The Heritage Foundation Backgrounder

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A GUIDE TO THE PRESIDENTIAL CANDIDATES' ECONOMIC PLANS

INTRODUCTION

Each of the three major Presidential candidates, George Bush, Bill Clinton, and Ross Perot, has put forward a plan to revive the weak American economy. In January one of these plans will serve as the basis for policies that the new Congress will be asked to enact.

Many policies in these plans have been proposed and studied in detail before. Some already have been tried, while others are new. As voters and policy makers evaluate the rival plans, they should ask three questions. First, how would the plan, if enacted, affect the economy? Second, is the plan realistic politically? That is, how likely are Congress and the public to accept it? And third, is the candidate likely to promote the policy vigorously? For example, has he opposed or given little attention in the past to certain policies that he now is advocating?

The Bush Plan. President Bush's plan for a second term is found in a policy document entitled "Agenda for American Renewal," unveiled in a speech before the Detroit Economic Club on September 10. Voters and policy makers also can scrutinize Bush's record over the past four years to gain an idea of how the President would carry through on his promises. That record also appears to have forced some rethinking of White House economic policies, influencing Bush's campaign promises.

Among the central features of the Bush plan:

✎ **No New Taxes.** Bush has stated that breaking his 1988 no-new-taxes pledge was a mistake. He now promises, again, to fight a tax hike, arguing correctly that such a hike would be another serious blow to the economy.

Yet the President still appears to be proposing a second-term economic agenda within the framework set by the 1990 budget summit that resulted in large tax and spending increases, as well as a deep recession. For instance, he claims to have incorporated $72 billion in "cuts" in the current budget. But these were reductions in already scheduled spending increases. Federal spending continues to grow faster than inflation. To be sure, Bush does favor a capital gains tax cut, which would stimulate economic growth and bring more revenue into the Treasury. But Bush has only hinted at a cut in the personal income tax rates. This January Bush did recommend a small tax break for families with dependent children, but then quickly abandoned the policy.

✎ **A Balanced Budget Amendment.** The President supports a balanced budget amendment to the Constitution with limitations on tax hikes. Such a policy would help control the future size of the federal government.

✎ **The Ten Percent Checkoff.** Bush has endorsed a plan to allow taxpayers to earmark ten percent of their tax payments to help reduce the deficit. The proposal strictly limits the ability of Congress to make up for that revenue by increasing spending or taxes even more. This is perhaps the most important and innovative fiscal policy in Bush's program. Such a checkoff system could balance the budget by 1997.

✎ **More Free Trade Areas.** Bush's negotiation of the North American Free Trade Area (NAFTA) agreement arguably is the greatest economic achievement of his four years in the White House. His call for the creation of free trade areas with other Latin American countries and with Asian and Eastern European countries is a visionary policy that would mean many jobs for Americans, by opening markets for American products, while also helping to create a prosperous and peaceful world.

✎ **Less Red Tape.** Bush's call for general regulatory reform is essential to unshackling an economy which has suffered from a huge increase in red tape in recent years. The question is Bush's commitment to deregulation, given the fact that he has presided over a major increase in regulations during the past four years.

✎ **Funds for Job Creation.** Bush's call for more money for government agencies to help small businesses and provide job training is unlikely to have any significant impact on the economy. The proposal, in fact, would mean an expansion of expensive policies that in the past have had little impact on job creation.

The principal elements of Bush's economic plan — no new taxes, a capital gains tax cut, empowering taxpayers to earmark ten percent of their tax payments for deficit reduction — would give the economy a better chance of growing than would the major proposals of the Clinton and Perot plans. But in the past, Bush put forward sound proposals, for example, tax relief for families with dependent children, only to drop the proposals, in effect admitting they were very low priorities. He has promoted other proposals, such as the capital gains tax cut, yet not expended the political capital necessary to win congressional enactment. And many of Bush's policy proposals, such as more federal spending for small businesses or job training, contradict other policies, such as holding the line on spending. Thus is an open question whether Bush would follow through on his sound policy proposals in a second term.

The Clinton Plan. Governor Bill Clinton's plan for the economy is laid out in his policy document "Putting People First: A National Economic Strategy for America," unveiled on June 22 at a U.S. Conference of Mayors meeting in Houston, Texas. Clinton calls for at least $197 billion in new federal spending over four years, which he describes as an "investment" for faster growth. He would increase the top tax rate on those with income over $200,000 from 31 percent to 36 percent, and seek more tax revenue from foreign firms operating in the U.S., with the aim of bringing in $150 billion over four years. He would also allow heads of households a modest tax credit for each dependent child. And, he says, over four years, he would cut $144.7 billion in spending.

Among the central features of the Clinton plan:

✎ **Infrastructure Spending.** Clinton's call for $80 billion over four years in more federal spending on infrastructure would be on top of the $151 billion in such spending over six years that Congress recently authorized and that Bush signed into law. Yet in the 1980s, such spending did not create net new jobs but at best only provided extra work for Americans already employed.

✎ **Spending Reductions.** Clinton says he will cut $144.7 billion over four years. Such cuts would help reduce the deficit and help the economy. Clinton, however, does not propose eliminating any of the many unneeded and wasteful federal programs.

✎ **Family Tax Cut.** Clinton's call for a tax credit for dependent children is a welcome way to ease, in part, the heavy tax burden on families. But the credit is too small to make more than a modest difference for most families.

✎ **Industrial Policy.** Clinton's proposed business tax credits would in part offset the heavy tax burden that today hampers American enterprise. Yet his calls for increased federal government targeting of assistance and favors to specific businesses, sectors, and communities would give politically powerful business interests and organized labor much more opportunity to raid the Treasury at the expense of their domestic competitors—and at great cost to American consumers.

✎ **Environmental Legislation.** The environmental policies advocated by Clinton and his running mate, Senator Albert Gore, the Tennessee Democrat, would mean heavy-handed central government planning and even heavier costs than those already imposed during the Bush Administration.

While Clinton is correct to criticize the disastrous condition of the economy that resulted from Bush's policies, he is mistaken to denounce twelve years of "trickle down" economics. Tax cuts, spending restraint, and deregulation under Reagan led to record job creation and economic growth. Clinton unfortunately seems bent on repeating Bush's mistakes. If higher taxes and federal spending were the way to ensure economic growth, the economy should be booming. Bush agreed to hike spending to record levels and to a huge tax increase. The result was a recession and runaway federal deficits.

The Perot Plan. In his short book *United We Stand*, H. Ross Perot declares that while politicians and bureaucrats "all work for us," the American people, they have completely mismanaged the economy.[1] But rather than advocating policies that would return economic decision making to ordinary Americans and stimulate growth, the Texas billionaire's almost exclusive focus is on actions to eliminate the federal budget deficit.

Among the central features of the Perot plan:

✎ **Spending Cuts.** Perot claims that over five years he will cut at least $352 billion, including $141 billion through Medicare and Medicaid reform, $108 billion in wasteful spending and programs, $50 billion in farm and other subsidies, and $40 billion in defense.

✎ **Tax Hikes.** Perot over five years would raise $408 billion in new revenue, including $158 billion with a 50 cent per gallon increase in the gasoline tax, $72.9 billion by limiting mortgage interest deductions, $66 billion through higher taxes on Medicare and higher premium payments, $33 billion through a hike in the top individual tax rate from 31 percent to 33 percent, and $30 billion by increasing from 50 percent to 85 percent the share of Social Security benefits for better off recipients subject to taxes.

✎ **Tax Cuts for Businesses.** Perot would reduce the capital gains tax for long-term investments and eliminate it on small business, and change the tax code to stimulate investment. He also favors investment tax credits and the research and development tax credit.

