



BRIEF ANALYSIS

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An Agenda for Economic Freedom

The 105th Congress is looking for a defining message — a vision as clear as the one the Contract With America gave to the 104th Congress. It need not look far. Elements of the vision have been around for years and have support within both major political parties. Since it would give Americans more economic freedom and address their major domestic concerns, the vision might be called an Agenda for Economic Freedom.

Freedom in Health Care. As an alternative to President Clinton's plan to restructure the entire health care system, most Republicans and a number of Democrats supported Medical Savings Accounts (MSAs) — personal savings accounts used to pay for routine and preventive medical care, with a high-deductible (say \$2,000 to \$3,000) insurance policy to pay for major medical costs. Patients with MSAs decide, in consultation with their physicians, how to spend their health care dollars, rather than leaving those decisions to an insurance company clerk or a Washington bureaucrat.

Although in a recent Blue Cross poll 43 percent of respondents said they would like the opportunity to choose an MSA, Congress passed limited MSA legislation that will permit only 750,000 policyholders (who must be employees of small business or self-employed) to have a tax-free Medical Savings Account. Congress should remove the limitations so all Americans will have this choice.

Freedom in Retirement. The Medicare trust fund is going bankrupt faster than anyone expected — heading for insolvency by 2001. As a result, reforming it has become the most important economic issue facing the country. A recent survey of Generation Xers by Third

Millennium found that 59 percent support replacing the current Medicare system with private-sector options or letting people opt out completely and personally save their Medicare contributions.

The Medicare reform plan proposed by Republicans in the 104th Congress would have shifted power and control over Medicare dollars from government to seniors themselves. Under this plan, each senior could choose among private health plans — including health maintenance organizations (HMOs), MSAs, traditional health insurance, employers' plans and plans offered by associations such as the American Association of Re-

tired Persons and unions. Alternatively, any senior could stay in the current Medicare system, forgoing the private options entirely. Only by giving seniors greater choice can we slow the growth of Medicare spending while preserving the quality they deserve and expect.

Awareness is growing that, like Medicare,

the Social Security trust fund is in financial trouble. In a Cato Institute survey, fully 69 percent of respondents favored or strongly favored privatizing Social Security. The reason for such strong support? Workers realize that with individual accounts the money and the interest would belong to them — the only way to ensure that their Social Security contributions plus the interest will be there when they retire.

Congress is currently looking at a variety of reforms. The reform it chooses should permit individuals to opt out of the Social Security system and establish their own personal retirement accounts — a recommendation made by five members of the president's nine-member Social Security advisory council.

Freedom in Compassion. According to the Congressional Research Service, the government has spent about \$5.4 trillion (in constant dollars) on federal means-

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tested welfare programs since 1960. That works out to about \$9,000 per poor person per year, or \$36,000 for a family of four. Yet a greater percentage of people live in poverty today than in 1965, when the War on Poverty started.

In an effort to end this failed system, several Republicans have offered versions of a charity income tax credit — a direct deduction of the money taxpayers donate to a private charity from the amount they owe the government. In this way, individual taxpayers would decide how their share of the welfare bill would be spent. And private charities, including those sponsored by religious groups, would compete on an equal footing with government welfare programs for the federal dollars allocated to poverty programs.

To keep this proposal “revenue neutral” — which means the federal government would neither lose nor gain money — all charity contributions would be deducted from the federal government’s poverty budget. For each tax dollar allocated to private-sector charity, public welfare programs would be reduced by a dollar. The proposal cosponsored by Rep. Don Coats (R-IN) and Rep. John Kasich (R-OH) would pay for the credit by reducing federal spending on both personal and corporate welfare.

Freedom in Education. The American public education system is replete with problems, costing more and more while graduating illiterate teenagers — if they make it to graduation at all. Yet most parents, especially low-income parents, have little or no control over where their children go to school or what they learn.

Increasingly, parents are saying they want to regain control over the educational process. A recent opinion survey by the African-American-oriented Joint Center for Political and Economic Studies found that 55.7 percent of blacks who rated their public schools as “poor” favored education vouchers. In other words, those who are geographically and financially stuck with a public education system they believe to be inadequate want an option out.

To give parents more educational control, Congress should promote educational vouchers, which would let

parents take their share of public education money and choose any public or private school for their children. Like the charity tax credit, educational vouchers create a level playing field between public and private institutions and promote greater competition, quality education and lower costs.

Freedom from Excessive Taxation. Both Democrats and Republicans have proposed a number of targeted, though limited, tax cuts that would give Americans more economic freedom. There are, for example:

- The \$500 per child tax credit first proposed in the Contract With America and later picked up by President Clinton during the campaign.
- President Clinton’s proposals for tax deductions or tax credits for expenses associated with a college education.
- Senator John Ashcroft’s (R-MO) proposal to allow individuals to deduct payroll taxes from their income.
- Elimination of the gas tax.
- Reduction in or elimination of the estate and gift tax.
- Reduction in or elimination of the capital gains tax.

Because the various tax cut proposals are narrow rather than broad, some would benefit certain groups of taxpayers or impact the economy more than others. For example, President Clinton’s proposal to permit a \$10,000 annual tax deduction for college tuition would primarily benefit upper-income families — those who have \$10,000 in discretionary income.

Moreover, some of the proposals might do more economic harm than good — so more analysis of them is required. Even so, some of the proposed tax breaks could enhance Americans’ economic power over their own lives.

Conclusion. Giving people more economic freedom has been implicit in many Republican and Democratic proposals, yet neither party has turned it into an agenda for the 105th Congress. Both should. Economic freedom is the message Americans are clamoring for. Will Congress give them what they want?

This Brief Analysis was prepared by NCPA Vice President of Domestic Policy Merrill Matthews Jr.