Econ - Talking Pts.

July 1, 1994

MEMORANDUM TO WHITE HOUSE STAFF

From: Gene Sperling

Subject: Economic Talking Points

As part of the effort to get out the economic message, we put out the following materials for the House and Senate Democrats. I have also included at the top a very good G-7 one pager that Laura Tyson, Larry Summers, David Sherman did on why the US is leading world growth.

The materials therefore include:

- **One Pager On US Economy at the G-7:**

- **Message Points**: a talking point document that reflects some of the *preliminary* thoughts that people working on the economic message have had.

- **1 Page Summary Sheet**: A One-Pager on Budget/Economic Accomplishments for the basic facts one would need for any speech or talk.

- **New Developments**: This documents lists some facts that have not been in previous talking points that might be of interest. For example, it has a very positive Business Week Poll that shows growing optimism (90%) among business leaders, a Study showing state revenues going up due to growth not taxes, and some proof that good jobs are being created.

- **3 Page Quick Summary of Economic Accomplishments**: This lays out in bullet-form a more expanded list of positive economic news.

- **Facts on Taxes**: This document that gives the facts on why only the top 1.2% pay face higher income tax rates, with these facts being validated by H&R Block and other sources.

- **Key Economic Statistics:** This is has a more in-depth list of economic facts on the main economic indicators that may be useful in defending the Administration's economic record.

- **Validating Quotes.** This documents is has quotes from sources like Alan Greenspan, Lehman Brothers, Business Week, Robert Reischauer that give the Administration credit for the improvement in either the economy or the budget.

THE U.S. ECONOMY ON THE EVE OF THE G-7 SUMMIT: LEADING THE WAY TO RENEWAL

The U.S. economy continues on a path of investment-led growth and low inflation, and is setting the pace for the G-7 as we approach the Summit. We're pleased that, led by our continuing, solid economic expansion, the other G-7 nations are moving into recovery as well.

- **Leading the way in growth.** Since last year's Tokyo summit, real GDP in the U.S. has grown by 4.2 percent. This represents the best performance for the G-7 economies during this period. In fact, it accounted for 75 percent of total G-7 growth for 1993-94. We expect to continue setting the pace for the rest of 1994 and into 1995.

- **Leading the way in job creation.** Our record here is the best in the G-7 as well, and by a wide margin. In fact, we've created 3.1 million private sector jobs since we took office, nearly all of the job creation in the industrialized world.

- **Leading the way in export growth.** U.S. exports in volume terms, are projected to rise by eight percent this year, faster than in any other G-7 country and double the G-7 average.

- **Leading the way in deficit reduction.** We are now on course to have the lowest budget deficit relative to GDP in the G-7 in 1995

- **Leading the way in private investment.** The U.S. has the fastest growth rate for private investment of any G-7 country. Spending on business equipment is at a postwar high.

- **Keeping inflation under control.** The U.S. inflation rate since Tokyo is the lowest in 20 years. Annualized rate for the first five months of 1994 was 2.3 percent.

- **Showing solid productivity gains.** Productivity growth in the U.S. is now more rapid than in Europe, Japan, and Canada.

GENERAL ECONOMIC TALKING POINTS

1. DRIFT IN THE FACE OF ECONOMIC CHANGE WEAKENED OUR ECONOMIC PROSPECTS:

- For over a decade, the past two Administrations chose drift and avoidance in an era of economic change and challenge. To ensure that America's middle class was strengthened during this period, the American people needed leadership that confronted its challenges, a solid foundation for private sector growth, and investment in giving its people the tools they needed to prosper in a new world economy.

- During the 1980s, our Administrations borrowed too much from our people and invested too little in our future. While taxes for the most well-off Americans were lowered, the deficit skyrocketed and at the same time we invested too little in the things that increase the productivity of our nation and the well-being of our people. As a result, too many middle class families found themselves running harder just to stay in place, and there was too little opportunity for others to work their way into a growing middle class.

2. ECONOMIC RENEWAL REQUIRES US TO PUT OUR HOUSE IN ORDER AND GIVE OUR PEOPLE THE TOOLS TO EMBRACE CHANGE AND MAINTAIN GOOD JOBS AND STRONG FAMILIES:

A: PUTTING OUR HOUSE IN ORDER: After skyrocketing deficits for 12 years, this President and the Democrats in Congress had the courage to make the tough choices necessary to bring the deficit down, start fixing the things broken in government, while investing more in our people. Together we took the following steps:

- **Historic Spending Cuts and Deficit Reduction**: As part of the largest deficit reduction package in history, the President and Democrats in Congress cut $255 billion in spending -- one of the largest spending cut packages in history.

- **Cut 272,000 Positions:** Cut 272,000 positions from the federal bureaucracy over the next five years so that the size of the federal bureaucracy will go to its lowest level since the Kennedy Administration.

- **Improved Tax Fairness Achieved:** While the deficit reduction plan relied on $255 billion in spending cuts, when taxes were raised, we asked only those in the top 1% to face higher income tax rates -- with every penny going to deficit reduction. At the same time we made over 90% of small businesses eligible for tax cuts and rewarded work by giving 15 million working families a tax cut.

B. POSITIVE RESULTS: Opponents of the 5-year economic plan passed by the President and Democrats in Congress predicted doom and gloom if Congress acted responsibly and passed the President's economic plan. The facts speak for themselves:

- **The Deficit Reduction Plan is Working**: As a result of the passage of the economic plan, the deficit is coming down for three consecutive years for the first time since Harry Truman was in the White House. Because of the passage of the economic plan, our deficit will now be the lowest as a percentage of national income of any of the major industrial countries in the world.

- **Stronger Economy:** After one of the slowest four year periods of job growth since the Great Depression, the economy, under the Clinton Administration, is now enjoying a solid growth with strong private sector jobs creation and low inflation.

- **Jobs:** In the first 16 months of this new Administration, the economy has created over 3 million private sector jobs -- nearly two and a half times more than were created in the economy during the entire Bush Administration.

- **Sound Economic Elements:** Core inflation is the lowest in 21 years; consumer confidence is at a four year high, business investment in equipment is the highest its been since WWII as a percentage of GDP, and more businesses were incorporated in 1993 since they started keeping records in 1946.

C: EQUIP OUR PEOPLE TO EMBRACE CHANGE, MAINTAIN STRONG JOBS AND STRONG FAMILIES: More needs to be done. While over half the new jobs being created are good, high wage jobs, too many are still temporary, low-paying jobs and too many families feel they are struggling to make ends meet. The only answer is to invest in our people throughout their lives to give them the tools they need to prosper.

- **Education**: That is why we passed a GOALS 2000 legislation to spur education reform, a new school-to-work legislation to provide more avenues for young people who don't get four year college degrees, and a new college loan legislation that will make loans cheaper for millions of young people, while giving students more choice including the option to borrow to invest in your education and then pay pack as a small percentage of your income.

- **Change and Jobs:** We must be committed to creating more jobs in this changing economy and ensuring that our people are equipped to prosper. We must pass the new world trade agreement that will create hundreds of thousands of jobs, while also passing a new re-employment and job training program that will help people get the training and the skills they need to gain employment, change jobs, and get ahead in the new economy.

• **Rewarding Work:** Re-employment is only one significant piece of the President and the Democratic Congress' plan to pass a strong pro-work agenda that rewards and honors work. The President has introduced a bold health care reform plan that will guarantee that people have health insurance they can depend on — that they can never lose, whether they get sick or change jobs. And that is why he insists on welfare reform that ends welfare as we know it, and rewards work instead of idleness.

ONE PAGE SUMMARY ON ECONOMY/BUDGET

SPENDING CUTS:

• The economic plan included $255 billion in spending cuts, one of the largest spending cut packages in history.

• The economic plan reduces the federal workforce and bureaucracy by 272,000 -- bringing it down to its lowest level since the Kennedy Administration.

DEFICIT REDUCTION:

• The deficit is projected to decline for three years in a row for the first time since Harry Truman was in office.

• The deficit is projected to be cut nearly in half from where it was projected to be by the end of the economic plan.

TAXES:

• H&R Block and CBO confirm that the income tax rate increases will fall on only the top 1.2%, (families with $180,000 adjusted gross income and over) while 98.8% of American taxpayers paid the same or less taxes.

• Over 15 million families who work and make less than $27,000 received a tax cut to reward work. The plan made over 90% of small businesses eligible for tax cuts.

INVESTMENTS IN PEOPLE:

• Even with deficit reduction, significant investments were made in the American people. In 1993, funds for training displaced workers were doubled. Head Start was increased by over $500 million. WIC was put on a full-funding path. GOALS 2000 school reform legislation and a new school-to-work legislation passed. A new college Loan legislation was passed that will make loans cheaper, while giving students more choice including the option to borrow to invest in their education and then pay pack as a small percentage of their income.
The Earned Income Tax Credit is up $21 billion, benefiting 15 million working families. To give people real security for change, however, we must pass health care and re-employment.

JOBS AND EMPLOYMENT:

• In the first third of the Clinton Administration's first term, over 3 million privates sector jobs created -- nearly two and half times more than were created in the entire Bush Administration. When President Clinton came into office, the unemployment rate was 7.7%. Now it has gone down to 6.0%.

STRONG ECONOMIC ELEMENTS:

• Core inflation over the last 12 months is 2.8%, the lowest in 21 years. Consumer confidence is at its highest in four years, business investment in equipment is at its highest level since WWII, and businesses were incorporated in 1993 at a record level.

NEW DEVELOPMENTS

Below are recent or relevant facts or studies that have not appeared in the previous talking points and may be of some interest.

1. GROWTH THROUGH THE EXPANDING THE PRIVATE SECTOR NOT EXPANDING THE PUBLIC SECTOR:

- **Private Sector Growth and Decreases in Government Purchases**: Growth is being generated by the private sector, while there is a decrease in government purchases. While the recent revision of the first quarter GDP numbers for 1994 showed growth increasing by 3.4%, it also showed government spending down by 3.5%. Commenting on this trend a month earlier, the New York Times stated:

> "For the first time since the late 1940s, the economy is growing strongly despite a sustained drop in purchasing by Federal, state and local governments. The private sector is the only engine of growth in this recovery, unlike every other recovery in the last four decades, in which government spending accounted for at least part of the expansion."(New York Times, May 17, 1994 p.D1)

- **Private Sector Job Growth**: This same trend holds true for the job growth as well. While 46% of jobs during the Bush Administration were created in the private sector, over 93% of the jobs created in the economy during the Clinton Administration have been in the private sector.

- **Cutting Federal Government Positions**: Those who voted for the 1993 economic plan, voted for cutting over 272,000 federal positions, which will bring the federal workforce to the lowest level since the Kennedy Administration.

2. SUMMARY OF BUSINESS WEEK/HARRIS EXECUTIVE POLL, 7/4/94:

The most recent Business Week/Harris Executive Poll demonstrates broad-based, growing optimism about the future of the economy among business executives around the country.

- 90% of the executives surveyed were optimistic about the outlook of the U.S. economy in the next year, up from 83% in December 1993.

- 44% of the business leaders believe that the rate of growth of the gross domestic product will increase more in the next 12 months than it did in the last 12 months. In comparison, six months ago only 25% of the executives expected higher growth in the next 12 months.

