



Talking Tax Cuts: The Bush Proposal: *A Modest Start*

February 2001

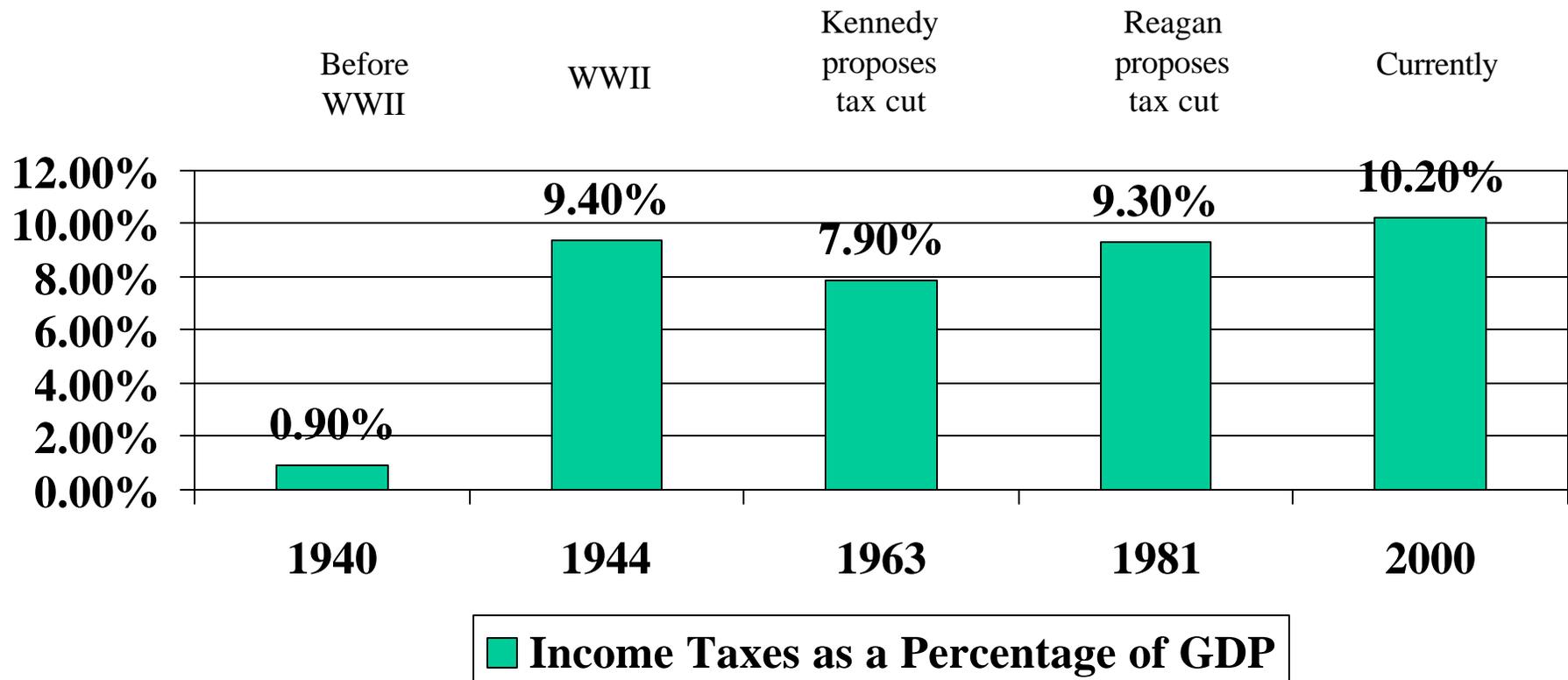
While opponents of President Bush's proposed tax cut have attempted to paint his proposal as extreme and risky, a closer inspection reveals that the proposal is moderate and that indeed a larger, more aggressive proposal maybe in order.

