DPC Prog. Staff

May 20, 1993

To: WHITE HOUSE STAFF

From: Gene Sperling & John Angell

Subject: Boren–Danforth

Attached are talking points on the Boren–Danforth proposal. They have decided to release specifics on the policy choices they propose to get $114 billion to meet their entitlement cap. Most of these specifics involve cuts in Medicare and Medicaid. Some of these are cuts that might be reasonable in the context of paying for a health care plan. In the absence of such a plan, they will simply be hard on states, the poor and the elderly. OMB is currently working on an analysis of each measure.

TALKING POINTS ON BOREN-DANFORTH

Finally, we see some of what an alternative would look like.

THE CLINTON/GORE PLAN:

* The Clinton package cuts $496 billion from the deficit, with $255 billion in spending cuts and $241 billion in tax increases. Included in the spending cuts were $100 billion in entitlement caps.

* There are three dollars in spending cuts for every dollar in new investments.

* 75% of tax increases fall on the top 6% of Americans according to the CBO. The plan we had was strong, but fair. The only tax that affected middle class America was a BTU tax. Yet, we increased the Earned Income Tax Credit to benefit 10 million working families. The tax does not even take affect until the summer 1994. When it does, it is phased in three years. It would cost the average family making $40,000 only $1 a month in 1994, $7 a month in 1995, and $17 a month in 1997. Families making under $30,00 would, on the whole, be held harmless.

THE BOREN-DANFORTH ALTERNATIVE:

* They acknowledge that the Clinton plan has significant net spending cuts. They say the Clinton plan has $174 billion in net spending cuts, while the actual number is $255.

* They claim to cut $122 billion in taxes, while adding $163 billion in spending cuts.

But lets look closer:

* They cut Social Security benefits for 27 million middle class Americans, who now find that if they get $7,200 in benefits to live on, some in Washington believe they should have their COLAs cut on everything over that by 2%.

* Another $15 billion is cut in the Earned Income Tax Credit, which benefits 14 million working families trying to stay above the poverty line.

* $50 billion of the taxes they cut are taxes that are nearly exclusively for upper income Americans -- those with incomes of well over $100,000.

* On top of the $56 billion already included in the President's plan, they are asking for an additional $114 billion in Medicare and Medicaid cuts. Some of these cuts might be

reasonable in the context of paying for a health care plan. In the absence of such a plan, they will simply be hard on states, the poor and the elderly. In particular:

1) It will cause hardship to millions of Americans, while leading to major cost-shifting to the private sector, thereby further driving up the cost of health care for average Americans.

2) States will lose at least $31 billion in Medicaid and AFDC matching funds. Their specific health care cuts and AFDC cuts are designed to hit the poor and elderly disproportionately hard, and put tremendous burdens on states and put pressure on them to raise state and local taxes to make up the federal cuts.

3) If these cuts are made without health care reform, they will amount to a direct cut on the poor and the elderly.

4) This entitlement cap could jeopardize rational attempts in health care reform to control spending. It will make it extremely hard to pay for national health reform, since they would be crudely taking away significant potential health care savings now to make up for their policy changes.

EXAMPLE OF WHAT THEY CUT AND WHAT THEY PAY FOR

If you want to know the type of choices this plan makes, consider the following three choices they make:

1. **TAX CUT:** They take away $29 billion from the Clinton deficit reduction plan by lowering the Medicare increase on individuals making over $130,000.

   HOW THEY CUT: They have to pay for most of it by cutting the Social Security benefits of 27 million Social Security recipients who receive benefits of over only $7,200 a year.

2. **TAX CUT:** An across-the-board capital gains tax cut, on top of the new one the President has already proposed. This will benefit the wealthiest Americans overwhelmingly without ensuring that it is targeted to job creating small businesses.

   HOW THEY PAY FOR IT: They cut $15 billion from the Earned Income Tax Credit, a program that goes to 14 million working families in danger of being below poverty line.

3. **TAX CUT:** They get rid of the energy tax. The BTU does have costs for many Americans. Yet, our energy tax holds harmless families under $30,000. It does not even start until July 1994. It phases in over three years after that, costing the average

family making $40,000 only $1 a month in 1994, $7 a month in 1995 and $17 a month when fully phased in during FY1997.

HOW THEY PAY FOR IT: This is paid for with $114 billion in entitlement cuts. Most of it comes from Medicare and Medicaid, which -- in the absence of national health reform -- will cause major shifting of costs to the states and the private sector. The result? The shift to the private sector will raise the costs of health care for average families and businesses, while the shift to the states will pressure the raising of state and local taxes. Most of all, it is a hard hit at the poor and the elderly.

ADDITIONAL BACKGROUND ON BOREN-DANFORTH

* If this Cap stays limited to Finance Committee programs, it will potentially hit these programs.

Medicare
Medicaid
Military and Civilian Retirement
Disability (SSI)
Unemployment Compensation
Title XX Social Services
AFDC
Child Support Enforcement
Trade Adjustment Assistance
Foster Care and Adoptions Assistance
Child Care
Vaccine Injury Compensation
Black Lung Benefits

* Other programs that could be hit with a full-entitlement cap, include

Social Security
Guaranteed Student Loans
Veterans Pensions and Benefits
Farm Price Supports
Title XX Social Services
Military and Civilian Retirement
Food Stamps
Child Nutrition

* The Administration has already proposed substantial cuts in entitlement spending.

Medicare savings	-$48.0 billion
Medicaid savings	-$8.3 billion
Agriculture programs	-$3.0 billion
COLA delays for military retirees	-$2.3 billion
COLA delays for civilian retirees	-$.8 billion
End Lump Sum retirement benefit for Federal employees	-$8.8 billion
Pay restraint and other reductions for Federal workers	-$49.6 billion
Veterans programs	-$2.6 billion

Health Care spending is the fastest rising entitlement program. Our health care plan will directly take on the issue of how to control these runaway costs. Furthermore, an inflexible entitlement cap could jeopardize rational attempts in health care reform to control spending.

Is the distributed
by you and Cathy
to Prog. Staff

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tabs in gen. talking pts.
Book:
"April 93 Budget"

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E

08-Apr-1993 10:16am

TO: (See Below)

FROM: S. Collier Andress
Office of Communications

file

SUBJECT: talking points on the April Budget

4/7/93 b.t.

SUMMARY POINTS ON THE APRIL BUDGET

I. This plan targets investments to promote long-term economic growth and reduces budget deficits as a share of the economy by nearly one-half by 1997.

