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SPECIAL REPORT

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The President's Fiscal Year 2000 Budget

Low- and Middle-Income Taxpayers to Pay Lion's Share of New Revenue Despite Record Surplus

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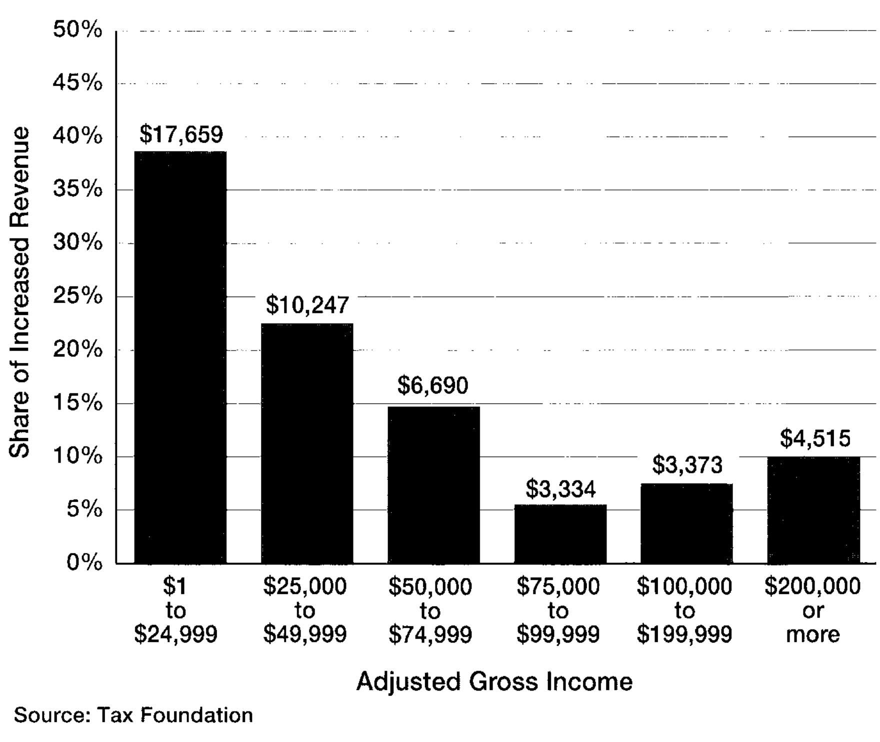
President Clinton's newly proposed budget plans on a steadily growing series of budget surpluses over at least the next ten years. To ensure the surpluses, the Administration plans to hold the line on most types of federal spending while increasing the current record peacetime level of federal taxation.

Figure 1
Distribution of Net Revenue Increases in the President's Budget by Income Class
Fiscal Years 2000-2004
Millions of Dollars



Source: Tax Foundation

Ostensibly to bolster the failing Social Security and Medicare programs, the Clinton plan would use more than three quarters of the projected surplus to reduce federal debt. Another 12 percent would be used to fund private savings accounts, and the balance would fund new spending initiatives.

