NC (PA/AN/D)

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DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

July 14, 1999

MEMORANDUM FOR SECRETARY SUMMERS

FROM: **Gary Gensler**
Under Secretary for Domestic Finance

SUBJECT: **Domestic Finance Vision**

As we embark upon the final eighteen months of the Clinton Administration, Domestic Finance has examined each of our offices to determine our priorities for the remainder of this term. The attached memorandum begins with our key priorities - the areas in which we hope to drive action and accomplishment over the next eighteen months. It then outlines important issues created by the current environment - the areas in which we expect to be heavily involved, though perhaps in a more reactive role. The memo finishes with the other matters that are likely to be a part of our focus - those smaller or less high profile areas that round out the full picture of our efforts for the next eighteen months.

Priorities:

Anti-counterfeiting
To develop and implement a comprehensive approach that addresses the use of digital imaging equipment to counterfeit currency. To coordinate this effort across agency, departmental and international boundaries, and to solicit input from industry. To continue our public education efforts to raise awareness of counterfeiting penalties and to encourage authentication. To successfully roll out the new $10 and $5 bills in the spring of 2000. To review and possibly decide on new currency designs by the end of 2000 in order to be prepared for potential introduction of possible new currency designs in 2002.

CDFI
To work with Congress to ensure the reauthorization of the Fund for four years, the passage of the PRIME Act Legislation (which creates a new technical assistance program for microenterprise), and the achievement of our desired funding levels ($125 million as requested in the President's budget). To work to have the Fund's appropriations decisions transferred to Treasury/Postal.

Commodity Exchange Act Reform and Derivatives Study
To lead the President's Working Group to a timely completion of the derivatives study. To communicate the study's findings and recommendations to Congress. To ensure that the CEA reauthorization process results in a more streamlined and sensible overall regulatory regime. In particular, to enhance, through legislation, the legal certainty of OTC derivatives transactions.

Consumer Protections and Financial Privacy
To assure passage of as much of the President's consumer protection and financial privacy program as possible. In particular, on financial privacy, to (1) work to get as much included in the Financial Modernization Bill as possible; (2) look for other potential legislative vehicles; and (3) draft the 6-month Treasury study called for in H.R. 10 on information sharing practices among financial institutions and their affiliates.

Debt Management
To develop a long-term strategy for paying down the debt that maintains our core principles of debt management: promoting efficient capital markets, achieving the lowest cost financing for the taxpayer; and maintaining sound cash management practices. To publish debt buyback regulations for publication and to possibly implement debt buybacks next year.

Electronic Commerce
To develop a government-wide policy for the use of digital signatures for financial transactions both within the government and with the public. To continue to facilitate the growth of electronic commerce. To consult with the financial services industry and the Federal Reserve on their views on emerging technologies and their plans for its use. To work with Congress to develop legislation to protect consumers who are banking or trading on the Internet. To develop

policy options for securities firms to disclose the risks involved in trading on the Internet and protections for consumers banking on the Internet.

Electronic Funds Transfer (EFT) '99
To conclude the roll-out of the ETA, our low priced bank account designed primarily for unbanked recipients of federal payments, by enrolling financial institutions across the US to offer it and by actively promoting it through our public education efforts. To continue to analyze the role of non-federally insured payment service providers in the electronic delivery of federal payments.

Financial Modernization
To work with Congress to pass a financial services bill that is acceptable to the Administration. The major issues for conference will be the Community Reinvestment Act, the subsidiary option, and financial privacy. Other important issues include the Federal Home Loan Banks, unitary thrift holding company, medical privacy, and bank insurance sales provisions.

New Markets Initiative
To promote Administration initiatives to bring equity capital to under-served communities. To enact the New Markets Tax Credit. To support SBA, HUD and NEC in their efforts to develop and enact legislation establishing America's Private Investment Companies and New Markets Venture Firms. To enact the low income housing tax credit expansion proposed last year. To complete the transition of BusinessLINC to the private sector over the next six months.

Current Environment:

Appointments & Staffing
To work with the Office of Presidential Personnel to identify and recruit the best individuals for appointments to Treasury and regulatory positions related to Domestic Finance (e.g., Fed Governor, and Deputy Assistant Secretaries for Federal Finance and for Financial Institutions). To hire a new Director of the Office of Federal Financing. To work to ensure the confirmation of our new Assistant Secretary for Financial Institutions.

Capital Standards
To ensure that the capital standards being updated in Basle have a beneficial effect on the strength of the U.S. economy and on the financial services industry. To continue to analyze OFHEO's proposed risk-based capital rule for Fannie Mae and Freddie Mac, and work to improve consistency between bank and GSE capital rules. To assure that capital standards for FHLB not be cut as provided for in H.R.10.

Community Adjustment and Investment Program
To develop and launch a grant and technical assistance program. To continue changes to policies and practices to increase the effectiveness of the program. To work with Legislative Affairs to receive our requested $17 million appropriation for FY2000.

Community Reinvestment Act
To ensure the continued strength of the CRA. To work with members of Congress to effectively defend CRA in upcoming Congressional hearings. To address any evidence of real abuses.

Credit Unions
To continue to: (1) work with the National Credit Union Administration (NCUA), the Federal Reserve, and other Treasury offices on credit unions' Y2K-related liquidity needs; (2) prepare the three congressionally-mandated studies required by the recent credit union bill; and (3) work with the NCUA as it implements new safety and soundness measures.

Debt Collection
To improve the federal government's debt collection efforts. To achieve: (1) the merger of the tax refund and administrative offset systems; (2) the addition of two major payment streams -- benefits and salary -- to the administrative offset system; (3) an increase in agency referrals of delinquent debt; and (4) an increase in the number of states participating in the Treasury program to collect past due child support through administrative offset.

Deposit Insurance Issues
To work to enact legislation that would strengthen the bank and thrift deposit insurance funds by requiring that the funds merge, whether or not the thrift charter remains in existence. To work with Congress to enhance market discipline, encourage even better disclosure of institutions' true financial condition, and perhaps provide a basis for more risk-sensitive pricing of deposit insurance.

FASB
To continue to monitor developments around Financial Accounting Standards Board releases. In particular, to monitor developments related to accounting for merger transactions, certain kinds of research and development, and stock options. In addition, to monitor the recent agreement between the SEC and banking regulators related to loss reserves.

Government-wide Accounting
To work cooperatively with GAO , OMB and the federal agency CFOs, to develop and implement improved processes, procedures and practices. To make considerable progress toward receiving an unqualified audit opinion, which is at least two years away. To continue our participation in the Federal Accounting Services Advisory Board (FASAB), and to further FASAB's goal of setting appropriate accounting standards for government agencies.

GSE Oversight
To push for comprehensive FHLBank reform that sets forth the System's public purpose, increases its accountability to that purpose, and limits its activities to fulfilling that purpose. To send legislation to Congress in order to demonstrate clearly what reforms are necessary to the system. To provide input on Finance Board proposed rules. To work with HUD and our Office of Community Development Policy on HUD's upcoming housing goal regulation as it relates to Fannie Mae and Freddie Mac. To refine and promote our basic GSE policy principles and to speak out against unwarranted GSE expansion into new lines of business.

Hedge Funds
To continue to work with Congress, the President's Working Group and private sector groups to ensure implementation of the Working Group's recommendations, including enacting improvements to the Bankruptcy Code and bank insolvency law that address the netting regime for certain financial contracts. To continue to monitor the effectiveness of the Working Group's recommendations in addressing excessive leverage. To work with other Treasury offices to ensure that international coordination facilitates the implementation and enhances the effectiveness of the Working Group recommendations and to coordinate any further study or action regarding highly leveraged institutions (HLIs).

Natural Disaster
To continue to work both within the Administration and with Congress to develop a national natural disaster reinsurance program.

Pension Benefit Guaranty Corporation (PBGC)
To improve two-way communication between PBGC and Treasury. To review and clear PBGC board resolutions. In particular, to ensure that PBGC does not promote initiatives inconsistent with Tax Policy's goals.

Social Security Reform
To support on-going efforts for Social Security reform. To develop policies and review issues related to financial markets. In particular, to work on issues related to paying down federal debt and the potential investment of the Social Security trust funds in equities.

Steel and Oil & Gas
To work with Congress and other parts of the Administration to ensure that taxpayers interests are adequately protected if a steel or oil & gas loan guarantee program becomes law.

Trade
To continue to work in the interagency process to ensure that our support of free and open trade is combined with an effective, broad-based Administration initiative to ameliorate some of the temporary negative effects of trade. More specifically, to promote the creation of an interagency entity (possibly based on the FEMA model) to provide flexible and immediate trade assistance and coordinate and leverage existing private and government resources in trade-impacted communities.

Y2K
To continue our work with the Fed, the banking industry, the securities markets, and other appropriate groups to ensure continuity of government financial operations and the smooth functioning of financial markets in the year 2000. To work with the other members of the President's Working Group to report on the Y2K readiness of the financial markets as requested by Congressman Dingle. To identify the appropriate cash balances and develop, and implement the appropriate strategies to ensure that the Treasury is properly funded to met any unexpected millennial date change contingencies.

Ongoing Initiatives:

Bank Safety & Soundness Oversight
To continue our oversight activities with respect to bank safety and soundness, both at the Department level, and in our work with the OCC and OTS.

Cash Management
To continue to monitor closely the government's daily cash flows, and to use that information in making informed financing decisions. To further improve our ability to estimate the government's cash needs and to manage Treasury's cash position.

CDFI
To continue to effectively administer awards for the Fund's major programs. To continue research and evaluation initiatives.

Credit Unions
To continue to develop Administration policy toward credit unions. To work with the Federal Reserve and the NCUA to ensure an appropriate liquidity backstop for credit unions in preparation for the Year 2000. To complete the three congressionally-mandated studies on: (1) member business loans, (2) credit union regulations, and (3) small bank viability.

Critical Infrastructure Protection
To play a leadership role in protecting critical infrastructure in the banking and finance sector. To encourage the private sector to organize itself to address the threat of cyber-terrorism. To coordinate the efforts of regulators -- i.e.,the Fed, banking agencies, SEC and CFTC -- in this area.

Currency Education
To accomplish a smooth transition to redesigned $10 and $5 notes. To implement a comprehensive public education plan, which will include outreach to the general public and to cash-handlers, with a strong emphasis on anti-counterfeiting messages.

DC Economic Development
To work with the District on the establishment of the National Capital Revitalization Corporation. To continue work with OMB and the District on economic initiatives.

Effective Operations (BPD, CDFI, FFB, NADBank, FMS)
To work with the bureaus on developing and achieving program goals and initiatives. To provide general oversight and assistance to the bureaus as needed.

Fair Lending
To continue our work on fair lending initiatives, including achieving changes in Regulations B & C, and working on credit scoring, predatory lending, and subprime lending.

Federal Credit Policy
To continue our legislative review efforts regarding federal credit policy and remain involved in initiatives regarding possible policy revisions.

Federal Financing Bank
To make the FFB more user-friendly and efficient. To provide low-cost financing and good customer service to clients such as the Postal Service and Historically Black Colleges and Universities.

Federal Reserve/Fiscal Relations
To continue to provide oversight and guidance to the Federal Reserve in their role as our fiscal agent. To continue to work with the Fed in the areas of cash management, payments (wholesale and retail), collections, collateral, TT&L accounts, auction operations and savings bonds. To initiate an effort to monitor more closely Federal Reserve services and costs.

Government Securities Market Regulation
To continue to update regulations and interpretations under the Government Securities Act, as needed. To change, interpret, and enforce Treasury auction rules to ensure the financial safety and soundness of the Treasuries market and compliance with Federal rules.

Interest Rate Calculations
To use appropriate methodology to calculate interest rates to be used in Federal programs. To review calculation methodology, as appropriate.

Market Monitoring
To continue to monitor changes in financial market conditions. To provide timely market reports to the Secretary and other policy areas on a regular basis. To continue our participation in an interagency market surveillance working group.

Microenterprise Initiatives
To continue to work with other federal agencies to coordinate microenterprise programs across the federal government. To continue the Presidential Awards for Excellence in Microenterprise development.

Native American Initiatives
To continue to work with HUD and other agencies to streamline the mortgage lending process in Indian country. To propose legislation in this area as necessary. To continue CDFI's work on the Native American Action Plan.

OTS and OCC Regulations
To continue to review all OTS and OCC proposed and final regulations to ensure that they do not conflict with Administration policies.

Privatization Executive Order
To have the executive order on privatization signed by the President. To have the privatization principles approved by OMB, the White House and relevant agencies.

Sallie Mae
To continue to monitor the financial safety and soundness of the Student Loan Marketing Association (the GSE), and to monitor and enforce statutory provisions.

Savings Bonds
To improve the education feature of savings bonds, and to consider and implement further improvements to promote savings through these bonds.

Securities Investment Protection Corp. (SIPC)
To monitor developments at the SIPC and to fulfill obligations as a board member.

Student Loan Studies
To successfully support the Department of Education's completion of two Congressionally mandated studies on student loans - one exploring the use of alternative indexes, such as commercial paper, to determine lender yield; and the second examining the use of market mechanisms, such as auctions, to determine the yield to lenders.

Treasury Tax & Loan Accounts (TT&L)
To develop and implement by mid-2000 a new system for investing Treasury's excess cash balances. To enact a proposed amendment to regulations that would provide for a return to TT&L accounts equal to overnight repo rates, rather than the current return of Fed Funds rate less 25 basis points.

Trust Fund Management
To improve execution of Treasury's trust fund management responsibilities.

Working Group on Financial Markets
To continue our work with the Fed, the SEC, the CFTC, and the other agencies that participate in the Working Group to monitor market developments and to pursue projects designed to promote the strength of the financial system.

NL/PA/AK 99-8208

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
July 28, 1999

UNDER SECRETARY

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: GARY GENSLER
UNDER SECRETARY FOR DOMESTIC FINANCE

SUBJECT: Follow Up to July 20/21 Meetings on Agenda for Domestic Finance

I want to express my appreciation for the time and thought that both of you put into last week's meetings on the Domestic Finance agenda for the next 18 months. The input and direction you provided will be extremely useful to us going forward, as will the commitments of time that you have made in a number of areas.

Attached is an outline of the topics discussed at the meeting along with a brief description of directions you provided and commitments we made. I look forward to working with both of you on many of these items over the coming year.

Attachment

DOMESTIC FINANCE DIRECTIONS/COMMITMENTS

This paper follows up on two meetings held on July 20 and 21with Secretary Summers and Deputy Secretary Eizenstat. Both the Secretary and Deputy Secretary provided valuable feedback and direction on the Domestic Finance agenda for the next 18 months, particularly in defining our overall mission. The Secretary articulated our objectives as falling into five broad mission areas:

- To assure that we best manage the nation's debt
- To assure that the financial system works best for consumers and communities
- To assure that we modernize the financial system
- To promote the best financial system in light of rapidly changing technology
- To promote a safe and sound financial system

The following incorporates our understanding of the direction provided to us and the commitments we made in those meeting.

<u>Part 1 - Priorities</u>

Anti-counterfeiting/currency design

- Obtain Secretary's signature.

- Secretary to unveil redesign of $10 and $5 in Fall for issuance in Spring 2000

- While no current plan to release in this Administration, go forward with preparatory work on possible next generation of currency.

- Secretary to engage from time to time with Attorney General enhancements to sentencing guidelines on counterfeiting.

<u>On list, not discussed</u>:

- Develop and implement comprehensive approach to use of digital imaging in counterfeiting currency. Coordinate effort across departmental, agency, and international boundaries and solicit industry input.

- Continue education of public on anti-counterfeiting penalties and authentication.

CDFI

- Work for passage of PRIME Act as part of Financial Modernization bill. If successful, associate Secretary with accomplishment.

- Work for achievement of desired funding levels for CDFI. Secretary to be available for necessary calls.

- Pursue permanent re-authorization for CDFI.

<u>On list, not discussed</u>:

- Work to have Fund's appropriation decisions transferred to Treasury/Postal.

Commodity Exchange Act and Derivatives Study

- Primary goal - as part of CEA Reauthorization get legislation passed on legal certainty issues (Treasury Amendment, swaps exemption, etc.)

- Complete in a timely manner a Working Group study that addresses issues beyond legal certainty. (late September)

Consumer Protection and Financial Privacy

- Work to achieve as much financial privacy protection as possible as part of Financial Modernization package.

- After Financial Modernization, develop vehicles to further highlight privacy issues linked to financial aspects of economy.

- Work for passage of Bankruptcy bill with maximum consumer protection provisions.

- After passage of Bankruptcy bill, develop vehicles to further highlight disclosure and other consumer protection issues

Debt Management

- Release Buy-Back regulations at Quarterly Refunding. (August 4, 1999)

- Articulate debt strategy in a market with substantially declining debt, with an eye toward announcements at end of year addressing:

  - Initiating buy-backs

  - Role of indexed bonds in debt management

  - Management of maturity structure

  - Any further developments on auction techniques

Electronic Commerce

- Work with Deputy Secretary to develop a Treasury-wide strategy on electronic commerce issues and develop events to promote strategy. (By this Fall)

- Work with Enforcement and OGC on resolution of encryption issues.

- Develop policy on issues concerning electronic commerce and financial revolution (e-banks, e-markets, digital signatures, etc.).

- Develop vehicles to further highlight privacy issues linked to the financial aspects of electronic commerce.

<u>On list, not discussed</u>

- Work with Congress to develop legislation to protect consumers banking or trading on the internet.

Electronic Funds Transfer (EFT) '99

- Develop events for Secretary to encourage banks to enroll in ETA program.

- Develop strategy for making the financial system of the 21st Century accessible to all Americans.

- Develop concrete strategy on the unbanked. Develop strategy to advocate and promote access by unbanked.

- Present options paper on check cashing services. (End of August)

- Work with Deputy Secretary to resolve issues concerning check cashing services. (Early Fall)

Financial Modernization

- Significant Secretarial involvement in passing strong Financial Modernization legislation, particularly through upcoming Conference Committee deliberations. (Through early Fall)

- Pursue enactment/adoption of requirements for issuance of subordinated debt by banks.

