The Heritage Foundation Backgrounder

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February 16, 1993

PUTTING FAMILIES FIRST: A DEFICIT REDUCTION AND TAX RELIEF STRATEGY

INTRODUCTION

Just three weeks into the new administration, American taxpayers already have reason to be worried about the emerging shape of White House economic policy-making. President Bill Clinton, who promised "to focus on the economy like a laser beam," appears to be struggling to craft a budget and economic strategy that achieves the five economic policy promises he made during the campaign:[1]

1) **Cut the deficit in half;**

2) **Provide middle-class tax relief;**

3) **Enact measures to spur investment and economic growth;**

4) **Put policies in place that assure the deficit will continue to fall; and**

5) **Accomplish all of the first four goals in a manner that is "fair."**

The new President already has retreated from his first two promises, telling Americans to read the fine print of campaign statements. Citing rising deficit forecasts, Clinton's economic advisors now argue that the government needs new tax revenues just to prevent the deficit picture from getting even worse. This is in spite of the fact that Americans now pay $157 billion more in taxes to the federal government than they did four years ago, and the fact that tax revenues are expected to grow under current tax rates some $376 billion over the next five years.

1 Bill Clinton, *Putting People First: A National Economic Strategy for America*, 1992.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

President Clinton is due to release his economic plan on February 17. If early press reports are any guide, American taxpayers should hold on to their wallets, because they are in for a repeat of the disastrous 1990 budget agreement. And President Clinton should ponder the striking similarities between the budget agreement that ruined George Bush's credibility and the ideas now being floated by Clinton's own advisors:

Example: The 1990 agreement raised the gasoline tax by five cents per gallon. The Clinton team is talking about raising taxes on energy or fuel even higher.

Example: The 1990 agreement raised excise taxes on alcohol, tobacco, and shipping in addition to creating a new national sales tax on luxury items. The Clinton team is talking about instituting a new national consumption tax.

Example: The 1990 agreement raised the income threshold on Medicare "payroll" taxes and raised the top income tax rate to 31 percent. The Clinton team is talking about expanding the amount of Social Security benefits eligible for taxation and raising the top income tax rate to 36 percent.

Example: Despite much fanfare about cutting spending, the 1990 budget deal ushered in the largest increase in domestic spending in American history. After adjusting for inflation, domestic spending grew eight times faster in Bush's single term than it did during two terms under Ronald Reagan. The Clinton team promises to increase domestic spending by some $30 billion per year above the current growth rate.

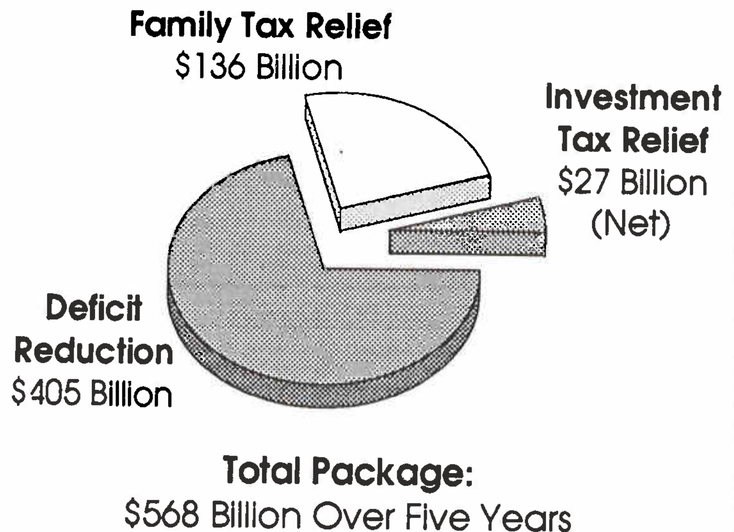
What should be of particular concern to President Clinton is that the 1990 budget deal George Bush negotiated with Congress was supposed to cut the projected deficits between fiscal years 1991 and 1995 by some $500 billion. But recent forecasts now project that deficits during that period will be more than $700 billion higher than projected before the agreement—a difference of $1.2 trillion.

Root Cause of Record Deficits. Most troubling to ordinary Americans should be that the Clinton team, like the Bush team before it, does not seem to understand that rampant federal spending, not a lack of tax revenues, is the root cause of Washington's record deficits. Total federal spending now eats up nearly 24 percent of gross domestic product, or two percentage points more than when Ronald Reagan left office. And rather than fall, annual federal spending is expected to climb by a cumulative total of some $370 billion over the next five years, resulting in $300 billion-plus deficits through the end of the decade.

American taxpayers are being told—yet again—that if only they will agree to more taxes, Congress will cut spending and the deficit will fall. But in the past ten years there have been five "budget summits" in which Americans were told that more taxes would mean lower deficits. Each summit led to higher taxes, higher spending, and higher deficits.

What American taxpayers need is an economic plan that actually delivers real spending cuts, not spending increases; real tax cuts for American families, not tax hikes; and a real economic growth package, not pork barrel "jobs" programs. Heritage Foundation scholars have developed such a comprehensive plan, *Putting Families First: A Deficit*

Reduction and Tax Relief Strategy. This plan would deliver real deficit reduction, family tax relief, and economic growth by attacking the true problem, rampant government spending. In short, the plan would achieve the principal economic goals that Bill Clinton promised the American people.



Putting Families First would cap the annual growth of domestic spending, which is projected to grow by some five percent per year through fiscal 1998, at a more reasonable rate of two percent per year. This saves enough to cut the deficit in half by fiscal 1998; finance a $500 per child tax cut to American families; and finance pro-investment tax cuts for American businesses and entrepreneurs.

The *Putting Families First* plan has six policy components:

1) Place a two percent cap on annual domestic spending growth. Combined domestic discretionary and mandatory spending (excluding net interest and the savings and loan bailout costs) is projected to grow by roughly five percent per year on average through fiscal 1998.[2] The plan caps this annual growth rate at two percent. This produces $509 billion in total program savings below the projected baseline growth rate and $59 billion in interest savings, for a total savings of nearly $570 billion.

2) Give families a tax credit of $500 for each child. The plan uses $136 billion of these savings to provide a $500 per child tax credit for every American family. This credit could be raised to $750 per child if the $53 billion in additional defense cuts planned by Clinton were channelled into family tax relief.

3) Spur investment and real wage growth through tax cuts. The plan uses roughly $27 billion of these savings to fund tax cuts that will generate the private investment needed to increase the productivity of American workers, and thus real wages. These tax measures include indexing the capital gains tax and lowering the maximum rate to 15

2 Hereafter, the use in this *Backgrounder* of the term "total domestic spending" means the sum of domestic discretionary spending and domestic mandatory spending, but excludes net interest on the federal debt and the costs and revenues of the Savings and Loan (S&L) bailout.

percent for both individuals and corporations (producing a net five-year loss to the Treasury of roughly $53 billion); enacting a neutral cost recovery plan for capital investments (generating a five-year net gain to the Treasury of over $22 billion); and expanding individual retirement accounts (IRAs) (generating a five-year net gain to the Treasury of $3.5 billion).

4) Cut the deficit in half by fiscal 1998. The plan uses the remaining $405 billion of savings to cut the deficit in half in five years. This means the fiscal 1998 deficit will fall from $320 billion, the current projection, to roughly $160 billion.

5) Enact a package of spending cuts. To keep spending within the two percent cap, and generate over $500 billion in savings, the plan involves a two-step process of spending cuts:

Step #1: Enactment by Congress of 100 spending cut options already endorsed by Office of Management and Budget (OMB) Director Leon Panetta and Deputy OMB Director Alice Rivlin. These recommendations, listed in the appendix to this paper, would save $275 billion over five years—over half the savings needed for this plan.

Step #2: Creation of a bi-partisan commission to identify the remaining necessary savings, modeled on the Base Closing Commission. Under the law creating the commission, Congress would have to vote on the entire package of recommended cuts.

6) Ensure long-term deficit reduction. The spending caps, enforced by a sequester, will provide the long-term discipline needed to prevent future deficit spending and keep the budget on track toward balance. These caps also will ensure that any new tax revenues pumped into the Treasury automatically go toward reducing the deficit, not to fund higher spending.