II. It will increase economic growth and raise the incomes and living standards of American families.

III. Congress, in its earliest action ever on a budget, has already adopted a budget resolution which contains the elements of the President's economic program.

IV. The Clinton Administration is the first new administration to submit a complete line-by-line budget during its first year in office.

V. The combination of the President's plan and the changes made by the congressional budget resolution would achieve a total of $514 billion of deficit reduction over the next five years, making it the largest deficit reduction package in history.

VI. This includes $447 billion, which is the reestimated net deficit reduction achieved in the President's budget, an additional $57 billion in discretionary spending cuts and $2 billion in mandatory spending cuts endorsed by the Congress, and $8 billion in additional interest savings.

VII. The President's budget provides for more than 200 specific spending reductions in domestic and defense programs, and raises additional revenues, most of which would come from the wealthiest taxpayers.

VIII. These involve numerous difficult choices, which include the following:

A. Increased taxation of Social Security benefits
B. Significant savings in Medicare, though not affecting beneficiaries
C. Broad-based energy tax
D. Significant defense savings
E. Savings in the rural Electrification Administration, Power Marketing Administration, and Appalachian Regional Commission
F. Inland waterway user fees
G. Redesign of the space station
H. Point XIII below
I. Examination fees for State-chartered, FDIC-insured banks
J. Elimination of the "b" portion of impact aid
K. Savings in the Cooperative State Research Service and Agricultural Research Service, meat/poultry inspection fees, crop insurance savings
L. Savings in HUD special purpose grants

IX. It reduces the deficit as a percent of GDP from 5.2% of GDP in fiscal year 1993 to 2.8% of GDP in fiscal year 1997. The additional savings endorsed by the Congress push the deficit down to 2.7% of GDP in 1997.

X. The long-term investments in the budget are directed towards areas that are vital to raising the productivity of American businesses and the American people, which will improve long-term economic growth, incomes, and standards of living. They are directed toward the following priorities: Rebuild America/Infrastructure, Lifelong Learning, Rewarding Work, Safe Streets, Health Care, and Private Sector Incentives.

XI. The five-year ratio of spending cuts to tax increases is 52% to 48%. In the fifth year alone, the ratio is 59% to 41%.

XII. The Administration's spending reductions would eliminate or reduce spending in programs that do not work or are no longer needed, eliminate or reduce unfair or unnecessary subsidies, reform programs for better management of taxpayers' dollars, control health care costs without harming program beneficiaries, make substantial overall reductions in agency expenses and the size of the Federal bureaucracy.

XIII. The domestic discretionary savings include $45 billion in reductions in the cost of government from civilian personnel cuts of more than 100,000, reduction of administrative expenses, an across-the-board pay freeze for Federal civilian and military employees as well as other savings in personnel compensation, and streamlining of departments and agencies.

DISTRIBUTION:

TO: George Stephanopoulos
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TO: Amanda Crumley
TO: Jason Solomon
TO: Liz Bowyer
TO: David Leavy
TO: Kathy McKiernan
TO: Jeremy M. Gaines
TO: Steven A. Cohen
TO: Dawn A. Alexander

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E

08-Apr-1993 10:21am

TO: (See Below)

FROM: S. Collier Andress
Office of Communications

SUBJECT: long term investment in the President's budget

4/8/93 b.t.

LONG-TERM INVESTMENTS IN THE PRESIDENT'S BUDGET

The long-term investments in the budget are targeted towards areas that are vital to raising the productivity of American businesses and the American people, which will improve long-term economic growth, incomes, and standards of living.

They are directed toward the following priorities:

? Rebuild America/Infrastructure. Investments totaling $52 billion in outlays over five years (with $11 billion in FY 1994 budget authority) in highways and mass transportation, environmental infrastructure, technology, building and restoring housing, and conserving and developing alternative forms of energy. The category includes five-year outlays of $15 billion for technology initiatives.

? Lifelong Learning. Investments of $52 billion in outlays over five years ($6 billion in FY 1994 budget authority) in educational programs and reforms, full funding of Head Start and the WIC feeding program, national service, and several innovative job training initiatives.

? Rewarding Work. A five-year total of $32 billion, most of which will be used to take working families out of poverty by expanding the Earned Income Tax Credit.

? Safe Streets. A five-year investment of $4 billion in outlays ($390 million in FY 1994 budget authority) for anti-crime initiatives, such as putting an additional 100,000 police on the beat in cities and towns.

? Health Care. Investment outlays of $32 billion over five years ($3.4 billion in FY 1994 budget authority) in health care and research, including women's health research, full funding of the Ryan White Act for AIDS prevention and treatment, and veterans' health care.

? Private Sector Incentives. A five-year total of $50 billion ($12 billion in FY 1994) in business productivity tax incentives, including a small business investment tax credit and capital gains exclusion, permanent extension of the research and experimentation tax credit, and enterprise zones.

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TO: Meeghan E. Prunty
TO: Carter Wilkie
TO: Kimberly Tilley
TO: Eric W. Payne
TO: Ken Chitester
TO: Julie Oppenheimer
TO: Marla Romash
TO: Lisa M. Caputo
TO: Gene Sperling
TO: Stuart E. Trevelyan
TO: Nestor M. Davidson

TO: Domestic Policy Council Program Staff

FROM: Carol H. Rasco

SUBJ: Budget hearings

DATE: July 1, 1993

Happy July!

Attached is a memo I received last evening from Alice Rivlin which is a follow up to a previous meeting Bruce, Kathi and I had with her about the FY95 Budget Process. As you remember, we shared with you that OMB will be holding agency reviews to which we are invited. Also, note on the schedule that OMB will hold PRE-hearing meetings to which we are also invited.

Thank you, Mike Schmidt, for attending the first pre-hearing meeting on such short notice this a.m. I have designated the meetings I would like for persons to attend for DPC. Please, please let me/Rosalyn know if you cannot attend your assigned meetings as it is IMPERATIVE that we attend and participate in these meetings....this is our chance to be involved in a way we were not involved in the last budget cycle.

I would like to have a brief memo outlining the meetings you attend within 24 hours after the meeting, and you should feel free to come by and visit if there are things beyond the memo you feel we need to discuss.

If you have questions about the rationale behind any of these assignments, please call me.

One further business item: if you at any time prepare documents for the President whether generated by a request from me or anyone else it would be helpful if you would at least send me a blind copy....I find he asks me things related to those memos and/or other staff members come by to ask, and I can try to help the various causes around here if you'll keep me up to speed. Many thanks!