● Only half of the executives polled expect long-term interest rates to increase over the next 12 months, compared with two-thirds of the respondents six months ago.

● 87% of the executives believe that unemployment will either stay the same or fall over the next year. Nearly half the executives plan to increase the number of full-time employees in their company over the next year.

● Dramatically, over 90% of the business leaders expect sales in the next year to be higher than sales in the past year and 69% plan to increase investment in plants and equipment.

● 94% reported making a profit in 1993 and over 80% of those say they expect increased profits in 1994.

3. QUALITY JOBS:

● In 1992 about 50% of all the new jobs created were with temporary help agencies. In contrast, during President Clinton's first year temp jobs accounted for only 13.1% of all the new jobs created. (Business Week, June 20, 1994 p.32))

4. JOB PROSPECTS:

● According to Manpower Inc.'s third-quarter survey of 15,000 companies, 29% of U.S. businesses plan to hire workers this summer, the most bullish forecast since 1989.

● In a recent Business Week poll, nearly half of the senior business executives surveyed reported that they plan to increase the number of full-time employees in the next 12 months, while only 27% foresee a decrease in the number of full-time workers they employ.

5. STATE TAX REVENUES UP THROUGH GROWTH -- NOT NEW TAXES: A new study by the Center of the Study of the States found strong revenue growth for states in 1993 and 1994 due almost entirely to economic growth and not new taxes. This additional revenue takes pressure off local governments to raise taxes. In 1992, by contrast, almost all of the increase in revenues came from legislated tax increases.

	Total	Due to Tax Legislation
1992	7.8	6.8
1993	5.8	0.1
1994	6.7	0.4

Source: Center for the Study of the States

QUICK SUMMARY OF ECONOMIC ACCOMPLISHMENTS

When President Clinton came into office, the deficit had been going up for 12 years, trade agreements were stalled, job growth was at historic lows, consumer confidence was shaky. Since President Clinton came into office, the deficit is down, inflation is down, trade barriers are down, while private sector jobs are up 3 million, growth is strong and steady, consumer confidence is at 4 year highs, and new businesses are being incorporated at record highs.

DEFICIT REDUCTION:

- The deficit is projected to decline for three years in a row for the first time since Harry Truman was in office.

- The deficit is projected to be cut nearly in half from where it was projected to be by the end of the economic plan.

- As a percentage of national income, the United States's deficit is now projected to be the lowest of any major industrial economy.

- By 1998, the deficit will be $200 billion lower than where it would have been without Clinton deficit reduction plan.

- Because the economic plan relied on conservative numbers instead of rosy scenarios, the Congressional Budget Office has projected the deficit to be even lower than projected by Clinton Administration.

SPENDING CUTS:

- Economic plan included $255 billion in spending cuts, one of the largest spending cut packages in history.

- The economic plan reduces the federal workforce and bureaucracy by 272,000 positions -- bringing it down to its lowest level since the Kennedy Administration.

- Cut 300 different programs, two years in a row, including every major entitlement program.

- Called for eliminating over 100 domestic programs.

TAXES:

- H&R Block and CBO confirm that the income tax rate increases will fall on only the top 1.2% (families making over $180.000 in adjusted gross income), while 98.8% of American taxpayers paid the same or less taxes.

- Over 80% of the new taxes were on families making over $200,000

- Over 15 million families who work and make less than $27,000 received a tax cut to reward work.

- The plan made over 90% of small businesses eligible for tax cuts.

ECONOMIC GROWTH:

Jobs:

- In the first third of the Clinton Administration's first term, over 3 million private sector jobs were created -- nearly two and half times more than were created in the entire Bush Administration.

- When the Clinton Administration came into office, the economy has created seven more private sector jobs per month than under the Bush Administration.

- One third into President Clinton's term, the economy has created over 3 million jobs, well ahead of the 8 million jobs he promised

- In 1993, over two million jobs were created -- over 60% of them were good, managerial, professional or technical jobs paying 46% (or $675 per week) above the average job.

Unemployment Rate:

When President Clinton came into office, the unemployment rate was 7.7%. Now it has gone down to 6.0%.

Inflation:

- Core inflation over the last 12 months is 2.8%, the lowest in 21 years. The overall CPI over the last 12 months is 2.3%, the second lowest rate since 1965.

Business Incorporations:

- In 1993, there were more new business corporations than any time since Dunn & Bradstreet started keeping records, nearly 50 years ago at the end of World War II.

Strongest in 20 Years:

• Federal Chairman Alan Greenspan said that the economy was in the strongest shape in two decades, and that the deficit reduction passed in 1993 had contributed to this stronger economy.

Consumer Confidence:

• Consumer confidence went up to 92.0, the largest increase in four years. It is up approximately 50% since the Congress passed the Clinton economic plan.

Investment:

• Business investment in productive equipment is the highest percentage of our national income as since World War II.

• After going down -3.5%, in 1991, and up 6.9% in 1992, business investment in productive equipment was up 16.3% in 1993 and up 16.8% in the first quarter of 1994.

INVESTMENT IN PEOPLE:

• Despite severe deficit reduction constraints, important new economic legislation was passed and significant increases were made in key investments in people.

• In 1993, funds for training displaced workers is doubled, going to over $1 billion for the first time.

• Head Start was increased by over $500 million;

• WIC was put on a full-funding path, and increased funding by $350 million.

• Earned Income Tax Credit is up $21 billion for 15 million families.

• GOALS 2000 legislation passed to spur education reform, while a new school-to-work legislation passed to provide more avenues for young people who don't get four year college degrees.

• New college Loan legislation was passed that will make loans cheaper, while giving students more choice including the option to borrow to invest in your education and then pay pack as a small percentage of ones income.

THE FACTS ON TAXES

The President's economic plan shifted federal priorities while bringing the deficit down in a fair and balanced manner. The plan included over $250 billion in spending cuts and nearly as much deficit reduction from revenue increases. The plan called for tough choices, including a 4.3 cents per gallon gas tax, requiring the top 12.5% of Social Security recipients to include more of their benefits as taxable income, and a 1% rate increase on less than 1% of major corporations.

Yet, the Administration stated that the tax rates were only raised on the top 1.2% of working households -- while 98.8% saw no tax rate increase, and indeed 15 million households were eligible for an expanded Earned Income Tax credit. While much misinformation was put forth last year, it is important to assess the facts. Attached are some key facts, with some of the source materials attached.

THE PRESIDENT'S PLAN REDUCED THE DEFICIT IN THE MOST FAIR WAY POSSIBLE: BY RAISING RATES ON ONLY THE TOP 1.2% -- HOUSEHOLDS MAKING OVER $180,000.

- As the Washington Post reported, the Congressional Budget Office has found "only a sliver of tax filers -- 1.2% will a face higher income tax bill on April 15 because of the Clinton Administration's economic program, according to the Congressional Budget Office." The "income tax applies only to taxable income in excess of...gross income of roughly $185,000." ("GOP Tax Issue May Fade Away: Only 1.2% of Filers will face Increase, CBO study Finds," Washington Post 1/13/94 p.A8)

- As Newsweek Columnist Jane Bryant Quinn writes: "What with all that hooting and hollering over President Clinton's income tax law, you might believe that your tax has probably gone up. Relax. The tax increase on 1993 returns hit only 1.2 percent of taxpayers, all of them in the highest brackets. They're influential, so when they holler they get heard. But they can afford the higher rate and their payments will help to slow the rise in the mammoth federal deficit. For everyone else, so little is new that preparing your own taxes should be a breeze." (March 15, 1994)

GAS PRICES ARE LOWER TODAY THAN WHEN THE BUDGET WAS BEING CONSIDERED: The American Automobile Association reported that even after the 4.3 cents a gallon tax increase, gas prices will be down on Memorial Day by 2.7 cents from the year before.

MIDDLE CLASS WORKING FAMILIES ARE HELD HARMLESS: NO INCOME TAX RATE INCREASES: 98.8% OF ALL AMERICANS WILL NOT SEE THEIR TAX RATES INCREASE.

- H&R Block have confirmed that:

  * income tax rates are raised only on the "top 1.2% of all taxpayers"

  * there is *"no income tax increase for <u>middle-income taxpayers</u>...income tax rates are unchanged on middle incomes -- 82.2% of all tax payers"*

  * there is a *tax cut for the other "16.6% of all taxpayers* [who] benefit from Earned Income Tax Credit Expansion"

  "H&R Block Analysis of the Income Tax Consequences of the Revenue Reconciliation Bill of 1993" pp. 21-24.

- Deloitte & Touche's analysis showed the change for working families in 1993 based on changes in tax rates. The analysis found the following changes:

<u>Income AGI</u>	<u>Taxable Income</u>	<u>Change</u>
$50,000	$30,100	$0
$100,000	$73,600	$0
$150,000	$116,346	$0
$200,000	$166,166	$1,308
$500,000	$441,746	$21,990
$1,000,000	$886,746	$60,260

"Deloitte & Touche Income Tax Rate Analysis, Present and Proposed Law Tax Rate Scenarios, Typical Taxpayers — New Top 1993 Rates."

15 MILLION FAMILIES — OVER 15% OF ALL TAXPAYERS WHO WORK — WILL RECEIVE A TAX CREDIT TO REWARD WORK:

- The President's plan expanded the Earned Income Tax Credit so that 15 million more families and households will get a tax cut to ensure the President's commitment that if you work full-time and have a child at home, you should not have to raise that child in poverty. According to H&R Block, 16% of all taxpayers will get a tax cut due to the Earned Income Tax Credit.

- This expansion helps working families with low-incomes get ahead, and is a first building block in the President's plan to reward work over welfare.

OVER 90% OF SMALL BUSINESSES ARE ELIGIBLE FOR TAX CUTS:

Only about 4% of owners of small businesses make over $180,000 in adjusted gross income and therefore are affected by the increase in the highest tax rates, while over 90% of small businesses will be eligible for tax reductions through increases in expensing and a new capital gains tax cut targeted to small business. As the Wall Street Journal writes: "only 4% of those taxpayers who report some business income on their tax returns -- and that includes partners in law firms and investment bankers as well as owners of small manufacturing companies -- make sufficient money to be hit by the higher tax rates." "Foes of Clinton's Tax Boost Proposals Mislead Public and Firms on the Small Business Aspects," Wall Street Journal, July 20, 1993

- Small businesses are now allowed to expense 75% more due to the President's economic plan -- going from $10,000 to $17,500.

- There is a new capital gains tax cut targeted to expansion and creation of small businesses. Investors who invest for more than 5 years in small businesses can get a 50% cut in their capital gains rate.

- The plan also continued the 25% deduction for health premiums for the self-employed. The President is now proposing a 100% deduction in his health care plan.

TAXES ON THE TOP 1.2% HAVE NOT HAD A NEGATIVE EFFECT ON THE ECONOMY: While all agree that the deficit reduction package has helped strengthen our long-term economic prospects, some had warned that the modest increase on taxes on those in the top 1% of individual and corporate filers could have a negative impact on the economy. Most analysts now reject this view.

