

THE WHITE HOUSE

WASHINGTON

OFFICE OF LEON PANETTA  
CHIEF OF STAFF TO THE PRESIDENT

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DEPUTY CHIEF OF STAFF

HAROLD ICKES  
DEPUTY CHIEF OF STAFF

Date: \_\_\_\_\_

Pages: 2 more

To: \_\_\_\_\_

Gene

From: \_\_\_\_\_

Barry

Fax Number: \_\_\_\_\_

62878

Comments: \_\_\_\_\_

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(202) 455-6197

- Right now, the Congress is way behind where it should be in the budget and appropriations process.
- Of the 13 appropriations bills, in 1993 and 1994, the House of Representatives had completed 9 and 12 respectively by July 4th. This year, the House had completed only 2. Not since 1989 -- the first year of the Bush Administration -- has the House been this far behind.
- Probably even worse, the budget resolution recently adopted by the Congress does not require committees to complete work on their deficit reduction legislation until September 22. That is only eight days before the end of the Fiscal Year.
- It should be clear that the train wreck is not speculation on our part about some secret strategy. Republicans have been very open about it.
- The Speaker has made it abundantly clear that he relishes the idea of loading down a continuing resolution or a debt ceiling bill, both of which will be essential to keep government going, with unacceptable measures that the President would be forced to veto. This would create a "train wreck": a government without funds and a shutdown of Federal offices.
- As early as the June 5 issue of Time Magazine, the Speaker was quoted as saying the following: "He can run the parts of government that are left [after the cuts], or he can run no government... Which of the two of us do you think worries more about the government not showing up?"
- I would like to think that every member of Congress worries about the possibility of Social Security and other retirement checks not being issued, of veterans having their benefits delayed, of turmoil in the financial markets. Because that is what could happen if the Speaker carries out his threat.
- There is enormous potential in that scenario for harming our people, our economy, and our country.
- It can always be tempting to score political points by playing budget "chicken." But we should not be playing political games with the future of the American people. The American people have elected all of us to lead, and that is what we should do.
- Congress should not use the calendar to force down the throats of the American people cuts in education and extreme Medicare cuts to pay for tax breaks for the wealthy.

- The President has sent the Congress a ten-year balanced budget plan that makes sense. It is a gradual approach that protects jobs and the economy, that contains only half the Medicare and one-third the Medicaid savings, and the first serious steps to broad health reform, protects Medicare beneficiaries, increases investment in education, and provides a tax cut targeted to helping middle class families raise and educate their children.
- Make no mistake -- the President will not simply accept anything the Congress sends him. If they ignore his proposals, it is at their peril. The President hopes they will choose -- as he has -- cooperation rather than confrontation, leadership rather than partisan politics, and sensible policies rather than extreme ones.

CLOSE HOLD

Document No. 11 6558

WHITE HOUSE STAFFING MEMORANDUM

DATE: 6-22 ACTION/CONCURRENCE/COMMENT DUE BY: 6-23

SUBJECT: fy 96 Appropriations -- Strategy

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	McGINTY	<input type="checkbox"/>	<input type="checkbox"/>
PANETTA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NASH	<input type="checkbox"/>	<input type="checkbox"/>
McLARTY	<input type="checkbox"/>	<input type="checkbox"/>	QUINN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ICKES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	RASCO	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SEGAL	<input type="checkbox"/>	<input type="checkbox"/>
RIVLIN	<input type="checkbox"/>	<input type="checkbox"/>	SOSNIK	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EMANUEL	<input type="checkbox"/>	<input type="checkbox"/>	STEPHANOPOULOS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GEARAN	<input type="checkbox"/>	<input type="checkbox"/>	TYSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GIBBONS	<input type="checkbox"/>	<input type="checkbox"/>	WEBSTER	<input type="checkbox"/>	<input type="checkbox"/>
GRIFFIN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	WILLIAMS	<input type="checkbox"/>	<input type="checkbox"/>
HALE	<input type="checkbox"/>	<input type="checkbox"/>	<del>Spearing</del>	<input type="checkbox"/>	<input type="checkbox"/>
HERMAN	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HIGGINS	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
LAKE	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
LINDSEY	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
MIKVA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
McCURRY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Any comment?

RESPONSE:

CLOSE HOLD

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



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE DIRECTOR

June 20, 1995

95 JUN 21 09:09

MEMORANDUM FOR THE PRESIDENT

FROM: Alice M. Rivlin 

SUBJECT: Strategy for the FY 1996 Appropriations Season --  
DECISION

On June 13th, the House Appropriations Committee approved their FY 1996 602(b) allocation. While you did not read about it in the headlines, this action could force a major restructuring of Federal programs and priorities, such as significant reductions for education, training, housing and commerce programs.

The purpose of this memorandum is to provide a brief overview of the FY 1996 appropriations season, summarize the impact of the House 602 (b) allocation, and raise some strategic questions about how we wish to proceed this year.

Overview

Last year, for the first time since 1948, all of the appropriations bills were signed into law before the beginning of the fiscal year. Despite the normal, early season statements from the Committees that they intend to finish the FY 1996 bills by October 1, it is very unlikely.

It is likely that we will need several continuing resolutions to complete the process. I expect that there will be many veto threats, as well as decisions by the GOP leadership to force confrontation (i.e. shutting the government down) as part of the negotiations on the debt limit and reconciliation bills.

The appropriations bills will be controversial over both funding and language issues. As the House debates the appropriations and reconciliation bills, there will be little opportunity to bring up authorization bills. This will force many legislative issues onto the appropriations bills, such as:

- o changes in abortion provisions in the Defense, Labor/HHS/Ed, Treasury/Postal, Foreign Operations and DC bills;
- o prohibitions on executive actions in national security, foreign affairs, and striker replacement;
- o limitations on affirmative action;
- o prohibiting the implementation of certain regulations such as Davis-Bacon, Endangered Species Act mandates, fuel efficiency standards, clean air standards, wetlands rules, OSHA rules, labor protection for transit and perhaps even speed limits; and,

- o reinventing government - in cases where the authorizers have not come to closure there could be efforts on the floors to terminate Commerce, USIA and other agencies.

The House Appropriations Committee can be expected to moderate some of the cuts and terminations from the House and Senate budget resolutions. For example, the House budget resolution assumes the termination of the Education, Energy and Commerce Departments. All are expected to be funded, though at significantly reduced levels.

The Senate Appropriations Committee can also be expected to serve as a moderating influence. In establishing the Senate 602 (b), Chairman Hatfield tends to follow the budget resolution functional splits more than the House. The Senate budget resolution assumes \$4 billion less for defense discretionary than the House, so if the conference agrees to a split, it is possible that there will be about \$2 billion additional non defense funding in the Senate allocation.

Regardless of the potential for some moderation from the House and Senate Appropriations Committees, the combination of major reductions in non defense discretionary spending and objectionable language issues is expected to result in many of the bills being subject to veto threats.

#### Tentative Schedule

The House Appropriations Committee hopes to have twelve of the thirteen bills through the House by July 25th. Only the DC bill would be delayed (awaiting July recommendations from the various House task forces).

The tentative House schedule follows:

<u>SUBCOMMITTEES</u>	<u>SUBCOMMITTEE</u>	<u>COMMITTEE</u>	<u>FLOOR</u>
Agriculture	June 14	June 22	June 29
Commerce, Justice, State	June 27	July 10	July 13
District of Columbia	Not scheduled		
Energy and Water Development	June 13	June 20	June 27
Foreign Operations	June 8	June 15	June 22
Interior	June 20	June 22	June 28
Labor, HHS, Education	July 10	July 20	July 25
Legislative	June 8	June 15	June 20
Military Construction	June 7	June 13	June 20
National Security	June 27-30	July 12	July 20
Transportation	June 21	June 30	July 12
Treasury, Postal Service	June 22	June 29	July 11
VA, HUD, Independent Agencies	July 10	July 13	July 19

The Senate is expected to take up their 602 (b) allocation shortly after the July 4th recess (assuming that the budget resolution conference report is completed). They will then mark up their bills during July and August as they come over from the House. Conferences would be expected to be completed in September, though this could be delayed as timing of the bills are drawn into the controversy over reconciliation, tax and debt limit legislation.

The House 602 (b) Allocation

- o In total, the House allocation reduces discretionary budget authority by almost \$25 billion (-5%) below the request and outlays by over \$11 billion (-2%).
- o Non defense discretionary outlays are reduced by almost \$16 billion (-5.6%) below the request and over \$13 billion (-5%) below FY 1995. A more detailed table is attached.

As the chart below indicates, the House allocation is, compared to the request, generous for Defense, Military Construction, and Transportation. Labor/HHS/Education, VA-HUD, and Foreign Operations take large reductions. Commerce/Justice/State, with a 10% cut and pressure to expand Justice programs, will result in major reductions for Commerce, State and Legal Services.

<u>SUBCOMMITTEES</u>	<u>HOUSE 602(b) ALLOCATION (BA) - PERCENT CHANGE</u>	
	<u>FY 1995 Enacted</u>	<u>FY 1996 Request</u>
Agriculture	- 4%	- 7%
Commerce, Justice, State	+ 3%	-10%
District of Columbia	---	---
Energy and Water Development	- 7%	- 9%
Foreign Operations	- 9%	-17%
Interior	- 7%	- 8%
Labor, HHS, Education	-14%	-18%
Legislative	- 4%	- 5%
Military Construction	+28%	+ 5%
National Security	+ 1%	+ 3%
Transportation	- 8%	+10%
Treasury, Postal Service	- 3%	-13%
VA, HUD, Independent Agencies	-13%	-14%

Next Steps

Our objective is to get as many appropriations bills reflecting your priorities as possible, both in terms of funding levels and potential objectionable language riders. The only real tool that we have is the ability to sustain a veto over the key funding bills.

While we could attempt to establish priorities within the House 602 (b) allocations, we think this is a bad idea because

there is no prospect for reaching our priorities within the total discretionary funds available under the House budget resolution.

In the Senate, there is a better prospect of perhaps moving some funds from defense to non defense and making some progress. However, the Senate is also working under an overall discretionary cap which makes significant progress unlikely.

Therefore, the preferable strategy is to make our priorities very clear, by letters and other statements, but not make choices within their constraints. We propose to continue to use the allocations proposed in our Budget as the basis for indicating our priorities.

In October we are likely to be at an impasse with Congress over the reconciliation, appropriations and debt limit bills. At this point, we are likely to be working towards compromise on a continuing resolution and reconciliation legislation, and it may become possible to negotiate a restoration of some amount for discretionary spending.

For example, for non defense discretionary, if you split the difference between the House 602 (b) allocation and the request, you could restore almost \$8 billion of outlays and still be about \$5 billion below FY 1995 outlays. These additional funds could then be distributed among the non defense appropriations bills.