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

THE DEPUTY DIRECTOR

June 29, 1993

TO: Roger Altman (Treasury)
Carol Rasco (DPC)
Bo Cutter (NEC)

FROM: Alice Rivlin Alice

SUBJECT: Management and Budget Reviews for FY 1995

I have spoken with each of you about Management and Budget Reviews that OMB is holding with each of the major agencies as we begin the FY 1995 cycle. Each Cabinet Secretary or major agency head will meet with Leon over the next month. A schedule of these reviews is attached, along with the schedule of "pre-briefings," in which we will discuss issues to be raised with the agencies.

Each of you is welcome to come or send one representative to the reviews and/or pre-briefings. All meetings will be held in Room 248 OEOB.

I'm sure the schedule will shift around as the month goes on, but we will try to keep you informed of the changes. In case of doubt, my assistant, Val Owens, 395-4742, or Margaret Shaw, Secretary of the Review, 395-3646, will have the latest schedule. I look forward to your participation in these reviews.

Attachment

c: Val Owens
Margaret Shaw

M&B REVIEW SCHEDULE

July 1
10-11am *GSA**
11-12am *Commerce** Mike
5:30-6:30p *OPM**

July 2
10-11am *Interior** Donsia
11-12pm *Education** Bill
3-4pm *SBA**

July 6
10-11am *HUD** Paul
3-5pm OPM

July 7
10-11 *State**

July 8
10-11am *Justice** Jose
3-5pm Education Bill

July 12
10-11am *Labor** Mike
3-5pm GSA

July 13
10-11am *Energy** Brian
3-5pm Commerce Mike

July 14
10-11am *Transportation** Mike
3-5pm HUD Paul

July 15
3-5pm Interior Donsia

July 16
10-11am *Veterans Affairs** TBA
11-12am *HHS** Kathi
3-5pm State

July 19
10-11am *EPA** Brian
3-5pm SBA

July 20
10-11am *Agriculture** Brian
3-5pm Energy Brian

July 21
10-11am *NASA**
3-5pm Transportation Mike

July 22
4-6pm HHS Kathi

July 23
10-11am *Treasury**
3-5pm Veterans Affairs TBA

July 26
3-5pm EPA Brian
10-12am Justice Jose

July 27
3-5pm Agriculture Brian

July 28
10-12am NASA

July 29
3-5pm Labor Mike

July 30
3-5pm Treasury

*Pre-brief meetings are in italics.
NOTE: Sessions are not currently scheduled for Defense, CIA, Corps of Engineers, USTR, AID, EXIM and USIA.

06/30/93
03:22 PM

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- 3-5pm State

July 19
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- 3-5pm SBA

July 20
- 10-11am *Agriculture**
- 3-5pm Energy

July 21
- 10-11am *NASA**
- 3-5pm Transportation

July 22
- 4-6pm HHS

July 23
- 10-11am *Treasury**
- 3-5pm Veterans Affairs

July 26
- 3-5pm EPA
- 10-12am Justice

July 27
- 3-5pm Agriculture

July 28
- 10-12am NASA

July 29
- 3-5pm Labor

July 30
- 3-5pm Treasury

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file FY94 Budget

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

THE DIRECTOR

JUL 16 1993

Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on H.R. 2403, the Treasury, Postal Service, and General Government Appropriations Bill, FY 1994, as passed by the House. The Administration supports the House-passed version of H.R. 2403, although we do have some concerns, which are described below and in the enclosure. As you develop the Senate version of the bill, your consideration of these concerns would be appreciated.

__President's Investment Program__

The Administration supports the House's action that would fund Tax Systems Modernization (TSM) projects with immediate productivity savings. The Administration objects, however, to the significant reduction made by the House in funding for long-term TSM projects. Treasury and the Internal Revenue Service (IRS) are aggressively responding to Congressional reviews of TSM. Full funding for TSM is important to achieve the objectives of modernization, including improved service to taxpayers, more efficient IRS operations, and increased tax compliance and collection.

__Federal Employees Health Benefits Program__

The Administration supports the House's decision to remove the prohibition on the use of Federal Employees Health Benefits Program funds for abortions needed by eligible enrollees and their dependents and urges the Senate Subcommittee to take the same action.

__Other Issues__

The House proposes to terminate funding for the Administrative Conference of the United States. The Conference assists the President, the Congress, and the Federal departments and agencies in improving administrative procedures. The Administration urges the Senate to support funding for the Conference so that it might continue to improve the efficiency of the Government.

The Administration is pleased that the House has included requested language on the use of the FTS 2000 system.

Additional Administration concerns with the House-passed bill are provided in the enclosure. The enclosed table provides OMB's preliminary scoring of the House-passed bill. We look forward to working with the Committee to address our mutual concerns.

Sincerely,

Leon E. Panetta
Director

Enclosures

Identical Letters Sent to Honorable Robert C. Byrd, Honorable Mark O. Hatfield, Honorable Dennis DeConcini, and Honorable Christopher S. Bond

Enclosure
(Senate Subcommittee)

ADDITIONAL CONCERNS
H.R. 2403 -- TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT APPROPRIATIONS BILL, FY 1994
(AS PASSED BY THE HOUSE)

The Administration looks forward to working with the Congress to address the following concerns as the appropriations process progresses.

Department of the Treasury

Internal Revenue Service (IRS). The Administration objects to bill language requiring submission of a report on Tax Systems Modernization prior to obligation of any FY 1994 funds. Treasury is willing to provide reports requested by Congress expeditiously.

The Administration objects to bill language that would prevent the IRS from moving an automated collections unit out of Manhattan. Such micromanagement would prevent the IRS from taking necessary management actions that would reduce costs and allow for the redeployment of staff within Manhattan due to forced office relocations.

IRS/U.S. Customs Service. The House has transferred funds for drug law enforcement from the Special Forfeiture Fund to the Customs Service and IRS. To the extent that these funds would be used for staff increases, other Treasury bureaus would be required to reduce staff further. This would be necessary to comply with the President's Executive Order on reduction of Federal positions, which is an important element of the Administration's effort to reduce Federal spending and bureaucracy.

General Services Administration (GSA)

Federal Buildings Fund. The House bill contains full and partial funding for a number of Federal building projects that were not included in the President's budget. Many of these projects were reviewed as part of the FY 1994 budget process and were not approved. Other projects added by the House were not included in GSA's FY 1994 capital plan.

Information Security Oversight. The Administration is concerned about the elimination of funding for the Information Security Oversight Office within GSA. The Office monitors the information security programs of approximately 80 Executive Branch agencies.

