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MID-SESSION REVIEW

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1998 Budget

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1998

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SENATE LEADERSHIP TAX CUTS SWELL AFTER 2002, COST MORE THAN TAX CUTS IN VETOED 1995 BUDGET BILL

Proposal also Skewed More Toward the Affluent than the 1995 Plan

The tax cuts the Senate Republican Leadership unveiled last month would cost more and direct a larger share of their benefits to high-income individuals than the "Contract with America" tax cuts in the Republican budget that President Clinton vetoed in late 1995, according to a study the Center on Budget and Policy Priorities issued today.

The study also finds the Senate leadership's tax cuts are designed in such a fashion that the costs are kept artificially low during the five years ending in 2002, the year the budget is supposed to be balanced, but mushroom after that. Relying on official cost estimates of these bills from the Joint Congressional Committee on Taxation, Congress' official scorekeeper on tax matters, the Center found the cost of the tax cuts would rise from \$201 billion over the first five years to \$325 billion in the second five years, for a 10-year total of \$526 billion. As a result, the tax cuts would cost 60 percent more in the five years after 2002 than in the five years ending in 2002.

The Center reported that the cost of the tax cuts would reach \$73 billion a year by 2007, the tenth year the tax cuts were in effect, and continue rising after that. The cost of the Leadership tax proposals would exceed \$750 billion in subsequent 10-year periods, the Center concluded.

The Center released its analysis at a press conference in Washington, where it was joined by Martha Phillips, executive director of the Concord Coalition, and Robert Reischauer, a budget expert at The Brookings Institution who formerly directed the Congressional Budget Office.

Mushrooming Tax Cuts Place Deficit Reduction Goals at Risk

"These tax cuts are being advanced at a time when there is growing bipartisan agreement on the desirability of reaching budget balance and keeping deficits under control as the retirement of the baby boom

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generation approaches," said Iris Lav, the report's author and the Center's associate director. "The larger and more backloaded the tax cuts enacted this year, the more difficult it will be to attain these goals in years after 2002 and the more adverse the nation's long-term fiscal outlook will be."

"These new tax cut proposals are of particular concern," Lav added, "because they are built around a series of devices that keep their costs artificially low between now and 2002. Their burgeoning costs after 2002 would mean either that deficits returned in those years, partially undoing prior deficit reduction achievements, or that basic programs serving millions of Americans would be subject to deeper cuts in those years than leaders of either party now acknowledge favoring."

The Center's analysis found that keeping the budget in balance in 2007 if these tax cuts become law would entail reductions in federal programs 50 percent larger than the reductions that would be needed to balance the budget in that year if the tax cuts were not enacted. The budget cuts required to balance the budget in 2002 would need to be 39 percent deeper if the leadership tax proposals became law, the study said.

"It is unlikely that budget cuts of the magnitude needed to maintain budget balance if these tax cuts are approved would be achievable and sustainable," said Robert Greenstein, the Center's executive director. "The result could be rising deficits in the very years we need to make the greatest progress on the deficit, the years before the baby boom generation begins to retire."

Leadership Tax Cuts Exceed Those Congress Approved in 1995 and 1996

The analysis also found the Senate leadership tax cuts would cost more over the next 10 years than the tax cuts in the budget President Clinton vetoed. The new tax cuts also would cost nearly twice as much as the tax cuts assumed in the budget resolution the Republican Congressional majority approved in 1996. Last year's budget resolution assumed tax cuts of \$122 billion over *six* years, the Center noted, while the new proposals total \$201 billion over five years.

The reason the new tax proposals would cost more than those Congress passed in 1995, the analysis found, is that the new legislation contains larger and costlier versions than the 1995 bill of three major tax breaks primarily benefitting upper-income taxpayers — a capital gains tax cut, expansion of tax preferences for Individual Retirement Accounts, and provisions cutting taxes on large estates passed on to heirs.

The 10-year cost of these three tax cut provisions is \$120 billion larger in the new plan than in the vetoed legislation.

The increase in the size of these three tax cuts also results in the Leadership plan being more heavily tilted toward high-income households than the 1995 legislation, which itself heavily favored such households, the Center found. The Center's analysis shows that because the capital gains, IRA, and estate tax cuts mushroom in cost after 2002, the tax package becomes increasingly skewed toward high-income households with each passing year.

Tax cut provisions that confer a majority of their benefits on *middle-class* households account for 61 percent of the revenue loss from the Leadership tax proposals during the first five years, the Center found, but only 33 percent of the tax cut benefits in the second five years and just 30 percent by the tenth year. When the tax cuts take full effect, they primarily benefit the well-to-do rather than middle-income households, the analysis noted.

The analysis also found that the 30 percent of the tax cut benefits that would go for middle-income relief in the tenth year is far below the 46 percent of tax cut benefits that would have gone for such relief under the legislation Congress passed and President Clinton vetoed in 1995.

The Center's findings on the extent to which the Leadership tax cuts would primarily benefit high-income households when the tax cuts are phased in fully is consistent with the findings of a recent study by Citizens for Tax Justice. Citizens for Tax Justice found that when S. 2, the principal Leadership tax bill, is phased in fully, the bottom 80 percent of households would receive only 25 percent of the tax cut benefits. The top five percent of households would garner 51 percent of the benefits.

Leadership Tax Cuts Eight Times Larger than Clinton Tax Cuts

The Center's analysis also found that reports that Senate Leadership's tax cuts have about twice the cost of the Clinton tax cut proposals understate the difference in cost between the two sets of tax proposals. The analysis notes that the net cost of the tax changes in the Administration's budget is only \$21 billion through 2002, because the Clinton budget offsets most of the cost of its tax cut proposals through various revenue-raising measures.

If one assumes the Senate Republican leadership would support the Administration's proposals to extend several expired taxes and nets the resulting savings against the cost of the Leadership tax plan, the Leadership's tax cuts still cost nearly eight times as much over the next five years as the Administration proposals, the analysis finds.

Tax Cuts Primarily Benefitting the Affluent Grow Rapidly

The analysis assesses the extent to which the three tax cut provisions that primarily benefit upper-income households — the capital gains, IRA and estate tax cuts — would grow sharply in cost. It finds:

- The capital gains provisions in the bill would cost \$33 billion in the first five years, according to the Joint Tax Committee estimates, but \$96 billion in the second five years. In subsequent 10-year periods, the cost of the capital gains tax cuts would exceed \$200 billion.

A large volume of studies has found that capital gains tax cuts are heavily skewed toward high-income investors. Households with incomes exceeding \$100,000 a year receive approximately three-quarters of all capital gains income and would receive the lion's share of the benefits from these tax cuts. While a growing number of middle-income households hold some investments that yield capital gains, the average amount of their capital gains income tends to be small and is dwarfed by the levels of capital gains income that wealthy investors receive.

- The Individual Retirement Account proposals in the Senate leadership package, which provide IRA tax breaks to upper-middle and high-income individuals already covered by tax-favored retirement plans through their employers, would cost \$33 billion during the first five years but \$80 billion in the second five. By 2007, the IRA proposals would cost \$19 billion a year, with their cost still rising. Like the capital gains proposals, the IRA proposals would cost more than \$200 billion in subsequent 10-year periods.

Studies of earlier proposals to grant IRA tax advantages to upper-middle and high-income individuals with employer-sponsored retirement plans found that 95 percent of the tax benefits from such proposals would go to the top fifth of taxpayers.

- A proposal to raise from \$600,000 to \$1 million the size of an estate that can be passed to heirs free of estate tax — coupled with a proposal to exempt from the estate tax an additional \$1.5 million of family-owned business interests — would cost \$18 billion in the first five years. But it would cost \$48 billion in the second five years. In subsequent 10-year periods, the cost would likely exceed \$120 billion. This provision benefits only the top one percent of estates, those valued at more than \$600,000.

While tax breaks primarily benefitting high-income households would mushroom in cost, the Center found, the principal tax proposal conferring the majority of its benefits on middle-income households — the \$500 child credit — would *decline* in cost and value over time. This is primarily because the \$500 credit level would not be indexed for inflation.

It is because the capital gains, IRA and estate tax cuts explode in cost after 2002 while the cost of the child credit declines that the Leadership tax package is, over the long term, primarily a tax relief package for high-income households, the analysis said.

Commenting on the Leadership tax proposals, Greenstein observed that some Members of Congress who argue the federal government cannot afford to extend health insurance to uninsured children or to expend \$2 billion to \$3 billion a year to retain subsistence benefits for legal immigrants who are old and disabled are proposing to spend \$73 billion a year by 2007 on tax cuts primarily benefitting the well-off. He added that some who have criticized the Clinton budget for backloading its spending cuts are proposing to backload tax cuts they favor.

These tax proposals almost certainly would widen the already-large gaps between the wealthy and other Americans, Greenstein added, both because the well-to-do would secure the lion's share of the tax cut benefits and because the burgeoning tax cuts would result in substantially deeper cuts than otherwise would be needed in basic programs upon which both middle-class families and the poor rely.

The Center on Budget and Policy Priorities is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, and specializes in issues related to fiscal policy, social welfare and nutrition policy. It is supported primarily by foundation grants.

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CENTER ON BUDGET AND POLICY PRIORITIES

February 26, 1997

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SENATE LEADERSHIP TAX PROPOSALS: MUSHROOMING TAX CUTS FOR HIGH-INCOME TAXPAYERS WOULD JEOPARDIZE LONG-TERM BUDGET INTEGRITY

by Iris J. Lav

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On January 22, 1997, the Senate Republican leadership introduced S. 1 and S. 2 — its tax cut proposals for the 105th Congress.¹ These bills are striking in several respects. While they include most of the Contract with America tax cuts contained in the budget reconciliation bill that Congress passed in November 1995 (and President Clinton subsequently vetoed), they go beyond the 1995 bill in two key respects. First, over the long term, the new tax cut proposals are more expensive than those in the 1995 legislation. Second, the new tax cuts provide a larger share of their tax benefits to high-income individuals than did the 1995 legislation, which itself favored such individuals heavily.

- The Congressional Joint Committee on Taxation, Congress' official scorekeeper on tax legislation, has issued estimates of the costs of the new bills. The estimates show the Republican leadership's two tax bills would cost \$201 billion in the five-year period through fiscal year 2002.² S.2, the principal tax bill, costs \$193.4 billion during this period, while S.1 — which includes tax breaks for higher education costs — costs \$7.1 billion.
- But looking only at the five-year figures leaves misleading impressions. These tax proposals are heavily backloaded; they are designed in such a way that their full cost is masked during the first five years and grows rapidly after that. It also should be noted that the *five-year* cost figures for the new bills should not be compared to *six-year* or *seven-year* cost figures for tax bills Congress passed or considered in 1995 or 1996.

¹ Most of the Leadership's tax proposals are included in S.2, the "American Family Tax Relief Act." Tax breaks for higher education expenses are included in S.1.

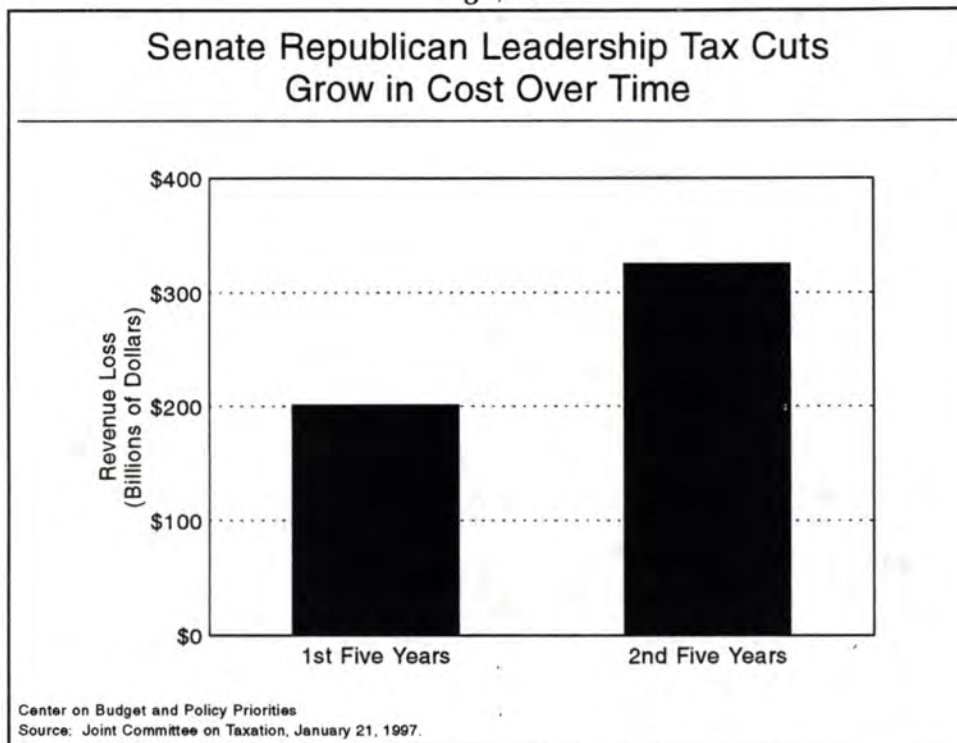
² Joint Committee on Taxation, January 21, 1997. The five-year and ten-year costs cited here include small amounts shown for fiscal year 1997. If the legislation were to be enacted in late summer or early fall of 1997, the costs the Joint Tax Committee shows for fiscal year 1997 would likely become additional costs in fiscal year 1998.

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Figure 1



- The 10-year cost estimates the Joint Tax Committee has issued provide a more accurate picture of the full costs of these proposals when they are fully in effect. The Joint Tax Committee estimates show the 10-year cost of S.1 and S.2 is *\$526 billion*. The cost during the second five years — *\$325 billion* — is 60 percent greater than the *\$201 billion* cost during the first five years.
- Moreover, the cost reaches *\$73 billion a year* in 2007, the tenth year. It grows still larger in years after that. In the second 10-year period the legislation would be in effect — the years from 2008 through 2017 — the legislation would cost approximately *\$760 billion*.
- When the cost of the tax cut reaches *\$73 billion* in fiscal year 2007, the program cuts that would be needed to balance the budget would be 50 percent deeper than would be the case without tax cuts. In 2002 when the tax cuts total *\$53 billion*, the program cuts required to balance the budget would be 39 percent deeper than would otherwise be the case.
- The Leadership tax proposals have been portrayed in some news accounts as less costly and more moderate than prior Republican tax proposals. Such portrayals are not accurate. Over the next 10 years, the Leadership

proposals cost \$24 billion *more* than the tax cuts in the vetoed 1995 reconciliation bill. (While the leadership tax cuts cost \$20 billion less over the first five years than the tax cuts in the vetoed bill, they cost \$44 billion more over the subsequent five years than the vetoed tax cuts.³) Over the long term, the new proposals cost significantly more than those in the vetoed legislation.

The Leadership proposal costs more than the tax cuts in the 1995 reconciliation bill primarily because the capital gains, Individual Retirement Accounts and estate tax breaks in the new plan are substantially larger and more costly than those proposed in 1995. Over the next 10 years, these three provisions — all of which primarily benefit upper income households — would cost \$120 billion, or 85 percent, more than they would have cost under the first 10 years of the 1995 legislation. (The total package costs only \$24 billion more than the 1995 bill because it does not include a number of smaller tax reductions the 1995 legislation contained.)

- The contrast is even greater when the new Leadership tax proposals are compared to those assumed in the budget resolution the Republican Congressional

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³ In this comparison, the cost of the new Leadership tax cuts from 1997 through 2006 is compared to the cost of the conference agreement tax cuts for the years from 1996 through 2005. The cost of the 1995 conference agreement is adjusted for inflation so it can be compared with the current proposal. (The costs of the Leadership plan for 2007 are not included in this comparison because comparable costs for the tax cuts in the 1995 conference agreement — i.e., costs for 2006 — are not available.) Cost estimates are from Joint Committee on Taxation, January 21, 1997 and November 16, 1995.

majority adopted in June 1996. The budget resolution passed last year included \$122 billion in tax cuts over six years, compared to the \$201 billion the new Leadership proposals would cost over five years.

- With their \$201 billion cost over the initial five years, the Leadership tax proposals are sometimes described as being double the \$100 billion cost of the Administration's tax cut proposals. In fact, the differences are much larger than that. The \$100 billion figure reflects the gross cost of the Administration's tax cut proposals *before* the Administration's \$79 billion in offsetting revenue-raising measures are taken into account; the *net* cost of the Clinton tax proposals is \$21 billion over the next five years.⁴

Furthermore, the difference in cost between the Republican leadership and Administration proposals grows substantially over time. If one assumes the Republican leadership would support all extensions of expired excise taxes the Administration has proposed — and if the savings from extending these expired taxes are netted against the cost of the Leadership plan — the net cost of the Republican leadership proposal in 2002 still is *nine times* larger than the net cost of the Clinton proposal. Measured in this fashion, the Republican plan would cost \$45 billion in 2002, while the Clinton plan costs \$5 billion.

- The principal Leadership tax bill, S.2, is called the "American Family Tax Relief Act" and is presented as primarily benefitting middle-class families. When the tax cuts take full effect, however, the primary beneficiaries are high-income households, not those in the middle class.

Using a generous reading of what constitutes middle-income tax relief, 61 percent of the tax cuts in the Senate Leadership package go to middle-class families during the first five years. But in the second five years, only 33 percent of the tax cuts go to such families. By the tenth year, less than 30 percent of the tax package is devoted to middle-income tax relief. This occurs because those tax cuts that are heavily backloaded in cost — and that eventually constitute the bulk of the tax package — are provisions primarily benefitting high-income households. The true dimensions of the tax benefits for the well-off are masked during the first five years; they become apparent only after that.

⁴ These five-year costs and offsets include small amounts for fiscal year 1997. If the fiscal year 1997 costs and effects are ignored, the Clinton package includes \$98 billion in tax cuts and \$76 billion in offsets for a net cost of \$22 billion.

- The Senate leadership tax cuts are more heavily skewed to high-income people than those in the vetoed 1995 conference agreement. In the tenth year of the 1995 bill, tax relief provisions that primarily benefit middle-class families or small businesses accounted for 46 percent of the tax cuts in that legislation. But under the current Senate leadership proposal, middle-income tax relief makes up 30 percent of the tax cut benefits in the tenth year.
- A recent analysis by Citizens for Tax Justice, using the Microsimulation Tax Model of the Institute on Taxation and Economic Policy, found that only one-quarter of the tax cut benefits in S. 2 would accrue to the bottom 80 percent of U.S. households when the tax cuts are in full effect. The analysis also found that more than half of the benefits would go to the top five percent of households.⁵
- The new proposals would abrogate the *quid pro quo* that formed the framework of the landmark Tax Reform Act of 1986 — that in return for sharp reductions in the tax rates that high-income individuals faced, the tax preferences they enjoyed in the capital gains, IRA, and other areas would be narrowed. Under the Leadership tax package not only would income tax rates on the wealthiest Americans remain far below the levels in place before enactment of the 1986 Tax Reform Act, but capital gains, IRA, and estate tax breaks would be even more lucrative for such individuals than they were prior to 1986. The capital gains tax would shrink to its lowest level in 40 years.
- Finally, because most states incorporate the federal definition of “adjusted gross income” into their state income tax codes, enactment of the capital gains and IRA proposals at the federal level also would result in state tax cuts that cause states to lose billions of dollars in revenue. The federal estate tax reductions would result in state revenue losses as well. Here, also, the principal beneficiaries of the tax cuts would be individuals at high income levels.

These large tax cuts are being proposed at a time when there appears to be growing bipartisan agreement on the desirability of reaching budget balance in coming years. Moreover, some economists and budget experts are recommending the government run modest budget surpluses in the years before the baby boom generation

⁵ Microsimulation models utilize a large sample of taxpayers to study the revenue and distributional effects of potential tax changes. The ITEP model is similar to the models used for this purpose by the Joint Committee on Taxation and the Treasury Department.

retires to boost national saving and strengthen economic growth, so we ultimately will be better able to afford the large retirement costs of that generation. The larger the long-term cost of new tax cuts, however, the more difficult it will be to attain such goals and the more adverse the nation's long-term fiscal outlook is likely will be. Tax cuts of the magnitude the Senate Leadership has proposed eventually must result in either bigger deficits or cuts in basic programs serving millions of Americans that are much larger than either party currently admits favoring.

The Senate Republican Leadership Tax Plan

On January 22, 1997 the Senate Republican leadership introduced two bills that comprise its tax cut proposals for the 105th Congress. The principal tax bill, S. 2, has four components. It includes:

- a tax credit of up to \$500 per child for middle-income and some upper-income families;
- a sharp reduction in the taxes on capital gains income earned when assets such as stocks, bonds, or real estate are sold;
- a repeal of the income limits on deductible contributions to Individual Retirement Accounts by taxpayers who are covered by an employer-sponsored retirement plan, along with the creation of a new, backloaded type of IRA that could be used by all taxpayers; and
- an increase from \$600,000 to \$1 million — and in many cases well over \$1 million — in the amount of an estate that can be passed to heirs without any taxes being paid.

According to the Joint Committee on Taxation, the proposals in S. 2 cost \$193.4 billion over the next five years and \$507.8 billion over the next 10 years.

The other bill in the leadership package, S. 1, contains proposals that provide tax breaks both for certain post-secondary education expenses and for savings to help pay for future higher education costs. S. 1 also would extend permanently a provision of current law allowing taxpayers to exclude the value of employer-provided educational assistance from their income. The Joint Committee on Taxation has estimated the cost of S. 1 to be \$7.1 billion over the next five years and \$18.0 billion over the next 10 years.⁶

⁶ Estimates for S. 1 and S. 2 are from Joint Committee on Taxation, January 21, 1997. The "five-year" estimates include the costs in fiscal years 1997 through 2002, while the "ten-year" estimates are for the (continued...)

This report examines the costs and distribution of the proposed tax provisions in these bills and how these proposals compare to earlier Republican Congressional proposals. A final section of the report looks at the implications of the package for efforts to eliminate the federal deficit and maintain balance after 2002. An appendix examines the Administration tax proposals and compares them to the Senate Republican leadership plan.

Child Tax Credit Declines as Proportion of Tax Package Over Time

Over the first few years, the child tax credit is the most costly component of the Leadership tax package. By 2007, however, the child credit dwindles to less than a quarter of the cost of the total tax package.

The Leadership credit is identical to the child tax credit included in the vetoed November 1995 conference agreement. It provides a credit of up to \$500 per child for middle-income families — and for many upper-income families as well — that can be used to offset their income tax liability.

Low-income working families that owe no income tax would not be eligible for the credit. Moderate-income working families that owe modest amounts of income tax would receive only a partial credit, irrespective of the amount of payroll taxes and federal excise taxes they pay. Some 31 million children — 44 percent of all children — live in low-and moderate-income families that would receive no credit or only a partial credit.

At the other end of the income spectrum, the credit begins to phase out for married couples filing jointly who have incomes above \$110,000 and for heads of household with incomes above \$75,000. A couple with two children would become ineligible for the credit once the couple's income reached \$150,000. Only five percent of children live in families with incomes *too high* to qualify for a full credit, as compared to the 44 percent of children who live in families with incomes too low to receive a full credit.⁷

The cost of the child tax credit declines over time. This stands in contrast to the tax cut provisions that primarily benefit high-income households, which swell in cost over time. The cost of the child credit declines over time largely because the child tax

⁶ (...continued)

years 1997 through 2007. Costs in fiscal year 1997 are modest, amounting to \$5 billion.

⁷ The analysis of the effects of the proposed child tax credit was done by the Center on Budget and Policy Priorities using unpublished data from the Congressional Budget Office.

credit is not indexed for inflation. The child tax credit costs \$21.3 billion in 1998, the first year it is in full effect; by 2007, its cost is \$16.9 billion. Similarly, its cost drops from \$109 billion in the first five years to \$89.9 billion in the second five years.

The lack of inflation indexing for the child credit contrasts with the legislation's treatment of capital gains. S. 2 would index capital gains for inflation, a measure that primarily benefits high-income households, while declining to index the child credit.

Tax Provisions Geared to Middle-Class Families

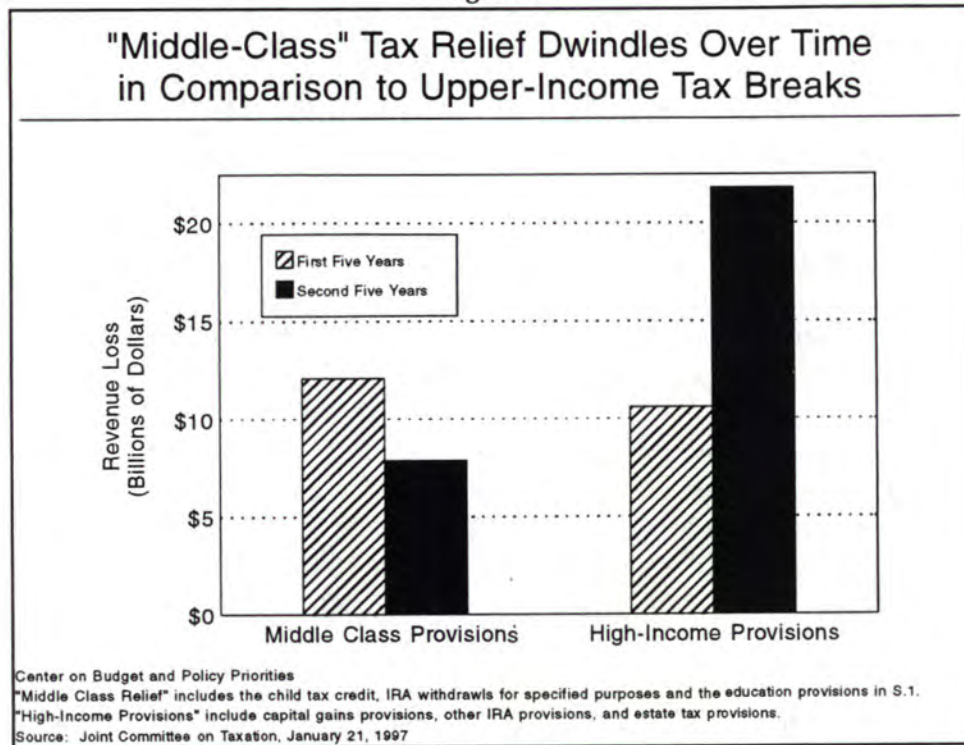
The child tax credit is the major piece of the Leadership tax package that primarily benefits middle-income taxpayers. As noted, even this proposal favors those in the top half of the income scale over those in the bottom half, since most children in low- or moderate-income families either are ineligible for the credit or qualify for only a partial credit. Moreover, a recent analysis by Citizens for Tax Justice, using the tax model described earlier, found the bottom 60 percent of tax filing units would receive only 25 percent of the tax cut benefits provided by the child tax credit proposal, while the top 20 percent of tax filing units would garner 37 percent of the benefits. Even so, we classify this provision as a middle-income relief provision in this analysis because the top fifth of households would not secure a majority of the tax cut benefits. The provisions we classify as upper-income tax relief proposals would confer a majority of their benefits on the top fifth, and in some cases, on the wealthiest five or 10 percent of households.

Two other components of the Leadership proposal also arguably provide the majority of their benefits to middle-income families. They are: the provision allowing a withdrawal of funds from Individual Retirement Accounts free of tax or penalty for such purposes as a business start-up, long-term unemployment, or college education; and the provisions in S. 1 that provide tax incentives to households for certain types of education savings and expenditures.⁸ Taken together, the tax relief provided by these three middle-income relief provisions accounts for 61 percent of the cost of the Leadership tax bills in the first five years.

The picture changes dramatically, however, in the second five years. By then, the three tax cut provisions providing a majority of their benefits to middle-class households constitute only 33 percent of the overall tax cut costs of the legislation. (See Figure 2.) By

⁸ For simplicity, the entirety of S. 1 is considered here as "middle-class" tax relief. Some portions of S. 1, however, would more likely be used by higher-income families; that would probably be true of the Bob Dole education investment accounts, for example, which are similar to backloaded IRAs. A description of the Bob Dole accounts can be found in the section of this paper on IRAs.

Figure 2



2007, these provisions account for just 29 percent of the tax cuts in the leadership package.

In short, after the first few years, the proportion of the tax cuts going to middle-class families declines sharply while the proportion going to high-income families and individuals shoots up. The erosion in the value of the child tax credit accounts for only a modest share of this shift. The principal reason the tax cut package is so much more heavily geared to high-income households after the first few years is that the cost of the legislation's upper-income tax breaks is kept artificially small in the early years but then mushrooms.

The principal provisions of these tax bills that primarily benefit high-income households — the capital gains, Individual Retirement Accounts, and estate tax provisions — all contain devices whose principal purpose is to mask or reduce the cost of these tax breaks in the period through 2002. These devices succeed in holding down the costs of these provisions over the next five years. But the costs of the provisions grow rapidly after that.

The Capital Gains Provisions

The Leadership proposal would substantially reduce the taxation of capital gains income — that is, income from the sale of assets such as stocks, bonds, and real estate. For individuals with capital gains income, the bill proposes two changes

- First, half of the profits from the sale of these assets would be excluded from taxation. This change alone would bring the maximum effective tax rate on capital gains income down from its current level of 28 percent to 19.8 percent. That would constitute the lowest tax rate on profits from the sale of such assets in *more than 40 years*.
- The second change would go still further — it would assure that most capital gains would be taxed at effective rates significantly *below* the 19.8 percent rate. Under this change, taxpayers who sell assets held for at least three years would be allowed to exclude from taxation the portion of their profits that can be said to reflect the effects of inflation

Through the combination of a provision excluding half of the profits from the sale of these assets from taxation and the inflation indexing provision, the Senate leadership proposal would allow a substantial majority of capital gains income to escape any taxation. Consider a stock initially purchased for \$100,000 and sold after five years for \$134,000. Under current law, the investor would pay tax at a maximum rate of 28 percent on the \$34,000 capital gain; the tax would equal \$9,520. Under the proposed legislation, however, the price for which the investor purchased the stock would be adjusted for inflation and then only half the remaining gain would be subject to taxation. Assuming inflation of three percent per year, the \$100,000 purchase price first would be adjusted upward to approximately \$116,000 to account for five years of inflation; the investor's capital gain thus would be considered to be \$18,000 rather than \$34,000. Then 50 percent of this \$18,000 gain would be excluded, making only \$9,000 of it taxable. If the taxpayer was in the top income tax bracket (the 39.6 percent bracket), the taxpayer would pay tax of just \$3,580. This represents a 62 percent tax reduction from the \$9,520 in capital gains tax the investor would pay under current law.

Looked at another way, under current law, the investor would pay tax equal to 28 percent of the \$34,000 profit. Under the Leadership proposal, the investor would pay tax of only \$3,580 on this gain, an amount equal to just 10.5 percent of the \$34,000 profit. This wealthy investor would pay a lower effective rate of tax on this profit than moderate-income families must pay on their wages and on interest they receive on modest savings accounts.

Table 1 shows the dimensions of the proposed capital gains tax cut under several scenarios. In each case, wealthy investors in the top tax bracket would pay a lower rate

Table 1
The Senate Republican Leadership
Capital Gains Tax Benefits Grow Sharply Over Time

	Selling Price*	Profit	Tax Under Current Law**	Tax Under Leadership Proposals**	Size of Capital Gains Tax Cut
Initial Investment	\$100,000				
Year 5	134,000	34,000	9,520	3,580	5,940
Year 10	179,000	79,000	22,120	8,830	13,290
Year 15	240,000	140,000	39,200	16,670	22,530
Year 20	321,000	221,000	61,880	27,800	34,080

Center on Budget and Policy Priorities calculations
 *Assumes three percent annual inflation and three percent annual real growth in the value of the asset, with the result rounded to the nearest \$1,000.
 **Assumes taxpayer is in the highest income tax bracket, which applies to taxpayers with taxable incomes exceeding \$271,000 in 1997 (which in most cases would correspond to gross income in the \$300,000 to \$400,000 range). Taxpayers in lower tax brackets would pay less capital gains tax under the leadership proposals.

of tax on capital gains income they derive from buying and selling stocks, bonds, and other assets than modest-income families would pay on wages and interest earnings.