✎ **Anti-Trust Reform.** Perot calls for amendments to the 1890 Sherman Anti-Trust Act, which restricts cooperation between American enterprises facing foreign competition. This is an especially welcome proposal—one not found among the proposals of the other candidates.

✎ **Environmental Regulation.** While denouncing "overregulation" of the economy by the government, Perot surprisingly advocates a massive increase in federal government control of the economy in the name of ill-defined environmental concerns.

While many of Perot's spending cuts are economically sound and politically feasible, others are wildly unrealistic on both counts. Worse, his proposed tax hikes would plunge the economy into an even deeper recession. Perot wants to collect $408 billion in revenue: the problem is that unemployed workers and closed businesses do not pay taxes.

America's economic fate for the next four years is in the hands of the voters. They soon will pass it into the hands of one of the three major presidential candidates and the members of the 103rd Congress. The current economic problems are due to the

1 H. Ross Perot, *United We Stand: How We Can Take Back Our Country* (New York: Hyperion, 1992).

high tax-and-spend policies of the past four years, not to the tax-cutting policies of the Reagan Administration in the 1980s. The challenge for Congress and the President next year will be to undo the mistakes of recent years, not to repeat them.

Voters and policy makers should judge the candidate's proposals on the basis of economic soundness and political feasibility. Such a careful evaluation may help assure that America escapes from economic stagnation.

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THE BUSH PLAN[2]

George Bush's strategy of negotiating economic policy with Congress has been a disaster. In particular, the high-tax, big spending 1990 budget deal between the White House and Congress pushed the economy into a deep recession and still weighs it down. In addition, reregulation has harmed business and destroyed jobs. Bush claims now to understand that raising taxes was an economic mistake. He promises that in a second term he will avoid tax hikes, try to cap spending, and attack runaway government regulation. Bush maintains that with his policies for a second term, America's Gross National Product (GNP), which now stands at about $6 trillion, will reach $10 trillion by the end of the century.

For the GNP to reach $10 trillion in eight years, without a new wave of inflation, it must grow by two-thirds. This would mean the same cumulative growth in the next eight years, after adjusting for inflation, that occurred between 1968 and today. During the eight-year high-growth period between the end of the recession in 1983 through 1990, the economy grew in inflation-adjusted terms by 30 percent.

Can the President's policies really produce the economic growth he claims? A number of Bush's proposals would indeed allow the economy to grow, but not at a rapid clip. Moreover, his campaign proposals would require him to change or reverse many of the policies of his first term. And contradictory proposals need to be resolved. For example, Bush calls for holding the line on spending while littering the campaign trail with promises of new spending. Voters also must consider if Bush has the political will to push through his reforms. The President often has declared his firm support for policies, for example, tax relief for families with dependent children, only to abandon them after little effort to promote them.

FISCAL POLICY

The Bush Administration's fiscal policy proposals continue to be shaped by the 1990 budget deal, with its huge tax and spending increases. Under this deal, the budget deficit was supposed to be eliminated by 1994. Instead the deficit will be an estimated $274 billion that year.

Table 1 contains the most recent projections of how fast spending and tax revenues are growing, based on the President's fiscal 1993 budget request. The budget approved by Congress slightly modified the major budget areas in the President's proposal. Nonetheless, these projections give a reasonably accurate indication of current fiscal trends resulting from policies George Bush negotiated with Congress in his first term. Moreover, these trends form the foundation on which his fiscal policies will be constructed if he wins a second term.

Bush has admitted that the tax hike was an economic mistake. But he still works within the economic parameters of the budget agreement. To be sure, the President has incorporated $72 billion in supposed spending "cuts" over five years into the budget.

2 Daniel J. Mitchell, the John M. Olin Fellow at The Heritage Foundation, helped prepare this section.

Table 1
Administration Tax and Spending Projections
(in $billions)

Spending

	1992	1993	1994	1995	1996
Domestic Discretionary	217.9	226.2	229.4	232.4	236.8
Domestic Entitlements	649.5	695.7	741.4	791.7	839.4
Defense	309.8	291.8	284.4	284.1	287.2
International	19.7	20.5	21.2	21.4	21.4
Deposit Insurance	11.0	59.4	21.1	-29.7	-23.2
Net Interest	199.1	210.3	229.9	244.9	258.0
Total	1,407.1	1,503.9	1,527.3	1,544.8	1,619.6

Revenues

	1992	1993	1994	1995	1996
Total	1,073.6	1,162.9	1,253.1	1,326.4	1,401.9

Deficit

	1992	1993	1994	1995	1996
Total	335	341.0	274.2	218.4	217.7

Source: Mid-Session Review of the Budget, Office of Management and Budget, Washington, D.C., July 1992.

But these were basically reductions in already large, planned spending increases. Bush proposed to eliminate 246 programs from the 1993 budget and to reduce funding for 84 others that he calls "unjustified," for a total cut in outlays of $1.5 billion. But he also proposed hiking spending for 177 other programs totaling $9.7 billion in new spending.

Bush also has called for an across-the-board tax cut. But he has not presented the details of such a cut and its projected fiscal effects. Further, the Administration's architects of the failed budget agreement, Budget Director Richard Darman and Treasury Secretary Nicholas Brady, are known to be strongly opposed to a tax cut. Thus unless a re-elected President Bush were to break with his current economic team, it is by no means certain that a tax cut would be part of Bush's budget strategy.

George Bush has endorsed several proposals that would sharply curb the growth of federal spending. Among these proposals:

✎ A tax limitation/balanced budget constitutional amendment.

Critique. A balanced budget amendment combined with a tax limitation would make it difficult, though not impossible, for Congress and the Administration to reach budget balance through higher taxes. Such an amendment was voted down this year by Congress.

Even if an amendment won congressional approval and was ratified by the states, Bush's behavior during the campaign does not instill confidence in his implicit promise to cut spending rather than raise taxes under a balanced budget amendment. For example, Bush has promised more funds for agriculture subsidies and jobs programs, and he has fought to reopen an unneeded Florida military base destroyed by Hurricane Andrew.

✎ A line-item veto.

Critique. Clinton and Perot join Bush in pressing for a veto to strike out spending line items in legislation. Much pork barrel spending is added to the budget as a result of Congressmen trading votes — one supporting another's farm subsidy, for example, in exchange for the other's support for export assistance. A line-item veto would allow a President to eliminate such pork barrel spending that does not serve the national interest.

Would Bush use a line-item veto aggressively? While Bush has successfully vetoed many bills, he has never cited spending excesses for any of his vetoes.

In addition, Bush has rejected advice that he already has the power to use such a veto without congressional approval. Bush could have demonstrated his support for and willingness to use the veto by exercising it. He has not.

✎ A cap on entitlement spending.

Critique. Under the 1990 budget deal, caps on domestic discretionary spending were set so high that they have done little to control spending. And there were effectively no caps on the growth of entitlement spending.

Bush's proposed entitlement spending caps could in principle help curb spending. But they would have to be low enough to mean genuine cuts, and to be effective there would have to be major reforms of entitlement programs. Yet, in most cases Bush does not recommend changing programs that drive spending. In addition, a cap on entitlement spending would be very difficult to push through Congress, even for a President with a strong mandate to cut spending.

If a cap could be enacted, the savings would be significant, however. If entitlement spending in this fiscal year, which began on October 1st, had been limited to inflation plus population growth, plus an additional two percent in the first year and an additional one percent the second year, the projected savings would be as follows:

Table 2 Entitlement Cap Savings (in $billions)	1993	1994	1995	1996	1997
Savings	12.1	22.8	53.9	83.4	115.5

Source: Mid-Session Review of the Budget, Office of Management and Budget, Washington, D.C., July 1992.