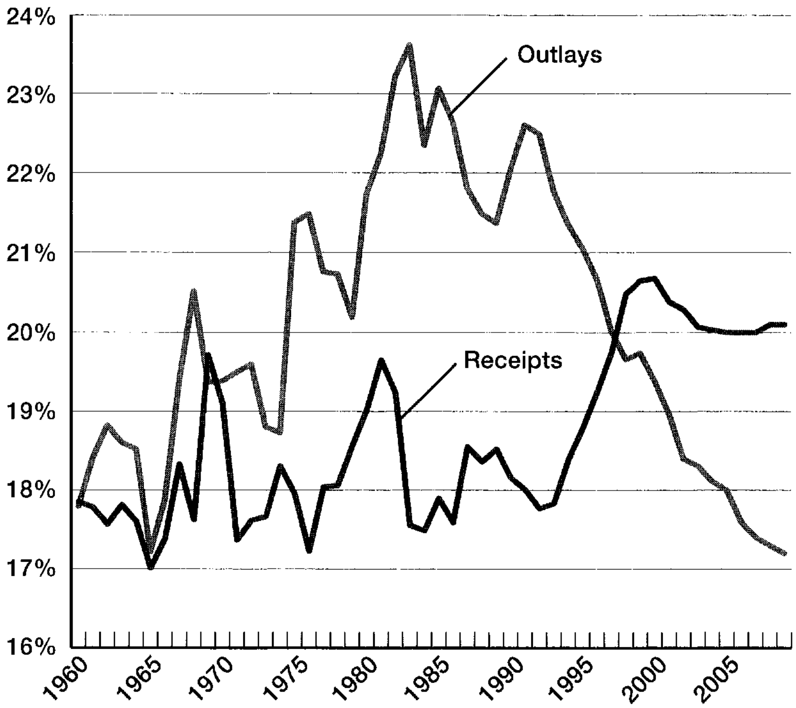
Some programs would see an increase over the next five years, notably education and training programs as well as funding for roads and other transportation projects. The budget also calls for additional spending for more teachers, after-school programs, and Head Start. The Administration's plan to use surplus funds to pay down the national debt would significantly lower interest expenses while entitlement spending remains essentially unchanged under the plan.

On the revenue side of the ledger the Clinton plan contains a mix of tax and fee increases as well as a host of tax credits. These would, on net, boost federal revenues by $45.8 billion over the next five years. Revenue raisers include a 55-cent-per-pack hike in the federal cigarette tax and higher corporate income taxes. The revenue reducers are a myriad of tax credits that would subsidize activities ranging from long-term medical care to first-time home purchases in the District of Columbia.

Which Income Groups Will Pay the New Taxes

Figure 1 shows the net distributional effects of the Clinton plan. Individuals with adjusted gross incomes of less than $25,000 would bear 38.5 percent of the increased tax burden, or $17.7 billion. People in the

Figure 2
Federal Receipts and Outlays as a Percentage of GDP
Fiscal Years 1960–2009



Source: Tax Foundation, Office of Management and Budget.

$25,000–$50,000 range would pay 22.4 percent of the new revenue, or $10.2 billion. Taxpayers making $50,000–$75,000 would pay $6.7 billion in additional taxes, or approximately 14.6 percent of the total. In sum, then, over 75 percent of the President's new tax revenue would be paid by people whose tax returns report less than $75,000.