This capital gains indexing provision is one of the key provisions whose costs are made to appear artificially low in the first few years, masking its long-term drain on the Treasury. The initial costs are kept low through a device that causes the capital gains indexing provision to *save*, rather than cost, money on a one-time-only basis in 1998.

Under the indexing provision, the price an investor pays for an asset purchased after December 31, 1996 would be adjusted upward for inflation when the investor sells the asset. Investors would, however, be allowed to consider assets they already hold on December 31, 1996 as assets that they have newly purchased — and that consequently qualify for inflation indexing after that date — if the investors pay tax on the increase in the value of such assets between the time the assets were actually purchased and January 1, 1997.⁹

⁹ Some of the resulting taxes might be paid as estimated taxes during calendar year 1997. The bulk would be paid when final tax returns for the year 1997 were filed in early 1998. For a principal residence, indexing would apply to periods after January 1, 1997 without the payment of tax on the increase in the
 (continued...)

Suppose an investor has an asset he originally purchased for \$100,000 and that is worth \$120,000 on January 1, 1997. The investor would pay capital gains tax on the \$20,000 gain in the value of the asset from the time of its purchase to January 1, 1997. (Because the legislation excludes half of capital gains profits from taxation, \$10,000 of this \$20,000 gain would be excluded, so the investor actually would pay tax on \$10,000 in profit.) From January 1, 1997 on, the purchase price of the asset would be considered to be \$120,000, and this \$120,000 figure would be adjusted for inflation from that time forward.

The payment of taxes on the increase in the value of assets between the time of their purchase and January 1, 1997 would yield revenues of approximately \$11 billion in fiscal years 1997 and 1998, when tax payments for calendar year 1997 are due. Most of these revenues would represent taxes the federal government would have collected anyway in subsequent years when the assets were sold. As a result, most of the revenue gain in 1997 and 1998 would represent a "timing shift" rather than a true increase in government receipts. Over the long term, capital gains indexing causes very large revenue losses.

Proposals to reduce capital gains taxes also are assumed to bring in a boomlet of additional revenues shortly after enactment, because some taxpayers who would hold their assets at the higher tax rate presumably would be willing to sell them at a lower tax rate. Together, the "mark-to-market" procedure used to qualify assets for indexing and the additional asset sales that would occur as a result of a lower capital gains tax rate would result in the proposed capital gains tax cuts for individuals *raising* approximately \$14 billion in revenue in fiscal years 1997 and 1998. Once again, most of the added revenue collected in these years would represent revenue that otherwise would have been collected in future years.

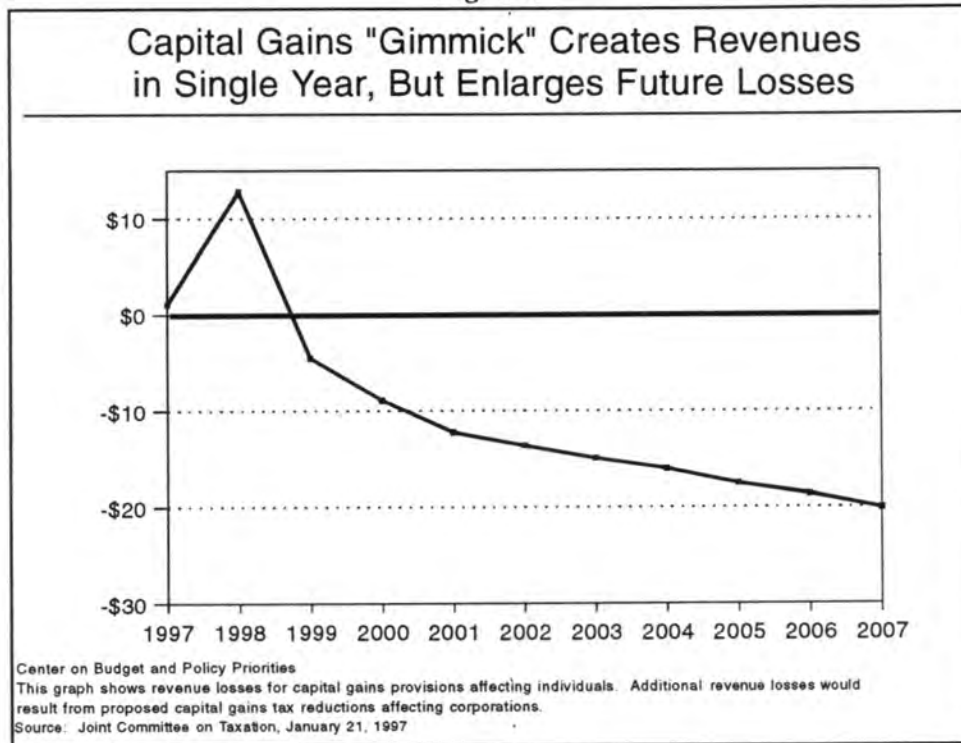
After 1998, the capital gains provisions begin to lose large sums. The Joint Tax Committee estimates show that in fiscal year 1999, the capital gains tax cuts for individuals would lose \$4.5 billion. By 2002, the loss would be nearly \$14 billion. By 2007, the loss reaches \$20 billion and is continuing to grow. (See Figure 3.)

S. 2 also contains a cut in taxes on corporate capital gains — that is, on profits corporations make when they sell stocks, bonds, or other assets. S. 2 reduces the maximum tax rate on corporate capital gains income from 35 percent under current law to 28 percent. In other words, the bill cuts corporate capital gains taxes by one-fifth.

⁹ (...continued)

value of a residence between the time of its purchase and January 1, 1997.

Figure 3



When the individual and corporate capital gains tax cuts in S. 2 are considered together, the cost is \$33 billion during the first five years. Over the second five years, however, the cost is \$96 billion — nearly three times as much. The total cost is \$129 billion over the first decade.

In 2007, the cost of these capital gains provisions reaches \$22 billion a year and is still rising. In subsequent 10-year periods, the cost of the capital gains tax cuts in S. 2 would *exceed \$200 billion*.

Who Benefits from the Capital Gains Tax Cuts?

Many middle-income families have capital gains income, but the amounts of such income they receive are typically small. High-income households are more likely than middle-class households to have investments yielding capital gains income. More important, the average amount of the capital gains income that high-income households receive greatly exceeds the amount that middle-income investors typically receive. Studies generally show that households with incomes in excess of \$100,000 receive approximately three-quarters of all capital gains income.

As a result, it is not surprising that Joint Tax Committee studies of earlier capital gains tax cut proposals found them to be heavily skewed toward the well-to-do. For example, when the Joint Tax Committee studied President Bush's 1992 proposal to exclude from taxation 45 percent of capital gains income received from the sale of certain assets, it found that 70 percent of the benefit from this tax cut would go to households with incomes of \$100,000 or more. The Joint Tax Committee also found that households with incomes exceeding \$200,000 would capture more than half of the tax cut benefits from that proposal. A separate Joint Tax Committee study of capital gains indexing found that half of the benefits from indexing would accrue to households with incomes of \$200,000 or more.¹⁰

The Citizens for Tax Justice analysis of the distributional effects of the Senate leadership tax proposal (described above) yielded similar results. It found that the more than 64 percent of the benefits of the capital gains provisions in the Leadership plan would go to the top one percent of households, those with incomes exceeding \$240,000.

The Individual Retirement Account Proposals

The Senate Republican Leadership proposal would repeal all income limits on deductible IRA contributions by taxpayers already covered by an employer-sponsored retirement plan. Currently, individuals who are covered by an employer plan may make tax deductible contributions to Individual Retirement Accounts if their incomes do not exceed \$35,000 for an individual or \$50,000 for a couple. For those without an employer-sponsored retirement plan, there is no income limit.

Before the Tax Reform Act of 1986, taxpayers with incomes above the \$35,000 and \$50,000 limits who were covered by an employer retirement plan also could make deductible contributions to IRAs. The removal of the tax deduction for IRA contributions by such people was one of the changes the 1986 Tax Reform Act made in exchange for the Act's sharp reduction in the tax rates that upper-middle and higher-income households pay.

The Republican leadership tax plan would gradually lift the \$35,000 and \$50,000 income limits on IRA deductions to \$135,000 for individuals and \$150,000 for couples by 2000 and then eliminate the income limits altogether in 2001. Beginning in 2001, taxpayers at all income levels — including upper-income taxpayers with tax-favored private pension coverage — would be eligible to make deductible contributions to IRAs.

¹⁰ Joint Committee on Taxation, *Distributional Effects of the Administration's Capital Gains Proposal*, February 3, 1992 and Joint Committee on Taxation, *Distributional Effect of Indexing the Cost Basis of Certain Capital Assets*, February 18, 1992.

Under current law, a person eligible to make a deductible IRA contribution also may make an additional contribution of up to \$2,000 on behalf of a non-working spouse, if the individual or the individual's spouse is an active participant in an employer-sponsored retirement plan, the income limits described above apply. By contrast, under the Senate Republican leadership proposal, an individual covered by an employer-sponsored retirement plan could make deductible IRA contributions for himself or herself as well as for a non-working spouse without regard to the income limits in current law.

In addition to these changes in the eligibility rules for deductible IRA contributions, the legislation would make all taxpayers eligible for a new type of Individual Retirement Account tax break called an "IRA Plus." Under this new type of IRA account — often called a "backloaded" IRA account — contributions to the account would not be tax deductible. But all interest earned on funds in the account would be *permanently* free of tax.

For taxpayers who participate in other types of tax-deferred savings plans, such as a 401(k) plan, the total of contributions to a *deductible* IRA and to another tax-deferred savings plan could not exceed the annual limit on voluntary contributions to the tax-deferred plan, which is generally \$9,500. But *all* taxpayers, including those making the maximum contributions allowed to tax-deferred savings plans, would be eligible to make the maximum contributions to an IRA Plus account on top of their contribution to the other plans. Thus, a high-income taxpayer could contribute \$9,500 to a 401(k) plan, another \$2,000 to an IRA Plus account, and still another \$2,000 to an IRA Plus account on behalf of a non-working spouse, and receive tax breaks on all of these deposits.¹¹

A separate provision in S. 1 would allow taxpayers to make an *additional* non-deductible annual deposit of \$1,000 for each child under 18 to a "Bob Dole Education Investment Account." This account would operate like an IRA Plus; earnings on the account would accumulate free of tax, and no tax would be owed on amounts later withdrawn for higher education expenses.

Thus, under the Republican Leadership proposal, a high-income taxpayer already deferring tax on \$9,500 a year in contributions to a tax-deferred savings plan could contribute an additional \$2,000 each year to an IRA Plus, another \$2,000 to an IRA Plus on behalf of a non-working spouse, and still another \$1,000 a year for each child to an education account. As the years passed and such deposits accumulated — with many taxpayers shifting additional funds each year from other saving or investment vehicles to

¹¹ Senators Roth and Breaux have introduced a separate IRA plan that goes one step further. The Roth-Breaux plan allows all taxpayers, including those already making maximum contributions to a 401(k) or a similar plan, to make *deductible contributions to a regular IRA account* on top of their contributions to their other pension or retirement plans.

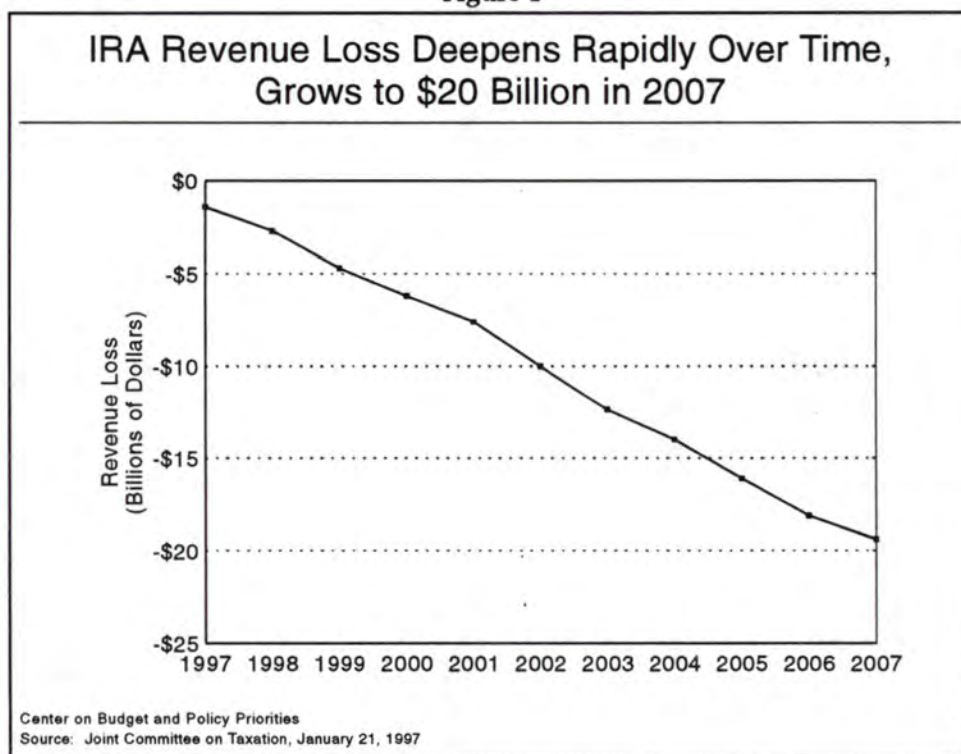
these accounts — the interest on a growing share of saving in the United States would be permanently sheltered from taxation.

This is a larger expansion of IRAs than was proposed in the vetoed 1995 reconciliation bill. In that bill, the income limits for deductible contributions to IRAs by taxpayers covered by employer-sponsored plans were not eliminated. Instead, the income limits for deductible IRAs gradually were increased, reaching \$95,000 for individuals and \$120,000 for couples by 1997 and being adjusted for inflation after that.¹²

The Costs of the IRA Proposals

As Figure 4 shows, the revenue losses from these IRA provisions would mount rapidly over time. Revenue losses would total \$32.6 billion during the first five years the proposals were in effect. But over the second five years, the revenue losses from these provisions would total \$80 billion — two and one-half times as much as in the initial five

Figure 4



¹² Under the 1995 legislation, there would not have been income limits on contributions to backloaded IRAs, but the income limits on deductible IRAs were retained.

years. (These figures do not include the costs of the Bob Dole Education Investment Accounts.)¹³

According to the Joint Tax Committee, the revenue loss from the IRA provisions is \$19.4 billion in 2007 alone and is still growing by \$1 billion to \$2 billion a year at that time. As a result, the IRA provisions would cost *at least \$200 billion* over subsequent 10-year periods. Since the capital gains tax cuts also would cost that much in subsequent 10-year periods, the combined loss from the capital gains and IRA provisions would *exceed \$400 billion* in subsequent 10-year periods.

The IRA provisions thus share a common characteristic with the capital gains provisions in that the revenue losses which both provisions produce start relatively small and grow markedly over time. The Leadership tax bills employ a series of gimmicks to keep the cost of the IRA provisions artificially low in the period between now and 2002, with the result that their full costs begin to emerge only after then.

Gimmicks Used to Backload IRA Costs

One of the principal devices used to keep the costs of the IRA provisions low in the initial years is the creation of backloaded IRAs. The concept of a backloaded IRA was developed a few years ago specifically to evade federal budget rules which require that the cost of a tax cut to be fully "paid for" over its first five years through either an offsetting tax increase or a reduction in an entitlement program. If the cost of a major IRA expansion can be kept artificially low during the first several years, that eliminates the need for a large, controversial tax increase or entitlement cut to pay for it.

Under a backloaded IRA, there is little revenue loss in the initial years because no upfront \$2,000 tax deduction is allowed for IRA deposits. Instead, the large revenue losses occur when depositors retire and begin to withdraw funds from these IRA accounts without having to pay any tax on them whatsoever (because all interest earned on backloaded IRA accounts is permanently tax free). Most of the revenue losses from backloaded IRAs thus are conveniently moved outside the five-year budget period that ends in 2002.

The Leadership proposal also includes a second device whose purpose is to keep revenue losses low in the initial years. The proposal would permit taxpayers to take funds they currently have in conventional IRA accounts and transfer these funds, with no penalty for early withdrawal, to backloaded IRAs on which all future interest earnings would be tax free.

¹³ The Bob Dole education accounts cost an additional \$1.8 billion over the first five years, rising to \$3.8 billion in the second five-year period.

At the time of transfer, the funds moved from a conventional IRA to a backloaded IRA would be taxed as ordinary income. But if the transfer were made before 1999, the income could be averaged over a four-year period. Averaging the IRA income in this manner would lower the tax that many taxpayers would owe on it, because averaging would keep the IRA income from pushing many of these taxpayers into a higher tax bracket. This four-year averaging period conveniently spans the years from 1999 through 2002.

The purpose of this provision — known as a “rollover” provision — is to generate a one-time boost in revenues in the next few years as depositors move money from old IRAs to backloaded IRAs and pay tax on the funds they transfer. (Many IRA account-holders would make these transfers so that future earnings on their IRA accounts would be tax free.) The taxes collected now as these funds are transferred from one type of IRA to another are taxes that would have been collected in future years when the IRA account-holders retired. The result thus is to shift into the period through 2002 many billions of dollars in revenue that otherwise would be collected in later years.

The effect of these various IRA gimmicks is two-fold:

- The backloaded IRAs shift into years *after 2002* many billions of dollars in revenue losses resulting from making upper-middle-income and upper-income individuals who already have tax-favored retirement plans eligible for generous IRA tax breaks. Because of this backloading gimmick, little of the large revenue loss from making these individuals eligible for IRA tax advantages shows up until after 2002.
- Meanwhile, the “rollover” gimmick accelerates into the years *between now and 2002* many billions of dollars of tax revenue that otherwise would be collected in years after that. These billions of dollars offset much of the remaining cost of the IRA expansion over the next five years. This makes the cost of the proposed IRA tax breaks appear deceptively modest when only the cost through 2002 is examined.

While the proposed IRA provisions in S. 2 lose an average of \$6 billion a year in the first five years, they lose *over \$19 billion a year by 2007* and more in years after that.

Who Benefits From These IRA Proposals?

The IRA changes in the Leadership tax bills would primarily benefit high-income families that also receive tax advantages through retirement plans their employers sponsor. These IRA proposals would not benefit most middle- and lower-income taxpayers because most such taxpayers already are eligible for IRA tax deductions under current law.

- A substantial majority of taxpayers already qualify for IRA tax deductions; in 1995, more than 70 percent of all taxpayers with earnings were eligible to make deductible IRA contributions. (Some 56 percent of all taxpayers with earnings are eligible to make the full maximum deductible contribution, while another 15 percent of taxpayers were eligible to make a partial contribution.) Since these taxpayers already can get these tax deductions, they would derive either no benefit or only a small benefit from the Leadership IRA proposals.¹⁴
- In addition, IRS data show that in 1986, the last time all taxpayers were permitted to make deductible contributions to IRAs regardless of their income level or pension coverage, 82 percent of IRA deductions were taken by the one-third of tax filers with the highest incomes.

Moreover, the IRA deductions these high-income individuals received in 1986 were worth more than the IRA deductions taken by taxpayers at lower income levels, since the high-income IRA users were in higher tax brackets. As a result, the top one-third of tax filers received substantially more than 82 percent of the IRA tax benefits.

For these reasons, a Joint Tax Committee analysis of an earlier proposal to restore eligibility for IRA tax deductions for individuals who have other tax-favored retirement plans and incomes above the current IRA income limits found that the top one-fifth of taxpayers would receive approximately 95 percent of the tax benefits from the proposal. The Joint Tax Committee also found that the most affluent five percent of taxpayers would collect nearly one-third of the tax benefits from a similar IRA proposal. The new IRA proposals are likely to have similar effects.¹⁵

¹⁴ Joint Committee on Taxation, *Description and Analysis of Tax Proposals Relating to Individual Savings*, February 8, 1995, p. 38.

¹⁵ These data are based on Joint Committee on Taxation estimates from 1989. The Joint Committee has not provided similar data since then. The data are based on 1990 income levels and tax laws and on a proposal to make IRA's 50 percent deductible for taxpayers who lost deductibility under the Tax Reform Act of 1986. These estimates are likely to understate the share of benefits received by high-income taxpayers, because the 1993 budget reconciliation act raised the marginal tax rates on the highest-income Americans and therefore increased the tax benefits of IRA contributions for this group.

Proposed Cuts in Estate Taxes

The Leadership proposal also cuts estate taxes. The proposal would increase substantially the amount of an estate that can be passed on to heirs without any tax being paid.

Under current law, the first \$600,000 of an estate is exempt from tax. The Leadership proposal would gradually raise the amount of an estate that heirs can receive free of tax to \$1,000,000 by 2004.

The proposal also includes an expanded estate tax exemption for qualified family-owned business interests. In addition to the \$1 million exemption just mentioned, heirs could exclude \$1.5 million of a family-owned business interest plus 50 percent of the remaining value of the business interest. These additional exclusions would apply when family-owned business interests comprise more than 50 percent of an estate.

Thus, if a decedent leaves an estate of \$3 million, and \$2 million of it consists of family-owned business interests, estate taxes would be owed on only \$250,000 — or one twelfth — of the estate. Some \$1 million of the estate would be excluded under the general credit, while \$1.5 million in business interests, plus 50 percent of the remaining \$500,000 in business interests, also would be excluded.

In this instance, \$2.75 million of the \$3 million estate would be shielded from tax. If the estate consisted of \$2.5 million, with \$1.5 million of it in family-owned business interests, the entire estate would be tax free.

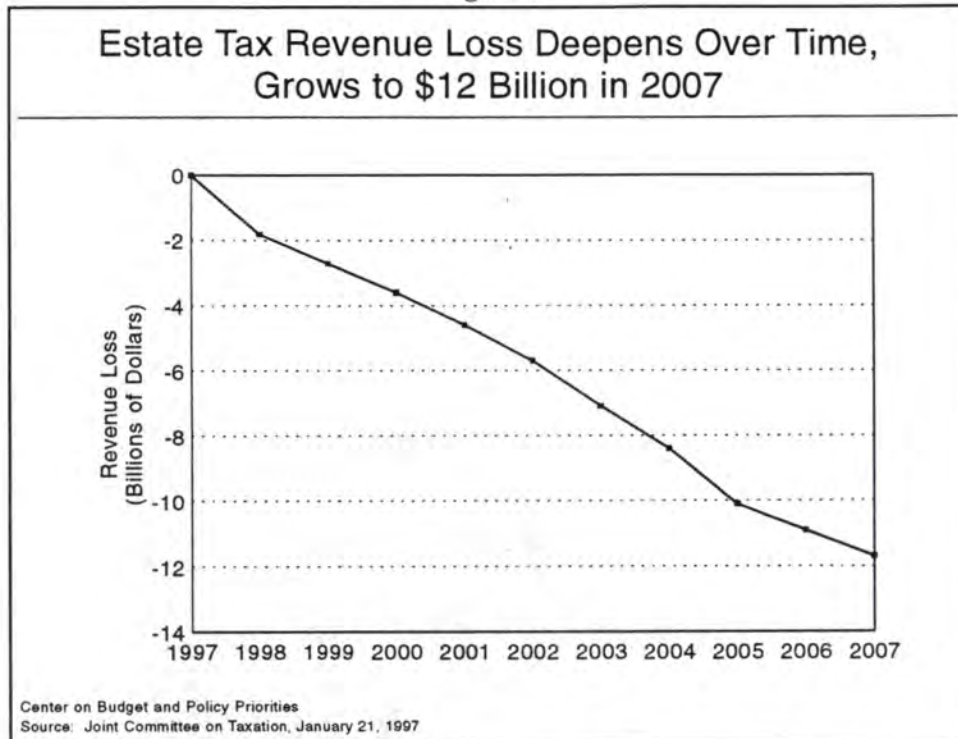
The proposed exclusion for family-owned business interests is a new tax break. Under current law, there is no special estate tax exclusion for qualified family-owned business interests, although the \$600,000 exemption can be applied to such businesses.¹⁶

Like the capital gains and IRA tax cuts, the cost of the Leadership proposal to cut taxes on large estates increases markedly over time. As noted above, the estate tax cuts would phase in between now and 2004. The Joint Tax Committee estimates show the estate tax provisions would cost \$18 billion in the first five years but \$48 billion in the second five years. By 2007, these provisions would cost nearly \$12 billion a year. This suggests their cost in subsequent 10-year periods is likely to exceed \$120 billion.

Only one percent of estates exceed \$600,000 in value. Thus, these provisions would have no effect on the 99 percent of estates valued at less than \$600,000 and would

¹⁶ Under current law, the estate tax on some qualified closely-held businesses can be paid in installments over a 14-year period, and a special low interest rate may apply to the deferred tax attributable to the first \$1 million of the business valuation.

Figure 5



not benefit ordinary middle-class families.¹⁷ The provisions would reduce or eliminate tax only on estates valued between \$600,000 and \$21 million. The benefits of the exclusion would be recaptured fully for estates valued above \$21 million.¹⁸

Long-term Cost of the Leadership Proposals

As this description of the specific provisions of the Leadership tax proposal indicates, the large tax cuts primarily benefitting higher-income taxpayers would grow rapidly in cost over time and cost far more after 2002 than in the years before it. (See

¹⁷ Statement of Leslie B. Samuels, Assistant Secretary for Tax Policy, before the Committee on Ways and Means, U.S. House of Representatives, January 10, 1995. In testifying on the Contract with America proposal to exempt the first \$750,000 of an estate, the Treasury Department noted that only one percent of estates exceed \$600,000 in value and that only half of one percent of all estates would be taxable under the proposed increase in the exemption to \$750,000. Thus, it is reasonable to assume that significantly *less* than one-half of one percent of all estates would be taxable under the current proposal to raise the exemption to \$1 million.

¹⁸ Under current law, the value of the credit \$600,000 exemption as well as the benefit of a graduated rate schedule for estate taxes is phased out fully for estates valued at more than \$21 million. The phase-out range would extend to a somewhat higher estate valuation under the proposed provision that would raise the exemption to \$1 million.

Figure 6.) By contrast, the tax benefits the child tax credit confers would erode as the years go by.

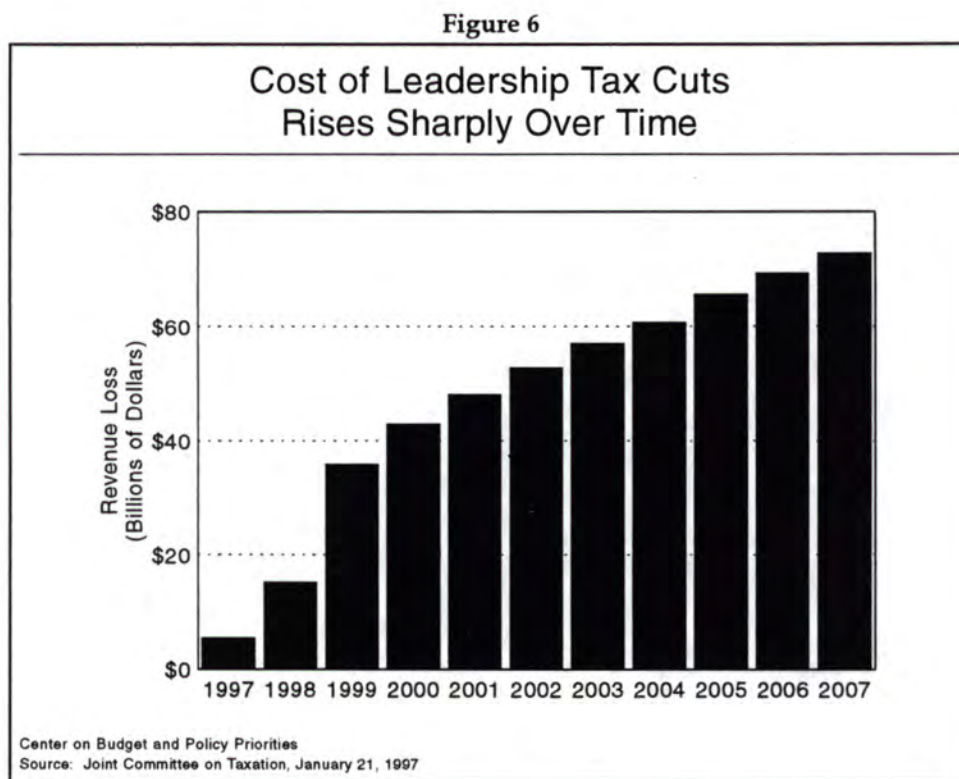


Table 2 summarizes the Joint Tax Committee estimates of the cost of the Leadership tax proposals over the first 10 years. The table also estimates the cost of these provisions over the subsequent 10-year period.

As the table shows, the cost of the Leadership tax package rises from \$201 billion in the first five years to \$325 billion in the second five years. By 2007, the cost is \$73 billion in a single year.

By examining the cost of these proposals in the last several years of this 10-year period, it is possible to estimate their cost in the subsequent 10-year period as well. Over the 10-year period from 2008 to 2017 — a period when the baby boom generation will begin to retire, placing substantial added burdens on the Treasury — the cost of the Leadership tax cuts rises to approximately \$760 billion.

These figures reflect the fact that the Leadership proposals continue to grow in cost after the first 10 years. Consider the capital gains indexing provision as an example. Under this proposal, the number of years over which the value of an asset is adjusted for

Table 2
Cost of the Leadership Tax Proposals
(in billions of dollars)

Joint Committee on Taxation					
	First 5 Years	Second 5 Years	First 10 Years	Fiscal Year 2007	Estimate for Subsequent 10 Years (2008-2017)
Child Tax Credit	\$109.0	\$ 89.9	\$198.9	\$ 16.9	\$164
Capital Gains	33.1	96.2	129.3	22.1	234
Estate and Gift	18.4	48.2	66.6	11.7	127
IRA	32.6	80.0	112.6	19.4	210
Higher Education	7.1	10.9	18.0	2.6	27
Total	\$200.5	\$325.1	\$525.8	\$72.7	\$763
Source: Figures for the first 10 years are from Joint Committee on Taxation (JCT), January 21, 1997. The Bob Dole Education Investment Accounts provision is included in the total for higher education. Estimates of costs for each provision in the subsequent 10-year period were made by taking the JCT estimate of each provision's average annual rate of growth from 2004 through 2007 and applying this rate of growth to the JCT estimate of the provision's cost in 2007. All figures are expressed in current dollars.					

