E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

10-Feb-1995 02:59pm

TO: Barbara C. Chow
TO: Gene B. Sperling
TO: Martha Foley

FROM: Jacob J. Lew
Office of Mgmt and Budget, LA

SUBJECT: Balanced Budget Calculation

When we ran the numbers without social security in the calculation using both the CBO and OMB baselines.

CBO baseline: Using the CBO baseline, the deficit in 2002 would be $433 billion. The across the board cut, without the contract tax cut and with no further exemptions would be 23.2 percent. With medicare exempt it would be 30.6 percent. With defense exempt it would be 30.1 percent. With both exempt it would be 43 percent. With the contract tax cut, and no further exemptions, the cut would be 29.5 percent. With medicare exempt it would be 38.9 percent. With defense exempt it would be 38.3 percent. With both exempt, it would be 54.6 percent.

OMB baseline: Using the OMB baseline, the deficit in 2002 would be $355 billion. The across the board cut, without the contract tax cut and with no additional exemptions, would be 20.5 percent. With medicare exempt, it would be 26.5 percent. With Defense exempt it would be 26.2 percent. With both exempt, it would be 36.4 percent. With the contract tax cut, without any further exemptions the cut would be 27.8 percent, with medicare exempt it would be 36 percent. With defense exempt it would be 35.6 percent. With both exempt it would be 49.4 percent.

THE WHITE HOUSE

WASHINGTON

August 24, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
JON ORSZAG

SUBJECT: New Initiatives in FY97 Budget

Leon said that you were interested in reviewing the new initiatives that were already in your current budget. Attached is a three-page list of these initiatives, along with pages from the Budget on EZ/ECs, Brownfields, CDFIs, HIV/AIDS, Immunizations, Charter Schools, and research and development. If there are any initiatives that we missed or did not provide enough information on, we can send it to you later in the day.

ECONOMIC GROWTH AGENDA FOR A SECOND TERM

1. BALANCE THE BUDGET WHILE PROTECTING AMERICA'S VALUES

- **Finish the Job and Balance the Budget.** During his first 4 years, President Clinton cut the deficit in half fron a record high of $290 billion when Bush left office in 1992 to less than $130 billion in 1996, according to both OMB and CBO. In a 2nd term, the President will fight for immediate adoption of a balanced budget agreement
- **Balance the Budget while strengthening Medicare, Medicaid, Education, and the Environment.**
  - **Protect Medicare.** President Clinton's balanced budget extends the life of the Medicare Trust Fund for a decac -- more than enough time to reach a bipartisan agreement on long-term Medicare solvency -- without extreme GOP cuts or damaging structural changes that are not necessary to balance the budget.
  - **Maintain Medicaid Guarantee.** President Clinton's balanced budget maintains the Medicaid guarantee for people with disabilities, pregnant women, nursing home residents, and children from low-income families.
  - **Major Investment in Education and Training.** President Clinton's balanced budget makes a major investmen in education and training -- providing $55 billion more over 6 years than the Republican budget proposal.
  - **Protect the Environment.** Preserve and defend our commitment to environmental protections and safety. Eliminate needless regulations while strengthening key protections for clean air, clean water, & safe communitic

2. PREPARE EVERY CHILD TO LEARN AND EQUIP THEM WITH THE SKILLS NEEDED FOR THE 21ST CENTURY

- **Fully Fund the Women, Infants, and Children nutrition program [WIC]** to provide nutrition, health education, and immunization referrals to at least 7.5 million women, infants, and children each year.
- **Expand Head Start to 1 Million Preschool Opportunities by 2002,** providing comprehensive pre-school education to ensure that each child arrives at schools ready to learn.
- **School Construction Initiative.** $5 billion initiative to spur $20 billion in state, local, and federal funds for school construction & renovation to rebuild America's schools & make sure they are safe and technology-ready
- **Higher Academic Standards For Students And Teachers.** Students should have to pass a test to graduate from school to school. Reward teachers that perform and make it easier to dismiss those who don't.
- **Expand School Choice.** Work with states to expand parental public school choice & pass Charter School law:
- **Make Every Child Technologically Literate.** $2 billion Technology Literacy Challenge to leverage state, local, and private sector funds to connect every classroom to the internet, with modern computers, trained teachers, and exciting educational software.
- **Expand School-To-Work To 50 States.** Help states ensure that high school students not immediately going c to college can make the transition from school to work.

3. EXPAND COLLEGE ACCESS TO RECORD LEVELS

- **Tear Down Financial Barriers To Higher Education.**
  - **$1,500 HOPE Scholarship Tax Cut.** Make 14 years of education the new national norm with a $1,500 tax cut for first 2 years of higher education [B average required for second year]. The HOPE tax cut will make the average community college free and help millions of families afford the cost of higher education
  - **$10,000 Tuition Tax Deduction to Help Middle-Class Families Afford the Cost of Higher Education.**
  - **Major Pell Grant Expansion.** Increase maximum Pell Grant by 33% to help needy students afford college.
- **Expand College Work-Study to 1 Million Students** working their way through college.
- **Allow Penalty-free Withdrawals from IRAs for Education Expenses.**
- **$1,000 College Honors Scholarships** for the top 5% of graduating students from every high school.
- **Expand National Service** so more youth can serve their communities while earning money for college.

4. INCREASE ECONOMIC SECURITY FOR WORKING FAMILIES

- **Continue Creating Good American Jobs Through Free, Fair, and Open Trade.** President Clinton will continue to fight for free trade agreements such as NAFTA and GATT which have already created hundreds of thousands of high-paying export-related jobs over the last 4 years.

- **Major Reform and Expansion of Worker Training.** Consolidate overlapping, antiquated federal job-training programs and create a simple $2,600 job-training skill grant that allows dislocated workers the freedom to choose the training programs that are right for them.

- **Expand Family and Medical Leave.** Allow workers to take up to 24 hours a year of unpaid time-off for chil education, elderly care, and routine family medical purposes.

- **New Employee-Choice Flex-Time.** Change the law so that workers can choose to use their earned overtime hours to spend extra time with their families.

- **Protect the Working Families Tax Cut -- the Earned Income Tax Credit.** The EITC encourages families t move from welfare to work by making work pay. In 1997, President Clinton's expansion of the EITC will mea a tax cut for more than 15 million working families.

- **Make Health Insurance More Affordable for the Unemployed.** Help millions of temporarily unemployed families make transitions between jobs by providing premium subsidies to pay for private health insurance for u to six months.

- **Retirement Security.** Help Americans save for their retirements by increasing pension portability, enhancing pension protection, and expanding coverage, making it easier for small businesses to offer pension plans to thei workers.

- **Expand Medicare Benefits.** New preventive benefits such as annual mamograms, flu shots, and diabetes screenings, and provide a respite benefit for families of beneficiaries with Alzheimer's disease. Expand plan choices for beneficiaries to include HMOs with a point-of-service option, Preferred Provider Organizations (PPOs) and Provider Service Networks.

5. TARGETED TAX RELIEF FOR CHILDREN, SAVINGS, EDUCATION, AND JOBS

- **$1,500 HOPE Scholarship Tax Cut.** Make 14 years of education the new national norm with a $1,500 tax c that will make the average community college free and help families afford the cost of college.

- **$10,000 Tuition Tax Deduction to Help Middle-Class Families Afford the Cost of Higher Education.** Allow middle-class families to deduct up to $10,000 a year for the cost of tuition and training.

- **$500 Per Child Tax Credit.** Provide targeted tax credits of up to $500 per child for middle-class families.

- **Expanded IRAs to Help Families Save for Education and Training, Purchase a First Home, and Cover Major Medical Expenses.** Expand IRA eligibility to 20 million more middle-class families and allow-penalty free IRA withdrawals for these major life expenses to encourage more families to save.

- **Empowerment Zones Round 2.** Build on the President's community empowerment efforts by creating greate opportunity and private-sector investment in additional distressed communities: 20 additional Empowerment Zones (15 urban, 5 rural or Indian nation) and 80 Enterprise Communities (50 urban, 30 rural or Indian nation)

- **Brownfields Empowerment Contracting.** Offer new purchasers and other businesses that redevelop brownfields a new targeted tax incentive to recover the cost of clean-up in distressed communities over a short period of time.

- **Small Business Training.** Provide small businesses with a 10 percent tax credit to help them cover the costs education and training for their employees.