- **According to the Wall Street Journal**: "Just how much will the Clinton tax increase on the most well-off Americans hurt the economic recovery? Although the tax rise will take some zest out of consumer spending, mainstream economists say it poses no serious threat to the economy." ("Higher Taxes Unlikely to Hurt Recovery: Economists See Minor Impact on Consumer Spending," Wall Street Journal, December 22, 1993)

- **According to Business Week**: Back in August, when President Clinton's five year, $240 billion tax increase passed, the Senate critics predicted the worst...Well, a funny thing happened on the way to Armageddon. The economy which was growing at an anemic 1.3% annual rate before the tax hike became law, expanded at more than twice that rate during the second half of 1993. What's more, economists figure growth reached 4% or more in the fourth quarter. And in the six months since Clinton signed the measure nearly a million new jobs have been created, while personal consumption has come close to 4%....it suggests that fears about the increase of a modest tax increase were overblown." ("The Tax Hike Won't Derail the Recovery," by Howard Gleckman, Business Week, January 31, 1994)

KEY ECONOMIC STATISTICS
June 29, 1994

1. UNEMPLOYMENT:

• *UNEMPLOYMENT RATE IS DOWN:* The unemployment rate declined from 6.4% in April to 6.0% in May. *It has now declined from 7.7% in January 1993 to 6.0% for May, 1994.*

2. JOB CREATION:

• *THE ECONOMY HAS CREATED ALMOST TWO AND HALF TIMES MORE PRIVATE SECTOR JOBS IN 16 MONTHS THAN WERE CREATED UNDER ALL FOUR YEARS OF THE PREVIOUS ADMINISTRATION*: Under the four year period of the previous Administration only 1.311 million private sector jobs were created (1/89-1/93). In the first 15 months of the Clinton Administration, 3.115 million private sector jobs were created.

> *– While 93% of the jobs created during the Clinton Administration's tenure have been in the private sector, only 54% of the jobs created during the previous four years were in the private sector.*
>
> *– MORE THAN SEVEN TIMES MORE PRIVATE SECTOR JOBS PER MONTH:* The economy has created 195,000 private sector jobs per month in the first 15 months of the Clinton Administration –– more than seven times the 27,000 private sector jobs per month created in the previous four years.

• *MORE JOBS OVERALL IN 16 MONTHS (3.357 MILLION) THAN IN THE PREVIOUS FOUR YEARS COMBINED (2.444 MILLION):*

• *MORE THAN A MILLION JOBS IN THE FIRST FIVE MONTHS OF 1994: AHEAD OF SCHEDULE FOR 8 MILLION JOBS IN FOUR YEARS:* The economy has now created more than 1,237,000 million total jobs in the first five months of the year, 96% (1,186,000) in the private sector. More than two million jobs were created in 1993. The current pace ––247,000 jobs a month –– puts the economy well ahead of schedule to create "2 million more in '94" and ahead of schedule to create 8 million jobs by the end of 1996.

• *MANUFACTURING JOBS ROSE SIX TIMES IN THE PAST EIGHT MONTHS*: After serious declines for several years, manufacturing jobs were up in six of the past eight months. They are now up 56,000 over the last eight months.

• *CONSTRUCTION EMPLOYMENT HAS INCREASED FOR ELEVEN STRAIGHT MONTHS:* Construction employment has increased for eleven straight months. After declining by 664,000 jobs during the Bush Administration, construction jobs are up 386,000 jobs since January 1993.

• *AUTO JOBS ARE UP*: Auto employment has increased 46,000 over the last 12 months from 820,000 to 866,000.

3: HIGH QUALITY JOBS ARE BEING CREATED

• In 1993, over half of the new jobs created were professional, managerial or technical jobs paying 46% above the average wage.

• In 1992 about 50% of all the new jobs created were with temporary help agencies. In contrast, during President Clinton's first year temp jobs accounted for only 13.1% of all the new jobs created.

4. BUSINESS PEOPLE ARE OPTIMISTIC ABOUT FUTURE JOB CREATION:

• In a recent Business Week poll, nearly half of the senior business executives surveyed reported that they plan to increase the number of full-time employees in the next 12 months, while only 27% foresee a decrease in the number of full-time workers they employ. 86% believe that unemployment will either stay the same or decline.

• In addition, the Manpower Inc.'s third-quarter survey of 15,000 companies shows that 29% of U.S. businesses plan to hire workers this summer, the most bullish forecast since 1989.

5. MORE BUSINESSES BEING CREATED & FEWER ARE FAILING: Dunn and Bradstreet stated that "In 1993, the United States posted the greatest number of yearly business incorporations since Dunn & Bradstreet began reporting this data in 1946." In addition, business failures also declined by 11.4% in 1993.

6. INFLATION REMAINS LOW:

- While we are vigilant in watching for inflation, the signs so far remain positive.

- Core CPI (excluding food and energy prices), over the past 12 months rose 2.8% – the lowest annual increase in over 21 years. The overall CPI has been 2.3% over the last 12 months, the second lowest since the 1966.

- Top private forecasters still see moderate/low inflation, and have even decreased their inflation forecasts. The June Blue Chip Forecast projects inflation to be down from 3.0 percent in 1993 to 2.7 percent in 1994 and at 3.3 percent in 1995.

- The American Automobile Association reported that even after the 4.3 cents a gallon tax increase, gas prices will be down on Memorial Day by 2.7 cents from the year before.

- The Producer Price Index was negative (–0.4%) over the last 12 months and the core PPI was just 0.4% –– close to the smallest increase since the government started measuring this series in 1974, when price controls were in place.

- Average prices of finished goods leaving America's factory gates are lower, in absolute terms, than a year ago.

5. BUSINESS CONFIDENCE IN THE ECONOMY:

- <u>Fortune Magazine</u>, finds CEOs of both large and small companies are more optimistic about the future than they have been in nearly a decade. More than 80% of small business and major CEOs report that their own sales are up, and 40% say they plan to hire new employees.

- The most recent Business Week/Harris Executive Poll published in the July 4, 1994 demonstrates broad–based, growing optimism about the future of the economy among business executives around the country. The poll showed that:

- 90% of the executives surveyed were optimistic about the outlook of the U.S. economy in the next year, up from 83% in December 1993.

- 44% of the business leaders believe that the rate of growth of the gross domestic product will increase more in the next 12 months than it did in the last 12 months. In comparison, six months ago only 25% of the executives expected higher growth in future 12 months.

• Nearly half the executives plan to increase the number of full-time employees in their company over the next year. In addition, 87% of the executives believe that unemployment will either stay the same or fall over the next year.

• Dramatically, over 90% of the business leaders expect sales in the next year to be higher than sales in the past year and 69% plan to increase investment in plants and equipment.

• 94% reported making a profit in 1993 and over 80% of those say they expect increased profits in 1994.

6. CONSUMER CONFIDENCE:

• Consumer confidence is up to 92.0 on the Conference Board Index for June, the highest in four years. Indeed, consumer confidence is up over 50% since the passage of the economic growth plan in August, 1993.

• People are starting to become more upbeat about job prospects. According to the consumer confidence survey from the University of Michigan, the number of people believing that jobs were hard to get has declined from 41.6% to 29.1%.

• A USA/CNN/Gallup Poll released May 25, 1994 found that more people now believe they are better off economically than at any time since September 1990.

7. BUSINESS INVESTMENT:

• Investment spending for equipment in 1994 is now at the highest level relative to GDP in the postwar period.

• In the first quarter of 1994, investment in equipment was also up a strong 16.1% at an annual rate. Business investment in equipment from the end of 1992 to the end of 1993 was the highest in 20 years.

• Since the beginning of 1993, real business spending on equipment is up 17.8%. Total capital spending reached $592 billion in 1993 (in inflation-adjusted dollars), a near record 12% of the gross domestic product.

• Capital spending will remain strong in the future. The most recent Business Week/Harris poll of business leaders reports that nearly 70% of the executives plan to increase the amount of investment in plant and equipment over the next year.

• Factory capacity growth so far in 1994 is the fastest since 1985. According to economists at Dean Witter Reynolds Inc., U.S. companies have announced plans for more than 60 new plants and 70 plant expansions already this year.

• A Commerce Department report on June 9, 1994 revealed that US businesses plan to lift real investment on new plant and equipment by 8.9% in 1994.

• Federal Reserve Data reveals that "businesses are increasing their borrowing from banks to help finance expansion plans, adding fuel to the economy" and that business loans at the nation's banks rose $20 billion between September and March 23, according to the Federal Reserve. ("Firms Increase Bank Financing for Expansion," Wall Street Journal, April 8, 1994)

8. BLUE CHIP FORECAST:

• The Blue Chip Forecast for June showed solid growth with low inflation for the next two years.

• The Blue Chip forecast for June predicts growth of 3.7% in 1994 and 2.8% in 1995.

• The Blue Chip inflation forecast is lower. While inflation was 3.0 in 1993, it is projected to be down to 2.7% in 1994, and up to only 3.3% in 1995.

9. INTEREST RATES:

• Deficit reduction plan helped lower interest rates and which fueled the interest-sensitive parts of the economy and helped jump-start and solidify economic recovery.

• Over 5 million families were able to refinance their homes at average savings of over $1000 a year, and most are still reaping those savings even as interest rates have moved up, because they refinanced at fixed rates.

• Longterm interest rates today are still far below the 9.9% average of the Bush-Reagan Administrations, while mortgage rates are well below the 11.06% average of the Reagan-Bush era.

10. HOUSING STARTS:

• Housing starts are up 29.0% since January, 1993 after declining -38.5% during the Bush Administration. Housing permits are up 22% over the last year.

11. AUTO SALES:

• **Auto sales up almost 17% in the first quarter:** Sales of new cars and light trucks are "booming" -- up almost 17% for the first quarter of 1994 over the first quarter of 1993, and sales hit a seasonal adjusted rate of 15.9 million units in March. Sales have dropped back in April and May, but are still above year-earlier levels. Earlier in 1994, Chrysler reported its highest monthly vehicle sales in its 69-year history and Ford and General Motors had their highest light truck sales ever.

• Auto jobs have increased by 46,000 over the last 12 months.

12. PRODUCTIVITY:

• Productivity growth in the Clinton recovery has been strong a strong 2.6%, far higher than the 1.6% annual average under the Bush-Reagan Administrations.

COMMENTARY ON ECONOMIC PLAN

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, 1/31/94:

"The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates. Although we may not all agree on the specifics of the deficit reduction measures, the financial markets are apparently inferring that, *on balance, the federal government will be competing less vigorously for private saving in the years ahead. Partly because of these structural adjustments, the foundations of the economic expansion are looking increasingly well-entrenched.*"

"The outlook, as a result of subdued inflation and still low long-term interest rates, is the best we've seen in decades." 2/22/94

"The outlook for the U.S. economy is as bright as it has been in decades. Economic activity has strengthened, unemployment is down, and price trends are subdued. In addition, unlike some earlier periods, business spending on new plant and equipment has been an important contributor to growth. This strength in investment will enhance economic efficiency and lay the foundation for the production gains that will bolster the economic welfare of our nation." (Testimony to the House Budget Committee, 6/22/94)

Robert D. Reischauer, Director, Congressional Budget Office, 1/27/94:

"The deficit picture is significantly brighter than it appeared one year ago when the Congressional Budget Office projected that the deficit would soar above $350 billion by fiscal year 1998. CBO now projects that the federal budget deficit will fall from $223 billion in the current fiscal year to below $170 billion in 1996, then creep up to $200 billion in 1999. *The dramatic improvement since last January is largely the result of the enactment in August of a major package of tax increases and spending-cuts--the Omnibus Budget Reconciliation Act of 1993.*"

Lehman Brothers, 1/10/94:

"To President Clinton's credit, early last year he rejected an either/or construction for U.S. growth versus deficit reduction. Clinton's blueprint for economic revival had as its centerpiece a multi-year program of deficit reduction, but it promised higher growth in the short run. A move to restrain deficit spending, he wagered, would both lower U.S. long-term interest rates and energize U.S. interest sensitive sectors. Lower deficits, lower long-term rates and higher real growth was the overall promise. With the data now rolling in for December 1993, it seems clear that President Clinton delivered on all three counts over the second half of the year."

