THE PRESIDENT HAS SEEN
8-18-95

95 AUG 15 P12:48

THE WHITE HOUSE

WASHINGTON

August 14, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES
LAURA TYSON
GENE SPERLING

SUBJECT: Budget Working Group

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

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

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

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

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

I. MEDICARE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Regional Media.** We have also set up a recess regional media strategy focusing primarily on Medicare. The attached grid indicates the hundreds of media calls being placed.

- **Trustees Op-Ed:** Jennifer Klein from the First Lady's office pieced together an excellent op-ed by Secretaries Rubin, Shalala, and Reich for placement later this week.

II. EDUCATION

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

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

  > ***Amplification.*** We released a press document highlighting the Republican movement from the common ground on the issues of Education, Health Care For Seniors, Helping Working Families, and Environment/Public Safety. George Stephanopoulos and Dr. Tyson hosted a breakfast with Network Correspondents the morning of the speech. Director Rivlin, Dr. Tyson, and George Stephanopoulos briefed columnists. Director Rivlin and Dr. Tyson briefed business journalists. Your speech was mailed to top 150 editorial boards, African-American, Hispanic, women's and older American press.
>
> Nearly 2000 copies of the report were distributed to education groups, members of Congress, state and local officials and regional media. Over 50 calls by senior Administration officials were made to regional media and editorial boards. Statements were issued by elected officials in nearly 25 states. Regional media conference calls were conducted by Secretaries Reich and Riley and by White House staff. The following Governors issued releases on how the Education/Labor/HHS appropriations bill will impact their state: Caperton, Nelson, Bob Miller, Romer, Glendening, Carper, Knowles, Carnahan, Gray David (Lt. Gov. CA), Lt. Gov. of VA--Beyer

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

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

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

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

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

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

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

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

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

III. ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

We released Environmental State-by-State impact numbers.

IV. COMPREHENSIVE STATE-BY-STATE ANALYSES

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

V. PEROT

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

VI. MEDICAID

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

VII. CITY-BY-CITY DATA

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

VIII. BACK TO SCHOOL

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

IX. GOP MEDICARE PLAN

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

X. VALIDATORS

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

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

NEC STAFFING MEMORANDUM

Date: 10·23 Action/Concurrence/Comment Due By: _____

Subject: Secretary Rubin Memo To POTUS on Sen Finance Cn Tax Bill

	ACTION	FYI		ACTION	FYI
Laura Tyson	☐	☑	Mark Mazur	☐	☑
Bo Cutter	☐	☑	Elaine Mitsler	☐	☐
Gene Sperling	☐	☑	Aaron Rappaport	☐	☐
Tom O'Donnell	☐	☑	Dorothy Robyn	☐	☐
Pauline Abernathy	☐	☐	Ellen Seidman	☐	☐
Lael Brainard	☐	☐	Daniel Taberski	☐	☐
Julia Chamovitz	☐	☐	Helen Walsh	☐	☐
Paul Deegan	☐	☑	Dena Weinstein	☐	☐
Michael Deich	☐	☐			
Paul Dimond	☐	☐			
Chris Dorval	☐	☐	_____	☐	☐
Wendy Einhellig	☐	☐	_____	☐	☐
Michael Froman	☐	☐	_____	☐	☐
Jason Goldberg	☐	☐	_____	☐	☐
Elgie Holstein	☐	☐	_____	☐	☐
Gay Joshlyn	☐	☐	_____	☐	☐
Tom Kalil	☐	☐	_____	☐	☐
Bob Kyle	☐	☐	_____	☐	☐
David Lane	☐	☑			
Liz Lindemuth	☐	☐			
Sonyia Matthews	☐	☐			

Remarks: _____

Response: _____

David J. Lane
Executive Director
456-5352

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

October 23, 1995

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Leslie B. Samuels LBS

THROUGH: Secretary Robert E. Rubin RER

SUBJECT: Senate Finance Committee Tax Bill

On October 19, 1995, the Senate Finance Committee adopted, by party-line vote, a tax package to be included in budget reconciliation. This package contains gross tax cuts of about $245 billion over seven years, with the net amount cut at $224 billion. Many of these items -- such as the $500 per-child tax credit -- are similar to the "Contract with America" items contained in the larger tax bill that passed the House in March. In addition, the Finance Committee previously has agreed to reduce the earned income tax credit (EITC) of about 17 million taxpayers by $43.5 billion over seven years.

The analyses of both the Treasury Department and the Joint Committee on Taxation agree that the Finance Committee package (including the previously adopted changes to the EITC) will, on average, raise taxes on families with incomes under $30,000 -- a category which represents about 40 percent of the population. Moreover, 48 percent of the tax changes in the Senate bill will benefit taxpayers with incomes over $100,000 (12 percent of taxpayers).

The Finance Committee package also contains measures estimated to raise about $21 billion. These revenue-raisers are similar to those contained in the recent Ways and Means package, except that certain important revenue-raising items have been omitted, including repeal of the low-income housing credit, repeal of the ethanol tax incentives, and the taxation of Indian gaming.

One of the revenue-raisers that is similar to a House provision relates to pension reversions. It would permit companies that sponsor pension plans for their employees to remove plan assets equal in amount to their annual spending on retirement, health and other employee benefits, provided that a minimum asset "cushion" is retained in the pension plan. Given the fungibility of money, companies could effectively remove assets from retirement plans and use these funds for any corporate purpose. The proposal's minimum "cushion" may prove inadequate, in part because employers have significant flexibility in calculating the cushion.

These and other changes in the Finance Committee package are described in the attachment.

Attachment

cc: Laura Tyson

ATTACHMENT

MAJOR PROVISIONS IN FINANCE COMMITTEE TAX PACKAGE
(as approved October 19, 1995)

FAMILY TAX RELIEF

- **$500 Child Tax Credit.** The Senate bill would provide a $500 per child nonrefundable tax credit for each dependent child under age 18. It would be phased out for individuals with adjusted gross income (AGI) over $75,000 and married couples with AGI over $110,000. (The revenue loss is estimated at $141 billion over seven years.) This provision is moving closer to the Administration's child-credit phase-out, which begins at AGI of $60,000 for married couples.

- **Marriage Penalty Relief.** The standard deduction for joint returns would be gradually increased through 2005, in an effort to eliminate the marriage penalty for couples who do not itemize their deductions. Couples who itemize deductions would receive no relief. (The revenue loss is estimated at $12.3 billion over seven years.) Treasury is considering alternatives for marriage-penalty relief that involve lower revenue losses.

- **Credit for Student Loan Interest.** The bill would provide a nonrefundable credit of 20 percent of interest paid on a qualified student loan during a taxable year, capped at $500 per year per borrower, and phased out for married couples with AGI of $60,000 to $75,000 ($40,000 to $55,000 for singles). (The revenue loss is estimated at $1 billion over seven years.)

SAVINGS AND INVESTMENT INCENTIVES

- **Individual Retirement Accounts (IRAs).** The bill generally is similar to the Administration proposal. It would expand the income limits for deductible IRA contributions somewhat further (but phased in more gradually) than the Administration. Unlike the Administration proposal, the bill gives nonworking spouses a separate $2,000 deductible IRA. Like the Administration proposal, the bill would allow "backloaded IRAs" (funded with nondeductible contributions on which earnings accumulate and are distributed tax-free), but the bill would not subject them to any income limits.

- **Pension Simplification.** The Senate bill, like the House bill, incorporates numerous items from the Administration's pension simplification proposal that built on simplification legislation passed by the House in 1994 and that President Clinton

announced on June 12, 1995. The bill also includes additional items, a few of which raise policy concerns. The bill proposes a simple, new retirement savings plan for small business (the "SIMPLE"), which is similar in many ways to the Administration's "NEST" proposal. While the SIMPLE constitutes a constructive step in the right direction, it does not do enough to encourage retirement savings by middle- and lower-wage workers or to protect their interests.

- Capital Gains

  - Individuals. Like the House bill, the Senate bill would provide a 50 percent deduction for capital gains on property owned at least one year (providing a maximum rate of 19.8 percent). Unlike the House bill, there would be no indexing for inflation. The reduction is effective for gains realized after October 13, 1995. (The revenue loss is estimated at $33.5 billion over seven years.)

  - Small Business Stock. The bill would expand the preference that was initiated by the Administration and enacted in OBRA 1993 for qualified small business stock. The bill would increase the exclusion for individuals from 50 to 75 percent (resulting in a maximum effective rate of approximately 10 percent), and give corporations a favorable 21 percent rate, in addition to other changes.

  - Corporations. The bill would decrease the maximum capital gains rate for corporations from 35 percent to 28 percent. The House bill would provide a 25 percent capital gains rate for corporations. (The revenue loss of the Senate provision is estimated at $6.8 billion over seven years.)

- Alternative Minimum Tax (AMT). The bill would liberalize depreciation allowances for AMT purposes. It also would allow for enhanced use of AMT credits relating to investments previously made. This relief is more generous than what the Administration proposed in 1993 (which was enacted in part). The enhanced use of AMT credits is unlikely to contribute to increased investments. (The revenue loss is estimated at $9.2 billion over seven years.)

HEALTH-CARE RELATED PROPOSALS

- Long-Term Care Insurance. The bill would tax long-term care insurance and expenses generally in the same manner as medical insurance and expenses. Employer-provided insurance would be deductible by the employer and excluded from the employee's income. Payments to a policyholder would be taxable only to the extent they exceeded $150 per day per insurer. (The revenue loss is estimated at

$9.9 billion over seven years.) This proposal is more generous than the Administration's proposal in the Health Security Act.

- Permit Medical Savings Accounts (MSAs). The bill would create a new IRA-type account called a Medical Savings Account (MSA) that could be used to pay for health care if an individual is covered by catastrophic insurance. Employees could exclude from income employer contributions to an MSA of up to $2,000 ($4,000 for a family). Individuals (including the self-employed) would be subject to the current law limitations on deductions for health care. Earnings within the MSA would accumulate tax-free. MSA distributions would be nontaxable only if used to pay for medical care. (The revenue loss is estimated at $1.3 billion over seven years.) The proposal raises a number of concerns: it would divide the population based on medical risk, create a complex new tax shelter for healthy individuals, and may not significantly contain health-care costs.

ESTATE TAX REFORM

- Family-Owned Businesses. The bill exempts from estate tax the first $1.5 million and 50% of the next $3.5 million of "qualified family owned business interests." The House bill contains no such provision. This proposal would give an estate tax reduction in excess of $1,750,000 to any decedent who owned a family business worth more than $5,000,000. (The revenue loss is estimated at $5.5 billion over seven years.) The Treasury Department is working on a proposal to provide more targeted relief for family-owned small businesses and farms.

EXPIRING PROVISIONS

- Provisions Extended Through February 28, 1997. The aggregate cost of these temporary extensions is estimated at $5.4 billion over seven years. These temporary extensions include:

  - **The Targeted Jobs Tax Credit.** As in the House bill, it would be renamed the Work Opportunity Tax Credit, and modified, including a reduction in the credit rate from 40 percent to 35 percent.

  - **Employer-Provided Educational Assistance.** The provision would extend the $5,250 exclusion for employer-provided educational assistance, which expired after December 31, 1994.

  - **Research and Development (R&D) Tax Credit**

- **Reinstate Tax-Free Treatment of Employer-Provided Group Legal Services.** The Administration rejected extending this provision in the budget it proposed in 1993.

- **Orphan Drug Tax Credit**

- **Commercial Aviation Fuel.** The effective date of the 4.3-cents-per-gallon tax on commercial aviation fuel would be delayed from October 1, 1995, through February 28, 1997.

REVENUE RAISERS

- Pension Asset Reversions. The Senate bill would permit employers to transfer -- without any excise tax -- pension assets in excess of 125 percent of a pension plan's "current liability" to pay the annual cost of the employer's retirement, health and other employee benefits. In effect, this would allow companies, during a six-year window, to use pension assets to free up other corporate funds for any purpose. Currently, an employer generally cannot use pension assets for nonpension purposes without terminating the plan and paying a substantial excise tax (of up to 50 percent) that recaptures the benefit of the tax-free accumulation of pension earnings. The Administration strongly opposes this proposal.

- Expatriation Proposal. The Senate bill taxes expatriates on their accumulated gains when the expatriate ceases to be a U.S. taxpayer. The provision generally follows Senator Moynihan's proposal, which was based on a proposal contained in the Administration's budget.

- Repeal Tax Credit for Contributions to Community Development Corporations. Like the House bill, the Senate bill would repeal this credit, which was enacted as part of OBRA 1993 with the objective of providing economic opportunities for low-income individuals.

- Corporate-Owned Life Insurance. As under the House bill, deductions for interest attributable to the purchase of so-called corporate owned life insurance (COLI) policies would be denied. The Administration does not oppose this proposal.

- Phase Out Preferential Tax Deferral for Certain Large Family Corporations Required to Use Accrual Accounting. The Revenue Act of 1987 required certain closely held farming corporations (with gross receipts over $25 million) to change from the cash to the accrual method of accounting. However, these taxpayers were allowed a potentially indefinite deferral of the one-time tax liability that otherwise would have been incurred as the result of the change. Like the House bill, the Senate bill would eliminate this deferral and generally recover it over a 20-year period.

- Phase Out Puerto Rico and Possession Tax Credit (Section 936). Section 936 would be repealed with respect to new investment as of the end of 1995, and phased out with respect to existing beneficiaries of the credit. The phase-out rules favor taxpayers using the economic-activity branch of the credit, which was enacted in 1993 in response to Administration efforts to reformulate the credit to better promote job-creating investment. However, the bill eliminates the incentive for any new investment in Puerto Rico and the possessions. The Administration indicated that a credit based on economic activity is appropriate, and that if section 936 is repealed, another similar incentive is needed to encourage economic activity in Puerto Rico.

- Include in Income all Punitive Damages and Damage Recoveries for Non-Physical Injuries. As under the House bill, no exclusion would apply to damages on account of solely nonphysical injury (such as those related to discrimination or emotional distress) or to any punitive damages received. The Administration opposed this proposal.

- Reform Foreign Trust Rules. The proposal contains a package of information reporting and anti-abuse rules directed at sophisticated tax-planning techniques involving foreign trusts. The bill generally follows Senator Moynihan's proposal, which was based on a provision contained in the Administration's budget.

- Repeal of the Interest Exclusion for ESOPs. The bill would repeal the special exclusion for interest on employee stock ownership plan (ESOP) loans. In general, current law permits commercial lenders to exclude 50 percent of the interest on loans used to purchase employer stock for ESOPs that own a majority of the employer after the acquisition. The Administration does not support this proposal.

- Coal Industry Retiree Health Equity. Under the 1992 Coal Act, liability for financing coal industry retiree health benefits was spread broadly among companies that had signed collective bargaining agreements. The bill would reduce premiums of certain companies for two years, thereby increasing the financial risk to the retiree health benefit fund. Senator Rockefeller strongly opposes this provision. The Administration previously has testified that the 1992 Coal Act should not be amended.

SPECIAL-INTEREST PROVISIONS

The Senate bill contains a number of special-interest provisions. Among them are:

- Special treatment for a 401(k) plan sponsored by the American Football Coaches Association.

- Favorable depreciation treatment for convenience stores that market petroleum products.

- Tax-exempt status for a private foundation's common investment fund.
- Favorable treatment for real-estate losses of life insurance companies.
- Targeted relief for one category of private activity bonds.

The Senate Finance Committee Democrats raised the issue of special-interest provisions in the course of the mark-up debate.

Close Hold

Gene

NEC STAFFING MEMORANDUM

Date: 10-23 Action/Concurrence/Comment Due By: _____

Subject: Provisions in the Senate Finance Committee Chairman's Mark

	ACTION	FYI		ACTION	FYI
Laura Tyson	☐	☑	Mark Mazur	☐	☑
Bo Cutter	☐	☑	Elaine Mitsler	☐	☐
Gene Sperling	☐	☑	Aaron Rappaport	☐	☐
Tom O'Donnell	☐	☑	Dorothy Robyn	☐	☐
Pauline Abernathy	☐	☐	Ellen Seidman	☐	☐
Lael Brainard	☐	☐	Daniel Taberski	☐	☐
Julia Chamovitz	☐	☐	Helen Walsh	☐	☐
Paul Deegan	☐	☑	Dena Weinstein	☐	☐
Michael Deich	☐	☐			
Paul Dimond	☐	☐			
Chris Dorval	☐	☐	_____	☐	☐
Wendy Einhellig	☐	☐	_____	☐	☐
Michael Froman	☐	☐	_____	☐	☐
Jason Goldberg	☐	☐	_____	☐	☐
Elgie Holstein	☐	☐	_____	☐	☐
Gay Joshlyn	☐	☐	_____	☐	☐
Tom Kalil	☐	☐	_____	☐	☐
Bob Kyle	☐	☐	_____	☐	☐
David Lane	☐	☑			
Liz Lindemuth	☐	☐			
Sonyia Matthews	☐	☐			

Remarks: Close Hold

Response: _____

David J. Lane
Executive Director
456-5352

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

CLOSE HOLD

October 23, 1995

MEMORANDUM FOR LAURA TYSON

FROM: LES SAMUELS LS

THROUGH: SECRETARY RUBIN R.E.R.

