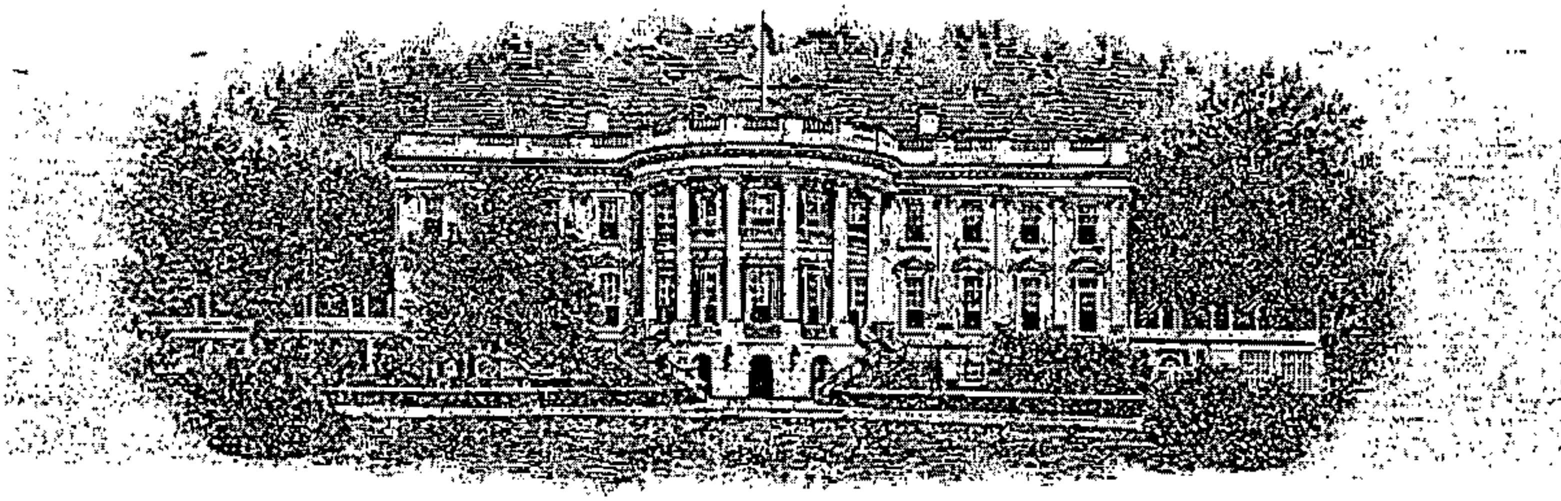
The White House



DOMESTIC POLICY

FACSIMILE TRANSMISSION COVER SHEET

SHUTDOWN 1995

TO: Gene

FAX NUMBER:

TELEPHONE NUMBER:

FROM: Chris J.

TELEPHONE NUMBER:

PAGES (INCLUDING COVER):

COMMENTS: See attached

THE WHITE HOUSE

WASHINGTON

Gene:

Here is the draft analysis I received from OMB on the cost-shift issue. As I noted, CBO (last year) did score a 25% cost shift resulting from deep Medicare cuts.

As you'll note from the enclosed, the latest available analysis suggests that cost-shifting may be less prevalent (or even non-existent) in those places where a heavy managed care presence makes it very difficult to do.

The other relevant cite listed in the enclosed is from the Medicare Prospective Payment Commission 1994 report. I'll type these up to be used as sources & look elsewhere as well. Give me half a day before you call Treasury, ok

DRAFT

Medicare Cost-Containment and Cost-Shifting I

CBO and Cost-Shifting

During the health reform legislative process, CBO decided to include the impacts of cost-shifting from Medicare price reductions.[1] For a health reform proposal financed through Medicare price reductions, CBO would assume that 25% of the Medicare reductions are "cost-shifted" on to private payers. If one accepts CBO arguments, this shifting raises private insurance premiums by 25%. Increased private insurance premiums require additional federal subsidies to help cover individuals eligible for subsidies. Thus, other things being equal, a $100 Medicare price reduction will result in a $25 increase in private premiums. Since many employers pay some or all of their employee's health insurance premiums, increased premiums translate into lower wages which, in turn, result in lower federal tax revenues. Although we are not privy to CBO's estimation process, based on a 25 % cost-shift we estimate that a $100 Medicare price reduction translates into roughly $8 of lost federal tax revenue.

The implications of the decision are broader than health reform if CBO scores any Medicare price reduction as having a negative revenue impact. Informal communication with CBO suggests that they may not score cost-shifting impacts if Medicare reductions are proposed as part of a "normal" deficit reduction package (although no logical argument is offered).

Inconsistencies in CBO's Scoring Approach

• CBO scores cost-shifting impacts for hospital and physician price reductions only.

• It stands to reason that a threshold effect might govern cost-shifting—is there some dollar amount that triggers cost-shifting? CBO scores cost-shifting with no threshold effect. CBO would likely acknowledge a threshold effect, but assert that their 25% assumption accounts for both the threshold and the rate.

• If there is a threshold effect, logic dictates that it should be proportional to revenue and provider specific. In scoring cost-shifting impacts, CBO should be able to offer some evidence that providers cost-shift when some proportion of their revenues are threatened. Moreover, hospital price reductions should not trigger physician cost-shifting, and vice-versa.

• To our knowledge, only Medicare price reductions have been treated as having cost-shifting effects. Presumably, any federal reduction in Medicaid spending that could be interpreted as a price reduction could also cost-shifting impacts. For

[1] An example of a Medicare price reduction is to reduce the hospital market basket index used to update Medicare payments to hospitals under PPS or to lower the Medicare economic index used to update Medicare physician fees. In contrast, the decision to impose copayments on beneficiaries for certain services would not be considered a price reduction.

DRAFT

example, how would CBO score a cap on federal Medicaid payments? The implications of federal Medicaid cost-containment efforts may need to be pursued with CBO as well.

• Finally, providers supposedly cost-shift to recapture revenues lost from caring for the uninsured and revenues lost from public insurers paying less than costs. Thus CBO must also assume reductions in private premiums for many health reform proposal that results in increases in the number of uninsured. We need to more fully explore CBO's assumptions regarding increases in the number of uninsured.

Comments on CBO Cost-Shifting Assumption.

Most of the cost-shifting research pertains to hospitals, is dated (i.e., data from the early 1980s), and has produced mixed results. To the extent cost-shifting is found, this research estimates the shift to be very incomplete.[2]

The research ignores fundamental changes in the private insurance market over the last five years. Private insurers have become much more cost conscious, thereby reducing the opportunity to cost-shift. For example, as of 1992, 54% of the population with private insurance was enrolled in managed care plans.[3] The percentage of traditional, fee-for-service insurance plans with some form of utilization review has increased from 41% in 1987 to 95% in 1990.[4]

There is considerable evidence that hospitals deliver care inefficiently, [5] and the most recent research indicates that hospitals subject to fiscal pressure respond by controlling cost per case rather than by cost-shifting.[6]

Given the individual physician's smaller market power and given that, as of 1993, 75% of physicians participated in private managed care plans,[7] the opportunities for physicians to cost-shift appear limited. Moreover, the Physician Payment Review

[2]Zuckermann, S. "Commercial Insurers and All-payer Regulation: Evidence on Hospitals' Responses to Financial Need." Journal of Health Economics, 1987: 165.

[3]Employee Benefits Research Institute. 1994. The Effectiveness of Health Care Cost Management Strategies: A Review of the Evidence. EBRI Issue Brief No. 154, October 1994.

[4]Hoy, E.W., R.E. Curtis, and T. Rice. 1991. "Change and Growth in Managed Care," Health Affairs, 10 (Winter): 18-36.

[5]See for example Chassin, M.R. et al., (1987) "Does Inappropriate Use Explain Geographic Variations in the Use of Health Care Services? A Study of Three Procedures" JAMA 258(18): 2533-7

[6]Hadley,J.,S Zuckerman, and L. Iezzoni. 1994. "Hospitals' Responses to Fiancial Pressure" (manuscript under review at Medical Care).

[7]Iglehart, J. 1994. "Health Policy Report--Physicians and the Growth of Managed Care," New England Journal of Medicine, 331 (October 27, 1994): 1167-1171.

DRAFT

Commission staff reported in the September 1994 meeting that private payer visit fees are moving closer to Medicare visit fee levels, again suggesting limited opportunities to cost-shift.

Finally, both CBO and the HCFA Office of the Actuary assume volume responses to Medicare price reductions. For example, physicians are assumed to recover 50% of any Medicare price reduction through increases in service volume. Given the weak evidence for cost-shifting, it seems excessive to assume both a volume offset within Medicare and that providers pass-on 25% of the reduction to private payers.

Taken together, we believe that the empirical evidence does not support CBO's assumption of cost-shifting. If hospitals have engaged in cost-shifting in the past they have done so as much to maximize operating margins as to survive. Changes in the insurance market make it unlikely they will be able to cost shift in the future. Indeed a report sponsored by the American Hospital Association[8] concludes that opportunities to cost-shift are past. There is no sound empirical analyses suggesting that physicians cost-shift, and the available evidence suggests they do not.

[8]Lewin-VHI, Inc (1994) "Analysis of Medicare PPS Operating Margins Under the Ways and Means Committee Health Care Reform Proposal", Prepared for American Hospital Association.

DRAFT

Medicare Cost-Containment and Cost-Shifting II

Congressional Budget Office (CBO)

- In a 1994 report, entitled "Responses to Uncompensated Care and Public-Program Controls on Spending: Do Hospitals "Cost Shift?," CBO argues that hospitals cost-shift and projects that further attempts to control public-sector spending would probably produce additional cost-shifting to the private sector.

- CBO presents data comparing sources of revenue to costs, and demonstrates that government programs are underpaying hospitals. In contrast, private payers are paying well above cost.[1] (Based on 1991 data)

Payment Source	Payment to Cost Ratio
Medicare	0.88
Medicaid	0.82
Other Gov't Payers	1.00
Uncompensated Care	n.a.
Private Insurers	1.30

- CBO notes that patients treated by facilities that were least able to cost-shift -- because of patient mix or market conditions -- could be adversely affected. For example, hospitals with a large share of uninsured or publicly insured patients might be less able to cover their unreimbursed costs, both because those costs are a larger share of their total costs and because they have a smaller pool of privately insured patients.

Prospective Payment Commission (ProPAC)

- In its June 1994 report, ProPAC asserts that hospital cost-shift to compensate for the losses they incur on one set of patients by increasing revenues received from others.

- ProPAC notes that between 1980 and 1992, gains from private payers as a percentage of costs almost exactly matched total losses from Medicare, Medicaid and other government programs.