✎ **A tax checkoff plan, allowing taxpayers to contribute up to ten percent of their income taxes to a national debt retirement fund matched by reductions in federal spending.**

Critique. The ten percent checkoff plan endorsed by Bush would have a real impact on deficit spending. The plan, which allows taxpayers to dedicate up to ten percent of their income tax liability to a debt retirement trust fund, has the potential to balance the budget in as little as four years.[3] For every dollar taxpayers chose to dedicate to deficit reduction under the plan, lawmakers would have to reduce the following fiscal year's spending baseline by the same amount. Failure to comply would mean automatic spending cuts—known as sequestration.

Table 3 shows the large potential savings if all taxpayers chose to participate fully in the checkoff:

Table 3 Ten Percent Checkoff Savings (in $billions)	1994	1995	1996	1997
Savings	49	107	178	263

Source: Congressional Budget Office

GLOBAL TRADE AND COMPETITIVENESS

✎ **Pass the U.S.-Mexico Free Trade Area (FTA) agreement. Create a strategic network of FTAs with other Latin America countries, starting with Chile, with Asian countries, and with the newly freed countries in Central and Eastern Europe.**

3 See Daniel J. Mitchell, "The Ten Percent Taxpayer Checkoff: Breaking Special Interest Budget Gridlock," Heritage Foundation *Issue Bulletin* No. 177, September 28, 1992.

Critique. The FTA with Mexico, if approved by Congress, could be the President's most important economic achievement. It would create jobs both in Mexico and the United States and establish the world's largest economic community.

The proposal to negotiate FTAs with other countries is visionary and would do far more to open markets for American firms and to counter trade protectionism than a policy of retaliation against countries with unfair trade practices. Especially significant is the proposal to establish FTAs with Central and Eastern European countries. Such agreements would be far more effective than foreign aid as a tool to breathe new economic life into these countries. Moreover, the prospect of such FTAs would help dissuade the European Community from erecting new trade barriers to American goods.

✎ **Increase funding of the Export Enhancement Program for farm products and the Export-Import Bank to subsidize American exports.**

Critique. This money to promote American exports is a wasteful handout to privileged businesses and contributes to the budget deficit. A 1990 General Accounting Office study suggests that the current half billion dollar expenditures for the Export Enhancement Program results in only small increased overseas sales,[4] while a Congressional Budget Office study in 1991 finds that Export Enhancement Program probably raises food prices for American consumers.[5]

✎ **Increase funding of the Overseas Private Investment Corporation (OPIC), which provides insurance for American firms operating in certain targeted countries.**

Critique. If American businesses receiving OPIC insurance had to purchase insurance on the market from private providers, they would have to pay more. OPIC thus is a subsidy for American firms setting up operations overseas. Without this subsidy, such firms might well stay in the U.S. And if these enterprises still decided to open overseas operations without OPIC assistance, they likely would look to politically less risky countries, with the best records of protecting property rights.

COMPETITIVENESS AT HOME

✎ **Reduce the capital gains tax.**

Critique. A capital gains tax cut would be one of the quickest ways to unleash funds for new investments and to get the economy moving. A cut also would generate as much as $40 billion over five years in new federal

4 U.S. General Accounting Office, *1990 Farm Bill: Opportunities for Change*, GAO/RCED-90-142, April, 1990.

5 Congressional Budget Office, *The Outlook for Farm Commodity Program Spending, Fiscal Years 1991-1996*, June 1991.

revenues, as individuals and businesses increased sales of assets.[6] Further, by increasing the value of capital assets, a cut would help ease the savings and loan crisis. The reason for this is that banks holding assets would find their economic condition improved. And the federal government holding assets from bankrupt institutions likely could sell them for more.

Bush argued for such a tax cut in his first term but sacrificed the idea to secure a huge tax and spending hike in 1990. The White House, moreover, did little to promote a capital gains tax cut on Capitol Hill and in fact opposed several versions, including one introduced by Senator Malcolm Wallop, the Wyoming Republican, and another by Senator Robert Kasten, the Wisconsin Republican.

✎ **Continue regulatory reform and streamlining under the current moratorium on new regulations.**

Critique. Regulatory reduction is crucial to business formation and job creation. The President's moratorium on new regulations and review of many existing ones are important steps in lifting one of the heaviest and most unnecessary burdens from the economy. Even after taking account of the health and safety benefits of some regulations, red tape could be costing the American economy between $800 billion and $1.6 trillion each year.[7]

But the White House has been responsible for a major part of the increase in reregulation in recent years. Indeed, the President still considers the Clean Air Act and Americans With Disabilities Act, each of which imposes heavy costs on U.S. firms, as among his most important achievements.

✎ **Increase funding for Small Business Administration (SBA) programs.**

Critique. The SBA has practically no impact on small business. Some 99.8 percent of small businesses receive no direct SBA financial aid. And SBA loan recipients include retail establishments, where market entry is relatively easy, as well as doctors, dentists, and lawyers—professions hardly in need for handouts of taxpayers' money. Rather than give the SBA more money and power, Bush should shut it down as a way to reduce federal spending.

✎ **Federal funds for a High Performance Computing and Communications Initiative.**

Critique. The private sector produced the computer and high tech revolution of the past decade. More powerful supercomputers and information networks are continually being developed. Government assistance not only

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6 See Daniel J. Mitchell, "A Tax Strategy to Spur Economic Growth," in Scott A. Hodge, ed., *A Prosperity Plan for America* (Washington, D.C.: The Heritage Foundation, 1992).

7 See William G. Laffer, III and Nancy Bord, "George Bush's Hidden Tax: The Explosion In Regulation," Heritage Foundation *Backgrounder* No. 905, July 10, 1992.

is not needed but likely would lead to resources being misallocated, based on political considerations.

✎ **Government funding for a variety for programs for biotechnology research, an advanced battery consortium, and aeronautics.**

Critique. Government funding for research and development more often than not is merely more pork to special interest groups. Like government research projects in the past, these are unlikely to create useful new technologies at a cost that makes them worthwhile. If new technologies show promise, the private sector supports them without government assistance.

✎ **Legal Reform.**

Critique. Many businesses fear lawsuits or government action against them based on confusing or unfair laws. Vice President Dan Quayle has been correct to call attention to this problem. Some of Bush's specific recommended reforms, however, are not the best way of dealing with the problem, but at least they are a good start. The Bush proposals include:

✓ **Uniform federal product liability laws that would override state laws.**

Critique. While many state product liability laws are bad, others are not. The danger in giving the federal government the power to override bad state laws is that it could result in bad federal law imposed nationwide. Other approaches should be explored to deal with state liability laws.

✓ **Promote alternative dispute resolution.**

Critique. It is often less costly and time consuming for parties to settle a dispute based on a judgment made by a mutually agreed-upon private arbitrator. But there is little the federal government actually can do to promote this alternative to litigation. Nevertheless, it is useful for the President to call attention to the approach.

✓ **A "loser pays" rule to deter nuisance law suits.**

Critique. Requiring the loser to pay the legal costs in a suit would discourage the kinds of unnecessary nuisance suits that currently harm many businesses.

JOBS

During the economic expansion of the Reagan years, some 19 million net new jobs were created. At the height of the expansion, 20,000 net new jobs were being created per day. During Bush's term, the job base has shrunk by two million. Economic growth is the best way to create jobs. Bush also offers the following targeted strategies:

✓ **Give universal access to transition assistance and training support.**

✓ **Give a $3,000 federal voucher for the unemployed to help cover the costs of training.**

✓ **Triple the funds currently available for training, to $10 billion over five years.**

Critique. These suggestions would be a waste of money compared with tax cuts and regulatory relief. The current major federal job training program, the Job Training Partnership Act, is not very effective. The best job training is provided by those employers in an expanding economy who are seeking to add new workers.