Putting Families First thus fulfills the five major economic promises made by candidate Clinton, but achieves these goals without repeating the fiscal mistakes of the Bush Administration. Moreover, unlike other deficit reduction plans, *Putting Families First* will work politically because it includes the "carrot" of tax relief for families to build public support for the "stick" of reducing spending.

THE PROBLEM: THE SIZE OF GOVERNMENT

The Clinton White House is falling into the same Washington trap that brought gridlock to the Bush Administration. The reason: Clinton apparently views the deficit as a disease that must be cured, rather than understanding that the deficit is the symptom of a deeper disease—Washington's own profligate spending habits.

Those lawmakers who see the deficit as the problem believe that when the government borrows huge sums to fund the deficit, private borrowing is crowded out of the credit market. The competition between government and private borrowing drives up interest rates which, in turn, leads to reduced private investment. Cutting the deficit, these lawmakers say, will lower interest rates and thus spur private investment and economic growth.

It is certainly true that every dollar the government borrows from private credit markets is a dollar that is unavailable for other purposes, such as car loans, home loans, and new business start-ups. But research indicates that the budget deficit itself has a surprisingly small impact on interest rates. Interest rates fell throughout the early 1980s while the deficit soared to record levels.[3] Mortgage rates are now at their lowest levels for many years, while the deficit has been hitting all-time highs. In addition to the very weak link between deficits and interest rates, investment decisions are not driven solely by interest rates. More important in investment decisions is the after-tax rate of return on capital.[4] Interest rates are merely one determinant of how much that post-tax rate of return will be.

Confiscating Money from the Private Sector. The fatal flaw in the "deficit first" view is that it puts equal value on reducing the deficit through spending cuts or tax increases. This is why the typical view in Washington is that any credible deficit reduction plan must contain some new taxes. One reason this view is wrong is because it fails to understand that there is a big economic difference between raising taxes and curbing spending. Raising taxes simply confiscates money from the private sector rather than borrowing it. The money is still removed from private use. Moreover, taxation is a political act. Taxes are levied on those groups that can be overcome politically, not in ways that are economically most efficient. By contrast, the economy actually adjusts more efficiently to government borrowing, because no one sector carries the full cost.

Even more important, the "deficit first" view fails to understand that whether government takes or borrows is secondary to how much the government removes from the economy. When the government takes money out of the private economy to pay for spending, private capital is crowded out regardless of whether the money is borrowed from investors or extracted from them through higher taxes. In either case, a rise in spending means money that cannot be used by the private sector to invest in new plant and equipment, start a new business, or add new employees. A rise or fall in the deficit merely indicates a change in the way government raises funds. Unfortunately, this draws attention away from the far more important issue of the level of government spending.

As a result of the missed diagnosis produced by faulty economic analysis, there are early signs that Clinton's economic agenda will look largely like Bush's: higher taxes and unchecked spending, leading to slow economic growth and higher, not lower, deficits. If the Administration is serious about producing a healthy economy it must focus its attention on three things:

- ✔ **It must reduce the government's total demand on the private economy by controlling federal spending.** Political and other factors mean that a dollar spent by the public sector is almost always spent less efficiently than the same dollar in the private sector. So a rising share of national income going to govern-

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3 Michael Schuyler, "What Deficits Don't Do," Institute for Research on the Economics of Taxation, *Policy Bulletin* No. 46, July 6, 1990.

4 For a detailed explanation, see Gary Robbins and Aldona Robbins, "Capital, Taxes and Growth" (National Center for Policy Analysis: Dallas, Texas, January 1992).

ment means an economy that is less efficient. Tackling spending, moreover, permits both tax and borrowing needs to be reduced.

✔ **The Administration also must provide middle class tax relief, but for economic rather than political reasons.** Explains Heritage Foundation scholar Robert Rector, "during the past four decades, the federal income tax burden on a family of four has increased by over 300 percent as a share of family income."[5] And while government has been taking a larger share of family incomes in taxes, their real wages have stagnated. Between 1970 and 1990, real pre-tax incomes of single-earner families grew by only 8 percent. However, even this small gain in real family income was mostly taxed away by Uncle Sam. The erosion of living standards among the middle class is directly related to tax policy.

✔ **It must spur private investment to generate the economic resources to raise the living standards of Americans and to fund those programs that are necessary.**

THE SOLUTION: PUTTING FAMILIES FIRST

To be sure, any attempt to rein in government spending will be fought by a legion of Washington special interests who will argue instead for higher taxes on American families. Over the past thirty years, the powerful lobbies have won this debate to the detriment of ordinary Americans; Washington has raised taxes 56 times since 1960, yet balanced the budget only once, in 1969.[6] The reason for this abysmal record over the past four decades is that for every $1 Congress raised in new taxes it increased spending by $1.59.[7] As a result, the federal government now consumes 5.6 percent more of the U.S. economy than it did in 1960. This cycle of tax-and-spend policy-making has taken a tremendous toll on American families.

Spending will continue to soar out of control, and government will continue to demand a greater share of family income, as long as the costs of government are dispersed among all taxpayers and the benefits are concentrated among narrow interests. The reason for this is that each narrow interest has a large financial incentive to campaign aggressively to preserve or expand a particular program, while the small cost to each taxpayer of any particular program is not usually sufficient to trigger significant opposition.

But Clinton can reverse the politics of spending by employing strategies that put federal spending in human, or family, terms. One such strategy is to demonstrate how the savings from reduced government spending can be used to improve the finances and real wages of American families. Building an economic strategy around the notion of "put-

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5 Robert Rector, "How to Strengthen America's Crumbling Families," Heritage Foundation *Backgrounder* No. 894, April 28, 1992.

6 Senator Robert W. Kasten, Jr., "A Balanced Budget Amendment that Won't Tax America," *Heritage Lecture* No. 386, June 2, 1992.

7 Richard Vedder, Lowell Galloway, and Christopher Frenze, "Taxes and Deficits: New Evidence," Joint Economic Committee, October 30, 1991.

ting families first" could turn the tide against the powerful spending coalitions and build popular support for the spending cuts needed to reduce the deficit. This requires a plan that links spending control to a significant tax benefit for ordinary Americans.

The Heritage Foundation economic plan, *Putting Families First: A Deficit Reduction and Tax Relief Strategy*, is designed to build the grass roots support needed for Congress to curb its spending habits. *Putting Families First* places tight controls, called spending caps, on the annual growth of domestic spending. Total domestic spending is now rising by some five percent annually, but constraining this growth rate to a more reasonable pace of two percent annually could save a total of $570 billion over five years' time.

But rather than direct all of these savings to deficit reduction, which will provide few direct tangible benefits to families, *Putting Families First* applies nearly one-third of these savings to funding tax cuts that put cash in the pockets of families and spurs the private investment needed to increase worker productivity and real wage growth.

PUTTING FAMILIES FIRST

($ billions)	1994	1995	1996	1997	1998	Five-Year Total
IRA-Plus Plan[1]	-2.7	-1.4	-1.1	0.3	1.4	-3.5
Investment Tax Incentive Act[2]	-5.9	-12.1	-11.6	-2.2	9.7	-22.1
"Cost" of Indexing Capital Gains and Lowering Rate to 15%[3]	-0.5	7.5	13.5	15.1	17.1	52.7
"Cost" of $500 per Child Tax Credit[4]	25.0	25.0	25.0	25.0	36.0	136.0
Total "Cost" of Tax Cuts	15.9	19.0	25.8	38.2	64.2	163.1
Plus Deficit Reduction Schedule	6.1	42.3	75.4	121.5	160.0	405.3
Equals Total Savings Needed for the Heritage Plan	22.0	61.3	101.2	159.7	224.2	568.4
Savings from Two Percent Spending Cap (Including Interest)	22.1	61.3	101.2	160.0	224.0	568.6

Note: Revenue gaining measures are shown as negative figures because they reduce the deficit. Revenue losing measures increase the deficit so they are shown as positive figures.

