

f: balanced  
budget

October 6, 1993

MEMORANDUM TO THE NEC

From: Gene Sperling

Subject: Balanced Budget Amendment

We may soon confront the issue of whether we support the Simon-Stenholm Balanced Budget Amendment. We clearly need to consider this from both a political and policy perspective. This Amendment would require a balanced budget each year starting either in the year 2000 or 2 years after passage, and could only be waived for war or by a 60% vote in both Houses of Congress. The plan also calls for revenues only to be increase when a majority of the full membership of both Houses support such an increase in a roll call vote. I wanted to offer my personal views on the policy implications of passage of the Simon/Stenholm Balanced Budget Constitutional Amendment.

From a policy point of view, we need to ask how this Amendment helps or hinders the Clinton economic growth agenda. At the core of the Clinton Economic Growth Agenda have always been some core principles:

- 1. The Imperative to Address the Budget and Investment Deficits Simultaneously:*  
The Clinton economic growth vision has always been that the ingredients for economic growth necessary for growth and competitiveness in the world economy required a commitment to reduce both the budget deficit and the investment deficit, and that both had to be addressed at the same time because we needed low capital costs, better human skills and investments in technology if we were to compete and grow in a world in which good jobs followed both high skills and low capital costs.
- 2. That Health Care is a Top Economic and Social Priority of the Administration.*
- 3. A Balanced Approach between Deficit Reduction and Macroeconomic Considerations Needed for Steady Economic Growth.*
- 4. There is a Fundamental Distinction Between Investment in the Future and Consumption.*
- 5. A Commitment to Budget Policies that Were Fair to the Middle Class and the Working Poor:* Our main concern in distribution was not the form of policy choice (whether it was technically considered a cut or a revenue increase) but whether it was fair to the middle class and those who wanted the opportunity to work their way into the middle class.

It is my opinion that the Simon-Stenholm balanced budget Amendment hinders and indeed hurts all five core principles that are listed here. This, of course, is just one persons opinion of what constitutes our core principles and what effect the balanced budget Amendment would have on them. For the sake of discussion, however, it would be helpful if people expressed whether they disagree these definition of core principles or the analysis of how they would be affected.

**1. REDUCING TWO DEFICITS:** On February 17 we presented a economic growth package that the economic team felt represented a sound balance between closing the budget and investment deficit. The bill passed represented a near total success on our deficit goals. At this point, indeed, nearly the entire economic team believes that we have enough deficit reduction -- at least for the near future. On the other hand, while we passed several major pieces of the investment agenda (national service, empowerment zones, EITC), we have funded only about 55% of our investment agenda, and we will only approach 80% if we are able to successfully pass significant cuts and get them targeted toward our investments.

The Simon-Stenholm Balanced Budget Amendment calls for a balanced budget two years after the passage of the bill or by the year 2000. With our current economic plan, the deficit in the year 2000 would be \$251 billion. This means that we would need an additional \$251 billion in additional deficit reduction in that one year alone. The only plan for this currently that reaches this level calls for a 50 cent gas tax, an additional \$20 billion sin tax (the equivalent of another 50 cents cigarette tax and major alcohol tax) and complete means testing of all entitlement programs including Social Security and Medicare for 42% of Americans who receive those benefits, increasing payments significantly for Medicare recipients, increasing the Social Security Retirement age. Yet as this includes cuts that we are counting on for Medicare and Medicaid, the burden would be even harsher.

In light of this terrific burden, it would not be politically or economic tenable to imagine that this balanced budget obligation could be put off to the year 2000. Since it would not be credible to suggest that we could suddenly come up with \$251 billion in additional deficit reduction, there would be constant pressure on the Clinton Administration to show not only significant deficit reduction, but a plan to enormous additional deficit reduction. Indeed, it seems that the requirement for implementing legislation would include plans to additional deficit reduction of substantial amounts every year just so that we could be in the position of only finding an additional \$100 billion alone, in 2000. Therefore, I believe that any notion that passing the Simon Balanced Budget Amendment would take us off the hook for several years is misguided.

This would put the Administration is a position that would call for draconian cuts, large middle class tax increases or the threat of being out of compliance with a constitutional requirement. If we passed a balanced budget Amendment, it would be a decision to change our core principle to closing the budget deficit and only the budget deficit.

**2. COMMITMENT TO HEALTH CARE:** Once we had supported a balanced budget amendment, it would soon become apparent that there would be no way to do this without a major middle class tax increase large amounts of entitlement savings for deficit reduction, or most likely, a mixture of both. Since middle class taxes will be highly unpopular, the main target will be entitlement savings -- the bulk of which we are planning on using to fund health care reform. This would put a major roadblock in health care. It would start with a call that we could not afford long-term care and the prescription drug benefit. And then once it was established that we no longer needed Medicare savings to fund new entitlement, future efforts to cover these benefits would be diminished because without the new drug and long-term benefits, some would say the Medicare savings were now available for deficit reduction.

**3. NO DISTINCTION BETWEEN INVESTMENT AND CONSUMPTION:** There is nothing in the balanced budget Amendment that shows any distinction between consumption and investment. A \$1 of reduction in excessive health care spending is treated exactly the same as a \$1 in reduction in the best investment in technology, defense conversion or Head Start. Indeed, it seems clear that there will be a strong anti-investment bias in the balanced budget Amendment. When cuts have to be made, we know that it is far easier to cut new programs that have not been implemented -- and thus have no established constituency -- than to cut existing programs where there are jobs, expectations and entrenched political interests that will protect the status quo. Therefore the first thing to go -- as we saw when the caps were lowered -- is the new investments that the President calls for.

In our current budget, while we are close to getting half of what we asked for, we are getting only one-third of our main investing people proposals. Even under the current situation, we are in what must be considered a herculean effort to get our own cabinet to cut enough to make room for our investment package -- which itself was somewhat modified from the campaign. It is unthinkable that we could even get Congress to consider an additional \$15 billion in worker training or an additional \$15 billion in welfare reform, if they were looking at being able to cut over \$250 billion more in the year 2000.

**4. AN IMBALANCE IN OUR MACROECONOMIC STRATEGY:** It has been an economic principle during the campaign and the first year that our economic policies should draw a responsible balance between deficit reduction and steady economic growth. The balanced budget has a strong bias toward strongly favoring deficit reduction to the point of creating a systematic bias against recovery during periods of economic slow downs. One of the reasons economists credit our nation for having avoided another depression is the institution of counter-cyclical programs like UI and food stamps that serve as automatic stabilizers when demand falls. These programs are designed to increase during economic downturns not only for humanitarian purposes, but because it serves to maintain demand when people are losing income.

The language in the amendment that calls for preventing "total outlays for any fiscal year not to exceed total receipts for that fiscal year" reflects a legislative intent to have balance during each year, and not just a five year balanced budget plan. This means that satisfactory implementing legislation would require constant adjustments to keep the budget in

balance. This would require a Kevorkian macroeconomic strategy of cutting demand exactly at the time when the deficit is going up because demand is falling. The Simon-Stenholm reply is simply that all of this could be waived with simply a 60% vote. Yet, Bob Greenstein makes the very good point that it is not likely that Congress will feel compelled to break their constitutional obligation without strong proof that we are already in decline. Thus, the adjustments they rely on through the 60% vote waiver is likely to only occur after we have let this system damage the economy. [This is not to mention disasters and other crises.]

Furthermore, we would also be creating an anti-public investment bias. We would be saying that we believe that borrowing for smart investment only makes sense in the private sector, but never in the public sector. While it makes sense for us to believe that debt or the deficit should not rise as a percentage of GDP, I do not know what economic theory that we believe in that justifies amending the Constitution to say that the government can never borrow to invest in the future. Indeed, the President's belief in at least the theory behind a capital budget suggests precisely the opposite.

**5. A PROPOSAL TO HAVE BUDGET POLICIES THAT WERE FAIR TO THE MIDDLE CLASS:** The balanced budget amendment has an anti-middle class bias in at least two ways. Whether or not we pass Health Care, there will be no chance of balancing the budget without the President being compelled to propose a decisive benefit cut in Social Security. The Concord Coalition estimates that means testing all entitlement so that the top 42% of Americans receive less or no benefits would raise \$68 billion by the year 2000. This is a high number, but even if it is true, it raises less than 30% of what we want and calls for reducing or eliminating the Social Security and Medicare benefits of all Americans in the top 42% income bracket. Thus, we would be putting ourselves on a path where the President would be obligated to call for major cuts in Social Security that would not even get us near our target, and might contribute to a degree of contraction that we are even sure the economy can handle. And as so many in the middle class became activated to protect their own benefits, the pressure to ignore the poor and the working poor would become intense.

The Balanced Budget Amendment requirement that all revenue increases of any kind must be subject not to a majority in each House, but a majority of those present and voting by a roll call vote. This may not be a major obstacle in all cases yet we would be supporting a budget framework which would procedurally favor cuts hurting the middle class and poor over reductions in the most non-justifiable tax expenditure cut on the most well-off Americans -- since any reduction in tax expenditure would constitute a revenue increase. This is unnecessary. The "ratio" debate and the fact that the only tax expenditure for working poor people (EITC) counts as spending already safely protects an overzealous cutting of tax expenditures for the most well-off Americans.

## **RECOMMENDATIONS AND OPTIONS:**

**1. Oppose The Balanced Budget Amendment Vigorously:** Whatever the short-term politics, this balanced budget plan is so contrary to our goals, that we must fight it -- and

quickly. Senator Simon has close to the two-thirds super-majority he needs, and we need to go into action not only to get the undecideds, but to peel away some of its supporters. There is no way Moseley-Braun or Feinstein should be supporting this bill with full knowledge of its implications. But if there is a sense that it is fait accompli, others could pile on. We need to get our top Congressional and political advisors together for a serious strategy meeting.

**2. Fall Back Alternative Amendment:** Another option is for us to come up with some form of balanced budget plan with some form of capital budgeting. Obviously capital budgeting is subject to serious abuse, so we would have to design and present it in a way that did not leave it open to the claim that it would allow spending to increase through calling anything "capital."

**3. A Deficit as a Percentage of GDP Ceiling:** A component of a Clinton alternative could be an amendment that limited the percentage of the deficit as a percentage of GDP. This could be the back-stop of a federal capital budget. There could only be borrowing for investments, and even that amount would have a borrowing ceiling defined as a percentage of GDP. The CEA could write in special formula to make adjustments for counter-cyclical entitlement spending.

**4. Work with the Existing Bill:** I would greatly resist trying to work with the existing Amendment unless we absolutely had to. We should not lend support to this particular approach. If we have no choice, we should certainly look for a longer time period, a bias toward investment and for the middle class and poor, and sensible macroeconomic issues to be built into the formula. Yet, I caution that this is a constitutional Amendment and not a piece of legislation, and thus not usually a vehicle for this type of detail.

**5. Tell States What Will Happen:** The amount of shifting to the states if this were to be passed would likely be significant. If this has momentum we should have this in the mix, as at least a hope against 75% of the states affirming.

THE WHITE HOUSE  
WASHINGTON

File: balanced  
budget  
amendment

October 8, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: BILL GALSTON *WAG*  
SUBJECT: BALANCED BUDGET AMENDMENT

At the suggestion of Bob Rubin, I am writing this memorandum as an appendix to the NEC report on the balanced budget amendment.

I concur with the recommendation that you should vigorously oppose the balanced budget amendment. Its passage would be bad for the economy and worse for the constitution.

But the amendment should not be addressed as an isolated proposal. It is a symptom of a broader problem--continuing lack of public confidence in government management of the budget. Your opposition to the amendment must simultaneously address the underlying problem--with strong, credible proposals to keep the budget deficit on a downward course over the longterm. Otherwise, some advocates of the amendment may try to misrepresent your opposition to it as indifference to the larger cause of fiscal restraint--a damaging charge if the public can be led to believe it.

It is no accident that nearly two-thirds of both the House and the Senate supported a balanced budget amendment last year, or that congressional support may be even stronger today. The American people continue to believe that federal spending is not under control and that left to its own devices, Congress is unlikely to bring it under control. This summer, many members of Congress responded to public sentiment by demanding spending cuts even more far-reaching than initial administration proposals. Our pledge to go farther was a key to eventual passage of the budget, and we should honor it.

Specifically: I believe that when you speak out against the balanced budget amendment, you should also:

- o reaffirm your support for the National Performance Review's recommendations as a basis for the promised fall package of additional spending cuts;

- o reach out to members of Congress--particularly those who expressed concerns during the weeks prior to the budget vote--for further ideas about the elements of such a package;

o reemphasize your willingness to consider seriously whatever recommendations Sen. Bob Kerrey's entitlement commission may produce; and

o insist on a strong version of the line-item veto or enhanced rescission authority.

Many members of the administration are worried--rightly--about the impact of a balanced budget amendment on our investment program. But from the public's point of view, our right to "invest" their money depends on our overall prudence and restraint, and funding for these investments must come from spending reductions rather than revenue increases. For these reasons, among others, further deficit reduction is not the enemy of public investment, but rather its political precondition.



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

THE CHAIRMAN

October 12, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON *LD*  
 ALAN S. BLINDER *AB*

SUBJECT: Further Reflections on the Balanced Budget  
 Amendment

In our discussion of the balanced budget amendment at today's meeting, you reasoned that balanced budget requirements at the state level were sometimes beneficial because they forced state governments to make tough choices among spending priorities and to raise taxes to fund necessary investments. This is true. But, despite that, state and local expenditures have grown as fast or faster than federal expenditures over the last decade or two.

In evaluating the wisdom of a balanced budget amendment at the federal level, moreover, it is important to keep in mind some critical differences between the responsibilities of the federal government and those of state governments.

First and foremost, the federal government is responsible for the macroeconomic health of the nation. Indeed, the Full Employment Act of 1946--the same piece of legislation that established the Council of Economic Advisers--explicitly charges the federal government with this mission. By forcing fiscal contractions around the time of economic slumps, a balanced-budget amendment would imperil macroeconomic stability in a way that no state balanced-budget requirement can.

Second, the federal government's responsibility for the nation's macroeconomic well-being spills over our borders in that world macroeconomic stability depends, in part, on U. S. policies. Just as we are now complaining that German monetary and Japanese fiscal policies are drags on the world economy, a rapid move toward budget balance in the U. S. would imperil world economic growth.

Third, the federal government is responsible for upholding the integrity of the U. S. Constitution. Many thoughtful observers view a balanced-budget amendment as constitutional graffiti--and a potential source of serious constitutional crises.

Fourth, and finally, the proposed balanced-budget amendment is unlike the balanced-budget requirements of states in that it makes no distinction between capital and operating budgets. By federal definitions, states do "deficit financing" all the time.

We realize that the politics of this issue are difficult and that, in all likelihood, "you cannot beat something with nothing." But the economics here are so overwhelming that we urge you in the strongest possible terms to oppose the amendment.

We have attached a copy of an editorial by Alan Blinder criticizing last year's version of the balanced budget amendment. His arguments apply equally well to this year's version.

Attachment:a/s

## DID YOU HEAR THE ONE ABOUT THE BALANCED BUDGET?

BY ALAN S. BLUNDER



The latest yuk from Congress is called the balanced-budget amendment. It could wind up making slumps deeper and recoveries more difficult—and that's no joke

It would be comical if it weren't so serious. Yes, fans, the folks who brought you a \$269 billion deficit in fiscal year 1991, and are pushing \$400 billion in 1992 now are poised to pass a constitutional amendment mandating a balanced federal budget. Unless this legalistic lunacy is stopped, it may pass both houses of Congress in a month or two and be sent to the state legislatures for ratification. Since many states are eager to ratify, this abomination could become law in record time.

But why call it an abomination? Isn't the deficit too high? And hasn't the U.S. political mechanism shown itself incapable of dealing with it? The answers are yes and yes, but the constitutional cure is worse than the budgetary cold.

Let me start with the problem that is at once the most obvious and the most serious. As everyone should know by now, recessions swell budget deficits by reducing tax receipts and raising expenditures on items such as unemployment insurance. Under a balanced-budget amendment, Congress would be required to raise taxes, cut discretionary expenditures, or do both whenever the economy weakened—thereby aggravating slumps and making recoveries harder to sustain.

The House version at least limits outlays to estimated receipts rather than actual receipts, so a recession that takes us by surprise would not require a contractionary fiscal response. But the Senate version is based on actual receipts and has no such virtue.

**DRACONIAN MEASURES.** The recent recession provides a sobering example of how things might work out in practice. In January, 1991, the Administration projected a \$318 billion deficit for the fiscal year ended Sept. 30, 1991. Had the balanced-budget amendment been in effect, Congress would have had to pass spending cuts and tax hikes totaling much more than \$318 billion, because such draconian fiscal measures would surely have deepened the recession and depressed tax receipts further. What was a relatively mild, though long-lasting, contraction might have developed into a whopper. Why inflict this on ourselves?

Supporters note that the balanced-budget requirement could be overridden by a three-fifths vote of both chambers of Congress, with the House version also providing for a waiver in case of declared war. So the amendment could be waived when compliance would be most harmful. That's comforting. But why write into the Constitution something that we routinely expect to suspend?

The problems do not end there. Budget balance is a shibboleth, supported by no sensible economic principle—especially not when gross

domestic product, private debt, and business debt keep growing year after year. And the myopic focus on the federal deficit, to the exclusion of state and local deficits, is curious when the federal government sends the states about \$150 billion in aid each year.

Even if we somehow decided that a deficit of zero is the right target, the current federal accounting system is hardly the best way to keep score. To cite just two examples, it draws no distinction between current operating expenses and capital expenditures—which are routinely separated in state and local budgets. And it fails to recognize that inflation, by reducing the real value of the outstanding national debt, automatically yields tacit revenue to the government. Shall we enshrine neolithic accounting practices in the Constitution? Or shall we amend the Constitution each time accounting practices change?

**SPENDING LIMITS.** Other objections are procedural and constitutional. Under a balanced-budget amendment, Congress might mandate actions by others rather than spend money itself. More items would surely be moved off-budget. The price, in both cases, would be less oversight and political accountability.

Then, we must remember that America is the most litigious society on earth. Just imagine the lawsuits that would be filed alleging that Congress had violated the amendment in letter or spirit. The prospect of economic policy being made by judges, rather than by Congress, may appeal to some. But it is certainly not the way that powers are assigned by the Constitution.

Supporters claim that most states live with balanced-budget requirements now. Leaving aside the humorous notion that the states are models of fiscal rectitude, this assertion is quite wrong. State governments balance their operating budgets but finance capital expenditures by issuing debt.

The closest thing to a valid argument in favor of the amendment is that forcing Congress to finance all expenditures by taxation would limit spending—an outcome with evident appeal on the political right. But is it true? The fact that state and local spending has grown faster than federal spending for decades should give pause. And there is surely a more straightforward approach with fewer undesirable side effects: Pass a law limiting the growth of spending.

They say you can't beat something with nothing. So, I conclude with my own substitute amendment, combining the two worst constitutional ideas of the 1980s: Let's amend the Constitution to require children to pray for a balanced budget in the schools.

DORIS J. ARDIT

ALAN S. BLUNDER IS THE GORDON S. REINTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF GROWING TOGETHER



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

October 27, 1993

THE CHAIRMAN

MEMORANDUM FOR LLOYD BENTSEN  
ROBERT REICH  
ROBERT RUBIN  
HOWARD PASTER  
GEORGE STEPHANOPOULOS  
DAVID GERGEN  
THOMAS MCLARTY  
GREGORY SIMON  
JOHN PODESTA

FROM:

LAURA TYSON *Laura Tyson*

SUBJECT:

Draft Letter on the Balanced Budget Amendment

Attached please find a CEA draft of a letter that might go from the President to the Congressional Leadership expressing his firm opposition to the balanced budget amendment. As you can see from the language, the CEA believes the President should express his firm opposition to the amendment as soon as possible

Attachment:a/s

DRAFT LETTER TO THE LEADERSHIP CONCERNING THE BALANCED BUDGET AMENDMENT

10/27/93

Dear:

I write to express my firm opposition to the proposed balanced-budget amendment to the Constitution of the United States (S.J. Res. 41 and H.J. Res. 103). While I applaud the goal of further deficit reduction, and look forward to working with the Congress toward that end, a balanced-budget amendment--which is more slogan than solution--is not the right vehicle. More important, the proposed amendment endangers both the economy and the Constitution.

