April 28, 1999

Memorandum to: Secretary Rubin
Deputy Secretary Summers

From: Alan Cohen
Linda Robertson
David Wilcox

Subject: Yesterday's Social Security Meeting

There was a Social Security meeting in Gene's office yesterday. The goal of the meeting was to prepare for the meeting with the President, which is scheduled to occur sometime this week.

A draft paper for the President was handed out. However, relatively little attention was given to discussing it; instead, most of the time was spent discussing how to respond to the Archer-Shaw bill when it comes out. We will send you a separate summary of the paper.

Some time in the meeting was spent discussing the fact that apparently Jake Schlesinger has obtained some information about the draft paper and agenda for the POTUS meeting (perhaps from a version circulated last week); interestingly, however, Jake didn't run the story in today's paper.

The remainder of this memo will summarize other issues that were raised during the meeting.

Jack Lew made a point early in the meeting that if we are going to come down to some grand showdown at the end of the year on taxes, discretionary, Social Security etc., then we cannot wait until that time to begin trying to work out a Social Security negotiation. Rather, he suggested that we must begin no later than August.

With regard to our response to the Archer-Shaw bill, Ken Apfel strongly urged that we hit the plan hard when it comes out. He is worried that even with the 100% clawback, the bill will lead us down the slippery slope to privatization. Jack Lew, Larry Stein, and Gene expressed concerns that if we came out really hard against the bill, then we would doom any chances at all for Social Security reform this year. Gene argued that the bill moves toward the center to some degree by utilizing general revenue transfers and by allocating almost all of the benefits from equities to the existing Social Security program. Stomping on the bill would be seen by the press and by some Republicans as evidence that we really weren't interested in a bipartisan compromise on Social Security this year. Larry Stein acknowledged that taking a less-than-harsh view of the bill would open us up to criticism and suspicion from Democrats, but he felt that we had no choice. Ken Apfel cited such reaction from Democrats as reasons why we should take a hard line. Larry Stein later suggested that we should say we are appreciative of the efforts of Archer and Shaw, and then list some criticisms in a frank but not overstated tone.

As the discussion proceeded, it became clear that the Archer-Shaw bill would be hit from many different parties and attacked on many different grounds, including double-counting. Clearly, the bill will take heavy fire from sources other than the Administration once it is unveiled. Larry Stein then suggested, "why do we have to be the bad guys in attacking it. Let's let others do that job for us, at least initially." Alan suggested that when the bill comes out, we should say something nice about the effort and then say that it will take us a week (or some other time period) to fully analyze the plan. In the interim, the bill may take huge hits from other sources so that any criticism we make of the plan may not be seen as that big a deal once we finally issue it.

This issue was not resolved. There was a presumption that it would be discussed at the meeting with the President. It was not clear how we would proceed if the plan were announced prior to the meeting with the President.

There was a good deal of discussion about the possibility that we may have to make another move before a real process could begin. Much of the attention here focused on how we could make a "non-move move" -- i.e., one that might consist more of process than substance. Recasting our original plan in a world in which the on-budget is targeted to be in balance might fit into this category, although there is a question as to whether we should try to get anything for that in return. (Not clear on the exact logic here; if we want to be seen as <u>for</u> this move, it would seem difficult to demand something else as the price for our acquiescence.)

Gene suggested that at the end of the meeting with the President, we raise questions about what our next active steps would be. This was felt to be a good idea.

Summary of the Current Paper on Social Security

1. What could we settle for -- short of a comprehensive Social Security deal -- and still declare victory?

a. debt reduction only (i.e., ensuring that Social Security surpluses are used to pay down debt held by the public)?
b. debt reduction together with general revenue transfers into Medicare?
c. debt reduction together with general revenue transfers to Social Security. The general revenue options could be recast so that we are maintaining balance in the on-budget side of the budget. Several options were depicted here including one option in which the general revenue transfer to Social Security is *independent* of "saving the off-budget surpluses for debt reduction."

2. Provides an illustrative stand-alone Social Security plan in the spirit of the SOTU [i.e., with specific candidate "real" reforms identified, but with no consideration of whether this plan would fit in an overall budgetary framework].

3. Plans that combine reform of traditional social security with establishment of progressive individual accounts.

a. Combine SOTU plan outlined in #2 with small individual accounts (possibly similar to USAs).
b. Have trust fund mimic the investment choices made by individuals in their IAs.

4. Feldstein-type plans

a. Feldstein's plan with a 75 percent clawback
b. Archer/Shaw plan with a 100 percent clawback

1999-SE-012373

DEPARTMENT OF THE TREASURY
Washington

November 12, 1999

NOTE TO DEPUTY SECRETARY EIZENSTAT

FROM: David W. Wilcox DW
Douglas Elmendorf DE

We have attached three pieces of information about budget issues:

1. An open letter from the Republican leadership about not raiding Social Security in the FY 2000 budget.

2. Talking points provided to the Secretary for his recent testimony.

3. Excerpts from talking points provided to the Secretary before his *Time* magazine interview.

Congress of the United States
Washington, DC 20515

November 8, 1999

Dear Colleague:

Many of you are asking when we expect the budget negotiations to be completed. We expect budget negotiations to be complete when we have a balanced budget that doesn't raid Social Security, doesn't raise taxes and pays down the debt for the third year in a row.

Earlier this year our conference committed to stop the 30-year raid on Social Security -- and according to the Congressional Budget Office, we have done that. The President began the budget negotiations by taking a large step our way and joining us in our commitment to lock away every penny of Social Security. We're working with him in a bipartisan fashion to protect retirement security.

The key to the whole puzzle is protecting Social Security and paying down debt. We will not schedule any piece of legislation on the House floor that spends one penny of Social Security. That said, we expect to adjourn for the year when we've ensured that every penny of Social Security is locked away.

If you have any questions, please feel free to contact us personally.

Sincerely,

J. Dennis Hastert
Speaker of the House

Dick Armey
Majority Leader

Tom DeLay
Majority Whip

J.C. Watts
Conference Chairman

SECRETARY SUMMERS'S TESTIMONY
WAYS AND MEANS COMMITTEE, TUESDAY, NOVEMBER 9

"RAIDING" SOCIAL SECURITY?

- No definitive judgement is possible at this time, because work still continues on appropriations bills for FY 2000, on tax extenders, and on adjustments to the BBA Medicare provisions.

- OMB projected that the President's Mid-Session Review budget proposal would have resulted in on-budget balance in FY 2000. All of the spending increases and new tax incentives in our proposal were paid for with offsets. CBO, reviewing the MSR proposal, projected a small deficit. But differences between the estimates were small and technical, and we believe the OMB estimate is more accurate.

- Moreover the President has advocated paying for any tax extenders, BBA revisions, and extra discretionary spending.

- CBO Director Crippen has stated that, under CBO's preferred scoring assumptions, the appropriations bills (without tax extenders or BBA givebacks) would use $17 billion of the Social Security surplus in FY 2000.

GAO EVALUATION OF ADMINISTRATION PROPOSAL

- GAO is releasing an evaluation of several Social Security reform proposals, including the Administration's. GAO Comptroller General Walker testified before the Senate Finance Committee on the President's State of the Union proposal in February.

- By GAO's reckoning, under the Administration's proposed reforms outstanding publicly held debt will be lower, over the next 30 years, than under any of the other evaluated reforms (except for Kasich zero percent participation).

- The Administration's proposal is a *first step* toward Social Security reform. The President has called for bipartisan negotiations between the White House and the Congress to solve the remaining problem.

- The GAO report demonstrates that the Administration's proposal would maintain fiscal discipline. Maintaining fiscal discipline is difficult to do when there are calls for large tax cuts and spending increases.

BACKGROUND:

- The GAO projections use SSA projections of program income and outlays, CBO projections for spending through 2009, and their own economic assumptions. This creates inconsistencies in their evaluation.

- Their evaluation leaves out critical elements of the President's Social Security plan.

  -- They focus only on the unified budget and never make the point that the President is proposing to take Social Security truly off-budget by forcing the on-budget account to at least be balanced.
  -- They ignore the Administration's proposed increase in the discretionary spending caps, therefore giving the Administration credit for *greater* debt reduction than would actually occur under the President's proposal.

- GAO evaluates USAs *separately* from their evaluation of the Administration's legislation. They find that the USAs would reduce government saving, but would have no net effect on national saving.

- After 2009, GAO assumes mandatory spending and *discretionary* spending increase at the rate of growth of GDP.

SECRETARY SUMMERS'S TESTIMONY
WAYS AND MEANS COMMITTEE, TUESDAY, NOVEMBER 9

CBO EVALUATION OF ADMINISTRATION PROPOSAL

- CBO has not released an evaluation of the proposal the President sent forward last month. Therefore, it will be very difficult to anticipate how they will evaluate the current proposal.

- However, CBO did release a report on the Administration's MSR proposal in July.

- In that evaluation CBO found that the Administration's MSR plan consisted primarily of *spending increases* with no tax cuts. This is because CBO scored the USA proposal as an outlay rather than a tax cut. CBO also had higher cost estimates, particularly for prescription drugs, than the Administration did. CBO also assumed that the Republicans would restrict discretionary spending as written in the budget resolution. Because of all of these factors, CBO found that the Republican budget resolution would pay off more debt than the Administration proposal.

- Further, the Republicans' tax cut explodes in size outside the ten-year window. In contrast, the President's proposals grow moderately over time, and the President has explicitly dedicated much of the surpluses after the 10-year period to debt reduction for Social Security and Medicare.

- The Republican budget resolution would cut discretionary spending by 20% from its current inflation-adjusted basis. These discretionary cuts are the only reasons why the GOP proposal achieved any debt reduction from CBO scoring, in spite of the tax cuts. If the Republicans follow the President's defense proposals, spending on non-defense programs like Head Start, the FBI, NIH health research, and veterans' medical care would be cut by roughly half.

- [If pressed: CBO also did not credit the Administration with government saving achieved through Social Security Trust Fund investment in equities. Although purchasing equities instead of government bonds does increase publicly held debt, it is not a true reduction in government saving.]

TAX CUTS

- *The President has called for putting "first things first."* With the approaching retirement of the "baby boom" generation, we face major challenges in financing Social Security and Medicare. We should not squander the surpluses before we address these challenges.

- The President proposed a fiscally responsible package of tax cuts targeted at specific needs such as child care, long-term care, and employee education. To maintain fiscal discipline, the budget included tax offsets to pay for these new incentives.

- The President also proposed a tax cut of $250 billion over ten years, in the form of Universal Savings Accounts. The President made clear that this progressive, pro-saving, tax incentive would only be enacted after Social Security and Medicare are placed on a sound financial footing.

- In contrast, the Republicans offered an enormous tax cut that would have used *all* of the projected on-budget surpluses without allowing for realistic levels of discretionary spending or providing any new funding for Social Security and Medicare. The President rightly vetoed this tax cut because:

  1) it would have spelled the end of our hard-won return to fiscal discipline;
  2) if the Republicans match the President's proposed defense spending, their budget resolution would have required a nearly 50 percent cut in nondefense discretionary spending by 2009; and
  3) with the continued strength of our economy, now is not the time for a consumption-oriented tax cut.

- Debt reduction significantly reduces interest rates, effectively providing a large tax cut for many American families. For example, a family with a mortgage of $100,000 might expect to save $2,000 annually because of lower interest rates.

PROJECTED FUTURE SURPLUSES

- The surpluses are indeed real. The $123 billion surplus in FY1999 -- the second consecutive year of surplus -- is the largest dollar surplus in American history, even after adjusting for inflation, and the largest unified surplus relative to GDP (1.4 percent) since 1951.

- The Administration has used conservative economic assumptions in making its budget projections. It is not a "rosy scenario." The Administration's projections for economic conditions for the next 10 years are very similar to those of CBO and the Blue Chip consensus. Many respected private forecasters have more optimistic projections. For six years in a row, throughout the Clinton Administration, both economic *and* budget results have been better than predicted. For example, the surplus for FY 1999 was projected to be $69 billion in February, $99 billion in June, and was $123 billion in actuality.

- The Administration proposal is based on *realistic levels of discretionary spending*. We have seen this year that the current spending caps are simply too tight. Basing a plan on the assumption that spending will remain at the capped levels would be simply irresponsible. The President's budget for this year provided offsets to allow necessary appropriations within the current spending caps. In later years, once Social Security solvency is achieved, the President's proposal raises and extends the caps, yet still produces on-budget surpluses.

- The Administration's legislation builds on the procedural protections that have helped improve our fiscal situation since 1990. The legislation extends the discretionary caps until 2009 and paygo rules until 2014. It also creates new points of order against using the Social Security surplus for anything except debt reduction – and for reserving one-third of the on-budget surplus for Medicare reform.

- Our policy of paying down the debt and securing the future of Social Security and Medicare is the best possible insurance against adverse developments in the future. We project that the publicly held debt would be eliminated by 2015, freeing up the 2.6 percent of GDP that we are currently spending on interest payments. And we believe the benefits of debt reduction should be earmarked to meeting our existing commitments to Social Security and Medicare, not to create new obligations.

SECRETARY SUMMERS'S TESTIMONY
WAYS AND MEANS COMMITTEE, TUESDAY, NOVEMBER 9

SOCIAL SECURITY SURPLUS IN FY 2000

- No definitive judgement is possible at this time, because work still continues on appropriations bills for FY 2000, on tax extenders, and on adjustments to the BBA Medicare provisions.

- OMB projected that the President's Mid-Session Review budget proposal would have resulted in on-budget balance in FY 2000. All of the spending increases and new tax incentives in our proposal were paid for with offsets. CBO, reviewing the MSR proposal, projected a small deficit. But differences between the estimates were small and technical, and we believe the OMB estimate is more accurate.

- Moreover the President has advocated paying for any tax extenders, BBA revisions, and extra discretionary spending.

- CBO Director Crippen has stated that, under CBO's preferred scoring assumptions, the appropriations bills (without tax extenders or BBA givebacks) would use $17 billion of the Social Security surplus in FY 2000.

- The President vetoed the Labor, Health, and Education bill because he strongly believes that the budget should not be balanced through an across-the-board spending cut – even one that appears to be small. In my department there are already programs that are stretched to the limit. Mindless budget cuts of even one percent would have a substantial negative impact on vital programs. For example (from OMB based on the .97% cut in the DC-LaborH conference report):

    - A one-percent cut would lead to approximately 71,000 fewer women, infants, and children benefiting from the food assistance and nutrition services offered by the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).
    - Funding for the Centers for Disease Control and Prevention's Childhood Immunization Program could be cut by approximately $4.7 million, which could prevent roughly 2,900 additional children from receiving the full complement of childhood immunizations.
    - The cut would require the military services to make cuts in recruiting and result in the loss of up to about 48,000 military personnel.

- It is the responsibility of those who want to cut the budget to identify where those cuts should occur.

SECRETARY SUMMERS'S TESTIMONY
WAYS AND MEANS COMMITTEE, TUESDAY, NOVEMBER 9

ARCHER-SHAW PROPOSAL

- Representatives Archer and Shaw are to be commended for making a major and provocative contribution to the Social Security debate.

- There are a number of similarities between the Archer-Shaw proposal and the Administration's Social Security proposal. Both involve transfers to Social Security. Both include investment of a portion of Social Security funds in equities, although that issue has been contentious, and the Administration has put it aside in its legislation in order to move the process forward.

- That said, the Administration does have a number of concerns about the Archer-Shaw proposal. These include:

  -- The size of the transfers. Archer-Shaw requires transfers to Social Security through 2050 *two times greater* than the Administration proposes -- $~~[illegible]~~ 11 trillion v. $ 7 trillion. In combination with the Republican spending and tax plans, the Social Security transfers under Archer-Shaw, if they were to come from general revenue, would create substantial on-budget deficits. There is a consensus on the part of both parties that we should not be running an on-budget deficit. In contrast, the Administration proposal would leave an on-budget surplus even *after* funding the transfers to Social Security.

  -- Double Counting. It is unclear where the funds for the Archer-Shaw accounts come from. If the transfers come from general revenue they would create an on-budget deficit, as discussed above. If instead they come from the Social Security Trust Fund, Archer-Shaw double-counts: using the same funds to both strengthen the Social Security Trust Fund *and* pay for individual accounts. If Archer-Shaw double-counts, it requires borrowing from the public to fund the individual accounts, which is fiscally irresponsible.