Our prior opposition to reductions as the bills move through the process would both create some pressure for such a restoration and a rationale for the veto battles that may be inevitable.

If you approve this approach, we will begin sending letters on each bill that reflect the priorities in our Budget and indicate our objections, both to the spending levels and language issues.

**Combined General Purpose Discretionary and Crime**

Appropriations Subcommittee	FY 1995		FY 1996		FY 1996		% Difference From				Difference:	
	Enacted <sup>1</sup>	BA	Proposed <sup>2</sup>	OL	House 602(b) Allocation	BA	OL	FY 1995 Enacted	FY 1996 Proposed	FY 1996 Proposed to FY 1995 Enacted	BA	OL
Agriculture and Rural Development	13,850	14,714	14,241	14,265	13,260	13,521	-4.3%	-8.1%	-6.5%	-5.2%	-.961	-745
Commerce, Justice, State and the Judiciary	26,252	26,249	30,648	27,931	26,922	26,316	2.6%	0.3%	-10.4%	-5.8%	-9,127	-1,615
Defense	241,177	250,076	236,109	240,554	243,499	243,731	1.0%	-2.5%	3.1%	1.3%	7,391	3,177
District of Columbia	712	714	712	712	712	712	-	-0.3%	-	-	-	-
Energy and Water Development	20,319	21,286	20,856	20,522	18,850	19,738	-7.2%	-7.3%	-8.7%	-3.8%	-1,900	-784
Foreign Operations	13,417	14,022	14,747	14,282	12,200	13,900	-8.1%	-0.9%	-17.3%	-2.7%	-2,547	-382
Interior and Related Agencies	13,723	13,854	13,845	14,368	12,700	13,191	-7.5%	-4.8%	-8.3%	-8.2%	-1,145	-1,177
Labor, HHS, and Education	69,822	71,001	73,530	73,904	69,101	67,392	-13.9%	-5.1%	-18.3%	-8.8%	-13,429	-6,512
Legislative	2,361	2,425	2,369	2,373	2,262	2,279	-4.2%	-6.0%	-4.5%	-4.0%	-107	94
Military Construction	8,750	9,070	10,698	9,560	11,198	9,613	28.0%	6.0%	4.7%	0.6%	500	53
Transportation and Related Agencies	13,601	36,937	11,407	38,677	12,500	36,963	-8.1%	0.1%	9.6%	0.8%	1,093	266
Treasury, Postal Service, and General Gov't	11,774	32,597	13,117	32,597	11,426	11,838	-3.0%	-6.0%	-12.0%	-6.9%	-1,691	-871
Veterans Affairs, HUD, Independent Agencies	70,761	77,396	71,856	77,605	61,760	73,595	-12.8%	-4.8%	-14.1%	-5.2%	-10,156	-4,010
Emergency Disaster Fund	-	-	-	-	1,500	1,500	N/A	N/A	N/A	N/A	1,500	1,500
Unallocated: Personal Resp. Act Adjustment	-	-	-	-	2,363	2,912	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total combined general purpose discretionary and crime</b>	<b>\$06,519</b>	<b>\$30,274</b>	<b>\$19,330</b>	<b>\$45,465</b>	<b>491,213</b>	<b>\$37,201</b>	<b>-3.0%</b>	<b>2.4%</b>	<b>-4.3%</b>	<b>-1.5%</b>	<b>-22,118</b>	<b>-8,262</b>
<b>Total discretionary caps</b>			<b>\$21,670</b>	<b>\$51,718</b>	<b>\$21,670</b>	<b>\$51,718</b>						
<b>Total discretionary less caps</b>			<b>-8,340</b>	<b>-4,253</b>	<b>-36,457</b>	<b>-14,517</b>						

Category	FY 1995 Enacted		FY 1996 Proposed		FY 1996 House 602(b) Allocation		% Difference From				Difference: FY 1996 Proposed to FY 1995 602(b)	
	BA	OL	BA	OL	BA	OL	FY 1995 Enacted		FY 1996 Proposed		BA	OL
							BA	OL	BA	OL		
Defense discretionary.....	260,316	270,070	258,258	261,110	N/A	264,283	N/A	-2.1%	N/A	1.2%	N/A	3,173
International discretionary.....	20,210	21,200	21,210	21,016	N/A	20,698	N/A	-2.4%	N/A	-1.5%	N/A	-318
Domestic discretionary <sup>1</sup> .....	223,572	258,298	229,574	261,052	N/A	245,688	N/A	-4.9%	N/A	-5.9%	N/A	-15,364
Crime.....	2,422	705	4,267	2,287	3,887	2,120	60.5%	200.7%	-9.3%	-7.3%	N/A	-167
Emergency disaster fund.....	---	---	---	---	1,500	1,500	N/A	N/A	N/A	N/A	N/A	1,500
<b>Total discretionary spending.....</b>	<b>506,519</b>	<b>550,274</b>	<b>513,330</b>	<b>545,485</b>	<b>488,830</b>	<b>534,289</b>	<b>N/A</b>	<b>-2.9%</b>	<b>N/A</b>	<b>-2.0%</b>	<b>---</b>	<b>-11,176</b>
<b>MEMORANDUM:</b>												
Unallocated: Personal Resp. Act Adjustment	---	---	---	---	2,383	2,912	N/A	N/A	N/A	N/A	N/A	2,912

<sup>1</sup> Includes an adjustment to the FY 1996 budget authority request of -\$24.1 billion to reflect the scoring of Transportation Department obligation limitations in the 602(b) allocations.

June 20, 1995

*Gene*  
*Good job*  


**MEMORANDUM TO THE CHIEF OF STAFF**

**From:** Gene Sperling  
**Subject:** Update: Positive Budget Roll-Out and OMB Baseline Defense

We had a good day in getting a going on our budget blitz. Today, we have to press on and ensure that we get the calls made that we are supposed to and the meetings set up that we need.

The major issue we need to decide is what we are going to do on Thursday and whether we will consider doing a Medicare letter from the President to the Republican leaders.

**I. PUNDIT AND MEDIA BLITZ:** Mark Gearan hosted a meeting that was well-attended, including Rahm, Barry Toiv, Larry Haas, David Dreyer, Howard Schloss, Laurie McHugh, myself and others.

We agreed that we would proceed in three parts.

**Three Divisions:**

**Major News Organizations:** NBC, CBS, ABC, CNN, New York Times, Washington Post, Wall Street Journal, LA Times, USA Today.

We agreed that the four main principals: Panetta, Rivlin, Tyson and Rubin would each do two organizations so that we had all of the networks and major newspapers covered.

**Pundits:** We are creating a pundit list and we will be giving assignments tomorrow and asking calls to be made.

**Regional:** Laurie McHugh has come up with an ambitious schedule of regional tongs with assignments.

**2. BUSINESS VALIDATORS:** Alexis and Kate Carr have made significant outreaches with help from Mack, as well as Commerce and Treasury.

**Letters of General Support:** We are asking not for an endorsement but rather validation that the President stepped up to the plate, that our plan is serious, and that Congress and the President should work together in a bipartisan spirit.

**30 Possible Letters:** Kate believes we can get 30 letters of general support from CEOs. Some top CEOs who look good for letters of general endorsement of the effort include Paul Allaire of Xerox, Bob Denham Solomon Brothers, Robert Eaton Chrysler, Alan Trottman, Ford, Steve Green, Samonsonite, L. Desimone, 3M.

To Do: Kate are plugging away and continuing the calls.

**Government Relations Meeting:** Representative from 20 top companies and contractors are coming into the Roosevelt Room at 9:30. Alexis and I will present, but we are hoping for a stop-by from Leon.

**Rubin Lunch:** Ruben has a Thursday CEO lunch. If we can get enough letters, we may be able to use Ruben's lunch as a platform to release the letters and have a few CEOs speak for.

**Rohatyn Op-ed:** Bob Ruben did call Felix Rohatyn and he was agreeable to writing an op-ed for us. Gene will follow-up today to make sure he has all of the information.

**Greenspan:** Bob Ruben did speak with him today as planned. Hope for the best.

**CEO:** Gene spoke with Van Ooms and he was going to try to speak well of our numbers in a speech in New York today. He will also consider how members of CEO could be supportive, though he felt official positions would be hard process-wise for him.

**Business Roundtable Strategy:** We did well getting the POTUS to speak there yesterday. This should help.

**TO DO: Trade Groups:** Alexis and Kate are still working on NAM, BRT and other groups to see what we can get.

### **3. ECONOMIC FORECASTERS AND ECONOMISTS:**

**Philadelphia Fed:** Laura Tyson and Barry Toiv have worked on a statement that would go out under Laura's name that highlights the 59 economists prediction of 2.6% real growth and stressing that our numbers are actually conservative.

**Economists Letter:** Martin Bailey has come up with a significant list of economists to reach.

**Brad DeLong:** I spoke with Brad, who just left the Treasury Department to go to Berkeley, and he has agreed to work from the outside to get a letter signed. We need to think further what type of product we would like produced.

**Calls:** Martin and Joe will begin making calls and giving assignments to other economists within the Administration

**Regional Op-eds:** We will try to pick out good candidates for regional op-eds from economists.

**4. CONGRESSIONAL:** We had a meeting with Susan Brophy, John Angell, Martha Foley, Jack Lew and myself to go over Congressional strategy. We realized that we had to step with care, but we started to take some of those steps. We think the key issue is the degree we are seen as have a Medicare letter or other vehicles that give them a context to feel we are fighting on the same side.

- **Distribute CBO/OMB Materials:** We finalized and sent to all Democratic members are talking points on the OMB/CBO issue.
- **DPC Luncheon:** We are going to have all of our materials for distribution at the DPC lunch.
- **Greenstein:** Gene is calling Bob Greenstein to ask him to do a paper on our baseline, or to at least take an active role briefing with more liberal members.
- **Hill Staff Meetings:** Pat, Susan and others are in the middle of several discussions on how best to brief further on both message and the OMB/CBO issue. Scheduled are the following with more to come:

Wednesday Morning: Budget Meeting at House: (Pat, Alice, Gene)

Wednesday Afternoon 3:00 p.m.: Senate Staffers

Wednesday Luncheon: (possible, Leon?)

**5. HEALTH CARE:** We need both a positive and defensive message here.

**Baseline:** We have come up with the list of key economic validators and will ask Bruce Vladek, Chris and others on the health care team to ensure that the key health care validators understand the HCFA numbers and will stand by them.

**Positive Message:** Donna has asked her staff to come up with a positive roll-out strategy for her to stress the Medicare differential, managed care and other positive aspects of her health care plan.

**Groups:** We will meet with Marilyn Yeager today to organize this part more strategically.

**6. EDUCATION GROUPS:** Kitty called a meeting with many of us in the White House, and Department of Education and Department of Labor to plan the Presidential Scholar event. This has now become the main vehicle for our education validation.

