THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release September 27, 1995

STATEMENT BY CHIEF OF STAFF LEON E. PANETTA ON CONTINUING RESOLUTION AGREEMENT

The continuing resolution agreed to by the Administration and the Congressional leadership will enable us to continue providing important services for the American people while Congress takes the time it needs to complete work on fiscal year 1996 appropriations.

The agreement provides funding on a temporary basis at an overall level close to that proposed by the Congress, but it does not accept the proposals of the Congressional majority for drastic cuts in education, environmental protection, and other priorities important to the President and the American people.

There has been too much irresponsible talk about using the threat of government shutdown or default to force a particular set of priorities on the American people. This continuing resolution will establish a level playing field, extending the deadline for Congress to do its job and allowing us to resolve the significant differences that remain over budget issues. We should be able to do that without victimizing the American people or damaging our economy in the process.

The President wants us to work together to achieve common ground on a balanced budget. This process shows that we can work together. The President has proposed a balanced budget grounded in the fundamental American values of opportunity, family, community, and responsibility. This is common ground that all Americans share, and it is our hope that we can agree on a budget that reflects these values.

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REPUBLICANS AND THE DEBT CEILING: RECKLESSLY GAMBLING WITH THE NATION'S FUTURE

THE STRENGTH OF A NATION'S CREDIT IS A VITAL ASSET.

- Through our more than 200 year history, through good times and crisis alike, the United States has never abandoned its obligations to honor its debt.

- "A sovereign country's creditworthiness is a precious asset not to be sacrificed under any circumstances." [Treasury Secretary Rubin, The New York *Times*, 9/22/95]

IT IS RECKLESS TO THREATEN DEFAULT FOR POLITICAL PURPOSES.

- It is reckless for Congressional leaders to link passage of a debt limit bill -- upon which the creditworthiness of the nation depends -- on getting their own way, or no way, on the budget.

- "It would be unprecedented and unwise for anyone in a position of authority to dismiss the consequences of default on the debt of the United States of America for the first time in our history." [Treasury Secretary Rubin, The New York *Times*, 9/22/95]

- In the recent past, top Republican officials -- such as Treasury Secretary Baker, Treasury Secretary Brady, Attorney General William French Smith, Federal Reserve Board Chairman Paul Volker -- have roundly condemned the use of the debt ceiling for political purposes. Treasury Secretary Baker warned that, "it would be an absolute disgrace if the United States defaulted for the first time in its over-200 year history. Any default will have swift and severe repercussions." [Treasury Secretary Baker, *Associated Press*, 11/8/85]

THE PRESIDENT WILL NOT BE BLACKMAILED INTO MAKING DEEP CUTS IN HEALTH CARE AND EDUCATION IN ORDER TO PAY FOR TAX BREAKS FOR THE WELL-OFF.

- Speaker Gingrich has demanded that the President accept drastic cuts in Medicare, Medicaid, and education or Congress will force the nation into default for the first time in history. The President will not be blackmailed when the nation's core interests are at stake.

RECENT REPUBLICAN PROPOSALS CONCERNING THE DEBT CEILING WOULD STILL FORCE THE NATION INTO DEFAULT AND WOULD DEBASE ITS CREDIT STANDING.

- Majority Leader Dick Armey and others have made proposals that allow the President to selectively default on the nation's debt. These proposals are neither credible nor serious, for they would require the United States, for the first time in history, to renege on obligations and debts already incurred.

REPUBLICANS AND THE DEBT LIMIT: RECKLESSLY GAMBLING WITH THE NATION'S FUTURE

The Republican majority in Congress has threatened to the bring the nation to the brink of default -- or further -- in order to serve its own political ambitions. In so doing, the majority has taken a dangerous gamble with the nation's financial system and has abdicated its most solemn responsibility to ensure that the nation does not default on its debt.

A RECKLESS GAMBLE. REPUBLICANS CONTINUE TO GAMBLE WITH THE NATION'S ECONOMIC FUTURE BY PLAYING POLITICS WITH THE DEBT CEILING.

Republicans have repeatedly threatened to bring the nation to the brink of default -- or beyond.

- On Thursday, Speaker Gingrich boasted, "I don't care what the price is. I don't care if we have no executive offices and no bonds for 60 days -- not this time." [*Washington Post*, 9/22/95]

- On Friday, Gingrich declared: "I will not schedule the debt ceiling [increase] until we get the agreement to balance the budget." [*Washington Post*, 9/23/95]

And they have downplayed the consequences of default.

- "Gingrich brushed aside suggestions that a default would undermine global investors' confidence in the credit-worthiness of the federal government, sending Treasury borrowing costs soaring and pushing down the value of the U.S. dollar. Instead, the House Speaker argued that, if anything, a showdown involving a debt ceiling would have a positive impact on the markets." [*Washington Post*, 9/23/95]

- "We have talked to a lot of people . . . and a lot of people of Wall Street who think that . . . the market will not overreact as negatively as some indicate." Rick May, Majority Staff Director of the House Budget Committee [*Knight Ridder*, 9/21/95]

But Secretary Rubin -- along with past Republican Cabinet Members and Federal Reserve Board Chairmen -- have warned of the dire ramifications if Congress fails to raise the debt ceiling.

- "It would be unprecedented and unwise for anyone in a position of authority to dismiss the consequences of default on the debt of the United States of America for the first time in our history. Even the appearance of a risk of default can have adverse consequences, and a default itself would increase the cost of debt for the United States Government for many, many years to come. A sovereign country's credit worthiness is a precious asset not to be sacrificed under any circumstances." Treasury Secretary Rubin [The New York *Times*, 9/22/95]

- "It would be an absolute disgrace if the United States defaulted for the first time in its over-200 year history. Any default will have swift and severe repercussions both domestically and internationally. It is our view that it will probably raise general interest rates, costing the United States a significant amount of money in the absence of *congressional* action." James Baker, then-Secretary of the Treasury [*Associated Press*, 11/8/85] (emphasis added)

- " . . . the failure *of Congress* to act on the debt ceiling would in either case create great uncertainty and confusion in banking and money markets . . . . a failure to increase the debt limit would not only create havoc in the payments system because of the necessary delays that I have outlined, but it would undermine confidence at home and abroad in the government's ability to manage its affairs." Letter from then-Federal Reserve Board Chairman Paul Volker to then-Treasury Secretary Donald Reagan, 11/9/93 (emphasis added)

- "I urge *the Congress* to act in a timely manner on a debt limit increase in order to advert default with its adverse consequences on domestic and international confidence and trust in the United States." Secretary Brady, Letter to Speaker Foley, 9/21/90 (emphasis added).

- "Since September, the failure *of Congress* to increase the debt limit has resulted in . . . costly delays of auctions and uncertainty throughout the capital markets. . . . The uncertainty and delay will likely cost the American taxpayer millions of dollars." Secretary of the Treasury Baker [*Associated Press*, 10/23/85] (emphasis added)

- "No responsible government should place itself in a situation where it would default on its obligations. I therefore urge, in the strongest possible way, that *the Congress* act to spare our citizens from the hardship, the flood of litigation, and the unprecedented constitutional crisis that would be threatened by the inability of the United States to meet its financial obligations." Letter from then-Attorney General William French Smith to then Senate Majority Leader Howard Baker, 11/11/83 (emphasis added)

Speaker Gingrich's careless threats have already spooked the markets.

- The *Wall Street Journal* reports: "Message from the bond market to House Speaker Newt Gingrich: You're starting to scare us. . . . Prices may actually fall, perhaps sharply, in the next two months because of what might be called the Newt Factor. In a threat unveiled Thursday and reinstated Friday, Mr. Gingrich said he was willing to let the government risk default on its debt if President Clinton didn't agree to Republican budget priorities." [*Wall Street Journal*, 9/26/95]

- "Mr. Gingrich's remarks came in the middle of a day in which the dollar plunged as much as 5 percent against major currencies before recovering slightly, sending interest rates up sharply. The Speaker's statements appeared to be one of several factors that added to the market's unsettled condition." [The New York *Times*, 9/22/95]

- "[Speaker Gingrich doesn't] understand the risk. The guy is a gunslinger. He shoots at everything that moves and he doesn't stop to think before he pulls the trigger." F. Ward McCarthy of Stone & McCarthy, a financial research firm [*Washington Post*, 9/23/95]

- "I was very distressed to learn of [Speaker Gingrich's] remarks. It affects the way we invest. You have to ask: Do I need all this uncertainty." Daniel Fuss, who manages $32 billion in bonds for Loomis Sayles & Co. [*Wall Street Journal*, 9/26/95].

- "We know people who are selling [as a result of Speaker Gingrich's remarks]. They feel they are too far from the situation to know what's brinkmanship and what's reality." Nancy Zimmerman, general partner of Farallon Fixed Income Partners, a Boston hedge fund [*Wall Street Journal*, 9/26/95].

- "Gingrich's threat to permit a government default also contributed to the uneasiness in the markets and helped push bond prices lower this morning." [*Bloomberg*, 9/22/95]

- To financial traders, Gingrich's statement, "suggested he is willing to sacrifice their interests to further his own political ambitions." [*USA Today*, 9/25/95]

Financial experts confirm that the failure to raise the debt ceiling would have wide-ranging and dire effects.

- ". . . failure to pay interest or principal would have severe ripple effects in the U.S. payment system. . . . the price of default . . . would he high. It would be ironic if Congress, in an effort to cut the deficits, raise U.S. savings and reduce interest rates, adopted a confrontational strategy that forced the government to pay higher interest rates." Susan Herring, Solomon Brothers, Testimony before the Senate Finance Committee, 7/28/95.

- "If the federal government missed a timely payment of interest or principal as a result of a debt ceiling confrontation, the consequences seem almost imponderable. Even the mere risk of default by the world's most creditworthy public borrower, for whatever reason, cannot be tolerated." Richard Kelly, Public Securities Association, Testimony before the Senate Committee on Finance, 7/28/95

- ". . . even a temporary default -- that is, a few days' delay in the government's ability to meet its obligations -- could have serious repercussions in the financial markets." James Blum, Deputy Director of the CBO, Testimony before the Senate Finance Committee, 7/28/95

- "One of the risks is that foreign investors will not understand what is happening here. And if they get nervous, they will just flee until it all sorts out." David Jones, Vice Chairman of Aubrey G. Lanson & Co., which trades in Government bonds [The New York *Times*, 9/22/95]

- The risk of default "is a concern around the globe, among central bankers, investors, and it's not being taken lightly." Philip Braverman, Chief Economist DKB Securities [*Bloomberg*, 9/22/95]

Republican claims that a debt ceiling crisis can be "managed" dramatize their reckless refusal to acknowledge the dangers of default. House Majority Leader Dick Armey recently declared on *Face the Nation*, that even if the nation's reached an impasse over the debt limit, "we can manage the debt ceiling by managing the cash flow. . . . I am prepared to pass a bill to the President . . . that allows him the authority to set priorities in managing the economy on a cash-flow basis, during an interim period between debt ceilings circumstance" [*Face the Nation*, 9/24/95]. Armey's statement offers a deceptively sanguine view of a debt ceiling crisis.

- Armey's suggestion, "doesn't make any sense at all. . . . It's a simplistic idea that you can treat the obligations of the U.S. government like the obligations of an individual citizen with a credit card. [The proposal] would still require making intolerable decisions. How do you decide whether you are going to pay for good and services the government has purchased, or the wages of employees?" Undersecretary Hawke [The New York *Times*, 9/25/95]

- "Some suggestions have been made that the Government can operate on a cash-flow basis without an increase in the debt. This is simply not realistic. The government's expenditures do not match its receipts on a day to day basis." Secretary Rubin, Letter to Speaker Gingrich, 9/18/95

<u>A QUESTION OF INTEGRITY.</u> EVEN REPUBLICAN MEMBERS OF THE SENATE FINANCE COMMITTEE HAVE RECOGNIZED THAT DEFAULT THREATENS OUR NATIONAL INTEGRITY, SINCE IT WOULD COMPEL THE GOVERNMENT TO RENEGE ON COMMITMENTS ALREADY MADE.

- "It seems to me now, to get tough and say, well, we are not going to raise the debt ceiling because we don't want to pay those bills which we have incurred, doesn't make an awful lot of sense." Senator Chafee, Hearing Before the Subcommittee on Taxation and Debt Management of the Senate Finance Committee, 9/10/85.

- " . . . the decision to increase the debt limit of the Federal Government is not discretionary. Default on obligations already incurred is not an option . . . The debt limit must be increased." Senator Roth, Hearing Before the Subcommittee on Taxation and Debt Management of the Senate Finance Committee, 7/31/90.

<u>THE PRESIDENT WILL NOT BE BLACKMAILED INTO SACRIFICING AMERICA'S CORE VALUES.</u>

- The President has shown he is willing to work together to achieve a common ground balanced budget, but, as Secretary of the Treasury Rubin has said, "the President won't be blackmailed by the use of the debt limit as a negotiating lever." Secretary Rubin [The New York *Times*, 9/22/95].