SUBJECT: Provisions in the Finance Committee Chairman's Mark

This memorandum briefly describes a number of significant proposals that were included in Chairman Roth's mark as considered by the Senate Finance Committee last week. Included are recommended Administration positions, as discussed at the October 13, 1995, NEC meeting.

I. FAMILY TAX RELIEF

A. **$500 Child Tax Credit.** The Senate proposal would provide a $500 per child nonrefundable tax credit for each dependent child under age 18. The credit would be effective on January 1, 1996, and would be permanent. The credit would not be indexed for inflation. The credit would be phased out for individuals with adjusted gross income (AGI) over $75,000 and married couples with adjusted gross income over $110,000. The taxpayer's total credits would be phased out $25 at a time for each $1,000 of the taxpayer's AGI over the thresholds. Thus, large families would not be penalized.

> **Recommended Administration position: Support, with modifications.** The Administration supports the concept of a $500 per child tax credit. The President's budget included a proposal for a nonrefundable $500 per child tax credit for dependent children under age 13 that would be phased out for taxpayers with AGI between $60,000 and $75,000. The Administration also proposed allowing the credit only after the EITC has been applied. The Senate proposal improves upon the House proposal, which would have phased out the credit for taxpayers with AGI between $200,000 and $250,000. Nonetheless, the Senate version still could be improved if it were more targeted to middle-income taxpayers.

B. **Adoption Credit.** The proposal would provide a nonrefundable tax credit of up to $5,000 for adoption expenses. The credit would be allowed for all legal and finalized adoptions, not solely for the adoption of a child with special needs. The House has a similar provision.

In addition, the proposal would provide a maximum $5,000 exclusion from the gross income of an employee for amounts paid by the employer in connection with the adoption of a child. The amounts must be furnished pursuant to an adoption assistance program or an employer cafeteria plan. No credit would be available for adoption expenses paid as reimbursed under an adoption assistance program. The House has no such provision.

Both the credit and the exclusion from income would be phased out for taxpayers with AGI between $60,000 and $100,000.

> **Recommended Administration position: Do not oppose.** We believe that it is generally more cost-effective to target federal support for adoption to adoption of special needs children. By applying to all adoptions, this proposal provides benefits for adoptions that would occur even without the credit. To the extent that any new assistance for adoption is warranted, it should be targeted to taxpayers with lower incomes who most need assistance to enable them to undertake adoptions.
>
> The exclusion for adoption expenses paid under an employer's plan could impose administrative burdens on the employer. For example, an employee would have to disclose total taxable income and, in order to implement payroll withholding under a cafeteria plan, an employee's taxable income for a year would have to be predicted at the beginning of the year.

C. Marriage Penalty Relief. The standard deduction for joint returns would be gradually increased, in an effort to eliminate the marriage penalty for couples who do not itemize their deductions. The phase-in would occur between 1996 through 2005, and be indexed for inflation thereafter. Couples who itemize deductions would not be affected. The House would provide broader relief in a more complicated fashion.

> **Recommended Administration position: Do not oppose marriage penalty relief in concept.** However, this provision is expensive (according to JCT, it costs $28.5 billion over 10 years). Also, this proposal would not be limited to couples in which both spouses work and thus would have the effect of increasing marriage bonuses for certain couples.

D. Credit for Student Loan Interest. The proposal would provide a credit of 20 percent of interest paid on a qualified student loan during a taxable year. The credit would be capped at $500 per year per borrower (or $1,000 if the taxpayer borrows for two or more students) and apply to the first five years of repayment. The credit would be phased out at AGIs of $60,000 to $75,000 for married couples ($40,000 to $55,000 for singles).

Recommended Administration position: **Do not oppose, but prefer Administration's education initiatives.** The Administration generally supports the policy of providing tax benefits to aid with higher education expenses. In its budget, the Administration proposed a tuition tax deduction, and it is also favoring penalty-free withdrawals from IRAs to be used for higher education expenses. The partial credit for student-loan interest should be considered in conjunction with other changes to the student-loan program that are being considered by Congress. To the extent that student loans may become less readily available or subject to higher interest rates, this proposal may do little to create meaningful new education incentives.

II. INCREASE SAVINGS AND INVESTMENT

A. Capital Gains

1. Individuals. Similar to the House proposal, the Senate proposal would provide a 50% deduction for capital gains on property owned at least one year (providing a maximum rate of 19.8%). Collectibles would remain at the current 28% rate. One half of the capital gain deduction would be treated as a tax preference for the alternative minimum tax. The deduction would apply to sales and exchanges after October 13, 1995 (as opposed to sales and exchanges after December 31, 1994, under the House bill). Unlike the House bill, there would be no indexing for inflation.

Recommended Administration position: **Oppose.** The 50% exclusion is too generous and not well targeted, both with respect to the investor's benefits and the assets included.

2. Venture Capital. Section 1202 (introduced by the Administration in 1993) excludes 50 percent of the gain on the sale of qualified small business stock held for more than five years. The proposal would expand this preference by increasing the exclusion to 75 percent (resulting in a maximum effective rate of approximately 10 percent), increasing the size of a qualified business from $50 million to $100 million, removing the current $10 million gain limitation on the amount of gain that can be excluded, and allowing a deferral of gain from the sale of qualified stock if the proceeds are rolled over to other qualified stock within 60 days. The proposal also contains technical changes to certain redemption and working capital provisions in the current version of Section 1202.

Recommended Administration position: **[Further discussion needed on provisions to expand the preference.]** We support the increased

75 percent exclusion (assuming the 28 percent rate cap for all capital gains is eliminated) and the technical amendments to the current provisions on shareholder redemptions and working capital, which can create problems in certain circumstances.

3. Corporations. The proposal would provide a maximum capital gains rate of 28% for corporations. The proposal would apply to sales and exchanges after October 13, 1995. There would be no indexing for inflation. (The House would provide a 25% capital gains rate for corporations, for assets sold after December 31, 1994.)

Recommended Administration position: **Do not support.** The arguments for capital gains relief for individuals do not extend to corporations. For example, corporations need little incentive, beyond that of existing law, to invest in capital assets.

B. Alternative Minimum Tax (AMT). This proposal would reduce the amount of AMT imposed on all taxpayers by making two changes. First, the method of depreciation allowed for AMT purposes would be the same as the method allowed for regular tax purposes with respect to property placed in service after December 31, 1995 (i.e., 200 percent declining balance would be permitted for AMT purposes if used for regular-tax purposes; however, AMT depreciation would continue to be computed over the property's class life, which is generally longer than that allowed for regular-tax purposes.) Second, the AMT credit from prior taxable years, which currently may be used to reduce a taxpayer's regular tax liability to the amount of its tentative AMT, would also be allowed to reduce up to 50 percent of its current-year AMT liability, but not below the regular tax liability of the taxpayer. The AMT credits do not qualify for this additional benefit unless they are at least five years old.

Recommended Administration position: **Oppose, but reaffirm willingness to work on revisions and simplification.** In 1993, as part of its economic stimulus package, the Administration proposed relief from the AMT with respect to depreciation, only a portion of which was enacted. The 1993 proposal was carefully targeted to enhance investment incentives for capital-intensive taxpayers subject to the AMT. The Finance proposal is more generous and would benefit primarily very large corporations (those with assets over $250 million) and corporations in manufacturing, as opposed to small and medium-sized corporations, and businesses in other industries. The provision allowing for enhanced use of AMT credits relates to investments previously made, and so will not contribute to increased investments. We would be prepared to work with Congress to provide some more acceptable AMT relief.

III. ESTATE TAX REFORM

A. Family-Owned Businesses. The proposal exempts from estate tax the first $1.5 million and 50% of the next $3.5 million of "qualified family owned business interests." To qualify, the value of the business must constitute at least 50% of the value of the estate. The House does not have such a provision.

> Recommended Administration position: **Oppose, but reaffirm prior testimony that we support revisions to rules affecting small businesses and farms.** This proposal would give a $1,750,000 estate tax reduction to any decedent who owned a family business worth more than $5,000,000. The proposal is subject to abuse and could lead to estate-planning techniques that would give this benefit to many well-advised wealthy decedents.

B. Unified Credit. The proposal would increase the unified credit (which currently exempts the first $600,000 from estate or gift tax) so that it would exempt an additional $25,000 per year until 2001, when it would exempt $750,000. The House has a similar provision, but with a quicker phase-in of the increase.

> Recommended Administration position: **Do not support.** The unified credit has not been increased since 1987; therefore its value has been diminished due to inflation. Nevertheless, only 1 percent of dying Americans pay any estate tax and therefore it is questionable whether the revenue loss is appropriate at this time.

C. Exclusion for Conservation Easements. Under current law, an estate is entitled to a charitable deduction for the reduction in the value of real property due to the placement on such property of a conservation easement. The proposal would allow an executor to elect to exempt from estate tax the first $1.5 million of real property subject to a conservation easement and 50% of value of such property in excess of $1.5 million, up to $5 million. The House has no corresponding provision.

> Recommended Administration position: **Oppose [need to consult with Interior].** The deduction allowed under current law for the grant of a charitable easement is sufficient. The proposal would essentially permit a deduction for the full value of the real property (up to $1.5 million, and one-half of the value between $1.5 and $5 million) rather than the value of the charitable easement alone. The proposal would be subject to abuse and would erode the tax base.

IV. EXPIRING PROVISIONS

The Chairman's mark would extend most expiring provisions through February 28, 1997 (R&E, Targeted Jobs Tax Credit, etc.). Among the extensions are these two items:

A. Commercial Aviation Fuel. The effective date of the 4.3-cents-per-gallon tax on commercial aviation fuel would be delayed from October 1, 1995, through February 28, 1997. The legislative history would express the Committee's desire that the IRS consider waiving the semimonthly deposit requirements for this tax from October 1, 1995, until the budget reconciliation process is completed.

> Recommended Administration position: **Follow prior Administration (Treasury and the Department of Transportation) testimony before the Ways and Means and Senate Finance Committees in the summer of 1995 and oppose any delay. The testimony was cleared in the interagency process.** The tax was enacted as part of the Omnibus Budget Reconciliation Act of 1993, but the effective date was delayed because of concerns that the commercial airline industry generally was experiencing significant losses. Since 1993, the financial condition of the airline industry has greatly improved and imposition of the tax at this time will be less burdensome than it would have been in 1993. A further delay in the effective date of the tax is unwarranted and would be unfair to other sectors of the transportation industry.

B. Section 29 Alternative Fuels Credit for Biomass and Coal Facilities. Under section 29 of the tax code, certain fuels produced from nonconventional sources are eligible for a production credit equal to $3 (generally adjusted for inflation) per barrel or Btu oil barrel equivalent. Qualified fuels must be produced domestically from a well drilled before January 1, 1993; or from a facility that produces gas from biomass or that produces liquid, gaseous or solid synthetic fuels from coal (including lignite) and that is placed in service before January 1, 1997, pursuant to a written binding contract in effect before January 1, 1996.

For biomass and coal facilities, the proposal would extend the written binding contract date and the placed-in-service date by one year.

> Recommended Administration position: **Oppose.** A prior extension in 1992 for biomass and coal facilities was intended to be a transition rule for taxpayers with facilities that were soon to be placed in service. This transition period is now almost over and no extension is warranted. This credit is growing faster than the Earned Income Tax Credit.

V. REVENUE RAISERS

The Chairman's mark raises about $20 billion additional revenues, through corporate reforms and other measures. Almost all of these items are similar to revenue raisers contained in the House package, except certain items have been omitted, including repeal of the low-income housing credit, repeal of the ethanol tax incentives, and the taxation of Indian gaming. Among the items included in the Chairman's mark are:

A. Repeal Tax Credit for Contributions to Community Development Corporations. OBRA 1993 authorized a 50 percent credit (5 percent per year for 10 years) for certain contributions or long-term loans made to 20 community development corporations (CDCs) designated by the Secretary of HUD in 1994. Each designated CDC, in turn, could designate up to $2 million in contributions or loans qualifying for the credit (for a total of $40 million in contributions and $20 million in credits). The Finance proposal would repeal this credit.

> Recommended Administration position: **Oppose.** This provision was part of OBRA 1993, and more time is needed to achieve the intended benefits of providing economic opportunities for low-income individuals.

B. Corporate-Owned Life Insurance. The Senate proposal is similar to the House proposal, but generally has more generous transition rules. It denies deductions for interest attributable to the purchase of so-called corporate owned life insurance (COLI) policies. Unlike the House proposal, it also contains an exception for COLI policies on a corporation's 25 key employees, subject to certain limitations. COLI policies are frequently bought by corporations to insure large numbers of rank-and-file employees. However, the corporation is the beneficiary and the employees frequently do not know they have been insured. Leveraged COLI plans are best viewed as investments that arbitrage a tax deduction and tax-free income. The arbitrage is so great that some companies agree to borrow at rates well in excess of their market rates.

> Recommended Administration position: **Do not oppose,** but we prefer a combination of the House and Senate transition rules. **Also, do not support the exception for key employees.** There is no tax policy justification for such an exception, just as there is no small-business exception under current law to the rule that denies deductions for interest incurred to purchase tax-exempt debt.

C. Phase Out Puerto Rico and Possession Tax Credit (Section 936). The Chairman's mark generally would phase out section 936 by 2002. With respect to the

active-business portion of section 936, it would leave in place the present-law phase-down of the profits-based limit on the credit through taxable years beginning in 1998, then phase out the remainder of the profit-based credit over the succeeding three taxable years. It would leave in place the economic-activity limit on the credit through taxable years beginning in 2001. The active-business portion of section 936 would be eliminated for taxable years beginning after 2001, regardless of whether the taxpayer had elected the profits-based limit or the economic-activity limit. The Chairman's mark would eliminate the portion of the 936 credit applicable to qualified possessions source investment income (QPSII) for taxable years beginning after 1995, with a grandfather for up to five years for investments made on or before October 13, 1995.

The Chairman's mark would apply a different phase out with respect to Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. Section 936 would be repealed for operations in those possessions effective for taxable years beginning after December 31, 1995, with a grandfather rule for existing operations. Under that rule, present law generally would continue in effect for 10 years with respect to possessions operations that were in effect on October 13, 1995.

> **Recommended Administration position: Do not oppose, but only if appropriate programs are in place to assist Puerto Rico.** The Administration proposed to reformulate the credit in 1993 to make it a more efficient incentive for job creation and economic activity in Puerto Rico; the amendments enacted in 1993 moved part way toward the Administration's proposals. We believe that section 936, to the extent retained, should provide an incentive for increased economic activity in the possessions rather than merely an incentive to attribute profits there. The Chairman's mark represents an improvement over the House bill, in that it provides greater incentives for investment and economic activity in the possessions during the transition period. However, the Chairman's mark would fully repeal section 936 sooner than the House bill and, like the House bill, would fail to provide any other programs to assist Puerto Rico.

D. Permit Corporations To Use Overfunded Pension Plan Assets To Fund ERISA Protected Employee Benefit Plans. The proposal would expand the narrow current-law provision that permits "excess assets" in "overfunded" defined benefit plans to be redirected to provide current-year retiree health benefits for non-key employees. Under the proposal, "excess assets" could be used to fund a year's worth of employee health, retiree health, qualified retirement disability, educational assistance, and child care benefits provided under ERISA-governed plans covering a "broad group of employees" or could be used to fund underfunded defined benefit pension plans. "Excess assets" for this purpose are defined as assets exceeding the greater of the full funding limit or 125% of "current liability." Thus, "excess assets"

will be defined in accordance with the House bill and will not utilize the tighter assumption provided by GATT for underfunded plans. Under current law, an employer may not use pension plan assets for nonretirement purposes without terminating the plan and paying a substantial excise tax (of 20% to 50%). No excise tax would be imposed under the Finance Committee proposal.

> Recommended Administration position: **Strongly oppose.** The Administration strongly objected to the inclusion of a similar proposal in the Ways and Means bill that permitted reversions for any corporate purpose. The principal problems with the Ways and Means proposal also apply to the Finance Committee version: diverting assets from pension plans increases the risk to the pension insurance system, and eliminating all or most of the reversion excise tax prevents recapture of the benefit of tax-free build-up intended to promote retirement savings through qualified pension plans. The proposal is less egregious than the Ways and Means provision (which allows the assets to be used for any purpose) to the extent that the restriction limits the total amounts that may be withdrawn from pension plans; however, the proposal is still highly objectionable. Given the fungibility of money, and the large amount of current cash flow expended on ERISA-governed benefits that could be supplanted with funds withdrawn from pension plans, the limitations on usage are largely illusory. Moreover, the circumstances pertaining to the current proposal are vastly different than the circumstances that gave rise to the more limited retiree health provision. That provision was enacted to alleviate the crisis that developed in response to changes in financial accounting rules, as employers began cutting back on retiree health programs. No such crisis exists with respect to the other ERISA benefits that would be covered by this proposal.

E. Include in Income all Punitive Damages and Damage Recoveries for Non-Physical Injuries. The proposal would limit the current-law exclusion for damages received on account of personal injury or sickness. The proposal would provide that only amounts received on account of physical injury or physical sickness would be excludable: no exclusion would apply to damages on account of solely nonphysical injury (such as those related to discrimination or emotional distress) or to any punitive damages received.