The balanced-budget amendment is, in the first place, bad economics. As you know, the Federal deficit depends not just on Congressional decisions, but also on the state of the economy. In particular, the deficit increases automatically whenever the economy weakens. If we try to break this automatic linkage by a Constitutional amendment, we will have to raise taxes and cut expenditures whenever the economy is weak. That not only risks turning minor downturns into serious recessions, but would make recovery from recession far more difficult. Contractionary fiscal policy in the 1930s turned an economic slowdown into a Great Depression.

Let's be clear: This is not a matter of abstract economic theory. A balanced-budget amendment would threaten the livelihoods of millions of Americans. I cannot put them in such peril.

The amendment by itself would not reduce the deficit by a single penny. Programmatic changes would have to be made. Given the current outlook for the FY99 budget, the amendment would require one of three painful choices: a huge increase in taxes on the middle class; a dramatic reduction in social security; or debilitating cuts in Medicare and Medicaid that would make a mockery of health security for millions of Americans and might kill the prospects for meaningful health care reform. I am firmly opposed to all three of these alternatives, and I believe that most members of Congress are equally opposed.

What would happen if the balanced-budget amendment were passed and easy political rhetoric gave way to tough political choices? The most likely outcomes are gridlock and accounting subterfuge. Where economic policy is concerned, the amendment virtually changes the definition of a democratic majority to 60%, and it is virtually impossible to imagine a 60% vote in favor of the unpalatable choices that would be required to balance the budget by the end of this decade. A gridlocked Congress would encourage members to look for an easy way out--for example, by

moving more federal programs off budget or by imposing more unfunded mandates on the states. Ironically, the amendment might easily encourage less rather than more fiscal responsibility.

Enforcement of the balanced budget amendment would be problematic at best and nightmarish at worst--possibly even precipitating a Constitutional crisis. Economic policy would wind up being made in the Courts rather than in the Congress, threatening the very integrity of our Constitution.

There are far better ways to reduce the deficit. As you know, I worked tirelessly with the Congress to gain passage of the largest deficit reduction package in the nation's history. I am now working to ensure that my health-care plan is a deficit-reducer rather than a deficit-increaser for I continue to believe that controlling health-care costs is the key to long-term deficit reduction. Enacting the savings proposed in the National Performance Review would also go a long way toward resolving our deficit problem. So would procedural innovations such as enhanced rescission authority or a line-item veto. We might also follow the lead of many states and other nations by developing a separate capital budget distinguishing between the current operating expenses and the investment programs financed by the federal government. The Kerrey commission will come forward with suggestions on controlling entitlement costs. Finally, I have just submitted an additional deficit-reduction package to the Congress. While I am open to these and other possibilities, I am not open to a rigid Constitutional amendment that would create more problems than it solved.

I remain firmly committed to the goal of deficit reduction. But I am just as firmly opposed to the balanced budget amendment. Not only does it do nothing to realize this goal but it is both bad law and bad economics. It would threaten the Constitution and imperil the macroeconomic stability of the nation.

Yours truly,

William J. Clinton

THE WHITE HOUSE

WASHINGTON

November 1, 1993

MEMORANDUM FOR THE VICE PRESIDENT  
SECRETARY BENTSEN  
SECRETARY REICH  
SECRETARY BROWN  
LEON PANETTA  
LAURA TYSON  
MACK MCLARTY  
DAVID GERGEN  
GEORGE STEPHANOPOULOS  
HOWARD PASTER  
CAROL RASCO  
ROGER ALTMAN  
ALAN BLINDER  
ALICE RIVLIN  
BO CUTTER  
GENE SPERLING  
BILL GALSTON  
JOE STIGLITZ  
JOHN PODESTA

FROM: BOB RUBIN

SUBJECT: NEC Meeting Regarding the Balanced Budget  
Amendment

This is to confirm that there will be an NEC meeting today at 6:30 p.m. in the Roosevelt Room to discuss the Balanced Budget Amendment.

Attached are the papers relevant to this discussion.

Attachments

not yet distributed  
11/1/93

THE WHITE HOUSE

WASHINGTON

November 1, 1993

**MEMORANDUM FOR THE PRESIDENT**

**FROM:** BILL GALSTON <sup>WAG</sup>  
DAVID GERGEN <sup>DG</sup>  
JODY GREENSTONE <sup>JG</sup>

**SUBJECT: BALANCED BUDGET AMENDMENT**

**Introduction**

We concur with the unanimous recommendation of your economic advisers that the Administration should oppose the Simon-Stenholm Balanced Budget Amendment. As drafted, the Amendment is not only legally questionable, but also requires such rapid and stringent reductions in the deficit that it could significantly damage the economy. However, to oppose the Amendment effectively, we believe it is important that the Administration:

\* provide sound, believable reasons to a skeptical public why your opposition to a Balanced Budget Amendment does not mean you are abandoning a commitment to continuing fiscal restraint. Having worked so hard to gain the high ground on budget discipline, you clearly want to keep it.

\* develop a long-term strategy on budget deficits that builds upon your success this past year, while also giving you greater freedom to pursue the nation's investment needs. It is our sense that the Administration has not fully agreed where we are now trying to go in fiscal policy, nor have we communicated a clear strategy to the public.

**The Need for More Fiscal Discipline**

Many members of the Administration are wary of further deficit reductions relying on additional cuts in spending on the grounds that such cuts would imperil your investment program. We share their -- and your -- commitment to intelligent public investment. But from the public's point of view, our right to "invest" their money depends upon our overall prudence and restraint, so that funding for new investments must come primarily from spending reductions, not revenue increases. For these reasons, among others, further deficit reduction is not the enemy of public investment, but rather its precondition.

Moreover, some of your advisers fear that renewed emphasis on fiscal discipline could come at the expense of health care reform. We believe just the reverse. In spite of the unprecedented care with which your health care budget was prepared, many inside and outside the Congress fear -- based on past experience -- that health care reform could increase rather than decrease the budget deficit. By emphasizing fiscal discipline in a clear and believable way, you can help relieve these doubts and build support for your health care plan.

It must be extremely frustrating for you that it is so difficult to fund such modest programs as an extension of unemployment compensation or an increase in your crime bill. The books are so tight that you wind up feeling like an accountant. But we can't solve the problem with more user fees or other indirect charges. The only way to free up real money is to reduce or eliminate less essential discretionary programs and slow the growth of entitlements.

Another reason for more fiscal discipline is the need for much greater private investment. As you have pointed out, the economy in the 1970's and increasingly in the 1980's moved from a path of high investment to high consumption. This shift contributed significantly to the decline in productivity growth, and family income. To regain vigorous long-term growth, we must return to the levels of investment -- private and public -- that characterized the economy in the 1950's and 1960's. As a number of analysts have argued, further deficit reduction, focused on slowing the growth of federal consumption spending, is a key to such increased private investment. In our judgment, the positive, long-term economic benefits of such a program, appropriately phased in, would greatly outweigh the short-term costs. We are not ready for such a fight in 1994, but we should consider it for 1995-96.

### **Political and Fiscal Landscape for the Balanced Budget Amendment**

Despite the enactment of your five-year budget plan and the enthusiastic response to NPR, the public remains distinctly uneasy about Washington's fiscal habits. In August, some 66% of respondents told pollsters from the *Washington Post* that our economic plan raised taxes too much and cut spending too little. Polls this fall also showed that the public still believes the government wastes 37 to 47 cents of every dollar spent. Stan Greenberg's September polling found that only 51% approved of your handling of the deficit while 42% disapproved. And, on Friday, a *Wall Street Journal/NBC* poll reported that nearly half of those polled said that the Administration is doing a poor job of reducing red ink. All of this suggests the need to keep pressing on fiscal discipline.

The public has also been strongly supportive of a Balanced Budget Amendment. A *Washington Post-ABC* poll this June found that 77% support the Amendment. That helps explain why nearly two-thirds of both the House and Senate supported an Amendment last year, and support continues to grow.

Fortunately, there has been very encouraging progress on the deficit in the short-term, but it is still unclear whether health care reform will bring as much reduction in long-term deficits as we had hoped. Without further action beyond health care reform, there is a risk that the underlying trends you inherited could bring us to the fall of 1996 with a deficit for FY 1996 not appreciably lower than the deficit for FY 1993. Put another way: under the current plan, we are projected to borrow \$1.37 trillion during your first term, versus \$1.53 trillion for President Bush. Should we experience modest underperformance in growth, spending or revenue, the Administration and the Democratic Congress could be exposed to the charge of adding more to the national debt in a single term than any other President. Recent articles in the *National Journal*, *The Atlantic* and *The Washington Monthly* have raised that specter.

Finally, we believe that when you oppose the Balanced Budget Amendment, the threshold question from the press and your political opponents is likely to center on your position concerning the desirability, timing, and method for achieving budget balance.

For all these reasons, your opposition to the Balanced Budget Amendment should be coupled with credible proposals to address the budget deficit over the long-term. (Indeed, this past summer, you told *USA Today* that you believed that the budget could be more or less in balance over 8-10 years without raising taxes.)

### **Short-Term Response to the Balanced Budget Amendment**

In addition to a clear and credible public rationale against the Amendment (focusing on the Amendment's failure to distinguish between cyclical and structural deficits and the concerns raised by its implementation and enforcement), there are a few positive short-term steps that could be taken:

- \* Insist again that Congress give you a line-item veto or a meaningful version of enhanced rescission authority. (We need to develop background information to show how much can be saved.)

- \* Appoint the Kerrey Commission.

- \* Push hard on the October package.

- \* Ask the Vice President to undertake Round 2 of NPR, even as we work to implement Round 1.

- \* Use the conference for Rep. Margolies-Mezvinsky as an opportunity for serious exploration of entitlements.

## A Systematic Strategy for the Long-Term

The harder question is what approach we should take to the longer-term. One option is to revisit your theme of the campaign that consumption spending (or all spending) by the federal government should not grow faster than the general economy. As you know, the Progressive Policy Institute has developed this approach and we believe that it deserves serious exploration within the Administration. Following is an outline:

1. Divide the budget into an investment budget and a consumption budget, with a tight definition of what counts as "investment" (e.g. education, training, civilian-related research and development and civilian-related infrastructure).

2. Require a balanced consumption budget by the year 2000, so that deficit spending would be allowed only for investments that pay off in long-term economic growth. (Mechanisms similar to those in the Simon-Stenholm proposal could be used to enforce the consumption balance.)

In practice, CBO currently projects a \$251 billion deficit for FY 2000. Assuming an investment budget of \$176 billion (your 1994 investment budget of approximately \$100 billion increased by 10% each year), this would mean reducing the deficit by an additional \$75 billion in FY 2000. Even with health care reform's projected budget savings of as much as \$37 billion in FY 2000, this level of deficit reduction, assuming no new taxes, would more than likely require middle-class entitlement reforms.

Moreover, this scenario is likely to continue into the foreseeable future. According to CBO, the deficit is slated to rise to \$359 billion in FY 2003. Even the most optimistic health care reform scenario is still likely to leave us with a deficit of over \$200 billion in FY 2003. Again, assuming no new taxes, consumption balance would more than likely mean middle class entitlement reform.

3. Limit the rate of increase in consumption spending (or overall spending) to no more than the rate of growth of the economy. (The budget you passed in August meets this standard, and you should get credit for it.) This would allow you to make the case that federal spending will increase no more than the average family's ability to pay for it.

4. Fashion and employ a base closing-type mechanism to get further cuts adopted.

5. Establish a comprehensive sunset process for programs and tax expenditures. (This would address a structural problem: under current procedures we find it very difficult to get rid of outdated laws that would not be enacted if they were freshly proposed.)

Note that this proposal would not require a balanced budget and, in fact, could leave us, for the foreseeable future, with annual deficits (albeit for investment) in the range of \$150 to \$200 billion. Therefore, you would still be vulnerable if the public continues to embrace balance as its preferred goal.

## **Increasing the Fairness of the Entitlement System**

As indicated above, any attempt to shift the balance of federal spending from consumption to investment, or to balance the consumption budget without new taxes, will require you to slow the growth of entitlement spending. Since the current system favors consumption over investment, and rich over poor, while stinting on the needs of children and youth, making room for public and private investment through entitlement reform also fits well with many of your longstanding concerns.

If you choose to pursue entitlement reform, there are a number of options available, including at least two that have gained public attention. Pete Peterson and the Concord Coalition are promoting separate but similar versions of "affluence testing," which progressively reduces (but never completely eliminates) entitlement benefits based on recipient income for the 42% of Americans earning \$40,000 or more. (The important difference between the overall Peterson and Concord plans is that Peterson calls for an \$85 billion increase or a full 1% increase of Gross Domestic Product in public investment by the year 2000, financed partially through increased taxes.) Under both the Concord Coalition plan and the Peterson plan, affluence testing alone saves approximately \$70 billion in the year 2000. The Progressive Policy Institute has also identified a series of more targeted reforms that remove some of the greatest inequities and excesses in the current system.

We believe that such entitlement reform deserves serious consideration by the Administration as a means for achieving continuing fiscal restraint and freeing up revenue for intelligent investment. It is for this reason that we recommend that the rhetoric you use in opposing the Amendment be carefully constructed to leave you the flexibility to pursue entitlement reform in the future.

November 1, 1993

MEMORANDUM TO BOB RUBIN

From: Gene Sperling

Subject: Balanced Budget Amendment Overview

WLS & WTB  
all sent 1 (over time)

File: Balanced Budget  
Amendment

We must quickly formulate our strategy for defeating the Simon/Stenholm balanced budget Amendment. Clearly, we need a message for fighting it, and a strategy for mobilizing support against the BBA. Another vital question, is whether or not we will highlight or push an alternative budget discipline proposal as part of our message and to give others an alternative to support in place of supporting the BBA.

**I. BASIC MESSAGE AND STRATEGY:**

The main message we should start with is the following: 1) We stand rock solid behind our deficit reduction plan, and will resist any efforts to soften it, and that only through health care reform can we take on the long-term deficit in a rational but effective way. But that we oppose the current BBA would lead to 1) massive middle class tax increases, 2) massive Social Security cuts for the middle class, and 3) kill any chance for health care reform, and challenge -- in a very public way, Senator Simon -- or other supporters -- to show that he is wrong. The President should say that if people want to support Social Security cuts and middle class tax increases, they should say so and not disguise it under a balanced budget.

There are at least four issues to consider in this message. One, including health care will be effective with members of Congress but may be a mixed message to the public. It will seem that we are saying that health care is vital to deficit reduction, but a balanced budget will hurt it because health care cost money. Two, should we use jobs and economic growth in our basic message. The Simon/Stenholm BBA will clearly be judged to have a terrible job effect by economic modelers. Should we use this as a main part of the message. Three, should we point out that a BBA could create a momentum that could lead to defense cuts unrelated to national security. Four -- and the main issue -- is whether our initial message will be an alternative budget discipline vehicle, which is discussed below.

***Message and Strategy Issues:***

- **The Health Care Hook for Switching Votes:** Some members may have signed on to the balanced budget amendment in the midst of campaigns and may not have realized how draconian a course that might be setting the nation on, but may not have a hook to switch positions. Health care may not only be a good argument for opposing the balanced budget -- it may be a hook for someone switch positions. A Senator

could say that they supported a balanced budget amendment but now that there is a serious health care plan that can bring down the deficit in the long-run, it does not make sense to pass an Amendment that would destroy any chance for health care reform. It would be especially powerful if we could get even one Senator to change their position based on health care and to write an op-ed explaining their position.

● **Mobilize the Unfunded Mandate Crowd:** All of the mayors and governors who are mobilized to fight unfunded mandates must realize what a terrible position they will be put in if the Amendment passes. First, tremendous funds that currently to states and cities in terms of investments will be cut. Second, taxes will inevitably have to be raised making it all the more difficult for states to raise revenues to make up for a degree of retrenchment that will create nostalgia for the Reagan cut backs. Third, with the federal government under so much pressure to balance the budget in the least painful ways, there will be a tremendous potential for shifting burden -- read, unfunded mandates -- to the states. Governors and mayors have to realize that this amendment will be the ones on the front lines when the police and support is cut and will be forced to make the tough choices or take the blame.

● **The National Security/National Defense Argument:** If we have to balance the budget, there is no question that the major pools of funds available will be middle class taxes, Social Security and Medicare. When the political reality of those requirements hits, there is no question that there will be a move to find a new pool of funds and that this pool will be defense spending. This may be why Sam Nunn has traditionally supported entitlement caps as opposed to balanced budget amendments. It might even add an interesting twist if we hit on this point: the President would be seen as opposing a balanced budget amendment not only because it hurts the middle class and economic growth but because he is afraid it will lead to imprudent decisions that will hurt our national security.

● **Job/Growth Impact:** An economic analysis of the balanced budget amendment -- of taking out \$600 billion over the next five years -- is likely to show substantial job loss and reduction in economic growth forecasts. Currently some of the groups opposing the BBA are having Wharton update a 1992 study they did. We could also think of commissioning an outside group like DRI. This could also -- and should also -- be state by state. A state-by-state could allow for some analysis of what voting for the BBA would do for defense conversion and California specifically. For California and other large states, it would mean billions less in education, defense conversion while costing hundreds of thousands of jobs. If major members of our cabinet go to the right states and make that message -- especially if those Administration officials go to their home states -- we could start to break through.

## II. ALTERNATIVE BUDGET DISCIPLINE:

We left the balanced budget discussion with the understanding that we should consider vehicles that would be options to the Simon/Stenholm BBA.

**1. Capital Balanced Budget:** The President, as well as people like Bob Reich and others have long called for a capital budget, in which borrowing for investment would be given a different status than borrowing for consumption. When asked about the balanced budget in June of 1992, candidate Clinton would state that every family knew the difference between investing in a home and investing in a meal (planting corn and eating your seedcorn.)

A capital balanced budget could be a vehicle to focus the attention on the distinctions between investments and consumption, and provide a deficit reduction context that would make it easier for members of Congress to oppose the Simon/Stenholm bill.

The problem with a capital balanced budget is that it create an incentive for everything to be labeled "capital" or an "investment." This is no small problem. If the political process is given permission to spend anything that can be labeled an investment, this could be nothing but a loophole for spending without accountability. There are ways to address this, but all of them are problematic.

**A) Physical Infrastructure:** One of the most logical ways to limit the slippery slope problem is to limit the classification of investment to physical infrastructure. This is what states do and it is capable of some limits. Yet, the notion that the main investment role of the federal government is infrastructure -- as opposed to education, training, technology -- is counter to our economic philosophy. Indeed, to the extent that we would be supporting a balanced budget for the non-capital part of the budget, we would be relegating education and training to the part of the budget that would be have to be seriously squeezed to be in balance. And most likely, it would be hard to keep many mainly defense spending and office buildings off the capital budget.

**B) Including Investment in People:** The answer to the problems mentioned above would be to include human capital in the capital side of the budget. Yet, we would have to have some sense of what the limits of this are. Most people, for example, would think that WIC was an investment, yet the same people would feel that certainly most health care must be seen as consumption. In the 1970s when New York City tried to put some welfare costs on the capital side of the budget, it was considered a budgetary scandal. One thought would be to limit the definition purely to education or training. In that case the training component of welfare reform would be on the capital side of the budget, while the portion that went to general support would not be. But how about in the comprehensive training proposal where the support is seen as the foundation that allows for long-term training?

