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A MODEST PROPOSAL: HOW TO OFFSET MORE THAN HALF OF THE PRESIDENT'S ORIGINAL TAX CUT

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The federal government is projected to collect \$27.9 trillion in taxes over the next 10 years. President George W. Bush has proposed a \$726 billion tax relief package that would drop that total to “only” \$27.2 trillion. While that amount seems sufficient to satisfy Washington’s spending appetite, a group of Senators opposed to any tax cut larger than \$350 billion has pushed through a budget resolution that leaves the door only slightly open for a \$550 billion tax cut. These Senators have described all proposals that would tax less than \$27.6 trillion over the next decade as “unaffordable.”

Some of these Senators argue that painful budget deficits and economic hardships await Washington if it fails to collect the extra \$376 billion. Budget deficits, however, depend as much on government spending as they do on revenues.

Increasing the tax cut from \$350 billion to the \$726 billion originally proposed by President Bush and passed by the U.S. House of Representatives would *not* increase the budget deficit if spending restraint offsets the additional tax relief. Offsetting the rest of the tax cut would require that Congress cut just \$376 billion out of the \$27 trillion (or 1.4 percent) that they are scheduled to spend over the next decade. Eliminating the wasteful spending listed in Table 1 would do that.

The almost \$387 billion saved would cover the rest of the House tax package of \$726 billion, plus an additional \$11 billion for any contingencies. But why stop there? Congress could set aside an additional \$100 billion for pro-growth tax relief by enacting the proposals listed in Table 2.

It is important to remember that the revenue loss from the President’s tax proposal will likely be much less than the \$726 billion static estimate. Increased economic growth will likely recover anywhere from 25 percent to 60 percent of the revenue loss. If Congress still insists on projecting a \$726 billion revenue loss and offsetting all costs beyond \$350 billion, the opportunities for spending offsets are numerous. All Congress needs is the will to act.

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Table 1

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Proposal	Savings in \$ millions	
	2004	2004–2013
Eliminate "unreconciled transactions" — federal spending for which the U.S. Treasury's auditors cannot account.	\$17,100	\$171,000
Fix Medicare payment errors.	12,100	121,000
Fix housing payment errors.	3,300	33,000
Fix other payment errors identified by the Office of Management and Budget.	2,500	25,000
Fix food stamp payment errors.	1,300	13,000
Drop the wealthiest communities from Community Development Block Grants.	12	5,332
Consolidate the Defense Department's retail and grocery stores into a single chain.	231	5,081
End Amtrak subsidies for the most unprofitable routes.	278	3,241
Exclude repeatedly flooded properties from federal flood insurance bailouts.	0	2,481
Consolidate and encourage efficiencies in military exchanges.	53	1,745
Merge Defense Department and Veterans Affairs drug purchases.	38	1,732
Limit annual fixed and countercyclical farm subsidy payments to a combined \$75,000 per person.	156	1,654
Merge many of the veterans' facilities with low demand.	0	1,642
Sell the Southeastern Power Administration.	0	1,060
Total:	37,068	386,968

Source: For further details on these and many more budget recommendations, see Brian M. Riedl, "Ten Guidelines for Reducing Wasteful Government Spending," Heritage Foundation *Backgrounder* No. 1622, February 12, 2003, at www.heritage.org/Research/Budget/BG1622.cfm, as well as Congressional Budget Office, "Budget Options," March 2003, at www.cbo.gov. See also The Heritage Foundation's Budget Information Site, at www.heritage.org/research/forums/budgetoptions.cfm.

Table 2

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Proposal	Savings in \$ millions	
	2004	2004–2013
Improve and modernize the Consumer Price Indexes to better reflect the true rate of inflation.	\$3,000	\$30,000
Repeal the Davis-Bacon and Service Contract Acts.	1,100	20,000
Defund the "New Starts" transit program.	239	13,628
Defund "High-Priority" highway projects.	190	13,044
Close down the Small Business Administration.	1,000	10,000
Eliminate the Export-Import Bank, Overseas Private Investment Corporation, and Trade and Development Agency.	72	5,307
Privatize the Institute of Museum Services and Library Services.	133	2,600
Eliminate the Advanced Technology Program.	24	1,705
Eliminate the Market Access Program.	6	1,635
Eliminate the Neighborhood Reinvestment Corporation.	107	1,177
Eliminate the Manufacturing Extension Partnerships.	17	1,073
Eliminate the Foreign Market Development Program.	24	335
Total:	5,912	100,504

Source: For further details on these and many more budget recommendations, see Brian M. Riedl, "Ten Guidelines for Reducing Wasteful Government Spending," Heritage Foundation *Backgrounder* No. 1622, February 12, 2003, at www.heritage.org/Research/Budget/BG1622.cfm, as well as Congressional Budget Office, "Budget Options," March 2003, at www.cbo.gov. See also The Heritage Foundation's Budget Information Site, at www.heritage.org/research/forums/budgetoptions.cfm.