ENVIRONMENT

Bush's environmental record generally has been poor from a number of perspectives. First, he has accepted as true many unsubstantiated threats to the environment. He concedes, for example, despite a lack of evidence, that global warming is occurring, that "greenhouse" gases produced by human economic activity are to blame, and that steps should be taken to curb these gases.[8] Second, he supported the Clean Air Act, which inflicts heavy costs on the economy while providing minimal environmental protection. Third, under Administrator William Reilley, the Environmental Protection Agency has become a bureaucracy out of control, imposing expensive new controls on business and arbitrarily abusing the rights and property of citizens.

Bush, to his credit, has avoided setting specific targets for "greenhouse" gas reduction. He also opposed an international "biodiversity" treaty that would have infringed on the property rights of American citizens while affording little real protection of wildlife.

Bush in his second term would seek a rewrite of the Endangered Species Act, which he feels unnecessarily costs jobs while providing little protection for these species. Further, he plans to use more market-oriented mechanisms, where possible, to enforce the Clean Air Act.

8 John Shanahan, "A Guide to the Global Warming Theory," Heritage Foundation *Backgrounder* No. 896, May 21, 1992.

Governor Bill Clinton correctly has called George Bush's economic policies a disaster. Federal taxes, spending, deficits and regulation indeed have grown rapidly, resulting in a painful recession. Clinton, however, is incorrect to criticize twelve years of Republican "trickle down" economics. The tax and regulatory cuts under Ronald Reagan sparked the longest peacetime economic expansion in the country's history, with record job creation. All groups and sectors benefitted. It was after the departure from Reagan's policies, when Bush hiked taxes, let spending grow out of control, and heaped new regulations on the economy, that the economy went into recession.

Clinton is correct to put economic growth and job creation above deficit reduction as the central goal of his economic policy. And he understands that economic growth will bring increased revenues into the Treasury, thus helping to reduce the deficit.

But Clinton's own policies essentially would repeat George Bush's mistakes. The Arkansas governor proposes large increases in taxes and spending, with spending cuts supposedly to bring down the budget deficit. Further, he would add new regulations to a still very weak economy. While Clinton also proposes some tax credits for small businesses, the effect of his policies likely will be the same as with Bush's: continued economic stagnation.

FISCAL POLICY

Clinton proposes to raise taxes by $150 billion over four years, increase spending by $197 billion, and cut other spending by $144 billion. But Clinton ignores the "supply side" effects of his proposed tax increase: When people are punished for being productive, they produce less and thus pay less taxes. Further, Clinton will find it politically very difficult to cut spending. Over the last decade, promised spending cuts that accompanied tax hikes never have materialized. Clinton will have to challenge strong interest groups and their Democratic Party allies in Congress to achieve spending cuts.

The specific elements of Clinton's fiscal plan include:

✎ **Increase federal spending, which Clinton calls "investment," by $197.02 billion over four years above current projections. (See Table 4.)[9]**

Critique. Clinton claims that increased government spending is necessary to get the economy moving. If this were the case, the economy should be in excellent shape, since spending has soared to record levels. Inflation-adjusted domestic spending, excluding the savings and loan bailout and interest on the debt, grew by $435 billion over the past four years, compared with $58 billion during the eight years of the Reagan Administration.

9 From "New Investments" chart, sum of lines labeled "Putting America to work," and "Lifetime learning," in Clinton's "Putting People First," p. 19.

Table 4
Clinton's Fiscal Policy
(in $billions)

	1993	1994	1995	1996	Totals
Current Spending Projections*	1,503.9	1,527.3	1,544.8	1,619.6	
Clinton Spending Increases	+38.4	+48.85	+52.67	+57.1	+197.02
Subtotal	1,542.3	1,576.15	1,597.47	1,676.7	
Clinton Spending Cuts	-26.69	-33.42	-37.81	-46.78	-144.7
Total Clinton Spending	1,515.61	1,542.73	1,559.66	1,629.92	+52.32**
Current Revenue Projections*	1,162.9	1,253.1	1,326.4	1,401.9	
Clinton Tax Cuts	-3.5	-5.5	-6.5	-7.0	-22.5
Subtotal	1,159.4	1,247.6	1,319.9	1,394.9	
Clinton Tax Hikes	+31.1	+37.1	+39.2	+42.6	+150.0
Total Clinton Revenues	1,190.5	1,284.7	1,359.1	1,437.5	+127.5***
Current Deficit Projections*	-341	-274.2	-218.4	-217.7	
Clinton Deficit [Clinton Spending - revenues]	-325.11	-258.03	-200.56	-192.42	
Clinton Deficit Reduction under Current Projections	15.89	16.17	17.84	25.28	-75.18

* Based on 1992 Mid-Session Review, Office of Management and Budget, July 24, 1992.
** Net four year Clinton spending increase over Bush projected spending.
*** Net four year Clinton revenue increase over Bush projected revenues.

Clinton might claim that, unlike Bush's spending, he will "invest" the taxpayers' money in high tech research and development or infrastructure projects that will create jobs. But Bush has spent money on similar programs. In any case, there is no indication that allowing the federal government to "invest" taxpayers' money is a more efficient way of creating jobs and promoting economic growth than is allowing businesses to keep and spend their own money.

✎ **Cut spending over four years by $144.7 billion, in part to offset other spending hikes.**[10]

Based on Clinton's proposed assumptions regarding spending and revenues, and assuming no more economic growth than currently projected by the Bush Administration, the budget deficit under Clinton will decline slightly to $192.42 billion[11] in 1996,

10 From the "New Savings" category, lines labeled "Spending Cuts" and "Entitlement Reform" in "Putting People First," p. 19.

11 This figure represents the sum of Clinton's proposed spending increases, minus spending cuts and revenue lost from a tax cut, plus projected revenues from tax hikes.

Table 5

Additional Deficit Reduction Over Current Projections

(In $billions)

	1993	1994	1995	1996
Net Reduction with Moderate Economic Growth[1]	27.3	25	38	52
New Deficit Projection[2]	-313.7	-249.2	-180.4	-165.7
Net Reduction with Strong Economic Growth[3]	40.4	60.98	86.46	117.16
New Deficit Projection[4]	-300.6	-213.22	-131.94	-100.54

1. From "Deficit Projections" in "Putting People First," p. 20. These numbers are the difference between the current deficit numbers, based on Congressional Budget Office (CBO) assumptions and projected deficits with moderate economic growth.
2. These numbers represent the deficits projected by Bush's Office of Management and Budget (OMB) minus the projected Clinton reductions with moderate economic growth. The OMB numbers are used to allow easy comparison with Bush's record. These are the numbers representing the "official" deficit, the numbers found in the *Economic Report of the President* given each year to Congress.
3. From "Deficit Projections" in "Putting People First," p. 20. These numbers are the difference between the current deficit numbers, based on CBO assumptions, and projected deficits with strong economic growth.
4. These numbers represent the deficits projected by OMB minus the projected Clinton reductions with strong economic growth.

rather than the currently projected $217.7 billion. Clinton, however, offers two sets of budget deficit projection, one set assuming "moderate" economic growth, the other assuming "strong" growth. The former would reduce the deficit to $165.7 billion by 1996, the latter would bring it down to $100.54 billion. See Table 5.