> Recommended Administration position: **Do not support.** This proposal would resolve many of the issues that have generated much litigation between the IRS and taxpayers, and would bring the exclusion more in line with modern concepts of income. On the other hand, it is unclear whether this is the best approach and whether significant new problems with administering the provision (such as determining what constitutes a physical injury) would arise.

F. Repeal of the Interest Exclusion for ESOPs (Section 133). Under current law, in computing gross income, a bank, insurance company or other commercial lender may exclude 50% of the interest income received on a loan made to enable a tax-qualified employee stock ownership plan (ESOP) to acquire stock of the employer (or a loan made to refinance such a loan). The interest exclusion is intended to encourage employee stock ownership by enabling an ESOP to borrow at a low interest rate. Amendments adopted in 1989 limited the exclusion to ESOPs that own more than 50% of the employer's stock after the acquisition. The proposal would repeal the interest exclusion, presumably only for loans made after a specified effective date. This repeal of section 133 would not affect other ESOP tax benefits, including the deductibility of ESOP dividends and the nonrecognition of gain in certain sales of stock to an ESOP that owns at least 30% of the employer's stock.

Recommended Administration position: [To be discussed with Department of Labor -- Do not oppose.] There are policy reasons for and against encouraging ESOPs. A plan investment in employer stock provides indirect worker ownership. Such ownership provides an incentive for productivity and allows employees automatically to share in the employer's economic growth. On the other hand, to the extent an ESOP displaces other types of retirement benefits, the investment of retirement assets in employer stock, with limited opportunity for diversification, puts employees at greater risk. If the employer fails, the employee's job and the value of the employee's retirement savings may both be jeopardized. In addition, some have expressed concern that ESOPs have often been used more to benefit sponsoring corporations and other investors than as a means of providing new benefits to workers. To the extent a tax subsidy for ESOPs is appropriate, the goal of employee ownership is best served by imposing conditions that require the ESOP to have majority ownership of the employer, as section 133 does.

VI. MISCELLANEOUS

Coal Industry Retiree Health. Under current law, liability for health benefits of coal miners who retired on or before September 30, 1994, and their beneficiaries generally is spread among all companies that signed a collective bargaining agreement with the United Mine Workers. Beneficiaries are assigned to the last signatory company that employed the miner. Unassigned beneficiaries whose former employees are no longer in business are allocated to all companies based on each company's share of assigned beneficiaries. Funding for beneficiaries is also provided through transfers, to the UMWA Combined Benefit Fund, of surplus assets of the UMWA 1950 Pension Plan and interest earnings of the Abandoned Mine Reclamation Fund. The proposal would reduce the premiums that reachback companies (presumably companies that did not sign the 1988 collective bargaining agreement, the last agreement prior to the 1992 legislation) are required to pay to the Combined Fund for

the period from October 1, 1995 through September 30, 1997, to the extent of any "surplus" in the Combined Fund, determined by the trustees on a cash basis. The amount of the "surplus" would be reduced by 10 percent of the benefits and administrative costs paid by the Combined Fund for the plan year, and would be determined without regard to amounts transferred to the Combined Fund from the UMWA 1950 Pension Plan and the interest earnings from Abandoned Mine Reclamation Fund.

Recommended Administration position: **Oppose.** The Administration previously took the position that the Coal Act represents a reasonable compromise to a difficult problem and that we do not believe that re-opening the reachback financing method will result in any better or more equitable sharing of costs. The proposal raises two concerns. First, calculating the "surplus" on a cash basis does not appropriately reflect liabilities. Second, the proposed relief is not targeted to companies facing financial hardship. The proposal benefits reachback companies, many of which arguably caused the initial funding crisis by pulling out of the UMWA agreement and "dumping" their retirees on the fund. It is not clear if the proposal includes a provision for additional funding by reachback companies if funds are insufficient in the future. Therefore, if future funding is not sufficient, nonreachback companies, which compete with reachback companies in the coal business, may be required to pay increased premiums to finance future benefits, or benefits may be decreased.

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

January 5, 1996

MEMORANDUM FOR PRESIDENT CLINTON

FROM LESLIE B. SAMUELS LBS

THROUGH SECRETARY ROBERT E. RUBIN RER

SUBJECT: ADOPTION TAX CREDITS: BACKGROUND AND ALTERNATIVES

The Balanced Budget Act (BBA) includes a tax credit for adoptions. It would provide a 100% non-refundable credit for the first $5,000 per child of eligible adoption-related expenditures (including expenditures that are reimbursed by the states for "special needs" adoptions). No credit would be allowed for step-parent adoptions; and the credit would be phased out between $75,000 and $115,000 of AGI. JCT estimates that the BBA adoption proposal would cost $1,945 million over FY1996-FY2002, and $2,960 million over FY1996-FY2005.

We have significant concerns about the BBA adoption credit. The following policy issues are presented for your consideration as well as two possible proposals which we believe represent better tax policy than the BBA provision.

- The number of people seeking to adopt non-special needs children exceeds by several times the number of such children available for adoption. Conversely, there is a shortage of adopters for "special needs" and similar children.
- Adoption assistance should be targeted. Adoption assistance is best targeted when provided through outlay programs. Adoption tax relief provides windfall benefits to those who would undertake adoptions anyway but does not provide sufficient incentives for lower income families to undertake adoptions.
  - This is particularly true for "special needs" adoptions which are undertaken predominately by foster parents (typically lower- and middle-income families) who are already providing homes for these hard-to-place potential adoptees.
  - A refundable tax credit would be of more benefit to lower income families for whom the incentive created by tax relief would be greatest. However, refundable credits raise significant compliance problems.
- A tax credit should not be for 100% of expenses. A 100% credit is essentially a direct expenditure program. It would encourage increases in adoption fees and costs, since they will be reimbursed through the 100% credit. A 100% credit also presents compliance and enforcement problems.
- A tax benefit should not be allowed for reimbursed expenses. This "double dipping" would encourage unnecessary increases in expenditures so that costs currently borne by states or private agencies would be shifted to the Federal government. This is particularly true for "special needs" adoptions where government programs currently absorb most of the costs.
- For "special needs" adoptions, the real need is for continuing long-term assistance, such as medical benefits which could be provided by automatic eligibility for Medicaid.

Option 1: Target Credit to "Special Needs" Adoptions.

The credit would be restricted to expenditures for "special needs" adoptions, and no credit would be allowed for reimbursed expenditures. The credit would be 50% of the first $5,000 of eligible expenditures. With the same income phase out range as in BBA, the cost of this option is $58 million over FY1996-FY2002, and $88 million over FY1996-FY2005.

By targeting "special needs" adoptions and addressing some of the concerns mentioned above, we believe that this option would be good tax policy and would encourage "special needs" adoptions that would not otherwise occur.

Option 2 - Reduce Maximum Credit to $2,000 as mentioned by Senator Dole.

The credit would be 50% of the first $4,000 per child of eligible adoption expenditures, and would not cover reimbursed expenditures. With the same income phase out range as in BBA, the cost of this option is $723 million over FY1996-FY2002, and $1,096 million over FY1996-FY2005.

Option 2 is far more liberal than Option 1, but by providing only a 50% credit rate and eliminating double-dipping, it eliminates the main objections to the BBA provision.

cc: Laura Tyson

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

January 5, 1996

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Leslie B. Samuels LBS

THROUGH: Secretary Robert E. Rubin R.E.R.

SUBJECT: Indexing of Estate Tax Provisions

In discussing various options for estate and gift tax relief, the issue has arisen as to the number of Americans who would be benefited. Based on the most currently available IRS data for tax year 1989, there were about 23,000 taxable estates, which represented about one percent of all Americans dying in that year.

You asked for information on the indexing of several estate and gift tax provisions. In response, we have estimated the revenue loss from indexing the $600,000 estate and gift tax exemption (for transfers after 1996) as well as the four other estate and gift tax provisions indexed under the Republican plan (for transfers after 2000, as in the GOP plan). The revenue loss from these indexing provisions would be $3.171 billion over 7 years, of which $3.158 billion is attributable to the indexing of the $600,000 exemption.

We have developed a targeted proposal to aid small businesses and farms facing liquidity problems on the death of their owners. This proposal (which loses $1.0 billion over 7 years and $1.3 billion over 10 years) is described in more detail in the attached memorandum dated October 23, 1995. It could serve as a relatively low-cost alternative to the family-business estate tax exemption included in the Balanced Budget Act (which loses $4.6 billion over 7 years and $9.1 billion over 10 years). We continue to recommend targeted estate tax relief for family-held small businesses and farms, and believe that if additional resources are committed to this area, that they should be directed to expanding the targeted proposal.

Attachment

cc: Laura Tyson

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

THE PRESIDENT HAS SEEN
11-10-95

CLOSE HOLD

October 23, 1995

95 OCT 26 P1:03

MEMORANDUM FOR PRESIDENT CLINTON

FROM: LESLIE B. SAMUELS LBS

THROUGH: SECRETARY RUBIN

SUBJECT: ESTATE TAX PROPOSAL TO SUBSTITUTE FOR SENATE FAMILY-OWNED BUSINESS PROPOSAL

We understand that you are interested in a proposal that would offer estate tax relief to farmers and small business owners. We testified before the Senate Finance Committee in June 1995 in support of such relief. We view the problem of farmers and small business owners as a liquidity problem and support the notion that the heirs of such individuals should not be forced to sell the farm or business in order to pay estate taxes. In reviewing this area, it is noteworthy that of the 2.2 million Americans who died in 1989, only about 1% owed an estate tax. Of those 23,000 taxable estates, about 8,000 reported closely held businesses or farm assets.

The Senate Finance Committee tax bill includes an estate tax proposal to benefit family businesses by exempting from the estate tax the first $1.5 million in value of the business as well as 50% the value of the business between $1.5 million and 5 million. The Senate bill thereby gives an estate tax reduction in excess of $1,750,000 to any decedent owning a family business valued at $5 million or more. We believe that this proposal gives an excessive benefit to wealthy individuals. In addition, the proposal would be subject to abuse and is likely to become an estate tax loophole that enables many wealthy people to reduce their estate taxes. The proposal is scored at $5.5 billion over 7 years and $11 billion over 10 years, and is expected to benefit approximately 3,000 estates annually.

The Senate Finance Committee proposal is based on a bill introduced by Senator Dole that had no cap on the value of the business and thus would have provided significant benefits to owners of the largest family-owned businesses in the country, including many individuals on the Forbes 400 list.

Our alternative proposal described below more directly addresses the liquidity problem faced by small business owners and farmers, and does so at a much lower cost.

We propose to expand the availability of estate tax deferral in order to address the liquidity problem of estates owning small businesses and farms. Under current law, the estate tax on certain closely-held businesses (including farms) can be paid over, at most, a 14-year period. For the first five years, only

interest is required to be paid. To qualify for the deferral, the business must be an active trade or business, the value of the decedent's interest in the business must exceed 35 percent of the decedent's adjusted gross estate, there must be 15 or fewer partners or shareholders, and the decedent must have owned at least a 20 percent interest in the business. A special four percent interest rate applies to the tax deferred on the first $1,000,000 in value of the business. If the decedent owned the business through a corporate holding company, the extended payment plan is available, but the estate may not take advantage of the four percent interest rate or the five year interest-only deferral period. In addition, the special holding company rule only applies to non-readily tradeable stock.

We would amend current law as follows:

- Increase to $2,500,000 the cap on the value of business and farm property eligible for the four percent interest rate. The value of the $1,000,000 cap, which has been in place since 1987, has been seriously eroded by inflation.

- Extend the eligibility for deferral to businesses the top tier entities of which are partnerships or other entities. The existing distinction between holding companies (which are eligible) and other entities is illogical.

- Permit business interests held through holding companies, partnerships or other entities to take advantage of the four percent interest rate and the five year deferral, and remove the restriction on non-readily tradeable stock that applies only to holding companies. This would equalize treatment for deferral purposes as between businesses held directly by the decedent and those that are held indirectly through an intermediate entity by, among other things, permitting all estates 14 years to pay the estate taxes (unless the business is sold).

The cost of this package of proposals has been estimated at $1 billion over 7 years and $1.3 billion over 10 years.

The package described above can be adjusted to fit revenue targets by adjusting the amount subject to the 4% interest rate, the interest rate itself, and the period over which the tax is payable.

cc: Laura Tyson

THE WHITE HOUSE

WASHINGTON

January 26, 1996

MEMORANDUM FOR NEC BUDGET MEETING PARTICIPANTS

FROM: LAURA TYSON

SUBJECT: BACKGROUND MATERIAL FOR MONDAY'S MEETING

Attached is a draft of the President's proposed budget submission for February 5, to be discussed at Monday's NEC budget meeting. This document does not contain line-by-line agency subtotals but instead provides the thematic framework for the FY97 budget details, which will come out on March 18. Please treat this document with the utmost confidentiality.

BUDGET

[OMB SEAL]

BUDGET OF THE UNITED STATES GOVERNMENT:

FISCAL YEAR 1997

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

Dear Mr. Speaker:

In accordance with 31 USC Sec. 1105 (a), I am transmitting my fiscal 1997 budget to Congress.

This budget provides a thematic overview of my priorities as we continue our negotiations over how to balance the budget over the next seven years. It also includes the Administration's new economic assumptions.

Due to the uncertainty over fiscal 1996 appropriations action as well as possible changes in mandatory programs and tax policy, the Office of Management and Budget was not able to provide, by today, all the backup material that is normally contained in the President's budget submission. I will transmit that material to Congress on March 18.

Sincerely,

[POTUS]

CONTENTS

I. A VISION FOR THE FUTURE

II. AMERICA AND THE WORLD

III. A STRONGER NATION AT HOME

A. Strengthening Medicare

B. Strengthening Medicaid

C. Reforming Welfare

D. Investing in the Future

E. Providing Tax Relief

F. Curtailing Corporate Subsidies

I. A VISION FOR THE FUTURE

I. A VISION FOR THE FUTURE

The President's fiscal 1997 budget balances the budget in seven years, protects the nation's commitment to senior citizens and the poor, and invests in the future to help raise average living standards.

Specifically, his budget strengthens Medicare and Medicaid; invests in education and training, the environment, science and technology, and other priorities; reforms the welfare system; provides for a strong defense; and cuts taxes for average Americans and small businesses.

This budget -- which the Administration will spell out in detail on March 18 -- reflects the President's most recent proposal in his budget negotiations with the bipartisan congressional leadership. Because it reaches balance by 2002 as scored by the Congressional Budget Office (CBO), it fulfills a goal that the President shares with the congressional majority. (As scored by the Office of Management and Budget, it produces a $... billion surplus in 2002.)

For the period covered by this budget, both CBO and OMB rely on conservative economic and technical assumptions -- how quickly the economy will grow, the levels of interest rates and inflation, the speed at which health care spending will grow, and so on. Consequently, the President's 1997 budget provides a reasonable path by which to bring the budget into balance for the first time since 1969.

This budget builds on the President's record of success in reducing the deficit while investing in the future. Like the three previous budgets that the President has proposed, his fiscal 1997 submission is designed to help build a brighter future for all Americans -- one of work and opportunity; community and responsibility; liberty, diversity, and common ground; and, above all, progress.

The nation has entered a period of profound change -- from an economy based on manufacturing to one based on information -- the most profound change since the transformation from agriculture to manufacturing a century ago. It is a period of great opportunity and great uncertainty, a period of great churning and great unrest, a period that demands new thinking and new responses. Across the globe, the United States must continue to lead and cooperate in a world of nations, not retreat from it. At home, the public and private sectors must work together; we cannot rely just on one or the other. Americans of all generations must come together in the interests of all.

For this new era, we need the right kind of government and the right kind of policies. We need a government that creates opportunity, not bureaucracy, one that works with state and local governments, businesses, and religious, charitable, and civic associations. We need policies that grow the middle class and shrink the underclass. And we need to invest in our future, both by balancing the budget and by finding additional resources for education and training, the environment, science and technology, and other priorities.

Three years into this Administration, the nation is stronger and moving in the right direction. The economy continues to grow, with the lowest combined rates of unemployment and inflation in nearly three decades. We have created nearly eight million new jobs, over a million of them in basic industries like construction and automobiles. Exports are at an all-time high. And we have cut the budget deficit nearly in half, bringing down interest rates and, in turn, the costs of home mortgages, car payments, and credit card rates.

The President's economic program has revolved around one primary concern -- to raise the standard of living for average Americans in the future. His budget policy has played a central role. By cutting the deficit nearly in half, we have reduced federal borrowing, making more funds available in the private markets so that businesses can invest, grow more productive, expand, and create jobs. While doing so, we also have found the funds with which to invest more in education and training, science and technology, and other priorities, not only to make businesses more competitive but to give Americans the skills they need to compete in the new economy.

We are also cutting the size of government. We have more than 200,000 fewer people working for the federal government than three years ago, and we will continue to reduce the workforce in the years ahead. Already, we have the smallest workforce in 30 years; as a share of the civilian workforce, it is the smallest since 1933.