  -- The involvement of the government in the stock market. Under Archer-Shaw the government, through the recapture of returns from the "Social Security Guarantee" accounts, would be the beneficial owner of more than 30 percent of the total stock market (OMB, SSA, and Treasury analysis). This is compared to less than 5 percent of the market under the Administration's MSR proposal.

  -- Government liability for Social Security benefits. Under Archer-Shaw the government would have enormous liability if the market did not perform as well as projected. This risk is much greater than under the Administration's equity proposal, because of the larger stock holdings.

ARCHER-SHAW PROPOSAL (CONTINUED)

-- Reduced support for defined benefits. The President has serious concerns that market-based benefits could erode support for the current defined-benefit program and all of the important protections it provides. The USA accounts the President proposed would be *outside* the Social Security system.

REAL REFORMS

- When a company faces an imbalance in its pension plan, the first thing it does is see whether there are untapped sources of financing that are available. That is what we have done here. It does not immediately look to cut benefits.

- The President's proposal does not contain any payroll tax increases or benefit cuts.

- Even with the President's transfers, the system would still be out of 75-year actuarial balance. The President has called for bipartisan negotiations between the White House and the Congress to solve the remaining problem. In this context, the President still believes that it is important to eliminate the earnings test that penalizes Social Security beneficiaries who choose to continue to work, and to reduce poverty among elderly women.

- The President has also submitted a detailed proposal for structural reform in Medicare that would:

    1) modernize its benefits with a new prescription drug benefit;
    2) make it more efficient and competitive; and
    3) secure solvency for at least a quarter century.

CHARGES OF "GIMMICKS"

- The Administration's proposal is not based on "gimmicks." It is a responsible and balanced fiscal program, in contrast to the Republican alternative.

- Let's review the impact of the proposal:

  1) It pays down the publicly held debt by 2015, producing annual interest savings to the Federal government of over $200 billion annually.
  2) It extends Social Security solvency from 2034 to 2050.
  3) It holds inflation-adjusted discretionary spending slightly below the level enacted by the Congress for FY 1999.
  4) If this legislation is implemented together with Medicare reform, it extends Medicare solvency for at least a quarter century.
  5) It produces a balanced on-budget account each year through 2050.

  The Republican lockboxes cannot match *any* of these accomplishments.

- How does it do this?

  1) *Procedural protections that build on those that have helped improve our fiscal situation since 1990.* The legislation extends the discretionary caps until 2009 and paygo rules until 2014. It also creates new points of order against using the Social Security surplus for anything except debt reduction – and for reserving one-third of the on-budget surplus for Medicare reform.
  2) *Transfers to Social Security that are tied to interest savings from using the Social Security surpluses to pay down debt.* This is not an accounting trick. Every dollar of the Social Security surplus is used to pay down the debt, reducing interest costs and improving the government's fiscal position. And for every dollar transferred to Social Security, we will be paying down an additional dollar of publicly held debt, improving the government's fiscal position.
  3) *Realistic but austere spending caps.* The fact that Congress has had to resort to numerous gimmicks in claiming to meet this year's caps shows how unrealistic the current caps are. Even though the President's caps are higher than under current law, they are fiscally responsible: they would cut inflation-adjusted nondefense discretionary spending by more than 10 percent by 2009.

CHARGES OF "GIMMICKS" (CONTINUED)

- Eliminating the publicly held debt by 2015 is a major accomplishment. It improves our ability to meet our future obligations to Social Security and Medicare. In particular, it frees up 2.6 percent of GDP that we are currently spending on interest payments. Because most of this debt reduction comes from the Social Security surpluses, it makes sense to use this increased flexibility to help address the challenges facing Social Security and Medicare.

- The increase in debt held by Social Security is exactly equal to the decrease in debt held by the public. This applies to both current-law transfers and to the Administration's proposed transfers, because the on-budget accounts would be balanced. The proposal does not increase Social Security benefits. Putting bonds in the Trust Fund simply makes the *existing* commitment explicit. And by reducing our other commitment – public debt – we will be better able to meet that existing commitment and pay benefits.

MECHANICS OF PLAN AND CHANGES FROM MSR

1) Makes transfers of general revenue to Social Security from 2011 to 2044.

- The transfers from 2011 to 2016 are based on the amount of interest savings, from 2000 to the preceding year, achieved by using the Social Security surpluses to pay down debt held by the public. The transfers in 2017 to 2044 are the same amount as the transfer for 2016. The actuaries have written a letter stating that these transfers would extend Trust Fund solvency to 2050, from 2034 under current law.

- These transfers total about $7 trillion, ramping up from $107 billion in 2011 to $211 billion in 2016 and beyond. These transfers themselves generate more debt reduction, because they reduce the on-budget surplus and therefore the funds available for tax cuts or higher spending (assuming the on-budget account is balanced). *Note that transfers are not contingent on actual debt reduction.* However, we have put forward a realistic plan under which all of the Social Security surpluses would be devoted to debt reduction. And our legislation creates procedural safeguards to ensure that this actually occurs. (The transfers do depend on realized Social Security surpluses.)

- There is *no equity investment* in the new proposal. Because of this, the publicly held debt would be paid off *sooner* than in the MSR proposal. However, we are staying with the 2015 number for consistency and to give added flexibility.

- The MSR proposal ramped up transfers through 2015 (not 2016) and continued them forever (rather than ending them in 2044).

2) Establishes point of order against a budget resolution or any legislation that would cause or increase an on-budget deficit.

- This means that a three-fifths majority in the Senate is required to consider legislative action that would produce an on-budget deficit. Note that this does not require any action to offset an on-budget deficit created by economic or technical factors.

- The President's proposal would extend the solvency of Social Security to 2050. The Herger-Shaw lockbox proposal does not extend the solvency of the Social Security Trust Fund by a single day. It fails to ensure that the surplus would be used to protect Social Security benefits.

MECHANICS OF PLAN AND CHANGES FROM MSR (CONTINUED)

3) **Establishes point of order against legislation that would spend more than two-thirds of CBO baseline on-budget surplus unless solvency of Medicare HI Trust Fund is extended.**

- Note that this "Medicare surplus reserve" is *not actually transferred* to the HI Trust Fund, as was the case in the MSR proposal. This "surplus reserve" of one-third of the on-budget surplus corresponds to the amount of those transfers in the 2000-2009 period specified in the MSR.

4) **Raise the discretionary caps and extends them through FY 2009.**

- However, nondefense discretionary spending is below current levels in real terms each year, and is more than 10 percent below current levels in 2009. By 2009 defense spending is up in real terms and total discretionary spending is down slightly (both in real terms).

5) **Extends paygo rules through FY 2014.**

PRESIDENTIAL LEADERSHIP

- In his past two State of the Union addresses President Clinton has recognized that, with the benefits of our fiscal discipline becoming ever more obvious, it is time to address the long-term imbalances facing Social Security and Medicare. President Clinton's 1998 State of the Union address started the yearlong national dialogue on Social Security reform. His 1999 State of the Union Address helped create the consensus of using the Social Security surpluses only for debt reduction, not to fund current spending or tax cuts.

- At a time when we are enjoying such large surpluses, it would be the easy way out to use them all for current spending or a risky tax cut. Instead, the President has called for putting "first things first": using the budget surpluses to prepare Social Security and Medicare for the retirement of the baby boom.

- The President's Mid-Session Review proposal is the only plan to use the Social Security surpluses only for debt reduction, set realistic levels of discretionary spending, allow for a fiscally responsible package of tax cuts targeted at specific needs, and still balance the on-budget account every year. In the interest of reaching a bipartisan agreement on Social Security President Clinton has introduced legislation that would extend the solvency of the Social Security Trust Fund to 2050 and eliminate the national debt by 2015.

- It is the President's leadership that has resulted in two consecutive years of surpluses, allowing us to pay down $140 billion of publicly held debt, the largest decrease on record.

- The President has also submitted a detailed proposal for structural reform in Medicare that would:

    1) modernize its benefits with a new prescription drug benefit;
    2) make it more efficient and competitive; and
    3) secure solvency for at least a quarter century.

DISCRETIONARY SPENDING

- Although the President's proposal raises discretionary spending above the current caps, it is still an austere spending plan.

  1) Total real nondefense discretionary spending is below current levels in every year.
  2) Real nondefense discretionary spending falls by more than 10 percent by 2009.
  3) CBO has stated that keeping discretionary spending constant in real terms would require using almost $600 billion of the on-budget surplus over the next 10 years, much more than the $328 billion the President is calling for.

- Since President Clinton took office nondefense discretionary spending has fallen from 3.8 percent of GDP to 3.4 percent. At the same time total Federal civilian employment has declined by 270,000, or 9 percent.

- The discretionary caps the Administration and Congress agreed to in 1997 were never meant to be permanent. However, with OMB and CBO scoring conventions, the discretionary caps essentially persist forever. These caps have a substantial negative impact on our ability to fund essential government services, as this year's maneuvering to fit within the caps has shown.

- The actual increase in discretionary spending, relative to the current-law caps, is $470 billion over ten years. This is an increase of $328 billion financed from the baseline on-budget surpluses, plus an additional $142 billion funded from proposed offsets.

INDICATORS ON STRENGTH OF THE CURRENT ECONOMY

- Longest peacetime expansion in history.
- Lowest unemployment rate in 29 years.
- Lowest welfare rolls in 30 years.
- Lowest poverty rates in 20 years.
- Lowest crime rates in 30 years.
- Highest home ownership rate in history.
- First back-to-back budget surpluses in 42 years.

TIME Magazine

1. **The Federal government is shrinking**

    - Total Federal employment has been cut by over 650,000 (approximately 14 percent) from 4.8 million when the Administration entered office in January 1993 to 4.1 million in July 1999 (latest available).

    - If the quasi-independent Postal Service were excluded, the cutback exceeds 700,000 (over 18 percent).

    - Most of the reduction has been among active duty military (a drop of almost 400,000 or 22 percent).

    - Civilian employment has also fallen sharply by about 270,000 (nearly 9 percent).

    - Since January 1993, about 10,000 workers have been cut from Treasury payrolls, a reduction of over 5 percent.

2. **Tax rates on American families are the lowest in a generation**

    Tax Policy's material is attached.

3. **The economy has done great**

    NEC's Material is attached. Also:

    - Longest peacetime expansion in history, will be longest ever in February
    - Lowest peacetime unemployment rate since 1957
    - Lowest rate of core inflation in over 30 years

4. **The country has done great (facts from the President's mantra)**

    - Lowest crime rate in 26 years
    - Lowest welfare rate in over 30 years
    - Lowest poverty rate in 20 years

5. **The President's tobacco proposal would save a ton of teen lives**

- The President's FY2000 budget proposed a 55 cent increase in the cigarette excise tax, an acceleration of the currently scheduled excise tax increase, and a reaffirmation of FDA authority to regulate tobacco access and marketing. These measures will complement the steps taken in the state settlements with tobacco companies and help us achieve our goal of cutting teen smoking in half.

- We estimate that these measures would prevent about 1.3 million teens from becoming *daily* smokers during the "budget window" (FY2000-2004); more than 400,000 of these teens will be spared a premature tobacco-related death as a result. These figures underestimate the total effects of the President's proposals, both because teens who smoke less frequently than daily often go on to become regular smokers later in life, and because these measures would continue to discourage teens from smoking after FY2004.

6. **Facts about paydown of debt held by the public**

Domestic Finance was supposed to supply, but was unable to do so. Substitute NEC facts:

- We paid down $140 billion of public debt over the last two years.
- Public debt is now $1.7 trillion lower than projected when the President took office: $3.6 trillion (41 percent of GDP) vs. $5.4 trillion (63 percent of GDP).

7. **Alicia – David is trying to reach**

8. **Summary of Ways and Means Draft Testimony**

Attached.

What is the Tax Burden on Typical Americans?

QUESTION:

The claim is made that typical pay nearly 40 percent of their income in taxes and that is the highest percentage of income ever paid in taxes by American families. Is this claim correct?

ANSWER:

- The claim is not correct.

  -- The claim is apparently based on a deeply flawed study by the Tax Foundation.

  -- More careful studies show that the federal income tax burden on the typical family is low by recent historical standards and is falling because of recently enacted changes, such as the child credit enacted in 1997.

- Treasury's Office of Tax Analysis for more than 20 years has estimated federal tax burdens on four-person families with the median income (for four person families) and with half and twice that amount of income.

  -- In fact, for a <u>median income family of four</u> the federal <u>income plus payroll</u> tax burden is lower today than at any time in the past 20 years, and their federal <u>income</u> tax burden is the lowest since 1965.

  -- For a family of four with <u>half the median income</u> for four-person families, the federal <u>income plus payroll</u> tax burden is lower today than at any time in the past 30 years.

  -- Even for a four-person family with <u>twice the median income</u> for a four-person family, the <u>federal income tax burden is lower today than at any time in the last 25 years</u>.

  -- The payroll tax figures take into account both the employee and the employer share.

- A review of the Tax Foundation study by Iris Lav of the Center on Budget and Policy Priorities (CBPP) found:

  "A measurement of tax burdens that relies on Congressional Budget Office and Joint Committee on Taxation data to estimate the median family's tax burden would find the median-income family is paying between 26 percent and 30 percent of its income in federal, state and local taxes, not 38 percent [as claimed by the Tax Foundation].

  ....

"The Tax Foundation overstates the taxes a median-income family pays and also understates the income on which such taxes are based. Serious methodological problems cause the Tax Foundation's analysis to overstate the typical family's tax burdens."

- The recent rise in the ratio of federal receipts to GDP is due in large part to an increasing share of income going to high-income families, rising corporate profits, and extraordinary capital gains on stocks.

THE ECONOMY UNDER PRESIDENT CLINTON:
Continuing Strong Growth – More than 19 Million New Jobs
October 8, 1999

The American Economy Created Over 19 million new jobs under President Clinton and Growth Continues to be Robust. In 1992, the American economy was barely creating jobs, wages were stagnant, and the unemployment rate was 7.5 percent. Six years ago, President Clinton put in place a bold new three-part economic strategy of cutting the deficit to help reduce interest rates and spur business investment; investing in education, health care, science and technology so that America was prepared to meet the challenges of the 21st century; and opening markets abroad so that American workers would have a fair chance to compete and win across the globe.

- **19.4 Million New Jobs Under President Clinton.** Since President Clinton took office, the economy has added 19.4 million new jobs – that's 3.4 million more new jobs in six years than were created during the entire eight years of the Reagan Administration (19.4 million under Clinton vs. 16.0 million under Reagan).

- **Unemployment At 4.2 Percent in September – The Lowest in 29 years.** In 1992, the unemployment rate was 7.5 percent. In September, the unemployment rate was 4.2 percent. The unemployment rate has been below 5 percent for 27 months in a row – that is the lowest unemployment rate in 29 years.

- **Highest Share of New Jobs in Private Sector in 50 Years.** Since President Clinton and Vice President Gore took office, the private sector of the economy has added 18.0 million new jobs -- with 2.3 million jobs added in the past year. Under President Clinton and Vice President Gore, 93 percent of the 19.4 million new jobs have been in the private sector – that's the highest percentage in 50 years.

- **Fastest and Longest Real Wage Growth in Two Decades.** Last month, average hourly earnings increased 0.5 percent. Under President Clinton and Vice President Gore, real wages have risen 6.6 percent compared to *declining* 4.3 percent during the Reagan and Bush years. After adjusting for inflation, wages increased almost 2.7 percent in 1998 – that's the fastest real wage growth in more than two decades and the third year in a row and the longest sustained growth since the early 1970s.

- **Construction Jobs Are Coming Back.** Under President Clinton and Vice President Gore, construction jobs are coming back: after losing 662,000 jobs in construction during the previous four years, 1.7 million new construction jobs have been added since January 1993 – that's a faster annual rate than any other Administration since Harry S. Truman was President.

- **Manufacturing Jobs Are Rising Under President Clinton, But Are Being Hurt by Slow International Growth.** After losing 2.1 million manufacturing jobs between 1981 and 1992, the economy has created 253,000 new manufacturing jobs since January 1993. In the auto industry, after losing 46,000 jobs in the auto industry during the Bush Administration, we have 165,000 new auto jobs during the Clinton-Gore Administration. And for the first time since the 1970s, America has led the world in auto production for four years in a row.

- **Unemployment Remains Historically Low for African Americans and Hispanics.** Under President Clinton and Vice President Gore, the African-American unemployment rate has fallen from 14.1 percent in January 1993 to 8.3 percent in September 1999. Hispanic unemployment rate has dropped from 11.3 percent in January 1993 to 6.7 percent in September 1999.