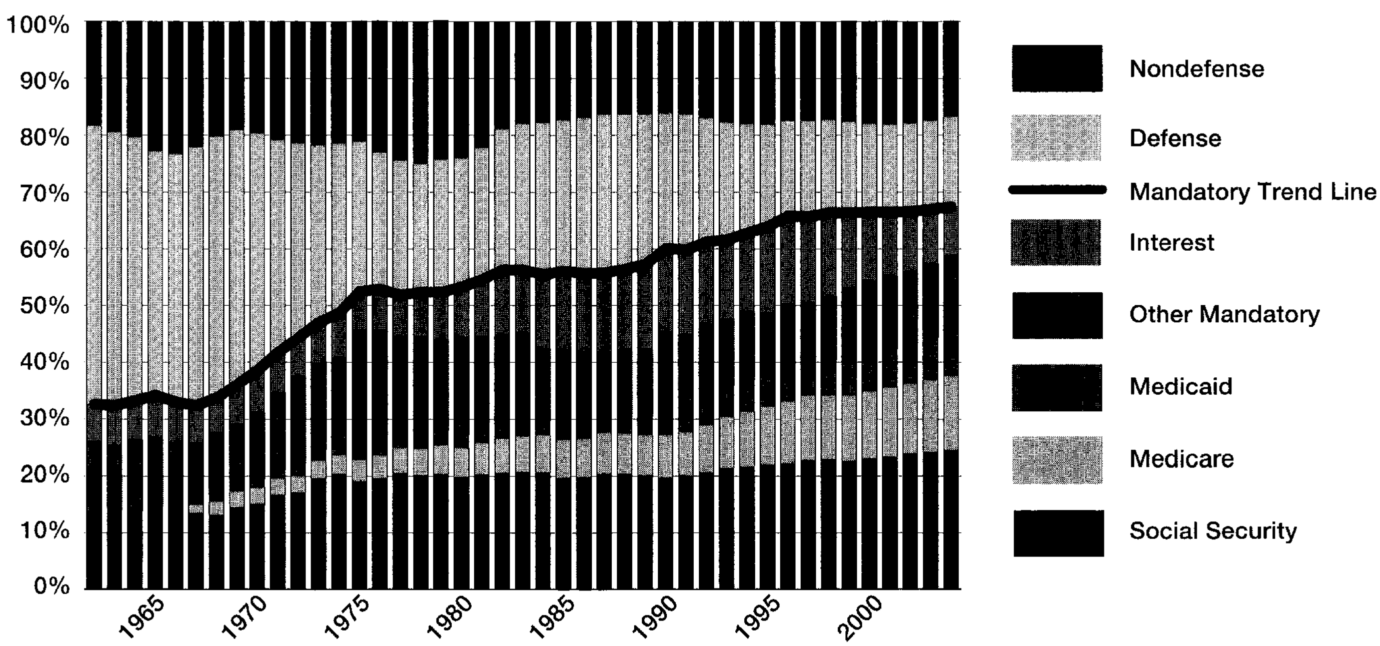
Upper-income taxpayers would not escape entirely, but as Figure 1 illustrates, their share of the increased tax burden is much smaller. Cumulatively, individuals in these three categories would bear only 24.5 percent of the increased tax burden. This regressive slant against low- and middle-income taxpayers results largely from the Administration's proposal to boost the federal cigarette tax. Probably the most regressive of all federal taxes, the cigarette tax would be the largest revenue raiser in the President's budget proposal.

The Budget Outlook

Figure 2 illustrates federal receipts and outlays as a percentage of GDP under the Clinton plan, given in historical context.

Federal receipts would grow 4.2 percent from $1,806.3 billion in 1999 to $1,883.0 billion in 2000. That is an uptick from 20.6 percent to 20.7 percent of GDP. By 2004, federal receipts would grow to $2,165.5 billion, or 20.0 percent of GDP. By 2009, federal

Figure 3
Federal Outlays by Type
Fiscal Years 1962–2004



Source: Tax Foundation, Office of Management and Budget.

receipts would rise to $2,707.7 billion, or 20.1 percent of GDP.

Only twice in American history—during the two closing years of World War II—did federal receipts ever exceed 20 percent of GDP. From this perspective, the Clinton proposal is truly historic in that it would fix federal receipts at this extraordinary level.

Federal outlays would rise from $1,727.1 billion in FY 1999 to $1,765.7 billion in FY 2000. They would rise to $1,992.0 billion in 2004. As a percentage of GDP, however, federal outlays would fall steadily from 19.4 percent in FY 2000 to 18.4 percent in 2004, then even further to around 17 percent in FY 2009.

Federal Expenditures

The budget shares of the major categories of federal spending under the Clinton plan are illustrated by the five columns of Figure 3 corresponding with fiscal years 2000-2004. Historical data is provided for context. (See also Tables 1 and 2.)