With the help of Vice President Gore's National Performance Review, we are creating a government that "works better and costs less" by streamlining the bureaucracy, overhauling the procurement system, and delivering better service. And to ease the burden on small business and average Americans, we are cutting 16,000 pages of federal regulations.

Meanwhile, communities across America are coming together. Crime is down in most major cities, the poverty rate is down, the welfare rolls are down, the food stamp rolls are down, the teen pregnancy rate is down, the divorce rate is down, and parents are becoming more involved in their children's schools and their futures.

In the world at large, our leadership is strong, bringing new hope for peace. Today, more people than ever live free and, with our help, peace is taking root in Haiti, in Northern Ireland, in the Middle East, and even in Bosnia, where U.S. soldiers are enforcing a fragile settlement. We are safer at home as well; today, not a single Russian nuclear missile is aimed at America's children.

To remain strong, we must do more than play a leading role on the military and diplomatic front. We also must honor our financial obligations. The President urges Congress to send him a clean, full-year extension of the nation's debt limit, ensuring that the Treasury can pay bondholders and recipients of Social Security and other federal benefits.

Treasury Secretary Rubin has warned that Congress must extend the debt limit by March 1 to avert the first default in U.S. history, which could raise interest rates overnight and impose serious, long-term harm on the economy. Congress should act without delay.

II. AMERICA AND THE WORLD

II. AMERICA AND THE WORLD

While some would have the U.S. retreat to within its borders, today's realities make such a stance both unrealistic and counter-productive.

The increasingly global economy makes the U.S. ever-more dependent on other nations. At the same time, while the end of the Cold War means that the U.S. no longer has nuclear weapons aimed upon it, it also has made the world a far less stable place, one in which war ethnic or religious strife could break out at any time, threatening vital U.S. interests.

The U.S. must continue to play a leading role in ensuring world peace, in cooperation with the world community whenever possible but alone when necessary.

The nation has played a leadership role in promoting world peace in the Middle East, northern Ireland, Haiti, and elsewhere. It is an admirable record. Now, the U.S. is promoting peace in Bosnia, a land that has seen only chaos, destruction, and suffering for the last four years.

In addition, the U.S. continues to cooperate with the world community in such areas as law enforcement, in which it has helped to round up drug lords who are promoting the destruction of young lives across the globe.

(more to come)

III. A STRONGER NATION AT HOME

III. A STRONGER NATION AT HOME

This budget, which reflects the President's most recent offer in his negotiations with congressional leaders, would reach balance the right way -- by cutting wasteful spending while upholding our commitments to senior citizens, to working families, and to the needy.

It would achieve a balanced budget by 2002 under scoring by the Congressional Budget Office (a goal to which the President is committed), and a surplus of **$xxx billion** under scoring by the Office of Management and Budget. But it also would protect our fundamental values as Americans.

The President and congressional leaders have worked hard to reach agreement on a plan to balance the budget over seven years. While they have not finished the job, the President feels strongly that their negotiations have been productive and have brought the two sides closer together. He is committed to doing whatever he can to complete the task.

In their talks, the President and the leaders have outlined a variety of proposals. With their latest offers, the two sides have agreed on at least minimum amounts of savings in the major categories (e.g., $124 billion in Medicare, $297 billion in discretionary spending) that, together, would save over **$xxx billion** -- enough to balance the budget and also provide a modest tax cut.

To be sure, significant policy differences remain in the negotiations -- over the size and distribution of a tax cut; the question of whether Medicaid continues to guarantee health coverage to senior citizens, the poor, and the disabled; and so on. But the President believes the Administration and Congress should balance the budget now, setting aside the remaining policy differences for another day. He has proposed that, as soon as possible, the two sides enact the savings in common to give the American people a balanced budget.

The President's 1997 budget saves **$xxx billion** over seven years. Among its major elements, the budget:

- saves $124 billion in Medicare, strengthening and improving the program and guaranteeing the solvency of the Part A trust fund for over a decade;

- saves $59 billion in Medicaid, reforming the program but continuing the guarantee of health and long-term care coverage for all recipients;

- saves **$xx billion** through real welfare reform, moving recipients to work while protecting children;

- saves $297 billion in discretionary spending, cutting wasteful spending but investing in education and training, the environment, science and technology, law enforcement, and other priorities that will raise living standards and improve the quality of American life;

- cuts taxes by **$xxx billion**, providing tax relief not only to tens of millions of average Americans but also to small businesses; and

- saves $46 billion by ending corporate subsidies and other loopholes, and by improving compliance.

These major elements of the President's budget are described in more detail below.

A. STRENGTHENING MEDICARE

The President's Medicare proposal strengthens and improves the program, reducing spending by a net $124 billion over seven years and guaranteeing the solvency of the trust fund for more than a decade. Specific reforms expand choices of private health plans, improve Medicare's fee-for-service program by making it more efficient and responsive to beneficiary needs, tackle fraud and abuse through programs applauded by law enforcement officials, cut the growth rate of provider payments, and continue the 25 percent Part B Premium.

Provider Payment Reforms and Program Savings

- **Hospitals.** The President's proposal reduces the inflation update for hospitals and payments for capital and indirect medical education; reforms payments for graduate medical education; and reforms payment methodology for outpatient departments and protects beneficiaries from additional increases.

- **Managed Care.** The proposal reforms payments by using reasonable rate-of-growth limits on updates for managed care payments, making payments for disproportionate share hospitals and medical education directly to teaching hospitals, and reducing the current geographic variation in payments.

- **Physicians.** The proposal reforms physician payments by collapsing the current three conversion factors into a single update for all physicians; and replaces current "volume performance standards" with a sustainable growth rate.

- **Home Health Care/Skilled Nursing Facilities.** The proposal implements a series of interim payment reforms before the establishment of separate prospective payment systems for home health care and skilled nursing facilities.

- **Fraud and Abuse.** The proposal introduces aggressive and comprehensive policies to stamp out Medicare waste, fraud, and abuse, and extends and enhances Medicare secondary payor policy.

- **Other Providers.** The proposal freezes or reduces payments for durable medical equipment and ambulatory surgical centers.

- **Beneficiaries.** The proposal continues the requirement that beneficiaries pay 25 percent of Part B costs.

Provisions to Improve Rural Health Care

The President's proposal enhances access to, and the quality of, health care in rural areas. To do so, it extends the Rural Referral Center program, directs Medicare reimbursement for nurse practitioners and physician assistants, improves the Sole Community Hospital program, and expands the Rural Primary Care Hospital program.

Program Improvements and Preventive Benefits

The President's proposal transforms the fee-for-service program from a bill-paying insurance program into a responsive health plan by giving Medicare the authority to adopt many of the purchasing and quality techniques pioneered by private sector payers.

The proposal also expands and improves Medicare managed care by:

- ensuring beneficiary protections while increasing the types of plans (including PPOs and PSNs) available to seniors, and

- instituting a coordinated annual open enrollment process -- similar to that used by the Federal Employees Health Benefits Plan (FEHBP) -- during which beneficiaries use comparative information to choose among managed care and supplemental insurance options.

In addition, the proposal expands coverage of preventive benefits to include annual mammograms and the elimination of mammography co-insurance, colorectal cancer screening, and increased payments for vaccinations. Finally, the proposal introduces a respite care benefit to provide some relief for families caring for people with Alzheimer's disease.

B. STRENGTHENING MEDICAID

The President's proposal for Medicaid reforms the program rather than repealing it, guaranteeing health and long-term care coverage for all recipients. It saves $59 billion over seven years responsibly, by limiting spending on a per-person basis (a "per capita cap") and reducing and retargeting Disproportionate Share Hospital (DSH) payments to hospitals that serve large numbers of Medicaid and uninsured patients.

The plan provides special payments for Federally Qualified Health Centers, rural health clinics, and States with large numbers of undocumented immigrants, and gives States more flexibility to administer their programs more efficiently. Finally, this plan retains current nursing home quality standards as well as spousal impoverishment protections and provisions that protect the financial resources of adult children with parents in nursing homes.

Program Savings

- **Per capita cap.** Under the proposal, a per capita cap limits the amount of Federal spending per person while retaining current eligibility and benefit guidelines. This approach guarantees that the elderly, disabled, and pregnant women and children who meet certain criteria will remain eligible for health benefits while cutting the rate of increase in Medicaid spending to a level that's sustainable for States and the Federal government. This approach offers greater protection not only to beneficiaries, but also to States facing population growth or economic downturns.

- **Disproportionate Share Hospital Payments.** The proposal cuts and retargets Disproportionate Share Hospital (DSH) payments to specific institutions, namely public and children's hospitals. It provides special payments for Federally Qualified Health Centers, Rural Health Clinics, and States with large numbers of undocumented immigrants.

Provisions to Increase State Flexibility

- **Boren amendment.** The plan repeals the so-called "Boren amendment," eliminating federal provider payment requirements for hospitals and nursing homes.

- **Managed care.** The plan allows States to move toward managed care without Federal waivers.

- **Home-and Community-Based Care.** The plan allows States to move populations who need long-term care from nursing homes to home- and community-based settings, without having to seek Federal waivers.

Protections for Low-income Seniors and Native Americans

The President's proposal retains the policy of helping low-income seniors through the shared federal-state responsibility for their Medicare premiums, copayments, and deductibles. It also retains payment protections for Medicaid-eligible Native Americans treated in Indian Health Service facilities. These protections are not subject to the per capita cap.

C. REFORMING WELFARE

America's welfare system differs greatly from the program begun over 60 years ago. In Aid to Families with Dependent Children (AFDC), which helped just a half-million people in 1936, the average recipient was perhaps a middle-aged widow raising her children alone on a Texas family farm. Today's recipients often are young children who have borne children, and parents who have never married. Over time, AFDC swelled to 13 million recipients, 70 percent of them children.

For too long, the welfare system has undermined the values of work and family, not strengthened them. The Administration has made steady progress in reforming welfare. In 1993, the President's economic plan gave tax cuts to 15 million working families through the Earned Income Tax Credit (EITC), which rewards work over welfare. The federal government collected a record $10 billion in child support in 1994. The Administration has given some three dozen States the freedom to experiment with welfare initiatives to move people from welfare to work and protect children.

The President wants to keep working with Congress to enact a bipartisan welfare reform bill that moves people from welfare to work and protects children. This proposal repeals the existing system, replacing it with one that requires work and provides child

care so people can leave welfare for work. It saves $41 billion over 7 years while promoting sweeping work-based reform and protecting children.

Temporary Employment Assistance and Child Protection

The proposal repeals AFDC and creates a new time-limited, conditional entitlement for cash assistance called Temporary Employment Assistance, or TEA. Within two years, parents must go to work or lose their benefits, and after five years, TEA benefits end. States will enjoy new flexibility to tailor their welfare systems to local conditions. At the same time, the plan provides vouchers for children whose parents reach the time limit, and protects States in the event of economic downturn or population growth.

The proposal provides about $3.6 billion above current law for child care, for recipients required to work or transitioning off welfare to work, and for the working poor. It also includes an $800 million performance bonus fund to reward states that move people from welfare to work. It has tough new child support enforcement measures and a new Work First program to make welfare a transitional work-based system. And it preserves the national commitment to open-ended foster care and adoption assistance programs, preserving States' ability to respond to growing caseloads.

Supplemental Security Income (SSI) For Disabled Children and Others

The proposal tightens eligibility standards for childhood disability benefits; retains full cash benefits for all eligible children; tightens eligibility for children now on the rolls, so that children found ineligible would start to lose benefits in January 1998; trims cash benefits of children in families with relatively higher incomes; eliminates eligibility for SSI on the basis of drug addiction or alcoholism; adds resources for more continuing disability reviews; and provides tools to collect SSI overpayments.

Food Stamps

The proposal maintains the national nutrition safety net for the Food Stamp and school lunch programs, enabling them to respond to the changing circumstances of families and children they serve.

Under the proposal, the Food Stamp program is indexed to inflation; all energy assistance counts as income; a work requirement makes adults 18-50 with no dependents ineligible for Food Stamps after six months of each year unless they work 20 hours

a week or participate in workfare or training (although eligibility continues if a State fails to supply a training or workfare slot; and new integrity measures will crack down on fraudulent Food Stamp trafficking and reduce program waste.

Child Nutrition

The proposal better targets food subsidies for Family Day Care Homes, rounds down meal reimbursement rates to the nearest cent, and makes other minor changes.

Title XX

The President's plan cuts the Social Services Block Grant by 10 percent, beginning in fiscal 1996.

Benefits for Legal Immigrants

The proposal tightens sponsorship and eligibility rules for SSI, Food Stamps and AFDC for non-citizens, forcing sponsors to bear greater responsibility for those they encourage to come to the U.S. by deeming sponsors' income until recipients become citizens.

It also preserves eligibility for Medicaid; maintains the exemption for the disabled and the very elderly from deeming; and establishes a uniform definition of eligibility across the AFDC, Food Stamps, SSI and Medicaid programs.

The Earned Income Tax Credit (EITC)

The President's plan continues the scheduled expansion of the EITC for the working poor; improves error and fraud control; and protects working families near minimum wage who have no other income.

D. INVESTING IN THE FUTURE

The President's proposal cuts discretionary spending by $297 billion over seven years, while investing in education and training; the environment; science and technology; law enforcement; and other priorities to help raise living standards and the quality of life for average Americans.

While shifting available resources to high-priority investments, the proposal also makes choices among non-investment programs. It limits cuts in the most important of those non-

investments by eliminating others and applying recommendations of the National Performance Review on cutting red tape and bureaucracy.

Nothing is more important to future living standards than education and training. The workers of today and tomorrow will need the best education and skills they can get to acquire high-wage jobs in the new global economy. The President proposes a broad agenda of life-long learning, providing adequate funds for the Head Start program for disadvantaged children; the Safe and Drug-Free Schools and Communities program to create safe learning environments; to Goals 2000 to help all States and school systems extend high academic standards, better teaching, and better learning; to expanded college scholarships to cover more recipients and increase the maximum amounts; and, finally, to job training for adults.

The proposal protects the environment. It expands enforcement by increasing funds for the operating program of the Environmental Protection Agency -- the backbone of our efforts to protect the environment; these funds address global climate change, promote the development and export of environmental technology, and protect sensitive ecosystems. It also consolidates the Clean Water and Safe Drinking Water State Revolving Funds, giving States more flexibility to meet local priorities.

The proposal also invests in science and technology, through a balanced mix of basic research, applied research, and technology development, much of it through cooperative projects with private industry. It adds funds for biomedical and behavioral research at the National Institutes of Health, for basic research and education at the National Science Foundation, for basic research at NASA (including Mission to Planet Earth), and for such important initiatives as the Advanced Technology Program and the Technology Reinvestment Project.

Finally, the proposal continues the President's aggressive efforts to combat crime, which have already led to dramatic cuts in violent crime in major cities. The proposal fully funds the President's Community Oriented Policing (COPS) initiative, adding 23,000 more police in local communities across the country, bringing the total additional police under COPS to 72,000 by the end of 1997 and 100,000 by 2000. Also, the proposal fully funds the Violent Crime Reduction Trust Fund that, among other things, will expand the support of state and local crime-fighting activities and prisons.

E. PROVIDING TAX RELIEF

The President's proposal targets tax relief to average Americans through his Middle-Class Bill of Rights, which he originally proposed in last year's budget (although the new proposal enhances the child care credit). The proposal also includes estate tax relief and expanded expensing for small business as well as pension simplification.

Middle-Class Bill of Rights

The proposal phases in a $500 tax credit for dependent children. The full credit is available for families with incomes of under $60,000, and the credit is phased out at incomes of $75,000. Unlike last year's proposal, the taxpayer will first calculate the effect of the child credit (and all other credits) and then calculate the earned income tax credit (EITC); this makes the EITC more valuable for moderate-income working families with children. In addition, the proposal phases in a $10,000 tax deduction for education and training expenses, including college tuition; and expands Individual Retirement Accounts (IRAs), including doubling the income limits for tax-deductible IRAs.

Small-Business Estate Tax Relief Act of 1996

To address the liquidity problems that may arise upon the death of a farmer or small business owner, the proposal increases the amount of property eligible for a favorable 4 percent interest rate on deferred estate tax from $1,000,000 to $2,500,000. It also extends the eligibility for deferral to additional entities, and it extends the 5-year interest-free deferral period and 4 percent interest rate provision to certain entities that cannot now take advantage of them.

Small Business Expensing

As the President advocated in 1993, and as Congress agreed by including it in the Balanced Budget Act, the proposal increases the amount of tangible depreciable property that small businesses can expense each year from $17,500 to $25,000. (The increase will be phased in by annual increments, and will be fully phased in for 2002 and thereafter.)

Pension Simplification

In a step that parallels bipartisan efforts in Congress, the President proposes to simplify rules (and expand coverage) for

pension plans sponsored by businesses of all sizes, nonprofit organizations, and state and local governments, as well as for multiemployer plans. The proposal provides a new, simple retirement savings plan (the National Employee Savings Trust or the NEST) for small business that combines the most attractive features of the IRA and the 401(k) plan, minimizes administrative and compliance costs, and eliminates the need for employer involvement with the government.