Critique. While Clinton has criticized Bush for high budget deficits, he does not make deficit reduction his top priority as a means to promote short-term economic growth. Instead Clinton believes that properly targeted government spending, with offsetting tax hikes, will get the economy moving. While he is profoundly mistaken about the effects of spending and taxes on the economy, he is at least correct to put economic growth first. Indeed, Clinton offers two sets of projections showing how moderate and strong economic growth respectively would help cut the deficit.

Specifically, Clinton's major spending reduction proposals include:

✓ **A $37.5 billion cut in defense spending below the levels proposed by the Bush Administration.**

Critique. The best way to determine what level of defense spending is necessary for America's security, and thus what net cuts can safely be made, is to evaluate America's new security needs and identify the most appropriate means to meet these needs. Thus, while cuts of the magnitude proposed by Clinton might be possible and prudent, they would have to wait for his defense evaluation.

✓ **$22 billion from administrative savings.**

Critique. The overhead costs for federal civilian agencies is over $200 billion. Thus Clinton can reach this spending reduction goal by chopping administrative costs of government about one percent across the board. Clinton, though, is vague concerning how he plans to reduce these costs.

✓ **$17.1 billion from Resolution Trust Corporation (RTC) management reform.**

Critique. The RTC is the principal agency dealing with the savings and loan crisis. Clinton does not offer details on how he proposes to make these savings.

✓ **$15.3 billion from cutting 100,000 federal workers.**

Critique. Over two and a half million more Americans in the private sector are out of work today than in 1989. Yet the federal payroll grew from 2.978 million in January 1989 to 3.347 million in May 1990. The number of federal workers in the latter half of 1990 dropped back to the levels at which they stood when Bush entered office and now stand at about 2.9 million.

The Clinton cuts could be done easily with a hiring freeze or, with greater political resistance but in a more beneficial manner, through reductions in force in targeted, wasteful agencies. But again, Clinton will have to take on powerful members of Congress from his own party who have blocked such cuts in the past.

✓ **$9.8 billion from reforms in the Defense Department's inventory system.**

Critique. There are serious inefficiencies in the military's inventory system. But the magnitude of savings will depend on an evaluation of defense needs.

✓ **$9.8 billion from use of a line-item veto to cut pork barrel projects.**

Critique. There is probably twenty times this amount of pork in the budget. Cutting $9.8 billion with a line-item veto would be possible if Clinton wishes to stand up to powerful interest groups. Clinton has not used the line-item veto as governor of Arkanas frequently in the past year. But with a Democratic state legislature, it might be expected that Clinton would usually get his way.

✓ **$150 billion from tax increases over four years.**

Critique. Strangely, Clinton includes this under the "savings" category.[12] Clinton would target families with incomes over $200,000 annually, increasing the top rate from 31 percent to 36 percent. He contends that this

12 From category "New Savings," lines labeled "Tax Fairness" and "Closing Corporate Loopholes," in "Putting People

would affect only the top two percent of income earners. Clinton's estimates assume that the government actually will collect significant amounts of revenue from these families. But at higher tax rates, higher income earners likely will invest more in tax shelters to avoid the tax, or simply forego more earnings. The 1990 tax hike, which was suppose to collect $167 billion over five years above July 1990 revenue estimates, in fact will lose the Treasury $325 billion.[13]

✓ **A reduced tax burden on families with dependent children.**

Critique. Clinton would offer families a choice between a children's tax credit and a lower income tax rate. Family tax relief is sorely needed to help ease the heavy tax burden imposed during the last four decades on families with children.[14]

Clinton lists the total costs of this proposal, combined with those of a plan to give more government help to the poor through expansion of the Earned Income Tax Credit, at $22.5 billion over four years. The EITC offers a credit primarily for the working poor against their tax and Social Security obligations and occasionally gives federal payments to these recipients. But the tax relief that Clinton proposes probably would equal no more than $100 per year per child, too little to mean real relief.

GLOBAL TRADE AND COMPETITIVENESS.

Clinton in general endorses free trade. In this he departs from Democrats such as Walter Mondale, his party's presidential candidate in 1984, or Missouri Representative Richard Gephardt, the House Majority Leader, who consistently have backed protectionist measures, usually to help special interest groups. Clinton seems to side instead with Democrats such as 1988 Vice Presidential candidate Senator Lloyd Bentsen of Texas and Florida Congressman Sam Gibbons, the chairman of the House Ways and Means Committee Trade Subcommittee, who recognize the economic benefits of open markets.

If Clinton sticks to free trade principles, he can help protect American consumers from the higher costs of goods and services, and the reduction in choices, that result from closed markets. In opening America's market more to imports, Clinton will help the many American firms, such as computer manufacturers, that stay competitive and at the cutting edge of technology by incorporating foreign components in their domestically produced goods.

First," p. 19.

13 See Daniel J. Mitchell, "Washington's Budget Binge: Getting Even Worse," Heritage Foundation *Backgrounder* No. 912, August 19, 1992, p. 1.

14 See Robert Rector, "Reducing the Financial Burden on the Embattled American Family," Chapter 3 in Hodge, *op. cit.*

Among Clinton's specific proposals to improve America's position in the world economy:

✎ **Strengthen the "Super 301" law to permit stronger retaliation against countries with unfair trade practices.**

Critique. Section 301 of the 1974 Trade Act gives the President the power to retaliate against foreign countries that maintain unfair trade barriers to American exports. One problem with the use of this approach is that it often is of limited effectiveness. Another is that it gives other countries an excuse to retain trade barriers, since America's use of trade protectionism is as bad as that in other countries. Strengthening the government's capacity to fight a trade war will only lead to destruction on all sides.

✎ **Pass a North American Free Trade Area (NAFTA) agreement with Mexico that protects workers' rights and the environment.**

Critique. Clinton has given a general endorsement of the NAFTA agreement with Mexico recently submitted to Congress. But he says he wants to make certain that it protects "workers' rights" and addresses environmental concerns. These reasons are being used by protectionists to stop the agreement.

In point of fact, the best way to help Mexico to become a prosperous country is to allow its citizens and businesses the right to trade with Americans. A prosperous Mexico will be better able to clean up its environment, while a poor Mexico will seek to provide the basic needs of its people first, even at the cost of the environment. Further, with an FTA Mexico will be able to purchase high quality and less polluting American machines and capital equipment.

An FTA with Mexico will create net jobs for American firms supplying Mexican factories. And as the Mexican economy grows, its people will be able to purchase more goods and services from America.

If Clinton attempts to renegotiate this agreement, it likely will die and with it the hopes of a mutually beneficial relationship between America and its neighbor to the South for the next decade. Clinton should go with his free trade convictions and back the FTA as it stands.

✎ **Create an Economic Security Council.**

Critique. Such a Council presumably would include cabinet members and heads of major agencies and would have the power to coordinate international and domestic competitiveness policy. It essentially would act as a kind of federal government economic central planning board, with powerful politicians and interest groups picking winners and losers in the economy, deciding which industries or sectors deserve special government largesse and which do not. The private property rights of individuals would have no formal place in such a collectivist arrangement.

