The Heritage Foundation Backgrounder

No. 865 | The Heritage Foundation • 214 Massachusetts Avenue, N.E. • Washington, D.C. 20002-4999 • (202) 546-4400 • Telex:440235

The Thomas A. Roe Institute for Economic Policy Studies

November 8, 1991

THE TAX CUT BUDGET PACKAGE THAT AMERICA NEEDS

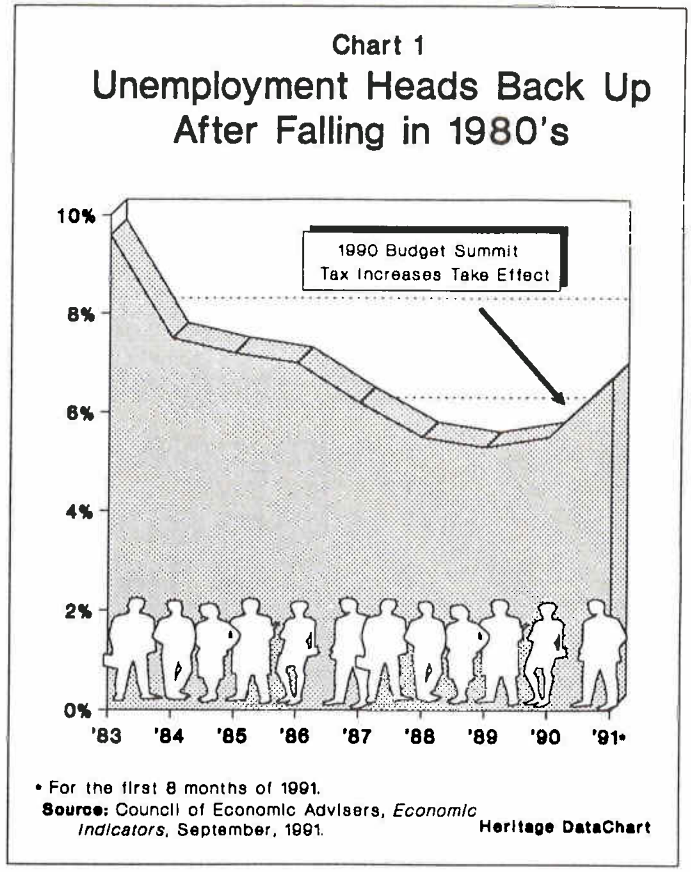
INTRODUCTION

Many members of Congress finally seem willing to recognize something that is well understood by millions of unemployed American workers and bankrupt business owners: The United States economy is stagnant with no strong upturn in sight. Two million more Americans are out of work today than eighteen months ago. Businesses are still shutting down and consumers in droves still stay away from the stores.

Many lawmakers now understand that a package of tax and budget cuts is needed to lower the barriers to economic activity and growth. The most recent plan is the Economic Growth and Family Tax Act of 1991, introduced by Senator Robert Kasten of Wisconsin and Representative Vin Weber of Minnesota, both Republicans. This plan would offer tax credits to families with dependent children to ease the tax burden on families. It also would reduce penalties on savings and investment by cutting the tax on savings and investment—what technically is known as the capital gains tax.

Like an injection of adrenalin, the Kasten-Weber plan and similar tax cut packages will put life into the moribund American economy. These cuts would allow American families and businesses to keep more of what they earn and thus spend and save more of what they earn. The cuts too would restore the incentive to take business risks in these uncertain times. And such a package would reduce the burden of government on the beleaguered private sector.

Fact of Life. Lawmakers also seem to recognize another economic fact of life: when major tax proposals are under discussion in Congress, legislation should be developed and enacted as soon as possible. Uncertainty over fiscal policy freezes decision-making by businesses, further slowing the economy. Last year's budget summit demonstrated this. The uncertainty created by the drawn-out policy arguments between the Bush Administration and factions within Congress understandably prompted businessmen and consumers to hold on to their wallets rather than investing or spending. This, of course, helped trigger an even deeper and longer recession.



Broken Promises. It is also clear that last year's budget agreement has been an economic fiasco. Office of Management and Budget (OMB) Director Richard Darman promised in October last year that the budget deficit would be held to $229.4 billion in fiscal 1992. In fact, it will hit $348.3 billion. Darman claimed too that this calendar year unemployment would average 6.1 percent. In fact, it rose to 6.9 percent in June and lingers at 6.8 percent. Darman claimed that the economy would grow by 1.3 percent this year. In fact, the economy has shrunk for the first two quarters of this year at an annually adjusted rate of 1.6 percent. While the economy grew again in the third quarter, by 2.4 percent, it actually began falling again in the last half of the quarter.

Much worse, of course, than these raw statistics is the human suffering inflicted on the American people by the budget deal. Thanks in part to huge tax and spending increases agreed to at the summit, two million Americans lost their jobs and have little prospect of obtaining work in the near future. Americans out of work for more than fifteen weeks rose from 1.37 million in March 1990 to 1.74 million in August of this year (see Chart 1).

Last year's tax and budget package was supposed to cut the deficit and assure economic growth. Instead it has led to bigger deficits and economic stagnation. A fundamental change in policy is urgently required.

Lawmakers from both parties have advanced plans intended to put the country back on the road to economic prosperity. Among these:

♦♦ The plan introduced by Senator Kasten and Representative Weber is by far the best of the current approaches to restoring economic growth and easing the tax burden on families. The plan would grant a $300 tax credit to families for each child age 6 to 18 years and a $1,000 credit for each child under 6. It also would reduce the capital gains tax to 15 percent for taxpayers in the top income bracket and would index this tax to inflation. The package also would expand the use of Individual Retirement Accounts (IRAs).

- ♦♦ Senator Malcolm Wallop of Wyoming and Representative Tom DeLay of Texas, both Republicans, with Representative Robin Tallon, the South Carolina Democrat, at the start of this year offered a plan that would reduce the Social Security Tax, cut the tax on capital gains, expand the availability of IRAs to all Americans, and allow businesses to take as a tax deduction the cost of new plants and other equipment in the year these costs are incurred (technically known as "full expensing").
- ♦♦ Senator Lloyd Bensten, the Texas Democrat, wants all $72.5 billion in savings from new defense cuts to be returned to the taxpayers by giving parents a $300 tax credit for each dependent child. Bensten also would expand the use of IRAs to help promote savings.
- ♦♦ Senator Bill Bradley, the New Jersey Democrat, wants a $350 child credit paid for by a $116 billion cut in both defense and domestic spending over five years.
- ♦♦ Senator Phil Gramm of Texas and Representative Newt Gingrich of Georgia, both Republicans, want a complicated scheme that would trim taxes on capital gains.
- ♦♦ Senator Joseph Lieberman, the Connecticut Democrat, wants to cut the capital gains tax and introduce various other tax incentives to promote savings and investment.

These and other proposals have merit. But none taken separately can unleash economic activity as would a plan combining the basic components of each in a comprehensive package. Members of both parties in Congress would do more to help the economy if they were to combine their efforts in a bipartisan emergency package designed to give tax relief for families with children, tax incentives for saving and investment, and prudent but real budget cuts to get the deficit under control.