Office of Personnel Management (OPM)

National Advisory Council on the Public Service. The Council was proposed for termination in the FY 1994 Budget. The House has directed OPM to transfer funds from its Salaries and expenses account to the Council. The Council duplicates work already being accomplished (and funded) by the Vice President's National Performance Review and other agencies, including OPM.

Blue-Collar Employee Pay Raises. Section 615 of the House-passed bill would limit blue-collar employee pay raises in each local blue-collar area to the locality pay increase received by General Schedule (GS) or white-collar employees in that same area. Blue-collar local pay areas are fundamentally different labor markets than white-collar local pay areas, and the two should not be linked for pay purposes. Consistent with the treatment of locality pay for GS employees, the general provision should be amended to limit blue-collar pay raises in each area to 20 percent of the blue-collar employee pay gap. Further, the provision should take effect in FY 1994 only if GS employees receive a locality pay raise.

Other Concerns

Advisory Commission on Intergovernmental Relations (ACIR). The House proposes to eliminate funding for the ACIR. The Commission provides valuable analysis and assistance to Federal agencies, Congress, States, and localities on such issues as tax policy and intergovernmental decision-making for environmental protection and health care programs. The Administration urges the Subcommittee to fund the Commission so that it can continue to foster more effective and efficient intergovernmental relations.

Compliance with Buy American Act. Section 528 of the General Provisions cannot be applied to the extent that it would be inconsistent with the General Agreement on Tariffs and Trade or any other international agreement to which the United States is a party.

Infringements on Executive Authority. There are several provisions in the House bill that would require Congressional approval prior to Executive Branch execution of aspects of the bill. The Administration will interpret such provisos to require notification only, since any other interpretation would contradict the Supreme Court ruling in INS vs. Chadha.

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS BILL, FY 1994
(in millions of dollars)

[illegible]
[illegible]
[illegible]
[illegible]

Major Programs	FY 1993 Enacted		FY 1994 Proposed Including Investments		House Floor[1]		House Floor Difference From: FY 1993 Enacted		House Floor Difference From: FY 1994 Proposed	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Domestic Discretionary										
Executive Office of the President:										
Office of Management and Budget	56	56	57	56	57	57	1	1	---	*
Office of National Drug Control Policy[2]	57	54	6	13	6	12	-51	-41	---	-1
Other EXOP	92	92	90	91	90	91	-2	-1	*	*
Total, EXOP	205	202	153	159	153	160	-53	-42	---	1
Funds Appropriated to the President:										
Federal Drug Control Programs[2]	10	1	114	84	98	71	88	69	-16	-14
Department of the Treasury:										
Bureau of Alcohol, Tobacco & Firearms	372	374	359	361	365	366	-7	-8	6	6
United States Customs Service	1,473	1,538	1,408	1,427	1,413	1,429	-60	-110	5	2
United States Secret Service	480	478	457	449	457	449	-23	-29	---	---
Tax Law Enforcement (IRS)[3]	3,836	3,828	3,856	3,845	3,827	3,873	-9	45	-29	28
Information System (IRS)	1,479	1,491	1,488	1,455	1,403	1,393	-76	-98	-85	-62
Other IRS	1,790	1,800	1,865	1,845	1,865	1,786	75	-14	---	-59
Other Treasury	693	727	772	744	675	685	-17	-42	-97	-59
Total, Treasury	10,123	10,236	10,108	10,066	10,006	9,980	-117	-255	-102	-86
U.S. Postal Service, Foregone Revenue	122	122	91	91	91	91	-30	-30	---	---
General Services Administration:										
Federal Buildings Fund	285	803	162	661	307	635	22	-168	145	-26
Other GSA	193	223	194	202	186	195	-6	-28	-7	-7
Total, GSA	478	1,026	349	857	494	830	16	-197	144	-27
Office of Personnel Management, Agency total	123	205	123	212	123	212	*	7	---	---
Other	292	436	316	357	316	356	24	-80	*	-1
Total, Domestic Discretionary	**11,352**	**12,227**	**11,254**	**11,827**	**11,280**	**11,700**	**-72**	**-527**	**26**	**-126**

* $500 thousand or less

[1] OMB scoring is preliminary.

[2] FY 1994 EXOP-ONDCP figures reflect a reduction in staff and a shift of grant funds to FAP-Federal Drug Control Programs.

[3] Does not include $187 million in BA and $183 million in OL in FY 1994 for the IRS Compliance Initiative.

	House 602(b)		Senate 602(b)		House Floor Less House 602(b)	
	BA	OL	BA	OL	BA	OL
602(b) Allocation	11,319	11,522	11,519	11,720	-39	178

Re: Galston Wall Burke } fyi

Orig: file FY94 Budget

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

THE DIRECTOR

JUL 16 1993

Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on H.R. 2493, the Department of Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, FY 1994, as passed by the House. The Administration supports the House-passed version of H.R. 2493, although we do have some concerns, the most critical of which are described below and in the enclosure. As you develop the Senate version of the bill, your consideration of these concerns would be appreciated.

President's Investment Program

The Administration supports the House's action that funds many of the President's investment proposals, including full funding for the food safety and Food and Drug Administration proposals. The Administration commends the House for its support of the Special Supplemental Food Program for Women, Infants, and Children (WIC) and for adopting the President's goal to fund the WIC program fully by the end of FY 1996. We urge the Subcommittee to approve the Administration's FY 1994 proposal.

Wetlands Reserve Program

The Administration urges the Subcommittee not to alter current law by again restricting sign-ups for the Wetlands Reserve Program (WRP). The 1990 farm bill requires a minimum of one million acres to be enrolled in the WRP by the end of FY 1995. The Administration has proposed to fund 450,000 acres in FY 1994 toward this target, but the House bill would allow only 50,000 acres to be enrolled. This restriction is particularly troublesome since FY 1993 sign-ups were blocked by the FY 1993 appropriations act. The WRP is a crucial part of the Administration's wetlands restoration and preservation plans, and the Administration believes that full funding for this mandatory program should be restored. At a minimum, appropriations action should be consistent with both the House and Senate versions of the 1993 reconciliation bill, which prescribe that a minimum of 330,000 wetlands acres be enrolled by the end of calendar year 1995.

Research Grants

The House has chosen to fund earmarked special research grants at the expense of the National Research Initiative, a competitively awarded grant program. These earmarked special grants would address primarily local and parochial research issues, rather than problems of national significance facing the nation's food, agricultural, and environmental sectors. The Administration believes that the most appropriate way to allocate scarce research funds is through a competitive process based on merit in which any research institution can apply.