The following charts highlight:

- Current Levels of Taxation
- Washington's Surplus Record
- The Bush Plan in Historical Context
- Impact of Tax Relief on Reducing the Public Debt
- Impact of Tax Relief on Future Spending
- The Accuracy of the Surplus Projections
- Federal Revenues After a Tax Cut

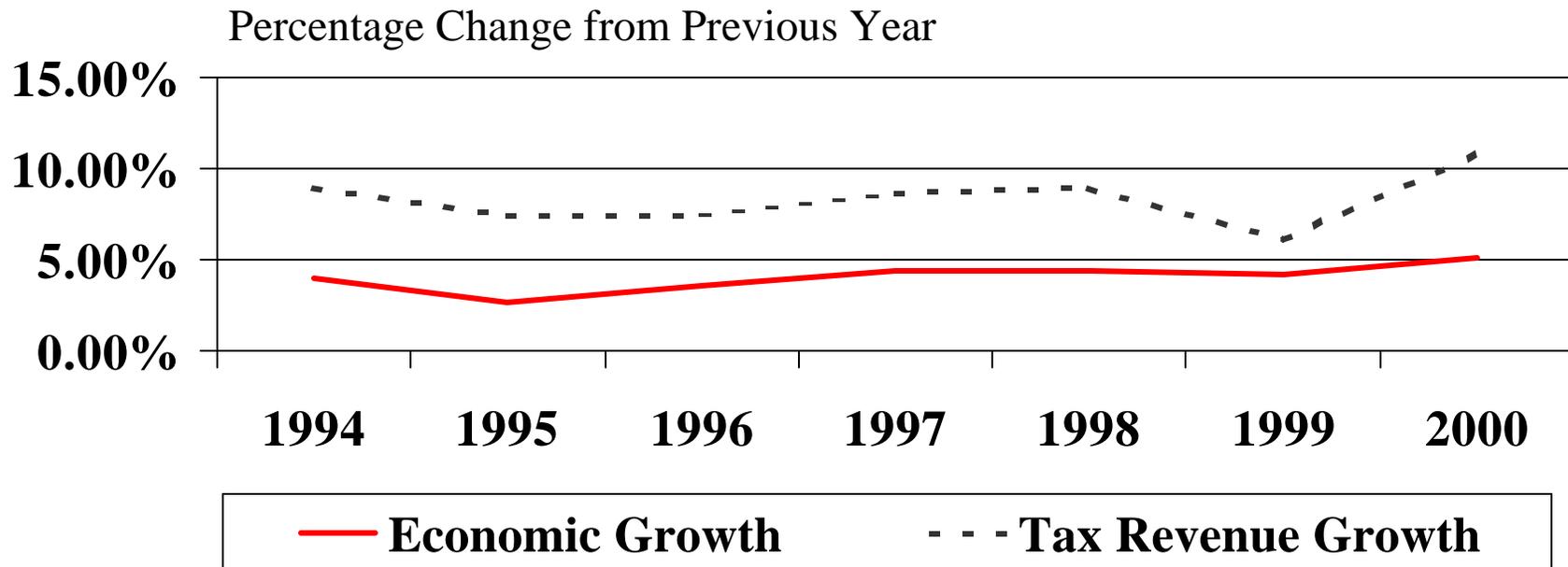
Individual Income Taxes Are at a Record High Level

Individual income taxes, as measured as a percentage of the economy, are at the highest level ever recorded.



Record Levels of Taxation

While the economy has grown at a record pace over the last six years, federal taxes have grown even faster. As a result, today federal taxes are higher as a percentage of the economy than at any time since World War II.