F. CURTAILING CORPORATE SUBSIDIES

The President's proposal saves $46.4 billion by ending corporate subsidies and other tax loopholes, and by changing the law to improve compliance. These steps would eliminate unwarranted benefits that corporations and other taxpayers receive through accounting manipulation or over-generous provisions of the tax law.

Accounting Manipulation

Corporations can no longer borrow at tax-deductible cost against their own life insurance policies on their employees. They also can no longer deduct the proceeds of redemptions of shares in other corporations.

The proposal cuts the corporate deduction for dividends received for firms that own less than 20 percent of other firms' stock; and it strengthens the minimum holding period for the deduction. It requires corporations to adjust the cost basis in stock that is acquired as the result of an involuntary conversion. It prohibits corporations from avoiding taxes in reorganizations by distributing preferred stock.

Corporations that convert into "S" corporation status lose the ability to defer or avoid tax on gains on their assets, and corporations no longer can construe securities they issue as debt rather than equity to deduct payments of dividends. Finally, all corporations lose deductions of interest incurred to hold tax-exempt bonds.

Under the proposal, taxpayers lose their ability to choose inventory-accounting methods in a manner that reduces taxes unjustifiably. The plan restricts the use of carry-backs of net operating losses of corporations, and of tax-free exchanges of "like-kind" personal property.

Corporate Tax Shelters

The proposal broadens registration requirements for corporate tax shelters.

Foreign Tax Manipulation and Compliance

The proposal strengthens the taxation of income from foreign securities transactions. It reforms the tax credit for corporations operating in U.S. possessions, redirecting the savings to more efficient uses for the U.S. possessions.

Specific Industry Loopholes and Compliance

The proposal imposes a diesel fuel excise tax on kerosene used as diesel fuel. It extends the oil spill liability trust fund excise tax through September 30, 2002. And it repeals the preferential percentage depletion tax benefit for non-fuel minerals mined on Federal lands.

The plan requires thrift institutions to account for bad debts in the same manner as banks.

Under the plan, a "look-back" requirement will prevent unwarranted acceleration of deductions (and, thus, postponement of taxes) under the income forecast method used for motion picture films and similar property.

Certain large corporate farms lose the ability to defer paying tax upon income put into a "suspence account" at the time of incorporation.

Tax Compliance

Federal agencies will report payments for services of $600 or more made to corporations, to aid in tax compliance. For such reports already required of the private sector, the plan strengthens penalties for failure to report.

TABLES

(to be incorporated within the text)

THE WHITE HOUSE

WASHINGTON

January 28, 1996

MEMORANDUM TO ALICE RIVLIN

From: Laura Tyson
Gene Sperling

Subject: Issues for FY 1997 Budget

Below are some of the issues it seems to me we need to resolve for the FY 1997 budget. Perhaps some of these issues can be held to the release of the March 18 full budget document, but the February 5 document should not prejudge the outcomes before the President has had the opportunity to consider them. We are especially concerned that without explicit Presidential approval, the mandatory spending details included in the February 5 document not preclude funding for new initiatives like the brownfields initiative mentioned in the State of the Union speech.

1. Emphasis on the trigger in discretionary spending: This is a key issue for us to resolve in terms of how we present our long-term budget. The Daschle budget had a formula that for every dollar above CBO projections, 33 cents went to tax cuts, 33 cents went to discretionary and 33 cents went to additional deficit reduction. The Vice President has suggested an alternative formula, with 50 cents to tax cuts and 50 cents to discretionary.

How we discuss the trigger in our budget presentation will affect how we will describe and defend our out-year cuts in NDD. If we still believe in our OMB numbers, then we can be more confident that we will not have to cut NDD so seriously in the out years,and we should make that case forcefully in our presentation.

2. Education and Training: We must be clear on our commitment and make sure the numbers support it. Our June budget contained the principle that education and training keep pace with inflation as a whole, and that within the education and training budget some programs get real increases while lower priorities would get cuts.

One of the main issues for the 1997 budget will be the base to which inflation is applied to get real increase. Possible choices are:

- The FY 95 level
- The FY 96 addback level
- The FY1996 request level (most expensive)

We need to decide which base is most desirable, recognizing that we need to do what we can to keep our proposal consistent with past statements and encourage support of the education groups. At a minimum, this would seam to mean that the Education Department budget as a whole is increasing.

3. GI Bill of Rights: The President showed in the State of the Union his continuing interest in having a strong GI Bill of Rights. Do we still have enough funding built in the budget for our initial proposal? And do we want to consider the idea of using some of the FUTA to finance the activities now that it are being put on the table for deficit reduction?

4. Environment: The issue here is similar to the education issue. The Vice President's office has been strong on the notion that we must also be able to say that we are protecting the environment from real cuts. Unlike education and training, however, there is no clear definition in budget terms of the base for spending on the environment. Several earlier meetings with Ron, T.J, Katie and others reached a general agreement that we should define a base consisting of the EPA budget and some Interior elements as the core environmental budget. Ron Klain feels that if we cannot afford it, we should define the core environmental base somewhat more narrowly, so that we are able to say that we are protecting the environment. Additionally, there will be an emphasis on showing that the EPA budget is growing each year at least in nominal terms.

5. Technology and Research: Do we ignore the overall spending level on research/science and technology and just focus on our priorities, or do we want (and can we afford) to make a case for overall investment in this area? I would prefer the latter approach.

6. Low-Income Discretionary: We have never looked at low-income discretionary programs as a category, but I suggest that this time around we keep an eye on them, as the President is very concerned that we be able to say that we are not making decisions that will disadvantage the poor as a whole.This is particularly important in light of the welfare vote that is threatening to engulf us.

NEW INITIATIVES:

7. Education Technology: We are currently working on the exact structure of the program. Those details certainly don't have to be worked out for the first budget proposal, but we do have to ensure we can afford the $2-$2.5 billion over five years that we have been calling for.

8. Merit Scholarships and Work Study: Here we just have to ensure that our budget is consistent with these two new proposals.

MANDATORY DECISIONS: We have a few new spending proposals in the mandatory side of the budget. We have to decide which of these proposals to put in and what offsets to show we can afford them. If we have already pushed our limit on entitlements, where do we get the funds to offset these new programs? Or perhaps we don't need to show the offsets if we trigger off the tax cut, or if we trigger off these new benefits.

9. Brownfields and Other Urban Ideas: There is a strong desire to announce the details of our Brownfield initiative. Yet, the tax decision -- how quickly the expensing occurs and how large the eligible areas are -- have significant funding effects. They have to be considered along with all of the competing urban and health issues. The major issue -- as always -- is how we pay for it. If tax cuts are involved, they can be include in our submission of $130 billion. If mandatory spending is involved, the situation is trickier.

Brownfields	$2-4 billion
CDFI-Mircoenterprise	$1-2.5
New Round/Empowerment Zones	$1 billion

10. Healthcare Initiatives:

- A major decision is which health care parts do we put in our budget discussion. On the Medicare initiatives -- preventive care, Alzheimer, etc -- a major decision is how soon they are implemented and whether our $124 billion is a net number or a gross number?

- The other main issue is clearly whether we include the benefit for unemployed workers? This is a major funding and policy issue for us. The costs are $1-2 billion a year, but without it, we go into the year without any proposal that increases coverage. Do we have to find offsets for this or can it be triggered off after five years or can it be paid for by lowering the costs of the tax cut?

- Do we assume that we have dropped our long-term care initiative?

THE WHITE HOUSE

WASHINGTON

February 1, 1996

MEMORANDUM TO THE PRESIDENT

CC: LAURA TYSON
DON BAER

FROM: GENE SPERLING
GABRIELLE BUSHMAN
JON ORSZAG

SUBJECT: Facts in the State of the Union

Despite the fact that several newspapers assigned people to scrutinize the statistics in your State of the Union, we have not seen a single article or analysis that focused primarily on challenging the factual accuracy of your address. Through good coordination of the NEC and Communications, we prepared a background paper documenting each fact in the speech (attached) that was ready by the start of the speech. We have offered this backup to anyone who has asked.

There were two articles, however, that disputed different facts in your speech. In both cases, Gene talked with the reporters. One reporter admitted our fact was correct. The other reporter stood by his critique but admitted that his contention was trivial and technical.

The two facts mentioned were the following:

1. Beth Belton of the *USA Today* wrote a story in which she disputed the claim that the combined rate of unemployment and inflation was at its lowest level in 27 years; she stated that the combined rate of unemployment and inflation was the lowest in nine years -- since 1986. While there are a variety of ways of calculating the index, virtually all show that our statement is correct.

   If one looks at 1995, in terms of unemployment and inflation measured by year over year averages, we have the lowest combined rate of inflation and unemployment in 27 years. (This is the way the Blue Chip records yearly unemployment and inflation figures.) If, instead, you look at the last two years combined -- under any formulation -- we have the lowest combined rate of inflation and unemployment in 27 years. Moreover, the average Misery Index

during your Administration -- measured on any basis -- is the lowest since the Johnson Administration.

The *USA Today* number is only correct if you sum the unemployment rate (annual average) and the inflation rate (December-to-December). Under this calculation, the combined rate of inflation and unemployment is only the lowest since 1986 -- because of the aberrant drop in oil prices that year. Even under this calculation, the rate is the lowest since 1968 if the core rate of inflation -- excluding food and energy prices -- is used. In sum, we feel our claim is solid. Joe Stiglitz feels this way too. He has talked to the reporter, and has already written a letter to the editor.

2. Al Kamen and Warren Brown wrote in *The Washington Post* that you misstated the statistic that "America is selling more cars than Japan for the first time since the 1970s." *They argued that you should have said "producing", instead of "selling".*

This is an issue of semantics: in 1994, more American-produced cars were sold world-wide than Japanese-produced cars--for the first time since the 1970s. They, on the other hand, understood your statement to mean that American *car dealers* sold more cars than Japanese *car dealers*. This has always been true. Therefore, it would not be the first time since the 1970s. Gene has spoken with Al Kamen and Warren Brown and they agree that it was nit-picky and extremely technical.

We feel that "sold" is accurate (since we care more about American-produced cars that are then sold). However, to avoid any potential confusion, we suggest that you say either American workers are *making* more autos than Japanese workers for the first time since the 1970s or America is *making* more autos than Japan for the first time since the 1970s.

STATE OF THE UNION FACT SOURCES
JANUARY 23, 1996

INTRODUCTION

FACT: **"Our economy is the healthiest it has been in three decades."**

Source:

In 1995, the Misery Index--the combined rate of unemployment and inflation--reached its lowest level since 1968.

Over the last three years, mortgage rates have been at their lowest sustained levels in three decades.

The annual rate of inflation -- as measured by the core CPI -- during the last three years is lower than during any comparable period in three decades.

The Dow Jones Industrial Average increased over 33 percent in 1995 -- that's the second biggest increase since 1958, only 1975 was better.

Alan Greenspan, testimony to the House Budget Committee, 2/22/94, "The outlook, as a result of subdued inflation and still long-term interest rates, is the best we've seen in decades."

Alan Greenspan, 6/22/94, "The outlook for the U.S. economy is as bright as it has been in decades."

FACT: **"We have the lowest combined rate of unemployment and inflation in 27 years."**

Source:

Bureau of Labor Statistics, *Employment and Earnings,* Table A1, October 1995 and Bureau of Labor Statistics, *CPI Detailed Report*, Table 24, October 1995. Data on unemployment represent the average annual rate, while data on inflation represent the percentage change in the year-over-year Consumer Price Index for all urban consumers.

In 1995, the combined rate of unemployment and inflation was 8.2, down from 8.7 in 1994. In 1968, it was 7.8.

FACT: **"We have created nearly 8 million new American jobs, over a million in basic industries like construction and automobiles."**

Source:

Bureau of Labor Statistics, *Employment and Earnings*, October 1995, and Bureau of Labor Statistics, December Employment Situation, January 19, 1996.

Since January 1993, the economy has created more than 7.8 million net new jobs; non-farm payroll employment increased from 109.477 million to 117.315 million in December 1995.
Basic industries are manufacturing, construction, and the automobile industry. Since President Clinton took office, employment has increased by 1.022 million in these key industries (from 22.604 million in January 1993 to 23.626 million in December 1995).

FACT: **"America is selling more cars than Japan for the first time since the 1970s."**

Source:

1. American Automobile Manufacturers Association

Between 1985 and 1987, annual motor vehicle production in the United States declined from 11.65 million to 10.93 million.

In 1994, the United States produced 12.26 million motor vehicles, while Japan produced 10.55 million. That was the first time the U.S. had out-produced Japan since 1979, when the U.S. produced 11.48 million motor vehicles and Japan produced 9.63 million.

2. Yomiuri Shimbun, "Nov. Car Output Falls 9.1%," *The Daily Yomiuri*, December 26, 1995.

"The drop means that Japan will fall short of the United States for the second year in a row in terms of total auto production for 1995, the Japan Automobile Manufacturers Association said... During the January-to-November period, Japan produced a total of 9,423,306 automobiles, down 2.8 percent from the same period last year. For calendar 1995, the country is expected to produce slightly more than 10 million cars. The United States produced 11,158,072 cars over the same 11-month period. Last year, it knocked Japan from its perch as the world's top car maker for the first time in fifteen years."

FACT: **"And for three years in a row, we have had a record number of new businesses started in our country."**

Source:

Dun and Bradstreet.

In 1995, the new business incorporations increased at a rate of 769,248 per year. This broke the old record of 741,657 per year in 1994, which broke the previous record of 706,537 in 1993.

FACT: **The crime rate, the welfare and food stamp rate, the poverty rate, the teen pregnancy rate are all down.**

Source:

Crime:
FBI press release, December 17, 1995

"The number of crime index offenses reported to law enforcement agencies throughout the U.S. decreased 1% during the first six months of 1995."

Welfare:
March 1994: 14,361 million recipients
August 1995:13,210 million recipients
These figures represent an 8% decline.

Food stamps:
U.S. Department of Agriculture Release, January 23, 1996.

Since August 1994, Food Stamp Program participation has dropped consistently each month compared to the same month a year earlier. In October, 1995 (the most recent month for which data exists) participation dropped by nearly one million people compared to October 1994. The decline in participation between August 1994 and October 1995 has resulted in a cumulative savings to taxpayers of over $800 million.

Poverty:
Bureau of the Census, *Income, Poverty, and the Valuation of Non-Cash Benefits*, 1994.

There were 38.1 million Americans in poverty in 1994, or 1.2 million fewer than in 1993.

Teen pregnancy:
HHS Press Release, 9/21/95

CDC's *Advance Report of Final Natality Statistics*

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers of Disease Control and Prevention. Teen pregnancy rates (including both births and abortions) were down in a majority of states, as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers -- United States, 1991-1992, in the September 22 Morbidity and Mortality Weekly Report.

FACT: **"And I thank the Democrats for passing the largest deficit reduction plan in history in 1993, which has cut the deficit nearly in half in just three years.**

Source:

Office of Management of Budget, *Mid-Session Review of the 1996 Budget*, July 28, 1995, p.3, and Department of Treasury, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government*, October 27, 1995, Table 2, page 3.

In Fiscal Year 1992, the federal budget deficit as percentage of GDP was 4.9 percent. In Fiscal Year 1995, it was 2.3 percent.

FACT: **"We all have the seen the benefits of deficit reduction. Lower interest rates have made it easier for business to create new jobs. Lower interest rates have brought down the cost of home mortgages, car and credit card rates to ordinary citizens."**

Source:

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, 1/31/94: "The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates."

Business Week, 2/7/94: "Both Clinton and the economy head into 1994 on the momentum from a strong showing at the end of 1993. Lower long-term interest rates, for which the White House can take partial credit, helped to rev up spending for cars, homes, and durable goods generally, boosting factory orders and production, while better growth in jobs and incomes kept people happy."

Department of the Treasury and Haver Analytics:
The 30-year Treasury bond fell from 7.34% in January 1993 to 6.06% in December 1995. The effective interest rate on new average-fixed mortgages dropped from 8.26% in January 1993 to 7.74% in November 1995.

CHALLENGE: TO CHERISH OUR CHILDREN AND STRENGTHEN THE AMERICAN FAMILY

FACT: **"Every year, a million children take up smoking, even though it is against the law. Three hundred thousand of them will have their lives shortened as a result."**

Source: Centers for Disease Control and Prevention

FACT: **"To strengthen the family we must do everything we can to keep the teen pregnancy rate going down."**

Source:
HHS Press Release, 9/21/95
CDC's *Advance Report of Final Natality Statistics*

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers of Disease Control and Prevention. Teen pregnancy rates (including both births and abortions) were down in a majority of states, as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers -- United States, 1991-1992, in the September 22 Morbidity and Mortality Weekly Report.

CHALLENGE: TO PROVIDE AMERICANS WITH THE EDUCATIONAL OPPORTUNITIES WE NEED FOR A NEW CENTURY

FACT: **"We are working with the telecommunications industry, educators and parents to connect 20% of California's classrooms by this spring, and every classroom and library in America by the year 2000."**

Source:
Office of the Vice President press release, September 17, 1995

FACT: **"We've created a new student loan program that's made it easier to borrow and repay those loans."**

Source:

The direct loan program was created by OBRA '93.