Additional Administration concerns with the House bill are contained in the enclosure. The enclosed table provides OMB's preliminary scoring of the House-passed bill. We look forward to working with the Subcommittee to address our mutual concerns.

Sincerely,

Leon E. Panetta
Director

Enclosures

Identical Letters Sent to Honorable Robert C. Byrd, Honorable Mark O. Hatfield, Honorable Dale Bumpers, and Honorable Thad Cochran

Enclosure
(Senate Subcommittee)

ADDITIONAL CONCERNS
H.R. 2493 -- AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS BILL, FY 1994
(AS PASSED BY THE HOUSE)

The Administration looks forward to working with the Subcommittee to address the following concerns:

FUNDING ISSUES

- Rural Development Administration. The Administration is pleased that the House has funded the Rural Development Administration (RDA). The Administration urges the Subcommittee to delete section 722, which would prohibit the funding of the operation of the seven regional offices of the RDA after April 1, 1994. The Secretary is currently reviewing the structure of the RDA, and it would be premature to limit his options for restructuring.

- Rural Electrification Administration (REA). The Administration commends the House for reducing REA subsidies but objects to excessive subsidies for hardship telephone loans. The House bill would provide the same amount of loans made at five-percent interest to telephone borrowers as it would to electric borrowers, even though there are far fewer telephone borrowers deserving of the deep subsidy. The level of telephone loans made at hardship interest rates should be reduced to $50 million, and the current pro-rata allocation of hardship loans between electric and telephone borrowers should be retained.

- Federal Crop Insurance Corporation. The House bill includes a provision that would eliminate the issuance of poor crop insurance policies. The Administration supports this provision and commends the House for addressing this issue. The Administration urges the Subcommittee to approve this needed reform.

- Food and Drug Administration (FDA) User Fees. The Administration is pleased that the House has allowed the FDA to utilize up to $54 million in user fees collected under the Prescription Drug User Fee Act. The Administration notes that another $200 million could be collected if restrictive language were deleted from the bill. Deletion of this language would permit funding of high priority programs elsewhere in the bill that currently are not funded.

- <u>Farm Service Agency</u>. The House has not funded the Administration's proposal to create a Farm Service Agency, which would combine the Agricultural Stabilization and Conservation Service, the Farmers Home Administration, and the Soil Conservation Service. This proposal is a key element of the Administration's initiative to streamline government while improving service to clients.

- <u>Salaries and Expense funding from mandatory accounts</u>. The President's budget proposes to eliminate the transfers of funds for administrative equipment and computers from the mandatory Commodity Credit Corporation account, and, instead, to fund these purchases through appropriations. Because discretionary savings would be scored for eliminating the mandatory funding, no net outlays would be scored to the bill if this proposal were enacted. Continued mandatory funding does not foster the necessary careful consideration of equipment purchases, nor does it adequately reflect the true discretionary nature of these costs.

- <u>Foreign Agricultural Service (FAS)</u>. The Administration has proposed a $10 million reduction in the Cooperator program of FAS, which the House bill does not include. FAS can achieve its export promotion objectives within the budget's proposed levels. FAS can increase the cost-share amount it currently requires, target funding to areas where the greatest export opportunities exist rather than continue funding in the same established locations, and reduce the funds used to pay rent and administrative expenses of the participating private sector cooperators.

- <u>Rental Payments to GSA</u>. The House bill earmarks $65.5 million for non-rental purposes ($50.5 million to the Department of Agriculture and $15.0 million to the Food and Drug Administration) out of the amounts appropriated for the payment of rent to GSA. Reservation of these funds for other uses would result in insufficient funds being available for making rental payments to GSA. Therefore, OMB has scored the House bill for these additional costs.

<u>GENERAL PROVISIONS</u>

- <u>Collection of delinquent payments from FmHA borrowers</u>. Section 716 of the House bill would prohibit the use of private debt collection agencies to collect delinquent payments from Farmers Home Administration (FmHA) borrowers. At the end of FY 1992, FmHA had nearly $50 billion in outstanding loans. Almost $14 billion of these loans represented expected losses, net of recoveries and fees.

The use of debt collection agencies for seriously delinquent debt is a proven debt collection tool. Federal agencies received authority to use this tool in the Debt Collection Act of 1982. Several Federal agencies have successfully used these collection services for housing, student, and business loans. The Administration believes that there is no reason to exempt the rural sector of the country from a technique that is applied to problem debts in other Federal loan programs. The Administration urges the Subcommittee to delete section 716.

AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS BILL, FY 1994
(in millions of dollars)

Major Programs	FY 1993 Enacted		FY 1994 Proposed		House Floor [1]		House Floor Difference From: FY 1993 Enacted		House Floor Difference From: FY 1994 Proposed	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Domestic Discretionary:										
Cooperative State Research Service	482	459	424	477	466	493	-16	34	43	15
Animal and Plant Health Inspection Service	454	491	443	442	449	447	-5	-44	6	5
Food Safety and Inspection Service	494	494	409	403	517	501	23	8	108	98
Farm Service Agency	3,791	3,740	4,160	4,057	4,040	3,927	248	187	-121	-130
Discretionary changes to mandatory program	---	---	-171	-143	-529	-172	-529	-172	-358	-29
Rural Development Administration	691	420	931	540	759	523	68	103	-172	-17
Rural Electrification Administration	243	120	55	141	146	169	-97	49	91	27
Federal Crop Insurance Corporation	310	324	202	250	265	283	-45	-41	63	33
Supplemental Feeding Programs (WIC)	2,860	2,840	3,287	3,262	3,210	3,191	350	352	-77	-71
Food and Drug Administration	783	787	670	671	885	852	102	65	215	181
Other	2,400	2,453	2,526	2,527	2,534	2,506	134	53	8	-20
Total, Domestic Discretionary	**12,508**	**12,128**	**12,936**	**12,627**	**12,742**	**12,720**	**234**	**592**	**-194**	**93**
International Discretionary	**1,573**	**1,777**	**1,529**	**1,552**	**1,497**	**1,520**	**-76**	**-257**	**-32**	**-32**
Emergencies	—	-14	—	8	—	8	—	23	—	—
Total	**14,081**	**13,891**	**14,466**	**14,187**	**14,239**	**14,248**	**158**	**357**	**-227**	**61**

[1] OMB scoring is preliminary.
* $500 thousand or less.

	House 602(b)		Senate 602(b)		House Floor Less House 602(b)	
	BA	OL	BA	OL	BA	OL
602(b) Allocation	14,629	14,340	14,578	14,139	-390	-92

file

4/8/93 b.t.