Sources:

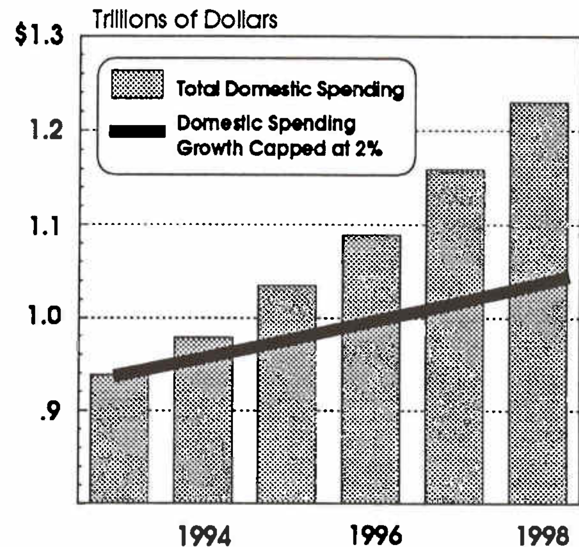
1. Joint Tax Committee, U.S. Congress.
2. House of Representatives, Republican Study Committee, based on Joint Tax Committee models.
3. Joint Tax Committee, U.S. Congress.
4. Heritage Foundation Tax Model.

There are six elements to *Putting Families First*:

Element #1: Cap Domestic Spending Growth at Two Percent Per Year.

Taming the federal deficit will require firm measures to control the true source of the problem—domestic spending. Over the past four years, an explosion in domestic spending (both discretionary and mandatory spending combined) has driven the deficit to record levels.[8]

In future years, the deficit will look smaller because the government will sell off assets acquired during the bailout. The "profits" from these asset sales will be recorded on the budget not as new revenues, but as offsets to the level of spending—what is called "negative outlays." Excluding these profits from spending totals gives a more accurate and honest picture of the government's spending trends. Since Ronald Reagan's last fiscal year, 1989, total domestic spending has jumped $306 billion, from about $633 billion to some $939 billion, a 48 percent increase. Increases in domestic "discretionary" spending, which is spending appropriated annually by Congress, accounted for $61 billion of this overall growth. Increases in "mandatory" spending, which is spending driven by prior law, accounted for the remaining $245 billion increase.



Note: Figures do not include $59 billion in interest savings, which are deducted seperately from annual interest payments.
Source: Calculations based on *Budget Baselines, Historical Data, and Alternatives for the Future*, Office of Management and Budget, January 1993.
Heritage DataChart

Domestic spending growth will continue to keep the deficit at record levels for the next five years. Domestic spending is projected to grow on average by about five percent per year through fiscal 1998, a total increase of $292 billion. Thus the key to controlling deficit spending during the next five years is to hold the yearly growth rate of total domestic spending to below five percent.

8 As stated earlier, the term "total domestic spending" in this *Backgrounder* excludes net interest payments and both the costs and future revenues of the Savings and Loan bailout. In only two fiscal years, 1989 and 1990, did the annual increase in cost of S&L bailout have any significant impact on the deficit. Deposit insurance costs rose from roughly $10 billion in fiscal 1988 to just over $20 billion in 1989 to nearly $52 billion in fiscal 1990. However, in fiscal 1992, deposit insurance costs fell to $2 billion from the $56 billion level in 1991. This $54 billion decrease had a dampening effect on the deficit.

Moderating Effect on Deficit. But many in Congress and in the Clinton White House say that deeper defense cuts will be needed to bring the deficit down. While it is true that further defense cuts could lower the deficit somewhat, the argument ignores the fact that defense spending was cut in real terms by some $57 billion during the Bush Administration and will continue to fall an additional $40 billion in real terms by fiscal 1998. These are deep cuts, and raise serious concerns about U.S. military capabilities in a very unstable world. From a strictly budget point of view, these real reductions in defense already have had a moderating effect on deficit spending and will continue to do so. But even if Clinton follows through with his campaign pledge to cut $53 billion more from defense by fiscal 1997, the deficit that year will only fall from $305 billion, as currently projected, to roughly $285 billion—still $130 billion short of achieving Clinton's pledge to cut the deficit in half.

Thus, no economic or deficit reduction plan is credible unless it limits the growth of domestic spending. The simplest but most effective method of doing this is by capping the annual rate of domestic spending growth to a fixed percentage set well below the current pace. Such a spending cap need not fix the growth rate of every program. Some programs may grow faster than the fixed rate and others much slower. The goal must be to hold the combined growth rate of all programs below the cap.

The idea of spending caps is not new. Indeed, the 1990 budget agreement placed individual spending caps on three categories of discretionary spending—domestic, defense, and international—for fiscal years 1991 to 1993. These three categories are then to be merged into one for fiscal years 1994 and 1995. Thus far, the defense and international caps have successfully controlled spending (defense had substantial cuts built into its cap levels) but the domestic cap has not. The reason for the failure to control domestic spending is that the 1990 budget summit actually set the domestic spending cap levels some $27 billion above the pre-budget agreement discretionary spending projections—hardly a device to control spending.

Capping Mandatory Spending. Some in Congress have proposed placing spending caps on mandatory, or entitlement, spending. Mandatory spending is the fastest growing component of domestic spending; in some areas it is growing at three to four times the inflation rate. Last year, in fact, a plan proposed by Senator Pete Domenici, the New Mexico Republican, and former Republican Senator Warren Rudman of New Hampshire, would have capped total mandatory spending growth at a rate determined by inflation and the population expansion of the program.

The spending cap proposed in the Heritage plan is a "unified" cap, covering both discretionary and mandatory programs (but excluding net interest and deposit insurance costs). While there is merit to individual caps targeted at domestic discretionary programs and mandatory programs, there are two principal reasons for enacting a unified cap for all of domestic spending.

First, because of the increases built into the 1990 budget agreement, domestic discretionary spending has now returned to the high levels of the Carter Administration, after adjusting for inflation. And when all three discretionary categories become subject to one spending cap in fiscal 1994, it is quite likely that significant cuts in defense spending will merely be channeled into higher domestic discretionary spending. This will allow domestic discretionary spending to rise far above the levels of the Carter era. A real "peace

CAP DOMESTIC SPENDING GROWTH AT TWO PERCENT

($ billions)	1993	1994	1995	1996	1997	1998	Five-Year Total
Baseline Total Domestic Spending	938.5	978.7	1034.5	1088.6	1158.6	1230.3	
Cap Annual Spending Growth at 2%	938.5	957.3	976.4	995.9	1015.9	1036.2	
Savings from 2% Annual Cap on Domestic Spending Growth	0.0	21.4	58.1	92.7	142.7	194.1	509.0
Plus Interest Savings	0.0	0.6	3.2	8.6	17.3	29.9	59.6
Total Savings	0.0	22.0	61.3	101.3	160.0	224.0	568.6

Source: Calculations based on *Budget Baselines, Historical Data, and Alternatives for the Future*, Office of Management and Budget, January 1993.

dividend" should not be used for increased spending, it should be returned to taxpayers or used for deficit reduction. That is why a unified domestic cap is so important.

Second, creating a single domestic spending cap will force a healthy competition for funds between all of those programs labeled as domestic. Congress should engage in serious debate over domestic priorities, funding high priority items and dropping low priority programs from the budget. A healthy competition for limited resources between AMTRAK, Belgian Endive research, and Medicare, for instance, would probably make sure that funds were directed to the most important programs.

Based on the spending forecasts released last January by the Office of Management and Budget, capping the growth of domestic spending at two percent per year, three percentage points below the current average growth rate, will save enough money (with interest added) to cut the deficit in half by fiscal 1997, as Clinton pledged to do during the campaign.[9] While it would be a good beginning to halve the deficit within the timetable established by candidate Clinton, there would be insufficient savings also to fund the family tax relief and investment incentives needed to produce a more healthy economy.

9 OMB estimates, rather than Congressional Budget Office figures, are used in this report because OMB is the government's official budget "scorekeeper." OMB's January estimates may be subject to change when the Clinton budget is complete sometime in March. While these official forecasts may change, the basic concept of using spending caps to lower the deficit is still valid. Thus, the two percent spending cap proposed here may have to be adjusted slightly to produce exactly the same results.

If the goal of cutting the deficit in half were pushed back one year, however, to fiscal 1998, the two percent spending cap would save enough money to cut the deficit by half, and to fund family tax relief and investment incentives. As shown in the above table, the two percent annual spending cap saves some $509 billion below the current growth rate through Fiscal 1998 and some $60 billion in interest savings, for a five-year total of nearly $570 billion.

It is reasonable to delay the goal of halving the deficit by one year if other important economic objectives can be achieved. As President Clinton has stated, it is important to strengthen the economy before the tough deficit reduction measures begin. Thus he would do well to dedicate most of the roughly $22 billion in first-year savings achieved by the two percent spending cap to initiating the tax cuts outlined in **Elements #2** and **#3** below. This will have the dual effect of bringing immediate relief to families and businesses as well as building the public support needed to win long-term deficit reduction.