The Student Loan Reform Act of 1993, a part of OBRA '93, redressed many of the problems that had grown out of the old student loan program--specifically, the complexity for schools and borrowers and its cost to the taxpayer.

FACT: **"...and we have dramatically lowered the student loan default rate."**

Source:

Department of Education press release, 1/22/96

From 22.4% three years ago to 11.6% in the most recent year, due in part to Department of Education's aggressive accountability and collection efforts. The new default rate is from FY 1993, the most current data available.

FACT: **"Through AmeriCorps, our national service program, this year 25,000 students will earn college money by serving their communities."**

Source:

Corporation for National Service Advisory, 10/95

In its second year, AmeriCorps will involve some 25,000 members in service to more than 400 community programs throughout the country. In FY 1994, more than 20,000 individuals served in AmeriCorps, in 350 programs.

CHALLENGE: HELP EVERY AMERICAN ACHIEVE ECONOMIC SECURITY

FACT: **"Within the year, the minimum wage will fall to a 40-year low in purchasing power."**

Source:

Department of Labor, Office of the Chief Economist.

Depending upon the rate of inflation, the real value of the minimum wage will reach its 40-year low sometime near the end of 1996 or at the beginning of 1997.

FACT: **"In 1993, Congress cut the taxes of 15 million hard-pressed working families to make sure that no parents who work full-time would have to raise their children in poverty."**

Source:

Department of the Treasury, Office of Tax Analysis.

In 1996, 15 million families received a tax cut.

FACT: **"This expanded Earned Income Tax Credit is now worth about $1,800 to a family of four living on $20,000."**

Source:

Department of the Treasury, Office of Tax Analysis.

In 1996, a family of four earning $20,000 would receive $1,795 from the EITC.

FACT: **"The budget bill I vetoed would have reversed this achievement, and raised taxes on nearly 8 million of these people."**

Source:

Department of the Treasury, *Distributional Effects of the Congressional Tax Plan*, November 22, 1995.

"After accounting for the fully phased-in $500 child credit and the increase in the standard deduction for married couples, about 7.7 million families who earn under $30,000 a year would face a net income tax increase, on average, of $318 under the proposal."

FACT: **"Two years ago, with bipartisan support that was almost unanimous on both sides of the aisle, we moved to protect the pensions of eight million working people and stabilize the pensions of 32 million more."**

Source:

Pension Benefit Guaranty Corporation, press release, November 29, 1995, and Update to Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin*, Abstract of 1991, Form 5500 Annual Reports, Winter 1995.

"An estimated 8 million people are covered by about 10,000 underfunded plans..." These 8 million people all had their pensions protected

The remaining 32 million Americans in defined benefit plans had their pensions stabilized.

FACT: **"Over the past two years, over one million Americans in working families lost their health insurance."**

Source:

Historical projections based on Department of Commerce, Bureau of Census, Current Population Survey data.

In 1993, 38.6 million Americans did not have health insurance; in 1995, 39.7 million were uninsured.

FACT: **"I challenge you to pass the bipartisan bill offered by Senators Kassebaum and Kennedy to require insurance companies to stop dropping people for switching jobs or denying coverage for pre-existing conditions."**

Source:

Health Insurance Reform Act S. 1028

FACT: **"In the past three years, we've saved $15 billion by fighting health care fraud and abuse."**

Source:

Department of Health and Human Services
Michael Mangano, letter to Jennifer O'Connor.

"In fiscal years 1993 through 1995, our Office of Inspector General accounted for $14.71 billion in Medicare and Medicaid program savings..."

CHALLENGE: **TAKE BACK OUR STREETS FROM CRIME AND DRUGS**

FACT: **"In New York City, murders are down 25%; St. Louis, 18%; Seattle, 32%."**

Source:

Time magazine, 1/15/96, page 56. (*Time* cites local police departments). DOJ's Bureau of Justice Statistics also independently confirmed with each city's police department.

FACT: **"It provides funds for 100,000 new police in communities of all sizes. We're already a third of the way there."**

Source:

All Programs Master Summary, COPS Office, Department of Justice.

As of 1/16/96, 31,395 new officers have been funded.

FACT: **"The Brady Bill has already stopped 44,000 people with criminal records from buying guns."**

Source:

44,274 felons have been denied access to handguns by Brady Bill checks from March to December, 1994. *Bureau of Alcohol, Tobacco & Firearms, "Felons Denied Access to Handguns by Brady Law", 1/18/96.*

FACT: **"The assault weapons ban is keeping 19 kinds of assault weapons out of the hands of violent gangs."**

Source:

Title 11, Section 110102 of the Crime Bill.

CHALLENGE: **PRESERVE OUR ENVIRONMENT FOR FUTURE**

FACT: **"Because of a generation of bipartisan effort, we do have cleaner water and air."**

Source:

President Nixon created the EPA in 1970. The Clean Water Act was bipartisan. Both vetoes by Nixon and Reagan were easily overridden. The Safe Drinking Water Act was passed in 1974 by voice vote in the Senate and 296-84 in the House, and then signed by President Ford. President Bush championed and then signed the last reauthorization of the Clean Air Act in 1990

FACT: **"...lead levels in our children's blood have been cut by 70 percent."**

Source:

National Health and Nutrition Examination Survey, HHS. Survey was published in *The Journal of American Medical Association*, July 27, 1994.

Mean blood levels of children between the ages of 1-5 years declined 77% during the time period 1976-1991.

FACT: **"...toxic emissions from factories are cut in half."**

Source:

US EPA 1993 Toxic Release Inventory data

Total percentage decrease in total releases for ten industries from 1988-1993 was 47.9%

FACT: **"Lake Erie was dead, and now it's a thriving resource."**

Source:

Clean Water: A Memorial Day Perspective, US EPA Office of Water, May 1994, pages 12-14)

Water quality improvements and increased lakeside development have caused people to return to the shore of Lake Erie to enjoy boating, fishing, swimming and other activities.

FACT: **"But ten million children under 12 live within four miles of a toxic waste dump."**

Source:

US EPA Superfund database, US Census Bureau data, 12/14/95.

The population data of children under 10 living within four miles of Superfund National Priority List sites was generated using LandView, a computer program that presents selected population/demographic information from the 1990 census and from five EPA databases. Using LandView, EPA was able to determine that 9.8 children under the age of 10 live within four miles of a Superfund National Priority List site.

FACT: **"A third of us breathe air which endangers our health."**

Source:

US EPA National Ambient Air Quality Trends Report (11/6/95)

"Based on air quality data from 1992-1994, 93 million people were living in counties that did not meet the air quality standard for ozone pollution."

FACT: **"Congress has voted to cut environmental enforcement by 25%."**

Source:

Statement of Administration Policy, OMB, Dec. 14, 1995

H.R. 2099 -- The appropriations bill for the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies for FY 1996 includes a 25 percent cut in enforcement and a 22 percent cut in requested funding for the EPA

CHALLENGE: PERSONAL RESPONSIBILITY FOR THE FUTURE

FACT: **"We are eliminating 16,000 pages of unnecessary rules and regulations."**

Source:

National Performance Review, *Common Sense Government*, page 3

"Agencies are sending 16,000 pages to the scrap heap, of 86,000 pages of regulations reviewed."

FACT: **"We are increasing border controls by 50%."**

Source:

Immigration and Nationalization Service, release on January 23, 1996.

"Working with Congress, we are working to strengthen our border control force -- including Border Patrol agents, INS inspectors and other enforcement personnel -- by over 50 percent since President Clinton took office."

FACT: **"Today our federal government is 200,000 employees smaller than the day I took office. Our federal government is the smallest it has been in 30 years, and it's getting smaller every day."**

Source:

Office of Management and Budget, January 23, 1996.

THE WHITE HOUSE

WASHINGTON

February 1, 1996

MEMORANDUM TO THE PRESIDENT

CC: LAURA TYSON
DON BAER

FROM: GENE SPERLING
GABRIELLE BUSHMAN
JON ORSZAG

SUBJECT: Facts in the State of the Union

Despite the fact that several newspapers assigned people to scrutinize the statistics in your State of the Union, we have not seen a single article or analysis that focused primarily on challenging the factual accuracy of your address. Through good coordination of the NEC and Communications, we prepared a background paper documenting each fact in the speech (attached) that was ready by the start of the speech. We have offered this backup to anyone who has asked.

There were two articles, however, that disputed different facts in your speech. In both cases, Gene talked with the reporters. One reporter admitted our fact was correct. The other reporter stood by his critique but admitted that his contention was trivial and technical.

The two facts mentioned were the following:

1. Beth Belton of the *USA Today* wrote a story in which she disputed the claim that the combined rate of unemployment and inflation was at its lowest level in 27 years; she stated that the combined rate of unemployment and inflation was the lowest in nine years -- since 1986. While there are a variety of ways of calculating the index, virtually all show that our statement is correct.

   If one looks at 1995, in terms of unemployment and inflation measured by year over year averages, we have the lowest combined rate of inflation and unemployment in 27 years. (This is the way the Blue Chip records yearly unemployment and inflation figures.) If, instead, you look at the last two years combined -- under any formulation -- we have the lowest combined rate of inflation and unemployment in 27 years. Moreover, the average Misery Index

during your Administration -- measured on any basis -- is the lowest since the Johnson Administration.

The *USA Today* number is only correct if you sum the unemployment rate (annual average) and the inflation rate (December-to-December). Under this calculation, the combined rate of inflation and unemployment is only the lowest since 1986 -- because of the aberrant drop in oil prices that year. Even under this calculation, the rate is the lowest since 1968 if the core rate of inflation -- excluding food and energy prices -- is used. In sum, we feel our claim is solid. Joe Stiglitz feels this way too. He has talked to the reporter, and has already written a letter to the editor.

2. Al Kamen and Warren Brown wrote in *The Washington Post* that you misstated the statistic that "America is selling more cars than Japan for the first time since the 1970s." *They argued that you should have said "producing", instead of "selling".*

This is an issue of semantics: in 1994, more American-produced cars were sold world-wide than Japanese-produced cars--for the first time since the 1970s. They, on the other hand, understood your statement to mean that American *car dealers* sold more cars than Japanese *car dealers*. This has always been true. Therefore, it would not be the first time since the 1970s. Gene has spoken with Al Kamen and Warren Brown and they agree that it was nit-picky and extremely technical.

We feel that "sold" is accurate (since we care more about American-produced cars that are then sold). However, to avoid any potential confusion, we suggest that you say either American workers are *making* more autos than Japanese workers for the first time since the 1970s or America is *making* more autos than Japan for the first time since the 1970s.

STATE OF THE UNION FACT SOURCES
JANUARY 23, 1996

INTRODUCTION

FACT: **"Our economy is the healthiest it has been in three decades."**

Source:

In 1995, the Misery Index--the combined rate of unemployment and inflation--reached its lowest level since 1968.

Over the last three years, mortgage rates have been at their lowest sustained levels in three decades.

The annual rate of inflation -- as measured by the core CPI -- during the last three years is lower than during any comparable period in three decades.

The Dow Jones Industrial Average increased over 33 percent in 1995 -- that's the second biggest increase since 1958, only 1975 was better.

Alan Greenspan, testimony to the House Budget Committee, 2/22/94, "The outlook, as a result of subdued inflation and still long-term interest rates, is the best we've seen in decades."

Alan Greenspan, 6/22/94, "The outlook for the U.S. economy is as bright as it has been in decades."

FACT: **"We have the lowest combined rate of unemployment and inflation in 27 years."**

Source:

Bureau of Labor Statistics, *Employment and Earnings,* Table A1, October 1995 and Bureau of Labor Statistics, *CPI Detailed Report*, Table 24, October 1995. Data on unemployment represent the average annual rate, while data on inflation represent the percentage change in the year-over-year Consumer Price Index for all urban consumers.

In 1995, the combined rate of unemployment and inflation was 8.2, down from 8.7 in 1994. In 1968, it was 7.8.

FACT: **"We have created nearly 8 million new American jobs, over a million in basic industries like construction and automobiles."**

Source:

Bureau of Labor Statistics, *Employment and Earnings*, October 1995, and Bureau of Labor Statistics, December Employment Situation, January 19, 1996.

Since January 1993, the economy has created more than 7.8 million net new jobs; non-farm payroll employment increased from 109.477 million to 117.315 million in December 1995.
Basic industries are manufacturing, construction, and the automobile industry. Since President Clinton took office, employment has increased by 1.022 million in these key industries (from 22.604 million in January 1993 to 23.626 million in December 1995).

FACT: **"America is selling more cars than Japan for the first time since the 1970s."**

Source:

1. American Automobile Manufacturers Association

Between 1985 and 1987, annual motor vehicle production in the United States declined from 11.65 million to 10.93 million.

In 1994, the United States produced 12.26 million motor vehicles, while Japan produced 10.55 million. That was the first time the U.S. had out-produced Japan since 1979, when the U.S. produced 11.48 million motor vehicles and Japan produced 9.63 million.

2. Yomiuri Shimbun, "Nov. Car Output Falls 9.1%," *The Daily Yomiuri*, December 26, 1995.

"The drop means that Japan will fall short of the United States for the second year in a row in terms of total auto production for 1995, the Japan Automobile Manufacturers Association said... During the January-to-November period, Japan produced a total of 9,423,306 automobiles, down 2.8 percent from the same period last year. For calendar 1995, the country is expected to produce slightly more than 10 million cars. The United States produced 11,158,072 cars over the same 11-month period. Last year, it knocked Japan from its perch as the world's top car maker for the first time in fifteen years."

FACT: **"And for three years in a row, we have had a record number of new businesses started in our country."**

Source:

Dun and Bradstreet.

In 1995, the new business incorporations increased at a rate of 769,248 per year. This broke the old record of 741,657 per year in 1994, which broke the previous record of 706,537 in 1993.

FACT: **The crime rate, the welfare and food stamp rate, the poverty rate, the teen pregnancy rate are all down.**

Source:

Crime:
FBI press release, December 17, 1995

"The number of crime index offenses reported to law enforcement agencies throughout the U.S. decreased 1% during the first six months of 1995."

Welfare:
March 1994: 14,361 million recipients
August 1995:13,210 million recipients
These figures represent an 8% decline.

Food stamps:
U.S. Department of Agriculture Release, January 23, 1996.

Since August 1994, Food Stamp Program participation has dropped consistently each month compared to the same month a year earlier. In October, 1995 (the most recent month for which data exists) participation dropped by nearly one million people compared to October 1994. The decline in participation between August 1994 and October 1995 has resulted in a cumulative savings to taxpayers of over $800 million.

Poverty:
Bureau of the Census, *Income, Poverty, and the Valuation of Non-Cash Benefits*, 1994.

There were 38.1 million Americans in poverty in 1994, or 1.2 million fewer than in 1993.

Teen pregnancy:
HHS Press Release, 9/21/95

CDC's *Advance Report of Final Natality Statistics*

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers of Disease Control and Prevention. Teen pregnancy rates (including both births and abortions) were down in a majority of states, as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers -- United States, 1991-1992, in the September 22 Morbidity and Mortality Weekly Report.

FACT: **"And I thank the Democrats for passing the largest deficit reduction plan in history in 1993, which has cut the deficit nearly in half in just three years.**

Source:

Office of Management of Budget, *Mid-Session Review of the 1996 Budget*, July 28, 1995, p.3, and Department of Treasury, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government*, October 27, 1995, Table 2, page 3.

In Fiscal Year 1992, the federal budget deficit as percentage of GDP was 4.9 percent. In Fiscal Year 1995, it was 2.3 percent.

FACT: **"We all have the seen the benefits of deficit reduction. Lower interest rates have made it easier for business to create new jobs. Lower interest rates have brought down the cost of home mortgages, car and credit card rates to ordinary citizens."**

Source:

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, 1/31/94: "The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates."

Business Week, 2/7/94: "Both Clinton and the economy head into 1994 on the momentum from a strong showing at the end of 1993. Lower long-term interest rates, for which the White House can take partial credit, helped to rev up spending for cars, homes, and durable goods generally, boosting factory orders and production, while better growth in jobs and incomes kept people happy."

Department of the Treasury and Haver Analytics:
The 30-year Treasury bond fell from 7.34% in January 1993 to 6.06% in December 1995. The effective interest rate on new average-fixed mortgages dropped from 8.26% in January 1993 to 7.74% in November 1995.

CHALLENGE: TO CHERISH OUR CHILDREN AND STRENGTHEN THE AMERICAN FAMILY

FACT: **"Every year, a million children take up smoking, even though it is against the law. Three hundred thousand of them will have their lives shortened as a result."**

Source: Centers for Disease Control and Prevention

FACT: **"To strengthen the family we must do everything we can to keep the teen pregnancy rate going down."**

Source:
HHS Press Release, 9/21/95
CDC's *Advance Report of Final Natality Statistics*

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers of Disease Control and Prevention. Teen pregnancy rates (including both births and abortions) were down in a majority of states, as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers -- United States, 1991-1992, in the September 22 Morbidity and Mortality Weekly Report.

CHALLENGE: TO PROVIDE AMERICANS WITH THE EDUCATIONAL OPPORTUNITIES WE NEED FOR A NEW CENTURY

FACT: **"We are working with the telecommunications industry, educators and parents to connect 20% of California's classrooms by this spring, and every classroom and library in America by the year 2000."**

Source:
Office of the Vice President press release, September 17, 1995

FACT: **"We've created a new student loan program that's made it easier to borrow and repay those loans."**

Source:

The direct loan program was created by OBRA '93.