Federal outlays are divided into two broad categories, discretionary and mandatory/net interest. Discretionary spending is determined by the annual appropriations process, while so-called mandatory outlays are predetermined by statute. To alter mandatory spending levels, the program's authorizing legislation must be amended. Since interest payments on federal debt are a pre-existing legal obligation, they are

Table 1
Federal Outlays by Type
Fiscal Years 1962-1999
($Billions)

		Discretionary			Mandatory						
	Total Outlays	Total	Defense	Non-Defense	Total	Social Security	Medicare	Medicaid	Other	Net Interest	Memo: GDP
1962	$ 106.8	$ 72.1	$ 52.6	$ 19.5	$ 27.9	$ 14.0	$ 0.0	$ 0.1	$ 13.8	$ 6.9	$ 567.5
1963	111.3	75.3	53.7	21.5	28.3	15.5	0.0	0.2	12.6	7.7	598.3
1964	118.5	79.1	55.0	24.1	31.2	16.2	0.0	0.2	14.8	8.2	640.0
1965	118.2	77.8	51.0	26.8	31.8	17.1	0.0	0.3	14.4	8.6	686.7
1966	134.5	90.1	59.0	31.2	35.0	20.3	0.0	0.8	13.9	9.4	752.8
1967	157.5	106.4	72.0	34.4	40.7	21.3	2.5	1.2	15.7	10.3	811.9
1968	178.1	117.9	82.2	35.8	49.1	23.3	4.4	1.8	19.6	11.1	868.1
1969	183.6	117.3	82.7	34.6	53.7	26.7	5.4	2.3	19.3	12.7	947.9
1970	195.6	120.2	81.9	38.3	61.1	29.6	5.8	2.7	22.9	14.4	1,009.0
1971	210.2	122.5	79.0	43.5	72.9	35.1	6.2	3.4	28.2	14.8	1,077.7
1972	230.7	128.4	79.3	49.1	86.8	39.4	7.0	4.6	35.8	15.5	1,176.9
1973	245.7	130.2	77.1	53.1	98.1	48.2	7.6	4.6	37.7	17.3	1,306.8
1974	269.4	138.1	80.7	57.3	109.8	55.0	9.0	5.8	40.0	21.4	1,438.1
1975	332.3	157.8	87.6	70.2	151.3	63.6	12.2	6.8	68.6	23.2	1,554.5
1976	371.8	175.3	89.9	85.4	169.8	72.7	15.0	8.6	73.5	26.7	1,730.4
1977	409.2	196.8	97.5	99.3	182.5	83.7	18.6	9.9	70.3	29.9	1,971.4
1978	458.7	218.5	104.6	113.8	204.8	92.4	21.8	10.7	79.9	35.5	2,212.6
1979	504.0	239.7	116.8	122.9	221.7	102.6	25.5	12.4	81.2	42.6	2,495.9
1980	590.9	276.1	134.6	141.5	262.3	117.1	31.0	14.0	100.2	52.5	2,718.9
1981	678.2	307.8	158.0	149.7	301.7	137.9	37.9	16.8	109.0	68.8	3,049.1
1982	745.8	325.8	185.9	139.9	334.9	153.9	45.3	17.4	118.3	85.0	3,211.3
1983	808.4	353.1	209.9	143.3	365.4	168.5	51.2	19.0	126.7	89.8	3,421.9
1984	851.9	379.2	228.0	151.2	361.5	176.1	56.0	20.1	109.3	111.1	3,812.0
1985	946.4	415.7	253.1	162.6	401.3	186.4	64.1	22.7	128.2	129.5	4,102.1
1986	990.5	438.3	273.8	164.5	416.1	196.5	68.4	25.0	126.2	136.0	4,374.3
1987	1,004.1	444.0	282.5	161.4	421.5	205.1	73.4	27.4	115.6	138.7	4,605.1
1988	1,064.5	464.2	290.9	173.2	448.5	216.8	76.9	30.5	124.3	151.8	4,953.5
1989	1,143.7	488.6	304.0	184.5	485.9	230.4	82.7	34.6	138.2	169.3	5,351.8
1990	1,253.2	500.3	300.1	200.2	568.7	246.5	95.8	41.1	185.3	184.2	5,684.5
1991	1,324.4	533.0	319.7	213.3	596.8	266.8	102.0	52.5	175.4	194.5	5,858.8
1992	1,381.7	534.3	302.6	231.7	648.0	285.2	116.2	67.8	178.8	199.4	6,143.2
1993	1,409.4	540.7	292.4	248.3	669.9	302.0	127.9	75.8	164.2	198.8	6,475.1
1994	1,461.7	543.6	282.3	261.3	715.2	316.9	141.8	82.0	174.4	203.0	6,845.7
1995	1,515.7	545.4	273.6	271.8	738.2	333.3	156.9	89.1	158.9	232.2	7,197.7
1996	1,560.5	534.2	266.0	268.2	785.3	347.1	171.3	92.0	174.9	241.1	7,549.2
1997	1,601.2	548.6	271.7	276.9	808.6	362.3	187.4	95.6	163.3	244.0	7,996.5
1998	1,652.6	554.7	270.2	284.4	854.5	376.1	190.2	101.2	186.9	243.4	8,404.5
1999e	1,727.1	581.2	277.5	303.6	918.6	389.2	202.0	108.5	218.8	227.2	8,747.9