- Review Litan Report for further ideas to pursue

New Markets Initiatives

- Secretary to participate in POTUS New Markets roll-out. (Thursday, August 5th)

- Secretary to participate in POTUS BusinessLINC event. (Tuesday, August 10th).

- Work for enactment of tax credit portion of package (New Markets Tax Credit, as well as low income housing tax credit) as part of end of session tax bill.

<u>On list, not discussed</u>:

- Provide support to SBA, HUD, and NEC to develop and enact legislation on America's Private Investment Companies and New Market Venture Firms.

- Complete transition of BusinessLINC to private sector in next six months.

Trade/Community Adjustment and Investment Programs

- Work with Deputy Secretary to develop plans to use Community Adjustment programs to more effectively support free trade objectives.

Part 2 - Current Environment

Capital Standards

- Discuss with OASIA greater involvement in Basle capital standards and come back to Secretary

Debt Collection

- Make decision as to whether to have an event to call attention to good news on collection of child support - Shalala/Summers (Sept. 1999?)

On list, not discussed:

- Work to improve federal government's debt collection efforts through improvements to administrative offset system, increase in agency referrals, and increase in state participation in program to collect child support payments. (Multiple on-going deadlines throughout next year)

Demutualization of Exchanges (New item added since meetings)

- Through the Working Group on Financial Markets review and monitor possible demutualization of stock and futures exchanges. (Through the Fall)

- Address public policy issues concerning regulatory structure, governance, exchange rules, and pricing in the context of the possible switch to for profit status for the various exchanges. (Through the Fall)

FASB

- Monitor developments in four key areas:

    - SEC effort to harmonize international accounting standards

    - FASB proposed rules on merger accounting, R&D, and options

    - Loan loss reserves

    - Accounting for intangibles (advertizing, brand loyalty, etc.)

GSE Oversight

- Actively push for comprehensive FHLBank reform. To extent possible, use Financial Modernization bill as vehicle.

On list, not discussed:

- Provide input to Finance Board on proposed rules.

- Work with Treasury's Office of Community Development Policy and HUD on HUD's housing goal rules as related to Fannie Mae and Freddie Mac.

- Continue to refine and promote basic GSE policy principles.

- Monitor development of new OFHEO capital rules

Hedge Funds

- Push SEC for legislation/action on disclosure and affiliates recommendations from Hedge Fund Study.

- Work with key Congressional members for introduction of legislation by this Fall.

On list, not discussed:

- Continue to work to implement other study recommendations, including amendments to Bankruptcy Code and bank insolvency provisions on netting.

- Monitor effectiveness of recommendations in addressing excessive leverage.

- Work with other Treasury offices on international coordination to facilitate implementation and effectiveness of recommendations.

Natural Disaster

- Along with Economic Policy, brief Deputy Secretary on issues concerning work within Administration and with Congress to develop a national natural disaster reinsurance program.

Stock Markets

- Discuss with Economic Policy and bring back to Secretary analysis of current market and effect on economy

- Subsequently set up meetings with key subset of Working Group

- Develop contingency planning

Y2K

- Have Working Group meeting prior to mid-August with Y2K on agenda. (Wednesday, August 4th)

- Brief Secretary for meeting

- Deliver report to Congress by mid-September

    - Determine if there should be an event around release of report

- Coordinate with OASIA on Y2K issues

Following topics were listed but not discussed in detail:

Appointments and Staffing
Community Reinvestment Act
Deposit Insurance Issues

Government-wide Accounting
Pension Benefit Guaranty Corporation
Social Security Reform
Steel and Oil & Gas

__Part 3 - Ongoing Initiatives__

Fair Lending

- Look at issues concerning interaction between use of credit scoring and discrimination

- Look for ways to take some credit for developments in this area

Microenterprise Initiatives/CDFI Awards

- Enact the PRIME Act and work to achieve desired funding levels for CDFI.

__On list, not discussed__:

- Continue to work with other federal agencies to coordinate microenterprise programs across the federal government. Administer CDFI Awards and continue the Presidential Awards for Excellence in Microenterprise development . (Secretary to announce 1999 awards)

Native American Initiatives

- Pursue work with HUD and other agencies on mortgage lending

__On list, not discussed__:

- Propose legislation in this area as necessary. Continue CDFI's work on the Native American Action Plan.

Privatization Executive Order

- Work toward expeditious issuance of Executive Order

Trust Funds

- Conduct review of procedures for administration of trust funds.

__Following topics were listed but not discussed in detail__:

Bank Safety & Soundness Oversight
Cash Management
Credit Unions
Critical Infrastructure Protection
Currency Education
DC Economic Development
Effective Operations (BPD, CDFI, FFB, NADBank, FMS)
Federal Credit Policy

Federal Financing Bank
Federal Reserve/Fiscal Relations
Government Securities Market Regulation
Interest Rate Calculations
Market Monitoring
OTS and OCC Regulations
Sallie Mae
Savings Bonds
Securities Investment Protection Corp. (SIPC)
Student Loan Studies
Treasury Tax & Loan Accounts (TT&L)
Working Group on Financial Markets

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

July 30, 1999

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Timothy Geithner NBfor

SUBJECT: Possible Initiatives on the International Front

As a followup to the memo we did on the international agenda, you asked for an assessment of possible initiatives and objectives that we might consider focussing on accomplishing over the next 18 months. Here's a quick list, somewhat unrealistic and expansive, with a number of things that I would have reservations about pursuing. Many of these have the character of agenda setting for the longer term, and would not be achievable in the time left in this administration. Your achievement instead would have been to frame the agenda, and your legacy would be to have set some longer term changes in motion. This list does not cover the obvious stuff in the pipeline we've covered in other memos -- all the Summit followup stuff on architecture, ESAF reform, etc. Nor does it reprise what we now consider the obvious potential problems you are likely to confront in the world. We're doing a separate note on the more immediate challenge of the annual meeting strategy. *[I have shared this with Ted Truman and Caroline Atkinson, but they are not implicated at this stage.]*

1. **The Next Phase of Architecture Reform.** Although our present focus has got to be on delivering on the extensive changes we set in motion at the Summit, we may find the best way to continue to retain the initiative for reform going forward is to outline a new set of objectives, with a longer fuse. You could present late this year or early next year a set of longer term orientations built around the following areas:

- A world with fewer currencies, with regional monetary integration in our hemisphere, an expanded EMU, and some Asian transitional solution.
- A big bang World Bank/MDB consolidation (see below), with the objective of having an integrated set of financial instruments (concessional and hard loans, guarantees, insurance, private equity and debt investments, project finance) that could be deployed in support of a new development strategy built around human development outcome targets.
- A steeper path to a global supervisory structure for financial institutions, built on a stronger set of standards, more comprehensive application (to capture offshore centers), and the Financial Stability Forum as the center of the cooperative network.

- The GX as a bridge to or a compliment to reformed constituencies in governing bodies of the IMF/WB.

- Some foundation laying for financial arrangement that could augment the IMF and the NAB in the event of another systemic crisis on a global scale, built around either the SDR mechanism or, preferably, the BIS model for bilateral lines we pioneered in Brazil.

2. **MDB reform and financing development**. The interesting policy issues, still at the frontier of this field are the following essentially old questions:

- Should we (can we?) seek to increase the scale of resources available to the poorest countries, or does the scale of resources available (above a certain level) have little to do with development results?

- Is there a good case for changing the composition of development finance – more debt reduction for less concessional flows, more multilateral less bilateral, more concessionality in general, even at the expense of the overall volume?

- What public goods at the national level should be financed externally, what global public goods are now underfunded by the international community, what risks should the official community insure private investors against, what externalities or market failures should development finance seek to address?

- How do you credibly implement selectivity, particulary in cases where the the moral dilemma is magnified by the scale of human destitution and the extent of official corruption or the absence of effective institutions of state?

- What priorities should guide where finance is targeted and policy conditionality focussed -- the new (old) rage is around development outcomes/targets for social and human development objectives and around governance/institutional building/civil society reform?

- How can the MDB's be best organized to deliver finance and design conditionality effectively?

You could outline a broad view of how development finance should evolve, with the following key components.

- A redefined comprehensive development framework, along the lines of what we are designed for the successor ESAF/IDA strategy in the poorest, build around development targets, to guide expenditure priorities.

- Broader use of development fund/window concept, integrated with national budgets (to provide more credible additionality given the fungibility problem), as channel for official IFI finance and debt reduction, with transparency and redundant monitoring mechansims as a way to address corruption.

- Maybe some UN agency/IFI integration/cooperation.

- A fully integrated World Bank group, so that the fully range of financial instruments are deployed in support of the new CDF/CAS process, from concessional and hard window finance, to guarantees, to insurance products, to private debt and equity investment, to the post conflict instruments (see below), to debt reduction, to TA.

- Steps toward the eventual transformation of the regional banks into the regional offices of the World Bank group, with the hard and soft loan windows merged into global funding vehicles.

It may be that we can justify and will want to support an increase in hard or soft loan windows as part of this exercise, or to refocus the debate. We are in the process of trying to frame this assessment for you.

3. **Financing Global Public Goods**. The assumptions here, which may be wrong, is that there is a set of problems that transcend national borders, that cannot solely be addressed at the national level, that the private markets would not finance on their own, that the existing existing lending facilities of the MDBs are ill suited to address, and that might capture enough political support in the U.S. Congress that we could increase the overall envelope of the 150 account to finance them. The GEF experience suggest a bit of skepticism about these assumptions.

I think we should work to develop a proposal for the President's FY2001 budget request that entails a U.S. contribution to a multilateral trust fund addressed to the tropical disease vaccine development cause, perhaps combined with whatever HIV/Aids vehicle we find, and maybe other things that meet this category.

4. **Post Conflict**. We have a proposal that would enable the IMF and the World Bank to reengage early with credible governments in countries emerging from conflict that is designed to get the IFIs to lend with postive net flows even in the face of substantial arrears to the IFIs, with the arrears then HIPCed.

We can try to make this a centerpiece of the annual meetings. It's a good complement to Kosovo, and to the HIPC strategy.

And it would give us, along with the Africa trade bill, the new HIPC, the new development poverty framework we are shaping in the context of ESAF reform, a better mix of tools for engaging in Africa.

5. **Dollarization and regional monetary union.** As you have long recognized, the exchange rate arrangements for the system have the most potential sex among the international financial issues, but an adverse ratio potential drama to clear, compelling options.

It is not clear to me yet that we are sure we are prepared to support unilateral dollarization in major country, but let's say we decide that is the right thing to do, that Argentina wants to do it on these terms (no seignorage, no arrangement for a voice in U.S. monetary policy, no part of the U.S. bank safety net, implicitly or otherwise), that we decide they will get a sufficient benefit in lower spread from the cleanly unilateral option, then we still have to figure out whether we are prepared to contemplate similar initiatives from other major countries in this region or outside, and whether we think the system would be better off with regional monetary integration around two or three anchor currencies.

Apart from technical discussion with Argentina and maybe the other small interested players, we need to have an internal process with the Fed to outline a set of general policy orientations around this so that we are better positioned for post election Argentina..

6. **The Truman scheme for despots and capital flight.** Ted Truman has contemplated trying to negotiate with the financial authorities of the major financial centers and perhaps the off shore centers a set of arrangements we could deploy to try to capture the assets placed offshore by corrupt governments or by outgoing despots. This is worth try to write down as a first step toward seeing if we can pursue it.

7. **A new trade consensus.** Independent of where we come out on fast track, the Administration is going to have to outline this fall in the run up to Seattle some way to frame an agenda that tries to capture the a reasonable set of objectives on labor and environment in trade policy, frames our multilateral priorities for the new round and bilaterally, professes determination to use or to strengthen or to modernize our trade laws to combat unfair trade practices and protect against surges.

It would be a good investment in policy and in the Administration's legacy for you to try to frame this message early, to get consensus around it in the Administration, and then to make it a stump speech for the fall.

8. **Strategic countries.** In China, Nigeria, and Indonesia we have that interesting combination of strategically important nations, at a point of transition, where the economics are important. We have spent much of the this Administration investing in the FSU and the transition in Eastern Europe, and although we cannot avoid continuing that level of engagement, we need to think through how best to figure out a way to shape a U.S./IFI strategy for improving the chances for a favorable transition.

We should put together some general approach, probably with a more dedicated interagency team, and think about how best to use the opportunities for Summers diplomacy.

9. **Monetary Cooperation in Asia.** We are facing a bit of drift, APEC fatigue, disinterest

in the Manilla framework, and continued Japanese efforts to build support for an Asian Monetary Fund. We don't have a good solution to this set of problems. And we don't have a clear view of how the region should evolve in the areas of exchange rate arrangements and monetary cooperation.

Maybe we should make fixing this the objective for your next APEC finance ministers meeting, and start to lay out the options for how we might define some long term objectives for how the region should evolve, and what arrangements for cooperation we might promote as part of that.

. . . .

As we start to think through how you want to define your agenda, here are a few more general, unorganized thoughts.

- You need to be more selective, and more focussed on a narrow set of broad objectives than is your inclination. There's no risk you'll be perceived as not setting the international agenda, or short of initiatives, or without vision, or short of ambition, or lacking in edge. The greater risk is that you'll get captured by the crisis of the day, constrained by the politics in an election year, or unable to match your reach to what we are likely to be able to grasp.

- One of your more compelling relative strengths is in speaking. And yet you speak so much and often with relatively little foresight or preparation, you are probably not using the tool that well. If you decide early the areas in which you want to define broad policy aspirations in a series of speeches, you'll be in a better position to leave a greater mark on the debate. Pick four or five now, and we can start to frame the content.

- I don't know if you feel this, but I think the most uncomfortable fact of the U.S. today is the gap between our new fiscal wealth, our rhetoric about what we say we want about development, and effort we make to extract more resources from the Congress. Building more support among the authorizers and appropriators for a larger envelop with a greater cushion would be a crowning achievement. It would nice to have in the development world the degree of credibility and good will you have helped earn us in the macroeconomic area through the Administration's domestic economic achievements. It is not likely to happen, but it almost certainly won't happen without better policy ideas from us and without more of a visible role by the President.

- Stay away from Russia, if you can.

- And you need to temper you messianic ambitions generally. We can't be and are not wise or powerful enough to be able to define our role as saving a bunch of countries from themselves. I think we should always be looking at what we can do to be helpful, where we can be decisive, where we need to reorient the strategies of the IFIs, but it will be relatively rare where a visible role for your or the Treasury will be feasible or desirable. I am not against trying, and don't believe that fear or being tarred with the failure of the object of our good will should prevent us from doing the right thing, but you are at risk of getting too accountable for results you could not realistically be expected to affect.

- You need to find a way to do what your predecessor did with you, and fight your tendency to be the visible face of Treasury or Administration policy on every issue. It's bad strategy, a poor use of your time, and unnecessarily risky.

- You need to be more cautious in how you expose your interesting process for making decisions to large groups of people internally and externally. Your great strength is of course the high standard you set for good ideas and policy and the torture you put yourself and the rest us through in exploring all sides of every issue. But you're a bit vulnerable to being perceived as vulnerable to the lurch, to holding to mutually inconsistent positions for too long, to blaming others for the fact that your not always sure for what you want to do or what you think, and to not taking responsibility for decisions you were fully party to or complicit in. I think this means closing the circle a bit for when you want to grope and thrash about, and thinking through in advance more how you want to frame what you want from people when you are in front of a large group.

NC(DI/PA/AM

99-38-008363

DEPARTMENT OF THE TREASURY
Washington

August 2, 1999

NOTE TO SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: Sheryl Sandberg

As you requested, the follow-up memo from Tax Policy is attached.

Attachment

cc: DFischer
SFlanders
KKornbluh
HMoore
MSmith
TStern
NWolin

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 30, 1999

MEMORANDUM FOR SHERYL SANDBERG
CHIEF OF STAFF

FROM: DONALD LUBICK DL
ASSISTANT SECRETARY FOR TAX POLICY

SUBJECT: Office of Tax Policy's 18-Month Plan

Secretary Summers requested a summary memorandum providing the details on content and timing of OTP projects that were discussed during the Office of Tax Policy's planning meeting.

Develop a set of tax simplification proposals for possible inclusion in a legislative package – A comprehensive simplification package will be put together by the Office of Tax Policy. This will provide the framework for simplification ideas for the FY2001 budget. The target for completion is December 1999.

Reform of the alternative minimum tax (AMT) for individuals – Secretary Summers agreed with our desire to work with Congress on legislation that reforms the individual AMT in a fiscally responsible manner. We have a menu prepared of proposals that would represent good tax policy. Their effectiveness at ameliorating our policy concerns would be roughly proportionate to their cost.

Encourage retirement savings on a progressive basis – We will continue working on designing scaled back but still progressive retirement savings initiatives to encourage saving for lower and middle income taxpayers. In addition to exploring ways to scale back USAs to fit a $50-$100 billion ten-year constraint, we will also develop smaller initiatives closer to the $20 billion/10 year range that tweak the current system to make it more progressive and pro-saving. We plan to develop a set of low-cost options to discuss with Secretary Summers by the end of next week.

Curb growth of corporate tax shelters – Secretary Summers envisions a corporate tax shelter event in Fall 1999. In the meantime, we will work to address the Secretary's concerns about how to score corporate tax shelter revenue raisers by meeting with tax-shelter industry experts in search of additional evidence on the prevalence of tax shelter activity.

Review and reform of Subpart F — We are completing a study providing a comprehensive review of Subpart F and the alternatives in respect of foreign source income. We will be meeting in August with Sheryl Sandberg and Stuart Eizenstat to address the timing of the release and the presentation of the conclusions of the report.

Work regarding tax havens – In addition to working on the different projects delineated in the original memorandum, we will be working in September and October with Domestic Finance and OASIA to come up with a comprehensive 18 month tax haven agenda that will include problems of tax avoidance, money laundering and other criminal activities flourishing under the shelter of tax havens.

Expand and modernize our treaty network – Secretary Summers agreed that our continuing work to expand and modernize our tax treaty network was important on tax policy as well as international relations grounds. Deputy Secretary Eizenstat had earlier furnished a list of State Department suggestions for countries seeking tax treaties. From that list we have held a first round of negotiations with Korea and Chile, have well advanced negotiations in the UK and have agreed to explore a treaty with Ivory Coast.