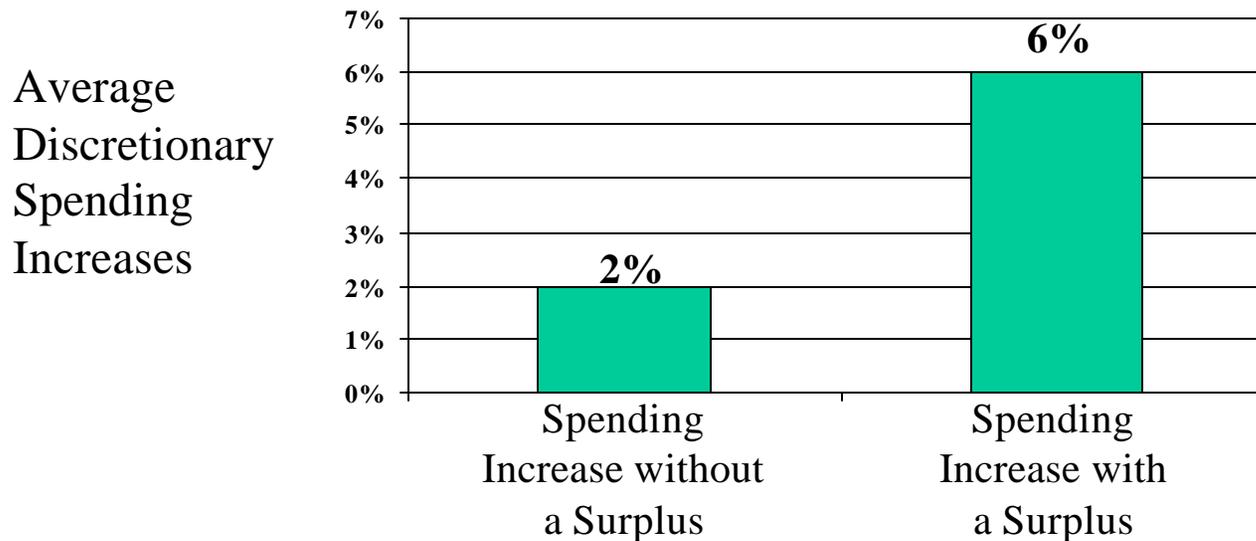


Source: Congressional Budget Office and Economic Report of the President

Washington's Surplus Record

When it comes to safeguarding budget surpluses, Washington has a pitiful record.

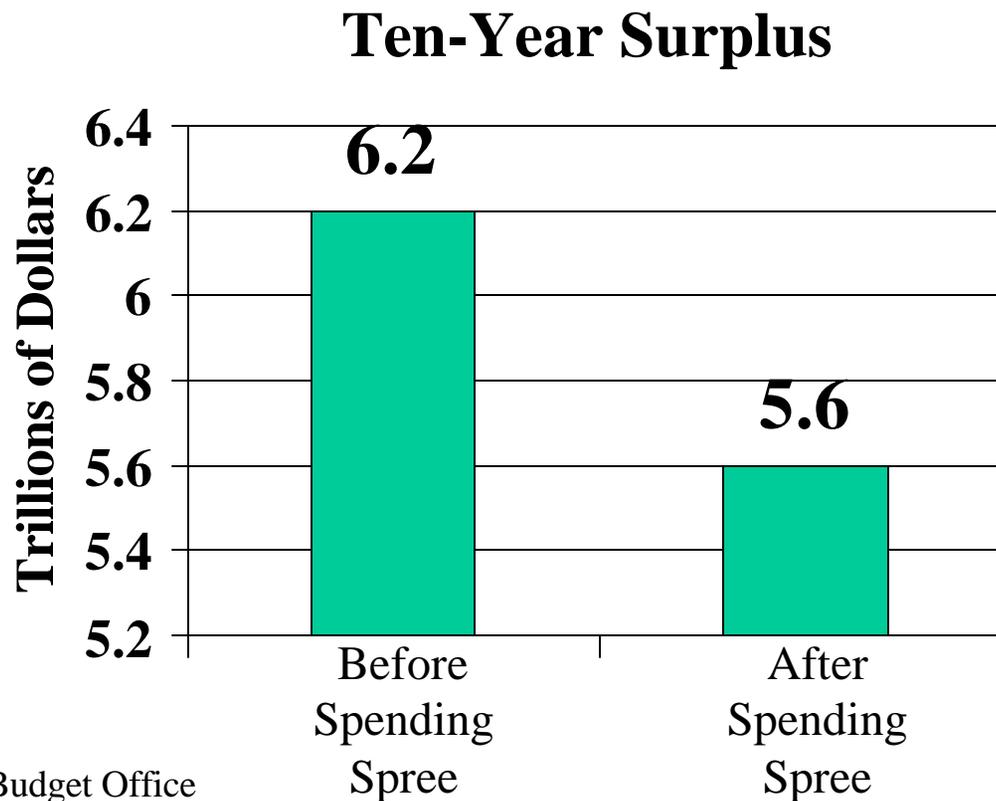
In the three years we have had a surplus, discretionary spending has increased by an average of 6% a year. Prior to the surplus, discretionary spending increased by just an average of 2% a year.