In light of the failures of the communist form of central planning in Eastern Europe and the former Soviet Union, and the turn of other countries with centrally planned economies such as Argentina and Mexico to the free market, the economic approach implied by an Economic Security Council holds only the certainty of economic failure.[15]

DOMESTIC COMPETITIVENESS AND JOBS

Clinton's plan to make America more competitive and create jobs relies primarily on more government spending and tax credits for businesses. His proposals include:

✎ **Spend $20 billion per year, or $80 billion over four years, for new infrastructure.**

Critique. In December 1991, Congress authorized $151 billion in infrastructure spending over six years. Clinton wants to add billions more to this spending. But such spending does not create new jobs. Similar infrastructure spending in the early 1980s created more work for construction workers who already had jobs rather than creating new jobs. Further, Clinton offers no standard to indicate exactly why this much spending on infrastructure is the best way to stimulate growth, rather than, say, using the funds for tax or deficit reduction. Finally, Clinton is silent on reducing the major federal regulations, such as the Davis-Bacon Act, that drive up the cost of infrastructure and so reduce the impact of new infrastructure spending.[16]

Specific projects in Clinton's infrastructure plan include:

✓ **High-speed rail, high tech "smart" roads, and short-haul aircraft.**

Critique. Clinton's proposals are typical of current fascination with "high-tech pork"—projects that involve heavy doses of taxpayer money devoted to new technologies of questionable economic value. In most cases, these projects drive up transportation costs while siphoning off money from more modest but more effective alternatives. For example, a special bus lane will in many cases ease transit problems better and at a fraction of the huge cost of a new subway or light rail system.

✓ **A national information network.**

Critique. Clinton's national information network would link every home, business, laboratory, classroom, and library in America by the year 2015. But the private sector already is wiring America. Many homes now have cable television and the number is growing. Telephone companies are in-

15 For a discussion of this issue see Edward L. Hudgins, "Japan's Prosperity is Not a Danger," in *Orbis*, Vol. 36, No. 4 (Fall 1992).

16 For a discussion of infrastructure reforms see Edward L. Hudgins and Ronald D. Utt, eds., *How Privatization Can Solve America's Infrastructure Crisis* (Washington, D.C.: The Heritage Foundation, 1992).

stalling fiber optic networks. And computer networks and information services abound. The main barriers to faster information technology expansion is government regulation, not a lack of private funds. Telephone companies, for example, still are not allowed to compete with cable companies to offer services. Recently the federal government voted more regulation of cable TV rates, overriding a Bush veto in the process. The key to speeding the information revolution is deregulation, not a government-funded network.

✓ **Development of environmental technology.**

Critique. Clinton wants to use federal funds to develop systems for recycling, treatment of toxic waste, and to clean up the air and water. Technology that helps the environment is best developed by private entrepreneurs in response to market demand, not government mandates or handouts. Many technologies, such as smokeless incinerators, have been developed but meet with political resistance from governments. A device developed by University of Denver Chemistry Professor Donald Stedman, acting like a police radar gun, would allow local officials to catch the most polluting cars on the road. The federal EPA resists promoting this device because it leaves little role for federal bureaucrats.

Before pouring billions of dollars into new technologies, Clinton should seek to eliminate government barriers to current environment technologies.

✎ **Investing in Communities.**

Critique. Clinton maintains that reviving America's cities must be an important feature of any plan to revive the general economy. But as in the rest of his economic plan, he believes the best way to do this is to rely heavily on direct federal government aid or involvement, while failing to appreciate that many of the economic problems in urban communities are in large part caused by unwise federal projects, programs, and regulations.

Clinton's specific proposals include:

✓ **Increased Community Development Block Grants to rebuild inner cities.**

Critique. Such federal grants take money from the taxpayers of the various cities and states, cutting into local tax bases, and offer it back to cities and states after being recycled through federal bureaucrats. The grants are a form of "trickle down" economics from local bureaucrats and politicians supposedly to the poor. In fact, the funds go to favored local businesses or contractors, not directly to the poor. Such urban pork can do little to pull communities out of poverty.

✓ **Inner city small business loans.**

Critique. Loans from the Small Business Administration have been a scandalous waste of money for thirty years. The government does an extremely poor job picking winners and losers among entrepreneurs. And since most small businesses are formed from savings by the entrepreneur or investments by friends and neighbors, a reduction or elimination of the tax on capital gains or earned interest income would provide more funds for new enterprises. Removing the huge burden of government regulations and mandates from businesses also would remove the a serious barrier to new business formation.

✓ **Create a National Police Corps to train 100,000 new officers.**

Critique. Police training and hiring practices are best left to localities. A new federal program will bring with it a new layer of "Washington knows best" regulations that will hamper local law enforcement officials.

✓ **Create urban enterprise zones.**

Critique. In enterprise zones, federal taxes and regulations that erect barriers to business formation would be cut. The proposal also is favored by Bush and Perot, and is a far better approach than government loans and new spending projects. Clinton should give this policy high priority.

✎ **Encouraging private investment.**

Clinton correctly acknowledges that private investment creates new jobs and makes American enterprises more competitive but is concerned that such investment has fallen behind America's international competitors. Clinton therefore offers a package of incentives to stimulate investments.

Clinton's specific policies include:

✓ **Targeted investment tax credits.**

Critique. This credit would encourage investment in new plants and equipment and would ease the tax burden that makes American businesses less competitive. The problem is that such targeted tax breaks, unlike general tax reduction, require the government to determine what parts of the economy are most likely to contribute to growth—and to make a better determination than millions of individual investors and businessmen whose livelihoods depend on it. But the fact is that there is no indication that governments can target winners and losers better than private investors. And too much targeting with credits would steer funds to less profitable sectors and away from economically more important enterprises.

✓ **A 50 percent tax credit for long-term small business investments.**

Critique. Here Clinton is on the right track. Such a credit would help offset the tax burden on businesses. While Clinton's proposal does not define "small" or "long-term," the major problem with this proposal is that it is limited to certain enterprises.

✓ **A permanent research and development tax credit.**

Critique. In a fast-changing, high tech economy, few enterprises can sit on their past achievements. Research and development of new products or production techniques are for many companies a key to competitiveness. The best way to allow businesses to make sound investment decisions would be to allow them to write off all current expenditures and pay taxes only on the amount that their revenues exceed expenses. But as a next best arrangement, an investment tax credit at least helps offset the already high tax burdens on most companies.

✓ **Create a government research and development agency to facilitate private sector and university efforts to establish partnerships to develop cutting-edge products and technologies.**

Critique. While Clinton's understanding of the importance of technology is admirable, he does not offer details concerning what this new agency would do. It is unclear what, if any, partnership opportunities businesses and universities currently forego and why. Clinton might do well to ask businesses and universities if government barriers prevent such ventures.

Clinton would be mistaken to propose an agency to hand out federal funds to cement such relationships, perhaps with the federal government as a partner. First, the federal government already passes out billions of dollars in research grants to universities. Why more funds are needed, as opposed to a redistribution of current funds, is not clear. Second, it is a mistake to assume that the federal government is a better judge of what joint endeavors between businesses and universities offer the most promise for useful results. Third, joint ventures between government and business have proved to be of questionable value. Sematech, for example, formed in 1988 with $200 million annually from the federal government and matching funds from fourteen American microprocessor producers, has yielded only calls for higher funding.

ENVIRONMENT

While not discussed in Clinton's July "Putting People First" plan, Clinton and Vice Presidential candidate Albert Gore have since offered several concrete proposals that would have significant economic effects. Among them:

✎ **Raise the Corporate Average Fuel Economy requirements from the current 27.5 miles per gallon (mpg) to between 40 mpg and 45 mpg.**

Critique. This increase would be another body blow to the already struggling U.S. auto industry. Further, since the most attractive way to increase fuel efficiency is to reduce the weight of cars, which makes them more dangerous in an accident, the result would be many more deaths on American roads.

✎ **A 25 percent recycling requirement for a host of products, primarily packaging.**

Critique. Recycling will drive up the costs of all products using packaging, especially food. The added costs for food would put a disproportionate burden on the poor, who spend a much larger percentage of their annual income on food. The cost to the economy, estimated by the Environmental Protection Agency, would be $30 billion. Further, recycling often requires more energy and can actually mean more pollution than alternative methods of disposal.[17]

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17 See John Shanahan, "A Plain Man's Guide to Garbage: The Reauthorization of the Resource Conservation and Recovery Act," Heritage Foundation *Issue Bulletin* No. 172, March 30, 1992.