- **Inflation – Lowest Since 1950s.** Inflation remains virtually non-existent, with the underlying core rate of inflation at 1.9 percent in the last 12 months – the lowest rate in 33 years. In 1998, the GDP price index rose 1.0 percent – its lowest level since the 1950s.

DRAFT - THE CLINTON-GORE ECONOMIC RECORD: STRONG GROWTH AND THE HIGHEST HOMEOWNERSHIP IN HISTORY

October 28, 1999

Today's Economic Data Indicates That America's Economy Continues To Grow Steady and Strong and It Achieved The Highest Recorded Homeownership. Today, the Commerce Department announced that its advanced estimate of GDP growth in the third quarter was 4.8 percent (at an annual rate). New statistics released today also indicate that the home ownership rate hit a new record. At the same time, under the Clinton Administration America has created more than 19 million new jobs, enjoys the lowest unemployment rate in 29 years, and the lowest core rate of inflation in over 30 years.

STRONG GDP GROWTH

- **4.8 Percent Economic Growth In Third Quarter.** GDP growth in the third quarter was 4.8 percent (at an annual rate). Since the beginning of the Clinton Administration, the economy has grown at a 3.8 percent annual rate – compared to 1.7 percent under President Bush and 2.8 percent during the Reagan-Bush years.

- **5.1 Percent Private-Sector Growth In Third Quarter.** In the third quarter, private-sector GDP growth was up 5.1 percent. Since the beginning of the Clinton Administration, the private-sector of the economy has grown at a 4.3 percent annual rate – compared to 2.9 percent during the Reagan-Bush years.

- **First Investment-Led Expansion In Three Decades.** In the third quarter, equipment and software investment grew a strong 21.7 percent. Last year, equipment and software investment grew at a double digit pace (15.8 percent) – that's the 6 consecutive year of double digit growth for the first time on record. And since President Clinton has taken office, equipment and software investment has been faster – 12.6 percent per year – than any President on record (comparable investment data is available from 1959).

- **Inflation Remains Low.** In the third quarter, the GDP price index rose 1.0 percent at an annual rate. Last year, inflation rose just 1.2 percent -- the smallest increase in 36 years.

HIGHEST HOME OWNERSHIP ON RECORD

- **More American Homeowners Than Any Time In History.** A total of 70.5 million American families owned their own homes in the third quarter – the highest level ever recorded. 6.1 million African Americans and 4.2 million Hispanics owned homes – also the largest recorded.

- **Highest Homeownership Rate in History.** In the third quarter, the homeownership rate is 67.0 – the highest ever recorded. The homeownership rate for African Americans reached 47.0 percent – the highest on record. Over the last year, homeownership for Hispanics has averaged 45.6% -- the highest on record.

PRESIDENT CLINTON'S THREE-PART ECONOMIC GROWTH STRATEGY IS WORKING

1. **Maintaining Fiscal Discipline.** In 1992, the budget deficit was $290 billion -- the largest dollar deficit on record. This year, the budget surplus was $123 billion -- the largest dollar surplus ever.

2. **Investing in the American People.** For six years, the President has worked to make critical investments in our people that are vital to a strong economy. That's why the President urged Congress to work with him to pass an education spending bill that prepares our children for the 21st Century by: keeping our commitment to hire 100,000 new teachers, reducing class size and promoting standards for teachers.

3. **Opening Markets Abroad and Leading The Global Economy.** Today's economic report shows that the health of the world economies affect the health of America's economy. The President remains committed to

expanding foreign markets for American goods and services and enforcing trade laws to ensure that all countries play by the rules.

Summary of Ways and Means Draft Testimony

Fiscal Progress

- Fiscal responsibility has been a centerpiece of this Administration's economic policy from the beginning; deficit and debt facts.
- Deficit and debt reduction has reaped enormous benefits for the American economy and for American households. Strong investment; lower interest rates; lower government interest costs.
- Building on this remarkable achievement of fiscal discipline, the President set a higher standard in his June budget review and his proposed legislation: *to balance the government's books without using the surpluses generated by the Social Security system.* Balancing the on-budget account means that the bonds accumulating in the trust fund will be matched dollar-for-dollar by a reduction in publicly held debt and therefore extra national saving. Pay off debt by 2015.

The President's Plan

- Crucial question: If we achieve this degree of fiscal success, how should we target the savings that will result? (Note that savings will be very large: under our framework, annual interest tab down more than $200 billion per year by 2016.) The President's plan dedicates those interest savings to meeting our existing obligations to pay Social Security benefits.
- *First,* maintain integrity of Social Security trust fund by using surpluses to pay down debt.
- *Second,* channel interest savings from debt reduction into trust fund. Devote the benefit from reducing one liability—the public debt—to meet another government liability—Social Security—for which funding is not currently available. Not usual general revenue transfers, but earmarking specific savings. Transfers are different from lockboxes that do not extend solvency by even one day.
- *Third,* preserve one-third of projected on-budget surpluses for Medicare reform. We want comprehensive reform, but still need increased funding. While discussing structural issues, let's protect needed funds.
- *Fourth,* set austere but realistic levels of discretionary spending. The increase in the discretionary spending caps in the President's plan would make up some—but not all—of reduction in capped baseline. Making long-term budget plans *without* allowing for realistic levels of discretionary spending is fiscally irresponsible.

Impact of the President's Plan

- This plan is an important foundation with important benefits for economic and fiscal future.
- Build on foundation: 1) increase personal retirement savings, especially for the 73 million Americans who do not participate in employer-sponsored pension plans; 2) move forward on further reform of both Social Security and Medicare.
- Don't waste remarkable opportunity.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

PLEASE LOG IN

January 14, 2000

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: Assistant Secretary Wilcox DW
Deputy Assistant Secretary Elmendorf DE

SUBJECT: Social Security Transfers

Basic problem: We can't afford the formula for general-revenue transfers to Social Security that we had in the MSR. Why not?

- The Social Security surpluses are now projected to be larger. This implies more debt reduction.
- The nominal interest rate is higher. This implies more interest savings for any given amount of debt reduction.
- Discretionary spending is revised up by more than the baseline surplus is revised up. This implies that less remains available after taking care of discretionary.

- **Background on what we did in the MSR:**
    - In the MSR, we used a formula to calculate the transfer amount. (The formula was motivated by the concept of "interest savings.")
        - Under this formula, OMB determined that the on-budget account would be balanced *using OMB assumptions.*
        - SSA determined that Social Security solvency would be extended past 2050.
    - Running *revised* OMB assumptions through the same formula will produce much larger transfer amounts, for the reasons noted above.
    - Social Security economics have not yet been revised. Therefore, one possible way to solve the problem of our not being able to afford the Social Security transfers would be to use SSA economics to evaluate the formula.

- **NEC is proposing four possible solutions:**
    - Trim discretionary spending in the outyears, and fiddle with the formula. The best guess is that discretionary growth would have to be trimmed to 2.0 between 2011 and 2020. The first transfer would have to be pushed back to 2012. Our guess is that this would leave the on-budget account in balance, and would get Social Security solvency to 2050.

- Use a formula, but direct OMB to evaluate the formula using SSA economics.
- Calculate transfer amounts based on SSA economics, then treat them as hardwired.
- Introduce a new "safeguard:" Continue to use the formula, but state that we will only make the transfers insofar as they do not exceed *today's* projection of the available on-budget surplus. (In some ways, it would be more appealing to build the safeguard around the *actual* on-budget surplus, but we can't do that because the Actuaries won't score anything that is contingent on there being an on-budget surplus.)

2000-SE-006337

HOLD CLOSE

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 9, 2000

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: Assistant Secretary Wilcox DW
Deputy Assistant Secretary Elmendorf DE

SUBJECT: **Social Security Transfers in the Mid-Session Review**

Since last year's Mid-Session Review, the Administration's proposed transfers to Social Security have been based on the interest savings from taking Social Security out of the budget. At an NEC principals' meeting earlier this week, Doug raised a concern that transfers based on this formula might not be affordable from the projected on-budget surplus in the upcoming MSR. After further analysis and discussions with Jason Furman, we have now formed the following views. (The wording is Doug's, because David is out today. Jason will convey a similar message to Gene.)

1. To afford significant transfers to Social Security beginning in 2011, one needs to have a significant increase in the on-budget baseline surplus in 2011 and/or a significant element of our policy during the first 10 years that can be scaled back in 2011.

2. In the February budget, both of these options were at work: between 2010 and 2011, the baseline surplus rose by $48 billion, and our Medicare transfers dropped by $58 billion. Small increases in other categories (especially in interest on preceding years' policies) were offset by not continuing the catastrophic drug reserve after 2010.

3. Still, the resulting $106 billion in available on-budget resources in 2011 was not enough to afford the $121 billion transfer justified by the interest-savings formula using OMB estimates. However, it was enough to afford the $99 billion transfer justified by the Social Security actuaries' estimates (which involve smaller projected Social Security surpluses). So **we used the interest-savings formula, but imposed dollar limits on the transfer amounts**. The limits were just above the actuaries' estimates of the transfer amounts, so this did not affect their scoring of the plan. However, the limits kept down the budget cost and preserved on-budget balance.

4. **We believe that a similar approach will work in the MSR.** For 2011, the interest-savings formula would justify a $142 billion transfer under revised OMB assumptions (because the interest rate and Social Security surpluses have both been revised up) and $124 billion under revised Social Security actuaries' assumptions (because the March Trustees' report also included higher Social Security surpluses). We propose that transfers again be based on the interest-savings rationale but with revised dollar limits that just exceed the actuaries' new estimates of the justified transfer amounts.

5. Even still, **freeing up $124 billion of available resources in 2011 is not easy.** We have extrapolated the policies in option 1a from the memo sent to the President last week. **This estimate is preliminary, as it depends on the time path of the specific policies we propose within the 10-year window.** Between 2010 and 2011, the cost of these policies will probably decline by about $47 billion, as a $75 billion drop in Medicare transfers is offset by increases in interest and other categories. The on-budget baseline surplus increases by $64 billion, so total available resources are $111 billion – which is not enough to afford the transfer.

6. One alternative is to **eliminate** Medicare transfers in the 2011-15 period, which would free up another $15 billion in 2011. (The available resources would then be $126 billion, which slightly exceeds the actuaries' estimate of the interest-savings-based transfer.) This approach would also free up sufficient resources to make the transfers in 2012 and beyond, and the actuaries would score this plan as extending Social Security solvency to about 2055. But extending Medicare solvency to 2030 might require transfers to Medicare after 2015.

7. Another alternative is to trim some other aspect of our proposed policy. Unless you object, we will simply work with Jason to make a sensible choice among these alternatives. Our basic objective will be to include transfers consistent with the interest-savings rationale while maintaining an on-budget surplus throughout the period of the transfers.

CLOSE HOLD

NCC to LS (reading)

NCC to SE (reading)

NCC cc to SS

TS 6/12

6/9/00

NC/PA/AM/TR

AC 6/12

CK

Please log IN and

file as CLOSE

HOLD

CLOSE HOLD

2000-SE-007920

From: Douglas W. Elmendorf
To: thomasm, robertsonl, fantw, talismanj, burmanl, wi...
Date: 7/24/00 10:04pm
Subject: TAXATION OF SOCIAL SECURITY BENEFITS

WATCHOFFICE: Please forward the following message to the Secretary and Deputy Secretary. Thank you.

****

Jon Talisman's GroupWise is down, and he asked me to circulate the following report on the principals' conference call this evening on tax policy:

John Podesta would like to show the President two drafts of a letter on the taxation of Social Security benefits: one threatening a veto, and one saying that the President's senior advisers would not recommend that he sign the bill. The White House speechwriters will work on the letter, incorporating ideas from our draft and from last week's radio address.

According to Jason, both drafts will emphasize that this Congress has spent the entire surplus, a statement that reflects OMB's analysis of the tax bills rather than Treasury's. The expectation is still that LHS, Shalala, and Apfel will sign, although the possibility of a LHS/Lew letter was also discussed.

These two drafts will be produced TONIGHT, after which another conference call among the principals will ensue TONIGHT, and the drafts will be sent to Podesta. As instructed, I am sending immediately today's draft to Jason to be sent on to the speechwriters.

Doug Elmendorf

CC: WATCHOFFICE

Unclass.
CLASSIFICATION

DATE 7-24-00

DEPARTMENT OF THE TREASURY
WATCH OFFICE
FAX COVERSHEET

— If received INCOMPLETE, call (202)622-1825

TO: Secretary Summers
Deputy Secretary Eizenstat

FROM: Douglas W Elmendorf / thru Neal Comstock

OFFICE PHONE NUMBER: ____________

FAX NUMBER: (202)622-1829 (unsecure) (202)622-1851 (secure)

HANDLE AS: ROUTINE ✓ PRIORITY ___ URGENT ___

Page 1 of 2 Pages

COMMENTS:

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Comstock FYI

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DATE 7-24-00

DEPARTMENT OF THE TREASURY
WATCH OFFICE
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Page 1 of 2 Pages

COMMENTS:

2000-SE-007726

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

July 27, 2000

Recommended Telephone Calls

MEMORANDUM FOR SECRETARY LAWRENCE H. SUMMERS

FROM: Marti Thomas ek for MT
Acting Assistant Secretary
Legislative Affairs and Public Liaison

SUBJECT: Social Security Benefits Tax Repeal calls, Update

Leaning towards opposing repeal:
Ken Bentsen (TX) 225-7508
Frank Pallone (NJ) 225-4671

Undecided:
*Jim Turner (TX) 225-2401

Leaning in favor of repeal:
Chet Edwards (TX) 225-6105
Michael McNulty (NY) 225-5076
*Cynthia McKinney (GA) 225-1605

Likely to vote in favor of repeal:
Ellen Tauscher (CA) 225-1880
*Anthony Weiner (NY) 225-6616

* new calls

BACKGROUND:
(New information in bold)
The White House is very grateful and impressed by the work of the Treasury principals in reaching out to key Members on this vote. Minority Leader Gephardt is fighting against repeal to support the President and has asked that the Administration continue to work this issue. The White House is most concerned about Members from New York, New Jersey, Pennsylvania, Texas, and Florida. The White House thinks that Reps. McKinney and McNulty could be attainable votes. Also, Rep. Edwards' wife is currently in the hospital. You may want to pass on your wishes that she has a speedy recovery.

The whip count as of July 27 at 8:00 a.m. on this vote (attached) is that there are 116 opposing repeal, 34 favoring repeal, 21 leaning towards opposing repeal, 22 who are

undecided, and 15 who are leaning in favor of repeal. At the Democratic caucus this morning, we had reports that as many as 118 members were going to oppose the repeal.

The President made a strong statement yesterday (attached), which was well-received by the Members and will host a unity event today at 2:00 on taxes in general but will emphasize the importance of this vote. The White House released a SAP stating their opposition to H.R. 4865 (attached).

You have been asked by the White House to place calls to certain, targeted Members of Congress before the vote on H.R. 4865 which is expected early Thursday. As you know, H.R. 4865 if enacted would reduce the maximum proportion of Social Security benefits subject to the individual income tax from 85% to 50%. You have written a letter to Speaker Hastert, Minority Leader Gephardt, House Ways and Means Chairman Archer, and House Ways and Means Ranking Member Rangel stating that the President's senior advisors would recommend that the President veto the bill.

DISCUSSION:
As you know, this vote would repeal part of the President's budget that was enacted as a part of the Omnibus Reconciliation Budget Act of 1993 (OBRA '93), which was an extremely close and difficult vote. No Republican voted for OBRA '93, which was approved in the Senate, by a tie-breaking vote by Vice President Gore. This will also be a difficult vote for Members, especially those in close races. The White House is particularly concerned about Members from New Jersey, Texas, Florida, New York, and Pennsylvania.

Your message should reiterate the points made in your letter: that these types of tax cuts would drain away the hard-earned surplus, risking putting us back into deficits and leaving no on-budget resources to extend the life of Social Security or Medicare, provide a real Medicare prescription drug benefit, invest in education, or pay down the national debt.

