



**Major Savings and Reforms**  
**in the**  
**President's 2006 Budget**

**FEBRUARY 11, 2005**

## Major Savings and Reforms in the President's 2006 Budget

*“America's prosperity requires restraining the spending appetite of the federal government. I welcome the bipartisan enthusiasm for spending discipline. I will send you a budget that holds the growth of discretionary spending below inflation, makes tax relief permanent, and stays on track to cut the deficit in half by 2009.*

*My budget substantially reduces or eliminates more than 150 government programs that are not getting results, or duplicate current efforts, or do not fulfill essential priorities. The principle here is clear: Taxpayer dollars must be spent wisely, or not at all.”*

*President George W. Bush  
State of the Union Address  
February 2, 2005*

### Introduction

The 2006 Budget meets the Nation's priorities in a fiscally responsible way. In order to focus Government resources on these priorities, the Administration is proposing this package of savings and reforms.

During his first term, the President worked with Congress to meet historic challenges: a collapsing stock market, a recession, revelation of corporate scandals and, of course, the terrorist attacks of September 11<sup>th</sup>. To meet the economy's significant challenges, the President proposed and signed into law, in each year of his first term, major tax relief that fueled recovery, business investment and job creation.

Those remedies are clearly working: the U.S. economy is strong and fundamentals point to continuing prosperity and expansion. Sustaining this economic expansion requires additional action, including even greater spending discipline. When the Federal government focuses on its priorities and limits its claims on resources taken from the private sector, that helps sustain a stronger, more productive economy.

This supplementary document to the 2006 Budget explains the specific savings proposed in the President's Budget. Combined with continuation of pro-growth economic policies, the spending restraint this package of savings and reforms enables will keep us on track to meet the President's goal of cutting the deficit in half by 2009.

This document describes the major sources of budget savings from reductions and terminations in existing discretionary non-defense programs; major reforms in mandatory spending programs;

user fee proposals; transformation and restructuring of Defense programs to meet 21<sup>st</sup> Century threats; and budget process reform proposals.

Each description includes background material to help inform budgetary decisions by the new Congress as it works to enact a budget resolution and subsequent laws that accomplish spending restraint and deficit reduction in a responsible manner.

As the Administration drew up its list of proposed major reforms and budget savings, we were guided by three major criteria:

- *Does the program meet the Nation's priorities?* The Budget increases funding to strengthen our Armed Forces, improve our homeland defenses, promote economic opportunity, and foster compassion.
- *Does the program meet the President's principles for appropriate use of taxpayer resources?* If an appropriate Federal role could not be identified in a program's mission, the Budget generally proposes to reduce or eliminate its funding.
- *Does the program produce the intended results?* The Bush Administration is measuring the effectiveness of the government's programs—and the results are helping us make budgeting decisions.

These criteria are evident in the discussions throughout this document. The major sections of the document are described briefly below.

### **Savings from Discretionary Program Terminations and Reductions**

About one-third of budget spending comes from discretionary programs, which are reviewed each year by the Appropriations Committees. The Administration has undertaken a thorough review of these programs to identify low-performing programs and lower priority activities. As a result, the Budget includes a number of proposals to terminate or reduce discretionary spending. These proposals are described in more detail in the following chapters.

***Program Terminations.***—Terminations of 99 discretionary programs will reduce spending by \$8.8 billion in 2006.

***Spending Reductions.***—Proposed reductions of 55 programs in discretionary spending will reduce 2006 spending by \$6.5 billion.

***Spending Reform Proposals.***—This year's budget review paid special attention to long-term reforms to improve the government's effectiveness, especially when several agencies have overlapping programs that serve a similar purpose. A number of reforms of such programs, in both discretionary and mandatory spending categories, will result in both savings to taxpayers and improved government services. These reforms will reduce 2006 spending by a net total of \$1.9 billion, including \$4.7 billion in reform savings and \$2.9 billion in reform costs.

## **Transformation and Restructuring, Department of Defense**

The President's Budget increases the defense budget by \$19 billion or 4.8 percent, providing for a total increase since the President took office of 41 percent, the largest increase since the Reagan Administration. As part of Secretary Rumsfeld's efforts to transform the military from a Cold War posture to a more mobile, more lethal force to confront the War on Terror and the threats of a new century, the budget shifts resources to fund priorities as part of this transformation program. Savings from proposed transformations and restructuring will make available \$6.6 billion in resources to support DOD's transformation effort.