Element #2: Cut Taxes on Families With Children.[10]

Federal taxation of families with children has increased dramatically during the past four decades. In 1948, a family of four at the median family income level paid just two percent of its income to the federal government in taxes. In 1989, the equivalent family paid nearly 24 percent of its income to the federal government. When state and local taxes are included, the tax burden on that family exceeds one-third of its annual income. There are two principal reasons for this rising tax burden on families with children: the eroding value of the personal exemption for children, and massive increases in Social Security taxes, technically known as "payroll taxes."

The personal exemption for children was intended to offset part of the annual cost of raising a child by allowing families to deduct an amount of money from their taxable income. In 1948, the $600 per child personal exemption, plus other deductions, shielded nearly all the income of a family of four from federal income taxes. The value of this exemption, now set at $2,000, has eroded over the past forty years. For the personal exemption to have the same value relative to family income that it did in 1948, it would have to be about $8,000 today and some $9,000 in 1996.

Besides rising income taxes, the other blow to families has been increases in Social Security taxes. In 1948, workers paid a two percent Social Security tax on annual wages up to $3,000: one percent was paid directly by the employee and one percent paid directly by the employer through the so-called employer share. By 1989, combined Social Security taxes had risen to 15 percent of wages on incomes up to $48,000. The effect of this tax on lower-income workers is particularly severe; a family with an income of $25,000 per year, for instance, pays $3,750 in Social Security taxes.

The forty-year combined effect of these two tax trends has been an eleven-fold increase in the share of family income consumed by federal taxes. For the median income family today, the loss of income because of the increase in federal taxes as a share of family income, due to the falling value of the personal exemption and the rise in Social

10 This section draws heavily from Rector, *op. cit.*

Security taxes since the late 1940s, is over $8,200. This is more than the yearly mortgage payments on a median price single family home.

This gradual loss of family income due to a rising tax burden explains much of the frustration exhibited by middle-class families today, and the fear that they will be unable to live as comfortably as their parents did at the same age. This too explains why so many mothers have entered the work force to make ends meet.

But the average employed mother, juggling her job and family demands, knows only too well that despite her efforts the paycheck she brings home does not seem to be raising her family's living standards very much. The reason: only about one-third of her earnings are taken home for the family's budget. The remaining two-thirds of today's mother's earnings pay the higher federal taxes on family income levied since World War II.

A practical way to give reasonable tax relief to families with children, especially low- and moderate-income families, is through a $400 to $500 non-refundable "child credit." Parents would use such a credit to directly reduce both their income tax and the employer and employee Social Security tax liability; though, the maximum value of the proposed credits would not exceed a family's total tax liability.

Under the plan, the value of the "child credit" would be increased incrementally. The credit would be worth $400 per child during the first four years of the plan. In the fifth year, the credit would be raised to $500 for each child aged five to eighteen, and $750 for each child under the age of five. The higher credit for pre-school children would be provided to help offset the greater financial pressures faced by families with young children; these families must either pay greater day care costs or sacrifice the income of one parent who remains at home to care for the family's children.

Added Defense Savings. This Family Tax Relief plan assumes there are no further cuts in the defense budget below the levels planned by the Bush Administration. During the campaign, Clinton proposed cutting more than $50 billion from the defense spending levels already authorized by the Bush Administration. If the Clinton White House goes ahead with these deeper cuts, it should apply these savings to raising the value of the family tax credit to $750 per child aged five to eighteen and $1,000 for each child under age five rather than funnel them into higher domestic spending.

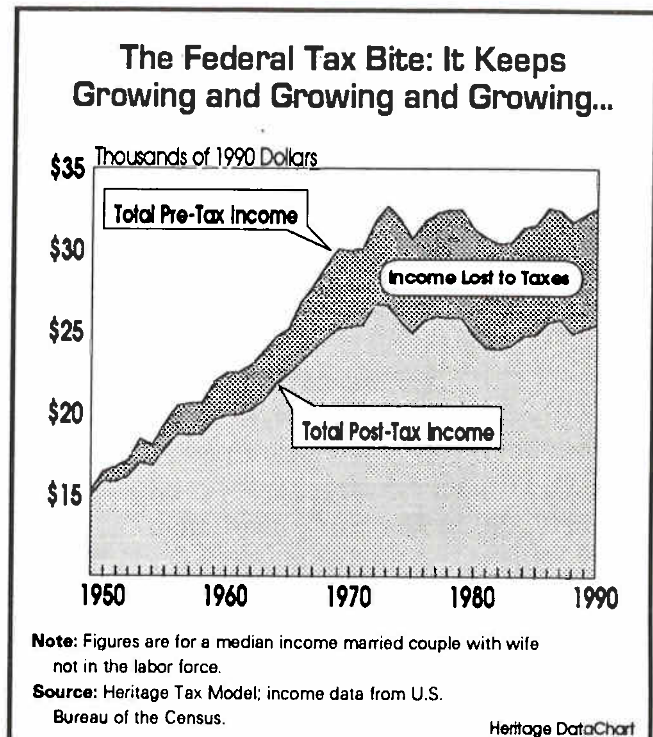
Element #3: Cut Taxes on Investment and Job Creation.

The $500 per child tax credit outlined above would be a good first step toward alleviating the growing tax burden on American families. But American families face another financial problem which requires a more indirect and long-term solution. That problem is the slowdown in wage and salary growth due to distressingly slow productivity improvements in the U.S. economy. The heavy tax burden on savings and investment is the principal cause of this slow growth.

After adjusting for inflation, median family income grew less rapidly in the 1970s and 1980s than in prior decades. Worse still, most of the increase in family income in the 1970s and 1980s did not come from higher worker productivity, but from wives entering the labor force. In earlier decades a husband's salary alone normally could provide a steady increase in real family income, but after 1970 it became increasingly necessary in

many families for both spouses to enter the labor force just to achieve a modest increase in the family's standard of living.

The chart below shows the inflation-adjusted growth of income in married couple families in which only the husband is employed.[11] Between 1950 and 1970, the real income of husbands nearly doubled. Between 1970 and 1990, however, real pre-tax incomes grew by only eight percent.[12] What is worse, growing federal taxation swallowed up what little income gain there was; post-tax income for these single earner families has not increased at all over the past twenty years.



Note: Figures are for a median income married couple with wife not in the labor force.
Source: Heritage Tax Model; income data from U.S. Bureau of the Census.

This stagnation in post-tax income of working husbands played a large role in inducing large numbers of wives to enter the labor force in the 1970s and 1980s. While this extra labor did raise family incomes somewhat, at least half of the family income added in this manner was swallowed by rapidly escalating federal taxes. Today's families thus are being crushed by the dual problem of high taxation and slow wage growth.

This means that lawmakers who wish to relieve the financial pressures on the modern family must do more than reduce taxes on families. They must also design policies that will restore wage growth to the rates experienced in the 1950s and 1960s. Candidate Clinton promised to raise the level of investment in America in a way that would create more jobs at higher wages.

Transferring Resources. The policies proposed by Clinton, however, mean more government spending, targeted to infrastructure projects and select industries. But such government spending does not "create" new jobs, and it certainly does not improve productivity. It merely transfers resources from one sector of the economy to another—and generally from productive sectors to less productive ones. These new government-funded jobs also are "created" at a very high cost to taxpayers. Indeed, the General Accounting Office found that the "new" jobs created by the 1983 Emergency Jobs Act, for

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11 These data provide a reasonable proxy for the salary growth of husbands in general since World War II.
12 For a more thorough discussion of the deterioration of family income growth, see Rector, *op. cit.*

instance, cost $128,000 per job; effectively destroying four private sector jobs for every one it created.[13]

But government can stimulate genuine job creation and higher real wages by instituting tax reforms that lead to investment that will increase the output of workers. If workers can produce more, then businesses not only will want to hire more employees, they will also be willing to pay them more. The ability of workers to produce is determined principally by their education and skills, and by the quantity and quality of the capital stock with which they work. Employees who work with modern equipment, technology, machines, and production processes can produce more and earn more.

