VERMONT IMPACT ANALYSIS:
Effects of 2004 Congressional Budget Resolution

Vermont Will Suffer $76 Million in Cuts to Key Programs Over Ten Years to Pay for Tax Breaks for the Wealthy

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INSTITUTE FOR AMERICA'S FUTURE
1025 Connecticut Ave., NW #205 Washington, DC 20036
(202) 955-5665 www.ourfuture.org

ECONOMIC POLICY INSTITUTE
660 L Street, NW #1200 Washington, DC 20036 (202) 775-8810 www.epinet.org

Vermont Will Suffer $76 Million in Cuts to Key Programs Over Ten Years to Pay for Tax Breaks for the Wealthy

The Federal government budget resolution for fiscal year 2004, which passed Congress on April 11, 2003 by a single vote on a near party-line margin, will cut a total of $76 million in vital federal funds for Vermont over the next 10 years. These budget cuts are driven by massive new tax breaks advanced by the Bush administration and Republican Congressional leaders, which will primarily benefit those with average annual incomes of $250,000.[1]

These budget cuts endorsed by Congress will hamper Vermont's ability to address key priorities such as education, security, healthcare, and infrastructure. Vermont, like most states, is grappling with a serious budget crisis, mounting unemployment, and an ever-growing list of priorities that cannot be met. Far from helping Vermont, the budget resolution just passed by Congress will only make matters worse for average people from Vermont.

This report by the Institute for America's Future and the Economic Policy Institute analyzes the Congressional budget resolution, describes the magnitude of the cuts as they affect people from Vermont, and discusses key indicators about Vermont's current economic health and the needs that the state is trying to meet.

Federal Aid Cuts for Vermont

Budget experts at the Economic Policy Institute and the Institute for America's Future used data from the Federal Funds Information for States to determine Vermont's share of the cuts to federal aid classified as discretionary spending outlined in the FY 2004 Congressional budget resolution.[2] Analysts found that the impact on Vermont over the next 10 years will be considerable. Rather than addressing key Vermont priorities, this budget undercuts the state's ability to address them.

The areas cut, the magnitude of the cuts, and examples of the types of programs affected are:*

Environmental and natural resources – cut $23 million
Includes programs to monitor and control water and air pollution.

Education, training, reemployment, social services – cut $10 million
Includes class-size reduction and teacher funding, school renovation and construction, work study and other student aid programs, after school, battered women's shelters, job re-training, and aid to family caregivers.

Basic supports for low income families – cut $6 million
Includes the Low Income Home Energy Assistance program, low income housing, and emergency food assistance for the elderly, children, and the poor.

Health care – cut $9 million
Includes immunization programs, grants to improve state and local capacity for dealing with health care crises, mental health, and rape prevention.

Transportation – cut by $11 million
Includes funds to improve and build highways, mass transit systems, bridges, ports and airports.

Police and security – cut by $9 million
Includes drug control, juvenile justice and the community policing (COPS) program.

Agriculture – cut by $7 million
Includes food and nutrition programs.

*Because the budget resolution only specifies general funding targets for broad categories of spending, it is not feasible to determine cuts for individual programs. The programs listed here are examples of the types of federal programs included in each category. See endnote #2 for more information.

Additionally, the budget resolution includes scores of other funding cuts. One of the most egregious is a cut in veterans benefits and services, which is cut by some $11 billion, or 3.7 percent nationally over the next 10 years.[3] This includes programs that provide basic income supports to veteran education, training and rehabilitation, healthcare, and housing.

These cuts in federal discretionary aid are not necessitated by the difficult times our nation now faces, economically or militarily. The budget cuts passed by Congress are only necessary to pay for $1.3 trillion in tax breaks aimed mostly at our nation's wealthiest citizens. According to an analysis of the president's proposed tax cuts by Citizens for Tax Justice, 60 percent of the tax cuts will go to the top 10 percent of households, those with average annual incomes of $250,000.[4] The budget resolution sets the course for cuts in funding for vital priorities in order to finance tax breaks for a tiny sliver of the population.