- ProPAC claims that the variance in payment to cost ratios is evidence of cost-shifting (using 1992 data)[2]:

DRAFT

Payment Source	Payment to Cost Ratio
Medicare	0.89
Medicaid	0.91
Other Gov't Payers	0.98
Uncompensated Care	0.19
Private Insurers	1.31

Lewin-VHI

- In its "Analysis of Medicare PPS Operating Margins Under the Ways and Means Committee Health Care Reform Proposal," Lewin-VHI finds that hospitals have historically offset Medicare losses by increasing the amounts they charge to private payers. However, the report points out that as purchasers of care become more price sensitive and a growing number of patients are enrolled in managed care plans, hospitals will encounter increasing difficulty in cost-shifting to private payers.

Endnotes

1. The use of cost-per-case as the metric for judging the adequacy of payment is questionable. Reported hospital costs are not necessarily justified and may reflect inefficient service delivery.

2. Upon closer examination however, the data suggests an inconsistency in ProPAC's argument. Despite the fact that between 1990 and 1993 Medicare's payment-to-cost ratio was relatively constant and Medicaid's ratio actually increased substantially, the private payer payment-to-cost ratio increased 3 percent.

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

24-Feb-1995 01:48pm

TO: Gene B. Sperling

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

CC: Paul A. Deegan

SUBJECT: fyi

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

24-Feb-1995 12:21pm

TO: Jacob J. Lew

FROM: Charles E. Kieffer
Office of Mgmt and Budget, LA

CC: Martha Foley

SUBJECT: leg branch mark up

The Leg Branch did approve a $21 million rescission today (less than 1%). It is interesting that virtually none of the rescission came from the House and Senate accounts. It is mostly cuts to GAO, GPO and the Botanic Gardens.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

TO: Gene Sperling

FROM: Mike Lux

DATE: March 1, 1995

RE: BBA Update

Three things:

1. I have called through the following seniors organizations to urge them to go to Daschle's 2:15 p.m. meeting, stressing how important it is to the White House that they attend:

- AARP
- AFL-CIO Retirees
- AFSCME Retirees
- National Committee to Preserve Social Security and Medicare
- National Council of Senior Citizens
- National Council on the Aging
- NEA Retirees
- Older Women's League
- SEIU Retirees

2. I had a good call talking strategy with Loveless of AFSCME. They are doing a series of conference calls with both local activists and their national coalition to make sure people are working this hard, doing local press, getting calls to radio talk shows, etc. I also asked him to lean on National Council of Senior Citizens since they and other unions are their major funders, which he was more than happy to do.

3. I have also done a round of calls to farm groups to get them working radio talk shows and other formats.

MEMORANDUM

To: Gene Sperling
Jennifer Klein
Nancy-Ann Min
Jack Lew
Janet Murguia

From: Chris Jennings

Date: March 7, 1995

Re: Medicare Materials

Attached you will find 1) the final cleared Administration letter on Medicare Select; 2) talking points that I believe are consistent with our previous discussions should Bruce Vladeck be pulled into a conversation on Medicare Extenders during tomorrow's mark-up; and 3) Qs & As on the Medicare Secondary Payer issue that may come up (our latest information is that Republicans do not intend on incorporating GAO's recommended changes during the mark-up, but that a question on it may come up).

I think all of the above materials are fine, but want to make sure that you're all okay with it. Please call or e-mail me with any comments. Thank you.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

March 7,1995

The Honorable Bill Archer
Chairman, Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter expresses the Administration's views on H.R. 483, as reported by the Subcommittee on Health. H.R. 483 would make the Medicare SELECT demonstration program permanent and extend it to all States.

Our experience with the Medicare SELECT demonstration should be part of the effort to improve current and future managed care choices under Medicare. We have previously made available the case study portion of the Medicare SELECT evaluation. Other pieces of the evaluation are still in process; these include a survey of SELECT plan enrollee satisfaction and an analysis of SELECT enrollee utilization experience. Preliminary results will not be available until the later part of this summer. We believe that Congress would benefit from a review of the full evaluation results before beginning the deliberations on Medicare SELECT as a permanent program.

The case study portion of the Medicare SELECT evaluation has already raised a number of questions about the Medicare SELECT demonstration. As managed care options under Medicare are expanded, we want to ensure that our beneficiaries are guaranteed choice and appropriate consumer protections. In addition, many of the SELECT plans consist solely of discounting arrangements to hospitals. We would be concerned if the discounting arrangements under Medicare SELECT were to be expanded to Medicare Supplementary Insurance (part B) services. Discounting arrangements, particularly for part B services, may spur providers to compensate for lost revenues through increased service volume. Consequently, we are concerned that such an expansion would lead to increased utilization of part B services, rather than contribute to the efficiency of the Medicare program through managed care. We would therefore oppose such a change.

Given that the Medicare SELECT demonstration is under an expiring authority with an impending deadline, the Administration supports a temporary extension of the 15-State demonstration. Such an extension would provide sufficient time to examine what we have learned from the demonstration and to make needed changes to SELECT based on our findings.

We are committed to working with the Congress to improve and extend the available choices to Medicare beneficiaries so that they have the full range of managed care options enjoyed by the general insured population.

We are advised by the Office of Management and Budget that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

Donna E. Shalala

Extending Current Medicare Policies

- o The President's FY 1996 budget proposes to extend four current law Medicare provisions.
  - + The budget contains no new Medicare savings proposals.
- o These extenders are provisions that are in effect now but are scheduled to expire unless they are extended.
  - + Without extension, there will be an upward spike in the Medicare spending baseline.
- o These extenders do help reduce Medicare spending. But they are not new Medicare cuts; rather these are policies that are currently part of the Medicare program.
  - + Inclusion of these extender provisions in the budget will lower the projected FY96 outlays by $140 million, and the total FY96 through FY2000 outlays by $9.8 bill.
- o The President does not intend to propose any new Medicare savings proposals outside the context of health care reform.
  - + We are concerned that new Medicare cuts outside of health care reform will impose new costs on beneficiaries and/or reduce provider payments inducing them to refuse to take Medicare beneficiaries, both without providing additional health security to those on Medicare.
- o The President's budget uses the savings from the Medicare extenders for deficit reduction and explicitly not to finance the President's middle-class tax cut.
  - + The Administration's proposed tax cuts of $63.3 billion from 1996 - 2000 are financed by $80.5 billion in reductions to discretionary programs. In addition, $26.2 billion in savings from the second phase of reinventing government, $37.4 billion from mandatory programs, as well as other initiatives will produce another $80.6 billion in deficit savings over the next five years.
- o Specifically, the extenders cover:
  - + Medicare Secondary Payor protections which allow the Medicare program to collect payments from primary insurance sources. These expire after FY 1998.
  - + A provision that maintains the Part B premium at 25 percent of program costs. This expires after 1998.

+ A provision that makes permanent the savings from a two-year temporary freeze on payments for skilled nursing facilities (just like all other freezes in Medicare have worked). This expires after FY95.

+ A similar provision with regard to home health services.

MSP COURT DECISION

QUESTION:

On February 23, the GAO testified before the Ways and Means Health Subcommittee that a recent decision by the Federal Appeals Court would have the effect of limiting recoveries for mistaken payments by Medicare for services for which Medicare should have been the secondary payer. This decision was allowed to stand by the Supreme Court, which decided not to hear the case. The decision would limit recoveries of mistaken payments under the Medicare Secondary Payer (MSP) Data Match project. GAO testified that the Committee needed to modify the law to permit recoveries to be achieved, as projected under the provisions when they were enacted. Does the Administration have a position on this issue?

ANSWER:

- o The Administration believes, in light of the recent Supreme Count's action, that changes in the law may be necessary to permit these recoveries and secure the savings for the Medicare program that Congress originally intended.

- o However, the matter is complex and since the Supreme Court's decision was only handed down recently we are still analyzing what changes are necessary to achieve this end. Therefore, we are not prepared to take a position at this time.

BACKGROUND:

The Court's decision would affect two aspects of the recovery process.

- o First, it would require Medicare to comply with "timely filing" requirements imposed by the insurers on other claimants. This would restrict the amount of time allowed for Medicare to file for recoveries.

- o Second, it would not permit Medicare to file claims for recoveries with "third party administrators" (TPAs), which administer self-insured plans for employers. This would require Medicare to seek recoveries directly from employers, a much less efficient process.

Gene

MEMORANDUM

TO: Distribution
FR: Chris Jennings
RE: Talking Points/Background for Social Security Trustees Report
cc: Carol Rasco, Laura Tyson

March 31, 1995

Attached is the final draft of talking points, Q's and A's, and background information on the Monday, April 3rd release of the Social Security Trustees' Report. This information was produced by and cleared through the DPC/NEC budget and policy review process.

As you know, the report will provide an analysis of the financial health of the Social Security and Medicare Trust Fund. Since the Republicans have been and will continue to focus their attention on the Medicare program, the background materials that we are providing for your use primarily focus on the Medicare Trust Fund issue. On the last page, you will find talking points explicitly related to the report's findings on the Social Security program.

We hope you find this information to be useful. If you have any questions, please call Jennifer Klein (6-2599) or myself at 6-5560.

MEDICARE TRUST FUND TALKING POINTS

- The Medicare HI Trust Fund shows modest improvement due to the actions taken in OBRA 1993 and a stronger-than-expected economy in 1994. Just 2 years ago, Trust Fund depletion was projected for 1999, now it has been delayed to 2002. Even with these improvements, however, the Trustees foresee financial problems for the Medicare HI Trust Fund.

- The financial problems faced by the Medicare HI Trust Fund reflect the problems affecting the entire health care system. The Administration looks forward to working with the Congress on developing lasting solutions to the Medicare fiscal problems in the context of broad-based health care reform.

- We need to do broad-based health reform because:

  -- Severe and arbitrary cuts focused solely on Medicare will create major market distortions that will produce additional problems for the rest of our health care delivery system.

  -- For example, (in the absence of reform) as the number of uninsured continues to grow, significant cuts in Medicare would severely strain, if not decimate, many of our fragile health care delivery systems in rural and inner-city communities.

  -- In addition, large Medicare cuts are likely to result in cost-shifting to many small businesses and individuals -- to those Americans who are already paying the highest health insurance premiums in the nation.

POSSIBLE Q&As

Q: Why isn't the President proposing a specific health care reform initiative and/or when will he submit one?

A: The President remains committed to national health care reform. What we've learned is that any broad-based health care reform solution must be done on a bipartisan basis. The President has invited the Republicans to work with him on developing such a plan. We stand willing and ready to work with them.

Q: Congressional Republicans state that they are going to solve the problems of the Medicare HI Trust Fund through legislative initiatives. Is this believable?