**Monday Letter:** On Monday, 80 groups sent a letter to the Hill asking the Republican leadership to work to make room for the type of education investment we called for.

**Wednesday Validation:** On Wednesday, we are aiming to have the head of 15 top education groups do a stake-out and then have two of them go into the briefing room with Secretary Riley and do a substantive briefing of why the Republicans have an anti-education budget and that we have a pro-education budget.

**7. VALIDATION ASSIGNMENTS:** As we are doing pundit assignments, we will also ask people to re-call their validation calls to ensure they are completely up to speed on the OMB/CBO argument.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

CLOSE HOLD

ASSISTANT SECRETARY

June 23, 1995

MEMORANDUM FOR BOB RUBIN  
FRANK NEWMAN  
LARRY SUMMERS  
LAURA TYSON  
JOE STIGLITZ

FROM: Alicia Munnell *AM*  
SUBJECT: Economic Effects of a Budget/Debt Trainwreck

Attached is a memorandum from Treasury and CEA regarding the likelihood and potential economic impact of a trainwreck if budget and appropriation bills are not approved by the beginning of the fiscal year or gridlock develops over raising the debt ceiling.

The main conclusions are:

- i. A budget train wreck from lack of agreement on appropriations bills could lead to a short government shutdown.
- ii. If a trainwreck on the appropriation bills shut down the government for one week, the direct macroeconomic impact would be small -- roughly -0.1 percent lower GDP for two quarters.
- iii. If financial markets lost confidence because of a trainwreck and interest rates rose significantly, the impact could be significantly larger -- as much as -0.5 percent lower GDP for four quarters.
- iv. A debt ceiling trainwreck almost certainly would not lead to default and is unlikely to lead to a government shutdown, in and of itself. Various means are available for postponing when the debt ceiling binds.

Attachment

**CLOSE HOLD**

**ECONOMIC IMPLICATIONS OF A BUDGET/DEBT TRAINWRECK**

June 21, 1995

Office of the Assistant Secretary for Economic Policy, U.S. Treasury  
Council of Economic Advisers

1. This memo examines the economic implications and likelihood of a "trainwreck" this fall if budget and appropriation bills are not approved by the beginning of the new fiscal year or if there is a gridlock on raising the debt ceiling. The main points of this analysis are:
  - i. A budget trainwreck from lack of agreement on appropriations bills could lead to a short government shutdown.
  - ii. A debt ceiling trainwreck almost certainly would not lead to default and is unlikely to lead to a government shutdown, in and of itself. Various means are available for postponing when the debt ceiling binds.
  - iii. If a trainwreck on the appropriation bills shut down the government for 1 week, the direct macroeconomic impact would be small, shaving only about 0.1 percentage point off fourth-quarter growth in real GDP at an annual rate.
  - iv. If financial markets lost confidence because of a trainwreck and interest rates rose significantly, the impact could be substantially larger. In a truly worst case scenario in which long-bond rates rose 50 basis points and stayed at that higher level, growth in real GDP at an annual rate could be held down by 0.5 percentage point in the fourth quarter of this year and next few quarters. If the interest rate jump were temporary, the impact on GDP growth would be much smaller.

civilian employees continue working and are ultimately paid. Then a 1-week shutdown would reduce nominal federal spending on compensation by \$1.3 billion ( $=\$90 \times 0.75/52$ ).

With an impact multiplier of 1.5, this would reduce nominal GDP by \$1.9 billion. *In terms of real GDP, growth in the fourth quarter would be held down by only about 0.1 percentage point at an annual rate.* The economic impact on the Washington, DC area would be larger. (See the attached table for dynamic macroeconomic effects.)

- iii. A trainwreck could create turbulence in financial markets, perhaps reflecting uncertainty about future bond auctions and refundings or concern about the budget-balance resolve of the government. In either case, a runup in interest rates could result, reversing part of the 150 basis point decline in the 10-year bond rate over the past six months.

As a worst case scenario, suppose there is a massive train wreck and rates shot up 50 basis points and remained at that elevated level. Then, apply the rule-of-thumb that a 10 basis point rise in long rates lowers real GDP by \$5 billion. And, assume that the impact on the level of real GDP builds over one year. *In this truly worst case scenario, the interest rate runup would hold down real GDP growth by almost 0.5 percentage point in the fourth quarter of this year and the following few quarters.* (See attached table for dynamic effects.) If the runup in interest rates was temporary rather than permanent, the impact would be much smaller and shorter lived.

In this worst case scenario, the dollar would be subject to two opposing influences. Higher interest rates would put upward pressure on the dollar, while a loss in confidence in U.S. fiscal policy could pull the dollar downward.

- iv. Consumers and businesses might also lose confidence in the economy, although this influence is difficult to quantify and depends on other economic developments.

## 2. WHAT IS A TRAINWRECK?

There are two trainwreck scenarios; under certain circumstances, both scenarios could be merged into one larger budget/debt controversy.

*The Budget Trainwreck.* This scenario comes into play if the President and Congress fail to reach agreement on appropriation bills by October 1. If there is no Continuing Resolution, the government could be forced to shut down. In the 1990 budget crisis, the government shut down for a weekend. Correctly predicting the politics of Continuing Resolutions is difficult, but Congress is behind on the budget process and this could easily spill over into October.

*The Debt Limit Trainwreck.* This scenario comes into play if Congress fails to approve an increase in the debt limit or if Congress puts so many extra baggage cars on the debt limit train that the President vetoes the bill and Congress does not send up a new clean bill. The current debt limit is \$4.9 trillion and estimates suggest that the debt limit train could crash in early fall, perhaps a little after the budget train.

A debt ceiling trainwreck almost certainly would not lead to default and is unlikely to lead to a government shutdown, in and of itself. In the past, temporary increases in the debt limit have been approved (like a Continuing Resolution) and various trust funds have been tapped to avert default and shutdown.

## 3. ECONOMIC IMPACT OF A TRAINWRECK

Suppose a trainwreck on appropriations forces the government to shut down. Everyone consulted agreed that a 2-week shutdown is way beyond any reasonable upper limit for what could happen. For this exercise, the calculation is done for a 1-week shutdown, which can be grossed up easily by the pessimists.

The following are likely effects of a 1-week shutdown.

- i. The ultimate level of most government spending would not be affected by a shutdown although the timing of the spending might be affected.
- ii. A possible exception is the federal payroll. If government workers are sent home, it is possible that they would not be paid for those days; however, many government employees are essential and would work even if there were a shutdown.

Total federal civilian payroll was about \$90 billion in 1995.<sup>1</sup> Suppose 25 percent of

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<sup>1</sup>This figure excludes postal workers. Including postal workers would boost the payroll number up to about \$120 in 1995.

Gene -

I think some of the POTUS!

I. TRAINWRECK QUESTIONS:

1. ARE WE HEADED FOR A TRAIN WRECK?

chthonic from T&NPR  
interview should be

A: ONE, WE HAVE PUT OUT A COMMON GROUND BALANCED BUDGET AND TAKEN MAJOR STEPS TO AVOID A TRAIN WRECK. We've reached out to them with a sensible, common ground balanced budget proposal that protects education and Medicare beneficiaries, gives tax cuts to working families.

included  
need

TWO, I WANT AN HONEST AND OPEN DISCUSSION AND I AM DISAPPOINTED THAT SOME WANT TO FORCE CHOICE OF CRISIS OR EXTREME CUTS: We need an open discussion on these differences: but I am very disappointed to hear some members of the Congressional majority expressing plans to put off everything -- including ~~their~~ details of their Medicare cuts -- to the last minute.

Q and A's -  
to  
"no blink"  
and

THREE, I WILL NOT ALLOW THE AMERICAN PEOPLE TO BE BLACKMAILED -- FORCED TO ACCEPT EXTREME CUTS OR FINANCIAL RISK, BUT I AM HOPEFUL THAT RESPONSIBLE HEADS WILL PREVAIL AND REALIZE THAT PATH IS UNWISE. I think it is wrong to put the American people in the position of facing either a list minute crisis or accepting extreme cuts in medicare and education, and I won't allow that.

To point about  
be like to shut  
to government-  
down  
a few  
drop in

2. IF THERE IS A VETO, AND WE NEED A CONTINUING RESOLUTION TO KEEP THE GOVERNMENT GOING AND YOU ARE SENT A CR THAT WIPES OUT A LOT OF PROGRAMS YOU BELIEVE IN, WOULD YOU BE WILLING TO VETO IT?

shut  
down  
later for  
emergency  
tech

A: Rather than comment on such hypotheticals, I think all of us in a position of responsibility should be doing our best to take action to get a balanced budget done that works for working families.

[REST IS SAME AS ABOVE]

3. YOU ARE VETOING ALL 13 APPROPRIATIONS BILLS? IF YOU ARE, AREN'T YOU RESPONSIBLE FOR A TRAIN WRECK?

A: No. I have put out a common ground balanced budget that works for working families. Their budget is extreme and misguided in making extreme cuts in education, training, the environment and other areas that are not necessary to balance the budget, I will veto things that are not good for working families.

But, these differences do not have to be a problem. If they were working hard and not seeking to put things off until the last possible minute, we could have the opportunity to work out our differences.

Disagree  
to differences  
in priorities are  
a problem - - They are  
a matter of priority

4. **DOES THAT MEAN THAT YOU ARE WILLING TO SHUT-DOWN THE GOVERNMENT OR LET THE GOVERNMENT GO INTO DEFAULT IF YOU HAVE TO? AFTER ALL, OVER 150 MEMBERS ON THE HOUSE SIDE HAVE SAID THEY WILL NOT VOTE FOR A DEBT LIMIT INCREASE IF A SEVEN YEAR BALANCED BUDGET IS NOT PASSED?**

A: **Linkage is Reckless:** Linking the acceptance of any budget -- particularly extreme Medicare cuts -- to increasing the debt limit, is very irresponsible and I am hopeful that responsible members of the Congressional majority will not want to use the debt limit as a form of blackmail on the American people.

**Responsible Heads will Prevail:** So, rather than speculate on hypotheticals, let me just say that I hope that responsible members of Congress will not say that the only choice the American people have is to accept their way or face a very serious financial situation

5. **WHAT WOULD HAPPEN IF THE GOVERNMENT SHUTS DOWN OR IF THE GOVERNMENT WENT INTO DEFAULT?**

A: Certainly, it would be irresponsible not to study every possible situation -- even ones that are unthinkable. Yet, I think the important point is for all of us to understand that no one does the American people a service when they use a budget strategy that tells the American people, you either accept our way or we will threaten to shut everything down. I am very disappointed that some in the Congressional majority consider using this threat as part of their strategy.