**C) Independent Commission:** One answer that is likely to be heard is to have an independent, Federal Reserve-like, investment commission that would be independent and would set the standards on what should be on what side of the budget. This could take care of the most crude political problems (deals where non-investments are included as investments as part of compromises and logrolling). Yet, it would be an incredible delegation of a profound political decision to a non-accountable, non-democratic body. A new commission philosophy that there was no proof that elementary school education had serious social returns would dictate a tremendous amount of our national priorities. Still a good case could be made that this is still better than the status quo.

**D) Counter-cyclical Concerns:** Clearly a Clinton proposal must be consistent with sensible macroeconomic policies. A recent outside memo calls for limiting the non-investment part of the budget to growth in real GDP. The problem here is that this has the same flaw as the Simon and Stenholm balanced budget amendment: it would call for cutting entitlements that serve as counter-cyclical cushions just at the time when the economy is weak and they are needed. Thus, we must devise a proposal that allows for growth in entitlements when they are driven by more people being eligible for benefits because of a downturn in the economy. This could be done by making a sliding scale where increases are allowed in proportion to declines in GDP and unemployment or by making specific allowances for increases in the beneficiary population or benefits that are driven by economic slowdown.

**E) Political Concerns:** The concerns about limiting the capital balanced budget are both substantive and political. Even if we are able to devise a balanced budget Amendment that allows for a capital budget, the idea will not go far if it portrayed and perceived as nothing more than a vehicle for politicians to use the words "investment" as a hook for a new era of fiscal irresponsibility. If it was portrayed and perceived that way, it would also be hard for the capital balanced budget to be used to peel of current supporters of the Simon/Stenholm balanced budget proposal.

**F) Best Possible Capital Balanced Budget:** This is worth trying on the same principle on the principle that in many ways anything might be better than the status quo --- which is a budget in which no distinctions are made at all between investment and consumption. At least, an investment budget would focus national debate where it should be: what is consumption that must be dealt within a budget, and what is a good investment that we is worth borrowing for because of the high returns. Yet, if we cannot do anything to answer the questions, "how do we decide what is on the 'capital' side" and "how do prevent unlimited spending on the capital side?" than such an idea may not get anywhere. We should see what our best proposal is and test it internally.

**2. A Better Balanced Budget Alternative to Simon/Stenholm:** Another option is to put forth a better balanced budget amendment, but one that is not simply a capital balanced budget amendment. This would be the most successful strategy for peeling off some of the 60 Senators who are currently supporting the Simon amendment. If a serious balanced budget proposal was put forward that did not have supermajority requirements for raising the debt limit, and had better cushions for economic downturns, it could give cover for some of the Democratic supporters of Simon to switch to the new amendment and destroy the coalition Simon is putting together. The downside here is serious. It must be considered that if the President puts forth a non-capital balanced budget Amendment, those supporting it might do just what we are trying to do on universal coverage -- highlight that we have all agreed on the principle and say the debate is now only on the means to achieving it. Simon and others might even decide to come over if it means having the President behind him. In which case, we would have created a monster that would still destroy health care and our other basic investment priorities.

**3. Entitlement Cap:** Currently, we are close to having a post-health care reform entitlement cap. Any entitlement cap is largely a health care cap, as Social Security is generally tied to inflation and most other entitlements do not rise much above inflation. Under our current health care proposals, we are therefore close to a de facto entitlement cap. Most Medicaid recipients are being put into the alliance, whose premium costs are capped. The new discounts funds are capped. Medicare is not capped, but we have the types of savings (\$124 billion) that bring the growth rate down significantly. If we were willing to cap Medicare in the Nunn-Domenici style (CPI+pop+1), we could construct our own entitlement cap that we would propose.

A Clinton entitlement cap would be that following the passage of health care reform, there would be an entitlement cap that would be limited to inflation, plus beneficiary population, plus 2% or less. A Clinton entitlement cap would also make much better provisions for preserving the counter-cyclical function of entitlement spending -- such as a sliding scale that allows greater spending proportionally to the degree that growth falls under 2.0% or unemployment rises to a certain level. The key here is that the cap must have built into the baseline the additional spending we are planning for the discounts, long-term care, and prescription drugs. Thus, once we have both the cuts from Medicare and Medicaid and the new programs needed for health care reform, that post-health care reform baseline would be limited to inflation plus other relevant factors.

The key here is that if this is inevitable -- if health care is not going to be passed without a Medicare cap -- we could put this together and make an entitlement cap that we could propose (perhaps with Nunn). The advantage of this is twofold: one, it would allow us to get the fiscal responsibility bang for affirmatively leading with a Clinton entitlement cap, and two, by designing it ourselves, we could ensure that there are protections for the poor and for economic downturns. The downside is also two-fold: First, it is not clear that an overall entitlement cap is good policy, as it could lead to cuts to the most needy Americans and it could take away needed savings we need to fund initiatives on the PAYGO side of the ledger,

such as comprehensive worker training and welfare reform. Second, it might send the senior groups over the edge if we were to propose a cap on Medicare -- although they might feel differently if they thought that this was necessary for defeating a balanced budget amendment.

**4. Means Testing Entitlements:** The Concord Coalition is calling for a massive means testing proposal, that would save as much as \$68 billion a year by means testing every entitlement including Social Security for everyone making over \$40,000. Clearly, this is not a proposal we want to support. *On the other hand, I believe that we can not afford to be against any means testing for those at higher incomes. How can we as progressive, new Democrats oppose proposals by others who call for limiting the amount of entitlement spending going to the most well-off Americans?* If we support limited means testing, we will face significant opposition from our base, and we would have to deal with Social Security with sensitivity (and consultation with the senior Senator from New York). Nonetheless, if this train is going to gain momentum, I don't believe that we should let ourselves get run over by it. We should start considering a means testing internally for upper income Americans, with savings going to welfare reform, training and some deficit reduction by the fifth year of the plan.

File: Balanced Budget  
- Budget Amendment

November 5, 1993

~~encl. 2.~~

To Speaker Foley and Majority Leader George Mitchell:

I write to express my firm opposition to the proposed balanced-budget amendment to the Constitution of the United States (S.J. Res. 41 and H.J. Res. 103). While I am deeply committed to bringing down our nation's deficit, a balanced budget amendment—which is more slogan than solution—would not serve that end. It would stall the political process, degrade the Constitution and endanger the economy.

The Administration fought hard to pass a historic deficit reduction plan because we believe that deficit reduction is an essential component of a national economic growth strategy. As you know, I worked tirelessly with the Congress to gain passage of the largest deficit reduction package in the nation's history. This legislation includes a "hard freeze" on all discretionary spending -- no adjustment at all for inflation for five years -- a virtually unprecedented constraint on Federal spending. Through the National Performance Review, a new rescission package, and a major proposal to limit the growth of Medicare and Medicaid through comprehensive health care reform, we are taking continuing steps to keep the deficit on a downward path. I have also long supported such procedural innovations as enhanced rescission authority or a line-item veto and would consider workable budget proposals that distinguish between consumption and investment. The Bipartisan Commission on Budget Savings will come forward with suggestions on controlling entitlement costs and other serious budget reforms. While I am open to thoughtful, specific reforms, I am not open to a rigid Constitutional amendment that would endanger both the economy and the Constitution.

The balanced-budget amendment is, in the first place, bad economics. As you know, the Federal deficit depends not just on Congressional decisions, but also on the state of the economy. In particular, the deficit increases automatically whenever the economy weakens. If we try to break this automatic linkage by a Constitutional amendment, we will have to raise taxes and cut expenditures whenever the economy is weak. That not only risks turning minor downturns into serious recessions, but would make recovery from recession far more difficult. Let's be clear: This is not a matter of abstract economic theory. Contractionary fiscal policy in the 1930s turned an economic slowdown into a Great Depression. A balanced-budget amendment would threaten the livelihoods of millions of Americans. I cannot put them in such peril.

Moreover, an amendment that would require this magnitude of deficit reduction at this pace and rigidity would be harmful to average hardworking American families. Supporters of this amendment must be straight with the American people. Given the current outlook for the FY 99 budget, the amendment would require some combination of the following: huge increases in taxes on working families; massive reductions in Social Security benefits for middle class Americans; and major cuts in Medicare and Medicaid that would make a mockery of any attempt to pass meaningful health reform legislation. This latter

result would be particularly ironic and counterproductive because comprehensive health reform is our best hope not only for providing health security for all Americans, but also for bringing down the long-term structural deficit. I am firmly opposed to all the outcomes mentioned above and I believe that most members of Congress are equally opposed.

We must reject the temptation to use any budget gimmicks to hide from the specific choices that are needed for long-term economic renewal. The amendment by itself would not reduce the deficit by a single penny. The only way we can continue to make progress on bringing down the deficit while investing more in our future is to continue the process of making tough and specific policy choices. If we avoid such straightforward debate now, the likely outcome will be accounting subterfuge and gimmicks when the easy promise of a balanced-budget amendment runs up against difficult political realities. A gridlocked Congress would encourage members to look for an easy way out—for example, by moving more federal programs off budget or by imposing more unfunded mandates on the states. Ironically, the amendment might encourage less rather than more fiscal responsibility.

The Amendment's potential impact on our constitutional system is as troublesome as its effect on the economy. Enforcement of the balanced budget amendment would be problematic at best and nightmarish at worst—even to the point of risking a Constitutional crisis. The proposed amendments are so vague and complex that budgets quickly would be thrown into the courts to be written by appointed judges with life tenure, rather than the people's elected officials in Congress. Surely, we can do better than this.

Finally, I believe that economic and budgetary decisions should distinguish between investment and consumption. Those who manage a family budget know that there is a fundamental difference between spending money on a lavish meal, and paying the mortgage on a home that is an investment in one's future economic security. Under this balanced budget Amendment, there is no distinction between cutting a dollar in waste and a dollar in a valuable investment in technology that could make us a richer and more competitive nation in the future. That is unacceptable to me. We need to find ways to reduce the deficit and increase private investment in ways that increase — not subtract from — our most vital investments in the economic security and potential of our people and their communities. We must bring down the budget deficit at the same time we make progress on bringing down the investment deficit through investments in those who helped us win the cold war, through more resources to fight drugs and crime, and by giving all Americans the opportunity for quality education and training throughout their lifetimes.

I remain firmly committed to the goal of deficit reduction. But I am just as firmly opposed to this balanced budget amendment, because it would weaken the Constitution, discourage honest debate over the hard choices needed for long-term economic growth and imperil the macroeconomic stability of the nation.

THE WHITE HOUSE  
WASHINGTON

November 16, 1993

MEMORANDUM FOR BALANCED BUDGET WORKING GROUP

FROM: GENE SPERLING

SUBJECT: MATERIALS ON THE BALANCED BUDGET

1. Draft Talking Points
2. Presidential Balanced Budget Letter
3. Center on Budget Priorities Balanced Budget and Health Care
4. "Distorting the Constitution", Washington Post (11/8/93)
5. "Balanced Budget is Gaining Support" New York Times (11/6/93)
6. Concord Coalition Summary

Draft

## TALKING POINTS ON THE BALANCED BUDGET AMENDMENT

November 14, 1993

### 1. THE CLINTON ADMINISTRATION IS COMMITTED TO DEFICIT REDUCTION AND HAS TAKEN HISTORIC ACTION TO BRING THE DEFICIT DOWN:

- Passed the largest deficit reduction package in history
- Passed a hard freeze -- a 12% real reduction in discretionary spending -- which is unprecedented.
- People do not yet realize how brutal reaching those caps are going to be. Leon Panetta is already telling us that people are going to be shocked when they see how severe some of the cuts are -- especially if we are trying to make progress in other areas like fighting crime and defense conversion.

### 2. A BALANCED BUDGET AMENDMENT WOULD BE DEVASTATING FOR THE ECONOMY:

- We are also worried that a balanced budget would be devastating for the economy for two reasons.
  - We are now on a path of steady and sustainable growth. We now have a good balance, yet we will have to take \$500 billion out of the economy over the next five years. We believe that we can sustain that -- but there is a limit. If we push too hard, we could hurt this economy seriously.
  - A study released last year by Wharton Econometrics, showed there could be 3.4 million jobs lost. In the aftermath of the deficit reduction we have already done, we have some preliminary Treasury numbers that suggest that the job loss could be over 5 million, with a substantial hit on growth as well.
  - We learned in the Bush years, nothing hurts the deficit more than recession. If we slam on the breaks too hard, we could find drive up the deficit.
- The balanced-budget amendment is rigid, and because it has rigid escape clause, it would accelerate economic downturns. As the President said in his letter to the Congressional leaders: a balanced budget amendment is:
  - " in the first place, bad economics.... the deficit increases automatically whenever the economy weakens. If we try to break this automatic linkage by a Constitutional amendment, we will have to raise taxes and cut expenditures whenever the economy is weak. That not only risks turning minor downturns into serious recessions, but would make recovery from recession far more

difficult.... This is not a matter of abstract economic theory. Contractionary fiscal policy in the 1930s turned an economic slowdown into a Great Depression. A balanced-budget amendment would threaten the livelihoods of millions of Americans. I cannot put them in such peril."

**3. THE NEED TO START PLANNING IMPLEMENTATION LANGUAGE WOULD START RIGHT AWAY -- NOT YEARS LATER:** Some people have the misconception that since the balanced budget requirement does not kick in until FY1999, that is when the hard choices must be made. That is not the case. If Congress were to pass the balanced budget amendment, they would need to start to plan implementing legislation immediately. That would mean that members of Congress would be being asked to take positions on how to get the extra \$500 billion necessary to get down to zero -- choices that would clearly include major Social Security cuts and major middle class tax increases.

**4. A BALANCED BUDGET WOULD LEAD TO A COMBINATION OF LARGE MIDDLE CLASS TAXES, SOCIAL SECURITY BENEFIT CUTS FOR THE MIDDLE CLASS, OR LARGE MEDICARE AND MEDICAID CUTS THAT WOULD HURT CHANCES FOR HEALTH CARE.**

- By FY1999, the deficit is supposed to be around \$185 billion (OMB) to \$223 billion (CBO). To get the deficit down to zero by that time, would require at least an additional \$500 billion package through FY 1999 -- which is only one year more than the current package. That would almost surely require a combination of huge taxes, large cuts in Social Security.
- The Concord Coalition, for example, would raise the gas tax 50 cents a gallon, double all of the sin taxes that we plan to do for health care, means test Medicare and Social Security benefits for over 40% of all Americans, do additional substantial cuts on Medicare, cut defense and do virtually no new investments in crime, defense conversion or anything else.

**5. A BALANCED BUDGET WOULD THREATEN ANY CHANCE FOR MEANINGFUL HEALTH CARE REFORM:** One of the things that all of the plans have in common, is that they speak of doing health care reform without a large tax increase. That is because most will use Medicare and Medicaid savings to help fund reform. If this money is taken away and used for deficit reduction, it will kill health care reform efforts. This would be ironic since a comprehensive health care reform is our single best chance to do something about bringing the deficit down -- which is driven up by rising Medicare and Medicaid costs -- which is going up 11-16%. If these savings are taken just for deficit reduction, it will:

- lead to just cost-shifting to the private sector
- will likely be vigorously opposed by senior groups if funds are saved, but not used for health care.

**6. A BALANCED BUDGET AMENDMENT WOULD PUT OUR NATIONAL SECURITY BUDGET AT RISK.**

A serious danger is that if members of Congress have to vote on middle class taxes or Social Security cuts, they will look anywhere else and the only other big pot they will find will be defense and that would lead to decisions on national security based on politics, instead of what we need to be militarily secure. The balanced budget could also lead to cuts in foreign aid that go beyond what may be sound on foreign policy grounds, while damaging aid needed to make progress on peace efforts in the Middle East.

**7. A BALANCED BUDGET WOULD THREATEN OUR EFFORTS FOR DEFENSE**

**CONVERSION:** States like Connecticut and California would be seriously hurt because they need reinvestment projects to help them compensate for the defense cuts that are hurting their economy. A balanced budget amendment would destroy any chances of major defense conversion sources.

**8. A BALANCED BUDGET WOULD THREATEN WAR AGAINST CRIME AND**

**DRUGS:** If Congress had to start planning immediately how to find \$500 additional funds over the next five years, the easiest and most visible target would be the \$22 billion just set aside in the Senate for fighting crime and drugs.

**9. A BALANCED WOULD THREATEN OUR INVESTMENTS IN PEOPLE:** There is widespread public support for doing more on worker training, welfare reform, and education. In our FY1994 budget, we only got 1/3 of what we asked for in these vital areas. A balanced budget would be the death-knell for any hope of making major structural changes in training, welfare reform or investing in kids and reforming schools.

**10. A BALANCED BUDGET COULD EASILY LEAD TO UNFUNDED MANDATES:**

A balanced budget amendment would dramatically reduce federal assistance to cities and states for vital investments in infrastructure, fighting crime and drug abuse, education and worker training. In addition, the balanced budget would create a major potential for shifting burdens -- read, unfunded mandates -- to the states. This could have the effect of requiring local government officials to have to raise painful and often regressive sales and property taxes. Governors and mayors will be the ones on the front lines when the police and support is cut and will be forced to make the tough choices or take the blame.

THE WHITE HOUSE  
WASHINGTON

November 5, 1993

Dear Mr. Speaker:

I write to express my firm opposition to the proposed balanced budget amendment to the Constitution of the United States (S.J. Res. 41 and H.J. Res. 103). While I am deeply committed to bringing down our Nation's deficit, this proposed balanced budget amendment would not serve that end. It would promote political gridlock and would endanger our economic recovery.

The Administration fought hard to pass a historic deficit reduction plan because we believe that deficit reduction is an essential component of a national economic growth strategy. As you know, I worked tirelessly with the Congress to gain passage of the largest deficit reduction package in the Nation's history. This legislation includes a "hard freeze" on all discretionary spending, a virtually unprecedented constraint on Federal spending. Through the National Performance Review, a new rescission package, and a major proposal to limit the growth of Medicare and Medicaid through comprehensive health care reform, we are taking continuing steps to keep the deficit on a downward path. I have also long supported such procedural innovations as enhanced rescission authority or a line-item veto and would consider workable budget proposals that distinguish between consumption and investment. The Bipartisan Commission on Entitlement Reform will come forward with suggestions on controlling entitlement costs and other serious budget reforms. Thoughtful, specific reforms are better policy than a rigid Constitutional amendment.

The balanced budget amendment is, in the first place, bad economics. As you know, the Federal deficit depends not just on Congressional decisions, but also on the state of the economy. In particular, the deficit increases automatically

whenever the economy weakens. If we try to break this automatic linkage by a Constitutional amendment, we will have to raise taxes and cut expenditures whenever the economy is weak. That not only risks turning minor downturns into serious recessions, but would make recovery from recession far more difficult. Let's be clear: This is not a matter of abstract economic theory. Contractionary fiscal policy in the 1930s helped turn an economic slowdown into a Great Depression. A balanced budget amendment could threaten the livelihoods of millions of Americans. I cannot put them in such peril.

Moreover, at presently anticipated growth rates, the deficit reduction required by this amendment could be harmful to average hard-working American families. Supporters of this amendment must be straight with the American people. Given the current outlook for the FY 1999 budget, the amendment would require some combination of the following: huge increases in taxes on working families; massive reductions in Social Security benefits for middle class Americans; and major cuts in Medicare and Medicaid that would make it impossible to pass meaningful health reform legislation. This latter result would be particularly -- ironic and counterproductive because comprehensive health reform is our best hope not only for providing health security for all Americans, but also for bringing down the long-term structural deficit. The fact that these consequences will not be clear to most Americans for a few years does not relieve us of the responsibility of facing them today.

We must reject the temptation to use any budget gimmicks to hide from the specific choices that are needed for long-term economic renewal. The amendment by itself would not reduce the deficit by a single penny. The only way we can continue to make progress on bringing down the deficit while investing more in our future is to continue the process of making tough and specific policy choices. If we avoid such straightforward debate now, the likely outcome will be accounting subterfuge and gimmicks when the easy promise of a balanced budget amendment runs up against difficult political realities. A gridlocked Congress would encourage members to look for an easy way out -- for example, by moving more Federal programs off budget or by imposing more unfunded mandates on the States. Ironically, the amendment might encourage less rather than more fiscal responsibility.