LONG-TERM INVESTMENTS IN THE PRESIDENT'S BUDGET

The long-term investments in the budget are targeted towards areas that are vital to raising the productivity of American businesses and the American people, which will improve long-term economic growth, incomes, and standards of living.

They are directed toward the following priorities:

- Rebuild America/Infrastructure. Investments totaling $52 billion in outlays over five years (with $11 billion in FY 1994 budget authority) in highways and mass transportation, environmental infrastructure, technology, building and restoring housing, and conserving and developing alternative forms of energy. The category includes five-year outlays of $15 billion for technology initiatives.

- Lifelong Learning. Investments of $52 billion in outlays over five years ($6 billion in FY 1994 budget authority) in educational programs and reforms, full funding of Head Start and the WIC feeding program, national service, and several innovative job training initiatives.

- Rewarding Work. A five-year total of $32 billion, most of which will be used to take working families out of poverty by expanding the Earned Income Tax Credit.

- Safe Streets. A five-year investment of $4 billion in outlays ($390 million in FY 1994 budget authority) for anti-crime initiatives, such as putting an additional 100,000 police on the beat in cities and towns.

- Health Care. Investment outlays of $32 billion over five years ($3.4 billion in FY 1994 budget authority) in health care and research, including women's health research, full funding of the Ryan White Act for AIDS prevention and treatment, and veterans' health care.

- Private Sector Incentives. A five-year total of $50 billion ($12 billion in FY 1994) in business productivity tax incentives, including a small business investment tax credit and capital gains exclusion, permanent extension of the research and experimentation tax credit, and enterprise zones.

SUMMARY POINTS ON THE APRIL BUDGET

I. This plan targets investments to promote long-term economic growth and reduces budget deficits as a share of the economy by nearly one-half by 1997.

II. It will increase economic growth and raise the incomes and living standards of American families.

III. Congress, in its earliest action ever on a budget, has already adopted a budget resolution which contains the elements of the President's economic program.

IV. The Clinton Administration is the first new administration to submit a complete line-by-line budget during its first year in office.

V. The combination of the President's plan and the changes made by the congressional budget resolution would achieve a total of $514 billion of deficit reduction over the next five years, making it the largest deficit reduction package in history.

VI. This includes $447 billion, which is the reestimated net deficit reduction achieved in the President's budget, an additional $57 billion in discretionary spending cuts and $2 billion in mandatory spending cuts endorsed by the Congress, and $8 billion in additional interest savings.

VII. The President's budget provides for more than 200 specific spending reductions in domestic and defense programs, and raises additional revenues, most of which would come from the wealthiest taxpayers.

VIII. These involve numerous difficult choices, which include the following:

A. Increased taxation of Social Security benefits
B. Significant savings in Medicare, though not affecting beneficiaries
C. Broad-based energy tax
D. Significant defense savings
E. Savings in the rural Electrification Administration, Power Marketing Administration, and Appalachian Regional Commission
F. Inland waterway user fees
G. Redesign of the space station
H. Point XIII below
I. Examination fees for State-chartered, FDIC-insured banks
J. Elimination of the "b" portion of impact aid
K. Savings in the Cooperative State Research Service and Agricultural Research Service, meat/poultry inspection fees, crop insurance savings
L. Savings in HUD special purpose grants

IX. It reduces the deficit as a percent of GDP from 5.2% of GDP in fiscal year 1993 to 2.8% of GDP in fiscal year 1997. The additional savings endorsed by the Congress push the deficit down to 2.7% of GDP in 1997.

X. The long-term investments in the budget are directed towards areas that are vital to raising the productivity of American businesses and the American people, which will improve long-term economic growth, incomes, and standards of living. They are directed toward the following priorities: Rebuild America/Infrastructure, Lifelong Learning, Rewarding Work, Safe Streets, Health Care, and Private Sector Incentives.

XI. The five-year ratio of spending cuts to tax increases is 52% to 48%. In the fifth year alone, the ratio is 59% to 41%.

XII. The Administration's spending reductions would eliminate or reduce spending in programs that do not work or are no longer needed, eliminate or reduce unfair or unnecessary subsidies, reform programs for better management of taxpayers' dollars, control health care costs without harming program beneficiaries, make substantial overall reductions in agency expenses and the size of the Federal bureaucracy.

XIII. The domestic discretionary savings include $45 billion in reductions in the cost of government from civilian personnel cuts of more than 100,000, reduction of administrative expenses, an across-the-board pay freeze for Federal civilian and military employees as well as other savings in personnel compensation, and streamlining of departments and agencies.

THE WHITE HOUSE

WASHINGTON

April 7, 1993

MEMORANDUM FOR WHITE HOUSE STAFF MESS MEMBERS

FROM: JOHN A. GAUGHAN
DIRECTOR, WHITE HOUSE MILITARY OFFICE

SUBJECT: White House Staff Mess Holiday Closure

In observance of Easter, the White House Staff Mess will be closed Saturday, April 10, and Sunday, April 11, 1993.

Thank you for your understanding.

Carol Rosco

THE WHITE HOUSE

WASHINGTON

APRIL 8, 1993

MEMORANDUM FOR THE WHITE HOUSE DEPARTMENT HEADS

FROM: DAVID WATKINS D. Watkins
ASSISTANT TO THE PRESIDENT FOR
MANAGEMENT AND ADMINISTRATION

SUBJECT: Expressions of Sympathy for Mr. Hugh Rodham, Sr.

In lieu of flowers or gifts, the family has requested that expressions of sympathy be made in the form of contributions to either of the following charitable foundations.

The family wishes to recognize the *Salvation Army* as the late Mr. Rodham's most endeared charity; therefore, memorial contributions may be to local Salvation Army chapter's around the country.

Also, a charitable fund has been established for a Stroke Education Center at St. Vincent's Hospital of Little Rock, AR. Memorial contributions may be forwarded to the address below:

The Hugh E. Rodham Stroke Education Center
St. Vincent's Hospital
Two St. Vincent's Circle
Little Rock, AR 72005-5499

Thank you for your cooperation.

DPC Prog. Staff

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E

12-Apr-1993 08:59am

TO: (See Below)

FROM: Jeffrey L. Eller
Office of Media Affairs

SUBJECT: Talking Points 4/12

Comments on the President's Schedule
April 12, 1993

* The President and Mrs. Clinton host American families at the White House for the annual Easter Egg Roll. The Administration moves on several fronts to build more public support for the economic program.