A: It certainly is ironic that while Congressional Republicans talk about placing the Medicare HI Trust Fund on sound financial footing, both their "Contract" and tax bill now on the House floor calls for tax cuts for the wealthy that would further weaken the Medicare HI Trust Fund.

* (Avoid going into more detail, but if you must, do so on background):

The Republicans propose to roll back the limited taxation of Social Security benefits for the 13 percent of beneficiaries with the highest incomes. Since these revenues from higher income beneficiaries are deposited directly into the HI Trust Fund, this further undermines the Trust Fund.

Q: Would passage of the Health Security Act have solved the long-term financial problems of the Medicare HI Trust Fund?

A: The Health Security Act would have strengthened the Medicare HI Trust Fund (as would any responsible broad-based health care reform).

BACKGROUND ON MEDICARE TRUSTEES REPORT

On Monday, April 3, 1995, the Trustees reports for the Medicare Trust Funds will be released. The reports will conclude that the Medicare HI Trust Fund will be exhausted in 2002. This date represents an improvement over last year's report which predicted that the Trust Fund would be exhausted in 2001. (The conclusion is based on the Trustees' intermediate set of assumptions –– not too optimistic nor too pessimistic).

Problematic findings

- From 1996 on, the Medicare HI Trust Fund is predicted to pay out more in benefits each year than it receives in revenues.

- The financial problems faced by the Medicare HI Trust Fund are not new. In the 1982–84 period, the Trust Fund would have similarly failed the actuarial short–term solvency test (ten years solvency). Those problems were addressed with temporary solutions. The Trust Fund's short–range financial problems re–emerged in the early 1990s.

- While the short term (up to 10 years) solvency of the Trust Fund is the immediate focus of the Trustees Report, longer term projections (contained in this and previous years' reports) show the Trust Fund in serious long–term deficit. Right now, about 4 workers support every Medicare beneficiary. By the middle of the next century, this ratio will drop to about 2 workers for each beneficiary.

Moderating influences

- Actions proposed by the Administration and enacted in OBRA 1993 extended the life of the Medicare HI Trust Fund. These include:

  - Depositing tax revenues from the increased income taxation of Social Security benefits into the Medicare HI Trust Fund.
  - Repealing the wage cap for the Medicare HI payroll tax.
  - Imposing constraints on the growth of Medicare payments to providers.

Together, these actions postponed the date when the Trust Fund would be exhausted by about 3 years.

- Hospital cost inflation in recent years has been lower than expected. This has improved the financial situation of the Medicare HI Trust Fund. In 1994, stronger–than–expected economic growth also contributed to the health of the Trust Fund.

- The Trustees are proposing that the Quadrennial Advisory Council for the Medicare Program be re–established in order to recommend effective solutions to the Medicare problems.

SOCIAL SECURITY TALKING POINTS

- The 1995 Report indicates the financial status of the combined Old–Age and Survivors and Disability Trust Fund (OASDI) is virtually the same reported last year. The fund continues to be in surplus, collecting more in taxes than needed to pay today's benefits.

- The cash–flow surpluses are projected to continue through 2013, and the trust fund will be depleted in 2030, one year later than projected last year. Thus, social security is currently in good financial shape and benefits can be paid well into the next century without any changes in the program.

- The program is in deficit when looked at over 75 years (estimated to be 2.17 percent of payroll this year -- virtually the same as last year's estimate of 2.13 percent).

- The Quadrennial Social Security Advisory Council is scheduled to report this summer with specific recommendations to deal with the program's long–term deficit.

DRAFT

EFFECTS OF REPUBLICAN MEDICARE CUTS

- Republicans have proposed to cut Medicare funding by $300 billion between now and 2002 -- a 24% cut in 2002 alone.

- Medicare managed care cannot produce the magnitude of savings being proposed by the Republicans. For example, Senator Gregg predicts that managed care could save $35 - $45 billion between 1996 and 2000, although there is no evidence that managed care can produce Medicare savings of this magnitude. But even this overly optimistic projection produces less than one-third of the cuts being proposed by Republicans.

  - Claims that substantial savings can be achieved through Medicare managed actually rely on capping federal contributions or on charging beneficiaries more to stay in fee-for-service Medicare.

  - CBO testified in January that expanding enrollment in managed care plans under the current system would be unlikely to reduce federal costs, and that the necessary changes to the existing payment system would be "difficult to specify."

  - Even with an improved payment methodology, the savings to Medicare would be only small percentage of cuts being proposed by Republicans.

- Even if the level of savings suggested by Senator Gregg (extended through 2002) for Medicare managed care could be realized, the proposed cuts would have serious impacts on beneficiaries and providers. If the remaining cuts were allocated so that beneficiaries bore 50% of the burden and health care providers bore the remaining 50%:

  - Elderly and disabled beneficiaries who were enrolled in Medicare between 1996 and 2002 would have to pay about $2,980 more for Medicare. In 2002 alone, they would be required to pay about $775 more.

  - In 2002 alone, a $32 billion cut in Medicare payments to hospitals, physicians and other health care providers would be needed.

- Cuts of this magnitude would cause serious financial distress to the nation's medical system. Hospitals and other providers would still bear the growing burden of uncompensated care.

  - There are now 40 million uninsured Americans, and this number will continue to grow.

- These unprecedented Medicare cuts, combined with the growing uncompensated care burden, will force providers to shift costs to business. And because their disadvantage in the insurance market, small business will bear the brunt of this cost shift.

  - Republicans are talking about combined Medicare and Medicaid cuts of almost $500 billion dollars -- and, by necessity, a substantial portion of the cuts will come from payments to health care providers. Providers, in turn, will try to offset these cuts by raising their rates for private patients. Even if only one-quarter of these cuts are passed on to private payers, businesses and families will be forced to pay $125 billion more for health care between now and 2002.

- Reducing Medicare payments would disproportionately harm rural hospitals.

  - Nearly 10 million Medicare beneficiaries (25% of the total) live in rural America where there is often only a single hospital in their county. These rural hospitals tend to be small and to primarily serve Medicare patients.

  - Significant reductions in Medicare revenues will cause many of these hospitals, which already are in financial distress, to close or to turn to local taxpayers to increase what are often substantial local subsidies.

  - Rural residents are more likely than urban residents to be uninsured, so offsetting the effects of Medicare cuts by shifting costs to private payers is more difficult for small rural hospitals.

  - Rural hospitals are often the largest employer in their communities; closing these hospitals will result in job loss and physicians leaving these communities.

- In the last Congress, bills sponsored by both Republicans and Democrats contained large Medicare cuts. However, unlike current Republican proposals, the bills last year reinvested their savings into the health care system through subsidies to expand insurance coverage. Reinvesting the savings would have reduced the uncompensated care burden on providers and businesses and mitigated many of the adverse effects of Medicare cuts.

- Despite the current rhetoric, Medicare expenditure growth is comparable to the growth in private health insurance.

  - Under Administration estimates, Medicare spending per person is projected to grow over the next five years at about the same rate as private health insurance spending. Under CBO estimates, Medicare spending per person is projected to grow only about 1% faster than private health insurance.

  - So, unless Medicare can control costs substantially better than the private sector, beneficiaries and providers would be forced to shoulder the burden of the huge cuts being proposed by Republicans.

THE WHITE HOUSE

WASHINGTON

May 1, 1995

The Honorable Newt Gingrich
Speaker
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The President has asked me to respond to your letter of April 28, 1995. As the Administration has shown over the last two and a half years, we are committed to reducing the deficit and achieving meaningful health care reform. We continue to seek progress on both of these fronts, while also making our tax system fairer and our system of investing in education and children even stronger.

When this President took office on January 20, 1993, he inherited an escalating deficit and a Medicare Trust Fund that was projected to be insolvent in 1999. Twenty-seven days later, he proposed, and then helped pass, a historic deficit reduction plan that included several serious policies to strengthen the Trust Fund. Indeed, these proposals pushed out the insolvency date by three full years.

Last year, the President spoke directly to the nation about the need to reform our health care system and made clear that further federal health savings needed to take place in the context of serious health care reform. In December 1994, the President wrote the Congressional leadership and made clear that he would work with Republicans to control health care spending in the context of serious health care reform. The President repeated this offer in his 1995 State of the Union speech.

Despite these repeated calls for significant action on health care reform, the reply from the Republicans has been silence. Indeed, the only proposal in the Contract with America that specifically addresses the Medicare Trust Fund would explicitly *weaken* it by $27 billion over seven years and undo some of the progress made in 1993.

Moreover, the over $300 billion in Medicare cuts over seven years -- the largest Medicare cut in history -- you are reported to be considering would be completely unnecessary if you did not have to pay for a seven-year $345 billion tax cut that goes predominantly to well-off Americans. *No amount of accounting gimmicks, separate accounts, dual budget resolutions or reconciliations can hide the reality that you are essentially calling for the largest Medicare cut in history to pay for tax cuts for the well-off.*

The President has long stated that making significant cuts in Medicare and Medicaid outside the context of health care reform will not work. Such dramatic cuts could lead to less coverage and lower quality, much higher costs to poor and middle income Medicare recipients who cannot afford them, a coercive Medicare program, and cost-shifting that could lead to a hidden tax on the health premiums of average Americans. That is why it is essential to deal with the Medicare Trust Fund in the context of health care reform that protects the integrity of the program, expands not reduces coverage, and protects choice as well as quality and affordability.

The Medicare Trust Fund is an important issue that needs to be addressed in a bipartisan way in the context of larger health care reform. To do that, you must first meet the requirements of the budget law that Congress pass a budget resolution. The April 15 deadline has passed, and the American people are still waiting to see the new Republican majority fulfill this responsibility. If you really want to work together on the Medicare Trust Fund, you must first pass a budget plan that fully specifies how you plan to balance the budget and pay for the proposed tax cuts.

We hope that you will work hard to respond to these issues. The Administration and the American people continue to await your proposals.

Sincerely,

Leon E. Panetta
Chief of Staff

MEMORANDUM

To: Laura Tyson
Carol Rasco

From: Chris Jennings CJ

Date: May 11, 1995

Re: Kasich and Domenici Budget Proposals

CC: Gene Sperling
Bill Galston
Nancy-Ann Min
Jennifer Klein

Attached, for your information, is the final set of Medicare state by state analysis for both the Kasich and Domenici budget proposals. You will find three pages of information: the first is a beneficiary breakout by state; the second is the state by state analysis of the Kasich proposal; the third is the analogous state by state analysis of the Domenici proposal.

As you will note, the analysis provides both aggregate dollar loss breakouts, as well as per beneficiary impact breakout for both 2002, and the total seven year period.