It appears to be OMB Director Darman, whose budget summit policies are the principal cause of the current dismal economy, and Treasury Secretary Nicholas Brady, who now are advising George Bush to defend the budget deal at all costs. The President and Congress should reject this advice and take urgent action to put the U.S. economy back on its growth track.

A comprehensive growth package would require the following:

1) Amend the 1990 budget agreement to allow savings from cuts in defense and domestic discretionary spending to be returned to Americans as tax relief.

The authors of last year's budget agreement should have, but did not, anticipate the economic damage that their higher taxes would inflict. Many now flinch from cutting taxes for fear that the federal deficit would rise even faster. This fear is greatly exaggerated, since a tax cut would perk up the economy and raise tax revenues—just as last year's tax hike slowed the economy and reduced tax revenues below projections. In any case, a tax relief package can be tailored to be revenue neutral, that is, not to increase the budget deficit. This can be accomplished by combining tax relief with spending reductions. Such a package, however, requires an adjustment of the rules of the budget deal.

2) Cut the tax on investments (capital gains) to 15 percent and index it to inflation.

The current 28 percent capital gains tax is levied on the difference in nominal value between the purchase price and the sale price of an asset. This discourages productive investments. Most of America's trading partners do not have such a tax since they correctly conclude that it would damage their economies and would not help them raise revenue. If the federal capital gains tax rate is cut to 15 percent, more revenues will come into the Treasury. This is because investors will suffer less of a penalty for moving their funds to more productive investments. Thus they will engage in more transactions and pay taxes on these transactions. Further, this tax should be indexed to inflation, just as regular income taxes are indexed, to end the government's windfall tax gain from inflation.

The capital gains tax reform should include enterprise zone legislation. Under this proposal, passed several times by the Senate in the past decade but never in the House, business investments in the most depressed neighborhoods of America's cities—where unemployment and business closures are at Depression-era levels—would be entirely free of capital gains tax. Other incentives would also apply within these zones.

3) Make Individual Retirement Accounts (IRAs) available to all Americans and expand their use.

IRAs now allow only workers without retirement plans provided by their employers to deposit up to $2,000 of earnings for themselves and $250 for their spouse in an account that is not taxed until withdrawn on retirement. Allowing all Americans to contribute to such accounts would increase the savings rate and provide more funds for investment, thus holding down interest rates. To assure that the Treasury does not lose revenue in the short term, and in accordance with sound tax policy, the income used for such accounts should not be tax exempt when the IRA deposit is made. Rather, the principal and earnings from IRAs should be tax exempt when they are withdrawn. This is known as the "backended" IRA.

4) Index business depreciation deductions to inflation as a step toward introducing full current expensing.

When a business makes a capital investment, such as new machines or equipment, it cannot deduct the investment on its taxes at the time it is made. Today's tax law instead requires that this business cost be deducted over a period of years, sometimes as many as 31 years. This is a process known as depreciation. But inflation reduces the value of the deduction over time. Together with the delay in receiving the full tax deduction, this increases the effective cost of acquiring capital assets. Thus businesses have less incentive to make productive investments in new equipment.

Indexing the deduction to inflation would help remedy this problem without resulting in an immediate fall in tax revenue to the federal government. In the long run, however, depreciation should be replaced with current expensing, which would allow firms to deduct the entire costs of a new capital asset in the year it is purchased.

5) **Give parents a $1,000 tax credit for each dependent child between ages 6 and 17 and a $1,500 credit for each child under age 6.**

Families have been hit the hardest by high taxes. During the past four decades, families with children have seen their tax burden rise sharply when compared with other groups. Not only has this made such families more vulnerable to economic downturns, but it has triggered demands from these families for ever more federal programs and entitlements to offset their heavy taxes. Thus if the pressure for more spending is to be reduced, these families must be able to keep more of their earnings. The proposed credits phased in over five years would allow American families to keep $60 billion more of their own money. This would restore consumer confidence and in the future send more consumers into the market for automobiles, appliances, and other products. It also would encourage these families to save.

6) **Cut $60 billion in spending.**

The 1990 budget agreement cut defense spending but allowed other spending to rise to record levels. But domestic spending in the resulting fiscal 1991 budget jumped by 9.48 percent, following a 7.99 percent increase the previous year. Major cuts in spending must be enacted. But such cuts do not require reductions in programs that most Americans consider necessary. Billions of dollars today goes to programs that are no longer needed: Billions more go to programs that duplicate other government programs or to perks that reward special interest groups.

Among the cuts that could and should be made:

- **Reduce Rural Electrification lending.**
- **Place a moratorium on new Department of Interior land acquisition.**
- **Eliminate the Conservation Reserve Farm Subsidy Program.**
- **Sell the National Helium Reserve.**
- **Eliminate Wool and Mohair subsidies.**
- **End Small Business Administration (SBA) credit programs.**
- **Devolve the Appalachian Regional Commission to the states.**

A package of family tax credits, capital gains tax cuts, expanded IRAs, and real spending reductions is not only economically advisable, it is politically feasible. Members of Congress are ready to act to help relieve the American families of their heavy tax burden. The Bush Administration, rather than standing in the way of progress, should embrace tax and spending cuts.

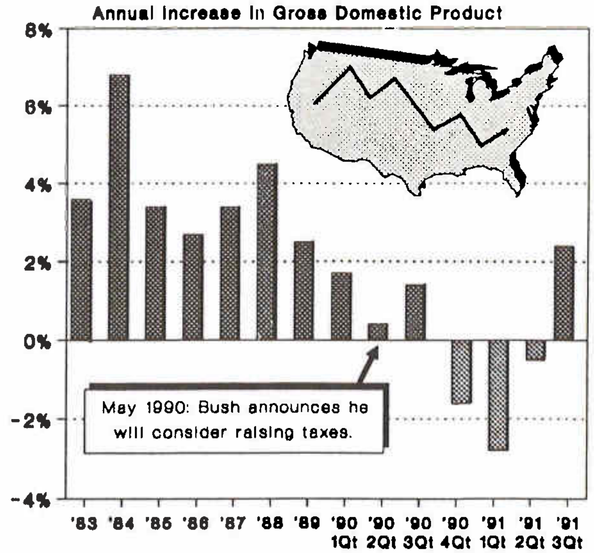
AMERICA'S STAGNATING ECONOMY

The record peacetime economic expansion of the 1980s ended abruptly last year as the Bush Administration and congressional leaders agreed to a record tax and spending increase. Whether a lawmaker supported or opposed this agreement last year, one thing now is clear: The American economy is in deep trouble and there is little prospect that strong economic growth and job creation will occur again soon.

The economic conditions in the 1980s contrast starkly with the situation in the 1990s. (See Chart 2) From 1983, when the country came out of the recession, through 1989 the economy grew at an average annual rate of 3.8 percent. During the first three quarters of 1990, as Americans watched Congress and the Administration debating tax increases, the economy began to slow, growing at an annual rate of just over 1 percent. From the fourth quarter of 1990 through the middle of this year, the economy contracted at an annual rate of 1.6 percent. In the third quarter of this year, the economy began to grow again, at a rate of 2.4 percent, though most of this growth was in early summer; by the second half of this quarter, the economy began stalling again. Next quarter is likely to see little or no growth, or even a return to the recession.