6. **WHAT ABOUT A SUMMIT?**

A: **Have Put Down a Common Ground Balanced Budget:** Laid Down A Balanced Budget that I believe could be a framework for agreement. I would like to take all steps needed to sign a common ground balanced budget.

**Must Ensure we Share Common Ground Basics Before Can Sit Down:** Before we could talk about having a summit, however, I would have to ensure that we are on common ground. If the Republicans still want extreme cuts in Medicare, education, kids, and environmental protection to pay for tax breaks for the well-off, than I don't believe we share the common ground enough to have a meaningful process.

**But my door will always be open to those who want to find a common ground balanced budget that leaves the extremism on Medicare and education behind.**

7. **YOU MADE A MAJOR DEAL ABOUT THE IMPORTANCE OF BALANCING THE BUDGET IN 10 YEARS AS OPPOSED TO 7. YET, NOW WITH NO NEW POLICY CHANGES WE SUDDENLY LEARN THAT YOUR PLAN DOES IT IN 9 YEARS. DOESN'T THIS SHOW THAT IT IS NOT SUCH A MAJOR DEAL TO GO TO 8 YEARS OR EVEN 7 YEARS?**

A. **Policy and Priorities Are the Key:** We looked at what the best policy was for the American people, and chose a date -- 10 years -- that fit those policy goals. My balanced budget plan done in 10 years, allows us to completely protect Medicare beneficiaries -- theirs cuts \$5600 per couple over seven years); my 10 year balanced budget allows us to increase education and training by \$41 billion (theirs cuts by \$36 billion), and my plan has less risk for the economy.

**10 Years Still the Best Policy:** Because some in the Congressional majority do not share the desire to protect Medicare beneficiaries, or the environment or education, they may not care about the downside of going too fast. I still believe a 10 year plan is vital to achieving those important priorities. The fact that it now shows we can get there in 9 years is a good insurance policy on getting to 10 years.

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BUDGET STRATEGY

At several points over the coming weeks and months, we will have to make choices about whether, when, and how to engage in budget deliberations with the Congress. We need to plan our strategy now to maximize our chances for realizing our ultimate budgetary objectives, and we need to decide firmly what these objectives are.

~~A group of your NEC, legislative, and political advisers has begun to meet twice a week to discuss our budgetary strategy and objectives. We hope to meet with you for an hour every other week to present options and recommendations for your consideration. Since most of the advisers in this group are responsible for making our legislative, political, and economic strategy and for communicating it to members of Congress and the American people, it is critical that we understand exactly how and when you wish to engage in budget deliberations with the Congress, and exactly what your budgetary goals are.~~

In making our decisions, your advisers believe that it is useful to distinguish three separate stages in the budgetary process:

Stage 1--The Present to the Passage of a Budget Resolution

Stage 2--Passage of a Budget Resolution to Reconciliation

Stage 3--Reconciliation to a Compromise Deal or to Hitting the Debt Limit and Gridlock (mid-September to early October)

STAGE ONE TACTICS AND GOALS

When Congress returns from the recess, debate will quickly turn to the budget resolution, with the Senate likely to move first, aiming to complete action by Memorial Day. Current indications are that Senator Domenici will push hard for a resolution that reaches a balanced budget by 2002. Whether this resolution will provide for a tax cut is less clear, but recent statements by Senator Dole suggest pressure to move in this direction. If we choose not to engage with the Senate in the development of its proposed budget resolution, there would be little reason to engage with the House, so our next point of entry into the budget deliberations in Stage One would be the budget conference, by which time the initial positions of both the House and the Senate would be known. It is not clear when the budget conference will take place, but it could be as late as August.



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the context of health care reform, it ~~would nearly be impossible~~ <sup>will be difficult</sup> to communicate a budget strategy or communication strategy that we were opposed to using such Medicare cuts for tax cuts or outside of health care reform. Likewise, once we have entered into a discussion at the beginning that is clearly defined as paying for the Contract, it ~~would~~ <sup>will</sup> be hard to set off a new focus that recognized the parallel importance of education as the key to our economic future.

~~Indeed, the divergent forces in their party that will make it more difficult to create a budget, could actually work to their advantage since their disagreements will make it harder to define a Republican position throughout the entire negotiation. Furthermore, until Dole and Gingrich call a press conference announcing that their tax cut package is dead, we must assume that at least \$600 billion of the cuts they will be calling for in education and Medicare would be unnecessary if not for paying for their tax cuts. By coming to the table with them prior to staking out a position, we would be helping to legitimize \$600 billion of saving that they could or would use for Contract tax cuts.~~

**2. LEVERAGE FOR POLICY MOVEMENT:** The clarity of defining ourselves is more than a message issue. The degree we are able to stark our clear differences between the Clinton budget principles and the Contract, the greater the chance both of movement to our position. For example, the more clear that they are slashing Medicare, the more they will be likely to find that they need to move into the context of reducing health care within the context of health care reform. The more they can blur the issue -- the more the issue is just the degree of Medicare savings or which specific cuts -- the less pressure they will have to move.

**3. SAVING THEM FROM SOLVING INTRA-REPUBLICAN CONFLICTS:** There is a significant degree of intra-Republican conflict that has to be worked out before there could be further negotiation. Domenici wants to stress a seven year plan to balance the budget with everything else treated as secondary. Gramm, and increasingly Dole, are insisting on significant tax cuts. House Republican leadership and Gramm clearly want the full Contract package. Thurmond is calling for an additional \$130 billion in military spending. The budgetary implications of how they resolve these intra-Republican is tremendous. Furthermore, as they try to find funds for their overambitious campaign promises, they will constantly fall into issues like they did on pensions, where a few Republican senators will go to great length to stop or moderate such cuts. Consider agriculture. Our job should be to define a clear Administration position, not save them from the burden of having to define a clear Republican position.

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**CONS TO HOLDING OUT TO CONSIDER:**

**1. STRONG CAMPAIGN ON ABDICATION ON DEFICIT:** As long as we resist engaging in budget negotiations, the Republican leadership will orchestrate a strong and concerted attack on our alleged lack of leadership on the deficit. Because it is to their advantage to have us involved in the negotiations before they have detailed a budget, they will mount an extensive attack--with likely support from the elite media--on our fiscal irresponsibility. Indeed, the first salvos of this attack have already been launched--a call by Gingrich for the President to come first with a balanced budget scenario; a sudden Republican concern about the solvency of the Medicare Trust Fund; and hearings and other tactics to force us to make proposals for Medicare cuts they need to pay for their agenda. Many of your advisers anticipate that there will be explicit calls for a budget summit by the Republican leadership before the Congress has passed a budget resolution.

**2. DEMOCRATS MAY WANT TO DEAL IN STAGE ONE:** We will also be under intense pressure to negotiate during Stage One from many moderate Senate Democrats, especially those who voted for the balanced budget amendment, and those, like Conrad and Dorgan, who voted against it but want to support a budget resolution that reaches balance.

If we fail to negotiate during this Stage, it is possible, although not very likely, that the moderate Senate Democrats will fashion a compromise with the Republican leadership that will render us irrelevant and that will make it impossible for us to fashion a Democratic alternative that we prefer. The danger of such a compromise would be greatly intensified if the Senate Republican leadership decides to adopt only modest tax cuts or decides to eschew them altogether. In such an eventuality, the pressure on us to enter the negotiations from Senate Democrats would become even greater.

**3. LONGER TIME PERCEIVED AS NOT ACTING ON THE DEFICIT:** The longer we refuse to cooperate, the greater the danger that we appear as defenders of the status quo and that our criticism of Republican proposals rules out middle ground that might otherwise be a basis of consensus later in the year.

As long as we refuse to negotiate, we will be engaged in a heated public campaign to criticize the Republican proposals. For example, we may rightly wish to criticize them for huge and painful cuts in Medicare to pay for tax breaks for the wealthy. But the more detailed and effective such an assault, the more difficulty we will have fashioning a meaningful health care reform that yields credible amounts of additional deficit reduction over the next five years.

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RECOMMENDATION: After taking all of these considerations into account, your advisers believe that we should refuse to engage in budget deliberations with the Congress until after a budget resolution has been passed. We believe that this approach will give us both a message advantage and a real advantage. On the message side, if the Republican are forced to shape a budget resolution on their own, it will define them and provide a clear-cut standard by which we can attack them and distinguish ourselves in the future. And our opposition to their budget priorities will provide a clear signal of what we stand for and what we are willing to fight for. On the real side, the battle among the Republicans to fashion their own budget compromise is likely to be a bloody one--with fights between Gramm and Dole and fights between the House and Senate Republicans that will weaken their unity and maximize our leverage if and when we do enter the budget negotiations to try to fashion a workable compromise.

There is no proof that the public -- when informed of what serious deficit reduction means -- will actually support it. This leads to the danger that we enter into the fray early, get tagged with the negatives of trying to come up with the specifics to pay for their ambitious agenda, and have the whole deal fail.

Finally, it is clear that their main message to the American people in the coming year will be the a false one: trust. The fact is that the "contract" that they run on costs far more than they have ever informed the American people and is far more unfair to the middle class and elderly than they informed. Because they cannot meet their side of the bargain, they now want to use Democrats to help them. If we do, we will hand them a trust issue they have not earned.

It is important to emphasize that the non-engagement strategy recommended here is supported by all of your advisers, regardless of differences among them on the advisability of pursuing a gridlock strategy in Stages 2 or 3, and regardless of differences among them about what our ultimate budgetary objectives should be.

There are three approaches that your economic and political advisers sees that you can take that are consistent with a non-engagement strategy during Stage One.

1. Establish that You will Work with Senate Democrats in Stage Two or Stage Three: One approach would be to make clear to moderate Democrats that once the Republicans have passed their budget resolution, we would work on an alternative that would balance the budget with the OMB baseline. This would have the advantage of being able to convince moderate Democrats to hold the line, and it would significantly blunt their offensive on the deficit by making the issue of when not whether. There are two

[DRAFT]

major downsides. One, it defines the playing field as being in their stadium. We will be saying the deficit reduction -- as opposed to education, health care and tax fairness -- is the fundamental issue. Since deficit reduction is often interpreted by the public as being more anti-government, it may be field where we can moderate their attacks but not ultimately win on.

2. **Take An Aggressive Working Family and Education Agenda and De-emphasize Deficit Reduction.** Your advisors who take this view, strongly believe that our constant emphasis on deficit reduction, one, spreads the view that we have not made significant progress on the deficit, and two, is fundamentally the wrong playing field. They believe that you must unabashedly make clear that tax fairness, education and health care (outside of health care savings) is the playing field that you can win on -- and that they will always come up short with.