The amendment's potential impact on our constitutional system is as troublesome as its effect on the economy. The proposed amendments are so vague and complex that budgets quickly could be thrown into the courts to be written by appointed judges with life tenure, rather than the people's elected officials in the Congress. Surely, we can do better than this.

Finally, I believe that economic and budgetary decisions should distinguish between investment and consumption. Those who manage a family budget know that there is a fundamental difference between spending money on a lavish meal, and paying the mortgage on a home that is an investment in one's future economic security. Under this balanced budget amendment, there is no distinction between cutting a dollar in waste and a dollar in a valuable investment in technology that could make us a richer and more competitive Nation in the future. That is unacceptable to me. We need to find ways to reduce the deficit and increase investment in ways that enhance not undermine the economic security and potential of our people and their communities. We must bring down the budget deficit at the same time we make progress on bringing down the investment deficit through investments in those who helped us win the cold war, through more resources to fight drugs and crime, and by giving all Americans the opportunity for quality education and training throughout their lifetimes.

I remain firmly committed to the goal of deficit reduction. But I am just as firmly opposed to this balanced budget amendment, because it would simply delay honest debate over the hard choices needed for long-term economic growth and could imperil the economic stability of the Nation and our fledgling recovery.

Sincerely,



The Honorable Thomas S. Foley  
Speaker of the  
House of Representatives  
Washington, D.C. 20515

THE WHITE HOUSE

WASHINGTON

November 19, 1993

Seattle

Dear Mr. Speaker:

I write to express my strong opposition to the Penny-Kasich amendment to H.R. 3400.

Over the past year, we have taken bold and serious steps to bring down the federal budget deficit and regain control of our economic destiny. We can be proud of the \$500 billion in deficit reduction -- including \$255 billion in spending cuts -- that we accomplished for fiscal years 1994 through 1998. The hard freeze on discretionary budget authority and outlays is the most significant step that has ever been taken to control discretionary spending. Likewise, my executive order establishing targets for mandatory spending (along with the specific mandatory savings contained in the reconciliation bill) is the first real step that has been taken to control unforeseen increases in entitlement programs. Furthermore, we have introduced the most detailed plan ever to provide universal health coverage and control the rise in health care spending -- which is the main culprit in driving up the budget deficit.

With specific regard to fiscal year 1994, we have already achieved, in the budget and appropriations process, savings of some \$12 billion from the 1994 cap on budget authority. That is a major accomplishment. I have also sent to the Congress a 6-year \$9 billion package of additional spending reductions and a \$2 billion fiscal year 1994 rescission bill. I am also supporting efforts to increase these savings as contained in H.R. 3400. The primary changes will be: (1) increasing the rescission proposal to \$2.6 billion in fiscal year 1994; and (2) a specific requirement to implement the National Performance Review (NPR) proposal to eliminate 252,000 positions from the federal work force. These and other actions will bring the total savings in the package to \$25-\$30 billion, as likely to be scored by the Congressional Budget Office.

In addition to these spending cuts, my Administration is working with the Congress on major reforms in the procurement process to be based on the principles established in the Vice President's NPR. If the legislation follows those principles, we anticipate that the procurement measure will save another \$22 billion over 6 years on top of the \$25 billion-\$30 billion in spending cuts described above.

The Penny-Kasich amendment to this savings package includes many meritorious spending cuts. Indeed, many of them have been proposed by my Administration to finance health care reform and meet the unprecedented spending caps in the recently passed economic plan. As they have included several of our cuts in their package, we will include several of these cuts in either our package or our FY 1995 budget proposal. Yet, despite these areas of common ground, I strongly believe that the amendment should not be passed for the reasons set forth below:

**Health Care Reform.** In the aftermath of the \$500 billion deficit reduction plan, the largest trouble spot in the federal budget is the spiraling cost of health care. The best single hope for reducing the long-term structural deficit is passage of fundamental health care reform to bring these costs under control. Yet, Penny-Kasich claims over \$40 billion of the potential Medicare savings needed for any serious health care plan. Therefore, it hurts, not helps, our effort to bring the federal deficit down. Denying these savings to health care reform would reduce the flexibility needed for any plan, and fracture the growing consensus for universal coverage and cost containment. The fact that the authors have chosen to modify their proposal by increasing the magnitude of the health care cuts is particularly disturbing.

**A Substantial Budget Gap Will Be Created:** Our economic plan already requires an unprecedented 5-year "hard" freeze on discretionary spending that will require serious cuts in nearly every part of the budget. This strict spending constraint already puts severe limits on spending, and will require serious cuts in nearly every part of the budget. Indeed, we already need to find over \$50 billion in additional discretionary savings to meet our deficit reduction targets and protect needed investments in fighting crime, defense conversion, infrastructure, training and education and other investments that most Americans believe are essential to economic growth. The original Penny-Kasich proposal would mandate an additional \$53 billion reduction of the discretionary spending caps. Because at least \$20 billion of its specific spending cuts are already included in my plan, Penny-Kasich leaves a \$70 billion gap between the deficit reduction mandate and the savings that are specified. Efforts to close this gap could harm important national priorities.

**Defense.** We are already undertaking a measured reduction in defense spending, carefully designed to protect our security needs. As defense makes up roughly half of total discretionary spending, the need to close a \$70 billion discretionary spending gap would create pressure for arbitrary defense cuts in force structure, force modernization, training and readiness, base cleanup, and defense conversion that could threaten our national security. Secretary of Defense Aspin and General John Shalikashvili, the Chairman of the Joint Chiefs of Staff, believe that the amendment "duplicates DoD reductions already taken to the current budget levels ... (and) would require cuts to personnel strength that would seriously degrade the support necessary to maintain readiness." In their letter to Congress, the Secretary and General went on to state, that the amendment and that while "[w]e appreciate the enormous pressures that deficit reduction goals have placed on federal spending, ... we do not believe this Congress is willing to allow our military forces to become the hollow shells that existed in the late 1970s."

**Bipartisan Commission on Entitlement Reform.** As you know, I have issued an executive order establishing a bipartisan commission to consider further entitlement reform. I believe that such detailed and deliberate consideration is the better way to address the difficult issues in our complex entitlement programs.

**Economic Growth and the Timing of Deficit Reduction.** We have already enacted the largest deficit reduction package in our nation's history. While our economy still has a long way to go, the benefits of all of our actions are beginning to show. In the first 9 months of our Administration, the economy has created 200,000 more private sector jobs than were created over the last 4 years. The economic plan has led to historic lows in interest rates and mortgage rates, which are fueling an investment-led recovery while allowing millions of American families to refinance their homes or find better opportunities to buy their first home. Over 90 percent of small businesses are already eligible for new or additional tax cuts due to our economic plan. And starting January 1, 1994, over 15 million American households with full-time workers will receive new or additional tax cuts so that those who work full-time will not have to live in poverty.

While we still must do more to get our economy working for all Americans, recent economic indicators suggest -- and my Secretary of the Treasury and Chair of the Council of Economic Advisers agree -- that our plan provided the right dose of deficit reduction. We should give that plan time to work and not take risks with our now fledgling recovery.

Together, we have made major strides in bringing down the deficit while still taking the steps we need to ensure national security and economic growth. Many of the ideas contained in the Penny-Kasich legislation can help move us in that direction, but for the reasons listed above, the amendment as a whole is flawed and must be rejected.

Sincerely,

A handwritten signature in black ink that reads "Bill Clinton". The signature is written in a cursive style with a long horizontal line extending to the right.

The Honorable Thomas S. Foley  
Speaker of the  
House of Representatives  
Washington, D.C. 20515

February 5, 1994

MEMORANDUM TO THE PRESIDENT

FROM: George Stephanopoulos/Gene Sperling

SUBJECT: Balanced Budget Amendment Strategy

**1. CONGRESSIONAL:** We have worked together -- along with Pat, Steve R. and Barbara Chow -- with senior senate staff to coordinate strategy. We have had two meetings with them, and a third planned, along with a private meeting with the two of us and Pat with Senator Byrd. We have targeted key Senators. Senator Mitchell's staff is more focused on coming up with alternative amendment strategies, while Senator Byrd has asked us to not discuss any such options, as he wants to take it on straight-up. He is interested in getting 41 votes against cloture and believes he can do it -- though that is no certain. Our strategy for now, is to launch a comprehensive effort to persuade the swing Senators how poor policy the balanced budget amendment is. Barbara Chow is working actively on key Senators and their staffs and has found Conrad open, and Johnston to be with us -- the latter is definite good news. Three Republicans -- Stevens, Hatfield and Kassenbaum are opposed and we are working on several more.

- Byrd will be conducting hearings from 2/15-2/17. On 2/15 Panetta, Reno, Perry, Shalala and Charles Fried will testify. On 2/16 they have constitutional scholars including Archibald Cox and Dellinger. On 2/17 they are going for economists and have Henry Aaron and Herb Stein among others lined up.

**2. OVERALL PUBLIC STRATEGY:** We are trying to build off the line in the State of the Union: "We have proven that we can bring down the deficit without choking off the recovery, punishing middle class or senior Americans, or putting our national security at risk." We must stress that through leadership and tough choices we are bringing the deficit down without doing these other harms. From there, our goal must be to make the "how and what are the consequences" questions the main issue. We have to create a context that puts the burden on them to explain how they can balance the budget. Our strategy is to get several studies out there with different scenarios -- preferably state-by-state -- that box people in to having to identify how they will balance the budget. This may turn some people and may make others stop considering this as a free vote. We also need to encourage a "right to know" call, where people at the state level can, instead of simply opposing the Balanced Budget, say they have a right to know whether their taxes will be raised or their Social Security cut.

We believe we can play people off against each other. Simon has told the AARP that defense will need to get cut. Other supporters will say defense cannot be cut. Others will want to put Social Security off the table. Soon it starts to blow up.

**3. STATE-BY-STATE "CAN'T HIDE" BBA SCENARIOS -- Stress Tax, Seniors, Defense Impact:** The key to making members of Congress understand the tough choices they will face is to lay out specific scenarios of what a balanced budget would mean. Leon did this effectively in 1992. Our key is to have several scenarios, that do not allow supporters to hide from tough choices. So we can say how much taxes will be increased; if they say they will not raise taxes, than we can say here is a no-tax scenario that will show severe Social Security cuts. If they say no Social Security cuts, than we can move to show them a no-tax, no-Social Security cut scenario, so that they cannot hide under any of these claims. The House Budget Committee will have specific line-by-line scenarios by February 14 -16. In the mean-time, Alicia Munnell will do broader scenarios -- broken down state-by-state -- that will be ready on Tuesday.

1. Families USA Social Security State-by-State released Friday, February 4.
2. Treasury Department State-by-State: released Wednesday February 9
3. Defense Department State-by-State: released TBA
4. WEFA State-by-State job loss study: Probably February 17, 1994
5. House Budget Committee specific scenarios (may not have state-by-state component, but will be highly specific)

[We can use Concord Coalition plan which uses 50 cent gas tax as well as sin taxes and dramatic entitlement cuts to get to balanced budget.]

**4. SENATOR SPECIFIC STRATEGY:** As this battle will have much to do with picking off a few Senators, we need to have specific, strategies for the targeted Senators. To facilitate such an effort, we have produced -- or arranged to have produced -- good state by state impacts, as well as comprehensive information on the key Senators. The DNC and Legislative Eric Berman, Tom Janenda and Nester Davidson have done a great job in collecting basic information on each key Senator and we are putting together notebooks with a tab for each Senator. Likewise, Alicia Munnell has done another super job of doing a state-by-state impact of the balanced budget amendment. This information allows us to have a strategy for phone calls from cabinet members, as well as a strategy for reaching into their local newspapers and areas and making sure people there understand why this Amendment must fail. Rahm has agreed to coordinate the effort to appeal to local papers and local groups.

**5. ECONOMIC STUDY:** An economic analysis of the balanced budget amendment -- of taking out \$600 billion over the next five years -- is likely to show substantial job loss and reduction in economic growth forecasts. Last year, AFSCME hired Wharton to do study that included state by state analysis. It showed job loss of over 3 million jobs. AFSCME has hired Wharton (WEFA Group) again -- though the number will probably not be that high.

- At our suggestion, they will examine both two scenarios: one, being a one-third taxes/two-third cuts option and a 100% cuts option. This 100% cuts option will help us greatly because it will take away the ability of any opponents to say that the job loss comes from taxes. The WEFA Group study will also show state by state job

impacts. They believe it will be ready to release on February 17. We have suggested that they try to coordinate this with Byrd Hearings that day.

- Jeff Faux is recirculating their letter from last year, so we should have a new letter with economists signed on in the near future. He will get back to me shortly.

- Tyson will testify on the BBA

- Op-eds on the strength of the economy and the danger of an BBA

**6. DEFENSE:** One of our most promising arguments is that a BBA would likely lead to major cuts in defense. We feel we are making real progress on this front, and DOD is being very supportive.

- At our suggestion, the Defense Budget Project has done a general scenario of what a BBA would mean for Defense

- Perry will stress Balanced Budget Scenarios during Budget Hearings before Senate Armed Forces hearing on February 8.

- Defense is preparing scenarios and is prepared to develop state-by-state defense cut scenarios.

- Perry, John Deutch and others top Pentagon officials are planning a breakfast to talk seriously with key Defense Senators.

**7. HEALTH CARE:** We have to lay out argument for why this kills health care. The challenge we face is that if health care is supposed to save costs, it seems counter-intuitive to some that cutting health care costs for deficit reduction is hostile to health care reform. We need to stress that alternative plans are even more dependent on savings from Medicare and Medicaid than ours and that it will be hard for any plan to be financed if the balanced budget amendment passes. Indeed, Chaffee-Dole calls for over \$200 billion in such savings that they would have to find on top of \$600 billion needed for balancing the budget. Since neither would like to raise taxes, that means \$800 billion in spending cuts.

- We will work with Senator Rockefeller on key health care Senators, and then with the information he gets, consider who would be best for Mrs. Clinton to call. Senators who support the balanced budget include Daschle, Harkin (Mrs. Clinton has talked with him), Durenberger, Chaffee, Jeffords, and we are hearing that Wofford may now support the balanced budget Amendment.

- Gene, Melanne and Marilyn Y. have been meeting with AARP and Families USA and we are working together. Rockefeller has been working on the Roosevelt Group.

**8. CONSTITUTIONAL IMPACT:** A strong point for some people is not only the danger of amending the Constitution, but the idea of how federal courts would be brought into the political budget making process. Our strategy is to make this as bipartisan as possible and to stress how much this would call for an incredibly activist and complex enforcement with the political budget process. Cliff and Melanne have worked on this issue and are taking positive steps.

- Cliff have arranged for a bipartisan scholars letter, authored by Charles Fried (Harvard) and Burke Marshall (Yale) that is now being circulated. They will try to focus on getting as many deans of prestigious law schools as possible. They apparently now have both Bork and Larry Tribe signed on -- so the sense of bipartisan opposition from the top scholars in the nation will be powerful.
- Walter Dellinger is working on a letter to Reno describing the enforcement problems and how much courts would be driven into governance of the federal budget. Both Reno and Dellinger are testifying before Byrd: Reno on the impact on crime funding and Dellinger on judicial entanglement.
- Fried-Marshall op-ed

**9. STATE AND LOCAL GOVERNMENT/CRIME:** State and local government will take a tremendous hit in terms of crime, unfunded mandates, and overall less federal help in the balanced budget passes. The mayors will grasp this more easily than the governors. We need to stress the crime point: Rubin addressed Mayors on BBA; Sperling addressed NACO and Jose is working on police organization: Elgie Holstein from NEC is working on "right to know campaign" with state legislatures and Marcia will coordinate with Mayors and Governors in states with key Senators.

**10. PRESS STRATEGY:** Much of the elite press is with us on the BBA. The New York Times and Washington Post editorial boards will be strongly opposed to the balanced budget Amendment. Yet, we need to make sure that all of the networks, Sunday show participants and major local papers are with us -- even besides the targeted Senators.

- Rubin, Tyson, Sperling met at ABC and went over BBA. Rubin and Sperling also met with CBS evening news producer and Erik Engberg and are interested and will have follow-up meeting with Sperling on possible BBA story.
- We have worked Bart Rowan on last Thursday column: Al Hunt will write next Thursday and we are working Clymer and Birnbaum on defense angle.
- Sent President letter and had brief discussions with major White House correspondents on the fact that President was opposing BBA.
- Late next week we will start editorial briefings.

- Rahm will do targeted strategy of papers in states of key Senators.

**10. GROUPS:** There are many groups who oppose this who are working under the coordination of AFSCME to defeat the balanced budget. We are proceeding as we did during Penny-Kasich. Marilyn Yeager has done an excellent job in getting the groups in. We have met already with agriculture groups, veterans groups and senior groups as well as AFSCME who have coordinated the outside effort. Gene has spoken at the AFSCME coalition meeting in January to stress White House commitment, and will do so again next week. The groups were worried at first that we were not fully committed to it, and are very happy to see commitment among the entire NEC team and from you and the First Lady. Rahm is trying to get more active involvement from AIPAC. Marilyn will also begin having someone do a balanced budget presentation at state opinion leader meetings being set up for health care.

**11. BUSINESS:** This is one place, we need to do better. The activity over health care has made it difficult to spend time on this so far, but we doing outreach now. In 1992, the Chamber of Commerce opposed the Balanced Budget Amendment.

**12. CONSERVATIVE OPPOSITION:** An important development has been that Kemp and Vin Weber have both come out strongly against the Balanced Budget Amendment. Their argument is that it will lead to tax increases and kill any chances for a Republican Administration in 1996 or 2000 to institute the type of tax cuts that they believe are necessary for a new Republican economic growth strategy.

## BALANCED BUDGET AMENDMENT SCHEDULE

**February 2: Wednesday: Perry Confirmation: Raise issue**

**February 4: Friday:**

- 11:00 Families USA Release of State-by-State
- We helped get Robert Byrd to appear with them
  - Statement of support by Secretary Shalala

**February 8: Tuesday:**

1. AFSCME Coalition Meeting (Gene will address)
2. Assignments of Cabinet Calls to Key Senators
3. Meeting with Byrd (Griffin, George, Gene)
4. Perry/Joint Chiefs Budget Hearings

**February 9: Wednesday**

1. Release of Treasury State-by-State to Local Media in Key States
2. Cabinet calls to Key Senators
3. Constitutional Scholars Letter goes to Hill

**February 10: Thursday:**

- Defense Groups (?)
- Al Hunt Column in the Wall Street Journal

**February 11: Friday:**

- Feed Materials to Weekend Sunday Show Hosts
- Non-Profits on BBA

**February 15: Tuesday**

- Byrd Hearings: Panetta, Reno, Perry, Shalala and Charles Fried will testify.
- Coalition Press Conference on National Job Loss

**February 16: Wednesday**

- Byrd Hearings: Constitutional scholars including Archibald Cox and Dellinger.

**February 17: Thursday:**

- Byrd Hearings: Economists: Henry Aaron, Herb Stein, EPI among others.
- Coalition Press Conference on State-by-State Job Loss

- Release of WEFA State-by-State Job Loss Study

February 11, 1994

MEMORANDUM TO THE PRESIDENT

FROM: George Stephanopoulos/Gene Sperling

SUBJECT: Balanced Budget Amendment Strategy

*Can we get  
Pat, Steve R. & Barbara  
Chow to commit to this  
New Congress? Men  
from call  
Clemens / Gove*

This memo is designed to give you an overview of the wide-ranging efforts going on in preparation for the battle over the balanced budget Amendment -- which is scheduled to be raised in the Senate on February 22. We have already taken considerable number of steps to build support for defeating the Amendment.