Derivatives study – We agreed to do a "mini– study" as a basis for budget proposals in January to crack down on abuses. This work should be done by year end.

Tax policy research –

Capital income burden study. We shall continue our research on this issue to be prepared to deal with large issues that may require hard evidence as to actual burdens. We will discuss with Deputy Secretary Eizenstat the questions of whether research should be embodied in a new formal study or simply as an OTA Paper. We will have a better idea of the direction of the research by year end.

E-Commerce -- We have talked to Sheryl Sandberg with respect to the recent funding problems faced in carrying out directives from the President and the Secretary on electronic commerce. We believe Management is well prepared to protect our program to carry on work in this area.

Tax Expenditures – Secretary Summers expressed concern about our plan to produce a balanced and constructive analysis of the use of tax expenditures in the pursuit of social policy objectives. We will thus follow two tracks for this research. We will prepare a speech for the Secretary to deliver at the appropriate time defending the increasing use of tax expenditures to pursue a wide range of social policy objectives. We will also plan to release a balanced study as an OTA Paper to be released during the interregnum.

2000-SE-000064

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 29, 1999

SECRETARY OF THE TREASURY

MEMORANDUM FOR JOHN PODESTA
Chief of Staff

THURGOOD MARSHALL, JR.
Assistant to the President and Cabinet Secretary

FROM: Lawrence H. Summers

SUBJECT: Treasury accomplishments and goals

As we enter the final year of the Administration, Treasury will continue to be actively involved in a wide range of activities. Domestically, we will concentrate on helping to develop and defend the President's tax and budget strategy; helping to develop and promote Social Security and Medicare reform; bringing low-income Americans into the financial and economic mainstream; enhancing the stability of our financial system; making the new e-commerce economy work for America's financial consumers; and preventing guns from getting into the wrong hands. Internationally, we will focus on strengthening the global financial system, including reform of the IMF; implementing the President's initiative to provide debt relief to impoverished nations; developing an initiative to enhance the diffusion of vaccines to the third world; and cracking down on money laundering.

This memorandum outlines Treasury's accomplishments during the past year and priorities for the coming year. These accomplishments and priorities are organized under six broad Treasury objectives:

- **Maintain fiscal discipline**
- **Promote growth and economic development in the global financial system**
- **Maintain a strong and healthy financial system**
- **Ensure that low-income Americans share in the nation's prosperity**
- **Enhance the safety of our communities**
- **Continue management reforms within the Department**

MAINTAIN FISCAL DISCIPLINE

1999 Accomplishments

- **Debt Paydown.** Paid down $88 billion in debt held by the public. This was the second consecutive year in which we reduced the national debt after 29 years of increases.

- **Social Security/Budget.** Helped develop and promote the President's budget framework, his "Save Social Security First" pledge, and his Social Security proposals, thus shaping the terms of the budget debate and helping to defeat proposals for large tax cuts that would have squandered the surplus.

- **Medicare.** Played a central role in the development of the Administration's Medicare plan, which would harness competitive forces to improve efficiency, reduce costs to the government and provide a new prescription drug benefit.

- **Corporate Tax Shelters.** Initiated proposals to crack down on corporate tax shelters and issued guidance to curtail a number of specific shelters.

- **Tax Extenders.** Negotiated the extension of the research and development tax credit, protection for middle-income taxpayers from having personal credits limited by the Alternative Minimum Tax (AMT), and a number of other tax extenders.

2000 Priorities

- **Social Security/Medicare.** Actively participate in developing Administration policies on long-term entitlement reform.

- **Taxes.** Resist large, unpaid-for tax cuts. Combat measures that would degrade the effectiveness of the tax code. Advance progressive proposals, including expansion of the Earned Income Tax Credit, AMT reform and increasing the standard deduction.

- **Corporate Tax Shelters.** Propose new regulations and complimentary legislation to provide a global solution to curb the proliferation of corporate tax shelters. These proposals are designed to change the dynamics on both the supply and demand side of this market, making it a far less attractive market for participants, promoters and accommodating parties who facilitate these transactions. Continue to attack specific shelters as they are discovered.

- **Debt Paydown.** As an important mark of our continuing fiscal progress, continue to pay down our national debt while achieving the lowest cost financing for taxpayers, promoting efficient capital markets and maintaining sound financial management practices. We will achieve these directives by using all available debt management tools, including debt buybacks and reopenings.

PROMOTE GROWTH AND ECONOMIC DEVELOPMENT IN THE GLOBAL FINANCIAL SYSTEM

1999 Accomplishments

- **Global Financial Crisis.** Provided leadership through bilateral and multilateral efforts that helped calm the turmoil that engulfed the global financial system for much of the past two years.

- **Global Financial Architecture.** Spurred the creation of new international fora, such as the Group of 20 and the Financial Stability Forum, to strengthen the stability of the global financial system, including through improved cooperation and coordination between developed and developing countries.

- **IMF Reform.** Proposed a broad reform plan to improve the effectiveness of the International Monetary Fund.

- **Debt Relief.** Promoted President Clinton's proposal for significant debt relief for Heavily Indebted Poor Countries (HIPC) and won Congressional approval for the first step in implementing the HIPC initiative.

2000 Priorities

- **Economic Growth and Stability.** Promote growth and stability in the global economy through bilateral diplomacy and through the international financial institutions.

- **IMF/World Bank Reform.** Seek international consensus on our plan for reforming the IMF and other international financial institutions.

- **China.** Support China's accession into the WTO. Carry out financial dialogues with China which were initiated during my October trip.

- **Trade.** Continue to promote the cause of open markets. Generally, collaborate in the development of a new effort to address worker dislocation through a base closing type approach to impacted communities.

- **Russia.** Support and carry through Administration policy towards Russia in an extraordinarily difficult environment both here and in Russia. Seek to advance a positive vision of engagement following the Russian presidential election in June 2000.

- **Debt Relief.** Implement the HIPC debt relief initiative for a substantial number of countries. Ensure that the right structure for debt relief is established whereby countries commit to concrete, meaningful reforms. Secure additional funding from Congress to finance the HIPC initiative.

- **Emerging Markets**. Work with emerging market economies to minimize their vulnerability to future crises and bring the global financial crisis firmly to an end.

- **Vaccines.** Develop and implement a program to improve the provision of vaccines in less developed countries and provide incentives to drug companies to boost their research and development efforts to find new vaccines for these diseases.

MAINTAIN A STRONG AND HEALTHY FINANCIAL SYSTEM

1999 Accomplishments

- **Financial Modernization.** Led the Administration effort to pass the first major reform of the financial services industry in over 60 years. Helped ensure the preservation of the Community Reinvestment Act and protect the privacy of personal financial data.

- **Reducing Systemic Risk**. As part of the President's Working Group on Financial Markets, completed detailed studies on hedge funds and derivatives containing recommendations to help mitigate systemic risks in the financial sector and increase the efficiency, transparency, and competitiveness of American markets.

- **New Currency.** Introduced redesigned $5 and $10 bills to reduce the ability of criminals to counterfeit our currency.

2000 Priorities

- **Implement Financial Modernization Law.** Take actions mandated in the financial modernization law, including, writing rules on privacy, merchant banking activities, and activities for bank subsidiaries, and conducting studies on the Community Reinvestment Act, subordinated debt, and information sharing with affiliates.

- **Privacy.** Further strengthen the financial privacy of consumers beyond the provisions of the financial modernization law.

- **E-finance/E-commerce.** Promote improved access to financial services and information through the Internet. Work toward satisfactory resolution of the work of the Internet Tax Commission (Advisory Commission on Electronic Commerce). Continue to expand the application of e-commerce to government operations to improve the efficiency, accessibility, and quality of government services.

- **Reducing Systemic Risk**. Work with Congress to pass legislative initiatives set forth in the reports on hedge funds and derivatives prepared by the President's Working Group on Financial Markets. Our efforts to pass derivatives legislation will take place in the context of the reauthorization of the Commodities Exchange Act. Continue to work with the private sector to enhance risk management practices and with other agencies to increase the transparency, efficiency, and competitiveness of U.S. capital markets.

ENSURE THAT LOW-INCOME AMERICANS SHARE IN THE NATION'S PROSPERITY

1999 Accomplishments

- **Electronic Transfer Accounts.** Implemented a program to provide basic, low-cost electronic accounts to Federal beneficiaries who do not have bank accounts.

- **BusinessLINC.** Developed and helped roll out the Administration's BusinessLINC program promoting mentoring relationships between large and small businesses.

- **CDFI.** Continued to support the Community Development Financial Institutions Fund, which has to date provided more than $300 million to community development organizations and financial institutions.

- **Southwest Border Task Force.** Played a leading role in the creation of the President's Southwest Border Task Force to improve economic conditions and opportunities in the four southwest Border States.

- **CAIP.** Reinvigorated the Community Adjustment and Investment Program and created a much-needed grant and technical assistant component to aid communities, workers, and businesses impacted by changing trade patterns associated with NAFTA.

2000 Priorities

- **Access to Banking.** Develop and promote measures to provide low-income Americans with access to banking services, including bank accounts and the use of ATMs, as an alternative to high-cost services such as check-cashers.

- **New Markets.** Secure passage of the New Markets tax credit.

- **BusinessLinc.** Expand the BusinessLINC programs beyond the six local coalitions that have been formed.

- **Child Support.** Expand Treasury's collection of child support from tax refunds and other federal payments by encouraging States to submit more debts for collection and, through administrative action and legislation, increasing the types and amounts of federal payments that we dock for child support.

- **Retirement Savings.** Expand and increase retirement savings coverage for American working families by enacting a progressive retirement savings program.

- **Savings/Financial Literacy.** Promote greater financial literacy and greater savings by all Americans, particularly for low and middle-income families.

- **Southwest Border.** Play a leading role on the President's Southwest Border Task Force by developing policy options to promote economic growth and job creation along the border. The Task Force aims to launch a pilot project in the spring.

ENHANCE THE SAFETY OF OUR COMMUNITIES

1999 Accomplishments

- **Firearms.** Helped develop the Administration's firearms legislation, which would require background checks on firearms sold at gun shows, increase penalties on traffickers, mandate the sale of safety locks with firearms, and restrict handgun purchases to one a month. Expanded ATF's Youth Crime Gun Interdiction Initiative to 37 cities. This is a cooperative program with local police departments to establish comprehensive gun tracing and reduce youth gun violence.

- **Money Laundering.** Introduced the first National Money Laundering Strategy, articulating a broad-based domestic and international strategy for combating money laundering. Also, for the first time, issued an Advisory calling on all banks and financial institutions operating in the U.S. to give enhanced scrutiny to transactions routed through Antigua and Barbuda.

- **Drugs.** Seized more than 120 tons of cocaine, marijuana, and heroin through the Border Coordination Initiative, a joint Customs-INS program aimed at protecting the southwest border.

- **Church Burnings.** Continued joint efforts with Justice to coordinate a nationwide effort to identify and prosecute those who burn or damage houses of worship, resulting in the further decline of such attacks.

2000 Priorities

- **Firearms.** Develop an integrated strategy to reduce gun violence, including recommendations for 500 additional personnel (300 agents), expanded tracing capacity, and legislation empowering Treasury to regulate gun safety and requiring background checks for all gun sales, possibly in connection with a licensing and/or registration requirement. Participate actively in the Administration's "settlement" discussions with the firearms industry aimed at getting the industry to adopt a code of conduct on firearms distribution practices and firearms safety.

- **Money Laundering.** Implement the National Money Laundering Strategy, including (1) new administrative measures and new legislation to address the problems posed by offshore havens; (2) new measures to increase bank scrutiny of high-risk accounts and transactions; (3) designation of domestic High Intensity Financial Crime Areas; (4) award of the first state and local anti-money laundering grants under the Financial Crime-Free Communities Support program.

- **Drugs.** Identify and impose financial and trade prohibitions on foreign narcotics traffickers and closely associated entities, as mandated by the Intelligence Authorization Act.

- **Identity Theft.** Convene a summit on identity theft, as called for by the President, and work with the private sector to develop procedures to prevent crimes such as credit card fraud and to protect the victims of such crimes when they occur.

- **Child Labor.** Work aggressively to eliminate child labor through enhanced enforcement and investigations by the Customs Service abroad, and through business outreach aimed at fostering compliance with U.S. import restrictions on products assembled through forced or indentured child labor.

CONTINUE MANAGEMENT REFORMS WITHIN THE DEPARTMENT

1999 Accomplishments

- **IRS Reform and Restructuring.** Began implementation of the Restructuring and Reform Act of 1998 and planned the first major organizational restructuring in over 40 years. Secured a PRIME contractor to begin the process of IRS systems modernization. Put in place new a management team.

- **Capital Investments.** Redesigned the Department's capital investment review process to ensure compliance with our business priorities and our Government Performance and Results Act goals.

FY 2000 Priorities

- **IRS Reform and Restructuring.** Continue implementation of the Restructuring and Reform Act of 1998 and begin restructuring and systems modernization. Work with the Senate to confirm members of the IRS Oversight Board and begin Board meetings and oversight.

- **Human Resources Management.** Build a system that streamlines human resource processes, supports collaborative approaches to Department-wide needs, and provides each bureau with the flexibility to accomplish its unique mission.

Prepared by Sheryl Sandberg with input from policy offices

NCC to LS (signature)

LS signed

TR to WH

NCC cc to TS

12/30/99

Please Log IN

Administration History Appendix
Chapter One: Fiscal Discipline

BTU

to: ____________________

room: ________ date: ________

Department
of the Treasury

Executive Secretary
and Senior Adviser
to the Secretary

3/31/93

Mr. Secretary:

Attached are 85 letters to Members of the House and Senate on the home heating oil issue.

Please sign one, and we will autopen the rest.

ED

93-119740

Edward S. Knight
room 3408
phone 622-0027

Group Hills

THE SECRETARY OF THE TREASURY
WASHINGTON

April 1, 1993

The Honorable Christopher Shays
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Shays:

We have examined the impact of the Btu energy tax on home heating oil in light of the Administration's objective to maintain regional balance. As a result of this review, we have decided to apply the basic rate of $0.257/million Btu to the average Btu content of home heating oil. This rate will be phased in on the same schedule as the energy tax applicable to other products. The oil supplement rate would not apply to home heating oil.

Your guidance on this issue has helped us immensely in developing our position.

Please let me or my staff know if you have any questions regarding this issue.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

93-120939

April 23, 1993

MEMORANDUM FOR SECRETARY BENTSEN

cc: Deputy Secretary Altman
Les Samuels
Sam Sessions

FROM: Philip Diehl
Michael Levy
Linda Robertson

RE: Expected Congressional Action on Collection Point Issues in the Btu Tax; Strategy for Neutralizing the Natural Gas Industry

ACTION FORCING EVENT:

When the Committee on Ways and Means begins its consideration of the Btu energy tax, Rep. Brewster (D-OK), a new Member of the Committee, is expected to offer an amendment to change the collection point of the tax to the end-user in the case of natural gas and electricity. For electricity, this step would fundamentally change the tax because it would no longer be a tax on fossil fuels, with attendant fuel switching incentives, but would instead be an excise tax on the output of electricity.

Rep. Brewster is said to be developing this amendment with, among others, Rep. Andrews, Pickle, and, we strongly suspect, Chairman Rostenkowski. (In the Finance Committee, Senator Boren is said to be considering a similar amendment.)

RECOMMENDATION:

That we attempt to reach agreement with the American Gas Association ("AGA," the trade organization representing natural gas local distribution companies) and other segments of the natural gas industry in order to neutralize, at least in part, supporters of the Brewster amendment.

There are two policies which may be sufficient to garner the neutrality of the natural gas industry: First, changing the collection point for natural gas directly sold by marketers to industrial end-users and, second, exempting supplies used in natural gas vehicles. If you agree with these suggestions, we recommend that you place telephone calls to the following individuals for the purpose of enlisting their neutrality, if not support, with respect to the Administration's tax: Bob Catell and Mike Baly on behalf of the American Gas Association and Boone Pickens on behalf of the Natural Gas Vehicle Coalition ("NGV")

(Specific talking points and telephone numbers are listed below.) The agreement would be that, in return for the two changes, AGA and the NGV Coalition would <u>not oppose the tax or lobby for changes to it in Congress.</u>

You should know that the recommendations contained here do not address the collection point for electricity. We do not presently have a recommendation for fixing the collection point for electricity, short of moving the tax to the end-user. Thus, this strategy probably does not resolve Chairman Rostenkowski's concerns. It does, however, resolve the primary concerns of Reps. Pickle, Andrews, and, to a lesser extent, Brewster.

______________Approve ______________Let's Discuss

BACKGROUND/ANALYSIS/SPECIFIC ACTION:

<u>The Political Scenario</u>

The Administration's decision, in the case of natural gas, to move the collection point of the Btu tax downstream of interstate pipeline has generally alleviated the concerns of natural gas producers and pipelines. Presently, for the most part, producers and interstate pipelines will not be responsible for the tax. A result of moving the tax downstream is that AGA, on behalf of gas local distribution companies ("LDCs"), continues to oppose the tax because it is instead imposed at the citygate, the point where natural gas supplies enter the distribution company. AGA argues that they will be forced to absorb the tax because state public utility commissions cannot be counted on to let them pass it through to consumers, the Administration's stated objective.

So far, even though they are no longer liable for the tax, producers and pipelines are supporting AGA in its lobbying effort to move the tax one step further downstream, on the ultimate customer. Our soundings indicate, however, that producers and pipelines' support and lobbying efforts on behalf of AGA have been tepid at best. But notwithstanding its limited backing, AGA is correct in telling Members (and the White House) that the entire natural gas industry is unified in its support of an end-user tax.

The Edison Electric Institute (the trade organization comprised of electric utility companies) has been working with AGA in promoting an end-user collection point. As mentioned, the suggestions made below do not address their concerns, which are essentially identical to the gas industry, i.e., they do not believe state public utility commissions will allow them to pass through the Btu tax. Thus, assuming we are successful in sidelining the natural gas industry with this strategy, one evaluation we have to make in adopting these steps is whether the Brewster amendment can be defeated if the electric industry (i.e., Chairman Rostenkowski) still adamantly supports an end-user tax. Is resolving the gas problem sufficient?