* **Immunizations.** The President today signs a Proclamation in support of Pre-School Immunization Week, April 24-30. The stimulus and jobs package (which has passed the House and is before the Senate) provides $300 million to help us immunize one million children this summer. Vaccinations are the most cost-effective way to prevent avoidable childhood diseases. If the Senate wants to do its part to stop suffering, save money and help our children, it will pass the stimulus and jobs plan.

* **Defense conversion.** This week, in five cities across America, the Defense Department is hosting conferences on the Technology Reinvestment Project, a key part of the President's Defense Reinvestment and Conversion Initiative -- a $20 billion, five-year initiative to reinvest in workers, communities and companies harmed by cuts in military spending. The plan provides immediate help for hard-hit defense workers and communities as well as long-term investment in our nation's industrial technology infrastructure.

* This project will help ease the pain of defense downsizing while capturing the great potential that defense workers and firms offer to meet pressing national economic needs. The reinvestment and conversion initiative will rededicate $375 million this year alone to helping defense workers and military personnel hurt by defense cuts. They will receive job training, employment services, and transition assistance to help them put their skills to work in a new setting.

* How we're helping the economy. The Clinton Administration is offering a defense conversion initiative that deals directly with the needs of defense communities, workers and firms to help them move to the civilian sector of the economy, and the Administration's overall economic plan is designed to improve the climate for business and jobs across the board.

(*)

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EXECUTIVE OFFICE OF THE PRESIDEN

09-Apr-1993 04:18pm

TO: S. Collier Andress

FROM: Eric Berman
Office of Communications

SUBJECT: Talking Points on Stimulus -- Don't Distribute Quite

TALKING POINTS ON STIMULUS PLAN

* **The President's strategy for growth.** Congress has adopted President Clinton's plan for increasing investment, creating jobs, and reducing the deficit. While this plan will ensure that the United States enjoys economic growth and its workers experience rising incomes in the long-term, we need to increase economic growth and the creation of jobs in the short-term. This anemic recovery is not producing jobs, and we need to take action now to put people back to work. The President's plan will produce over 500,000 full and part-year jobs through investments in highways, summer youth employment, community development, wastewater clean-up, summer Head Start, the WIC program, youth employment, veterans facility upgrading and energy conservation.

* **The economic case for change.** Last Friday's unemployment report provides just the latest evidence for our economic case for change. The Department of Labor released its latest job figures for March which showed that unemployment stayed above 7% for the 16th month in a row and the total number of jobs dropped by 22,000. At the same time, there are still 16 million Americans who want full-time work and can't find it. We are still stuck in a jobless recovery.

  -- Private sector employment remains more than 1.1 million jobs below where they were at the start of the recession in July 1990.

  -- We are more than 3.4 million jobs behind a typical recovery. We are now in the 23rd month of the recovery. In a typical post-war recovery, employment would have increased by 4.3 million by now.

  -- Average American workers have seen their real wages go **down** in the last four years.

* **But 43 Republican Senators 'just say no.'** The Republicans in the Senate are unable or unwilling to put partisan politics aside to support an initiative to create jobs and put the American people back to work. These Senators are holding up a

bill that will create 500,000 new jobs and will put us on the road to real job growth. The real question comes down to this: are you satisfied with a jobless recovery, or do you believe we need to take action to put the American people back to work. The people made their choice in November. The President made his choice when he put out a bold, economic growth package on February 17. It is now time for the Republican Senators to do the same.

* **President Clinton is Fighting for a New Economy.** The Clinton budget passed by Congress fundamental reorders the nation's economic priorities by increasing investment, reducing the deficit, and moving the economy into the future. His jobs plan is an essential element of that plan -- to create jobs, boost consumer confidence, and get the economy moving again. He will not rest until the American economy starts working again for the American people. He will urge the Republican Senators to do the same.

TALKING POINTS ON THE REPUBLICAN ATTACK

The charge of pork-barrel is sheer political demagoguery. Opponents of the bill falsely claim that the legislation will fund exotic or wasteful spending projects. They are continually stressing projects that are nowhere in the President's budget as a cover for inaction and gridlock. Their claims are false, and they are blocking jobs.

Republicans have tried to block this jobs package by distorting how much it costs to create each job by counting the unemployment compensation, ignoring the private sector job creation, and by counting 2 years of funding for each job. The fact is that the President's immediate jobs package is a $30 billion mix of investments and tax incentives designed to put people to work today by investing in the businesses, training and economic development we need for economic growth.

ON THE HIGHWAY BILL:

Many Republicans mock the $3 billion in the stimulus plan for fully funding the highway bill and the other infrastructure investments in our jobs package. Once, however, they supported public investments:

Bob Dole supported the highway bill as "creating 4 million jobs". [News Conference Federal News Service 11/27/91]

Phil Gramm said: "How can having a highway bill be controversial? --a bill that would create tens of thousands of jobs." [Federal News Service 11/27/91]

Bob Michel said "thank heavens" for such a "job creator" bill. [11/27/91]

Newt Gingrich said that "the highway bill is undersold if you look at the job creation of the construction jobs...it is a "net job creator" and that we had to recognize the second and third-order job creation opportunities." [Federal News Service 12/18/91]

ON HEAD START, WIC, JOB CORPS:

Last year, Dole co-sponsored a $2 billion measure to boost funds for Head Start, Jobs Corps, and WIC. "These programs... are among the best weapons we have in our fight against poverty," he declared. [San Francisco Chronicle, 8/31/92]

John Chaffee said, "I believe we must go a little further in fiscal year 1993 if we intend to provide full funding for WIC and Head Start... We know beyond a shadow of a doubt that these programs are successful." [Congressional Record, 5/19/92]

COMMUNITY DEVELOPMENT BLOCK GRANTS:

Phil Gramm proposed an amendment to increase CDBG funds for Texas and other states by changing the formula for distributing funds from a need-based one to a population-based one. "I'm trying to right a terrible wrong in the allocation of money.... Texas gets cheated by the current formula," he said. [AP, 6/27/90]

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E

13-Apr-1993 08:34am

TO: (See Below)

FROM: Jeffrey L. Eller
Office of Media Affairs

SUBJECT: Talking Points 4/13

Comments on the President's Schedule
April 13, 1993

* The President honors Thomas Jefferson on his 250th birthday at a wreath laying ceremony at the Jefferson Memorial today. Later, he travels to the US Chamber of Commerce to participate in a satellite town meeting to discuss the model summer school/work programs contained in the jobs bill pending before the Senate.

* Thomas Jefferson believed in government reformed by reason and by the will of the people. We are striving for that now. With the support of Americans from all walks of life, we are working to reverse a course of spending without dividends. Through the courage of the people, the Federal deficit is being reduced and their government is investing in the strength of the economy and the skills of our people.