Chart 2

After Growth in 1980's, Economy Fizzles



Note: 1990 and 1991 figures show quarterly data.
Source: Council of Economic Advisers, *Economic Indicators*, September, 1991.

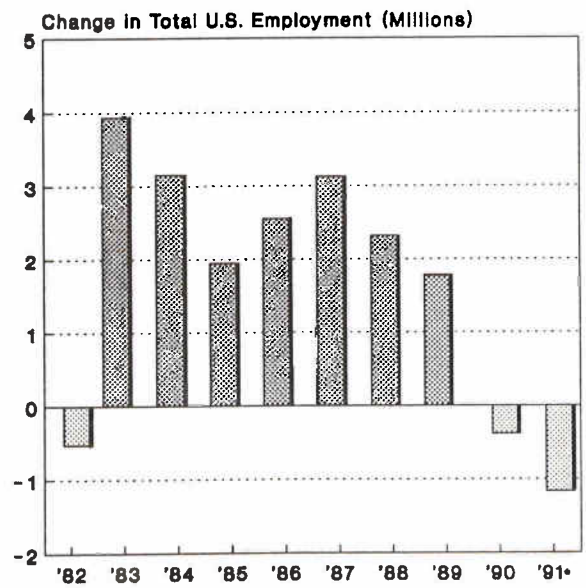
Heritage DataChart

The employment picture between the 1980s and this decade also differs sharply. Civilian unemployment, which peaked at 10.7 percent in the last months of 1982, dropped to 5.1 percent by May 1989. This June, by contrast, unemployment stood at 7 percent. Currently it hovers at 6.8 percent with little prospect of a major fall soon.

Job creation soared to record levels in the 1980s. (See Chart 3). Now the economy is shedding jobs. In December 1982, some 99 million civilian Americans were working. This climbed to the record 118.3 million in May 1990, as 19.3 million new jobs were added

Chart 3

After the Creation of [illegible] Million Jobs, Total Employment Contracts



Note: Change is from December to December of previous year.
* Through August 1991.
Source: Council of Economic Advisers, *Economic Indicators*, September 1991.

Heritage DataChart

to the American economy during the Reagan years. During the height of the economic expansion, over 20,000 jobs per day were being created.

Economy Contracts. Between May 1990, when Bush announced that he would consider a tax increase, and August 1991, a very different pattern developed. The number of jobs shrank to 116.4 million, as two million more Americans suddenly found themselves out of work. The number of workers unemployed for fifteen weeks or more has risen from 1.37 million in March 1990 to 1.74 million in August 1991.

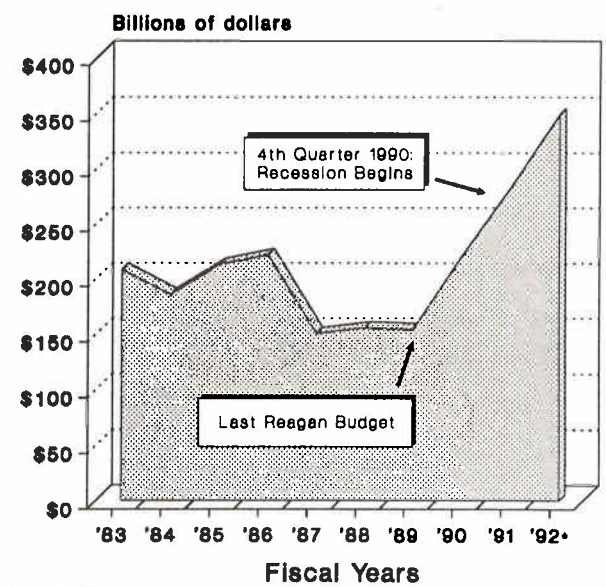
Most dispiriting, the prospects for economic expansion and job creation in the near future are poor. Sales of American-made automobiles and light trucks fell by 16.1 percent in mid-October. General Motors Corporation lost $2.5 billion and Ford Motor Company lost $1.8 billion in the first nine months of this year. Retail sales have been flat over the last month. Purchases of new homes fell 12.9 percent in September despite a drop in mortgage interest rates to the lowest point in over a decade. Factory orders for durable goods plunged in September for the second consecutive month.

At best, the American economy seems destined to stagnate well into the next year, with very little economic growth, if any. And even worse is the mounting prospect that the economy again will begin shrinking. A double dip recession, like that of the 1979-1982 period, could result as consumers and investors see the future as uncertain and hold on to their money. This will force businesses to defer new investments and hiring of new workers.

Businessmen will remain reluctant to invest if Congress and the Administration continue to dither on tax and spending policy. This is what happened last year when Congress and the Administration spent six months discussing tax increases in the budget summit. Anticipating higher taxes, businesses stopped investing even before the tax hike was passed. If businesses and consumers are exposed yet again to political uncertainty, the chances rise that the economy will be tipped back into a recession. The lesson: quick action is needed to cut taxes.

Chart 4

After Dropping Substantially, Federal Budget Deficit Soars



* Estimated.

Source: Council of Economic Advisers, *Economic Indicators*, September 1991.

Heritage DataChart

Last year's budget summit was meant to head off a predicted fiscal 1991 budget deficit of $175 billion. But after the "deficit-cutting" budget deal, the deficit hit $282.2 billion and for fiscal 1992 it is anticipated to hit $348.3 billion (see

Chart 4). As a percentage of GNP, the budget deficit dropped from 6.4 percent in fiscal 1983 to 3 percent in 1989. In 1991 it was back to 5.1 percent.

PROMOTING ECONOMIC GROWTH

A key to reigniting American economic growth is a tax cut that increases savings and encourages Americans to risk investing in productive business. A second key is a tax cut to stimulate spending, as well as saving, by the American family, ideally in a way that reduces the pressure for government spending.

Among the measures to increase savings and encourage investment:

- **Cut the capital gains tax, index it to inflation, and enact enterprise zone legislation.**

The Bush Administration, as well as Wyoming Senator Malcolm Wallop and Texas Representative Tom DeLay, both Republicans, with Representative Robin Tallon, the South Carolina Democrat, are among those calling for a cut in the capital gains tax. This tax, now set at a maximum of 28 percent, is levied on the difference between the purchase and sale price of an asset. It applies to such assets as stocks, businesses owned by taxpayers, and real estate. This means that Americans who save or invest are hit with a special tax if they put their money into what turns out to be a productive investment. Worse still, they pay the tax on the additional dollar value even if this is a result of inflation rather than a real increase in value. By contrast, personal income tax is indexed to inflation.

Most other industrialized countries, including Japan, the Republic of China on Taiwan, and the Republic of Korea do not tax capital gains. Lawmakers in these countries understand that such a tax would discourage investment. The American tax on capital gains puts American investors at a global competitive disadvantage.

Not only is the capital gains tax bad for the economy, it does nothing to help the Treasury. A 1990 study by Allen Sinai, the Chief Economist at Boston Company Inc., finds that a reduction in the capital gains tax to fifteen percent actually would bring $40 billion in additional revenues into Treasury coffers as well as creating 600,000 jobs over five years. The reason for this is that removing the steep tax penalty for selling assets would encourage investors to sell when it is profitable to do so. This would yield tax revenue as well as encouraging capital to be used where it is most productive.