Budget Fails to Address Real Vermont Priorities

Vermont's economy is not struggling because millionaires have too little money. Like all states, Vermont is finding it more difficult to meet the challenges of increased unemployment, rising demand for public services, skyrocketing health care costs, heightened homeland security concerns, and an inventory of unmet needs to rebuild schools and repair and improve basic infrastructure such as roads and bridges. Vermont faces a budget deficit of $30 million in fiscal year 2004,[5] which is already forcing cuts to vital priorities of Vermonters. Additionally, one of the tax breaks proposed by the Bush administration – the dividend tax exclusion – will produce a direct cut to state revenues which could exacerbate Vermont's fiscal crisis by $16 million per year.[6]

Vermont has fewer jobs and more unemployment – and finding new jobs is taking longer for Vermont's unemployed workers. Since January 2001, Vermont has lost 1,100 jobs altogether,[7] including 5,600 manufacturing jobs.[8] As of February 2003, a whopping 2,900 workers in Vermont had been out of work so long they ran out of state and emergency federal unemployment insurance benefits.[9] And 1,500 of those workers *still* cannot find jobs and are struggling to make ends meet without unemployment benefits.[10]

In Vermont, 58,000 individuals have no health care coverage;[11] 4,000 children are uninsured.[12]

A total of 59,000 people from Vermont are poor,[13] including 15,000 children[14] – 12.2 percent of all children in the state.[15]

Oversized classes, inadequate resources for teacher training, and crumbling schools deny first-rate educational opportunities to many children. According to the US General Accounting Office, 81 percent of Vermont's public schools require repairs in order to be in good overall condition.[16] Needed repairs and upgrades will cost an estimated $333,386,471.[17]

Repairing and maintaining roads and bridges are crucial to ensure transportation safety and to enhance homeland security. Around 42 percent of Vermont's roads are in poor to mediocre condition;[18] 37 percent of the state's bridges have structural deficiencies or are functionally obsolete.[19]

Vermont's budget crisis has already resulted in cutbacks to key programs and undermines the state's ability to meet critical needs. Already, the state faces a budget shortfall of $30 million.[20] The proposed federal budget cuts will only exacerbate this fiscal crisis, further reducing the state's capacity to meet existing needs, while making the escalation of such needs likely.

Tax Breaks in the 2004 Budget

The tax breaks included in the FY 2004 budget total $1.3 trillion over the next 10 years. When increased interest payments are added, the total cost of the tax breaks to the federal treasury soars to $1.6 trillion. Providing these tax breaks forces cuts of almost $34 billion in discretionary programs over the next 10 years and a marked increase in debt.

Because of a new parliamentary maneuver never before seen in Congress, some legislators are claiming to have supported only a $350 or $550 billion tax cut even though the budget resolution they voted for actually includes a total of $1.3 trillion in tax cuts earmarked mainly for the nation's top earners. The parliamentary maneuver only distinguishes the number of votes required in either the House or the Senate to pass various levels of tax cuts, but the budget document includes a full $1.3 trillion in tax breaks.

The final level of tax breaks in the budget closely mirrors the original budget resolution submitted by President Bush in January 2003. An analysis of that tax package by Citizens for Tax Justice reveals that the top 1%, those with average annual incomes of over $1 million per year, would get an average tax break of $17,630 while a full 43 percent of Vermont taxpayers would get less than $100.[21]

Budget Relies on Failed Economics

Some politicians and Wall Street economists have argued that tax breaks for our nation's wealthiest citizens are necessary to put the economy on the right track. But non-partisan organizations as varied as the Congressional Budget Office and the International Monetary Fund and a group of over 450 prominent economists – including 10 Nobel prize winners – disagree.[22] At best, they say, the proposed tax breaks will have no positive effect on the economy. More likely, the tax breaks will make a bad situation worse.

Experts have argued that one of the most effective growth policies would be temporary federal aid to the states to prevent more program cuts and layoffs that are shrinking the economy. The federal budget cuts described in this report will worsen state fiscal crises and further reduce economic growth.

In early 2001, as the economy was entering a recession, President Bush argued that tax breaks directed to the very wealthy would put the economy on the right track. Two years later, the economy has deteriorated further, unemployment continues to grow unabated, and our federal and state governments are in deeper fiscal crisis. The Congressional budget resolution proposes more of the same failed solutions: exhaust funds for various national priorities and increase national borrowing to finance tax breaks today – most of which are earmarked for our nation's wealthiest citizens.

According to economists from Goldman Sachs, by the year 2013, the government is expected to rack up deficits totaling $4.2 trillion.[23] In fact, Congress just approved an almost $1 trillion increase in the amount of money the government is permitted to borrow. This comes on the heels of using the Social Security trust fund to pay for government expenditures.[24] But this is only the tip of the iceberg – analysts predict that this budget will require the Congress to request another unprecedented hike in the debt limit as early as next year.