Source: Tax Foundation, Office of Management and Budget.

combined with mandatory outlays in Figure 3.

These two broad categories of federal spending are then subdivided into their major components. Discretionary spending is divided into defense and non-defense outlays. Mandatory and net interest outlays are divided into Social Security, Medicare, Medicaid, other mandatory programs, and net interest.

The thick line delineating the two types of spending in Figure 3 illustrates how the composition of federal outlays has changed over the past three decades. Until the late 1960s, more than 70 percent of all federal spending was discretionary, controlled by the annual appropriations process. Entitlement programs enacted in the late 1960s shifted the balance rapidly to greater mandatory spending. For a time it was possible to partially finance their rapid growth by making offsetting reductions in defense spending, but by the mid-1970s cuts

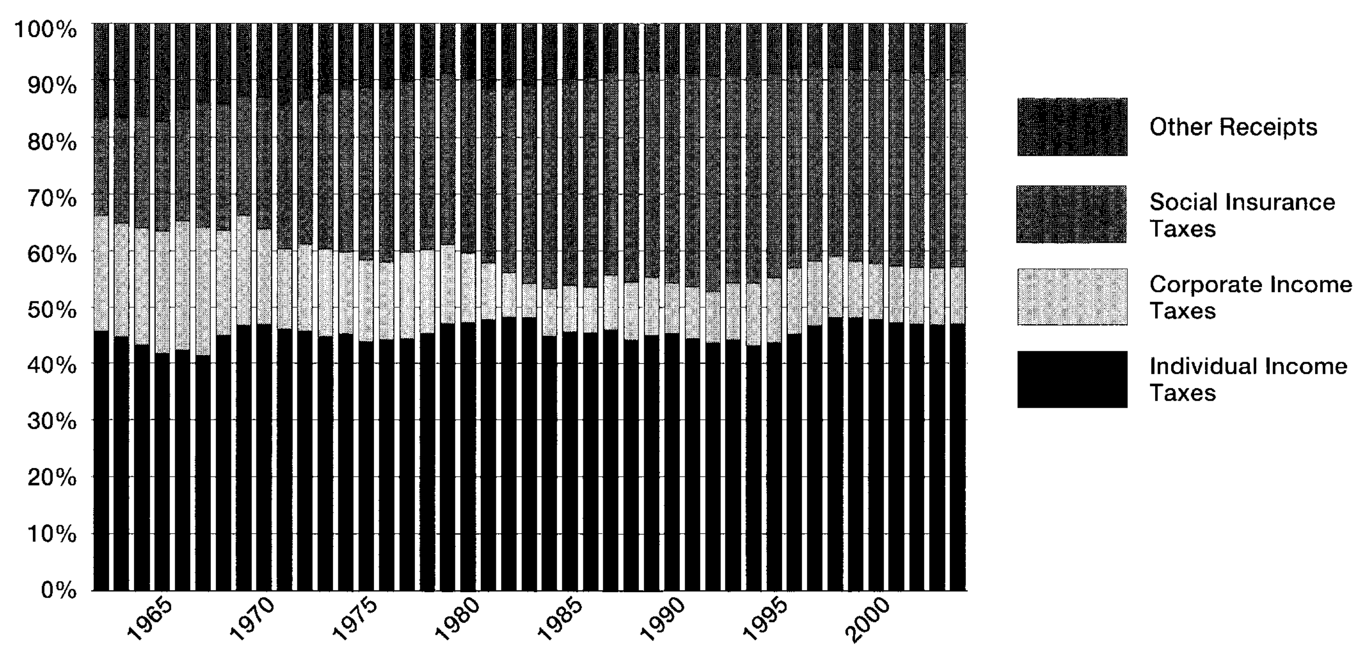
Table 2
Federal Outlays by Type, President's Proposal and OMB Baselines
Fiscal Years 2000–2004
($Billions)