THE WHITE HOUSE

WASHINGTON

June 30, 1995

MEMORANDUM FOR DOMESTIC POLICY PROGRAM STAFF

FROM: Paul Weinstein

SUBJECT: **FY96 Budget Resolution**

Attached please find several documents outlining the recently-agreed to House and Senate Budget Resolution. Included in the package is a comparison with the President's proposed ten-year balanced-budget. If you have any questions, please come and talk to me. I will be forwarding additional information in the coming weeks.

cc: Bruce Reed
Jeremy Ben-Ami

CONFERENCE RESOLUTION: TOTAL OUTLAYS
(In billions of dollars)

06/28/95
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	1996	1997	1998	1999	2000	96-00
National defense	263.1	265.0	263.8	267.2	270.9	1,330.0
International affairs	17.0	15.1	13.9	12.6	11.9	70.4
Science and space	16.8	16.6	16.1	15.7	15.5	80.7
Energy	4.5	3.5	3.1	2.6	2.2	16.0
Natural resources	20.3	20.0	18.7	19.0	18.5	96.4
Agriculture	11.8	11.1	10.5	10.3	9.8	53.5
Commerce and credit	-7.0	-5.9	-8.1	-4.9	-3.6	-29.4
Transportation	38.9	37.6	36.6	34.1	33.2	180.4
Community development	9.9	7.8	6.5	6.2	6.2	36.5
Education and training	53.4	48.9	47.3	47.5	48.2	245.4
Health	121.1	127.5	131.7	135.7	139.9	655.9
Medicare	173.7	182.8	192.3	203.2	214.6	966.6
Income security	227.6	236.4	245.3	255.8	269.9	1,235.0
Social security	354.2	373.1	393.1	413.7	435.6	1,969.7
Veterans	36.9	38.0	38.4	39.0	40.6	192.9
Justice	18.7	18.9	19.7	20.4	20.9	98.7
General government	12.9	12.3	12.2	12.0	12.0	61.4
Net Interest	258.9	266.0	269.7	276.4	281.9	1,353.0
Allowances	-4.8	-6.4	-5.5	-5.0	-4.0	-25.7
Undistributed offsetting receipts	-40.5	-41.3	-44.0	-43.6	-46.1	-215.4
Total	1,587.6	1,626.9	1,661.5	1,717.9	1,778.0	8,372.0

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PRESIDENT'S BUDGET PLAN: TOTAL OUTLAYS
(In billions of dollars)

06/28/95
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	1996	1997	1998	1999	2000	96-00
National defense	260.8	256.6	254.3	259.7	267.8	1,299.3
International affairs	16.6	16.2	16.3	15.6	15.0	79.7
Science and space	16.8	16.7	16.4	16.2	16.1	82.2
Energy	4.2	3.9	3.4	3.5	2.6	17.6
Natural resources	21.6	21.8	21.5	20.7	20.1	105.8
Agriculture	13.1	11.9	10.4	10.4	9.9	55.7
Commerce and credit	-7.8	-1.2	0.4	-3.8	-5.5	-17.9
Transportation	38.6	38.1	37.7	38.0	36.8	189.3
Community development	12.7	14.3	11.1	9.6	9.6	57.3
Education and training	55.4	57.7	58.7	60.4	61.9	294.0
Health	120.3	131.0	140.9	150.5	161.0	703.7
Medicare	174.7	189.5	202.6	215.8	230.0	1,012.6
Income security	230.4	241.6	251.1	262.9	275.6	1,261.5
Social security	354.5	373.1	392.5	412.8	433.6	1,966.6
Veterans	38.1	39.8	39.9	40.1	41.8	199.7
Justice	20.0	21.7	23.0	23.8	24.6	113.2
General government	14.3	14.0	14.0	13.8	13.4	69.5
Net Interest	255.5	265.7	272.0	277.8	280.8	1,351.7
Allowances	-0.4	1.4	1.2	1.1	1.0	4.3
Undistributed offsetting receipts	-42.4	-43.3	-44.2	-41.5	-42.2	-213.7
Total	1,597.1	1,670.6	1,723.1	1,787.2	1,854.2	8,632.2

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DIFFERENCE BETWEEN RESOLUTION AND PRESIDENT'S BUDGET PLAN 06/28/95
(In billions of dollars) 04:12 PM

	1996	1997	1998	1999	2000	96-00
National defense	2.3	8.4	9.5	7.5	3.1	30.7
International affairs	0.4	-1.1	-2.4	-3.0	-3.1	-9.3
Science and space	0.0	-0.1	-0.3	-0.5	-0.7	-1.5
Energy	0.3	-0.3	-0.3	-0.9	-0.4	-1.6
Natural resources	-1.4	-1.8	-2.8	-1.7	-1.6	-9.4
Agriculture	-1.3	-0.8	0.1	-0.1	-0.2	-2.2
Commerce and credit	0.8	-4.7	-8.5	-1.0	1.9	-11.5
Transportation	0.3	-0.5	-1.1	-3.9	-3.6	-8.9
Community development	-2.8	-6.5	-4.6	-3.4	-3.4	-20.8
Education and training	-1.9	-8.8	-11.4	-12.9	-13.7	-48.7
Health	0.8	-3.5	-9.2	-14.8	-21.1	-47.8
Medicare	-1.0	-6.7	-10.3	-12.6	-15.4	-46.0
Income security	-2.7	-5.2	-5.9	-7.1	-5.7	-26.5
Social security	-0.4	-0.1	0.6	1.0	2.0	3.1
Veterans	-1.2	-1.8	-1.5	-1.1	-1.2	-6.8
Justice	-1.3	-2.8	-3.2	-3.5	-3.7	-14.5
General government	-1.4	-1.7	-1.7	-1.8	-1.4	-8.0
Net Interest	3.5	0.3	-2.2	-1.4	1.1	1.3
Allowances	-4.4	-7.8	-6.7	-6.2	-5.1	-30.1
Undistributed offsetting receipts	2.0	2.0	0.2	-2.0	-3.9	-1.7
Total	-9.4	-43.6	-61.6	-69.3	-76.1	-260.1

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CONFERENCE RESOLUTION MANDATORY OUTLAYS
(in billions of dollars)

06/28/95
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	1996	1997	1998	1999	2000	96-00
National defense	-0.9	-0.7	-0.7	-0.7	-0.7	-3.8
International affairs	-3.7	-4.1	-3.8	-3.9	-3.7	-19.3
Science and space	0.0	0.0	0.0	0.0	0.0	0.2
Energy	-1.9	-2.1	-2.1	-2.6	-2.8	-11.4
Natural resources	0.1	0.3	-0.9	-0.3	-0.5	-1.3
Agriculture	8.0	7.5	6.8	6.6	6.1	35.1
Commerce and housing credit	-9.5	-8.0	-9.7	-6.2	-6.6	-40.0
Transportation	0.5	0.5	0.5	0.5	0.5	2.4
Community development	-0.3	-0.2	-0.6	-0.6	-0.3	-2.0
Education and training	13.1	12.0	11.8	12.2	12.9	61.9
Health	100.0	106.9	111.2	115.6	120.0	553.6
Medicare	170.7	179.8	189.3	200.2	211.6	951.6
Income security	188.4	194.9	204.2	214.6	227.9	1,030.0
Social security	351.6	370.6	390.7	411.3	433.1	1,957.3
Veterans	18.0	19.7	20.2	20.9	22.6	101.5
Justice	0.3	0.3	0.4	0.4	0.4	1.9
General government	0.9	0.7	0.8	0.9	1.0	4.3
Allowances	---	---	---	---	---	---
Undistributed offsetting receipts	-40.5	-41.3	-44.0	-43.6	-46.1	-215.4
Grand total	794.7	836.8	874.2	925.3	975.7	4,406.7

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PRESIDENT'S BUDGET PLAN MANDATORY OUTLAYS 06/28/95
(in billions of dollars) 04:12 PM

	1996	1997	1998	1999	2000	96-00
National defense	-0.7	-0.5	-0.5	-0.5	-0.5	-2.8
International affairs	-4.3	-4.7	-4.4	-4.4	-4.2	-22.0
Science and space	0.0	0.0	0.0	0.0	0.0	0.2
Energy	-2.0	-2.0	-2.1	-1.5	-1.7	-9.2
Natural resources	0.3	0.6	0.6	0.5	0.4	2.3
Agriculture	9.1	7.9	6.5	6.7	6.3	36.5
Commerce and credit	-11.0	-4.7	-3.2	-7.2	-10.7	-36.9
Transportation	0.5	0.5	0.4	0.4	0.4	2.2
Community development	2.8	4.4	2.0	1.1	1.3	11.6
Education and training	14.9	13.7	13.4	14.1	14.7	70.9
Health	97.1	107.8	117.4	126.6	136.8	585.6
Medicare	171.5	186.4	199.4	212.6	226.9	996.8
Income security	191.5	201.4	210.4	220.9	233.7	1,057.8
Social security	351.4	369.9	389.4	409.8	430.7	1,951.3
Veterans	19.0	20.9	21.5	21.9	24.0	107.3
Justice	0.5	0.3	0.2	0.2	0.2	1.4
General government	1.4	1.3	1.4	1.4	1.4	6.9
Allowances	0.0	0.0	0.0	0.0	0.0	0.0
Undistributed offsetting receipts	-42.4	-43.3	-44.2	-41.0	-41.7	-212.7
Total	799.5	859.8	908.4	961.6	1,018.2	4,547.4

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DIFFERENCE BETWEEN RESOLUTION AND PRESIDENT MANDATORY LEVELS 06/28/95
(In billions of dollars) 04:19 PM

	1996	1997	1998	1999	2000	96-00
National defense	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9
International affairs	0.6	0.6	0.5	0.5	0.5	2.7
Science and space	0.0	0.0	0.0	0.0	0.0	0.0
Energy	0.1	-0.1	0.0	-1.1	-1.0	-2.2
Natural resources	-0.1	-0.3	-1.5	-0.8	-0.9	-3.6
Agriculture	-1.1	-0.5	0.3	-0.0	-0.2	-1.4
Commerce and credit	1.5	-3.2	-6.5	0.9	4.1	-3.2
Transportation	-0.0	-0.0	0.1	0.1	0.1	0.2
Community development	-3.1	-4.6	-2.6	-1.6	-1.7	-13.6
Education and training	-1.9	-1.7	-1.6	-1.9	-1.9	-9.1
Health	2.9	-0.9	-6.2	-11.1	-16.8	-32.0
Medicare	-0.8	-6.6	-10.1	-12.5	-15.2	-45.2
Income security	-3.1	-6.4	-6.2	-6.3	-5.8	-27.8
Social security	0.2	0.7	1.2	1.5	2.4	6.0
Veterans	-1.0	-1.2	-1.2	-1.0	-1.4	-5.8
Justice	-0.2	0.0	0.2	0.2	0.2	0.5
General government	-0.6	-0.6	-0.6	-0.5	-0.4	-2.6
Allowances	0.0	0.0	0.0	0.0	0.0	0.0
Undistributed offsetting receipts	2.0	2.0	0.2	-2.5	-4.4	-2.7
Total	-4.8	-23.0	-34.2	-36.3	-42.5	-140.7

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CONFERENCE RESOLUTION DISCRETIONARY LEVELS BY FUNCTION

(In billions of dollars)

06/28/95
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	1996	1997	1998	1999	2000	2001	2002	96-00	96-02
National defense:									
Budget authority..........	265.4	268.0	269.7	272.4	275.1	277.8	280.7	1,350.5	1,909.1
Outlays..........................	264.0	265.7	264.5	267.9	271.6	270.8	270.8	1,333.8	1,875.3
International affairs:									
Budget authority..........	18.3	17.1	15.8	15.1	14.7	14.7	14.7	81.0	110.5
Outlays..........................	20.7	19.2	17.7	16.5	15.6	15.5	15.3	89.7	120.5
Science and space:									
Budget authority..........	16.7	16.3	15.9	15.6	15.3	15.3	15.3	79.7	110.2
Outlays..........................	16.8	16.5	16.1	15.7	15.4	15.4	15.3	80.5	111.2
Energy:									
Budget authority..........	5.5	5.1	4.7	4.8	4.8	4.7	4.7	25.0	34.4
Outlays..........................	6.4	5.6	5.2	5.2	5.0	4.9	4.9	27.3	37.1
Natural resources:									
Budget authority..........	19.1	18.8	18.5	18.4	18.3	18.4	18.4	93.1	129.9
Outlays..........................	20.2	19.7	19.6	19.3	19.0	18.9	18.8	97.7	135.4
Agriculture:									
Budget authority..........	3.6	3.6	3.6	3.6	3.6	3.6	3.6	17.9	25.0
Outlays..........................	3.8	3.7	3.6	3.6	3.6	3.6	3.6	18.3	25.5
Commerce and credit:									
Budget authority..........	2.3	1.9	1.6	1.4	3.2	1.8	1.5	10.3	13.7
Outlays..........................	2.6	2.1	1.6	1.4	3.1	1.8	1.5	10.6	14.0
Transportation:									
Budget authority..........	13.9	14.0	13.8	11.6	10.8	10.4	10.3	64.2	84.9
Outlays..........................	38.4	37.1	36.1	33.6	32.7	31.9	31.5	178.0	241.4
Community development:									
Budget authority..........	6.6	6.5	6.4	6.4	6.4	6.3	6.3	32.2	44.8
Outlays..........................	10.3	7.9	7.1	6.7	6.5	6.5	6.5	38.5	51.4
Education and training:									
Budget authority..........	36.0	35.9	35.6	35.6	35.6	35.6	35.6	178.6	249.7
Outlays..........................	40.3	37.0	35.5	35.3	35.3	35.3	35.3	183.5	254.2
Health:									
Budget authority..........	20.9	20.7	20.5	20.1	19.9	19.6	19.3	102.1	141.1
Outlays..........................	21.2	20.6	20.5	20.1	19.9	19.6	19.3	102.3	141.3