Source: Office of Management and Budget and Congressional Budget Office

Impact of Washington's Spending Spree

The spending spree during the last six months of last year reduced the ten-year surplus by \$561 billion.

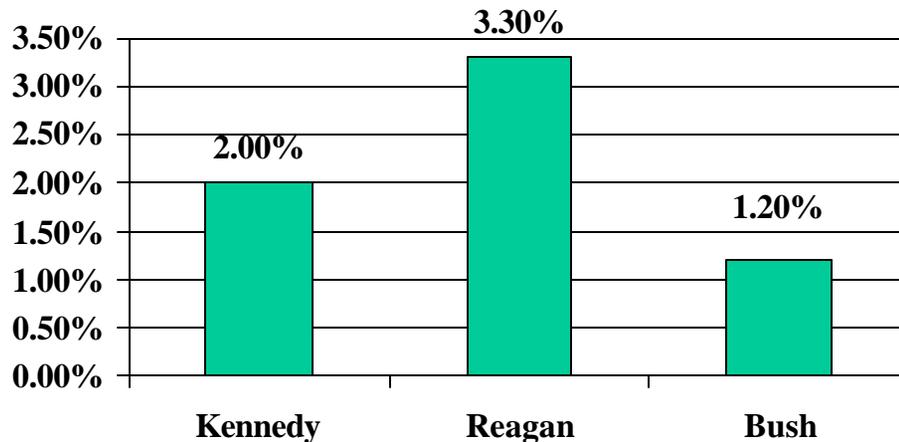


Source: Congressional Budget Office

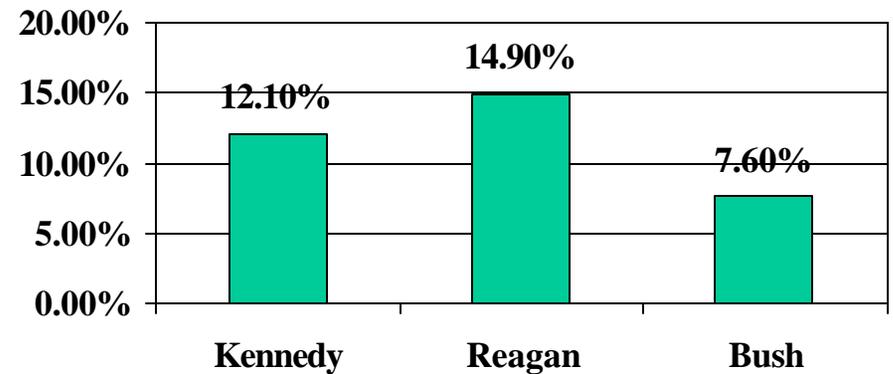
The Bush Tax Cut in Context

The following charts compare President Bush's proposed tax cut with President Kennedy's 1963 tax cut proposal and President Reagan's 1981 tax cut.