**1. CONGRESSIONAL:** We have worked together -- along with Pat, Steve R. and Barbara Chow -- with Senior senate staff to coordinate strategy. We have had two meetings with them as well as a third with Senator Byrd. Pat and Leon have also had several other discussions with Byrd and Mitchell. Leon will now have more time to focus on this with the budget presented, and will be a strong force for us on the Hill -- and has beat this in the past.

We have targeted key Senators. Senator Mitchell's staff is more focused on coming up with alternative amendment strategies, while Senator Byrd has asked us to not discuss any such options, as he wants to take it on straight-up. He is interested in getting 41 votes against cloture and believes he can do it -- though that is not certain. Our strategy for now, is to launch a comprehensive effort to persuade the swing Senators how poor policy the balanced budget amendment is and to make sure that case is heard in their local papers and home state. Rahm made the good point that during Penny-Kasich, we were winning big with elite papers, but not doing well with local newspapers that really matter. Barbara Chow is working actively on key Senators and their staffs and has found Conrad open, and Johnston to be with us -- the latter is definitely good news. Three Republicans -- Stevens, Hatfield and Kassenbaum are opposed to the Amendment and we are working on several more.

- Byrd will be conducting hearings from 2/15-2/18. On 2/15 Panetta, Reno, Perry, Shalala and Charles Fried will testify -- along with former Secretary of Defense Scheslinger. On 2/16 they have constitutional scholars including Archibald Cox and Dellinger. On 2/17 they are going for economists and have Henry Aaron and Herb Stein among others lined up. On 2/18, Simon will have a few hours to have witnesses who support the balanced budget amendment.

**2. OVERALL PUBLIC STRATEGY:** We are trying to build off the line in the State of the Union: "We have proven that we can bring down the deficit without choking off the recovery, punishing middle class or senior Americans, or putting our national security at risk." We must stress that through leadership and tough choices we are bringing the deficit down without doing these other harms. From there, our goal must be to make the "how and what are the

consequences" questions the main issue. We have to create a context that puts the burden on them to explain how they can balanced the budget. We are using a couple of tactics to move the debate this way. One, is to get several studies out there with different scenarios -- preferably state-by-state -- that box people in to having to identify how they will balance the budget. This may turn some people and may make others stop considering this as a free vote.

~~Second, we are also stressing everyone to focus on the "right to know" issue.~~ We've asked AARP and other groups to stress that they have a right to know what the specific choices are -- whether and how much they will raise taxes and cut Social Security. Forcing the debate to focus on how they would balance the budget will leads some of them to play people off against each other. Simon has told the AARP that defense will need to get cut. Other supporters will say defense cannot be cut. Others will want to put Social Security off the table. As different people start taking different parts of the budget off the table, it could start to blow up.

~~The tax, social security and especially the defense argument seem the most potent.~~ Health care may help us pull a couple of senators, although the public message is somewhat harder to communicate.

A strong argument for us is the fact that Jack Kemp and Vin Weber have come out against it on the grounds that it will lead to tax increases. This allows us to say that both Jack Kemp and President Clinton believe that a balanced budget amendment will lead to higher taxes that will damage economic growth.

**3. STATE-BY-STATE "CAN'T HIDE" BBA SCENARIOS -- Stress Tax, Seniors, Defense Impact:** The key to making members of Congress understand the tough choices they will face is to lay out specific scenarios of what a balanced budget would mean. Leon did this effectively in 1992. Our key is to have several scenarios that do not allow supporters to hide from tough choices. Thus, we can start by detailing how many taxes would have to be raised. If supporters say they will not raise taxes, than we can show how draconian a no-tax scenario that will be toward Social Security and Defense. If they say no Social Security cuts, than we can move to show them a no-tax, no-Social Security cut scenario, which will show massive defense cuts.. and so on. With this strategy, they can run, but they cannot hide. The House Budget Committee will have specific line-by-line scenarios (hopefully) by February 22 hopefully. In the mean-time, we have asked Alicia Munnell to do a least basic state-by-state. We gave much of our information initially to Al Hunt for his column, but we will release this on Monday, February 14 -- with state specific press releases.

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2. Treasury Department State-by-State: released Wednesday February 14
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[We can use Concord Coalition plan which uses 50 cent gas tax as well as sin taxes and dramatic entitlement cuts to get to balanced budget.]

 4. **SENATOR SPECIFIC STRATEGY:** As this battle will have much to do with picking off a few Senators, we need to have specific, strategies for the targeted Senators. To facilitate such an effort, we have produced -- or arranged to have produced -- good state by state impacts, as well as comprehensive information on the key Senators. The DNC and Legislative (Eric Berman, Nester Davidson and particularly Tom Janenda) have done a great job in collecting basic information on each key Senator and we are putting together notebooks with a tab for each Senator. Likewise, Alicia Munnell has done another super job of doing a state-by-state impact of the balanced budget amendment. This information allows us to have a strategy for phone calls from cabinet members, as well as a strategy for reaching into their local newspapers and areas and making sure people there understand why this Amendment must fail. Rahm has agreed to coordinate the effort to appeal to local papers and local groups.

5. **ECONOMIC STUDY:** An economic analysis of the balanced budget amendment -- of taking out \$600 billion over the next five years -- is likely to show substantial job loss and reduction in economic growth forecasts. Last year, AFSCME hired Wharton to do study that included state by state analysis. It showed job loss of over 3 million jobs. AFSCME has hired Wharton (WEFA Group) again -- though the number will probably not be that high.

- At our suggestion, they will examine both two scenarios: one, being a one-third taxes/two-third cuts option and a 100% cuts option. This 100% cuts option will help us greatly because it will take away the ability of any opponents to say that the job loss comes from taxes. The WEFA Group study will also show state by state job impacts. They will release national job loss numbers and state-by-state job loss numbers on February 17 and we will have to. We have suggested that they try to coordinate this with Byrd Hearings that day.

- Jeff Faux is recirculating their letter from last year, so we should have a new letter with economists signed on in the near future. He will get back to me shortly.

- Op-eds on the strength of the economy and the danger of an BBA

6. **DEFENSE:** One of our most promising arguments is that a BBA would likely lead to major cuts in defense. We feel we are making real progress on this front, and DOD is being very supportive.

- At our suggestion, the Defense Budget Project has done a general scenario of what a BBA would mean for Defense

- Perry and Shalikhvili expressed their opposition to the Balanced Budget Scenarios during Budget Hearings before Senate Armed Forces hearing on February 8. It was reported in the New York Times and Al Hunt's column.

- Defense is preparing scenarios and is prepared to develop state-by-state defense cut scenarios.

- Perry, John Deutch and others top Pentagon officials are planning a breakfast to talk seriously with key Defense Senators.

**7. HEALTH CARE:** We have to lay out argument for why this kills health care. The challenge we face is that if health care is supposed to save costs, it seems counter-intuitive to some that cutting health care costs for deficit reduction is hostile to health care reform. We need to stress that alternative plans are even more dependent on savings from Medicare and Medicaid than ours and that it will be hard for any plan to be financed if the balanced budget amendment passes. *Indeed, Chaffee-Dole calls for over \$200 billion in such savings that they would have to find on top of \$600 billion needed for balancing the budget. Since neither would like to raise taxes, that means \$800 billion in spending cuts.*

- We will work with Senator Rockefeller on key health care Senators, and then with the information he gets, consider who would be best for Mrs. Clinton to call. Senators who support the balanced budget include Daschle, Harkin (Mrs. Clinton has talked with him), Durenberger, Chaffee, Jeffords, and we are hearing that Wofford may now support the balanced budget Amendment.

- Gene, Melanne and Marilyn Y. have been meeting with AARP and Families USA and we are working together. Rockefeller has been working on the Roosevelt Group.

**8. CONSTITUTIONAL IMPACT:** A strong point for some people is not only the danger of amending the Constitution, but the idea of how federal courts would be brought into the political budget making process. Our strategy is to make this as bipartisan as possible and to stress how much this would call for an incredibly activist and complex enforcement with the political budget process. Cliff and Melanne have worked on this issue and are taking positive steps.

- Through good work by Cliff Sloan in contacting constitutional scholars, there is now a bipartisan scholars letter, authored by Charles Fried (Harvard) and Burke Marshall (Yale) -- with some of the most prestigious constitutional scholars in the country including both Tribe and Bork. We will give it to the Ruth Marcus for the Sunday, Washington Post.

- Walter Dellinger is doing testimony describing the enforcement problems and how much courts would be driven into governance of the federal budget. Both Reno and

Dellinger are testifying before Byrd: Reno on the impact on crime funding and Dellinger on judicial entanglement.

**9. STATE AND LOCAL GOVERNMENT/CRIME:** State and local government will take a tremendous hit in terms of crime, unfunded mandates, and overall less federal help in the balanced budget passes. The mayors will grasp this more easily than the governors. We need to stress the crime point. Rubin addressed Mayors on BBA; Sperling addressed NACO and Jose is working on police organization; Elgie Holstein from NEC is working on "right to know campaign" with state legislatures and Marcia will coordinate with Mayors and Governors in states with key Senators.

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- We have worked Bart Rowan on last Thursday column and Al Hunt on his Thursday column and are trying to encourage a defense/BBA story.

- Sent President letter and had brief discussions with major White House correspondents on the fact that President was opposing BBA.

- We will work with Rahm, Kim Hopper and others to target papers in states of key Senators.

**10. GROUPS:** There are many groups who oppose this who are working under the coordination of AFSCME to defeat the balanced budget. We are proceeding as we did during Penny-Kasich. In Alexis' shop, Marilyn Yeager with help from Barbara Wooley has done an excellent job in getting the groups in. We have met already with agriculture groups, veterans groups and senior groups as well as AFSCME who have coordinated the outside effort. Gene has represented us at the AFSCME coalition meetings to stress White House commitment, and Barbara Chow has been also working closely with them. The groups were worried at first that we were not fully committed to it, and are very happy to see commitment among the entire NEC team and from you and the First Lady. Rahm is trying to get more active involvement from AIPAC. Marilyn will also begin having someone do a balanced budget presentation at state opinion leader meetings being set up for health care.

**11. BUSINESS:** This is one place, we need to do better. The activity over health care has made it difficult to spend time on this so far, but we doing outreach now. In 1992, the Chamber of Commerce opposed the Balanced Budget Amendment.

## BALANCED BUDGET AMENDMENT SCHEDULE

**February 2: Wednesday:** Perry Confirmation: Will Raise issue  
Planning Meeting with AARP, Families USA, Committee to Preserve Social Security

**February 4: Friday:**

- 11:00 Families USA Release of State-by-State
- We helped get Robert Byrd to appear with them
  - Statement of support by Secretary Shalala

**February 8: Tuesday:**

1. AFSCME Coalition vs. Balanced Budget Meeting (Gene will address)
2. Meeting with Byrd (Griffin, George, Gene)
3. Perry/Joint Chiefs Budget Hearings (They will be asked about BBA)

**February 9: Wednesday**

1. Constitutional Scholars Letter goes to Byrd (not to be released)
2. Merge Balanced Budget Arguments with Post Budget Outreach Meetings

**February 10: Thursday:**

- Al Hunt Column in the Wall Street Journal -- based on our scenarios.

**February 11: Friday:**

- Completion of Treasury State-by-state Materials
- Meeting to Plan Release of State-by-state
- Coordinate Cabinet Testimony

**February 13: Sunday**

- Sunday evening: 50 state-by-state releases go out

**February 14: Monday**

- State Impacts to Members of Congress
- Groups/Mayors to do releases reacting to our State impacts
- Conference Calls to Newspapers in 10 key states (Rubin, Munnell, Sperling, Stephanopoulos to participate --maybe Tyson, Panetta)

**February 15: Tuesday**

- Byrd Hearings: Panetta, Reno, Perry, Shalala and Charles Fried will testify.
- Coalition Press Conference on National Job Loss
- Cabinet Calls start to Key Senators
- Local Paper Editorial Board Calls (NEC team)

**February 16: Wednesday**

- Byrd Hearings: Constitutional scholars including Archibald Cox and Dellinger.
- Meeting with Senator Lieberman

**February 17: Thursday:**

- Byrd Hearings: Economists: Henry Aaron, Herb Stein, EPI among others.
- Coalition Press Conference on State-by-State Job Loss
- Network and Major Paper Small Briefings (NEC team)

**February 18: Friday:**

- Simon Hearings: Supporters of the Balanced Budget
- Network and Major Paper Small Briefings (NEC team)
- Calls and Faxes to Sunday Shows

# The Balanced-Budget Hoax

Congress, voters, thereby restricting in Africa and Middle East to work, unless we pay the cost of the \$30 billion, says Sen. Lott. So far, the world and our billions of other fighting and highway funds earmarked for years.

If one wanted the political satisfaction, but all would be distant possibilities if the Senate later this month approves a proposed constitutional amendment mandating a balanced budget, despite the finding public forces for deficit reduction, holders say there's an even shot the amendment will pass Congress.

Every lawmaker who votes for it should have to answer one simple question: How, with specificity, would he or she balance

## Politics & People

By Albert R. Hunt



The budget by the end of the decade? To year is a balanced budget by fiscal 2000, an additional \$200 billion in budget cuts or tax increases must be enacted over the next four years; by contrast, last year, Congress, by the Grand Bargain of one vote—repeal of the deficit by \$113 billion. A politically realistic road map to balancing the budget in five years would have 2½ times more cutting defense spending, another quarter from higher revenues and half from reducing spending, including military costs.

In taxes, if a few more creative and enterprising are enacted, some lawmakers are hopeful and the sales tax on liquor, the new cigarettes are taxed a little more, that still would raise less than \$100 billion over four years. Then, the most appealing target: corporate taxes. Both show most Americans still think corporations don't pay enough taxes and corporate taxes would be an inevitable target.

On the domestic spending side, assume Medicare and Medicaid are whacked \$100 billion, or almost double the politically appealing cuts that Congress voted last year. Then start eliminating entire programs: Kill outright every highway demonstration project, the space station, Amtrak subsidies, aid to public broadcast, legal services funding for the 600,000 new cops, and all federal support for the arts. Likewise, do away with entire agencies: the Commerce Department, the Army Corps of Engineers, the General Services Administration and the Small Business Administration. For good measure, cut Congress \$100 billion by a third and eliminate half of the foreign aid to the two biggest recipients, Israel and Egypt.

Altogether, including health, those cuts back still would total less than \$200 billion over five years. To get the \$300 billion plus more, there's only one target big enough: Social Security. If there benefit increases are limited in the annual cost of living rise to 2½%, something politicians hold to be politically heretical—we're still \$70 billion short of the goal.

The defense budget would have to be slashed an additional 12%. The Pentagon now is formulating what that would mean, and one top defense department official laid out the likely consequences. The projected 500,000 Army force level would be cut to 400,000. Marines would drop from a projected 174,000 to about 85,000, and the reserves would be reduced by a third. Most modernization efforts would be abandoned, and the \$2 billion a year the Pentagon now spends on the new technologies would be scaled back to \$5 billion.

The bottom line: The strategy of the Joint Chiefs of Staff and President Clinton that the U.S. be prepared to fight in two simultaneous regional conflicts would have to be scrapped.

To battle the measure, the White House has devised a series of budget balancing options and spilled out the specific policy implications, including the effects on each state. In Texas, for example, if the reductions came from an across-the-board spending cut, by 1999 the average Social Security recipient would get 3½% less a year; the state would lose \$1.8 billion in defense spending and almost \$1 billion in research and development projects.

Some justices, proponents with screen, Year, but it makes the point that this is

### How to Balance the Budget by FY 2000

Zero deficit plan savings would include:	
National Security	\$ 800 billion
Reduce current defense reduction	\$ 5
DDM (DOD) spending reductions	\$ 25
ENTIRE DOD	\$ 825
Comprehensive endowment system test	\$ 80
Supplementary judicial budget reform	\$ 32
Reduce tax in Social Security	\$ 18
Reduce tax in Social Security	\$ 18
Costs to increase	\$ 45
Actual and balance the measure	\$ 79
Low mortgage interest deduction	\$ 7
ENTIRE \$1	\$ 35
Some debt service	

### Start: The Current Outlook

real still. Those who want to avoid higher taxes should say where they'd find an added \$50 billion to spending cuts, or those who want to exempt defense should specify similar savings in other areas or domestic outlays.

To simplify matters, ask lawmakers to balance one budget, fiscal 2000. A good benchmark is the proposal by the Concord Coalition—the Paul Tongs and Warren Rudman led effort to impose fiscal discipline—that would lead to more than \$200 billion of deficit reduction than year. They would close windows and Veterans Adminis-

tration hospitals, end Amtrak subsidies, eliminate the spare station, reduce the budget branch's budget by 15% and cut labor payments, among other cuts.

That's less than \$100 billion, however, so then the Concord Coalition gets pretty detailed: create testing all entitlements, including Social Security; raising the retirement age to 65; enacting a 50 cent-a-gallon gasoline tax; shifting added taxes on beer and booze, and sharply curtailing the home mortgage deduction. Ask those budget-hating politicians if they support this agenda.

Supply-sider Jack Kemp opposes the amendment because he thinks it's "a trap" to raise taxes; the head of the Joint Chiefs of Staff, Gen. John Shalikashvili, opposes it out of fear it would derange national security, and Robert Greenstein of the Center on Budget and Policy Priorities worries it would unduly hurt poor people. They all could be right.

There's little doubt that in several years tougher deficit-reduction measures will be necessary, including creating new on the growth of entitlement spending and getting more revenues. Health care legislation, the Republican proposals as well as the administration's, only adds to this inevitability, but those scars ought to be debated, not hidden under the cloak of an amendment that balances the budget but doesn't tell people how it will be done.

Two decades ago a veteran House member, James Burke, explained how he stayed in Congress by voting for every spending bill and against every tax hike and debt-ceiling increase. When a later, young colleague suggested that this was a prescription for chaos, Jimmy Burke smiled on his great, smiled and said, "You think this place is on the level?"

In a couple of weeks there's going to amend the Constitution with this show will, in the words of Jimmy Burke, show they first know the floor is on the level.

reason is to illustrate that without last year's budget, which cut this year's deficit, the burden on future generations would have been even greater.

Seeking Short-Term Sacrifice

The analysis builds its forecasts on the assumption that nothing is changed in the hope of building support for policies of short-term sacrifice for long-term benefit.

"We were placing such a huge burden on future generations that we needed to ask today's generation, as well as those who benefit from Federal programs, to sacrifice a little bit," said Barry J. Toive, a spokesman for the Office of Management and Budget.

The budget estimates that as health care and Social Security costs continue to rise, young Americans in general will pay significantly more of their lifetime income as Federal, state and local taxes than their parents and grandparents did. These taxes are rising even if Government payments to individuals, like Social Security checks, are deducted.

"This is really a catastrophe that we're preparing for our kids," said Laurence J. Kotlikoff, a Boston University economics professor who helped the White House's Office of Management and Budget prepare the figures.

So-called net taxes, calculated by subtracting Government payments to individuals from taxes paid, will total 38.9 percent of lifetime income for today's teen-agers, according to the Clinton proposal. This compares with 33.2 percent for Americans born in 1950 and 23.6 percent for those born in 1900.

In its last two years, the Bush Administration began reckoning the lifetime tax burdens of the budget deficit, but buried the results even more deeply than the Clinton Administration, and the figures were little noticed.

In a more speculative calculation, the Administration forecast that the average net tax rate for future generations would eventually reach 82 percent of their lifetime earnings. Without last year's budget package, the burden would be 93.7 percent, the budget document said, while passage now of the President's health care plan would lower the burden to 65.5 percent.

These calculations of income distribution among generations, known as generational accounting, have become

policy-making, he said. Alan J. Auerbach, a University of Pennsylvania economist who joined Mr. Kotlikoff and Jagadeesh Gokhale, an economist at the Cleveland Federal Reserve Bank, in helping the Office of

Mr. Kotlikoff said So today's toddlers would be paying a lot of taxes but would eventually receive a large chunk of the money back from the Government as their medical bills in old age become enormous.

