BUSH'S FISCAL 1993 BUDGET: MORE TAXES, MORE SPENDING, AND MISSED OPPORTUNITIES

George Bush's proposed fiscal 1993 budget was delivered to Capitol Hill today. It increases federal domestic spending, already at record levels thanks to the 1990 budget deal, by another $51.6 billion next year. This means that this spending will soar 81 percent faster than projected inflation. And the Bush budget calls for more than $25 billion of new taxes over the next five years. While the budget includes some useful items, it falls far short of giving America what is needed to resuscitate the economy. The big problem, it seems, is that the Bush White House stubbornly insists on staying with the straitjacket of the 1990 budget accord although the premises to justify the accord long ago were discredited and lay in tatters.

Last year, the Administration repeatedly promised that a major growth package to lift America out of recession would be included in the budget announced in yesterday's State of the Union speech. The promise was unfulfilled. The President's anti-recession package, while including worthwhile recommendations, is insufficient to undo the damage done by the record tax increase. Indeed, many of the President's putative "growth" proposals are little more than budget gimmicks; some actually will reduce the economy's potential if enacted.

A key element of the Bush plan is a proposal to reduce the capital gains tax rate from 28 percent to 15.4 percent. If enacted, this partially would reduce the tax bias against capital formation. Yet the benefits to the economy of the tax cut are limited by restrictions imposed by Bush. A taxpayer would have to hold an asset at least three years to qualify for the 15.4 percent tax rate. Most of America's major trading partners do not tax capital gains at all, much less apply three-year holding periods. Nor does the Bush proposal index capital gains to protect savers and investors from paying taxes on gains that are caused only by inflation. Finally, the President's capital gains tax cut would not apply to corporations, leaving the cost of capital for businesses at uncompetitively high levels.

Other Bush proposals to encourage savings and investment also have serious flaws. A 15 percent Investment Tax Allowance applies only to equipment acquired between February 1, 1992, and January 1, 1993. This a pleasant windfall for those who make qualifying investments during the eleven-month window. But it will do little or nothing to address the tax code's punishment of capital beyond that period.

Misplaced Faith. While the Bush budget's commitment to growth is very weak, its faith in the discredited notion that more government spending will arrest the economy's decline is very strong. Bush specifically promises to spend more money quicker than originally planned, supposedly to jump start the economy. The federal government spending money faster, however, simply means that it also will increase the budget deficit faster, borrowing money sooner than planned from private credit markets. If more economic growth is desired, Bush should slow federal spending, not increase it. Indeed, if more federal spending were the answer to the recession, the economy should be booming today because of the record spending increases of the last three years.

Bush probably recognizes that he is wrong to urge more federal programs because he tries to disguise the big spending increases for several government programs as part of a growth package. Taxpayers apparently are asked to believe that porkbarrel spending for the Space Station, the Superconducting Supercollider, money-losing mass transit systems and highway projects somehow will stimulate the economy. Also included as pro-growth spending are outlays for education. Whatever the merits of these educational policies, and few expect them to improve America's schools, they will not help the economy grow. Bush misleads the public when he says they will. Even federal subsidies for birth control are characterized as pro-growth, as are drug abuse programs and child care block grants. Bush now seems to believe that all federal spending is "pro-growth."

Bush claims that reducing the amount of money that the federal government withholds from workers' paychecks will stimulate economic growth, even though such a change only will give money to workers today that would be refunded later. This is not a bad idea. Workers should not be forced to make what, in effect, are interest-free loans to the federal government. But altering withholding schedules does nothing to increase incentives to work, save, and invest. Bush also asserts that a proposed $500 increase in the personal exemption for children, which would give less than 21 cents extra per day per child to an average family, will stimulate economic growth.

Hollow, too, is Bush's proposal to freeze budget authority for domestic discretionary spending. Despite this proposal, the Bush budget calls for actual domestic discretionary spending to grow $8.5 billion, 18 percent faster than needed to keep pace with inflation. Only on the entitlement side does Bush genuinely try to hold down costs by proposing spending caps for mandatory domestic programs. This proposal could begin to deal with the explosive growth of entitlement spending unleashed by Bush himself when he acquiesced to the 1990 budget deal.

Compounding the Damage. In general, the Bush budget, despite the mega-decibel buildup, fails to address the federal spending crisis. The $50 billion-plus of proposed new domestic spending in the budget will simply compound the damage caused by large spending increases enacted during the first three years of the Bush Presidency. When Bush took office in 1989, federal spending consumed 22.1 percent of gross domestic product. Now it consumes 24.9 percent. Domestic spending alone has climbed more than 35 percent since 1989, making Bush the biggest spender in the post-World War II era. With such a poor record on fiscal policy, it is little wonder that the deficit has jumped from $153 billion when Bush took office to an estimated $399 billion this year.

After triggering America's longest modern recession by backing the record tax increase of 1990, Bush should have learned to "just say no" to taxes. Yet the 1993 budget contains at least $25 billion of new taxes over the next five years, including many which are misleadingly labeled as user fees and spending cuts.

The budget proposed today by Bush at best can help the American economy only slightly. If lawmakers wish a return to the strong economic growth of the 1980s, when jobs and new businesses were created rather than, as they are now, destroyed, they should take the few positive elements in the Bush plan and combine them with real spending and tax cuts. Only in this way can they put America back on the road to prosperity.

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For further information:

Scott A. Hodge, ed., *A Prosperity Plan for America—Fiscal 1993* (Washington, D.C.: The Heritage Foundation, 1992)