3. **Establish Principles for Going Forward:** Many of your advisors believe that the best posture for you to be at is to establish clear affirmative principles that are your pre-conditions for coming to the table for more deficit reduction. First, we can negate the campaign on abdication by using the period to clarify what our principles are for negotiation and additional deficit reduction.

For example, we could state clearly that we are willing to negotiate, but only if the Republicans disavow Medicare cuts and cuts in education and children's programs to pay for generous tax cuts primarily for the wealthy. This strategy would lessen their offensive, because rather than be in the position of being against more deficit reduction, we would be defining our positive principles for moving forward on more deficit reduction. By laying out such principles we would alter the framework from more or less deficit reduction to education, health care and fair tax cuts as preconditions to moving forward. Specifically, we could signal that we are willing to negotiate on a health care reform that achieves meaningful deficit reduction along with some increases (or certainly no decreases) in coverage. Also, we could stress that until Dole and Gingrich renounced the Contract tax cuts that the first \$600 billion in Medicare and Education cuts would be unnecessary if they were not paying for their tax cuts.

These principles would give us grounds for not engaging further, while also being broad enough that they do not preclude further deficit efforts in Stage Two or Stage Three. We might even use this period of non-engagement on the budget to challenge the Republicans to engage with us on related but separable issues, like welfare reform, narrowly rather than broadly defined.

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2. Confer with Moderate Senate Democrats: Second, we suggest that you talk to the moderate Senate Democrats to try to win their support for this strategy. We believe that they, like us, will gain both message and real advantages from such a strategy, and we need to try to convince them that this is the case. This will not be easy; and it will probably require that we signal that we are willing to work with them to fashion a budget compromise that achieves considerably more deficit reduction than that embodied in our current budget proposal.

Clearly, both of these tactics require firm strategic discipline. We will need to keep constantly in mind our ultimate budgetary goals and priorities. In addition, we must have our endgame clearly in view so that we have the flexibility to switch to an engagement strategy at the appropriate moment should Stage One drag on for an inordinate amount of time.

Your advisers are currently evaluating several alternative endgame strategies, including at one extreme the strategy of sticking with our current budget proposal through Stage Three and risking the likelihood of gridlock and temporary shutdown of government activities; and at the other extreme the strategy of offering a budget compromise that embodies meaningful health care reform but nonetheless contains significant cuts in Medicare and balances the budget over ten years rather than seven. Some of your advisers are also interested in a cut-and-invest strategy of the sort proposed by Rob Shapiro.

In order to develop our budgetary tactics for Stage One as well as for the Stages that follow, we need to work with you to develop our detailed endgame objectives as soon as possible. We regard it as essential that the disparate steps along the way fit coherently into the larger picture, and that our tactical and strategic aims mutually reinforce one another.

~~Need change~~  
TO REFLECT LAST MEETING

July 13, 1995

MEMORANDUM TO ERSKINE BOWLES

FROM: Gene Sperling  
Chris Jennings  
Jennifer Klein

SUBJECT: Potential Short-Term Presidential Health Care Events and Messages

The NEC/DPC health care working group continues to coordinate Medicare, Medicaid and health care reform activities in the overall budget debate. The working group includes representatives from Legislative Affairs, Intergovernmental Affairs, Public Liaison, Cabinet Affairs and Communications within the White House as well as the Departments of Health and Human Services, Labor and Treasury.

We have been working on a three part strategy. First, to respond to attacks about the use of the Administration baseline instead of the Congressional Budget Office baseline, we began by generating support for our numbers from outside economic experts. Second, going forward we will need to draw clear distinctions between our proposal and the Republican proposal by emphasizing: (1) the magnitude of the Republican Medicare and Medicaid cuts; (2) that our proposal includes no new costs for Medicare beneficiaries; and (3) that our Medicaid proposal protects coverage while the Republican block grant proposal would mean dramatic cuts in coverage. Third, we will promote the health care reform package that we included in our budget. We have attached materials that have been distributed on the hill, to supportive groups and to the press.

In this memo, we outline message ideas and possible events for the next several weeks. Major upcoming events include the 30th anniversary of the enactment of Medicare and Medicaid and the National Governors' Association meeting. In addition to the specific events listed below, we could schedule exclusive press interviews, conference calls with Governors, meetings with seniors on the importance of these programs and the impact of the proposed cuts, large briefings for health care groups with POTUS drop-by, tarmac greetings in targeted districts, and small private meetings with, for example, the presidents of academic health centers or large public hospitals.

## Week of July 10

*Message: The Clinton Administration is working to improve and reform Medicare and Medicaid while the Republicans are destroying these programs.*

### Administration Activity

Events: Tuesday, July 11 -- "Reinventing Health Care Regulation" Event with the Vice President, the First Lady and Secretary Shalala highlighting regulatory changes that will make the programs more efficient and less burdensome on health care providers.

- Advocacy Groups: Budget briefing for health care provider advocacy groups. Private meeting with the First Lady and Secretary Shalala for heads of national groups on proposed regulatory changes and budget strategy.
- Media: Press briefing following event at HHS. Regional press with doctors and other health professionals. Distributed latest charts, state by state breakouts and talking points on impact of Republican cuts and description of our proposals.
- Hill: Briefings on proposed regulatory reforms.

Work being done: Analysis of impact of voucher proposals being completed (e.g., charts demonstrating how much more seniors will pay to keep what they have today); planning possible Medicare/Medicaid anniversary event; coordinating with Democratic governors' staffs to develop alternative Medicaid proposals that are consistent with the President's budget proposal.

### Congressional Activity

Meetings: Working meeting with "Ways and Means Group" (a group of Democrats looking at the impact of Republican Medicare cuts and Democratic strategy).

Hearings: Medicaid hearing at House Commerce Committee (Administration testimony on importance of protecting coverage); Medicare Managed Care hearing at House Commerce Committee (Administration testimony on preserving choice for Medicare beneficiaries contrasted with voucher proposals that would force beneficiaries into managed care); Medicaid State Flexibility hearing at Senate Finance Committee (Administration testimony on.....???)

## Week of July 17

*Message: Republican Medicare voucher proposals mean that beneficiaries will pay more to keep what they have or will be forced into managed care.*

**Events:** Several hearings will be held next week on Medicare. The House Commerce Committee is holding a hearing on "Restructuring Medicare" and the House Ways and Means Committee is holding one on Medicare in the President's budget. We can use both of these to deliver our message that under Republican voucher proposals elderly Americans will pay more to keep what they have today or will be forced into managed care.

We can coordinate with senior and health care advocacy groups that oppose vouchers to hold public events on the hill during these hearings. We can also attempt to get health care economists and other experts to write op eds opposing vouchers.

## Week of July 24

*Message: We need to preserving and improve Medicare 30 years later, not let Republicans destroy it.*

**Events:** The focus of this week should be the 30th anniversary of Medicare. The President could participate in the event being planned by Gephardt in Independence on Sunday, July 30 (the date of the signing) either in person or by satellite hook-up from Washington.

If that is not possible, the President could participate in the July 25 event being held by Congressional Democrats and NCSC (???). In addition, the President could deliver his July 30 radio address to an audience of seniors and could talk about the importance of both Medicare and Medicaid for elderly Americans and draw sharp contrasts between Republican cuts and our proposal.

We can also use the Democratic Mayors Event (July 26), the NACO Conference (July 21-25) or the NCSL Conference (July 23-28) to deliver our message.

In any case, we could involve the Cabinet, develop a press strategy, and coordinate with advocacy groups, many of whom are planning events to commemorate the anniversary.

## **Week of July 31**

*Message: The Republican Medicare and Medicaid cuts will have a devastating impact on states.*

Events: The President can use his speech to the National Governors Association Conference to talk about the impact of these cuts on states. At the same time, we could do regional media on state-by-state breakout of impacts, ed board calls, conference calls or town hall type meetings with beneficiaries who depend on these programs. We could send members of the Cabinet to targeted districts during this week to focus attention on the impact of these cuts "back home."

THE WHITE HOUSE  
WASHINGTON

July 21, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON *Laura D. Tyson*

RE: MONDAY'S BUDGET SPEECH AND OUR BUDGET CAMPAIGN

As you know, the White House Working Group to promote the Clinton Budget is now up and running. Both the members of the Working Group and the principals, who comprise the NEC Budget Strategy Group and advise the Working Group, agree that you should give a speech on Monday, July 24, 1995 to re-introduce your balanced budget plan to the American people and to kick off our concerted campaign to promote it around the country.

The principals of the NEC Budget Strategy Group believe that this campaign is of critical importance because it is our only real source of leverage to realize an ultimate budget deal which reflects your priorities and which can be used to define the Clinton economic vision during the 1996 election year. We must make the case for our budget consistently, forcefully and clearly to the American voters during the next few weeks so that they strongly prefer it to the Republican alternative. Their active support is essential if we are to succeed in realizing a compromise we can accept sometime during the fall.

Many of the NEC principals also believe that we must find opportunities to express our concern about a likely budgetary train wreck this fall. One possibility would be to voice such concern in your Monday speech. The press currently seems quite interested in the train wreck story, and your speech could key into this interest with a multi-part message: "I am concerned and disappointed that the Congress is far behind schedule on the reconciliation process; I exhort them to accelerate the pace of their work, so that the American people have time to understand and evaluate the profound budgetary choices confronting them; I am prepared to do everything I can to avoid a train wreck; But I will not sacrifice my priorities and vision to do so; and I will not allow the American people to be blackmailed into accepting huge cuts in Medicare, education and training and a huge tax cut for the wealthy."

Several of your advisers believe that a strong message along these lines will increase our leverage to avoid a train wreck both by alerting the American people to the budgetary game of chicken which some Republicans wish to play and by indicating to the Congress that you will not blink in such a game. Right now many of your advisers fear that Congressional Republicans do not take our veto threats seriously because they believe that we have more to

lose by a prolonged budgetary crisis than they do. We may be able to increase their losses from such a crisis by beginning now to identify them as the culprits should it occur. Such a strategy could also help inoculate us against culpability in the event of a crisis.

Finally, your NEC principal advisers believe that your Monday speech on the budget should serve as the defining statement of your budgetary vision and priorities during the coming months. This in turn implies that the speech articulate how your plan to balance the budget fits into your overall economic strategy for restoring the American dream. As all of us have repeatedly argued, balancing the budget is not the ultimate end of economic policy, as the Republicans argue--rather it is a means to the end of rising incomes and prosperity for all Americans.

THE WHITE HOUSE  
WASHINGTON

August 9, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA TYSON *LT*  
ALICE RIVLIN *AR*  
BO CUTTER *BC*

SUBJECT: BUDGET "END GAME" STRATEGY

The NEC has reviewed the procedural and substantive issues that are likely to arise in the fall as part of the budget "end game." You are scheduled to meet with this group soon. The purposes of this meeting will be (1) to provide you with an overview of these issues; (2) to seek your general guidance for our continued efforts through August and early September; and (3) to arrive at a decision on how to proceed on the immediate question of guidance to agencies on RIFs.