Because the leadership, George, and Gene thought that 2 sets of analysis might be confusing, we are only circulating information on the Kasich proposal. Therefore, I advise that you be careful with any circulation of the Domenici Medicare analysis.

I hope you find the information useful. If you have any questions, please call me at 6-5560.

Projected Medicare Beneficiaries by State

	1995	2002
US	37,631,000	41,299,000
Alabama	641,971	703,082
Alaska	33,784	49,773
Arizona	598,737	743,525
Arkansas	422,580	450,365
California	3,638,311	4,034,836
Colorado	423,478	514,095
Connecticut	503,906	533,943
Delaware	100,545	115,722
District of Columbia	78,730	76,330
Florida	2,615,604	2,951,880
Georgia	832,454	953,079
Hawaii	150,818	184,336
Idaho	149,769	171,120
Illinois	1,625,786	1,690,497
Indiana	827,174	890,461
Iowa	476,142	484,783
Kansas	383,997	397,890
Kentucky	585,590	636,855
Louisiana	582,491	634,122
Maine	202,149	221,565
Maryland	604,202	677,465
Massachusetts	937,292	996,344
Michigan	1,354,523	1,481,749
Minnesota	632,457	671,394
Mississippi	395,768	421,671
Missouri	834,228	876,853
Montana	129,141	141,557
Nebraska	249,529	256,357
Nevada	194,035	295,417
New Hampshire	156,237	178,655
New Jersey	1,174,802	1,244,404
New Mexico	212,160	257,452
New York	2,645,176	2,718,120
North Carolina	1,028,054	1,202,196
North Dakota	103,477	106,274
Ohio	1,673,946	1,800,336
Oklahoma	487,058	519,526
Oregon	470,268	524,031
Pennsylvania	2,083,051	2,187,966
Rhode Island	168,503	175,375
South Carolina	508,854	593,614
South Dakota	117,061	122,172
Tennessee	769,041	853,930
Texas	2,090,369	2,419,444
Utah	188,349	228,000
Vermont	82,989	91,752
Virginia	818,458	936,837
Washington	687,136	771,781
West Virginia	330,115	348,402
Wisconsin	763,230	804,207
Wyoming	60,570	72,355
Puerto Rico	476,704	527,920
All Other Areas	330,201	357,073

NOTES: Based on historical state share of Medicare enrollees, trended forward with growth in the states' share of enrollees.
* Totals may not add due to rounding

Effects of the Kasich Medicare Proposal By State
Losses by State Under the Proposal
(Fiscal years)

	Aggregate Dollars (millions)		Per Capita Effect ($ / benef.)	
	2002	1996-2002	2002	1996-2002
US	84,900	279,200	1,028	3,447
Alabama	1,986	6,146	1,412	4,450
Alaska	50	171	502	1,889
Arizona	1,491	4,799	1,002	3,389
Arkansas	627	2,165	696	2,435
California	11,830	37,760	1,466	4,783
Colorado	1,147	3,579	1,116	3,630
Connecticut	1,247	4,103	1,167	3,885
Delaware	281	899	1,215	4,002
District of Columbia	1,431	4,001	NA	NA
Florida	9,314	29,258	1,578	5,082
Georgia	2,077	6,754	1,000	3,649
Hawaii	432	1,311	1,173	3,710
Idaho	149	532	436	1,603
Illinois	2,652	9,301	784	2,770
Indiana	1,569	5,253	881	2,894
Iowa	495	1,786	510	1,845
Kansas	834	2,741	1,048	3,464
Kentucky	968	3,318	760	2,652
Louisiana	1,590	5,235	1,254	4,201
Maine	231	825	521	1,900
Maryland	1,066	3,752	787	2,843
Massachusetts	3,072	9,828	1,542	4,989
Michigan	2,185	7,717	737	2,657
Minnesota	1,512	4,725	1,126	3,557
Mississippi	674	2,297	799	2,758
Missouri	1,531	5,219	873	3,004
Montana	157	551	553	1,986
Nebraska	338	1,156	659	2,266
Nevada	638	1,946	1,080	3,620
New Hampshire	292	956	816	2,755
New Jersey	2,320	7,945	932	3,229
New Mexico	249	866	484	1,761
New York	5,359	18,539	986	3,423
North Carolina	2,165	6,998	900	3,012
North Dakota	159	551	750	2,604
Ohio	2,584	9,083	718	2,562
Oklahoma	757	2,626	729	2,560
Oregon	1,010	3,213	963	3,135
Pennsylvania	4,526	15,479	1,034	3,670
Rhode Island	482	1,511	1,375	4,336
South Carolina	1,103	3,495	929	3,043
South Dakota	153	530	628	2,186
Tennessee	2,378	7,537	1,393	4,509
Texas	5,428	17,608	1,122	3,757
Utah	331	1,096	727	2,511
Vermont	105	365	573	2,034
Virginia	1,052	3,711	561	2,044
Washington	978	3,377	633	2,246
West Virginia	471	1,628	676	2,362
Wisconsin	914	3,254	569	2,044
Wyoming	49	182	337	1,313
Puerto Rico	457	1,486	433	1,440
All Other Areas	3	14	4	20

Variation in the costs per beneficiary across states reflects factors such as: (1) practice pattern differences, (2) cost differences; (3) differences in health status and the number of very old persons in a state; and (4) differences in the supply of health care providors.

NOTES: Assumes that increases in beneficiary out-of-pocket costs (e.g., premiuims and coinsurance) are equal to 50% of the total cuts.
Based on historical state share of Medicare outlays & enrollment, trended forward with growth in the states' share of outlays & enrollment.
Estimates based on Medicare outlays by location of service delivery. Thus, certain state estimates may be affected by part-year residency and state border crossing to obtain care (e.g., Florida & Minnesota).
State border crossing makes the District of Columbia estimates unreliable.
Technical reestimates of the aggregate savings may result in a 7-year total of $282 billion.

Effects of the Domenici Medicare Proposal On States
Losses by State Under the Proposal
(Fiscal years)

	Aggregate Dollars (millions)		Per Capita Effect ($ / benef.)	
	2002	1996-2002	2002	1996-2002
US	61,700	255,600	747	3,174
Alabama	1,443	5,534	1,026	4,027
Alaska	36	158	364	1,794
Arizona	1,083	4,367	729	3,125
Arkansas	456	2,007	506	2,266
California	8,597	34,302	1,065	4,369
Colorado	834	3,230	811	3,314
Connecticut	906	3,758	848	3,568
Delaware	204	816	883	3,665
District of Columbia	1,040	3,506	NA	NA
Florida	6,769	28,448	1,147	4,626
Georgia	1,510	6,161	792	3,356
Hawaii	314	1,174	853	3,361
Idaho	108	497	317	1,512
Illinois	1,928	8,659	570	2,584
Indiana	1,141	4,830	640	2,765
Iowa	360	1,676	371	1,733
Kansas	606	2,508	762	3,175
Kentucky	703	3,070	552	2,467
Louisiana	1,156	4,792	911	3,865
Maine	168	772	379	1,788
Maryland	775	3,497	572	2,669
Massachusetts	2,233	8,927	1,121	4,547
Michigan	1,588	7,199	536	2,492
Minnesota	1,099	4,265	818	3,222
Mississippi	489	2,122	580	2,658
Missouri	1,113	4,822	635	2,783
Montana	114	513	402	1,861
Nebraska	245	1,071	479	2,100
Nevada	464	1,746	785	3,331
New Hampshire	212	874	593	2,540
New Jersey	1,686	7,349	678	2,997
New Mexico	181	804	352	1,656
New York	3,894	17,196	718	3,180
North Carolina	1,573	6,375	654	2,770
North Dakota	116	511	545	2,418
Ohio	1,876	8,461	522	2,397
Oklahoma	550	2,430	529	2,385
Oregon	734	2,915	700	2,862
Pennsylvania	3,289	14,314	752	3,311
Rhode Island	350	1,365	899	3,925
South Carolina	802	3,167	675	2,783
South Dakota	112	491	456	2,032
Tennessee	1,729	6,829	1,012	4,110
Texas	3,945	16,055	815	3,456
Utah	241	1,005	526	2,329
Vermont	76	339	417	1,901
Virginia	764	3,461	408	1,923
Washington	710	3,131	460	2,098
West Virginia	342	1,510	491	2,197
Wisconsin	665	3,041	413	1,916
Wyoming	35	172	245	1,258
Puerto Rico	332	1,358	315	1,322
All Other Areas	2	14	3	20

Variation in the costs per beneficiary across states reflects factors such as: (1) practice pattern differences, (2) cost differences; (3) differences in health status and the number of very old persons in a state; and (4) differences in the supply of health care providers.

NOTES: Assumes that increases in beneficiary out-of-pocket costs (e.g., premiuims and coinsurance) are equal to 50% of the total cuts. Based on historical state share of Medicare outlays & enrollment, trended forward with growth in the states' share of outlays & enrollment. Estimates based on Medicare outlays by location of service delivery. Thus, certain state estimates may be affected by part-year residency and state border crossing to obtain care (e.g., Florida & Minnesota). State border crossing makes the District of Columbia estimates unreliable.

THE WHITE HOUSE

WASHINGTON

May 19, 1995

The Honorable Bob Livingston
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The President has asked me to respond to your letter expressing concern about his intention to veto H.R. 1158 if it is approved by the Congress in its present form.

As you know, the President feels very strongly that the legislation cuts needed investments in education, national service, the environment, and other critical areas for our future, rather than cutting funds for unnecessary pork barrel projects. He also objects to the language in the bill regarding timber sales. Pat Griffin has sent you recommended changes that would make it possible for the President to sign this important legislation.

Clearly, the conference agreement does not address the President's concerns.

- It slashes vital education programs and other key investments in our people well below the levels agreed to in the Dole-Daschle bipartisan leadership compromise, which was the level acceptable to the President. Indeed, for the programs restored by Dole-Daschle, the conference cut more than 80 percent of the funds restored.

  For example, it entirely eliminates the funds restored for the School-to-Work program, Goals 2000, National Service, Safe and Drug Free Schools, Higher Education, and Public Housing Modernization. In the cases of Goals 2000 and Safe and Drug Free Schools, the cuts substantially exceed the Dole-Daschle restorations. In fact, the National Service cut is doubled, compared to the Senate bill.

  The Senate-passed education cut is nearly tripled in the conference report, and the cut in Environmental Protection Agency programs is larger than in either the House or Senate bill.

  These cuts simply are not acceptable to the President.

- The conference agreement makes these cuts instead of cutting unnecessary spending, especially pork barrel spending, some of which was actually targeted by the Senate bill.

- The conference agreement retains language on timber sales to which the President objects and which we have said consistently we oppose.