OTHER INITIATIVES IN FY97 BUDGET:

- Increased funding for Charter Schools to fund start-up costs for up to 3,000 schools.
- Expansion of CDFI Fund from $50 million to $125 million.
- Proposed $34 million increase in funding for HIV/AIDS prevention and treatment.
- Proposed $957 million in spending on immunizations. (Note: For many diseases, the Administration is ahead of schedule to meet the goal of immunizing 90 percent of two-year-old children by 1996. The most recent figures show that, from April 1994 to December 1995, 90 percent or more of all two-year-old children were immunized against diphtheria, tetanus, pertussis, and hemophilus influenza type B. Further, rates for immunization against measles, mumps, rubella, and polio are approaching the 90 percent goal.)
- Proposed $47 million initiative to eradicate polio throughout the world.
- Proposed $1 billion increase in funding for research and development.

experienced, skilled people serve the ill, the frail, the isolated elderly, and young people with emotional, mental, or physical disabilities. The budget also proposes $6 million for The Points of Light Foundation. All told, the Corporation would provide opportunities for over a million Americans to engage in service.

AmeriCorps strengthens America's communities in several ways. National, State, and local organizations operate AmeriCorps programs, designing them individually to meet specific needs. AmeriCorps members do not displace existing volunteers or employees; they participate alongside the men and women already working to solve problems at the community level. They provide a regular source of service that most volunteers, given their time constraints, cannot offer.

The Corporation operates few AmeriCorps programs itself; its primary work is ensuring quality in AmeriCorps programs that are locally developed and implemented. The Corporation works with States to run competitions that determine what programs will participate in AmeriCorps. Because States best know their own needs, they enjoy considerable autonomy in determining priorities, selecting programs, and offering additional assistance. AmeriCorps is not a mandate for any State or organization, although 49 States sought AmeriCorps funds last year.

In addition, AmeriCorps seeks to encourage strong partnerships with the private and non-profit sectors. AmeriCorps grantees must raise matching funds from outside the Corporation, and many AmeriCorps programs are underwritten by businesses, including American Express, Fannie Mae, General Electric, IBM, and Timberland.

Following intense competition last year, bipartisan, gubernatorially-appointed State commissions and the Corporation chose 450 organizations to participate in AmeriCorps, including the American Red Cross, the National Coalition of Homeless Veterans, the YMCA, and local United Ways across the country. Wherever they serve, AmeriCorps members are meeting vital needs and getting solid results:

- In Kansas City, they helped close 44 crack houses and drove out drug dealers from a 173-block community—and brought in over 3,000 volunteers to keep the area safe and clean;
- In Simpson County, Kentucky, they raised the reading levels of nearly half of the county's second grade students; and
- In Miami, they recruited and worked with over 5,000 volunteers to build 44 new homes for working families.

Many AmeriCorps members act as "volunteer generators" who recruit and supervise other citizens in direct service. The Corporation's motto—"getting things done"—expresses AmeriCorps' commitment to achieving direct and demonstrable results.

With a strong commitment to community-based direction, the Corporation maintains a small Washington staff. The law limits administrative costs included in grants to AmeriCorps programs to five percent of grant amounts.

Empowerment Zones and Enterprise Communities

As part of his 1993 economic program, the President proposed, and Congress enacted, the Empowerment Zones and Enterprise Communities program. Under it, communities develop a strategic plan to help spur economic development and expand opportunities for their residents, in exchange for Federal tax benefits, social service grants, and better program coordination.

Empowerment Zones (EZs) and Enterprise Communities (ECs) are parts of urban or rural areas with high unemployment and high poverty rates. For EZs, the Federal Government provides tax benefits for businesses that set up shop, and grants to community groups for job training, day care, and other purposes. For ECs, the Government provides grants to community groups for the same array of purposes. EZs and ECs both can apply for waivers from Federal regulations, enabling them to better address their local needs.

The 1994 competition for the first round of EZ and EC designations generated over

500 applications as well as new partnerships for community revitalization. The 105 selected communities made well over $8 billion in private-public commitments, apart from the promised Federal resources. Even in communities that applied but were not designated as EZs or ECs, local efforts to marshal resources and forge broad coalitions to support an innovative economic empowerment strategy produced tangible benefits.

But many other communities lack the seed capital to implement their strategies and sustain private commitments. Thus, the President now proposes a second round of EZs/ECs to stimulate further private investment and economic opportunity in distressed urban and rural communities and to connect residents to available local jobs. The program would again challenge communities to develop their own comprehensive, strategic plans for revitalization, with input from residents and a wide array of community partners. The Administration would invest in communities that develop the most innovative plans and secure significant local commitments.

The second round would build on the President's "brownfields" tax incentive (described in Chapter 9), which would encourage businesses to clean up abandoned, contaminated industrial properties in distressed communities. Also, this round would offer a competitive application process that would stimulate the public-private partnerships needed for large-scale job creation, business opportunities, and job connections for families in distressed communities. The Administration would seek up to 105 new designations, with communities receiving a combination of tax incentives, direct grants, and priority consideration for waivers of Federal program requirements from the President's Community Empowerment Board, chaired by Vice President Gore.

The proposed budget for the second round includes $2 billion for tax incentives, including incentives for brownfields clean-up and small business investment, and $1 billion for direct grants and loans over three years. Each EZ or EC would have to identify performance benchmarks to show what it plans to accomplish in each year of the 10-year designation.

Community Development Financial Institutions (CDFIs)

Proposed by the President in 1993 and created a year later, the CDFI Fund is designed to expand the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. By stimulating the creation and expansion of a diverse set of CDFIs, the Fund will help develop new private markets, create healthy local economies, promote entrepreneurship, restore neighborhoods, generate tax revenues, and empower residents.

CDFIs provide a wide range of financial products and services—e.g., mortgage financing to first-time home buyers, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and basic financial services. CDFIs also cover a broad range of institutions—e.g., community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. These institutions, not the CDFI Fund, decide which individual projects to finance.

The budget proposes $125 million for the CDFI Fund, with gradual increases each year to bring the six-year total to $1.6 billion. Private sector interest in the program has already dramatically exceeded expectations. To date, the CDFI Fund has received requests for assistance from new and existing CDFIs of over $300 million, about 10 times the amount available for the first round.

These applications, however, barely scratch the surface of long-run potential. The Fund also plans to implement an aggressive, long-term program of training, technical assistance, and capacity building, which would help the CDFI field grow substantially over time while maintaining high-quality standards and market discipline. In addition, the Fund will inaugurate an annual Presidential Microenterprise Awards program and coordinate a new Federal Microenterprise Initiative.

Additional resources would enable the Fund to implement a new initiative to support private institutions that provide secondary

THE CLINTON ADMINISTRATION PROPOSES A SECOND ROUND OF EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

March 19, 1996

"We are helping America's communities--not with more bureaucracy, but with more opportunities--through our successful empowerment zones and community development banks, we are helping people to find better jobs and to start new businesses. And, with tax incentives for the companies that clean up abandoned properties, we can bring back jobs to the places that desperately, desperately need them."

-- President Clinton, State of the Union, January 23, 1996.

BUILDING ON THE SUCCESS OF THE FIRST ROUND OF THE EZ/EC PROGRAM: In 1992, candidate Bill Clinton promised to help revitalize distressed American neighborhoods with a number of initiatives--most notably enterprise zones and community development banks--that now form the Clinton/Gore Administration's "Community Empowerment Agenda." Thirteen years after the first enterprise zone legislation was introduced in Congress, President Clinton signed a bill to create 9 Empowerment Zones (EZ) and 95 Enterprise Communities (ECs) that would receive a combination of tax incentives and direct grants. The President also created the Community Empowerment Board, chaired by Vice President Gore, to provide regulatory relief and priority responsiveness for EZ/EC communities from the 17 federal agencies on the Board. The 1994 competition for the first round of EZ/EC designations resulted in over 500 applications, unprecedented new partnerships for community revitalization, and well over $ 8 billion in additional private/public commitments.

NATIONAL CHALLENGE FOR COMMUNITY EMPOWERMENT: The Administration proposes a second round of Empowerment Zones and Enterprise Communities to continue to stimulate economic opportunity in America's distressed communities. As in the first round, the President and Vice President would challenge communities to develop their own comprehensive strategic plans for revitalization, with the input of residents and a wide array of community partners. We would invest in those communities that developed the most innovative plans and garnered significant local and private-sector commitments.