The Student Loan Reform Act of 1993, a part of OBRA '93, redressed many of the problems that had grown out of the old student loan program--specifically, the complexity for schools and borrowers and its cost to the taxpayer.

FACT: **"...and we have dramatically lowered the student loan default rate."**

Source:

Department of Education press release, 1/22/96

From 22.4% three years ago to 11.6% in the most recent year, due in part to Department of Education's aggressive accountability and collection efforts. The new default rate is from FY 1993, the most current data available.

FACT: **"Through AmeriCorps, our national service program, this year 25,000 students will earn college money by serving their communities."**

Source:

Corporation for National Service Advisory, 10/95

In its second year, AmeriCorps will involve some 25,000 members in service to more than 400 community programs throughout the country. In FY 1994, more than 20,000 individuals served in AmeriCorps, in 350 programs.

CHALLENGE: HELP EVERY AMERICAN ACHIEVE ECONOMIC SECURITY

FACT: **"Within the year, the minimum wage will fall to a 40-year low in purchasing power."**

Source:

Department of Labor, Office of the Chief Economist.

Depending upon the rate of inflation, the real value of the minimum wage will reach its 40-year low sometime near the end of 1996 or at the beginning of 1997.

FACT: **"In 1993, Congress cut the taxes of 15 million hard-pressed working families to make sure that no parents who work full-time would have to raise their children in poverty."**

Source:

Department of the Treasury, Office of Tax Analysis.

In 1996, 15 million families received a tax cut.

FACT: **"This expanded Earned Income Tax Credit is now worth about $1,800 to a family of four living on $20,000."**

Source:

Department of the Treasury, Office of Tax Analysis.

In 1996, a family of four earning $20,000 would receive $1,795 from the EITC.

FACT: **"The budget bill I vetoed would have reversed this achievement, and raised taxes on nearly 8 million of these people."**

Source:

Department of the Treasury, *Distributional Effects of the Congressional Tax Plan*, November 22, 1995.

"After accounting for the fully phased-in $500 child credit and the increase in the standard deduction for married couples, about 7.7 million families who earn under $30,000 a year would face a net income tax increase, on average, of $318 under the proposal."

FACT: **"Two years ago, with bipartisan support that was almost unanimous on both sides of the aisle, we moved to protect the pensions of eight million working people and stabilize the pensions of 32 million more."**

Source:

Pension Benefit Guaranty Corporation, press release, November 29, 1995, and Update to Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin*, Abstract of 1991, Form 5500 Annual Reports, Winter 1995.

"An estimated 8 million people are covered by about 10,000 underfunded plans..." These 8 million people all had their pensions protected

The remaining 32 million Americans in defined benefit plans had their pensions stabilized.

FACT: **"Over the past two years, over one million Americans in working families lost their health insurance."**

Source:

Historical projections based on Department of Commerce, Bureau of Census, Current Population Survey data.

In 1993, 38.6 million Americans did not have health insurance; in 1995, 39.7 million were uninsured.

FACT: **"I challenge you to pass the bipartisan bill offered by Senators Kassebaum and Kennedy to require insurance companies to stop dropping people for switching jobs or denying coverage for pre-existing conditions."**

Source:

Health Insurance Reform Act S. 1028

FACT: **"In the past three years, we've saved $15 billion by fighting health care fraud and abuse."**

Source:

Department of Health and Human Services
Michael Mangano, letter to Jennifer O'Connor.

"In fiscal years 1993 through 1995, our Office of Inspector General accounted for $14.71 billion in Medicare and Medicaid program savings..."

CHALLENGE: **TAKE BACK OUR STREETS FROM CRIME AND DRUGS**

FACT: **"In New York City, murders are down 25%; St. Louis, 18%; Seattle, 32%."**

Source:

Time magazine, 1/15/96, page 56. (*Time* cites local police departments). DOJ's Bureau of Justice Statistics also independently confirmed with each city's police department.

FACT: **"It provides funds for 100,000 new police in communities of all sizes. We're already a third of the way there."**

Source:

All Programs Master Summary, COPS Office, Department of Justice.

As of 1/16/96, 31,395 new officers have been funded.

FACT: **"The Brady Bill has already stopped 44,000 people with criminal records from buying guns."**

Source:

44,274 felons have been denied access to handguns by Brady Bill checks from March to December, 1994. *Bureau of Alcohol, Tobacco & Firearms, "Felons Denied Access to Handguns by Brady Law", 1/18/96.*

FACT: **"The assault weapons ban is keeping 19 kinds of assault weapons out of the hands of violent gangs."**

Source:

Title 11, Section 110102 of the Crime Bill.

CHALLENGE: PRESERVE OUR ENVIRONMENT FOR FUTURE

FACT: **"Because of a generation of bipartisan effort, we do have cleaner water and air."**

Source:

President Nixon created the EPA in 1970. The Clean Water Act was bipartisan. Both vetoes by Nixon and Reagan were easily overridden. The Safe Drinking Water Act was passed in 1974 by voice vote in the Senate and 296-84 in the House, and then signed by President Ford. President Bush championed and then signed the last reauthorization of the Clean Air Act in 1990

FACT: **"...lead levels in our children's blood have been cut by 70 percent."**

Source:

National Health and Nutrition Examination Survey, HHS. Survey was published in *The Journal of American Medical Association*, July 27, 1994.

Mean blood levels of children between the ages of 1-5 years declined 77% during the time period 1976-1991.

FACT: **"...toxic emissions from factories are cut in half."**

Source:

US EPA 1993 Toxic Release Inventory data

Total percentage decrease in total releases for ten industries from 1988-1993 was 47.9%

FACT: **"Lake Erie was dead, and now it's a thriving resource."**

Source:

Clean Water: A Memorial Day Perspective, US EPA Office of Water, May 1994, pages 12-14)

Water quality improvements and increased lakeside development have caused people to return to the shore of Lake Erie to enjoy boating, fishing, swimming and other activities.

FACT: **"But ten million children under 12 live within four miles of a toxic waste dump."**

Source:

US EPA Superfund database, US Census Bureau data, 12/14/95.

The population data of children under 10 living within four miles of Superfund National Priority List sites was generated using LandView, a computer program that presents selected population/demographic information from the 1990 census and from five EPA databases. Using LandView, EPA was able to determine that 9.8 children under the age of 10 live within four miles of a Superfund National Priority List site.

FACT: **"A third of us breathe air which endangers our health."**

Source:

US EPA National Ambient Air Quality Trends Report (11/6/95)

"Based on air quality data from 1992-1994, 93 million people were living in counties that did not meet the air quality standard for ozone pollution."

FACT: **"Congress has voted to cut environmental enforcement by 25%."**

Source:

Statement of Administration Policy, OMB, Dec. 14, 1995

H.R. 2099 -- The appropriations bill for the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies for FY 1996 includes a 25 percent cut in enforcement and a 22 percent cut in requested funding for the EPA

CHALLENGE: PERSONAL RESPONSIBILITY FOR THE FUTURE

FACT: **"We are eliminating 16,000 pages of unnecessary rules and regulations."**

Source:

National Performance Review, *Common Sense Government*, page 3

"Agencies are sending 16,000 pages to the scrap heap, of 86,000 pages of regulations reviewed."

FACT: **"We are increasing border controls by 50%."**

Source:

Immigration and Nationalization Service, release on January 23, 1996.

"Working with Congress, we are working to strengthen our border control force -- including Border Patrol agents, INS inspectors and other enforcement personnel -- by over 50 percent since President Clinton took office."

FACT: **"Today our federal government is 200,000 employees smaller than the day I took office. Our federal government is the smallest it has been in 30 years, and it's getting smaller every day."**

Source:

Office of Management and Budget, January 23, 1996.

To: Laura
Re: Gene
Here are his
Comments on the
Distribution memo

THE PRESIDENT HAS SEEN
2/14/96

THE WHITE HOUSE

WASHINGTON

February 13, 1996

96 FEB 13 P1:50

MEMORANDUM FOR THE PRESIDENT

FROM: Gene Sperling
Pauline Abernathy

CC: Leon Panetta, Laura Tyson, Alice Rivlin

SUBJECT: Your Request for a Combined Analysis of the Distribution of Your 1993 Economic Plan and our 1996 Balanced Budget Proposal

You asked what the distributional and fairness picture would look like if we considered the impact of a balanced budget plan together with the 1993 Economic Plan. As we discussed, even though the balanced budget plans being discussed are not as progressive as we would have preferred, when the 1993 plan and potential balanced budget plan are considered as one combined balanced budget plan, the distributional analysis will certainly be stronger considering the highly progressive nature of the 1993 deficit reduction plan.

At this point, we should be cautious of speaking publicly of any distributional impacts, but this preliminary look can be helpful in considering how we can defend our overall balanced budget if there is a deal. More importantly, it can help guide future decisions to ensure that the overall Clinton approach is fair, even considering the non-optimal trade-offs we may be forced to make with a Republican Congress.

SUMMARY OF CONTENTS:

Potential Approaches to Assessing the Distributional Effects of the 1993 Economic Plan and Clinton Balanced Budget Plan Combined:

1. **Combined Tax Distribution Analysis (1993 Economic Plan and 1996 Balanced Budget Plan):** As we had hoped, the tax distribution of the 1993 economic plan and your balanced budget plan combined looked very good. Families with incomes over $200,000 still bore a large responsibility for deficit reduction (even with an assumed capital gains cut); families between $100,000 and $200,000 had a minor tax increase, and families under $100,000 had a net tax cut.

2. **Combined "Direct Benefits" Analysis:** An analysis of both the tax distribution and spending programs with direct benefits (food stamps, veterans compensation, etc.) would be strengthened by including the 1993 plan -- because of the EITC increase and small food stamps increase -- but it is not clear whether or not it will show low-income Americans being protected. It may largely depend on decisions still to be made on Welfare and Medicaid. An analysis that looks only at families with children is likely to more favorable.

3. **Distribution by Categorizing Programs as Low-Income or Non-Low-Income:** While discretionary programs are very hard to distribute, we can analyze them in three ways:

   a. Do we cut them disproportionately compared to non-low income programs?

   b. Do we spend more -- in nominal terms -- in FY2002 than we did in FY1993 or FY1997?

   c. What is our record for key low-income programs? Can we say we increased Pell Grants, Head Start, WIC, and Title I significantly even while we dramatically cut spending overall?

   The answer lies much in decisions that are still to be made and whether or not we assume that the "trigger" takes place. The challenging part will be to show that we are increasing nominal spending on low-income discretionary programs without the trigger (with CBO assumptions).

4. **Poverty Analysis:** At this time, it is difficult to know if a poverty analysis of your 1993 plan and balanced budget plan combined would show a net increase or decrease in child poverty. The Governors' welfare proposal would likely push more children into poverty than the Senate welfare bill and would likely push more children into poverty than your 1993 plan pushed *out* of poverty. Three factors in welfare reform will affect the net impact on poverty the most:

   a. Whether States Can Withdraw Significant State Funds from AFDC.

   b. Absolute Size of the Food Stamp and SSI Cuts.

   c. Legal Immigrant Provisions.

I. BACKGROUND ON DISTRIBUTIONAL ANALYSIS:

A. **Distributional Analysis of Tax Changes:** Most distributional analysis is done only on tax changes. Even this type of analysis has limitations. Treasury takes each tax change and assumes that it is fully implemented, and then shows the distribution in 1996 dollars for that single full-implementation year.

B. **Distributional Analysis Including Spending Programs:** Distributional analysis of entitlement and discretionary spending is a great deal more complicated. As you can imagine, there is no easy way to do a distributional analysis of a Medicare provider cut or a cut in transportation spending. Nonetheless, there are ways to do distributional analyses that take into account at least some spending programs.

- **OMB Poverty/Distributional Analysis:** The OMB analysis that was the subject of much discussion this fall actually included two different analyses: a poverty analysis and a distributional analysis. The poverty analysis estimated the number of people who could be pushed into poverty based on the tax proposals and the proposed changes in direct benefits (cash and near-cash assistance programs, including food stamps, housing, and child nutrition) contained in the different plans. It did not reflect proposed changes in Medicaid or Medicare.

  The distributional analysis assessed the effects of the different plans on people at different income levels, and included the effects of changes in Medicaid and Medicare that directly affect beneficiaries, such as raising the Medicare premium. Neither analysis included the effects of proposed reductions in education, job training, transportation, and public health programs, or the reductions in Medicare and Medicaid payments to providers. The two analyses took considerable time and effort by OMB, HHS, and Treasury, and they found it very difficult to combine the effects of the tax and spending changes. HHS also did a similar analysis based just on the impact on families with children.

- **Center on Budget and Policy Priorities:** Recognizing the difficulty of doing a classic distributional analysis on discretionary spending, the Center on Budget and Policy Priorities often does distributional analyses based on the types of programs that are being cut. In other words, they classify programs that primarily serve low-income Americans as low-income programs and then analyze whether these low-income programs are taking a disproportionate hit. For example, if discretionary programs are being cut by 15% on average, are low-income programs being cut disproportionately hard, less, or the same?

II. POTENTIAL APPROACHES TO ASSESSING THE DISTRIBUTIONAL EFFECTS OF THE COMBINED 1993 AND 1996 CLINTON BALANCED BUDGET PLAN:

At this point, it is hard to get a complete picture of the combined plans, in part because OMB is still working on the programmatic impact of a $297 billion cut in discretionary spending. Nevertheless, there are a number of ways to look at the distributional impact of your 1993 economic plan and your latest balanced budget plan combined. I describe the benefits and limits of various approaches below.

1. TAX ANALYSIS:

I asked the Treasury Department to do a combined analysis of the distribution of our overall tax changes -- as if the 1993 economic plan and your latest balanced budget plan were one unified plan. Larry Summers and I felt that the most logical analysis to do at this point was the following: to include the 1993 tax changes including the EITC increase; our best formulation of the $130 billion offer; and the capital gains tax cut proposal that was discussed in the Oval. While we have never offered or proposed a capital gains idea other than for discussion in the Oval, we nonetheless thought it would be best to include it in the analysis since a deal would probably require some capital gains initiative.

Doing a combined analysis of two different tax bills is fairly novel and complicated because it involves unifying different analyses from two different time periods with two different sets of economic assumptions, but Les Samuels and Eric Toder have done an excellent job of doing a first run based on the assumptions mentioned above.

As we had hoped, the preliminary Treasury distributional analysis of the 1993 plan and our latest balanced budget proposal combined comes out strong:

- **Families under $100,000 get a net tax cut:** The reason is clear: the 1993 plan raised nearly all of the tax revenue from the top 2%, and the EITC expansion gave those making under $30,000 a net tax cut. The 1993 plan also showed small increases on the middle class because of the 4.3 cent gas tax, the Social Security revenue raiser, and the overall distribution of some of the corporate measures. But your proposed middle class tax cut would overwhelm the 1993 increases on the middle class so that families with incomes under $100,000 would get a net tax cut under the two plans combined.

- **Families between $100,000-$200,000 get a $11 a month tax increase.**

- **Families with incomes over $200,000 contribute the most to deficit reduction -- they get a substantial tax increase:** Although the benefits of the capital gains tax cut you discussed are significant, they are not enough to overwhelm the 1993 tax

increases on people with incomes over $100,000. The combined impact is a very attractive distributional package:

Income	Average Tax Change
• $0-$10,000	$44 tax cut
• $10-20,000	$152 tax cut
• $20-30,000	$204 tax cut
• $30-50,000	$230 tax cut
• $50-75,000	$275 tax cut
• $75-100,000	$306 tax cut
• $100-200,000	$134 tax increase
• $200,000 +	$11,354 tax increase

The tax change measured as a percentage of income looks even better. As a percentage of income, the bottom 20% gets the largest tax reduction, the second lowest 20% gets the second largest reduction, and so forth, except for the top 20% which is the only group to face a net tax increase -- and over 85% of the taxes on that group fall on the top 1%.

Income Quintile	Tax Change as a % of Income
· Lowest 20%	-0.96
· Second 20%	-0.85
· Middle 20%	-0.59
· Fourth 20%	-0.45
· Highest 20%	+0.88

Impact on Upper Income Americans: The fact that our overall tax changes will still ask the top 1% to bear a large portion of the tax burden for deficit reduction, even with a generous capital gains tax cut, reaffirms the overall fairness of our tax changes and proposed tax changes. Yet we still need to note the distribution of the capital gains tax cut discussed with the Republican leadership. Over 80% of the benefits go to those with incomes over $100,000, and 53% of the benefits fall to the top 1% of the income distribution.

Caveat: Combined Analysis Could Be Used to Call for Larger Capital Gains Tax Cut. On the other hand, some on the Republican side would likely use the combined analysis to argue for an even more generous capital gains tax cut. They would argue that since our 1993 plan called for tax increases of $13,613 on households with incomes over $200,000, even greater tax cuts for the well-off are justified since they would still be paying net higher taxes with a still more generous capital gains tax cut. The problem with this logic is that the additional cuts for the well-off would be offset by cutting assistance to those far lower on the distributional ladder.