	Total Outlays	Discretionary Outlays	Defense	Non-Defense	Mandatory Outlays	Social Security	Medicare	Medicaid	Other	Net Interest	Memorandum: GDP
President's Proposal*											
2000	$ 1,765.7	$ 591.5	$ 274.8	$ 316.7	$ 959.0	$ 405.2	$ 213.7	$ 114.7	$ 225.4	$ 215.2	$ 9,105.8
2001	1,825.4	612.4	282.7	329.7	1,007.1	423.6	227.7	122.2	233.6	205.9	9,485.3
2002	1,861.1	622.5	292.8	329.7	1,043.9	444.1	231.7	131.1	237.1	194.7	9,893.6
2003	1,929.4	636.3	304.7	331.6	1,109.9	465.1	249.6	141.6	253.6	183.2	10,340.0
2004	1,992.0	649.3	314.4	334.9	1,169.7	487.4	263.4	152.9	266.0	173.0	10,810.4
OMB Baseline											
2000	1,774.2	596.1	279.0	317.1	962.6	405.2	214.9	114.8	227.7	215.5	9,105.8
2001	1,838.2	619.8	289.4	330.5	1,010.5	423.5	229.2	122.4	235.4	207.8	9,485.3
2002	1,883.0	635.4	297.2	338.2	1,048.1	443.9	233.2	131.1	239.9	199.5	9,893.6
2003	1,960.9	653.5	305.4	348.1	1,115.9	464.9	251.2	141.2	258.6	191.5	10,340.0
2004	2,033.3	671.3	313.9	357.4	1,176.9	487.2	265.2	152.3	272.2	185.1	10,810.4

* 2001–2004 discretionary outlays assume the use of contingent resources.

Source: Tax Foundation, Office of Management and Budget.

Figure 4
Federal Receipts by Source
Fiscal Years 1962–2004



Source: Tax Foundation, Office of Management and Budget.

in defense spending were no longer feasible. Figure 2 shows that the budget deficit began to grow rapidly as federal outlays quickly increased as a percentage of GDP. The deficit problem was exacerbated by the perceived need to increase defense expenditures during the 1980s. Since 1989, however, cuts in defense spending have once again cushioned the impact of the rapid growth of mandatory and net interest outlays, allowing the deficit to shrink relative to GDP.

Nondiscretionary Expenditures

Under current law the share of the budget dedicated to mandatory and net interest outlays would grow from 66.4 percent in FY 2000 to 67.0 percent in FY 2004. Because the Clinton plan would reduce the growth of discretionary outlays proportionally more than it would mandatory and net interest outlays, the share of overall federal expenditures dedicated to mandatory outlays would rise from 66.5 percent in FY 2000 to 67.4 percent in FY 2004 under the Administration's proposal.

The data in Table 2 show that the Clinton plan makes no significant changes in any of the major categories of mandatory spending. Spending levels under the plan for Social Security, Medicare, and Medicaid are very similar to baseline levels.