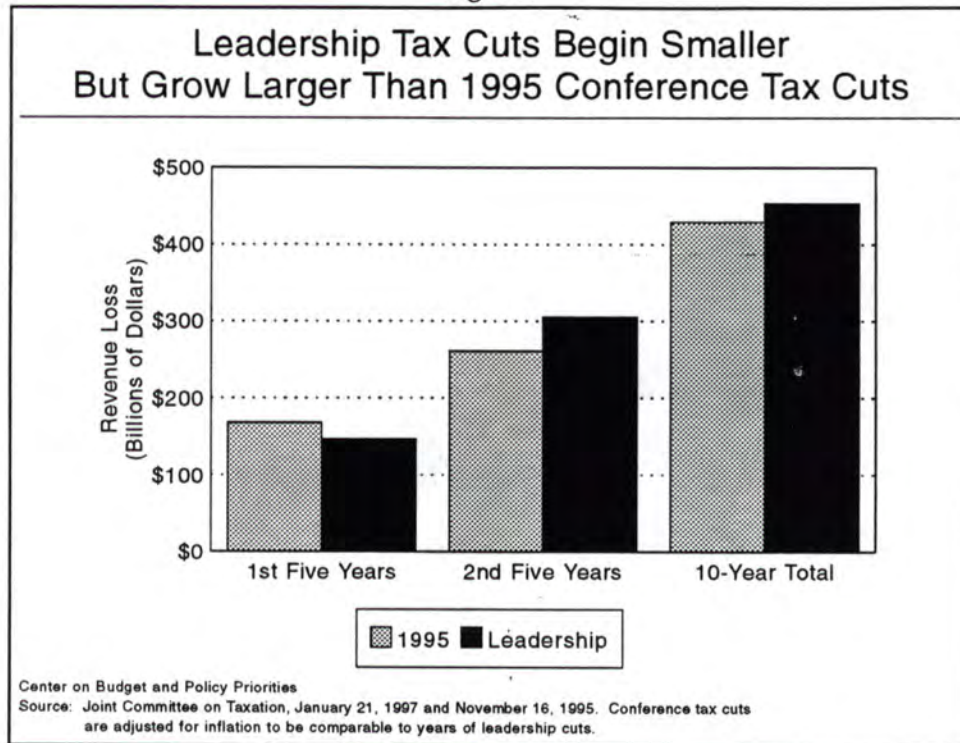
inflation would increase over time. In 2007, the value of an asset could be indexed for a maximum of 10 years. By 2017, a maximum of 20 years of inflation could be taken into account. Similarly, by 2017 the amount of deposits in IRA Plus accounts — on which all earnings would permanently be exempt from taxation — would be much larger than the amount of such deposits in 2007.

Comparing the Cost of the New Proposals to the Cost of the Vetoed 1995 Bill

Over the next 10 years, the Leadership tax proposals cost \$24 billion more than the "Contract with America" tax provisions in the 1995 budget reconciliation package that President Clinton vetoed. Both plans include a child tax credit, a capital gains tax reduction, expansion of IRAs, and a reduction in estate taxes. But while the child tax credit is essentially the same in both plans, the capital gains, IRA, and estate tax breaks all are more costly in the new Leadership plan than in the 1995 legislation.

- The capital gains provision in the current proposal is more expensive in part because indexing would begin in 1997, whereas it would have started in 2001 under the vetoed bill. Under the 1995 legislation, the profit on an

Figure 7



asset sold in 2001 would have been taxed at a maximum capital gains tax rate of 19.8 percent; indexing could not have been used to lower the effective tax rate to a lower level. By contrast, under the new proposal, the profit from the sale of such an asset would be adjusted downward for tax purposes by factoring in four years of inflation indexing. As a result, the profit from the sale of the asset would be taxed at an effective rate of about 10 percent or 11 percent, rather than 19.8 percent. Because the new proposal makes indexing effective for four additional years, it reduces the capital gains taxes on assets purchased before 2001 to a significantly greater degree than the 1995 legislation would have done. For this reason, the new bill has a larger and more costly capital gains tax cut than the earlier legislation did.

- In addition, the IRA provision in the new Senate Republican leadership plan is more costly than the IRA proposal in the 1995 bill. In the 1995 bill, the income limits on deductible contributions to IRAs would have been increased to \$95,000 for individuals and \$120,000 for couples by 1997 and adjusted for inflation after that. Under the new legislation, income limits on deductible contributions to IRAs would be eliminated entirely.

- Finally, the new leadership tax plan would expand tax breaks for large estates more than was proposed in the 1995 bill. Among other differences, the 1995 proposal would have raised the amount of an estate that heirs can receive free of tax from \$600,000 to \$750,000; the current proposal would raise the tax-free amount to \$1 million. The current proposal also provides a more generous exclusion for inherited family-owned business interests; it would exclude the first \$1.5 million of family-owned business interests, while the 1995 plan would have excluded the first \$1 million.

The cost of the current Senate Republican leadership plan exceeds the cost of the vetoed 1995 reconciliation conference agreement for these three tax breaks by *nearly \$120 billion over the first 10 years, or more than 85 percent*. (See Table 3.) That the total difference in cost between the two plans over the 10 years is a more modest \$24 billion is due largely to the fact that the 1995 plan included a number of additional forms of tax relief that are not part of the new proposal. The child tax credit and the relatively modest education tax breaks in S.1 are the only provisions the new plan contains in addition to the three large upper-income tax breaks.¹⁹

Table 3
Comparison of 10-Year Costs of Selected Tax Provisions
in 1995 Conference Agreement and Senate Leadership Plan
(in billions of dollars)

	1995 Plan	Leadership Plan
Capital Gains	\$ 78	\$107
IRAs	33	93
Estate Tax	26	55
Total three provisions	\$137	\$255

Source: Joint Committee on Taxation, January 21, 1997 and November 16, 1995. The cost of the 1995 bill for 1996-2005 is adjusted for inflation to be comparable to the cost of the current proposal for 1997-2006.

Proposed Tax Cuts Break the *Quid Pro Quo* of the Tax Reform Act of 1986

The Tax Reform Act of 1986 sharply lowered income tax rates on upper-middle income and high-income individuals, as well as on corporations, in return for scaling back tax breaks provided for capital gains, IRAs, estate taxes and other items. Under the

¹⁹ The 1995 bill also included a reduction in the so-called marriage penalty, incentives for adoption and home care for the elderly, reductions in the Alternative Minimum Tax, a variety of health care related incentives, and tax breaks for small businesses. None of these provisions is in the current proposal.

Senate Republican leadership proposal, that *quid pro quo* would be abrogated. The income tax rates faced by those in the top brackets would remain far below the rates such taxpayers encountered prior to the 1986 Act. But capital gains and IRA tax breaks would not only be restored but also would be made more generous than they were before 1986. In addition, new estate tax breaks would be created. The result would be windfalls for wealthy Americans.

- Prior to 1986, the top income tax rate was 50 percent. While the top rate was raised somewhat in 1990 and 1993 after being lowered in 1986, at 39.6 percent it remains substantially below the pre-1986 rate.
- Special treatment for capital gains income was among the preferences ended in 1986 in return for taxing income at lower rates. Prior to 1986, taxpayers in the top income bracket paid an effective capital gains tax rate of 20 percent. The 1986 tax act eliminated the exclusion for capital gains; capital gains income became subject to a 28 percent maximum tax rate, the rate that remains in effect today.
- The Senate Republican Leadership proposal would reduce the maximum tax rate on capital gains income to 19.8 percent, slightly below the pre-1986 level. In addition, because of the capital gains indexing provision, high-income taxpayers would be subject to *effective tax rates* of only 10 percent or 11 percent on much of their capital gains income, a rate about half that in effect before 1986.
- Thus, compared to the pre-1986 law, the Leadership plan would leave the wealthiest taxpayers with both a 21 percent reduction in income tax rates and as much as a 45 percent reduction in capital gains taxation.

Impact of Leadership Tax Proposals on Balancing the Budget

The increasing cost of the Leadership tax proposals over time would make it difficult for the government to plan prudently for the second decade of the 21st century and the decades following that. When the baby boom generation retires, the nation will face a daunting fiscal challenge. The costs of Medicare, Medicaid and Social Security will swell as the number of elderly individuals mounts. In addition, the ratio of workers to retirees will fall to a low level.

To help the nation better afford the large retirement costs of the baby boom generation, some budget experts recommend building a surplus in the unified budget in the intervening period during which the baby boomers will be in their peak earnings years and using those annual surpluses to increase the amount of national saving.

Increasing the amount of national saving would increase the likelihood of stronger economic growth, which in turn would better enable the country to afford to support the baby boomers when they retire.

To pursue this approach, the current deficit in the non-Social Security portion of the federal budget would need to be reduced significantly or eliminated in coming years. That would enable some or all of the reserves now building in the Social Security trust funds to be used to increase national saving. (If the annual deficit in the non-Social Security portion of the budget is smaller than the annual surplus in the Social Security trust fund, the unified budget will be in surplus.)

Even without a large tax cut, achieving a sizable surplus in the unified budget is a daunting task. The proposed Leadership tax cut would likely make such a task virtually impossible.

- Under current law, the Congressional Budget Office projects a budget deficit of \$188 billion in 2002. Assuming a steady path of deficit reduction between now and 2002, CBO estimates that approximately \$137 billion in program cuts would be needed in 2002 to bring the budget into balance. (The remaining savings, under the CBO estimate, result from a "fiscal dividend" from slightly stronger economic growth and reduced interest payments on the debt.)
- The Leadership tax proposals would result in a revenue loss of \$53 billion in 2002. To balance the budget thus would require that program reductions total \$190 billion rather than \$137 billion. The tax cuts would thereby enlarge *by 39 percent* the magnitude of the program cuts required to achieve budget balance.
- If budget balance is attained in 2002, further actions will be required to maintain that balance in subsequent years. CBO projects a budget deficit of \$278 billion in 2007 under current law. Assuming the "fiscal dividend" and interest savings that CBO estimates would result from reaching balance in 2002 and maintaining balance through 2007, program spending in 2007 would have to be \$147 billion lower than current projections to maintain budget balance in that year. Accommodating the Senate leadership's tax cuts of \$73 billion in 2007 would raise the required program reductions from \$147 billion to \$220 billion in that year. As a result, the proposed tax cuts would increase the size of the program cuts otherwise required to balance the budget in 2007 by *50 percent*. (See Table 4.)

Reductions of this size would be extremely difficult to achieve. Measures that sought to go further and place the unified budget in surplus so a substantial part of the Social Security surplus could be saved would essentially be unattainable.

Table 4
Program Spending Cut Required to Achieve and Maintain
A Balanced Budget with Senate Leadership Tax Cuts
(in billions of dollars)

	2002	2007
Total Deficit	\$188	\$278
“Fiscal Dividend”	34	70
Debt Service Savings	17	60
Program Cuts Required without Tax Cut	\$137	\$147
Senate Republican Leadership Tax Cut	53	73
Program Cuts Required with Tax Cut	\$190	\$220
Increase in Program Cuts Resulting from Tax Cut	39%	50%

Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1998-2007*, p. 60 and Center on Budget and Policy Priorities calculations from other CBO data. The fiscal dividend and debt service savings are based on CBO’s illustrative path for deficit reduction. Other paths would require somewhat different amounts of program cuts.

By making it necessary to secure substantial additional program cuts to achieve and maintain budget balance, the Leadership tax proposals also would be likely to have one other effect. As a result of the tax cuts, any balanced budget agreement would have to contain deeper, more controversial cuts in basic programs, which in turn would likely make bipartisan budget agreements harder to reach.

State Revenue Reductions

Finally, the capital gains, IRA, and estate tax proposals would reduce *state* as well as federal taxes on individuals with higher incomes. The capital gains and IRA proposals would reduce state taxes because 36 states and the District of Columbia incorporate the federal definition of adjusted gross income (AGI) in their tax codes.

For instance, the Leadership proposal would exclude from the definition of AGI half of all capital gains income. Because of state conformity to federal tax rules,

enactment of this proposal would cause the profits excluded from income under the federal tax code also to be excluded under state income tax codes. In addition, the reduction in the federal taxation of capital gains that would result from indexing the purchase price of assets for inflation would further reduce the amount of capital gains included as income in most states' tax systems. State revenues thus would decline as a result of these changes in the federal tax code.

Making upper-middle and high-income individuals eligible for IRA tax deductions and backloaded IRAs would further shrink state revenues. The IRA deductions would decrease the amount of income subject to state taxation; since the deducted amounts would not be part of adjusted gross income for federal income tax purposes, these amounts would not be part of AGI under many state tax systems as well. In addition, the new backloaded IRA accounts would shelter interest income from state income tax as well as federal tax.

Moreover, the estate tax in all states is tied closely to the federal taxation of estates. The federal government in essence "shares" its estate tax with the states by allowing taxpayers to take a credit for state estate taxes paid up to a specified percentage of the federal tax. The sharing mechanism works as follows.

Federal tax law determines the amount of federal estate tax that heirs to an estate must pay. States also may levy a tax on estates. If states levy their own estate tax by computing a percentage of the federal estate tax liability, special rules apply. Under these special rules, heirs may subtract the state taxes paid, dollar for dollar, from federal estate taxes that otherwise would be due, up to a specified maximum percentage of the federal taxes. In other words, the heirs have the same amount of overall tax liability whether or not the state levies an estate tax; the state tax does not change the total amount of estate taxes collected but rather allows the state to share in a portion of the federal revenue. Every state uses this type of state estate tax, which is commonly known as the "pick-up" tax.

Because state estate taxes must be levied as no more than a specified percentage of federal estate taxes to qualify as a "pick-up" tax and benefit from the special rules, reductions in federal estate taxes will automatically reduce state revenues. Thus, the Leadership plan would result in a substantial reduction in states revenues from estate taxes.

If these Leadership tax proposals are adopted, states will lose billions of dollars in revenue. States also will face the same problem the federal government is likely to experience as a result of these tax proposals — sharply escalating revenue losses in future years. To offset these revenue losses, states would likely be forced to cut programs, raise other taxes, or take both types of actions.

State spending cuts typically affect low- and moderate-income families the most. Moreover, tax increases in most states are likely to affect low- and middle-income taxpayers disproportionately, because virtually all state codes are regressive. As a consequence, those who would benefit least from the state tax cuts that would result from enactment of the Leadership proposals at the federal level would likely be the households affected most adversely by the actions states would take to make up for the resulting losses of state revenue.

Appendix

COMPARING THE ADMINISTRATION AND SENATE LEADERSHIP TAX PROPOSALS

The Administration's proposed federal budget for fiscal year 1998 includes a package of tax cut proposals. While these proposals share some elements with the Senate Republican Leadership plan, the Clinton tax cut proposals are less costly and more targeted on middle-income families. Over the first five years, the Administration estimates that its tax cuts have a *gross* cost of \$100 billion as compared to the \$201 billion Joint Tax Committee estimate of the cost of the Leadership package.²⁰ While 10-year cost estimates are not yet available for the Administration plan, the 10-year gross cost is likely to be less than \$250 billion, as compared to the \$526 billion cost for the Leadership plan.

The Administration budget includes provisions to raise revenues, as well as provisions to reduce them; and these Administration revenue-raising proposals greatly lower the overall cost of the Administration's tax package. The revenue-raising provisions the Administration is proposing include both extensions of expired excise taxes and "loophole" closings.

- Over the first five years, the *net* cost of the Administration tax proposals — i.e., the overall cost when the Administration's tax cuts, extensions of expired taxes, and loophole-closers all are taken into account — would be \$21 billion.
- If the Senate Leadership also agreed to extend the expired excise taxes, as it may do, the net cost of its tax plan would be \$162 billion over the first five years. That is nearly eight times the net cost of the Administration's plan during this period.
- In 2002, the net cost of the Leadership plan would be \$45 billion, nine times the \$5 billion cost of the Administration plan in that year.

The Administration proposals also are better targeted than those in the Leadership plan. As described below, the Administration's child tax credit is fully phased out for families with incomes over \$75,000. Other tax relief mechanisms are fully phased out for individuals with incomes over \$70,000 and families with incomes exceeding \$100,000. This contrasts with the IRA, capital gains, and estate tax breaks in

²⁰ The Budget for Fiscal Year 1998, p. 112. The five-year and ten-year costs cited here include small amounts shown for fiscal year 1997. If the legislation were to be enacted in late summer or early fall of 1997, the costs shown by Joint Tax and the Administration's budget for fiscal year 1997 would likely become additional costs in fiscal year 1998.

the Leadership proposal, the vast majority of which would benefit households with incomes above these ranges.

Although the Administration tax proposals are more modest in scope and more targeted to the middle-class than the Senate Leadership proposals, the Administration's proposals also grow in cost over time. As a result, the Administration's tax cuts would increase the difficulty of budgeting prudently for the approaching retirement of the baby boom generation.

Child Credit

The Administration and the Senate Leadership each are proposing a child tax credit. The proposals differ from each other in a number of ways.

- The Administration credit would be available only to families with incomes below \$75,000. (The credit would be phased out for taxpayers with incomes between \$60,000 and \$75,000.) By contrast, families with incomes up to \$150,000 could claim the Leadership version of the credit.
- The Administration credit would be available to families for children under age 13, while the Leadership credit would extend to children under age 18.
- The Administration credit would be \$300 in the first three years and rise to \$500 in 2000. The Republican credit would be \$500 from the outset. On the other hand, the Administration credit would be larger than the Leadership credit in years after 2000 because the Administration would index the \$500 credit for inflation in subsequent years while the Leadership version would not index it.

The Administration credit is better targeted on moderate- and middle-income families and maintains its value for those families over time. While still very costly, the Administration credit is less expensive than the Leadership credit. From 1997 through 2002, the Administration child credit would cost approximately \$47 billion, while the Leadership credit would cost \$109 billion. In 2002, the relative costs are \$10.4 billion for the Administration version and \$20.2 billion for the Leadership credit.

Capital Gains

In contrast to the Leadership's proposal for deep cuts in capital gains taxes at a cost of \$33 billion over five years and \$129 billion over 10 years, the Administration has no proposal for a broad reduction in capital gains taxes. The Administration's proposal

to replace the complex set of rules regarding taxes on the sale of a taxpayer's home with a \$500,000 exemption for capital gains realized on the sale of a home has a modest cost of \$1.4 billion over five years.

Individual Retirement Accounts

Both the Administration and the Senate Leadership would lift the income limits for deductible IRA contributions by taxpayers who are covered by an employer-sponsored retirement plan.

- The Administration proposal would gradually raise the current income limits from \$50,000 to \$100,000 for couples and from \$35,000 to \$70,000 for individuals.
- The Leadership proposal would abolish the limits; it would allow any taxpayer, regardless of income or pension coverage, to make deductible IRA contributions.

The Administration also would establish a backloaded "Special IRA" similar to the Leadership's "IRA Plus." Contributions to the Special IRA would not be deductible; interest earned on funds in the account would be permanently free of tax.

- Unlike the Leadership plan, however, which allows any taxpayer to make deposits in an IRA Plus, the Administration's Special IRA would be available only to taxpayers with incomes below the proposed limits for deductible IRAs (i.e., below \$100,000 for couples and \$70,000 for individuals). In addition, while the Leadership proposal would allow any taxpayer to roll over funds from a deductible IRA to an IRA Plus — including high-income taxpayers holding funds in pre-1986 IRAs — the Administration proposal would allow only taxpayers with incomes below \$70,000 and \$100,000 limits to make such rollovers.
- The Administration would index for inflation both the \$2,000 maximum IRA contribution and the income thresholds that determine who is eligible to make contributions. The Leadership proposal would not index the \$2,000 contribution limit (and has no income limits). Because of these provisions, the Administration's proposal is more favorable for middle-income households than the Leadership proposal. Needless to say, it is much less favorable for high-income households.

Both plans would allow withdrawals to be made from IRAs, free of tax and the 10 percent penalty usually applied to early withdrawals, for a variety of circumstances other than those allowed under current law. Both proposals would allow withdrawals

for post-secondary education expenses and in the event of long-term unemployment. The Administration proposal also would allow withdrawals for first-time home purchases, while the Leadership proposal would allow withdrawals for business start-up expenses.

The Administration's concentration of new IRA benefits on families with incomes below \$100,000 greatly reduces the cost of its IRA proposal relative to the Senate Leadership's proposal, although the cost still is significant and likely to grow substantially in future years (because of the inclusion of both backloaded IRAs and the rollover gimmick in the Administration's IRA provision). The Administration's IRA proposal would cost \$5.5 billion over the first five years, as compared to the \$32.6 billion cost of the Leadership proposal. In 2002, the Administration proposal would cost \$1.7 billion while the Leadership proposal would cost \$10 billion.

Education Incentives

The Administration and the Leadership each include a package of education tax incentives in their proposals. The two approaches to aiding education differ substantially.

The Administration would allow taxpayers to take either a tax credit or a deduction for the cost of post-secondary education and training (but not both). A non-refundable tax credit would be available for the cost of the first two years of post-secondary education, up to \$1,500 per student each year. Alternatively, up to \$10,000 of higher education expenses, including expenses of some skill training programs, could be deducted from gross income. The maximum deduction would not vary with the number of students in a family. These education benefits would be available only to middle-income families; they are phased out for joint filers with incomes between \$80,000 and \$100,000 and individuals with incomes between \$50,000 and \$70,000. The income limits would be indexed for inflation beginning in 2001.

The Administration proposal also includes a new 10 percent tax credit for small businesses that provide educational assistance to employees. The credit would be available for the calendar years from 1998 through 2000. In addition, the proposal expands the circumstances under which the forgiveness of a student loan is not considered income to the former student. Finally, the exclusion under current law for employer-provided educational assistance is extended through calendar year 2000.

The Leadership plan takes a different approach to education incentives. It would allow taxpayers to save funds (up to \$1,000 per child per year) in education investment accounts that operate in a manner similar to how the IRA Plus accounts would function — that is, contributions to these accounts would not be deductible but interest would be

permanently free of tax. All taxpayers, regardless of income or use of other types of tax-advantaged savings accounts, would be eligible to make such contributions.

In addition, the Leadership proposal would allow moderate-income taxpayers to deduct interest paid on qualified education loans during the first five years that interest payments are required on the loans. This deduction would be phased out for joint filers with incomes between \$65,000 and \$85,000 and individuals with incomes between \$45,000 and \$65,000.

The Leadership proposal also would eliminate taxes on withdrawals from qualified state tuition programs that are used for education expenses and would exclude from taxation the payments students receive under federal work-study programs. Finally, the Leadership proposal would make permanent the exclusion under current law for employer-provided educational assistance; the Administration would extend this exclusion only through 2000.

The Administration's tax initiatives for education are more costly than the Leadership proposals during the first five years, despite the fact that both the deduction for employer-provided educational assistance and the credit for educational assistance provided by small businesses would expire after 2000. The Administration proposals would cost \$38.5 billion during the five-year period, compared to the \$7.1 billion cost of the Leadership provisions.

Appendix Table 1
Comparison of Cost of Administration and Senate Leadership Tax Plans, 1997-2002
 (billions of dollars)

	Administration	Senate Leadership
Child Tax Credit	\$46.8	\$109.0
Capital Gains	1.4	33.1
IRA	5.5	32.6
Estate Tax	n/a	18.4
Education	37.1	7.1
Other	9.0	n/a
Total Cost	\$99.8	\$200.5
Offsets (<i>potential offsets</i>)	79.0	38.6
Net Cost	\$20.8	\$161.9

Sources: Cost of the Administration tax cut proposal is taken from The Budget for Fiscal Year 1998, while the cost of the Senate Leadership tax plan was estimated by the Joint Committee on Taxation, January 21, 1997. Because the estimates for the Administration plan were made by Treasury and those for the Leadership plan by the Joint Committee on Taxation, they may not be precisely comparable.

Appendix Table 2
Comparison of Cost of Administration and Senate Leadership Tax Plans in 2002
(billions of dollars)

	Administration	Senate Leadership
Child Tax Credit	\$10.4	\$20.2
Capital Gains	0.2	15.2
IRA	1.7	10.0
Estate Tax	n/a	5.7
Education	9.4	1.6
Other	1.1	n/a
Total Cost	\$22.8	\$52.8
Offsets (<i>potential offsets</i>)	17.8	7.8
Net Cost	\$5.0	\$45.0

Sources: Cost of the Administration tax cut proposal is taken from The Budget for Fiscal Year 1998, while the cost of the Senate Leadership tax plan was estimated by the Joint Committee on Taxation, January 21, 1997. Because the estimates for the Administration plan were made by Treasury and those for the Leadership plan by the Joint Committee on Taxation, they may not be precisely comparable.

File
Budget

August 11, 1994

Publication: SR-29-Economy (UPDATED)

UPDATE

Dire Predictions and Economic Realities

What They Said About The Clinton Budget and What Actually Has Happened

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Dire Predictions and Economic Realities

Introduction

During the Senate debate on the Clinton economic plan in August, 1993, opponents of the plan were full of dire warnings about the harm the Administration's policies would wreak upon the country. Furthermore, they claimed that supporters of the Clinton plan were not leveling with the American people about its contents and what it would do to the country.

Senator Phil Gramm charged:

"We have felt some frustration in trying to get *the American people to understand that they were not being leveled with* [emphasis added]." (CR, August 5, p. S 10520)

On this, the first anniversary of that historic deficit reduction plan, the Democratic Policy Committee is reissuing this special report. The following dire predictions about the Administration's economic plan and charts showing the actual performance of the economy under that same plan illustrate who was and who was not *leveling with the American people*.

Economic Growth

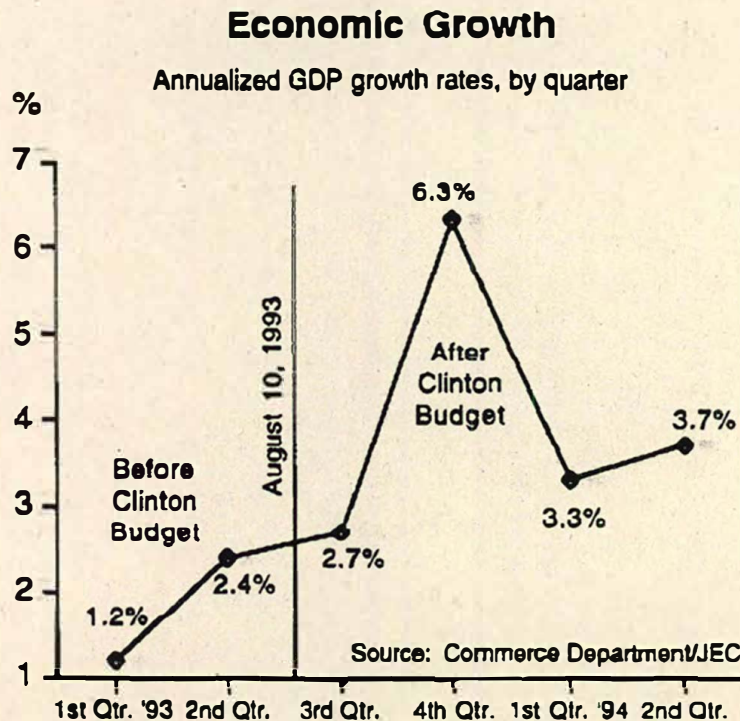
Dire Predictions

Senator Phil Gramm: "We are buying a one way ticket to a recession." (*CR*, August 5, p. S 10520)

Senator William Roth: "[I]t will flatten the economy." (*CR*, August 6, p. S 10665)

Senator Pete Domenici: "This plan cannot help the economy in the short term." (*CR*, August 6, p. S 10710)

Economic Reality



Jobs

Dire Predictions

Senator John Chafee: "This bill before us this evening, regrettably, is a jobs killer." (*CR*, August 6, p. S 10702)

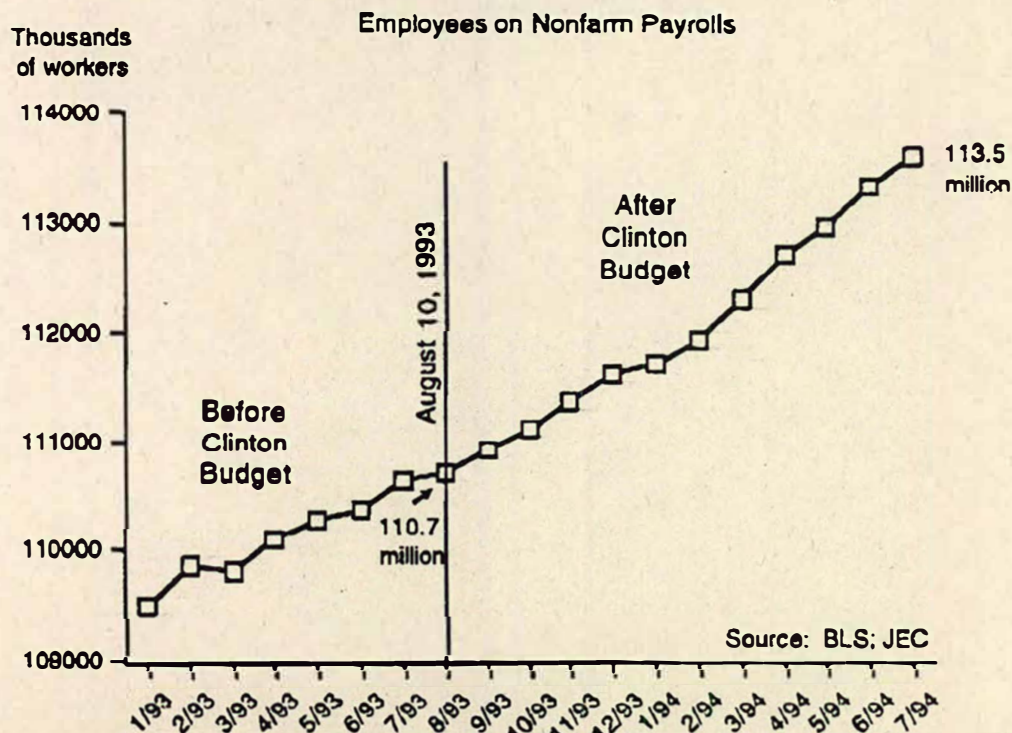
Senator Connie Mack: "This bill will cost America jobs, no doubt about it." (*CR*, August 6, p. S 10645)

Senator Orrin Hatch: "Make no mistake, these higher rates will cost jobs." (*CR*, August 6, p. S 10709)

Senator Charles Grassley: "I really do not think it takes a rocket scientist to know this bill will cost jobs." (*CR*, August 6, p. S 10699)

Economic Reality

Job Creation



The Deficit

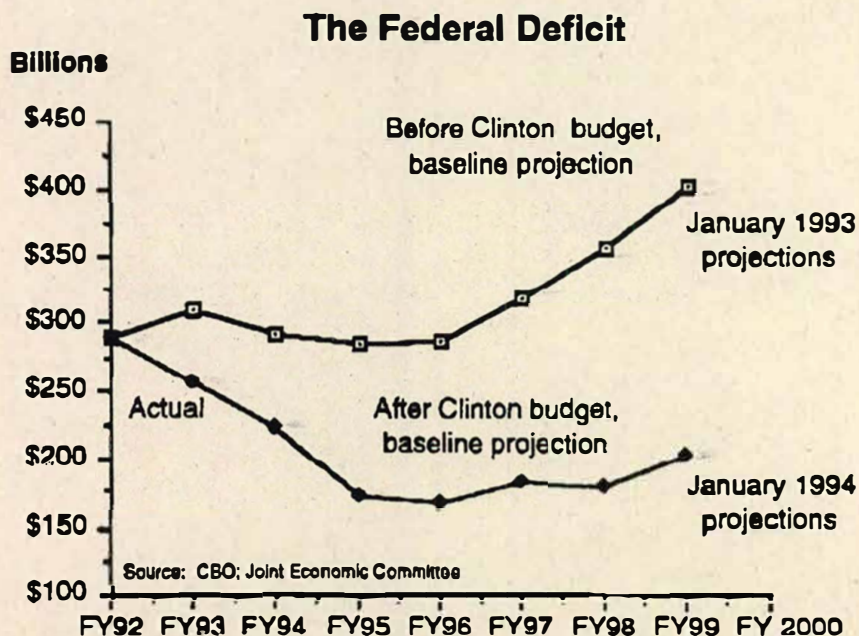
Dire Predictions

Republican Leader Bob Dole: "President Clinton knows, Senator Kerrey knows, I know, and the American people know that the plan does not tackle the deficit head on." (*CR*, August 6, p. S 10712)

Senator Larry Pressler: "[T]his plan would not reduce our annual deficit below \$200 billion." (*CR*, August 6, p. S 10674)

Senator William Roth: "This one will not reduce the deficit either." (*CR*, August 6, p. S 10666)

Economic Reality



Source: CBO/JEC; *Updated CBO figures, scheduled to be released later this month, are expected to show that the FY 1994 deficit will fall to about \$200 billion.