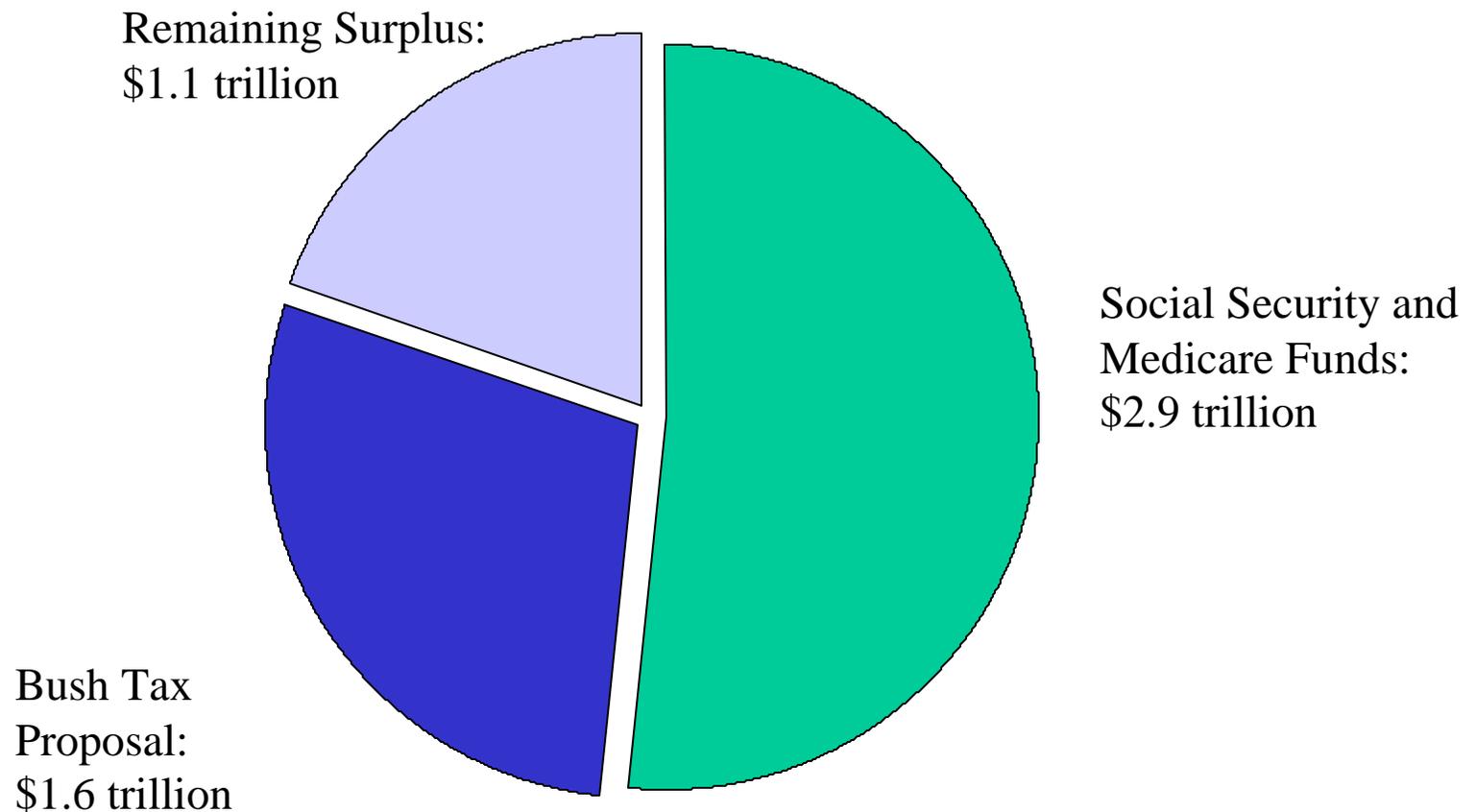
Tax Cuts as a Percentage of GDP



Tax Cuts as a Percentage of Average Government Revenue

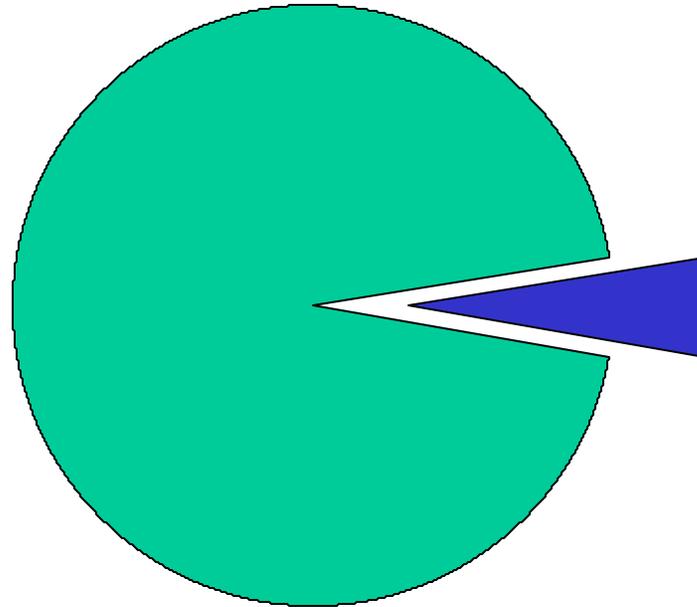


Allocation of the \$5.6 Trillion Surplus



Bush Tax Cut as a Portion of Total Revenues

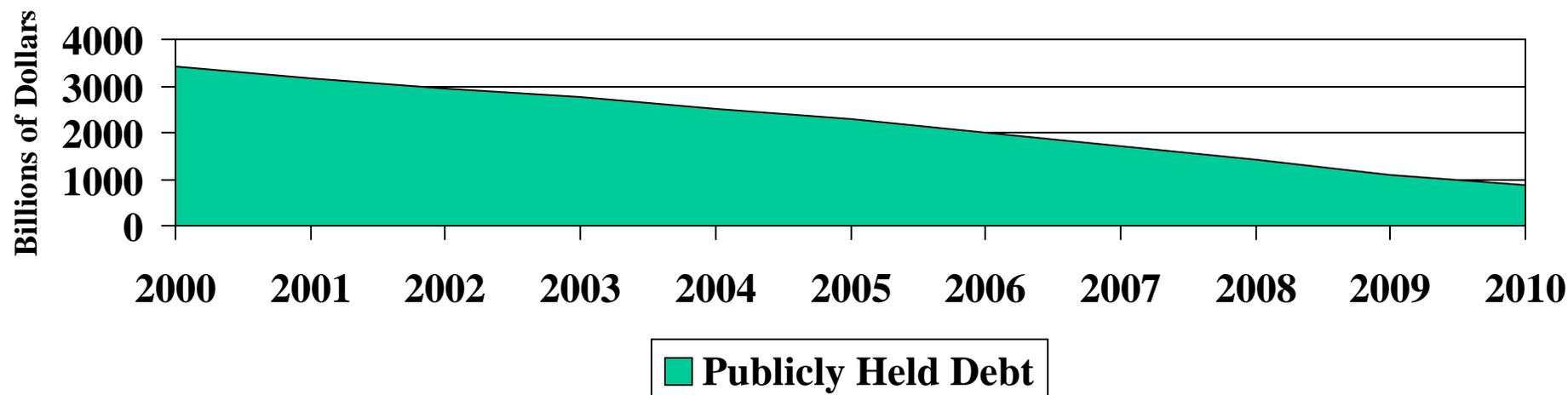
Remaining Government
Revenues:
\$28.4 trillion over 10 years



Bush Tax Cut:
\$1.6 trillion over 10 years