## 2 Pentagon Leaders Oppose Amendment To Balance Budget

Special to The New York Times

WASHINGTON, Feb. 8 — The Pentagon's two senior officials today took an unvarnished stance against the latest plan for a balanced-budget amendment to the Constitution.

Defense Secretary William J. Perry and Gen. John M. Shalikshvili Chairman of the Joint Chiefs of Staff, told Congress that the amendment would probably force large and immediate cuts in the discretionary portion of the Federal budget, about half of which goes toward Pentagon programs.

"We are for, as I suppose most American citizens are for, a balanced budget," Mr. Perry said. But under the proposed amendment, which would mandate a balanced Federal budget as early as 2001, he added, "you can conclude that it would have a devastating effect on our ability to maintain an adequate defense structure."

General Shalikshvili said he was reluctant, as a nonpartisan military official, to enter into a "politically charged" debate, and then he did. "I fully align myself with Secretary Perry on this issue," he said.

Mr. Perry's assessment of the effect on military programs assumed that Congress would balance the budget by cutting discretionary Federal spending and leaving entitlement programs like Medicare and food stamps in place.

The last drive for a balanced-budget amendment, in 1992, came within nine votes of the needed two-thirds majority in the House; in the Senate, it died in a filibuster. But the latest version of the amendment, introduced last year by Senator Paul Simon, Democrat of Illinois, swept easily through the Judiciary Committee.

It would prohibit the Government from running a deficit except in time of war or imminent war, or unless three-fifths of the Senate and House voted to suspend the ban.

March 1, 1994

**MEMORANDUM TO THE PRESIDENT**

**From:** George Stephanopoulos/Gene Sperling

**Subject:** Balanced Budget Update

We will start immediately to work with Pat Griffin and people in the House on our strategy for fighting the Simon-Stenholm Amendment in the House of Representatives. This will be an uphill fight because many in the House may feel that this is now a "free vote." If it passes with overwhelming support it will put more pressure to bring it back to the Senate.

Below is a brief summary of some of our effort since the last activity update we sent you.

**1. CONGRESSIONAL:** We have worked with Mitchell's office and taken their lead in picking the right people for you to call, and having other cabinet members call. When asked several members of Panetta, Reich, Rubin, Goldin and Perry all made calls to key Senators. Perry and Deutch also hosted a breakfast for Senators on the impact of the defense hits.

**2. OUTREACH:** We have continued an aggressive outreach strategy since the last update we gave you and have done several meeting with all groups and coordinate strategy and outreach. Marilyn Yeager and Barbara Wooley have set up briefings in and outside the White House with groups where Gene and often Barbara Chow gave briefings. Marsha Hale has arranged for us also to brief intergovernmental groups.

- Committee for Education Financing who chose sent out a major mailing to targeted Senators.
- 10 major Aerospace companies -- who we have made major progress with in convincing that the balanced budget is a major threat to defense. (Roosevelt Room)
- Rebuild America Coalition: We gave keynote speech on BBA and need for investment.
- Agriculture groups (Roosevelt Room)
- Veterans and Disabled Veterans (Roosevelt Room)
- Non-Profits and Humanities (Roosevelt room)
- US Conference of Mayors: Briefed Mayor Abrahamson who is ready to work further on the House vote.

- NACO
- State Treasurers:
- Small Business Legislative Council:
- Democratic National Committee Business Leadership Forum

**3. STATE-BY-STATE:** The State-by-State drew significant local press as well as positive mention in Time, Washington Post, Los Angeles Times front page of the Washington Times, referred to in two Wall Street Journal stories, and mentioned -- and despite quips to the contrary -- essentially confirmed in David Rosenbaum's New York Times analysis. The strong statements by Rubin and Altman at the press conference definitely helped build up the coverage. The AP ran the story in every state with separate headings for the state impact. We were most successful in the States where we offered a Senior White House officials -- with front page stories in such papers as the San Francisco Chronicle and the Des Moines Register, and perhaps hundreds of other local stories across the country, with good stories in such states as States like Iowa, Rhode Island and Vermont. While this lead to some claims that we were using doomsday scenarios, no one ever challenged the basic validity of our numbers, and this helped push the debate to what the consequences of a balanced budget would be. A couple of samples are attached (Des Moines Register, Dallas Morning News, Washington Times, Washington Post)

**4. PRESS:** We have been trying to work one-on-one with people in the press. Gene has sat down with many people in the press and gone through the ramifications of the plan -- often Rubin and at times Tyson have participated in these briefings:

- Sperling Breakfast (Panetta)
- Brinkley Show -- Sam Donaldson
- Meet the Press (materials for Russert were used for questions with Simon)
- Britt Hume (Rubin, Tyson, Sperling)
- NBC Nightly News (Rubin, Tyson, Sperling)
- CNN (Rubin, Sperling)
- David Broder (least successful effort)
- David Rosenbaum,
- Adam Clymer
- Al Hunt
- David Wessell, Alan Murray, Jeff Birnbaum
- Bill Welch
- Ann Devroy, Clay Chandler
- Time: Jay Carney,
- Elinor Clift
- New York Times Editorial Board
- Washington Post Editorial Boards

Secretary Perry did a op-ed for the Washington Post, but we chose to yield to Former Secretary Scheslinger and will save Secretary Perry's op-ed for the House debate.

**4. BUSINESS STRATEGY:** In response to our initial strategy sheet, you asked if we could get the Chamber of Commerce out against this. Alexis found that they were not supportive of our position, and that the best we could do was to ask them be silent. On the other hand, Paul Volker and Warren Buffet oppose the Simon Amendment and we will try to line up more top business people if we can't get the business groups against it. Also, the WEFA study came out showing that there would be 6.4 million jobs lost in 2003 alone if the Simon Amendment were to pass.

THE WHITE HOUSE

WASHINGTON

August 3, 1994

Re: [unclear]  
Sent  
9:30 pm  
8-3-94  
[Signature]

MEMORANDUM FOR LEON PANETTA

FROM: MARK GEARAN *MG*  
GENE SPERLING *GS*

SUBJECT: Economic Plan One-Year Anniversary

In the next two days, we have planned to highlight the one-year anniversary of the passage of the economic plan. The strategy is very simple: to demonstrate that the plan worked. It created jobs, brought the deficit down and solidified the economic recovery. We will reiterate that the nay-sayers were wrong last year on the economy and they are wrong this year about health care.

The plan consists of several preparatory steps, culminating in a Rose Garden event with the President on Friday:

- **Cabinet Briefing on Economic Accomplishments.** Bob Rubin will conduct a briefing tomorrow, Thursday, August 4, in which Cabinet members will brief on the Administration's solid record of accomplishment. Each participant will speak for 3 minutes and present a two-page record of accomplishments. This event will give reporters information they need to write one-year stories and lay the groundwork for the President's event Friday. The participants will focus on pieces of the agenda as follows:

CEA Chair Tyson -- Overall Economic Record  
OMB Director Rivlin -- Cutting the Budget Deficit  
Treasury -- Expansion of the Earned Income Tax Credit  
SBA Administrator Bowles -- Small Business  
Ambassador Kantor -- NAFTA and the Trade Record  
Commerce Secretary Brown -- Exports; Civilian Hi-Tech  
Labor Secretary Reich -- Human Capital; Job Training

- **Shape Opinion-Leader Press.** We have worked with columnists to generate one-year stories (e.g. David Broder, Al Hunt); Bob Rubin sat with several economic press tongs today; Vicki Rivas-Vasquez is looking for television opportunities through the weekend.



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

January 26, 1995

SENIOR ECONOMIST

TO: GENE SPERLING  
FROM: DAVID WILCOX  
SUBJECT: Op-ed Piece on the Balanced Budget Amendment

Attached is a copy of the current draft of Laura Tyson's op-ed piece on the balanced budget amendment, per the voice message left with you by Tom O'Donnell. My understanding is that Laura intends for this to be published over the weekend.

Attachment

ATTN: PAUL DEEGAN  
FAX 456-2878

## The Macroeconomic Cost of a Balanced Budget Amendment

by Laura D. Tyson

Many well-intentioned members of the Senate from both sides of the aisle are now poised to vote in favor of a Constitutional Amendment requiring that the Federal budget be balanced on a year-by-year basis. They will cast their votes in the name of sound economic policy. Unfortunately, they will be making a costly mistake. Although continued progress on reducing the deficit is sound economics, a Constitutional amendment requiring annual balance in the federal deficit is not.

### The Ups and Downs of the Economy without Automatic Stabilizers

The fallacy in the balanced budget logic begins with the premise that the size of the Federal deficit is the result of conscious policy decisions. This is only partly the case. The state of the economy also plays an important role. A slowdown in economic activity automatically depresses tax revenues and increases government spending on such programs as unemployment compensation, food stamps, welfare, and even social security.

In other words, when the economy slows, the deficit automatically gets worse. Such temporary increases in the deficit act as "automatic stabilizers." When purchasing power falls in the private sector, the budget restores some of the loss and cushions the slide—and it does so quickly and automatically, without the need for lengthy political debates about the state of the economy and the appropriate policy response. By the same token, when the economy picks up again, the automatic stabilizers work in the other direction: tax revenues rise,

spending for unemployment benefits falls, and the deficit narrows.

A balanced budget amendment would throw the automatic stabilizers into reverse. Congress would be required to raise tax rates or cut spending programs in the face of a recession to counteract temporary increases in the deficit. Rather than moderating the normal ups and downs of the business cycle, fiscal policy would be required to aggravate them.

For those who are tempted to dismiss such concerns as academic and therefore unimportant, a simple example from recent economic history should serve as a cautionary tale. In FY1991, the economy's unanticipated slowdown in economic activity caused actual government spending to exceed the budgeted amount by \$20 billion and caused actual revenues to fall short of the budgeted amount by an estimated \$67 billion. In a balanced budget world, Congress would have been required to offset the resulting shift of nearly \$90 billion in the deficit by a combination of tax hikes and spending cuts that by themselves would have sharply worsened the economic downturn--resulting in an additional loss of another 1-1/2 percent of GDP and an additional loss of another 900,000 jobs.

Of course, the balanced budget amendments under Congressional consideration do allow for the possibility of a deficit in times of economic weakness--provided three-fifths of the Congress agree. But this escape clause is a far cry from an automatic stabilizer, since it would require a degree of political consensus not likely to be expeditiously achieved. In the meantime, the economic damage could be substantial.

### The Challenges to the Federal Reserve

In a balanced budget world--with fiscal policy enjoined to destabilize rather than stabilize the economy--all responsibility for counteracting the economic effects of the business cycle would be placed at the doorstep of the Federal Reserve. The Fed could attempt to meet this increased responsibility by pushing interest rates down more aggressively when the economy softens and raising them more vigorously when it strengthens. But there is ample reason to believe that the Fed could not handle the job as well on its own as it can when it works in tandem with the automatic stabilizers of fiscal policy.

For one thing, monetary policy affects the economy indirectly and with notoriously long lags, making it difficult to time the desired effects with precision. Reductions in interest rates generally begin to stimulate the economy only after about 6 months and still have some influence a full two years later. The Fed can do little to change this state of affairs. By contrast, the automatic stabilizers of fiscal policy swing into action as soon as the economy begins to slow, often well before the Federal Reserve recognizes the need for compensating action and well before such action begins to take effect.

Moreover, the Fed could become handcuffed in the event of a major recession--its scope for action limited by the fact that it can push short-term interest rates no lower than zero, and probably not even this low. By historical standards, the spread between today's short rates of 5-1/2 percent and zero leaves uncomfortably little room for maneuver. Between 1989 and 1993, for example, the Fed reduced short rates by a cumulative total of 6-1/2

percentage points. Even so, the economy sank into a recession from which it has only recently fully recovered--a recession whose severity was moderated by the very automatic stabilizers of fiscal policy which the balanced budget amendment would destroy.

Because of these limitations on the use of monetary policy, even a prescient and well-intentioned Fed would not be able to moderate the ups and downs of the business cycle on its own as well as it can with the help of the automatic fiscal stabilizers. Simulations by the Council of Economic Advisers of a representative large-scale model of the U.S. economy indicate that without such stabilizers a typical recession might be as much as 25 percent deeper--with an additional \$xx billion reduction in real output and an additional yy million increase in unemployment--even if the Fed responded within 6 months to cut interest rates enough to offset the economy's slowdown.

Finally, actions by the Fed to stabilize output and employment in an economy without automatic fiscal stabilizers would result in greater variability in financial markets because the Fed would be forced to move rates more aggressively if it hoped to prevent employment and production from fluctuating more widely. Ironically, a balanced budget amendment could actually contribute to more instability on financial markets, rather than less as many of its proponents might suggest.

### The Right Path to Fiscal Responsibility

One of the great discoveries of modern economics is the role that fiscal policy can

play in moderating the business cycle. Few if any members of Congress about to vote on a balanced budget amendment experienced the tragic human costs of the Great Depression, costs made more severe by President Herbert Hoover's well-intentioned, but misguided efforts to balance the budget. Unfortunately, the huge deficits inherited from the last decade of fiscal profligacy have rendered discretionary changes in fiscal policy in response to the business cycle all but impossible. Now many of those responsible for the massive run-up in debt during the 1980s are leading the charge to eliminate the automatic stabilizers as well by voting for a balanced budget amendment.

Sadly, although a balanced budget amendment will certainly undermine the ability of fiscal policy to moderate the business cycle, it will not reduce the deficit by a single penny. Given the size of the outstanding deficit, balancing the budget will require huge spending cuts or revenues increases so painful that most supporters of the amendment are unwilling even to acknowledge them, much less identify which ones they favor.

Ultimately, we could end up with the worst of both worlds--the loss of the automatic stabilizers and a balanced budget amendment that fails to balance the budget, but rather results in budget gimmicky and gridlock, forcing the Courts to make the difficult choices which the elected members of Congress lack the courage or the will to make. Surely the voters--and the Constitution--deserve better.

January 26, 1995

TO: SENATOR DODD  
From: Gene Sperling  
Subject: Balanced Budget Materials

Attached are materials on the balanced budget amendment. One of the Republicans' main arguments is that you don't have to cut deeply -- you only have to reduce growth to 3% a year. The attached document shows the reply to that -- that it equals a \$700 billion cut in Social Security and Medicare.

Attached are the following:

1. Reply to the 3% Growth Argument
2. Gingrich Social Security Article
3. Social Security Talking Points
4. Right to Know Talking Points
5. Solomon Amendment Talking Points

## **THE TRUTH ON THE 3% GROWTH PATH TO A BALANCE BUDGET**

Republicans claim that a balanced budget Amendment would only require slowing the rate of growth to 3%. Yet, what they don't tell you is what that this would mean a total of \$728 billion in Social Security and Medicare cuts over the seven years leading up to a balanced budget. And this is only what it takes to balance the budget. If Republican had to pay for their tax cuts and balance the budget, they would have to have a slower growth rate and greater cuts in Social Security and Medicare.

**MEDICARE CUTS:** Because Medicare grows near 10% according to the Congressional Budget Office, a 3% growth rate would amount to a \$468 billion cut over seven years needed to balance the budget, and \$236 billion over the first five years. In the year of the balanced budget requirement (2002), this would amount to a staggering 38.7% cut in Medicare.

**SOCIAL SECURITY:** The 3% growth path does not take into account the beneficiary growth in the Social Security program over the next seven years. A 3% growth path comes close to covering what would be needed for existing recipients, but would leave nothing for the 6 million new recipients. If Social Security were limited to 3% growth per year, it would cause a \$260 billion cut over seven years, and a \$131 billion cut over five years. In 2002, this would amount to a 15% cut across the board in Social Security recipients.

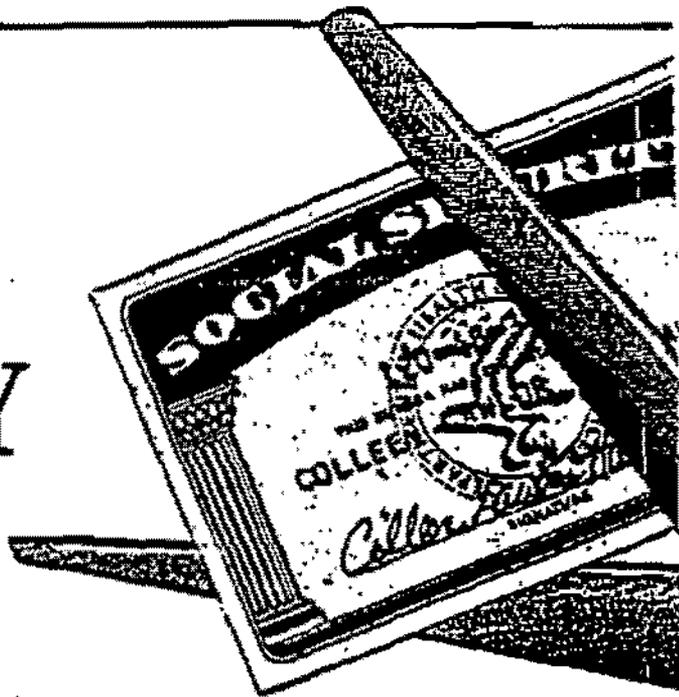
**MEDICAID:** Limiting Medicaid to a 3% growth rate for seven years would amount to a \$251 billion cut over seven years and a \$126 billion cut over five years. In the year 2002, it would amount to a 38% cut.

(The calculations can be seen on the attached chart and are calculated using the January 1995 Congressional Budget Office baseline).

**EFFECTS OF 3% GROWTH IN SOCIAL SECURITY, MEDICAID AND MEDICARE  
(IN BILLIONS OF DOLLARS)**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>							
<b>Medicare</b>															
CBO Projection	176	196	217	238	262	286	314	344	<table border="1"> <tr> <td>Cut in FY 2002 =</td> <td>37.1%</td> </tr> <tr> <td>5-Year Cut =</td> <td>\$236.6</td> </tr> <tr> <td>7-Year Cut =</td> <td>\$467.9</td> </tr> </table>	Cut in FY 2002 =	37.1%	5-Year Cut =	\$236.6	7-Year Cut =	\$467.9
Cut in FY 2002 =	37.1%														
5-Year Cut =	\$236.6														
7-Year Cut =	\$467.9														
3% Growth	-	<u>181</u>	<u>187</u>	<u>192</u>	<u>198</u>	<u>204</u>	<u>210</u>	<u>216</u>							
Difference		15	30	46	64	82	104	128							
<hr/>															
<b>Medicaid</b>															
CBO Projection	90	100	111	123	136	149	164	179	<table border="1"> <tr> <td>Cut in FY 2002 =</td> <td>38.2%</td> </tr> <tr> <td>5-Year Cut =</td> <td>\$126.8</td> </tr> <tr> <td>7-Year Cut =</td> <td>\$251.7</td> </tr> </table>	Cut in FY 2002 =	38.2%	5-Year Cut =	\$126.8	7-Year Cut =	\$251.7
Cut in FY 2002 =	38.2%														
5-Year Cut =	\$126.8														
7-Year Cut =	\$251.7														
3% Growth	-	<u>93</u>	<u>95</u>	<u>98</u>	<u>101</u>	<u>104</u>	<u>107</u>	<u>111</u>							
Difference		7	16	25	35	45	57	68							
<hr/>															
<b>Social Security</b>															
CBO Projection	334	352	371	390	411	433	456	481	<table border="1"> <tr> <td>Cut in FY 2002 =</td> <td>14.6%</td> </tr> <tr> <td>5-Year Cut =</td> <td>\$130.6</td> </tr> <tr> <td>7-Year Cut =</td> <td>\$258.0</td> </tr> </table>	Cut in FY 2002 =	14.6%	5-Year Cut =	\$130.6	7-Year Cut =	\$258.0
Cut in FY 2002 =	14.6%														
5-Year Cut =	\$130.6														
7-Year Cut =	\$258.0														
3% Growth	-	<u>344</u>	<u>354</u>	<u>365</u>	<u>376</u>	<u>387</u>	<u>399</u>	<u>411</u>							
Difference		8	17	25	35	46	57	70							

# REPLACE SOCIAL SECURITY with a Stable, Permanent Retirement System



*We can design a retirement system "that is pro-savings, pro-jobs, pro-small business, pro-American competitiveness in the world market, and allows our grandparents to relax, knowing we truly have provided for their retirement years."*

by Newt Gingrich

**S**Ocial Security and Medicare are the heart of providing for our parents and grandparents. Indeed, these two systems form the base of our plans and expectations about savings and retirement.