CONFERENCE RESOLUTION DISCRETIONARY LEVELS BY FUNCTION

(In billions of dollars)

06/28/95
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	1996	1997	1998	1999	2000	2001	2002	96-00	96-02
Medicare:									
Budget authority...........	3.0	3.0	3.0	3.0	3.0	3.0	3.0	15.0	20.9
Outlays........................	3.0	3.0	3.0	3.0	3.0	3.0	3.0	15.0	20.9
Income security:									
Budget authority...........	35.2	34.0	43.5	36.0	39.4	39.4	39.5	188.0	267.0
Outlays........................	39.2	41.5	41.1	41.2	42.0	41.5	41.5	205.0	287.9
Social security:									
Budget authority...........	—	—	—	—	—	—	—	—	—
Outlays........................	2.6	2.5	2.5	2.5	2.5	2.5	2.5	12.4	17.3
Veterans:									
Budget authority...........	18.0	18.0	18.0	17.9	17.9	17.9	17.9	89.8	125.5
Outlays........................	18.9	18.3	18.2	18.1	18.0	17.9	17.9	91.5	127.3
Justice:									
Budget authority...........	19.5	19.5	19.7	20.5	20.6	20.6	20.6	99.8	141.1
Outlays........................	18.4	18.7	19.3	20.0	20.5	20.5	20.5	96.8	137.8
General government:									
Budget authority...........	11.6	11.5	11.3	11.2	11.1	11.1	11.1	56.6	78.8
Outlays........................	12.0	11.5	11.5	11.1	11.0	11.0	11.0	57.1	79.0
Allowances:									
Budget authority...........	-6.4	-6.3	-5.3	-4.7	-3.7	-3.7	-3.7	-26.4	-33.8
Outlays........................	-4.8	-6.4	-5.5	-5.0	-4.0	-4.0	-4.1	-25.7	-33.8
Undistributed offsetting receipts:									
Budget authority...........	—	—	—	—	—	—	—	—	—
Outlays........................	—	—	—	—	—	—	—	—	—
Total:									
Budget authority...........	489.2	487.4	496.2	488.7	495.9	496.6	498.8	2,457.4	3,452.8
Outlays........................	534.0	524.1	517.5	516.1	520.5	516.4	515.1	2,612.2	3,643.7
Memorandum:									
Total nondefense:									
Budget authority...........	223.8	219.5	226.5	216.3	220.8	218.8	218.1	1,106.8	1,543.7
Outlays........................	270.0	258.4	253.0	248.2	248.9	245.6	244.3	1,278.5	1,768.4

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PRESIDENT'S BUDGET PLAN DISCRETIONARY LEVELS BY FUNCTION

(In billions of dollars)

06/28/95
04:23 PM

	1996	1997	1998	1999	2000	2001	2002	96-00	96-02
National defense:									
Budget authority..........	258.2	253.9	260.2	266.8	276.5	286.9	286.9	1,315.5	1,889.4
Outlays........................	261.5	257.2	254.9	260.2	268.3	275.7	281.1	1,302.1	1,858.9
International affairs:									
Budget authority..........	21.2	19.8	19.4	19.1	18.7	18.2	17.9	98.2	134.3
Outlays........................	20.9	20.9	20.7	20.0	19.2	18.6	18.2	101.7	138.4
Science and space:									
Budget authority..........	17.2	16.7	16.4	16.2	16.1	16.1	15.9	82.6	114.7
Outlays........................	16.7	16.7	16.4	16.1	16.1	16.0	15.9	82.0	114.0
Energy:									
Budget authority..........	5.7	5.1	5.0	4.8	4.3	4.4	4.4	25.0	33.7
Outlays........................	6.2	5.8	5.4	5.0	4.3	4.3	4.4	26.7	35.5
Natural resources:									
Budget authority..........	21.7	20.8	20.1	19.8	19.5	19.4	19.4	101.9	140.8
Outlays........................	21.4	21.2	20.9	20.3	19.7	19.8	19.6	103.5	142.8
Agriculture:									
Budget authority..........	4.0	3.9	3.7	3.6	3.5	3.6	3.6	18.7	26.0
Outlays........................	4.1	4.0	3.8	3.7	3.6	3.7	3.7	19.2	26.5
Commerce and credit:									
Budget authority..........	3.5	3.5	3.4	3.1	5.2	3.2	3.1	18.6	24.9
Outlays........................	3.3	3.5	3.5	3.3	5.2	3.3	3.2	18.9	25.4
Transportation 1/:									
Budget authority..........	13.0	14.4	13.8	10.8	10.1	10.1	10.1	62.2	82.4
Outlays........................	38.2	37.6	37.3	37.6	36.4	35.7	35.2	187.1	257.9
Community development:									
Budget authority..........	9.3	8.3	8.2	8.2	8.2	8.2	8.3	42.1	58.6
Outlays........................	10.0	9.9	9.0	8.5	8.3	8.2	8.2	45.7	62.1
Education and training:									
Budget authority..........	44.1	45.3	46.3	47.1	48.1	49.3	50.5	230.9	330.7
Outlays........................	40.4	44.0	45.3	46.3	47.2	48.2	49.4	223.1	320.7
Health:									
Budget authority..........	23.7	23.3	23.7	24.1	24.5	24.9	25.3	119.3	169.5
Outlays........................	23.3	23.3	23.5	23.8	24.2	24.6	25.0	118.1	167.7

PRESIDENT'S BUDGET PLAN DISCRETIONARY LEVELS BY FUNCTION

(In billions of dollars)

06/28/95
04:23 PM

	1996	1997	1998	1999	2000	2001	2002	96-00	96-02
Medicare:									
Budget authority..........	3.2	3.2	3.2	3.2	3.1	3.1	3.1	15.8	22.1
Outlays......................	3.2	3.1	3.2	3.2	3.1	3.1	3.1	15.8	22.1
Income security:									
Budget authority..........	33.2	32.7	43.5	39.0	38.2	41.4	43.9	186.6	272.0
Outlays......................	38.9	40.2	40.8	42.0	41.9	42.5	43.6	203.7	289.9
Social security:									
Budget authority..........	—	—	—	—	—	—	—	—	—
Outlays......................	3.1	3.2	3.1	3.0	2.9	2.9	2.9	15.3	21.1
Veterans:									
Budget authority..........	19.3	18.8	18.4	18.0	17.6	17.3	17.8	92.1	127.3
Outlays......................	19.1	18.9	18.5	18.2	17.8	17.7	18.0	92.5	128.2
Justice:									
Budget authority..........	21.8	22.4	23.1	24.3	24.7	23.5	22.4	116.4	162.3
Outlays......................	19.5	21.5	22.7	23.6	24.4	24.6	23.3	111.8	159.7
General government:									
Budget authority..........	13.6	12.4	12.2	12.1	12.0	12.0	13.0	62.3	87.3
Outlays......................	12.8	12.7	12.6	12.4	12.0	11.9	12.5	62.5	87.0
Allowances:									
Budget authority..........	-0.4	1.3	1.1	1.1	1.0	1.0	1.0	4.2	6.1
Outlays......................	-0.4	1.4	1.2	1.1	1.0	1.0	1.0	4.3	6.4
Undistributed offsetting receipts:									
Budget authority..........	—	—	—	-0.5	-0.5	-0.5	-0.5	-1.0	-2.0
Outlays......................	—	—	—	-0.5	-0.5	-0.5	-0.5	-1.0	-2.0
Total:									
Budget authority..........	512.4	505.8	521.8	520.7	530.7	542.4	546.2	2,591.4	3,679.9
Outlays......................	542.1	545.1	542.8	547.7	555.2	561.4	568.0	2,732.9	3,862.3
Memorandum:									
Total nondefense:									
Budget authority..........	254.2	251.9	261.6	253.9	254.2	255.4	259.3	1,275.8	1,790.5
Outlays......................	280.6	287.9	287.9	287.5	286.9	285.7	286.8	1,430.8	2,003.4

1/ Administration's budget authority has been adjusted to exclude highway budget authority.

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DIFFERENCE BETWEEN RESOLUTION AND PRESIDENT DISCRETIONARY LEVELS

(In billions of dollars)

06/28/95
04:26 PM

	1996	1997	1998	1999	2000	2001	2002	96-00	96-02
National defense:									
Budget authority..........	7.2	14.1	9.6	5.6	-1.4	-9.1	-6.2	35.0	19.7
Outlays..........................	2.5	8.6	9.6	7.7	3.2	-4.9	-10.3	31.6	16.4
International affairs:									
Budget authority..........	-2.9	-2.7	-3.7	-4.0	-4.0	-3.5	-3.1	-17.2	-23.9
Outlays..........................	-0.2	-1.7	-3.0	-3.5	-3.6	-3.1	-2.9	-12.0	-18.0
Science and space:									
Budget authority..........	-0.5	-0.5	-0.5	-0.6	-0.8	-0.8	-0.6	-2.9	-4.4
Outlays..........................	0.0	-0.1	-0.3	-0.5	-0.7	-0.7	-0.6	-1.5	-2.8
Energy:									
Budget authority..........	-0.1	-0.1	-0.3	-0.0	0.4	0.4	0.3	-0.0	0.7
Outlays..........................	0.2	-0.2	-0.3	0.2	0.7	0.5	0.5	0.6	1.6
Natural resources:									
Budget authority..........	-2.6	-2.0	-1.6	-1.4	-1.2	-1.1	-1.1	-8.7	-10.9
Outlays..........................	-1.2	-1.5	-1.3	-1.0	-0.7	-0.9	-0.8	-5.8	-7.4
Agriculture:									
Budget authority..........	-0.4	-0.3	-0.1	-0.1	0.0	-0.1	-0.1	-0.9	-1.0
Outlays..........................	-0.3	-0.3	-0.2	-0.1	-0.0	-0.1	-0.1	-0.8	-1.0
Commerce and credit:									
Budget authority..........	-1.1	-1.6	-1.8	-1.8	-2.0	-1.4	-1.6	-8.2	-11.2
Outlays..........................	-0.7	-1.5	-1.9	-2.0	-2.2	-1.5	-1.6	-8.3	-11.4
Transportation 1/:									
Budget authority..........	0.9	-0.4	0.1	0.7	0.7	0.3	0.1	2.0	2.5
Outlays..........................	0.3	-0.5	-1.2	-3.9	-3.7	-3.8	-3.7	-9.0	-16.6
Community development:									
Budget authority..........	-2.7	-1.8	-1.8	-1.8	-1.8	-1.9	-2.0	-9.9	-13.8
Outlays..........................	0.3	-1.9	-2.0	-1.8	-1.8	-1.7	-1.7	-7.2	-10.7
Education and training:									
Budget authority..........	-8.1	-9.4	-10.7	-11.6	-12.5	-13.8	-14.9	-52.3	-81.0
Outlays..........................	-0.1	-7.0	-9.7	-10.9	-11.8	-12.9	-14.1	-39.6	-66.5
Health:									
Budget authority..........	-2.8	-2.6	-3.2	-4.0	-4.5	-5.3	-6.0	-17.2	-28.4
Outlays..........................	-2.1	-2.6	-3.0	-3.7	-4.4	-5.0	-5.7	-15.8	-26.5

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DIFFERENCE BETWEEN RESOLUTION AND PRESIDENT DISCRETIONARY LEVELS
(In billions of dollars)