ATTACHMENTS:
Whip Count
Talking points
Statement of Administration Policy on H.R. 4865
President Clinton's Statement
Secretary Summers Letter

Question Number 1

Whip Office: 53130
7/27/0 8:04 AM

116 —Yes

2 —Absent

Smith	58901
Vento	56631

21 —Leaning Yes

Barcia	58171
Barrett	53571
Bentsen	57508
Clement	54311
Engel	52464
Hinojosa	52531
Jackson Lee	53816
Kildee	53611
Kind	55506
Lampson	56565
Larson	52265
Mascara	54665
Mollohan	54172
Pallone	54671
Rush	54372
Sherman	55911
Slaughter	53615
Taylor	55772
Thompson (CA)	53311
Udall (CO)	52161
Udall (NM)	56190

22 —Undecided

Andrews	56501
Brown (FL)	50123
Carson	54011
Cramer	54801
Davis (FL)	53376
DeLauro	53661
Etheridge	54531
Hall (OH)	56465
Hinchey	56335
John	52031
Kucinich	55871
Luther	52271
McIntyre	52731
Minge	52331
Ortiz	57742
Price	51784
Schakowsky	52111
Skelton	52876
Stabenow	54872
Turner	52401
Wexler	53001
Weygand	52735

15 —Leaning No

Abercrombie	52726
Bishop	53631
Costello	55661
Danner	57041
Deutsch	57931
Edwards	56105
Inslee	56311
Kaptur	54146
McKinney	51605
McNulty	55076
Mink	54906
Phelps	55201
Roemer	53915
Sanchez	52965
Sandlin	53035

34 —No

Baldacci	56306
Berkley	55965
Blagojevich	54061
Boswell	53806
Boucher	53861
Capps	53601
Condit	56131
Crowley	53965
DeFazio	56416
Dooley	53341
Doyle	52135
Evans	55905
Forbes (NY)	53826
Gordon	54231
Hall (TX)	56673
Hoeffel	56111
Holt	55801
Hooley	55711
Kleczka	54572
Lipinski	55701
Lowey	56506
Lucas	53465
Maloney (CT)	53822
Maloney (NY)	57944
Moore	52865
Nadler	55635
Shows	55865
Sisisky	56365
Tauscher	51880
Traficant	55261
Weiner	56616
Wise	52711
Wu	50855
Wynn	58699

0 —No Response

- **I understand that the House is considering H.R. 4865, another in a series of fiscally unwise tax cuts.**

- **These tax cuts, taken together with tax cuts passed by the 106th Congress last year, would drain away our hard-earned budget surplus,** risking putting us back into deficit and leaving no on-budget resources to extend the life of Social Security or Medicare, provide a real Medicare prescription drug benefit, invest in education, or pay down the national debt.

- **Our current economic expansion is built on the foundation of the tough and prudent fiscal strategy we have pursued since 1993.** That strategy has helped bring about the largest surpluses and longest economic expansion in our history. But Congress, on the basis of inherently uncertain projections about the future surplus, is now spending that entire surplus one tax break at a time.
    - This threatens to raise interest rates, puts at risk our economic expansion, slows investment and productivity growth, increases dependence on foreign capital, and reduces our flexibility to deal with potential future problems.

- **Moreover, the Congressional majority's tax proposals provide relatively few benefits for the vast majority of our working families.**

    - The proposals will provide about as much relief to the top one percent of taxpayers as to the millions of working people who make up the bottom 80 percent of taxpayers.
    - As a result of the tax cuts passed this year, the average family in the top 1 percent would receive a tax cut of over $16,000 – dwarfing the roughly $220 tax cut received by a family in the middle of the income distribution.
    - A one-third of a percentage point increase in interest rates as a result of these tax cuts would raise mortgage payments enough to wipe out the tax benefits for a typical family with a $100,000 home mortgage.

- The President has proposed a series of targeted tax cuts that deliver 70 percent more tax relief to middle-class families at less than half the cost of the tax cuts passed by the Congressional Majority this year.

    - The President's proposals would maintain our fiscal discipline while helping families send our children to college, care for chronically ill family members, assisting people with disabilities to enter or remain in the workforce, pay for child care, ease the burden on working families with three or more children, and provide progressive saving incentives and carefully targeted marriage penalty relief.
    - And because the President's tax plan would cost substantially less than the tax cuts proposed by Congress, we'll still have enough money to provide a Medicare prescription drug benefit, to strengthen Social Security, modernize Medicare, and stay on track to be debt-free in 2012.

- **H.R. 4865 is the latest in a series of costly and poorly targeted tax proposals.** Furthermore, it would divert substantial resources that could be used for a Medicare prescription drug benefit while making substantial general revenue transfers that do not add a single day to the life of Medicare.

- **For all of these reasons, and absent a Congressional framework for safeguarding our financial future, the President's senior advisers would recommend that he veto the bill.**

- **This proposal would cost more than $100 billion over ten years.** Instead of devoting these resources toward a Medicare prescription drug benefit that would benefit all seniors and eligible people with disabilities, this proposal would leave more than four out of five Social Security beneficiaries with no more than they have today.

- **If all of the tax cuts previously passed by the Congressional majority are enacted this year or next, there could be no surplus to retain the current solvency of the Medicare trust fund without putting our country back into deficit.**
  - Moreover, the Republican leadership has opposed general revenue transfers to the Medicare or Social Security trust funds in the past.
  - If these transfers were eliminated, five years would be taken off the projected life of Medicare – making the trust fund insolvent in 2020, instead of 2025 as projected under current law.
  - Even if the transfers proposed in the bill were made, we would not add a single day added to the life of Medicare.

- In contrast, the Administration has put forward a comprehensive plan to modernize the Medicare program, introduce competition among health-care providers, add a long-overdue Medicare prescription drug benefit, *and extend the life of the Medicare Trust Fund to at least 2030.*

  - For Social Security, the President has proposed to extend the life of the Social Security trust fund to at least 2057 and to strengthen the Social Security benefit for the most vulnerable in our society, especially for elderly widows, who suffer poverty at nearly twice the rate of the elderly population overall.

- **We have the resources to accomplish a lot this year.**

- **We hope that we can work together to agree on a balanced framework of tax cuts, investments, and debt reduction that safeguards our prosperity and benefits all Americans.**

- **For the reasons sited above, I strongly urge you to vote no on H.R. 4865.**

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 27, 2000
(House)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 4865 - Social Security Benefits Tax Relief Act of 2000
(Archer (R) Texas and Shaw (R) Florida)

The Administration strongly opposes H.R. 4865, which would reduce the maximum proportion of Social Security benefits subject to the individual income tax. H.R. 4865 is the latest in a series of costly tax proposals considered by the 106th Congress that, taken together, would drain away the Nation's hard-earned budget surplus -- risking a return to deficit spending and leaving no on-budget resources to extend the life of Social Security or Medicare, invest in education, or pay down the national debt. Furthermore, this bill would divert substantial resources that could be used for a Medicare prescription drug benefit, and would make substantial general revenue transfers without adding a single day to the life of Medicare. For all of these reasons, and absent a Congressional framework for safeguarding the Nation's financial future, the President's senior advisers would recommend that he veto the bill.

The current economic expansion is built on the foundation of the tough and prudent fiscal discipline pursued since 1993. This strategy has helped bring about the largest surpluses and longest economic expansion in the Nation's history. H.R. 4865 and other legislation moving through Congress would spend that entire surplus one tax break at a time -- threatening to raise interest rates, putting at risk the economic expansion, slowing investment and productivity growth, increasing dependence on foreign capital, and reducing the Nation's flexibility to deal with potential future problems.

Moreover, these tax proposals provide relatively little benefit to the vast majority of working families. The proposals will provide about as much relief to the top one percent of taxpayers as to the millions of working people who make up the bottom 80 percent of taxpayers. As a result of the tax cuts passed this year, the average family in the top one percent would receive a tax cut of over $16,000 – dwarfing the roughly $220 tax cut received by a family in the middle of the income distribution. A one-third of a percentage point increase in interest rates as a result of these tax cuts would raise the payments on a $100,000 mortgage enough to wipe out the tax cut for such a middle-income family.

The President has proposed a series of targeted tax cuts that deliver 70 percent more tax relief to middle-class families at less than half the cost of the tax cuts passed by Congress this year. The President's proposals would maintain fiscal discipline while helping families send their children to college, care for chronically ill family members, assist people with disabilities to enter or remain in the workforce, pay for child care, ease the burden on working families with three or more children, and provide progressive saving incentives and carefully targeted marriage penalty relief. Because the President's tax plan would cost substantially less than the tax cuts proposed by the Congress, there would still be enough money to provide a Medicare prescription drug benefit, strengthen Social Security, modernize Medicare, and stay on track to be debt-free in 2012.

Ironically, the Republican leadership has opposed general revenue transfers to the Medicare or Social Security trust funds when those transfers would have extended the solvency of these vital programs. Now, if all of the tax cuts previously passed by this Congress were to be enacted this year or next, there could be no surplus left to transfer to Medicare even to retain its current solvency. If the transfers proposed in the bill were eliminated, it would take five years off the projected life of Medicare – making the trust fund insolvent in 2020, instead of 2025 as projected under current law. Even if the transfers proposed in the bill were made, they would not add a single day to the life of Medicare.

The Administration has proposed a comprehensive plan to modernize the Medicare program, introduce competition among health-care providers, add a long-overdue Medicare prescription drug benefit, and extend the life of the Medicare Trust Fund to at least 2030. The Administration has also made proposals to extend the life of the Social Security trust fund to at least 2057 and to strengthen the Social Security benefit for the most vulnerable in our society, especially for elderly widows, who suffer poverty at nearly twice the rate of the elderly population overall. In contrast, H.R. 4865 would leave more than four out of five Social Security beneficiaries with no more than they have today.

Resources are available to accomplish great things. The Administration hopes to work with the Congress on a bipartisan basis to agree on a balanced framework of tax cuts, investments, and debt reduction that safeguards the Nation's prosperity and benefits all Americans — while maintaining fiscal discipline.

<u>Pay-As-You-Go Scoring</u>

H.R. 4865 would affect receipts; therefore, it is subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. Based on estimates of revenue losses made by the Department of the Treasury, the absence of any offsets could cause a sequester of Federal resources.

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THE WHITE HOUSE

Office of the Press Secretary

Immediate Release — For July 26, 2000

REMARKS BY THE PRESIDENT
IN STATEMENT ON FISCAL RESPONSIBILITY

The Roosevelt Room

2:10 P.M. EDT

THE PRESIDENT: For more than seven years now, our nation has stuck to a course of fiscal discipline, making tough choices that has resulted in the elimination of record deficits, investing in our people and paying down our debt.

Clearly, the strategy is paying off. It has given us the longest economic expansion in our history, over 22 million new jobs and the largest budget surplus in history. Now, we have the chance to pass responsible tax cuts, continue to pay off the national debt and keep our prosperity going.

Instead of following the path that got us here, congressional Republicans want America to take a U-turn. Over the past two weeks, they have pushed through a series of expensive tax bills, one after another. They've been in a rush to get these bills passed before their convention; but they've been in no rush to get them to my desk, because they fear what will happen when the American people have a chance to add them all up and do the math.

Taken together, Republican tax bills now stacking up from this Congress would cost nearly $2 trillion over 10 years. By our accounting, that would put America back into deficits. Even by their own rosy scenario, the Republican tax bills consume every dime of the surplus the American people have worked so hard to create. That's what this chart shows.

However you add it up, a $2 trillion tax plan is too big, too reckless, too irresponsible. It leaves nothing for lengthening the life of Social Security and Medicare, to make provision for the baby boomers' retirement. It leaves nothing for adding a prescription drug benefit to Medicare. It leaves nothing for greater investment in education or the environment or science and technology or health. It would make it impossible for us to get America out of debt by 2012.

Now, if the congressional Republicans truly think these tax cuts are good policy, instead of just good politics, they should put them together and send them down to me right now, before they break for their convention. Then the American people can add up the costs and draw their own conclusions. But if they adjourn for the summer and the bills aren't on my desk, the American people will know that they're playing politics with our surpluses.

Remember something else -- and this is very important -- these are projected surpluses. It's not money we have now, but money we might have over the next 10 years. Think about it: if you got one of those sweepstakes envelopes from Ed McMahon in the mail saying you may have won $10 million, would you go out and spend it? Well, if you would, you should support their tax plan; but if you wouldn't, you should think again. Because that's what the congressional Republicans want us to do -- commit right now to spend all the money that we might get over the next 10 years.

In good conscience, I cannot sign one of these tax breaks after another without any coherent strategy for safeguarding our future and meeting our other national priorities. At this rate, there will be no resources left for extending the life of Social Security and Medicare, for adding a real prescription drug benefit to Medicare, for investing in education or for getting us out of debt. And getting us out of debt will keep interest rates low and keep our economy growing. That could give the American people the biggest tax cut of all.

Lower interest rates, in a way, are the biggest tax cut we can give to most Americans. Because of the deficit and debt reduction already achieved, the average American family -- listen to this -- the average American family is already paying $2,000 less a year in mortgage payments, $200 less a year in car payments, and $200 less a year in student loan payments.

If we keep interest rates just 1 percent lower over 10 years, which is about what my Council of Economic Advisors thinks we'll do if we keep paying down the debt instead of giving it all away in tax cuts, homeowners -- listen to this -- homeowners will save $250 billion over the next 10 years in lower home mortgage rates alone. That's $850 a family a year in lower mortgage payments.

And then to see what people are getting you would have to add proportionally lower car payments, lower college loan payments; and, of course, with lower interest rates businesses will be able to borrow more easily and invest more, creating more jobs to sustain our prosperity. The more you do the math the less sense the Republican tax plan makes.

Consider this: the typical middle-class family will get $220 a year from the tax cuts the Republicans have passed this year -- just the ones they've passed this year, not in this Congress. If interest rates went up because of the Republican plan one-third of 1 percent, just one-third of 1 percent, then that average family's mortgage payments would go up by $270, completely wiping out the tax cut and leaving the average family worse off than they were before.

It does not have to be that way. I have proposed tax cuts to give middle-class Americans more benefits than the tax bills the Republicans have passed at less than half the cost. Two-thirds of the relief of our proposal will go to the middle 60 percent of Americans, including our targeted marriage penalty tax relief.

Our tax cuts would also help send our children to college, with a tax deduction for up to $10,000 in college tuition a year; help to care for sick family members with a $3,000 long-term care tax credit; help to pay for child care and to ease the burden on working families with three or more children; to pay for desperately needed school construction.

And because our plan will cost substantially less than the tax cuts passed by the Congress, we'll still have enough money -- and this is critical -- we'll still have enough money left to provide a Medicare prescription drug benefit, to extend the life of Social Security and Medicare, to pay for the baby boomers' retirement, and to stay on track to be debt-free by 2012. And, I might add, to keep interest rates lower so that we'll have billions of dollars in lower home mortgages, car payments and college loan payments.

We should have tax cuts this year. But they should be the right ones, targeted to working families, to help our economy grow, not tax bills so big they put our prosperity at risk. Now we've tried it our way for eight years, and we've tried it their way for several years before then. I say to Congress, stop passing tax bills you know I'll have to veto; start working together with us on a balanced budget that cuts taxes for middle class families, continues to pay off the national debt, and invests in America's future.

Over the last seven years, our country has overcome tremendous odds to create a moment of unprecedented prosperity and promise. But how we respond to good fortune is a stern test of our values, our judgment and our character as a nation as how we deal with adversity. I think we'll meet the challenge; and when we do, we'll ensure that America's best years are still to come. Thank you.

Q Are you still going to veto each of the bills if the Republicans did send them down here?

THE PRESIDENT: That is my plan. You know, a lot of these bills, individually, have a lot of appeal; I'm sure they do. And maybe, collectively, they have a lot of appeal until you know what they cost. But it's obvious that if you look at the income tax bill they passed last year and all these bills they're passing this year, together, they just eat up the projected surplus.

And let me say, the projected surplus is based on not only -- let me just make a few more points to you. The projected surplus is based not only on, I believe, a very rosy scenario by them, a somewhat less optimistic scenario from us, it's also based on an assumption of spending which assumes that federal spending will grow less than the economy will grow over the next 10 years, which is -- at least if you look at the record of even the Republican Congress over the last four years, a highly questionable assumption.

So keep in mind, this is before they spend money for anything. Before they pay for their proposed national missile defense, before they pay for the promises being made in this national campaign on the domestic side, before they may decide that at least for the things they like to spend money on, like highways and things, they want the spending to grow as fast as the economy grows.

This is a prescription, make no mistake about it, for going back to the economic policy of the past and going back to higher interest rates -- and higher interests rates which will take away the benefit of the tax cut to the vast majority of Americans, an undermine the long-term economic strength of the country. I know that it's not as appealing in election year, maybe, but we're right to pay the debt down. We need to keep getting America out of debt. We need to get rid of it. It's the right thing to do for the young people of the country.