Your assertion that the President's position has not been clear throughout the conference process has absolutely no basis in fact. His strong public statements, the Administration's written communications, and my own and Pat Griffin's discussions with you, Chairman Hatfield, and staff have made plain the following:

- The President would have vetoed the House-passed bill, which was adopted on a vote of 227-200.

- Despite his reservations, the President was willing to accept the Senate bill -- adopted 99-0 by the Senate -- because it included the Dole-Daschle bipartisan leadership amendment, which restored significant amounts of the investments cut by the bill as reported by the Committee. The Administration worked very closely with the bipartisan leadership of the Senate to craft that compromise.

- The conferees needed to agree to the Senate-passed bill or something very close to it in order for the President to sign it.

The President's position on these issues has been stated time and again. I am mystified as to how you could have mistaken it.

- On March 14, a Statement of Administration Policy stated that the Administration "strongly opposes" the House bill and that "the Director of the Office of Management and Budget would recommend that he veto the bill."

- On March 29, a Statement of Administration Policy stated that the Administration "must strongly oppose many provisions of" the bill adopted by the Senate Appropriations Committee "and, therefore, finds the bill unacceptable." This was before the negotiation and adoption of the Dole-Daschle amendment.

- On April 7, the day after the Senate passed its bill, the President, in a speech in Dallas, said, "The House passed a rescission package with completely unacceptable cuts in education, child nutrition, environment, housing and national service." The President went on to praise the negotiations that led to the Senate adoption of Dole-Daschle and stated, "The rescission package that passed the Senate last night gives us a model about how we should proceed...I will sign the Senate bill if the House and the Senate will send it to me."

- On April 28, OMB Director Rivlin wrote a letter to the conferees expressing the Administration's views on what the final conference agreement should contain. It stated that the President would veto a bill "containing the objectionable provisions contained in the House version of the bill," and stated that he would sign the Senate bill, although it strongly urged improvements even from the Senate version of the bill.

- On May 8 and on May 9, I met with you and Chairman Hatfield respectively. I specifically listed the key investments identified in the April 28 conferees letter and reminded you of the areas that needed to be at or close to the Dole-Daschle levels. I also made it clear that the President opposed the timber language in the legislation.

- On May 9, as you indicated in your letter, Pat Griffin told your Committee's chief clerk that we could not accept specific rescission proposals put forward by your staff except in the context of a broader proposal. We anticipated a proposal in response, but received none.

- On May 11, I spoke separately by telephone with you and Chairman Hatfield, as the conference was meeting, to express the Administration's deep concern that the conference was headed in the wrong direction on the legislation. I told you then that the President would not support a version of the bill that he did not find acceptable. Pat Griffin had conversations around the same time, and later, prior to the end of the conference, with House and Senate staff to reinforce these points.

Regarding your assertion that the President was late in proposing offsets, please note that the rescission of highway demonstration projects was proposed in the President's 1995 and 1996 budgets; proposals to rescind spending on Federal buildings and travel were contained in the Senate-passed version of this bill; the foreign aid rescission was included in the President's 1996 budget; and the proposal to close the billionaire expatriates' tax loophole was included in the President's 1996 budget. Obviously, these are not new proposals.

As you know, the President feels very strongly that this legislation is important to the country. It is he, after all, who requested many of its key provisions. He appreciates the inclusion in the conference report of his requests for FEMA, which would assist California, your own state of Louisiana, and other states; for the Justice Department and other agencies in the wake of the Oklahoma City explosion; and for assistance that is vital to the Middle East peace process. It is unfortunate that the conference veered so far from the Senate bill to a set of priorities that is wrong for the country and, for that reason, unacceptable to the President. If the House and Senate adopt the conference report and force a veto, the

President hopes that the Congress will go back to work immediately, make the changes he is recommending, and pass a bill that he can sign.

I look forward to working with you as this process moves forward.

Sincerely,

Leon E. Panetta
Chief of Staff

DRAFT

May 31, 1995

MEMORANDUM TO GENE SPERLING

FROM: Andrew Mayock

RE: Presidential Statements on Balancing the Budget and Deficit Reduction

I conducted a Nexis search with the objective of searching for any statements by the President which could be interpreted as being inconsistent, indifferent or disinterested in further deficit reduction or a balanced budget. The research covers January 1993 to the present, and a summary of the results follow.

The President has been extremely consistent in strongly advocating deficit reduction and a balanced budget. His emphasis has been mainly on deficit reduction as opposed to balancing the budget. However, when he discusses the long-term budget, he always refers to balancing it. The following quotes reflect his slightly changing mantra. Each quote represent tens, if not hundreds, of similar quotes uttered over the prior two and a half years.
REPRESENTATIVE STATEMENTS OF THE PRESIDENT'S COMMITMENT TO DEFICIT REDUCTION AND BALANCING THE BUDGET:

We need to bring this deficit down to zero. But we can't do it overnight without collapsing the economy. We must do it over a period of years. In order to do that we must cut more. But to really bring the budget in balance, we must gain control of health care costs through reform of the system.

In fact, if it were not for the interest we have to pay on the debt run up between 1980 and 1992, our government's budget would be in balance today.

My administration has reduced the deficit by $600 billion with no help from the Republicans.

Slight variations on this line appear, but the President has not strayed to anything directly sounding like acquiescence of continued budget deficits or apathy to a balanced budget. However, I did find indirect statements which might be used to show a lack of commitment by the President to reaching a balanced budget. **STATEMENTS THAT COULD BE USED TO CHARACTERIZE THE PRSEIDENT AS LACKING OF COMMITMENT TO BALANCING THE BUDGET:**

- "I just wanted to say that when I became President...I decided we were going to have to cut more spending and raise more revenue that I had thought to get the deficit down to a point in which it was manageable." July 20, 1993

- "It is true that I think that we have cut the deficit in a four-year period about as much as we should we these new numbers." March 9, 1993

- "[N]ow that the vote on the balanced budget amendment has passed, it is time for the Congress to go forward to write a disciplined budget that brings the deficit down." March 3, 1995

"But I tell you this: we have to reduce the deficit further...The United States will continue to reduce the deficit. We'll reduce it more." Date unknown.

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- "[N]ow that the vote on the balanced budget amendment has passed, it is time for the Congress to go forward to write a disciplined budget that brings the deficit down." March 3, 1995

"But I tell you this: we have to reduce the deficit further...The United States will continue to reduce the deficit. We'll reduce it more." Date unknown.

consistent with my commitment to bring the deficit down, Government spending went down, but growth in the private sector was over 4 percent, which is very, very brisk, indeed.

These are numbers on line with our projections for growth, and they're enough to keep the deficit moving down and job creation moving up. This is a very important thing: more jobs, more growth, lower deficit. Those are the things that I campaigned to the American people on. We have tried to face this difficult issue. **After a decade and more in which the American debt quadrupled, in which the annual deficit tripled, by next year our deficit will be a smaller percentage of our annual income than that of any other advanced economy with which we compete. And I am very proud of that.**

I say that as a prelude to discussing the health care issue, because it was not easy to pass the economic plan. I remind you, it passed by only one vote twice in both Houses. As the Vice President often reminds me, every time he votes in the Senate we win. [Laughter] The more you think about that, the funnier it gets. I hope I don't have to see him vote too often. [Laughter] It was not easy to do that. People said, well, the sky would fall, this would happen, that would happen. The truth is, the economic program, just as we said, raised income tax rates for the top 1.2 percent of our country, that this year, about one in six working Americans will get a tax cut because they're working, they have children, and they're hovering just above the poverty line. And we want to encourage them to work, not go on welfare. We want to reward their struggles to be good parents and good workers at the same time.

There are real, new incentives there for small businesses to reinvest in their businesses and lower their taxes -- 90 percent of the small businesses eligible for tax cuts under this program -- real incentives for people to invest in the new technologies of the 21st century and relentless budget cuts. We eliminate 100 Government programs in our plan. We cut 300 more so we can invest more in education and technology and in the future of this country. These are important.

But I want to say, we are on this course because this administration took on a tough fight, won it by a narrow margin, and gave the country a chance to grow again and get out of the paralysis that had been gripping us.

Now we face such a fight in health care. And we have difficult decisions to make. People say to me all the time, "Why do you just keep taking on these things? Why don't you just stay with the economic program and tell everybody how well you did and let it go and work on that? Why take on tough issue after tough issue after tough issue?" I'll tell you why. Because, first of all, in the end, as a country, we cannot go forward economically and come together unless we recognize that all these issues are related one to another. And secondly, we will never have a sense of fairness and security which is necessary for us to be strong as a people until we deal with our thorniest difficulties: whether it's crime and violence or the problems with the tatters in our health care system. So I ask you to think about that today.

Change has always been difficult. And over the last six decades, every President, or most Presidents, at least since Franklin Roosevelt, have sought to do something about the health care problem. Roosevelt and Truman, Johnson and Carter and Richard Nixon all tried to find a way to provide for universal coverage so that everybody could have health care security. And always along

And I tell you that I think we have reached that limit. We have cut defense all we can. I imagine most people in this room and most people back home in your civic clubs and your churches and synagogues and other places think we ought to do more to bring this Government spending down and like the fact that we're reducing the deficit. But I also would ask for your support for a reasonable defense budget. We, after all, still have -there are no nuclear missiles pointed at us from the Soviet Union, but there are other countries trying to develop nuclear programs. And we have to maintain our commitments in Asia and in Europe.

So I would ask you to support what we're doing to bring the deficit down; but say, look, there is a limit; we do have a national defense; we do have obligations here. And we do have to retrain workers, and we do have to help move these technologies from defense to commercial technologies. So we need to spend some money on that.

Secondly, let me say, there's some things that are specific to the SBA I want to emphasize. Since Erskine Bowles has been the Director of the SBA, we've increased our lending program by $ 3 billion, and they've introduced a one-page application that takes 2 days to process. That alone was worth me appointing him, wasn't it? [Laughter]

I also want to say a word about this health care debate which is going on in Washington which is doubtless not only important to you but occasionally must be somewhat confusing because it's an extremely complex subject. First, let me say that people say, "Well, Clinton's bill's 13 hundred pages long; nothing that complicated should ever be passed by Congress by definition. They'd mess up a one-car parade." I've heard it many times.

You should know that if that bill passed in its entirety, it would replace even more pages of Federal law now in existence, that is, that a lot of this so-called complexity deals with issues not of direct concern to you but of indirect concern to you like, well, how are we going to deal with the major medical schools; and how are they going to get their funding; and what about the public health clinics of the country; what about the people that live way out there in rural areas who have no access to health care unless there's not a clinic?

