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A Checklist on Vital National Issues

PUTTING FAMILIES FIRST: AN ALTERNATIVE TO HIGHER TAXES AND MORE SPENDING

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The Heritage Foundation

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As President Clinton is fond of saying: "We can do better." The Heritage Foundation's economic plan, *Putting Families First: A Deficit Reduction and Tax Relief Strategy,* offers a credible alternative to President Clinton's tax and spend economic plan.

CLINTON PLAN

President Clinton has proposed the largest tax increase in American history as part of his plan to reduce the federal deficit by $324 billion over the next four years. Completely missing from the plan is any credible attempt to restrain the most rapidly growing part of the budget — domestic spending. The total Clinton package can be broken down as follows:

MAJOR ELEMENTS OF PRESIDENT CLINTON'S ECONOMIC PLAN
(in billions of dollars)

	4-YEAR TOTAL	PERCENT OF PLAN
HIGHER TAXES	$238.0	73.5%
DEFENSE CUTS	$75.5	23.3%
INTEREST SAVINGS	$35.0	10.8%

The percentages total 107.6 percent because Clinton proposes to *increase* domestic spending by $24 billion, thus offsetting 7.6 percent of the proposed savings elsewhere in the package. These domestic spending increases, incidentally, are in addition to the $245.5 billion of additional domestic spending already included in the baseline budget projections for that period.

THERE IS A CREDIBLE ALTERNATIVE

Heritage Foundation scholars have developed *Putting Families First,* a comprehensive 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. This five-year $568 billion package: 1) cuts the deficit by $405 billion; 2) includes $136 billion in family tax relief; and 3) provides $27 billion in investment tax relief.

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

1) Place a Two Percent Cap on Annual Domestic Spending Growth.

The January 1993 spending forecast by the Office of Management and Budget indicates that the current average growth rate for all domestic spending, including entitlements, is five percent per year through fiscal year 1998. Limiting that growth to two percent per year will save enough money (with interest added) to cut the deficit in half by fiscal year 1998.

This produces $509 billion in total program savings below the projected baseline growth rate, along with $59 billion in interest savings, for a total savings of $570 billion (see attached chart).

2) Give Families a Tax Credit of $500 for Each Child.

The plan dedicates $136 billion of these savings to provide a $500 per child tax credit for every American family. This credit could be raised to $1,000 per child if the $75.5 billion in additional defense cuts proposed 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. These tax measures include indexing the capital gains tax to inflation and lowering the maximum rate to 15 percent for both individuals and corporations (producing a net five-year revenue loss of $53 billion); enacting a neutral cost recovery plan for capital investments (generating a five-year gain to the Treasury of $22 billion); and expanding Individual Retirement Accounts (increasing revenues by $3.5 billion over five years).

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 envisions 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 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, "revenue enhancements" and other tax increases would not be considered and Congress would have to vote on the entire package of recommended cuts.

6) Enact Budget Process Changes to Achieve Long-Term Spending Control.

Putting Families First requires five changes in the budget rules:

a) Reinstate the strict deficit reduction targets once required by the Gramm-Rudman-Hollings law;

b) Institute strict spending targets linked to deficit amounts;

c) Maintain the "firewall" between total domestic spending and defense/international spending;

d) Eliminate the budget rules preventing the use of discretionary savings to offset tax cuts; and

e) 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.

PUTTING FAMILIES FIRST

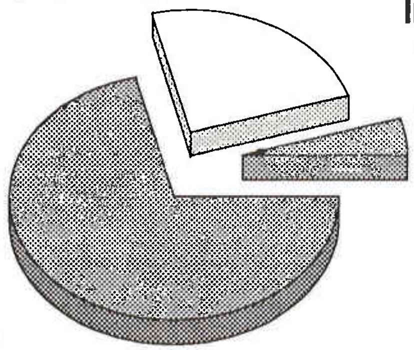
($ billions)	1994	1995	1996	1997	1998	Five-Year Total
IRA-Plus Plan[1]	-2.7	-1.4	-1.1	0.3	1.4	-3.5
Investment Tax Incentive Act[2]	-5.9	-12.1	-11.6	-2.2	9.7	-22.1
"Cost" of Indexing Capital Gains and Lowering Rate to 15%[3]	-0.5	7.5	13.5	15.1	17.1	52.7
"Cost" of $500 per Child Tax Credit[4]	25.0	25.0	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:

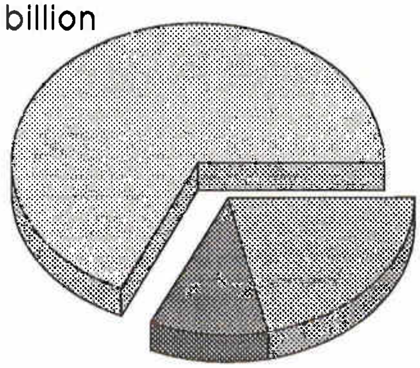
1. Joint Tax Committee, U.S. Congress.
2. House of Representatives, Republican Study Committee, based on Joint Tax Committee models.
3. Joint Tax Committee, U.S. Congress.
4. Heritage Foundation Tax Model.

Putting Families First: A Deficit Reduction and Tax Relief Strategy



Total Package:
$568 Billion Over Five Years

Where Will Clinton's $324 Billion in Deficit Reduction Come From?



Note: Net domestic spending will increase $24 billion, shrinking the overall deficit reduction from the planned $324 billion in "sacrifices."