Q Do the increased projected surpluses make it harder for you to make this case with every headline saying we're going to see this much more than we thought? Does that make it more difficult for you to argue that there is no room for these tax cuts?

THE PRESIDENT: Well, again, I think in the beginning it does. That's why I"m here making the argument. But it doesn't change the reality. If you look at the projected surplus, just look at the spending levels alone, the projected surplus is based on by the Congressional Budget Office and then just -- but the main thing I want to say is, once you put these tax cuts in, they're in. They're not like spending bills. You know, if Congress wants to spend money they come in next year and they spend money again.

So if the money turns out to be -- let's suppose they spend money in 2001 and they've got a five-year program, but in 2002 the revenues tail off, well they don't have to appropriate as much money. They can always cut back on spending. But once you put the tax cuts in they're in. It's a lot harder to say, well, I made a mistake I think I'll raise taxes.

So there should be a tax cut. No one questions that there should be a tax cut. The question is, how big should it be and who should be helped by it, and what are the other interests the country has. We shouldn't mislead the American people about our obligations to keep interest rates low, because almost Americans will be hurt more by higher interest rates than they can possibly be helped by any of these proposed tax cuts. And we shouldn't mislead the American people about the money we think the Congress is really going to have to spend.

This takes into account -- what if we have in the next 10 years a bunch of farm emergencies, like we've had for the last three? Let's go back and look at the extra money we've poured into spending on agriculture alone in the last three. And if you were in Congress, wouldn't you want to at least see education spending grow at the rate of the economy growing?

And look at the commitments they've made there. And so I'd just tell you, the idea that we would say, okay, here's the surplus, now let's pass tax cuts which take it all away -- and never mind what might happen to the revenues, and never mind what new investments we might have to make as a country that we don't even know about now for the next 10 years -- I think it's very troubling.

Q Mr. President?

THE PRESIDENT: Yes?

Q Do you think Governor Bush played it safe in choosing Dick Cheney as a running mate? And would you advise Vice President Gore to similarly play it safe in choosing his running mate? And would you advise Vice President Gore to similarly play it safe in choosing his running mate?

THE PRESIDENT: Well, first of all, I don't know -- I think the most important thing about that decision is that it will -- and everything I know about Mr. Cheney, personally, I like. I actually was kind of pleased by the decision, because there's no question that he has many years of experience in the Congress and in the previous Bush administration.

But the thing I liked about it was, it further clarified the choices for the American people, and I think that's important. I think the most important thing you want out of any election is that the voters understand what they're doing when they vote, and they understand that there are consequences to their vote. And it further clarifies that there are significant choices here to be made. There are big differences on the environment, on gun safety, on the woman's right to choose, on civil rights enforcement and on economic policy.

That's what I think the election ought to be about. I think this ought to be a positive election where people say good things about their opponents personally and say they have honest differences. And I think having Mr. Cheney coming on the ticket will help to clarify that there are big, profound differences between the two leaders and the tickets, and that those differences will have real consequences for the country. And I think because he's a good man, we can further dispense with the 20 years of politics of personal destruction and focus on the differences between the people that are running and the parties, and how it will change life in America.

So I think anything that clarifies the debate, lifts it up, focuses it on the issue differences is positive. And there are real, huge differences, and I think this will help to clarify them and I think that's positive.

Q Mr. President, you've complained that Congress has been slow to act on your appointments for judgeships and ambassadorial posts. If they don't act, do you feel in a mood to do this by recess appointments?

THE PRESIDENT: Well, first, I have made no decision on this. I haven't made any kind of -- I haven't had a meeting about it; as you know, I've been otherwise occupied the last couple of weeks. I'd like to begin by just citing the record here.

I have bent over backwards to respect the constitutional senatorial appointment process. The record will reflect that I have made less use of recess appointments than either President Bush or President Reagan, even when I had a Republican Senate the way they had Democratic Senates.

I think the record will reflect that I have shown more restraint in that, even when I've had a little more partisan differences with the Senate than they did on the appointments process -- my predecessors.

So I have shown a reluctance to make robust use of that option. And I just have -- to be perfectly candid, I've been so absorbed with other things, I have not -- I don't even know for sure what my options are, what's out there, what irrevocable consequences could result if I don't use it during this session, in terms of unfairness to particular individuals or to the public interest. So I've just go to look at the facts and make a judgment. But I have not made a decision yet.

Q It does sound like your patience is running out it, though.

THE PRESIDENT: No, but I really haven't made a judgment on this. I've never been -- if you just look at the record here, I have not been a big user of recess appointments, because I respect the whole process by which the Senate reviews these things, even when I think it's been strained. But I honestly haven't made a decision yet. I just have to look and see what the options are.

Q On the Middle East, Mr. President, the Palestinians are saying the deal on the table on Jerusalem is just not doable. If that's the case how can there ever be a compromise?

THE PRESIDENT: Well, first of all, let me try to frame this in a way that I think that the Palestinians and the Israelis, and I would hope other friends of peace around the world would think about it. We all know how hard Jerusalem is because it goes to the sense of identity of both the Palestinian and the Israeli people. And in a larger sense the adherence of Islam, Judaism and Christianity all around the world.

In a sense, therefore, the City of Jerusalem is not just Yerushalaim for the Israelis and Al Quds for the Palestinians. It is a holy place that reaches beyond even the geographical boundaries of the city.

If there is to be an agreement here it must be one which meets the legitimate interests of both parties. And that requires a certain imagination and flexibility of defining those interests and then figuring out an institutional and legal framework for them that, frankly, just takes more time and more reflection and probably less pressure than was available in our 15 days at Camp David.

But in any negotiation, it must be possible for both sides to say they got most of what they wanted and needed, that they were not routed from the field, that there was honorable compromise; and, so, therefore, the issues cannot be framed in a "you have to lose in order for me to win, and in order for you to win, I have to lose" framework. If they are like that, you're correct, then we can never reach an agreement.

But I have spent a great deal of time, obviously not only studying about this, but listening to the two sides talk about it, think about it, and looking at all the options available for a potential resolution of it. And all I can tell you is, I'm convinced that if the issue is preserving the fundamental interests of the Palestinians and the Israelis, and the genuine sanctity of the Muslim, Christian and Jewish interest in the Holy City, then I think we can do that. I just do. But we couldn't do it in the 15 days we were there.

The decision that will have to be made is whether there is a way -- for example, in this case, you mentioned the Palestinians -- for the Palestinians to win their fundamental interest without also winning the right to say they have routed the Israelis, or whether there's a way for the Israelis to protect their fundamental interests without also winning the right to say they have stuck it to the Palestinians. I believe there is, and we're going to explore how we might persuade them, all of them, that there is and where we go from here.

And I hope that just this kind of thing I've been talking about will spark a whole range of, oh, articles in the press, commentators on the TV programs, other people talking and thinking this way, trying to be innovative and open and -- you know, I realize the incredible pressure these people are under in even having this discussion. That is, in the end, why I realized we couldn't get it done in two weeks. You've got to get used to talking about something for a little bit before you can then entertain how you can create an edifice that you hadn't previously imagined. And I think we'll be able to do it.

Q How long are you going to wait before you give it another shot?

THE PRESIDENT: I can't answer that. I've tried to make the judgments here for eight years based on what I thought would aid the process, and I can't yet tell, Mark, what would be most in aid of the process; I just can't tell yet.

Thank you.

END 2:34 P.M. EDT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

July 25, 2000

The Honorable
Charles B. Rangel
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rangel:

I understand that the House is considering H.R. 4865, another in a series of fiscally unwise tax cuts. These tax cuts, taken together with tax cuts passed by the 106th Congress last year, would drain away our hard-earned budget surplus, risking putting us back into deficit and leaving no on-budget resources to extend the life of Social Security or Medicare, provide a real Medicare prescription drug benefit, invest in education, or pay down the national debt.

Our current economic expansion is built on the foundation of the tough and prudent fiscal strategy we have pursued since 1993. That strategy has helped bring about the largest surpluses and longest economic expansion in our history. But Congress, on the basis of inherently uncertain projections about the future surplus, is now spending that entire surplus one tax break at a time. This threatens to raise interest rates, puts at risk our economic expansion, slows investment and productivity growth, increases dependence on foreign capital, and reduces our flexibility to deal with potential future problems.

Moreover, the Congressional majority's tax proposals provide relatively few benefits for the vast majority of our working families. The proposals will provide about as much relief to the top one percent of taxpayers as to the millions of working people who make up the bottom 80 percent of taxpayers. As a result of the tax cuts passed this year, the average family in the top 1 percent would receive a tax cut of over $16,000 -- dwarfing the roughly $220 tax cut received by a family in the middle of the income distribution. A one-third of a percentage point increase in interest rates as a result of these tax cuts would raise mortgage payments enough to wipe out the tax benefits for a typical family with a $100,000 home mortgage.

The President has proposed a series of targeted tax cuts that deliver 70 percent more tax relief to middle-class families at less than half the cost of the tax cuts passed by the Congressional Majority this year. The President's proposals would maintain our fiscal discipline while helping families send our children to college, care for chronically ill family members, assisting people with disabilities to enter or remain in the workforce, pay for child care, ease the burden on working families with three or more children, and provide progressive saving incentives and carefully targeted marriage penalty relief. And because the President's tax plan would cost substantially less than the tax cuts proposed by Congress, we'll still have enough money to provide a Medicare prescription drug benefit, to strengthen Social Security, modernize Medicare, and stay on track to be debt-free in 2012.

H.R. 4865 is the latest in a series of costly and poorly targeted tax proposals. Furthermore, it would divert substantial resources that could be used for a Medicare prescription drug benefit while making substantial general revenue transfers that do not add a single day to the life of Medicare. For all of these reasons, and absent a Congressional framework for safeguarding our financial future, the President's senior advisers would recommend that he veto the bill.

This proposal would cost more than $100 billion over ten years. Instead of devoting these resources toward a Medicare prescription drug benefit that would benefit all seniors and eligible people with disabilities, this proposal would leave more than four out of five Social Security beneficiaries with no more than they have today.

If all of the tax cuts previously passed by the Congressional majority are enacted this year or next, there could be no surplus to retain the current solvency of the Medicare trust fund without putting our country back into deficit. Moreover, the Republican leadership has opposed general revenue transfers to the Medicare or Social Security trust funds in the past. If these transfers were eliminated, five years would be taken off the projected life of Medicare -- making the trust fund insolvent in 2020, instead of 2025 as projected under current law. Even if the transfers proposed in the bill were made, we would not add a single day added to the life of Medicare.

In contrast, the Administration has put forward a comprehensive plan to modernize the Medicare program, introduce competition among health-care providers, add a long-overdue Medicare prescription drug benefit, *and extend the life of the Medicare Trust Fund to at least 2030.* For Social Security, the President has proposed to extend the life of the Social Security trust fund to at least 2057 and to strengthen the Social Security benefit for the most vulnerable in our society, especially for elderly widows, who suffer poverty at nearly twice the rate of the elderly population overall.

We have the resources to accomplish a lot this year. We hope that we can work together to agree on a balanced framework of tax cuts, investments, and debt reduction that safeguards our prosperity and benefits all Americans. We look forward to working with members of Congress on a bipartisan basis to address these national priorities while maintaining our fiscal discipline.

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

2000-SE-008608

DEPARTMENT OF THE TREASURY
WASHINGTON

August 25, 2000

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Deputy Assistant Secretary Douglas W. Elmendorf DE

SUBJECT: **Individual Account Proposals for Social Security Reform**

Many proposals for Social Security reform in the past few years have included the creation of individual accounts whose balances would be drawn down after individuals' retirement to substitute in part for their traditional Social Security benefits. This memo reviews the effect on retirement benefits of six prominent proposals of this type.

The first four proposals make substantial cuts in traditional Social Security benefits that would be offset to some unknown extent by payouts from individual accounts. (The Social Security actuaries have projected total retirement benefits – OASDI benefits plus individual account payouts – for only one of these proposals; in this case, those benefits would be less than under existing law for almost all individuals.) The last two proposals would set traditional Social Security benefits so that total retirement benefits are guaranteed to equal or exceed current-law benefits.

- **"Bipartisan Social Security Reform Act of 2000" sponsored by Senators Gregg, Kerrey, Breaux, Grassley, Thompson, Robb, and (Craig) Thomas**

This proposal and the next grew out of the 1998 National Commission on Retirement Policy (NCRP) plan sponsored by the Center for Strategic and International Studies (CSIS). A Social Security actuaries' memo from June 22, 2000 shows that this proposal makes benefit cuts that nearly eliminate Social Security's 75-year actuarial imbalance. In addition, the proposal would shift 2 percentage points of the payroll tax to individual accounts and reduce traditional benefits further based on the accumulation of these accounts at the Trust Fund interest rate. The net loss to the Trust Fund from this part of the proposal would be made up largely through general revenue transfers.

If individuals earned a higher return on their accounts, the second part of the proposal would raise total retirement benefits, although the actuaries' memo does not discuss the size of this effect. The original NCRP plan used no general revenue and resulted in a cut in total retirement benefits of about 10 percent. A back-of-the-envelope calculation suggests that the addition of general revenue in this plan would still leave a small cut in projected total benefits.

- **"21st Century Retirement Security Act" sponsored by Representatives Kolbe and Stenholm**

A Social Security actuaries' memo from May 25, 1999 shows that this proposal also would reduce OASDI benefits substantially, while re-directing 2 percentage points of the payroll tax to individual accounts and making general revenue transfers to the Trust Fund. Again, there was no analysis of total retirement benefits.

- **"Social Security Solvency Act of 1998" sponsored by Senators Kerrey and Moynihan**

This proposal would cut OASDI benefits substantially, primarily through smaller cost-of-living adjustments, higher taxation of benefits, and an increase in the benefit computation period from 35 to 38 years. Individuals could choose to direct two percentage points of the payroll tax to individual accounts.

- **Proposal by Representative Kasich**

A Social Security actuaries' memo from June 14, 1999 explains that the first part of this proposal would cause OASDI benefit levels to rise across generations with inflation rather than with average wages as under current law. This benefit cut alone would eliminate the 75-year actuarial imbalance. The second part of the proposal is a further, voluntary OASDI benefit cut in return for contributions to an individual account.

The actuaries state that the first part of the proposal would reduce benefits by 14 percent for those newly eligible in 2020, 28 percent for those newly eligible in 2040, and 44 percent for those newly eligible in 2070. Including the second part of the proposal would leave total retirement benefits (from OASDI plus individual account) below current law for nearly all workers, with the exception of those born between 1970 and 1995 who never marry and who invest at least half of their account balances in equities.

- **"Social Security Guarantee (SSG) Plan" sponsored by Representatives Archer and Shaw**

This proposal would transfer 2 percent of taxable earnings from the General Fund to SSG individual accounts; upon individuals' retirement, their entire account balances would be transferred to the Trust Fund. A Social Security actuaries' memo from April 29, 1999 states that "benefits paid by the OASDI program would be the higher of benefits scheduled under current law or the scheduled SSG withdrawal rate based on a life-annuity calculation."

- **"Social Security Preservation Act" sponsored by Senators Gramm and Domenici**

Under this proposal, workers could choose whether to remain in the existing OASDI system or enroll in an "investment-based system" in which 3 percentage points of the payroll tax would be placed in individual accounts. Upon retirement, the balance of the account would be used to purchase an inflation-indexed annuity that would be supplemented by OASDI to ensure that the total retirement benefit equals at least 100 percent of the current-law benefit plus 20 percent of the annuity. Transfers from the General Fund to the Trust Fund would finance "the transition."

STOCK MARKET

1998-SE-005104

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D. C. 20220

April 22, 1998

MEMORANDUM FOR PRESIDENT CLINTON
VICE PRESIDENT GORE

THROUGH: Robert E. Rubin R E R

FROM: Lawrence H. Summers LS

SUBJECT: Paul Tudor Jones Op-ed on the Stock Market

I found this quite interesting and somewhat sobering.

Attachment

MANIA: DISORGANIZATION OF BEHAVIOR AND ELEVATION OF MOOD

Paul Tudor Jones
Chairman
Tudor Investment Corporation
(for Barron's)
Draft April 17, 1998

Mania** 1: disorganization of behavior, and elevation of mood; 2: excessive or unreasonable enthusiasm

We are in a stock market mania. Markets are disorganized, and investors are elated to the point of giddiness. If we are to avoid following the path Japan took a decade ago, we need a central bank that is willing to tell investors the facts of life.