OUTLINE OF THE CHALLENGE :

Number of New Designations: We will designate **20 Empowerment Zones** (15 urban, 5 rural or Indian Nation) **and 80 Enterprise Communities** (50 urban, 30 rural or Indian Nation.) These communities will receive a combination of tax incentives, direct grants and priority consideration for flexibility from the Community Empowerment Board.

Eligible Areas: Communities that were designated in the first round as Supplemental Zones and Enterprise Communities would be eligible to compete for the new designations, as would all other urban, rural and Indian Nation communities that meet the EZ/EC poverty criteria. (In lieu of the poverty criteria, outmigration may be taken into account in designating a limited number of new rural communities.)

Funding Levels and Types of Tax Incentives: The President's FY 1997 budget includes approximately $1 billion for tax incentives, such as a brownfields tax incentive for the targeted EZ/EC area and nearby industrial acreage, and incentives for business expansion and investment. It also includes $ 1 billion for direct grants, over three years. As in the first round, each designated community will be required to identify performance benchmarks for what they expect to accomplish each year of the ten-year designation.

SUMMARY OF BENEFITS TO NEW AND EXISTING EZs AND ECs:

Brownfields Tax Incentive: The President's Budget proposes a new brownfields tax incentive that would available to businesses located in all areas of 20% poverty, existing EZs and ECs, and new EZs and ECs that would be designated in the second round. With this incentive, a business could fully deduct the cost of environmental clean-up of contaminated properties within an EZ or EC.

Liberalization of Eligibility Rules for EZ Bonds and 179 Expensing: Changes would be made to the tax-exempt private activity bond provisions and the "enterprise zone business" definition, allowing a broader range of businesses to qualify for the EZ Bonds and the enhanced 179 expensing. This liberalization will apply both to the existing EZs and ECs and those that would be designated in the second round. (179 expensing applies only to EZs.)

SUMMARY OF BENEFITS TO ROUND II EZs AND ECs

Grant Awards: Each new EZ will receive up to $75 million in direct grants over three years (exact amounts will vary with the population of the local jurisdiction). Each new EC will receive direct grants of up to $3 million over three years.

Tax Incentives for EZs: Each new EZ will be afforded the following tax incentives:

Special Brownfields Tax Incentive. Extends the tax incentive for clean-up of brownfields (that will automatically apply to areas of 20% poverty) to up to 2000 acres of non-poverty, industrial acreage that will be the focus of job creation for zone residents.

Special Private Activity Bonds. $30-$240 million in flexible private-activity bond authority, outside the state volume cap, to subsidize large-scale job creation projects and business expansion in the zone. The amount of authority per zone will depend on the population size of the designated area. Authority may also apply to up to 2000 acres of non-poverty acreage.

Increased Section 179 Expensing. For zone businesses, $20,000 in additional expensing for investments in capital and equipment, with the liberalized eligibility rules noted above.

Regular EZ Bonds. Private-activity bond authority, subject to the state volume cap, with liberalized eligibility rules noted above.

Tax Incentives for ECs: Each new EC will receive the regular EZ bonds, with the liberalized eligibility rules and an extension of the Brownfields tax incentive to up to 1000 acres of non-poverty industrial acreage that will be the focus of job creation for zone residents.

homes to home- and community-based settings without Federal waivers.

- *Coverage expansions without waivers.*— The plan enables States, without waivers, to expand coverage to any person whose income is under 150 percent of the poverty line. States would pursue these expansions within their per-person limits, thereby limiting Federal costs.

Protections for the Most Vulnerable

The budget retains the policy of helping low-income seniors and people with disabilities by preserving the shared Federal-State responsibility for their Medicare premiums, copayments, and deductibles. It also retains payment protections for Medicaid-eligible Native Americans treated in Indian Health Service and other facilities. These protections are not subject to the per-person cap.

MAINTAINING AND EXPANDING COVERAGE FOR WORKING AMERICANS

Reforms to Make Health Coverage More Accessible and Affordable

In his State of the Union address, the President challenged Congress to enact insurance reforms to enable more Americans to maintain health insurance coverage when they change jobs, and stop insurance companies from denying coverage for pre-existing conditions. The budget proposes that plans make coverage available to all groups of businesses, regardless of the health status of any group members. Insurers would have to provide an open enrollment period of at least 30 days for all new employees (whether or not they were previously insured), and insurers could not individually underwrite new enrollees—i.e., their premiums would have to match other enrollees' with similar demographic characteristics.

To increase affordability, the President's insurance reforms phase out the use of claims experience, duration of coverage, and health status in determining rates for small businesses. To put the self-employed on a more equal footing with other businesses, the reforms gradually raise the self-employed tax deduction for health insurance premiums from 30 to 50 percent. And to help give small businesses the purchasing clout that larger businesses have, the budget proposes $25 million a year in grants that States can use for technical assistance and for setting up voluntary purchasing cooperatives.

Health Insurance for the Temporarily Unemployed

The budget gives premium subsidies to individuals who lose their health insurance when they lose their jobs, to pay for private insurance coverage for up to six months. States would receive funding to design and administer the program, which would provide coverage for about 3.8 million Americans a year. During the four-year period for which this program is authorized, a Commission would study and provide recommendations to the Administration and Congress as to making it permanent.

PROMOTING PUBLIC HEALTH

The budget continues our Nation's critical investment in basic biomedical research, an investment that plants the seeds for lifesaving advances in medicine. The budget proposes $12.4 billion for NIH, a $467 million increase over 1996 and a 20 percent increase since 1993. Further, the budget advances our efforts to eradicate, once and for all, the dreaded disease of polio. And it supports childhood immunizations, which have proven their cost-effectiveness time and again.

The budget continues the President's strong commitment to HIV/AIDS prevention and treatment. It increases funds to prevent HIV transmission by $34 million over 1996 levels. It increases Ryan White funding by $32 million over 1996 to ensure that our most hard-hit cities, States, and local clinics can assist those with AIDS. It increases funding for potentially life-prolonging therapies, including some of the newly-discovered drugs that show so much promise in treating AIDS. It increases support for drug treatment—one of the most effective forms of HIV prevention. And it increases AIDS research funding at NIH in the continuing search for effective treatments, vaccines, and a cure.

The budget also gives substance abuse treatment and prevention a 17 percent increase, helping expand efforts against drugs.

And it increases support for the Indian Health Service (IHS) by eight percent—keeping our Nation's commitment to Native Americans and continuing efforts to promote Tribal administration of IHS programs.

Biomedical and Behavioral Research: The budget continues the Administration's long-standing commitment to biomedical and behavioral research, which advances the health and well-being of all Americans. The \$12.4 billion proposal for the NIH invests in research directed to areas of high need and promise, as well as in basic biomedical research that would lay the foundation for future innovations that improve health and prevent disease. The budget includes increases for HIV/AIDS-related research, breast cancer research, high performance computing, prevention research, gene therapy, and developmental and reproductive biology. The Office of AIDS Research will continue to coordinate all of NIH's AIDS research. The budget also includes funding for a new NIH Clinical Research Center, which would give NIH a state-of-the-art research facility in which researchers would bring the latest discoveries directly to patients' bedsides. NIH's highest priority continues to be financing investigator-initiated research project grants.

Ryan White HIV/AIDS Treatment Grants: The budget proposes \$807 million for activities authorized under the Ryan White CARE Act, an increase of \$32 million over 1996. This level would fund grants to cities disproportionately affected by the HIV epidemic; to States to provide medical and support services; to community-based organizations to provide HIV early intervention services; and to support pediatric AIDS demonstration activities. In addition, the Administration has sought more funds for State AIDS drug assistance programs funded under Title II of the Ryan White program—to finance newly-discovered life-prolonging AIDS therapies, some of which are beginning to receive Food and Drug Administration approval. Under this Administration, funding for Ryan White grants has risen by 89 percent. The budget for 1997 would increase Ryan White funding by 132 percent since 1993.

HIV Prevention: The budget proposes \$618 million for Centers for Disease Control and Prevention (CDC) HIV prevention activities, a \$34 million increase over 1996. At the historic White House Conference on HIV and AIDS, the President made his commitment to HIV prevention clear: "We have to reduce the number of new infections each and every year until there are no more new infections." A portion of these funds would address the linkages between substance abuse and HIV infection.