2. COMBINED (1993 & 1996) "DIRECT BENEFITS" ANALYSIS: Taxes and Income Assistance

A "direct benefits" analysis, such as the OMB distributional analysis, distributes the effects of changes in items that function as direct benefits on people at different income levels. It therefore distributes tax changes along with changes in cash and near-cash assistance programs, such as AFDC, SSI, veterans benefits, food stamps, housing, and child nutrition, and changes in Medicaid and Medicare that directly affect beneficiaries, such as raising the Medicare premium.

The benefit of a combined 1993 and 1996 analysis of "direct benefits" is that we strengthen the distributional analysis of our 1996 balance budget proposals by integrating that EITC and food stamp increases in our 1993 deficit reduction plan. These increases help neutralize much of the proposed cuts in poverty programs. While a combined 1993 and 1996 analysis will make the direct benefits analysis stronger, it is still not clear whether it would show an overall positive or negative impact on low-income Americans. The following factors will most affect whether a direct benefits analysis of the two plans combined will be favorable:

a. **Maintaining the Medicaid Entitlement.** For this analysis to be favorable, it is essential that the Medicaid entitlement be retained. Currently, our Medicaid savings -- over $19 billion in FY2002 alone -- do not hurt our distributional analysis because the analysis assumes that our per-capita entitlement cap protects all current law populations. If the plan were to reduce the number of people entitled to coverage under current law or loosen the entitlement, the analysis could assume that some of the savings fall on low-income people.

b. **Medicare Premiums and Maintaining Medicaid Coverage of Low-Income Medicare Beneficiaries' Premiums and Cost-Sharing.** Loss of the Medicaid subsidy for low-income elderly and people with disabilities or a reduction in coverage would hurt the distribution analysis. A general premium would also fall on many low-income elderly.

c. **Preventing States from Withdrawing Significant State Funds from AFDC.** Distribution analysis makes assumptions about both federal and state spending reductions. If states are allowed to withdraw significant amounts of *state* funds from AFDC, as the Republican and Governors welfare proposals would allow, it would have a substantial effect on the size of the cuts in the lowest part of the distribution.

d. **Absolute Size of the Food Stamp, SSI, EITC, and Legal Immigrant Cuts.** The size of these cuts have a large impact on the number of families pushed into poverty.

One Variation: Analysis of Families with Children. One variation of this direct benefits analysis, which would likely be more favorable, would look at the impact of the combined plans on just families with children. Focusing on families with children would not include the Social Security revenue increase from 1993, nor would it cover the cuts in food stamps and SSI for single adults or elderly immigrants. And over 75 percent of our 1993 EITC expansion was for families with children, and nearly all of our 1996 tax cut is for working families. Thus, an analysis of the impact of our combined plans on families with children would include our strong points and exclude some of the less progressive cuts because they do not affect families with children.

3. DISTRIBUTION BY CATEGORIZING PROGRAMS AS LOW-INCOME:

Low-Income Discretionary Cross Cut: A new form of analysis that we may wish to engage in for our planning as well as presentation looks at the overall effect of our 1993 and 1996 plans on discretionary programs that can be classified as low-income programs. The Center on Budget and Policy Priorities has developed a list of discretionary programs that primarily serve low-income people (attached). We have not traditionally done this type of low-income discretionary analysis. Instead, we have tended to analyze funding for our key investments and education as a whole. But it may enable us to make a positive case for funding for low-income discretionary programs overall.

The outcome of an analysis of low-income discretionary programs depends on the decisions currently being made on the FY1997 budget. Given the $297 billion cut in discretionary spending, your balanced budget plan is likely to permit nominal increases in low-income education programs, WIC, and Section 8 housing contract renewals, and to require nominal cuts over the 7 years in most other low-income discretionary program areas, including many housing and health programs. Nevertheless, preliminary work suggests that we may be able to make a positive case for funding for low-income discretionary programs.

Do We Give Out Seven Year Programmatic Numbers? We have not generally given out year-by-year numbers for discretionary programs. Generally, we only give out budget function and subfunction totals. We have occasionally said publicly what our seven year assumptions would be for a specific program -- such as Pell Grants. The advantage of giving out seven year numbers for some programs is that it could allow us to show our commitment to protecting discretionary children's programs, low-income programs, or selected key investments, even as we are cutting some entitlement programs that affect low-income Americans. *For example, a response to someone's stating how much we have cut food stamps for children over seven years, would be to list the large increases in WIC, Head Start and Title I funding over the same period.* The downside is that giving out some seven year programmatic numbers may create more pressure to give out the seven year numbers for the programs that we are not protecting.

Key Role of the Trigger: Any attempt to analyze the distribution of discretionary spending will be highly dependent on whether or not we assume the trigger in FY2001-2002. With the trigger, if the economy performs as OMB projects, there will be $52 billion more available for discretionary spending in the final two years. If we assume that the economy will perform as CBO projects, the $52 billion will not become available. Many will judge us by what we can fund under CBO assumptions, and without the trigger much of the seven year analysis could look tight. We could talk in terms of ranges: Program A will increase a total of $4-$6 billion depending on the economic assumptions and trigger.

There are three types of analyses we may wish to do on the discretionary side:

1) **Overall Amount of Low-Income Discretionary Spending:** Under this approach we would compare how much spending on low-income programs has gone up or down from FY1993-2002. While we could not show inflation-adjusted increases overall, we may be able to show *nominal* increases in overall low-income discretionary spending -- while having balanced the budget.

   It can help to look at the two plans combined -- to use FY1993 as the point of comparison -- because funding for low-income programs increased in FY1994 and FY1995. Alternatively, one could look at the increases from the *post-rescission* FY1995 funding levels, as the FY1995 rescission bills eliminated much of the increase in funding for low-income programs. There are two ways to measure the increase in funding:

   a. **Cumulative Approach:** Here we look at the cumulative increases in funding. For example, Program A's funding was $1 billion in FY93 and $1.5 billion in each subsequent year. Instead of saying we increased the program by $500 million or by 50%, we would look at the cumulative increases beyond the FY1993 number -- so that the cumulative increase from FY1994-

FY2002 was $4.5 billion. This is a reasonable way to do the calculation because it is how cumulative cuts would be measured.

b. **Different Levels:** The other way to measure increases is to simply say that we increased Program A by 50%, from $1 billion in FY93 to $1.5 billion in FY2002.

2) **Stress Selective Increases in Key Discretionary Programs:**
We could do similar analyses on just selected low-income programs for which our budget increases funding. For example, if we look just at Head Start, Title I, Pell Grants, and WIC, our budget is likely to provide at least $6 billion more in FY2002 for these programs than was spent in FY1993 -- even if we just keep pace with inflation. When your FY1997 budget is finalized, we will also be able to compare FY1993 and FY1997 funding for these programs.

Cumulative Approach: We could further emphasize our commitment to these selected programs by calculating the cumulative increase over 7 years from their FY1993 levels. If one does this calculation for Head Start, Title I, Pell Grants, and WIC combined, the cumulative increase in funding for these programs is likely to be more than $30 billion over 7 years, compared to their FY1993 levels. If we assume OMB projections of the economy, triggering the additional discretionary funding, this figure could be even higher.

3) **Fair Distribution of Discretionary Cuts:** The Center on Budget and Policy Priorities compares changes in funding for low-income programs to the changes in funding for other non-defense discretionary programs for the current fiscal year. Their analysis of the Republican appropriations bills showed that Congress is proposing to cut low-income discretionary programs 16% in FY1996 while cutting all other discretionary programs by 3% and all other *non-defense* discretionary programs by an average of 7%. (This is compared to *pre*-rescission FY1995 levels.)

Under this approach, even if there are cuts in low-income discretionary programs in a given year, we may be able to show that they are less deep than the cuts in non-low-income discretionary programs. By comparing the depth of the cuts in low-income discretionary programs to the depth of the cuts in other discretionary programs, we can show that we cut low-income programs less on average than other programs and much less than Congressional Republicans. As mentioned above, we may even be able to show a nominal increase in funding for low-income programs from FY1993 to FY1997 and FY2002.

NOTE: All Low-Income Discretionary and Entitlement Programs with Social Security Excluded. Using the list of low-income discretionary programs and a list of means-tested entitlement programs, one can compare the depth of cuts in low-income programs overall to the depth of cuts in other programs overall. On this basis, the Center on Budget and Policy Priorities concluded that the Republican plan would cut low-income discretionary and entitlement programs combined nearly twice as deeply as non-low-income programs in 2002 (i.e. cut low-income programs by about 19% and other programs by 10%).

Such an approach could be used to show that your 1993 plan and your latest balanced budget plan combined do not cut low-income programs overall disproportionately. We may even be able to make the case that your latest balanced budget offer alone does not cut low-income entitlement programs disproportionately, if Social Security is excluded from the analysis. One could justify excluding Social Security from the base of non-means-tested entitlement programs on the grounds that everyone has agreed to take it off the table. Such an analysis would show that the latest Clinton plan cuts low-income entitlements less on average than it cuts other entitlements, while the latest Republican plan cuts low-income entitlements more than average.

4. POVERTY ANALYSIS:

As mentioned above, a poverty analysis estimates the number of people who could be moved into poverty based on proposed changes in taxes and direct benefits (cash and near-cash assistance programs, including food stamps, housing, and child nutrition). Poverty analyses do not reflect proposed changes in Medicaid or Medicare.

At this time, it is difficult to know if a poverty analysis of your 1993 plan and balanced budget plan combined would show a net increase or decrease in child poverty. Because your 1993 economic plan decreased child poverty by 780,000, it is possible that your 1993 plan and balanced budget proposal combined would show a net decrease in child poverty. Three factors will affect the net impact on poverty the most:

a. **Whether States Can Withdraw Significant State Funds from AFDC.** If the final welfare reform bill allows states to withdraw significant amounts of *state* funds from AFDC, as the Republican and Governors proposals do, it will increase the number pushed into poverty.

b. **Absolute Size of the Food Stamp and SSI Cuts.** The size of these cuts have a large impact on the number of families pushed into poverty.

c. **Legal Immigrant Provisions.** These provisions and the size of the savings also have a large impact on the number of families pushed into poverty.

The Governors' proposal would likely push more children into poverty than the Senate welfare bill. The OMB analysis concluded the Senate welfare bill could push 1.2 million children into poverty, and that the plan proposed by Senate Democrats at that time could push 0.1 to 0.5 million children into poverty.

Your proposed increase in the minimum wage would also decrease poverty, including child poverty (the estimate of its impact on poverty is currently being finalized). Thus, including the effect of your proposed increase in the minimum wage would further improve the poverty numbers.

Clearly, the drawback of a poverty analysis is that it would draw attention to the impact of your balanced budget plan alone on child poverty, which may or may not be favorable.

RECOMMENDATIONS:

Therefore, as we develop our FY1997 budget and as we consider further balanced budget negotiations, you may want to ask for the following analyses:

1. **Combined Tax Distribution:** As seen above, this analysis -- without any spending calculations -- tells a quite progressive story and can stand on its own.

2. **Low-Income Cross Cut for the FY1997 Budget or for Several Years Together:** We should ask OMB for a low-income cross cut of discretionary spending for FY1997 or over a longer period so that we know that we are not unknowingly asking low-income Americans to bear a disproportionate burden. Doing it over a seven year period may mean inquiring how low-income programs such as LIHEAP and others fair in the out-years.

3. **7-Year Funding For Key Low-Income Discretionary Programs:** One of the simplest arguments is to show that we have continued to provide real increases in the key children's programs that were at the heart of *Putting People First*. Therefore, we may wish to make strong commitments in our FY1997 budget and balanced budget plans to expanding WIC, Head Start, Pell Grants and Title I.

Key is Family Analysis

Low-Income Discretionary Programs

Education
Title 1
Education for the Homeless
Pell Grants
Head Start
Higher Education (TRIO)
Indian Education

Employment & Training
Adult Training Grants
Youth Training Grants
Job Corps
Summer Youth Employment
School-to-Work
Older Americans Employment
Native Americans
Migrant & Seasonal Workers

Nutrition
Food Donations for Low-Income
Commodity Assistance Programs
WIC

Health
Consolidated Health Centers
(Community Health, Migrant, Homeless)
Maternal & Child Health
Childhood Immunizations
Family Planning
Healthy Start
Homeless Mental Health
Indian Health Services
Indian Health Facilities
National Health Service Corps.

Housing
Homeless Assistance Grants
Emergency Food & Shelter
HOPE Housing Grants
HOME Housing Grants
Housing Counseling
Congregate Services
Youthbuild
Public Housing Operating Subsidies
Severely Distressed Public Housing
Public Housing Drug Elimination
Rural Housing Loan Subsidies
Rural Rental Assistance
Other Rural Housing Programs
Subsidized Housing:
- Annual Contributions
- Section 8 Renewals

Other Programs
Weatherization Assistance
LIHEAP
Child Care Block Grants
Child Welfare Services
Community Services Grants
CDBGs
Legal Services
Refugee Assistance
Runaway & Homeless Youth
VISTA

Total Cost:
$64 billion in FY95 before FY95 rescissions and $55 billion after the FY95 rescissions.

THE WHITE HOUSE

WASHINGTON

March 22, 1996

MEMORANDUM TO THE PRESIDENT

THROUGH: LAURA TYSON

FROM: GENE SPERLING
JON ORSZAG

SUBJECT: Comments on Recent Speeches

In the past two weeks, you delivered ten domestic speeches. Overall, your statements in these remarks were on target, but there are a few facts that need some clarification. On each statement, we have included background information and some language that should help avoid any potential confusion.

Statement: *"For the third year in a row, the distinguished World Economic Forum in Europe has said that the United States is the world's most productive, strongest economy."*

Facts. Your staff mistakenly gave you this fact.

Last Saturday, the Lausanne International Institute for Management Development (IMD) -- not the World Economic Forum -- announced that their survey of world business leaders ranked the United States as the world's most competitive economy in 1996. These rankings are preliminary; their final rankings will be based on these subjective survey results *and* objective economic statistics. The final report will be released in September 1996.

In past years, IMD and the World Economic Forum jointly released their analysis on the competitiveness of the world's economies. However, this year, IMD and the World Economic Forum will be releasing separate reports.

Professor Stephane Garelli, the director of the competitiveness project at IMD, said that "it seems certain the United States will hold its lead." Finally, you should know that the World Economic Forum has yet to release any of its measures of America's competitiveness.

Now have indications that A

Proposed Alternatives. You can say that "America is now well on its way to being ranked the most competitive nation in the world for the third year in a row -- that's up from #5 the year before I took office." Alternatively, you could say that "the world's business leaders rank the United States as the world's most competitive economy."

Statement: *"Now, in 1992, only 20 percent of the new jobs created in the United States paid above average wages.... One big result is that in 1995, instead of 20 percent, over 55 percent of the new jobs created in this economy paid above average wages."*

Facts. Two issues need to be clarified with your statement: first, we have updated numbers: In 1992, only 6 percent of the new jobs created were in high-wage industries. You correctly noted that over 55 percent -- 58 percent, to be precise -- of the new jobs in 1995 were in high-wage industries.

The second issue is the fact that we do not have any data on the percentage of the new jobs that pay above-average wages. For now, we only have statistics on the percentage of new jobs in high-wage industries -- that is, industries that have an average wage above the median wage for all industries. It is very important that you talk about this statistic in the context of "jobs in high-wage industries".

You should also note that there has been a remarkable turnaround in job growth in high-wage industries in the last four years. After losing 200,000 jobs in high-wage industries during the Bush Administration, the economy has added more than 3.5 million since you took office.

Proposed Alternatives. You can point to one of these two statistics: (1) "In 1992, just 6 percent of the new jobs created were in high-wage industries. In 1995 -- instead of 6 percent -- 58 percent of the new jobs were in high-wage industries"; or (2) "In the four years before I took office, we lost 200,000 jobs in high-wage industries. In just the last three years, we have added more than 3.5 million jobs in high-wage industries".

Statement: *"In the last three years there were more new jobs created by businesses owned by women alone than were laid off by the Fortune 500."*

Facts. It is true that from 1987 to 1992 small businesses owned by women alone created more jobs that were laid off by the Fortune 500. However, we do not have data on the number of jobs created by women-owned businesses from 1993 to 1995. At the end of this month, we will get data on the number of jobs created by women-owned businesses in 1993 and 1994.

Proposed Alternative. We suggest that you do not mention the "last three years". You should use the language from your speech at the UJA Young Leadership Conference: "We should be glad that small businesses owned by women alone have hired more people than the Fortune 500 have laid off." Or, you could say: "In recent years, there have been more new jobs created by small businesses owned by women than were laid off by the Fortune 500."

Statement: *"And I have just reviewed the last 15 studies on this, and all but two say that there is no significant loss of jobs with a modest raise in the minimum wage."*

Facts. There are now nearly two dozen studies that show that a moderate increase in the minimum wage would not cost jobs. You should know that there are at least five recent studies that show a minimum wage increase would cause job loss, but each study is suspect because they are each connected with the restaurant lobby in some way.

Proposed Alternative. You could say that "there are nearly two dozen studies that show a moderate increase would not cost jobs."