The Federal Reserve may not have the statutory or technical tools to moderate just the stock market, but it can and it should work to increase market transparency. Last September, Chairman Greenspan said, "the prices of final goods and services were stable in Japan in the mid-to-late 1980s, but soaring asset prices distorted resource allocation and ultimately undermined the performance of the economy." We cannot let that happen in the United States.

In market bubbles, everyone is optimistic, too optimistic. At times such as these, a country depends more than ever on the sober assessments and leadership of its central bank officials. At the next set of Congressional Humphrey-Hawkins hearings Chairman Alan Greenspan should explain the reasons he and other G7 central bank head are concerned about what is happening in global stock markets.

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* Source: Webster's Third New International Dictionary, Unabridged:

Manias and Bubble Markets

Manias are characterized by a disorganization of behavior. The table below is an example. It shows how the trailing three-year growth rate of the S&P 500 has accelerated each of the past three years while the trailing three-year earnings growth has *decelerated.*

THREE YEAR TRAILING GROWTH RATE

	1995	1996	1997	1998
S & P 500	12.2%	16.7%	28.3%	29.2%
Reported Earnings	21.1%	21.0%	10.0%%	8.8%

The dividend discount model provides a good estimate of the fair value of the U.S. equity market. Applying this approach, current market prices require earnings to grow at 11.5% p.a. over the next 10 years -- well in excess of the actual growth rate experienced over the preceding 10 years (10%) or 50 years (6.2%). Given that the above-average earnings growth over the last 10 years is due to one-off factors (e.g. corporate re-structuring and a fall in interest rates), it seems very unlikely that earnings will actually grow at 11.5% p.a. over the next 10 years.

Manias and bubbles are characterized by unreasonable enthusiasm and occur so infrequently in history, people just are not aware of the danger, nor do they want to hear of it. The general lack of recognition of market bubble risk by the vast majority of economists, analysts, financial writers and investors, should not surprise us. Justifications of stock prices moving in the opposite direction from earnings and well beyond historic limits, rather than questioning these trends, is just what happens in market bubbles. Until the top is in, the accompanying financial environment of a true bubble economy is certainly the most seductive and euphoric part of any business cycle. Why stop when it feels so good?

Sixteen months ago, when the S&P 500 index was 47% lower than it is now, Chairman Greenspan soberly asked, "How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?" In other words, how do we know when we are in a bubble?

Limited data makes an absolute answer impossible, but there are some guideposts. All economic growth is accompanied by some form of longer-term, credit and asset value expansion. A financial bubble occurs when credit and asset value expansion unsustainably exceeds the productive capacity of the underlying economy.

The total public and private debt of an economy divided by GDP is a rough but useable measure of credit levels relative to the underlying economy. The total value of all equities, also divided by GDP, is a workable measure of asset levels. These two measures reveal the leverage in an economy. They show the degree to which the largest categories of assets in an industrialized economy are supported by the economy itself. Did we leave out real estate? No. Most real estate assets are represented in the mortgage component of debt/GDP, and in the equity category as corporate assets.

Gearing Ratio

We can define a financial bubble by combining the debt and equity measures into a "Gearing Ratio":

$$\frac{\text{Total Equities + Total Debt}}{\text{GDP}} = \text{Gearing Ratio}$$

The term "gearing" is used by analysts and investors to refer to the amount of leverage or debt applied to a given amount of equity to ratchet up or down the return on equity. We use this the same term to focus attention on the degree to which a market is extended relative the economy. <u>In our discussion, "gearing" refers to the amount of total financial leverage, via the equity and credit markets, that is currently being utilized relative to GDP, to sustain a given level of GDP</u>. Stocks are levered assets under this definition, as their value is not a constant. Just as stocks in 1998 trade at over six times book, so too might they again trade at 1 ½ times book or lower as they did for over half of this century.

Table 1 shows the gearing ratio for the United States since 1919 along with relevant measures of stock and credit market values, inflation, and GDP growth.

Table 1 -- United States 1919-to date: Gearing ratio, Inflation and Real GDP Growth

YEAR	Market cap in % of GDP	Debt in % of GDP	Gearing	Inflation	GDP Growth	YEAR	Market cap in % of GDP	Debt in % of GDP	Gearing	Inflation	GDP Growth
1919	19%	136%	155%	14.9%	-5.3%	1959	82%	136%	217%	0.9%	5.6%
1920	20%	133%	153%	15.8%	-7.0%	1960	80%	138%	217%	1.8%	2.2%
1921	32%	176%	208%	-10.7%	-13.1%	1961	96%	141%	237%	0.9%	2.7%
1922	29%	171%	200%	-6.3%	12.7%	1962	86%	140%	226%	0.9%	5.1%
1923	32%	156%	188%	1.8%	12.9%	1963	90%	142%	232%	1.3%	4.1%
1924	32%	163%	194%	0.2%	-0.7%	1964	98%	142%	239%	1.3%	5.6%
1925	37%	157%	193%	2.5%	7.3%	1965	102%	140%	242%	1.7%	5.6%
1926	39%	157%	196%	1.0%	3.2%	1966	84%	136%	220%	3.3%	6.0%
1927	52%	167%	219%	-1.9%	-0.3%	1967	100%	138%	238%	2.4%	2.6%
1928	69%	171%	240%	-1.3%	3.5%	1968	109%	136%	246%	4.3%	4.1%
1929	**85%**	**167%**	**252%**	**0.0%**	**6.2%**	1969	87%	136%	222%	5.6%	2.7%
1930	54%	192%	246%	-2.5%	-9.7%	1970	81%	137%	219%	5.7%	0.0%
1931	35%	221%	256%	-8.8%	-7.3%	1971	88%	138%	226%	4.4%	3.1%
1932	41%	288%	329%	-10.3%	-16.1%	1972	99%	138%	237%	3.2%	4.8%
1933	50%	237%	287%	-5.1%	22.4%	1973	69%	137%	206%	6.3%	5.2%
1934	51%	241%	293%	3.4%	-3.4%	1974	43%	138%	181%	11.2%	-0.6%
1935	64%	222%	286%	2.5%	8.4%	1975	52%	139%	191%	9.0%	-0.8%
1936	72%	200%	271%	1.0%	13.4%	1976	57%	138%	195%	5.8%	4.9%
1937	42%	184%	226%	3.6%	6.2%	1977	46%	140%	185%	6.4%	4.5%
1938	55%	194%	250%	-1.9%	-4.6%	1978	43%	140%	183%	7.5%	4.8%
1939	51%	187%	238%	-1.4%	8.4%	1979	45%	141%	186%	11.4%	2.5%
1940	41%	177%	218%	1.0%	9.2%	1980	54%	142%	197%	13.5%	-0.5%
1941	28%	155%	183%	5.0%	20.2%	1981	45%	140%	185%	10.3%	1.8%
1942	24%	145%	168%	10.7%	16.9%	1982	49%	148%	197%	6.2%	-2.2%
1943	24%	143%	167%	6.1%	16.6%	1983	54%	153%	206%	3.1%	3.9%
1944	25%	155%	180%	1.7%	9.1%	1984	47%	158%	204%	4.3%	6.2%
1945	33%	160%	193%	2.3%	-0.7%	1985	55%	171%	226%	3.6%	3.2%
1946	31%	157%	188%	8.5%	-8.8%	1986	62%	180%	242%	1.8%	2.9%
1947	28%	150%	178%	14.4%	-4.5%	1987	**81%**	**185%**	**266%**	**3.7%**	**3.1%**
1948	25%	141%	165%	7.8%	2.5%	1988	62%	187%	249%	4.0%	3.9%
1949	28%	148%	176%	-1.0%	0.4%	1989	70%	187%	257%	4.9%	2.5%
1950	32%	142%	174%	1.0%	8.7%	1990	62%	189%	250%	5.4%	0.8%
1951	32%	130%	162%	7.9%	9.9%	1991	82%	191%	273%	4.2%	-1.0%
1952	48%	131%	179%	2.2%	4.3%	1992	87%	189%	277%	3.1%	2.7%
1953	44%	132%	176%	1.0%	3.7%	1993	95%	190%	285%	3.0%	2.2%
1954	60%	138%	199%	0.5%	-0.7%	1994	90%	187%	277%	2.5%	3.5%
1955	70%	136%	206%	-0.5%	5.6%	1995	115%	189%	303%	2.8%	2.0%
1956	72%	135%	207%	1.5%	2.0%	1996	132%	189%	321%	2.9%	2.8%
1957	62%	134%	197%	3.4%	1.9%	1997	160%	188%	348%	2.4%	3.8%

Here are five fascinating aspects of these numbers.

1. Note how the gearing ratio increased 60% between 1919-1929 (similar to our 50% increase in the last ten years). Also note how there was virtually no inflation at the peak of prosperity in 1929, just like Japan in the mid-to-late 1980s.
2. Note how the gearing ratio exploded between 1929 and 1935, despite a collapse in the stock market. This was due initially to the sharp contraction in GDP, and later to the explosion in the public deficit as a result of the Depression. The same phenomena is now occurring in Japan.
3. The gearing ratio remained range-bound from 1929 to 1987, fluctuating between 185 and 246%. Business cycles abounded during this period, as evidenced by the dramatic fluctuations in real GDP and CPI. The gearing ratio, however, remain essentially unchanged.
4. The crash of 1987, which as Chairman Greenspan said in 1996, "had few negative consequences for the economy" occurred with a stock market/GDP ratio that was less than one third of the 1998 level. A 40% decline in 1987 was the equivalent of about 35% of GDP. Today the same decline would be closer to 75% of GDP, with probably far greater economic consequences if it were to occur.
5. Since Chairman Greenspan took over the Chairmanship of the Fed in 1987 and coincident with the ascendancy of global capitalism, he delivered the most stable, positive real GDP growth since the 1960's, interrupted only briefly by recession during the Persian Gulf War. At the same time, the gearing ratio climbed from 244% to a new, all-time high of 374%. Or to put it another way, we have added financial gearing

to our balance sheet roughly equal to 1 and 1/3 year's worth of GDP in the last ten years while delivering this stable, level of growth.

Global Gearing Ratios

Every country's gearing ratio is racing ahead, but the U.S. is holding on to its lead over every country in the G-7.

Table 2 compares the U.S. gearing ratio to the other industrialized countries of the

TABLE 2 – "Gearing" Ratios in the G7

	US	UK	JAPAN	FRA	GERMANY	CANADA	ITALY	G7	G7-exUS
1990	250%	275%	353%	145%	209%	248%	158%	234%	231%
1991	273%	306%	342%	150%	222%	264%	165%	246%	241%
1992	277%	307%	320%	152%	220%	273%	179%	247%	242%
1993	285%	326%	335%	165%	237%	283%	186%	260%	256%
1994	277%	292%	351%	160%	237%	295%	191%	258%	254%
1995	303%	314%	364%	163%	242%	303%	188%	268%	262%
1996	321%	324%	357%	170%	257%	322%	192%	278%	270%
1997	346%	346%	348%	181%	275%	335%	195%	290%	280%
1998	374%	362%	351%	192%	285%	345%	203%	302%	290%

Figures at year-end (latest for 1998)

G-7.

In trying to answer Chairman Greenspan's question of, "How do we know when asset values have unduly escalated," refer to Table 3. It contains data from those three

TABLE 3 – "At what levels have asset values unduly escalated ?": Japan, Hong-Kong and Malaysia

	JAPAN					HONG-KONG					MALAYSIA				
YEAR	Market cap in % of GDP	Debt in % of GDP	Gearing	Inflation	GDP Growth	Market cap in % of GDP	Debt in % of GDP	Gearing	Inflation	GDP Growth	Market cap in % of GDP	Debt in % of GDP	Gearing	Inflation	GDP Growth
1988	123%	258%	381%	0.7%	6.3%	107%									
1989	146%	261%	406%	2.3%	4.8%	100%									
1990	85%	268%	353%	3.1%	5.2%	96%								3.3%	9.6%
1991	81%	261%	342%	3.3%	3.8%	123%	132%	255%	11.6%	5.0%				4.2%	10.2%
1992	61%	259%	320%	1.7%	1.0%	148%	124%	272%	9.3%	6.2%	125%	146%	271%	4.9%	6.7%
1993	68%	267%	335%	1.3%	0.3%	282%	130%	413%	8.5%	6.2%	262%	149%	410%	3.4%	8.4%
1994	74%	277%	351%	0.7%	0.7%	178%	145%	322%	8.2%	5.5%	172%	146%	318%	5.4%	9.8%
1995	74%	289%	364%	-0.1%	1.4%	188%	148%	335%	8.6%	3.8%	163%	160%	323%	3.2%	11.7%
1996	69%	288%	357%	0.1%	4.1%	243%	157%	400%	6.0%	5.0%	188%	182%	371%	3.3%	10.9%
1997	58%	290%	348%	1.7%	0.9%	296%	172%	469%	5.8%	5.4%	90%	201%	291%	2.7%	8.0%
current	61%	290%	351%	0.1%	0.2%	192%	172%	364%	3.4%	-0.6%	102%	206%	308%	10.0%	-0.5%

Bold	indicates peak gearing

countries that have experienced financial bubbles just within the past decade—Japan, Hong Kong, and Malaysia. Note what happened when the gearing ratio first crossed 400%. Within years, the event marked the beginning of generational economic destruction.

Disinflation – Deflation

Besides having extraordinary gearing ratios, these three bubble economies also shared another important characteristic with the U.S. in 1929. The period immediately preceding the bubble peaks were all characterized by disinflation. The average inflation rate of the peak-gearing year of the four economies was only 2.9%. Disinflation was the Trojan horse. Disinflation brought with it very low interest rates. These in turn spawned stock market gains and a massive over-investment in productive capacity for retail markets that were as illusory and unsustainable as the 30% plus stock market gains on which they were predicated.

Another consequence of exponential stock market moves was the un-virtuous circle created between public sector surpluses and lower interest rates. In most countries, rapidly escalating stock prices increased tax revenues beyond government forecasts, which in turn, reduced budget deficits and lowered long-term interest rates. In Ponzi-like fashion, lower long-term rates became the valuation justification for even higher stock prices and more favorable budget forecasts. The resolution of this process in all four economies was identical — a stock market decline which caused a massive deleveraging of the economy, reductions in growth, and increases in unemployment.

Bubble Tops

Finally, it is interesting to note the acceleration of equity prices in the years leading to the peak-gearing year. Table 4 illustrates these exponential moves and compares it to the current market. The crucial 1998 number for the US is for just the first four months of this year.

Table 4: Annualized Share Price Increases Leading To Bubble Tops

market	year	1 year	3 year	5 year
US	1929	52%	33%	29%
Japan	1989	29%	28%	27%
Malaysia	1993	113%	35%	28%
Hong Kong	1997	53%	20%	23%
Averages		62%	29%	27%
US	*1998*	*39%*	*29%*	*20%*

At our current average one-year share price growth rate, the US gearing ratio will rise above 400% in August, 1998, and will set a new all-time global record in June, 1999.

Central Bank Policy Response

The Federal Reserve cannot remain quiet about the implications of a stock market bubble. Its legislative mandate reflects Congressional concerns about financial instability and makes employment maximization the Fed's first priority. Allowing the economy to enter a financial bubble and risk a market crash is wholly inconsistent with the Fed's statutory responsibilities as expressed in the Humphrey-Hawkins Act. The Fed may not be able to raise rates because inflation is declining, but it can vastly increase the public's understanding of market risk.

Treasury Secretary Rubin underscored this point in a speech at the Brookings Institution last week, "*When investors are well-informed, use that information wisely, and expect to bear the consequences of their actions, they will make better decisions.*"

Earlier this month, Chairman Greenspan responded to a question on whether the stock market is too high by saying, "In this frenetic environment, things are going to fluctuate a good deal both up and down. And I think your 401(k) will squeeze down to a 200(k) or [rise] to a 600(k). (Laughter)." Imbedded in his seemingly offhand remarks are some very serious issues. The Chairman needs to explain what the economic consequences would be today if either of those scenarios came to pass.