Likely Revenue Bonus. The increased economic activity that would result from a capital gains tax cut would seem to generate revenue for the federal Treasury. At the minimum, such a tax cut would not seem to lose revenue. Thus it would be neutral under the 1990 budget agreement, not adding to the deficit. In fact, a revenue bonus is likely to result, reducing the budget deficit even more than projected.

In addition to being cut, the capital gains tax should be indexed to inflation. This would help eliminate the penalty that inflation imposes on productive investment. Perhaps the greatest obstacle to cutting the capital gains tax is the very name of the tax. "Capital gains" conjures up images of Wall Street wheeler-dealers. In truth, however, the biggest beneficiary of a cut in capital gains tax would be middle-class Americans.

Instead of talking about "capital gains," policy makers should start talking about investments and savings. And thus, instead of calling for a capital gains tax cut, policy makers should call for a cut in taxes on investments and savings.

The capital gains tax should be removed completely in designated areas of very high unemployment in blighted neighborhoods. This proposal is contained in bipartisan enterprise zone legislation sponsored in the House by Representative Charles Rangel, the New York Democrat, and in the Senate by Lieberman and Kasten, and supported by the Bush Administration. The exemption from capital gains and other incentives in the enterprise zone legislation would give the extra boost to enterprise needed in very depressed urban areas, such as New York City's South Bronx neighborhood.[1]

- **Extend and Expand Individual Retirement Accounts (IRAs).**

Only those workers not covered by an employer-sponsored retirement plan currently can deposit in an IRA $2,000 for himself or herself and $250 for his or her non-working spouse. Some lower-paid workers in company plans also are allowed to make such contributions. These contributions may be deducted from taxable income. Later, when the money is withdrawn upon retirement, taxes are paid on the contribution and on earnings from the contribution. IRAs promote savings and thus not only help provide for the retirement of IRA owners but also generate investment capital.

Allowing all Americans to own IRAs would help increase the flow of capital needed to generate strong economic growth. In the years between 1981, when IRAs were created, and 1987, when their use was limited, tens of billions of dollars were invested in them. This provided capital to fuel the economic expansion of the 1980s.

Sound Principles. IRA contributions should not be deducted from taxes when the contribution is made. Instead, no taxes should be levied on any funds withdrawn from the account upon retirement. This is sound tax policy because it is based on the principles that income should be taxed once, when it is earned, and that tax policy should not discriminate against savings. Expanding the use of IRAs in this way would be especially useful in encouraging long-term saving.

It also would not reduce current government revenues because deductions would not be taken now. Even using a tax projection model that does not take account of rising productive investment and economic growth due to IRA reforms, such reforms modestly would increase Treasury revenues. When economic growth is taken into account, extra revenues could be $7.6 billion in the first year of such a reform and a total of $38.3 billion over five years. For the purpose of the tax cutting plan, the more conservative estimate of budget neutrality should be assumed. In fact, however, a revenue bonus likely would result, reducing the budget deficit more than projected.

---

1 Carl Horowitz, "New Life for Federal Enterprise Zone Legislation: Seven Lessons From the States," Heritage Foundation *Backgrounder* No. 833, June 4, 1991.

♦ **Index for inflation the depreciation schedules for tax relief on business investments.**

When a business buys a new piece of machinery or a new facility, it does not simply write off the cost of that item against taxable income in the year the investment is made. The U.S. tax code instead requires the firm to write off the cost over a period of years. Different schedules apply to different types of purchases.

This so-called depreciation approach has serious problems and discourages productive investment. The main reason for this is that the value of the deduction in the years after the investment is not worth as much as a tax deduction taken in the first year, releasing funds for additional productive purposes. Inflation makes this effect even more costly for businesses. Example: If a $1,000,000 investment is depreciated in $100,000 increments over ten years, and if total inflation over that ten years is 40 percent, then the $100,000 deduction for the tenth year will be worth less than such a reduction in the first year. To be worth its full amount the deduction in the last year would have to be $140,000. Thus a businessman deciding whether to purchase equipment faces more than the normal uncertainties associated with any business investment.

Allowing businesses immediately to deduct from their taxable earnings the full value of any capital purchase, is known as "full expensing." This would eliminate the problem of inflation robbing businesses of the full value of their deductions. It also would encourage resources to be used more efficiently, helping growth.

There is a problem, however, with full expensing from the perspective of the deficit. The immediate introduction of expensing would reduce Treasury revenues substantially. To avoid this, yet still give businesses a greater incentive to invest, the value of the depreciation allowed each year should be indexed to inflation. Thus the deduction would be higher for future years. This would assure the businessman that the expected profits from his productive investments would not be reduced by inflation, and so would encourage more investment.

REDUCING TAXES ON THE AMERICAN FAMILY

The second element in a strategy to restore sound tax policy is to relieve the tax burden on families with children. There are three pressing reasons. The first is that these families are the mainstay of the U.S. economy. It is these households that typically make the decision whether or not to buy a new car or washing machine, and whether to put money aside in a savings account. Tax relief for these families would signal to parents that they would be able to keep more of their own money in future years. This would restore economic confidence and make families more likely to commit themselves to saving and to long-term purchases of such items as homes and cars, thus spurring economic recovery.

The second reason for tax relief is that heavily taxed middle class families with children in recent years have reacted to their financial straits by increasing their demands for government programs and entitlement, such as subsidized student loans and day care, and for more services from employers, such as mandated leave and medical benefits, that raise business costs and so slow down growth. Thus providing tax relief for these families would help reduce the middle-class pressure for many new domestic programs, as well as making it easier politically to make prudent reductions in government programs that now give tax-financed benefits to overtaxed families.

The third reason for reducing taxes on families is to restore greater equity to the tax system. The American family with children is heavily taxed when compared to other households. Because of the steady decline in the value of the personal exemptions applying to children over the past four decades, as well as the rise in Social Security taxes, the heaviest federal tax burden falls on families with children. In 1948, for example, the personal exemption was $600, equal to roughly 20 percent of the median income of two-parent families, which was then $3,272. But decades of inflation have deeply eroded the value of the personal exemption. While the Tax Reform Act of 1986 raised the personal exemption to $2,000, this change only partially offset the erosion in the exemption's value since 1948. For the personal exemption to have the same value relative to family income in 1992 as it did in 1948, the exemption in 1992 would have to be $8,000.[2]

Historical trends throw the family's financial crunch into sharp relief. In 1948, the median family income family of four paid virtually no income tax and only $60 in social security taxes (then set at 2 percent of family income). Today, the equivalent family pays nearly 24 percent of its income to the federal government.

Ironically, families with children have fared poorly in comparison to the tax treatment of single persons or families without children. A Heritage Foundation study this summer finds that from 1954 to 1989, the average federal income tax rates for single persons and married couples without children "either remained the same or actually fell."[3]

Avoiding Major Purchases. This rising tax burden has made it harder for middle-class families to commit funds for major purchases. Consider the costs of buying a home. While the median price of a single family home in 1989 dollars was $93,100, the average annual mortgage payment of the home was $7,920.[4] Yet the annual income loss in 1989 dollars for the average family by virtue of increased federal taxation since World War II is equivalent to about $8,200 each year in 1989 dollars—slightly more than the average annual mortgage paid on a family home.