Among the necessary pro-investment tax reforms that would be implemented in the first year of *Putting Families First*:[14]

✔ **Cut the capital gains tax rate to 15 percent and index this tax rate to the rate of inflation.**

Cutting capital gains taxes should be a central part of any plan to increase wages and worker productivity. Investment is driven primarily by the after-tax rate of return on capital. When taxes on capital are reduced, more money will be invested, wages will increase, and living standards will rise. Capital gains taxes are a direct tax on job creating investment. If not eliminated, the tax should be cut dramatically and indexed for inflation so investors are not paying taxes on purely nominal gains.

Capital Gains Tax: U.S. Rate is Among Highest in Industrial World

Nation	Maximum Long-Term Capital Gains Tax Rate	Holding Period
Germany	0.0%	6 Months
Hong Kong	0.0	None
Italy	0.0	None
South Korea	0.0	None
Taiwan	0.0	None
Japan	5.0	None
France	16.0	None
Canada	17.51	None
Sweden	18.8	2 Years
United States	**28.0**	**1 Year**
United Kingdom	40.0	None
Australia	50.25	1 Year

Source: American Council for Capital Formation, 1989.

13 See Daniel J. Mitchell, "An Action Plan to Create Jobs," Heritage Foundation *Memo to: President Elect Clinton*, No. 1, December 14, 1992. Also, "Anti-Recessionary Job Creation: Lessons From the Emergency Jobs Act of 1983," Testimony of Lawrence H. Thompson, General Accounting Office, GAO/T-HRD-92-13, February 6, 1992.

14 For a complete discussion of measures needed to boost savings and investment in the U.S. economy, see Daniel J. Mitchell, "A Tax Reduction Strategy to Spur Economic Growth," in Scott A. Hodge, ed., *A Prosperity Plan for America—Fiscal 1993* (Washington, D.C.: The Heritage Foundation, 1992).

In contrast with America's leading industrial competitors, investors in U.S. companies face high taxes on the nominal value of gains they make in the value of their investments. In the U.S. the top rate of capital gains is 28 percent. By contrast, the top rate in Japan is 5 percent and in Germany there is no such tax on assets held for longer than six months. The heavy tax on U.S. capital gains discourages Americans from making the investments in industry necessary to improve productivity, and thus the income of American workers.

The Congressional Budget Office estimates that this recommendation will "lose" nearly $54 billion in federal revenue over five years. But the CBO uses a "static" model to estimate the impact of tax changes. More realistic "dynamic" models have been more accurate than CBO in predicting the revenue effects of tax changes. These suggest that cutting the capital gains tax will mean that greater private investment will generate more economic growth and more federal tax revenues.[15]

Still, to comply with the forecasting model used by the government in its budget scoring, *Putting Families First* uses the CBO estimate.

✔ Extend and expand Individual Retirement Accounts (IRAs).

Like capital gains, the earnings Americans receive on their savings is more heavily taxed than most other industrialized countries. This high taxation encourages Americans to consume their income rather than to save it. This in turn reduces the available pool of money for new investment.

Individual Retirement Accounts (IRAs) reduce the tax bias against savings by either deferring taxes on income placed into the special accounts or by making the interest from such accounts tax-exempt. Unfortunately, the 1986 Tax Reform Act sharply restricted the amount of tax-deferred income that families could place in such accounts. Lawmakers can undo this mistake, without increasing the budget deficit, by enacting a "back-ended" version of the IRA which makes interest tax-exempt. Such a reform would boost savings and so increase the pool of funds available for productive new investments.

Another advantage of the back-ended IRA: according to the CBO's static model, this proposal will generate $3.5 billion of additional revenue over five years.

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15 Many experts believe that reducing the tax rate on savings and investment would so stimulate economic growth that overall federal tax revenues would rise. Thus, according to these analysts, tax cuts on investments and savings would help reduce the deficit. However, this view is not shared by the Congressional Budget Office or the Joint Tax Committee of the Congress. According to the economic models employed by these organizations, such tax cuts will "lose" money for the Treasury. Thus, these tax cuts must be "paid for" by either increases in taxes elsewhere or via spending cuts. While Heritage analysts disagree with this latter view, CBO revenue loss estimates are being assumed for the purposes of this study.

✔ **Reduce taxes on business investment by indexing depreciation schedules for inflation.**

In most industrialized countries, firms effectively are allowed to deduct the full cost of new plant and equipment from their taxable profits in the year the purchase is made, much like any other business expense. In the U.S., however, arcane depreciation schedules force firms to wait many years for tax deductions on major investments of new plant and equipment. Indexing depreciation schedules for inflation—giving the present-value equivalent of immediate expensing—would be an important first step toward achieving a fairer tax treatment of investments, and thereby boosting new investment.

Another advantage: This reform will generate $22.1 billion of additional revenue over five years.

Because this group of tax changes would improve productivity, and thereby raise the wages of parents and other workers, they are profoundly pro-family. However, higher government spending, whether financed by more taxes or borrowing, is not pro-family because it drains resources from the productive sector of the economy and inhibits wage growth.

The results of productivity improvement could be dramatic. If improving the private investment climate through the tax code allowed the U.S. to restore productivity and wage growth to the rates enjoyed in the 1950s and 1960s, the average parent could expect real hourly wages to grow by nearly fifty percent in the next decade. This would mean a huge relief in the financial pressures on today's beleaguered families.

Element #4: Cut the Deficit in Half.

The pro-family and pro-investment tax cuts consume nearly all of the first-year savings created by the two percent spending cap. This means the serious business of cutting the deficit in half begins in the second year of the plan. But since the savings produced by the cap grow in magnitude each year, the impact on the deficit would be substantial after the major tax relief proposals had been phased in.

The cap generates some $224 billion in annual savings below the baseline spending level projected for fiscal 1998. Since $64 billion of these fifth-year savings are dedicated to funding the tax cuts, the remaining $160 billion are then used to cut the projected

CUTTING THE DEFICIT IN HALF

($ billions)	1993	1994	1995	1996	1997	1998	Five-Year Total
January Deficit Projections	327.3	292.4	272.4	266.3	305.0	319.8	1455.9
Deficit Reduction Schedule	0.0	6.1	42.3	75.4	121.5	160.0	405.3
Resulting Deficit Levels		286.3	230.1	190.9	183.5	159.8	1050.6

$320 billion deficit in half.

The preceding table shows the five-year deficit reduction schedule.

Element #5: Introduce Spending Cuts to Achieve the Two Percent Cap.

Finding over $500 billion in savings will require quick and effective short-term as well as long-term strategies to reduce spending. In the short term, considerable savings can be achieve by bundling dozens of "off-the-shelf" spending cuts already developed by the Congressional Budget Office (CBO) and the General Accounting Office (GAO)—both are research arms of Congress. The long-term cuts needed to complete the task will require tougher political choices and significant reforms of major programs. Those will take longer to accomplish.

There are many sound ideas for cutting federal spending that have been discussed for years but have yet to receive congressional action. For example, in February 1981, the Congressional Budget Office—then under the leadership of Alice M. Rivlin, currently Deputy OMB Director—published the first of its annual reports on spending cuts and revenue raising options for reducing the deficit.[16] Many of the spending cut options suggested by CBO then are still valid today because Congress has ignored them.

Further, while still Chairman of the House Budget Committee, OMB Director Leon Panetta, put forward many of the same recommendations in a deficit reduction plan he proposed last year.[17]

The spending cuts recommended by Rivlin and Panetta include:

- ✂ **Reduce funding on highways;**
- ✂ **Institute private financing of the Strategic Petroleum Reserves;**
- ✂ **Increase waterway user fees;**
- ✂ **Reduce funding for Environmental Protection Agency (EPA) Construction Grants;**
- ✂ **Eliminate Farm Deficiency Payments;**
- ✂ **Reduce funding for AMTRAK;**
- ✂ **Repeal the 1931 Davis-Bacon Act;**
- ✂ **Eliminate maritime industry subsidies;**
- ✂ **Reduce the funding for Impact Aid;**
- ✂ **Modify Trade Adjustment Assistance;**

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16 The Congressional Budget Office, *Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982 - 1986*, February 1981.

17 Leon E. Panetta, *Balanced Budget Amendment Options*, Committee on the Budget, U.S. House of Representatives, May 26, 1992. See also, Scott A. Hodge, "A Lawmaker's Guide to Balancing the Federal Budget," Heritage Foundation *Backgrounder* No. 901, June 9, 1992.