Government Spending

Dire Predictions

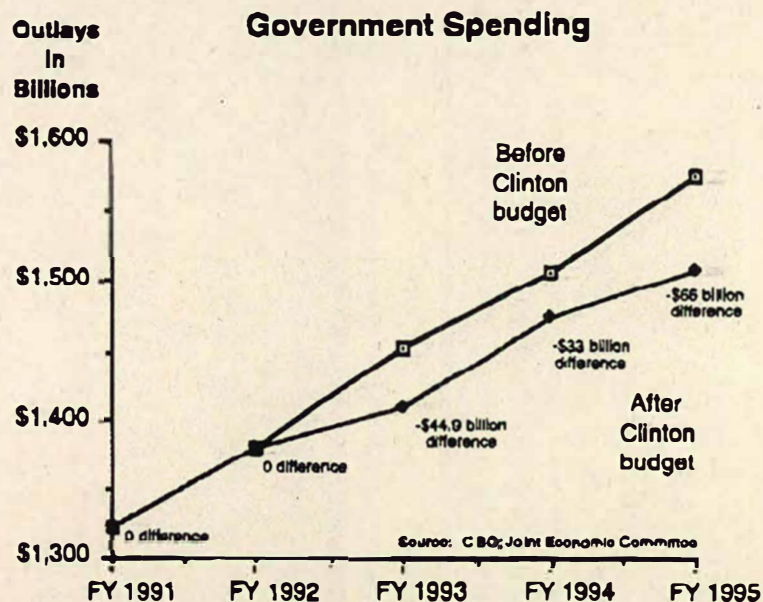
Republican Leader Bob Dole: "Do not kid anybody. Nobody is going to cut spending around here. Spending cuts — when will they come? Do not hold your breath, America. Do not hold your breath waiting for spending cuts." (*CR*, August 6, p. S 10713)

Senator Strom Thurmond: "It contains no real spending cuts to reduce the deficit or improve our Nation's economic outlook." (*CR*, August 6, p. S 10638)

Economic Reality

Fact:

"We have frozen discretionary spending. Except in emergencies, we cannot spend an additional dime on any program unless we cut it from another part of the budget.... Some 340 discretionary programs were cut in 1994, and our new budget cuts a similar number of programs. These are not the kind of cuts where you end up spending more money. These are true cuts, where you actually spend less." (Budget Message of the President, February 7, 1994)



Source: CBO/JEC; *Updated CBO figures are scheduled to be released later this month.

Income Taxes

Dire Predictions

Republican Leader Bob Dole: "So in a few minutes all those Americans watching on CNN and C-Span, put down your remote control and grab your wallet, because our taxes are about to go up." (CR, August 6, p. S10711)

Economic Reality

Fact:

"About 110 million Americans will file Individual tax returns next Spring. On 108 million of them, taxes will take a smaller bite than they did last year.... The fact is, more than 98% aren't affected by the higher income-tax rates."

Kiplinger's Personal Finance Magazine,
October 1993, p. 44

Fact:

"Only a sliver of tax filers — about 1.2 percent — will face a higher income tax bill on April 15, because of the Clinton Administration's economic program, according to the Congressional Budget Office."

Washington Post,
January 13, 1994

Fact:

"Middle-income taxpayers, 82.2 percent of all taxpayers, will see no change in their income tax rates. In fact, if income remains the same, they will continue to receive a small tax cut each year because the tax brackets, exemptions, and standard deductions are indexed; that is, they are adjusted for inflation each year.... Lower-income taxpayers (16.6 percent of all taxpayers) benefit from Earned Income Credit Expansion."

"Analysis of the Income Tax Consequences
of the 'Revenue Reconciliation Bill of 1993'"
H&R Block, Inc., August 1993

Fact

"There are still non-believers around who at present emphasize the demand-dampening potential of the raising of taxes last summer, especially come April 15 when significant new payments are due for the first time. At Morgan, we, in the economics group, view the higher tax rates as of minor importance in the broader scheme of things. They affect only people in the top brackets, whose current spending unlike most other people's, need not change much, if at all.

Morgan Guarantee Trust,
"Economic Outlook, 1994 and Beyond",
Remarks by William M. Cadette,
January 27, 1994

Fact

"If the Republicans were simply wrong on their economic predictions, they were disingenuous on taxes. The claim that this was a huge tax increase on most Americans was a fraud. Income taxes were boosted for only the most affluent taxpayers, about 1.4 million, or little more than one percent of the taxpaying population. The top Federal rate was raised to 39.6 percent, still well below the 50 percent rate that existed in 1986, six years into the Reagan Administration."

"Last Year's Budget Deal Was A Success,"
Albert R. Hunt. *Wall Street Journal*,
August 4, 1994

Conclusion

Dire Predictions

Senator Bob Packwood: "So I will make you this bet. I am willing to risk the mortgage on it, Mr. President. One year from now... the deficit will be bigger than we are now predicting.... [T]he deficit will be up, unemployment will be up; in my judgment, inflation will be up." (*CR*, August 6, p. S 10628)

Senator Phil Gramm: "I want to predict here tonight that if we adopt this bill the American economy is going to get weaker and not stronger, the deficit four years from today will be higher than it is today and not lower.... When all is said and done, people will pay more taxes, the economy will create fewer jobs, Government will spend more money, and the American people will be worse off." (*CR*, August 5, p. S 10520)

Senator Connie Mack: "This plan will not work." (*CR*, August 6, p. S 10645)

Economic Reality

Alan Sinai of Lehman Brothers reports: "This is the healthiest the American economy has been in 30 years."¹

Federal Reserve Chairman Alan Greenspan reports: "The outlook for the American economy is as bright as it has been in decades. Economic activity has strengthened. Unemployment is down. And price trends have remained subdued. In addition, unlike some earlier periods, business spending on new plants and equipment has been an important contributor to growth. The strength in investment will enhance economic efficiency and lay the foundation for the productivity gains that will bolster the economic welfare of our Nation."²

Senator Bob Packwood: "I was wrong." (Quoted in "Last Year's Budget Deal Was A Success," *Wall Street Journal*, August 4, 1994)

¹ *Washington Post*, March 2, 1994.

² Testimony to House Budget Committee, June 22, 1994.



DCCC NEWS

DEMOCRATIC CONGRESSIONAL CAMPAIGN COMMITTEE
Vic Fazio, D-CA, Chairman

COMMUNICATIONS OFFICE:
(202) 485-3407

FOR IMMEDIATE RELEASE
March 3, 1994

CONTACT: Mike Casey
Betsy Mullins
202/485-3407

Statement by DCCC Chairman Vic Fazio (CA)

"With the President's economic plan last year, we made the tough choices that put the economy back on a solid foundation. There's still a lot of work to be done to spread this recovery to the entire country, but by all objective measures, things are moving in the right direction.

"More importantly, the deficit cutting we did last year and the economic agenda we set showed the difference between Congressional Democrats and Republicans. We're for turning the economy and the country around with tough choices. They just like to say no.

"In other words, they stand for nothing.

"If you say the sky will fall and it doesn't, you should be held accountable.

"Republicans are going to have to do something more in the governing process besides saying 'no' or 'me too.' Voters want to know what you stand for, not what you're against.

"Last year's Republican gloom and doom scare tactics are symptomatic of a party that has no ideas. The accuracy of their predictions should be a good measure of credibility they deserve from voters this year.

#



Ohio Democratic Party

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Harry Mesuel, Chair

March 4, 1994

The Honorable John Kasich
12th Congressional District-Ohio
House Office Building
Washington DC 20515

Dear Congressman Kasich. *John*

I am writing today to ~~congratulate~~ you on your decision to join the Ohio Democratic Party. I have enclosed the needed materials for your registration as a Democrat in the State of Ohio.

Throughout our tenure in the Ohio Senate, I always knew that you may come around to our side someday. I'm glad to see that you finally are convinced by our nation's economic numbers. Of course, you do realize that we should sit down and work on some of the other issues that you may also wish to reconsider as you ~~make~~ this transition into Ohio's Democratic Party.

We welcome your conversion and are proud of you for finally making the right decision.

Your old friend,

Harry

Harry Mesuel
Chair

DEMOCRATIC ★ NATIONAL ★ COMMITTEE

David Wilhelm, Chairman

March 3, 1994

The Honorable Newt Gingrich
2428 Rayburn House Office Building
Washington, DC 20515

Dear Representative Gingrich:

Congratulations! You are a recipient of the 1994 "Chicken Little" award for your misguided and outrageous predictions about President Clinton's plan to rebuild the economy.

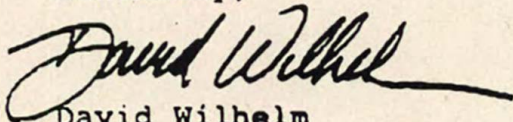
Today, the economy is on the rebound. Job growth is up. Unemployment and interest rates are down. Consumers and businesses alike are taking advantage of the improved economic prospects.

This, I suspect, comes as a surprise to you. Your comments last year during the debate on the President's budget made it very clear you thought the President's plan to invest in our people while cutting the deficit was the wrong prescription for a sick economy.

Millions of Americans in every region of the country are now benefitting from the economic recovery. While there is much work to be done, we have made real progress.

I hope we can count on you to play a constructive role in our continuing efforts to improve the lives of America's hard working families. Join us in looking forward instead of looking for the sky to fall.

Sincerely,



David Wilhelm
Chairman

03/03/94

Full Quotes

Senate Minority Leader Robert Dole (KS):

"Do not kid anybody. Nobody is going to cut spending around here. Spending cuts -- when will they come? Do not hold your breath, America. Do not hold your breath waiting for spending cuts."

-- Congressional Record p. S10713 (8-6-93)

Rep. Newt Gingrich (R-GA):

"I believe this will lead to a recession next year. This is the Democrat machine's recession, and each one of them will be held personally accountable."

-- GOP Press Conference House TV Gallery (8-5-93)

Governor William Weld (R-MA):

"The president has effectively embraced vacuum economics, but our economic prosperity could be sucked dry," Weld said during a morning press conference. "The tax cuts filed today are intended to keep the Clinton taxes from derailing our economic momentum here in Massachusetts."

-- The Boston Globe (8-12-93)

Rep. John Doolittle (R-CA):

"It is a serious fiscal risk for this country to end up after the largest tax increase in history and energy tax that is going to cost 600,000 jobs, and the effect of the other taxes in the Clinton plan may be to cost 1 1/2 to 2 million jobs, and then we end up with an enormous annual deficit....It is going to get worse if we enact the Clinton plan....It is a disaster."

-- Congressional Record H-2799 (5-25-93)

-more-

Rep. Bill Baker (R-CA):

"We're about to consider the largest tax increase in the history of this republic. It is a quagmire for America, \$300 billion, think about it, it is frightening. This bill and all its implications will be recessionary, inflationary and just bad economic policy."

-- Inside Politics, CNN 5/4/93

Rep. John Myers (R-IN):

"So, Mr. Speaker, this is not the way to stimulate the economy. It is not the way we ought to be doing business....Just freeze everything at last year's level, and let revenue catch up to it, and let the economy continue to recover."

-- Congressional Record H-6237 (8-5-93)

Rep. Henry Bonilla (R-TX):

"This plan is a job killer. It's going to take a tremendous amount of money out of the hands of the working people and the small businesses in this country and put it into big government, and I don't think that's what we need right now."

-- MacNeil/Lehrer Newshour (5-26-93)

Senator William Roth (R-DE):

"Even the strongest advocates of this tax-and-spend package are warning that it will be contractionary -- that it will flatten the economy. They are trying to persuade Alan Greenspan to loosen the money supply -- just what the Government did under Jimmy Carter. And we all remember the results of those failed policies -- that era of malaise. When the most strident supports of this tax-and-spend program are warning that it will hurt the economy how can we, in all seriousness, be expected to pass it and place it directly on the backs of hard-working Americans."

-- Congressional Record p.S10665 (8-6-93)

-more-

Senator Phil Gramm (R-TX):

"Mr. President, I thought this debate was about jobs. We cannot create more jobs by taxing the people who create them. And I know we have a lot of rhetoric here about how we do not feel sorry for Joe Brown & Son Hardware Store if they are making \$140,000 a year. I am not worried about Joe Brown because he is running that hardware store and working hard. My guess is he will survive not only the recession but the tax increase. We are going to make it harder for him, but I am very worried about the people who would like to work for him.

"I am worried about these retroactive taxes. We are buying a one-way ticket to a recession. He is not going to be able to add an additional room on his hardware store. He is not going to be able to put three more people to work. And the cumulative effect of all of that is going to be that the American economy is worse off."

-- Congressional Record p.S 10520 (8-5-93)

Rep. John Kasich (R-OH):

"Listen, I mean whether it's a McGraw Hill, whether it's Dean Witter, whether it's Goldman Sachs, whether it's the National Association of Manufacturers, all of these firms say this is a job killer. I mean, you can't raise taxes and have a bigger federal government in order to create incentives for people. Look at interest rates how low they are. Do you know why they're low? They're low because people don't have confidence that they can borrow because consumers are in a pessimistic mood.

"This plan will not work. If it was to work, then I'd have to become a Democrat and believe that more taxes and bigger government is the answer and it's not what the president ran on during the campaign. President Clinton is much different than candidate Clinton and that's the frustration."

-- CNN (7-28-93)

#

THE SKY THAT NEVER FELL

A SNAPSHOT OF THE AMERICAN ECONOMY

- * **1.7 Million New Jobs:** In the first year of the Clinton Administration, over 1.7 million new private sector jobs have been created -- more than were created in the previous four years combined.
- * **Record Low Interest Rates:** Because of low interest rates in 1993, 5.4 million Americans refinanced their homes, saving \$10 billion. For example, a family with a \$100,000 mortgage who refinanced and saved two percentage points will save \$1,700 per year.
- * **Historic Deficit Reduction:** The President's economic plan will cut the deficit by nearly \$500 billion over the next five years.
- * **Tax Cut for Working Families:** In 1994, 15 million working families with incomes of \$23,755 or less will receive a tax cut in the form of the Earned Income Tax Credit.
- * **Restoring Tax Fairness:** According to the Congressional Budget Office, only 1.2 percent of taxpayers filing this year will face higher income taxes due to the President's economic plan. This small tax increase affects only the wealthiest Americans -- households making \$185,000 or more. In fact, H&R Block reported that 16.6 percent of American families will receive a tax cut in 1994 under the President's plan.
- * **Record Economic Growth:** The economy grew 7.5 percent in the fourth quarter of 1993.

Today's Healthy Economy has Prompted the Following Comments by Economic Experts and News Organizations

"The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates. Although we may not all agree on the specifics of the deficit reduction measures, the financial markets are apparently inferring that, on balance, the federal government will be competing less vigorously for private saving in the years ahead. Partly because of these structural adjustments, the foundations of the economic expansion are looking increasingly well-entrenched."

**Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System,
1/31/94 Testimony before the Joint Economic Committee.**

"The outlook, as a result of subdued inflation and still low long-term interest rates, is the best we've seen in decades."

**Alan Greenspan, 2/22/93 Testimony Before the Subcommittee on Economic Growth and Credit
Formation, House Banking, Finance and Urban Affairs Committee.**

"This is the healthiest the American Economy has been in 30 years."

Alan Sinai of Lehman Brothers as Reported by the Washington Post, 3/2/94.

"The economic recovery is now moving from Wall Street to Main Street. There will be less money flowing into the financial economy, and more flowing into the real economy."

David Shulman of Salomon Brothers as Reported by the Washington Post, 3/2/94.

"To President Clinton's credit, early last year he rejected an either/or construction for U.S. growth versus deficit reduction. Clinton's blueprint for economic revival has as its centerpiece a multi-year program of deficit reduction, but it promised higher growth in the short run. A move to restrain deficit spending, he wagered, would both lower U.S. long-term interest rates and energize U.S. interest sensitive sectors. Lower deficits, lower long-term rates and higher real growth was the overall promise. With the data now rolling in for December 1993, it seems clear that President Clinton delivered on all three counts over the second half of the year."

Lehman Brothers, 1/10/94.

"Both Clinton and the economy head into 1994 on the momentum from a strong showing at the end of 1993. Lower long-term interest rates, for which the White House can take partial credit, helped to rev up spending for cars, homes, and durable goods generally, boosting factory orders and production, while better growth in jobs and incomes kept people happy. The good news for the first quarter is that the fundamentals that lifted the economy at the end of last year remain in place, ready to support job growth this quarter."

Business Week, 2/7/94.

"The danger is that Washington's ideological clamor will drown out a quiet economic truth: *Last year's budget package changed fiscal policy significantly, and the economy is already responding.* The yield on a 10-year Treasury note averaged just 5.9 percent in 1993, compared with the 6.7 percent forecast by CBO one year ago and consumer spending moderated to 2.7 percent down from 3 percent that CBO has predicted. Clinton's budget for fiscal 1995 will project a deficit roughly \$178 billion - a dramatic improvement over the \$230 billion shortfall that economists predicted just one year ago. Clinton will propose freezing or cutting budgets at 10 of 14 cabinet agencies and eliminating perhaps 115 separate programs."

U.S. News & World Report, 2/14/94.

CHICKEN LITTLES: BY STATE

ALABAMA

Representative Spencer Bachus:

"...when President Bill Clinton spoke of a new direction in his State of the union Address. I assumed he was talking about bringing the deficit down. I was wrong. Unfortunately, he meant the deficit was going straight up." [*Congressional Record*, 3/2/93]

ARIZONA

Representative Jim Kolbe:

"The result is we will end up in the ditch." [*Congressional Record*, 3/18/93]

"Like thieves in the night, this budget steals away this country's economic future." [*Congressional Record*, 3/31/93]

Representative Jon Kyl:

"[The President's economic plan] will cause the economy to falter just as it is beginning to recover." [*Congressional Record*, 3/18/93]

CALIFORNIA

Representative Christopher Cox:

"This is really the Dr. Kevorkian plan for our economy." [*Congressional Record*, 5/27/93]

Representative Robert Dornan:

"The problem with our economy is that there is too little employment and too little growth. This plan will do nothing to improve that condition and will actually make it worse." [*Congressional Record*, 8/5/93]

"And the fact that it will do nothing to reduce the deficit in any significant way is another reason to reject this tax monstrosity - the largest redistribution of wealth in our Nation's history." [*Congressional Record*, 8/5/93]

"Not a single Federal program will be eliminated. Not a one." [*Congressional Record*, 8/5/93]

Representative Wally Herger:

"The simple fact is the Clinton plan will not lower interest rates. It will not lower inflation. It will not create jobs. And it will not lower the deficit. The Clinton tax plan will spur inflation, lose jobs, increase the deficit and hurt our economic growth."
[*Congressional Record*, 8/5/93]

Representative John Doolittle:

"It is a serious fiscal risk for this country...[The deficit] is going to get worse if we enact the Clinton plan...It is a disaster." [*Congressional Record*, 5/25/93]

Representative Bill Baker:

"We're about to consider the largest tax increase in the history of this republic. It is a quagmire for America, \$300 billion, think about it, it is frightening. This bill and all its implications will be recessionary, inflationary and just bad economic policy."
[*Congressional Record*, 5/4/93]

COLORADO**Representative Joel Hefley:**

"This plan will damage the economy, increase Government spending and fail to cut the deficit by anything near \$500 billion. It's a bad plan and we should reject it."
[*Congressional Record*, 5/27/93]

"...will raise our taxes, increase the deficit and kill over 1 million jobs."
[*Congressional Record*, 8/4/93]

Representative Wayne Allard:

"In summary, this plan has a fatal flaw - it does not reduce the deficit."
[*Congressional Record*, 5/27/93]

DELAWARE**Senator William Roth:**

"It will flatten the economy." [*Congressional Record*, 8/6/93]

"This one will not reduce the deficit either." [*Congressional Record*, 8/6/93]

"Even the strongest advocates of this tax-and-spend package are warning that it will be contractionary -- that it will flatten the economy. They are trying to persuade Alan Greenspan to loosen the money supply -- just what the Government did under Jimmy Carter. And we all remember the results of those failed policies -- that era of malaise. When the most strident supporters of this tax-and-spend program are warning that it will hurt the economy, how can we, in all seriousness, be expected to pass it and place it directly on the backs of hard-working Americans."
[*Congressional Record*, 8/6/93]

FLORIDA

Senator Connie Mack:

"This bill will cost America jobs, no doubt about it." [*Congressional Record*, 8/6/93]

"This plan will not work." [*Congressional Record*, 8/6/93]

Representative Charles Canady:

"Either Congress rejects this destructive budget or the national economy will be stalled for years to come." [*Congressional Record*, 8/5/93]

Representative Porter Goss:

"Clintonomics means that an average family's taxes will go up. It means that prices for necessities will go up." [*Congressional Record*, 3/18/93]

Representative Clifford Stearns:

"...It will be the kind of impact that this country can't absorb. It will slow economic growth to the massive federal deficit..." [*Congressional Record*, 3/17/93]

GEORGIA

Representative Newt Gingrich:

"I believe this will lead to a recession next year. This is the Democrat machine's recession, and each one of them will be held personally accountable." [*House Gall* 8/5/93]

"...greatly increases the likelihood of a recession." [*Washington Post*, 8/8/93]

Representative John Linder:

"This program will not work. We will have higher deficits, Mr. Speaker, and I urge everyone to defeat this package." [*Congressional Record*, 3/17/93]

KANSAS**Republican Leader Bob Dole:**

"President Clinton knows, Senator Kerrey knows, I know, and the American people know that the plan does not tackle the deficit head on." [*Congressional Record*, 8/6/93]

"Do not kid anybody. Nobody is going to cut spending around here. Spending cuts - when will they come? Do not hold your breath, America. Do not hold your breath waiting for spending cuts." [*Congressional Record*, 8/6/93]

KENTUCKY**Representative Jim Bunning:**

"It will not cut the deficit. It will not create jobs. And it will not cut spending." [*Congressional Record*, 8/5/93]

MAINE**Senator John Chafee:**

"This bill before us this evening, regrettably, is a jobs killer." [*Congressional Record*, 8/6/93]

MASSACHUSETTS**Governor William Weld:**

"The president has effectively embraced vacuum economics, but our economic prosperity could be sucked dry." [*Boston Globe*, 8/12/93]

MICHIGAN**Representative Joseph Knollenberg:**

"...will destroy jobs, weaken this nation's economy." [*Congressional Record*, 3/17/93]

MINNESOTA**Representative Jim Ramstad:**

"...will stifle economic growth, destroy jobs, reduce revenues, and increase the deficit." [*Congressional Record*, 3/17/93]

Representative Rod Grams:

"...the price will be the lost jobs of million of working Americans." [*Congressional Record*, 8/5/93]

MISSOURI**Representative Mel Hancock:**

"And I can tell you from personal experience, this tax bill will stifle investment, clobber small business and destroy jobs." [*Congressional Record*, 5/27/93]

NEVADA**Representative Barbara Vucanovich:**

"Mr. Speaker, we all want deficit reduction but this is not the time to roll the dice on the economy and gamble on new taxes." [*Congressional Record*, 5/27/93]

NEW JERSEY**Representative Dean Gallo:**

"I urge my colleagues in the strongest possible terms - resist this invitation to nationwide economic disaster. Oppose the budget reconciliation bill." [*Congressional Record*, 8/5/93]

NEW MEXICO**Senator Pete Domenici:**

"This plan cannot help the economy in the short term." [*Congressional Record*, 8/6/93]

NORTH CAROLINA**Representative Charles Taylor:**

"...we can drive this country back into recession by passing this bill." [*Congressional Records*, 8/5/93]

OHIO**Representative John Kasich:**

"...We're going to find out whether we have higher deficits, we're going to find out whether we have a slower economy, we're going to find out what's going to happen to interest rates, and it's our bet that this is a job killer..." [*GOP Press Conference*, 8/3/93]

"Do you know what? This is your package. We will come back here next year and try to help you when this puts the economy in the gutter." [*Congressional Record*, 8/5/93]

"The Democrats have the job killer program." [*Congressional Record*, 3/18/93]

"It's like a snake bite. The venom is going to be injected into the body of this economy, in our judgement and it's going to spread throughout the body and it's going to begin to kill the jobs that Americans now have." [*Congressional Record*, 3/18/93]

"This plan will not work. If it was to work, then I'd have to become a Democrat and believe that more taxes and bigger government is the answer..." [*CNN*, 7/28/93]

Representative Deborah Pryce:

"The votes we take today will not be soon forgotten by the American voters. (They) will lead to more taxes, higher inflation and slower economic growth." [*Congressional Record*, 5/27/93]

Representative John Boehner:

"...we want to do something about reducing the budget deficits in this country and this budget resolution does nothing, absolutely nothing to reduce the huge budget deficits that we have had." [*Congressional Record*, 3/31/93]

OKLAHOMA

Representative Ernest Istook:

"I simply would like to state my opposition to this massive job-killing tax bill and the associated charade. Voting against HR 2264 is one of the proudest votes of my life." [*Congressional Record*, 3/18/93]

OREGON

Senator Bob Packwood:

"So I will make you this bet. I am willing to risk the mortgage on it, Mr. President. One year from now...the deficit will be bigger than we are now predicting...[T]he deficit will be up, unemployment will be up; in my judgement, inflation will be up." [*Congressional Record*, 8/6/93]

PENNSYLVANIA

Representative Rick Santorum:

"I rise in opposition to this bill because it is bad for America, it does not create jobs." [*Congressional Record*, 8/5/93]

Representative Curt Weldon:

"I take no pleasure in seeing this House pass a plan that will kill jobs, drive up inflation, hurt businesses and squeeze the middle class." [*Congressional Record*, 5/28/93]

"We will remember this vote when unemployment goes up, when inflation goes up, when spending goes up, when the national debt goes up. No more blaming Reagan and Bush." [*Congressional Record*, 5/28/93]

SOUTH CAROLINA**Senator Strom Thurmond:**

"It contains no real spending cuts to reduce the deficit or improve our Nation's economic outlook." [*Congressional Record*, 8/6/93]

SOUTH DAKOTA**Senator Larry Pressler:**

"This one will not reduce the deficit." [*Congressional Record*, 8/6/93]

TEXAS**Senator Phil Gramm:**

"We are buying a one way ticket to a recession." [*Congressional Record*, 8/5/93]

"And so what is clearly going to happen, if this bill becomes law, is that everybody in America who is making over \$34,000 a year, who draws Social Security benefits, is going to have a new higher tax number on that line, and are going to pay more income taxes." [*Congressional Record*, 8/6/93]

"I want to predict here tonight that if we adopt this bill the American economy is going to get weaker and not stronger, the deficit four years from today will be higher than it is today and not lower... When all is said and done, people will pay more taxes, the economy will create fewer jobs, Government will spend more money, and the American people will be worse off." [*Congressional Record*, 8/5/93]

Representative Dick Armey:

"The impact on job creation is going to be devastating." [*CNN*, 8/2/93]

"This plan is not a recipe for new jobs, more opportunities for our young people; or more secure retirement for our parents. It's a recipe for disaster." [*Congressional Record*, 8/5/93]

"...will grow the Government and shrink the economy. It will mean fewer jobs for ordinary Americans." [*Congressional Record*, 8/5/93]

"Clearly this is a job-killer in the short run." [*CNN*, 8/2/93]

"The economy will sputter along. Dreams will be put off and all this for the hollow promise of deficit reduction and magical theories of lower interest rates. Like so many of the President's past promises, deficit reduction will be another cruel hoax." [*Congressional Record*, 8/5/93]

"I will tell you, this program will not give you deficit reduction. It will be a disaster for the performance of the economy..." [*CNN*, 2/18/93]

"...the deficit will reach a record high." [*Congressional Record*, 8/5/93]

Representative Henry Bonilla:

"This plan is a job killer. It's going to take a tremendous amount of money out of the hands of the working people and the small businesses in this country and put it into big government, and I don't think that's what we need right now." [*MacNeil/Lehrer Newshour*, 5/26/93]

UTAH

Senator Orrin Hatch:

"Make no mistake, these higher rates will cost jobs." [*Congressional Record*, 8/6/93]

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dpc special report

Dire Predictions on Health Care Reform

It's “*Déjà Vu* All Over Again!”

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Democratic Policy Committee
United States Senate
Washington, D.C. 20510

George J. Mitchell, Chairman
Thomas A. Daschle, Co-Chairman

Dire Predictions on Health Care Reform

It's "*déjà vu* all over again!"

In August, 1993, Senate and House Democrats and the Clinton Administration enacted an economic blueprint to put the American economy "back on track" and launched the largest deficit reduction program in history. Opponents of change continuously tried to sabotage this much-needed effort with wild, reckless and irresponsible charges about the plan. They said the Democratic economic plan would wreck the economy and kill jobs. Instead, the economy grew rapidly and so did jobs.

One year later, August, 1994, from the very people who brought us all those dire, unfounded predictions about the President's economic plan, come dire, equally unfounded predictions about the President's effort to reform our health care system.

Opponents of the Democratic agenda for change assert that the effort to ensure health care security to every American will wreck the American economy and destroy jobs. We've heard this song before. In the words of the sage of Yankee Stadium, Yogi Berra, this is "*déjà vu* all over again!"

It is instructive to compare what the opponents of change predicted about the President's economic plan with what really happened, and then, to look at what they are predicting for real health care reform and what impartial, credible sources say will happen.

They Said the Sky Would Fall...

In 1993, opponents of change charged that the Clinton economic plan would wreck the economy:

Senator Phil Gramm: "We are buying a one-way ticket to a recession."¹

Senator William Roth: "[I]t will flatten the economy."²

Senator Pete Domenici: "This plan cannot help the economy in the short term."³

...Instead the Sun Came Out

The Clinton plan has helped, not hurt, economic growth:

Alan Sinai of Lehman Brothers reports: "This is the healthiest the American economy has been in 30 years."⁴

Federal Reserve Chairman Alan Greenspan reports: "The outlook for the American economy is as bright as it has been in decades. Economic activity has strengthened. Unemployment is down. And price trends have remained subdued. In addition, unlike some earlier periods, business spending on new plan and equipment has been an important contributor to growth. The strength in investment will enhance economic efficiency and lay the foundation for the productivity gains that will bolster the economic welfare of our Nation."⁵

They Said We'd Lose Jobs...

In 1993, opponents of change claimed that the Clinton economic plan would destroy jobs:

Senator Connie Mack: "This bill will cost American jobs, no doubt about it."⁶

Senator Orrin Hatch: "Make no mistake, these higher rates will cost jobs."⁷

...But Jobs Grew — Rapidly!

The Clinton economic plan has produced tremendous job growth. According to the Joint Economic Committee:

- In the first 18 months of President Clinton's term, 4.1 million new jobs have been created.
- The Clinton Administration is creating jobs at the rate of 7,445 jobs per day.
- In 1-1/2 years, the Democratic economic program has helped create 1.6 million more jobs than were created during the entire four years of the Bush Administration.
- The unemployment rate was 7.1 percent when President Clinton took office in January, 1993. It is now 6.1 percent.