Thus moderate income families with children are trapped. The federal government is imposing greater financial pressures on families trying to purchase or repair a home, buy a car, and pay for their children's education. This induces families to plead for government programs to help them make ends meet. But these programs must be paid for, and this means higher deficits and higher taxes on the very families feeling the pinch from taxes.

---

2 Robert Rector and Stuart Butler, "Reducing the Tax Burden on the Embattled American Family," Heritage Foundation *Backgrounder* No. 545, August 12, 1991.

3 *Ibid.*

4 National Association of Realtors, *Home Sales*, January 1991, p. 12.

Direct and immediate tax relief for families thus is needed to break out of the circle, enabling parents to care better for their children and to keep more of their own money to make the purchases.

Legislative Proposals to Ease the Family's Tax Burden

There are several ways to give tax relief to America's families. The two most discussed mechanisms are an increase in the dependent exemptions and tax credits for families with children.[5]

One proposal to raise the exemption has been advanced by Representative Frank Wolf of Virginia and Senator Dan Coats of Indiana, both Republicans (H.R. 1277 and S.710). This would raise the personal exemption for dependent children from today's level of $2,150 to $3,500.

Other proposals, with bipartisan support, would offer tax credits for families with children. As part of his $72.5 billion tax cut proposal, Senator Bentsen, chairman of the Senate Finance Committee, would grant a $300 non-refundable tax credit for each child age 18 and under. He also would expand eligibility for Individual Retirement Accounts. Under the Bentsen proposal, the after-tax annual income of an average family of four would increase by $600. Bentsen would finance his proposal with cuts in the defense budget.

Senator Bradley proposes (S. 1846) $116 billion in tax relief for families over five years, also through a refundable tax credit of $350 per child. He would finance this relief through cuts in both defense and domestic programs (see Table 1).

Table 1
Senator Bradley Spending Cuts

Budget Item	Projected Cuts
Impact Aid B Program	$0.6 billion
Export-Import Bank	$1.3 billion
Postal Service Subsidies	$2.0 billion
Small Business Administration	$2.0 billion
Student Loan Program Default Crack-down	$2.0 billion
Superconductor Supercollider	$2.5 billion
Agriculture Export Promotion Programs	$2.7 billion
Welfare Savings	$3.0 billion
Agriculture Subsidies	$5.0 billion
Energy Research and Development	$6.0 billion
Space Station	$10.5 billion
Total Domestic Cuts	**$37.6 billion**
Total Defense Cuts	**$80.0 billion**
Total Spending Cuts	**$117.6 billion**

Source: Office of Senator Bill Bradley, Press Release, September 30, 1991.

Heritage InfoChart

Representative Thomas Downey, the New York Democrat, has introduced a bill (H.R. 2242) that would replace the current $2,150 personal exemption entirely with an $800 tax credit. This credit would be, in Washington jargon, "fully refundable." This means if the tax credit exceeds the family's tax liability, the family

5 For a discussion of the range of proposals, see Rector and Butler, *op. cit.*

would receive a check for the difference from the government. In contrast to the Bentsen and Bradley bills, the taxrelief in the Downey bill would be financed by yet another tax increase on higher-income families. Thus Downey's measure would do nothing to stimulate the economy.

Representative Wolf also has joined in a proposal with Senator Charles Grassley, the Iowa Republican, to give a partially refundable tax credit for families with children under the age of five. The Wolf-Grassley (H.R. 2633, S. 1013) approach gives the credits to working families only, or families earning income, and varies the size of the credit with family income. For families with an annual income under $10,000, the credit for each eligible child would be equal to 5 percent of earnings. For families with incomes between $10,000 and $50,000, the credit would be $500 per child.

A family tax credit phased in and financed by reductions in spending would be the best way to restore fairness to parents penalized by the tax code while helping the economy. Such a system of credits should include:

- $1,000 for each child age 6 to 17.
- $1,500 for each child under age 6.

The value of the credits received by the family could offset a family's income tax liability and Social Security payroll taxes and would be available only to families with a working parent. If the credit exceeded the family's tax liability, there would be no check from the government for the difference. This means, in Washington parlance, that the credit is would be "non-refundable." The new credits also would replace the current dependent care tax credit and the tax exclusion for employer-provided dependent care. These are tax relief measures restricted only to parents who pay to enroll their children in non-parental day care facilities. Thus the credits would end tax discrimination against parents who wish to care for their children at home. The net revenue foregone due to the tax credits would amount to about $60 billion per year, which can readily be financed through spending cuts, outlined below, in marginal or unnecessary government programs.

FINANCING TAX REDUCTION WITH REAL SPENDING CUTS

Even though some tax cut proposals, such as the reduction of taxes on investments (capital gains), actually would increase revenues to the government, most of the stimulative tax proposals outlined in this study would reduce the flow of revenue to the Treasury. To avoid an increase in the deficit, savings must be found elsewhere.

To be sure, some lawmakers would finance tax cuts for certain Americans by raising tax rates on higher-income earners. But this would mean little or no net tax relief. Further, higher taxes on any group would slow savings and investments and thus slow productive economic activity and wage growth. In the end, all families will suffer. A "tax the rich" approach, moreover, has proved disastrous in the past, while lowering tax rates on upper-income Americans has brought in more revenue. Example: the 1981 cut in the top tax rate from 70 percent to 50 percent gave higher wage earners a incentive to bring their money out of tax shelters. From 1982 through 1985, 86 percent of the new revenue to the federal government came from taxpayers with incomes over $100,000.

Spending cuts rather than tax increases on higher-income Americans is the best way to make up for the revenue losses resulting from a family tax cut. Most lawmakers proposing tax relief plans understand that tax cuts must be financed by spending reduction. Bentsen's tax credit plan, for instance, would be paid for over five years by reducing defense spending by an additional $72.5 billion above current planned cuts. Similarly, Bradley's tax credit would cut domestic and defense programs. Bradley would reduce defense spending $80 billion over five years and domestic spending $38 billion.

GETTING SERIOUS ABOUT PRIORITIES

Faced with a stagnant economy and the need to spur economic growth by cutting taxes, lawmakers now must reduce wasteful or marginal programs that drain resources from the productive side of the economy. To do this they must set priorities by determining what spending is in America's interest and what is not.

The appendix to this study, compiled by Heritage Foundation scholars, identifies spending cuts that save $43.78 billion in the first year of their enactment and $64 billion in the fifth year of their implementation. The cumulative savings over this five-year period is $262.5 billion.[6] As Table 2 shows, these cuts would finance the tax package outlined in this study.

The cuts in the appendix affect programs that have out-

Table 2
How the Heritage Tax Cut Budget Package Affects the Treasury

	(Billions of 1990 $)		
Proposed Change	**First Year Effect**	**Fifth Year Effect**	**Five Year Effect**
The Family Tax Cut	-43.78*	-60.0	-247.50**
Spending Cuts	+43.78	+64.0	+262.50
Capital Gains Tax Cut **IRA Expansion** **Indexing Business Deductions**	0.0	0.0	0.0
Net Effect	0.0	+4.0	+15.0***

*The family tax credit can be phased in to match the spending cuts.
**This total is approximate. The exact amount will vary slightly, depending on the amount of the credit each year during the phase-in period.
***Projections using dynamic tax revenue projection models show that these tax reductions will result in additional revenue, as high as $60 billion in the fifth year after the cut. But because the exact amount depends on the size of economic growth, for the purposes of the plan it is assumed that the effect of the tax cuts will be revenue neutral. In fact, a budget windfall is likely to result.