- ✂ **Block grant funding for Aid to Families with Dependent Children (AFDC) and Medicaid administrative costs; and**
- ✂ **End the Airport Grants-in-Aid program.**

These would be an excellent starting point for achieving the required savings under the two percent spending cap. The appendix to this study includes 100 such spending reduction measures drawn from the work of Panetta and Rivlin. If all of these reforms were initiated this year, they would save taxpayers some $275 billion over five years—more than half the total savings needed to fund this plan. By themselves, these savings are more than enough to fund both the family tax cuts and the pro-investment tax cuts.

Most taxpayers would have little objection to most of the recommendations listed in the Appendix. However, the spending reductions needed to complete the $509 billion package will need reforms in more politically sensitive programs. But identifying these tougher choices does not need to be done immediately, because the necessary first-year savings would be achieved by the recommended cuts in the Appendix. This breathing space would allow steps to be taken to overcome the political obstacles to major program reductions.

Empaneling a Commission. The most promising way to develop a more extensive package of cuts, while at the same time shielding lawmakers from much of the political cost of making these tough choices, would be by empaneling a commission modeled on the one established to close obsolete military bases.

The Base Closing Commission successfully identified and eliminated obsolete military bases with the minimum amount of political pain. It did so because it provided Congress —even those members whose bases were affected—with political cover. Congress agreed in advance that it would allow the commission the freedom to determine objectively which bases should be closed, and that lawmakers would conduct an up-and-down vote on the Commission's entire package, without amendment. The result: Although Congress had been unable to close a single obsolete base since 1977, the recommendations generated by the Base Closing Commission will lead to the eventual closure of over 100 facilities.

Some experts, such as those at the Progressive Policy Institute, a Washington, D.C.-based research organization close to the moderate Democratic Leadership Council, have urged Clinton to establish a commission to draw up ways of eliminating wasteful federal subsidies.[18] While there is merit to evaluating the economic value of such things as timber subsidies, agriculture subsidies, and selected tax credits, there are many other government activities that deserve similar scrutiny by a commission. Thus the mandate of this commission should be expanded to include a broader spectrum of possible programs for reform or elimination. This should include entitlement programs, programs that duplicate

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18 Will Marshall and Martin Schram, eds., *Mandate for Change* (New York: Berkley Books, 1993). The PPI-proposed commission would evaluate spending or spending-related subsidies such as rural housing loan subsidies, NASA's space station, Tennessee Valley Authority activities, and wastewater treatment grants. Also, the commission would investigate "subsidies" passed along through the tax code such as the deductibility of certain business expenses, private-purpose bonds, and the depreciation of rental housing.

others, those that are obsolete or ineffective, and those which are state, local, or private—not federal—responsibilities.[19]

Understanding Political Nuances. The composition of such a commission should be bipartisan and include current Members of Congress and respected former members. This would bring a strong element of credibility and accountability for tough recommendations. A commission composed of respected private sector individuals, like the 1984 Grace Commission, probably would have more credibility among the general public. But one problem is that legal problems might arise. For instance, there might be legal challenges to the idea of Congress being bound to enact, say, changes in entitlement programs required by a private commission. In addition, cutting major programs is a complicated political task. It would be better to have commissioners who well understand the delicate political nuances involved—something the Grace Commission did not appreciate.

Members of the commission should be given a fixed amount of time, say six months, to identify the $235 billion in savings needed for the last four years of the plan. All domestic spending should be open for review by members, but tax increases should be explicitly off the table. Once completed, the commission's spending cut package should be sent to Congress for an up-and-down vote without amendment.

Element #6: Enact Budget Process Changes to Achieve Long-term Spending Control.

Any comprehensive plan of the scale of *Putting Families First* will require changes and reforms in the budget rules. If properly designed, these reforms will assure that the deficit continues on a downward path toward balance. All of these reforms would be wise policy even if the government were not in a fiscal crisis. Today they are just more urgent. For instance, there are a host of rules, accounting procedures, and congressional mandates that limit the executive branch's right to manage federal programs in a cost-effective and innovative way. Some legislated requirements stop agencies from even studying certain ways to save money.

Putting Families First requires five changes in the budget rules:

1) Reinstate the strict deficit reduction targets once required by the Gramm-Rudman-Hollings law.

Although it is often criticized, the Gramm-Rudman law was an effective spending control measure during Ronald Reagan's second term because it disciplined Congress with fixed deficit targets that were enforced by automatic spending cuts, called a sequester.[20] The 1990 budget agreement, however, gave OMB the power to adjust the deficit targets for "technical and economic" reasons, a device which, in practice, allows spending and deficits to grow unchecked.

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19 S. Anna Kondratas and Stephen Moore, "Breaking the Entitlements Deadlock with a Presidential Commission," Heritage Foundation *Backgrounder* No. 469, November 13, 1985.

20 Daniel J. Mitchell, "Save the Gramm-Rudman Sequester," Heritage Foundation *Backgrounder* No. 763, April 3, 1990.

CALCULATING SPENDING ENFORCEMENT CAPS

($ billions)	1994	1995	1996	1997	1998
OMB Revenue Projections	1230.3	1305.6	1378.5	1439.7	1523.4
- Total "Cost" of Tax Cuts	15.9	19.0	25.8	38.2	64.2
+ Deficit Targets	286.3	230.1	190.9	183.5	159.8
= New Spending Targets	1500.7	1516.7	1543.6	1585.0	1619.0
Old Total Outlay Estimates	1522.7	1578.0	1644.8	1744.7	1843.2
Difference	22.0	61.3	101.2	159.7	224.2

Source: Office of Management and Budget, *Budget Baselines, Historical Data, and Alternatives for the Future*, January 1993

President Clinton did have the opportunity on January 21 to reinstate the fixed Gramm-Rudman targets. But he declined the chance. The White House should rethink this position, because the 1990 budget agreement showed that any deficit reduction plan without these strict rules is a meaningless exercise at taxpayer expense.

2) Institute strict spending targets linked to the deficit amounts.

One of the shortcomings of Gramm-Rudman was that it focussed solely on deficit control, and had no provisions for controlling spending. Spending thus could climb to record levels and Congress could not be held accountable—as long as it raised enough new revenues to meet the legal deficit targets. As spending soared, Congress found itself on a never-ending quest to find new revenue sources to match the required deficit targets. It was only Ronald Reagan's adamant opposition to tax increases, and George Bush's (temporary) "Read My Lips" tax pledge that held Congress in check.

Spending targets introduce a different dynamic. As shown in the table below, the proposed spending targets would be calculated by adding the projected revenues in a given year to that year's deficit target. This rule effectively states: "Given what we know to be the future growth in revenues, what level of spending will insure that we meet our deficit reduction schedule?" To keep Congress on track, the targets should be enforced by a sequester. This means that if spending grows above the legal targets, the sequester mechanism is triggered, cutting spending across-the-board down to the targeted level.

As discussed earlier, limiting the annual growth of domestic spending two percent will hold Congress to this deficit reduction schedule and free up the additional savings needed to pay for the tax relief package.

3) Maintain the "firewall" between total domestic spending and defense/international spending.

Certain budget rules — called "firewalls"—currently separate domestic and defense spending. These firewalls prevent funds from being taken from one category and used to finance increased spending in the other. In fiscal 1994, these rules will change, allowing funds to be shifted between defense spending and domestic discretionary spending.

The firewalls should remain in place for at least the next five years, not changed in fiscal 1994. This will ensure that any additional defense cuts are used for a real peace dividend, not gobbled up by new domestic programs. A true peace dividend should be returned to the taxpayers or used for deficit reduction.

4) Eliminate the budget rules preventing the use of discretionary savings to offset tax cuts.

The 1990 budget agreement created rules blocking the use of discretionary savings to pay for tax relief for American families. So today, only unpalatable cuts in entitlement programs or increases in other taxes can "pay for" family tax relief. The current rule thus is anti-family and anti-economic growth. There is no sound fiscal reason to protect pork barrel programs, such as bee research and the National Fertilizer Development Center, from being eliminated so that the savings could be returned to American families.

Removing this role would encourage Congress to look for savings to finance tax relief. This reform is similar to the reforms included in the "Family Tax Relief Act of 1991" (S. 1846) introduced that year by Senator Bill Bradley, the New Jersey Democrat.