Social Security is the largest domestic program, with over 16,000,000 people receiving checks every month. The Social Security tax affects nearly every working American. For most workers, it takes a bigger tax bite out of their paychecks than the Federal income tax. This year, the highest Social Security tax on an employed individual is \$6,263.40. That figure includes both the individual's contribution and the employer's matching contribution. The latter is really a hidden tax on income.

Dramatic changes in life span and in the workforce have made the Social Security system increasingly unworkable. In 1935,

when Pres. Franklin Roosevelt first proposed Social Security and set the retirement age at 65, the average American only lived to be 63. If we had the same ratio of longevity to retirement age today, the retirement age would be 76. In effect, we have added 11 years' worth of retirement benefits to the same tax base. Since the age group 65 and over is the fastest growing group of Americans, the burden on working Americans will intensify in the future.

Another dramatic change has been the shift from a large workforce supporting a small retirement population to a much more nearly equal ratio of workers to retirees. Originally, 13 workers supported one retiree. Today, three workers support each retiree; by the next generation, that will decline to a two-to-one ratio. The increased tax burden on working Americans caused by the change in worker-to-retiree ratio is made even more unbearable because of the increase in the relative payments to

to provide only a small portion of an individual's over-all retirement needs. Over the years, as politicians raised the retirement age, Social Security became a primary source of income. Today, 62% of those over 65 receive more than one-half of their retirement income from Social Security and 14% of those over 65 receive their income from Social Security. This has increased the tax burden on Americans dramatically. To make matters worse, the Social Security payroll tax burden is greater than the tax paid by

1950. The result of all these changes is a Social Security system that is certain to collapse in the future. That concerns everyone and has been exploited by politicians for years. I was outraged when I first saw the "Official Social Security" book from James Roosevelt's National Committee to Preserve Social Security and Medicare. The letters, sent out in 1980, marked "Official Social Security," asked our grandsons

*Rep. Gingrich (R-Ga.) is a member of the Public Works and Transportation and House Administration Committees.*

retirees.  
Social Security originally was designed

\$10 so they could keep getting their retirement checks. There are heartrending stories of senior citizens walking into local Social Security offices with their \$10 checks, hoping they could preserve the Social Security system. Liberals and conservatives, Republicans and Democrats have expressed their disgust with the scare tactics and misleading techniques used by Roosevelt and his committee.

It occurred to me, however, that our grandparents weren't being frightened by the letters. They already had been frightened by the shaky finances of the Social Security and Medicare systems. The letters simply were preying on a fear that already existed.

Our grandparents are worried because they know full well the things our politicians have been afraid to discuss for over a generation. First, we don't save enough, either as individuals or as a nation. We simply are borrowing too much and saving too little. Second, we have not rebuilt the Social Security financing system to take into account changes in life span, birth rates, and the structure of the workforce. Third, the FICA Social Security tax discourages savings, discourages the expansion of small business, discourages new jobs, and weighs most heavily on low- and middle-income workers. Fourth, the FICA tax encourages importing foreign goods because they aren't affected by it and makes American products more expensive to sell overseas. This makes us even less competitive in the world market. If we can't compete, we can't create jobs; if we can't create jobs, we can't pay for our retirement system. Our grandparents know that a stable Social Security system depends on a competitive, prosperous, job-creating American economy. The real answer to Roosevelt's letters is to create a financially sound retirement system so senior citizens won't have to worry. Then, they will just throw away his appeals for money.

The following proposal is one way to create a permanent, stable Social Security system that will increase savings, increase jobs, and decrease our fears about retirement. Here is how it would work:

On Jan. 1, 1989, the FICA Social Security tax would be abolished, with a provision that employers would pay the matching 7.15% to workers. Workers over 40 would have their take-home pay increased by the full 14.3%. Workers under 40 would have their take-home pay increased by 4.3%, and the other 10% would go into a new, mandatory individual retirement account (IRA) of their choice. The Social Security and Medicare trust funds would be taken off budget so that politicians could not use them to balance the rest of the budget. Finally, a new off-budget trust fund would be created to raise all senior citizens above poverty level. We would establish the principle that our grandparents should not live in poverty.

In order to replace the FICA tax and finance the new anti-poverty retirement fund, we would adopt a value added tax (VAT). This would be a simple across-the-board sales tax designed to raise the amount currently raised by the FICA and the amount necessary to meet the poverty level requirements for our poorer grandparents. By keeping the VAT simple, we meet the main objection of small businesses, who fear the complexity of European VATs. By keeping the VAT off budget and dedicated to these trust funds, we meet the major worry of conservatives, who see it as a relatively easy tax for liberals to increase in the future. Defining the VAT as our new Social Security tax will keep it dedicated and narrow in scope.

## VAT vs. FICA

A VAT has three great advantages over the FICA. First, under the General Agreement on Tariffs and Trade, it can be applied to imports and rebated on exports. This will slow down imports to the U.S. and increase exports from the U.S., thus creating jobs here at home and strengthening our balance of trade. Many of our trading partners already do this.

Second, FICA is anti-savings because workers lose the money to taxes before they can take it home. Now, workers would have the money in take-home pay, and they can decide how much to save or spend. This shift from FICA to a VAT automatically will lead to an increase in our savings rate.

Third, FICA is a narrow anti-jobs tax that weighs heavily on low- and middle-income workers and on small business. The VAT will uncover much of the underground economy and will broaden the support for Social Security and Medicare to include those who live off investment income. Today, those people pay no FICA because they have only investment income. Under the new Social Security VAT, the rich will help pay for retirement.

For simplicity's sake, current retirees would be treated as if the FICA tax still existed and would be given the same retirement benefits they now have under the present system, with two exceptions. First, current retirees below the poverty line would receive an extra check to bring them up to the poverty level. Second, there would be a one-time increase in Social Security payments to offset the VAT so our grandparents would not face a reduction in their standard of living. Americans 40 and over, but under 65, also would be grandfathered into the Social Security retirement system. Most of them have been paying into Social Security between 25 and 45 years. They have earned significant retirement benefits through their past payments into Social Security. Furthermore, they are too close to retirement to build the kind of individual retirement nest egg the

younger generation will be able to accumulate. When those under 40 reach retirement age, they would receive only the Social Security benefit designed to keep senior citizens above the poverty level. Any additional retirement benefits would come from their personal IRA. As a further inducement to save, everyone would be given the opportunity to take away up to \$5,000 a year in a voluntary IRA.

Since this proposal is a fundamental reform to establish a permanent, stable Social Security system, there are two other steps we would take. First, we would abolish the tax on Social Security benefits which punishes those prudent enough to have saved for their retirement. Second, we would abolish all provisions which discourage working after 65. Never again should people lose benefits just because they want to maintain a productive life.

This permanent, stable Social Security system dramatically will improve America's competitive role in the world market. The mandatory savings for those under 40 will increase total personal savings from \$143,300,000,000 to \$227,300,000,000 during the first year (based on the 1985 savings rate). This \$84,000,000,000 increase in personal savings—a 60% jump—will help lower interest rates and increase the amount of money available to build factories and create jobs. By the late 1990's, the U.S. could have the lowest cost of capital and probably the lowest interest rates in the industrial world. Multinational companies will start building new factories in the U.S. as the lower cost of capital is combined with the elimination of our current 14% FICA tax on labor. The new Social Security VAT will discourage imports and encourage exports. The shift from FICA to VAT will encourage small business and entrepreneurs. The abolition of the anti-jobs FICA tax will encourage new job creation.

While many politicians are still afraid to mention abolishing Social Security, I am convinced this generation is ready for honest talk and real leadership. Our grandparents are tired of being frightened. They want a sound, stable, permanent retirement system, but they also want their grandchildren to be given a fair break. Young workers are tired of paying heavy and heavier taxes for a system they believe won't be there when they are ready to use. They would like a chance to save for their own retirement. At the same time, they love their grandparents and want to help take care of them.

I believe the American people are ready for a real debate about the future of retirement in a changing world. I believe that we can design a Social Security system that is pro-savings, pro-jobs, pro-small business, pro-American competitiveness in the world market, and allows our grandparents to relax, knowing we truly have provided for their retirement years.

## WHAT A BALANCED BUDGET AMENDMENT MEANS FOR SOCIAL SECURITY

*"House Speaker Newt Gingrich came to power promising no new taxes and a Social Security system that would be off the table. Now he's pursuing a course that would lead to billions in tax increases and Social Security spending decreases. But not openly." (The Virginian Pilot, 1/19/95)*

### 1. REPUBLICAN LEADERS HAVE A HISTORY OF CALLING FOR SOCIAL SECURITY CUTS AND CHANGES:

- 1986: NEWT GINGRICH CALLED FOR ABOLISHING SOCIAL SECURITY** and turning it into a mandatory IRA program with an additional Value Added Tax to pay for the lost revenue from ending the system of using Social Security payroll taxes to pay for Social Security benefits. (Atlanta Constitution, November 7, 1986)
- 1990: NEWT GINGRICH PROPOSED CONVERTING SOCIAL SECURITY INTO A PRIVATE IRA SYSTEM**, fully privatizing it by the time today's workers are retired. (Associated Press, January 24, 1990)
- 1992: PAT ROBERTSON SUPPORTED ENDING SOCIAL SECURITY** as it exists today. Robertson wrote, "I personally have advocated... the substitution of a compulsory private system." (Pat Robertson's Perspective, April/May, 1992)
- 1993: DICK ARMEY CO-SPONSORED A PARTIAL VERSION OF A MANDATORY INDIVIDUALLY-CONTROLLED RETIREMENT ACCOUNT** which was specifically cited by the AARP as one of the types of proposals that "poses a serious threat to the integrity of the Social Security program."
- 1994: OLLIE NORTH, REPUBLICAN CANDIDATE FOR SENATE, CALLED FOR ENDING SOCIAL SECURITY IN ITS CURRENT FORM** and making the program voluntary. (Richmond Times-Dispatch, 10/25/94, Washington Post, 10/26/94, and The Virginian Pilot and the Ledger Star, 10/25/94.)

**2. DURING THE 1994 CAMPAIGN, DEMOCRATS AND NOTED EXPERTS LIKE ROBERT BALL, SOCIAL SECURITY COMMISSIONER FOR PRESIDENTS KENNEDY, JOHNSON AND NIXON, SAID THAT THE \$1.2 TRILLION IN CUTS REQUIRED BY A BALANCED BUDGET AMENDMENT PLUS THE ADDITIONAL CONTRACT TAX CUTS WOULD FORCE REPUBLICANS TO CUT SOCIAL SECURITY AND MEDICARE.** Nonetheless Republicans insisted that they wouldn't need to touch social security and medicare:

Newt Gingrich: "It is a deliberate lie... It is an act beyond any reasonable behavior. Social Security is off the table and sadly, the President is lying about it." (Boston Globe, 11/6/94)

Bob Dole: "In a state of near-panic, President Clinton and Vice President Gore are resorting to scare tactics. They are falsely accusing Republicans of secret plans to cut Social Security and Medicare benefits." (CNN's Late Edition, 11/6/94)

Haley Barbour: "... the outrage, as far as I'm concerned is the Democrats' big lie campaign that the Contract with America calls for Social Security cuts. It does not. They're saying that a balanced budget amendment would require huge Social Security and Medicare cuts. It would not." (CNN's Late Edition, 11/6/94)

### **3. AS SOON AS THE ELECTION WAS OVER, REPUBLICAN LEADERS STARTED TO CALL FOR CUTTING SOCIAL SECURITY AND MEDICARE — RENEGING ON THEIR PROMISES TO THE AMERICAN PEOPLE:**

**A. NEWT GINGRICH CALLS FOR REPLACING MEDICARE:** "Newt Gingrich called for replacing the Medicare health-insurance system for 34 million aged and disabled Americans...'I think we need to transform Medicare into another system'...[and] save 'a heck of a lot of money.'... The new Speaker's comments made clear that the costly Medicare program at a minimum would come under pressure for large savings as Republicans seek to provide billions of dollars in tax cuts while balancing the budget by 2002." (The Wall Street Journal, 1/6/95).

**B. DICK ARMEY DECLARES THAT "SOCIAL SECURITY SHOULD NOT BE CONSIDERED UNTOUCHABLE."** (The Times-Picayune, 1/17/95)

**C. REPUBLICANS THREATENED THE BUREAU OF LABOR STATISTICS UNLESS THEY LOWERED THE CPI BY 1% — CAUSING BENEFIT CUTS TO THE AVERAGE SOCIAL SECURITY RETIREE OF ABOUT \$2,500 OVER SEVEN YEARS AND ABOUT \$450 CUT IN THE YEAR 2000 ALONE. OVER FIVE YEARS, THIS WOULD AMOUNT TO A \$55-60 BILLION CUT IN SOCIAL SECURITY.**

- "House Speaker Newt Gingrich came to power promising no new taxes and a Social Security system that would be off the table. Now he's pursuing a course that would lead to billions in tax increases and Social Security spending decreases. But not openly." (The Virginian Pilot, 1/19/95)
- "At a town meeting in Georgia last weekend, House Speaker Newt Gingrich found a backdoor way to break Republican campaign promises not to touch Social Security or raise taxes. It's neat. It's clean. It's technical. It's 'Look Ma, no hands.' Gingrich ordered the U.S. Bureau of Labor Statistics to recalculate the annual rate of inflation -- and reduce it by about 1 percent. ...Cutting the estimated rate of inflation would give Gingrich a ...\$27 billion cut in Social Security benefits in the year 2000. Congress would never have to vote on it. Republicans could claim they honored their campaign

promises... Lowering the Consumer Price Index, or CPI, ...reduces the annual cost-of-living adjustments received by Social Security recipients and federal retirees."

(Newsday, 1/19/95)

- ... "I think it [revising the CPI] should be done."  
-- House Majority Leader Arney (R-TX)  
ABC's "This Week With David Brinkley"
- "Taxes will be higher than otherwise and Social Security benefits lower if the inflation measure is changed." (Washington Post, 1/18/95)

**D. REPUBLICAN SPONSORS OF THE AMENDMENTS HAVE BLOCKED EFFORTS TO GUARANTEE PROTECTION FOR THE SOCIAL SECURITY TRUST FUND:** On January 11th, Republicans in the House Judiciary Committee defeated a Democratic amendment to the Republicans' balanced budget amendment that would have constitutionally protected social security recipients. Later, they ended the meeting to prevent further debate.

- House Judiciary Committee Chairman Henry Hyde (R-IL) says the Social Security Trust Fund's current surplus must be used to help balance the budget. Without access to the Fund, he warned that spending cuts elsewhere in the budget would be "*far more sweeping. The effects on other federal programs would be draconian... 22 percent to 30 percent across the board.*" (Pittsburgh Post-Gazette, 1/12/95)

**E. FORMER EDUCATION SECRETARY WILLIAM BENNETT SAYS THAT 'ENTITLEMENT COSTS, INCLUDING SOCIAL SECURITY, ARE 'AN ISSUE WE CAN'T IGNORE.' DURING THE SECOND 100 DAYS"** (The Wall Street Journal, 1/6/95).

**THE AMERICAN PEOPLE HAVE A RIGHT TO KNOW HOW THE REPUBLICAN CONGRESS PLANS TO BALANCE THE BUDGET AND PAY FOR THEIR TAX CUTS BY THE YEAR 2002**

**I. SPONSORS OF THE BALANCED BUDGET AMENDMENT HAVE AN OBLIGATION TO DISCLOSE THE PROGRAM-BY-PROGRAM SPENDING CUTS NECESSARY TO ACHIEVE A BALANCE BETWEEN REVENUES AND OUTLAYS BY THE YEAR 2002.**

This information should be disclosed before any vote in Congress on the amendment.

**II. REPUBLICAN CONGRESSIONAL LEADERS HAVE REPEATEDLY REFUSED TO DISCLOSE THE SPECIFIC CUTS THAT WILL BE NECESSARY TO BALANCE THE BUDGET BY 2002 -- THEY DON'T WANT THE PUBLIC TO KNOW ABOUT THE DEEP CUTS IN PROGRAMS LIKE CRIME PREVENTION, EDUCATION, MEDICARE, VETERANS, AND AGRICULTURE THAT THE BALANCED BUDGET AMENDMENT WILL REQUIRE.**

- "The fact of the matter is once Members of Congress know exactly, chapter and verse, the pain that the government must live with in order to get to a balanced [budget], their knees will buckle."  
— Rep. Dick Armey, House Majority Leader  
NBC's "Meet the Press," 1/8/95
- The Republicans defeated a Democratic amendment in the House Judiciary Committee on January 11th that would have required Congress to specify the details of budget cuts before sending a balanced budget amendment to the states.
- "[Speaker Gingrich] did not specify which programs or how deep a set of cuts he intended. Nor would Rep. Bob Livingston, [Gingrich's] choice to head the Appropriations Committee, who said of the impending cuts: 'Don't be surprised if it's a lot. We have long knives.'"  
— New York Times, 12/6/94

**III. THE FEW BUDGET SPECIFICS THE REPUBLICANS HAVE OFFERED DON'T ADD UP TO THE \$1.2 TRILLION THAT WILL HAVE TO BE CUT OVER THE NEXT SEVEN YEARS TO REACH A BALANCED BUDGET.**

- "Speaking of a GOP Senate budget proposal that eliminates only half of the \$1.2 trillion that must be cut over the next seven years to reach a balanced budget by 2002, [Budget Committee Chairman] Sen. Pete Domenici says, 'I don't think we can do much better.'"  
— Sacramento Bee, 1/16/95

**IV. EVEN THOUGH SUPPORTERS OF THE BALANCED BUDGET AMENDMENT REFUSE TO REVEAL SPECIFIC PROGRAM CUTS THAT WILL HAVE TO BE MADE TO REACH A BALANCED BUDGET BY 2002, THE IMPACT ON FEDERAL SPENDING IS ALREADY CLEAR:**

- To get to a balanced budget by 2002, the Congressional Budget Office estimates that it will be necessary to reduce the deficit by approximately \$1.2 trillion. Senate Budget Committee Chairman Pete Domenici (R-NM) confirms that deep cuts will be needed. His estimate: \$1.1 trillion.
- If taxes are cut, then the cost of a balanced budget rises to nearly \$1.6 trillion.
- If Social Security and defense are shielded from direct cuts, all other programs, including Medicare and federal grants to states, would have to be cut by an average of 30% — assuming no tax reduction — to reach a balanced budget by 2002.