06/28/95
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	1996	1997	1998	1999	2000	2001	2002	96-00	96-02
Medicare:									
Budget authority..........	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9	-1.2
Outlays......................	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8	-1.1
Income security:									
Budget authority..........	2.0	1.4	-0.0	-3.0	1.1	-2.0	-4.4	1.4	-5.0
Outlays......................	0.4	1.3	0.3	-0.8	0.1	-1.1	-2.2	1.3	-1.9
Social security:									
Budget authority..........	---	---	---	---	---	---	---	---	---
Outlays......................	-0.5	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-2.9	-3.8
Veterans:									
Budget authority..........	-1.3	-0.8	-0.4	-0.1	0.3	0.6	0.0	-2.3	-1.7
Outlays......................	-0.2	-0.7	-0.3	-0.1	0.2	0.2	-0.1	-1.0	-0.9
Justice:									
Budget authority..........	-2.4	-2.9	-3.4	-3.8	-4.0	-2.9	-1.7	-16.6	-21.2
Outlays......................	-1.2	-2.8	-3.4	-3.7	-3.9	-4.1	-2.8	-15.0	-21.9
General government:									
Budget authority..........	-2.0	-0.9	-0.9	-0.9	-0.9	-0.9	-1.9	-5.6	-8.4
Outlays......................	-0.8	-1.1	-1.2	-1.3	-1.0	-0.9	-1.6	-5.4	-7.9
Allowances:									
Budget authority..........	-6.1	-7.7	-6.4	-5.8	-4.6	-4.6	-4.7	-30.6	-39.9
Outlays......................	-4.4	-7.8	-6.7	-6.2	-5.1	-5.1	-5.1	-30.1	-40.2
Undistributed offsetting receipts:									
Budget authority..........	---	---	---	0.5	0.5	0.5	0.5	1.0	2.0
Outlays......................	---	---	---	0.5	0.5	0.5	0.5	1.0	2.0
Total:									
Budget authority..........	-23.2	-18.4	-25.6	-32.0	-34.9	-45.8	-47.3	-134.0	-227.1
Outlays......................	-8.1	-21.0	-25.2	-31.6	-34.7	-45.0	-52.9	-120.7	-218.6
Memorandum:									
Total nondefense:									
Budget authority..........	-30.4	-32.4	-35.1	-37.6	-33.4	-36.7	-41.2	-169.0	-246.8
Outlays......................	-10.6	-29.5	-34.9	-39.3	-38.0	-40.1	-42.5	-152.3	-235.0

1/ Administration's budget authority has been adjusted to exclude highway budget authority.

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THE WHITE HOUSE

WASHINGTON

June 28, 1995

Dear Mr. Speaker:

We share the goal of balancing the federal budget, and I look forward to working with you on this important matter.

But as we work together to reach our shared goal, we must ensure that we do so the right way -- the way that will raise the standards of living for average Americans.

My plan to balance the budget over 10 years will help raise average living standards by cutting unnecessary spending while investing in education and training, targeting tax relief to middle-income Americans, and taking incremental but serious steps toward health care reform. By contrast, the conference agreement cuts too deeply into Medicare and Medicaid and cuts education and training both to pay for a tax cut that is too large for too many who don't need it, and to meet the 7 year time frame.

Though I am determined to work with you to balance the budget, I cannot accept legislation that will threaten the living standards of American families.

I hope we can work together and avoid a situation in which I would have no choice but to use my veto authority broadly. The American people want us to work together to balance the budget and to do it the right way. I am ready to do that.

Sincerely,

Bill Clinton

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

WR - ~~GOP~~ Repubs.

To : Amy Busch@ASPA@OS.DC
Cc :
Bcc :
From : James Hickman@ASL@OS.DC
Subject : re: cosponsors and today's tps
Date : Wednesday, April 19, 1995 at 11:16:09 am EDT
Attach :
Certify : N
Encrypt : N

Amy

HR 3500 had 164 cosponsors: 159 original cosponsors and 5 additional cosponsors at a later date.

S 1795 had 16 original cosponsors, including Packwood. Lugar and Hatch cosponsored later in the year.

Talk to you later

Jim.

FYI
TO DPC STAFF

FEB - 8 1995

THE WHITE HOUSE
WASHINGTON

February 8, 1995

MEMORANDUM FOR SENIOR STAFF

FROM: Gene Sperling

SUBJECT: Budget Talking Points

The following is a one-pager on the President's budget designed to address some of the issues raised over the last few days.

KEY POINTS ON THE PRESIDENT'S BUDGET
February 8, 1995

The President has the best proven record on deficit reduction. The President is now proposing to add to the largest deficit reduction plan in history. His 1993 budget cut the deficit by $505 billion, and with the new growth in the economy that resulted, will lead to $616 billion in deficit reduction. He's now adding $81 billion in deficit reduction on top of the $616 billion. And he is cutting the Federal workforce by 272,900 employees, to its lowest level since the Kennedy Administration.

Without President Clinton's economic plan, the deficit would have reached $475 billion by the year 2000. The Reagan and Bush Administrations sent the deficit skyrocketing--quadrupling the debt and deficit in 12 years. President Clinton's leadership has brought the deficit down for three straight years for the first time since Harry Truman was President. In FY 1994, the deficit was over $100 billion lower than projected before the President's plan. It was the largest two-year drop in history.

President Clinton is honoring his commitment to cut the deficit in half. What matters most for working Americans is the deficit as a percentage of the whole economy. Even though the deficit became worse after the election, the President is still on track to cut it in half. By the end of the President's five-year plan, the deficit will be half what it was projected to be as a percent of GDP--going from 4.9 percent to 2.4 percent. That's the lowest level since 1979--before the Reagan and Bush Administrations.

Under President Clinton, the budget would be balanced--in fact, in surplus--if not for the interest from the Reagan-Bush debt. Without interest payments on the deficits created during the Reagan and Bush Administrations, the Clinton Administration would actually be running a **surplus**, with enough left over to pay for tax cuts. Except for that interest, we are now spending less than we are taking in.

The Republicans talk tough, but they don't make the tough decisions to cut the deficit. Throughout the 1980s, the Republicans talked about balanced budgets while running up the largest deficits in history. In 1993, they voted against $505 billion in deficit reduction. In 1994, they campaigned against the President's tough choices. And in 1995, they still haven't proposed the hard, specific cuts to bring the deficit down.

The Republicans haven't even proposed spending cuts to pay for the tax breaks in the "Contract." The Joint Committee on Taxation estimates that these cuts cost $700 billion over ten years. The capital gains tax cut alone costs $170 billion over ten years--and 70% goes to taxpayers earning over $100,000.

President Clinton remains committed to entitlement reform--in the context of health care reform. President Clinton proved his commitment to keeping entitlement costs under control in 1993, when he cut nearly $100 billion from entitlement spending. The rate of growth in Medicare and Medicaid costs has now decreased. As he said throughout 1994, the only way to achieve lasting cuts in the cost of entitlements is to reform the health care system, and the President looks forward to working with Republicans to achieve health care reform. Simply slashing Medicare--as many Republicans propose--will cause cost-shifting to the private sector, with higher costs for small businesses and higher premiums for middle-class families.

FYI - DPC STAFF

THE WHITE HOUSE

WASHINGTON

FEB - 8 1995

February 8, 1995

MEMORANDUM FOR SENIOR STAFF

FROM: Gene Sperling

SUBJECT: Middle Class Bill of Rights Talking Points

We have been working in a coordinated effort with members of the Domestic Policy Council, Treasury, Labor and OMB on the following:

a.) Summary One-Pager on MBR.

b.) One-Pager on Education Deduction.

c.) One-Pager on IRA.

d.) One-Pager on $500 Child Tax Credit.

e.) One-Pager on G.I. Bill of Rights for Workers.

We also have background papers and Qs&As.

THE MIDDLE CLASS BILL OF RIGHTS

THE PRESIDENT'S COMPREHENSIVE PLAN
TO RAISE MIDDLE CLASS STANDARDS OF LIVING

A Successful Economic Plan: The President's economic plan is already cutting the deficit by $600 billion -- nearly $10,000 per family. It's also increasing investment in technology, education, and training--with new college loan, national service, school reform , and School-to-Work efforts. The President fought for NAFTA and GATT, bringing two of the best years for opening markets in history. Over 15 million working families received a tax break through his EITC, and 90 percent of small businesses are now eligible for tax relief.

The Economy Has Responded with the Best Combination of Growth, Job Creation and Low Inflation in 30 Years: The President's economic plan helped solidify the recovery, create nearly 6 million jobs, and hold inflation down.

Still, the 15-Year Pattern of Stagnant Wages Continues for Too Many Middle-Class Families: Only the top 20 percent of households have seen their incomes rise since 1978.

THE NEXT STEP: THE MIDDLE CLASS BILL OF RIGHTS

To ensure that all Americans share in the recovery and to help families invest in the future, the President is calling for a **Middle Class Bill of Rights**. It's **based on three principles:**

1. **Targeted to the Middle Class:** Unlike the Republican plan, which mostly benefits families earning over $100,000, the President targets benefits to middle-class families.

2. **Rewards Investment in the Future:** The President's plan rewards families who invest in the future -- especially education and skills for themselves and their children.

3. **Paid For By Specific Spending Cuts:** The President's plan pays for tax cuts with specific spending cuts--adding to the $616 billion in deficit reduction following his 1993 plan with another $81 billion now.

THE MIDDLE CLASS BILL OF RIGHTS

1. **Tax Credit to Help Working Families Raise Their Children:** Families earning up to $60,000 will receive a $500 tax credit for each child under 13.

2. **Education and Job Training Tax Deduction to Help Americans Get the Skills They Need:** Tuition will be fully deductible up to $10,000 for families earning up to $100,000.

3. **Expanded IRA to Help Working Americans Save for the Future:** Families earning up to $100,000 will be able to save up to $2,000 a year tax-free per earner--and use the money for education, a first home, or medical expenses, in addition to retirement.

4. **A New G.I. Bill to Empower American Workers:** The President will collapse 70 federal education and training programs and offer low-skill or laid-off workers a Skill Grant of up to $2,620 per year to choose the training that works for them.

EDUCATION AND JOB TRAINING TAX DEDUCTION

HELP MIDDLE-CLASS AMERICANS GET THE SKILLS THEY NEED

The President proposes making tuition for college, community college, technical school, graduate school and job-training fully deductible up to $10,000. The deduction will be fully available to families earning up to $100,000, and phased out at $120,000.

BROADEN OUR MIDDLE CLASS AND NARROW THE GAPS BETWEEN US

Each year of college or job training beyond high school increases average future earnings by 6 to 12 percent. And while workers with the right skills have seen their incomes rise over the last 15 years, paychecks for everyone else have declined.

STOP RISING TUITION FROM CRUSHING MIDDLE-CLASS FAMILIES

Wealthy students can afford higher education and lower-income students receive financial aid. The middle-class gets squeezed as college costs rise. Between 1981 and 1991, average college tuition rose more than 130 percent--compared to about 50 percent inflation over that period.

OFFER AN INCENTIVE FOR EDUCATION SIMILAR TO BUSINESS INVESTMENT

The tax code already encourages business investments. It's time to create the same incentive for families to make the best investment they can make: education.

MILLIONS OF WORKING FAMILIES WOULD GET TAX RELIEF

Twelve million students would benefit from the deduction, over 80 percent of them with incomes less than $75,000.

FAMILIES DON'T NEED TO ITEMIZE TO GET THE DEDUCTION

The deduction will be "above the line"--allowed in determining adjusted gross income--so middle-class families that don't itemize will still get the tax break.

TAX BREAKS WON'T TRIGGER TUITION INCREASES

Little evidence links higher federal aid with higher tuitions: in the 1980s, education aid virtually froze while tuitions jumped; in the last two years, President Clinton expanded student aid and tuition increases slowed. With 7,500 schools competing for students today, schools that try to cash in by raising tuition will lose students--and money.

PART OF THE PRESIDENT'S COMMITMENT TO EXPAND CHOICE AND ACCESS

The President is already implementing Individual Education Accounts to make more affordable student loans available to every American and save taxpayers billions of dollars. Convenient "pay-as-you-can" options enable individuals to repay the investment as their earnings permit. In addition, the President is proposing to raise Pell Grants to $2600 and extend Skill Grants to laid-off and low-wage workers who usually can't take full advantage of the education and training tax deduction.

HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE

For a family with a $50,000 income spending $10,000 to send a child to college and improve skills for a spouse, the tax deduction would be worth $1,500--a 31% tax cut.

EXPANDED IRA

HELP WORKING AMERICANS SAVE FOR THEIR FUTURE

The President's proposal would enable more middle-class families to save in two ways:

- First, he would **double the income thresholds for tax deductible IRAs**: eligibility would now be phased out for couples with incomes between $80,000 and $100,000.
- Second, President Clinton would **allow Americans to withdraw money from IRAs without penalty to pay for education and training, a first home, or medical expenses**.