Stehphen Roach, Senior Economist at Morgan Stanley (Wall Street Journal, 6/6/94):

"The forces of moderation are now intact. We could grow at 2.5% to 3.0% for two or three years or longer without a major glitch."

Business Week, 2/7/94:

"Both Clinton and the economy head into 1994 on the momentum from a strong showing at the end of 1993. *Lower long-term interest rates, for which the White House can take partial credit*, helped to rev up spending for cars, homes, and durable goods generally, boosting factory orders and production, while better growth in jobs and incomes kept people happy. The good news for the first quarter is that the fundamentals that lifted the economy at the end of last year remain in place, ready to support job growth this quarter."

Business Week, 7/4/94:

"Indeed a new Business Week/Harris poll shows that top managers are far from fearful of the economic future. Fully 90% of the 401 senior executives surveyed were optimistic about the outlook for the U.S. economy in the next year, up from 83% in a similar query last December. Likewise only half of the executives polled expect long-term interest rates to increase over the next 12 months compares with two-thirds of the respondents six months ago."

U.S. News & World Report, 2/14/94:

"The danger is that Washington's ideological clamor will drown out a quiet economic truth: *Last year's budget package changed fiscal policy significantly, and the economy is already responding*. The yield on a 10-year Treasury note averaged just 5.9 percent in 1993, compared with the 6.7 percent forecast by CBO one year ago and consumer spending moderated to 2.7 percent down from 3 percent that CBO had predicted. Clinton's budget for fiscal 1995 will project a deficit of roughly $178 billion -- a dramatic improvement over the $230 billion shortfall that economists predicted just one year ago. Clinton will propose freezing or cutting budgets at 10 of 14 cabinet agencies and eliminating perhaps 115 separate federal programs."

David Stockman as Reported by David Broder, 2/8/94:

"The most upbeat analysis of what lies ahead for America, under his (President Clinton's) policies, comes from none other than David Stockman, the architect of the Reagan administration budgets that the Democrats loved to hate. Stockman, now a New York investment banker, showed up in Washington last week with an economic forecast that he acknowledged is brighter and shinier even than those he produced as Reagan's budget director in the early '80s, which Democrats derided as "Rosy Scenario." At a conference here, Stockman drew a picture of: Steady economic growth through the end of the decade, with little or no threat of inflation. A budget deficit sinking to a "comfortable" and infinitesimal fraction of the nation's annual economic output. Health care costs under control, especially if Congress passes a stripped-down version of the Clinton plan."

Allen Sinai of Lehman Brothers as Reported by the Washington Post, 3/2/94

"This is the healthiest the American economy has been in 30 years."

Washington Post, 2/14/94

"Slowly, but successfully, the American economy seems at last to have worked through the past two decades' accumulated policy errors and resulting disasters. For the first time in years, official Washington's midwinter forecasts speak of strong performance ahead. One reason for it is the decline in the federal deficit, an achievement being loudly celebrated by the Clinton administration....But there more, and the optimism goes well beyond the White House. The most cautious of observers, Federal Reserve Board Chairman Alan Greenspan, concedes that the foundations of economic growth "are looking increasingly well-entrenched. Robert Reischauer of the Congressional Budget Office, whom one senator described as "somewhat of a dark messenger in the pasts, sees years of steady growth ahead. Mr. Greenspan points out that core inflation rate is now lower than at any time since the early 1970s .... Next year the CBO calculates, the budget deficit will be smaller in proportion to the size of the economy than in any year since 1979. As a result of those two things, interest rates are low, and business investment is rising powerfully."

THE STRENGTHENING ECONOMY

SUMMARY

ECONOMIC RENEWAL: Passage of the President's economic plan has put our economy on a stronger footing and spurred a period of economic renewal by replacing a shaky economy with a solid recovery, led by investment in business and housing and resulting in strong job creation. Even with recent fluctuations in the markets, the fundamentals remain strong enough that in the first week of April, the Blue Chip forecasts increased growth projections for *both* 1994 and 1995, without changing their projections for inflation.

This deficit reduction plan at last took away the built in expectations of ever spiraling deficits helping to lower interest rates and kick-start the economy. This progress helped:

- Create twice as many private sector jobs in 14 months (2.3 million) as were created in the four previous years <u>combined</u>

- Keep core inflation in 1993 to its lowest in 20 years. Currently, oil prices remain low, productivity is up, and unit labor costs and import prices are modest -- all pointing to low inflation for the foreseeable future.

- Produce three years of declining deficits for the first time since Harry Truman; a deficit that is projected to be cut nearly in half, and, as a percentage of GDP, the 1995 deficit is projected to be the lowest since 1979 and the lowest of any major world economy.

- Consumer confidence to be the strongest it has been in four years or five years according to the two major reports.

- Lower interest rates in 1993 enable over 5 million Americans to refinance their homes at savings of $1000-$2000 a year.

- Business investment in 1993 to grow at the fastest pace since 1972.

This combination of steady growth and low inflation has led many of the top economists and financial experts from Alan Greenspan to Alan Sinai to now say the economy is in its soundest shape in 20-30 years. Lower interest rates in 1993 helped kick-start the economy. Now that the economic engine is running, interest rates are rising, but not due to a growing public deficit, but instead to a growing private sector that is demanding more credit to grow and expand.

Indeed, the Blue Chip Forecasts have shown that the growth forecast for 1994 rose in April from 3.6 to 3.7 percent and is up 0.7 percentage points since January 1994, while still projecting inflation to decline from 3.0 percent in 1993 to 2.8 percent in 1994. Perhaps, just as significantly, the April Blue Chip Forecast for growth also increased for 1995 from 2.8 to 2.9 while inflation projections for 1995 remained at 3.3%. Another poll of 56 top economists surveyed by CNBC and USA Today and released April 11, found that 84% of those surveyed felt that inflation would not be a problem in 1994 and 73% projected that it would not be a problem for 1995. Even though some analysts expect long-term interest rates to moderate, it is worth noting that interest rates are still a full point lower today in a period of strong growth than they were at the bottom of the recession, and mortgage rates are lower than at any time between 1973 and 1992.

Most of all, the signs in the economy still give the same simple message: steady sustainable growth and healthy job creation with low inflation.

1. *JOB CREATION*

• ***The economy has created 2.5 million jobs in the first 14 months of the Clinton Administration -- 90% (2.3 million) in the private sector.***

• ***The economy has created twice as many private jobs in the first 14 months of the Clinton Administration as were created under in the previous four years combined.***

* Under the four year period of the previous Administration a total of only 1.002 million private sector jobs were created (1/89-1/93). In the first 14 months of the Clinton Administration, 2.3 million private sector jobs were created.

* While over 90% of the jobs under Clinton were created in the private sector, more than half of the jobs created in the last four years were in the public sector. Even when both public and private sector jobs are combined, the economy has now created 2.5 total million jobs in 14 months -- far more than the 2.159 million in the previous four years combined.

• ***Eight times more private sector jobs per month***: the economy has created 164,000 private sector jobs per month in the first 14 months of the Clinton Administration, eight times more than the 21,000 private sector jobs per month created under the Bush Administration.

•***2 Million More in 94'***: Two million jobs were created in 1993. In the first three months of 1994, the economy created 208,000 jobs per month -- ahead of the pace needed to create 2 million more in 1994. This also puts the Administration on track to create 8 million jobs over four years.

• ***Manufacturing Jobs Up***: Manufacturing jobs have been up for six straight months -- after steady losses for 5 years -- an increase of over 88,000. The return of more normal weather conditions contributed to a 74,000 increase in construction jobs in March.

2. *UNEMPLOYMENT RATE IS DOWN*

• Under the current standard, the unemployment rate has declined from 7.7% in January 1993 to 6.5% in March 1994.

3. *INFLATION IS AT HISTORIC LOWS:*

- Core CPI (excluding food and energy prices), over the past 12 months rose 2.8% -- the lowest annual increase since 1966.

- Core PPI inflation over the year was just 0.4%, the smallest increase since the government started measuring this series in 1974, when price controls were in place.

- The April Blue Chip Forecast projects inflation to be down from 3.0 percent in 1993 to 2.8 percent in 1994 and at 3.3 percent in 1995. Another poll of 56 top economists surveyed by CNBC and USA Today and released April 11, found that 84% of those surveyed felt that inflation would not be a problem in 1994 and 73% projected that it would not be a problem for 1995.

4. *BUSINESS INVESTMENT*

• Over the past year, real business spending on equipment is up 18.4% – the real investment spending for equipment is now at the highest level relative to GDP in the postwar period.

• A Commerce Department report on April 7, 1994 revealed that US businesses plan to lift investment on new plant and equipment by 8% in 1994.

• Federal Reserve Data reveals that "businesses are increasing their borrowing from banks to help finance expansion plans, adding fuel to the economy" and that business loans at the nation's banks rose $20 billion between September and March 23, according to the Federal Reserve. ("Firms Increase Bank Financing for Expansion," Wall Street Journal, April 8, 1994)

5. *AUTO SALES:*

Auto Sales up 20%: Sales of new cars and light trucks "boomed" in March, rising 20% from a year ago and hitting a seasonal adjusted rate of 15.9 million. Chrysler reported its highest monthly vehicle sales in its 69-year history and Ford and General Motors had their highest light truck sales ever.

6. *DURABLE GOODS:*

• In the fourth quarter of 1993, real spending on household durable goods was more than 11% higher than its level a year earlier. This was the highest annual increase nearly in a decade.

7. *HOUSING:*

• Bad weather slowed housing starts at the beginning of 1994, but single-family housing starts in December were at their highest level since 1978.

8. *CONSUMER CONFIDENCE* **IS PICKING UP**

– The Conference Board's Consumer Confidence index is up to its highest level in nearly four years and the University of Michigan report was at roughly a five year high.

9. *RETAIL SALES*

– Indexes by Salomon Brothers and Alex Brown & Sons showed that March retail sales for major stores "soared" 11% from a year earlier. (Big Retailers Report a Surge in March Sales, <u>Wall Street Journal</u>, April 5, 1994)

– Retail sales have been up 10 of the last 11 months, and were up 7% in 1993.

COMMENTARY ON PRESIDENT CLINTON'S ECONOMIC PLAN

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, 1/31/94:

"The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates. Although we may not all agree on the specifics of the deficit reduction measures, the financial markets are apparently inferring that, on balance, the federal government will be competing less vigorously for private saving in the years ahead. Partly because of these structural adjustments, the foundations of the economic expansion are looking increasingly well-entrenched."