Calendar

Attached is a calendar which outlines the sequence of events that is likely in the fall. The most important highlights are as follows:

September:

A positioning period. The Congress will be considering both the appropriations bills and reconciliation. We will draw a clear distinction between the responsible and flexible balanced budget that you have proposed, and the extremist budget being prepared by the Congress.

September 5 Congress returns and is likely to begin approving conference reports on individual appropriations bills. Veto decisions are likely as early as September 8, when the Legislative Branch conference report is expected to arrive, followed by Treasury/Postal and Energy/Water.

September 22 Deadline for congressional committees to complete their work on reconciliation including Medicare and Medicaid cuts and farm cuts. We do not expect Congress to meet this deadline.

September 30      End of the fiscal year and deadline for action on at least a first continuing resolution to avoid a shutdown of departments for which FY 1996 appropriations have not been signed into law.

**October:**

This month will involve a series of confrontations. We anticipate more than one continuing resolution face-off and, perhaps, a completed reconciliation bill later in the month. At the same time, the agencies will have to begin RIF actions. It is quite possible that there will be at least one brief governmental shutdown during this month.

Early October      First continuing resolution decision. If no continuing resolution is in place on October 1, government would shut down. However, because in all likelihood, the Congress will not have completed the reconciliation bill, we believe that they will agree to a straight-forward continuing resolution lasting only until Congress expects to complete reconciliation.

Late October      Unacceptable conference report on reconciliation could be completed, probably negotiations on a second continuing resolution, perhaps a broader shut down confrontation. (These issues will extend into November.)

**November:**

November 15      Potential debt ceiling crisis as \$25B interest payment is due.

**Decisions and Activities through September 1**

There are several areas where early decisions and contingency planning are necessary. In particular, the question of reductions in force (RIFs) of federal workers is an immediate decision, as is planning for potential government shutdowns.

- RIFs -- RIFs will be needed for agencies that must bring their FY 1996 spending down below FY 1995 appropriated levels. Because of notice requirements, in order for RIFs to be implemented early in the fiscal year, decisions must be made now regarding guidance that should be given to the agencies. You have a memo from Alice Rivlin which reflects the options which the NEC has identified, and seeks your decision.

- **Shut-downs** – The Department of Justice will revise its legal guidance concerning shut-down situations to reflect legislation enacted in 1991 limiting the activities that can continue during a shut-down to those that involve an “imminent” risk to health or property. This revised opinion is due by August 15 and agencies will be expected to submit revised shutdown plans to OMB by September 5. Attached is an outline of what a shutdown might entail.

### **Major Issues to be Decided After September 1**

After Congress returns, there will be a series of major decisions on both stop-gap measures to deal with potential lapses of funding and on permanent measures for both appropriations bills and reconciliation.

### **Continuing Resolutions**

Beginning on September 30, there is likely to be a need for a series of short term continuing resolutions until Congress and the Administration reach agreement on a final budget compromise, which is unlikely to occur until much later in the fall.

- At the beginning, there is the expectation that Congress will be relatively willing to provide short term CRs, though there is likely to be a negotiation even on “clean” CRs (ones without riders) about how to handle programs that the Congress wants to eliminate in the regular appropriations bills and how long each CR should last.
- Since action on reconciliation is not expected to be complete until late October or early November, this initial CR stage, which might involve multiple short-term CRs, is likely to last through mid-November. As the debate over reconciliation advances, there will be growing pressure within the Republican ranks to present CRs with unacceptable riders and funding levels. Congress could also propose a CR that would expire at about the time the debt limit is due to be reached if they want to put maximum pressure on us.
- While there may be a day or two when there is a lapse in funding during the early period, the risk of medium to long term shut-downs is greatest in November; and this risk may be accompanied by the even greater risk of default if Congress fails to extend the debt limit.

4.3  
2/10

- There are no set rules regarding the content or the timing of continuing resolutions. The best CR from our point of view would be a clean CR without riders, which extends current funding levels without resolving pending policy fights one way or the other. To be prepared either to take the initiative or respond to alternative congressional proposals, we are exploring the impact on key programs of a variety of possible approaches, and will be prepared to review these with you in early September.

### Appropriations Bills

Our strategy on appropriations bills has been to insist on the need to increase the size of the pot in order to meet necessary priorities.

- The difference between our budget and the allocations in the Congressional budget resolution are so great, that it will be a significant victory if we achieve 1995 funding levels on our key investments.
- Unless there is a significant shift of resources from defense to non-defense, the only way to accommodate minimal level funding of many key programs is to increase the total allocation to discretionary spending. This issue will not be resolved until there is a negotiated reconciliation agreement.
- A compromise is not likely to permit even level funding of all priorities, and even if we win a partial restoration, we will need to make difficult choices among our investment priorities and some non-investment areas where deep cuts are expected.
- Individual appropriations bills will be presented for signature or veto prior to September 30 and during the period that a CR is in effect. Unless you choose to veto all of the bills to highlight the need to increase the total allocation for domestic programs, it will be necessary to make bill by bill decisions.
- While the Senate is making progress removing riders and providing at least modest funding for investment priorities, conference reports on Labor/HHS/Education and VA/HUD, which includes EPA and National Service, are still likely to be unacceptable, and both Defense and Military Construction are likely to be significantly above DoDs request.

Must not allow  
Senate to  
go to SCOTUS  
Muhlebach

- The most difficult decisions will come on the bills that are acceptable or close to acceptable, where particularly in the Senate, Democrats have worked to improve the bills to make them signable.

## Reconciliation

Congress will wrap together a large number of controversial issues. We must expect that the first round of reconciliation will be very confrontational if Congress is able to pass a bill. Indeed, it is not likely that the Republicans could pass a reconciliation bill that you could sign without first forcing a veto.

Medicare and Medicaid will be the most public battleground, and political pressures are also likely to moderate congressional action in areas such as farm subsidies and federal retirement. But other low income programs, which are less popular politically, will face a major assault. The EITC is particularly vulnerable in this regard.

- The Republicans may try to shift cuts from Medicare to Medicaid. We need to work hard to arouse opposition to this.
- Medicare will be the highest profile issue in reconciliation. It is possible that our attacks will break Republican unity and move them more rapidly to a position closer to ours, which is the most likely final result. However, this is not likely to occur before a significant test of wills surrounding the first reconciliation bill.
- Low income programs including AFDC, EITC, and Food Stamps will face severe cuts in the Republican reconciliation bill. The magnitude of the likely cuts is so great that even splitting the difference between our budget and the congressional budget resolution will result in very painful cuts. We will have to negotiate on trade-offs among these programs and on overall funding levels that are necessary.

## Taxes

The tax package will be subject to two broad kinds of pressures --

- A vocal group in Congress is opposed to any tax reductions. As the programmatic trade-offs become more difficult and as compromises are reached in our direction, this group will be arguing even more for reductions in the size of a tax cut.

- Our tax priorities – the education incentives and more careful targeting – are very different from the Republican approach of the child credit and IRA expansion. Therefore, within any tax package there will be trade-offs on the composition.

### Debt Limit Extension

According to the best estimates of the Treasury, the current debt limit of \$4.9 trillion will be reached in late October. If an increase in the limit is not passed in October, it will be extremely difficult to make the 3rd of November Social Security benefit payments. In that case, we may be forced to disinvest part of the Social Security Trust Fund which would generate great public concern. If the impasse were to continue, the US Government could be forced to default on its \$25 billion interest payment due November 15. There may be further extreme measures available to avoid a default on US Treasury securities, however, these actions will require further research and judgement.

Default would be an unprecedented step; the US Government has never defaulted in its history. It could have significant short-run and long-run consequences for domestic and global financial markets and on the interest rate on future government debt.

The Congress could exercise maximum pressure on us by presenting us with an unacceptable reconciliation bill and debt limit increase very close to the time the debt limit would be reached. A large number of Republican members of the House have signed a letter endorsing such a strategy. If we veto the bill and the veto is sustained, the responsibility will rest with the Congress to vote to increase the debt limit in the absence of a reconciliation agreement. Many members of the Congress, especially the Republican freshmen, do not yet seem to understand the momentous nature of the debt limit and may be willing to act irresponsibly.

The Administration will continue to exhort the Congress to behave responsibly and pass a clear debt limit extension as soon as possible. As autumn nears, we will need to increase our pressure on the Congress to pass such an increase and avoid a default, enlisting Alan Greenspan and leaders in domestic and global financial markets to make the case.

## Message

The debate of the next few months over these budget issues will be one of the central confrontations of your Presidency and will go far toward defining the main themes of the election. We have made marked progress since your balanced budget proposal in May. But continued success through the fall will require a disciplined and coordinated effort throughout the Administration to make the following four points:

- **Medicare** - The point of attack for the next several weeks will be to draw a bright line between their Medicare proposals and ours. This is clearly the issue on which the Republicans are the most vulnerable; about which the public is the most concerned; and which we can make the most widely understood.
- **Broader Programmatic and Government Philosophy** - But beyond our Medicare arguments, and any specific program argument, we should express a broader philosophy and set of beliefs. Improving the lives of middle-class Americans, preparing the country for the future, building a government appropriate to the 21st century are all important themes which describe our objectives and the basis on which we wage the debate this fall. The inevitable sharp debates of the fall provide an important opportunity clearly to define how we differ from the Republicans.
- **Common Ground versus Extremism** - The Republicans are increasingly vulnerable on this point and will continue to be. Their balance budget combines both an explicit fiscal agenda and an unstated agenda that has fundamental and radical effects on the nature of the country, the role of government and the distribution of incomes. Your balanced budget solves the fiscal problem and establishes a practical common ground for dealing with the problems of the future. We cannot let them out of the corner into which they have painted themselves over the last several months.
- **Recklessness** - The impending confrontations are unnecessary. In order to pursue an extreme agenda, the Republicans are willing to put the country and the government through the turmoil and cost of shut-downs; and perhaps even to play chicken with the debt limit and default. You will not allow them to accomplish their extreme agenda, but you are concerned that a large number of them do not understand the consequences of their recklessness.

Your message and political strategy for the fall is being developed now. The one additional recommendation we make is that you deliver a speech in early to mid-September establishing the rationale for your vetoes and warning the nation about the consequences of the reckless confrontation the opposition is forcing.