EXPANDING IRAs WILL INCREASE PRIVATE SAVINGS

Private savings are key to creating good jobs and raising incomes in the long-run. Yet our private savings rate has declined from 8.1 percent of GDP in the 1970s to 5.1 percent in the 1990s. Several empirical studies have shown that expanded IRAs can increase private savings--and the President's proposal will do so in three ways:

- **Dramatically increase the number of families eligible for tax-free IRAs**, enabling middle-income families now putting away less than they'd like to save more, tax-free.
- **Giving families more incentives** to save by allowing them to use savings for purposes other than retirement, like paying for education or buying a home.
- **Increasing awareness of IRAs**, because as more people are eligible for IRAs, banks will promote them more, and more people will decide to save.

ANOTHER WAY TO HELP AMERICANS PAY FOR COLLEGE OR JOB TRAINING

Middle-class Americans will be able to use IRAs to pay for education without penalty. Together with the education tax break and the G.I. Bill for Workers, it's another way that President Clinton is helping Americans to invest in their future.

HELP A FAMILY BUY A HOME

Families will now be able to save tax-free in an IRA and then use the money without penalty to buy a first home--or help a child buy one.

MORE CHOICES FOR MIDDLE-CLASS FAMILIES

The President's plan allows families to take the tax breaks from IRAs either when they deposit money or when they withdraw it. In contrast, the Republican plan requires the deductions at the time of withdrawal. And President Clinton allows withdrawals without penalty for more reasons--such as care of an elderly parent or unemployment.

TAX RELIEF TARGETED AT THE MIDDLE CLASS, NOT THE WEALTHIEST

President Clinton's proposal is targeted at those who have seen their incomes stagnate over the last 15 years--middle-class families with incomes under $100,000. The Republicans' "Contract with America" offers them fewer options but offers a costly tax break to people earning as much as $250,000--people who are already saving.

HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE

A two-earner couple has a $55,000 income and is expecting a child. If they want to begin saving for the child's education, each working parent can put $2,000 in the IRA --and save $1,120 in taxes, a 15% cut.

$500 CHILD TAX CREDIT

GIVE TAX RELIEF TO MIDDLE-CLASS FAMILIES

President Clinton wants to give a $500 tax credit to families for each child under age 13. The credit will be fully available to families earning up to $60,000 and phased out at $75,000.

HELP RESTORE THE AMERICAN DREAM

Middle class families who work hard and play by the rules aren't getting ahead: they're getting squeezed. The median family earned less in 1992 than in 1978.

THE COSTS OF RAISING CHILDREN CONTINUE TO RISE

For middle-class families, the costs of health care and education are rising faster than inflation. In 1990, the average middle-income family with children in daycare or afterschool care spent $3,000 on day care alone.

RESTORE FAMILIES' ERODED PERSONAL EXEMPTION

In 1950, the personal exemption was worth $3,800 in 1995 dollars. Today, it's just $2,500--a 34 percent decline. President Clinton wants to restore the value of the personal exemption for the people who need it most--families with young children.

FOCUS RELIEF ON THE MIDDLE CLASS, NOT THE WEALTHY

President Clinton gives tax relief to families with incomes below $75,000--the middle class that's been hurt the last 15 years. In contrast, the Republican Contract with America offers a child tax credit to families with incomes up to $250,000--including some of the wealthiest 1 percent of Americans.

TARGET RELIEF WHERE WORKING FAMILIES NEED IT MOST

The tax credit goes to the families with the greatest needs, those with children under 13 who may require child care or afterschool care. For families with older children, President Clinton has proposed a tax deduction for education expenses up to $10,000. And for families earning less than $27,000, he has already expanded the Earned Income Tax Credit--offering an average tax cut of $1,000 to 15 million families.

HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE

A family of four with two working parents, two children under 12, and a combined income of $50,000 would receive a tax credit worth $1,000-- a tax cut of about 20 percent.

A NEW G.I. BILL FOR AMERICA'S WORKERS

FROM FEEDING BUREAUCRACIES TO EMPOWERING INDIVIDUALS

- **Collapse some 70 Federal programs** for education and job training
- **Put the power to learn in workers' hands**-- offering low-income and unemployed workers Skill Grants for education and training up to $2,620 per year, and Individual Education Accounts to get low-cost loans and repay them on a flexible schedule.

EMPOWERING WORKERS DIRECTLY

Instead of just shifting money from a federal bureaucracy to a state bureaucracy, the President consolidates programs and empowers workers directly with Skill Grants--so they can choose the quality training and education they want, where and when they want it.

LEANER GOVERNMENT

The current maze of job training programs wastes money and doesn't get the job done. The President will replace some 70 separate programs with one integrated system.

STATE FLEXIBILITY

The President's proposal enables states to work with communities, schools, and the private sector to tailor information systems, job search assistance, and on-the-job training to meet local goals. Most federal rules dictating procedures will be wiped out.

GOOD INFORMATION TO GUIDE GOOD CHOICES

The proposal encourages States and the private sector to develop a system of One-Stop Career Centers or other information networks where workers get access to real job search help and reliable information on jobs and the records of training institutions.

ACCOUNTABILITY

For the first time, training programs will have to pass the same test as the private sector: meet your customers' needs or lose business. Choice, competition, and good information will empower individuals to pick providers who deliver: And performance standards for training providers will cut off the frauds and the incompetents.

PRIVATE SECTOR PARTNERSHIP

The President's proposal isn't about government. It's about jobs, so the private sector has a central role. Business and labor will be full partners in designing new systems so that workers and education providers know what skills employers will pay for. New awards will recognize excellence in creating workplaces that reward worker skills.

PATHS FROM SCHOOL TO WORK FOR YOUNG PEOPLE

This initiative will fold federal training programs for young people into the school-to-work movement underway at the state and local level. Young people can look forward to clearer paths to new skills and better jobs.

HELPING WORKING AMERICANS: AN EXAMPLE

When a worker is laid off, he becomes eligible for a Skill Grant. He can go to a One-Stop Career Center to learn about the community college and job training programs nearby and study their success records in detail. Then he can choose the program with the best placement record in a field that interests him, and use the Skill Grant to pay for it. The worker will learn a new trade, and at the end of the program, receive job search assistance with area employers.

Budget FY96

SECRETARY OF LABOR
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

From: Robert B. Reich RBR
Secretary of Labor

Laura D. Tyson LDT ABK
Chair, Council of Economic Advisors

Subject: The Distributional Context for FY1996 Budget Decisions

I The Structural Problem: Falling Incomes for Many Americans

The purpose of this memo is to identify some important structural and distributional developments which should be among the considerations guiding our policy choices for the FY1996 budget.

According to last week's release by the Census Bureau, median household income continued to decline in 1993 for the fifth consecutive year, and the number of Americans living below the poverty level increased for the fourth consecutive year, despite two full years of economic recovery. Although the recession of 1990-91 and the subpar economic recovery through mid-1993 clearly played a role in these developments, longer-term structural factors are also at work.

Over the last twenty years, both median compensation levels and median family incomes have been stagnant or declining (median household income in 1993 was 3 percent lower than it was in 1973). According to the latest Census Report, the share of national income going to the top 5% of households and the share going to everyone else in 1993 was the widest ever recorded since comparable data began to be collected in 1967. Only the top 5% of households appear to be gaining ground. In fact, their share of national income increased from 18.6 percent in 1988 to 20 percent in 1993, with most of the increase occurring last year. Meanwhile, the share going to the broad middle class and to the poorest 20 percent of households has dropped to their lowest levels on record (3.6 percent). To put these numbers in perspective, note that the increase in the share of national income going to the top 5 percent of households recently increased by an amount equal to roughly half the total income that accrues to the bottom 20 percent of households.

Another disturbing long-term trend is the share of children living in poverty. The 22.7 percent of all children in poverty in 1993 isn't statistically different from the 22.3 percent in 1992 or in 1983, but it exceeds the rates of all other years since 1964. In 1977, by contrast, 16.2 percent of children lived in poverty.

In addition to stubbornly high poverty, these changes in the income distribution have contributed to two other serious problems:

- First, the decline in real incomes at the bottom of the income distribution has contributed to a variety of social problems, including increasing criminal behavior, declining marriage rates, and a rising tide of dissatisfaction.

- Second, the revenue collected by the U.S. government is reduced by low income growth. This problem is especially relevant for Social Security, which faces a long-term deficit in part because wages have failed to grow as quickly as projected. Moreover, because the Social Security tax ceiling is roughly $60,000, the rising earnings of top wage earners has not added to Social Security revenues, while the declining earnings of low and middle class families has served to reduce Social Security revenues.

II Causes of the decline in income and rising income dispersion

The main reason why many Americans are falling behind is that their real earnings and real compensation levels have been stagnant of declining. Although average compensation levels have more or less tracked average productivity growth in the economy since 1973, median compensation levels have shown virtually no increase -- and indeed fell short of the 1973 level throughout most of this period. The divergence between the average and the median figures is a clear reflection of the growing inequality in returns to different types of labor and different types of families. In view of the disparate trends in income for different groups of Americans, the once popular macroeconomic idea of an average American (or "representative agent") is increasingly outmoded and misleading. As a result of a decline in real earnings and compensation levels at the bottom of the income and skill distributions, in 1993, about 16.2 percent of full-time, year-round workers earned too little to lift a family of four out of poverty (up from 12.1 percent in 1979).

The main reasons for these disparate compensation and real earnings developments appear to be: (a) technological change; (b) global trade and investment; (c) a decline in workers' bargaining power due to a decline in union membership and a fall in the real value of the minimum wage. All of these forces are providing ever-greater rewards for people with skills and imposing ever-greater penalties for the majority of Americans without adequate education and skills. Researchers dispute how much weight to be given to each factor, but the consensus is that the main cause of the growing premium on education and skills is technology, although globalization and the other forces account for a substantial share as well.

Regardless of the causes of the unprecedented changes in the structure of earnings, economists agree that the payoff to having skills has increased considerably. Wages and benefits are more highly correlated with education and skills than ever before. (Only about a quarter of the workforce posses a four-year college degree. The largest part of the middle class has a high school degree and/or one or two years of college.) College and graduate school attendance have been rising in recent years -- in large part because of the rising payoff to skills -- but most Americans who are already in the workforce are largely untouched by this trend. Moreover, given the rapid shift in demand in favor of skills, the wage gap is actually wider among young people entering the workforce than among older workers.

As recently as 1979, male college graduates earned 49 percent more than high-school graduates; last year they earned 83 percent more. Women have witnessed a similar shift. The rising education premium has occurred because of a rise in pay for those with a college degree or higher, and a decline in pay for those with a high school degree or less. Between 1979 and 1993, the average real weekly wage of workers with less than a high school degree fell by 25 percent for men and by 9 percent for women. And over the same period, male high school graduates lost 18 percent of their real earning power, and female high school graduates barely held even. Research has found that any post-secondary school credits (even those not leading to a formal degree) are correlated with higher pay and benefits. Also, the National Longitudinal Survey of Youth revealed that young adults who got formal company training (within the previous 5 years) earned 30 percent more than a random sample who did not, and this "premium" for on-the-job training is also rising.

Accounting for fringe benefits exacerbates the changes in wages across workers with different skill levels. For example, employer-sponsored health coverage for workers with college degrees has eroded a bit since 1979 (from 78 percent to about 76 percent), but it has eroded substantially for workers only possessing high school degrees, and even more dramatically for dropouts (of whom only 36 percent are now covered).

III Conclusion

Historically, there has been a strong relationship between economic growth and rising incomes at the bottom of the income-distribution. The long-term factors set in motion over the last 15 years have clearly weakened that relationship. To be sure, faster economic growth is more helpful to low-wage earners than slower economic growth. But the experiences of the current and last recoveries reveal that the lift macroeconomic economic growth provides to low-income families has not been strong enough to overturn the serious long-term forces that are working against them. In short, our view is that sustained macroeconomic expansion is necessary but not sufficient to raise the living standards of lower-income families, and to reduce the increase in poverty among Americans, especially among children.

Laura Tyson to be hand delivered

cc: ~~The First Lady~~
Hon. Ron Brown
Hon. Lloyd Bentsen
Leon Panetta
Alice Rivlin
Robert Rubin
Frank Newman
Bruce Reed
Carol Rasco
Bo Cutter
Greg Simon
Gene Sperling
Pat Griffin
George Stephanopoulos
Mack McLarty

Budget FY96

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

THE CHAIRMAN

October 11, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON Laura D. Tyson

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

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

The macroeconomic prospects over the next two years look sound.

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

The economy has closed the gap.

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

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

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

Risks to the outlook for 1994 and beyond.

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

The yield curve is still very steep.

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

The rest of the world is growing faster than anticipated.

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

Fiscal policy is neutral.