## **Savings from Mandatory Spending Reductions and Reforms**

About two-thirds of budget spending comes from mandatory programs, which includes entitlement programs. Because this funding is not generally subject to annual congressional review, these programs often grow faster than originally envisioned. Even when that occurs, there is no automatic mechanism to impose restraint. The only way to constrain the growth of mandatory spending is by enacting laws that change the rules governing these spending programs. Examples of programs in this category are the Medicaid program and Education Student loans.

The President's Budget shows \$137.0 billion in net mandatory savings for 2006 through 2015, including both programmatic reforms and user fee proposals. This amount includes \$25 billion in mandatory spending increases that are not reflected in the mandatory spending reductions and reforms in this document.

***Mandatory Program Reforms.***— This budget savings volume includes changes in mandatory programs that will reduce 2006 spending by \$7.3 billion, 2006-2010 spending by \$66.7 billion, and 2006-2015 spending by \$147.6 billion.

***User Fees.***—Most Federal programs are paid for from general tax revenues. Yet some programs are focused on a small subset of users who finance those programs through direct user fees. For example, financial services firms pay user fees in order to finance regulatory activities in their industry. In a number of cases, the budget proposes to expand the financing of specific programs that benefit a clearly identifiable group of users through new or expanded user fees. These proposals will reduce 2006 spending by \$0.8 billion, 2006-2010 spending by \$6.9 billion, and 2006-2015 spending by \$14.3 billion.

## **Budget Enforcement and Other Reforms**

In the spring of last year, the Administration transmitted to the Congress a comprehensive budget enforcement legislation package in the form of the Spending Control Act of 2004. The Administration plans to re-propose that legislation, including appropriate updates and revisions, shortly. In addition, administrative steps will be taken to ensure that Executive Branch regulatory actions do not increase spending.

## Department of Agriculture: Discretionary Proposal Formula and Competitive Research Grants

### Funding Summary

(In millions of dollars)

	<u>2005</u> <u>Enacted</u>	<u>2006</u> <u>Proposed</u>	<u>Change</u> <u>From 2005</u>
Budget Authority.....	386	425	39

### Background

The Federal Government has provided financial assistance through formula grants to institutions of higher education, including land-grant universities for many years. Funding for these grants are not allocated to eligible institutions based on performance or merit based criteria, but instead generally are based on each State's farm and rural populations.

### Administration Action

This proposal would reallocate \$106 million in resources to competitive grants from three existing formula grant programs (Hatch, McIntire-Stennis and Animal Health and Disease) that are restricted to only certain, generally land grant, institutions, as part of a phase out of formula funds for these programs. It would establish a new competitive grant program of \$75 million for research that would be allocated to these institutions, and increase funding for the National Research Initiative (NRI) from \$180 million to \$250 million. All research institutions, including the land grant universities, would be able to compete for NRI funds, including the additional \$70 million requested in 2006. Competitive research grants that can be targeted to high priority national needs represent the most flexible and effective use of Federal dollars. The 2006 Budget will also propose to eliminate the current artificial limitation on indirect costs, in order to put USDA on an even level with other Federal programs. This limitation discourages researchers from applying to the NRI program.

**Department of Agriculture: Discretionary Proposal  
Research and Extension Grant Earmarks and Low Priority Programs**

**Funding Summary**

(In millions of dollars)

	<u>2005 Enacted</u>	<u>2006 Proposed</u>	<u>Change From 2005</u>
Budget Authority.....	180	---	-180

**Background**

The Congress provides funding for research and extension grants earmarked to specific locations and for specific purposes, often for work that may not be in the national interest or a Federal responsibility. Examples of these earmarks include: asparagus technology and production, jointed goatgrass control, dairy and meat goat research, and alternative salmon products. Many of these projects have received continuous funding for more than a decade. The Congress has continued to provide funding for such earmarks, at increasingly higher levels in recent years.

**Administration Action**

In the 2006 Budget, the Administration proposes not continuing about 280 research and extension grants that are earmarked to specific projects and locations, as well as several lower priority programs. These “earmarks” and lower priority projects do not represent the most effective use of Federal dollars. The Administration proposes that such funding be redirected to competitive, peer reviewed grants. Competitive grants that are peer reviewed and can be targeted toward high priority National needs are a more effective use of Federal research funding. The 2006 Budget also includes an increase of \$70 million (+39 percent) in the National Research Initiative competitive grant program.