"The outlook, as a result of subdued inflation and still low long-term interest rates, is the best we've seen in decades." 2/22/94

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"The deficit picture is significantly brighter than it appeared one year ago when the Congressional Budget Office projected that the deficit would soar above $350 billion by fiscal year 1998. CBO now projects that the federal budget deficit will fall from $223 billion in the current fiscal year to below $170 billion in 1996, then creep up to $200 billion in 1999. The dramatic improvement since last January is largely the result of the enactment in August of a major package of tax increases and spending-cuts--the Omnibus Budget Reconciliation Act of 1993."

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Allen Sinai of Lehman Brothers as Reported by the Washington Post, 3/2/94

"This is the healthiest the American economy has been in 30 years."

David Shulman of Salomon Brothers as Reported by the Washington Post, 3/2/94

"The economic recovery is now moving from Wall Street to Main Street. There will be less money flowing into the financial economy, and more flowing into the real recovery."

PROGRESS ON GETTING OUR FISCAL HOUSE IN ORDER

FISCAL RESPONSIBILITY HAD LAID A FOUNDATION FOR ECONOMIC GROWTH: After being in office less than one month, the President presented to Congress a major economic plan to reduce the deficit, spur job creation and business expansion and invest more in our people. By August, the Congress passed the President's plan including $500 billion in deficit reduction -- including the largest deficit reduction plan in history.

- The plan cut spending by $255 billion -- including a 12% real cut - in discretionary spending over 5 years.

- Over 300 programs were cut in the first year of the plan, and there were reduction in nearly every entitlement -- amounting to over $80 billion in entitlement savings.

THE BUDGET JUST PRESENTED -- IMPLEMENTING THE SECOND YEAR OF THE PRESIDENT'S PLAN -- IS ONE OF THE TOUGHEST EVER PRESENTED TO THE CONGRESS:

- It cuts spending in 60% of all major spending accounts -- 379 programs cut out of 626 programs.

- It calls for completely eliminating 115 programs

- 10 of 14 major Departments are cut in real terms, and 7 of 14 are cut even if you do not take inflation into account.

THE ECONOMIC PLAN IS WORKING TO BRING DOWN THE DEFICIT:

- For a change, the deficit is coming in lower than projected -- after going up almost unstopped for 12 years. It is now projected to go down three years in a row -- for the first time since Truman was in the White House.

- It reduces the deficit by $126 billion in FY1995 alone -- a 40% cut from what it would have been without our plan.

- The plan reduces the deficit by $200 billion in FY1998 -- less than half of what the deficit would have been without passage of the President's plan. The President's plan cuts the deficit in half in three years as a percentage of our national income.

- The Congressional Budget Office has found the President's budget plan will lower the deficit even more than OMB projects.

- As a percentage of GDP, *the deficit is now projected to be lower than any of the world's major economies*, according to the OECD.

INVESTMENTS IN THE CLINTON BUDGET

Although the Clinton budget reduces the deficit by 40% by FY1995 and maintains the real decrease -- a "hard freeze" -- of discretionary spending, the budget still makes billions of dollars in additional spending cuts so that America can make the investments it needs in education, training, law enforcement, defense conversion, children and other top priorities. Comparing what was being done in key programs in 1993 versus what is proposed in the 1995 budget, it can be seen that the Administration is pursuing bold increases in key investments while bringing the deficit down dramatically.

The increases between 1993 and 1995, if the Clinton Budget is implemented, would be the following:

EDUCATION REFORM: $700 million more for Goals 2000;

HEAD START: $1.25 billion more for Head Start;

COMMUNITY POLICING: $1.5 billion more for community policing;

AIDS: nearly doubling funding for Ryan White, from $348 million to $672 million;

WORKER TRAINING: 2.5 times more for worker training, from $602 million to $1.5 billion;

HOMELESSNESS: more than 2 times more for the homeless, from $572 million to $1.25 billion;

TECHNOLOGY: nearly triple the funding for our top technology program, NIST, from $381 million to $935 million.

NATIONAL SERVICE: more than ten times more on national service;

WIC: $700 million more for WIC, keeping it at a full funding pace;

HOUSING VOUCHERS: more than doubling of housing vouchers, from $1.3 billion to $2.7 billion;

ENERGY CONSERVATION: nearly doubling energy conservation R&D from $349 million to $659 million.

April 9, 1994

To: David Kusnet (cc: Don Baer)
From: Gene Sperling
Subject: Economics and Jefferson Speech

Here is a start. Let me know what you need on Sunday. I'll be in most of the day.

1. Foundation:

We could not repair the damage without first ensuring that we were working from a stable economic foundation.

We started with a comprehensive strategy to ensure that we gave the private sector the foundation they needed to invest more, compete better and create more jobs.

Our goal was to bring down the deficit in a fair and effective way, that would still allow us the wisdom to cut what was needed, while investing more in things like education and training that we need to help our people embrace change.

2. Tough and Real Plan; Fair Taxes

Last year, over 200 members of Congress and some 50 Senators made a brave vote for economic change -- even though it cut 340 programs, included reductions in every entitlement and even though it asked more in taxes from the most-well off 1.2% of our taxpayers.

Certainly, this plan did call for some tough choices. As we said last year, the top 12.5% of Social Security recipients would see a little more of their benefits subject to tax, and gas prices were raise 4 cents a gallon.

But overall, we said, that for nearly 99% of Americans, your income tax rate would not rise, and it was true when we said it, and everyone can see in black and white that it is true today. Only the top 1% of taxpayers and the top 1% of corporations are seeing their income tax rates increased.

Indeed, what more people are learning is that small businesses got a 75% increase in what they could write off; a new capital gains tax cut and a 25% deduction for health care for the self-employed -- which we want to make 100% in our health care plan. And across America, more people are learning that while just over 1% of households saw their tax rates rise, 15 million families are now eligible for a tax credit that rewards work over welfare and ensures that no one who works full time should have to raise their child in poverty.

3. The Economic Payoff:

A year after Congress first passed our first budget resolution, few doubt that the cuts were real, the tax increases were fair, and that this was a positive step getting our deficit on a downward path and our economy on a upward path.

This year, the budget -- the second year of our five year plan -- calls for cutting 379 out of 636 major accounts while reducing the deficit for the third straight year -- the first time since Harry Truman. And as a percentage of our national income, it will cut the deficit in half and give us the lowest deficit proportionally of any major economy in the world.

This deficit reduction plan at last took away the built in expectations of ever spiraling deficits. This progress helped keep core inflation to its lowest in 20 years. And the lower interest rates it helped bring about in 1993 allowed over 5 million Americans to refinance their homes at savings of $1000-$2000 a year, while allowing business investment to grow at the fastest pace since 1972.

This combination of steady growth and low inflation has lead many of the top economists and financial experts to now say the economy is in the soundest shape its been in 20-30 years.

Interest rates have gone up somewhat recently, but we should not forget two important facts. First, increases in interest rates are due not to a growing deficit, but largely to growth in the private sector where more companies and Americans are demanding more credit so that they can expand and grow. Two, interest rates are still a full point lower today in a period of strong growth than they were at the bottom of the recession, and mortgage rates are lower than at any time between 1973 and 1992.

Most of all, the signs in the economy still give the same simple message: steady sustainable growth and job creation with low inflation.

• We have now created more 2.5 million jobs -- 90% or 2.3 million of them are in the private sector. That is more than twice as many private sector jobs in 14 months as our economy created in the previous 4 years combined. Two million jobs in 1993 and we are on line to create two million more in 1994.

• By the current standard, the unemployment rate has dropped from 7.7% to 6.5% -- still too high but important progress.

•Investment is still strong. Business investment in equipment is at the highest pace in history, and fixed business investment is almost at a historic pace.

• There are still no signs of significant increases in inflation. Indeed, productivity is up, oil prices are still low, and over the last 12 months, inflation is at its lowest pace since the 1960.

THE FACTS ON TAXES

The President's economic plan shifted federal priorities while bringing the deficit down in fair and balanced manner. The plan included over $250 billion in spending cuts and nearly as much deficit reduction from revenue increases. The plan called for tough choices, including a 4.3 cents a gallon gas tax, requiring the top 12.5% of Social Security recipients to include more of their benefits as taxable income, and a 1% rate increase on less than 1% of major corporations.

Yet, the Administration stated that the tax rates were only raised on the top 1.2% of working households -- while 98.8% saw no tax rate increase, and indeed 15 million households were eligible for an expanded Earned Income Tax credit. While much misinformation was put forth last year, it is important to assess the facts. Attached are some key facts, with some of the source materials attached.

THE PRESIDENT'S PLAN REDUCED THE DEFICIT IN THE MOST FAIR WAY POSSIBLE: BY RAISING RATES ONLY ON THE TOP 1.2% -- HOUSEHOLDS MAKING OVER $180,000.

- As the Washington Post reported, the Congressional Budget Office has found "only a sliver of tax filers -- 1.2% will face higher income tax bill on April 15 because of the Clinton Administration's economic program, according to the Congressional Budget Office." The "income tax applies only to taxable income in excess of...gross income of roughly $185,000." ("GOP Tax Issue May Fade Away: Only 1.2% of Filers will face Increase, CBO study Finds," Washington Post 1/13/94 p.A8)

- As Newsweek Columnist Jane Bryant Quinn writes: "What with all that hooting and hollering over President Clinton's income tax law, you might believe that your tax has probably gone up. Relax. The tax increase on 1993 returns hit only 1.2 percent of taxpayers, all of them in the highest brackets. They're influential, so when they holler they get heard. But they can afford the higher rate and their payments will help to slow the rise in the mammoth federal deficit. For everyone else, so little is new that preparing your own taxes should be a breeze." (March 15, 1994)

MIDDLE CLASS WORKING FAMILIES ARE HELD HARMLESS: NO INCOME TAX RATE INCREASES: 98.8% OF ALL AMERICANS WILL NOT SEE THEIR TAX RATES INCREASE.

- H&R Block have confirmed that:

  * income tax rates are raised only on the "top 1.2% of all taxpayers"

  * there is *"no income tax increase for* *<u>middle-income taxpayers</u>*...*income tax rates are unchanged on middle incomes -- 82.2% of all tax payers"*

  * there is a *tax cut for the other "16.6% of all taxpayers* [who] benefit from Earned Income Tax Credit Expansion."

  "H&R Block Analysis of the Income Tax Consequences of the Revenue Reconciliation Bill of 1993" pp. 21-24

- Deloitte & Touche's analysis showed the change for working families in 1993 based on changes in tax rates. The Touche-Ross analysis found the following changes:

Income AGI	Taxable Income	Change
$50,000	$30,100	$0
$100,000	$73,600	$0
$150,000	$116,346	$0
$200,000	$166,166	$1,308
$500,000	$441,746	$21,990
$1,000,000	$886,746	$60,260

"Deloitte & Touche Income Tax Rate Analysis, Present and Proposed Law Tax Rate Scenarios, Typical Taxpayers -- New Top 1993 Rates."

15 MILLION FAMILIES -- OVER 15% OF ALL TAXPAYERS -- WHO WORK WILL RECEIVE A TAX CREDIT TO REWARD WORK:

- The President's plan expanded the Earned Income Tax Credit so that 15 million more families and households will get a tax cut to ensure the President's commitment that if you work full-time and have a child at home, you should not have to raise that child in poverty. According to H&R Block, 16% of all taxpayers will get a tax cut due to the Earned Income Tax Credit.