Indian Health Service: The budget proposes \$2.4 billion for the IHS, a \$186 million increase. IHS clinical services—often the only source of medical care on isolated reservation lands—grow by \$138 million, maintaining our commitment to Native Americans. The budget allows the Tribes to continue taking greater responsibility for managing their own hospitals and clinics: it increases the "contract support costs" that help underwrite Tribal activities by 31 percent, to \$201 million. In addition, the budget proposes a major new initiative to bring water and sewer lines to those Native Americans still without adequate access to these basic necessities. This initiative would ensure that about 4,000 more Native American homes receive water and sewer lines—a step which has been critical to improving public health.

Substance Abuse Treatment and Prevention: The budget increases support for State substance abuse treatment and prevention activities by \$67 million, to \$1.3 billion. The budget reiterates support for Performance Partnerships, which would give States more flexibility to better design and coordinate their substance abuse prevention and treatment programs, and better target resources to local priority areas. In addition, it increases funds for substance abuse demonstration and training activities by \$140 million, to \$352 million. The budget establishes a \$20 million Substance Abuse Managed Care Initiative that, with the rapid growth of managed care, would help to establish service guidelines and design quality assurance, monitoring, and evaluation systems. This strong support for substance abuse activities would enable hundreds of thousands of pregnant women, high risk youth, and other under-served Americans to receive drug treatment and prevention services.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): WIC reaches over seven million women, infants, and children a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. As a result of funding increases under President Clinton, WIC participation has grown by nearly 25 percent in the past three years. The budget proposes $3.9 billion, to serve 7.5 million individuals by the end of 1997, fulfilling the President's goal of fully funding WIC in four years.

Immunizations: The budget proposes $957 million in spending on immunizations, including the Vaccines for Children program. For many diseases, the Administration is ahead of schedule to meet the goal of immunizing 90 percent of two-year-old children by 1996. The most recent figures show that, from April 1994 to December 1995, 90 percent or more of all two-year-old children were immunized against diphtheria, tetanus, pertussis, and hemophilus influenza type B. Further, rates for immunization against measles, mumps, rubella and polio are approaching the 1996 goals. Nevertheless, the Nation must maintain its efforts in order to lock in these gains and meet the goals for the remaining immunizations.

The budget also includes a major $47 million initiative in the Department of Health and Human Services (HHS) to eradicate polio—preventable through immunizations—throughout the world. (This HHS funding comes in addition to polio-eradication efforts that the Agency for International Development supports.) Polio is already gone from the Western Hemisphere. This shows that, like smallpox, polio can be wiped from the face of the earth, sparing all children from this crippling disease and saving the United States the hundreds of millions of dollars we now spend to immunize against it.

Infectious Disease: The budget proposes $88 million for CDC's cooperative efforts with States to address infectious disease, an increase of $25 million. It would support training and applied research, and States' disease surveillance capability. All Americans face threats from the onset of infectious disease problems, such as drug resistant bacteria, and emerging viruses, such as the hantavirus. CDC works with State health departments to monitor and prevent such problems and to contain outbreaks.

This Administration has energized State and local efforts to raise the educational achievement of every child and to create safe learning environments. It also has worked with Congress to improve the largest Federal education programs for disadvantaged children, focusing them more on results and less on process.

Goals 2000: This Administration initiative, enacted in 1994, supports State efforts to raise academic achievement for all students. Goals 2000 helps States and communities focus on results. It builds on the National Education Goals, first articulated by the Nation's governors (led by then-Governor Bill Clinton) and President Bush in 1989, which provide clear targets but encourage States to develop their own means to achieve them.

States and localities receive funds to set their own challenging academic standards for all children, then design their curriculum, teacher training, educational technology, instruction methods, and assessment tools around them. Goals 2000 also helps States and schools involve parents in the education of their children. Currently, nearly all States participate in the program.

The budget proposes $491 million for the program, 32 percent more than in 1995. Under it, every State and over 12,000 schools could receive grants.

Charter Schools: Charter schools are public schools that parents, teachers, and communities create, and that States free from most rules and regulations and hold accountable for raising student achievement. Begun as a grassroots movement in 1991, and supported by Federal start-up funds since 1995, public charter schools now number 250 nationwide, some of them already showing results in higher student test scores and lower drop-out rates. The budget proposes $40 million for public charter schools in 1997, and increases over the next five years to fund start-up costs for up to 3,000 such new schools.

Title I—Education for the Disadvantaged: Title I provides funds to raise the educational achievement of disadvantaged children. In 1994, the President proposed and Congress adopted changes to: focus Title I resources better on areas with the largest concentrations of low-income children; set the same high standards for those children as for all others; and hold schools accountable for progress toward achieving those standards. Schools now have much more flexibility in using these funds. The budget includes $7.7 billion, six percent more than in 1995.

Education Technology: Technology can expand learning opportunities for all students and help raise student achievement. Yet many school districts lack the necessary resources to integrate technology fully into their school curricula.

The President has launched a national mission to ensure that all children are technologically literate by the dawn of the 21st Century, with communication, math, science, and critical thinking skills essential to succeed in the Information Age. Specifically, the President proposes a Technology Literacy Challenge Fund, with four goals: (1) helping States put enough computers in every classroom; (2) connecting these computers to the Information Superhighway; (3) giving teachers the training they need to integrate technology into teaching; and (4) fostering the development of high quality, widely available edu-

HOW STATES USE GOALS 2000 TO ADVANCE THEIR REFORMS

In Maryland, scores on tests designed to measure progress toward the State's standards are increasing year after year.

In Michigan, 13 Upper Peninsula school districts are working with Bay Mills Community College and Lake Superior University to train teachers to use technology to improve math and science teaching and learning.

In Harrison County, Kentucky, Goals 2000 is helping train parents as volunteer instructional aides and reaching out to parents through cable television programs and homework hotlines.

tems). The partnerships enable the private sector to translate new knowledge into novel technologies that benefit its bottom line and society at large.

Science and Technology Highlights

Under the 1996 budget resolution, Congress would cut support to S&T programs by about 30 percent by the year 2002.[1] At a time when increased global competition threatens U.S. markets, and when Japan has proposed doubling its investments in S&T, the President believes we cannot afford such deep cuts. In his budget negotiations with the bipartisan congressional leadership, the President has repeatedly reaffirmed his commitment to economic prosperity, education, health, the environment, and national security. S&T investments are critical to these goals. The budget fulfills his commitments by:

Increasing Total Funding for Science and Technology: This budget marks the fourth straight year that the President has proposed increases in S&T investments. Table 10–1 shows the proposal to invest roughly $73 billion in research and development (R&D), over $1 billion more than in 1996.[2] In keeping with previous efforts, the budget also provides an increasing share for civilian R&D investments, with those investments at 47 percent of the total. Table 10–2 lists selected S&T highlights.

Boosting Funding for Basic Research and Health Research: The budget proposes $14 billion for basic research, a $278 million increase over 1996, including a four percent increase for the National Science Foundation. Given the importance of basic and applied health science research, the budget boosts funding at the National Institutes of Health by four percent.

Strengthening University-based Research: University-based research is key to America's future; simultaneously, it provides new knowledge and new technology, and it trains the next generation of scientists and engineers. The budget proposes $13 billion for university-based research, an increase of $155 million over 1996. It also proposes $22 billion for merit-reviewed research (six percent more than in 1996), which comprises 31 percent of the R&D budget.

Investing in Innovation to Create New Jobs and Industries: Under this Administration, many of the new jobs have been high-tech, high-wage jobs in industries like biotechnology and computing—jobs that didn't exist a decade or two ago. The budget maintains a strong investment in technology to foster these high-priority civilian S&T industries and jobs. Funding continues or expands for high-performance computing research; for the Advanced Technology Program, which works with industry to develop high-risk, high-payoff technologies; for a Manufacturing Extension Program to help small business battle foreign competition by adopting modern technologies and production techniques; and for other programs.

Increasing Environmental Research: S&T investments are critical for enhancing environmental quality. While we are making progress on many pollution fronts, emerging global environmental problems pose new risks. The budget maintains vital research to provide safe food, clean air, and pure water. It supports research into new environmental technologies to provide better environmental protection at lower cost, while generating jobs and exports. It supports programs to increase energy efficiency and the development of renewable energy sources that cut demand for foreign oil, and partnerships with industry to develop cars that use less fuel. The budget invests in programs that preserve biological diversity and help us understand and prepare for changing climate conditions and natural disasters. These investments also provide a sound scientific basis for rational rule-making on, and the cost-effective implementation of, environmental regulations. (For more details, see Chapter 9.)