August 4, 1995

MEMORANDUM

TO: Erskine Bowles  
Harold Ickes

FROM: Marcia Hale  
Kevin O'Keefe  
Emily Bromberg

SUBJECT: Budget Strategy

*Geno*  
*Learn*  
*clear advise*  
*County will be cut*  
*work for OMB*  
*County #s*  
*are already done*  
*Shirley*

*Con. on this*  
*think this*  
*to obtain the*  
*outstanding*

*9*

The debate on the Budget offers us an opportunity to focus local attention on the impact of the budget cuts at the local level. For several weeks, we have been talking internally about producing numbers that show the impact of the budget City-by-City. In addition, both the Vice President, while talking to the mayors in Austin, and the Chief of Staff, while talking to the mayors at the White House, promised city impact numbers. Intergovernmental Affairs has met with many mayors over the last month and it is clear that mayors want these numbers and will hold public events around them.

A group has been formed to look at the kinds of numbers that can be both reasonably produced by OMB and useful to mayors. For this group to be effective, we need to decide on our goal. Is it to influence the Congressional budget process, to win the budget battle, or to begin to communicate our priorities going into 1996? We suggest that the determination of the goal is critical to our message. We cannot lead the Democratic elected officials into a partisan and provocative message, and then accept a compromise which leaves them exposed. If our goal is to influence the process and attempt to negotiate a deal, then our message should be bi-partisan and moderate with an inclusive outreach. If our goal is to accept that we will lack the votes necessary to impact the final budget substantially, then our message should be partisan and provocative and our outreach will be targeted to 1996 target states and groups. If our goal is to win the budget battle, then we need to develop a less vituperative message and reach out to those in the GOP who would be the most responsive to our message.

Once the City-by-City analysis is ready, we suggest planning the release around the Mayors meeting in Seattle at the end of August. If we have sufficient lead time, we suggest the following:

- A coordinated press conference with mayors and county executives in every major city on the same day during the week after the Mayor's meeting in Seattle. The message is the local impact of the GOP budget.

- Two coordinated press conferences one week later. One by the statewide elected officials in the largest media market in the state and one by the legislative leadership at the state capitol, both on the same day. The message is the statewide impact of the GOP budget.
- Mayors will meet with the major Ed boards (New York, Los Angeles, and Chicago) and hold a press conference at the National Press Club in mid-September.
- We would work with Public Liaison to include effected interest groups (seniors etc.) in these press conferences.

If you agree with this strategy, we need your assistance in encouraging OMB to produce the numbers and then we will work with the mayors and the elected officials to accomplish the press conferences.

3



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE SECRETARY

August 9, 1995

MEMORANDUM TO GENE SPERLING

FROM: LESLIE T. THORNTON

SUBJECT: TITLE I CUTS

I have preliminarily vetted the issue you raised with me late today. The following might be relevant to your analysis:

- ☉ Title I Grants provide supplemental financial assistance to almost all 15,000 school districts in the country (53,000 schools). While the money does pass through the State, the allocation is strictly by formula. Thus, the funds essentially go right to the school districts. Within the districts, funds go to schools with the highest proportions of children from low-income families.
- ☉ Proposed cuts (average 17%) will deprive an estimated 1.1 million at-risk children of needed special services. Some of the worst scenarios, i.e., most harmful impacts of these cuts are in areas of particular interest to us like Milwaukee, Wisconsin, and Worcester, Massachusetts (see attached).
- ☉ The Department's Title I program office has already distributed to all 15,000 school districts the state-by-state and county-by-county analysis of proposed cuts.
- ☉ The Department is equipped, and the Secretary likely inclined, to provide the information we discussed to all 15,000 school districts. It could be a natural follow-up to the outreach done and materials sent by our Title I program office. In addition, a number of our policy folks think it is a good idea.
- ☉ While I have not vetted the idea with regard to Safe and Drug Free Schools, I am happy to.

Memorandum to Gene Sperling  
Page 1



OPTIONAL FORM NO. 10 (7-97)

## FAX TRANSMITTAL

# of pages 3

To: <i>Leake Thornton</i>	Phone: <i>MS LeTendre</i>
From: <i>John Sharon Nelson</i>	Phone: <i>260-0826</i>
Fax: <i>401-2098</i>	Fax: <i>260-7764</i>

NOV 2000-01-317-2000 5000-101 GENERAL SERVICES ADMINISTRATION

## TITLE I GRANTS TO LOCAL EDUC

**1995 Appropriation: \$8,698.4 million****1996 Request: \$7,000.0 million****1996 House Appropriations Committee Proposal: \$6,555.0 million****Program Purpose**

Title I Grants to LEAs provide supplemental financial assistance to almost all school districts in the country, and to about 53,000 schools, especially in high-poverty areas. Funds help improve the teaching and learning of at-risk children to enable them to master challenging curriculum and learn to high academic standards expected of all children. Federal formula funds are allocated to States, which suballocate funds to school districts. Within districts, funds go to schools with the highest proportions of children from low-income families.

**Evaluation Findings**

- Title I has improved basic reading and mathematics skills of the lowest-achieving school-children in the Nation and has helped close the learning gap between those children and their peers. With the help of Title I, for example, the achievement gap between black and white 9-year olds narrowed over the past two decades by 18 percent in math and 25 percent in reading. The reauthorized Title I restructures the program to help disadvantaged children make even more progress which is necessary to meet internationally competitive standards.
- The educational needs of disadvantaged children, especially in high-poverty schools, are growing. Evaluations show that children in high-poverty schools are held to lower expectations than children in other schools, and they are more likely to fall behind in the early school grades and never catch up. For example: first graders in poor schools start school scoring 27 and 32 percentile points lower in reading and math, respectively, than other school children, and the initial gap widens by grades 4 and 8. In addition, eighth-graders in poor schools are 57 percent more likely to leave school by grade 10 than are students in other schools.
- Administrative costs for Title I are comparatively modest: States retain not more than 1 percent of the funds for State administration; school districts use only 4-10 percent of local Title I funds for district administration. According to a recent GAO study, districts devote a greater percentage of Title I funds to classroom instruction (73 percent) than they do with other district funds (62 percent).

### Improvements Resulting from the Reauthorization

- Shifts the program focus from providing remedial instruction to bring low-achieving students up to minimal levels of competency to a new emphasis on helping Title I children achieve to the same challenging academic standards that other children are expected to meet.
- Integrates Title I with wider State and local education reforms that stress challenging curriculum and instruction linked to high standards, and eliminates unnecessary testing of Title I children by requiring that States use their own assessment systems instead of a separate Title I assessment system.
- Gives teachers, principals, and parents more control over decisions about how program resources are used, so that each school's program operates in a way that reflects local needs and conditions and helps children make the most progress.
- Promotes "schoolwide" programs that allow high-poverty schools to combine Title I and other Federal education funds with State and local resources in order to upgrade the school's instructional program and serve all students.

### Overall Impact of Proposed House Cuts

- Decreases LEA allocations on average by 17 percent, which will deprive an estimated 1.1 million at-risk children of special services designed to help them to achieve to high levels in core academic subjects such as reading and mathematics.
- Eliminates about 29,000 teacher and aide jobs.
- Serves approximately 9,700 fewer schools.

### Specific Examples

- In the Milwaukee Public Schools, which currently operate 119 Title I schoolwide programs serving 52,627 public school students and 3,617 non-public school students, a 17 percent reduction (\$7.9 million) would result in: (1) laying off teachers, which will reduce the number of disadvantaged children receiving supplemental instruction in reading, writing and mathematics; (2) cutbacks in staff development so that teachers would no longer be able to participate in training programs that provide cross-curricula strategies for teaching higher-level thinking skills; (3) reductions in parent training designed to assist parents to better help their children to achieve; and (4) fewer high-poverty schools adding technology to the classroom and training teachers in its use.

- In the School District of Philadelphia, which currently operates Title I programs in 168 schools, all of which will be schoolwide programs beginning in 1996, a 17 percent reduction (\$13.4 million) would: (1) eliminate services to at least 62 public schools and to 45,050 public school students and 2,755 nonpublic school students; (2) eliminate about 80 public school teaching positions and 203 public school paraprofessional positions; (3) reduce funds for staff development by \$1.08 million, which will restrict the access of teachers and other staff to training designed to increase their ability to improve student achievement such as strategies for teaching reading across curricula; (4) reduce funds to increase parental involvement and for reading and math books and other instructional materials by about \$1.8 million.
- A 17 percent reduction also will dilute momentum for implementing reforms in the reauthorized program that:

Enrich and accelerate learning opportunities for disadvantaged children so that they are able to meet internationally competitive standards: Example: All students in grades 6-8 at the Accelerated Learning Laboratory (ALL) School, in a high-poverty area of Worcester, Massachusetts, attend five-week intensive seminars and laboratories that find creative ways of teaching complex skills in mathematics, social sciences, and other curriculum areas. Title I funds support a Higher Order Thinking Skills (HOTS) laboratory, and the school's reform agenda calls for a technology magnet school, multi-grade "clusters," and an alternative grading system that evaluates student portfolios and awards certificates to students for mastering standards that are defined by leading professional organizations and the State.

Narrow the gap between the lowest-achieving children and other children, and between the high- and low-poverty schools. Example: After its first year as a Title I schoolwide project, the test scores of fourth and fifth graders at Ronald E. McNair Elementary School, in a poor, crime-ridden urban area of North Charleston, South Carolina, rose from the 1st percentile to the 25th percentile. Since then, the school's ranking has moved from the lowest to the middle range of comparable schools in the district. Title I funds also support summer programs to give extra help to students who score poorly on district tests.

Focus on early intervention strategies that may help prevent school failure. Example: Ganado Primary School in Arizona enrolls approximately 450 children in grades K-2, almost all of whom are from poor Navajo families. About 58 percent of the students entering school for the first time have limited English proficiency; and 23 percent speak neither English nor Navajo fluently. Ganado's literacy intervention program targets the lowest 20 percent of first-grade readers. After one year in the program, most students advance to the level of top-achieving readers. Ganado also uses Title I funds to provide counseling programs for students and families that address topics such as drug prevention, addiction, parenting, marriage, and other family issues.

THE WHITE HOUSE  
WASHINGTON

August 12, 1995

MEMORANDUM FOR THE PRESIDENT

FROM:               ERSKINE BOWLES  
                      LAURA TYSON

SUBJECT:            Update on Budget Working Group Activities

Appropriations Update

- The Senate passed the Treasury/Postal Appropriations bill on Saturday, August 5 (voice vote). The key amendments include: 1) an amendment by Hatch/Biden to restore funding for the White House National Drug Control Office; 2) Finegold/McCain amendment to limit political appointees; 3) an amendment that would restrict payment for abortions in Federal Employee Health Benefit program, expect under specified circumstances.
- The Interior Appropriations bill passed on Wednesday, August 9 (92-6). Key amendments included a moratorium on grazing fee regulations; 2) an amendment to restore Indian programs was defeated; 3) an amendment to increase funding for the National Endowment of the Arts was adopted; 4) an amendment to oppose a patent moratorium for hard rock mining was defeated.
- The Transportation Appropriations bill passed on Thursday, August 10 (98-1). An amendment to remove FAA procurement and personnel reform was defeated; an amendment to extend the ISTEA legislation until 1997 was adopted.
- The Senate will resume consideration of the Defense Appropriations bill on September 5.