- This expansion helps working families with low-incomes get ahead, and is a first building block in the President's plan to reward work over welfare.

OVER 90% OF SMALL BUSINESSES ARE ELIGIBLE FOR TAX CUTS:

Only about 4% of owners of small businesses make over $180,000 in adjusted gross income and therefore are affected by the increase in the highest tax rates, while over 90% of small businesses will be eligible for tax reductions through increases in expensing and a new capital gains tax cut targeted to small business. As the Wall Street Journal writes: "only 4% of those taxpayers who report some business income on their tax returns -- and that includes partners in law firms and investments bankers as well as owners of small manufacturing companies -- make sufficient money to be hit by the higher tax rates." "Foes of Clinton's Tax Boost Proposals Mislead Public and Firms on the Small Business Aspects," Wall Street Journal, July 20, 1993

- Small businesses are now allowed to expense 75% more due to the President's economic plan -- going from $10,000 to $17,500.

- There is a new capital gains tax cut targeted to expansion and creation of small businesses. Investors who invest for more than 5 years in small businesses can get a 50% cut in their capital gains rate.

- The plan also continued the 25% deduction for health premiums for the self-employed. The President is now proposing a 100% deduction in his health care plan.

TAXES ON THE TOP 1.2% HAVE NOT HAD A NEGATIVE EFFECT ON THE ECONOMY: While all agree that the deficit reduction package has helped strengthen our long-term economic prospects, some had warned that the modest increase on taxes on those in the top 1% of individual and corporate filers could have a negative impact on the economy. Most analysts now reject this view.

- **According to the Wall Street Journal**: "Just how much will the Clinton tax increase on the most well-off Americans hurt the economic recovery? Although the tax rise will take some zest out of consumer spending, mainstream economists say it poses no serious threat to the economy." ("Higher Taxes Unlikely to Hurt Recovery: Economists See Minor Impact on Consumer Spending," Wall Street Journal, December 22, 1993)

- **According to Business Week**: Back in August, when President Clinton's five year, $240 billion tax increase passed, the Senate critics predicted the worst...Well, a funny thing happened on the way to Armageddon. The economy which was growing at an anemic 1.3% annual rate before the tax hike became law, expanded at more than twice that rate during the second half of 1993. What's more, economists figure growth reached 4% or more in the fourth quarter. And in the six months since Clinton signed the measure nearly a million new jobs have been created, while personal consumption has come close to 4%....it suggests that fears about the increase of a modest tax increase were overblown." ("The Tax Hike Won't Derail the Recovery," by Howard Gleckman, Business Week, January 31, 1994)

ATTACHED MATERIALS

1. "GOP Tax Issue May Fade Away: Only 1.2% of Filers will face Increase, CBO study Finds" Washington Post 1/13/94 p.A8)

2. "H&R Block Analysis of the Income Tax Consequences of the Revenue Reconciliation Bill of 1993"pp. 21-24

3. "Deloitte & Touche Income Tax Rate Analysis, Present and Proposed Law Tax Rate Scenarios, Typical Taxpayers — New Top 1993 Rates."

4. "Foes of Clinton's Tax Boost Proposals Mislead Public and Firms on the Small Business Aspects," Wall Street Journal, July 20, 1993

5. "Taxes Unlikely to Hurt Recovery: Economists See Minor Impact on Consumer Spending," Wall Street Journal, December 22, 1993)

6 "The Tax Hike Won't Derail the Recovery, by Howard Gleckman, Business Week, January 31, 1994)

THURSDAY, JANUARY 13, 1994 THE WASHINGTON POST

GOP Tax Issue May Fade Away

Only 1.2 Percent of Filers Will Face Increase, CBO Study Finds

By Thomas B. Edsall
Washington Post Staff Writer

Only a sliver of tax filers—about 1.2 percent—will face a higher income tax bill on April 15 because of the Clinton administration's economic program, according to the Congressional Budget Office in a study likely to damage Republican plans to use the tax issue in the 1994 elections.

In addition, those paying higher income taxes are people in the upper reaches of the income distribution. Voters at this level of income tend to be Republican and do not need additional motivation to cast GOP ballots.

Republican pollster Ed Goeas has argued that Republicans should use the period leading up to the April 15 tax filing deadline to direct anti-tax feelings among voters toward President Clinton.

"One must realize that an overwhelming majority of voters still believe that the president raised their taxes, and as April 15 nears and their animosity and anger towards tax increases grows, it is likely that their anger will be directed at Clinton," Goeas wrote in a poll analysis last month.

Goeas said yesterday that he remains undaunted by the CBO figures. "In polling, truth is what the people perceive," he said. "With a perception that 68 percent believe Bill Clinton raised their taxes, that anger will be pointed toward Bill Clinton."

Goeas said the 68 percent figure emerged in a poll he conducted for a client he declined to identify. A July 1993 poll for NBC News found that 82 percent of the respondents believed their personal income taxes would likely be raised by the Clinton program.

Clinton's economic program raised gasoline taxes by 4.3 cents per gallon, but in many areas the retail price has fallen by that much or more, and the gas tax increase has not resulted in any substantial protest.

The income tax hike applies only to those joint filers with taxable income in excess of $140,000—or gross income of roughly $185,000. The rate on taxable income between $140,000 and $250,000 went up in 1993 from 31 to 36 percent. The rate on taxable income over $250,000—which translates to gross income over roughly $310,000—rose to 39.6 percent.

There are about 1.3 million tax filers who fall into these high-income brackets out of a total of about 115 million tax filers.

There is not specific poll data available for this small fraction of the electorate, but identification with the Republican Party increases steadily as income rises. While Democrats have about a 5- to 7-point advantage in partisan identification among all voters, the GOP has a 10- to 15-point edge among voters with incomes in excess of $75,000.

Both Goeas and Bill McInturff, another Republican pollster, noted that one of the linchpins of the GOP coalition has been the ability to capitalize on the electorate's belief that Democrats are more likely to raise their taxes than Republicans.

McInturff argued that the tax issue is "critical to Republican identification," and strategically, it is crucial that Republicans do "whatever we can do as a party to further" the image of the GOP "as the party of lower spending and lower taxes." He noted that Democrats have repeatedly attacked Republican candidates as members of a party prepared to cut Social Security benefits, even when there is no specific evidence to back up the charge.

Goeas argued that Republicans should use voter anger at taxes to counter whatever favorable gains the Democrats achieve as news of the improving economy begins to sink into the electorate: "The real question in the next few months will be which perception of the president sticks with the voters: the Bill Clinton that led the country into a real economic recovery, or the Bill Clinton that caused the pain of this year's tax bill and broke his campaign promise to reduce taxes on the middle class."

Senior polling analyst Sharon Warden contributed to this report.

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H&R Block Analysis
of the Income Tax Consequences
of the "Revenue Reconciliation Bill of 1993"

Executive Summary

This preliminary examination of the key income tax provisions and consequences of the "Revenue Reconciliation Bill of 1993" has been prepared by H&R Block, Inc., the world's largest provider of taxpayer services.

In brief, the major income tax impacts of this bill (as approved by the House/Senate Conference Committee on August 3) are:[1]

- No income tax increase for middle-income taxpayers;
- Relief for lower-income working taxpayers in the form of an expanded earned income credit beginning in 1994;
- Most Social Security Recipients will have no tax increase on their benefits; and
- Higher taxes for upper-income taxpayers beginning in 1993.

Explanations of the major tax revisions and hypothetical case studies follow.

Income Tax Rates Unchanged on Middle Incomes (82.2 Percent of All Taxpayers)

Middle-income taxpayers, 82.2 percent of all taxpayers, will see no change in their income tax rates. In fact, if income remains the same, they will continue to receive a small tax cut each year because the tax brackets, exemptions, and standard deductions are indexed; that is, they are adjusted for inflation each year.

Explanation: The current regular income tax brackets of 15, 28, and 31 percent would be unchanged for taxpayers whose taxable income is not more than $115,000 (single), $140,000 (married filing jointly), $127,500 (head of household), or $70,000 (married filing separately). In addition, the 28 percent maximum tax rate on long-term capital gains is unchanged.

Examples: The following examples are representative of the 82.2 percent of taxpayers who are not eligible for the earned income tax credit but whose income tax rates will not change.

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[1] The bill includes a 4.3 cent-per-gallon gas tax increase, which is 10 percent of the total tax package. Various other income tax provisions in the bill would have no impact on most middle-income taxpayers and result in a relatively small tax increase for higher-income taxpayers. For example, the phase out of exemptions and the limitation on itemized deductions, which were scheduled to expire in 1996 but would be made permanent, affect only higher-income taxpayers.

- Dean and Judy Keegan have taxable income of $48,500. Their income tax for 1993 is $8,783 both under current law and the proposed law. They would have no income tax increase.

- Roger and Alice Smith have taxable income of $140,000. Their income tax for 1993 is $35,929 both under current law and the proposed law. Married taxpayers, filing jointly, with taxable incomes of $140,000 or less, would have no income tax increase.

- George Taylor has taxable income of $115,000 and no dependents. His income tax for 1993 is $31,172 under both current law and the proposed law. Single taxpayers with incomes of $115,000 or less would have no income tax increase.

Lower-Income Taxpayers (16.6 Percent of All Taxpayers)
Benefit from Earned Income Credit Expansion

For 1994, the earned income credit would be simplified and expanded. The complex health insurance and young child portions of the credit would be repealed. The credit also would be expanded. Lower income families would receive a tax cut in the form of a higher credit and very low-income workers with no children could qualify for a credit for the first time.

Explanation: The current rates would increase from 18.5 percent to 26.3 percent for one child and from 19.5 percent to 30 percent for two or more children. These rates would allow a maximum credit of $2,038 for one child and $2,528 for two or more children. The maximum income at which the credit would be available would increase from the current $23,050 to $23,755 for one child and $25,339 for two or more children.

In 1995 and thereafter, the credit rate would increase to 34 percent for one child. The credit rate for two or more children would increase to 36 percent for 1995 and to 40 percent beginning in 1996. Maximums would increase similarly.

Credit would be available to workers with no children. The earned income credit would be further expanded to provide a credit of 7.65 percent of the first $4,000 of earned income of self-supporting workers, both single and married, who are between the ages of 25 and 64 and who have no children. The maximum credit would be $306 and the maximum income for eligibility would be $9,000.

Examples: The following examples are representative of the 16.6 percent of taxpayers who would be eligible for the Earned Income Tax Credit:

- Ray and Kathy Brown have earned income of $7,750, no other income, and no adjustments. They have one child Shirley, age 4. Their earned income credit is $1,434 for 1993. Assuming the same facts for 1994, they would be eligible for a credit of $2,038 under the proposed law, a tax cut of $604.

- David and Susan Rogers have earned income of $18,700. They have no other income and no adjustments. They have two children, Rachel, age 5, and Jason, age 7. For 1993, the Rogers are entitled to an earned income credit of $606. Assuming their income is the same for 1994, they would be eligible for a credit of $1,170 under the proposed law, a tax cut of $564.

- William Collins, age 26, is self-supporting and has earned income of $5,300. He has no other income and no adjustments. For 1993, he is not eligible for any earned income credit since he doesn't have a qualifying child. Under the proposal, he would be eligible for a credit in 1994 equal to a tax cut of $283.