5) Eliminate the budget rules preventing the savings achieved from asset sales or through privatization from being used to reduce the deficit or to offset tax increases.

Few taxpayers are aware that Congress has passed a number of rules that actually prevent the executive branch from selling government assets to the private sector or even from contracting many government functions to private providers. These rules effectively stop the government from saving money by becoming more efficient.

Example: Currently there are 37 laws blocking privatization, including measures that exempt 70 percent of federal commercial services from competition.

Example: Provisions in the Gramm-Rudman law and in the 1990 budget agreement prohibit the proceeds from selling government assets from being counted against the deficit.

Privatization has a solid track record of reducing costs while improving efficiency. Local governments routinely contract with private firms to provide services ranging from building maintenance and street sweeping to even police and fire services. And private companies routinely sell off less desirable assets to raise cash during hard times. For instance, airlines sell routes, conglomerates sell divisions, real estate companies sell land, and publicly held companies sell more stock. The federal government could save hundreds of billions of dollars by employing the same sound techniques used by local governments and private firms.

CONCLUSION

Bill Clinton promised American taxpayers that he would "put people first." However, with the economic plan he plans to release on February 17, Clinton may end up putting Washington first by repeating the fiscal policy mistakes of the Bush Administration. The reason is that it is not the deficit, but government spending, that is a drag on the economy. That is the problem that must be solved. A myopic focus on the deficit in-

evitably leads to calls for more taxes on cash-strapped American families, which invariably leads in practice to deficit increases.

But a plan such as *Putting Families First* can break the tax and spend cycle which has made the public increasingly cynical of Washington's ability to manage its fiscal affairs. The Heritage plan not only tackles the causes, instead of the symptoms, of America's budget problem, but also gives taxpayers a stake in the deficit reduction process, by rewarding them for supporting real cuts in government spending. Such an approach is the only strategy that will build the public support needed to rein in Washington's profligate ways.

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APPENDIX

The spending cut recommendations contained in this Appendix were derived from the following sources:

- Congressional Budget Office, *Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982-1986*, February 1981.
- Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, February 1983.
- Leon E. Panetta, *Balanced Budget Amendment Options*, Committee on the Budget, U.S. House of Representatives, May 26, 1992.

The savings estimates presented here are, by and large, Congressional Budget Office figures calculated for Panetta in May of last year. There are insufficient budget data at this time to update these figures. Thus, in some cases, the estimates contained in the Appendix may underestimate the actual savings achieved by the spending reform proposals.

SELECTED SPENDING CUTS ENDORSED BY LEON PANETTA AND ALICE RIVLIN

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	**Five-Year Total**
	Non-Defense Discretionary	(Millions)					
250	Cancel the Advanced Rocket Motor	$250.0	$420.0	$480.0	$510.0	$530.0	**$2,190.0**
250	Cancel the Space Station	$1,050.0	$1,850.0	$2,200.0	$2,250.0	$2,350.0	**$9,700.0**
250	Cancel the Space Exploration Initiative	$45.0	$80.0	$95.0	$95.0	$100.0	**$415.0**
250	Cancel the Superconducting Super Collider	$200.0	$410.0	$520.0	$540.0	$550.0	**$2,220.0**
270	Eliminate Further Clean Coal Technology	$0.0	$5.0	$60.0	$95.0	$120.0	**$280.0**
270	Change SPR Funding	$11.0	$409.0	$351.0	$413.0	$439.0	**$1,623.0**
300	Reduce Below-cost Timber Sales	$20.0	$30.0	$45.0	$60.0	$75.0	**$230.0**
300	Raise Fees for Hardrock Mining Claims	$0.0	$60.0	$60.0	$60.0	$60.0	**$240.0**
300	Improve Superfund Cost Containment	$160.0	$380.0	$600.0	$660.0	$740.0	**$2,540.0**
300	Reform Superfund Health Assessment Standards	$15.0	$15.0	$15.0	$15.0	$15.0	**$75.0**
300	Hike Weather Service Fees	$5.0	$5.0	$5.0	$5.0	$5.0	**$25.0**
300	Privatize NOAA Research Fleet	$50.0	$50.0	$50.0	$50.0	$50.0	**$250.0**
300	End EPA Sewage Treatment Grants	$90.0	$530.0	$1,250.0	$1,850.0	$2,150.0	**$5,870.0**
350	Streamline USDA Field Offices	$25.0	$65.0	$120.0	$140.0	$140.0	**$490.0**
350	Reform Foreign Agriculture Service	$5.0	$10.0	$10.0	$10.0	$10.0	**$45.0**
350	Reduce ACIF Farm Loans	$101.0	$119.0	$139.0	$161.0	$184.0	**$704.0**

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	**Five-Year Total**
350	Reduce Agriculture Research & Extension Services by 50%	$550.0	$900.0	$900.0	$950.0	$950.0	**$4,250.0**
370	Eliminate Trade Promotion Activities	$110.0	$170.0	$180.0	$180.0	$190.0	**$830.0**
370	End SBA Earmarked Grants	$55.0	**$83.0**	$98.0	$109.0	$121.0	**$466.0**
370	Eliminate SBA Business Loans	$264.0	$398.0	$412.0	$427.0	$443.0	**$1,944.0**
370	Reduce Export Administration by 25 %	$10.0	$10.0	$10.0	$10.0	$10.0	**$50.0**
370	Eliminate FmHA Homeownership Loans	$500.0	$660.0	$730.0	$800.0	$870.0	**$3,560.0**
370	Eliminate FmHA Rental Housing	$40.0	$280.0	$355.0	$410.0	$445.0	**$1,530.0**
400	Cut Highway Demonstration Projects	$185.0	$776.0	$976.0	$944.0	$1,017.0	**$3,898.0**
400	Cut Earmarked Highway Demonstrations	$111.0	$384.0	$480.0	$524.0	$558.0	**$2,057.0**
400	Cut Airport Improvement Grants	$300.0	$750.0	$1,600.0	$1,850.0	$2,050.0	**$6,550.0**
400	Abolish the Interstate Commerce Commission	$20.0	$25.0	$25.0	$25.0	$30.0	**$125.0**
400	Eliminate Essential Air Service Subsidies	$39.0	$39.0	$39.0	$39.0	$39.0	**$195.0**
400	Cut Urban Mass Trasit Subsidies	$530.0	$920.0	$1,250.0	$1,500.0	$1,700.0	**$5,900.0**
400	Eliminate AMTRAK Subisidies	$450.0	$500.0	$525.0	$550.0	$595.0	**$2,620.0**
450	Eliminate TVA Non-power Programs	$40.0	$120.0	$140.0	$150.0	$160.0	**$610.0**
450	Eliminate the Appalacian Regional Commission	$10.0	$60.0	$120.0	$160.0	$190.0	**$540.0**
450	Eliminate Rural Development Loans	$10.0	$35.0	$75.0	$100.0	$120.0	**$340.0**
500	Eliminate Campus-based Aid	$140.0	$1,350.0	$1,450.0	$1,500.0	$1,550.0	**$5,990.0**

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	**Five-Year Total**
500	Eliminate State Student Incentive Grants	$35.0	$75.0	$80.0	$80.0	$85.0	**$355.0**
500	Eliminate Impact Aid	$630.0	$780.0	$840.0	$870.0	$900.0	**$4,020.0**
500	Eliminate Consumer Homemaking Grants	$5.0	$30.0	$35.0	$40.0	$40.0	**$150.0**
500	Eliminate Law-related Grants	$0.0	$5.0	$5.0	$5.0	$5.0	**$20.0**
500	Eliminate Community-based Grants	$0.0	$10.0	$10.0	$15.0	$15.0	**$50.0**
500	Eliminate Law School Grants	$0.0	$5.0	$10.0	$10.0	$10.0	**$35.0**
500	Eliminate Library Grants	$0.0	$10.0	$20.0	$20.0	$20.0	**$70.0**
500	Eliminate Follow-Through	$0.0	$5.0	$10.0	$10.0	$10.0	**$35.0**
500	Eliminate the National Endowments for the Arts and Humanities	$780.0	$990.0	$1,100.0	$1,150.0	$1,200.0	**$5,220.0**
500	Consolidate Social Service Programs	$0.0	$220.0	$270.0	$270.0	$280.0	**$1,040.0**
550	Reduce Funding for the National Institutes of Health by 10%	$370.0	$800.0	$910.0	$940.0	$980.0	**$4,000.0**
550	Eliminate most Heath Training Subsidies	$121.0	$187.0	$219.0	$226.0	$234.0	**$987.0**
600	Eliminate Special HUD Grants	$0.0	$55.0	$120.0	$130.0	$130.0	**$435.0**
600	Modify Fees for Federal Housing	$180.0	$190.0	$210.0	$240.0	$270.0	**$1,090.0**
600	Reduce HUD Utility Payments	$25.0	$25.0	$30.0	$30.0	$35.0	**$145.0**
600	End HUD New Construction	$2.0	$15.0	$140.0	$310.0	$440.0	**$907.0**
600	Scale Back Low-Income Home Energy Assistance	$730.0	$800.0	$830.0	$850.0	$880.0	**$4,090.0**

