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THE BOREN-DANFORTH BUDGET ALTERNATIVE: A PLAN FOR REAL DEFICIT REDUCTION

Senators Boren and Danforth have crafted a bold and innovative deficit reduction plan as an alternative to the present Budget Resolution covering fiscal years 1994-1998. The Boren-Danforth plan warrants the closest scrutiny by Democrats and Republicans alike in both chambers of the Congress.

Boren-Danforth would significantly modify the strategy of the Budget Resolution. In lieu of the \$272 billion in tax increases called for by the Budget Resolution, Boren-Danforth would raise taxes by the substantially lesser amount of \$150 billion. It would reduce spending by \$337 billion relative to the CBO projected baseline amounts, almost twice as much as the \$174 billion of Clinton cuts in the Budget Resolution. In short, Boren-Danforth would significantly blunt the tax-and-spend strategy incorporated in the Budget Resolution.

The heart of the Boren-Danforth plan, on the tax side, is the elimination from the Budget Resolution of the Btu tax proposed by the President. The Btu tax would cast up a huge roadblock to the attainment of the President's goal for fortifying

economic progress and creating millions of new jobs. The tax would raise production and operating costs for every business and household in the country. It would reduce real output, employment, and income and would reduce national saving. It would, moreover, create an artificial spur for changing the economy's energy technology and use, requiring allocating a significant amount of the nation's meager saving for investment in less efficient energy production and consumption instead of for modernizing and adding to the stock of productivity-enhancing capital. It would create a significant incentive for American businesses to move operations to lower-cost locations abroad, while impairing the ability of American exporters to compete effectively with foreign producers. Its elimination from the Budget Resolution would be a major improvement in budget policy.

The Boren-Danforth proposal calls for deferring the increases in individual and corporate income tax rates proposed by the President from the beginning to the middle of 1993. The proposal would maintain the existing cap on the wage base for the hospital insurance tax, instead of eliminating the cap as the President proposed. These features of Boren-

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Danforth would moderate the adverse effects of President Clinton's proposed rate increases on the capacity and willingness of upper-middle and high-income individuals to save and invest and on the cost of capital for corporate businesses. Finally, Boren-Danforth would introduce an option for indexing the bases

of capital assets for inflation, a proposal that recognizes the importance of moderating the additional burden on saving and investment imposed by the existing tax treatment of capital gains.

On the spending side, Boren-Danforth would provide a real breakthrough in controlling the surge of federal spending by capping entitlement programs other than Social Security. The proposed cap would

allow entitlement spending to grow at the rate of inflation plus the rate of growth of the eligible population, plus a diminishing additional allowance for fiscal years 1995-1997. Implementation of the cap would require the Congress to make specific program changes, for which Boren-Danforth offer specific recommendations. While one or more of these recommendations may be faulty, the plan's recognition that entitlement spending, no less than discretionary spending, must be controlled is a sine qua non for meaningful deficit reduction.

Just as important as the specifics of the Boren-Danforth resolution is its recognition that (1) real deficit reduction depends on real spending cuts, and (2) tax increases are a counterproductive means to achieve lower deficits. Boren-Danforth demonstrates that it is possible to meet the challenge of deficit reductions by spending cuts, rather than by relying primarily on tax increases. As such, Boren-Danforth is a major first step toward the fiscal-budget policy that would be consonant with a dynamic economy, relying on private individuals and businesses, rather than government, to initiate

economic progress. If adopted, the proposal would open the door to an even more dramatic and constructive agenda of pro-growth budget revisions, such as those offered by some other members in the House and Senate.

Whether the Boren-Danforth plan wins or loses, it sends a clear message to the President that he has misinterpreted what people mean when they tell him they are willing to make sacrifices to get the federal budget under control. The sacrifices that people are willing to make consist of cutting back government's taking our resources and incomes for activities of little if any use. There is a huge inventory of programs that should be reduced, if not eliminated. It takes real courage to make the real change in budget policy, concentrating on spending reductions and rationalizations, not on raising taxes. Senators Boren and Danforth have demonstrated that courage in advancing their Bipartisan Deficit Reduction Plan.

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President