There They Go Again!

Now these same opponents of change are claiming that a comprehensive health care plan that guarantees all Americans real health care security will destroy jobs and hurt economic growth.*

Senate Republican Leader Bob Dole: “[I]t could end up costing a lot of jobs.”⁸

Senator Dan Coats: “America will pay a predictable price for heavy-handed government control in the quality of health care, in more government bureaucracy, in higher taxes, and in lost jobs.”⁹

Senator Phil Gramm: “Mandates kill jobs, but even worse, they cost Americans freedom.”¹⁰

Senator Larry Pressler: “The job loss estimates from this employer mandate run from 600,000 to 3.1 million.”¹¹

Senator Thad Cochran: “[S]addling employers with the cost is the surest way to lose jobs, slow the economy, and fail to solve the need to reform the health-care system.”¹²

Sounds Like Politics, Not Policy Analysis

Once again, opponents of change are trying to convince the American people that the sky will fall if we enact the Democratic agenda for change. But independent and impartial analyses reveal that they are wrong again.**

*The National Federation of Independent Businesses (NFIB) has released studies by Consad claiming that the *Health Security Act* (HSA) would lead to the loss of hundreds of thousands, perhaps millions, of jobs. NFIB is the organization that has released nine job loss reports in the last eight months. Consad is the organization that claimed that Clinton's economic policies would threaten “up to 20,000 jobs in Illinois.” On the contrary, nearly 100,000 jobs have been created in Illinois under the Clinton Administration. (Consad Research Corporation, study for NFIB, “Employment and Related Economic Effects of Health Care Reform”; Bureau of Labor Statistics.)

**While most quotes in this report refer to the HSA, opponents are saying the same thing about any reform plan that includes shared employer-employee responsibility. Most of the independent analyses were performed using the HSA's employer proposals as their models. The real life experience of Hawaii — which has had an employer-based system in effect for two decades, is evidence that such a system works — *and* is good for business.

The EBRI Study

The Employee Benefit Research Institute (EBRI) is a nonpartisan, nonprofit research institute whose role in the health care debate is to provide objective information on the tradeoffs inherent in all the health care reform proposals. The Institute studied the methods by which different researchers have been able to arrive at widely different estimates on the employment effects of requiring employers to provide health insurance for their workers.

- EBRI's research indicates that health care reform could result in the creation of as many as 660,000 new jobs.
- Using a variety of assumptions, EBRI produced a range of estimates on the employment effects of the *Health Security Act* (HSA) ranging from 660,000 jobs created to 168,000 jobs lost. EBRI's research shows how sensitive these estimates are to the assumptions one makes when setting up a study — suggesting that we should look carefully at the assumptions that opponents of change use in their "studies."
- The varying estimates use different sets of assumptions about the cost of premiums under the HSA and about whether wages adjust to the change in total compensation.

The EPI Study

The Economic Policy Institute analyzed the impacts of the HSA on the manufacturing sector and the economy as a whole. It concluded that the plan:

- will result in a net increase of 76,000 jobs by the fifth year; and,
- save the manufacturing sector \$18 billion in 1994.

CBO's Findings

The Congressional Budget Office (CBO) found that the *Health Security Act* would have a negligible effect on employment.¹³

Council of Economic Advisers

The Council of Economic Advisers (CEA), in conjunction with the Department of Labor, reported that there likely would be a net increase of more than 600,000 jobs.

Brookings Institute

According to Joshua Weiner of Brookings Institute, comprehensive health care reform would lead to the creation of 750,000 care jobs in home health alone.¹⁴

The Hawaii Example¹⁵

The real life experience of Hawaii is perhaps the best evidence of how health care reform can be a practical force for economic growth and job creation. The State of Hawaii has moved closer to universal coverage than any other State by reforming and strengthening its traditional system of private, employer-based health care coverage. Furthermore, the State is a small-business State, with 97 percent of its businesses employing fewer than 100 people and 94 percent employing 50 or fewer.

After Hawaii asked all employers to contribute to coverage:

- the State's unemployment rate dropped to one of the lowest in the Nation, while achieving near universal coverage through an employer mandate;
- the State's rate of business failures was less than half the national average;
- small business prospered as small business creation rates remained high (Between 1970 to 1991, the number of employers grew almost 200 percent.); and,
- health care costs have been controlled: While Hawaii ranks near the top of the States in cost of living, its average health insurance premium is near the bottom. For example, a family in Hawaii pays a premium of \$263 a month, nearly half that of other States.

Small Business Speaks

Gary Sprague, owner of an independent trucking company in Mexico, NY, states:

"If you give me the ability to offer health care to my employees, I'll create a job tomorrow — my business will *grow*."¹⁶

Robert A. Peck, speaking on behalf of the Small Business Coalition, a health care alliance that represents more than 578,000 small businesses employing more than 5.1 million people,²¹ explains:

"Small business has been ill-served by those who spread rumor and misinformation and don't communicate the facts. The more small business owners learn about health care reform, the more they will support it."

Furthermore, according to Peck:

"Many small firms who currently provide health insurance to their employees actually will save money under the *Health Security Act*. In fact, the *Wall Street Journal* recently predicted that the President's plan would provide a financial windfall for small business."²²

More Benefits to Workers and the Economy

No More “Job Lock”

Comprehensive health care reform would eliminate “job lock.” Job lock occurs when workers remain in a job to avoid losing their health benefits.

Studies show that:

- between 25 to 30 percent of American workers are afraid to leave their current job because of the risk of losing health insurance¹⁷; and,
- job lock impedes the ability of workers to move to jobs where they are more productive, for themselves, their families, and our country. According to Ron Pollack, executive director of Families USA, job lock “stunts any sense of ambition and creativity that is supposed to be the hallmark of our job market... it ultimately impairs the economy.”¹⁸

No More Welfare Lock

Comprehensive health care reform would also help reduce “welfare lock” — the fear of losing Medicaid benefits available only to welfare recipients.

Research indicates that:

- as many as one million of the four million welfare recipients would take jobs if there were continuous health care benefits¹⁹; and,
- more Medicaid recipients would work if they could keep more of their income and still receive health insurance.²⁰

Conclusion

The Republican assertions about the job loss associated with health care reform cited in this report were directed at the *Health Security Act*. It's clear that we will hear those same assertions again in the days ahead as Congressional Democrats consider other health care reform proposals.

Republicans leaders are now being advised by key Republicans strategists to oppose any Democratic health care plan, "sight unseen." William Kristol, who chairs the Project for the Republican Future, advises in a memo to his party leaders, "Health care reform is now about politics, and absolutely nothing else."

It would be unfortunate and may well be tragic if Republicans take this course. The health and financial security of millions of working Americans and their families is at stake.

End Notes

- ¹ *Congressional Record*, August 5, 1993, p. S10520.
- ² *ibid*, August 6, 1993, p. S10665.
- ³ *ibid*, August 5, 1993, p. S10520.
- ⁴ *Washington Post*, March 2, 1994.
- ⁵ Testimony to House Budget Committee, June 22, 1994.
- ⁶ *Congressional Record*, August 6, 1993, p. S10645.
- ⁷ *ibid*, August 6, 1993, p. S10709.
- ⁸ CBS, Face the Nation, August 22, 1993.
- ⁹ NPR, Morning Edition, June 10, 1994.
- ¹⁰ "Don't Cripple Employers," *USA Today*, May 18, 1994.
- ¹¹ *Congressional Record*, May 4, 1994.
- ¹² *ibid*, October 5, 1993.
- ¹³ *Washington Post*, February 9, 1994.
- ¹⁴ "Health Care Reform Impact on Jobs," Reuters, September 17, 1993.
- ¹⁵ Hawaii Department of Health, "Hawaii: Setting an Example for the Rest of the Nation," *New York Times*, November 14, 1993.
- ¹⁶ Statement made at DPC Luncheon, June 16, 1994.
- ¹⁷ Kaiser Family Foundation, as reported in *USA Today*: "Employment-based Health Insurance and Job Mobility," *Quarterly Journal of Economics*, February 1994.
- ¹⁸ Kaiser Family Foundation, as reported in *USA Today*.
- ¹⁹ Robert Moffitt and Barbara Wolfe "The Effect of the Medicaid Program on Welfare Participation and Labor Supply."
- ²⁰ Aaron Yelowitz, MIT.
- ²¹ Information provided by Small Business Coalition.
- ²² White House Health Care Notebook.
- ²³ "Small Business Sees Burdens Getting Lighter," *Wall Street Journal*, September 13, 1993.

Last Year's Budget Deal Was a Success

"Clearly, this is a job-killer in the short-run. The impact on job creation is going to be devastating."

—Rep. Dick Armey (R., Texas), Aug. 2, 1993

"The tax increase will . . . lead to a recession . . . and will actually increase the deficit."

—Rep. Newt Gingrich (R., Ga.), Aug. 5, 1993

"I will make you this bet. I am willing to risk the mortgage on it . . . the deficit will be up; unemployment will be up; in my judgment, inflation will be up."

—Sen. Robert Packwood (R., Ore.), Aug. 6, 1993

It was exactly a year ago this week that the 1993 deficit reduction measure, with tax increases on wealthier Americans, cleared both houses of Congress by the narrowest of margins.

Fortunately, Bob Packwood has a reasonably small mortgage on his Washington condominium. All those dire Republican predictions have not materialized; un-

employment is down, not up, the deficit is lower and inflation hasn't risen.

adds: "The one thing we didn't appreciate was the extent to which the economy would live off the relaxed policies of the Federal Reserve."

OK, let's take that latest Republican rationalization. This past Jan. 31, Fed Chairman Alan Greenspan said: "The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates." In short, Mr. Armey, those "relaxed policies" were facilitated by the 1993 deficit reduction act that you said would be so disastrous.

Since the 1993 budget act was passed, the economy has grown at almost a 4% annual rate, not spectacular but not bad. This growth has been centered on the private sector. In June the economy added an impressive 379,000 jobs, causing some economists to modify their forecast of a second-half slowdown.

A year ago today, Sen. Phil Gramm (R., Texas), a self-proclaimed economic expert, confidently predicted not only that the deficit measure would be a near-term calamity, but that "the deficit four years from today will be higher than it is today, not lower." Here are the inconvenient facts, Sen. Gramm: The Congressional Budget Office now estimates the fiscal 1997 deficit at \$192 billion, or more than \$100 billion less than the so-called baseline projection of a year earlier.

every other major industrial nation.

The legislation also included a 4.3 cent a gallon hike in the gasoline tax. The CBO calculates that, even including indirect costs, that amounts to higher taxes of a grand annual total of \$36 per driver. Gasoline prices remain about half of what they are in most other countries.

Moreover, the critics often conveniently forget that taxes were reduced for more than 15 million working poor fami-

lies, who benefited from the expanding of the earned income tax credit. This was the most important antipoverty measure enacted in years, one supported by many Republicans as well as Democrats.

Overall, the gains in the economy and the brighter deficit outlook are due in part to a few extraordinary factors. The savings-and-loan mess has gone from net drain to net gain. And there are some unrealistic savings in the Clinton administration defense budget, according to the General Accounting Office.

Responsible economic experts on the right, like the Heritage Foundation's Dan Mitchell, argue that, while the Clinton performance outstrips his predecessor, the gains would have been far better with a more conservative pro-growth policy. Mr. Mitchell notes the current recovery lags behind most other recent recoveries.

Nevertheless, the CBO estimates that more than two-thirds of the deficit savings in the next several years can be directly attributed to the 1993 deficit measure. Whatever small drag there is from higher taxes on a few Americans has been more than offset by the gains in a lower deficit and consumer confidence, which is up 54% since last August, according to the Conference Board.

The Republicans, undercut by all the data, have a final refrain: just wait until the November elections. There's little doubt that the GOP will score major victories this November, probably exceeding the average gains of the opposition party in off-year elections. But polls, focus groups and conversations with politicians of both parties demonstrate that the Democratic weakness has nothing to do with the deficit and tax legislation of 1993. Last month's Wall Street Journal/NBC News poll showed that only 15% of the public thinks that legislation was bad for the country, although 62% think it didn't make any real difference.

In the not-too-distant future—probably after the next presidential election—the deficit issue will have to be joined again. The deficit starts ballooning again by the early part of the next century. Not unexpectedly, the two major elements of any plan will have to be entitlements and taxes.

The politics will look bad. It's never easy to raise anyone's taxes. And while there's a lot of clamor now for curbing entitlements, the reality will be a lot more difficult than the rhetoric. Americans strongly favor reducing entitlements but oppose cutting specific programs.

But when the politicians then are grappling with those difficult decisions, they would do well to remember the 1993 prophets of doom and how wrong they were.

Before and After the 1993 Deficit Reduction Bill

Unemployment (June rate)	7.6%	6.0%
Consumer Prices (12 mo. avg. ending in June)	3.0%	2.5%
Stock Market (Aug. 1 DJ Industrials)	3,539.47	3,798.17
Projected 1995 Deficit (Billions of dollars)	\$284	\$180

Source: Congressional Budget Office; government figures

Politics & People

By Albert R. Hunt

employment is down, not up, the deficit is lower and inflation hasn't risen.

"I was wrong," Sen. Packwood acknowledges with rare candor. "It reminds me of a fraternity brother who used to write down all of our New Year's resolutions and then a year later had the audacity to read them."

Even the take-no-prisoners conservative Dick Armey displays a tinge of self-effacement when asked about his Chicken Little predictions of a year ago. "Clinton has got to be the luckiest president ever," says the Texas Republican, who then



"Mr. Gingrich, Your Crow Is Ready"

Clinton's Economic Program Is Working—Just the Way the GOP Said It Wouldn't

By Ernest F. Hollings

LOOKING AHEAD to the election in November, Republicans in Congress are greedily counting their unhatched chickens. Meanwhile, here in August, the GOP stands before a heaping plate of crow. One year ago yesterday, Congress passed a \$500 billion deficit reduction bill that Republicans unanimously opposed in both House and Senate. They hysterically predicted it would wreck the recovery and rain taxes on every American.

"It's a jobs-killing, economy-busting tax plan," growled Sen. Bob Dole. The Republican Party line was remorseless: If the Clinton bill became law, people would soon be hunting Democrats with dogs and shooting them in the street.

Well, as sportscaster Warner Wolf says, let's go to the videotape. Let's revisit the four horsemen of the Clinton apocalypse—the prophecies of doom conjured up by Republicans in Congress last summer, and see how they stand today:

■ *The deficit will head north, not south.* Or, as Sen. Bob Packwood (R-Ore.) put it in August of last year: "I will make you this bet. I'm willing to bet the mortgage on it . . . One year from now the deficit will be bigger than we are now predicting."

Here are the facts: When Clinton took office, the Congressional Budget Office projected that—if the new president did nothing—the deficits he inherited would hit \$291 billion in 1994 and \$284 billion in 1995. Today, CBO projects that the deficits will be \$200 billion in 1994 (a \$91 billion reduction) and \$180 billion in 1995 (a \$104

billion reduction). Clearly many factors are involved in both the unexpectedly good economic and budget performance. However, as CBO Director Robert Reischauer testified earlier this year: "The dramatic improvement since January [1993] is largely the result of the enactment in August of a major package of tax increases and spending cuts—the Omnibus Budget Reconciliation Act of 1993."

■ *The Clinton plan will wreck the recovery.* "Taking \$250 billion out of the economy will turn a fragile recovery into a solid recession," predicted Sen. Kay Bailey Hutchison (R-Tex.). The recovery was indeed fragile one year ago. But a key assumption of the Clinton plan was that, by dramatically reducing the deficit, it would allow the Federal Reserve to reduce interest rates and spur economic growth. It worked. One year later, the economy is growing at a solid, sustainable 3.7 percent, inflation is down to 2.7 percent. 2.6 million new jobs have been created and unemployment has dropped to 6 percent (down from 7.7 percent when Clinton took office). Last month, Alan Greenspan—usually a gloomy Gus—testified that "the outlook for the U.S. economy is as bright as it has been in decades."

■ *Birds gotta fly, fish gotta swim, Democrats gotta spend.* The Clinton plan raises \$241 billion in new revenues over five years, which the Republicans claimed would be squandered, not saved. Said Sen. Phil Gramm (R-Tex.) last August: "When all is said and done, people will pay more taxes, the economy will create fewer jobs, government will spend more money and the American people will be worse off."

The facts are that every last dime of new revenue under the Clinton plan has gone strictly to deficit reduction. The appropri-

tions bills now nearing completion in Congress will actually *freeze* overall discretionary spending for 1995—the first time that has happened since 1969. By way of comparison, recall that annual discretionary spending exploded under Presidents Reagan and Bush, rising steadily from \$308 billion in 1981 to \$536 billion in 1992.

■ *The Clinton plan is the T-Rex of tax bills.* Said Sen. Dole just before the Aug. 6 vote: "In a few minutes all those Americans watching on CNN and C-SPAN, put down your remote control and grab your wallet, because your taxes are going up." Polls last summer showed that Republican propagandists did a superb job of convincing Joe Six-pack that his income taxes were going up. Indeed, Joe *still* believes that his income taxes went up due to the Clinton plan.

The true story was finally told on April 15 of this year when Americans filed their IRS returns: Only the wealthiest 1.2 percent of taxpayers—joint filers with adjusted gross incomes of \$180,000 or above—saw an increase in income taxes because of the Clinton plan. Some 23 percent of Americans—including millions of "working poor" families—will see a notable *decrease* in their taxes—thanks to a more generous earned-income tax credit. Between these rich/poor extremes, the great mass of Americans saw no change whatsoever in their income tax status.

Yes, the Clinton plan also included a 5-cent gas tax increase that hit rich and poor alike. This, too, was the subject of much Republican teeth-grashing. Sen. Bob Kerrey (D-Nebr.) responded with the common sense observation: "If people notice it, I'll be amazed. If people complain, I'll be ashamed." Sure enough, when the higher gas tax kicked in on Oct. 1, few noticed. Today, after-inflation prices at the pump are lower than they were last August.

One year later, the Clinton plan has proven its mettle. The results—in terms of defi-

cit reduction, jobs and economic growth—speak for themselves. Indeed, the results pretty much *have* to speak for themselves. You won't read about them on the front page. Imagine if the Republicans' dire predictions had been borne out: The media would be rife today with gory autopsies of Bill Clinton's "failed" economic policy. Instead, the plan worked. Good news is no news.

Nonetheless, there is a lesson here for Republicans in Congress. As the late Sen. Robert A. Taft (R-Ohio) used to say: "The purpose of the opposition is to oppose." Fair enough. But that opposition should arise from patriotism, not party. It should not be driven by a blood lust to cripple a new president of the opposite party. Surely a line has been crossed when an initiative with the objective merit of the 1993 deficit-reduction bill is voted against by every single Republican in both houses of Congress. This is not opposition, it is obstruction.

One year later, Republicans are still at it. When voters gave George Bush the boot in 1992, the front line of GOP obstruction shifted to the Republican minority in Congress, which has perfected the tactic of veto-by-filibuster. Thus far in the 103rd Congress, there have been 55 formal filibusters, plus at least that many threats of filibuster. (By way of comparison, as recently as the 1960s, there was an average of only two filibusters a year.) Of course, this goes to the heart of the Republicans' post-Reagan identity crisis: What in the world are they for?

There is a time to crow and a time to eat crow. Last summer, President Clinton staked out a bold budget plan, took the heat and made a big difference for the good. Today, he deserves to take a bow. As for the Republicans in Congress, let us hope that the taste of crow in their mouths will turn them toward a more constructive brand of opposition.



Ernest Hollings is the Democratic senator from South Carolina.

David S. Broder

Our Forgetful Electorate

If one of the defects in the workings of our democracy is the lack of accountability for members of Congress, the voters are much more to blame than the politicians. Memories are just too short.

In the 1992 election, for example, far more members of Congress were punished for their overdrafts in the House bank than for their votes on the resolution authorizing the use of force in the 1991 Persian Gulf showdown with Saddam Hussein. I thought—and wrote—back then that the Democratic Party would and should be held accountable for the fact that large majorities of its members in both the House and Senate opposed authorizing offensive action against Iraq when President Bush sought Congress's approval.

Democratic leaders predicted then that not one of their incumbents would be defeated for opposing the war, and they were right. But the voters were wrong to ignore the signal. The Democrats' institutional failure to recognize what was—even before the lightning military victory—a clear-cut case of justified use of force was significant. Even though Albert Gore Jr., as a senator, supported Bush's action and Bill Clinton, as a governor, implied that was also his view, the government they head—reflecting the waverings of their party—has failed to set forth any clear

criteria for the manner, time, place and conditions for U.S. military intervention. Thus, the confusion of U.S. policy in the past 18 months in Bosnia, Somalia, Korea, Haiti and other hot spots around the globe was foreshadowed by the Democrats' dithering on the gulf.

Whatever voters do, the press has a responsibility to keep score on which party was right and which was wrong on big policy questions. The biggest one since Clinton became president occurred a year ago this week, with the passage of his budget and economic plan. The party lines were drawn even more sharply than on the Persian Gulf War; every single Republican in the House and Senate opposed that budget. They not only opposed it, they denounced it.

Senate Minority Leader Bob Dole (R-Kan.) called it a "terrible bill. . . . It's not good for the economy, and it's going to be terrible for small business." "We have a sick economy," said Sen. Kay Bailey Hutchison (R-Texas), "and now we're bleeding it."

Sen. Alfonse M. D'Amato (R-N.Y.) was particularly scathing on the final day of Senate debate. He set up a blank chart, which he said listed all the real deficit reductions in the bill, and, imitating a carnival barker, bellowed, "Step right up, ladies and gentlemen, with Magical Bill and his band of liberal magicians. . . . Smoke and mirrors!"

It was much the same the day before, when the House voted. Rep. Bill Archer (R-Texas), who would be chairman of the Ways and Means Committee in a Republican Congress, said, "The president claims the vast majority of these taxes will hurt only the rich, and that is baloney. . . . Americans know these new tax increases are job-killing poison for the economy."

Rep. Richard Armey (R-Tex.), chairman of the House Republican Conference and the top Republican on the Joint Economic Committee, said, "Taxes will go up. The economy will sputter along . . . and the deficit will reach another record high. . . . It is a recipe for disaster."

And Rep. Newt Gingrich (R-Ga.), in line to be speaker if the House goes Republican, said, "If I were only a Republican partisan, I would hope that this tax increase bill would pass by one or two votes so that every Democrat who voted yes would bear the responsibility for a massive tax increase and the job-killing recession it will lead to."

The budget did pass the House by two votes, the Senate by one. And where are we now? A year later, unemployment is at 6 percent, a 3½-year low. Inflation in the last year has been averaging 2.5 percent, as low as it ever gets. After spurting in the last quarter

of 1993, following passage of the budget, the economy has been growing at a steady pace, between 3 percent and 4 percent, for the past six months. It has been adding more than 200,000 net new jobs a month.

Business investment in new plants and equipment—a key to future productivity and wage increases—rose 13.4 percent over the past year. Last year saw the largest number of new business incorporations since World War II. According to the Congressional Budget Office, the federal deficit for the current fiscal year has been cut from \$291 billion (the estimate when Clinton came in) to \$223 billion; the deficit for next year, from \$284 billion to \$171 billion. The higher income taxes of which the Republicans warned were paid this year by 1.2 percent of those filing—the wealthiest 1.4 million—exactly as the administration had insisted. Millions more of the working poor had their taxes cut, raising them above the poverty line.

None of this proves that the Democrats will be right next time on the economy any more than the Persian Gulf vote proved they will always be wrong on national security matters. But it is foolish to ignore politicians' records. If we want accountability, we have to remember what they said and how they voted.

February 8, 1994

Publication: SR-29-Economy

dpc special report

Dire Predictions and Economic Realities

What They Said About The Clinton Budget and What Actually Has Happened

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Democratic Policy Committee
United States Senate
Washington, D.C. 20510

George J. Mitchell, Chairman
Thomas A. Daschle, Co-Chairman

Dire Predictions and Economic Realities

Introduction

During the Senate debate on the Clinton economic plan last August, opponents of the plan were full of dire warnings about the harm the Administration's policies would wreak upon the country. Furthermore, they claimed that supporters of the Clinton plan were not leveling with the American people about its contents and what it would do to the country.

Senator Phil Gramm charged:

"We have felt some frustration in trying to get the American people to understand that they were not being leveled with (emphasis added)." (CR, August 5, p. S 10520)

The following dire predictions about the Administration's economic plan and charts showing the actual performance of the economy under that same plan illustrate who was and who was not leveling with the American people.

Economic Growth

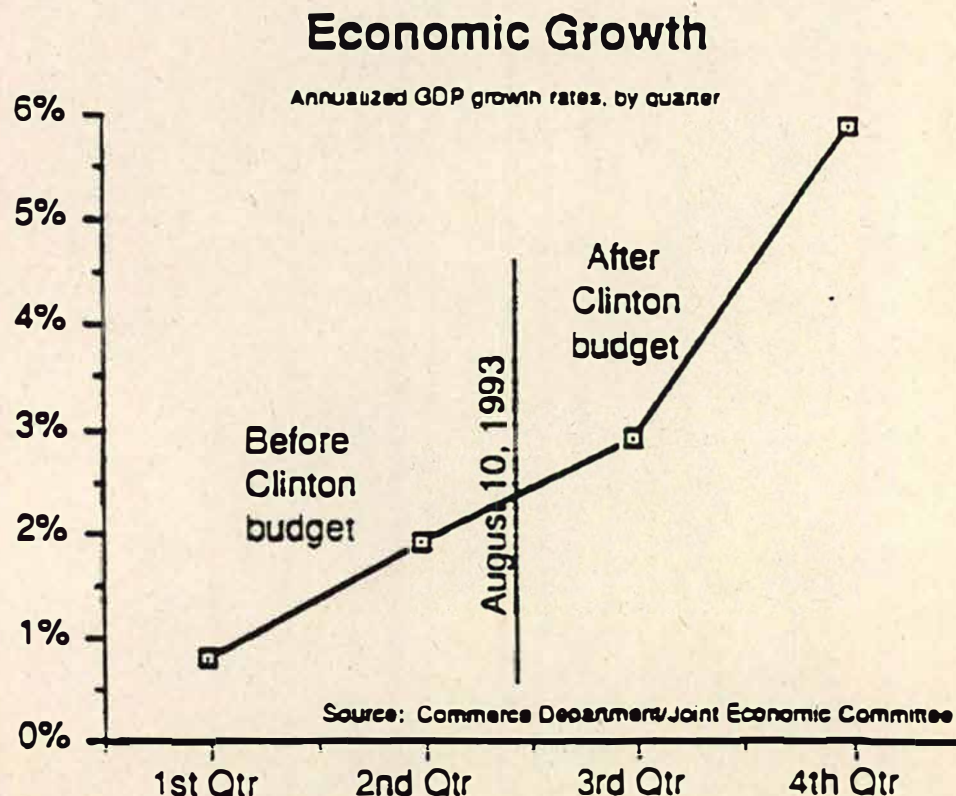
Dire Predictions

Senator Phil Gramm: "We are buying a one way ticket to a recession." (*CR*, August 5, p. S 10520)

Senator William Roth: "[I]t will flatten the economy." (*CR*, August 6, p. S 10665)

Senator Pete Domenici: "This plan cannot help the economy in the short term." (*CR*, August 6, p. S 10710)

Economic Reality



Jobs

Dire Predictions

Senator John Chafee: "This bill before us this evening, regrettably, is a jobs killer." (*CR*, August 6, p. S 10702)

Senator Connie Mack: "This bill will cost America jobs, no doubt about it." (*CR*, August 6, p. S 10645)

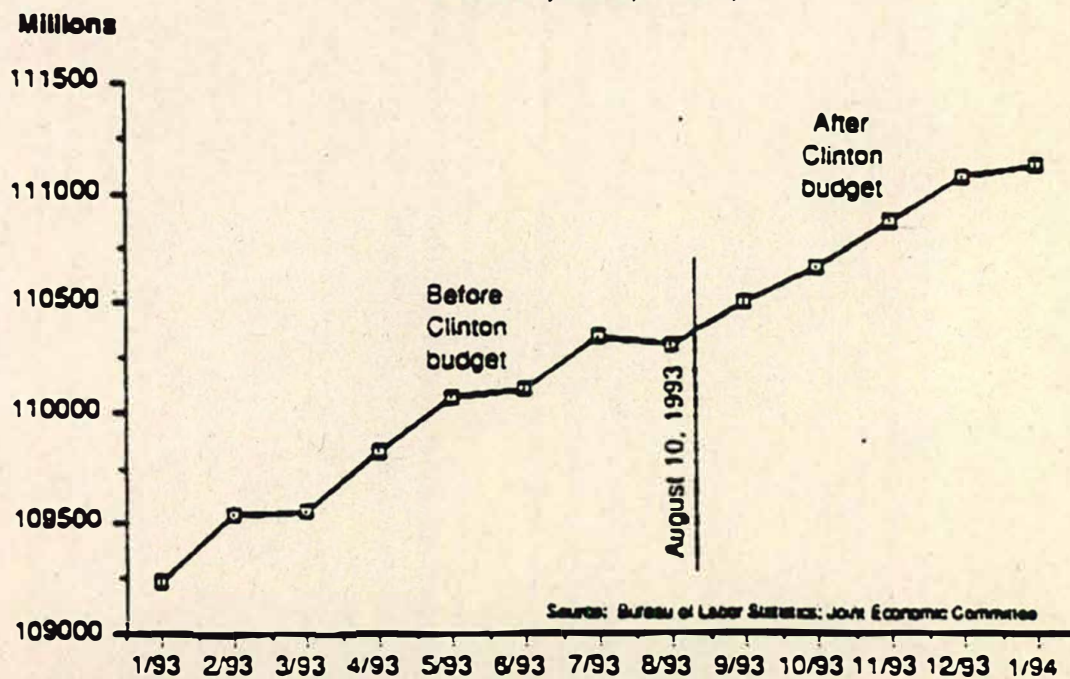
Senator Orrin Hatch: "Make no mistake, these higher rates will cost jobs." (*CR*, August 6, p. S 10709)

Senator Charles Grassley: "I really do not think it takes a rocket scientist to know this bill will cost jobs." (*CR*, August 6, p. S 10699)