Ross Perot believes the budget deficit is the most serious problem facing the country and his fiscal policy seeks to balance the budget within five years. He would do this with a mixture of stiff tax increases and deep budget cuts. Many of his spending cuts are sensible, but others lack the specifics necessary to make them realistic options. Perot also fails to provide details for many of his non-budget related economic proposals. Most would be controversial, moreover, yet Perot gives no indication why he would be more successful in winning congressional approval of his cuts than previous administrations have been in winning more modest revisions of the same proposals.

Perot's proposed tax hikes would be disastrous to the economy, plunging it into a deep recession. A recession would mean a fall in revenues and a worse budget deficit. In any case, Perot would find it extremely difficult to have his proposed tax hikes approved by Congress.

Perot understands that businesses create jobs and that the federal government should end its often adversarial relationship with businesses. But rather than supporting tax reduction and deregulation, Perot—like Clinton—puts his emphasis on direct government aid to businesses, with Washington picking winners and losers.

Perot's Fiscal Plan

Spending Cut Totals Over Five Years (In $billions)

Medicare and Medicaid cuts from savings through health care reform	141
Elimination of 5 percent of most wasteful domestic programs, with 10 percent cut on others	108
Cut farm and other subsidies	50
Defense cuts	40
Slow cost of living growth in government employee pensions	13
Total:	352

Tax Hikes or Cuts in Deductions

50 cent per gallon hike in gas tax	158
Limit mortgage deductions	72.9
Increase Medicare and Medicare users paid share from 25 percent to 35 percent	66
Hike top individual tax rate from 31 percent to 33 percent	33
Raise taxable portion of Social Security benefits subject to tax from 50 percent to 85 percent	30
Stricter enforcement of tax laws on foreign films	21
Hike tobacco tax	18
IRS modernization	10
Total:	408.9
Total Deficit Reduction	760.9

FISCAL POLICY

Perot would eliminate the deficit over five years through a combination of spending cuts and tax hikes equaling $760.9 billion.[18] The major elements in the plan include:

18 List compiled from Perot's book, *United We Stand.* Perot claims only $754 billion in deficit reduction rather than

A cut in spending of $352 billion over five years. Among the cuts:

✎ **Achieve $141 billion in saving in Medicare and Medicaid due to health care reform.**

Critique. Perot offers no details on how to achieve this huge cut in a highly sensitive program. He simply proposes a national health board to oversee cost containment and suggests vague reform of the health care system.

✎ **Cut $108 billion by eliminating five percent of the most unneeded programs, including the Space Station and the Rural Electrification Administration, and by cutting ten percent of the discretionary spending from other programs.**

Critique. There is far more fat in the budget than even this. Perot thus can propose at least this much in cuts. In addition to Perot's specific cuts, his ten percent target would force all agencies to tighten their belts.

✎ **Eliminate $50 billion over five years in farm and other government subsidies.**

Critique. There is at least this much in subsidies in the budget that ought to be eliminated. Perot, however, will find it extremely difficult getting cuts in farm subsidies past the strong agricultural lobby and their friends on Capitol Hill.

✎ **Cut defense spending by $40 billion above the proposed Bush defense cuts.**

Critique. There is considerable waste in the defense budget to cut. But what is waste depends mainly on what the future anticipated functions of the military will be, given the profound changes in the world. What is needed first is a comprehensive examination of America's defense and security needs, followed by a reorganization of the Defense Department accordingly.

✎ **Slow the cost-of-living increases for government retirees, saving $13 billion.**

Critique. Slowing the growth of cost-of-living increases is a good idea but will encounter intense opposition from retiree groups.

Perot would raise another $408 billion through tax hikes or cuts in tax exemptions.

The largest cuts, over five years include:

✎ **A 50 cent per gallon hike in the gasoline tax, phased in at 10 cents per year. Perot believes this will raise $158 billion over five years.**

Critique. Perot's estimate does not take account of likely cutbacks in gas purchases due to the higher price. Worse, such a tax hike will drive up transportation costs on everything from food to automobiles, seriously hampering economic growth. Bush's attempt to raise taxes by $165 billion over five years was the major cause of the 1990 recession. A Perot

$760.9 billion, the sum of the spending cuts and tax increases from the list in his book.

tax hike of similar dimension, especially with the current weak economy, would have the same effect.

✎ **Limit the mortgage deduction on homes to $250,000, eliminate the deduction for vacation homes and tax employer-provided health insurance above $335 per month per family or $135 per month per individual, to bring in $72.9 billion.**

Critique. The direct economic damage of limiting the mortgage deduction proposals could be minimal, since the value of the deduction largely is capitalized into the cost of most homes. But the political opposition would be enormous.

Taxing employer provided health care benefits would be a sounder policy if combined with major health policy reforms.[19] Unfortunately, Perot gives no details on structural reform of the system, aside from proposing a commission to study the issue.

✎ **Remove the cap that restricts Medicare taxes to incomes under $130,000, and require users of Medicare supplemental insurance to pay 35 percent of the cost rather than the current 25 percent. Together these steps, says Perot, would raise $66 billion.**

Critique. This proposal would be very unpopular with elderly Americans. Members of Congress would find it difficult in effect to raise taxes on this group.

✎ **Raise the top marginal tax rate from 31 percent to 33 percent, to bring in an estimated $33 billion.**

Critique. Raising top rates would deal a body blow to the economy and further undo the tax reforms of the 1980s. The lesson of the tax cuts of the early 1980s is that more revenue can be generated with lower tax rates. The effect of a hike in the marginal tax rate, especially in a weak economy, would simply drive higher earners out of productive activities and into tax shelters. The proposed tax hike likely would not bring in Perot's estimated revenues.

✎ **Raise from 50 percent to 85 percent the portion of Social Security benefits for certain recipients subject to taxes, to raise $30 billion.**

Critique. Individual retirees with incomes over $25,000 per year or couples filing jointly with incomes over $32,000 per year would be subject to this change in the tax code. This tax hike would meet with strong resistance from retired Americans. It would be unlikely to pass Congress.

✎ **Tighten lax tax laws for foreign firms to bring in $21 billion.**

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19 See Stuart M. Butler, Ph.D., "A Policy Maker's Guide to the Health Care Crisis, Part II: The Heritage Consumer Choice Health Plan," Heritage Foundation *Talking Points*, March 5, 1992.

Critique. America's tax laws on foreign companies operating on its soil certainly should be enforced. For the feasibility of his proposal to be judged, Perot would have to offer more details on exactly what foreign firms supposedly are "getting away with." Perot must be careful not to invite arbitrary and discriminatory tax hikes by foreign governments on American firms operating abroad in reaction to similar U.S. government policies.

✎ **Raise the tax on tobacco, to generate $18 billion.**

Critique. This tax is yet another burden on the American consumer, targeting an already highly taxed product.

✎ **Modernize the Internal Revenue Service (IRS) to increase tax collections to raise $10 billion.**

Critique. Politicians often have called for better computers, software, and recordkeeping as a means to help the IRS collect more revenue. But here Perot has his priorities wrong. IRS practices often are erratic and arbitrary. Abuse of taxpayers' rights is a serious problem. Rather than strengthening the stranglehold of the federal government on the taxpayer, a Taxpayer's Bill of Rights to limit the powers and abuses of the IRS should be considered.

DOMESTIC COMPETITIVENESS

Perot, as a businessman, appreciates the importance of investments by private enterprise to a strong, competitive economy. To foster such investment and create new jobs, Perot offers a menu of proposals heavy on tax breaks. Perot discusses the need to change government incentives that now discourage savings and productive investments.