Heritage InfoChart

6 The details of these cuts and an explanation of the program and proposed policy changes will be contained in a forthcoming Heritage study.

lived their usefulness or that are difficult or impossible to justify or that drain resources from the private sector. In order of budget function number, these include:

(271) Reduce Rural Electrification lending.

First Year Savings: $200 million.

Five Year Savings: $2 billion.

The Rural Electrification Administration (REA) was created in 1935 to bring electricity, and later telephone service, to rural areas. It is permitted to borrow money at the market rate and then make low-interest loans, usually 5 percent, to electric cooperatives. The REA uses taxpayers money to pay the difference in interest rate costs.

The program is no longer necessary. Today, 99 percent of rural Americans have access to electricity and 97 percent have access to direct telephone service. And with the advent of cellular phones, in practice nearly all rural Americans can have telephone service.

Some 40 percent of the REA funds, moreover, go to huge conglomerates, not to small rural electric cooperatives as envisioned by the program's founders. The REA also doles out its funds to subsidize electricity and telephone services for private ski and golf resorts, and similar "rural" communities. The REA should be made self-funding; that is, it should loan funds at whatever interest rates are necessary to cover its costs.

(302) Place a moratorium on new Department of Interior land acquisition.

First Year Savings: $135 million.

Five Year Savings: $800 million.

The Department of Interior's Bureau of Land Management, National Park Service, and Fish and Wildlife Service, along with the Agriculture Department's Forest Service, purchase land for recreational use by the public. The federal government currently owns 760 million acres, one-third of the land mass of the country. Although the number of recreational visits to national parks and other federally owned lands have increased over the past decades, the duration of each visit and the actual amount of total time spent on a visit has decreased. This calls into question the need for more federal lands. If the federal government wishes to acquire lands that it considers recreational or ecologically important, it should consider purchasing such lands with revenues gained from selling less important tracts of land.

(302) Eliminate the Conservation Reserve Farm Subsidy Program.

First Year Savings: $1.7 billion.

Five Year Savings: $9.5 billion.

This Department of Agriculture program offers farmers large subsidy checks to remove "highly erodible cropland and other environmentally sensitive land from production for a period of 10 years." Currently some 35 million acres, a region the size of Illinois, are enrolled in this "paid-not-to-plant" program. Most of the land, however, is of marginal agricultural value and in all likelihood would not be cultivated were it not for the myriad of other federal government programs designed to encourage planting on such land. These subsidies should be eliminated and other programs that encourage wasteful farming practices should be reviewed.

(306) Sell the National Helium Reserve.

First Year Savings: $121 million.

Five Year Savings: $350 million.

The National Helium Reserve was established in 1929 when it was believed that blimps would be an important means of transportation and essential for national security. For this reason, it was decided, America needed an emergency reserve. This reason obviously is not valid today. Blimps are of no national transportation importance. And even were if blimps suddenly to make a comeback as a strategic weapon, there is a thriving private sector helium market. There is no reason to keep a federal government helium reserve. It should be sold to the private sector.

(350) Eliminate wool and mohair subsidies.

First Year Savings: $175 million.

Five Year Savings: $700 million.

This program, established in 1955, was intended to ensure a steady supply of wool and mohair for military clothing. Yet these items were removed from the Pentagon's list of strategically critical materials in 1960. The program simply gives handouts to privileged commercial producers at taxpayer expense. The program should be eliminated.

(376) End all Small Business Administration (SBA) credit programs.

First Year Savings: $300 million.

Five Year Savings: $2.4 billion.

The SBA now on average loses about 12 percent on its $3 billion in annual loans made and guaranteed. About $18 billion in SBA-backed credit is outstanding. Default rates on such assistance have in the past been as high as 20 percent. There is no evidence, moreover, that the SBA significantly helps small business formation. The majority of businesses receiving SBA aid are in the retail and service sector, where market entry is relatively easy. Over 99.8 percent of American small businesses receive no assistance from SBA. Moreover, many doctors and lawyers, hardly impoverished professions, receive SBA loans. The agency is not needed and should be eliminated.

(452) Devolve the Appalachian Regional Commission to the states.

First Year Savings: $100 million.

Five Year Savings: $500 million.

Established in 1965 to foster the economic development in the Appalachian region, two-thirds of the funds spent by this program go to building roads. This duplicates fourteen other federal rural aid programs. If the states in the Appalachian region wish to continue the commission's activities they can do so, but it is unclear why the duplicative program should be financed by federal taxpayers.

CONCLUSION

Critics of last year's budget summit explicitly (and forcefully) warned that higher taxes would not reduce the budget deficit but would instead throw the economy into a tailspin. These critics were ignored by the White House and Capitol Hill budget summiteers. Today the critics have the sorry task of saying: "We told you so." Today the economy stagnates, exhausted by nearly a year of recession and is in danger of slipping into the red again.

Critics also warned that higher taxes would unleash more government spending that would mean larger, not smaller, federal deficits. The critics again were ignored. But the critics again were right. Government spending is now growing faster and the deficit projections are rising.

Many members of Congress from both parties now realize that last year's criticism was right and that the economy will continue to stagnate unless dramatic and decisive action is taken. They also understand that the burden of higher taxes has fallen especially hard on the shoulders of struggling middle class families with children. As such, several members of Congress have proposed a combination of tax credits for dependent children, incentives to stimulate productive investments, and spending cuts as a package to restore economic growth while holding down the budget deficit.

Action Needed. These proposals are welcome. But if they turn out to be only proposals, and do not become legislation, they will cause the economy to deteriorate even faster as Americans put off critical decisions in the hope that there will be tax reform and in fear that there will be a continuing recession.

Thus urgent and decisive action is needed. Thus Congress cannot continue to argue for months. The Bush Administration cannot continue defending an indefensible economic *status quo* and refuse to make a decision on necessary tax and spending cuts.

If no action is taken, the result will be more economic damage and more unemployed Americans. The uncertainty created by a repeat of the sorry spectacle of last year's six month budget summit will keep customers out of the stores and investors out of the market. Now that Congress has raised the hopes of Americans, it cannot dash them through inaction. A genuine package of real tax and spending cuts can be fashioned quickly.

Edward L. Hudgins, Ph.D.
Walker Senior Policy Analyst in Economics
Deputy Director for Economic Policy Studies
Robert E. Moffit, Ph.D.
Deputy Director of Domestic Policy Studies

APPENDIX

The program cuts recommended in this appendix are arranged according to the number that classifies general subject areas within the budget. Known as budget function numbers, these group programs according to their general mission, regardless of the agency administering the program. There are twenty budget functions in all; fourteen are relevant to the non-defense programs focused on here:

250: General Science, Space, and Technology

270: Energy

300: Natural Resources and Environment

350: Agriculture

370: Commerce and Housing Credit

400: Transportation

450: Community and Regional Development

500: Education, Training, Employment, and Social Services

550: Health

570: Medicare

600: Income Security

650: Social Security

700: Veterans Benefits and Services

750: Administration of Justice

800: General Government

Three numbers follow each recommendation: First year savings, fifth year savings, and total five-year savings.