But fundamentally, when I asked Erskine Bowles to come into this debate early, and I said, "Look, the biggest bone of contention to providing health coverage for all Americans will be what are the obligations directly or indirectly of small business, because that's where the problems in affording coverage are. So make sure we design something that provides enough protection for small business so that we continue to grow jobs, not shrink jobs." It's also true that the biggest problems in health care come to small business, paying on average 35 percent more for health care premiums than larger businesses do, and being subject to a lot of problems Ofmmy wife and I have a friend that she grew up with, and she and her husband and their children have become great friends of ours over the last 20 years. He only has four employees in his small business. And he provides coverage for all of them. And one of these young men, has been with him a long time, has a child with Down's syndrome. And this fellow -- it's time really for him to move on and to broaden his horizons and to do something else in his life, and he simply can't do it because no other business can afford to hire him because he's had a sick child under the present system.

do it by another teenager. These kids have got to be reached. We've got to reach these kids so they don't do that, before they become terrible problems. That's what I think we have to do.

Mr. Donovan. Thank you. As you make your way back over here, Mr. President, we'll get ready for our next question, which will come to you from Bristol, Tennessee.

Mr. Hawkins. Mr. President, I'm here with this gentleman, and he has a question about the national debt.

The Economy

Q. My question has to do with the national debt and the deficit that seems to be climbing and increasing all the time. I know you referred to this in your opening remarks, but we're concerned about Social Security and about who has to pay this debt and inflation that might have some bearings upon it. My questions are, should we really be concerned? And what is being done in a substantial way to deal with this? And when will this be resolved and no longer be a problem?

The President. Let me say first, with regard to Social Security, right now the Social Security tax brings in more money than is necessary to pay out in Social Security every year. And Social Security should be stable for quite a long while now. I don't think you have to worry about that.

Secondly, does the deficit matter? Yes, it does. It matters when we have to take 15 cents of every dollar you pay in taxes to pay in interest on the debt. That's money we can't spend on education or health care or jobs or something else. And it can weaken our economy, because we have to borrow money sometimes from overseas.

Now, if we keep going, right now, the real way to look at the deficit is, what is the percentage of our deficit as a percentage of our national income? If you look at it that way and compare it to all the other major economies of the world, our deficit now, we've gotten it low enough so that it's smaller as a percentage of our national income than any of the countries we compete with, major economies, except one, except Japan. And if we keep going, we'll get it down below that. We have to keep driving it down.

The only way to get it to zero is to go back to the very first question I was asked. The only way to get it to zero, because we're cutting defense all we can, and that gentleman made -- I don't think we can cut it any more. And I'm very concerned. I don't want the Congress to cut defense any more than is in our plan in this budget session. We're cutting defense already. We're cutting domestic spending that's discretionary for the first time since 1969. The only thing that's going up in this budget is that health care costs are still going up at 2 and 3 times the rate of inflation. So the only way we can get the deficit down to zero now is to bring health care costs in line with inflation. And that's what I'm trying hard to do. And I hope we can do that.

But as long as the deficit is going down instead of up, which it is now, it will be a smaller and smaller percentage of our income, and our economy will be stronger. And I think you can be confident that we're going in the right direction. And that's the important thing. We're going in the right direction not the wrong direction.

The President. This is the inherited deficit. With our plan, here's what happens to it over 5 years. Now, what you see down here is the real hitch --

we can come back to this later -- and that is that with all of our cuts and with the revenue increases, health care is still going up at 9 percent a year. Until we bring health care costs in line with inflation, we can't get down to zero. When we do, we can get down to zero and balance this budget. That's why health care reform is so important.

But look at the difference here. Now, let me just show you one other thing. Even though I did decide to ask for a modest tax increase on the middle class, let me just say exactly what this is.

Here is a deficit reduction plan. For every $ 10, $ 5 comes in spending cuts, $ 4 comes from people with incomes above $ 100,000; that's the top 6 percent. Of this $ 4, seven-eighths of that comes from people with incomes above $ 200,000. And then $ 1, 1 in 10, comes from people with incomes between $ 30,000 and $ 100,000. Families with incomes below $ 30,000 are held harmless.

So I think it is a fair and balanced package. Now, this portion, the portion the middle class pays, if anything near what the Senate bill does passes, will be about $ 50 a year for a family of four with an income of, let's say, between $ 40,000 and $ 50,000 a year, or about a buck a week. And all this money -- all this money goes into a trust fund for 5 years to pay down the deficit. It has to be used for that. And if we miss our targets of paying down the deficit, that is, if we miss my line back here any year, I have to come back in and give new cuts, new ways to meet the deficit reduction.

Now, what does this mean for the average American? It means that, as we have made progress on this, we've got the lowest interest rates in 20 years. So millions of people are refinancing their homes, refinancing their business loans. They're going to take out lower college loans, car loans, consumer loans. Millions of Americans will save far more in interest rates than they will pay in this modest tax package, even upper income people.

Let me just make a couple more points. Ninety-four percent of the small businesses in this country will pay no income tax increase and will have the opportunity to get a tax cut if they simply invest more money back in their business and create jobs, because we more than double the expensing provision for small business.

One final thing that's important. I just got back from this G-7 meeting, the meeting of the world's great industrial powers. For 10 years, at every meeting the United States didn't have much influence because we were attacked over having such a big deficit and being greedy, taking money from all around the world to pay for it. This year, for the first time in a decade, we were complimented, not criticized, and that's why -- the progress of this economic plan is why at this meeting we were able to get an agreement to lower tariffs on our manufactured products. It means hundreds of thousands of jobs for Americans if we can get all the countries in the world to agree to change the trade agreement, like the big countries have. And we've got a new trade deal with Japan where the Japanese for the first time agreed to dramatically reduce the trade deficit.

Economic Summit

Mr. King. By the way, did you expect that going there?

Mr. King. I haven't seen it yet, but they tell me it's unbelievable.

The President. Unbelievable. Rene Russo was good, too, and I'd only seen her in that Mel Gibson movie.

Mr. King. You are a movie buff, right?

The President. I love the movies. I love the movies.

Mr. King. What's it like when you order them here in the White House?

The President. Well, you know, they send in movies on a regular basis, so I get to see a lot of movies here. Normally, what we do is on Friday night -- I normally work pretty late on Friday night, till 7, 7:30 p.m. Last Friday I worked till 8:30 p.m. And then we gather up whoever is still working late in the White House, and Hillary and I and, when Chelsea's here, Chelsea would come down and watch the movie. We like that.

Economic Program

Mr. King. We're ready to go back to more phone calls for President Clinton. Again, when you come on the line, please make the question or comment right to the point. And before we take our next call, I also want to give him a chance to expound on the lady who did call. I think he looked a little -- when the lady who said --

The President. She said, well, if the deficit is down, why do you need to raise any taxes. Keep in mind, we went from a $ 1 to $ 4 trillion national debt -- that's the annual deficits added up -- in only 12 years, from 1980 to 1992. And we need to get that deficit down to zero as quickly as we can without collapsing the economy. You can't do it overnight, but we have to do it over a period of years.

And as we do it, that's less money we have to spend on interest on the debt and more money we can invest in creating jobs, business incentives, and education and training and new technologies, and building roads and bridges and airports and things that make a country rich and competitive in this world. So even though we're getting a break on the deficit, we're getting a break on the deficit because the financial markets are responding to our efforts to bring the deficit down. And so we can't back up. We don't want to overdo it because that will slow the economy down, if you take too much money out at one time. But if we do it too little, then the interest rates will go up and we'll be in trouble on that score again.

Mr. King. Montreal, Quebec, Canada. Hello.

Gays in the Military

[A participant asked why the President did not act on the issue of gays in the military the same way President Truman had concerning desegregation of the military.]

The President. Well, first of all, let's talk about what I did do, and then I'll tell you why the argument you made is not analogous.

and a malaise is beginning to set in our country, like the Carter era. Please understand, Mr. President, San Diegans just don't have any more money to contribute to the coffers of Government. My question is, can you name one country that has ever taxes and spent itself back into prosperity? Thank you.

The President. The answer to your question is, I can't. But you can't fairly characterize my program as that. I have cut more spending than my predecessor did. My budget calls for $ 250 billion-plus in spending cuts net. The first thing I did was cut the White House staff by 25 percent, even though I've already received more mail in 2 1/2 months than came to the White House in all of 1992. If any of you have written, and I haven't answered, that's why. [Laughter] I cut the administrative expenses of the Federal Government 14 percent across-the-board. I froze Federal employee pay in the first year and cut back their raises for 4 years. There have been massive spending cuts in this budget. So that's just a big myth that there hasn't been. I also worked hard to pass a budget resolution that would make it clear that we coudn't raise any taxes unless we cut spending.

Now, let me address the middle class tax cut specifically. Number one, after the election, after the election, the previous administration announced that the Government deficit was going to be $ 50 billion a year bigger in 3 of the next 4 years, a year, after the election. Therefore, I concluded that I could not in good conscience give anybody an across-the-board tax cut in the first year of my Presidency. I still think there should be an evening-up of the tax burden.

Secondly, it became clear to me that the best thing I could do for the middle class was to bring interest rates down and to try to get control of our budget. So I proposed a plan of budget cuts first and tax increasesthat are highly progressive. And let me just mention a couple things that you may not know, having heard the press about the tax program I presented to the Congress. While it does raise about $ 250 billion over a 5-year period, it also provides significant relief to small business. Expensing provisions in the Tax Code, for example, are raised from $ 10,000 to $ 25,000 a year. That will lower a lot of people's tax bills. For people with incomes under $ 30,000, we increased the earned-income tax credit so much that they will not be affected by this tax increase in any way. And over 70 percent of the money that will be raised in this program will come from people with incomes net above $ 100,000.

So it's a progressive program; the burden is broadly spread. If we can bring the deficit down, we'll keep interest rates down. I'd just remind you folks that just since the election, when we announced our intention to seriously reduce the deficit, interest rates dropped dramatically. This year, 74 percent of people under 35 in a bipartisan poll said they thought they had a pretty good chance to buy their own home. Last year, the figure was 47 percent. That's because the interest rates are down. That will put another $ 100 billion back in the economy.

Now, I've got 4 years. Give me 4 years to try to deliver on the middle class tax cut. But the first thing we need to do is drive the deficit down with cuts and some prudent revenue increases. Most of the people paying the taxes are people whose taxes were lowered while their incomes increased in the 1980's. And I think it's very important to get the budget back in balance.

investing in new technologies to try to create those jobs for their people. If we don't do it, we're going to be left behind. So we have to target some investments. But this budget has over 200 very specific budget cuts over the last budget adopted in the previous administration. And if you look -- it's 5 year budget, that's what the law requires us to do, to adopt 5-year budgets -- we've got more spending cuts than tax increases, and we should.