Economic Reality

Job Creation

Nonfarm Payrolls by industry



The Deficit

Dire Predictions

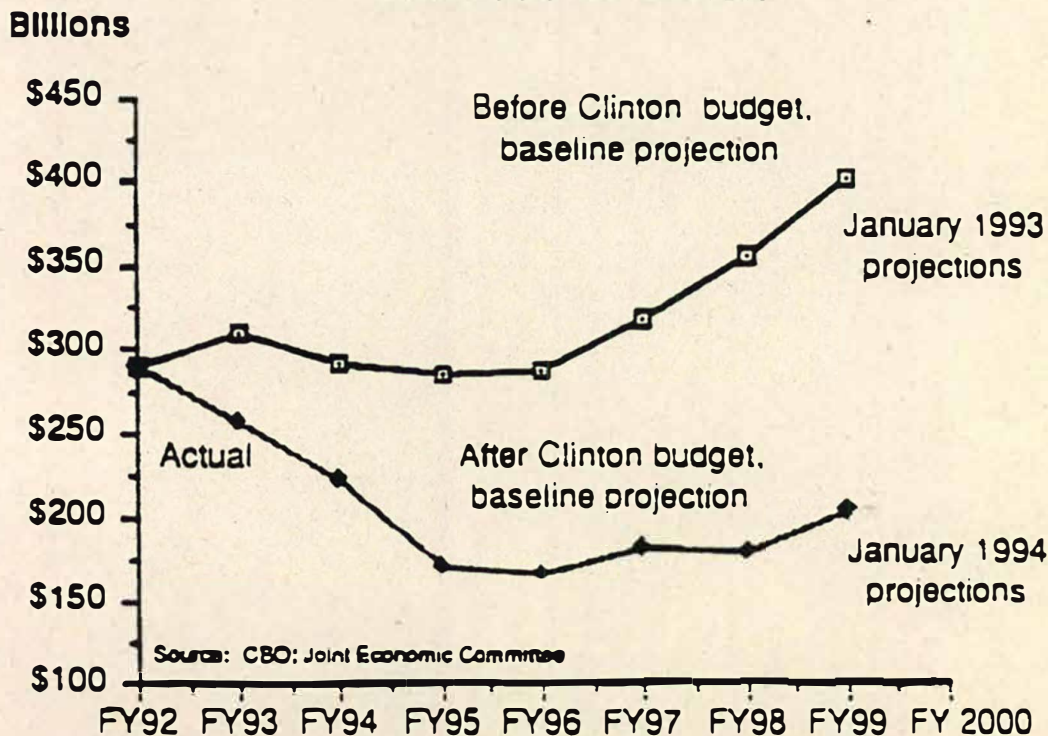
Republican Leader Bob Dole: "President Clinton knows, Senator Kerrey knows, I know, and the American people know that the plan does not tackle the deficit head on." (*CR*, August 6, p. S 10712)

Senator Larry Pressler: "[T]his plan would not reduce our annual deficit below \$200 billion." (*CR*, August 6, p. S 10674)

Senator William Roth: "This one will not reduce the deficit either." (*CR*, August 6, p. S 10666)

Economic Reality

The Federal Deficit



Government Spending

Dire Predictions

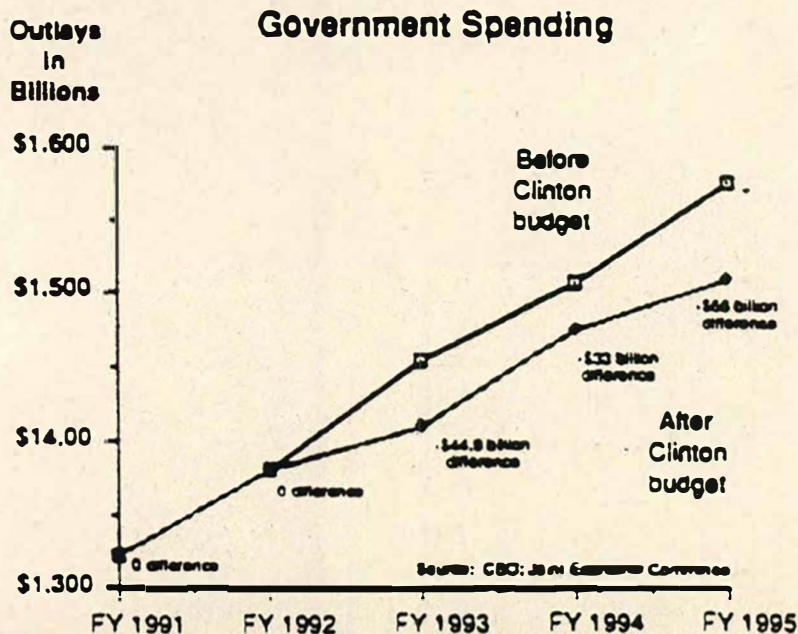
Republican Leader Bob Dole: "Do not kid anybody. Nobody is going to cut spending around here. Spending cuts — when will they come? Do not hold your breath, America. Do not hold your breath waiting for spending cuts." (*CR*, August 6, p. S 10713)

Senator Strom Thurmond: "It contains no real spending cuts to reduce the deficit or improve our Nation's economic outlook." (*CR*, August 6, p. S 10638)

Economic Reality

Fact:

"President Clinton will propose killing 115 Federal programs to save \$3.25 billion in the budget he sends Congress on Monday.... According to documents obtained by the *Washington Post*, the President's plan proposes reduced spending for 300 Federal programs, including the 115 in the 'list of programmatic terminations.'" (*Washington Post*, February 4, 1994)



Taxes

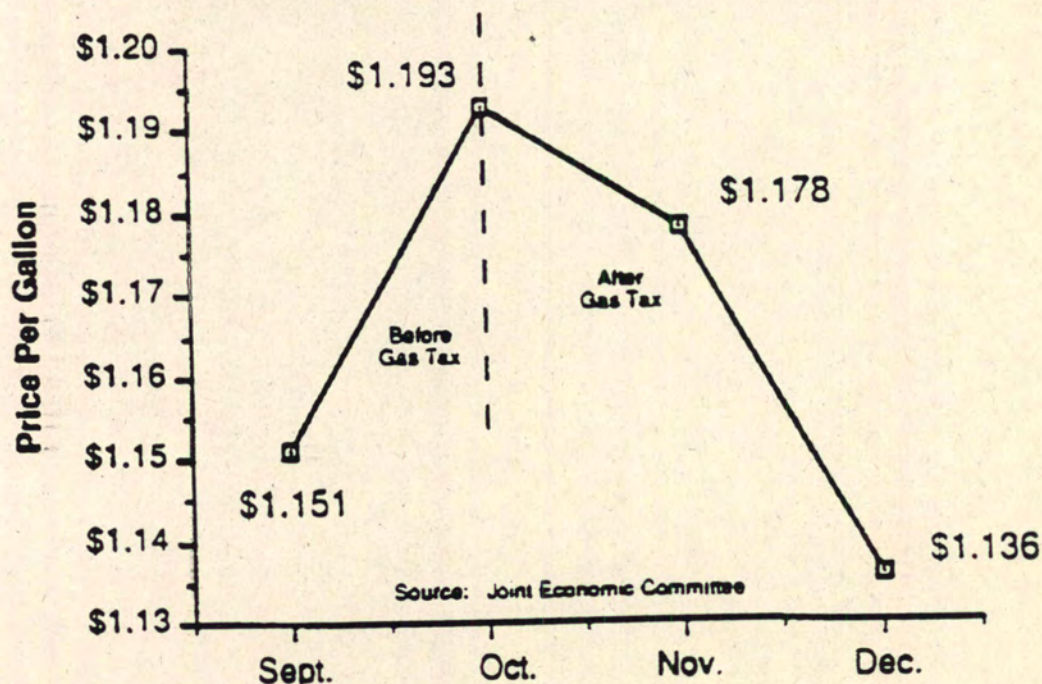
Dire Predictions

Senator Kay Bailey Hutchison: "[T]he gasoline tax not only penalizes those who drive to work or school, but it increases the cost of everything we buy." (CR, August 6, p. S 10669)

Senator Larry Pressler: "Everyone from small businesses and middle class families, to truckers, farmers, and ranchers will pay the price of the ill-conceived gasoline tax." (CR, June 24, 1993, p. S 7819)

Economic Reality

Average Price of a Gallon of Gasoline



Taxes

Dire Predictions

Senator Phil Gramm: "And so what is clearly going to happen, if this bill becomes law, is that everybody in America who is making over \$34,000 a year, who draws Social Security benefits, is going to have a new higher tax number on that line, and they are going to pay more income taxes." (*CR*, August 6, p. S 10709)

Economic Reality

Fact:

"About 110 million Americans will file individual tax returns next Spring. On 108 million of them, taxes will take a smaller bite than they did last year.... The fact is, more than 98% aren't affected by the higher income-tax rates."

Kiplinger's Personal Finance Magazine,
October 1993, p. 44

Fact:

"Only a sliver of tax filers — about 1.2 percent — will face a higher income tax bill on April 15, because of the Clinton Administration's economic program, according to the Congressional Budget Office."

Washington Post,
January 13, 1994

Conclusion

Dire Predictions

Senator Bob Packwood: "So I will make you this bet. I am willing to risk the mortgage on it, Mr. President. One year from now... the deficit will be bigger than we are now predicting.... [T]he deficit will be up, unemployment will be up; in my judgment, inflation will be up." (*CR*, August 6, p. S 10628)

Senator Phil Gramm: "I want to predict here tonight that if we adopt this bill the American economy is going to get weaker and not stronger, the deficit four years from today will be higher than it is today and not lower.... When all is said and done, people will pay more taxes, the economy will create fewer jobs, Government will spend more money, and the American people will be worse off." (*CR*, August 5, p. S 10520)

Senator Connie Mack: "This plan will not work." (*CR*, August 6, p. S 10645)

Economic Reality

Fact:

- ✓ The economy in 1993 grew at an annual growth rate of 2.8 percent — almost twice the rate of growth under President Bush, which was 1.5 percent. Some economists consider the first quarter of a new presidential administration to be a continuation of the policies of the previous administration, and therefore discount it when calculating the GDP growth rate during the first year of the new administration. If this is done, the GDP growth rate during the Clinton Administration rises to 3.5 percent. (Joint Economic Committee; Senate Budget Committee)

- ✓ Thus far in the Clinton Administration income per person after taxes and inflation has climbed \$416, whereas it edged up only \$125 during the Bush Administration. (Senate Budget Committee)
- ✓ In the first year of the Clinton Administration, more private sector jobs were created than during the four years of the Bush Administration combined. (Senate Budget Committee)
- ✓ Last September, CBO projected that the deficit would soar about \$350 billion by FY 1998. CBO now projects that the Federal deficit will fall from \$223 billion in the current fiscal year to below \$170 billion in 1996. According to CBO Director Robert D. Reischauer,

"The dramatic improvement since last January is largely the result of the enactment in August of a major package of tax increases and spending cuts — the Omnibus Budget Reconciliation Act of 1993." (Testimony before Senate Budget Committee, January 27, 1994)

Democratic Message Board

2113 Ravburn • Washington, DC 20515 • 202/225-5716

TO: Democratic Colleagues
 FR: Vic Fazio *Vic*
 RE: Message This Week
 DT: February 22, 1994

Attention: Press Secretary

ISSUE REPUBLICAN RHETORIC V. ECONOMIC REALITY

This Message Report is a *preview* to a more comprehensive research report to be issued this Thursday from the Message Board, Democratic Caucus, Budget Committee, and Joint Economic Committee. The report will include a more complete listing of GOP rhetoric from last year's budget debate, in contrast to key points on the more positive economic realities.

KEY POINTS☐ **GROWTH** - Economic Reality:

- A. Bush Growth Rate 1.5% - Growth Rate Since Plan 3.5%
- B. Interest Rates lowest in a quarter century.
- C. Inflation - CPI increased by smallest amount in 8 years.

Republican Rhetoric:

"I believe this will lead to a recession next year. This is the Democrat machine's recession, and each one of them will be held personally accountable."

Mr. Gingrich, House Gallery 8/5/93

☐ **JOBS** - Economic Reality:

- A. 1.6 Million New Jobs since 1993
- B. Half Million More Jobs Created than entire 4 years under Bush
- C. Largest Drop in Unemployment in 6 years.

Republican Rhetoric:

"The impact on job creation is going to be devastating..."

Mr. Arney, CNN, 8/2/93

☐ **DEFICIT** - Economic Reality:

- A. \$500 Billion -- Largest Deficit Reduction in History
- B. Would be \$126 Billion higher without the Plan.
- C. 40% Cut from Deficit Projections before Plan passed.

Republican Rhetoric:

"...We're going to find out whether we have higher deficits, we're going to find out whether we have a slower economy, we're going to find out what's going to happen to interest rates, and it's our bet that this is a job killer..."

Mr. Kasich, GOP Press Conf., 8/3/93

CALENDAR

T	1	GDP 1st Quarter. (preliminary)
W	2	House considers Improving America's School Act; New Home Sales. (Jan.)
T	3	New Car Sales (Feb.)
F	4	Employment/Unemployment. (Feb.)

ATTACHMENTS (to follow in Tuesday a.m. mail delivery)

- ✓ REPUBLICAN RHETORIC: Republican Rhetoric from Last Year's Budget Debate
- ✓ ECONOMIC REALITY: 10 Solid Signs of Economic Renewal from the Economic Report of the President (OMB)
- ✓ New Direction Index, March Economic Indicators

ECONOMIC GROWTH

"They will remember who let loose this deadly virus into our economic bloodstream."

Mr. Michel
Los Angeles Times 5/28/93

"I believe this will lead to a recession next year. This is the Democrat machine's recession, and each one of them will be held personally accountable."

Mr. Gingrich
GOP Press Conference, House TV Gallery, 8/5/93

"Do you know what? This is your package. We will come back here next year and try to help you when this puts the economy in the gutter..."

Mr. Kasich
H6249, Congressional Record 8/5/93

"This plan will not work. If it was to work, then I'd have to become a Democrat..."

Mr. Kasich
CNN 7/28/93

"The problem with our economy is that there is too little employment and too little growth. This plan will do nothing to improve that condition and will actually make it worse."

Mr. Dornan
H6148, Congressional Record 8/5/93

"This is really the Dr. Kevorkian plan for our economy."

Mr. Cox
H2949, Congressional Record 5/27/93

"...This bill is a disaster waiting to happen."

Mr. Ewing
H6104, Congressional Record 8/5/93

"... will stifle economic growth, destroy jobs, reduce revenues, and increase the deficit."

Mr. Ramstad
H1356, Congressional Record 3/17/93

"...a recipe for economic and fiscal disaster."

Mr. Crane

JOB

"... We have a stagnant economy and there is nothing down the road that makes it look like we're going to have the kind of economic growth that puts people to work."

Mr. Kasich
CNN 7/28/93

"The impact on job creation is going to be devastating, and the American young people in particular will suffer a fairly substantial deferment of their lives because there simply won't be jobs for the next two to three years to go around to our young graduates across the country."

Mr. Arney
CNN, 8/2/93

"... your economic program is a job killer."

Mr. Kasich
H2971, Congressional Record 5/27/93

INTEREST RATES

"The economy will sputter along. Dreams will be put off and all this for the hollow promise of deficit reduction and magical theories of lower interest rates. Like so many of the President's past promises, deficit reduction will be another cruel hoax."

Mr. Arney
H6268, Congressional Record. 8/5/93

"The simple fact is the Clinton plan will not lower interest rates. It will not lower inflation. It will not create jobs. And it will not lower the deficit. The Clinton tax plan will spur inflation, lose jobs, increase the deficit, and hurt our economic growth."

Mr. Herger
H5750, Congressional Record 8/4/93

INFLATION

"The votes we take today will not be soon forgotten by the American voters. (They) will lead to more taxes, higher inflation, and slower economic growth."

Ms. Pryce
H2935, Congressional Record, 5/27/93

EFICIT

"Come next year... we're going to find out whether we have higher deficits, we're going to find out whether we have a slower economy, we're going to find out what's going to happen to interest rates, and it's our bet that this is a job killer..."

Mr. Kasich
GOP News Conf., Senate Gallery 8/3/93

"Clearly this is a job killer in the short-run. The revenues forecast for this budget will not materialize; the costs of this budget will be greater than what is forecast. The deficit will be worse, and it is not a good omen for the American economy."

Mr. Arney
CNN, 8/2/93

"It will not cut the deficit. It will not create jobs. And it will not cut spending."

Mr. Bunning
H6129, Congressional Record, 8/5/93

"I will tell you, this program will not give you deficit reduction. It will be a disaster for the performance of the economy..."

Mr. Arney
CNN, 2/18/93

"...It will be the kind of impact that this country can't absorb. It will slow economic growth, contribute to the massive federal deficit..."

Mr. Stearns
H1357, Congressional Record 3/17/93

"...It will raise your taxes, increase the deficit, and kill over 1 million jobs"

Mr. Hefley
H5745, Congressional Record 8/4/93

The Morning Briefing – Thursday February 10, 1994

THE PRESIDENT'S 1995 BUDGET: THE "NEW DIRECTION" INDEX

Economic Growth

o Unemployment rate, December 1993	6.4%
o Unemployment rate, December 1992	7.3%
o Number of private sector jobs created, February 1993 - December 1993	1.6 million
o Number of private sector jobs created, January 1989 - January 1993	1.0 million
o Mortgage rate, January 1994	7.09%
o Mortgage rate, January 1993	8.22%
o Number of Americans who saved money by refinancing their mortgages, 1993	5.4 million
o Rate of business investment growth, first three quarters 1993	16.5%
o Rate of business investment growth, 4th quarter 1988-4th quarter 1992	2.2%

Fiscal Responsibility

o Number of programs terminated in 1995 budget proposal	More than 115
o Number of programs cut below last year's dollar level	More than 300
o Annual spending growth (real), 1994 to 1999	1.4%
o Annual spending growth (real), 1981 to 1993	2.2%
o Deficit as share of GDP, 1997	2.4%
o Deficit as share of GDP, 1992	4.9%
o Annual discretionary spending growth (real), 1994 to 1999	-2.9%
o Annual discretionary spending growth (real), 1981 to 1993	1.0%
o Number of years of projected consecutive deficit declines, 1993 to 1995	3
o Last President with 3 years of consecutive deficit declines	Truman
o Number of Federal employees added, 1981 to 1993	44,000
o Number of Federal employees cut, 1993 to 1995	-118,000
o Number of Federal employees cut, 1993 to 1999	-252,000
o Number of new police officers on the street by 1998	100,000

Investing in People

o Increase in Head Start funding by 1995 (over 1993)	45%
o Additional children enrolled in Head Start by 1995 (over 1993)	126,000
o Percent of students able to make income-contingent college loan repayments, 1993	1%
o Percent of students able to make income-contingent college loan repayments, 1995	100%
o Typical student's savings under phased-in loan reforms	\$1,250
o Number of young Americans providing community service for partial loan repayment, 1995 ..	33,000
o Increase in Chapter 1 education dollars going to schools in poorest districts by 1998	40%
o Number of working families getting tax cut to reward work, 1994	15 million
o Number of dislocated workers receiving help finding a new job, 1993	350,000
o Number of dislocated workers receiving help under Workforce Security program	1.3 million
o Number of small businesses getting SBA-backed loan guarantees in 1995	35,000
o Average number of small businesses getting such loans yearly in the late 1980s	15,000

Keeping America Strong

o Average defense budget, Eisenhower Administration (1995 dollars)	\$243.3 billion
o Average defense budget, Nixon Administration (1995 dollars)	

10 Solid Signs of Economic Renewal from
the ECONOMIC REPORT OF THE PRESIDENT

- o There was a noticeable acceleration in job creation in 1993. The economy generated 152,000 new jobs per month--twice 1992's 81,000 jobs-per-month pace.
- o Over the full 4 years of the Bush Presidency, the economy generated 9.97 million new private nonfarm jobs. In President Clinton's first 12 months in office, the economy has created 1.54 million private nonfarm jobs.
- o The unemployment rate has fallen sharply. From December 1992 to December 1993 it declined by a sharp 0.9 percentage point (from 7.3 percent to 6.4 percent). This was the largest December-to-December decline in the unemployment rate since 1987.
- o Interest rates have tumbled since the Administration took the lead and developed a credible deficit reduction plan. The 30-year bond yield is down over 125 basis points since election day.
- o Business investment is now surging. Over 1993, spending for producers' durable equipment has expanded at the fastest pace since 1972. Lower interest rates have probably had a positive impact.
- o Housing has now clearly begun to accelerate. By December housing starts had reached a 1.54 million annual rate--up 25 percent from their July rate.
- o Real spending on household durable goods (furniture, major appliances, etc.) was more than 11 percent higher than the year-earlier level in the fourth quarter of 1993. This was one of the biggest annual increases in a decade.
- o Inflation turned in excellent performance in 1993. The consumer price index (CPI) increased just 2.7 percent during 1993--the smallest increase since 1986. The "core" CPI (excluding food and energy) increased 3.2 percent--the smallest increase since 1972.
- o The "core" producer price index (PPI) increased just 0.4 percent during 1993--the smallest increase since the government started reporting this series in 1974.
- o The factory workweek reached its highest level in the post-war period and overtime was the highest it has been since government began collecting overtime data in the 1950s, indicating that future increases in manufacturing output will be coupled with gains in employment.

Calendar for March**Major Economic Indicators to be Released in March**

Date	Day	Economic Indicator
March 1	Tuesday	GDP, 4th quarter (preliminary)
March 1	Tuesday	NAPM survey, February
March 2	Wednesday	New Home Sales, January
March 3	Thursday	New Car Sales, February
March 4	Friday	Employment and Unemployment, February
March 4	Friday	Leading Indicators, January
March 11	Friday	Retail Sales, February
March 15	Tuesday	Producer Price Index, February
March 15	Tuesday	Industrial Production, February
March 18	Wednesday	Housing Starts, February
March 16	Wednesday	Consumer Price Index, February
March 23	Wednesday	Durable Goods Orders, February
March 29	Tuesday	New Home Sales, February
March 31	Thursday	GDP, 4th quarter (final)

AMERICA'S NEWSPAPER

The SUNDAY Times

The Washington Times

SUNDAY, FEBRUARY 27, 1994 (PAGE 1)

BUSINESS

Here's good news about taxes

The big surprise is no surprise for most preparing 1993 returns

FROM THE WASHINGTON TIMES !!!

By John Murphy

Come of better day for taxpayers: The Internal Revenue Service has announced that it will not audit the returns of most taxpayers who earned less than \$10,000 in 1993. The IRS says it will only audit returns that show a loss or a deduction that exceeds the income reported.

The IRS also announced that it will not audit the returns of most taxpayers who earned less than \$10,000 in 1993. The IRS says it will only audit returns that show a loss or a deduction that exceeds the income reported.

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WASHINGTON

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TAXES

From page A13

ceived goods or services in return, only the part of your contribution over the value of the benefit is deductible. Out-of-pocket expenses of helping a charity are deductible, but the value of your services is not. If you gave goods worth more than \$500, report those contributions on Form 8283.

• **Losses:** Deduct non-business losses caused by fire, theft, storm or other casualties, but not by breakage or misplacing. Subtract the first \$100 of the loss and deduct only the portion of the remainder that exceeds 10 percent of your adjusted gross income. See Form 4684.

• **Moving:** Some expenses of a job-related move may be deducted if your new job is at least 35 miles farther from your old home than was the old job. You qualify, for example, if your old job was five miles from home and your new job is at least 40 miles from the old home. See Publication 521.

• **Miscellaneous:** Certain job- or investment-related expenses, including union dues, tools and investment advice, are deductible but only that part of the total exceeding 2 percent of adjusted gross income. A few miscellaneous expenses may be written off without regard to that limitation, including gambling losses that do not exceed winnings and some work expenses of a handicapped person.

It's difficult to hear or read a reference to the federal income tax that doesn't include such words as confusing, complicated and complex.

True, you can't file even the simplest tax form — 1040EZ — without encountering such terms as adjusted gross income, taxable income and standard deduction and wondering whether you've claimed every exemption and deduction you're entitled to.

Perhaps the system will never be simple. But keeping in mind that the vast majority of taxpayers need never worry about such things as net operating losses, amortization and the alternative mini-

Tax primer



the income tax works:

Some definitions:

• **Gross income** is everything you made last year unless specifically exempted from tax, such as interest on municipal bonds.

• **Adjusted gross income**, or AGI, is what is left after subtracting such adjustments as individual Retirement Account contributions, alimony paid and penalties for early withdrawal of savings.

• **Taxable income** is the figure actually subject to tax. It is derived by subtracting deductions and personal exemptions from AGI.

• **Marginal tax rate** is what the government takes from the last dollar of taxable income you earned. Most people pay only one rate: 15 percent; most middle-income families pay 15 percent on the biggest portion of their income and 28 percent on the rest. There are three other rates applying to those with more income: 31 percent, 36 percent and 39.6 percent.

• You won't find the term on your tax return, but **effective tax rate** is your total income tax divided by AGI. This is simply a way to measure your tax burden. If AGI is \$40,000 and your tax is \$5,600, your effective rate is 14 percent.

Here's an example, assuming a married couple with two children, income of \$67,000 and itemized deductions of \$10,800:

Subtracting \$3,600 of alimony the husband paid his former wife results in AGI of \$63,400. Subtract the itemized deductions and personal exemptions (four worth \$2,350 apiece) to get taxable income of \$43,200.

Because this couple's taxable income is under \$100,000, they don't have to calculate their tax liability. Instead, they simply use the tax tables in their Form 1040 instructions. Their bottom line:

Because that figure is rounded off to keep the tax tables simple, it overstates the couple's liability by \$7.

Here is how the liability is calculated using the tax rate schedules (which anyone with taxable of \$100,000 or more must use): The first \$36,900 of taxable income is taxed at 15 percent (\$5,535). The remaining \$6,300 faces a 28 percent rate (\$1,764). The total is \$7,299, for an effective rate of 11.5 percent.

Now, consider a single person with \$75,000 income, \$3,600 of alimony payments, no dependents and itemized deductions of \$10,800:

The alimony is subtracted, leaving AGI of \$71,400. Subtracting the itemized deductions and one \$2,350 personal exemption results in taxable income of \$58,250. The tax tables show a liability of \$13,587.

Under the tax-rate schedules, the first \$22,100 would be taxed at 15 percent (\$3,315); the next \$31,400 at 28 percent (\$8,792), and the remaining \$4,750 at 31 percent (\$1,472.50). That totals \$13,579.50.

This single taxpayer in the 31 percent bracket has an effective rate of 19 percent.

Assume this person won \$75,000 in the state lottery, boosting total income to \$150,000. AGI is \$146,400. Then it gets complicated.

Higher-income taxpayers lose some or all their personal exemptions and a portion of some itemized deductions — including state and local taxes — as earnings rise.

In this example, with \$146,400 AGI, the exemption drops to \$1,598, a figure calculated on the worksheet on Page 25 of the Form 1040 instructions. Assuming that \$2,000 of the \$10,800 of deductions was for medical expenses and investment interest, the worksheet on Page A-5 of the instructions results in allowable deductions of \$9,661.50.

Subtracting the \$1,598 exemption and the \$9,661.50 allowable deductions from AGI results in taxable income of \$135,140.50.

The first \$22,100 is taxed at 15 percent (\$3,315); the next \$31,400 at 28 percent (\$8,792); the next \$61,500 at 31 percent (\$19,065), and the remaining \$20,140.50 at 36 percent (\$7,250.58). That is a total tax of \$38,422.58, and an effective rate of 28.4 percent.

HEALTH

Health Reform

Appendix A

Federal Costs of Universal Health Insurance Plan

A fully phased-in universal insurance plan will be expensive. A critical policy issue is the extent to which these costs are financed through federal tax revenues or direct payments by individuals and employers. Four key elements comprise the costs of the health plan outlined above. For illustration, we present the federal costs of these components of a universal insurance plan phased-in over 4 years. As discussed below, the federal costs could either be lower or higher depending on the following policy choices. Figure 1 shows annual costs for each element of your plan under a given set of assumptions.

◆ **Medicaid Payments to Hospitals and Providers.**

Medicaid currently pays hospitals and physicians about 10 percent less than Medicare. Mainstreaming the program will, over time, require an alignment of these payments. At issue is the timing of this alignment and whether the states would share in any new costs.

◆ **Subsidies to Low-Income Americans.**

The proposal subsidizes the costs of health insurance individuals and families with incomes below 200 % of the federal poverty line. At issue is the extent of the subsidy (e.g. premiums, cost sharing, limits on out of pocket spending) and which individuals are eligible (e.g. those under 150 %, 200 %, 250 % of poverty).

◆ **Subsidies to Low-Wage, Small Firms.**

Approximately 27 million previously uninsured Americans will now receive coverage through their employer. Many of these employers are smaller firms that employ low wage workers. We have talked about providing tax credits, or other subsidies to employers to mitigate the economic impact on these firms. At issue is the extent and availability of these subsidies.

◆ **Medicare Drug Benefit.**

The basic benefit package offered to Americans under the plan would, in all likelihood, contain a prescription drug benefit. Medicare does not cover outpatient prescription drugs, although 40 percent of Medicare beneficiaries do have such coverage through retiree health plans, or those receiving full Medicaid benefits (all state Medicaid programs cover drugs). At issue is the timing of the Medicare drug benefit, and the extent of cost sharing (e.g. deductible level and coinsurance).

Figure 1. Federal Costs of Universal Coverage, Phased-in 1994-1997 (\$ Billions)³

	94	95	96	97	98
Medicaid Payment Enhancements*	0	3	5	8	14
Subsidies to Low-Income Individuals**	7	17	25	35	38
Subsidies To Firms***	2	3	9	12	15
Medicare Drug Benefit****	3	7	9	11	14
Other*****	2	4	6	9	10
TOTAL	\$14	33	54	74	91

* Set at 80 % of Medicare levels in 94, 85 % in 95, 90 % in 96 and 100 % by 1997.
New costs federally financed.

** Those in poverty face no cost sharing or premium requirements. Premium
set at 20 % of cost at 200 % of poverty, 15 % at 150 % of poverty.

*** Subsidize premium costs above 9 % of payroll for firms with fewer than 150 workers.

****Package includes an \$850 deductible with a 20 % coinsurance requirement..

³Coverage is phased in according to the following schedule:

- 1994 Coverage for pregnant women and children under 18, all Americans under 50 percent of poverty. Firms with 100 or more worker mandated to provide coverage.
- 1995 Coverage for all those living in poverty. Mandates for firms with 75 or more workers .
- 1996 Coverage for all those living under 50 percent of poverty. Mandates for firms with 50 or more workers.
- 1997 All are covered through subsidized insurance or mandated employer coverage.