[1] American Association for the Advancement of Science, 1995.

[2] Research and development (R&D) is a widely-accepted measure of investment in S&T.

(2)

THE PRESIDENT HAS SEEN
8-18-95

95 AUG 15 P12:4

THE WHITE HOUSE

WASHINGTON

1) Nice & great reader —

Gene — nice Porus comment

As I have said for 2 yrs, I strongly disagree w/ [illegible] Bc

August 14, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES
LAURA TYSON
GENE SPERLING

SUBJECT: Budget Working Group

Over the last four weeks we have jointly directed a Budget Working Group whose mission is to promote your balanced budget and point out the differences between your budget priorities and the Republican proposals.

Each White House office has loaned a senior staff member to this effort, as have several of the Cabinet Agencies. The Working Group as a whole meets daily, as do sub-groups on Medicare, Education and Training, the Environment, Technology, and Taxes.

The Budget Working Group has been responsible for marketing your budget priorities on the local, regional, and national level. This effort includes: rapid response to the appropriations votes, issuing daily talking points, mobilizing outside groups and validators, providing information to friendly Members of Congress, saturating the media markets of pivotal Members, and planning events and media for yourself, the Vice-President, Mrs. Clinton, and Cabinet officials.

The net result has been a series of positive news stories at the national and local level, highlighting the impact of the extreme GOP cuts, in sharp contrast with your more reasonable approach.

This document summarizes some of the major accomplishments of the Budget Working Group to date.

I. MEDICARE

- **Medicare Vouchers:** Realizing that Republicans had left themselves highly vulnerable on Medicare plans, the Budget Working Group began its activities in mid-July with an attack on the Republican Medicare voucher proposals. We prepared and distributed materials to Members of Congress and the press, arguing that under the GOP voucher proposal, beneficiaries face a simple, cruel choice: choose to pay more or choose to get less.

  Strategy. Following the Robert Pear story in the *New York Times* on Monday, July 17, which suggested that the GOP Medicare proposal would raise costs for millions of beneficiaries, we built a strategy around Judy Feder's July 18 testimony before the House Commerce Committee and HCFA Administrator Bruce Vladeck's July 20 testimony before the House Ways and Means Health Subcommittee. Both were very critical of Republican voucher proposals, focusing on: (1) how the Republicans would constrain spending far below the private sector; and (2) how much more beneficiaries would pay under the Republican plan to stay in a plan that allowed them to choose their own doctor.

  Amplification. Democratic Senators held a press conference following Administrator Vladeck's testimony and talking points were widely distributed to Democrats on the hill. Members of the Cabinet and Sub-Cabinet conducted print and radio interviews into 50 targeted markets. Secretary Shalala, Dr. Tyson, Alice Rivlin, and Gene Sperling interviewed with the major national newspapers.

  Media Coverage. Our attack received significant positive press coverage, including: the *New York Times*, the *Washington Post*, the *Wall Street Journal*, *USA Today*, and *AP*. On Friday, July 21, *CNN* aired a story in their hourly news-reel on the heat the Republicans are feeling over Medicare cuts.

- **Medicare 30th Anniversary Event.** This event was designed to show Democrats on the Hill that we would stand with them in the coming weeks and make Medicare a major issue in the Budget battle. This event also provided a major forum for you to highlight the Republican increases in Medicare premiums and out-of-pocket costs to seniors on the 30th anniversary of the bill.

  Media Coverage. Your speech received extensive positive converge on the evening newscasts on *NBC, ABC, CBS, CNN, and CNBC*. Two of the three networks quoted you saying, "we cannot afford to bankrupt older Americans in the name of tax cuts for the wealthiest Americans."

  The *New York Times* printed an op-ed the day of your speech, warning that on the 30th anniversary of Medicare, the Republican plan to cut $270 billion over seven years by giving vouchers to beneficiaries "could cause serious damage."

Amplification. Cabinet and senior White House staff were booked into targeted radio in more than 40 local media markets. Cabinet and senior White House staff also conducted press calls to national press, focusing attention on your message about the Republican movement from the 30 year common ground of protecting the health security of older Americans. Your speech was mailed to 150 editorial boards and older American and health care trade press.

- **Medicare 30th Anniversary Radio Address (taped Friday, July 28).** Realizing that a "news hook" was needed for the radio address, we acted on an idea suggested by Alan Cohen at Treasury and directed HHS and Treasury to compute the number of Americans who would be forced into poverty under the latest draft of the Republican Medicare proposal.

  The 500,000 poverty number was inserted into your remarks and your radio address with the First Lady received extensive press coverage, leading *CNN* news all day Saturday, and producing favorable stories in both the *Washington Post* and the *New York Times*] -- the 500,000 number was featured prominently in each of the stories.

  Amplification.
  Your radio address was mailed to top 150 editorial boards, African-American, Hispanic, women's and older American press. We issued a press paper detailing the number of seniors who will be forced into poverty under the Republican plan. Regional radio and print interviews were conducted with the seniors attending the radio address, into their hometowns.

- **State-by-State Data on Medicare**: State-by-State analyses of the Republican Medicare and Medicaid cuts were released on Friday, July 28, coinciding with your radio address.

  Amplification. Chief of Staff Panetta briefed reporters on the state-by-state data, Friday afternoon, July 28. Analyses were sent to radio stations, ed. boards, and television outlets in all 50 states. Cabinet and sub-Cabinet officials conducted numerous radio and print interviews into targeted markets.

  Press releases/statements were released by: State Democratic Legislative Leadership in CA, FL, IL, Iowa, MI, MO, NB, NJ, NY, PA, OR; the governors in: WVA, MD, FL, DE, CO, and Lt. Governors in CA, MO, RI.

- **Medicare Education:** Seeing the need to provide reporters with basic education on the status of the Medicare Trust Fund, Administration actions, and the Republican plan, we organized a series of reporter briefings by Dr. Tyson and Judy Feder (HHS) with assistance from Chris Jennings, and Gene Sperling.

  These briefings, based on the "White House Medicare Briefing Document," which you have read, explains:

  (1) What the Part A Trust Fund is and how it differs from the Part B Trust Fund;
  (2) The history of the solvency of the Part A Trust Fund;
  (3) What you have done to improve the solvency of the Trust Fund; and
  (4) How the proposed Republicans cuts are not necessary to extend the solvency of the Trust Fund.

- **To date, we have conducted 17 Medicare briefings -- 5 for national media and 12 for regional reporters** -- using the county-by-county data as a hook for regional reporters. Lorrie McHugh, April Mellody, Peggy Lewis, Josh Silverman and Laura Schwartz from the Press Office played an instrumental role in putting these briefings together.

  Network Corespondents
  Bureau Chiefs
  National Newspaper Writers (Toner, Pearl, Oliphant, Dowd, etc.)
  Pundits (Clift, Broder, etc)
  Rustbelt Tong
  Big East Tong
  Business Writers Tong
  Banking, Finance, and taxes Tong
  Economic Tong
  Shanahan Tong
  Loubsdorf Tong
  Radio Tong
  CNN Bureau

- **County-by-County Data:** County-by-county data on Medicare was released on Monday, August 7 to coincide with the series of Medicare education briefings for reporters, and the Gingrich Medicare event in Atlanta, also held that day. The county-by-county data has exceeded all of our expectations in terms of media coverage -- each of the state-wide AP wires broadcasted the county data and stories were printed in literally hundreds of local papers.

  Amplification. Press releases on the county numbers by county executives in the following states: Ohio, Iowa, Wisconsin, Michigan, Florida, Virginia, Washington, Illinois, CA, Minn., MD, Kentucky, Georgia, Deleware, PA, Oregon.

- **Regional Media.** We have also set up a recess regional media strategy focusing primarily on Medicare. The attached grid indicates the hundreds of media calls being placed.

- **Trustees Op-Ed:** Jennifer Klein from the First Lady's office pieced together an excellent op-ed by Secretaries Rubin, Shalala, and Reich for placement later this week.

II. EDUCATION

- **State-by-State Data on GOP Education Cuts:** With significant coordination by Ken Apfel at OMB, and help from NEC, DoEd, and DOL , a state-by-state analysis was prepared for release Friday, July 21, 1995. Over 50 reporters were targeted for calls by Cabinet and Senior White House Staff. 50 Separate press releases were prepared for each state. When the Committee did not finish within the news cycle, we decided to hold this report for release Monday, July 24, in conjunction with your Boys' Nation Speech.