- **The first year savings** figure reflects the estimated money saved in the first fiscal year following the implementation of the new policy.
- **The fifth year savings** figure reflects the estimated money saved in the last year of this five year plan. This figure is important because it corresponds to the "cost," or tax loss, incurred by the government in the final year of the phased in family tax cut policy.
- **The five-year total savings** figure is the cumulative savings to the taxpayer over the five year life of the plan.

Heritage Options for Domestic Spending Cuts

(Savings in Millions)

Function	Recommended Program Changes	Year One Savings	5th Year Savings	5-Year Total
270	Raise the level and schedule of the Power Marketing Administration's debt repayments to the federal government.	$ 377	$ 500	$1,980
270	Eliminate further funding for the clean coal technology program	$ 400	$ 500	$1,900
270	Cut DOE lab's discretionary research and development activities	$ 100	$ 100	$ 500
270	Shift funding of the Fast Flux Test Facility to the private sector.	$ 100	$ 100	$ 500
270	Cancel the second tritium production reactor.	$ 400	$ 400	$2,000
270	Delay oil fill for the strategic petroleum reserves.	$ 400	$ 400	$2,000
271	Reform the leasing program for the Naval Petroleum Reserves.	$ 300	$ 600	$2,400
271	Reduce Rural Electrification lending.	$ 200	$ 700	$2,100
300	Change the revenue-sharing formula for commercial activity on federal land to a net receipt basis rather than gross.	$ 200	$ 200	$1,000
301	Eliminate federal water subsidies.	$ 800	$ 800	$4,000
301	End all new Bureau of Reclamation water projects and investigations of future projects. Begin to shift operations and maintenance of existing projects to private sector.	$ 500	$ 710	$3,250

302	Change the revenue-sharing formula from a gross to a net receipt basis for Forest Service commercial activity.	$ 180	$ 240	$1,200
302	Eliminate the Forest Service's Cooperative Work Trust Fund.	$ 180	$ 300	$ 900
302	Charge full market value for hardrock mining claims.	$ 300	$ 300	$1,500
302	Place a 3-year moratorium on new Department of Interior land. acquisitions.	$ 135	$ 250	$ 800
302	Eliminate State/local energy conservation assistance grants	$ 200	$ 200	$1,000
302	Eliminate the Conservation Reserve Farm Subsidy Program.	$1,700	$2,500	$9,500
303	Place a 3-year moratorium on new Forest Service land acquisition	$ 31	$ 90	$ 280
304	Eliminate EPA wastewater construction grants.	$ 200	$1,900	$5,300
304	Reform Superfund enforcement program.	$ 50	$ 200	$ 500
306	Recover in full through user fees Army Corps of Engineers' costs of operations and maintenance of inland waterway system.	$ 310	$ 350	$1,650
306	Eliminate National Sea Grant College program.	$ 50	$ 50	$ 250
306	Sell the National Helium Reserves to a joint venture comprised of current employees and other private investors.	$ 121	$ 150	$ 350
306	Impose user fees for special weather services.	$ 50	$ 50	$ 250
306	Privatize the NOAA fleet.	$ 100	$ 100	$ 500
306	Reduce expenditures for NOAA programs that are state or local concerns, or benefit only small, specific groups.	$ 164	$ 100	$ 500

350	Means test agriculture subsidies by prohibiting direct farm payments to individuals with adjusted gross incomes above $100,000 annually or to farm entities with gross sales above $500,000 annually (disaster payments excluded).	$1,000	$1,000	$5,000
350	Close the loopholes that allow some commodity producers to evade the standard $50,000 payment limitation per program. (disaster payments excluded.	$ 200	$ 200	$1,000
350	Terminate the Federal Crop Insurance Program and replace it with standing authority for disaster assistance.	$ 240	$ 1,000	$3,200
350	Eliminate Wool and Mohair subsidies.	$ 175	$ 250	$ 700
350	Eliminate the Honey subsidy program.	$ 100	$ 100	$ 500
350	Eliminate the Dairy subsidy program.	$1,000	$1,000	$5,000
350	Eliminate the Market Promotion Program that subsidizes foreign advertising for U.S. agribusinesses.	$ 200	$ 200	$1,000
350	Reduce FmHA loans since they duplicate other federal assistance programs for farmers.	$ 200	$ 200	$1,000
350	Reduce federal support for agriculture research programs.	$ 200	$ 300	$1,400
351	Eliminate the Targeted Export Assistance Program.	$ 80	$ 200	$ 830
351	Eliminate the Export Enhancement subsidy program.	$ 450	$ 220	$1,400
352	Reduce the Agriculture Extension Service budget by 50 percent. All County Cooperative field offices located in urban areas should be closed and the Nutrition Education program should be ended.	$ 400	$ 450	$2,500

371	Exempt GNMA from VA's formula for acquiring foreclosed property producing savings for VA-guaranteed loans acquired by GNMA.	$ 45	$ 19	$ 147
371	Reduce FHA multifamily insurance claims through improved under-writing, monitoring, and services. Allow increase sales of defaulted property.	$ 564	$1,300	$4,780
371	Accelerate enforcement effort to increase recoveries from corrupt HUD contractors in the multifamily and single family housing programs. Also, place a cap on the number of times GNMA securities can be refinanced within a given period.	$ 260	$ 250	$1,250
371	Improve FHA Title 1 debt collection program.	$ 350	$ 200	$1,000
372	Discontinue not-for-profit postal subsidies.	$ 400	$ 500	$2,100
376	End SBA procurement of automated source system.	$ 50	$ 50	$ 200
376	End all SBA credit programs.	$ 300	$ 600	$2,400
376	End SBA direct loans and loan guarantees, except for minority and disaster programs.	$ 50	$ 400	$1,100
401	Close the Interstate Commerce Commission.	$ 50	$ 50	$ 200
401	Eliminate operating assistance for mass transit.	$ 700	$ 800	$3,600
401	Reduce federal share of mass transit capital projects (section 9) grant program.	$ 500	$ 300	$2,100
401	Reduce new highway spending.	$ 300	$2,700	$8,600
401	End AMTRAK grants.	$ 700	$ 800	$3,600
402	Eliminate the Essential Air Service Subsidy Program.	$ 40	$ 40	$200