Mr. Imus. Is it important what the ratio is? And if it is, what should it be, do you think? I mean, because that's the -- you know, that's kind of the way we relate to it.

The President. Well, the issue is how many cuts can you get without pulling the economy into a recession. What do you have to cut, how many cuts can you get without unfairly cutting the elderly? The same people who say we don't have enough cuts are also often saying we shouldn't cut what we're cutting. And the truth is, if you want to get to a balanced budget through spending reductions, the only way to do it now is to get control of health care costs, and that, basically, in the later part of this decade, if we can adopt a national health system and -- you know, Hillary has been working on that with hundreds of others -- and we can bring the Government's deficit down to zero, but you can't do that overnight. And the biggest part of our deficit growth now is in health care costs and interest on the debt.

We're not spending a bigger percentage of our income on Social Security -- our national income -- than we were 10 years ago. We're spending a smaller percentage of our income on Federal aid in education than we were 10 or 12 years ago. What's happened now is we started cutting defense, but health care increases overcame the defense cuts. So what I'm trying to do is to cut everything I can now, get health care costs under control and look towards, not only cutting the deficit but bringing it down to zero over a multi-year period. You just can't do this overnight.

You know, we took the national debt from $ 1 trillion to $ 4 trillion in 12 years with a $ 300-plus billion a year deficit when I took office. You can't just eliminate that overnight without having serious economic dislocations. You've got to do it in a disciplined way and take it down.

Mr. Imus. There's already been some compromise with some members of your own party in Congress. Do you anticipate any more of that, or is it --

The President. Well, I think there have been some changes that make it better. After all, we put this plan on the table only 30 days after I had taken office, and I invited people to comment on it but to keep its essential features intact. That is, we had to have the spending cuts before I would agree to tax increases. The tax increases had to be largely progressive; that is, they ought to be on people at higher income levels whose tax rates went down in the 1980's while their incomes went up, that we ought to have a earned income tax credit. That's taxpayer jargon for giving a tax break to working-class people with children, particularly who would be especially hard hit by the energy tax, and that affects people with incomes up to about $ 29,000 a year, where they'll get an offset on their income tax to make up for the energy tax. And there ought to be some incentives for investment in the American economy, either mine or some others. And we emphasize small business, and we emphasize new plants and equipment for big business. And those things are all going to be in the ultimate tax package. So I feel good about it. I think that, you know, the

Americans are losing their health insurance. So there are severe problems in this economy that we have to address to create the jobs. Let me just mention a couple of things that we're trying to do, particularly to focus on small business.

We have announced a Governmentwide program with every Agency that regulates our financial institutions to try to end the credit crunch on small business and give banks the flexibility they need to make good loans to worthy customers in the small-business sector and to drastically, and I mean drastically, cut the paperwork required to access Government programs and to comply with the regulatory requirements.

We have proposed a program that would give small businesses -- 90 percent of the employers employing 40 percent of the people but providing way over half the new jobs -- a permanent investment tax credit so that they'll always have more incentives to plow money back into the business.

We have taken steps to pass a budget which will contain billions of dollars in funds to help to deal with these terrible, terrible economic problems caused by defense cutbacks and base closings by not only retraining workers at very high levels but also providing joint ventures in new technologies so that defense contractors will have a fighting chance to get into technologies that have both civilian and defense uses, or entirely civilian uses, to create the jobs of the future.

These are just some of the things that have to be done to keep our eye on the ball. The purpose of bringing the deficit down is to make the economy work, which means we've got to both bring the deficit down and focus on these investments. We've got to change the nature of Federal spending: less consumption, more investment.

And finally, in order to get that done, we're going to have to face the health care crisis in America. It is projected that if we do nothing to change Government spending patterns on health care, listen to this, in 5 years, adding no new benefits -- adding no new benefits -- in 5 years, your tax bill for paying for Medicare and Medicaid will go from $ 210 billion to $ 350 billion, a 67 percent increase in 5 years with no new benefits, because of the explosion of health care costs and the explosion in the number of people who will be forced onto the public health care rolls as people cannot afford anymore to insure their employees.

This is a devastating blow to our efforts to reduce the deficit. **If you want us to bring the budget into balance, you must insist that after we pass this budget, we move on to find a way to bring health costs in line with inflation and provide a basic package of health care to all of our people.** Every other country in the world, except the United States, has figured out a way to do that. Let me tell you what will happen if we don't. By the end of the decade we'll be spending 20 percent of every dollar, 20 cents on the dollar, on health care. And none of or competitors will be over a dime, and we will be in a serious hole in terms of trying to be competitive. We also cannot balance the budget.

The flip side of that is if by working in partnership with providers, employers, and employee groups, we can bring health costs in line with inflation without sacrificing quality, we can emphasize preventive and primary care, we

Middle East Peace Talks

Q. Did you discuss with the French President at all the Middle East peace process? And are you optimistic, for the next round of talks, that Syria comes to an agreement with Israel?

President Clinton. We have not discussed the Middle East yet. We will over lunch. Yes, I am hopeful.

Health Care Reform

Q. Mr. President, may I ask, regarding your health care reform, now that you're so deeply involved in trying to find more budget cuts, what is your expectation for when you would start seeing some savings from health reform? And should Americans expect that they will have to settle for reduced core benefits unless they can pay more, of course --

President Clinton. No.

Q. -- for some sort of reduced services in order to achieve these savings?

President Clinton. No, I don't necessarily accept that. Of course, we have 400 people working on this now and consulting widely with all the people involved in the health care issue.

Let me answer your first question pointedly. I believe, under all the scenarios I have seen that I think are possible, we would see immediate savings in the private sector if we were to adopt a comprehensive health care reform package. That is, private employers and employees would see the rate of their insurance premium increases drop rather dramatically and there would be really significant savings immediately in the private sector.

Because those savings in the public sector would have to be used to provide some insurance at least to the unemployed uninsured, who are about 30 percent of the total population of uninsured -- at least to them -- it might take 4 years or so before we would start seeing significant taxpayer savings. But interestingly enough, that's about the time we need it. **That is, if you look at all the scenarios, the deficit can be brought down under our plan for 4 years, and then if health care costs are not brought under control, it will start up again in the latter part of this decade. So we certainly believe that the health care plan would bring the deficit down virtually to zero over the next 8 to 10 years.**

Now, will people have to accept a lower quality of health care? I just dispute that entirely. We're already spending 30 percent more of our income than any country in the world. I don't think that --

Steel Subsidies

Q. Yesterday the United States imposed some tithes, additional tithes on some products of steel. The argument is that the subsidies are unfair. But the other side says that the subsidies are not unfair. What is the middle ground? What do you think can be negotiated? And, also, I would like to hear the response of President Mitterrand.

deficit reduction. And I believe it will produce far more than we even estimate. They have to decide to get the budget resolution passed by category. But I assure you that we will be very specific before the process is over.

It is true that I think that we have cut the deficit in a 4-year period about as much, as we should with these new numbers. But that doesn't mean we don't need more specifics, because we have to define how we're going to cut. And since I also strongly believe we have to increase our investments in education and training and in new technologies and in the things which will make our economy grow, it means we need all the suggestions we can get about other places we can cut the budget, and we will need to do that until the budget is finally passed.

So I strongly support that. The Vice President, as you know, is heading the performance review audit of the entire Federal Government. And the more specific suggestions we can come up with that everyone agrees with, the fewer controversial and potentially damaging cuts we'll have.

Let me just make the economic argument. Our deficit reduction package -- and Senator after Senator said today, you know, that this is the most credible budget I've seen in 15 or 17 or however many years -- it is producing the desired results: low interest rates, stock market back up and doing well.

We have to deal with that against a backdrop of a Europe that's had slow growth, Japan with some serious economic problems and no political consensus about what to do about it in Japan. **So we want to do what our European and Japanese friends have been telling us for years we should do, get our deficit under control. But we want to do it at a moderate pace so that we don't throw the United States back into recession and further complicate the economic problems of Europe, which will be helped by a growing American economy. So I think we've struck the right balance, and that was the point I was making to them.**

Middle East Peace Talks

Q. President Clinton, concerning the Middle East, you said that your country intends to play the role of a full partner in the peace process. How do you intend to translate this? And what would you tell Israeli Prime Minister Rabin when you receive him next week so that to resume the talks, especially concerning the Palestinian deportees?

President Clinton. Well, I think that what we mean by a full partnership was evidenced by the fact that the Secretary of State's first trip abroad was to the Middle East and that he made aggressive efforts there to try to get the talks back on track and to involve as many parties as possible. In terms of what I will tell Prime Minister Rabin when he comes back, I won't say anything I haven't said in public about the deportee issue or anything else. We are working together. I feel comfortable and confident that he very much wants the peace process back on track, and I will support that.

Civil Aircraft Agreement

Q. What specific revisions do you want in the agreement on civil aircraft? And are you prepared to abrogate last year's agreement?

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Public Papers of the President

July 19, 1994

CITE: 30 "Weekly Comp. Pres. Doc." 1511

LENGTH: 4940 words

HEADLINE: Remarks and a Question-and-Answer Session With the National Governors' Association in Boston, Massachusetts

BODY:

The President. Thank you. Thank you very much. Thank you very much, Governor Campbell. Governor Dean, Governor Weld, thank you for hosting the Governors in your latest expression of bipartisan support, showing up at the Democratic Governors' party last night. That's broadening your base here.

I want to join many others here in saying a word of best wishes to Governor Edgar as he continues his recovery and to say to all of you who are leaving the Governors conference this year who served with me, how much I wish you well and how much I enjoyed serving with you over the years.

I always look forward to this day every year. I feel that I have in many ways come home whenever I come back here. There are many ways in which I miss being a Governor, because Governors are so much less isolated from real life than Presidents. Neighbors stop you on the street and talk about their jobs and businesses, about their children and their parents, and the things that we in Washington call issues take on a very human face. And I must say I have worked hard to try to find ways to keep the human face on the issues with which we all deal.

It was as a Governor that I learned and lived the idea that the purpose of public life is actually to get people together to solve problems, not to posture for the next election with rhetoric. **In my time in the NGA I was proud to work in a bipartisan fashion on issues of education and welfare reform, on trade and economic development and, yes, on bipartisan suggestions we Governors had for reducing the Federal deficit.**

I ran for President because I did not want us to go into the 21st century without a vision of how we could restore our economy and unite our people, make Government work for ordinary Americans again because I thought that our politics was too burdened by partisan rhetoric and too little concerned with practical progress. In the last year and a half I have set about to implement the vision that I brought to that campaign, one that grew directly out of the experiences I had with most of you around this table. We worked to get our economic house in order, to reverse the trend of exploding deficits and declining investments in America.