**V. PEOPLE COUNTING ON SOCIAL SECURITY HAVE A RIGHT TO KNOW WHAT THE AMENDMENT WOULD DO TO THEM.**

During their political campaigns last year, the Republican sponsors of the balanced budget amendment denied that they planned to cut Social Security payments to seniors. Now that they're in office, their statements on the subject suggest otherwise:

- "House Speaker Newt Gingrich came to power promising no new taxes and a Social Security system that would be off the table. Now he's pursuing a course that would lead to billions in tax increases and Social Security spending decreases. But not openly."  
— The Virginian Pilot, (Norfolk) 1/19/95
- House Judiciary Committee Chairman Henry Hyde (R-IL) says the Social Security Trust Fund's current surplus must be used to help balance the budget. Without access to the Fund, he warned that spending cuts elsewhere in the budget would be "far more sweeping. The effects on other federal programs would be draconian... 22 percent to 30 percent across the board."  
— Pittsburgh Post-Gazette, 1/12/95

**VI. WHEN BALANCED BUDGET AMENDMENT SPONSORS ARE HONEST ABOUT THE HARMFUL AND IRRESPONSIBLE CUTS THEIR PROPOSALS WOULD FORCE, THE CONGRESS REJECTS THEM.**

In 1994, Rep. Gerald Solomon, (R-NY), laid out a specific plan for balancing the budget in seven years. It got only 73 votes -- even Newt Gingrich voted no. The Solomon proposal would have:

- cut agriculture spending by 72%
- cut transportation programs by 29%
- cut energy programs by 65%
- cut environmental programs by 40%
- cut programs for the poor by \$150 billion over 5 years
- cut Medicare and Medicaid by \$144 billion over 5 years

The Kasich proposal, also offered in 1994, had deep cuts but still ran a \$172 billion deficit by 1999. It too was defeated.

**VII. STATE AND LOCAL GOVERNMENTS HAVE A RIGHT TO KNOW THE SPECIFIC FEDERAL GRANT PROGRAMS THAT WILL BE CUT AND ELIMINATED TO PAY FOR THE BALANCED BUDGET AMENDMENT.**

- *According to the Treasury Department's January 1995 analysis, the average state would have to raise state and local taxes by 17.3% to make up for the loss of federal grants to states that would be cut if the budget was balanced.*
- The year the Amendment would require balance (2002) could lead to \$71.3 billion in cuts in federal grants to states, assuming no tax cut, or \$97.8 billion in cuts with a tax cut. This would dramatically reduce federal assistance to cities and states for Medicare and Medicaid, and for vital investments in infrastructure, fighting crime and drug abuse, education and worker training.
- The Republican Congressional leadership rejected appeals from governors that protection from unfunded federal mandates be written into the balanced budget amendment itself. That means future Congresses will be free to change the law and pass even more costs on to state and local governments in order to balance the federal budget.

**VIII. REPUBLICANS ARE IN THE MAJORITY IN CONGRESS. THEY CAN CUT THE DEFICIT WITHOUT AMENDING THE CONSTITUTION, IF THEY'RE WILLING TO MAKE THE TOUGH CHOICES -- LIKE THE CLINTON ADMINISTRATION DID IN ITS FIRST 27 DAYS WITH ITS UNPRECEDENTED \$500 BILLION DEFICIT REDUCTION PROGRAM.**

- "We shouldn't need a constitutional amendment to tell the Congress to do its job... You now have a strong majority that professes support of the principle of reducing spending to the level of revenues. Why don't you do it?"  
-- Economist Barry Bosworth,  
Congressional testimony 1/11/95
- Republicans control both Houses of Congress. They have the ability to pass any deficit reduction plan they favor. It is unclear why they need a constitutional amendment to do what they have completely in their power to at least pass. President Clinton proposed a specific, line-by-line plan to reduce the deficit by \$500 billion on February 17 -- 27 days after coming into office, and it was passed without a single Republican vote.

## **THE SOLOMON BUDGET SUBSTITUTE AND THE BALANCED BUDGET AMENDMENT "RIGHT TO KNOW"**

**OVERVIEW:** The Solomon Budget Substitute, sponsored in the 103rd Congress by Rep. Gerald B.H. Solomon (R-NY) -- a senior Republican and the current Chairman of the House Rules Committee -- is the only line-by-line, program-by-program Republican budget plan offered thus far to balance the budget while meeting Republican specifications of no new taxes, no reductions in Social Security and only half the military cuts prescribed by the Clinton Administration. The substitute, which would balance the budget by 1999, was defeated 342 to 73 on the House floor on March 10, 1994. Republicans voted 2-1 against the measure. Virtually all of the Republican leadership opposed the substitute, including now-Speaker Newt Gingrich, Ways and Means Chairman Archer, Budget Committee Chairman Kasich, and a total of 17 current Republican committee chairmen.

**THE SOLOMON SUBSTITUTE AND THE BALANCED BUDGET AMENDMENT "RIGHT TO KNOW."** Supporters of the Solomon Substitute declared, "Those of us who advocate a balanced budget have a moral responsibility to get specific and show how it can be done." Dick Zimmer, (R-NJ), during floor debate on Solomon Substitute.

### **IN 1994, REPUBLICANS VOTED AGAINST THE ONLY LINE-BY-LINE, ITEM-BY-ITEM REPUBLICAN PLAN TO BALANCE THE BUDGET:**

- The Solomon Budget is the only line-by-line, program-by-program Republican budget plan offered thus far to balance the budget while meeting Republican specifications of no new taxes, no reductions in Social Security and only half the military cuts prescribed by the Clinton Administration.
- Republicans voted 2-1 against the it. Virtually all of the Republican leadership opposed the Solomon substitute, including now-Speaker Newt Gingrich, now-Ways and Means Chairman Archer, now-Budget Committee Chairman Kasich, and a total of 17 current Republican committee chairmen.

### **WHILE REPUBLICANS REFUSE TO BE STRAIGHT WITH THE AMERICAN PEOPLE ABOUT HOW THEY WOULD BALANCE THE BUDGET, THE SOLOMON SUBSTITUTE SHOWS THE HARSH CUTS REQUIRED TO BALANCE THE BUDGET WITHOUT TOUCHING SOCIAL SECURITY, RAISING TAXES OR SUBSTANTIALLY CUTTING DEFENSE:**

- **TOTAL CUTS REQUIRED:** The Solomon Substitute required a total of about \$700 billion in cuts over five years in addition to the massive cuts already required by the Clinton deficit reduction package, and well over \$1 trillion in cuts over seven years. (Billions more in spending cuts would be required to pay for tax cuts proposed in the Republican Contract with America.) Almost every area of discretionary domestic spending would be reduced dramatically, for example, spending on the environment would be cut 44%, transportation would be cut 29%.

- **RECESSION-SIZED SHOCKS TO ECONOMY PREDICTED:** The House Budget Committee estimated that the proposed reductions would administer "recession-sized shocks to the economy two years in a row" and that deficit reduction this rapid would "put the economy at serious risk." [House Budget Committee Analysis of Solomon Amendment, 3/10/94]
- **MEDICARE** spending would be cut by over \$143 billion over five years, transferring billions of costs to beneficiaries and providers. Upper-income retirees will have to pay much more for their health insurance, and all beneficiaries costs will increase by \$30 billion. With cuts to medicare reimbursements to hospitals, providers' costs will increase by \$15 billion.
- **PUBLIC HEALTH AND MEDICAID** programs would be cut by \$94 billion over five years. It eliminates many, if not all the President's vital initiatives for biomedical research, childhood immunizations, substance abuse treatment, family planning, AIDS, Ryan White aid to cities and states, women's health, and other significant public health programs.
- **INCOME SECURITY** programs for the poor, disabled, and unemployed would be cut by \$150 billion over 5 years. Spending on certain job training programs would be cut in half. Legal aliens would be made ineligible for AFDC, SSI, Medicaid and Food Stamps. 700,000 disabled children would be cut from the Supplemental Security Income disability program. And, states would have to pick up part of the costs of food stamps and a larger share of foster-care expenses.
- **FARM SUBSIDIES AND RURAL PROGRAMS.** Every price support for farmers' products -- except for dairy products, which are heavily concentrated in Rep. Solomon's District -- would be abolished. Agriculture spending would be reduced by 72 percent. The Farmers Home credit program and the REA would be eliminated.
- **ELIMINATION OF OTHER FEDERAL PROGRAMS.** Dozens of Federal activities would be abolished altogether, including the National Service Corps, \$1.9 billion in assistance for construction of wastewater treatment and drinking water facilities, the space station, all subsidies for Amtrak and air service to isolated communities, and economic development grants to local governments.

**REPUBLICANS DO NOT HONOR THE AMERICAN PUBLIC'S "RIGHT TO KNOW" BECAUSE THEY FEAR MAKING TOUGH CHOICES**

- **Solomon on His Republican Colleagues:** Said Solomon of his colleagues, "Since it was sure to be defeated, many colleagues saw little point in casting a vote to cut popular programs that could be used against them by groups of constituents, say by farmers, in their campaigns.' But Mr. Solomon said that even [in 1995] with Republicans in control of the House, he was not sure he would get more than 150 votes on his side." [NYT, 11/28/94]

- **Gingrich.** According to the New York Times, "Gingrich said at the time that he opposed [the Solomon Substitute] because he did not want to draw attention from a Republican alternative budget that would have reduced the deficit by only a fifth as much as the Solomon Plan." [NYT, 11/28/94]
- **Dole.** The Solomon Substitute would turn over the Government's air traffic operation to a private corporation -- a shift President Clinton supports -- that would save the taxpayers more than \$30 billion over five years. But, according to the New York Times, "The main opponent of such a step is the private plane industry, and as long as Senator Dole of Kansas is the majority leader, the air-traffic control measure is bound to face trouble. Beechcraft, Cessna and Learjet aircraft are manufactured in Kansas, a state the spokeswoman for the General Aviation Manufacturers Association calls 'the capital of our industry.'" [NYT, 11/28/94]

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## **THE PRESIDENT'S POSITION ON BALANCING THE BUDGET**

**Q: WHY HAS THE PRESIDENT CHANGED HIS POSITION ON THE BALANCED BUDGET? WHY IS HE SUPPORTING A BALANCED BUDGET NOW?**

**A: The President has always supported bringing the deficit down toward zero in a way that protects education, rewards working families, maintains a fair tax system, and provides for health care reform. He has a proven record of progress toward a balanced budget based on these principles.**

- **In 1993**, the President passed the largest deficit reduction package in history, bringing the deficit down by \$1 trillion over 7 years while also expanding investment in education and providing a tax break averaging \$1,000 for 15 million working families.
- **Throughout 1993 and 1994**, the President said that after this first round of deficit reduction, the budget could only be balanced in the context of health care reform. He introduced comprehensive health care reform legislation to achieve that goal.
- **In his 1996 budget**, the President proposed over \$100 billion in tough discretionary spending cuts while still expanding investment in education, and he called on Congress to work with him on a bipartisan basis to achieve sensible, step-by-step health care reform that could bring the deficit down further.

Republicans didn't take the President up on his offer. Instead, they have proposed budgets that cut Medicare for seniors and education for children by historic amounts in order to pay for tax cuts for the wealthy.

- **And so the President has decided to put forward his own plan**, consistent with his principles, in order to show how the budget should be balanced the right way--by reducing the costs of Medicare costs and still expanding benefits and coverage, by protecting education, and by making sure tax breaks are targeted to working families in the middle class.

**Q: FOLLOW-UP: BUT WHEN DID THE PRESIDENT EVER TALK ABOUT BALANCING THE BUDGET OVER 10 YEARS?**

**A: Throughout his record, the President has always expressed the same view that**

**we ought to move the budget toward balance, but we ought to do it in a way that reforms health care, that protects investment in education, and that maintains tax fairness for working families.**

In order to achieve all of these goals, the President has always said that the budget could only be balanced on a gradual path. Based on the current fiscal and economic outlook, 10 years represents a sensible, gradual path.

**Example:** "So what I'm try to do is to cut everything I can now, get health care costs under control, and look towards, not only cutting the deficit but bringing it down to zero over a multi-year period." (5/12/93)

**Example:** "We need to bring this deficit down to zero. And in order to do that, we're going to have to cut more. But to do that, we have to reform the health care system." (8/2/93)

**Example:** "It is our considered judgment that we cannot get the deficit down to zero, which is where it ought to be, until we do something about health care costs." (6/17/93)

**Example:** "So the only way we can get the deficit down to zero now is to bring health care costs in line with inflation. And that's what I'm trying hard to do." 4/5/94

## **CBO VS. OMB**

### **Q. WHY ARE YOU USING OMB NUMBERS INSTEAD OF CBO NUMBERS? ISN'T THIS JUST ANOTHER ROSY SCENARIO?**

A. This Administration stands by its economic and budget projections and the record of credibility that they have earned. For two years, we have used conservative economic figures that have proven quite accurate. Anybody who looks at our numbers now will realize that we continue to use conservative, sound projections. In our current economic forecasting, the 2.5 percent growth rate is clearly quite solid and in line with private sector forecasts.

**Any Differences Are Magnified Over 10 Years.** Over ten years, any small forecasting differences are magnified by compounding interest and inflation. What may actually look like radical differences in 2005 are, in reality, merely differences of a point or two over ten years -- and are certainly within the bounds of reasonable forecasting differences of opinion and not rosy scenarios.

**Health Care Projections Differ For Technical Reasons.** On health care costs, the Administration relies now, as it has always relied, on the work of actuaries at the

Health Care Financing Administration--career employees who have been estimating growth in costs for years.

HCFA's forecasts properly show a slower increase in health care costs--success that CBO has acknowledged by moving its baselines closer to HCFA's. The baseline has gone down for three reasons:

First, new data and empirical evidence have given the HCFA actuaries a better picture of what's going on. As better information shows that Medicare and Medicaid costs are rising more slowly than was previously projected, the HCFA actuaries reflect these changes in their estimates.

Second, the President's deficit reduction package and economic program have improved the economy and inflation has come down.

And third, programmatic changes in both Medicare and Medicaid have improved efficiency and brought down costs.

#### **FOLLOW UP: BUT DIDN'T YOU PROMISE IN 1993 TO USE CBO PROJECTIONS?**

In his first budget, the President wanted to take away any disputes over numbers. Remember, Administration projections didn't have the best reputation after 12 years of magic asterisks and smoke and mirrors. Our accurate projections and success on the budget over the past two years have restored faith in an Administration's ability to put forward reasonable, fair budget projections. After more than two years in office, it is appropriate and necessary for the President to rely on OMB for his budget projections.

#### **HEALTH CARE**

**Q. YOU TALK ABOUT SAVINGS IN THE CONTEXT OF BROAD HEALTH CARE REFORMS, BUT YOUR SPECIFICS SEEM VERY MINOR. IS THIS THE EXTENT OF YOUR HEALTH CARE REFORM PROPOSAL?**

A. As we have said all year, we believe we can get reasonable savings out of a serious, step-by-step approach that moves forward within a framework of broad health care reform.

The President himself admitted that last year the Administration bit off more than we could chew. Our approach will allow us to achieve significant savings while also improving coverage, making the insurance market more efficient, and protecting small businesses, rather than simply slashing health care for beneficiaries without any corresponding benefits. There is clearly a long way still to go, but we're starting under the right framework.

Our current proposals will cut the deficit by \$284 billion over the next decade, leading to a balanced budget in 10 years, with less than half the Medicare savings and a third of the Medicaid savings that Republicans propose, without imposing any new cost increases on Medicare beneficiaries. In contrast, Republicans would raise costs to the average Medicare beneficiary by \$3,100 over the next 7 years.

#### **FOLLOW UP: SPECIFICALLY, HOW DOES THIS ADDRESS HEALTH CARE REFORM?**

- A. Medicare:** We reform Medicare to make quality managed care options more attractive to beneficiaries and encourage preventive care with two new benefits that will 1) waive the co-payments for Medicare-eligible women who need mammograms, and 2) provide a respite care benefit to families of Medicare beneficiaries who suffer from Alzheimer's disease. Our plan also strengthens the solvency of the Medicare Trust Fund, ensuring solvency until 2005.

**Insurance market:** Our reforms will help make the insurance markets more efficient and less discriminatory. Families that lose their health insurance when they lose a job will be eligible for premium subsidies for up to three months. These subsidies will be adequate to help them purchase health insurance with benefits like the Blue Cross/Blue Shield standard option plan available to federal employees.

**Cost-shifting:** Our proposals will cushion the effects of cost-shifting:

Expanding coverage, ensuring that people can keep the coverage they have, and making affordable insurance more available will reduce uncompensated care, which, in turn, will reduce the unrecovered costs that providers pass on to people with private insurance to make up the difference.

In addition, purchasing pools -- which allow small businesses to pool their bargaining power -- will give them the clout they need to protect themselves against cost shifting.

#### **TIMING QUESTIONS**

**Q: WHY IS THE PRESIDENT COMING FORWARD WITH A BALANCED BUDGET PLAN NOW?**

**A:** The President saw that the budget process was headed toward a train wreck. He believes that this is the best way to move the process onto a bipartisan basis to bring the budget into balance while protecting education, cutting Medicare costs in the context of health care reform, and targeting tax cuts at the middle class.

The President also saw this as an opportunity once more to reassert America's

global economic leadership. In 1993, when we cut the deficit by \$1 trillion over 7 years, we helped to put America back in the driver's seat in the global economy, paving the way for the trade agreements that are creating thousands of jobs and billions of dollars in exports for our economy. Now, on the eve of the G-7 Summit, the President wanted to reassert our commitment to balancing the budget--while also maintaining the education and job training that are key to America's success in the global economy.

**Q: IF YOU SUPPORT A BALANCED BUDGET, WHY DIDN'T COME FORWARD WITH A PLAN IN FEBRUARY WHEN YOU SUBMITTED YOUR BUDGET?**

**A:** With the new Republican Congress, the President first believed that the most constructive way to engage was to propose deep, specific cuts in discretionary spending while protecting education, as he did in his 1996 Budget, and then to offer to work with Republicans to achieve additional savings in the context of sensible, step-by-step reform of health care.

Unfortunately, Republicans did not take up the President's offer. Instead, they put forward a plan that makes deep cuts in Medicare and education in order to pay for tax cuts for the wealthiest, and they are struggling among themselves over how to even keep the budget process going. The President sees a train wreck coming.

Now, the President has determined that the best way to move the budget process on a bipartisan basis is to offer a new framework for balancing the budget that respects our other priorities--education, health care, and working families. That is the framework the President has offered.

**Q: WHY AREN'T YOU RELEASING A FULL BUDGET LIKE YOU DID IN FEBRUARY? AND WHEN WILL YOU COME FORWARD WITH ADDITIONAL DETAILS?**

**A:** The President has put forward a framework for balancing the budget consistent with his principles: protect education, address Medicare in the context of health care reform, and target tax cuts at working families.

If Republicans accept that framework, then he will sit down with the Republicans *tomorrow* to work out the details.

If Republicans do not accept that framework, then he will look at the details that they produce in the coming weeks in light of his principles:

- If their proposals are sound, he'll sign them.

- If they cut too deep or cut unfairly, then consistent with the process on the rescission bill, he will offer a counterproposal that reflects his priorities and moves the budget toward balance.

**Q: WILL THE PRESIDENT ACCEPT A BUDGET SUMMIT?**

**A: [Same as above. The President has laid out a framework that reflects his principles: protecting education, cutting Medicare in the context of health care reform, tax cuts targeted at working families. If Republicans accept the framework, he'll sit down with them tomorrow. If not, he will examine their details as they come: if they're good, he'll sign them; if they're bad, he'll offer counterproposals.]**

**Q: WHY ARE YOU USING A PLUG FOR CORPORATE WELFARE? HAVEN'T YOU CRITICIZED REPUBLICANS FOR USING PLUGS IN MEDICARE AND ELSEWHERE RATHER THAN OFFERING REAL DETAILS?**

**A: First of all, this budget framework is just that--a framework, not a comprehensive budget. As is appropriate for a framework, we are not offering every detail.**

**Second, corporate welfare is a unique area:**

- On the one hand, there is broad, bipartisan agreement that at a time when everyone is being asked to make sacrifices, **corporations ought to pay their fair share--particularly since many of these tax breaks serve strong special interest but little public interest.** Rep. Kasich recognized that by proposing \$25 billion in cuts in corporate welfare in his budget resolution.
- On the other hand, **you have to recognize that the special interests are very powerful.** Look how quickly Rep. Kasich was forced to retreat by many in his own party. So, given that there is now a Republican Congress, we believe that both parties will have to work together in order to target corporate subsidies that are not serving a public interest. And we think \$XX billion is a reasonable level of savings to expect.