Public Debt With a \$2.2 Trillion Tax Cut

Even if Congress passes a \$2.2 trillion tax cut, \$600 billion larger than President Bush's proposal, all available publicly held debt will be paid off by 2010.



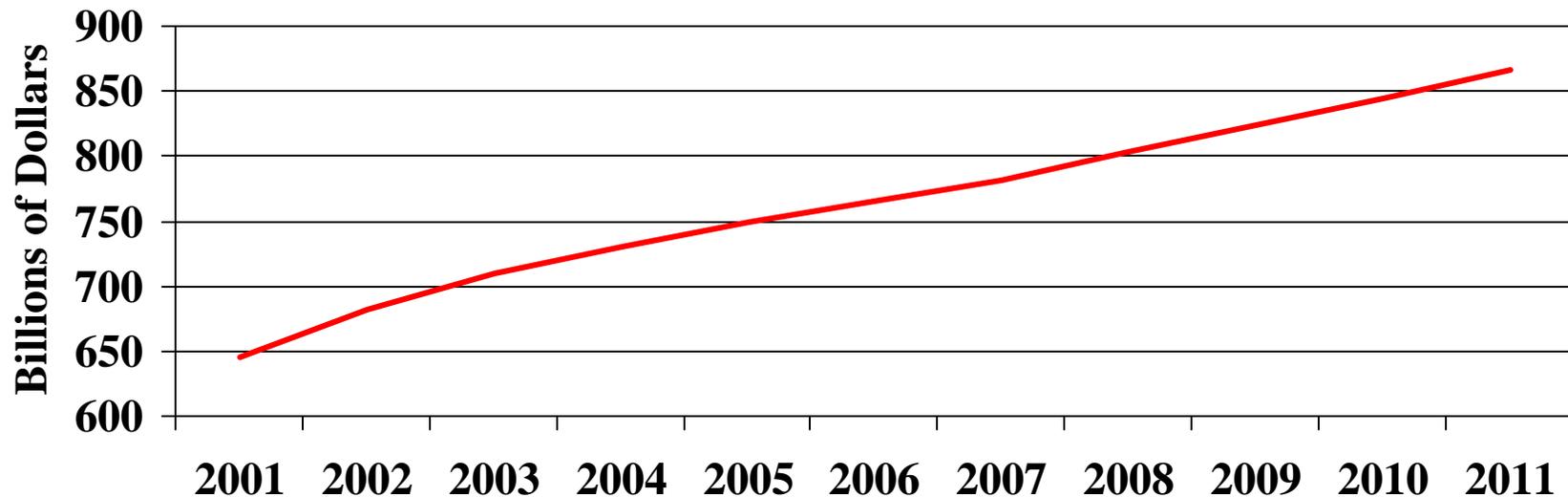
The debt remaining in 2010 consists of 30-year Treasury bills, savings bonds, and debt held by state and local governments all of which cannot be redeemed.