The economic plan the Congress adopted last year contained $ 255 billion in spending cuts, tax cuts for 15 billion working families, made 90 percent of the small businesses in American eligible for tax cuts, increased taxes on the wealthiest 1.5 percent of our people, reduced the Federal payroll by a quarter million, and will give us -- along with this year's budget which eliminated over 100 Government programs, cuts 200 others, and takes the payroll deduction to 272,000, meaning that in 1999 the Federal Government will be below 2 million

CLOSE HOLD

Document No. 1130665S

WHITE HOUSE STAFFING MEMORANDUM

DATE: 6-1 ACTION/CONCURRENCE/COMMENT DUE BY: 6-1 COB

SUBJECT: Reich/Kantor Proposed Budget Statements

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	McGINTY	☐	☐
PANETTA	☑	☐	NASH	☐	☐
McLARTY	☐	☐	QUINN	☐	☐
ICKES	☑	☐	RASCO	☐	☐
BOWLES	☐	☑	SEGAL	☐	☐
RIVLIN	☐	☐	SOSNIK	☐	☐
EMANUEL	☐	☐	STEPHANOPOULOS	☑	☐
GEARAN	☐	☐	TYSON	☑	☐
GIBBONS	☐	☐	WEBSTER	☐	☐
GRIFFIN	☐	☐	WILLIAMS	☐	☐
HALE	☐	☐	Speechwriting	☑	☐
HERMAN	☐	☐		☐	☐
HIGGINS	☐	☐		☐	☐
LAKE	☐	☐		☐	☐
LINDSEY	☐	☐		☐	☐
MIKVA	☐	☐		☐	☐
McCURRY	☐	☐		☐	☐

REMARKS: Please advise.

RESPONSE:

CLOSE HOLD

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
Ext. 2702

95 MAY 31 P6:42

May 31, 1995

MEMORANDUM TO THE PRESIDENT

FROM SECRETARY REICH AND AMBASSADOR KANTOR

Subject: Possible Public Statements

Here are two attempts at a statement both covering much of the same ground. (However, we didn't have enough time to perfect a single version if you were to get this today.) The point is to challenge Republicans on the line item veto, and underscore the principles behind your veto and your upcoming counter-budget.

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

rec'd. May 31, 95 6:42 p

May 31, 1995

MEMORANDUM TO THE PRESIDENT

FROM AMBASSADOR MICHAEL KANTOR

SUBJECT: Possible Public Statement

We face an enormous challenge to create an economy which ensures the highest standard of living in the world for U.S. citizens, founded upon the talents of the American people. Within ten years, Americans must be the best educated, well trained, and most secure people in history. This Administration has started down that road, insisting on limited government, unlimited opportunity, and on responsibility.

However, those in control of Congress, by advocating misplaced budget priorities, and calling for more tax breaks for those who need help the least, continuing unnecessary subsidies for corporations and the funding of wasteful projects, will insure our decline, not private investment in our future.

The Republican majority's package of recisions or retroactive cuts fail to address the major economic challenge facing the country, which is jobs, growth, and raising our standard of living. I have supported an alternative recision bill which reduces the deficit by as much as they propose, but does so in a way that protects American's future, competitiveness, and productivity. I will veto any proposal which represents this kind of misplaced priorities.

I have always advocated that the President have the power to exercise a line-item veto to ensure a determined approach to limiting government, while we create unlimited opportunity. The line-item veto has passed both Houses of Congress, but politics has prevented the majority from sending the bill to my desk. I challenge the Republican Congress to send me the bill -- I will sign it immediately.

The Budget resolution has just passed both Houses of the Congress. This resolution reflects priorities which will insure that Americans will not be more productive, that their businesses will be less competitive, and that their standard of living will not get better. These proposals make the situation worse. They would cut education and training, raise taxes on working people, give tax breaks to those who are well off and do not need the help, fund "white elephant" projects which we cannot afford, and continue unnecessary and expensive subsidies to corporations.

The standards by which we must judge any budget proposal should first insist that the main priority is jobs and incomes. We must make all Americans more productive, and we will not sacrifice our absolute commitment to make all Americans the best educated and most productive workers in the world.

Second, we must protect the health, security, and safety of the American people. We should not lower those standards in order to fund tax breaks which have no value.

Third, we can achieve limited government and promote unlimited opportunity, but only if we have the determination and discipline to reach a balanced budget. A balanced budget is not an end in itself, but it is a means to grow jobs, unleash private investment, create more money for private business expansion, and to ensure that we will not mortgage the future of our children.

This administration has been able to cut the budget deficit in half in just 28 months. The Federal Government has 100 thousand less employees than when I came into office, and at the end of my term we will have the smallest Federal Government since President Kennedy was in office. Unemployment is down, and 6.3 million new jobs have been created. Almost every one of these jobs is in the private sector; and for the first time in a decade American workers are the most productive in the world.

We cannot let hollow rhetoric or misguided initiatives to reverse the progress we have made or to stand in the way of a new century of expansion and opportunity.

CONFIDENTIAL
JGP, 9/24/04

To: The President

From: MK, RR

Date: June 1, 1995

RE: Possible public statement, this week

"The Context for a Balanced Budget: My principles and my plan"

The Republican rescission and their budget resolutions do not address the major economic challenge facing this nation, which is to restore jobs and incomes. That is why I am vetoing the rescission, and why I oppose their budgets. I have offered an alternative rescission bill which reduces the deficit by as much as they propose, but does so in a way that meets this challenge. In coming weeks I will offer an alternative budget which balances the budget within ten years, but, again, does so in a way that meets the challenge. Today I want to share with you the principles that are guiding my decisions.

1. The problem of jobs and incomes. The stagnation and decline of median wages over 15 years. The widening income gap, and its main causes (70 percent driven by the new premium placed on education and training, the rest by the declining real value of the minimum wage, declining unionism and the policies of previous Republican administrations).

2. The Republican proposals worsen the situation. They want to cut education and training, block the minimum wage, raise taxes on working people through cutting EITC, cut child care, and give tax breaks to the well-off and to corporations.

3. What must be done instead:

(a) Make all Americans more productive (Head Start, WIC, education and job skills, tax deducation for education and training, job training and placement for welfare recipients). You won't allow Republicans to sacrifice any of this. If anything, you want to invest even more than you proposed in 1996.

(b) Make work pay (EITC, minimum wage). We must bring up the bottom, so that people can be financially independent. Republicans are heading in opposite direction. (Keep the minimum wage in the budget debate, even though it has tiny budget implications; it must be understood as linked with the EITC as dual means of keeping the working poor out of poverty.)

(c) Enhance the knowledge base of the nation (research and development).

(d) Provide health security to the nation's most vulnerable (unemployed workers, kids, people with pre-existing conditions). Slow the growth in Medicare and Medicaid in such way that middle-class elderly and the poor are not hurt. Republicans are doing it wrong. We'll work with them.

4. And we can accomplish these things, while still reaching a balanced budget, if we:

(a) Cut corporate welfare (subsidies and tax breaks with no public value). Washington lobbyists have unjustly enriched certain companies and industries. Billions of dollars can be saved, to be dedicated to making all Americans more productive. The economy wins, as do all our citizens.

(b) Cut pork (fancy court houses, unnecessary infrastructure projects, unwarranted expenditures of all kinds).

(c) Reject tax breaks for the well-off (Republican capital gains proposal, their proposal to eliminate the Alternative Minimum Tax for corporations -- another bow to corporate welfare -- their accelerated depreciation, which essentially eliminates the corporate income tax). They don't need it. Average working Americans need help getting ahead.

5. My rescission plan reflects these priorities, as will my plan to balance the budget. But in order to accomplish any of this, it is necessary that I have the ability to veto wasteful legislation which is tacked on to important legislation. To take one recent example, tax avoidance by billionaires who make their money in America but set up homes abroad.

I challenge the Republican Congress to send me the line-item veto bill as soon as they return from recess. I will sign it into law immediately. If they refuse to send it to me it will be because they don't really want to cut corporate welfare, cut pork, or lose their tax breaks for the wealthy and privileged.

THE WHITE HOUSE

WASHINGTON

OFFICE OF LEON PANETTA
CHIEF OF STAFF TO THE PRESIDENT

ERSKINE BOWLES	HAROLD ICKES
DEPUTY CHIEF OF STAFF	DEPUTY CHIEF OF STAFF

Date: ______ Pages: 2 follow

To: Gene

From: Barry

Fax Number: 67878

Comments:

If there are any problems with this transmission please call (202) 465-6797.

TO THE HOUSE OF REPRESENTATIVES

I am returning today without my approval H.R. 1158, a bill providing for emergency supplemental appropriations and rescissions for fiscal year 1995.

As I have stated, my disagreement with the Congress over this bill is not about deficit reduction; it is about priorities. The conferees cut deeply into important investments -- notably, investments for education, national service, and the environment -- while ignoring literally billions of dollars in funding for highway demonstration projects and Federal buildings that they could have cut.

My Administration remains firmly committed to deficit reduction, and has provided alternative proposals to the Congress that would cut even more in fiscal year 1995 spending than is included in the conference version of H.R. 1158.

The Administration strongly and consistently opposed the House version of this bill because it would have unnecessarily cut valuable, proven programs that educate our children, invest in the future, and protect our health and safety. We worked closely with the Senate -- specifically with the Bipartisan Leadership -- to improve the bill. Regrettably, this bill does not restore the most egregious reductions proposed by the House.

The Administration continues to object to language which would override existing environmental laws in an effort to increase timber salvage. Increasing timber salvage and improving forest health are goals that my Administration shares with Congress. Over the last six months, the Administration has put in motion administrative reforms that are speeding salvage timber sales in full compliance with existing environmental laws. I urge the Congress to work with my Administration to rewrite the timber salvage language to respond to our concerns.

In disapproving H.R. 1158, I nevertheless commend the Congress for approving essential supplemental funding for disaster relief activities of the Federal Emergency Management Agency, for the Federal response to the bombing in Oklahoma City, for increased anti-terrorism efforts, and for providing debt relief to Jordan in order to contribute to further progress toward a Middle East peace settlement. I urge the Congress to approve a bill that contains this supplemental funding, along with the recommended restorations and offsets that the Administration has transmitted.

Disapproval of H.R. 1158 will not force the Federal Emergency Management Agency to discontinue any of its disaster relief activities at this time, nor will it impede the Federal response to the bombing in Oklahoma City. In the next two months, however, it will be essential that Congress provide such supplemental funding. I urge the Congress to send me an acceptable bill as soon as possible.