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

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

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

CONCLUSIONS

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

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

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

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

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

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Budget -FY96

During the campaign, the President emphasized the role of public investment in economic growth. The Administration has continued to build a public case for the importance of public investment. The 1994 *Economic Report of the President*, for example, described at some length why "the Administration believes the United States has underinvested in its public infrastructure." At issue in this memo is whether the FY 1996 Budget should include new resources to fund an initiative that would offer a distinctive Clinton Administration approach to infrastructure. All agencies agree that the principal option outlined in this memo would subsidize infrastructure investment far more efficiently than is now the case. Agencies differ, however, on whether the benefits of this option would be worth the budgetary and political opportunity costs associated with any initiative.

Section I of this memorandum provides background on the Administration's infrastructure policies to date. Section II describes baseline infrastructure policies for 1995. Section III evaluates the option that could form the core of a larger initiative. Section IV considers four additional policy tools that the Administration might adopt either as a complement to the larger initiative, or as a substitute for it should the Administration wish to pursue a smaller initiative.

I. THE ADMINISTRATION'S INFRASTRUCTURE POLICIES TO DATE

A. BUDGET POLICIES. Despite very tight budget caps, the Administration has sought significant spending increases for infrastructure. The Administration's 1995 budget requested funding for infrastructure totalling $34.0 billion. This represented an 11 percent increase over 1993 spending levels but only a 1 percent increase from the 1994 enacted level.

- The Administration's budget requests (see TAB A) have especially favored transportation programs: the FY 1995 budget sought an increase of 3 percent over FY 1994 levels and 15 percent over FY 1993 levels. The proposed spending would have supported "full–funding" of both federal–aid highways and formula grants for transit capital spending.

- The Administration's 1995 Budget requests for wastewater treatment and safe drinking facilities were up 7 percent from 1994 levels and up 5 percent from 1993 levels.[1]

The Administration had mixed success with its budget requests. Total 1995 appropriations for infrastructure were $33.2 billion, or almost 9 percent higher than FY 1993 levels. FY1995 appropriations for both wastewater treatment and for safe drinking water were 12 percent higher

[1] As part of NAFTA, the Administration sought $56 million to capitalize the first tranche of the U.S. capital contribution to the North American Development Bank. The NAD Bank will be instrumental in providing $2 to $3 billion in environmental infrastructure for the U.S.–Mexico border region.

than in 1993. However, the Administration did not achieve its goal of "full-funding" for ISTEA — the 1995 highway program level was $1.2 billion less than authorized while transit programs were $373 million less than authorized.

B. PROGRAMMATIC REFORMS. In 1993 and 1994, the Administration pursued a number of programmatic reforms in federal infrastructure programs. Congress enacted none of the changes sought by the Administration. The most important of these efforts included:

- Reauthorization of the Safe Drinking Water Act (SDWA) and the Clean Water Act (CWA). The Administration proposals would have created and capitalized a "Drinking Water State Revolving Fund" program and expanded the existing Clean Water State Revolving Fund" program.

- A proposal in the President's 1995 budget to rescind $4.7 billion in "highway demonstration" projects in order to make available enough funds to fully-fund the core highway programs authorized by ISTEA.

- A proposal to restructure the Federal Aviation Administration as a public corporation.

Congress rejected the Administration's proposed reprogramming of highway funds, and did not complete action on the other Administration proposals noted above.

II. BASELINE INFRASTRUCTURE POLICIES FOR 1995

All agencies agree that the Administration should continue to press the general themes established during the last two years. Although the specific legislative strategy would depend on political developments in coming months, in general the Administration would continue to work on behalf of the legislative initiatives noted above. In addition, the Administration would probably propose or support limited programmatic reforms. These include:

- Reissuing Executive Order 12803, which would stimulate private investment in infrastructure by allowing states and localities to sell certain federally-funded public infrastructure facilities and use the proceeds to make additional public infrastructure investments (see TAB B).
- Supporting legislation that would allow States to set up revolving funds using their Federal highway funds;
- Administrative and regulatory actions to improve the Clean Water SRFs.

III. THE CORE PROPOSAL: CAPITALIZE STATE INFRASTRUCTURE BANKS.[2]
Under this option, the FY1996 Budget would include increased spending to capitalize "State Infrastructure Banks" (SIBs).[3] Although SIBs could be capitalized at any level, the Working Group believes that funding on the order of $2.5 billion – $5.0 billion over five years would be needed to induce states to form such Banks.

Permissible Use of Funds -- SIBs would be a more flexible version of existing Clean Water State Revolving Funds. SIBs would be allowed to:

- make below-market loans for local public infrastructure investment;
- provide loan guarantees or other credit enhancements for local public infrastructure debt;
- use the federal grants as a reserve against which the SIB would borrow added funds;
- make subordinate loans in local private projects;
- provide development risk insurance for private projects.
- accept funds from state entities;

Leveraging -- The capitalization grants would be leveraged by requiring that the SIB finance infrastructure projects worth a total of four times the amount of the initial federal grants.

Beneficiary Pays -- To reduce local reliance on financing by general taxpayers, some portion of SIB loans would have to be used to construct or repair facilities that were paid for directly by users (dedicated taxes could be used to repay other SIB subsidies). The exact fraction specified in the Administration proposal would be determined after consultation with the Congress.

Pro:

- During the campaign and subsequently, the President emphasized the role of public investment in economic growth. Capitalizing SIBs would underscore the importance that this Administration attaches to public investment, and would advance an important part of the President's economic agenda.

- SIB funding would be dramatically more efficient than current federal infrastructure programs. SIBs would "reinvent" federal programs in five principal areas:

  (1) *SIBs would leverage federal funds far more than do current programs.* In most existing infrastructure programs, each dollar in federal spending is associated with $1.25 in total infrastructure investment. SIBs, in contrast, would be required to leverage federal funds by four-to-one.

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[2] A number of proposals have been made to capitalize an off-budget federal infrastructure bank. TAB E discusses why the Working Group opposes the many proposals that have been floated for such a bank.

[3] In theory, SIBs could be funded by reallocating existing infrastructure funding. In practice, the agencies that support this option do so only on the condition that it is proposed as a supplement to, not substitute for, existing funding.

(2) *Shallow subsidies would provide incentives to fund only the most productive investments.* Current federal transportation programs cover an average of 80 percent of project costs. Because of the leveraging requirement, however, SIB loans and credit enhancements would provide subsidies that, <u>on average</u>, were economically equivalent to about 25 percent of project costs. (The SIB would tailor each loan or other subsidy to fit local conditions. SIBs could provide subsidies that were economically equivalent to direct grants ranging from zero up to a maximum of 50 percent of project costs.) The shallow subsidy provided by the SIB would provide states and localities with incentives to be more selective in the projects that they choose to build.

(3) *SIBs would give states greater flexibility in the use of federal funds.* Compared to current programs, SIBs could better tailor solutions to fit local problems. SIBs would have more discretion over the type of infrastructure to be built, and the depth of the subsidy needed to build it. Greater flexibility would lead to more efficient solutions to local problems.

(4) *SIBs would increase the amount of private investment in infrastructure.* The vast majority of infrastructure investment is now undertaken by the public sector. SIBs would be allowed to join with private sector firms that wished to investment in infrastructure. The greater private sector investment in infrastructure would result in competition for public providers; greater competition would bring a more rapid adaptation to changes in demand and technology, and would free public resources for other needed infrastructure projects.

(5) *SIBs would reduce the need for general taxpayers to fund infrastructure investments.* At present, much infrastructure is paid for by taxpayers generally rather than those who use the infrastructure. The shallow subsidy rate provided by SIBs, together with the explicit requirement that beneficiaries pay, would work to channel SIB subsidies to projects that were more likely to be self-supporting. Increased payments by beneficiaries would provide new revenues for further investment and better signals about where and how much new investment was needed.

- This initiative would provide new funding that could be used to support other Administration policies, such as efforts to address problems in urban areas.

Con

- Undertaking this initiative would divert budgetary resources and political capital from other Administration priorities, such as health care reform or welfare reform.

- The Administration already has sought a limited "reinvention" of federal infrastructure programs through the programmatic reforms undertaken to date. More extensive reinvention efforts could be pursued in the context of routine reauthorizations.

- Although infrastructure spending has fallen short of what the Administration had hoped to achieve, it nonetheless has remained high relative to other priorities -- funding has been preserved and slightly increased at a time of severe budget constraints. Section I showed how the budgetary and programmatic efforts of this Administration have advanced the agenda of those who would invest more — and more efficiently — in America's infrastructure. Given the Administration's infrastructure achievements to date, and the severity of existing budget constraints, the limited available resources might be better spent on other Administration priorities.

- Congress might not enact any of the programmatic reforms embodied in this option, but instead use proposed funding simply to increase spending on existing programs.

- The options considered in this memo would tend to focus spending on projects that can be justified on economic merit alone, and might give less weight to some of the distributional concerns that are reflected in current programs. Specific provisions might need to be made in these options in order to address concerns about the distribution of subsidies. (For example, special provisions might be needed to insure that the subsidies addressed the infrastructure needs of Native American reservations.)

A. UNRESOLVED DESIGN ISSUES. A number of issues remain open: project eligibility criteria; whether the SIBs should provide special treatment for "federal priorities," and whether the program should be mandatory or discretionary.

1. Project Eligibility — all infrastructure or transportation only. A broad-based initiative would target all transportation and water-supply facilities now eligible for federal aid. Such a program would address concerns about underinvestment in "public infrastructure" generally, and has the potential to generate the widest support among infrastructure advocates.

On the other hand, a broad-based initiative would run the greatest risk of being attacked as being unnecessary in a time of fiscal constraint. Moreover, unless the SIBs receive substantial resources, environmental advocates may want to focus all available resources on existing Clean Water SRFs, rather than have water projects compete for the same pot of money as transportation projects. Nor would limiting the SIBs to transportation projects necessarily sacrifice the support of environmentalists, for the conditions under which SIB subsidies would be made available are exactly those that environmentalists have championed for some time: relatively low matching rates, greater reliance on beneficiary pays, and increased private sector investment in infrastructure.

2. "Federal Priorities" Window — SIBs would not be well-suited to address specific federal priorities. If desired, special provisions could be added to achieve various federal priorities: SIBs could be required to allocate a specified portion of subsidies to projects in designated urban areas; to make below-market loans to private entities that need to clean up "brownfields"; or to use a portion of subsidies for qualifying congestion relief projects.

3. Mandatory or Discretionary. SIB grants could be established as either mandatory or discretionary spending:

- A mandatory program could be paid for on a PAYGO basis. In addition, a mandatory program would provide more predictable funding streams, allowing better planning and more efficient resource use at the local level. Congressional oversight would be maintained through routine oversight hearings and the reauthorization process.

- A mandatory program might provide somewhat less Congressional oversight and afford Congress somewhat less control over federal revenues.

IV. OTHER OPTIONS. None of the options below could provide an initiative of the scope and magnitude of SIB grants. At the same time, the options that follow might be attractive either as complements to a larger SIB initiative, or as a substitute for it should the Administration wish to pursue a smaller initiative.

A. CREATE A "TAXABLE INFRASTRUCTURE BOND". Under this option, state and local governments would receive a direct federal subsidy for a portion of the interest that they pay on taxable bonds issued to support specific classes of infrastructure projects. Taxable bonds would be attractive to states and localities if (1) the interest subsidy lowered state and local borrowing costs below what they can achieve through tax-exempt borrowing, or (2) it were made available for projects that cannot now get tax-exempt financing, e.g., privately-owned roads and intermodal facilities.

The taxable bond interest subsidy would be a mandatory appropriation in order to allay issuer concerns that the subsidy might not continue for the life of the bond. The total subsidy paid out each year would be capped by limiting the amount of debt eligible for subsidy each year. The market for taxable bonds would encompass both those investors that currently invest in tax-exempt debt and those that do not now purchase tax-exempt bonds (e.g., pension funds and foreign investors). Bond volume would be allocated to states either on a per capita basis (a la the existing cap on tax-exempt, private activity bonds) or would be auctioned off by some federal entity.

Pro

- This option can be structured to offer a subsidy equal to a direct grant for any amount up to 50 percent of project costs. This matching rate -- lower than that on current grant programs -- would offer some incentives for more efficient project selection.

- Pension fund managers may support this option, for it would allow them to earn taxable returns on investment in public sector infrastructure.

Con

- All of the objections raised against Option 1 apply equally to this option.

- State and local officials and the tax-exempt bond industry would be likely to oppose the proposal strongly as a threat to the existing Federal subsidy for tax-exempt debt. Fierce opposition greeted a similar proposal by the Carter Administration. Confining the authority to issue taxable bonds to SIBs could blunt some of the opposition to this instrument.

- Would take money from basic option.

Other

- Much of the budgetary cost of taxable bond subsidies would take place outside the budget window. Unlike grants, which are scored as an up-front appropriation, the interest subsidy on a taxable bond would only require an appropriation each year equal to the amount of subsidy paid in that year.

