



Federal Budget Decisions Would Have Serious Consequences for Minnesotans and the State's Fiscal Health

Minnesotans will be closely watching as some of the most important federal budget debates in years will occur in 2005, as Congress and the President struggle to address large budget deficits.

Minnesotans are all too familiar with the severe pain that is caused when deficits are not addressed through a balanced approach. In 2002, 2003, and 2004, Minnesota's state decision-makers chose to close budget deficits primarily through service cuts, drawing down reserves, and budget gimmicks. As a result, working families and the most vulnerable are struggling to cope with the impact of severe reductions in vital services as well as steeply higher costs for health care, child care, and higher education.

After several years of budget cutting at the state level, Minnesotans are concerned that the federal policymakers will reduce the federal deficit by shifting costs to state and local government, even as the State of Minnesota continues to face projected budget deficits today and years into the future.

The Minnesota Budget Project has called on state government to return to fiscal responsibility and to reduce deficits in a balanced manner. This is the path that the federal government should take as well. Past efforts that were successful in reducing the federal deficit occurred through honest debates leading to compromise solutions in which revenues were raised and spending was cut without the pain of budget-balancing falling disproportionately on the most vulnerable. However, what many federal policymakers have suggested instead is a highly unbalanced approach to deficit reduction, refusing to consider any measures to increase revenues. The real impact of these proposals may not be immediately obvious, as they are hidden behind budget process changes such as block grants, reconciliation directives, and entitlement caps.

To rein in the deficit while making the tax cuts permanent and refusing to raise other revenues would require extremely large cuts in government programs over time. Programs that serve low-income families are at particular risk — as are grants-in-aid to state and local governments — but the budgetary problems the nation faces are so severe that everything from veterans' health benefits to student loans to farm subsidies to school lunches to child care assistance could be hurt significantly. In 2005 we are likely to see a major effort to put the government on a path toward very large domestic program cuts, through several different legislative means:

- **Cuts in entitlement programs through a fast-track legislative process called "reconciliation."** Congress has used this device in the past to pass deficit-reduction legislation that includes sizeable cuts in entitlement programs. In 2005, cuts made in the reconciliation process could put many entitlement programs at risk, including key programs of concern to states such as Medicaid.
- **Cuts in discretionary programs.** Congress began this process by making modest cuts in fiscal year 2005 funding for domestic discretionary programs. The President's 2005 budget proposal called for deeper cuts in domestic discretionary programs other than homeland security starting in 2006. By 2009, the President proposed cutting these programs by \$45 billion a year. Approximately one-third of all domestic discretionary spending is for grants-in-aid to state and local governments.

- **Changes in budget-making rules that could force dramatic cuts down the road.** Last year the House debated imposing a cap on total annual expenditures for all entitlement programs except Social Security that would have forced \$1.55 trillion in cuts over the next decade. The House is expected to consider similar proposals in 2005. Incoming Senate Budget Chairman Gregg is reportedly considering various options as well, including an entitlement cap and a global spending cap.

A cap on total annual expenditures for discretionary programs will also be proposed. Last year the Administration proposed a cap that would have locked in the deep domestic discretionary cuts referred to above, including the \$45 billion cut by 2009.

These spending cap proposals can cause devastating declines in public services by forcing program cuts that would otherwise be politically unthinkable. For example, a cap on revenues and spending that Colorado adopted in the early 1990s led to the imposition of draconian cuts that state lawmakers never would have approved without the cap. As a result of those cuts, the quality of Colorado's public services, including health care and education, has plummeted in recent years.

- **Converting key low-income programs to block grants.** History has shown us that when programs are converted to block grants, federal funding shrinks over time and becomes inadequate to meet the needs of the vulnerable persons the program was meant to serve. President Bush has proposed block-granting several low-income programs, including Medicaid, Head Start, and "Section 8" housing vouchers. Block grants leave states with the choice of replacing the shrinking federal funds with state dollars, or taking the blame for reducing benefits. The chance that Minnesota could replace lost federal dollars is slim, given the state's own fiscal challenges.

The likelihood of block-granting will increase if Congress enacts a harsh spending cap or passes a budget resolution containing reconciliation instructions for deep program cuts. This is because Congress could avoid responsibility for the hard choices these cuts would make necessary by converting programs to block grants and forcing states to figure out how to deal with the funding reductions.

Certainly the federal budget deficit is real, and steps should be taken to address it in a responsible manner. This should be done through an open debate in which both revenues and spending is on the table, and in which the impact of decisions is clearly understood, rather than hidden behind budget process changes such as entitlement caps or block grants.