The FY 2004 budget conference agreement fails to meet Vermont's priorities and undercuts the federal and state governments' ability to strengthen the economy. It cuts crucial federal funds, uses the Social Security Trust Fund, and grows the national debt in order to finance new massive tax breaks for our nation's most wealthy citizens at a time of war, increased security costs, economic stagnation, and increased unemployment.

A central tenet of effective economic stimulus plans is immediate, targeted action to spur the economy in the short term while doing no long-term harm to the economy. The reconciliation agreement passed by Congress fails on both counts.

On April 11, the budget resolution passed the House of Representatives on a near party-line vote, with no Democrats voting for the measure and 7 Republicans and 1 Independent joining all Democrats in voting no. Later that day, the budget resolution passed the Senate with 50 Senators voting yes and 50 Senators voting no – Vice President Dick Cheney broke the tie with a yes vote.

Methodological and End Notes

[1] Citizens for Tax Justice, "Most of Bush's Proposed New 2003 Tax Cuts Would Go to Top 10%" 1/7/03, http://www.ctj.org/stim03.pdf.

[2]The Economic Policy Institute (EPI) estimated cuts to grants in aid that are classified as discretionary spending in the FY 2004 budget resolution now being considered by Congress. These estimates are for aggregate cuts to each state's Federal aid over the years 2004-2013, as outlined in the budget conference report passed by Congress. These cuts do not include changes in funding levels for entitlement programs (also referred to as "mandatory" programs) such as Medicaid, Food Stamps or Supplemental Security Income (SSI).

To derive these figures, economists at EPI determined cuts in discretionary outlays by function proposed in the conference report. "Functions" are broad categories of Federal spending. The cuts are defined relative to the baseline projections of discretionary outlays published by the Congressional Budget Office. These cuts by function were reduced according to the share of each function devoted to grants-in-aid for discretionary spending programs. The resulting figure is allocated to the states according to their share of grants-in-aid for that budget function. The aid by function and the states' shares of aid by program are derived from data on 220 grant programs supplied by the Federal Funds Information for States.

[3] EPI analysis of data from the Congressional Budget Resolution and the Congressional Budget Office.

[4] Citizens for Tax Justice, "Most of Bush's Proposed New 2003 Tax Cuts Would Go to Top 10%" 1/7/03, http://www.ctj.org/stim03.pdf.

[5] National Conference of State Legislatures, "State Budget Update: February 2003."

[6] Center on Budget and Policy Priorities, "Bush 'Growth Plan' Would Worsen State Budget Crisis," January 30, 2003.

[7] Bureau of Labor Statistics (BLS), State and Area Employment, Hours and Earnings Survey, seasonally adjusted, downloaded April 2003. January 2003 data preliminary.

[8] Bureau of Labor Statistics (BLS), Regional and State Employment and Unemployment, seasonally adjusted, December 2001 and December 2002 reports. December 2002 data preliminary.

[9] Center on Budget and Policy Priorities, "Latest Unemployment Insurance Data and March Employment Report Both Indicate a Worsening Labor Market," April 7, 2003.

[10] Ibid.

[11] Current Population Survey, March 2002, "Table HI05. Health Insurance Coverage Status and Type of Coverage by State for All People: 2001".

[12] Ibid.

[13] U.S. Census Bureau, Current Population Survey, March 2002, - data comes from Table 25. Poverty Status by State in 2001.

[14] Ibid.

[15] Ibid.

[16] General Accounting Office, "SCHOOL FACILITIES - Profiles of School Condition by State," June 1996, GAO/HEHS-96-148.

[17] National Education Association, "Modernizing Our Schools What Will it Cost?" 2000. Values shown are for infrastructure and technology modernization costs combined.

[18] American Society of Civil Engineers, "Report Card for America's Infrastructure", 2001.

[19] Ibid.

[20] National Conference of State Legislatures, "State Budget Update: February 2003."

[21] Citizens for Tax Justice, "Bush 2003 Tax Plan a Big Fat Zero for a Third of Nation's Taxpayers." 1/27/03 http://www.ctj.org/html/gwb0103.htm.

[22] Economic Policy Institute, http://www.epinet.org.

[23] "Watch Out, The Deficit is Gaining." msnbc.com. April 14, 2003.

[24] Floor Statement by Senator Kent Conrad (D-ND) on FY 2004 Republican Budget Conference Report, 4/11/03 http://budget.senate.gov/democratic/statements/2003/fs_confreport041103.pdf.