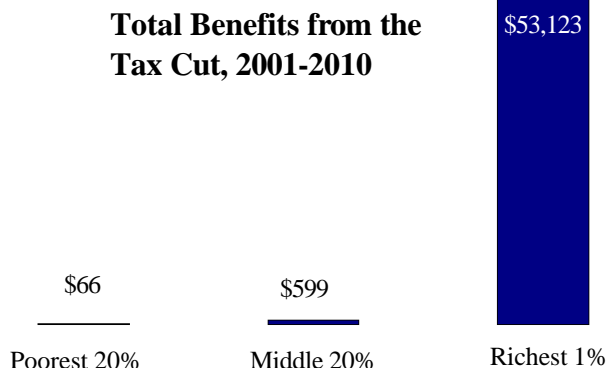
Grassroots Factsheet

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The year 2001 proved the old adage ‘the more things change, the more they stay the same’. While the terrorist attacks shocked and saddened the nation, the Bush Administration continued to advance its agenda of tax cuts for the wealthy, increases in military spending, and oil drilling in the Arctic Refuge. This agenda prevails despite an economic recession, the elimination of the budget surplus, and a foreign policy crisis.

Tax Cuts for the Wealthy

After a controversial election, the Bush Administration came into office and immediately issued what one labor official described as ‘four mean-spirited, anti-worker executive orders’.¹ These orders set the tone for what the Administration’s agenda would be throughout the year and has had severe implications for the federal budget. The President’s tax cut proposal claimed on the title page, ‘lower income taxes for all, with the greatest help for those most in need’. However, this tax cut was neither fair nor fiscally responsible. Analysts estimated that 12 million families with 24 million children would not benefit at all from the Bush tax plan – one in three families.² Another study indicated that *most* black and Latino families with children would get nothing from the tax cut plan.³



Congress agreed to a tax cut bill in May that primarily benefited the wealthy. By the time all tax cuts are phased in, the poorest 20% will only average tax cut benefits of \$66, but the richest 1% will receive tax cuts totaling on average over \$53,000⁴ – this is more than what 60% of American households earn in a year.

Military Spending

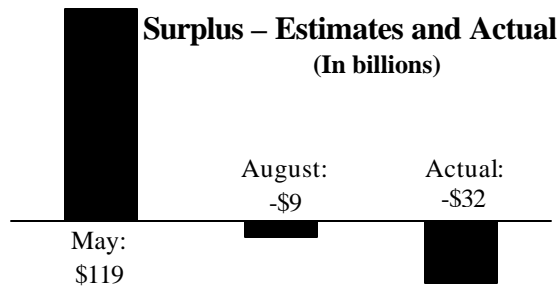
The Pentagon benefited significantly from the Bush Administration. Although the original Bush Administration military budget was \$325 billion (around a 4.5% increase), a summertime budget amendment increased that request to \$344 billion (a more than 10% increase). The actual budget agreed to by Congress was \$347 billion and Bush Administration officials announced that they would push for even higher budgets for FY2003.

In response to September 11th, Congress voted for \$40 billion in emergency supplemental funds to be spread out between Fiscal Years 2001 and 2002. Of this amount, \$13.7 billion was added to the military budget for Fiscal Year 2001. Congress also created a new ‘appropriations title’ (a category of spending with an appropriations bill) called ‘counter-terrorism and defense against weapons of mass destruction’. This category consolidates funding for programs devoted to protect the US, its interests and that of its allies from non-traditional threats. Of the \$11.7 billion that Congress allocated to this

title for FY2002, \$7.85 billion of it will go to missile defense programs (Star Wars), initiatives that fail to address terrorism or other non-traditional threats.

Disappearing Surplus

Earlier in the year, the Congressional Budget Office (CBO) and Office of Management and Budget (OMB) predicted high surpluses for 2001 and the years to follow. In May, the CBO expected on-budget⁵ surpluses for 2001 to be \$119 billion. Critics claimed that the projection assumed too high a



national growth rate and thus was an unrealistic estimate. Yet, President Bush used these high surplus projections to justify his tax cut plan. By August, the CBO changed its projection of a large surplus to an on-budget deficit projection of \$9 billion⁶. This turnaround was due in part to the tax cut, and in part to the slowing economy. By the end of the fiscal year (at the end of September, 2001), the actual on-budget deficit was \$32 billion. In short, a \$119 billion surplus became a \$32 billion deficit.

Economic Recession

In response to the economic downturn, along with the effects of September 11th, Congress debated initiatives that would have addressed the needs of those hardest hit by these events. These proposals included expanding and extending eligibility for unemployment insurance, and subsidizing health care costs for those without insurance, or who have lost their insurance due to job loss.

Instead, the Bush Administration and its supporters responded with proposals for more tax cuts for the wealthy and corporations. They introduced an "economic stimulus package" that would cut the capital gains tax and eliminate the alternative minimum corporate tax which prevents profitable corporations from tax avoidance. Congress will continue to debate this legislation in 2002.

State Impact

Federal tax cuts signal a loss of revenue for states since many state tax laws are tied to federal law. Already, states predict budget shortfalls totaling \$40 billion in 2001. More federal tax cuts will only deepen the hole for states while increasing the pressure to cut funding for basic programs serving individuals and families in need.

In this time of fiscal and foreign policy crisis, national vision and leadership are as important as ever. Political rhetoric about our national priorities should not disguise the reality: the vast majority of Americans are losing out.

¹ Press statement by AFL-CIO President John Sweeney on President George W. Bush's decision to issue four Executive Orders, February 16, 2001.
² Center on Budget and Policy Priorities, 'Bush tax plan offers no benefits to one in three families,' February 2001.
³ Center on Budget and Policy Priorities, 'Majority of black, Hispanic families with children would get nothing from Bush tax plan,' February 2001.
⁴ Citizens for Tax Justice, 'Post-2001 tax cuts offer little to most Americans', June 2001.
⁵ 'On-budget' refers to that portion of the federal budget which excludes Social Security and other Trust Funds.
⁶ The OMB, which makes estimates for the Executive Branch, released its mid-session review which projected a \$2 billion on-budget surplus.



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