MAJOR OPTIONS FOR MEDICARE DEFICIT REDUCTION

December 2, 1992

Reductions in Provider Payments

<u>Policy</u>	<u>Savings in FY 97</u>
Part A	
1. Expenditure target of 8% for inpatient hospital services	\$4.0 b
2. Reduce update by 2% beginning in FY 94	4.7
3. Occupancy penalty for capital payments	.8
Part B	
1. Apply relative values to overhead	\$.3 b
2. Reduce updates by 1% for 5 years	1.7
3. Freeze updates for 5 years	1.6
4. Establish prospective payment for hospital outpatient services with expenditure target	.8
5. Reduce payments for laboratory services	.5
Parts A and B	
1. Reduce graduate medical education payments for specialists in oversupply	\$.3 b
2. Limit variation by hospital in GME payments	.1
3. Penalty for paper claims	.1

Increases in Beneficiary Costs

Savings
in FY 97

Policy

part B premium

1. Extend 25% rule thru 97
2. Set premium at 30% of costs beginning in 96

\$3.4 b

8.0

part B deductible

1. Index deductible beginning in 1993
2. Set deductible at \$200 in 96

\$.7 b

2.3

SUMMARY OF COSTS							
(In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Health Care:	0.00	5.30	6.05	6.85	23.84	42.03	47.86
National Health Care Reform	0.00	0.00	0.00	0.00	16.00	16.00	39.00
Long-Term Care and Personal Assistance Services	0.00	0.10	0.10	0.10	0.20	0.50	0.20
AIDS, Women's Health and Pub. Health Initiatives (1)	0.00	5.20	5.95	6.75	7.64	25.53	8.66
Rebuild America:	10.70	12.40	12.00	11.90	13.40	60.40	5.10
Highways, Bridges and Mass Transit	4.30	4.00	3.40	3.00	4.50	19.20	0.00
High Speed and Other Rail (2)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Airports and Aviation (3)	1.00	0.50	0.40	0.30	0.20	2.40	0.10
Waste Water Treatment (3) (4)	2.00	3.00	3.00	3.00	3.00	14.00	3.00
Drinking Water Supply (3) (5)	2.00	2.00	2.00	2.00	2.00	10.00	2.00
Defense Firms	0.20	0.50	0.70	0.80	1.00	3.20	0.00
Defense Workers	0.20	0.40	0.50	0.80	0.70	2.60	0.00
Local Communities	1.00	2.00	2.00	2.00	2.00	9.00	0.00
Environment and Energy:	0.16	0.15	0.13	0.15	0.15	0.74	0.00
Natural Resources Infrastructure	0.00	0.10	0.13	0.15	0.15	0.53	0.00
Energy Conservation (6)	0.15	0.00	0.00	0.00	0.00	0.15	0.00
Federal Energy Efficiency Fund	0.01	0.05	0.00	0.00	0.00	0.06	0.00
Environmental Technology: (13)	0.37	0.65	0.79	0.79	0.79	3.38	0.00
R&D (NSF & Env. Tech. Centers)	0.25	0.36	0.47	0.58	0.58	2.24	0.00
Stimulate Commercializaion of Env. Tech. (3)	0.05	0.14	0.15	0.16	0.16	0.66	0.00
Convert Fed. Cars to Nat. Gas and Electric	0.04	0.05	0.05	0.05	0.05	0.22	0.00
Eliminate Purchase of CFC Cooling Units (3)	0.02	0.08	0.08	0.00	0.00	0.18	0.00
Convert Fuel Oil Fed. Bldgs. to Natural Gas (3)	0.01	0.03	0.05	0.00	0.00	0.09	0.00

SUMMARY OF COSTS (In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Finance: (3)	70.00	10.00	10.00	10.00	10.00	110.00	0.00
RTC S&L Insurance Fund	60.00	0.00	0.00	0.00	0.00	60.00	0.00
Infrastructure Bank	10.00	10.00	10.00	10.00	10.00	50.00	0.00
Defense Program Increases:	0.00	1.05	1.55	1.80	2.40	6.80	2.65
National Service:	0.00	0.35	1.10	1.80	2.10	5.35	2.40
Welfare Reform:	0.70	1.80	3.80	7.00	8.50	21.80	10.40
Expand EITC (7)	0.70	1.00	2.00	4.00	4.20	11.90	4.40
Expanded JOBS	0.00	0.60	1.50	2.60	3.80	8.50	4.00
Child Support	0.00	0.20	0.30	0.40	0.50	1.40	2.00
Children & Families:	0.00	6.53	13.76	15.19	16.58	52.06	17.67
Family Preservation Services	0.00	0.10	0.22	0.30	0.32	0.94	0.34
Tax Deduction for Adoption	0.00	0.02	0.02	0.02	0.02	0.08	0.02
Grants for Licensing and Monitoring	0.00	0.03	0.03	0.03	0.03	0.10	0.03
Head Start	0.00	1.00	2.00	3.00	4.00	10.00	5.00
HIPPI	0.00	0.20	0.20	0.20	0.20	0.80	0.20
WIC	0.00	0.36	0.57	0.78	1.08	2.79	1.11
Dependent Care Tax Credit	0.00	0.05	1.12	1.14	1.20	3.51	1.25
Children's Tax Allowance	0.00	4.77	9.60	9.72	9.72	33.81	9.72
Teenage Pregnancy Prevention Strategy	0.00	0.01	0.01	0.01	0.01	0.03	0.01

Economic Policy Group (EPG)
SPENDING AND REVENUE DEFICIT INCREASE ITEMS

Web 1 year

SUMMARY OF COSTS (In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Education & Training:	0.28	1.34	2.12	2.60	3.11	9.45	3.62
National Education Goals Panel	0.03	0.03	0.04	0.04	0.04	0.18	0.04
State and Local Reform Grants	0.00	0.05	0.10	0.15	0.20	0.50	0.20
Urban Reform	0.00	0.13	0.13	0.13	0.13	0.50	0.13
Youth Apprenticeship	0.00	0.08	0.18	0.33	0.53	1.10	0.75
Chapter 1 Supplemental	0.25	0.52	0.54	0.56	0.58	2.45	0.61
Office of Ed. Research and Improvement (Reauth.)	0.00	0.01	0.01	0.01	0.00	0.04	0.00
Quality Workforce Development Act	0.00	0.03	0.63	0.89	1.14	2.67	1.40
Dislocated Worker Assistance Act	0.00	0.50	0.50	0.50	0.50	2.00	0.50
Crime Strategy:	0.21	2.64	2.34	2.79	2.84	10.82	2.89
100,000 New Cops/Police Corps	0.15	0.91	0.75	1.20	1.25	4.26	1.30
Byrne Grnts/Community Policing	0.06	0.90	0.90	0.90	0.90	3.66	0.90
Brady Bill	0.00	0.10	0.00	0.00	0.00	0.10	0.00
Criminal Justice Drug Testing/Treatment	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Medications Development Program	0.00	0.02	0.02	0.02	0.02	0.10	0.02
Drug Treatment Research	0.00	0.15	0.15	0.15	0.15	0.60	0.15
SAFE Schools	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Gang Prevention Grants	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Domestic Violence/Rape Grants	0.00	0.15	0.12	0.12	0.12	0.51	0.12
White Collar Crime	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Law Enforcement Family Support	0.00	0.01	0.00	0.00	0.00	0.01	0.00
Rural Crime Initiative	0.00	0.05	0.05	0.05	0.05	0.20	0.05

SUMMARY OF COSTS (In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Community Empowerment:	0.78	1.33	1.76	2.01	2.27	8.15	2.50
Community Development Banks	0.00	0.13	0.15	0.17	0.19	0.64	0.21
Enterprise Zones	0.28	0.40	0.56	0.77	0.99	3.00	1.18
Perm. Extension of Low-Income Housing Tax Cred.	0.30	0.30	0.30	0.30	0.30	1.50	0.30
Perm Extension of the Mortgage Revenue Bond Prog.	0.20	0.20	0.20	0.20	0.20	1.00	0.20
Homelessness Rehab. Grant Program	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Moving to New Opportunities	0.00	0.25	0.50	0.52	0.54	1.81	0.56
Technology/Mfg./Small Business:	0.12	2.72	5.08	7.10	7.32	22.34	2.23
R&D Tax Credit (3)	0.00	0.80	1.40	1.60	1.80	5.60	2.10
SBA Loans	0.12	0.05	0.00	0.00	0.00	0.17	0.00
Export Promotion	0	0.07	0.08	0.10	0.12	0.37	0.13
Technology (8)	0.00	1.80	3.60	5.40	5.40	16.20	0.00
Tax Incentives:	10.00	10.00	10.00	10.00	10.00	50.00	0.00
ITC (Permanent, Incremental 10%) (9)	10.00	10.00	10.00	10.00	10.00	50.00	0.00
TOTAL -- LOW COSTS	93.33	61.55	76.51	86.83	127.12	445.34	145.17

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Health Care:	0.00	19.06	38.43	69.95	94.60	222.03	116.50
National Health Care Reform	0.00	10.00	28.00	44.00	61.00	143.00	71.00
Long-Term Care and Personal Assistance Services	0.00	0.00	0.00	14.00	20.00	34.00	30.00
AIDS, Women's Health and Public Health Initiatives	0.00	9.06	10.43	11.95	13.60	45.03	15.50
Rebuild America	17.38	23.78	23.28	27.08	29.48	121.00	7.55
Highways, Bridges and Mass Transit	6.30	8.00	7.40	7.00	8.50	37.20	0.00
High Speed and Other Rail (10)	1.28	0.78	0.78	2.68	2.58	8.10	2.45
Airports and Aviation	1.00	0.50	0.40	0.30	0.20	2.40	0.10
Waste Water Treatment (11)	2.00	3.00	3.00	3.00	3.00	14.00	3.00
Drinking Water Supply (12)	2.00	2.00	2.00	2.00	2.00	10.00	2.00
Defense Firms	2.20	3.50	3.70	5.80	7.00	22.20	0.00
Defense Workers	1.50	4.00	4.00	4.30	4.20	18.00	0.00
Local Communities	1.10	2.00	2.00	2.00	2.00	9.10	0.00
Environment and Energy:	0.85	1.00	1.25	1.40	1.40	5.90	0.65
Natural Resources Infrastructure	0.68	0.70	0.75	0.75	0.75	3.63	0.00
Energy Conservation	0.15	0.20	0.30	0.35	0.35	1.35	0.35
Federal Energy Efficiency Fund	0.03	0.10	0.20	0.30	0.30	0.93	0.30
Environmental Technology: (13)	0.68	1.60	1.85	1.84	1.84	7.82	0.00
R&D (NSF, Tech. Centers, and interagency program)	0.25	0.46	0.67	0.78	0.78	2.94	0.00
Stimulate Commercialization of Env. Tech.	0.05	0.14	0.15	0.16	0.16	0.66	0.00
Convert Fed. Cars to Nat. Gas and Electric	0.35	0.90	0.90	0.90	0.90	3.95	0.00
Eliminate Purchase of CFC Cooling Units	0.02	0.08	0.08	0.00	0.00	0.18	0.00
Convert Fuel Oil Fed. Bldgs. to Natural Gas	0.01	0.03	0.05	0.00	0.00	0.09	0.00

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Finance:	70.00	10.00	10.00	10.00	10.00	110.00	0.00
RTC S&L Insurance Fund	60.00	0.00	0.00	0.00	0.00	60.00	0.00
Infrastructure Bank	10.00	10.00	10.00	10.00	10.00	50.00	0.00
Defense Program Increases	0.00	1.05	1.55	1.80	2.40	6.80	2.65
National Service:	0.00	0.35	1.10	1.80	2.10	5.35	2.40
Welfare Reform:	0.70	1.80	3.80	7.00	8.50	21.80	10.40
Expand EITC (7)	0.70	1.00	2.00	4.00	4.20	11.90	4.40
Expanded JOBS	0.00	0.60	1.50	2.60	3.80	8.50	4.00
Child Support	0.00	0.20	0.30	0.40	0.50	1.40	2.00
Children & Families:	0.00	6.53	13.76	15.19	16.58	52.06	17.67
Family Preservation Services	0.00	0.10	0.22	0.30	0.32	0.94	0.34
Tax Deduction for Adoption	0.00	0.02	0.02	0.02	0.02	0.08	0.02
Grants for Licensing and Monitoring	0.00	0.03	0.03	0.03	0.03	0.10	0.03
Head Start	0.00	1.00	2.00	3.00	4.00	10.00	5.00
HIPPY	0.00	0.20	0.20	0.20	0.20	0.80	0.20
WIC	0.00	0.36	0.57	0.78	1.08	2.79	1.11
Dependent Care Tax Credit	0.00	0.05	1.12	1.14	1.20	3.51	1.25
Children's Tax Allowance	0.00	4.77	9.60	9.72	9.72	33.81	9.72
Teenage Pregnancy Prevention Strategy	0.00	0.01	0.01	0.01	0.01	0.03	0.01

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Education & Training:	0.28	1.34	2.12	2.60	3.11	9.45	3.62
National Education Goals Panel	0.03	0.03	0.04	0.04	0.04	0.18	0.04
State and Local Reform Grants	0.00	0.05	0.10	0.15	0.20	0.50	0.20
Urban Reform	0.00	0.13	0.13	0.13	0.13	0.50	0.13
Youth Apprenticeship	0.00	0.08	0.18	0.33	0.53	1.10	0.75
Chapter 1 Supplemental	0.25	0.52	0.54	0.56	0.58	2.45	0.61
Office of Ed. Research and Improvement (Reauth.)	0.00	0.01	0.01	0.01	0.00	0.04	0.00
Quality Workforce Development Act	0.00	0.03	0.63	0.89	1.14	2.67	1.40
Dislocated Worker Assistance Act	0.00	0.50	0.50	0.50	0.50	2.00	0.50
Crime Strategy:	0.21	2.64	2.34	2.79	2.84	10.82	2.89
100,000 New Cops/Police Corps	0.15	0.91	0.75	1.20	1.25	4.26	1.30
Byrne Grnts/Community Policing	0.06	0.90	0.90	0.90	0.90	3.66	0.90
Brady Bill	0.00	0.10	0.00	0.00	0.00	0.10	0.00
Criminal Justice Drug Testing/Treatment	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Medications Development Program	0.00	0.02	0.02	0.02	0.02	0.10	0.02
Drug Treatment Research	0.00	0.15	0.15	0.15	0.15	0.60	0.15
SAFE Schools	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Gang Prevention Grants	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Domestic Violence/Rape Grants	0.00	0.15	0.12	0.12	0.12	0.51	0.12
White Collar Crime	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Law Enforcement Family Support	0.00	0.01	0.00	0.00	0.00	0.01	0.00
Rural Crime Initiative	0.00	0.05	0.05	0.05	0.05	0.20	0.05

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Community Empowerment:	0.78	1.33	1.76	2.01	2.27	8.15	2.50
Community Development Banks	0.00	0.13	0.15	0.17	0.19	0.64	0.21
Enterprise Zones	0.28	0.40	0.56	0.77	0.99	3.00	1.18
Perm. Extension of Low-Income Housing Tax Cred.	0.30	0.30	0.30	0.30	0.30	1.50	0.30
Perm Extension of the Mortgage Revenue Bond Prog.	0.20	0.20	0.20	0.20	0.20	1.00	0.20
Homelessness Rehab. Grant Program	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Moving to New Opportunities	0.00	0.25	0.50	0.52	0.54	1.81	0.56
Technology/Mfg./Small Business:	0.20	4.23	7.52	10.73	10.94	33.61	2.10
R&D Tax Credit	0.00	0.80	1.40	1.60	1.80	5.60	2.10
SBA Loans	0.20	0.32	0.00	0.00	0.00	0.52	0.00
Export Promotion	0	0.10	0.12	0.13	0.14	0.49	0.00
Technology (8)	0.00	3.00	6.00	9.00	9.00	27.00	0.00
Tax Incentives:	10.00	10.00	10.00	10.00	10.00	50.00	0.00
ITC (Permanent, Incremental 10%) (9)	10.00	10.00	10.00	10.00	10.00	50.00	0.00
TOTAL HIGH COST	101.09	84.70	118.75	164.18	196.06	664.78	168.93

[illegible]

DOMESTIC POLICY GROUP (DPG)
SPENDING CUTS, NEW INITIATIVES, REVENUE CHANGES

APPENDIX 1

BUDGETARY EFFECTS OF DOMESTIC POLICY INITIATIVES

(In Billions)

<u>NATIONAL SERVICE</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
National Service (Cost Per 100,000 Students, Assumes 100,000 Students By January 1996)	0	.350	1.1	1.8	2.1	2.4	7.75
NATIONAL SERVICE SUBTOTAL	0	.350	1.1	1.8	2.1	2.4	7.75

REINVENTING GOVERNMENT

PROGRAM	FY93*	FY94	FY95	FY96	FY97	FY98	94-98
3 Percent Cut In Annual Real Administrative Costs/100,000 Reduction In Federal Workforce 999	-.400	-4.16	-6.896	-9.801	-12.908	-16.217	-49.982
25 Percent Cut In White House Budget 200	-.013	-.014	-.014	-.015	-.015	-.016	-00.074
Elimination Of Unnecessary Commissions 999	-.025	-.052	-.054	-.056	-.058	-.060	-00.280
Enhanced Rescission 999	-3.0	-6.0	-6.0	-6.0	-6.0	-6.0	-30.000
Motor Voter Grant 800	0	.050	0	0	0	0	.050
Performance Management Pilot Project	0	.010	0	0	0	0	00.010
Campaign To Reinvent Government	.010	0	0	0	0	0	00.000
REINVENTING GOVERNMENT SUBTOTAL(savings)	-3.328	-10.166	-12.964	-15.872	-18.981	-22.293	-80.276

WELFARE REFORM

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Expanded EITC 600	.700	1.000	2.000	4.000	4.200	4.400	15.6
Expanded JOBS 500	0	.600	1.500	2.600	3.800	4.000	12.5
Child Support 600	0	.200	.300	.400	.500	.600	2.0
Caseload Reduction 600	0	0	-.400	-.800	-2.000	-2.200	-5.400
WELFARE SUBTOTAL	.700	1.800	3.400	6.200	6.500	6.8	24.700

CHILDREN & FAMILIES

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Family Preservation Services	0	.095	.220	.300	.320	.340	1.275
Tax Deduction For Adoption \$5,000 deduction phased out at \$80,000-\$90,000 AGI	.001	.018	.019	.019	.019	.020	.095
Grants For Licensing And Monitoring 500	0	.025	.025	.025	.025	.025	.125
Head Start 500	0	1.000	2.000	3.000	4.000	5.000	15.000
HIPPY 500	0	.200	.200	.200	.200	.200	1.000
WIC 600	0	.361	.570	.776	1.083	1.110	3.900
Dependent Care Tax Credit	0	.053	1.12	1.14	1.2	1.248	4.761
Children's Tax Allowance 600	0	4.77	9.60	9.72	9.72	9.72	43.53
Teenage Pregnancy Prevention Strategy 500	0	.008	.008	.008	.008	.008	.040
CHILDREN & FAMILIES SUBTOTAL	.001	6.53	13.762	15.188	16.575	17.671	69.726

EDUCATION & TRAINING *500*

PROGRAM	FY93*	FY94	FY95	FY96	FY97	FY98	94-98
National Education Goals Panel <i>So</i>	.034	.034	.037	.037	.038	.038	.184
State And Local Reform Grants	0	.050	.100	.150	.200	.200	.700
Urban Reform	0	.125	.125	.125	.125	.125	.625
Youth Apprenticeship	0	.075	.175	.325	.525	.750	1.850
Chapter 1 Supplemental	.250	.520	.540	.561	.583	.606	2.81
Office Of Educational Research And Improvement (Reauthorization)	0	.010	.014	.014	0	0	.038
Quality Workforce Development Act	0	.025	.625	.886	1.137	1.40	4.073
Dislocated Worker Assistance Act	0	.500	.500	.500	.500	.500	2.500
EDUCATION & TRAINING SUBTOTAL	.284	1.339	2.116	2.598	3.108	3.619	12.780

CRIME STRATEGY

750

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
100,000 New Cops/Police Corps 150	.150	.913	.745	1.200	1.248	1.297	5.403
Byrne Grants/Community Policing	.060	.900	.900	.900	.900	.900	4.500
Brady Bill	0	.100	0	0	0	0	.100
Criminal Justice Drug Testing/Treatment	0	.100	.100	.100	.100	.100	.500
Medications Development Program	0	.024	.024	.024	.024	.024	.120
Drug Treatment Research	0	.149	.149	.149	.149	.149	.745
SAFE Schools	0	.100	.100	.100	.100	.100	.500
Gang Prevention Grants	0	.100	.100	.100	.100	.100	.500
Domestic Violence/Rape Grants	0	.145	.120	.120	.120	.120	.625
White Collar Crime	0	.050	.050	.050	.050	.050	.250
Law Enforcement Family Support	0	.005	0	0	0	0	.005
Rural Crime Initiative	0	.050	.050	.050	.050	.050	.250
CRIME STRATEGY SUBTOTAL	.210	2.636	2.338	2.793	2.841	2.890	13.498

COMMUNITY EMPOWERMENT

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Community Development Banks <i>450</i>	0	.130	.150	.170	.190	.210	.850
Enterprise Zones	.279	.404	.556	.769	.991	1.179	3.899
Permanent Extension Of Low-Income Housing Tax Credit	.300	.300	.300	.300	.300	.300	1.500
Permanent Extension Of The Mortgage Revenue Bond Program	.200	.200	.200	.200	.200	.200	1.000
Homelessness Rehab. Grant Program <i>600</i>	0	.050	.050	.050	.050	.050	.250
Moving To New Opportunities	0	.250	.500	.520	.540	.562	2.372
COMMUNITY EMPOWERMENT SUBTOTAL	.779	1.334	1.756	2.009	2.271	2.501	9.871

	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
	-1.354	3.823	11.508	14.716	14.414	13.588	58.469

_____ in 5-year totals.
 _____ budget authority (BA).

HEALTH POLICY GROUP (HPG)

3/6 COST CUT STREAMS ; 2+4 COST INCREASE STREAMS

HHS

MEMORANDUM

TO: Budget Group
FR: Ken Thorpe
RE: Health Care Reform Estimates
DT: December 22, 1992

This memo provides background information for several scenarios that phase-in universal coverage. These scenarios differ by both the timing and phasing of universal coverage. They also differ by the intensity in which cost containment is pursued.

Health Reform Costs and Savings

I. Federal Savings

We provided three cost containment scenarios in the document: very aggressive/moderate/and less aggressive. The very aggressive scenario reduces the growth in federal costs to GDP plus beneficiary growth over a five year period. This is the approach outlined in HR 5502, and we have used CBO estimates of Medicare savings from the committee report. The second scenario reduces the growth in federal spending by 2 percentage points over a four year period, then post-97 grows at 7 percent. The final scenario reduces the growth in spending by 1 percentage point over four years, then also grows at 7 percent. The assumption is that our global budgeting system and managed competition will be up and running by FY 97, generating the 7 percent rate of increase. The savings are overwhelmingly from the expenditure cap limiting the growth in Medicare spending. There are some savings from FEHBP and CHAMPUS, although relative to the Medicare savings these are quite minor. The offsets come solely from the universal access program. Put another way, these cannot be

A. Reductions in CBO Baseline Estimates (Very aggressive)

	1994	1995	1996	1997	1998
Total	\$6	11	21	32	49
Offsets	4	4	7	9	14

Replace
options
w/o offsets
w/ offsets.

B. Moderate Cost Containment

	1994	1995	1996	1997	1998
Total	\$6	9	17	25	39
Offsets	4	4	7	9	14

C . Less Aggressive Cost Containment

Total*	\$4	5	10	13	20
Offsets**	4	4	7	9	14

*Includes savings from expenditure caps for Medicare, FEHBP and CHAMPUS, as well as offsets from phasing in universal coverage. Offsets include reassignment of health insurance responsibility from Medicaid , Medicare and CHAMPUS to employer financed coverage.

II. New Costs with Health Reform

4 Year Phase-In	1994	1995	1996	1997	1998
Total	\$14	33	54	74	91
W/O Drugs*	\$11	26	45	63	77

6 Year Phase-In					
Total	\$14	27	45	62	84
W/O Drugs*	\$11	20	36	51	70

*Medicare prescription drug benefit

See appendix for more detail

Policy Options

Note that each scenario generates roughly the same offsets. They are slightly different due to different underlying growth rates, but as a first approximation the offsets are assumed constant across scenarios. To generate the expenditure caps for Medicare will require some combination of:

Aggressive Scenario Generates \$24 Billion in Medicare savings by 1997

- Phase-out hospital disproportionate share adjustment
- Move federal employee health benefit plan onto prospective payment
- Reduce hospital update by 2 percentage points
- Reduce hospital indirect teaching subsidy to 3 %
- Extend Part B subsidy to 25 % in 96/97 (current law)
- Freeze Part B Physician Payment Update For 5 Years
- Establish prospective payment for hospital outpatient care, reducing growth to 10 percent over 4 years

Moderate Generates \$16.5 Billion in Medicare savings by 1997

- Reduce hospital indirect teaching subsidy to 5 %
- Establish prospective payment for hospital outpatient care, reducing growth to 12 percent over 4 years

Lite Generates \$5 Billion in Savings

- Extend 25 % Part B premium through 97
- FEHBP onto DRGs
- Reduce hospital payment update by 1 %

HEALTH

Health Reform

Appendix A

Federal Costs of Universal Health Insurance Plan

A fully phased-in universal insurance plan will be expensive. A critical policy issue is the extent to which these costs are financed through federal tax revenues or direct payments by individuals and employers. Four key elements comprise the costs of the health plan outlined above. For illustration, we present the federal costs of these components of a universal insurance plan phased-in over 4 years. As discussed below, the federal costs could either be lower or higher depending on the following policy choices. Figure 1 shows annual costs for each element of your plan under a given set of assumptions.

- ◆ **Medicaid Payments to Hospitals and Providers.**
Medicaid currently pays hospitals and physicians about 10 percent less than Medicare. Mainstreaming the program will, over time, require an alignment of these payments. At issue is the timing of this alignment and whether the states would share in any new costs.
- ◆ **Subsidies to Low-Income Americans.**
The proposal subsidizes the costs of health insurance individuals and families with incomes below 200 % of the federal poverty line. At issue is the extent of the subsidy (e.g. premiums, cost sharing, limits on out of pocket spending) and which individuals are eligible (e.g. those under 150 %, 200 %, 250 % of poverty).
- ◆ **Subsidies to Low-Wage, Small Firms.**
Approximately 27 million previously uninsured Americans will now receive coverage through their employer. Many of these employers are smaller firms that employ low wage workers. We have talked about providing tax credits, or other subsidies to employers to mitigate the economic impact on these firms. At issue is the extent and availability of these subsidies.
- ◆ **Medicare Drug Benefit.**
The basic benefit package offered to Americans under the plan would, in all likelihood, contain a prescription drug benefit. Medicare does not cover outpatient prescription drugs, although 40 percent of Medicare beneficiaries do have such coverage through retiree health plans, or those receiving full Medicaid benefits (all state Medicaid programs cover drugs). At issue is the timing of the Medicare drug benefit, and the extent of cost sharing (e.g. deductible level and coinsurance).

Figure 1. Federal Costs of Universal Coverage, Phased-in 1994-1997 (\$ Billions)³

	94	95	96	97	98
Medicaid Payment Enhancements*	0	3	5	8	14
Subsidies to Low-Income Individuals**	7	17	25	35	38
Subsidies To Firms***	2	3	9	12	15
Medicare Drug Benefit****	3	7	9	11	14
Other*****	2	4	6	9	10
TOTAL	\$14	33	54	74	91

* Set at 80 % of Medicare levels in 94, 85 % in 95, 90 % in 96 and 100 % by 1997.
New costs federally financed.

** Those in poverty face no cost sharing or premium requirements. Premium
set at 20 % of cost at 200 % of poverty, 15 % at 150 % of poverty.

*** Subsidize premium costs above 9 % of payroll for firms with fewer than 150 workers.

****Package includes an \$850 deductible with a 20 % coinsurance requirement..

³Coverage is phased in according to the following schedule:

- 1994 Coverage for pregnant women and children under 18, all Americans under 50 percent of poverty. Firms with 100 or more worker mandated to provide coverage.
- 1995 Coverage for all those living in poverty. Mandates for firms with 75 or more workers .
- 1996 Coverage for all those living under 50 percent of poverty. Mandates for firms with 50 or more workers.
- 1997 All are covered through subsidized insurance or mandated employer coverage.

MAJOR OPTIONS FOR MEDICARE DEFICIT REDUCTION

December 2, 1992

Reductions in Provider Payments

<u>Policy</u>	<u>Savings in FY 97</u>
Part A	
1. Expenditure target of 8% for inpatient hospital services	\$4.0 b
2. Reduce update by 2% beginning in FY 94	4.7
3. Occupancy penalty for capital payments	.8
Part B	
1. Apply relative values to overhead	\$.3 b
2. Reduce updates by 1% for 5 years	1.7
3. Freeze updates for 5 years	1.6
4. Establish prospective payment for hospital outpatient services with expenditure target	.8
5. Reduce payments for laboratory services	.5
Parts A and B	
1. Reduce graduate medical education payments for specialists in oversupply	\$.3 b
2. Limit variation by hospital in GME payments	.1
3. Penalty for paper claims	.1

Increases in Beneficiary Costs

<u>Policy</u>	<u>Savings in FY 97</u>
Part B premium	
1. <u>Extend 25% rule thru 97</u>	(\$3.4 b)
2. Set premium at 30% of costs beginning in 96	<u>8.0</u>
Part B deductible	
1. Index deductible beginning in 1993	\$.7 b
2. Set deductible at \$200 in 96	2.3

SUMMARY OF COSTS							
(In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Health Care:	0.00	5.30	6.05	6.85	23.84	42.03	47.86
National Health Care Reform	0.00	0.00	0.00	0.00	16.00	16.00	39.00
Long-Term Care and Personal Assistance Services	0.00	0.10	0.10	0.10	0.20	0.50	0.20
AIDS, Women's Health and Pub. Health Initiatives (1)	0.00	5.20	5.95	6.75	7.64	25.53	8.66
Rebuild America:	10.70	12.40	12.00	11.90	13.40	60.40	5.10
Highways, Bridges and Mass Transit	4.30	4.00	3.40	3.00	4.50	19.20	0.00
High Speed and Other Rail (2)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Airports and Aviation (3)	1.00	0.50	0.40	0.30	0.20	2.40	0.10
Waste Water Treatment (3) (4)	2.00	3.00	3.00	3.00	3.00	14.00	3.00
Drinking Water Supply (3) (5)	2.00	2.00	2.00	2.00	2.00	10.00	2.00
Defense Firms	0.20	0.50	0.70	0.80	1.00	3.20	0.00
Defense Workers	0.20	0.40	0.50	0.80	0.70	2.60	0.00
Local Communities	1.00	2.00	2.00	2.00	2.00	9.00	0.00
Environment and Energy:	0.16	0.15	0.13	0.15	0.15	0.74	0.00
Natural Resources Infrastructure	0.00	0.10	0.13	0.15	0.15	0.53	0.00
Energy Conservation (6)	0.15	0.00	0.00	0.00	0.00	0.15	0.00
Federal Energy Efficiency Fund	0.01	0.05	0.00	0.00	0.00	0.06	0.00
Environmental Technology: (13)	0.37	0.65	0.79	0.79	0.79	3.38	0.00
R&D (NSF & Env. Tech. Centers)	0.25	0.36	0.47	0.58	0.58	2.24	0.00
Stimulate Commercializaion of Env. Tech. (3)	0.05	0.14	0.15	0.16	0.16	0.66	0.00
Convert Fed. Cars to Nat. Gas and Electric	0.04	0.05	0.05	0.05	0.05	0.22	0.00
Eliminate Purchase of CFC Cooling Units (3)	0.02	0.08	0.08	0.00	0.00	0.18	0.00
Convert Fuel Oil Fed. Bldgs. to Natural Gas (3)	0.01	0.03	0.05	0.00	0.00	0.09	0.00

SUMMARY OF COSTS (In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Finance: (3)	70.00	10.00	10.00	10.00	10.00	110.00	0.00
RTC S&L Insurance Fund	60.00	0.00	0.00	0.00	0.00	60.00	0.00
Infrastructure Bank	10.00	10.00	10.00	10.00	10.00	50.00	0.00
Defense Program Increases:	0.00	1.05	1.55	1.80	2.40	6.80	2.65
National Service:	0.00	0.35	1.10	1.80	2.10	5.35	2.40
Welfare Reform:	0.70	1.80	3.80	7.00	8.50	21.80	10.40
Expand EITC (7)	0.70	1.00	2.00	4.00	4.20	11.90	4.40
Expanded JOBS	0.00	0.60	1.50	2.60	3.80	8.50	4.00
Child Support	0.00	0.20	0.30	0.40	0.50	1.40	2.00
Children & Families:	0.00	6.53	13.76	15.19	16.58	52.06	17.67
Family Preservation Services	0.00	0.10	0.22	0.30	0.32	0.94	0.34
Tax Deduction for Adoption	0.00	0.02	0.02	0.02	0.02	0.08	0.02
Grants for Licensing and Monitoring	0.00	0.03	0.03	0.03	0.03	0.10	0.03
Head Start	0.00	1.00	2.00	3.00	4.00	10.00	5.00
HIPPI	0.00	0.20	0.20	0.20	0.20	0.80	0.20
WIC	0.00	0.36	0.57	0.78	1.08	2.79	1.11
Dependent Care Tax Credit	0.00	0.05	1.12	1.14	1.20	3.51	1.25
Children's Tax Allowance	0.00	4.77	9.60	9.72	9.72	33.81	9.72
Teenage Pregnancy Prevention Strategy	0.00	0.01	0.01	0.01	0.01	0.03	0.01