A consideration to make in addressing this fundamental question is what course of action we expect Republicans to take on the Brewster amendment. There is a strong argument that they would support it. By doing so, they are both able to embarrass the President and support their allies in the natural gas industry. One could argue that an "end-user" tax would make it easier for them to defeat the Clinton economic plan on the floor, with the assistance of API and NAM.

On the other hand, if the Brewster amendment garners few Democratic votes, Republicans may be leery of voting for it in Ways and Means Committee because they could then be painted as being responsible for enacting a levy which is a "consumer" tax.

Thus, it is difficult to predict with certainty the likely outcome on the Brewster amendment, given the incalculable variables of Chairman Rostenkowski's role and that of the Republicans. In any case, there is a strong argument that we ought to precede nonetheless with the strategy suggested here as a means to remove AGA from the debate, even though such a step may not fully resolve the collection point debate.

Natural Gas Vehicles

The suggestion here is to exempt compressed natural gas used in natural gas vehicles ("NGVs") from the Btu tax. The argument for the exemption is that NGVs directly compete with vehicles fueled by methanol, which the Administration has already exempted. For the past several years, most LDCs have been vocal supporters of NGVs, along with or as members of the NGV coalition headed by Boone Pickens.

Note that, as was the case with ethanol and methanol, if natural gas used in NGVs is exempt, propane used as a motor fuel should also be exempted. Based on industry data (which we are checking) the revenue cost of exempting both fuels would be $13 million per year, in 1996, when fully phased in.

- Should this suggestion be pursued?

Natural Gas Collection Point

A second suggestion for enlisting the gas industry's support entails making clear who is liable for the tax in the case of natural gas which is simply transported, not owned, by the LDC. Approximately 40 percent of supplies flowing through LDCs' transmission systems is not owned by the LDC. They simply serve as a common carrier.

Under the Administration's bill currently being drafted for introduction on Thursday, April 29, it is the industrial end-user, not the LDC, which is liable for the Btu tax on this gas. The LDC would generally be only liable for natural gas which it purchases and delivers to its own residential and smaller commercial customers. We do not believe that AGA generally understands that we have preliminarily made this decision. Thus, it is an item which we can use in garnering their support.

- Should this course be pursued?

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Other AGA Wishes

We have preliminarily discussed these two suggestions with AGA as a means to reach a possible agreement with the group. In our discussions, a third component was raised. In your discussion, AGA will request that the Administration support an effort to enact so-called preemption language through the energy committees. In general, preemption language would mandate that state public utility commissions must pass through the Btu tax to the end-user, thus "preempting" the utility commissions right to force the LDC to absorb any of the tax.

AGA argues that such preemption language is needed if they agree to a solution, such as outlined here, which is less than an end-user tax. As a practical matter, Treasury staff does not object to the Administration striking an agreement with the AGA in which they would be given the Administration's blessing to seek independent, separate track preemption language.

The difficulty in Treasury agreeing to this component of the deal is that Ways and Means staff have indicated that they oppose a preemption solution. They argue that this would open the door for Chairman Dingell to assert jurisdiction over the tax; they argue that even without this step, Chairman Dingell is casting about for a mechanism to attach jurisdiction to the Btu tax. Whether this is the case or whether Ways and Means staff is simply throwing up this roadblock because they support an end-user solution, is difficult to assess. We suspect they may be trying to obstruct a solution, short of an end-user tax, so that the electricity question is not isolated.

Consequently, we recommend trying to construct an agreement with AGA which does not involve an independent, separate from reconciliation track preemption solution. Despite Ways and Means motives, we share their concern about Chairman Dingell's jurisdictional appetite.

o Should preemption language be pursued?

TIMING/RECOMMENDED ACTION/PROCEDURES

The Administration's legislative language will be ready for introduction by Chairmen Rostenkowski and Moynihan on or about Thursday, April 29. The legislation must be introduced this week because Chairman Rostenkowski has requested that it be released at least a few days before his markup (currently slated to begin Tuesday, May 4) so that potential problems which may arise by airing actual legislative language will not blow up on the first day of his markup.

This deadline necessitates reaching an agreement with AGA before the legislation is introduced, because the draft already accommodates the second suggestion, the 40 percent collection point solution. Thus, if we want to hold this or the natural gas vehicle agreements so that they can be offered as part of a pre-agreed to amendment by Reps. Andrews, Brewster or Pickle, we need to change the legislative draft. On the other hand, if AGA agrees to halt its lobbying on behalf of a broader Brewster amendment, we may want to place both solutions in the legislative draft.

If you agree with the recommendations made here, we suggest that you place telephone calls to the following individuals in order to structure an agreement with them. We are suggesting that you try to reach an agreement with both Boone Pickens' NGV coalition and AGA itself. The telephone calls to make are:

o Boone Pickens (NGV Coalition) #214-969-2201

- Bob Catell/CEO/Brooklyn Union Gas Co.[1] #718-403-3313

- Mike Baly/President/AGA #703-841-8400

[1] We suggest that you call Bob Catell because he has been serving as AGA's liaison with the Department of Treasury and testified on behalf of AGA at the recent Senate Finance hearing. You should know that in Catell's case, his company, Brooklyn Union Gas, overwhelming owns the natural gas flowing through its system. Thus, while the national average of gas flowing through LDCs which is not owned by the LDCs is 40 percent (and expected to grow to 60 percent in the next three to four years, according to AGA), this solution does not help Mr. Catell's own company.

DEPARTMENT OF THE TREASURY
WASHINGTON

93-121479

May 12, 1993

very interesting

MEMORANDUM FOR Secretary Bentsen

cc: Roger Altman
Michael Levy
Linda Robertson

FROM: Philip Diehl PD

SUBJECT: New Developments on the Gas and Electric Utility Front on the Btu Tax

I want to give you a quick update on what AGA and the electric utilities have been up to this week in the wake of the resolution of the Brewster amendment.

First, Mike Baly of AGA called last night out of concern for the attached Electric Utility Weekly article. In the course of that conversation, he confirmed to me that AGA continued to oppose the Btu tax and would work to kill the tax in the Senate. Prior to the resolution of the gas point-of-collection issue, AGA had represented to Treasury staff that if we moved the tax to the burner tip, several AGA "moderates" (utilities) would be likely to endorse the President's economic plan. Last night he was unable to name any who might do so now. Mike also made a pitch for eliminating their secondary liability for the tax, but of course he made no offers regarding a change in AGA's position.

Second, Duffy Wall--in confidence--has told me that several electric utilities have called in the coal suppliers that Treasury recruited to support the President's program and threatened to cancel contracts worth millions of dollars. He cited an example for which he has first-hand knowledge where Peabody was threatened with the loss of a contract for some 15 million tons. Now AGA is pushing a provision contained in Rosty's offer to the White House yesterday which would give an incentive to utilities to build new power plants, or convert old ones, to natural gas. Of course, this provision would upset the delicate political balance between natural gas and coal interests we struck in the original Btu tax proposal, and would teach our allies an important lesson about exposing themselves to fire for the sake of their relationship with this administration. <u>I wouldn't put it past AGA to hope to drive the coal lobby into opposition by expanding gas market share at coal's expense, thereby increasing the likelihood of killing the tax in the Senate.</u>

This highlights the danger inherent in a strategy of appeasement of Btu tax opponents; without any assurance that they will ever

agree

The Energy Daily

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Tuesday, May 11, 1993 Volume 21, Number 89

Administration, Hill Struggle For Tax Truce

BY MARY O'DRISCOLL

The Clinton administration appeared to concede the collection point issue in the energy tax debate Monday as House tax bill drafters huddled in preparation for this week's markup of the federal government's comprehensive revenue plan.

Sources said Monday the administration had proposed an agreement to move the collection point for the tax on the British thermal unit content of energy to the ultimate consumer, in exchange for Rep. Bill Brewster's (D-Okla.) withdrawal of his proposal for a national average tax on electricity consumed on a per-kilowatt hour basis.

Details still were being hammered out Monday afternoon, but congressional, environmental and industry sources said the deal is being fashioned to blunt opposition to the entire tax plan by some Ways & Means Committee Democrats—especially since Brewster's original proposal garnered more committee support than expected. It is generally assumed that no committee Republicans will support the Btu tax, which is projected to raise $73 billion as part of the overall deficit reduction plan.

Although environmentalists for some time have blasted the possibility of such a move because it would minimize utility incentives to switch to cleaner and more efficient power sources, some of them appeared to be going along with the plan.

And one unlikely group has reluctantly signed on to the deal—the American Gas Association. However, AGA President Mike Baly said his group still is worried about local distribution company liability, since under the proposal the LDCs would be liable for any uncollected taxes.

And, he added, AGA will fight to derail the entire package once it gets to the Senate Finance Committee. The Senate is considered more amenable to groups that flat-out oppose the Btu tax.

That sentiment was expressed by one member of a broad business coalition that opposes the tax.

"They're in trouble. They've been saying not just no, but hell no, for months," said Robbie Aiken of

(Continued on next page.

Clinton May Compromise On Taxes (From page 1)

Pinnacle West Capital Corp., the holding company for Arizona Public Service Co.

Aiken said he welcomed Brewster's efforts, "which give comfort to a lot of people in the utility industry.... Nevertheless, we're still going to fight it in the Senate."

And the administration is wrong if it believes this ends the tax debate, Aiken added, predicting the tax bill "will be the most holey Swiss cheese you've ever seen come out of the Senate, if it ever comes out of the Senate."

Other industry officials, however, privately concede there will be a Btu tax, but quickly add that it remains to be seen just what form it will take.

Regardless of the collection-point question, environmentalists said they are more worried about Brewster's plan for a national average per-kwh tax on electricity consumption, which they say will gut the tax's environmental benefits.

The national per-kwh tax was added to the Brewster plan because it was considered an easier way to establish the rate if the tax were to be paid for by the ultimate consumers, said Dan Lashof of the Natural Resources Defense Council.

But since that equalizes the tax rate among all fuel sources, regardless of their contribution to pollution, environmentalists were against it, he said. "It seems they forgot one of the reasons we were trying to do this tax in the first place," he said.

And the plan to collect the tax at the utility level, he added, was to have helped spur utilities to use cleaner-burning fuels or energy efficiency to reduce their tax exposure.

But while not enthralled with the idea of moving the collection point to the consumer, Lashof said the incentive for efficient fuel use will have to be put on state regulators who are concerned about the taxes ratepayers pay.

93-123759

DEPARTMENT OF THE TREASURY
WASHINGTON

July 21, 1993

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Randy Cain and Michael Levy
Legislative Affairs

SUBJECT: House "Dear Colleague" Letter Regarding Btu and Energy Taxes

BACKGROUND:

Attached is a letter signed by 31 House members (among them: Gene Green, Solomon Ortiz, Mike Andrews, John Bryant, Dave McCurdy, Karan English) which affirms support for the Senate version of the reconciliation bill, and restates their strong opposition to the Btu tax.

The letter additionally states that the signers would "prefer a final bill which includes no energy-based tax." Congressman Andrews' staff explained that while he would indeed prefer that there is no energy-related tax, his signing this letter does not mean that he would not vote for the final bill if it contained a gas tax. He would not like it, but he could (and probably would) vote for a gas tax. Staff said Andrews signed the letter on the House floor at the request of Earl Pomeroy(D-ND), and they were unsure what the exact definition of "energy-based tax" is--probably does include gas tax, but Staff did not suggest that Andrews had had any change in his previous position because of this letter.

LMB?

AR FYI MAN signed this. Tom

Congress of the United States
House of Representatives
Washington, DC 20515

July 20, 1993

Dear Conferee:

We are writing to express a particular concern regarding the upcoming conference on the Budget Reconciliation Act of 1993.

All of us chose to support the President when the legislation first moved through the House. We voted with the President, at least in part, because of his assurances that the Senate would overhaul or eliminate the proposed Btu tax. In fact, many of us indicated to the President and the leadership at the time of the House vote that we would find it difficult to vote for a final bill which includes a Btu tax.

We believe the action taken by the Senate to remove the Btu tax and add additional spending cuts has improved the legislation. We would prefer a final bill which includes no energy-based tax, and are willing to support additional spending cuts and other measures to achieve the required deficit reduction.

We appreciate your consideration of our views as you begin the difficult task of fashioning deficit reduction legislation.

Sincerely,

Calvin Dooley

Tom Barlow

Sonny Montgomery

Solomon P. Ortiz

Tim Penny

Michael A. Andrews

[illegible]

[illegible]

Bud Cramer

[illegible]

[illegible]

[illegible]

Karan English

Ron Klink

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Earl F. Hilliard

Bob Wise

Pete Peterson

Frank McCloskey

Dave McCurdy

Administration History Appendix
Chapter One: Fiscal Discipline

Budget

Exec Sec
93-122769

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

June 15, 1993

MEMORANDUM TO: SECRETARY BENTSEN

FROM: ROGER ALTMAN

RE: The Next Budget

Planning for the FY 1995 budget is beginning. Alice Rivlin has convened a Deputies Group to discuss the strategy behind it.

There is at least one enormous issue. Namely, that the Clinton 1995 discretionary budget is $13 billion over the cap. In a $250 billion non-defense discretionary account, this is a large amount. Alice has calculated that, if every one of the President's investments were fully funded for 1995, the rest of non-defense discretionary would be cut 10% to meet the cap.

There will soon be a meeting with the President, you and others to review budget strategy. The sense at OMB is that he doesn't yet grasp the dimensions of this cap problem.

This meeting undoubtedly will include a discussion on the possibilities of raising the cap. Leon believes that this is impossible, but the Reich/Sperling wing of the Administration will want to try it. As will several Cabinet officers. Ideally, the President could be persuaded now that the cap cannot be adjusted. There may be a huge struggle, however, over that one.

As an inveterate optimist, there is a real opportunity in this cap problem. The President could decide that, no matter what, he wanted a budget which fully funded his investments. That would then trigger pruning and, perhaps, eliminating $13 bilion of programs which are not central to that agenda. Even if our 1995 budget ultimately proposed cuts which ran into fierce Congressional opposition, the President would be well positioned with the American people.

When it really gets going, this will be a tough process.

cc: Alicia Munnell
Alan Cohen

93-124631

INFORMATION

DEPARTMENT OF THE TREASURY
WASHINGTON

August 17, 1993

MEMORANDUM FOR SECRETARY BENTSEN
DEPUTY SECRETARY ALTMAN
UNDER SECRETARY SUMMERS

FROM: Alicia H. Munnell
Assistant Secretary for Economic Policy

SUBJECT: Different Forecasts of the Federal Budget Deficit

Different sets of budget deficit figures have been floating around, causing some confusion. I would like to try to clarify this issue.

OMB has recently developed budget estimates using both the August Administration economic forecast and a partially updated version of the CBO's January economic forecast (which only includes economic information available through May). OMB must provide budget estimates for the Mid-Session Review based on both the Administration and the CBO forecast, because CBO was used as the baseline for the April budget. Neither set of results is as yet set in stone, but the latest figures available to us from OMB are given in the table below.

- It now appears that the Mid-Session will be released late this week or early next week -- Monday, August 23 appears most probable. CBO will not provide its own updated economic and budget forecasts until early September. Those numbers will provide a better measure of CBO's current thinking about the outlook for the economy and the deficit than the partially updated January forecast on which CBO figures in the table below are based. Even so, there appears likely to be a substantial divergence in the deficit paths, as suggested below.

Forecasts of the Federal Deficit Based on Different Economic Assumptions
(Billions of Dollars)

	1993	1994	1995	1996	1997	1998
Administration	285.3	258.9	199.1	177.4	182.9	177.1
Updated CBO	281.6	259.2	206.4	193.6	212.5	234.4
	3.7	-0.3	-7.3	-16.2	-29.6	-57.3

There is little difference between the two deficits for 1993 and 1994. Thereafter, the Administration figure is lower and the gap between the two widens substantially to more than $57 billion by 1998. Table 1, attached, provides outlays and receipts for each forecast. The economic assumptions underlying the forecasts are shown in Table 2, attached.

- o Real GDP does not begin to diverge notably until 1997 and 1998. Up until 1996, growth rates are very similar under the Administration and updated CBO forecasts. (An exception is 1993, where the CBO number is stronger, but that is because it has not been updated for the actual second quarter figure.)

- o Growth of nominal GDP in the Administration's forecast is much stronger beginning in 1994. This reflects the fact that the Administration has higher inflation projections (averaging 3.1% in the five years through 1998, compared to 2.3% for CBO). Given some lags, the stronger nominal GDP growth contributes to the lower deficits beginning in 1995 under the Administration numbers.

- o Overall, the Administration figures are quite close to those carried in the latest Blue Chip consensus. We will get a better feel for CBO's thinking on the economy when its new forecast is released, but it is virtually certain that they will remain at the low end of the forecast range with consequently higher estimates of the budget deficit by 1998.

Attachments

Table 1

Forecasts of the Federal Budget
Based on Different Economic Assumptions
(Billions of Dollars, Fiscal Years)

Administration (August 13)

	1993	1994	1995	1996	1997	1998
Receipts	1,140.0	1,240.4	1,335.8	1,419.8	1,492.5	1,578.5
Outlays	1,425.2	1,499.3	1,534.9	1,597.2	1,675.4	1,755.7
Deficit	285.3	258.9	199.1	177.4	182.9	177.1

Congressional Budget Office (Updated January Economic Forecast)

	1993	1994	1995	1996	1997	1998
Receipts	1,144.1	1,241.3	1,329.3	1,402.8	1,457.6	1,512.6
Outlays	1,425.7	1,500.5	1,535.7	1,596.4	1,670.1	1,747.1
Deficit	281.6	259.2	206.4	193.6	212.5	234.4

Table 2

Comparison of Economic Assumptions
(Calendar Years)

	1993	1994	1995	1996	1997	1998
Nominal GDP, Pct.Ch., 4th/4th						
CBO	4.9	5.4	5.2	4.9	4.5	4.1
Administration	5.1	6.0	5.9	5.9	5.8	5.8
Real GDP, Pct.Ch., 4th/4th						
CBO	2.3	3.0	2.8	2.6	2.2	1.8
Administration	2.0	3.0	2.7	2.7	2.6	2.6
GDP Deflator, Pct.Ch., 4th/4th						
CBO	2.5	2.4	2.3	2.2	2.2	2.2
Administration	2.9	2.9	3.1	3.1	3.1	3.1
Unemployment Rates						
CBO	7.0	6.6	6.2	5.9	5.8	5.7
Administration	6.9	6.5	6.1	5.9	5.7	5.5

Note: CBO forecast is the January forecast updated with economic information through May. Administration forecast is from early August.