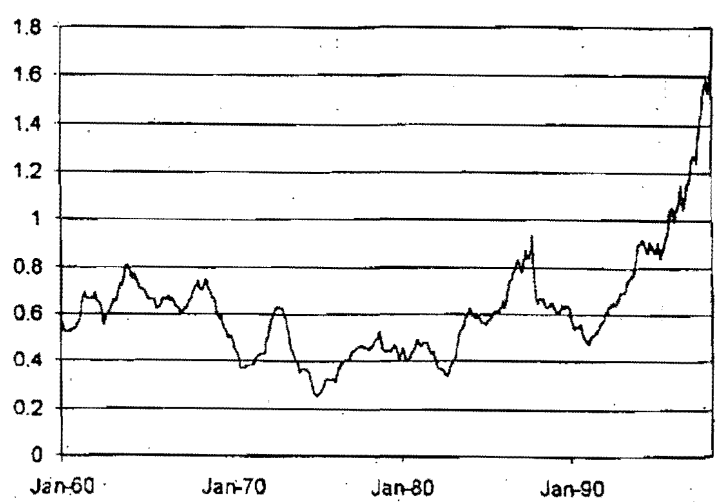
At a minimum, in his next Humphrey-Hawkins Congressional testimony Chairman Greenspan should address three issues relating to the stock market:

First, what are the economic consequences of both a sustained 20% year over year advance as well as decline in stock prices (remember, the United States has spent only 97 market days since the bottom in 1982 with share prices down more than 20% year over year). The consequences to an investor in the stock market are arithmetically straightforward. But given the 60% correlation between retail sales and the stock market, the economic consequences of both a 20% advance or decline to people engaged in everyday commerce could be quite helpful as they plan for the future.

Secondly, what are the budget consequences of recent stock market trends. Stock market related tax receipts have soared in the past two years as a result of increased capital gains revenue. A variety of economists have estimated the figure at between \$60-\$80 billion or almost 1% of GDP. The Chairman should discuss the budgetary implications of the permanence of these gains as well as provide future forecasts based on an unchanged, up 20%, or down 20% stock market. Given the budgetary experience of the post bubble periods in the U.S. in 1929 and Japan in 1989, now is the time to focus on how to best appropriate our first budget surplus since 1969. It is particularly crucial given Congress's desire to push ahead with an election year tax cut in an economy at full employment.

Third, are current levels of margin debt safe? Margin debt as a percentage of total stock market capitalization has been well within historical boundaries, but it is out of bounds relative to GDP (see Figure 1). Margin debt/GDP is a much more relevant measure than margin debt/stock market capitalization as it measures the ability to pay in real money as opposed to a currency that would be depreciating in a bear market, i.e. other stocks. The availability of financial credit is even more of a concern in light of the $40 trillion worth of global derivatives that have been created in just the 1990s, none of which have been stress-tested in the United States with anything more than a momentary 10% decline in share values.

Figure1: US Margin Debt as % of GDP



Closing Comment

The defense against any type of irrational behavior is knowledge and transparency. Now is an appropriate time to increase market transparency and fully illuminate and discuss the spectacular financial gearing that has been added to our economy in the last decade in a detailed and specific fashion. Hopefully, the ascendancy of global capitalism and technological innovation fully warrant it, and we are not simply pawns in another mania.

The Federal Reserve is the institution within the US government that is specifically charged with making sure the economic party does not get out of hand. They're the ones who are supposed to take the punchbowl away before things get too wild. The Humphrey-Hawkins hearing is the forum established for the Fed to discuss its internal concerns and expectations. Hopefully this will aid in helping the American public to avoid repeating the failures of the past.

*****

To NCC 4/22/98

NCC to RER 4/22/98

(signature)

RER signed 4/22

NCC ~~to~~ cc MF

NCC cc NCC 4/22

PA cc SS

DL/PA/AK

Please log in.

TAX POLICY (GENERAL)

94 137307

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

August 28, 1994

MEMORANDUM FOR PRESIDENT CLINTON

FROM: LLOYD BENTSEN

SUBJECT: Representative Brewster's Marginal Well Tax Credit Amendment

On August 19, the House Committee on Ways and Means favorably reported the revenue provisions of the Superfund reauthorization legislation. Prior to the mark-up, Representative Brewster filed an amendment (Attachment 1), which provided for a marginal well tax credit, with the House Ways and Means staff for its determination of whether the amendment was germane. The amendment, which is identical to Senator Boren's proposal, had previously been submitted to the Joint Committee on Taxation (JCT) staff by Senator Boren for a revenue estimate. After consultation, officials from the Office of Management and Budget, the National Economic Council, Treasury, the Department of Energy (DOE), and the Environmental Protection Agency made the determination that: (1) Superfund was not the proper vehicle for the marginal well tax credit based on opposition from the environmental community, and that it would "open the door" for other extraneous matters; (2) although JCT issued a letter to Senator Boren that the proposal was revenue neutral, it was revenue neutral for only one year[1]; and (3) the proposal was flawed on technical grounds[2] in several respects.

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[1] See Attachment 2 for the letter to Senator Boren from JCT. Because the proposed tax credit used the Congressional Budget Office's baseline forecast for oil prices as the trigger for the tax, the proposal could only be estimated one year at a time. We consider this approach as "gaming the system" without policy justification. Moreover, Congress would have to waive the budget rules to accept the provision based on a one-year revenue projection, thus making the Superfund reauthorization subject to a 60-vote point of order in the Senate, absent other revenue offsets to cover costs in later years.

[2] For example, the proposal included a credit for new well production, which we believed was beyond the scope of your commitment that the Administration would "work with Congress to identify policies that can extend the margin of economic production while ensuring revenue neutrality." See Attachment 3 for your letter, dated July 5, 1994, to Congress regarding oil and gas issues.

Treasury and DOE, through DOE Deputy Secretary Bill White, came to an agreement with Mr. Brewster that, upon his introduction of the amendment, the Administration would state that it could not currently support his amendment, but the Administration would complete its decisions regarding marginal wells "by the time of the publication of the FY 1996 Budget." The text of the Administration's statement to be presented at mark-up is in Attachment 4. Treasury and DOE communicated to Mr. Brewster that the Administration would lose the environmental community's support of the Superfund reauthorization, if it supported his bill as an amendment to Superfund.

On the afternoon before the Committee on Ways and Means mark-up (August 18), Treasury was informed by the Ways and Means Committee staff that the amendment had been determined to be non-germane. Therefore, upon introduction of the amendment by Mr. Brewster, Acting Chairman Gibbons would have ruled it out of order. At that time, Treasury may or may not have been asked by Acting Chairman Gibbons to state the Administration's position on the proposed amendment. Regardless, prior to the mark-up, Treasury was informed by Mr. Brewster's staff that he was not going to introduce the amendment because he did not want "to owe one" to the Administration. Moreover, his letter to you, dated August 18, regarding the crime bill, contained an inaccurate accusation that the Administration was not holding up its end of the bargain. See Mr. Brewster's letter to you as Attachment 5.

To reiterate, it should be noted that the Administration's commitment to Members of Congress was that we would work with them to identify a revenue neutral policy that could extend the margin of economic production. We did not commit to support the Boren/Brewster proposal or any other Member's marginal well proposal. Moreover, they are aware, and have not objected to the fact, that we expect to complete our work sometime closer to January 1995.

Attachments

cc: Cutter
Samuels
Levy
White

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

August 23, 1994

ACTION

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Michael B. Levy MBL
Assistant Secretary For
Legislative Affairs

SUBJECT: Explanation of Representative Brewster's Letter to President Clinton referencing his Marginal Well Tax Credit Amendment

ACTION FORCING EVENT:

Representative Brewster wrote a letter to President Clinton regarding the crime bill, which included a reference to Treasury's response to his marginal well tax credit amendment.

RECOMMENDATION:

That you sign the attached memorandum.

_______________ Agree _______________ Disagree _______________
Let's Discuss

BACKGROUND/ANALYSIS:

The Administration has been working with Congress and the oil and gas industry to address the issue of marginal production during periods of low oil prices. Although prices are now about $20 per barrel, President Clinton made a commitment to several Members of Congress to "identify policies that can extend the margin of economic production while ensuring revenue neutrality." The Administration should finish its analysis of the issue around January 1995.

Mr. Brewster considered offering an amendment, which provided for marginal <u>and</u> new well tax credits, to the revenue provisions of the Superfund reauthorization legislation. The House Committee on Ways and Means marked up the Superfund reauthorization last Friday, August 19, and favorably reported the revenue provisions. The proposed tax credit used the Congressional Budget Office's baseline forecast for oil prices as the trigger for the tax and was estimated by the Joint Committee on Taxation to be revenue neutral for <u>one</u> year. Not only do we believe that this is "gaming the system", but inclusion of the tax credit would have subjected Superfund reauthorization to a 60-vote point of order in the Senate, absent other revenue offsets to cover

Edward S. Knight

costs in later years. In addition, after an initial analysis, several Administration agencies agreed that we should not support the amendment on the grounds that Superfund was not the proper vehicle for the marginal well tax credit based on opposition from the environmental community, and that it would "open the door" for other extraneous matters. Moreover, the group of agencies believed that the proposal was flawed on technical grounds in several respects, such as the inclusion of new wells, which we believed was beyond the scope of the President's commitment to Members of Congress. Additionally, the House Committee on Ways and Means staff had determined that the amendment was non-germane to the Superfund bill.

Treasury and DOE, through DOE Deputy Secretary Bill White, communicated the Administration's concerns to Mr. Brewster and came to an agreement regarding our response to his introduction of the amendment. According to Mr. Brewster's staff, however, he decided not to introduce the measure--and, thus, the Administration did not go on record with its commitment--so that he would "not owe one" to the Administration. As you may recall, the Administration committed to complete its decisions on marginal wells "by the time of the publication of the FY 1996 Budget." Further, Mr. Brewster wrote to President Clinton on the crime bill and included an inaccurate representation of Treasury's and the Administration's response to his amendment.

Your memorandum outlines the chain of events leading up to the letter to the President. The memorandum also notes that the Administration's commitment to Members of Congress was that we would work with them to identify a revenue neutral policy that could extend the margin of economic production. Moreover, it emphasizes that we did not commit to support the Boren/Brewster proposal or any other Member's marginal well proposal, but that we will complete our work closer to January 1995.

ATTACHMENTS: Memorandum for Signature
Attachments to Memorandum

TREASURY CLEARANCE SHEET

NO. ______________
Date 23 Aug 1994

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

FROM: Michael B. Levy, Asst. Secretary (Legislative Affairs)
THROUGH: ______________
SUBJECT: Memo to the President re Brewster/Boren Marginal Wells

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)				
C. Wagner	CAW	8/23/94	DO/XLC	622-1778
REVIEWERS				
M. Moore	[illegible] MM	8/23/94	DO/X (EDIT)	622-2671
Legis. Affairs	MBL by CAW	8/23/94	DO/L	622-1900
General Counsel	JEH by RZM	8/23/94	DO/G	622-0287

SPECIAL INSTRUCTIONS

☐ Review Officer ______________ Date ______________

☐ Executive Secretary ______________ Date ______________

DO F 80-02.1 (04/89)

TREASURY CLEARANCE SHEET

NO. ______

Date ~~23 Aug 199~~

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

FROM: ~~Michael B. Levy, Asst. Secretary (Legislative Affairs)~~

THROUGH: ______

SUBJECT: ~~Memo to the President re Brewster/Boren Marginal Wells~~

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
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C. Wagner	CAW	8/23/94	DO/XLC	622-1778
REVIEWERS				
M. Moore	[illegible] MM	8/23/94	DO/X (EDIT)	622-2671
Legis. Affairs	MBL [illegible]	8/23/94	DO/L	622-1900
General Counsel			DO/G	622-0287

SPECIAL INSTRUCTIONS

BCC: Toder, Robertson,
WAGNER, MILNER

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

DO F 80-02.1 (04/89)

Congress of the United States
JOINT COMMITTEE ON TAXATION
1015 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6453
(202) 225-3621

Honorable David Boren
United States Senate
Washington, DC 20510

AUG 09 1994

Dear Senator Boren:

This is in response to your request of June 30, 1994, for a revenue estimate of a proposal to establish a tax credit for the marginal production of crude oil and natural gas when prices fall to uneconomic levels.

Your proposal would first establish an income tax credit for existing marginal wells at $3.00 per barrel for the first three barrels of daily production from crude oil wells and $0.50 per thousand cubic feet for the first 18,000 cubic feet of daily natural gas production. The current definition of marginal wells would be expanded to include production of up to 25 barrels per day from wells where produced water accounts for 95 percent of total production.

The tax credit would apply also to production from wells drilled after the effective date of the proposal. For these wells, a tax credit of $3.00 per barrel for the first 15 barrels of daily production from crude oil wells and $0.50 per 1,000 cubic feet for the first 300,000 cubic feet per day for natural gas wells will be allowed.

The tax credit would become applicable when crude oil and natural gas prices fall below a specified dollar level per barrel of oil and natural gas equivalent, to be determined with regard to the Congressional Budget Office (CBO) baseline forecast for crude oil prices. This tax would be creditable against regular income tax and the alternative minimum tax.

The applicable CBO baseline forecast for use in estimating the revenue effects of this proposal projects that wellhead prices for crude oil will not exceed $13.30 per barrel for the year 1995. Due to the nature of this proposal, the yearly budgetary baseline would determine the projected wellhead price at which the credit becomes effective. Thus, if your proposal provides that no credit would be allowable in 1995 when oil prices exceed this baseline amount of $13.30 per barrel, we would estimate that the proposal will have no effect on 1995 Federal fiscal year budget receipts.

I hope this information is helpful to you. If we can be of further assistance in this matter, please let me know.

Sincerely,

/S/

John L. Buckley

SENT BY:Xerox Telecopier 7020 ; 7- 7-94 ; 5:28PM

THE WHITE HOUSE

WASHINGTON

July 5, 1994

Dear David:

I want to thank you for your leadership in organizing the meeti with your colleagues on oil and gas policy issues. The Administrati shares your interest in the strength and competitiveness of this important industry.

Our June 16 meeting was very helpful in clarifying the issues facing the oil and gas industry and your proposed remedies. I would like to suggest the following steps:

First, regarding marginal wells, I would like to work with Congress to identify policies that can extend the margin of economic production while ensuring revenue neutrality. Provisions to extend the economic life of stripper wells onshore, as well as royalty relie for marginal new fields starting up in the deep water Gulf of Mexico could be such policies.

Second, regarding Alaska oil exports, I would like to achieve th benefits of lifting the existing ban without triggering other concerns, such as trade-related problems or adverse consequences for the U.S. maritime industry. The Administration is making a strong effort to reach a resolution on these issues.

I have asked the National Economic Council to continue to coordinate relevant agencies in moving forward with you in these two areas. Additionally, I have asked OMB's Office of Information and Regulatory Affairs to ensure that rulemakings about which members expressed concerns at the meeting are faithful to the regulatory philosophy of my executive order, which calls for assessing all costs and benefits of available regulatory alternatives and selecting approaches which maximize net benefits.

Thank you again for your very constructive initiative. I look forward to working with you to identify and adopt policies that benefit the oil and gas industry and the nation.

Sincerely,

Bill Clinton

The Honorable David L. Boren
United States Senate
Washington, D.C. 20510

OK for [illegible] to [illegible]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 10, 1994

Memorandum for: Les Samuels, Assistant Secretary of Treasury for Tax Policy

CC: Bill White, Deputy Secretary, Department of Energy
Bo Cutter, Deputy Assistant to the President, National Economic Council

From: T.J. Glauthier, Associate Director of OMB for Natural Resources, Energy & Science

Subject: Administration Position on Potential Amendment to HR 3800, Superfund, by Rep. Brewster

This is a restatement of the position that was circulated last night for use if Rep. Brewster introduces an amendment regarding oil and gas tax credits for marginal wells during the markup of the Superfund bill, HR 3800, in the Ways and Means Committee. Since you will be representing the Administration at the markup, this memo provides you with a statement of the Administration position on the expected amendment, if you need it.

This revised statement reflects various discussions that have occured yesterday and today. Those included representatives of the Department of Energy, Department of Treasury, Environmental Protection Agency, National Economic Council, and OMB. Those discussions and the position statement here are based on a summary of the amendment which was circulated to the Members of the Committee on Ways and Means by Rep. Brewster on August 8, 1994.

We urge you to use this statement only if the amendment is offered. It is likely that Rep. Brewster will not offer his amendment, because of the expected Administration position. If it is offered, the appropriate Administration position is the following:

"In an appropriate legislative context, the Administration will support a suitable proposal to extend the economic production of marginal oil and gas wells, while ensuring revenue neutrality. The Administration opposes such a provision in the Superfund legislation. We have not had adequate time to completely assess the various provisions of this amendment. The Administration has an on-going process underway to evaluate potential actions that would extend the economic production of marginal oil and gas wells, and will complete its decisions by the time of the publication of the FY 1996 Budget."