  Waiting for your Monday speech proved to be a major positive. While national media coverage of the speech centered mostly on your re-engagement in the budget debate, (Your threat, "I will continue to act, alone if necessary," was heavily reported), regional coverage paid significant attention to the education numbers.

  Amplification. We released a press document highlighting the Republican movement from the common ground on the issues of Education, Health Care For Seniors, Helping Working Families, and Environment/Public Safety. George Stephanopoulos and Dr. Tyson hosted a breakfast with Network Correspondents the morning of the speech. Director Rivlin, Dr. Tyson, and George Stephanopoulos briefed columnists. Director Rivlin and Dr. Tyson briefed business journalists. Your speech was mailed to top 150 editorial boards, African-American, Hispanic, women's and older American press.

  Nearly 2000 copies of the report were distributed to education groups, members of Congress, state and local officials and regional media. Over 50 calls by senior Administration officials were made to regional media and editorial boards. Statements were issued by elected officials in nearly 25 states. Regional media conference calls were conducted by Secretaries Reich and Riley and by White House staff. The following Governors issued releases on how the Education/Labor/HHS appropriations bill will impact their state: Caperton, Nelson, Bob Miller, Romer, Glendening, Carper, Knowles, Carnahan, Gray David (Lt. Gov. CA), Lt. Gov. of VA--Beyer

Education Committee Chairs in the state legislatures from the following states sent out press releases on how the Education/Labor/HHS appropriations bill will impact their state: Arkansas, Kentucky, Louisiana, Mississippi, Missouri, New York, Oklahoma, California., Massachusetts, and Oregon.

The Democratic Legislative Leadership in the following states issued releases: Ohio, Minnesota, and Michigan, Vermont, Connecticut.

Media Coverage. The state reports received good press coverage -- the data was picked up by the AP Newswire and stories appeared in several regional papers.

- **American Federation of Teachers (Friday, July 28)** The Republicans handed us a gift, by choosing to call for the elimination of Direct Lending on the same day as your speech. Your quotes on Direct Lending were picked up by the news wires and the inside-Washington press *(Post, Congress Today, Hotline, etc.)*

    Amplification. Your speech was mailed to 150 editorial boards. The Department of Education issued several press releases on Direct Lending and Deputy Secretary Kunin held several conference calls with reporters. A dozen African American college presidents wrote op-eds blasting the GOP cuts. OMB Director Rivlin released a letter blasting the Republicans for trying to repeal Direct Lending.

- **Meeting with Congressional Democrats and Education Practitioners.** Your meeting in the Cabinet Room on August 3 with Congressional Democrats and 10 education practitioners on the day of the House vote on Labor/HHS/Education appropriations served to reinforce your commitment to education and your concerns regarding the bill approved by the House later that day.

    Amplification. The people chosen to participate were so strategically to pressure on key Members of Congress as they cast their votes on Labor/HHS. Media Affairs set-up print, TV and radio interviews in targeted congressional markets (Buffalo, Cleveland, Pittsburgh, Worcester, Madison and Baltimore) with the participants.

    Media Coverage. This event received heavy coverage from *CNN* all day as a lead-in to stories on the House vote. Newspaper and television stories appeared in <u>all</u> of participants' home media markets. Your quotes from the pool stray were in the *New York Times* and *Washington Post.*

    Impact. While the bill was eventually approved, it should be noted that none of the targeted Members representing individuals we invited to the event ended up voting in favor of final passage.

III. ENVIRONMENT

- **GOP Anti-Environment Riders (Rapid Response -- Part 1).** On Friday, July 29, the House considered the VA/HUD Appropriations bill. An amendment to retain the Environmental Protection Agency's jurisdiction to enforce clean air and clean water rules was passed (212-206).

  Following the floor vote, the Budget Working Group mobilized and had the Vice President brief reporters on the GOP Environmental cuts. The Vice President did a White House briefing and was quoted in a very positive *ABC News* story. His quotes also appeared in the first few paragraphs of stories in the *Washington Post* and *New York Times*.

- **GOP Anti-Environment Riders (Quick Response -- Part 2).** On Tuesday evening, August 2, the House voted to restore the anti-environment riders to the Va/HUD appropriations bill. The Budget Working Group mobilized quickly, and prepared a hard hitting statement for you to read to reporters in the White House briefing room the following morning.

  √ You statement was picked up by all CNN, ABC, NBC, and CBS, and *the Washington Post, New York Times, Los Angeles Times, Boston Herald, Chicago Tribune*, and numerous local and regional newspapers.

- **Environment Speech and Issuance of Executive Order.** After two weeks of planning by the Budget Working Group (and negotiations with the various offices involved), an Executive order was prepared for you to deliver a strong rebuttal to the GOP environmental roll-back.

  √ Your health,safety, and environment event in Baltimore on August 8, was by all accounts a success, receiving very positive coverage on *NBC, CBS, CNN, FOX*, and in hundreds of major daily newspapers and regional print and radio.

  √ *NBC* news ran a 5 minute story describing how the Republican cuts would drastically rollback years of environmental progress.Regional clips are attached.

Prior to the event, we put Carol Browner in the press briefing room to explain the affect of the Executive Order. Carol and her Communications Director Loretta Ucelli played an exceptional role developing and implementing our Environemtal message.

Time, *Business Week*, and the *Washington Post* are expected to run articles in the next two weeks on the influence of special interests on the Republican budget cuts.

In conjunction with your event, Governors and Legislative Leaders and Committee Chairs put out press releases on the environmental impact of the Republican cuts.

We released Environmental State-by-State impact numbers.

IV. COMPREHENSIVE STATE-BY-STATE ANALYSES

- We prepared a booklet for the House Recess highlighting the state-by-state impact of the Republican cuts on Older Americans, Students, and Working Families. As of 8/14/95, this book has been distributed to more than 10,000 persons and media outlets from the White House. The DNC has also reproduced the book and sent it to thousands of local supporters on the ground in states across the country. Groups are also using the book daily in their attacks on the GOP cuts. Book is available via the internet and through various forms of electronic media.

V. PEROT

In preparation for Perot's United We Stand convention in Dallas, we released a report to the press comparing the Administration's record with Perot's campaign promises.

VI. MEDICAID

We are preparing a Medicaid document similar to the White House Medicare Briefing Document that we have been using to educate the press.

VII. CITY-BY-CITY DATA

Analysis of impact of GOP cuts on 50 major cities should be completed this week. We are looking at several options for timing the release (possibly in conjunction with the Mayors' meetings in Seattle on August 28, or as part of the back to school rollout.

VIII. BACK TO SCHOOL

A memo was sent to you on Monday, August 14, outlining our back to school plans, including two weeks of ramp up activity by Cabinet and groups, and 1 week of White House events (September 11). **A sub-group met today to finalize plans and begin implementation.**

IX. GOP MEDICARE PLAN

Planning continues for the last two weeks of September. We are working on strategy to counter GOP release of Medicare plan set for September 21.

X. VALIDATORS

Attached is a comprehensive grid indicating our strategy for validation outreach on Medicare. This grid, the product of the tireless efforts of Susan Brophy (Legislative Affairs), Emily Bromberg (Intergovernmental Affairs), Marilyn Yager (Public Liaison), Kris Balderston (Cabinet), and Leslie Thornton (Validators), we have laid out a plan for massive regional media outreach over the next few weeks on Medicare.

This plan includes: Cabinet, Sub-Cabinet, Regional Administrators, Groups, and Intergovernmental Officials.

DoD COMPTROLLER

TO: Vicki Radd

TELECOPIER NO: 456-1647

OFFICE PHONE NO:

COMMENTS:

FROM: OFFICE OF THE DOD COMPTROLLER
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100
FAX NO: (703) 614-2378

POC: Alice Maroni Phone: 697-6142

COPY SENT: DATE: 1/31 TIME: 8:50

THIS CASE CONSISTS OF 3 PAGES (INCLUDING THE COVER SHEET).

TELEFAX

given to OMB 1/19

Balanced Budget Amendment

B/f end of day.

- o A balanced budget amendment would hold serious implications for the Department of defense in two major ways.

- o The first problem is achieving a balanced budget by fiscal year 1999. All Americans would support that. But this would necessitate cutting an estimated $925 billion (estimate -- needs OMB refinement) from federal spending over the next five years.