The surplus revenues flowing into federal coffers is being used to lower the outstanding federal debt. Coupled with the continued low interest rates projected by the Administration, the surplus will enable federal interest payments to fall over the next five years. Under current law interest payments are projected to fall from $215.5 billion in FY 2000 to $185.1 billion in FY 2004. The Clinton plan envisions a steeper decline, from $215.2 billion in FY 2000 to $173.0 billion in FY 2004.

Discretionary Expenditures

On the discretionary side of the budget, defense expenditures would grow more slowly under the Clinton budget proposal during the first four years of the plan than if such outlays were capped in real terms at levels equal to enacted FY 1999 appropriations. In the final year of the plan they would be slightly higher. In the baseline case, discretionary defense expenditures would grow from $279.0 billion in FY 2000 to $305.4 billion in FY 2003. Under the Clinton plan they would grow from $274.8 billion to $304.7 billion. In FY 2004 defense expenditures under the Administration's proposal would be $314.4 billion, slightly higher than the baseline estimate of $313.9 billion.

Nondefense expenditures would also grow more slowly under the Clinton proposal than if they were capped in real terms at FY 1998 appropriated levels. In the baseline case, nondefense outlays would grow from $317.1 billion in FY 2000 to $357.4 billion in FY 2004. Under the Clinton plan they would grow from $316.7 billion to $334.9 billion.

Table 3
Federal Receipts by Source ($Billions)
Fiscal Years 1962-1999

	Total Receipts	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes	Other
1962	$ 99.7	$ 45.6	$ 20.5	$ 17.0	$ 16.5
1963	106.6	47.6	21.6	19.8	17.6
1964	112.6	48.7	23.5	22.0	18.5
1965	116.8	48.8	25.5	22.2	20.3
1966	130.8	55.4	30.1	25.5	19.8
1967	148.8	61.5	34.0	32.6	20.7
1968	153.0	68.7	28.7	33.9	21.7
1969	186.9	87.2	36.7	39.0	23.9
1970	192.8	90.4	32.8	44.4	25.2
1971	187.1	86.2	26.8	47.3	26.8
1972	207.3	94.7	32.2	52.6	27.8
1973	230.8	103.2	36.2	63.1	28.3
1974	263.2	119.0	38.6	75.1	30.6
1975	279.1	122.4	40.6	84.5	31.5
1976	298.1	131.6	41.4	90.8	34.3
1977	355.6	157.6	54.9	106.5	36.6
1978	399.6	181.0	60.0	121.0	37.7
1979	463.3	217.8	65.7	138.9	40.8
1980	517.1	244.1	64.6	157.8	50.6
1981	599.3	285.9	61.1	182.7	69.5
1982	617.8	297.7	49.2	201.5	69.3
1983	600.6	288.9	37.0	209.0	65.6
1984	666.5	298.4	56.9	239.4	71.8
1985	734.1	334.5	61.3	265.2	73.1
1986	769.2	349.0	63.1	283.9	73.2
1987	854.4	392.6	83.9	303.3	74.6
1988	909.3	401.2	94.5	334.3	79.3
1989	991.2	445.7	103.3	359.4	82.8
1990	1,032.0	466.9	93.5	380.0	91.5
1991	1,055.0	467.8	98.1	396.0	93.1
1992	1,091.3	476.0	100.3	413.7	101.4
1993	1,154.4	509.7	117.5	428.3	98.9
1994	1,258.6	543.1	140.4	461.5	113.7
1995	1,351.8	590.2	157.0	484.5	120.1
1996	1,453.1	656.4	171.8	509.4	115.4
1997	1,579.3	737.5	182.3	539.4	120.2
1998	1,721.8	828.6	188.7	571.8	132.7
1999e	1,806.3	868.9	182.2	608.8	146.4

Source: Tax Foundation, Office of Management and Budget.