126157
126182

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

October 7, 1993

Memorandum for Secretary Bentsen

From: Roger Altman

Subject: Balanced Budget Amendment

There was an NEC meeting yesterday afternoon on the balanced budget amendment, and virtual unanimity that it is poor public policy (David Gergen excepted). At the same time, Howard Paster reported that, unless the President fights hard against it, the amendment could well pass. Passive opposition will not suffice.

A memorandum will be prepared immediately for the President discussing the substantive pros and cons and the politics. Paster believes that the President must join this issue within 10 days or so.

There also was a discussion of how the line item veto, the Kerrey Commission and the October deficit reduction initiative relate to this amendment. The essential notion was that the Administration can be tough on fiscal policy, while still stopping short of embracing the amendment.

In the past, the President has spoken against it, but not forcefully. It's not clear how strongly he's prepared to fight.

cc: Alicia Munnell
Alan Cohen

93-126502

INFORMATION

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

October 18, 1993

LMB

MEMORANDUM FOR SECRETARY BENTSEN
DEPUTY SECRETARY ALTMAN

FROM: Alicia H. Munnell AHM
Assistant Secretary
for Economic Policy

SUBJECT: Economic Effects of Balanced Budget Amendment

Currently several bills in Congress propose a balance budget amendment to the Constitution. In the Senate, S.J. Res. 41 (Simon) proposes an amendment requiring a balanced budget by FY-99. The Simon bill has been referred out of committee. In the House, H.J. Res. 103 (Stenholm) is identical to the Simon bill, while H.J. Res. 9 (Barton proposes a balanced budget by FY-97. Action on those bills is awaiting the Senate vote on the Simon bill.

The attached analysis shows the significant negative effects that the economy would realize from a balanced budget amendment. Forcing the budget into balance over a short time horizon (FY-97 was used in the analysis) would drive the economy back into recession, with up to seven million jobs lost and an unemployment rate approaching 10 percent. With a later implementation date such as FY-99, the negative effects could be stretched out over several more years, but qualitatively, the results would be quite similar.

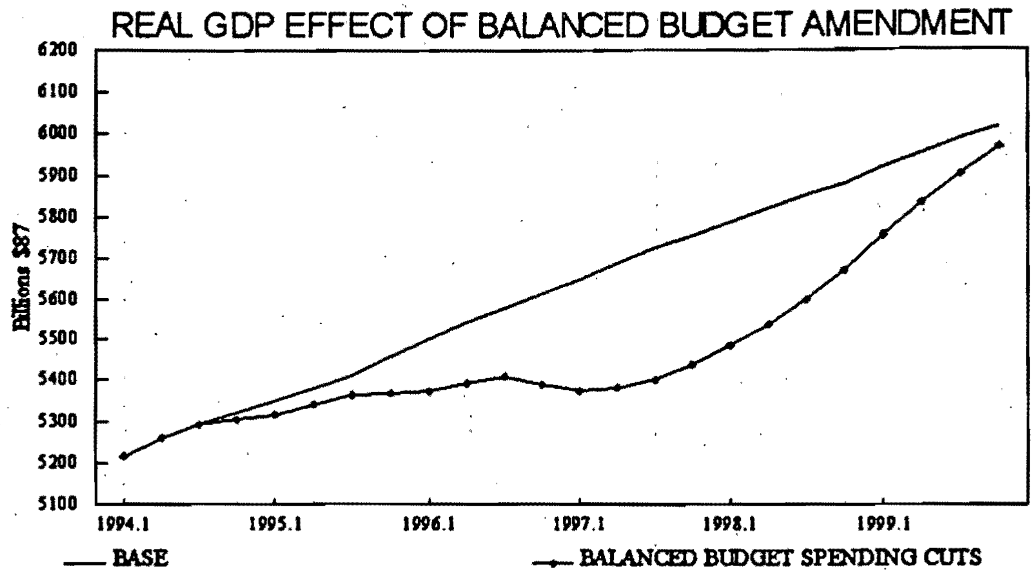
You may find the results of the analysis to be of some use as the question is discussed further. Michael Levy has been given a copy of the analysis.

Attachment

cc: Michael Levy

ECONOMIC EFFECTS OF A BALANCED BUDGET AMENDMENT

Simulations from a macroeconomic model illustrate the large negative effects on the economy that would result from forcing a balanced budget within the next several years. The spending cuts or tax increases needed to achieve a balanced budget would drive the economy back into a recession, with huge job losses and unemployment rates soaring into double digits.



Two scenarios were examined: a SPENDING CUT SCENARIO in which spending cuts account for all of the adjustment needed to achieve a balanced budget by FY1997; and a SPENDING CUT - TAX INCREASE SCENARIO in which deficit reduction is achieved through balanced spending cuts and tax increases. The scenarios forced the <u>Federal budget to be balanced by FY1997</u>--a requirement contained in at least one of the current Congressional proposals.

<u>SPENDING CUT SCENARIO:</u>

A phased-in adjustment was assumed: 1/6 of the spending reduction occurring in FY1995, 1/2 in FY1996, and achievement of a balanced budget in FY1997.

- In the SPENDING CUT SCENARIO, the economy is driven into recession with real GDP falling significantly relative to the base scenario (shown in the graph above). (The base scenario mimics the Administration Mid-Session Review Forecast.) The recession begins in the middle of 1996 and extends into 1997. At the peak effect, real GDP is reduced by 5 1/2 percent and employment is reduced by 7 million jobs relative to the base. The unemployment rate peaks at over 10 percent--4 1/2 percentage points higher than for the base. The annual effects on real GDP, payroll employment, and the unemployment rate are shown in the table at the top of the next page (effects are shown in terms of difference from the base).

Effects from Spending Cuts to Achieve a Balanced Budget by 1997
(difference from base)

	1994	1995	1996	1997	1998	1999
Real GDP, bil $87	-4	-52	-167	-303	-261	-104
Payroll Employment, mils	-0.0	-0.8	-2.9	-6.1	-6.8	-4.0
Unemployment Rate, % pts.	0.0	0.6	2.1	4.2	4.0	1.8

o Achieving a balanced budget by FY1997 would require an across the board spending cut of around $170 billion, or about 10 percent. (Note that this is somewhat lower than the projected deficit of $184 billion in FY1997 because of lower interest cost resulting from a smaller public debt.) However, spending on programs such as unemployment compensation, food stamps, WIC, etc. would increase because of the downturn in the economy. Hence, the cut in spending for most programs generally would greatly exceed 10 percent. Also, State and local government budgets would be significantly negatively affected if grants-in-aid were cut, and the burden of budget imbalance would be shifted to State and local governments.

SPENDING CUT - TAX INCREASE SCENARIO:

A similar phase-in to FY1997 was used. Results similar to those of the spending cut scenario were observed, although slightly less severe, with about 5 1/2 million jobs lost in 1998 and a peak unemployment rate of about 9 percent.

Effects from Balanced Spending Cuts and Tax Increases
to Achieve a Balanced Budget by 1997
(difference from base)

	1994	1995	1996	1997	1998	1999
Real GDP, bil $87	-2	-35	-118	-229	-216	-110
Payroll Employment, mils	-0.0	-0.5	-2.0	-4.5	-5.4	-3.6
Unemployment Rate, % pts.	0.0	0.4	1.4	2.8	2.9	1.5

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

THE CHAIRMAN

October 12, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON LDT
ALAN S. BLINDER AB

SUBJECT: Further Reflections on the Balanced Budget Amendment

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

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

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

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

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

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

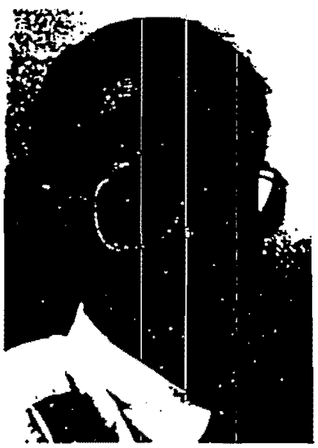
We realize that the politics of this issue are difficult and that, in all likelihood, "you cannot beat something with nothing." But the economics here are so overwhelming that we urge you in the strongest possible terms to oppose the amendment.

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

Attachment:a/s

DID YOU HEAR THE ONE ABOUT THE BALANCED BUDGET?

BY ALAN S. BLINDER



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

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

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

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

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

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

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

The problems do not end there. Budget balance is a shibboleth, supported by no sensible economic principle—especially not when gross domestic product, private debt, and business debt keep growing year after year. And the myopic focus on the federal deficit, to the exclusion of state and local deficits, is curious when the federal government sends the states about $150 billion in aid each year.

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

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

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

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

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

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

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

TREASURY CLEARANCE SHEET

NO. 93-126802
Date

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Alicia H. Munnell, Assistant Secretary for Economic Policy
THROUGH:
SUBJECT: Economic Effects of Balance Budget Amendment

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☒ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
J. Kitchen	JK	10/15/93	Office of Policy Analysis	622-2340
REVIEWERS				
J. Hambor	JCH	10/15/93	Acting Director, Office of Policy Analysis	622-2350

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

DO F 80-02.1 (04/89)

94-128746

INFORMATION

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

CLOSE HOLD

December 15, 1993

MEMORANDUM FOR DEPUTY SECRETARY ALTMAN

FROM: Alicia H. Munnell (Initialed)
Assistant Secretary
for Economic Policy

SUBJECT: Revised Budget Deficit Estimates II

Yesterday's memorandum presented the following table showing that the deficit estimates likely will not improve as much as had been indicated in OMB's November Budget Preview.

Deficit Estimates

	1994	1995	1996	1997	1998
MSR	259	200	179	184	181
Preview (Nov)	243	176	151	155	149
1995 Bud (Dec)	250	193	179	191	194
Change from MSR	-9	-7	0	7	13

These estimates should be interpreted as suggestive as they are based on a model run by OMB staff and are not based on complete agency detail.

The December projection for the deficit is higher relative to the November projection primarily for two reasons resulting from changes to economic assumptions:

Lower Inflation

o The Administration economic assumptions adopted by the Troika in early December for the FY 1995 budget had lower inflation than in the economic assumptions used for the MSR and in the November overview.

- The assumption for GDP deflator inflation was lowered by 0.3 percentage point for 1993, 0.2 percentage point for both 1994 and 1995, and 0.1 percentage point for 1996.

- Lower inflation reduces the level of nominal GDP in the economic projection. This results in lower tax revenues. A decline in inflation also reduces inflation-sensitive outlays, but the reduction in outlays occurs with a lag relative to the decrease in tax revenues. As a result, the lower inflation in the Administration's economic assumptions generates a higher deficit projection.

- The inflation assumption change accounts for roughly 1/4 of the change in the deficit projection from the November estimates.

Lower Taxable Income

o The new "Black Box" detailed economic assumptions (produced by CEA and based on the Administration Troika economic assumptions for the major variables) had lower taxable income than used in earlier projections.

  - The November Budget Review used total taxable income shares rising from 76.5 percent of nominal GDP in 1994 to 77.2 percent in 1999 (based on the MSR Black Box detail). The new Black Box detail projects the total taxable income share declining from 76.4 percent in 1994 to 76.0 percent in 1999. Thus, by 1999, $106 billion of taxable income was "lost" due to the 1.2 percentage point weaker taxable income share.

  - More than half of the income "loss" results from the changes to "other labor income" from higher fringe benefits (to more accurately reflect the pre-health reform trend of health insurance costs). The remainder appears to have resulted primarily from lower shares for corporate profits and proprietors' income.

  - The change in income share assumptions accounted for roughly 3/4 of the change in the deficit projection from the November Review estimates.

  - The lower share for other labor income will permit proper estimates to be made for the effect of health care reform on health insurance costs.

CLOSE HOLD

TREASURY CLEARANCE SHEET

NO. 93-12874
Date ______

MEMORANDUM FOR: ☐ SECRETARY ☒ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Alicia H. Munnell, Assistant Secretary for Economic Policy

THROUGH: ______

SUBJECT: Revised Budget Deficit Estimates II

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
John Kitchen	JK	12/15	Office of Policy Analysis	622-1757
REVIEWERS				
J. Hambor	JCH	12/15	Acting Director, Policy Analysis	622-2350

SPECIAL INSTRUCTIONS

☐ Review Officer ______ Date ______ ☐ Executive Secretary ______ Date ______

DO F 80-02.1 (04/89)

DEPARTMENT OF THE TREASURY
WASHINGTON

179532

December 23, 1993

MEMORANDUM FOR SECRETARY BENTSEN AND DEPUTY SECRETARY ALTMAN

FROM: **MAURICE FOLEY,** mf **MICHAEL SCHULTZ, AND MARY HEATH**

THROUGH: **LES SAMUELS AND SAM SESSIONS**

SUBJECT: **FY 1995 Budget Issues: Intermediate Sanctions for Exempt Organizations and AMT Treatment of Section 212 Expenses**

SUMMARY:

This memorandum discusses two proposals -- one revenue raiser and the other a revenue loser -- that should be considered for inclusion in the FY 1995 budget: (1) a so-called "intermediate sanctions" proposal whereby an excise tax would be imposed on unreasonable compensation and bargain transfers provided to officers of charitable organizations and (2) a proposal to permit a deduction against the alternative minimum tax (AMT) for expenses incurred for the production of income.

Recent media reports and hearings held by the Ways and Means Oversight Subcommittee highlighted cases in which public charities had provided excessive compensation or other inappropriate benefits to officers or other "insiders." Through our work on this issue with the Internal Revenue Service (IRS) and the staff of the Oversight Subcommittee, we have developed a series of proposals that would deter the types of abuses that have generated concern, without affecting legitimate charitable activities. These proposals include new disclosure requirements and an excise tax on unreasonable compensation and bargain transfers provided to insiders. The latter is commonly called an "intermediate sanction" because it is a penalty which is less severe than a revocation of the organization's exemption. This proposal raises $65 million over 5 years.

The other proposal would permit partners to deduct expenses incurred for the production of income passed through from partnerships. There is White House and Capitol Hill (i.e., Sen. Moynihan and Rep. Rostenkowski) interest in this provision.

RECOMMENDATION:

We recommend that the proposed excise tax and disclosure requirements to improve compliance by public charities be included in the Administration's fiscal year 1995 budget as a revenue raiser or as a revenue raiser to pay for GATT. By proposing a balanced,

(18)

carefully-targeted approach, the Administration could take control over an issue that is attracting much Congressional attention.

Because we want to limit the number of revenue losing tax provisions in the budget (i.e., a limited number of expiring provisions) we recommend that you not include the proposal to allow a deduction of section 212 expenses for AMT purposes. If we propose to grant this tax relief, this proposal and its sponsors could attract undue media attention, particularly in view of the minimal number of tax proposals that are expected to be in the budget. Also, others (both inside and outside of the Administration) who are lobbying for additional revenue-losing tax proposals will ask why this provision is included and their proposal was not included in the budget.

DECISION:

____ I agree with the recommendation. Include the proposal to impose intermediate sanctions on officers of exempt organizations and do not include the AMT deduction for certain expenses.

____ Do not include the intermediate sanctions proposal but include the AMT proposal.

____ Do not include either proposal.

____ Let's discuss.

DISCUSSION:

I. Intermediate Sanctions

1. Background. As you know, section 501(c)(3) of the Internal Revenue Code (Code) exempts from tax organizations that are organized and operated for charitable purposes. An organization qualifies for exemption under section 501(c)(3) only if no part of its net earnings inures to the benefit of any private shareholder or individual. Under current law, revocation of an organization's tax exemption is the sole sanction available for violations of the inurement prohibition or other standards for exemption. The lack of a sanction short of revocation causes the IRS significant enforcement difficulties. Revocation of an exemption is a severe sanction that may be greatly disproportional to the violation in issue. Current law, however, may force the IRS to choose between revoking an organization's exemption or taking no enforcement action. The IRS has attempted to address these enforcement difficulties by using closing agreements in which an organization, to avoid a challenge to its exemption, might agree to remedy questionable transactions and refrain from engaging in similar transactions in the future. Closing agreements, however, are not an ideal tool. In particular, because each agreement results from separate negotiations with a particular organization, it is difficult to ensure consistent treatment of similar organizations.

Carefully-targeted "intermediate" sanctions short of revocation would improve the public's confidence in charitable organizations and in the tax system that exempts them from income tax. The vast majority of these organizations that do not misuse their resources may welcome appropriate new sanctions to prevent the tarnishing of their image by the abuses of a few organizations. In fact, INDEPENDENT SECTOR, an umbrella group that represents many of the nation's charities, has endorsed the concept of carefully-targeted sanctions in general, and an excise tax on unreasonable compensation and bargain transfers in particular.

Any new sanctions should be limited to clear misuses of resources. Unduly broad sanctions would inappropriately penalize worthy organizations. Therefore, we declined to endorse an early proposal by the Ways and Means Oversight Subcommittee staff to impose a broad excise tax on any inurement of the earnings of a public charity. Because the concept of inurement lacks a clear definition, we believe it is an inappropriate base for a new excise tax.

2. Treasury proposal. The Treasury proposal has two components: an excise tax and new disclosure rules.

Excise tax. As noted above, the proposed excise tax would be narrowly targeted at two types of clearly abusive transactions: unreasonable compensation and bargain transfers provided by a public charity to an officer or other insider. The tax would be imposed on the recipient of the "excess benefit," not on the charitable organization. The tax would follow a two-tier format modelled on the excise taxes that currently apply to private foundations. An initial tax would be imposed equal to 25 percent of the excess benefit. The recipient would then have an opportunity to repay the excess benefit to the charitable organization. If the recipient does not repay the excess benefit within a prescribed period, the recipient would be subject to a second, punitive tax in the range of 100 to 200 percent of the excess benefit. This two-tier format would encourage repayment of the excess benefit to preserve the resources available for accomplishing charitable purposes.