  - oo We can't cut back on interest payments.

  - oo Social security cuts and other entitlement cuts are politically untouchable.

- o If history is a guide, all the cuts will be concentrated in discretionary spending. Defense is half of discretionary spending. Cutting $925 billion from discretionary spending would impose as a minimum a $465 billion cut in defense spending.

- o A ~~$465 billion cut in~~ defense spending over 5 years would cripple national security:

  - oo This would cut one out of every 3 dollars we plan to spend on defense over the next 5 years.

  - oo This would be 4 times the amount saved through the Bottom Up Review.

  - oo It would necessitate firing or discharging over 600,000 individuals.

  - oo It would pose a crippling blow to the high technology elements of our economy and our most advanced research and development activity.

- o The second major problem posed by a balanced budget amendment is its implementation once it is enacted. The smallest changes in the economy would necessitate sweeping program cuts.

  - oo A one percent increase in the prime interest rate would create an immediate first year increase in the deficit of $5 billion, and a $114 billion increase in the deficit over five years. (This needs updating by OMB.)

  - oo A one percent fall in GNP would create a first-year increase in the deficit of $8 billion, which would grow to $248 billion over five years.

- oo Entitlements are in large measure sheltered from such changes because their benefits are linked to changes in the economy.
- oo Interest payments can't be deferred or scaled back.
- oo Therefore, the cuts would be concentrated in discretionary spending, with defense spending carrying at a minimum over half of the cuts.

- o A balanced budget amendment would require cuts not only in the immediate fiscal year but over the succeeding 4 years as well. As such, within a few month's notice the Defense Department could be required to cut out $7-10 billion immediately and $170-190 billion over a five year period.

- o DoD programs are managed over long periods:
  - oo It takes 16 years of schooling and proper assignments to prepare a battalion commander.
  - oo The average major procurement program requires 8 years of development and testing.
  - oo Production lines are set up anticipating stable production rates.
  - oo We must order spare parts 3 years ahead of anticipated use in order to insure readiness of forces.

- o We can't just turn on and off defense programs just because of relatively small changes in the economy.

- o The Department of Defense is not opposed to balanced budgets. DoD has suffered more from deficits than any other area of federal spending because DoD has always been included in any deficit reduction plan and has been virtually the only segment that has complied with spending reductions. But a balanced budget amendment, mechanically and ruthlessly applied, could be crippling to Defense.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

October 11, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON Laura D. Tyson

SUBJECT: **THE SHORT-RUN MACROECONOMIC CONTEXT FOR FY1996 BUDGET DECISIONS**

During the next three months, the Administration will be making critical policy choices for the FY1996 budget. These decisions will be guided by several economic and political considerations. One of these considerations will be an assessment of the macroeconomic environment we are likely to face during the next two years and how our budgetary decisions might affect it, for better or worse. In conjunction with the OMB, the CEA prepared the following evaluation of current and likely macroeconomic developments between now and 1996 to serve as background in our budget discussions.

The macroeconomic prospects over the next two years look sound.

- Although the current expansion is middle-aged by historical standards, most forecasts (including those of the Administration, CBO, the Federal Reserve and the Blue Chip Consensus) predict continued growth through the next two years, albeit at a slower rate, along with a modest increase in the inflation rate. The probability of a recession occurring during the next two years is small. Although growth is likely to slow noticeably from its pace so far this year, most forecasters predict that growth over the next two years will be sufficient to preclude a significant increase in the unemployment rate and to achieve the eight-million job target by election day, 1996.

The economy has closed the gap.

- A variety of economic indicators suggest that the economy is currently operating very close to its potential output level--that is, the level of output beyond which inflationary pressures will intensify. Moreover, most economists believe that the economy's potential output level grows at about 2.5 percent per year (based on labor force and productivity trends). According to this logic, if growth does not moderate to this range in the coming year, a more dramatic uptick in the inflation rate than that already embodied in most forecasts is likely.

- Output growth in excess of 2.5 percent is not sustainable in the long run unless trend productivity growth increases in response to greater private and public investment. The strong productivity growth realized over the last two years is comparable to the productivity growth realized during the economy's last cyclical expansion in the 1980s. On the basis of the available evidence, it would be premature to conclude that the economy's trend productivity growth has actually increased during the last two years.

- Most forecasters in fact predict that the economy's growth rate during 1994 and 1995 will average about 2.7 percent, slightly above the economy's long-run potential growth rate, before settling onto its potential output path. This should be understood as an optimistic forecast because it predicts that the economy will "glide" into its long-term potential growth rather than overshoot it on the upside and then cycle into a recession, overshooting it on the downside as well.

Risks to the outlook for 1994 and beyond.

- During the next two years, the economy is likely to run close to its potential and inflationary pressures are likely to intensify. This in turn increases the risk that the Federal Reserve will err on the side of excessive caution, raising short-term interest rates so high that growth falters. A possible Fed overreaction of this sort and a possible spike in oil prices are the two main risks to the forecast of continued growth. Either eventuality could slow the economy considerably and, if severe enough, might even cause a recession. A sharp increase in short-term interest rates by an inflation-shy Federal Reserve has been the mechanism whereby most previous expansions of the American economy during the postwar period have ended.

The yield curve is still very steep.

- Long-term interest rates have increased more or less in line with short-term interest rates all year--and the real long-term interest rate is high (between four and five percent, depending on what measure of inflationary expectations one assumes). Both observations have led some to conclude that long-term rates might ease somewhat in the medium term. But as long-term rates continue to rise here and around the world, the prospects of easing look increasingly weak, especially as growth and the attendant demand for long-term funds pick up around the world.

The rest of the world is growing faster than anticipated.

- Forecasts for growth in the rest of the world have been revised upward in recent months, and the prospects for a self-reinforcing cycle of broad-based global growth have improved. On the positive side, this will boost U.S. export growth; on the negative side, this will intensify the global demand for long-term capital and keep long-term interest rates high.

Fiscal policy is neutral.

- On its current path, fiscal policy is essentially neutral through the end of the decade.

A deficit-neutral tax cut will have no macroeconomic effect.

- A deficit-neutral tax cut--that is one financed by offsetting tax increases or spending cuts designed to leave the deficit unchanged--will have no discernible macroeconomic effect in either the short run or the long run.

CONCLUSIONS

Under current and projected macroeconomic conditions for the next two years, it would be economically unwise--as well as politically unwise--to propose a temporary "unfunded" fiscal stimulus for FY1996, whether in the form of a temporary tax cut or a temporary spending increase. Such a proposal would jeopardize the Administration's hard-won reputation for fiscal responsibility, would encourage the Federal Reserve to act more strongly against the dangers of excessive growth and inflation, and might well encourage long-term interest rates to rise still further.

In contrast, the likely short-run macroeconomic effects of additional deficit reduction in the FY1996 budget package are more uncertain. In the best case scenario, the announcement of a credible deficit reduction proposal could exercise downward pressure on long-term interest rates, ameliorate fears of continued inflationary pressures, exercise a moderating influence on Fed decision makers, and provide an additional boost to private-sector confidence. Such beneficial short-term developments in turn could foster a higher rate of private investment, which along with more public investment , remains the solution to our long-term productivity problem. Moreover, if we are as lucky as we were with our OBRA budget package, all of these beneficial effects could begin to take shape as soon as our package was announced, well before it was actually voted upon and implemented.

However, in the worst case scenario--in which financial markets do not respond adequately and Fed policy continues to restrict growth--an additional dose of deficit reduction beginning in FY1996 could actually have the perverse effect of slowing an already slowing economy. By themselves, both spending cuts and revenue increases to reduce the deficit tend to reduce the economy's growth in the short-run. Only in the happy and uncertain eventuality that short-term and/or long-term interest rates fall enough to offset these direct contractionary effects, will the economy's growth rate be unaffected.

As already noted, in 1996, the current expansion will be quite old by historical standards. Moreover, the danger that the Federal Reserve will err on the side of excessive contraction in the coming year cannot be discounted; indeed, the historical record on this score is hardly a source of optimism. And given the lags in the effects of monetary policy, a contractionary Fed policy in 1995 raises the odds that 1996 will be a slow-growth year. Under these circumstances, it may be unwise to add an additional dose of fiscal contraction in that year. At the very least, it would seem prudent to limit the size of any additional deficit reduction undertaken in 1996 so that its direct contractionary effects would be insignificant. Such a course need not be inconsistent with the announcement of a significant multi-year deficit reduction package in our FY1996 budget proposal, as long as the lion's share of the package's spending cuts (and/or revenue increases) take effect in FY1997 and beyond.