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	**Five-Year Total**
700	Cut new VA Construction	$0.0	$8.0	$24.0	$44.0	$68.0	**$144.0**
700	Improve Management of VA Hospitals	$0.0	$170.0	$380.0	$610.0	$870.0	**$2,030.0**
700	Close or Convert Outmoded VA Hospitals	$65.0	$140.0	$230.0	$320.0	$340.0	**$1,095.0**
850	Freeze Total Level of Civilian Compensation at FY 1993 Levels for One Year	$2,800.0	$8,300.0	$8,700.0	$9,100.0	$9,500.0	**$38,400.0**
920	Terminate Most Commissions	$142.0	$241.0	$251.0	$261.0	$272.0	**$1,167.0**
920	Cut Federal Travel Costs by 1% during FY '94-98	$6.0	$18.0	$30.0	$42.0	$56.0	**$152.0**
920	Cut Civilian Agency Overhead Costs by 1% FY '94-98	$354.0	$966.0	$1,618.0	$2,310.0	$3,055.0	**$8,303.0**
920	Repeal the Davis-Bacon Act	$312.0	$882.0	$1,218.0	$1,394.0	$1,523.0	**$5,329.0**
		$11,948.0	$26,825.0	$32,655.0	$36,419.0	$39,774.0	**$147,621.0**

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	**Five-Year Total**
	Entitlements	(millions)					
270	Reduce REA Subsidies	$30.0	$70.0	$130.0	$170.0	$200.0	**$600.0**
270	Power Marketing Administration Debt Reform	$0.0	$399.0	$433.0	$452.0	$458.0	**$1,742.0**
300	Raise Inland Waterway User Fees	$350.0	$350.0	$350.0	$350.0	$350.0	**$1,750.0**
300	Eliminate Subsidies for Federal Water	$15.0	$15.0	$15.0	$20.0	$20.0	**$85.0**
300	Raise Recreation Fees	$170.0	$180.0	$190.0	$200.0	$210.0	**$950.0**
300	Change Royalty Payments to States to Net from Gross Receipts	$190.0	$200.0	$210.0	$210.0	$220.0	**$1,030.0**
350	Eliminate Wool and Mohair Programs	$0.0	$190.0	$190.0	$200.0	$200.0	**$780.0**
350	Eliminate Honey Program	$20.0	$20.0	$2.0	$2.0	$2.0	**$46.0**
350	Eliminate Market Promotion Program	$100.0	$200.0	$200.0	$200.0	$200.0	**$900.0**
350	Lower Agriculture Target Prices 3% per Year	$440.0	$1,550.0	$2,150.0	$3,200.0	$5,950.0	**$13,290.0**
350	Eliminate the Dairy Subsidy Program	$421.0	$366.0	$354.0	$320.0	$348.0	**$1,809.0**
350	Replace Crop Insurance with Disaster Assistance	$270.0	$620.0	$640.0	$650.0	$660.0	**$2,840.0**
350	Eliminate the Export Enhancement Program	$310.0	$740.0	$670.0	$640.0	$610.0	**$2,970.0**
370	Improve FHA Title I Debt Collection	$20.0	$20.0	$20.0	$20.0	$20.0	**$100.0**
370	Tighten FmHA Loan Standards	$40.0	$40.0	$40.0	$40.0	$40.0	**$200.0**
370	Enact FHA Management Reforms	$200.0	$200.0	$200.0	$200.0	$200.0	**$1,000.0**

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	Five-Year Total
400	Eliminate Maritime Operating Subsidies	$245.0	$239.0	$238.0	$226.0	$194.0	**$1,142.0**
400	Eliminate Freight Subsidies	$39.0	$39.0	$40.0	$41.0	$43.0	**$202.0**
400	Enact User Fees for Airport Landing Slots	$300.0	$300.0	$300.0	$300.0	$300.0	**$1,500.0**
400	Raise Coast Guard fees to Cover 100% of Costs	$700.0	$700.0	$750.0	$750.0	$800.0	**$3,700.0**
500	Limit Foster Care Administrative Costs	$65.0	$150.0	$240.0	$350.0	$480.0	**$1,285.0**
500	Raise Interest Rates on Student Loans	$150.0	$200.0	$200.0	$200.0	$200.0	**$950.0**
500	Charge Interest on Student Loans During Grace Period	$300.0	$400.0	$450.0	$450.0	$400.0	**$2,000.0**
550	Increase Medicaid Estate-Recovery	$75.0	$150.0	$250.0	$400.0	$450.0	**$1,325.0**
550	Raise State Match on Medicaid/AFDC/Food Stamps to 50%	$470.0	$800.0	$1,130.0	$1,510.0	$1,940.0	**$5,850.0**
570	Phase Out Disproportionate Share Payments to Hospitals	$250.0	$760.0	$1,400.0	$2,100.0	$2,950.0	**$7,460.0**
570	Lower Indirect Payments to Teaching Hospitals -6%	$550.0	$680.0	$740.0	$800.0	$860.0	**$3,630.0**
570	Reduce Direct Payments to Teaching Hospitals	$160.0	$180.0	$190.0	$200.0	$200.0	**$930.0**
570	Increase Payment Safeguards	$1,100.0	$1,120.0	$1,140.0	$1,160.0	$1,200.0	**$5,720.0**
600	Increase Employee Contribution for CSRS	$423.0	$957.0	$1,068.0	$1,043.0	$10.2	**$3,501.2**
600	Use Last 4 Years to Compute Civil Service Pensions	$40.0	$110.0	$200.0	$290.0	$410.0	**$1,050.0**

Function	PROGRAM CHANGE	1994	1995	1996	1997	1998	Five-Year Total
600	Require 50 % Match for CS Thrift Plan	$290.0	$350.0	$410.0	$480.0	$550.0	**$2,080.0**
600	Extend Ban on Lump Sum Benefit	$0.0	$0.0	$0.0	$2,063.0	$2,794.0	**$4,857.0**
600	Re-Target Child Nutrition Programs to Below 185% of Poverty Level	$1,000.0	$1,000.0	$1,000.0	$1,200.0	$1,500.0	**$5,700.0**
600	Penalize States for Food Stamp Errors	$75.0	$100.0	$150.0	$175.0	$200.0	**$700.0**
600	Eliminate Trade Adjustment Assistance Cash Benefits	$140.0	$140.0	$130.0	$130.0	$120.0	**$660.0**
700	Raise VA Housing Loan Fees to 3%	$260.0	$270.0	$280.0	$290.0	$300.0	**$1,400.0**
700	Increase Third Party Payer Reimbursement	$0.0	$170.0	$210.0	$240.0	$250.0	**$870.0**
700	Increase VA Housing Downpayment	$39.0	$34.0	$35.0	$35.0	$35.0	**$178.0**
700	Reduce Resale Losses on VA Loans	$406.0	$87.0	$88.0	$89.0	$90.0	**$760.0**
950	Auction the Electro-Magnetic Spectrum	$0.0	$2,000.0	$1,600.0	$700.0	$0.0	**$4,300.0**
		$9,653.0	$16,096.0	$18,033.0	$22,096.0	$25,964.2	**$91,842.2**
	Sub-Total: Discretionary & Mandatory Savings	$21,601.0	$42,921.0	$50,688.0	$58,515.0	$65,738.2	**$239,463.2**
	Interest Savings	$640.7	$2,751.7	$6,111.5	$10,290.4	$15,229.4	**$35,023.7**
	Total Savings	**$22,241.7**	**$45,672.7**	**$56,799.5**	**$68,805.4**	**$80,967.6**	**$274,486.9**