Federal Revenues by Source

The major sources of federal revenue under the Clinton budget are listed in Table 4 and illustrated in Figure 4, which also contains historical data since 1962. (See also Table 3.)

Individual Income Taxes

Individual income tax collections have

been a relatively stable source of federal revenue over the past 37 years, averaging 45.2 percent of federal receipts. Under current law, federal revenue from individual income taxes is expected to rise from $902.1 billion in FY 2000 to $1,022.9 billion in FY 2004. Because the Clinton plan would provide some individuals with income tax relief, revenue from this source would dip slightly as a percentage of receipts while growing in nominal dollars from $899.7 billion in FY 2000 to $1,017.7 billion in FY 2004.

Corporate Income Taxes

In 1962 corporate income taxes accounted for 20.6 percent of federal revenue. By 1966 this figure had grown to 23.0 percent. From 1966 to 1982 the share of federal revenue comprised of corporate income tax collections gradually declined. In 1983 the $37.0 billion collected by the corporate income tax accounted for just 6.2 percent of federal revenue. Since FY 1983, however, the importance of the corporate income tax as a source of federal revenue has rebounded somewhat. In FY 1999 the corporate income tax is estimated to have raised $182.2 billion, or 10.1 percent of federal revenue. Under current law, the corporate income tax is projected to raise $186.5 billion in revenue during FY 2000. By FY 2004 this figure is expected to rise to $217.2 billion. The Clinton budget contains a plethora of provisions which would raise corporate income taxes from a total of $189.4 billion in FY 2000 to $221.5 billion in FY 2004.

Social Insurance Taxes

The rapid growth in the share of federal outlays allocated to mandatory spending pro grams has been accompanied by escalating social insurance taxes to pay for them. In 1962 social insurance taxes such as the payroll tax supplied just 17.1 percent of the federal government's revenue, but by FY 1999 this figure would reach 33.7 percent. Under the Clinton budget proposal the federal government would collect $636.5 billion in social insurance taxes during FY 2000. This would rise to $739.2 billion in FY 2004, differing only slightly from what is projected to occur under current law.

Other Revenue Sources

The share of total federal revenue raised from other sources has declined over the past 37 years. Such revenue includes federal excise taxes, customs duties and fees, estate and gift taxes, and other miscellaneous taxes and fees. In 1962, these types of receipts made up 16.6 percent of federal revenue. By FY 1999 this figure is estimated to have declined to 8.1 percent. The OMB predicts that under current law the federal government will collect $147.0 billion in these types of receipts during FY 2000. By FY 2004, it predicts that this figure would climb to $178.0 billion. Under the Clinton plan the federal government would collect $157.4 billion in these types of receipts during FY 2000. By FY 2004, this figure would rise to $187.1 billion under the plan. Much of the difference between the baseline figures and the Clinton proposal stem from the Administration's proposal to boost the federal cigarette tax by 55 cents per pack. The administration hopes to raise a average of $6.4 billion in additional revenue per year as a result of enacting this provision.

Table 4
Federal Receipts by Source, President's Proposal and OMB Current Services Baseline
Fiscal Years 2000-2004
($Billions)

	Total Receipts	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes	Other
President's Proposal					
2000	$ 1,883.0	$ 899.7	$ 189.4	$ 636.5	$ 157.4
2001	1,933.3	912.5	196.6	660.3	164.0
2002	2,007.1	942.8	203.4	686.3	174.6
2003	2,075.0	970.7	212.3	712.0	180.0
2004	2,165.5	1,017.7	221.5	739.2	187.1
OMB Baseline					
2000	1,871.8	902.1	186.5	636.2	147.0
2001	1,924.7	918.4	192.6	659.9	153.8
2002	1,998.0	947.6	199.2	686.2	165.0
2003	2,066.3	975.7	207.9	712.0	170.7
2004	2,157.3	1,022.9	217.2	739.2	178.0

Source: Tax Foundation, Office of Management and Budget.

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