A major problem with his plan, however, is the lack of details on how to achieve many of his aims. Often he will simply assert the need for a new policy without giving even a sentence of detail explaining how he plans to implement his policy. For his proposals to be taken seriously and evaluated, more is needed from Perot than mere assertions. Further, Perot often relies on government planning or direction as a means to keep the country competitive. In this his vision is fundamentally flawed.

Perot's major goals and proposals include:

✎ **Free up credit.**

Critique. No details are given and so it is impossible to judge the proposal. Perot states that banking deregulation and the savings and loans bailout were poorly done. He is correct concerning the latter. But banking deregulation has not gone far enough. American banks, unlike many of their foreign counterparts, cannot engage in both investment banking and saving and loan activities. In addition, restrictions on interstate banking prevent American banks from spreading branches, and thus the risks involved with regional economic difficulties, throughout the country.

Perot does not recommend more major banking reform. He simply bemoans the inability of small businesses to secure credit.

✎ **Stimulate investment by changing the tax code.**

Critique. Here Perot gives no details on how the tax code should be reformed. He merely observes that most new businesses start with working capital of under $100,000 and thus maintains that creating pools of shared capital could reduce risks for such new businesses.

✎ **Eliminate capital gains tax on small business investments.**

Critique. Again, Perot offers no details. The recommendation, however, in principle is sound. Any reduction—let alone elimination—of the capital gains tax would help new business formation and job creation.

✎ **Establish a mentor program, with retirees helping young people to gain work experience.**

Critique. While this probably is an effective way to train young people, the private sector or local governments are better able to operate such a program.

✎ **Target growth industries.**

Critique. While details are lacking, Perot seems to favor a federal government agency to pick winners and losers among enterprises and grant special subsidies, credits, or favors to them. He writes of the Japanese success with government planning and implies that this is the model for the U.S. to copy.

But such national industrial policy has serious drawbacks in Japan and would have worse drawbacks in America. Central planners in Japan have made serious mistakes. They refused to help Japanese electronics manufacturers in the early 1950s, believing that there was no future for Japan in electronics. They urged Japanese automobile manufactures in the early 1960s to cut back on their variety of models and to merge operations. Fortunately for Japan, these enterprises ignored the central planners and thus grew competitive.

The effects of the Japanese government's economic planning, combined with that country's trade restrictions, has been living standards 40 percent below those of the average American.

Such a system of central planning in the U.S. would result in economic decisions by politicians and bureaucrats based on political considerations, not on sound market judgments.

If it were obvious which industries or product lines would be most profitable in the future, businesses would be investing in them without government urging or assistance. If it is not obvious, there is no reason to assume that government planners could make better investment decisions than private businessmen.

✎ **Amend the 1890 Sherman Anti-Trust Act, to permit greater cooperation between enterprises.**

Critique. Anti-trust reform is long overdue. With foreign firms competing with Americans in nearly every sector, there is virtually no danger of monopolistic practices on the part of American businesses. Further, in recent years many larger American firms have formed successful "strategic alliances" and joint ventures with other firms, both domestic and foreign, to share development, production or marketing costs and technologies. But they still risk Justice Department action based on America's outdated anti-trust laws.[20] A compete review and amendment or repeal of all such laws would make America more competitive.

✎ **Reduce paperwork burden on small businesses.**

Critique. Perot provides no details on how this will be done, although reducing the federal paperwork burden on small firms would be very beneficial. One way to achieve the reduction would be to continue and expand the Vice President's Competitiveness Council, which attempts to assure that regulations are enforced in ways least destructive to the economy.

✎ **Encourage private investment.**

Perot deplores the low rate of savings in the U.S. He makes an analogy between farmers eating their seed corn and having nothing with which to plant. He then offers specific proposals to encourage investment:

✓ **Investment tax credits.**

Critique. Perot gives no details on what he means.

✓ **Research and development (R&D) tax credits.**

Critique. Again, Perot offers no details. Since there already is an R&D tax credit that must be renewed periodically, Perot might mean that this credit should be made permanent. This would help offset the heavy tax burden on businesses.

✓ **Tax breaks for long-term capital gains.**

Critique. Perot gives no details concerning the magnitude of his proposed cut or what investments are considered "long-term." He maintains that Republicans are wrong to think such a cut is a cure-all and that Democrats are wrong to think such a cut would benefit only the rich. Few Re-

20 Bryan T. Johnson, "Increasing American Competitiveness Through Strategic Alliances," Heritage Foundation *Backgrounder* No. 857, September 26, 1991.

publicans in fact believe such a cut would be a cure-all. Perot is correct to note that such a cut would help the entire economy, not just the rich.

ENVIRONMENT AND ENERGY

Perot, like Bush and Clinton, is concerned about the environment. Unfortunately, as with some of his major recommendations to make America competitive, Perot relies heavily on government controls and dictates as a means to protect the environment. This approach, however, usually inflicts serious harm on the U.S. economy while delivering minimal, if any, benefits to the environment. Thus, while denouncing overregulation of businesses, Perot would increase regulations with little regard for the effects on the economy.

Perot's specific proposals include:

✎ **Encourage recycling and conservation.**

Critique. Perot gives no details on how to do this. Currently recycling often will require more energy and pollute the environment more than alternative means of disposal.[21]

✎ **Support "sustainable economic growth" for businesses and help communities make transition from dying industries.**

Critique. Perot gives no details, but "sustainable economic growth" is a term often invoked to justify government restrictions on economic activity. Such restrictions are often enacted in the name of vaguely defined attempts to avoid excessive consumption of important resources. Any policy based on this premise almost certainly would mean arbitrary government actions that would harm the economy.

✎ **Avoid overregulation.**

Critique. Again, no details are given. Yet mandated recycling, a probable Perot policy, is almost by definition a form of overregulation, as would be a policy of supporting "sustainable economic growth."

✎ **Invest in more environmental technology.**

Critique. Again, no details are given. As with Clinton's similar suggestion, the problem with presumed allocation of federal funds for environmental technology is that many available technologies that would help the environment are blocked by government regulations or other barriers. Further, such funds often end up as high-tech pork for politically influential businesses or research laboratories, with little benefit for the spending returned to the public.

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21 See Shanahan, "A Plain Man's Guide to Garbage."

✎ Create an energy strategy.

Perot is concerned about America's reliance on foreign oil imports, as well as what he sees as energy waste. But, as is the case with his environmental recommendations, Perot does not compare in detail the effects of his suggested policies on the economy and the benefits that he hopes will result.

✓ Cut oil imports by raising taxes on gasoline by 50 cents per gallon over five years.

Critique. This would be a disaster to the economy. Driving up the costs of gasoline would drive up the costs of everything from food to automobiles.

✓ Promote energy conservation through increased education, regulation, research and market incentives.

Critique. Educating people on how to use energy more efficiently is a sensible policy, unless it means requiring firms to institute conservation policies that cost more than the energy saved. If Perot means by using market incentives to make users pay the full costs of energy, by removing government subsidies or price controls, this too is a sound policy. But new regulation, aside from contradicting one of Perot's other supposed goals, would only harm the economy.

✓ Promote alternative domestic energy sources by lifting heavy regulations from natural gas and promoting safe nuclear energy development and clean coal.

Critique. Perot offers sound advice. Controls on natural gas, a clean-burning domestic source of energy, keeps energy costs higher and the environment dirtier. And nuclear power can be an important future source of energy if safety standards are set that protect the public yet do not make nuclear energy artificially costly. A first step to promote the use of clean coal would be to eliminate the current government incentives that promote the burning of high sulfur coal.