ECONOMIC POLICY GROUP (EPG)
SPENDING AND REVENUE DEFICIT INCREASE ITEMS

all year

SUMMARY OF COSTS (In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Education & Training:	0.28	1.34	2.12	2.60	3.11	9.45	3.62
National Education Goals Panel	0.03	0.03	0.04	0.04	0.04	0.18	0.04
State and Local Reform Grants	0.00	0.05	0.10	0.15	0.20	0.50	0.20
Urban Reform	0.00	0.13	0.13	0.13	0.13	0.50	0.13
Youth Apprenticeship	0.00	0.08	0.18	0.33	0.53	1.10	0.75
Chapter 1 Supplemental	0.25	0.52	0.54	0.56	0.58	2.45	0.61
Office of Ed. Research and Improvement (Reauth.)	0.00	0.01	0.01	0.01	0.00	0.04	0.00
Quality Workforce Development Act	0.00	0.03	0.63	0.89	1.14	2.67	1.40
Dislocated Worker Assistance Act	0.00	0.50	0.50	0.50	0.50	2.00	0.50
Crime Strategy:	0.21	2.64	2.34	2.79	2.84	10.82	2.89
100,000 New Cops/Police Corps	0.15	0.91	0.75	1.20	1.25	4.26	1.30
Byrne Grnts/Community Policing	0.06	0.90	0.90	0.90	0.90	3.66	0.90
Brady Bill	0.00	0.10	0.00	0.00	0.00	0.10	0.00
Criminal Justice Drug Testing/Treatment	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Medications Development Program	0.00	0.02	0.02	0.02	0.02	0.10	0.02
Drug Treatment Research	0.00	0.15	0.15	0.15	0.15	0.60	0.15
SAFE Schools	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Gang Prevention Grants	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Domestic Violence/Rape Grants	0.00	0.15	0.12	0.12	0.12	0.51	0.12
White Collar Crime	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Law Enforcement Family Support	0.00	0.01	0.00	0.00	0.00	0.01	0.00
Rural Crime Initiative	0.00	0.05	0.05	0.05	0.05	0.20	0.05

SUMMARY OF COSTS (In \$ Billions)							
LOW COST	1993	1994	1995	1996	1997	TOTAL	1998
Community Empowerment:	0.78	1.33	1.76	2.01	2.27	8.15	2.50
Community Development Banks	0.00	0.13	0.15	0.17	0.19	0.64	0.21
Enterprise Zones	0.28	0.40	0.56	0.77	0.99	3.00	1.18
Perm. Extension of Low-Income Housing Tax Cred.	0.30	0.30	0.30	0.30	0.30	1.50	0.30
Perm Extension of the Mortgage Revenue Bond Prog.	0.20	0.20	0.20	0.20	0.20	1.00	0.20
Homelessness Rehab. Grant Program	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Moving to New Opportunities	0.00	0.25	0.50	0.52	0.54	1.81	0.56
Technology/Mfg./Small Business:	0.12	2.72	5.08	7.10	7.32	22.34	2.23
R&D Tax Credit (3)	0.00	0.80	1.40	1.60	1.80	5.60	2.10
SBA Loans	0.12	0.05	0.00	0.00	0.00	0.17	0.00
Export Promotion	0	0.07	0.08	0.10	0.12	0.37	0.13
Technology (8)	0.00	1.80	3.60	5.40	5.40	16.20	0.00
Tax Incentives:	10.00	10.00	10.00	10.00	10.00	50.00	0.00
ITC (Permanent, Incremental 10%) (9)	10.00	10.00	10.00	10.00	10.00	50.00	0.00
TOTAL -- LOW COSTS	93.33	61.55	76.51	86.83	127.12	445.34	145.17

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Health Care:	0.00	19.06	38.43	69.95	94.60	222.03	116.50
National Health Care Reform	0.00	10.00	28.00	44.00	61.00	143.00	71.00
Long-Term Care and Personal Assistance Services	0.00	0.00	0.00	14.00	20.00	34.00	30.00
AIDS, Women's Health and Public Health Initiatives	0.00	9.06	10.43	11.95	13.60	45.03	15.50
Rebuild America	17.38	23.78	23.28	27.08	29.48	121.00	7.55
Highways, Bridges and Mass Transit	6.30	8.00	7.40	7.00	8.50	37.20	0.00
High Speed and Other Rail (10)	1.28	0.78	0.78	2.68	2.58	8.10	2.45
Airports and Aviation	1.00	0.50	0.40	0.30	0.20	2.40	0.10
Waste Water Treatment (11)	2.00	3.00	3.00	3.00	3.00	14.00	3.00
Drinking Water Supply (12)	2.00	2.00	2.00	2.00	2.00	10.00	2.00
Defense Firms	2.20	3.50	3.70	5.80	7.00	22.20	0.00
Defense Workers	1.50	4.00	4.00	4.30	4.20	18.00	0.00
Local Communities	1.10	2.00	2.00	2.00	2.00	9.10	0.00
Environment and Energy:	0.85	1.00	1.25	1.40	1.40	5.90	0.65
Natural Resources Infrastructure	0.68	0.70	0.75	0.75	0.75	3.63	0.00
Energy Conservation	0.15	0.20	0.30	0.35	0.35	1.35	0.35
Federal Energy Efficiency Fund	0.03	0.10	0.20	0.30	0.30	0.93	0.30
Environmental Technology: (13)	0.68	1.60	1.85	1.84	1.84	7.82	0.00
R&D (NSF, Tech. Centers, and interagency program)	0.25	0.46	0.67	0.78	0.78	2.94	0.00
Stimulate Commercializaion of Env. Tech.	0.05	0.14	0.15	0.16	0.16	0.66	0.00
Convert Fed. Cars to Nat. Gas and Electric	0.35	0.90	0.90	0.90	0.90	3.95	0.00
Eliminate Purchase of CFC Cooling Units	0.02	0.08	0.08	0.00	0.00	0.18	0.00
Convert Fuel Oil Fed. Bldgs. to Natural Gas	0.01	0.03	0.05	0.00	0.00	0.09	0.00

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Finance:	70.00	10.00	10.00	10.00	10.00	110.00	0.00
RTC S&L Insurance Fund	60.00	0.00	0.00	0.00	0.00	60.00	0.00
Infrastructure Bank	10.00	10.00	10.00	10.00	10.00	50.00	0.00
Defense Program Increases	0.00	1.05	1.55	1.80	2.40	6.80	2.65
National Service:	0.00	0.35	1.10	1.80	2.10	5.35	2.40
Welfare Reform:	0.70	1.80	3.80	7.00	8.50	21.80	10.40
Expand EITC (7)	0.70	1.00	2.00	4.00	4.20	11.90	4.40
Expanded JOBS	0.00	0.60	1.50	2.60	3.80	8.50	4.00
Child Support	0.00	0.20	0.30	0.40	0.50	1.40	2.00
Children & Families:	0.00	6.53	13.76	15.19	16.58	52.06	17.67
Family Preservation Services	0.00	0.10	0.22	0.30	0.32	0.94	0.34
Tax Deduction for Adoption	0.00	0.02	0.02	0.02	0.02	0.08	0.02
Grants for Licensing and Monitoring	0.00	0.03	0.03	0.03	0.03	0.10	0.03
Head Start	0.00	1.00	2.00	3.00	4.00	10.00	5.00
HIPPY	0.00	0.20	0.20	0.20	0.20	0.80	0.20
WIC	0.00	0.36	0.57	0.78	1.08	2.79	1.11
Dependent Care Tax Credit	0.00	0.05	1.12	1.14	1.20	3.51	1.25
Children's Tax Allowance	0.00	4.77	9.60	9.72	9.72	33.81	9.72
Teenage Pregnancy Prevention Strategy	0.00	0.01	0.01	0.01	0.01	0.03	0.01

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Education & Training:	0.28	1.34	2.12	2.60	3.11	9.45	3.62
National Education Goals Panel	0.03	0.03	0.04	0.04	0.04	0.18	0.04
State and Local Reform Grants	0.00	0.05	0.10	0.15	0.20	0.50	0.20
Urban Reform	0.00	0.13	0.13	0.13	0.13	0.50	0.13
Youth Apprenticeship	0.00	0.08	0.18	0.33	0.53	1.10	0.75
Chapter 1 Supplemental	0.25	0.52	0.54	0.56	0.58	2.45	0.61
Office of Ed. Research and Improvement (Reauth.)	0.00	0.01	0.01	0.01	0.00	0.04	0.00
Quality Workforce Development Act	0.00	0.03	0.63	0.89	1.14	2.67	1.40
Dislocated Worker Assistance Act	0.00	0.50	0.50	0.50	0.50	2.00	0.50
Crime Strategy:	0.21	2.64	2.34	2.79	2.84	10.82	2.89
100,000 New Cops/Police Corps	0.15	0.91	0.75	1.20	1.25	4.26	1.30
Byrne Grnts/Community Policing	0.06	0.90	0.90	0.90	0.90	3.66	0.90
Brady Bill	0.00	0.10	0.00	0.00	0.00	0.10	0.00
Criminal Justice Drug Testing/Treatment	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Medications Development Program	0.00	0.02	0.02	0.02	0.02	0.10	0.02
Drug Treatment Research	0.00	0.15	0.15	0.15	0.15	0.60	0.15
SAFE Schools	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Gang Prevention Grants	0.00	0.10	0.10	0.10	0.10	0.40	0.10
Domestic Violence/Rape Grants	0.00	0.15	0.12	0.12	0.12	0.51	0.12
White Collar Crime	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Law Enforcement Family Support	0.00	0.01	0.00	0.00	0.00	0.01	0.00
Rural Crime Initiative	0.00	0.05	0.05	0.05	0.05	0.20	0.05

SUMMARY OF COSTS (In \$ Billions)							
HIGH COST	1993	1994	1995	1996	1997	TOTAL	1998
Community Empowerment:	0.78	1.33	1.76	2.01	2.27	8.15	2.50
Community Development Banks	0.00	0.13	0.15	0.17	0.19	0.64	0.21
Enterprise Zones	0.28	0.40	0.56	0.77	0.99	3.00	1.18
Perm. Extension of Low-Income Housing Tax Cred.	0.30	0.30	0.30	0.30	0.30	1.50	0.30
Perm Extension of the Mortgage Revenue Bond Prog.	0.20	0.20	0.20	0.20	0.20	1.00	0.20
Homelessness Rehab. Grant Program	0.00	0.05	0.05	0.05	0.05	0.20	0.05
Moving to New Opportunities	0.00	0.25	0.50	0.52	0.54	1.81	0.56
Technology/Mfg./Small Business:	0.20	4.23	7.52	10.73	10.94	33.61	2.10
R&D Tax Credit	0.00	0.80	1.40	1.60	1.80	5.60	2.10
SBA Loans	0.20	0.32	0.00	0.00	0.00	0.52	0.00
Export Promotion	0	0.10	0.12	0.13	0.14	0.49	0.00
Technology (8)	0.00	3.00	6.00	9.00	9.00	27.00	0.00
Tax Incentives:	10.00	10.00	10.00	10.00	10.00	50.00	0.00
ITC (Permanent, Incremental 10%) (9)	10.00	10.00	10.00	10.00	10.00	50.00	0.00
TOTAL HIGH COST	101.09	84.70	118.75	164.18	196.06	664.78	168.93

DOMESTIC POLICY GROUP (DPG)
SPENDING CUTS, NEW INITIATIVES, REVENUE CHANGES

APPENDIX 1

BUDGETARY EFFECTS OF DOMESTIC POLICY INITIATIVES

(In Billions)

<u>NATIONAL SERVICE</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
National Service (Cost Per 100,000 Students, Assumes 100,000 Students By January 1996)	0	.350	1.1	1.8	2.1	2.4	7.75
NATIONAL SERVICE SUBTOTAL	0	.350	1.1	1.8	2.1	2.4	7.75

REINVENTING GOVERNMENT

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
3 Percent Cut In Annual Real Administrative Costs/100,000 Reduction In Federal Workforce 999	-.400	-4.16	-6.896	-9.801	-12.908	-16.217	-49.982
25 Percent Cut In White House Budget 200	-.013	-.014	-.014	-.015	-.015	-.016	-00.074
Elimination Of Unnecessary Commissions 999	-.025	-.052	-.054	-.056	-.058	-.060	-00.280
Enhanced Rescission 999	-3.0	-6.0	-6.0	-6.0	-6.0	-6.0	-30.000
Motor Voter Grant 800	0	.050	0	0	0	0	.050
Performance Management Pilot Project	0	.010	0	0	0	0	00.010
Campaign To Reinvent Government	.010	0	0	0	0	0	00.000
REINVENTING GOVERNMENT SUBTOTAL(savings)	-3.328	-10.166	-12.964	-15.872	-18.981	-22.293	-80.276

WELFARE REFORM

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Expanded EITC 600	.700	1.000	2.000	4.000	4.200	4.400	15.6
Expanded JOBS 500	0	.600	1.500	2.600	3.800	4.000	12.5
Child Support 600	0	.200	.300	.400	.500	.600	2.0
Caseload Reduction 600	0	0	-.400	-.800	-2.000	-2.200	-5.400
WELFARE SUBTOTAL	.700	1.800	3.400	6.200	6.500	6.8	24.700

CHILDREN & FAMILIES

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Family Preservation Services	0	.095	.220	.300	.320	.340	1.275
R Tax Deduction For Adoption \$5,000 deduction phased out at \$80,000-\$90,000 AGI	.001	.018	.019	.019	.019	.020	.095
Grants For Licensing And Monitoring 500	0	.025	.025	.025	.025	.025	.125
Head Start 500	0	1.000	2.000	3.000	4.000	5.000	15.000
HIPPY 500	0	.200	.200	.200	.200	.200	1.000
WIC 600	0	.361	.570	.776	1.083	1.110	3.900
Dependent Care Tax Credit 500	0	.053	1.12	1.14	1.2	1.248	4.761
R Children's Tax Allowance 600	0	4.77	9.60	9.72	9.72	9.72	43.53
Teenage Pregnancy Prevention Strategy 500	0	.008	.008	.008	.008	.008	.040
CHILDREN & FAMILIES SUBTOTAL	.001	6.53	13.762	15.188	16.575	17.671	69.726

EDUCATION & TRAINING

PROGRAM	FY93*	FY94	FY95	FY96	FY97	FY98	94-98
National Education Goals Panel <i>So</i>	.034	.034	.037	.037	.038	.038	.184
State And Local Reform Grants	0	.050	.100	.150	.200	.200	.700
Urban Reform	0	.125	.125	.125	.125	.125	.625
Youth Apprenticeship	0	.075	.175	.325	.525	.750	1.850
Chapter 1 Supplemental	.250	.520	.540	.561	.583	.606	2.81
Office Of Educational Research And Improvement (Reauthorization)	0	.010	.014	.014	0	0	.038
Quality Workforce Development Act	0	.025	.625	.886	1.137	1.40	4.073
Dislocated Worker Assistance Act	0	.500	.500	.500	.500	.500	2.500
EDUCATION & TRAINING SUBTOTAL	.284	1.339	2.116	2.598	3.108	3.619	12.780

CRIME STRATEGY

750

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
100,000 New Cops/Police Corps 750	.150	.913	.745	1.200	1.248	1.297	5.403
Byrne Grants/Community Policing	.060	.900	.900	.900	.900	.900	4.500
Brady Bill	0	.100	0	0	0	0	.100
Criminal Justice Drug Testing/Treatment	0	.100	.100	.100	.100	.100	.500
Medications Development Program	0	.024	.024	.024	.024	.024	.120
Drug Treatment Research	0	.149	.149	.149	.149	.149	.745
SAFE Schools	0	.100	.100	.100	.100	.100	.500
Gang Prevention Grants	0	.100	.100	.100	.100	.100	.500
Domestic Violence/Rape Grants	0	.145	.120	.120	.120	.120	.625
White Collar Crime	0	.050	.050	.050	.050	.050	.250
Law Enforcement Family Support	0	.005	0	0	0	0	.005
Rural Crime Initiative	0	.050	.050	.050	.050	.050	.250
CRIME STRATEGY SUBTOTAL	.210	2.636	2.338	2.793	2.841	2.890	13.498

COMMUNITY EMPOWERMENT

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Community Development Banks <i>400</i>	0	.130	.150	.170	.190	.210	.850
Enterprise Zones	.279	.404	.556	.769	.991	1.179	3.899
Permanent Extension Of Low-Income Housing Tax Credit	.300	.300	.300	.300	.300	.300	1.500
Permanent Extension Of The Mortgage Revenue Bond Program	.200	.200	.200	.200	.200	.200	1.000
Homelessness Rehab. Grant Program <i>600</i>	0	.050	.050	.050	.050	.050	.250
Moving To New Opportunities	0	.250	.500	.520	.540	.562	2.372
COMMUNITY EMPOWERMENT SUBTOTAL	.779	1.334	1.756	2.009	2.271	2.501	9.871

<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
DOMESTIC POLICY TOTALS	-1.354	3.823	11.508	14.716	14.414	13.588	58.469

***NOTE**

FY93 numbers not included in 5-year totals.

Numbers are in outlays, not budget authority (BA).

Options

That each scenario generates roughly the same offsets. They are slightly different due to different underlying growth rates, but as a first approximation the offsets are assumed the same across scenarios. To generate the expenditure caps for Medicare will require some combination of:

Aggressive Scenario Generates \$24 Billion in Medicare savings by 1997

- Remove hospital disproportionate share adjustment
- Move federal employee health benefit plan onto prospective payment
- Reduce hospital update by 2 percentage points
- Reduce hospital indirect teaching subsidy to 3 %
- Reduce Part B subsidy to 25 % in 96/97 (current law)
- Reduce Part B Physician Payment Update For 5 Years
- Move to prospective payment for hospital outpatient
- Reduce growth to 10 percent over 4 years

Conservative Scenario Generates \$16.5 Billion in Medicare savings by 1997

- Reduce hospital indirect teaching subsidy to 5 %
- Move to prospective payment for hospital outpatient
- Reduce growth to 12 percent over 4 years

Minimal Scenario Generates \$5 Billion in Savings

- Reduce 25 % Part B premium through 97
- Move to DRGs
- Reduce hospital payment update by 1 %

PROPOSED DEFICIT REDUCTION PLAN¹

This deficit reduction plan seeks to accomplish several goals. It seeks to place the deficit on a firm, downward path and to accomplish substantial deficit reduction over the next four years (deficit reduction that far exceeds what is reflected in *Putting People First*). A key goal is to design a plan that proposes deficit reduction large enough and serious enough to be received positively by the financial markets and to avert passage of a balanced budget constitutional amendment or other fiscal straitjacket measure that could preclude large parts of a Clinton investment agenda and be ill-advised from a macroeconomic standpoint.

At the same time, the plan seeks to be politically realistic and to contain spending cuts and revenue measures that have some reasonable prospect of passage. The plan seeks to avoid the practice sometimes employed by Richard Darman of printing a budget with little chance of approval. Even so, passing some of the proposals reflected here will represent a very difficult political challenge.

Finally, the plan seeks to achieve large-scale deficit reduction without a contribution from Medicare or Medicaid, Medicare payroll taxes, or taxes on employer-provided health benefits. Savings from those areas will be badly needed to finance the Administration's health care plan. It is vital for the Administration to achieve national health care reform as well as large-scale deficit reduction.

Political balance

The plan seeks to achieve political balance and acceptability in several ways. First, the deficit reduction consists of three equal elements: one-third of the deficit reduction comes from non-defense spending (without including Medicare or Medicaid savings); one-third from defense spending; and one-third from revenues. Second, for every three dollars saved in this fashion, two dollars are devoted to deficit reduction and one dollar to new public investments. (The one-out-of-every-three dollars saved that are devoted to new initiatives cover both tax and spending initiatives; about two-thirds of the initiative funds go to programs and one-third to tax measures, so that revenues constitute about one-third of both gross and net deficit reduction.)

This constitutes a reasonably tough path. It is, for example, more exacting than the path suggested at the Little Rock economic conference by one speaker noted for concern about the deficit, who suggested that one of every two dollars achieved in deficit reduction be devoted to public investment. (It may be noted that Henry Aaron of the Brookings Institution, who gave the toughest deficit reduction speech at

¹ This plan was prepared with technical assistance from Al Davis of the House Budget Committee staff, whose assistance is gratefully acknowledged.

the economic conference, later commented that seeking to use two of every three dollars saved for deficit reduction purposes and one dollar for public investment, as is proposed here, would be a reasonable approach.)

The long-term deficit path

The plan includes \$180 billion in gross deficit reduction in FY 1997, of which \$60 billion is devoted to initiatives and \$120 billion to net deficit reduction. The Congressional Budget Office is expected to forecast an FY 1997 deficit of about \$350 billion. (This figure represents the "uncapped" baseline deficit. The comparable OMB estimate is currently \$384 billion, although that could change when the new Administration re-examines the economic and technical assumptions.) Under the CBO figures, the path outlined here would lower the deficit to about \$230 billion in FY 1997.

To get the deficit appreciably lower — to \$200 billion or less in FY 1997 — would require either a tax increase that affected the middle class more significantly than the tax increases proposed here, such as a major gasoline tax hike, or deferring reforms to expand access to health care to millions of uninsured people and instead using major health care savings for deficit reduction, or both.

What about cutting the deficit in half?

This plan does not cut the deficit in half. But given the large increase in the deficit, such a target is no longer realistic. I would recommend against it for several reasons.

- The deficit reduction measures that would be needed to halve the deficit in four years lie beyond the bounds of political reality. If the new Administration proposed a plan this severe, it would be harshly attacked for some of the proposals that would have to be included, and in the end, the plan almost surely would not pass anyway. Most Republicans would oppose it due to its tax increases and cuts in popular benefit programs, thereby requiring that it secure support from an overwhelming majority of Democrats in order to pass. But many Democrats would run from it. When "shared sacrifice" becomes too great, it becomes a shared reason for opposition. Failure to pass its first budget could cause lasting damage to the Administration, generating images of continued gridlock and Democratic disarray, and fueling renewed efforts to pass either balanced budget amendments or budget process measures that establish fixed deficit targets backed up by across-the-board cuts — and that could force the White House to choose

between politically excruciating cuts and a large sequester shortly before the 1996 elections.

- The experience with the Gramm-Rudman-Hollings law shows that when deficit reduction targets are overly ambitious, they collapse. The new Administration's goal should be to aim for a very tough, but still politically realistic, level of deficit reduction — and then to fight for it.
- The public will be more willing to tolerate the sacrifices that major deficit reduction entails if the economy is growing at a significant rate, generating jobs and income gains. Cutting the deficit too deeply by FY 1997 might slow growth too much. (Since it is probably unwise to seek much deficit reduction in FY 1994 due to continued weakness in the economy, the annual deficit reduction that would be required in fiscal years 1995 through 1997 to halve the deficit by FY 1997 might be too large.)

In addition to not being politically realistic, proposing to halve the deficit in four years, is, I think, also not politically necessary. Shortly after the new deficit forecasts become public, the President could tell the country — perhaps in a fireside chat — that the deficit problem he has inherited is far worse than had previously been known. In essence, he could explain that the hole into which the nation has gotten itself over the past 12 years, on a bipartisan basis, is much deeper than had been understood — and that it will take longer than previously envisioned to dig ourselves out of it. If he accompanies this message with a budget calling for large-scale deficit reduction and containing some politically courageous proposals, this should work.

Furthermore, the plan outlined here would cut the deficit \$120 billion in FY 1997, getting about one-third of the way to a balanced budget in four years. For those who favor a balanced budget, it is not unreasonable to suggest a 12-year path to get there, since it took 12 years to dig the deficit hole to its current depth. Indeed, the centrist-to-conservative Center for Strategic and International Studies last fall called for a 10-year path — and did so at a time when the deficit forecasts were much lower than they now are.

Of course, the new President may receive some criticism for "backing off" the goal of halving the deficit in four years. But the criticism should be muted when potential critics look at the tough deficit measures he is proposing, as well as the new deficit forecasts.

Also, the President can note that he could have proposed deeper deficit reduction if he used health care savings to finance deficit reduction, rather than to

address the problems of 35 million Americans who lack health care coverage all year long, millions more who are underinsured or lack insurance for part of the year, and millions who are locked into an unsatisfactory job because of fear of losing their coverage if they change jobs. Republicans and conservatives who take more hawkish positions on the deficit usually do *not* call for deeper defense cuts, higher taxes, or reductions in Social Security benefits — instead they concentrate on entitlements in general and health care entitlements in particular. If the new Administration proposes tough health care cost containment and related health care savings — and uses them to fund health care access reforms — that should partially defang some critics. Those critics may find it hard to argue that health care reform should be abandoned or postponed and health care savings used for deficit reduction instead. (Indeed, the principal focus of criticism from Republicans is likely to be on the other spending initiatives the Administration proposes.)

Finally, if there is some criticism, it will be better to take a few lumps now for modifying the four-year deficit goal than to stick to the "halving the deficit" target and be criticized for the next four years for falling far short of delivering on it (and also to take political heat for proposing highly unpopular cuts or tax increases that then fail to pass anyway).

What Baseline to Use

Another issue that must be addressed is whether to use the "capped" baseline or the "uncapped" baseline. I believe the uncapped baseline should be used for several reasons:²

- Using the uncapped baseline should help secure passage of a more reasonable level of revenues. If the *capped* baseline is used, revenues will appear to constitute a significantly larger percentage of the total deficit reduction package. For example, under the plan outlined here, revenues make up one-third of the FY 1997 deficit reduction. But if the capped baseline were used, \$50 billion of spending cuts in FY 1997 would not count as deficit reduction, and revenues would be pictured as making up 46 percent of the total. Congressional politics being what they are, that would probably make it harder to raise as much in revenues — and thus could reduce the total amount of deficit reduction achieved.
- Using the uncapped baseline enables the President's deficit reduction proposals — and hopefully, his deficit reduction accomplishments — to

² The first part of this section reflects an earlier memo by Richard Kogan.

be portrayed as being far more substantial than if the capped baseline is used. For example, the \$120 billion that this plan achieves in deficit reduction in FY 1997 would be pictured as being \$70 billion if the capped baseline is used. The percentage by which the baseline deficit is cut would also appear smaller. (It may also be noted that the savings in the 1990 budget agreement, to which a new Clinton budget agreement may be compared, were from an uncapped baseline. If a new budget agreement is reached, use of the capped baseline will mean that the President gets credit for \$200 billion less in deficit reduction over five years than is actually achieved.)

- Using the uncapped baseline is *not* an exercise in smoke and mirrors. To the contrary, it is the most legitimate approach analytically. Real cuts have to be identified, proposed, and enacted just to get to the capped baseline. Using the capped baseline as the "starting point" camouflages the fact that real cuts are needed to get there. Moreover, use of the uncapped baseline correctly shows how serious the current deficit problem is and how urgent it is that strong action be taken.
- Finally, it is likely that adoption of a Clinton investment agenda will entail breaching the current discretionary spending caps, especially in FY 1995. (For example, total discretionary spending would exceed the caps under this plan, despite the significant discretionary spending reductions and the scaling back of various initiatives.) Adherence to the caps would likely entail sacrificing a significant part of that agenda. And if the Administration is going to propose to raise the caps, it does not make much sense to use a capped baseline.

An important related question is whether to use a baseline reflecting FY 1993 defense appropriations levels, as adjusted for inflation, or the Bush defense path. For many of the same reasons, I would urge that the standard baseline practice be followed and that the FY 1993 levels, adjusted for inflation, be used. Using the Bush defense path as the baseline will make tax increases seem to be a larger percentage of the Clinton deficit reduction plan and make it harder to secure as much in revenue-raising measures. It will also make the total deficit reduction achieved seem smaller — and make President Clinton's deficit reduction accomplishments look less impressive. (I understand the concern that using the standard baseline practice — i.e., using the FY 1993 defense appropriation — would look like an attempt to make the deficit artificially appear larger, but I'm not sure that is how it would be seen. I'd suggest some further consultations on this issue.)

I would add that the political criticism that would otherwise be generated by a Clinton proposal to raise the discretionary caps for fiscal years 1994 and 1995 will be

less strong if: a) the increase in the caps is part of a larger, substantial, long-term deficit reduction plan that includes significant entitlement cuts; and b) the Administration makes clear that its support for raising the caps is *conditioned on approval of an overall large-scale deficit reduction package*. In fact, a "linkage" approach of this nature may help to secure more votes from Appropriations Committee members for the overall deficit reduction package.

The Deficit Reduction Plan

The plan consists of four components: non-defense cuts of approximately \$60 billion in FY 1997; defense reductions of about \$60 billion in that same year, achieved through adoption of most of the "Aspin B" plan; revenue-raisers of \$60 billion in FY 1997; and initiatives — including both tax and program initiatives — totalling \$60 billion in FY 1997. The plan does *not* include health care provisions. It is assumed that the national health care reform plan will be deficit-neutral in FY 1997 and will begin reducing the deficit at some point after that. (Budget and health experts such as Robert Reischauer and Henry Aaron advise that one would have to do extremely well on the cost containment side just to pay for the costs of expanding access over the next four or five years. Achieving net deficit reduction from health care reform is not realistic during this period.)

The non-defense component: The non-defense component contains three elements — about \$20 billion in discretionary savings in FY 1997, nearly \$30 billion in entitlement savings exclusive of Medicare and Medicaid, and about \$14 billion in debt service savings. Several of the items included may not be politically viable or feasible. Since the reductions included in this area, however, total to about \$64 billion, several items could be removed and still allow this component of the package to reach the \$60 billion target. For example, if deemed politically necessary, the increased taxation of Social Security benefits could be limited to those at higher income levels than are reflected in the plan.

The defense component assumes adoption of most of the savings envisioned under Aspin B. Based on House Budget Committee estimates, this results in FY 1997 outlays that are \$60 billion below the FY 1997 OMB baseline level. The baseline level in question reflects the FY 1993 defense appropriations level, adjusted for inflation.

The revenue component assumes about \$22 billion in upper-income rate increases and related measures (such as extending Pease and PEP), about \$18 billion in base-broadeners that primarily affect upper-income groups and in taxes on foreign corporations, \$4 billion from extending existing tax provisions, and a menu of additional items, including energy taxes and miscellaneous items, from which to choose. The revenue component of the plan actually contains options for \$73 billion in FY 1997 revenue-raisers, with the idea that \$60 billion of revenue-raising options would be selected from the list.

It is assumed, of course, that the plan would be accompanied by budget enforcement measures, such as an extension of pay-as-you-go rules and new caps on overall discretionary appropriations.

It should be noted that this plan includes a number of items that will be politically difficult to pass, such as the proposals to increase taxation of Social Security benefits and to cut in half the COLAs for early retirees in the military and civil service retirement programs. This illustrates the difficulty of seeking to produce a package with a larger volume of savings, unless larger energy tax increases are included (an approach I would favor) or health care access reforms are scrapped or watered down and large health care savings are used for deficit reduction instead (an approach I would urge against).

DEFENSE

Most of Aspin B

1994	1995	1996	1997	Total
-13.5	-29.5	-44.9	-60.0	-147.9

(Note: these figures reflect the current OMB uncapped baseline for function 050 and House Budget Committee staff estimates of outlays under the Aspin B plan.

OMB baseline outlays
Aspin B outlays
Proposed outlays in plan

288.9	295.5	303.9	313.3	1201.6
274.6	264.4	256.5	250.0	1045.5
275.4	266.0	259.0	253.3	1053.7