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EIGHT STEPS TO DEFICIT REDUCTION FOR GROWTH AND FAIRNESS

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The first deficit reduction package agreed to by the Bush Administration and the Congressional leadership fails on two counts. First, it concentrates the burden of tax hikes and spending cuts on the middle class and the poor, whose incomes have already been eroded by the policies of the last decade. Second, by ignoring the well-documented need for more public investment, the package further undercuts our ability to reconstruct a dynamic, competitive economy.

There is a consensus among serious economic analysts that the U.S. is suffering from inadequate investment in training and education, in transportation and other infrastructure, and in civilian research and development. It is also widely recognized that the half of the military budget devoted to containing and confronting the Soviet Union is no longer necessary. Yet the framework of the budget compromise, by providing rigid "caps" on domestic spending and protecting military spending from more than only modest cuts, ensures that the perverse priorities of the current Federal budget will survive until at least FY 1994 (the first time that a reallocation of resources from the military to the civilian sector will be permitted). For all who believe that a strong U.S. economy is essential to support American living standards and to maintain American influence in the world, the budget plan is a disaster.

But it is possible to fashion a budget package that meets the deficit reduction targets agreed to at the Budget Summit without gouging the average income earner and without jeopardizing growth by abandoning the economy's public investment needs. The eight steps outlined below accomplish these objectives. They provide for $500 billion in deficit reduction over five years and at least $223 billion in new public investment.

The eight steps are the following:

1. Use the revenue increases proposed by President Bush in January, excluding his capital gains proposal (which loses revenue and jobs): this garners $32 billion over five years.

2. Use the spending cuts already passed by the House Budget Committee which generate $31 billion. This means foregoing the draconian cuts in Medicare proposed in the first summit deal.

3. Add a 38% bracket for couples making more than $160,000 a year and individuals making more than $100.000. This gains $142 billion over five years - more than the entire tax package in the first deal.

4. Tax 85% of Social Security benefits, which gains $100 billion. Such a measure would not affect the poor and low-income elderly, and is therefore

much to be preferred to the Medicare increases now being contemplated.

5. Take the cap off the Medicare payroll tax: $47 billion. The Summit deal raised the cap up to $73,000 per wage earner. There is no good reason to exempt those making more.

6. Implement a stock transfer tax of half a percent: $58 billion. Even Secretary of the Treasury Nicholas Brady has spoken favorably of this idea.

7. Undertake measures to curb tax shelters for mergers and acquisitions, runaway plants, and tax corporate income more effectively: $35 billion.

8. Make bigger cuts in the military budget: $214 billion. This level of reduction has been advocated by William W. Kaufmann, a well-respected defense analyst. Given the collapse of the Soviet Union, it reflects a reasonable down-sizing of the military.

As the accompanying table (p. 5) shows, these eight measures raise about $658 billion over five years. In addition, the deficit reduction achieved saves about $65 billion in interest payments on the national debt, yielding a total of $723 billion in new budgetary resources. Since our target was $500 billion, $223 billion remains for new public investment. Inasmuch as the budget surpluses achieved in 1994 and 1995 could also be used for public investment, the latter figure could be as much as $86 billion higher.

According to the Census Bureau, in 1989 four percent of households received more than $100,000 in money income in 1989 -- the cut-off point for individuals subject to the proposed 38% bracket (for married couples, the bracket would start at $160,000). 23% of households made more than $50,000. the point at which the payroll tax is now capped for individuals. These figures provide an approximate guide to how many would be affected by the addition of a 38% bracket and a removal of the Medicare payroll tax cap. The taxation of Social Security benefits reaches down lower in terms of income levels, but those subject to this measure have relatively high levels of accumulated wealth and fewer expenses. In general, there's some pain in this package for everybody -- as is demanded by the politics of our current situation -- but it minimizes the impact on those who have already paid a high price for the excesses of Reaganomics.

We don't need excise tax increases which slap the middle class and the poor. We don't need delays in unemployment compensation, least of all in the teeth of a looming recession. We don't need increases in Medicare payments for the most vulnerable people in our society. We do need both public investment and deficit reduction. These eight steps do both fairly.

ALTERNATIVE DEFICIT REDUCTION AND DOMESTIC INVESTMENT PACKAG

Billions, current dollars

Fiscal Year	1991	1992	1993	1994	1995	Totals
Proposed Deficit Reduction Levels	40	77	98	133	153	500
1. Bush Revenues	11	9	4	3	5	32
2. House Budget Committee Spending Cuts	5	6	6	7	7	31
3. Add a 38% Bracket	13	26	29	34	40	142
4. Repeal Medicare Taxable Maximum	4	10	11	11	12	47
5. Tax 85% of Social Security Benefits	12	20	21	23	24	100
6. Stock Transfer Tax of .5%	8	12	12	13	13	58
7. Cut Anti-Growth Incentives*	4	7	8	8	9	36
8. Reduction from Baseline Military Outlays	17	27	44	61	65	214
Subtotals	73	116	135	160	175	658
Interest Savings	2	7	12	18	26	65
TOTAL REALLOCATION	75	122	147	178	200	723
Available for New Public Investment	35	46	50	46	47	223
Resulting Total Deficit	255	232	130	(17)	(69)	
As a % of GNP	4.4	3.7	1.9	-0.2	-0.9	
Debt Held by Public	2,639	2.871	3.001	2,984	2,915	
Debt Held by Public as % of GNP	45.4	46.3	45.0	41.8	38.3	

*For more details. see "Deficit Reduction for Growth and Fairness." Economic Policy Institute, July 1990. (Numbers may not add due to rounding.)

Sources: Congressional Budget Office, Citizens for Tax Justice, Office of Management and Budget, Economic Policy Institute.