Finally, it is important to emphasize that the foregoing analysis should not be interpreted as endorsing or criticizing a decision to propose such a package in our FY1996 budget submission. The likely macroeconomic conditions over the next two years are only one of many competing economic and political considerations on which such a decision depends.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

BR|SM

THE CHAIRMAN

December 7, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON

Subject: Some Thoughts on Additional Deficit Reduction and Our Budget Strategy

In determining how much additional deficit reduction should be incorporated in our 1996 budget for the 1996-2000 period and beyond, several economic considerations should be taken into account.

1. According to the Administration's new economic forecast, the deficit line is somewhat worse than predicted by our earlier forecasts, both in absolute terms and relative to GDP. Contrary to our earlier forecasts, the deficit/GDP ratio rises to the 2.7-2.8 percent range during the next five-year period, rather than remaining in the 2.4 percent range. By comparison, the deficit-GDP ratio averaged 4.4 percent in the eight years of the Reagan Presidency and nearly 5 percent under the Bush Presidency.

The deterioration in our deficit projection is almost entirely the result of a sizeable increase in our forecast for short-term interest rates compared to our previous forecasts. The CEA, the Treasury, and the OMB--the agencies responsible for the official Administration forecast--believe that our new interest rate forecast is a credible one and that any forecast predicting significantly lower interest rates would err on the side of excessive "rosiness".

2. As I noted in an earlier October memorandum, the macroeconomic prospects over the next two calendar years remain favorable. Although growth is likely to slow noticeably from its pace this year, our forecast predicts that it will be sufficient to preclude a significant increase in the unemployment rate over the next two years and to achieve the eight-million job target by election day 1996.

It should be emphasized, however, that this forecast is an optimistic one, because it predicts that the economy will "glide" onto its long-term potential growth path of 2.5 percent rather than overshoot it on the downside. Given the unexpected strength of the economy in the last quarter of this year, the risks are now considerably greater than they were in October that this perfect landing scenario--which is embodied in our new forecast--

will not be realized. Consequently, it is likely that some private forecasters will predict a mini cycle, with growth dipping to the 2.0 percent range or lower by late 1995 or early 1996, before recovering later that year. As an illustration, in its most recent December forecast, DRI predicts growth of only 1 percent for the second half of 1995 and 1.7 percent during 1996. These growth rates are too low to prevent an increase in the unemployment rate.

3. On our current budget path, assuming no additional deficit reduction between 1996 and 2000, fiscal policy is essentially neutral through the remainder of the decade. Therefore, any additional deficit reduction would by itself exercise a contractionary effect on aggregate demand and growth. Of course, this effect could be offset if the Federal Reserve responded with short-term interest rate reductions or if the financial markets responded with long-term interest rate reductions. In either case, both the magnitude and the timing of such reductions would determine the extent to which they offset the direct contractionary effects of deficit reduction. Only in the happy and uncertain eventuality that short-term and/or long-term interest rates fell enough to offset these effects would the economy's growth rate be unaffected.

It is important to keep in mind, however, that the lagged effects of Fed interest rate hikes this year and early next year are likely to exercise their maximum braking force on growth late next year and through early 1996. This is exactly the time when any additional spending cuts scheduled for FY1996 would exercise their contractionary effect, reinforcing the slowdown resulting from previous Fed actions, and giving the economy a double hit.

5. Over the next two years, the course of Federal Reserve policy is not likely to be much affected by our budget plan--first, for the obvious reason that our plan is not likely to be the one the Congress passes; and second, because the Fed's actions during this period are likely to be directed at holding the line on inflation, the course of which is not likely to be much affected by our plans for additional deficit reduction beginning in FY1996 or beyond. Over the longer term, however, continued deficit reduction would allow for a shift in the mix of macroeconomic policy toward less monetary restraint, lower short-term interest rates, and more investment.

5. In the best-case scenario, the announcement of additional credible deficit reduction would also exercise downward pressure on long-term interest rates during the next two years, and this, in turn would have a beneficial effect on investment and growth. But this best-case scenario seems less likely in 1995 and 1996 than in 1993 for two reasons. First, the financial markets, like the Federal Reserve, are not likely to view our budget plan as

the one that will be enacted by the Congress. Second, according to most observers, including the CEA, the dramatic increase in long-term rates this year--which is a global phenomenon--is primarily the result of faster than anticipated growth both in the United States and in the rest of the world. Unless our 1996 budget package had a perceptible effect on growth prospects either at home or abroad, it would not have much effect on the course of long-term interest rates in the foreseeable future. And if the risk of a substantial slowdown late next year is realized, long-term interest rates will moderate anyway.

None of this is to deny that a credible plan for long-run deficit reduction in the 1996 budget would have a moderating effect on the course of long-term interest rates over time. Rather, the point is that the announcement of such a plan is not likely to have a perceptible effect on long-term interest rates in the next year or two.

6. Although for the reasons just noted, the announcement of additional deficit reduction in our 1996 budget is not likely to have much effect on financial markets or the course of monetary policy during the next two years, the announcement of an irresponsible package could have damaging effects. The Administration has a reputation for credibility on the deficit with both the Federal Reserve and the financial markets. If we act irresponsibly--for example, by adopting rosy scenarios in our forecasts or by promising tax cuts that are not financed by offsetting spending cuts--we could lose our hard-earned credibility very quickly. This could be quite damaging to our ability to use the threat of a potential veto to calm the markets in the face of concerns about irresponsible budget actions by the Republicans.

7. The Administration will have to find a credible way to respond to both the balanced budget amendment and to the report of the Kerrey Commission. Submitting a budget that simply holds the deficit in FY1996 to its FY1995 level, along with a commitment to do the same in our FY1997 budget submission, is not likely to be an adequate response. Moreover, with our new deficit projections, even the task of holding the line on the 1996 deficit will not be an easy one. For example, a total of $35 billion in spending cuts would be required to achieve this task and cover $10 billion in lost revenues resulting from a middle-income tax cut that went into effect in the summer of 1995. As this simple example illustrates, while it may be possible to find the spending cuts required to pay for middle-income tax relief and to hold the line on the deficit--or to reduce it still further over the next five years--timing the spending cuts to match the revenue losses and meet a particular time path for the deficit will be much harder to do.

8. A credible Administration response to the Kerrey Commission

report and to the likely imposition of an entitlement cap in the Republican budget submission requires some proposed actions in the area of entitlement spending (excluding Social Security which has apparently been ruled off limits by the political dynamics of the 1994 election.) Moreover, the simple arithmetic of entitlement growth over the next decade shows that the main problem is projected growth in federal health care spending on Medicare and Medicaid.

Administration officials have repeatedly said that our plans for additional deficit reduction would involve adjusting federal programs on health to realize additional savings. In addition, you have said that you want to use savings from existing federal health programs in part to finance new health care reforms.

Taken together, the realities of the entitlement problem and the Administration's previous comments suggest that our 1996 budget should contain some credible actions to restrain the growth of federal health spending over time, with some of the anticipated proceeds channelled to possible health care initiatives in the private sector--such as subsidies for children or tax credits for the purchase of health insurance--and the remainder devoted to gradual deficit reduction. One possible set of proposals might include: proposing extension of all of the OBRA1993 Medicare actions; introducing competitive bidding procedures for public service health contracts; turning the Medicaid program over to the states with greater flexibility in program operations in exchange for slower growth in federal spending; adjusting Medicare rules to make it more cost-effective and attractive for patients to join HMOs; means-testing the Premium B contribution for Medicare recipients; and appointing a Health Care Commission charged with the task of developing specific recommendations for achieving a targetted reduction in the baseline growth rate of federal health care spending on all programs--Medicare, Medicaid, Veterans, Defense, Public Health, and Tax expenditures for Employer-based health insurance. The impending insolvency of the Medicare Trust Fund by 2001 is a compelling motivation for establishing such a commission now, just as the impending insolvency of the Social Security Trust Fund was a compelling motivation for the establishment of the successful Greenspan commission.

9. Bold actions to curb the growth of entitlement spending over the long run will maintain our commitment to deficit reduction, without subjecting the economy to the short-run contractionary risk of significant cuts in 1996, and will have a moderating influence on interest rates with beneficial effects on economic growth over time.