B. CREATE A "TAX-CREDIT INFRASTRUCTURE BOND". This option would be similar to the taxable bond option in all but its budgetary effects. Under this option, State and local governments would issue taxable bonds to support specific infrastructure projects. The holders of these bonds would receive a subsidy from the Federal government in the form of a non-refundable income tax credit. The total Federal subsidy would be capped by limiting the total amount of tax credit bonds that may be issued by a State.

Pros/Cons/Other -- same as taxable bond subsidies except that:

- Budget considerations -- unlike taxable bond subsidies, tax-credits would appear in the budget as a tax reduction rather than as direct spending.

- Economic efficiency -- because the tax-credit would be nonrefundable, a tax-credit bond would eliminate a significant portion, but not all, of the inefficiency associated with tax-exempt financing.

- Political considerations -- Unlike taxable bonds, tax-credit bonds would not enjoy the support of pension funds (who would be unable to invest profitably in tax-credit bonds). On the other hand, tax-credit bonds would not carry the albatross of the words "taxable bond." Some agencies believe, however, that all those who oppose taxable bonds also would oppose the substantively similar tax-credit bonds.

C. EXPAND TAX-EXEMPT BOND SUBSIDIES. State and local governments currently are able to finance public infrastructure projects with bonds that pay interest that is exempt from Federal income tax. Most infrastructure projects with significant **private** involvement, however, either cannot be financed with tax-exempt bonds or else can be so financed only if a portion of the relatively scarce State private activity bond volume cap is allocated to the project. Under this option, the Administration would seek to:

- provide a partial exemption from the state private-activity volume cap for certain infrastructure facilities;

- allow highways and intermodal facilities to be financed with private activity bonds.

Pro

- All of the objections raised against Option 1 apply equally to this option.

- Tax-exempt bonds provide only a shallow subsidy. The value of tax-exempt financing varies with interest rate levels, individual and corporate income tax rates, and other factors affecting the tax-exempt market. At present, tax-exempt financing provides a subsidy that is economically equivalent to a direct grant for roughly 15-20 percent of a project's costs.

- Because these subsidies generally would benefit private investments, they would lead to facilities paid for by the beneficiaries rather than general taxpayers.

- Easing constraints on tax-exempt debt at the same time that a taxable bond option is proposed might reduce fears that the taxable bond was intended to undermine support for tax-exempt financing.

Con

- All of the objections raised against Option 1 apply equally to this option.

- Most economists believe that tax-exempt financing is inefficient, for the benefits of lower interest rates to issuers are smaller than the Federal revenue foregone through the grant of tax-exemption. A rough estimate suggests that state and local borrowing costs are reduced by about $90 dollars for every $100 in revenue that the federal government loses due to tax-exemption for municipal bonds.

- Would take money from the basic option.

Other

- The tax subsidies would be scored as revenue losses, rather than direct outlays. Unlike direct subsidies, which require an up-front appropriation of the present value of the subsidy being offered, tax-exempt bond subsidies would require budget resources equal to the annual loss from the increased use of tax-exempt debt during the budget window.

<u>D. PROVIDE TAX SUBSIDIES FOR PRIVATE ENVIRONMENTAL FACILITIES</u>. The Administration would seek three tax subsidies for private sector investors in wastewater treatment and drinking water facilities:

- accelerated depreciation (the depreciable life of this property would be reduced from the current levels of 15 or 20 years to a shorter period, e.g., 7 or 10 years).
- contributions in aid of construction (CIAC) -- CIACs are contributions of capital assets or the cash equivalent made to investor-owned water utilities by new customers to

reimburse the utility for the cost of equipment needed to serve the customer. Current law includes the value of CIACs in a regulated utility's gross income subject to federal income tax. This option would allow utilities to exclude from gross income the value of CIACs if such contributions were also excluded from the utility's rate base.

These proposals would effectively reinstate provisions of the Tax Code that were repealed in the 1982 Tax Act and the Tax Reform Act of 1986 respectively.

Pro

- These changes would provide relatively shallow subsidies. The accelerated depreciation, for example, would provide a subsidy that was economically equivalent to a direct grant for something less than 5 percent of the amount of project costs. CIAC would provide a subsidy of about X percent of capital costs.

- These subsidies would benefit private investments, and therefore lead to facilities that are efficiently priced.

- other pros TBA.

Con

- All of the objections raised against Option 1 apply equally to this option.

- Would take money from the basic option.

- The political acceptability of the proposal is uncertain. Congress repealed similar depreciation treatment in 1982, arguing that depreciable lives for income tax purposes should be at least somewhat tied to economically useful lives; and repealed CIAC in 1986.

- other cons TBA

Other

- The budgetary cost of accelerated depreciation would be equal the annual difference between depreciation deductions under current rules and those under the proposed rules multiplied by the investors' marginal tax rates. Compared to direct grants or loans, therefore, much of the revenue loss would be scored outside of the relevant budget window.

DEPARTMENT OF THE TREASURY
TREASURY NEWS
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FOR IMMEDIATE RELEASE
October 26, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
EITC PRESS CONFERENCE

I have a few points to make about the Earned Income Tax Credit program today, and some announcements. I have another meeting I have to go to in a couple of minutes, but this is important to me so I wanted to stop in and say something. I've asked Peggy Richardson, the IRS Commissioner, and our Under Secretary for Enforcement, Ron Noble, to stay and go over the fine points with you.

The Earned Income Tax Credit is an extraordinary program that helps American families stay out of poverty and encourages them to work. It's been around since 1975, and we improved it last year because helping American families is a priority for this administration. It has the potential to help 20 million low income working Americans and their families have a better life -- by rewarding work. The EITC has a refundable tax credit which can be taken as a lump sum at the end of the year, or a partial credit that comes in the form of lower withholding during the year, with a smaller refund at tax time.

Over the years there have been difficulties, and now there are problems in particular with fraud and electronic filing. We have an on-going effort to attack this problem. I named a task force earlier this year to examine the issue, and it made an interim report to Congress earlier this month. We've also worked with the GAO.

Let me quickly go over some numbers for you. In the good news department, the error rates for the EITC program appear to be more than a third lower now than they were in the 1980s. But they're still too high.

The data the IRS put together tell us that for the last two weeks in January, there were 1.3 million electronic returns that claimed the EITC. The work the IRS has done tells us that if we went through those returns line by line we'd find that 29 percent of them, accounting for 24 percent of the total tax credit claimed, or about $358 million, overclaimed what was due. That doesn't necessarily mean the taxpayer wasn't entitled to some tax credit, but that they claimed too much.

The figures also tell us that 13 percent of the filers, accounting for about 12 percent of the refund total claimed, may have intentionally overclaimed what was due. The good side of that is that 87 percent of the filers are getting it right. Now as to that 13 percent, I'd like to use some strong language about lying and fraud, but the lawyers tell me I have to bite my tongue because of the issue of intent.

We haven't been sitting on our hands. For nearly two years now we've been going after problems and cracking down, and we're going to be doing more.

First, it may not sound like the place for an EITC provision, but we have a number of proposals in the GATT legislation, such as requiring taxpayer identification numbers for all children, regardless of age. It also has an item to have the Defense Department report some of the non-taxable earned income both to military personnel and to the IRS -- such as housing and subsistence allowances. And, the legislation would deny the EITC to prisoners and to non-resident aliens.

Our welfare reform proposal also has a program to look at other administrative ways to improve EITC compliance.

So far we've taken more than a dozen separate actions in our comprehensive program to improve the EITC, such as deciding to add staff to help detect fraud, and making forms more understandable.

Today we're announcing a number of additional steps to make as certain as we can that only those people who are truly entitled to the Earned Income Tax credit receive it. Some of what we're doing can be done administratively, and some of it will take legislation.

By the time we release the 1996 budget -- early next year -- we will develop measures to deny the Earned Income Tax Credit to illegal aliens. The IRS estimates that over 150,000 illegal aliens claimed the EITC this year for last year's taxes. We looked into this one. There was nothing on the books that made it possible to verify the existence of children claimed by an illegal alien, which leaves an opportunity for fraud that we're closing off.

Second, starting in the next tax season, we will no longer provide preparers who file electronic returns what we call a direct deposit indicator. That indicator means that we don't see anything that would require us to hold the tax credit to pay some other tax bill. It's often used as a signal to lenders who work with preparers that a refund will be on the way shortly.

We've found that a very very high number of EITC fraud schemes involve refund anticipation loans, and those loans are based on the direct deposit indicator we send out. The crooks take the money and run, and the taxpayers and banks get burned. So we're no longer going to tell the electronic filing operations whether a refund is likely to be coming. The taxpayer will still get any refund they're due, but we won't be sending out that notification.

The Earned Income Tax Credit is for those who deserve it, who need that extra encouragement to work full time, to lift their families out of poverty, to join the mainstream in American life. It is not for cheats and frauds and slick operators, and we're going to do our best to weed them out, and prosecute them when we find them.

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FOR IMMEDIATE RELEASE
October 26, 1994

STATEMENT OF TREASURY UNDER SECRETARY FOR ENFORCEMENT RONALD K. NOBLE EITC PRESS CONFERENCE

Since I arrived here at Treasury, Secretary Bentsen has been committed to addressing the problem of tax refund fraud. Tax refund fraud undermines the integrity of our voluntary tax system, and is a direct assault on the federal Treasury. Those who commit fraud using the Earned Income Tax Credit are preying on a valuable program designed to assist low-income working Americans.

We all are determined not to allow ineligible people and fraud perpetrators to take advantage of the EITC program. We are equally committed to making sure that people who are entitled to EITC get it. As Secretary Bentsen told you, the Treasury Department has been taking continuing steps to combat refund fraud in general, and EITC fraud in particular.

I would like to review some of these steps. Almost as soon as she arrived at the IRS, Commissioner Richardson recognized that refund fraud and EITC fraud were serious problems that had not been properly addressed in the past. She commissioned an outside expert to assess the IRS's vulnerability to fraud. She appointed a Refund Fraud Executive to focus on this problem and to report directly to her. She also directed the IRS to conduct a study of EITC compliance during the 1994 filing season. That study is the basis for the statistics that Secretary Bentsen quoted.

In March of this year, Secretary Bentsen appointed me to chair a Task Force that would make an independent, comprehensive review of the problem. The Task Force hired experienced, impartial experts to manage and direct its efforts. The IRS fully supported the Task Force. The Task Force consulted with representatives of the IRS, OMB, Department of Justice, other components of the Treasury Department, GAO, private industry, and outside experts. Some of the new procedures that the IRS is putting in place for the next filing season are the result of coordination between the IRS and the Task Force.

On October 6, I testified before Rep. Pickle's Oversight Subcommittee, and presented an interim report from the Task Force. There was bipartisan support for the Task Force's work. We plan to provide a final report to Secretary Bentsen and Congress by the end of December.

One area that the Task Force examined closely was the problem of EITC non-compliance. An obvious question is, "How large is the EITC fraud problem?" The IRS's 1994 study provides the best available data on EITC compliance. The encouraging news from the study is that almost 90% of the people who claim the EITC are well-intentioned and trying to comply with the law. As I explained more fully in my testimony on October 6, the EITC forms can be complicated. Complicated forms can lead to mistaken claims for too much EITC. In addition, taxpayers may have legitimate disagreements that lead to erroneous claims. For example, two parents living and filing separately may both believe they can claim their child on the EITC form because they both provide financial support for the child. The child can be claimed only on the EITC form of the parent with whom the child lived for more than half the year. If the child frequently spent nights at both parents houses, the parents may legitimately dispute who qualifies to claim the child for EITC purposes.

The IRS has been working for several years to simplify the EITC form, and to provide greater assistance to taxpayers in understanding how properly to file for the EITC. The IRS is also taking more aggressive enforcement actions, including making expanded fraud checks before refunds are paid. During the 1994 filing season, the IRS instituted improved fraud control systems, which resulted in the rejection of over 600,000 electronically filed EITC claims. As a result of these efforts, we expect to see the number of erroneous EITC claims drop in the upcoming years.

Additional studies are necessary before we can quantify the amount of EITC fraud, but it would be misleading to presume that 29% of the $14-15 billion paid every year in EITC involves fraud. Let me explain the best information that we have.

The Task Force publicly disclosed at the October 6 hearing that between one and five billion dollars in problematic refunds are paid every year. Only a portion of the problematic refund claims involve fraud, and only a portion of those involve the EITC.

In closing, let me say that it is critical for there to be continued cooperation between Main Treasury and the IRS, and that the IRS's Tax System Modernization program be fully and expeditiously funded. Enhanced computer capability will allow the IRS to more vigorously guard against EITC fraud, and other forms of refund fraud.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

For immediate release
October 26, 1994

STATEMENT OF MARGARET MILNER RICHARDSON
COMMISSIONER OF INTERNAL REVENUE

Since becoming Commissioner over a year and a half ago, I have made the elimination of filing fraud a top priority at the IRS.

