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The President's Budget: Promises Kept

Last night, President Bush presented a budget plan to pay down the debt, reduce taxes for all taxpayers, and invest additional resources in critical areas including education, health care, and defense. It represents a giant step towards the fulfillment of the promises made on the campaign trail. Here are some highlights:

REVENUES

Under the budget, federal receipts will grow from \$2.1 trillion in 2001 to \$3.2 trillion in 2011, an increase of 51 percent. Overall, the budget projects total collections of \$28.9 trillion over the next 10 years.

The President's budget includes \$1.6 trillion in tax relief over the next 10 years, or 6 percent of all the revenues the government expects to collect during that time. His specific proposals include across-the-board marginal rate cuts, a doubling of the child tax credit to \$1,000, marriage penalty relief, and elimination of the Death Tax.

The tax cuts are designed to promote economic growth while reducing the record tax burden currently shouldered by American families. The plan embraces three important goals:

Tax Relief for All Taxpayers: While Democrats pick and choose who gets tax relief, the Bush tax cut would benefit all taxpayers. If you pay income taxes to the federal government, you get tax relief. A typical family of four would see its tax bill reduced by at least \$1,600, while six million middle-income families see their tax burden eliminated entirely.

Taxes That Are More Fair/More Progressive: The Bush plan recognizes what most Americans believe – that no taxpayer should pay more than one-third of his income to the federal government. Since 1980, the top tax rate has declined from 70 percent to 40 percent. During that time, the tax burden on the top 1 percent of taxpayers has doubled – from 17 to 34 percent of all income taxes paid.

The Bush plan would reduce all income tax rates and establish a new top rate of 33 percent. It would also take 6 million families off the income tax rolls. Not surprisingly, the Joint

Committee on Taxation estimates that the tax code will become more – not less – progressive under the Bush tax plan. *Wealthy taxpayers will shoulder a larger portion of the income tax burden* under President Bush’s plan.

Tax Simplification: Bush proposals to reduce the family tax burden and eliminate the Death Tax not only target harshly unfair provisions in the tax code – they make the tax code less complicated and burdensome. Repealing the Death Tax alone would eliminate an entire subtitle of the IRS Code.

SPENDING

Under the Bush Budget, federal spending would grow from \$1.9 trillion in 2001 to \$2.7 trillion in 2011, an increase of 46 percent. For next year, federal spending will increase by more than \$100 billion, including a \$26-billion increase in discretionary spending (4 percent growth).

Education

The President’s budget would increase the Department of Education’s budget from \$39.9 billion in 2001 to \$44.5 billion in 2002 – an increase of 11.5 percent. Since 1998, education funding has grown from \$29.8 billion, an increase of 49 percent. Specifically, the budget calls for:

Leaving No Child Behind: Provides a \$1.6 billion increase in funding to support the President’s “No Child Left Behind” proposal. This proposal targets increased accountability for student performance, reduced education bureaucracy, greater flexibility, and increased choice for parents.

Teacher Quality: Includes \$2.6 billion for states to improve teacher quality through professional development, aggressive recruitment, and innovative retention practices.

School Choice: The budget includes \$150 million to help charter schools acquire, construct, or renovate facilities and to provide alternatives for children in failing schools.

Defense

Of the \$26-billion increase in discretionary spending next year, \$14 billion goes to defense to strengthen our military and improve the quality of life for our men and women in uniform and their families. This budget provides much needed funding for military pay raises and improved health care. And, along with the top-to-bottom review of our military strategy and requirements, this budget is a first step in the process of transforming our military into a 21st-century fighting force ready to meet threats to U.S. security in a changing world.

Health Care

The President's budget would dramatically increase federal health care funding through a number of innovative proposals. His plan is designed to increase access to health care for all Americans. It does so without needlessly raising health care costs:

Medicare Reform and Prescription Drug Benefits: Three important points for Medicare. First, Medicare spending will double over the next 10 years. Second, the plan fully funds "An Immediate Helping Hand," a proposal to help states pay for prescription drugs for low-income seniors over the next four years. Third, it provides for comprehensive reforms that include a Medicare prescription drug benefit over the next 10 years.

Community Health Centers: Community Health Centers provide necessary health care services to low-income Americans in hundreds of neighborhoods nationwide. These services are provided regardless of whether the families have insurance or money. They represent the front line of our nation's health care infrastructure. The Bush budget would increase the number of Community Health Centers from 3,000 to 4,200 over the next five years.

Tax Credits/MSAs: Not all Americans work for an employer who offers health care benefits. Yet the tax code discriminates against those families who have to purchase their own insurance. The Bush budget would offer low-income families who buy their own insurance a refundable tax credit to make health insurance more affordable. In addition, the budget would permanently extend Medical Savings Accounts (MSAs), which will encourage families with limited budgets to save for their health care needs.

National Institutes of Health: The budget would increase NIH funding by \$2.8 billion in 2002 to \$23.1 billion – an increase of 14 percent. The budget calls for doubling NIH's budget from 1998 to 2003.

DEBT REDUCTION, RESERVE FUNDS, And BUDGET ENFORCEMENT

The Bush budget includes several provisions to ensure that the federal budget remains balanced (in surplus, actually) over the next 10 years.

Debt Reduction

According to the OMB (and CBO and Fed Chairman Alan Greenspan), there is a maximum amount of debt that can be redeemed over the next 10 years. The OMB estimates redeemable debt totals \$2 trillion. The President's budget will repurchase all of that debt. To reduce debt further would require the Treasury to offer expensive premiums that would needlessly enrich foreign governments at the expense of American taxpayers. Nobody seriously argues that tracking down bonds that won't come due for 20 years and paying an expensive premium for them is a good idea.

By redeeming \$2 trillion in debt over the next 10 years, the Bush budget would reduce overall levels of debt held by the public to \$1.2 trillion. That's just 6.5 percent of GDP – the lowest level of debt since before World War II.

Reserve Fund

The budget recognizes that 10-year estimates can be uncertain. For that reason, it leaves \$800 billion in undesignated funds out of the \$5.6 trillion surplus. Unlike the Democrat plan, which fraudulently claims to pay down debt that can't be redeemed in the next 10 years, the Bush budget would provide an \$800-billion cushion. If future revenues don't grow as expected, then there will be no need to cut spending or raise taxes in the future.

If revenues equal or exceed projections, then Congress and the President will have to come together in future years to decide what to do with the surplus funds. Additional tax relief is one option. Financing reforms to Social Security, including Personal Savings Accounts, is another.

Spending Caps

It's no coincidence that since Congress enacted statutory spending caps in 1990, discretionary spending growth has slowed and budget surpluses have emerged. Spending growth in the 1990s (despite the recent binge that ignored the caps) was just about half the growth of spending compared to the 1980s. The Bush budget recognizes this success by reviving the caps and the point of order against spending which would exceed those caps.

In addition, the budget calls for establishing a National Emergency Reserve, eliminating advanced appropriations, restoring the line-item veto, and writing two-year budgets. The net effect of these budget reforms would be to help control federal spending over the next 10 years, protect the taxpayers, and protect the surplus.

PROMISES KEPT

The net result of the Bush budget would be to dramatically reduce our national debt and the record tax burden, all while providing increased funding for education, health care, national defense, and other priority areas. It keeps the faith with the American people by living up to President Bush's campaign promises and provides Congress with a viable starting point for moving a budget this year.

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