402	Eliminate airport grants-in-aid.	$1,400	$1,700	$7,800
402	Reduce miscellaneous FAA facilities and equipment funding.	$ 100	$ 200	$ 600
403	Recover 100 percent of costs for Coast Guard services provided to commercial and pleasure boats.	$ 700	$ 800	$3,900
403	Eliminate the Ocean Freight Differential program.	$ 38	$ 75	$ 200
450	Eliminate Miscellaneous pork barrel projects or projects that serve only local interests from HUD budget.	$ 371	$ 200	$1,000
451	Restrict eligibility and reduce funding for Community Development Block Grants.	$ 200	$ 500	$2,000
451	Cancel federal funding of the International Cultural and Trade Center.	$ 120	$ 150	$ 645
452	Transfer all activities within the Rural Development Insurance Fund to the states. Use a portion of these savings to fund increased federal enterprise zone tax abatement.	$ 530	$ 630	$3,000
452	Reduce new lending by 50 percent for the Rural Housing loan program.	$ 700	$ 700	$3,500
452	Reduce cost and increase borrower payments to 28 percent of income in the Rural Housing Program.	$ 200	$ 500	$1,700
452	Slow the expansion of the Rural Rental Housing program.	$ 50	$ 100	$ 200
452	Increase developers' interest rate to 5 percent in the Rural Rental Housing assistance program.	$ 50	$ 100	$ 200
452	Devolve Tennessee Valley Authority economic development activities to the states and eliminate the alcohol fuels R&D program.	$ 44	$ 75	$ 100

452	Devolve the Appalachian Regional Commission to the States.	$ 100	$ 100	$ 500
452	End funding for the Economic Development Administration.	$ 100	$ 300	$1,000
501	Eliminate untargeting portion of vocational education funding.	$ 300	$ 400	$1,900
502	Eliminate the College Housing and Academic Facilities subsidized loan program.	$ 30	$ 30	$ 150
502	Eliminate federal funding for campus-based student aid (College Work Study Program) and redirect 50 percent of the savings to Pell Grants.	$ 600	$ 700	$3,400
502	Have post-secondary institutions pay a loan default fee on Guaranteed Student Loans.	$ 200	$ 200	$1,000
502	Require lenders to share in the risk of guaranteed student loan defaults.	$ *	$ 200	$ 700
502	Increase guaranty agencies risk in guaranteed student loans that default.	$ *	$ 100	$ 400
502	Reduce interest subsidies to lenders making and/or holding federally guaranteed student loans.	$ *	$ 100	$ 300
502	Require guaranty agencies to participate in IRS tax refund offset program.	$ *	$ 100	$ 400
502	Allow Department of Education to recall defaulted student loans when guarantor collection efforts are ineffective.	$ 100	$ 100	$ 500
502	Eliminate Stafford loan eligibility for students attending schools with default rates over 40 percent.	$ 300	$ 300	$1,500

502	Require Stafford program borrowers to have high school diplomas or graduate equivalency degrees.	$ 100	$ 100	$ 500
503	Reduce funding by 50 percent for the National Endowment for the Arts and Humanities, and require matching funds from non-federal sources.	$ 500	$ 600	$2,700
503	Discontinue federal funding for the Corporation for Public Broadcasting.	$ 246	$ 325	$1,400
504	End Trade Adjustment Assistance.	$ 220	$ 400	$1,150
506	Phase out Action as a tax-supported program over the next five years.	$ 40	$ 80	$ 350
506	Reduce funding of social services block grants 50 percent.	$1,400	$1,400	$7,000
550	Reduce National Institutes of Health research funding.	$ 700	$ 900	$4,100
550	Reduce NIH overhead funds by 50 percent.	$ 500	$ 600	$2,700
551	Require states to expand/improve Medicaid efforts to identify and recover improper payments caused by recipient\ provider abuse.	$ 400	$ 600	$2,600
551	Require states to establish effective third-party recovery programs for Medicaid.	$ 900	$1,100	$5,000
551	Reduce federal funding for Medicaid management information systems.	$ 100	$ 100	$ 500
551	Expand Medicaid income verification system to include access to Treasury bondholder information.	$ 100	$ 100	$ 500

551/605	Consolidate Administrative cost sharing program for AFDC, Medicaid, and Food Stamps into a single reimbursement system and improve controls over administrative cost increases.	$ 400	$ 600	$2,100
553	Eliminate health professionals education subsidies except for disadvantaged and minority students. Convert program into a scholarship fund.	$ 180	$ 210	$ 970
553	Curb the default rate in the health education assistance loan (HEAL) program by tightening due diligence requirements, setting a needs requirement for loan amounts, and linking insurance premium assessments to default rates in medical disciplines.	$ 75	$ 175	$ 375
570	Reduce Medicare's direct payments for medical education.	$ 120	$ 300	$ 870
570	Adjust indirect medical education add-on payment factor from 7.65 percent to 4.4 percent in 1993, phasing down to 3.2 percent in 1997.	$1,045	$2,500	$8,715
570	Extend 15-percent reduction for capital expenditures and move slowly to prospective reimbursement system.	$ 900	$1,400	$5,400
570	Increase safeguard funding (net savings).	$1,100	$1,200	$5,400
604	Switch to a Random Digit Dialing System in calculating fair market rents for the Section 8 rental assistance program.	$1,450	$1,500	$7,250
604	Institute a Performance Funding System for operating subsidies to local Public Housing Authorities.	$ 65	$ 100	$ 325
604	Replace new public housing construction with vouchers.	$ *	$ 600	$1,700

604	Partially replace new construction for elderly (section 202) with portable certificates.	$ 100	$ 200	$ 800
604	Require certification of assisted household income through employer wage data.	$ 200	$ 200	$1,000
604	Require competitive bidding in all Comprehensive Improvement Assistance Program (CIAP) procurement.	$ 300	$ 500	$2,050
604	Convert $300 million of the Section 221(d)(3) and Section 236 prepayments (under the Low-Income Housing Preservation Act) into portable tenant-owned "housing IRA"-type accounts.	$ 320	$ 650	$2,000
604	Eliminate funding for Section 8 rental housing vouchers on dwellings not meeting HUD's housing quality standards.	$ 100	$ 100	$ 500
605	Require states to reimburse the federal government for all overpayment errors in the Food Stamp program.	$1,000	$1,600	$5,600
605	Require all able-bodied Food Stamp recipients to engage in a workfare or job search effort for at least 25 hours per week	$ 80	$ 200	$ 500
605	Means-test child nutrition and school lunch subsidies then limit benefits to families below 185 percent of the poverty level.	$1,000	$1,500	$5,700
703	Extend several expiring provisions of OBRA regarding third-party medical recoveries.	$ *	$ 275	$ 755
703	Improve management and delivery of veteran's health care.	$ 200	$ 900	$2,600

704	Reduce losses in VA Housing Loan program by: raising fee and require down payment for multiple use of loan guaranty benefit; improve formula used to acquire foreclosed property; extend expiring OBRA fee increase.	$ 310	$ 250	$1,100
704	Increase alternatives to foreclosures to reduce VA's losses.	$ 100	$ 100	$ 500
752	Reduce by 50 percent funding for Legal Services Corporation.	$ 150	$ 200	$ 950
800	Increase productivity without constraining pay raises for federal civilian agencies.	$2,200	$2,600	$11,900
800	Lower by 15 percent the travel budgets of non-defense Executive Branch agencies, then cap future growth at the inflation rate.	$ 380	$ 500	$2,000
800	Lower by 3 percent per year, the projected growth rate of all other overhead costs of non-defense Executive Branch agencies (such as transportation of things, rental costs, phone & utility costs, printing, supplies, and equipment).	$3,200	$4,100	$18,250
000	Repeal the Service Contract Act.	$ 500	$ 500	$2,000
000	Repeal the Davis-Bacon Act.	$ 800	$1,500	$5,700
	Total Savings	$43,781	$64,044	$262,522