Almost all of the cases that have gained notoriety in media reports and the Subcommittee's hearings involved either unreasonable compensation or bargain transfers. Thus, our proposed excise tax would deter the abuses that have given rise to concern, but would otherwise allow public charities flexibility in furthering their charitable missions.

Disclosure requirements. The oversight of an informed public is an important means of preventing misuse of the resources of a public charity. Therefore, we have developed several new disclosure requirements that would improve the information available regarding public charities, and thus enable the public to better perform its important oversight function. First, a charitable organization would be required to disclose on its Form 990 any transactions subject to the excise tax described above, and any excise taxes imposed on excess lobbying or political expenditures. Second, a charitable organization would be required to provide a copy of its Form 990 on request. Current law requires only that the organization's Form 990 be available for inspection.

3. Implications for Health Care Reform. Our proposals for improved compliance by public charities have implications for health care reform. Some of the abusive cases cited in the media and the Subcommittee's hearings involve hospitals or other health care providers. Further, the significant restructuring of the health care market that is expected to result from health reform may present opportunities for insiders to divert to their own benefit the resources of tax-exempt health care providers. For this reason, Rep. Stark has expressed concern that the Administration's health care reform plan does not include intermediate sanctions on the misuse of resources by public charities. Because any appropriate new sanctions would apply to all public charities, not just health care organizations, the health care reform bill was viewed as an inappropriate vehicle for new sanctions. On the other hand, discussion of new enforcement measures will arise in the health care debate and it would be helpful to have a proposal on the table when the issue is raised by Mr. Stark and others.

II. Deduction of Section 212 Expenses for AMT Purposes

Section 212 of the Code allows individual taxpayers a deduction for expenses incurred or paid for the production of income. For regular tax purposes, these expenses are treated as miscellaneous itemized deductions, which are deductible only to the extent they exceed 2 percent of adjusted gross income of the taxpayer. For alternative minimum tax purposes, miscellaneous itemized deductions are not permitted deductions (i.e., they are added back to taxable income in computing alternative minimum taxable income), even if they exceed the 2 percent floor. Thus, for AMT purposes section 212 expenses are not deductible but the income, to which those expenses are attributable, is fully taxable.

Many believe that the current law treatment of section 212 expenses has the effect of imposing a gross income tax on investment earnings for taxpayers in an AMT position (note that this is true of deductions subject to the 2 percent floor in the regular tax, to the extent that the 2 percent floor is not exceeded). In addition, the current regime effectively increases the recently lowered tax rate on capital gain income under the targeted capital gains provision by taxing "gross" capital gain. (Note, however, that this will not become a practical problem for at least five years since the provision applies only to new investments held for at least five years.) In the Conference Report to OBRA '93, Congress directed Treasury to study whether the AMT disallowance of section 212 expenses provided a disincentive for long-term investment. Both Representative Rostenkowski and Senator Moynihan have expressed concern that the current law treatment of section 212 expense for alternative minimum tax purposes results in an incorrect measurement of economic income.

The venture capital industry has been lobbying for this provision, as it has significant impact on its members. Many venture capital firms operate in partnership form and their operating expenses are passed through to partners as section 212 expenses. Substantially all of the income the partners receive is capital gain income. Thus, these partners find themselves paying alternative minimum tax on capital gains without offset for expenses incurred in generating those gains.

The proposal would provide a deduction for AMT purposes of the distributive share of section 212 expenses of a partner. We believe that this proposal should not be included in the budget because we believe you should limit the number of revenue-losing tax provisions (i.e., a few of the expiring provisions). In addition, because the proposal would provide a deduction for partners and not all taxpayers, it could be viewed as a "rifle shot." It may stand out especially because of the small number of revenue provisions that are expected to be in the budget.

The White House is also interested in this proposal. Thus we wanted to bring this issue to your attention. If we do not include the proposal in the FY 1995 budget, we would be prepared to tell its proponents that we would not oppose it if it were proposed in Congress (i.e., if the proposal applied to all taxpayers, not just taxpayers who are partners).

who in the W.H. interested?
What would it cost to include it (in the next 5 yrs.)?

94-12-9782

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 28, 1993

MEMORANDUM FOR BOB RUBIN

FROM: **LLOYD BENTSEN** LB

SUBJECT: **FY 1995 BUDGET PROPOSALS – EXPIRING TAX PROVISIONS**

SUMMARY: The targeted jobs tax credit (TJTC), exclusion for employer-provided educational assistance, and the orphan drug tax credit expire on December 31, 1994. The R&E tax credit and the R&E 50-percent allocation rule expire mid-year in 1995. If the President wishes to propose the extension of some or all of these provisions, such proposals should be included in the FY 1995 budget submission to the Congress. This memorandum describes each of the expiring provisions and provides you with a recommendation regarding how long these provisions should be extended.

RECOMMENDATION: Because of revenue constraints and other factors set forth below, I recommend that the President propose a package consisting of either a (1) one year extension of the exclusion for employer-provided educational assistance and the orphan drug credit (**$491 million** over 5 years), with a commitment to study the R&E credit, 50-percent R&E allocation, and TJTC and to consider including a revised version of these provisions in the FY 1996 budget or (2) one year extension of all the expiring provisions (**$3.2 billion**).

Either of these two approaches would, as I believe we should, minimize the number of tax increases in the budget (which will be necessary to pay for extending the expiring provision under the pay-go rules). During an election year, both Democrats and Republicans are likely to oppose another round of tax increases particularly after the enactment of the 1993 Budget Act. It is also important to keep in mind that at some time next year we will have to propose ways to finance the GATT--Uruguay Round (approximately $11 billion over 5 years), Generalized System of Preferences ($2.7 billion), unemployment insurance extended benefits program ($3.3. billion), the dislocated workers program ($5 billion), and welfare reform ($20 billion). I would note that a package of <u>permanent</u> extensions of the expiring provisions would cost in excess of **$14 billion** over 5 years.

The first of the two alternatives I recommend excludes the R&E credit, 50-percent R&E allocation rule and TJTC. Since the R&E provisions expire in mid-1995, we could defer this issue and include both of these provisions in the FY 1996 budget. In addition, several proponents of the credit (<u>i.e.</u>, Senators Baucus and Danforth and Rep. Pickle) have proposed a number of modifications to the credit rules. We would like to evaluate these proposals before proposing to further extend the credit. In addition, the Department of Labor recently issued a report which indicates that the TJTC may be an ineffective and inefficient tax subsidy. Thus,

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to: ______________________

room: ________ date: ________

Department
of the Treasury

Office of the
Executive Secretary

Log + file

OK to autopen (LMB per Josh)
RAM
12/28/93

sent to WH
12/28

faxed to Sylvia 12/29

room 3413
phone 622-0064

the first alternative also excludes this credit. In 1994, we would review this credit with the Labor Department to determine if the credit should be restructured or allowed to expire.

The second alternative, which would extend all five of the expiring provisions for one year, would cost **$3.2 billion** over 5 years. This proposal would provide for the minimal possible extension of the expiring provisions in 1994 so as to ensure that the provisions would not have to be extended retroactively at some point in 1995.

DISCUSSION:

1. In General. The provisions expiring before the end of FY 1995 are as follows:

December 31, 1993	• Health insurance deduction for self-employed individuals
December 31, 1994	• Targeted jobs tax credit • Exclusion for employer-provided educational assistance • Orphan drug tax credit
June 30, 1995	• R&E tax credit
July 30, 1995	• R&E 50-percent allocation rule

The Administration's FY 1994 budget proposed permanent extensions of these provisions but the political support for permanent extension was tepid at best. The final 1993 deficit reduction bill included permanent extension of the low-income housing credit, the mortgage revenue bond program, small-issue industrial development bonds, and alternative minimum tax (AMT) relief for charitable contributions of appreciated property.

2. Specific Provisions

Health insurance deduction for self-employed individuals. The extension of this provision is included in the health care proposal. The proposal in the health care bill permanently extends and increases the deduction from 25 percent to 100 percent. This proposal loses **$9.8 billion** over 5 years.

TJTC. The TJTC provides a maximum credit of $2,400 per employee to employers that hire individuals who are recipients of payments under means-tested transfer programs, economically disadvantaged or disabled. The Labor Department is responsible for overseeing state programs to certify eligible recipients.

A recent study by Labor's Inspector General analyzed the effectiveness of the TJTC in Alabama. This study found that most of the workers hired by companies would have been hired without the credit. Many employers taking the credit do not know at the time a job offer is extended if the individual will qualify for the credit. In addition, some employers are reluctant to ask the questions necessary to determine eligibility because of privacy concerns and a fear of discrimination suits by applicants who do not receive job offers. Thus most of the work is delegated to TJTC consultants. The Inspector General is currently conducting a nationwide study, which is expected in June of 1994.

Despite these problems the TJTC has strong support on Capitol Hill (i.e., from Senators Boren and Baucus and Rep. Rangel). Because of the ongoing study and concerns recently raised by Labor's report we believe that a viable option is that an extension of the credit not be proposed at this time and that a study of the TJTC be undertaken during 1994. In addition, Labor is interested in developing tax incentives to encourage worker training, youth apprenticeships, etc. We also need time to determine if they are viable proposals and, if so, whether they should supplement or replace the TJTC.

A permanent extension loses **$1.3 billion** over 5 years and a one year extension loses **$307 million** over 5 years.

Employer-provided educational assistance. An employee may exclude the first $5,250 of educational assistance paid for or provided by the employer during the taxable year pursuant to an educational assistance program. The exclusion is not limited to job-related educational assistance, but does not apply to any education involving sports, games, or hobbies. A permanent extension loses **$2.5 billion** over 5 years and a one year extension loses **$467 million** over 5 years. Senator Moynihan is a strong supporter of this provision.

Orphan drug credit. The orphan drug credit is a 50% nonrefundable tax credit for expenses incurred in the testing of drugs for certain rare diseases. A rare disease is a disease that (1) affects less than 200,000 persons in the U.S. or (2) affects more than 200,000 persons but for which there is no reasonable expectation that businesses could recoup the costs of developing a drug for it from U.S. sales of the drug (e.g., Lou Gehrig's disease, Tourette's syndrome, etc.). Last year's budget did not include a proposal to extend this credit because this was considered a health care issue. The credit, however, was included in the final 1993 budget bill. The Administration's health care proposal does not propose to extend the credit. We, therefore, recommend that it be included in the budget. A permanent extension loses **$124 million** over 5 years and a one year extension loses **$24 million** over 5 years.

R&E credit. The President and I have consistently endorsed a permanent R&E credit. In the past, however, revenue constraints have forced Congress to settle for temporary extensions. The credit expires on June 30, 1995 (i.e., several months after the presentation of the FY 1996 budget). Consequently, we have to decide whether to include the extension in the FY 1995 or FY 1996 budget. If it is decided to defer extension to the FY 1996 budget, it would be appropriate to study a number of issues regarding the structure and efficacy of the credit during 1994. For example, many argue that the current method of computing the credit denies the credit to deserving businesses. The credit is available only for incremental research expenses in excess of a base amount. The base amount is determined based on data from the 1983-1988 period, and thus may not reflect the current circumstances of many businesses. Other issues have been raised by recent proposals involving enhanced incentives for collaborative research, and use of the credit to ease defense conversion by making the credit available to companies converting from high technology defense businesses to civilian businesses that may be relatively less research-intensive. These and other proposals were included in a bill introduced earlier this year by Senator Danforth.

In contrast to those who would enhance the credit and improve its incentive effects, others question whether any research credit is justifiable. In particular, Rep. Rostenkowski has long been skeptical of the efficacy of the credit. He was one of the proponents of the reduction in the credit from 25 to 20 percent of incremental research expenditures as part of the Tax Reform Act of 1986.

Finally, a long-term extension of the credit would be difficult to finance. Permanent extension of the credit loses **$7.6 billion** over 5 years. Thus, a permanent extension would require us to propose a package of significant revenue raisers. A one year extension would lose **$1.8 billion** over 5 years.

R&E allocation. In 1977, Treasury regulations were issued that required U.S. multinationals to allocate between foreign and domestic source income the amount of their research and experimentation expenses (the apportionment in general was according to the proportion of foreign and domestic sales or gross income). The effect of requiring U.S. multinationals to allocate some of their R&E deductions to foreign income, even though the R&E may have been entirely performed in the U.S., was to cause some U.S. multinationals to lose foreign tax credits. Viewing this result as undercutting the tax incentive for R&E, the Congress imposed a moratorium on the 1977 regulations, and has extended this moratorium nine times since 1977, the last time in OBRA '93. The OBRA '93 moratorium provision provided that 50 percent of R&E expense could be allocated to U.S. income before apportionment. It expires July 31, 1995. A permanent extension of the OBRA '93 moratorium would lose **$2.8 billion** over 5 years and a one-year extension would lose **$568 million** over 5 years.

Despite urging from the Congress to provide a 50 percent or better R&E allocation rule **by regulations** (which would spare the Congress the necessity of paying for an extension), our judgment (and that of the previous Administration) is that the Treasury lacks the statutory authority to provide a tax **incentive** for R&E by regulations. Our authority is limited to an allocation rule that matches R&E expenses with the income produced by those expenses. We therefore believe that a 50-percent (or higher percentage) rule must be accomplished by legislation. If the R&E credit is extended, we believe that the R&E allocation rule should also be extended. On the other hand, if the R&E credit extension is deferred to the FY 1996 budget we suggest that the R&E allocation rule also be deferred and studied during 1994.

Secretary Bentsen

Log & file

THE WHITE HOUSE

WASHINGTON

January 4, 1994

The attached document is background for tomorrow's NEC meeting, to be held from 5:00–6:00 p.m. in Room 248 of the OEOB.

This document contains some sensitive information and your careful handling is appreciated. Thank you.

Sylvia Mathews, NEC

Attachment

DEPARTMENT OF THE TREASURY
WASHINGTON

December 23, 1993

MEMORANDUM TO SECRETARY BENTSEN

FROM: LES SAMUELS, SAM SESSIONS AND MAURICE FOLEY

SUBJECT: ATTACHED MEMOS

Attached are two memos. The first is a draft memo on the expiring provisions from you to Bob Rubin. We would like to send this memo to Mr. Rubin next week. Note that the recommendation in the memo presents two options without indicating which one your prefer. Let us know if you disagree with this approach.

The second memo discusses two additional tax issues that should be considered for inclusion in the FY 1995 budget.

When you finish reviewing the memos please call Maurice with your comments. Les and Sam will be out of town. The Treasury operator (202) 622-1260 will be able to reach any of us at most times.

13

w/t for

D R A F T

December 23, 1993

MEMORANDUM FOR BOB RUBIN

FROM: LLOYD BENTSEN

SUBJECT: FY 1995 BUDGET PROPOSALS -- EXPIRING TAX PROVISIONS

SUMMARY: The targeted jobs tax credit (TJTC), exclusion for employer-provided educational assistance, and the orphan drug tax credit expire on December 31, 1994. The R&E tax credit and the R&E 50-percent allocation rule expire mid-year in 1995. If the President wishes to propose the extension of some or all of these provisions, such proposals should be included in the FY 1995 budget submission to the Congress in the spring. This memorandum describes each of the expiring provisions and provides you with a recommendation regarding how long these provisions should be extended.

RECOMMENDATION: Because of revenue constraints and other factors set forth below, I recommend that the President propose a package consisting of either a (1) one year extension of the exclusion for employer-provided educational assistance and the orphan drug credit (**$491 million** over 5 years), with a commitment to study the R&E credit, 50-percent R&E allocation, and TJTC and to consider including a revised version of these provisions in the FY 1996 budget or (2) one year extension of all the expiring provisions (**$3.2 billion**).

Either of these two approaches would, as I believe we should, minimize the number of tax increases in the budget (which will be necessary to pay for extending the expiring provision under the pay-go rules). During an election year, both Democrats and Republicans are likely to oppose another round of tax increases particularly after the enactment of the 1993 Budget Act. It is also important to keep in mind that at some time next year we will have to propose ways to finance the GATT--Uruguay Round (approximately $11 billion over 5 years), Generalized System of Preferences ($2.7 billion), unemployment insurance extended benefits program ($3.3 billion), the dislocated workers program ($5 billion), and welfare reform ($20 billion). I would note that a package of <u>permanent</u> extensions of the expiring provisions would cost in excess of $14 billion over 5 years.

The first of the two alternatives I recommend excludes the R&E credit, the 50-percent R&E allocation rule and the TJTC. Since R&E provisions expire in mid-1995, we could defer this issue and include both of these provisions in the FY 1996 budget. In addition, several proponents of the credit (<u>i.e.</u>, Senators Baucus and Danforth and Rep. Pickle) have proposed a number of modifications to the credit rules. We would like to evaluate these proposals before proposing to further extend the credit. The Department of Labor recently issued a report which indicates that the TJTC may be an ineffective and inefficient tax subsidy. Thus, the first alternative also excludes this credit. In 1994, we would review this credit with the Labor Department to determine if the credit should be restructured or allowed to expire.

The second alternative, which would extend all five of the expiring provisions for one year, would cost of **$3.2 billion** over 5 years. This proposal would provide for the minimal possible extension of the expiring provisions in 1994 so as to ensure that the provisions would not have to be extended retroactively at some point in 1995.

DISCUSSION:

1. In General. The provisions expiring before the end of FY 1995 are as follows:

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R&E credit. The President and I have consistently endorsed a permanent R&E credit. In the past, however, revenue constraints have forced Congress to settle for temporary extensions. The credit expires on June 30, 1995 (i.e., several months after the presentation of the FY 1996 budget). Consequently, we have to decide whether to include the extension in the FY 1995 or FY 1996 budget. If it is decided to defer extension to the FY 1996 budget, it would be appropriate to study a number of issues regarding the structure and efficacy of the credit during 1994. For example, many argue that the current method of computing the credit denies the credit to deserving businesses. The credit is available only for incremental research expenses in excess of a base amount. The base amount is determined based on data from the 1983-1988 period, and thus may not reflect the current circumstances of many businesses. Other issues have been raised by recent proposals involving enhanced incentives for collaborative research, and use of the credit to ease defense conversion by making the credit available to companies converting from high technology defense businesses to civilian businesses that may be relatively less research-intensive. These and other proposals were included in a bill introduced earlier this year by Senator Danforth.