Source: Congressional Budget Office & RSC calculations

Spending Over the Next Ten Years

The \$5.6 trillion surplus estimate is based on the assumption that discretionary spending, which includes programs such as defense, education, and medical research, would continue to increase each year in order to keep pace with inflation. Over ten years, we will spend an extra \$1 trillion on discretionary spending.

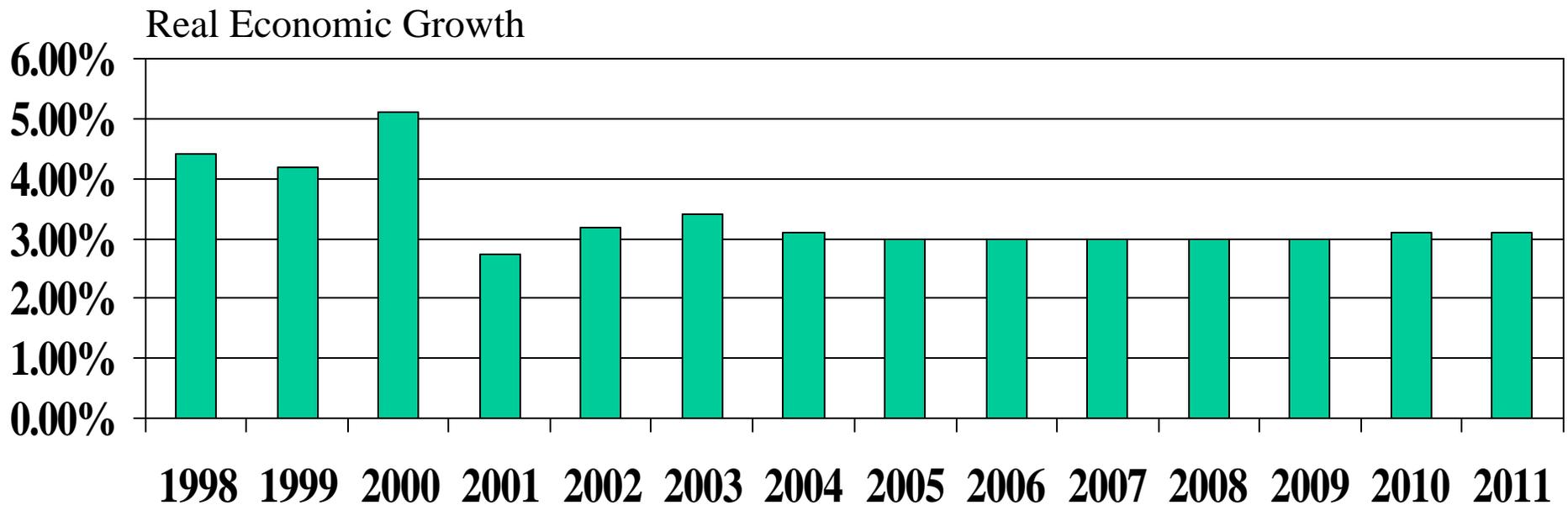
Projected Discretionary Spending



Source: Congressional Budget Office

Accuracy of Projections