Washington Times 8/22/94

Crime: One Democrat's perspective

What follows is the text of an August 18 letter from Bill K. Brewster, Democrat of Oklahoma, to President Clinton. It strikes The Times' editorial page as compelling evidence that a bipartisan majority in this Congress, unshackled from the special agendas of the Democratic congressional leadership and the White House, could readily agree on a serious crime bill. Such a bill would provide states money for prison construction to keep violent offenders off the streets, reform federal habeas corpus rules, stiffen penalties for violent crimes and so on. What stands in the way of such a bill now is the current so-called "crime bill" — a mish-mash of social spending dictated by liberal interest groups and defended by the WHite House in extremist terms. Mr. Clinton claimed, last Sunday, that God wanted the crime bill passed (in its then-current form at that). He claimed during the week that the legitimacy of our democracy itself was at stake in the passage of this legislation. He has demonized his opponents —not only his Republican opponents, but members of his own party.

It's time for Mr. Clinton to compose himself. It's time to write a real crime bill. The first step is to sink the old "crime bill" for good. Mr. Brewster writes:

Dear Mr. President:

I hope your staff will direct this letter to your personal attention. As a Democratic Member of Congress who actively supported your campaign by braving the snows of New Hampshire and by fundraising for you in Oklahoma City and Tulsa in January 1992 — when funds and friends were scarce and hard to find — I am deeply offended by the attacks you have made on the Members of Congress who voted against the rule on the crime bill. I totally resent my President telling my constituents that I have "sold them out."

Referring to the ten members of the Black Caucus who voted against the rule, you said: "At least they had a principled position." But, referring to those of us who voted the same way, your comments were that we " . . . took the easy way out . . . " and " . . . [had] run from our responsibilities . . . " to our constituents. How is the representation by the Members that voted that way more principled than my representation of the beliefs and values of my constituents in rural Oklahoma?

Although over 77 percent of my constituents own firearms, many that would be banned by the BATF under your crime bill, our crime rate is lower than any major city in America where gun ownership is all but prohibited. My constituents understand most of the $33 billion in the crime bill is for inner city social programs. Rural Oklahomans have always demonstrated a willingness to help the powerless and to assist those willing to help themselves. But they oppose a huge federal spending bill to fund social experiments in the guise of crime fighting.

Because I voted against a spending bill that limits the rights of law abiding citizens and will require rural Oklahomans to pay the tab for very few benefits, your speeches proclaim that I am unprincipled an I have failed my duty. That is wrong.

Mr. President, I have defended you vigorously during these first two years of your Administration. I supported your campaign early. With your election, I hoped that you would be the catalyst that would move the Democratic Party toward the center of the political mainstream. This crime bill and the actions of too many of your appointees does not represent the heartland of America.

You and members of your cabinet met with a large bi-partisan group of Members to address oil and gas issues. You told us to develop a revenue neutral version of the proposal we presented. Yet when we presented the Treasury with a revenue neutral proposal, environmental extremists in your Administration rejected it.

Your appointees in the U.S. Fish and Wildlife Service are trying to stop fishing on the lakes where I fished as a child 40 years ago. All across the country, these same officials are restricting access to public lands for fishing and hunting. Your appointees are making unprecedented attacks on private property rights. I will oppose these actions by every available tool, procedural and substantive. Is my advocacy on the part of my constituents unprincipled or a trick because I oppose the Administration's actions? Clearly not.

I voted for the crime bill in April. I believed that bill would do *some* good in combatting crime. Unfortunately, during the conference the bill was loaded up with social programs plus the ban on over 180 guns, many of which are currently owned by law-abiding Oklahomans. I do not believe my tax dollars should pay for midnight basketball leagues and dance lessons for criminals to make them socially acceptable. We have curfews at 11:00 p.m. that work quite well without costing billions of dollars.

Please read the following paragraph from the text of your speech to the law enforcement convention in Minneapolis last Friday.

["]Two hundred and twenty-five members of the Congress participated in a procedural trick orchestrated by the National Rifle Association and intensely promoted by the Republican congressional leadership; a trick designed with one thing in mind, to put the protection of partisan and special interests over the protection of ordinary Americans.["]

Mr. President, you are poorly served by your staff when your speeches impugn the integrity of Members of Congress. Apparently the people writing your speeches do not know Members of Congress or the legislative process. Voting against a rule is never undertaken lightly by Democratic Members. For your staff to prepare a speech that labels Democratic Members dupes or corrupt because we have a principled objection to the Administration's position is counter-productive and *inexcusable*.

I am disappointed and angered by the divisive rhetoric emanating from the Administration. Too often in Washington epithets and invectives are hurled about without regard for the truth. This demonization of opponents feeds the public disdain for government and reduces the stature of all who serve this diverse nation.

I had hoped that you would rise above petty name calling. Despite whatever label I am smeared with, rest assured that I will continue to vote the values and beliefs of my *district* to the best of my ability.

Sincerely,
BILL K. BREWSTER
Member of Congress

BILL K. BREWSTER
3D DISTRICT
OKLAHOMA

WAYS AND MEANS
COMMITTEE

CHIEF OF STAFF
TAX COUNSEL

1727 LONGWORTH HOUSE OFFICE B
WASHINGTON, DC 20515-36
(202) 225-4565
FAX (202) 225-9029

Congress of the United States
House of Representatives
Washington, DC 20515-3603

TO: MEMBERS OF THE COMMITTEE ON WAYS AND MEANS

FROM: BILL K. BREWSTER BKB

DATE: AUGUST 8, 1994

SUBJECT: POSSIBLE AMENDMENT TO SUPERFUND

A PROPOSAL TO PRESERVE MARGINAL OIL AND GAS PRODUCTION
AND TO ENCOURAGE NEW DRILLING

Over the last ten years, America has lost more than 1.7 million barrels per day in domestic oil production. Oil imports provide half of our energy needs. Those same imports account for $45 billion of our trade deficit. We are exporting money - the capital that we need to rebuild our domestic infrastructure, to provide education for our constituents, and to ensure the competitiveness of our nation in a global economy.

The domestic oil and gas industry has been devastated by wild fluctuations in the price of oil. This year alone, the price of oil has been as high as $20/barrel and as low as $14/barrel. In addition to the immediate economic devastation caused by the loss of nearly 500,000 jobs during the last decade, the loss of those jobs means the destruction of the infrastructure necessary to maintain a domestic oil and gas industry.

Earlier this year, over one hundred Members of Congress and over thirty Senators signed the attached letter to the President. We asked the President to meet with us to determine what could be done to stem the decline of this strategically important industry. Over fifty House Members and 15 Senators made the trip to the White House to discuss this with the President. The President agreed with our assessment of the need to address these issues. The President, the Secretary of the Treasury, and the Deputy Secretary of Energy agreed that our modest proposals to provide a marginal well tax credit and a tax credit for production from new wells would provide a measure of stability that would allow the United States to continue to produce oil and gas from marginal wells and preserve the ability of the domestic industry to explore for and produce oil and gas from new wells.

The Administration supported the concepts of a marginal well tax and a new well exploration tax credit. However, the Administration's support was contingent on revenue neutrality. Therefore, following the President's direction, we modified our original proposals. The Joint Committee on Taxation has scored the attached amendment as revenue neutral.

Simply put, the proposed marginal well tax credit allows a $3/barrel tax credit for the first three barrels of daily production from an existing marginal oil well and a $0.50/Mcf tax credit for the first 18 Mcf of daily natural gas production. This credit will allow marginal well production to continue and avert the abandonment of these wells.

The new well credit, to encourage new drilling and production, is a $3/barrel tax credit for the first 15 barrels of daily oil production and $0.50/Mcf of daily gas production from wells drilled after the effective date of the legislation.

To maintain revenue neutrality, the tax credits are only available when the price of oil falls below the current CBO baseline forecast for oil prices, which is a little more than $13/barrel. This morning the price of oil at the opening of the NYMEX was $19.30/barrel. The twelve month high for oil is $20.75; the twelve month low is $13.90.

I am asking your support for this critical legislation. The domestic oil and gas industry provides essential revenues through severance taxes and royalties to state and local governments. Over 27,000 jobs in the gas and oil industry are directly dependent on marginal wells, along with another 33,000 jobs outside the oil and gas industry. Marginal wells are located in 28 states. According to the Department of Energy, marginal wells paid over $500 million in state severance and property taxes.

I believe that in the long term, preserving our domestic gas and oil industry will be a net revenue raiser for the federal government. Preserving American jobs and offsetting imports can only strengthen our economy. Please join me and vote to include this amendment on the Superfund bill. Thank you.

PROPOSED AMENDMENT

Current Law
No tax credit is available for marginal oil and natural gas production when prices fall to uneconomic levels.

Reasons for Change
Between October 1993 and March 1994, oil prices plunged, falling below the cost of producing oil in many states. Suddenly, the vast majority of U.S. oil wells were losing money, threatening to bankrupt thousands of small oil companies and virtually wipe out the domestic oil industry in a dozen states. Meanwhile, oil imports climbed for the first time ever above 50 percent of U.S. demand. Similarly, just over two years ago natural gas prices fell to historic lows of $1.00 per mcf. Instability is the rule.

Of America's 600,000 oil wells, more than 450,000 produce less than 3 barrels per day, making U.S. oil production the most price-sensitive in the world. A July 1994 report for the Secretary of Energy recommended that the U.S. act to preserve existing marginal well production during periods of low prices. The Secretary's advisory committee reported that marginal wells: "*produce 700 million barrels of oil equivalent per year, one-third of lower-48 onshore domestic production, representing $10 billion of avoided imports each year...contribute nearly 80,000 jobs and generate close to $14 billion per year in economic activity.*" In addition, during periods of low prices, the U.S. must have a mechanism to maintain some level of new drilling to preserve the industry infrastructure and to expand U.S. oil and natural gas resources.

Proposed Change
- The amendment will establish a tax credit for existing marginal wells. The amendment will allow $3 per barrel tax credit for the first 3 barrels of daily production from an existing marginal oil well and a $0.50 per Mcf tax credit for the first 18 Mcf of daily natural gas production from a marginal well.

  The current definition of marginal wells will be expanded to include a new category for "high water cut property" -- producing 25 barrels per day or less per well, with produced waters accounting for 95 percent of total production. In addition, techniques such as waterflooding and disposal, cyclic gas injection, horizontal drilling, and gravity drainage should be encouraged to enable domestic producers to capture more of the oil in a given marginally economic property.

- The amendment will also include a tax credit for production from new wells that have been drilled after the effective date of the legislation. The amendment will allow a $3 per barrel tax credit for the first 15 barrels of daily production for such oil wells and a $0.50 per Mcf for the first 300 Mcf per day for such gas wells.

- In order to maintain revenue neutrality, the tax credit will be applicable only as prices for oil and natural gas fall below a dollar level per barrel of oil and natural gas equivalent, to be determined with regard to the CBO baseline forecast for oil prices.

- The tax credit is creditable against regular tax and AMT.

95-150065

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin RER

SUBJECT: Tax Reform

You periodically raise questions about various tax reform ideas. I thought the following information might be useful to you.

The Treasury, the CEA, and the NEC have been working on the issue of tax reform ever since we last met with you about this. Treasury's very substantial tax policy analytic capabilities are heavily focused on these matters, and we are reaching out aggressively, including to the House Ways and Means, the Senate Finance Committee, academics, and others. Tax reform will come back to you through the NEC in the reasonably near future.

The Treasury tax people recognize that we need to develop some positive approach to change and are energetically and productively examining various possibilities; at the same time, existing proposals all have large problems measured against the four criteria you have set forth for evaluating tax measures: deficit neutrality, increasing incomes and increasing the number of jobs, tax fairness, and simplicity.

Bernie Aidinoff, who as you know has long been one of the best regarded tax lawyers in New York City, has informally given some thought to all of this for us and has reached the same conclusion that we have, i.e., that none of the current proposals are positive against your criteria.

Rob Shapiro visited with me a few days ago and said he has been working on tax reform for the last two years, specifically looking at tax reform proposals which might increase our national savings rate. He has concluded that no current proposal is likely to increase savings. He also feels, as we do, that it is implausible that the status quo would just happen to turn out to be the best of all possible worlds. He expects in a couple of months to have a proposal which, in large measure, will be similar to one of our possible approaches -- that is to say, simplifying the existing system, some exemptions, deductions and credits, and reducing rates somewhat. He feels that you need to criticize the existing system, and then advocate a program of change.

Rob also made the same observation that we have made so often, which is that none of the proposals, except Nunn Domenici, are anything more than soundbites or two or three sentence propositions. The reason is that development of a serious tax proposal is enormously complex and takes a long time. Moreover, once developed, any serious proposal will have a vast number of positive and negative impacts. The only proposal that attempts to achieve real seriousness is Nunn Domenici which, has been several years in the making.

Meanwhile, as the flat tax seems to be the proposal of choice for most Republicans, we are working to give the media a good sense of the inherent and fatal flaws of that idea through several meetings a week with opinion leaders.

Copy to: Laura Tyson

95- 151070

DEPARTMENT OF THE TREASURY
WASHINGTON

October 12, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: **LESLIE B. SAMUELS** LBS

THROUGH: **SECRETARY RUBIN** R.E.R.

SUBJECT : **TAX PROPOSAL TO REPLACE PUERTO RICO AND POSSESSION TAX CREDIT (SECTION 936)**

You have asked about possible tax proposals that might be offered as a substitute for the House Ways & Mean Committee repeal of the Puerto Rico and possession tax credit (section 936) at the end of 1995, with a 10-year grandfather for existing beneficiaries of the credit. The Senate Finance Committee is rumored to support a similar repeal with a shorter grandfather. At the Ways & Means markup, we expressed the view that section 936, to the extent retained, should provide an incentive for increased economic activity in the possessions rather than merely an incentive to attribute profits there. We stated our position that, if the Committee decided to repeal section 936 with a grandfather of existing beneficiaries, the grandfather rule should be restructured to provide an incentive for economic activity in the possessions, and other programs to assist economic activity in Puerto Rico should be adopted.

Section 936 has been an inefficient tax subsidy. The Administration proposed to reformulate the credit in 1993 to make it a more efficient incentive for job creation and economic activity in Puerto Rico. The amendments enacted in 1993 moved part-way toward the Administration's proposals, enacting a new economic-activity limitation but allowing taxpayers to choose instead a reduction in the old profits-based credit. As an alternative to repeal of the credit, we recommend that the credit be based solely on the economic-activity measure adopted in 1993. This option would provide a more efficient incentive for increased economic activity in Puerto Rico and the possessions and, depending on its design, could raise substantial revenues as compared with present law.

cc Laura Tyson

678
DOW-QE Caribbean Loans Not Jeopardized By U.S. Cuts: CBI Chief
F7001

MIAMI (AP-DJ)--Caribbean Basin Initiative (CBI) loans will continue unabated even if a U.S. Congress plan to phase out Puerto Rico's corporate tax incentive program succeeds, Francisco Uriarte, CBI's chief, said Thursday.

Bank deposits from corporate participants of the tax incentive program are used in the CBI loan program, which has funded projects in tourism, agribusiness, infrastructure, petroleum and gas.

The CBI office is required by U.S. federal law to approve at least $100 million in loans from Puerto Rico banks to Caribbean basin nations each year.

The banks use a pot of some $15 billion in deposits from firms which benefit from tax incentives the U.S. government grants them to operate in the U.S. Commonwealth.

But the House Ways and Means committee has advanced a plan to cut the tax incentives program, dubbed '936' after its tax code number.

Meanwhile, the administration of Gov. Pedro Rossello, of Puerto Rico, is lobbying Congress for an alternative tax incentives program based on a credit for salaries paid.

The Rossello administration asserts that the plan would save a significant amount of money for the U.S. Treasury.

But in either scenario, the CBI office's loan program isn't in jeopardy, said Uriarte, Puerto Rico's assistant secretary of state for Caribbean basin affairs.

'It's too early to be certain but from what I see we're in no danger of disappearing,' Uriarte said in a phone interview from Puerto Rico.

Uriarte said that nothing in the House bill mentions the program. Even if the bill becomes law, existing companies would retain their tax benefits in Puerto Rico for 10 years and thus their deposits would remain as well, he said.

Further, Rossello's plan, should it gain support, specifically calls for retaining the CBI program.

(MORE) AP-DOW JONES NEWS 12-10-95
1720GMT
(AP-DJ-10-12-95 1720GMT)Thu Oct 12, 1995 13:22