In contrast to those who would enhance the credit and improve its incentive effects, others question whether any research credit is justifiable. In particular, Rep. Rostenkowski has long been skeptical of the efficacy of the credit. He was one of the proponents of the reduction in the credit from 25 to 20 percent of incremental research expenditures as part of the Tax Reform Act of 1986.

Finally, a long-term extension of the credit would be difficult to finance. Permanent extension of the credit loses **$7.6 billion** over 5 years. Thus, a permanent extension would require us to propose a package of significant revenue raisers. A one year extension would lose **$1.8 billion** over 5 years.

R&E allocation. In 1977, Treasury regulations were issued that required U.S. multinationals to allocate between foreign and domestic source income the amount of their research and experimentation expenses (the apportionment in general was according to the proportion of foreign and domestic sales or gross income). The effect of requiring U.S. multinationals to allocate some of their R&E deductions to foreign income, even though the R&E may have been entirely performed in the U.S., was to cause some U.S. multinationals to lose foreign tax credits. Viewing this result as undercutting the tax incentive for R&E, the Congress imposed a moratorium on the 1977 regulations, and has extended this moratorium nine times since 1977, the last time in OBRA '93. The OBRA '93 moratorium provision provided that 50 percent of R&E expense could be allocated to U.S. income before apportionment. It expires July 31, 1995. A permanent extension of the OBRA '93 moratorium would lose **$2.8 billion** over 5 years and a one-year extension would lose **$568 million** over 5 years.

Despite urging from the Congress to provide a 50 percent or better R&E allocation rule by regulations (which would spare the Congress the necessity of paying for an extension), our judgment (and that of the previous Administration) is that the Treasury lacks the statutory authority to provide a tax incentive for R&E by regulations. Our authority is limited to an allocation rule that matches R&E expenses with the income produced by those expenses. We therefore believe that a 50-percent (or higher percentage) rule must be accomplished by legislation. If the R&E credit is extended, we believe that the R&E allocation rule should also be extended. On the other hand, if the R&E credit extension is deferred to the FY 1996 budget we suggest that the R&E allocation rule also be deferred and studied during 1994.

DEPARTMENT OF THE TREASURY
WASHINGTON

December 23, 1993

MEMORANDUM FOR SECRETARY BENTSEN AND
DEPUTY SECRETARY ALTMAN

FROM: MAURICE FOLEY, MICHAEL SCHULTZ, AND MARY HEATH

THROUGH: LES SAMUELS AND SAM SESSIONS

SUBJECT: FY 1995 Budget Issues: Intermediate Sanctions for Exempt Organizations and AMT Treatment of Section 212 Expenses

SUMMARY:

This memorandum discusses two proposals -- one revenue raiser and the other a revenue loser -- that should be considered for inclusion in the FY 1995 budget: (1) a so-called "intermediate sanctions" proposal whereby an excise tax would be imposed on unreasonable compensation and bargain transfers provided to officers of charitable organizations and (2) a proposal to permit a deduction against the alternative minimum tax (AMT) for expenses incurred for the production of income.

Recent media reports and hearings held by the Ways and Means Oversight Subcommittee highlighted cases in which public charities had provided excessive compensation or other inappropriate benefits to officers or other "insiders." Through our work on this issue with the Internal Revenue Service (IRS) and the staff of the Oversight Subcommittee, we have developed a series of proposals that would deter the types of abuses that have generated concern, without affecting legitimate charitable activities. These proposals include new disclosure requirements and an excise tax on unreasonable compensation and bargain transfers provided to insiders. The latter is commonly called an "intermediate sanction" because it is a penalty which is less severe than a revocation of the organization's exemption. This proposal raises $65 million over 5 years.

The other proposal would permit partners to deduct expenses incurred for the production of income passed through from partnerships. There is White House and Capitol Hill (i.e., Sen. Moynihan and Rep. Rostenkowski) interest in this provision.

RECOMMENDATION:

We recommend that the proposed excise tax and disclosure requirements to improve compliance by public charities be included in the Administration's fiscal year 1995 budget as a revenue raiser or as a revenue raiser to pay for GATT. By proposing a balanced, carefully-targeted approach, the Administration could take control over an issue that is attracting much Congressional attention.

Because we want to limit the number of revenue losing tax provisions in the budget (i.e., a limited number of expiring provisions) we recommend that you not include the proposal to allow a deduction of section 212 expenses for AMT purposes. If we propose to grant this tax relief, this proposal and its sponsors could attract undue media attention, particularly in view of the minimal number of tax proposals that are expected to be in the budget. Also, others (both inside and outside of the Administration) who are lobbying for additional revenue-losing tax proposals will ask why this provision is included and their proposal was not included in the budget.

DECISION:

_____ I agree with the recommendation. Include the proposal to impose intermediate sanctions on officers of exempt organizations and do not include the AMT deduction for certain expenses.

_____ Do not include the intermediate sanctions proposal but include the AMT proposal.

_____ Do not include either proposal.

_____ Let's discuss.

DISCUSSION:

I. Intermediate Sanctions

1. Background. As you know, section 501(c)(3) of the Internal Revenue Code (Code) exempts from tax organizations that are organized and operated for charitable purposes. An organization qualifies for exemption under section 501(c)(3) only if no part of its net earnings inures to the benefit of any private shareholder or individual. Under current law, revocation of an organization's tax exemption is the sole sanction available for violations of the inurement prohibition or other standards for exemption. The lack of a sanction short of revocation causes the IRS significant enforcement difficulties. Revocation of an exemption is a severe sanction that may be greatly disproportional to the violation in issue. Current law, however, may force the IRS to choose between revoking an organization's exemption or taking no enforcement action. The IRS has attempted to address these enforcement difficulties by using closing agreements in which an organization, to avoid a challenge to its exemption, might agree to remedy questionable transactions and refrain from engaging in similar transactions in the future. Closing agreements, however, are not an ideal tool. In particular, because each agreement results from separate negotiations with a particular organization, it is difficult to ensure consistent treatment of similar organizations.

Carefully-targeted "intermediate" sanctions short of revocation would improve the public's confidence in charitable organizations and in the tax system that exempts them from income tax. The vast majority of these organizations that do not misuse their resources may welcome appropriate new sanctions to prevent the tarnishing of their image by the abuses of a few organizations. In fact, INDEPENDENT SECTOR, an umbrella group that represents many of the nation's charities, has endorsed the concept of carefully-targeted sanctions in general, and an excise tax on unreasonable compensation and bargain transfers in particular.

Any new sanctions should be limited to clear misuses of resources. Unduly broad sanctions would inappropriately penalize worthy organizations. Therefore, we declined to endorse an early proposal by the Ways and Means Oversight Subcommittee staff to impose a broad excise tax on any inurement of the earnings of a public charity. Because the concept of inurement lacks a clear definition, we believe it is an inappropriate base for a new excise tax.

2. Treasury proposal. The Treasury proposal has two components: an excise tax and new disclosure rules.

Excise tax. As noted above, the proposed excise tax would be narrowly targeted at two types of clearly abusive transactions: unreasonable compensation and bargain transfers provided by a public charity to an officer or other insider. The tax would be imposed on the recipient of the "excess benefit," not on the charitable organization. The tax would follow a two-tier format modelled on the excise taxes that currently apply to private foundations. An initial tax would be imposed equal to 25 percent of the excess benefit. The recipient would then have an opportunity to repay the excess benefit to the charitable organization. If the recipient does not repay the excess benefit within a prescribed period, the recipient would be subject to a second, punitive tax in the range of 100 to 200 percent of the excess benefit. This two-tier format would encourage repayment of the excess benefit to preserve the resources available for accomplishing charitable purposes.

Almost all of the cases that have gained notoriety in media reports and the Subcommittee's hearings involved either unreasonable compensation or bargain transfers. Thus, our proposed excise tax would deter the abuses that have given rise to concern, but would otherwise allow public charities flexibility in furthering their charitable missions.

Disclosure requirements. The oversight of an informed public is an important means of preventing misuse of the resources of a public charity. Therefore, we have developed several new disclosure requirements that would improve the information available regarding public charities, and thus enable the public to better perform its important oversight function. First, a charitable organization would be required to disclose on its Form 990 any transactions subject to the excise tax described above, and any excise taxes imposed on excess lobbying or political expenditures. Second, a charitable organization would be required to provide a copy of its Form 990 on request. Current law requires only that the organization's Form 990 be available for inspection.

3. Implications for Health Care Reform. Our proposals for improved compliance by public charities have implications for health care reform. Some of the abusive cases cited in the media and the Subcommittee's hearings involve hospitals or other health care providers. Further, the significant restructuring of the health care market that is expected to result from health reform may present opportunities for insiders to divert to their own benefit the resources of tax-exempt health care providers. For this reason, Rep. Stark has expressed concern that the Administration's health care reform plan does not include intermediate sanctions on the misuse of resources by public charities. Because any appropriate new sanctions would apply to all public charities, not just health care organizations, the health care reform bill was viewed as an inappropriate vehicle for new sanctions. On the other hand, discussion of new enforcement measures will arise in the health care debate and it would be helpful to have a proposal on the table when the issue is raised by Mr. Stark and others.

II. Deduction of Section 212 Expenses for AMT Purposes

Section 212 of the Code allows individual taxpayers a deduction for expenses incurred or paid for the production of income. For regular tax purposes, these expenses are treated as miscellaneous itemized deductions, which are deductible only to the extent they exceed 2 percent of adjusted gross income of the taxpayer. For alternative minimum tax purposes, miscellaneous itemized deductions are not permitted deductions (i.e., they are added back to taxable income in computing alternative minimum taxable income), even if they exceed the 2 percent floor. Thus, for AMT purposes section 212 expenses are not deductible but the income, to which those expenses are attributable, is fully taxable.

Many believe that the current law treatment of section 212 expenses has the effect of imposing a gross income tax on investment earnings for taxpayers in an AMT position (note that this is true of deductions subject to the 2 percent floor in the regular tax, to the extent that the 2 percent floor is not exceeded). In addition, the current regime effectively increases the recently lowered tax rate on capital gain income under the targeted capital gains provision by taxing "gross" capital gain. (Note, however, that this will not become a practical problem for at least five years since the provision applies only to new investments held for at least five years.) In the Conference Report to OBRA '93, Congress directed Treasury to study whether the AMT disallowance of section 212 expenses provided a disincentive for long-term investment. Both Representative Rostenkowski and Senator Moynihan have expressed concern that the current law treatment of section 212 expense for alternative minimum tax purposes results in an incorrect measurement of economic income.

The venture capital industry has been lobbying for this provision, as it has significant impact on its members. Many venture capital firms operate in partnership form and their operating expenses are passed through to partners as section 212 expenses. Substantially all of the income the partners receive is capital gain income. Thus, these partners find themselves paying alternative minimum tax on capital gains without offset for expenses incurred in generating those gains.

The proposal would provide a deduction for AMT purposes of the distributive share of section 212 expenses of a partner. We believe that this proposal should not be included in the budget because we believe you should limit the number of revenue-losing tax provisions (i.e., a few of the expiring provisions). In addition, because the proposal would provide a deduction for partners and not all taxpayers, it could be viewed as a "rifle shot." It may stand out especially because of the small number of revenue provisions that are expected to be in the budget.

The White House is also interested in this proposal. Thus we wanted to bring this issue to your attention. If we do not include the proposal in the FY 1995 budget, we would be prepared to tell its proponents that we would not oppose it if it were proposed in Congress (i.e., if the proposal applied to all taxpayers, not just taxpayers who are partners).

95-141902

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

INFORMATION

January 24, 1994

MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY NEWMAN

FROM: Alicia Munnell

SUBJECT: Budget Numbers for the Second Five Years

Contrary to what I reported to you from earlier conversations with OMB, the Budget will include a minor reference to the budget outlook in the second five years (see attached). This has two implications; first, procedural, second substantive.

Procedurally, Frank was concerned about the lack of Troika-1 review of the second-five year forecast. If we had known that OMB was going to use these numbers, we might have come to a different decision. I personally, however, would have continued to argue that it was unnecessary given the constraints on the range of estimates.

Substantively, the projections after the year 2000 are incredibly good. The OMB deficit amounts to only 1.6 percent of GDP in the year 2005. This will stand in sharp contrast to CBO's current services projection of 3.6 percent in 2005 or even to its baseline with a freeze on discretionary spending after 1998 of 2.1 percent (our forecast does <u>not</u> include a permanent freeze).

<u>If anyone were to ask my view, I would argue against including the second five-year numbers. They simply look too good and put us in the position where we can be charged with issuing Rosy Scenarios. It also gives the false impression that it would be quite easy to achieve a balanced budget by the year 2002.</u>

cc: Alan Cohen

EXECUTIVE SECRETARIAT

As a result, Medicare and Medicaid will have risen from 3.4 percent of GDP in the fiscal year just ended to 4.1 percent by the year 2000, and by 2005, they will have reached 4.9 percent of GDP.

These programs' growth continues to be one of the main reasons why deficits remain as high as they do throughout these budget projections. The growth in all Federal health programs, of which Medicare and Medicaid are far and away the largest, accounts for almost 40 percent of the total increase in Federal outlays between now and the year 2000, and is the single most important factor pushing the budget deficit upward.

Some increase in Federal health care expenditures is unavoidable without universal health insurance coverage through health reform. The number of people participating in the Federal health programs is expected to increase. This expansion brings insurance protection to some of our most vulnerable citizens. The Medicaid population is expected to grow at an average annual rate of 3.8 percent between now and the year 2000.

However, this expansion makes up a relatively small part of the increase in total Federal spending for Medicare and Medicaid; it could be accommodated without undue pressure on the deficit. The main reason that the fiscal impact of these programs is so problematic is that health care costs per beneficiary keep rising faster than inflation -- indeed, faster than inflation plus the general increase in real per capita GDP.

To see the difference Federal spending for Medicare and Medicaid makes, it is helpful to compute what the deficit would be if health care costs did not rise disproportionately. The chart above assumes that Medicare and Medicaid costs continue to rise to accommodate the increase in the beneficiary population, but that per capita costs increase with the general rate of inflation and the rise in per capita output, rather than the higher current rate of increase. Under these assumptions, the deficit would be driven to zero. It is unrealistic to anticipate such a change in health care spending given the long history of rapid growth, but it is helpful to pinpoint the real problem with the continuing large Federal deficit.

The budget window officially closes in 2000, and detailed budget projections beyond that point are not available. However, if the policy proposals in this budget are enacted, the improvement in the deficit should be preserved for at least the next ten years. Looking beyond the year 2000, we anticipate rough stability in the dollar amount of the deficit through the year 2005. As a share of GDP, however, the deficit is likely to continue its gradual decline, falling below 2 percent early in the next century.

NEW CHART -- THE BUDGET DEFICIT AS A PERCENT OF GDP OVER TEN YEARS, AND UNDER AN ALTERNATIVE HEALTH SPENDING ASSUMPTION WHEREIN MEDICARE AND MEDICAID INCREASE ONLY WITH GROWTH IN THE BENEFICIARY POPULATION, PRODUCTIVITY, AND GENERAL INFLATION.