We appreciate the support of Secretary Bentsen and in particular his establishment of the Treasury Refund Fraud Task Force. In addition, we appreciate the fine work that Undersecretary Noble and the task force have done and the assistance they have given us in our efforts to eliminate filing fraud from our tax system.

We at the IRS have taken a number of steps to protect the integrity of our tax system and, as Secretary Bentsen stated, we plan to take more during the upcoming filing season.

While these steps are important and, I believe, will be effective, the solution to protecting our system from fraud is the immediate full funding and implementation of our Tax System Modernization efforts. Only with the enhanced computer capabilities that TSM will provide us will we be able to respond to both sophisticated fraud attempts and the various problematic refund returns that we receive each year.

Let me take a moment and list just some of the steps we have taken so far:

- During the last filing season, we began pre-refund examinations of questionable refund claims, including some returns claiming the Earned Income Credit. During the upcoming filing season we will significantly increase the number of these pre-refund examinations.

- Also during the next filing season, we are increasing the staff we have in place in our service centers who work to detect fraudulent returns.

- Earlier this month, we issued new rules for electronic return originators or EROs. These new rules require some new EROs to submit to credit checks and fingerprinting. We feel these new rules will ensure that only appropriate and responsible people are allowed to participate in our electronic filing system.

We also plan to monitor EROs more closely during the filing season. This will ensure that EROs who fail to comply with our requirements are denied access to the electronic filing program.

- The 1994 Earned Income Credit form was simplified to make it easier for low income workers to apply for the credit.

During the 1995 filing season, in addition to the elimination of the DDI, we plan to take other steps to protect our filing system from those intent on filing fraudulent returns.

While we remain committed to issue refund checks timely on returns filed with complete and accurate information, refunds on returns with incorrect or missing social security number will be delayed until we can verify that the taxpayer is due the refund.

I cannot emphasize enough that during the next filing season, it will be essential that all taxpayers file their returns with complete and accurate information. Any taxpayers unsure about the accuracy of their social security numbers should contact the Social Security Administration as soon as possible to verify their numbers.

As Secretary Bentsen stated, the IRS and Treasury are committed to insuring that the Earned Income Credit is there for the 20 million low income American workers who deserve it and need it.

TREASURY DEPARTMENT ACTIONS TO REDUCE EARNED INCOME TAX CREDIT OVERPAYMENTS AND FRAUDULENT CLAIMS

The Earned Income Tax Credit (EITC) provides appropriate incentives for people to choose work over welfare and rewards these working families by helping to lift them out of poverty. The Administration already is in the process of implementing and developing proposals to stem erroneous and fraudulent claims for EITC refunds.

I. ADMINISTRATIVE ACTIONS

The following actions are being implemented:

- The 1994 EITC Schedule was simplified to make it easier for low-income taxpayers to understand if they are eligible for the credit.
- The supplemental credits for health insurance and for infants under the age of one have been repealed. This has helped reduce the complexity of the EITC and improve compliance and administration. It also ensures that the most needy families get the credit amounts to which they are entitled.
- The IRS is conducting studies of refund fraud and EITC compliance to better understand the magnitude and source of erroneous payments.
- Working with the Justice Department, the IRS is prosecuting preparers and electronic return originators (EROs) who take advantage of the EITC provisions to defraud the Federal government.
- The IRS will continue a major overhaul of its information systems to help keep pace with the demands of a growing number of taxpayers.

The following actions will take effect in tax year 1995:

- The IRS will delay refunds on any questionable return with an invalid or missing taxpayer identification number. This will give greater time to verify the refund being claimed.
- The IRS will increase the number of staff devoted to detecting refund fraud by one-third.
- IRS field resources will be shifted to check compliance by electronic return originators (EROs) to ensure they are meeting requirements for participation in the program.

October 26, 1994

II. LEGISLATIVE PROPOSALS

During the past year, the Treasury Department has also made a number of legislative proposals to improve oversight of the EITC. The following proposals are contained in the GATT legislation which will be considered by the Congress in the November/December session:

- The EITC would be denied to prisoners and non-resident aliens.
- Taxpayers would be required to provide taxpayer identification numbers (generally, social security numbers) for all children claimed for EITC purposes. With this information, the IRS will be better able to verify a taxpayer's eligibility for the credit.
- The Department of Defense would be required to report certain types of non-taxable earned income, such as housing and subsistence allowances, to both military personnel and the IRS. Under current law, taxpayers are required to include non-taxable forms of income for the EITC, but many may be unaware how much they have received from their employers.

The Administration's welfare reform proposal also contains a provision related to administration of the EITC:

- The Treasury Department would create a demonstration project, under which eligible claimants could receive advance EITC payments through a state agency if the states verify the eligibility of the EITC claimants. These demonstration projects will allow the Treasury Department to test whether EITC compliance would improve if eligibility were verified up-front before advance payments were made.

III. ADDITIONAL ACTIONS

The Treasury Department is announcing two additional measures today to ensure that EITC refunds are paid only to eligible individuals:

- The Department will develop measures to deny the EITC to undocumented workers. Currently, the undocumented workers are entitled to receive the credit. This proposal will change that. IRS estimates that over 150,000 undocumented workers claimed the EITC for tax year 1993. Generally, they cannot obtain social security numbers for themselves or their children. As a result, it is difficult to verify the existence of a child without the social security number.
- Beginning in the 1995 filing season, the IRS will no longer provide direct deposit indicators (DDIs) to electronic return originators. The IRS currently provides EROs with such information to determine if the taxpayer's refund will be offset by another liability before payment. DDIs are often used by EROs to determine the riskiness of making a refund anticipation loan to a taxpayer. Refund anticipation loans are a source of fraud. Eliminating the DDI will reduce this fraud.

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October 11, 1994

The Honorable Ronald K. Noble
Under Secretary for Enforcement
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Under Secretary Noble:

I want to take this opportunity to personally thank you for leading the effort to combat tax refund fraud. Your recognition of the scope and magnitude of the refund fraud problem, coupled with your candid testimony before the Subcommittee on Oversight on October 6th, has helped generate the momentum necessary to assure that this problem is effectively dealt with at the highest levels of Government. I appreciate your contribution and respect the manner in which you are conducting this important review and presenting the facts.

The Tax Refund Fraud Task Force (TRF Task Force), under your stewardship, should also be commended for its thorough and independent investigation, solid findings, and recommendations for meaningful short-term reform. The TRF Task Force is performing a valuable public service and I'm hopeful its efforts will bring about an end to wide-scale fraud abuses.

The progress made by the TRF Task Force is a good start and your interim report offers some encouraging news. But clearly, more must be done to address the long-term concerns, such as implementation of strong fraud controls as part of IRS's Tax Systems Modernization program. It is my hope that you will help ensure that Treasury and IRS stay committed to addressing the tax refund fraud problem and preserving our voluntary tax system. You are doing an excellent job, Ron, keep up the good work.

With warm personal regards, I am

Sincerely,

Jake Pickle

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/ph
cc: The Honorable Lloyd Bentsen, Secretary
U.S. Department of the Treasury
Mr. Stephen A. Saltzburg, Director, TRF Task Force
Ms. Joyce J. Walker, Manager, TRF Task Force

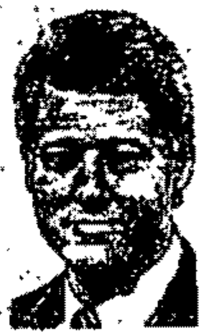
THE WALL STREET JOURNAL FRIDAY, OCTOBER 7, 1994 POLITICS & POLICY

As Clinton Is Derided as Flaming Liberal by GOP, His Achievements Look Centrist and Pro-Business

By JEFFREY H. BIRNBAUM
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Around the country, President Clinton is routinely trashed by conservative talk-show hosts and Republican candidates for being the most liberal president in modern times. "FDR was clearly more of a centrist — even for his generation — than Clinton," House Republican Whip Newt Gingrich says.

But based on the measures that Mr. Clinton succeeded in getting through Congress in his first two years, he looks more like Main-stream Bill. And given the likelihood of substantially more Republicans in Congress next year, analysts expect the president will be forced to continue down the middle of the road.



Bill Clinton

The Clinton record is surprisingly pro-business and centrist. His largest achievements have come on issues traditionally backed by moderates and conservatives: the deficit-reduction act and the North American Free Trade Agreement of last year, and the anticrime legislation of this year. The National Service program also is a creation of the moderate "New Democrat" part of the president's party.

In addition, Mr. Clinton dumped several pro-environmental initiatives that businesses despise, and pressed changes in the Superfund law they favor. His last major effort this year will be to pass the General Agreement on Tariffs and Trade, which is backed by big business but, oddly, is threatened by last-minute opposition from GOP critics.

At the same time, "most of Clinton's liberal agenda was stopped, died on the vine or wasn't pushed very effectively," says David Keene, chairman of the American Conservative Union, which ranks lawmakers for their conservatism. "Most of the [liberal] stuff he got was on the margins."

The bulk of these liberal-leaning wins, such as a family-leave bill and abortion-rights measures, came early in his presidency. The frequency of liberal victories tailed off after the Senate killed his stimulus bill of new spending programs in the spring of last year. For instance, he was forced to restrain his effort to allow homosexuals to serve in the military. And most significantly of all, the president's ambitious health-care reform plan failed to pass either chamber of Congress.

From the liberal point of view, "I'd give him an A plus for effort, an A plus for imagination and A for initiative, [but] a C for achievement," says Amy Isaacs, the national director of the Americans for Democratic Action, a group that ranks lawmakers on how liberal they are.

The story of Congress's final months, however, isn't how Mr. Clinton was forced to the middle, but how he was brought to a halt. Filibusters in the Senate and delaying tactics in the House have stopped almost all but routine legislation. Even the GATT bill has been put off, and the Superfund changes were blocked.

Still, based on his legislative record, it is a stretch to portray Mr. Clinton as the liberal ogre that Republicans want to convince voters he is. "They want to make Clinton look liberal because the American people don't like the label," says James Pfiffner, a political-science professor at George Mason University. "But it's certainly an exaggeration."

"In 1992, Democrats thought he was a centrist, and I still think he is," agrees Harry McPherson, a former aide to President Johnson who is now a corporate lobbyist. "That's where he's most at home."

To the extent the White House knows where it's heading, it is in a moderate direction. At a new 7:30 a.m. senior staff meeting led by White House Chief of Staff Leon Panetta, the talk is that the overriding theme next year should be economically based, stressing security, stability and keeping deficits down.

Although predicting President Clinton's direction is always precarious, what follows is a look at where he probably will go on the main issues of the day:

Health Care

No matter what happens at the ballot box in November, comprehensive health legislation that provides "universal" coverage is a nonstarter. With Republicans certain to pick up more seats in Congress and the presidential election cycle moving into full gear, even Clinton officials concede that it will be impossible to do anything but an incremental bill next year.

The Clinton economic team — White House aides Robert Rubin and Laura Tyson, as well as Treasury Secretary Lloyd Bentsen — had long counseled against too sweeping a change. The president is likely to use a fiscal justification for health legislation next year: The U.S. can't steady its economy and bring down its deficit unless health costs are controlled.

But the president will remain under pressure to reach for as broad a bill as possible. The defeat of his health plan was a blow to his wife and her minions, who includ[illegible] House aides Ira Magaziner and Harold Ickes, as well as Health and Human Services Secretary Donna Shalala, all of whom will still be around, though more in the background, and eager for redemption.

Welfare

This is one issue both parties can work together on—transforming welfare to more of a job-training program. But the consciously narrow Clinton plan isn't being embraced by Republicans.

On the contrary, the battle next year is expected to be over how far to the political right reform will be pushed.

Both sides agree that welfare should have a time limit, probably two years. They also like the idea of requiring able-bodied welfare recipients to work.

But the White House knows it must gear up to protect its position against efforts to take away traditional welfare benefits from a broader range of individuals. Some GOP versions of the plan would prevent young unwed mothers from getting welfare. Others would deal more harshly with immigrants as a way to raise revenue for the plan.

Tax Cuts

This is the wild-card issue. On the one hand, the White House is preparing to devise another wrenching set of budget reductions to keep within tight spending limits. On the other hand, Republicans are pressing for tax cuts of a type that Mr. Clinton campaigned on, but which he dropped once he got in office.

For the moment, Mr. Clinton's economic team, bolstered by the fiscal conservatism of former White House budget director Panetta, wants to hold the line on tax cuts: proposing only a limited one, confined to middle-class families with young children, or perhaps sidestepping the issue altogether. It will be hard enough, they say, to restrain the budget and make at least a little room for the "investments"—spending increases in selected programs — that Mr. Clinton still cherishes.

But so many people on both sides of the aisle are talking about politically popular tax cuts that there is a real possibility of a tax-cut bidding war breaking out. One way to pay for this would be to accept some of the deep cuts in entitlement programs that will be recommended by the Kerrey Commission on entitlements. Another familiar but dangerous route would be to resort to gimmickry and not pay for revenue losses.