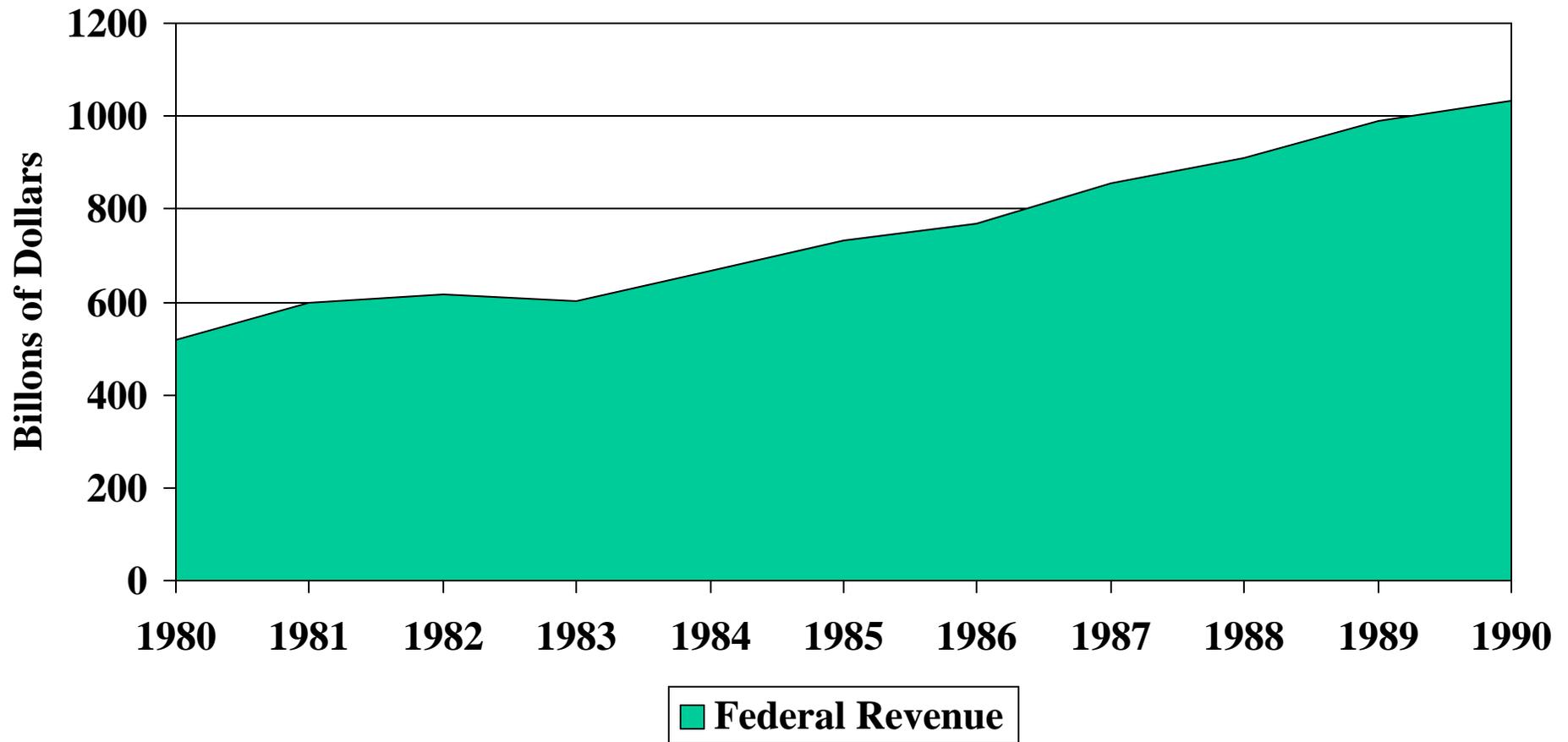
The economic variables used to project future surpluses assume that over the course of the next ten years, there will be a recession of average length and severity. However, rather than predicting exactly when a recession will occur, the projections average the impact of the recession over the ten- year period.



Source: Congressional Budget Office: 1998 and 1999 actual, 2000 estimated, 2001 through 2011 projected

Federal Revenues 1980 to 1990

--Includes Impact of the Reagan Tax Cut--



Source: Congressional Budget Office