Income Tax Rates Raised on High Incomes (1.2 Percent of All Taxpayers)

For upper-income taxpayers, the current income tax brackets would be retained and expanded, effective January 1, 1993. To ease the impact of this retroactive date, taxpayers who owe more as a result of the provisions of this bill could elect to pay that tax in three equal installments, one-third by April 15 of each of years 1994, 1995, and 1996. And, no interest or penalty would be assessed on the deferred payments.

Explanation: Tax brackets for high income would be expanded to include a:

36% bracket beginning at taxable income of $115,000 (single), $140,000 (married filing jointly), $127,500 (head of household), and $70,000 (married filing separately); and

39.6% bracket beginning at taxable income of $250,000 ($125,000 for married filing separately).

Tax rates on long-term capital gains would not increase. Long-term capital gains would continue to be eligible for a maximum tax rate of 28 percent, a valuable tax break for taxpayers who are in the three higher tax brackets.

The alternative minimum tax, currently at a one-tier 24 percent rate, would become two-tiered, 26 percent on the first $175,000 of AMT income ($87,500 married filing separately) and 28 percent on any excess over that amount. The AMT exemption amounts would increase to $45,000 (married filing jointly), $33,750 (unmarried), and $22,500 (married filing separately). This tax would continue to apply only to taxpayers with incomes in excess of their exemption amounts who have claimed relatively high deductions or credits, and only to the extent it exceeds the regular income tax.

The medicare tax ceiling would be repealed, effective in 1994. This would hit taxpayers with wages or self-employment income in excess of $135,000. For example, a taxpayer with $150,000 of earned income, $15,000 more than the $135,000 ceiling for 1993, would have a medicare tax increase in 1994 of $217.50.

Examples: The following examples are representative of the 1.2 percent of upper-income taxpayers whose income tax will increase.

- Bob and Dena Jones have taxable income of $148,000. Their income tax for 1993 is $38,409 under current law. It would increase $400 to $38,809 under the proposed law.

- Charles Walden is a single taxpayer. His income tax on $148,000 of taxable income is $41,402 based on the current rates and $43,052 using the proposed rates, an increase of $1,650.

- Tony and Lisa Wilson have taxable income of $258,000. Their income tax for 1993 is $72,509 under current law. It would increase $6,188 to $78,697 under the proposed law.

Social Security Recipients: 87 Percent Will Have No Tax Increase on Their Benefits

Beginning in 1994, the rules for determining the taxable amount of Social Security benefits will change. More than 87 percent of all Social Security recipients will have no increase in income taxes on their benefits because of this change.

Explanation: Married couples filing jointly with incomes up to $44,000 and singles with income up to $34,000 will continue to include in income only the smaller of 50 percent of their Social Security benefits or 50 percent of modified adjusted gross income in excess of $32,000 or $25,000, respectively. Retirees [illegible]

In most cases, higher-income retirees would pay tax on 85 percent of their Social Security benefits. Three amounts must be figured to determine whether or not a smaller amount would apply. This is so because, the taxable amount is limited to the smaller of 85 percent of the benefits or:

85 percent of modified adjusted gross income in excess of $44,000 for married couples filing jointly or $34,000 for singles *plus the smaller of*

- The amount that would be taxable under current tax law; or
- One-half the difference between the old and new base amounts.

The increase in the taxable amount is softened somewhat since modified adjusted gross income would continue to include only 50 percent of social security benefits for purposes of calculating the taxable amount.

Examples: The following examples are representative of the 87.2 percent of Social Security recipients who will have no increase in income tax on their benefits:

- Ruth Daniels has adjusted gross income of $19,800 and Social Security benefits of $8,748. None of her benefits are taxable either under current law or the proposed law since her adjusted gross income plus one-half of her benefits total $24,174 and are under the $25,000 ceiling. Thus, she would have no increase in her income tax.

- Jerry and Jan Hansen have adjusted gross income of $36,780 plus social security benefits of $14,440. Under the proposed law, the Hansens would pay $900 of tax on their benefits both under current law and the proposed law. Thus, they would have no increase in their income tax. The taxable part of their Social Security benefits would be $6,000, the smaller of 50 percent of their benefits or 50 percent of their income in excess of $32,000.

The following example is representative of the 12.8 percent of higher-income Social Security recipients (3.4 percent of all taxpayers) who will pay higher income taxes on their benefits:

- Bill and Mary Kramer have adjusted gross income of $46,300 plus social security benefits of $14,440. Under the proposed law, the Hansens would have an income tax increase of $1,415. Since their adjusted gross income plus one-half of their benefits is more than $44,000, they include $12,274 in income. Eighty-five percent of their $14,440 of benefits are includable since this amount is smaller than the sum of 85 percent of their income in excess of $44,000 and the lesser of one-half of $12,000 ($44,000 minus $32,000) or the $7,220 that would have been included in income under current rules.

H&R Block, Inc., headquartered in Kansas City Missouri, is the world's largest provider of taxpayer services. Last year the Company served approximately 18.1 million taxpayers worldwide. In the United States, H&R Block served approximately one of every seven taxpayers from its over 8,000 offices.

DELOITTE & TOUCHE
Income Tax Rate Analysis
Present Law and Proposed Law Tax Rate Scenarios
TYPICALTAXPAYERS -- New Top 1993 Rates

1993 Examples:

	Income (AGI)	Taxable Income	Present Tax	Proposed Tax	Change
Married Filing Jointly (4 exemptions):	$50,000	$30,100	$8,340	$8,340	$0
	$100,000	$73,600	$20,832	$20,832	$0
	$150,000	$116,346	$34,124	$34,124	$0
	$200,000	$166,165	$49,569	$50,877	$1,308
	$250,000	$213,925	$64,374	$68,070	$3,696
	$500,000	$441,746	$134,998	$156,988	$21,990
	$1,000,000	$886,746	$272,948	$333,208	$60,260
Single (1 exemption):	$50,000	$37,150	$11,354	$11,354	$0
	$100,000	$80,850	$25,544	$25,544	$0
	$150,000	$124,195	$39,551	$40,011	$460
	$200,000	$172,135	$54,413	$57,269	$2,856
	$250,000	$216,746	$68,242	$73,329	$5,087
	$500,000	$441,746	$137,992	$161,231	$23,239
	$1,000,000	$886,746	$275,942	$337,451	$61,509

Note: The estimates of present and proposed tax consist of both income and payroll taxes.
Taxable income is AGI less itemized deductions and personal exemptions.

Foes of Clinton's Tax-Boost Proposals Mislead Public and Firms on the Small-Business Aspects

By David Wessel
And Jeanne Saddler
Staff Reporters of The Wall Street Journal

Small-business owner Dottie Cieszynski made a compelling witness against higher taxes at a Montgomery, Ala., news conference last week called by the anti-tax group Citizens for a Sound Economy.

Declaring that President Clinton's proposed tax increases would force her to charge more for the home-health services her company provides, Ms. Cieszynski warned that layoffs were inevitable. "You cannot pull the train without the engine, and you're going to find out this engine is small business," she said.

DOING the DEAL
The Deficit-Reduction Conference

There's just one problem: Her business, Central Alabama Nursing Services Inc., is so small that her tax rate wouldn't go up at all under Mr. Clinton's program.

Ms. Cieszynski says she gleaned her belief that her marginal tax rate would shoot up 14 percentage points, to 46%, from material provided by CSE and other small-business lobbies. But all the rhetoric to the contrary, the vast majority of small businesses are in much the same position as is hers. Under the tax-rate increases that have cleared both houses of Congress, they wouldn't be touched; only the most prosperous small-business owners would be affected.

Opponents of the Democrats' plan to raise taxes on upper-income people realize there isn't much point in seeking sympathy for the rich. Small business, on the other hand, is almost sacred. So the foes, who mounted an effective campaign against Mr. Clinton's energy tax (known as the BTU tax) earlier this year, have hit the small-business issue hard in print and radio ads and in a flurry of press releases.

GOP Radio Ads Cited

"Having been successful on the BTU tax, we have turned more of our energy" to the small-business issue, says Jerry Jasinowski, president of the National Association of Manufacturers. The Republican National Committee's radio ads say the tax bill means "more taxes on small business, killing jobs and economic growth."

No one is making more noise about taxes and small business than Citizens for a Sound Economy, a Washington group headed by James Miller, who was President Reagan's budget director and is now campaigning for a Republican U.S. Senate nomination in Virginia. The group's surveys of local small businesses, who warn of layoffs if their taxes go up, have generated stories in local newspapers from Milwaukee to Gadsden, Ala. ("Survey: President's tax plan to cost Alabama 49,000 jobs," read a headline in the Gadsden Times.) The group's ads running in local newspapers of targeted congressmen and senators — which include the telephone numbers of their district offices — label the tax bill "a job tax" that "crushes small businesses."

The group's 60-second radio ads are even tougher, featuring two politicians — Frankie and Weasel — who sound like gangsters. "Let's tax small businesses. You know, car washes, farms, grocery stores. We'll say it's a tax on the rich," Frankie says.

"Yeah," replies Weasel, "but they hire a whole lotta people. It'll mean they'll have to fire some folks."

"Better their jobs than ours," says Frankie.

Most Don't Earn Enough

Most corner grocery stores and neighborhood car washes, though, don't earn nearly enough to be affected by the income-tax increases that the House-Senate conference committee is considering. True, many small-business owners — all partnerships, so-called subchapter S corporations and sole proprietorships — do pay taxes on their profits at personal-income-tax rates. But the tax bill would raise income-tax rates only on those individuals with taxable incomes, after deductions, of $115,000 and couples with taxable incomes of $140,000.

"You'd have to have one humdinger of a car wash to be pulling down that kind of money," says D.J. Gribbin, a lobbyist for the National Federation of Independent Businesses. The typical federation member employs five people and makes about $45,000 a year in salary and profit.

In the case of Ms. Cieszynski's company, for instance, her business is organized so that she pays taxes at the corporate tax rate. The tax bill would raise the corporate tax rate to 35% — but only for companies with profit of $10 million or more. Ms. Cieszynski won't disclose precisely what her firm earns, but she says it's less than $100,000.

Who Pays?

Only a small percentage of business owners would actually be subject to the proposed higher personal rates in the deficit-reduction package.

	TOTAL	NO. OF TAXPAYERS AFFECTED BY HIGHER RATES	PERCENTAGE OF TOTAL
Taxpayers whose income is primarily from business*	5.9 million	300,000	4.2%
Taxpayers with any business income	20.8 million	800,000	3.8

*Those who receive more in income from S corporations, partnerships or sole proprietorships than in wages.
Source: Treasury Department

Jeff Nesbit, spokesman for Citizens for a Sound Economy, says the group didn't analyze the taxes of the participants in its news conference. He says the group's surveys are restricted to subchapter S corporations, and Ms. Cieszynski wasn't among those polled. Ms. Cieszynski says she was invited to participate in the news conference by a local public-relations firm; she believes the firm got her name from the National Federation of Independent Businesses, of which she is a member.