Chart 2-9. FEDERAL BUDGET DEFICIT

PERCENT OF GDP

	CURRENT POLICY	HEALTH CARE COSTS
1993	4.1	4.1
1994	3.1	3.1
1995	2.7	2.5
1996	2.7	2.2
1997	2.7	2.1
1998	2.4	1.5
1999	2.3	1.2
2000	2.1	0.8
2001	2.0	0.5
2002	1.9	0.2
2003	1.8	-0.2
2004	1.7	-0.5
2005	1.6	-0.9

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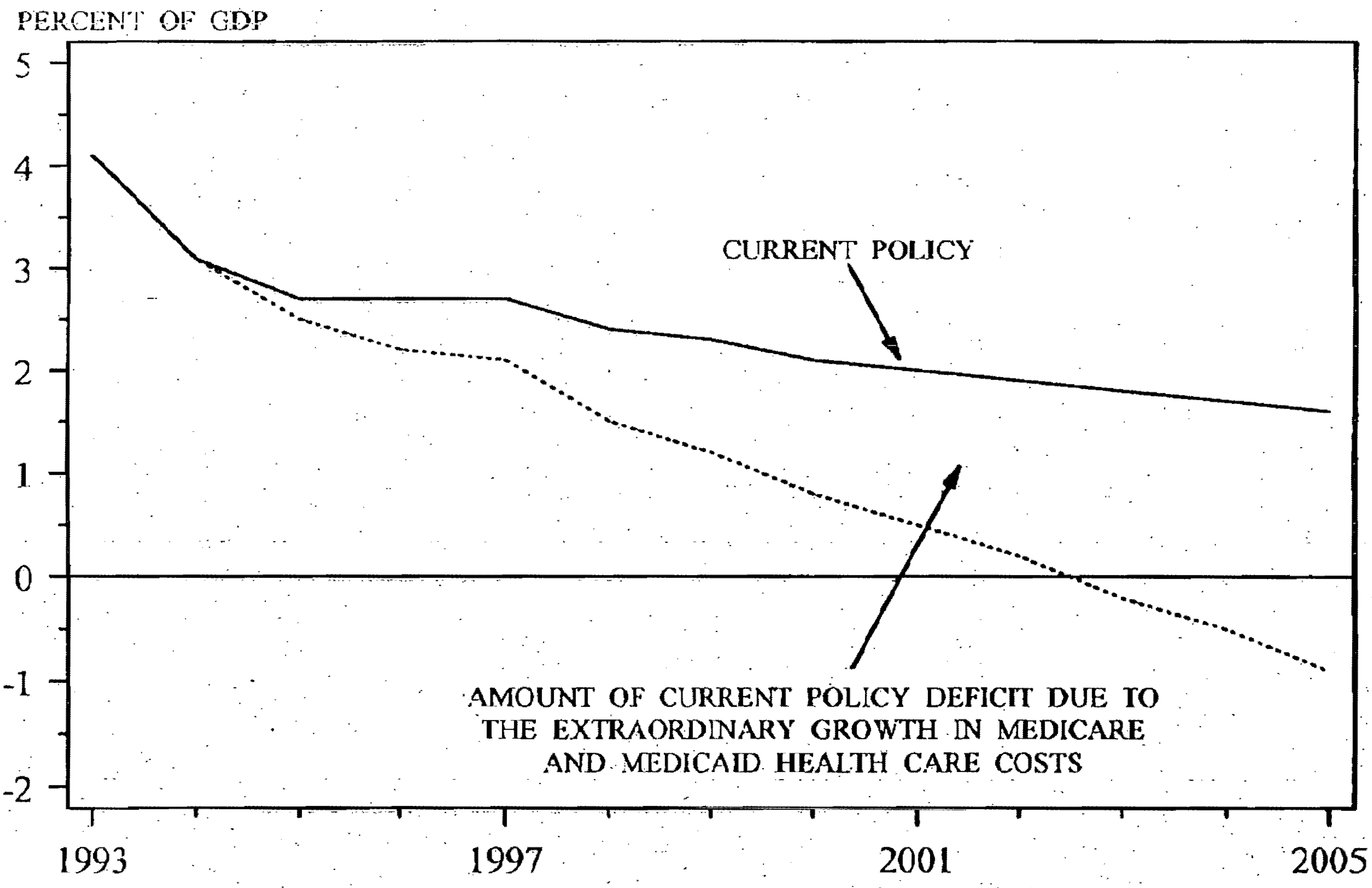
Chart 2-9. FEDERAL BUDGET DEFICIT



ref. 95BUDGET.CHAP2-9

TREASURY CLEARANCE SHEET

NO. 95-141962
Date 1/24/95

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: Alicia Munnell
THROUGH:
SUBJECT: Budget Numbers for the Second Five Years

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
  ☐ Domestic Finance
  ☐ Economic Policy
  ☐ Fiscal
    ☐ FMS
    ☐ Public Debt

☐ Under Secretary for International Affairs
  ☐ International Affairs

☐ Enforcement
  ☐ ATF
  ☐ Customs
  ☐ FLETC
  ☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
  ☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
  ☐ E & P
  ☐ Mint
  ☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Alicia Munnell		1/24/95	Economic Policy	622-2200
REVIEWERS				

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

94-139950

ACTION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SSISTANT SECRETARY

November 22, 1994

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Alicia H. Munnell
Assistant Secretary for Economic Policy

SUBJECT: Economic Assumptions Underlying the 1996 Budget

Summary:

The attached memorandum from T-2 to T-1 resolves our earlier concerns in a very satisfactory manner. Only one issue -- the assumed path for the 3-month Treasury bill -- remains to be resolved by T-1.

Discussion:

We obtained the following concessions at the T-2 level. T-2 chose a soft landing alternative (2.3 percent real growth during 1995 and 2.6 percent during 1996) rather than CEA's growth recession. The unemployment rate stays near 5.8 percent rather than rising above 6 percent during 1996 as it did along the CEA path. Along the CEA path, there had been a 1/2 percent reduction in the level of real GDP by the end of 1996 which was never recouped. We restored that loss which amounts to keeping the potential growth rate at 2-1/2 percent as assumed in the Mid-Session.

The remaining issue is the path for the 3-month bill. CEA wants to build in another 50-basis point tightening in the middle of the first quarter. My choice is to hold the bill yield at 5-1/2 percent. In this way, we do not give advance sanction in the Budget and Economic Report for another move by the Fed. Given their preference for inflation control over growth, they need no encouragement from us. Also, the tightening already in the pipeline may be sufficient to slow the economy. Evidence is not yet visible but could begin to appear.

The contrary argument for a higher path is that markets are already building in such an increase. This is true but markets may be getting ahead of themselves. Also, our own forecast is not a rosy scenario. Our 3-month bill rate next year is about the same as the November Blue Chip and we have a roughly similar 10-year yield throughout the forecast period.

_________ Agree _________ Disagree _________ Let's Discuss

Attachment

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

*** CLOSE HOLD ***

November 23, 1994

MEMORANDUM FOR TROIKA-1: LLOYD BENTSEN, Treasury
LAURA TYSON, CEA
ALICE RIVLIN, OMB

FROM TROIKA-2: MARTIN BAILY, CEA M.N.B.
JOE MINARIK, OMB
ALICIA MUNNELL, Treasury

SUBJECT: Economic Assumption Forecasts for the 1996 Budget

An integral part of the current budget review involves an update of the Administration's economic outlook for the remainder of the decade. Economic events since our Mid-Session Review forecast (made in May, published in July) have turned out to be somewhat different from what we envisioned at that time. Therefore, T2 recommends several changes to bring the forecast in line with market expectations and our own outlook for the future. Specifically, we recommend (see Table 1):

- A moderate softening of output growth relative to the momentum of the second half of 1994 toward a sustainable path consistent with stable rates of inflation.
- Technical revisions to the inflation forecasts made in the Mid-Session Review.
- Interest rate forecasts that reflect the economic growth we experience during the second half of 1994 and a more traditional view of the spread between real short and long-term yields.
- A lower level of the NAIRU based on a better understanding of the recent revisions to the household survey of unemployment.

One area of consideration among TROIKA-2 members centers on their desirability of including an additional Federal Reserve rate increase in 1995.

CURRENT TRENDS & THE OUTLOOK FOR 2000

Perhaps the best word to describe the macroeconomy during 1994 is <u>resilient.</u> In the face of rising interest rates and a widening trade deficit the economy showed remarkable momentum. Based on our estimates, the gap between potential output and real GDP closed during the second half of 1994. Fortunately, this was accomplished without a noticeable increase in inflation. Nevertheless, the economy necesssarily will slow down soon, or else inflation will begin to creep upwards.

<u>Real Growth</u>

Our best estimates put real GDP growth in the second half of 1994 at an annual rate of 3.3 percent. Consistently strong spending on consumer durables, a buildup in inventories, and robust business spending on capital equipment have offset declining Federal purchases and increases in the trade deficit. The only sector which appears to be showing signs of slowing due to higher interest rates is residential investment.

Our forecast sees fourth-quarter real GDP growth of about 3-1/4 percent, with momentum carrying over into the first quarter of 1995. By late Spring the economy will slow moderately toward its potential output path. Thus, while we still foresee the soft landing of the Mid-Session Review, we have changed the timing so that real output grows by 2.3 percent in 1995, picks up slightly in 1996, and settles in on a path consistent with stable inflation of about 2.5 percent annually for the remainder of the decade (see Table 1).

<u>Employment</u>

The unemployment rate dipped to 5.8 percent in October and is likely to fall a little farther in the coming months as initial reports for November indicate continued strength in payroll employment. The current rate is near the lower end of the range of reasonable estimates for the NAIRU. While there is a range within which the economy can grow without an increase in inflation, the lower the unemployment rate falls, the less likely it becomes that the economy can achieve a "soft landing" onto its potential output path.

Our forecast for the unemployment rate includes some slight improvement early in 1995 in response to the recent growth momentum, but ends the year at about 6.0 percent due to the slowing which occurs in the middle of 1995. According to our projections, the unemployment rate should average 5.8 percent in 1995, rise slightly to an average of 5.9 in 1996, and settle on a level of about 5.8 percent for the remainder of the decade.

Inflation & Productivity

The investment-led expansion of the past 20 months seems to have allowed the economy to operate without inflation despite current estimates of capacity utilization of about 85 percent. While raw materials prices (excluding food and energy) have increased somewhat, these increases have not shown up at the consumer level at this time. Furthermore, unit labor costs have shown very little increase in the face of sharp gains in employment. Most measures of inflation are currently running at or below 3 percent, and have consistently done so throughout 1994. In short, inflation is just not a problem in 1994.

The primary difference between our current outlook for inflation and that contained in the Mid-Session Review reflects technical revision to the CPI due to take place over the forecast horizon. The BLS is scheduled to make some modest modifications to the CPI at the beginning of 1995 which should reduce estimates of inflation by about 0.1 percentage point. Then, in 1998, the CPI is scheduled for a rebenchmarking of the market basket, which is expected to reduce reported inflation by an estimated 0.3 percentage point. Offsetting these declines is a modest uptick in inflation early in 1995 due to some tightening of labor markets and the introduction of reformulated gasoline in compliance with new environmental regulations.

Interest Rates

The Fed began raising short-term interest rates in February 1994, and since that time has increased the target rate on Fed funds by 250 basis points. Short-term interest rates are forecast to rise early in 1995 in response to another round of Fed tightening. The Fed is then assumed to reverse the tightening at the end of the year, returning monetary policy to a more neutral stance. (Treasury TROIKA 2 dissents from this assumption.)

Long-term interest rates are forecast to fall by roughly 100 basis points over the forecast horizon as the inflation premium built into current long-term rates wears off. This forecast is consistent with the soft-landing scenario described above and the belief that the spread between long and short-term real rates should return to historical norms after a sustained period of stable inflation.

Policy Assumptions

Fiscal Policy. The results of the November 1994 election created considerable uncertainty about the stance of fiscal policy over the next several years. We have assumed no change in current fiscal policy over the forecast horizon. The "pay-go" provisions of OBRA93 are assumed to be maintained and the current rules for scoring discretionary spending caps are expected to be followed. We assume also that the GATT trade agreement will be passed by Congress.

Monetary Policy. A further 50 basis-point increase in short-term interest rates, in addition to the 75 basis point hike of November 15, 1994, is assumed to occur during the first quarter of 1995. The Fed then maintains a 6.0 percent target rate on Federal funds for the next two quarters. At the end of 1995, the Fed is assumed to reduce its target by 50 basis points in order to bring the economy back to potential in 1996 and return monetary policy to a more neutral stance. The Treasury representative to the Troika has dissented from this view.

Risk to the Forecast

One alternative scenario, which is gaining popularity among forecasters [and the Fed staff], is a "mini-cycle" forecast. In this scenario, GDP growth slows more sharply in 1995, pushing the unemployment rate higher than in our proposed forecast. In part, this slower growth outcome would be because consumers slow their purchases of autos and other durables and businesses cut back on the growth of investment spending. These would both be normal responses in a maturing expansion. In addition, real long-term interest rates are already high and the Fed is expected to raise short-term rates again.

SPECIAL ISSUES

NAIRU Estimate

Based on studies carried out in the Treasury and CEA, T2 believes that 5.8 is a reasonable point estimate for the NAIRU, together with an annual growth rate for potential output in the range of 2.4 to 2.5 percent. We recommend that publicly we refer to the NAIRU only in terms of a range.

Forecasting Interest Rates

T2 chose not to follow the "random walk" rule for forecasting interest rates used for the Mid-Session Review. Real longer-term interest rates today are quite high and are not consistent with the growth of the economy along its potential path. Moreover, assuming a continuation of such high real rates would result in an unreasonably high debt burden in our budget forecasts. Thus, T2 decided to build some decline in real rates into our forecast, and hence we rejected the assumption of no change in nominal rates (the assumption used in the Mid-Session Review).

Monetary Policy in 1995

We all agreed that the likely continuation of strong real growth in the fourth quarter of 1994 and the first quarter of 1995 will lead the Federal Reserve to make another interest rate hike early in 1995. Given the uncertainty, however, the question remains as to the desirability of including a projected rate hike in our forecast scenario. The Treasury representative to the Troika judged that by incorporating the rate hike, we could be seen as endorsing it, a position that we do not wish to take. The CEA and OMB representatives argued that since the rate increase was likely to occur, including it would be more accurate and would ease our communications task later.

Ten-Year Forecast

In order to meet the needs of long-term budget projections, T2 is preparing a ten-year forecast of the economy.

Table 1
1995 Proposed Administration Forecasts
Annual Detail

	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP, 4Q/4Q growth (%)	3.1							
CBO Summer (Aug)...............		3.6	2.7	2.2	2.1	2.1	2.3	NA
Blue Chip (Nov)................		3.4	2.5	NA	NA	NA	NA	NA
Mid-Session Review (July)......		3.0	2.7	2.6	2.5	2.5	2.5	2.5
T2 Forecast....................		**3.5**	**2.3**	**2.6**	**2.5**	**2.5**	**2.5**	**2.5**
Difference from MSR............		+0.5	-0.4	0.0	0.0	0.0	0.0	0.0
Real GDP, year/year growth (%)	3.1							
CBO Summer (Aug)...............		4.0	3.0	2.4	2.1	2.1	2.2	NA
Blue Chip (Nov/Oct)[1]............		3.8	2.7	2.2	2.2	2.3	2.6	2.4
Mid-Session Review (July)......		3.6	2.8	2.6	2.5	2.5	2.5	2.5
T2 Forecast....................		**3.9**	**2.7**	**2.4**	**2.5**	**2.5**	**2.5**	**2.5**
Difference from MSR............		+0.3	-0.1	-0.2	0.0	0.0	0.0	0.0
GDP Deflator, 4Q/4Q growth (%)	1.8							
CBO Summer (Aug)...............		2.5	2.5	2.7	2.7	2.7	2.7	NA
Blue Chip (Nov)................		2.6	3.1	NA	NA	NA	NA	NA
Mid-Session Review (July)......		2.7	2.8	2.9	3.0	3.0	3.0	3.0
T2 Forecast....................		**2.6**	**2.9**	**2.9**	**3.0**	**3.0**	**3.0**	**3.0**
Difference from MSR............		-0.1	+0.1	0.0	0.0	0.0	0.0	0.0
GDP Deflator, year/year growth (%)	2.2							
CBO Summer (Aug)...............		2.2	2.5	2.6	2.7	2.7	2.7	NA
Blue Chip (Nov/Oct)............		2.2	2.9	3.3	3.3	3.1	3.1	3.0
Mid-Session Review (July)......		2.3	2.8	2.9	3.0	3.0	3.0	3.0
T2 Forecast....................		**2.1**	**2.7**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Difference from MSR............		-0.2	-0.1	+0.1	0.0	0.0	0.0	0.0
CPI-U, 4Q/4Q growth (%)	2.7							
CBO Summer (Aug)...............		2.8	3.2	3.3	3.4	3.4	3.4	NA
Blue Chip (Nov/Oct)............		2.9	3.6	NA	NA	NA	NA	NA
Mid-Session Review (July)......		2.9	3.2	3.3	3.4	3.4	3.4	3.4
T2 Forecast....................		**2.8**	**3.3**	**3.2**	**3.2**	**3.2**	**3.1**	**3.1**
Difference from MSR............		-0.1	+0.1	-0.1	-0.2	-0.2	-0.3	-0.3
CPI-U, year/year growth (%)	3.0							
CBO Summer (Aug)...............		2.6	3.1	3.3	3.4	3.4	3.4	NA
Blue Chip (Nov/Oct)............		2.7	3.4	3.7	3.7	3.6	3.5	3.4
Mid-Session Review (July)......		2.7	3.2	3.3	3.4	3.4	3.4	3.4
T2 Forecast....................		**2.6**	**3.2**	**3.2**	**3.2**	**3.2**	**3.1**	**3.1**
Difference from MSR............		-0.1	0.0	-0.1	-0.2	-0.2	-0.3	-0.3

Table 1, continued
1995 Proposed Administration Forecasts

Annual Detail

	1993	1994	1995	1996	1997	1998	1999	2000
Civilian Unemployment Rate (%)[2]	6.8							
CBO Summer (Aug)...............		6.2	5.8	5.9	6.0	6.1	6.1	NA
Blue Chip (Nov/Oct)............		6.2	5.9	6.0	6.2	6.3	6.2	6.1
Mid-Session Review (July)......		6.3	6.2	6.1	6.1	6.1	6.1	6.1
T2 Forecast....................		**6.1**	**5.8**	**5.9**	**5.8**	**5.8**	**5.8**	**5.8**
Difference from MSR............		-0.2	-0.4	-0.2	-0.3	-0.3	-0.3	-0.3
Three-month T-bill	3.00							
CBO Summer (Aug)...............		4.10	5.50	5.10	4.90	4.90	4.90	NA
Blue Chip (Nov/Oct)............		4.20	5.60	5.40	5.20	4.90	4.90	5.00
Mid-Session Review (July)......		4.00	4.66	4.80	4.80	4.80	4.80	4.80
T2 Forecast....................		**4.21**	**5.88**	**5.50**	**5.50**	**5.50**	**5.50**	**5.50**
Difference from MSR............		+0.21	+1.22	+0.70	+0.70	+0.70	+0.70	+0.70
Ten-year T-note	5.87							
CBO Summer (Aug)...............		6.80	6.80	6.50	6.50	6.50	6.50	NA
Blue Chip (Nov/Oct)[3]............		7.38	7.95	7.66	7.38	7.18	7.18	7.18
Mid-Session Review (July)......		6.84	7.10	7.10	7.10	7.10	7.10	7.10
T2 Forecast....................		**7.10**	**7.90**	**7.25**	**7.00**	**7.00**	**7.00**	**7.00**
Difference from MSR............		+0.26	+0.80	+0.15	-0.10	-0.10	-0.10	-0.10

[1] Blue Chip forecasts for 1994 and 1995 are from the monthly update for November; forecasts for 1996 and beyond are from a special issue published in October.
[2] 1993 unemployment figures are on the old CPS basis; following years are on the new basis.
[3] A Blue Chip forecast for the 10-year rate has been constructed from Blue Chip the forecast of the corporate bond yield.

TREASURY CLEARANCE SHEET

NO. ______
Date 11/22/94

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Alicia H. Munnell
THROUGH: ______
SUBJECT: Economic Assumptions Underlying the 1996 Budget

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☐ Under Secretary for Finance
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☐ Fiscal
☐ FMS
☐ Public Debt

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Brad De Long	mb	11/22/94	Economic Policy	2-0563

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TREASURY CLEARANCE SHEET

NO. 94-139 850
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MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
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SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date