Cabinet Activity

Each Agency has been assigned targeted Congressional Districts/media markets to focus regional media emphasizing the extreme GOP cuts during the recess. Attached is a grid indicating the assignments.

## SUMMARY OF THIS WEEK'S ACTIVITY

Monday, August 7, 1995

**Medicare County-by-County Numbers.** Analysis released out to all counties in the country, all states, all state legislators.

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

▶ Press briefings by HHS and White House officials.

**Speaker Gingrich's Medicare Teleconference/Rally in Georgia.** Monday, Speaker Gingrich hosted a Medicare teleconference/rally in Atlanta, GA.

- ▶ Coinciding with the timing of the rally, county by county Medicare data was released.

**Regional Media Roundtables** with Rivlin, Sperling, Feder and Jennings to release Medicare county-by-county numbers. Numbers went out via U.S. Newswire to 50 state APs and all major dailies, radio stations and tv stations nationwide.

**Women.** Large budget briefing for women's groups focusing on Medicare, and the Labor/HHS/Education appropriations bill.

**African Americans.** Conference calls with regional African-American leaders and ethnic leaders.

**Religious Leaders.** Briefing for the national religious groups.

### Other Activity

- Sec. Pena budget event in Des Moines, IA
- Sec. Pena radio interviews with target cities regarding impact of transit cuts to rural areas.
- Sec. Reich on *CNN Morning News* on budget.



### Wednesday, August 9

**Cabinet Briefing:** Briefed Cabinet to prepare and encourage them to focus on Medicare during Congressional recess and distributed health care background materials (including Medicare briefing, talking points on Medicare and Medicaid, state-by-state data, county-by-county data, questions and answers).

#### Other Activity

- HUD outreach to columnists:
  - Joe Shuldiner was interviewed by the *Atlanta Journal*.
  - Andrew Cuomo interviewed with *Washington Week in Review*.
  - Mike Stegman interviewed with Cokie Roberts on *NPR, ABC news*.
- HUD Sec. Cisneros, was at Dartmouth College, in Dartmouth, NH.
- Asst. Sec. Cuomo was in Cleveland, OH for Empowerment Zone Event.
- Sec. Babbitt was in New York State (Buffalo, Rochester, Syracuse).
- Commerce Sec. Brown spoke with the *Providence Journal* editorial board.

### Thursday, August 10, 1995

**Blue Chip Economists Favor OMB's Forecast:** The major budget news of the day was the release of the Blue Chip's economists' survey indicating that the White House's 10-year economic growth projections are more likely to be accurate than the CBO figures.

- ▶ We released Talking Points and a fact sheet to members of the press highlighting the Blue Chip report.
- ▶ OMB Director Rivlin released a letter to the Congressional Majority urging them to pay attention to the Blue Chip survey.

**Comparison of Clinton Accomplishments/Policies and Perot's Campaign Promises:** In preparation for Perot's United We Stand convention in Dallas, we released a report to the press comparing the Administration's record with Perot's campaign promises.

#### Other Activity

- Sec. Pena was in Chicago for a press briefing "Report to the Community of Chicago".
- HUD Asst. Sec. Cuomo in Atlanta, GA for Atlanta Business Forum.

## Future Activities

- ▶ **August Recess:** Planning events and press activity in targeted districts for the August recess coordinating the Cabinet and Subcabinet, advocacy groups, and state and local officials in targeted districts. Our plans include op eds in newspapers, radio talk shows, editorial boards, press conferences, town meetings, and activities around Republican member town meetings.
- ▶ **Medicaid:** Preparing a Medicaid document similar to the White House Medicare Briefing Document that we have been using to educate the press.
- ▶ **City-by-City data:** Analysis of impact of GOP cuts on 50 major cities should be completed this week. We are looking at several options for timing the release (possibly in conjunction with the Mayors' meetings in Seattle on August 28, or as part of the back to school rollout.
- ▶ **Mayors will meet in Seattle on Aug 28th.** Plan is to have them do events in their cities that week, culminating with a huge event.press conference with 50 Mayors in Seattle on the 28th. Possibly book them on Sunday News shows on the 27th.
- ▶ **Back to School:** A memo will be sent to you on Monday, August 14, outlining our back to school plans, including two weeks of ramp up activity by Cabinet and groups, and 1 week of White House events (September 11).
- ▶ **GOP Medicare Plan:** Planning continues for the last two weeks of September. We are working on strategy to counter GOP release of Medicare plan set for September 21.
- ▶ **Health Policy Specifications:** Meeting to finalize health policy specifications on insurance reform, purchasing pools, and subsidies for workers who lose their jobs.

① This is great  
revenue -

THE PRESIDENT HAS SEEN  
8-18-95

THE WHITE HOUSE  
WASHINGTON

August 14, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES  
LAURA TYSON  
GENE SPERLING

SUBJECT: Budget Working Group

②  
As I have said in 2 yrs -  
I strongly disagree w/ McCain  
his staff only to top 15 or 20. But  
Lowe is ~~the~~ Dem. like LBJ to get  
a majority of newspaper endorsements.  
If Queen of Fools would show full  
payoff that to work at least all the  
the smaller ones with a majority is dead  
they could make a difference -  
BC

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

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

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

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

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

## I. MEDICARE

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

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

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

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

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

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

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

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

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

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

**Amplification.**

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

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

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

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

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

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

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

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

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

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

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

- **Regional Media.** We have also set up a recess regional media strategy focusing primarily on Medicare. The attached grid indicates the hundreds of media calls being placed.
- **Trustees Op-Ed:** Jennifer Klein from the First Lady's office pieced together an excellent op-ed by Secretaries Rubin, Shalala, and Reich for placement later this week.

## II. EDUCATION

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

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

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

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

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

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

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

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

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

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

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

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

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

### III. ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

We released Environmental State-by-State impact numbers.

#### IV. COMPREHENSIVE STATE-BY-STATE ANALYSES

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

#### V. PEROT

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

#### VI. MEDICAID

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

#### VII. CITY-BY-CITY DATA

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

#### VIII. BACK TO SCHOOL

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

## IX. GOP MEDICARE PLAN

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

## X. VALIDATORS

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

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

THE WHITE HOUSE

WASHINGTON

September 4, 1995

Dear Editor:

As students, teachers, and administrators return to schools all over the country, I want to remind you of a critical battle that will take place this fall in Washington over the issue of education. To put it bluntly, our educators, students, and parents need to be aware that our nation's investments in education -- in our children's future -- are under direct attack by the Republican majority in the House.

The President is firmly committed to a comprehensive economic policy based on balancing the budget, reducing trade barriers worldwide, and creating jobs here at home. But he is convinced that to strengthen families, expand our economy, and raise the living standards for the American people, nothing is more critical to our nation's future than ensuring that all Americans have the education and skills they need.

Education has become the fundamental fault-line in the standard of living for American families. Many Americans have seen their incomes stagnate over the last 15 years; the real income of the typical family has actually declined. Yet those with the most education and training have bucked the trend. Today, the typical college graduate earns 74 percent more than a worker with only a high school degree. Studies also show that for every year of training a person gets after high school, his or her earnings rise by 6 to 12 percent. Education is the key to growth in our economy, in wages, and in our standard of living.

To allow individuals to make the most of their lives, and to provide every American the chance to realize the American Dream, the President has been fighting for better education and training, by investing in Head Start and Safe and Drug-Free Schools, by providing resources to train teachers and raise school standards, and by improving the student loan program. During the last Congress, Republicans and Democrats together enacted a historic series of initiatives to assist families, communities, schools and colleges to expand educational opportunity in America.

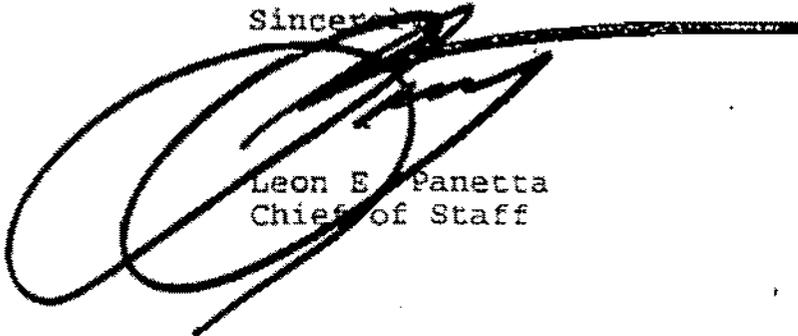
President Clinton has proposed to balance the budget over the next ten years. He would do so by cutting wasteful spending, streamlining programs, and ending unneeded subsidies. Yet he would preserve and increase investment in education by \$40 billion over the next seven years; protect Medicaid, Medicare and the environment; and provide for a targeted tax cut that would help middle-income Americans raise their children, save for the future and pay for post-secondary education.

By contrast, there are proposals in Congress threatening to cut \$36 billion from education and training to help them balance the budget in seven years and provide a huge tax cut to those who need it least. They have proposed: slashing investments in Head Start; abolishing the Goals 2000 school reforms; cutting crucial assistance to students from disadvantaged backgrounds; abolishing the Technology Learning Challenge, which leverages private money for technology in schools and communities; cutting funding for apprenticeship training in half; abolishing AmeriCorps - the heart of the President's National Service program; raising students' costs of loans by \$10 billion over seven years; halting progress on the President's Direct Lending program; and denying Pell Grants to 360,000 students in 1996 alone.

These latter cuts would be particularly devastating for access to post-secondary education and training. By slashing grants and loans, we would turn back the clock on recent successes in expanding access, forcing some students to drop out and denying others the opportunity to begin their education. To achieve the level of savings they are proposing, Congress would have to raise the costs of college education by as much as \$3,100 for undergraduates and as much as \$9,400 for graduate students. They would not only eliminate any interest subsidy for graduate and professional students, but also hit college students with substantially higher fees--for example, eliminating the six-month grace period for interest after college or raising the origination fee that every student must pay to obtain their loans. There are also proposals to reduce and possibly eliminate the Direct Lending Program, preventing more schools from participating in this initiative, which is already saving taxpayers \$6.8 billion, lowering interest rates for students, and allowing borrowers to choose flexible repayment arrangements.

I firmly believe that the American people want to balance the budget and continue to increase investments in education. The President has shown that it is possible. Nevertheless, there are those in Congress who are determined to go forward with these extreme cuts. The debate over this issue will be one of the most significant in the coming months, if not years. The future of this great nation is at stake.

Sincerely,

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Leon E. Panetta  
Chief of Staff