Administration Fights Back

The Clinton administration, keenly aware that opponents of its energy tax skillfully used local newspapers and radio stations to influence swing votes in Congress, is doing its best to smother the arguments with facts. Erskine Bowles, the new head of the Small Business Administration, raised the issue at a town meeting in West Hartford, Conn., last week even though no one asked him about it.

Other administration officials point out that the administration-backed proposal to increase write-offs for small businesses that buy new equipment would help far more businesses than the tax would hurt.

The Treasury doesn't dispute the fact that well-off small-business owners will pay higher income taxes, just as will well-off bankers, orthodontists and Exxon Corp. executives. But only about 4% of those taxpayers who report some business income on their tax returns — and that includes partners in law firms and investment banks as well as owners of small manufacturing companies — make sufficient money to be hit by the higher tax rates.

These people account for a significant chunk of the money that would be raised by the tax-rate increases. Of the $490 billion earned in 1991 by taxpayers with gross incomes of $200,000, about $90 billion came from business income of some sort, Internal Revenue Service data show.

Of course, the most prosperous businesses are likely to be the ones that employ the most people. Raising their taxes and thereby reducing their cash flow isn't likely to encourage them to hire new employees or buy more equipment. "To say this is a disaster for all small businesses isn't accurate," says John Satagaj, president of the Small Business Legislative Council, which is friendlier to the Clinton administration than some other small-business groups. "But the profile of those companies affected are the ones you don't want to hurt."

Meanwhile, some of the small-business owners who will be hit by the higher taxes sound as angry at the populist rhetoric as they are at the increase in their taxes. "I employ 100 people. I provide a living for those people," says Ralph Evans, owner of Evans Farm Inn, a restaurant and catering business in McLean, Va. "It bothers me that Congress and my president are telling me I'm a no good SOB because I

Higher Taxes Unlikely to Hurt Recovery

Economists See Minor Impact on Consumer Spending

By LUCINDA HARPER
Staff Reporter of THE WALL STREET JOURNAL

Just how much will the Clinton tax increase on the most well-off Americans hurt the economic recovery?

Although the tax rise will take some zest out of consumer spending, mainstream economists say it poses no serious threat to the recovery. They say that unlike former President Bush's tax increases, which hit a slowing economy, President Clinton's tax rise comes during an expansion. The added taxes on the wealthy, they say, will damp things, but at a time when the economy can absorb the setback.

A dissenting view comes from supply-side economists, who argue the tax on the rich will lead to lower investment and productivity, trends that, over time, would make the U.S. less competitive.

The tax rise didn't pass Congress until August, but the income-tax increases are retroactive to Jan. 1, 1993; the increases apply to couples with taxable income over $140,000, after deductions, and individuals with income over $115,000. Taking account of all the income and other tax increases, the Congressional Budget Office estimates that families making more than $200,000 annually will be socked with an average of 17.4% more in taxes, or $24,000. The fear is that when wealthy people sit down to do their taxes next year, they will be shocked to find out how much they owe and suddenly stop spending — hurting a recovery that's finally gaining momentum.

"The April tax payment date may have a shock effect," warns Kurt Karl, chief economist for WEFA Group in suburban Philadelphia. Manhattan and Beverly Hills are two areas where a large group of taxpayers will be hit.

But economists don't think the economy will be set back far. For one thing, the number of people hit by the tax increase is quite small. Only 1.3 million taxpayers — that's about 1.2% — are affected by the increase on the wealthy. So, while those writing the checks may feel a burden, the nation as a whole will be relatively unscathed.

Biggest Tax Burdens

Areas hit hardest by the tax increase

AREA	PEOPLE AFFECTED
New York (Manhattan, Astoria in Queens, Greenpoint in Brooklyn, Coney Island, Boro Park)	43,367
California (Beverly Hills, Los Angeles, Santa Monica, Simi Valley)	35,463
Illinois (Chicago suburbs)	19,114
Connecticut (Bridgeport, Darien, Stamford)	16,086
Florida (Boca Raton, Palm Beach)	14,022
New York suburbs (Scarsdale, White Plains, New Rochelle)	13,401
Maryland (Potomac, Bethesda)	13,006
Michigan (Bloomfield Township)	12,537

Furthermore, the tax rise, expected to raise about $20 billion annually to help lower the budget deficit, is equal to only 0.4% of all personal income. Meanwhile, the expected drop in the deficit has helped lower interest rates, a change that leaves many people — including the wealthy — with more money to spend or invest.

Besides, the wealthy tend to dip into savings to help pay for a higher tax bill, unlike the less affluent who immediately cut spending and slow the economy. Donald Ratajczak, head of economic forecasting at Georgia State University, estimates that well-off people will tap their savings to pay for half of the added taxes, paying for the rest by cutting purchases.

"You couldn't pick a better group to put this tax on," Mr. Ratajczak says. "They probably didn't vote for Clinton and there are not enough of them to severely crimp the expansion." And President Clinton, in an effort to limit the negative effects of the tax, has given Americans three years to pay for the increase, interest-free.

Mr. Ratajczak's forecast for growth in the first quarter is a 3.2% annual rate and for the second quarter, a 2.1% rate. He estimates that if there were no new tax on the wealthy, growth would be at a 3.5% rate in the first quarter and 3.0% in the second. For the year, he predicts that the added taxes will bring growth to 2.8%, down from 3.3%, assuming all other factors — including the lower interest rates — were unchanged.

Most economists estimate that the tax will do the most damage in the first half of next year as wealthy consumers cut spending to help cushion the blow of a higher tax bill. "The economy will only be affected in a noticeable way in the first half of the year," says Mr. Karl, who estimates that the economy will grow at an annual rate of 2.7% for the first quarter, rather than 3.0%, if there were no tax increase.

But supply-siders see things differently. "This is going to have a corrosive, corrosive effect" on the economy, says Lawrence Kudlow, chief economist at Bear Stearns & Co. in New York.

Rich people have a high propensity for savings and investment, and Mr. Kudlow says that will be crimped by the new tax.

The result, he argues, will be lower productivity. Mr. Kudlow estimates that the potential long-term growth rate of the economy will be lowered to 2.25% annually, from 2.7%.

"The tax increase is also coming as Asia and Latin America are lowering their tax rates and so will be becoming more competitive with America," Mr. Kudlow says.

There have been some obvious benefits from the tax boost. Lower interest rates have prompted thousands of people to refinance their homes, cut mortgage payments and use the extra money to buy cars, furniture and appliances. In that sense, the tax increase is "a wash for the nation as a whole," says Roger Brinner, director of U.S. forecasting for Data Resources Inc. in Lexington, Mass.

Commentary/by Howard Gleckman

THE TAX HIKE WON'T DERAIL THE RECOVERY

Back in August, when President Clinton's five-year, $240 billion tax increase passed the Senate, critics predicted the worst. "Make no mistake," warned Senator Orrin G. Hatch (R-Utah), "these higher rates will cost jobs."

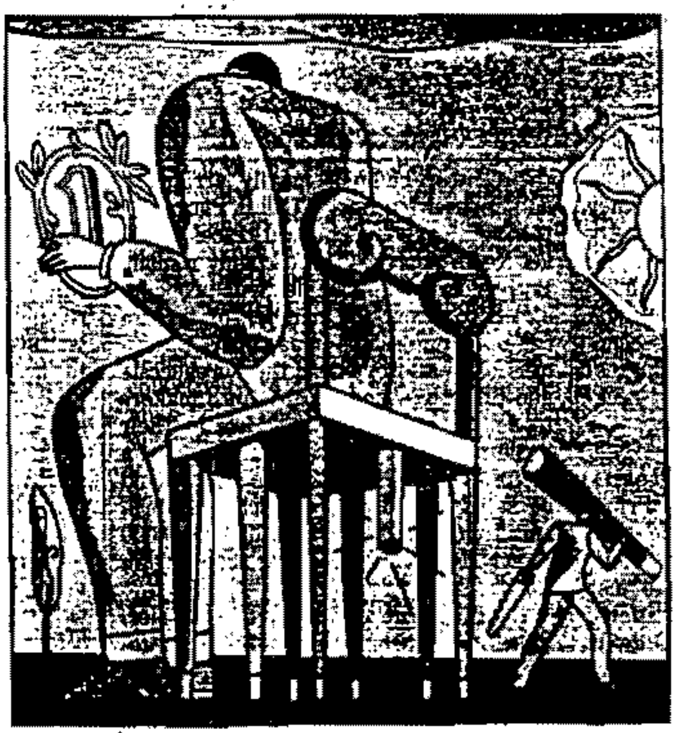
Well, a funny thing happened on the way to Armageddon. The economy, which was growing at an anemic 1.3% annual rate before the tax hike became law, expanded at more than twice that rate during the second half. What's more, economists figure growth reached 4% or more in the fourth quarter. And in the six months since Clinton signed the measure, nearly a million new jobs have been created, while personal consumption has grown by close to 4%.

Does all this mean that the road to economic nirvana is paved with tax hikes? Even self-promoting Clintonites don't believe that. But it does suggest that fears about the impact of a modest tax increase were overblown.

The 1993 law raised corporate rates, boosted the gasoline tax by a nickel a gallon, and whacked the wealthiest 1% with a hefty rate increase. But the biggest hits were retroactive to Jan. 1, 1993. The upshot? "If there was going to be a dramatic impact, we would have seen it," says Peter R. Merrill, a senior tax economist at Price Waterhouse.

GAMESMANSHIP. So what went right? The main reason the tax bill faded in macroeconomic importance was its small size. The measure's roughly $20 billion a year in individual tax hikes amount to less than 0.5% of personal income. That impact is dwarfed by bigger changes in the economy—namely, the cyclical upturn after nearly four years in the doldrums, and the sharp drop in interest rates.

Moreover, the tax rise may be even smaller than advertised. Analysts such as Harvard University economist Martin S. Feldstein argue that the measure will fail to raise much revenue because smart taxpayers will duck higher levies



by shifting income to capital gains or buying bigger houses with larger mortgage deductions. Joel Prakken, an economist at Laurence H. Meyer & Associates, estimates that this gamesmanship will trim the Treasury Dept.'s anticipated receipts by 20%.

O. K., the law's critics insist, it didn't have much impact in 1993. But just wait until this year, when higher taxes show up in withholding and people file their '93 returns.

If the tax law hurt Joe Lunchbucket, this argument might have merit. But the targets of the measure are more sophisticated. Half of those who make more than $200,000 pay estimated taxes each quarter and would have felt its impact as early as last September. For them, writing a bigger check on Apr. 15 "won't come as a big shock," says Randall Weiss, an economist at Deloitte & Touche.

REINING THE FED. That said, was the tax increase a good thing? To the degree that it took money out of citizens' pockets and trimmed private savings, the answer is no. But if the measure helped forge a deficit-reduction plan that the bond markets found credible, it probably deserves some credit for 1993's falling interest rates. The rate drop may even offset much of the short-run drag of the tax hike itself. And the budget deal may have helped persuade the Federal Reserve to stay off the monetary brakes last summer.

The 1993 budget package would have been improved if the plan had included more spending cuts and fewer taxes. But with the Democrats in control of the White House and Congress, any budget measure had to include higher taxes on the rich. As it happened, this one came just as the economy started gaining momentum on its own—the best possible time to hike taxes. Just ask Ronald Reagan, who signed a much bigger tax increase in 1982—and watched the economy grow nonstop for six years.

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