  "Over the shrill sounds of the status quo I still hear the steady voices of Americans who want their nation to be strong and ready for tomorrow and who have entrusted this Government to get it done. I believe that we can prevail." President Clinton, Remarks prepared for delivery, April 13, 1993.

* Stumping for the Stimulus in the Senate. Today's activities continue the President's work on behalf of breaking his jobs bill free from the jaws of the Republican filibuster in the Senate. Noting that the legislation had won support of majorities in the House and the Senate, President Clinton reminded Americans in remarks yesterday that the rules of Senate permit just 41 opponents to trap legislation that can produce 500,000 jobs if enacted into law.

* While the Senators Obstruct Jobs, Japan Acts to Invest. As Senate opponents of the President's jobs package maintain

their filibuster, Japan is ready to move forward on a stimulus plan exceeding $100 billion. The Japanese jobs bill invests in public works and disaster relief; it provides aid to local governments and housing loans; and offers loans and tax breaks to private sector firms -- all to create jobs. **[So far, there are no news reports out of Japan indicating opposition by minority political parties in the Diet to creating jobs for the Japanese people.]**

(*)

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He & Ellen Nissenbaum need to meet with you about some urgent domestic policy issues in the budget negotiations

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Telephone: 202/408-1080

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TO	Carol Rasco	**DATE**	June 8, 1993
FROM	Bob Greenstein		
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CENTER ON BUDGET
AND POLICY PRIORITIES

THE BOREN BUDGET PLAN

by Robert Greenstein

The budget plan unveiled in late May by Senator David Boren and three other senators (Senators John Danforth, J. Bennett Johnston, and William Cohen) would ease the tax increases on the wealthy contained in the Clinton budget. It also contains a capital gains tax cut that would provide a windfall for many wealthy investors and open up lucrative tax shelters for some of them. At the same time, the plan would adversely affect millions of the nation's poor and hit harder at much of the middle class — especially middle-class elderly and disabled people — than the Clinton plan. Finally, the proposal would intensify the fiscal difficulties of states, shift more health care costs to already overburdened employers and state governments, and risk making national health care reform legislation harder to pass.

Effects on Wealthy Households

- Under the Boren plan, the tax increases that the Clinton Administration has proposed to levy on the wealthiest Americans would be scaled back significantly. The Boren plan eliminates the Clinton proposal to extend the Medicare payroll tax to earnings above $135,000 a year. (Under current law, the Medicare payroll tax of 1.45 percent applies only to the first $135,000 in earned income; any earnings above that level are exempt from the tax.) The Boren plan continues to exempt earnings above the $135,000 from the Medicare payroll tax. As compared to the Clinton plan, it would save $29 billion over five years for individuals with incomes above this level.

- The Boren plan also delays for six months — from January 1, 1993 to July 1, 1993 — the effective dates for the individual and corporate tax rate increases in the Clinton plan. These tax rate increases affect the one to two percent of U.S. households with the highest incomes and the one-tenth of one percent of U.S. corporations with the largest profits. The six-month delay would be worth $9 billion to these high-income individuals and large, profitable corporations.

- Many of the nation's wealthiest investors would receive a windfall because of the sizable capital gains reduction in the Boren plan. The plan would allow investors to pay capital gains tax only on the portion

777 North Capitol Street, NE, Suite 705, Washington, DC 20002 Tel: 202-408-1080 Fax: 202-408-1056
Robert Greenstein, Executive Director ★ Loring Henderson, Deputy Director

of their profit that exceeds the inflation rate.[1] While the capital gains cut is estimated to lose $12 billion in revenue over the next five years, it is designed in such a fashion that the revenue losses it generates are modest over the coming five-year period and then grow larger after that.[2] Past analyses indicate that the majority of the tax benefits from the capital gains reduction would go to the wealthiest two percent of Americans.

The proposed capital gains cut would likely fuel a resurgence of tax sheltering. Wealthy investors could borrow large sums and invest them; they then could deduct their interest payments in full while paying taxes on the profits they secured with these borrowed funds only to the extent their rate of return exceeded the inflation rate. Allowing an unindexed deduction for borrowing while taxing only profits that exceed the inflation rate creates a large new loophole. Imagine, for example, that a wealthy investor borrows $100,000 on which he pays $7,000 in interest during a year, uses this money to purchase an asset that he holds for one year, and then sells the asset for $107,000. Under current law, the investor would get a $7,000 interest deduction while having his $7,000 profit considered as taxable income. The result would be no change in his tax liability. Under the Boren plan, the investor would still get the $7,000 interest deduction, but if the inflation rate were four percent, he would pay taxes on only $3,000 in capital gains profits. The other $4,000 would be exempt from taxation due to capital gains indexing. The investor would have $4,000 in deductions left over to shelter other income and avoid paying tax on it.

The proposal to index capital gains income raises another question as well. Why should wealthy investors be excused from paying tax on part of the investment gains they receive from large stock transactions and the disposition of similar assets while middle-income people are required to pay tax on all of the gains they receive from money placed in savings accounts?

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[1] Under the Boren plan, high-income taxpayers with capital gains income would have an option. They could continue to pay tax on all capital gains income at the current top capital gains tax rate of 28 percent or they could pay tax only on the portion of their capital gains income that exceeded their original investment amount, plus an inflation adjustment, and pay at the regular tax rate otherwise applicable to them.

[2] The capital gains proposal would apply prospectively — that is, it would apply to profits obtained from the sale of assets that were purchased after January 1, 1993. It would not apply to the sale of assets purchased earlier. As a result, it would take some years until the revenue losses engendered by the proposal reached their full level.

Robert McIntyre on Proposals to Index Capital Gains

In an analysis issued in 1990, Robert S. McIntyre, director of Citizens for Tax Justice, examined proposals to index capital gains. McIntyre observed:

"Indexing capital gains, so that inflationary gains are not taxed, might look fair at first glance. But the trouble with indexing is that it's not fair to index just part of the tax code. Why, for example, is it fair to index capital gains and not interest on savings accounts — the little guy's form of investment? Furthermore, savings account holders must pay taxes on their profits every year, whether they withdraw them or not, whereas an investment whose profit is deemed to be a "capital gain" can accrue tax-free until it is cashed in. Thus, investors could use indexing to lower their taxes on their reported gains, while leaving the bulk of their gains unrealized and untaxed. The net effect would be even lower taxes on total real gains — hardly a more equitable result.

"Most important, you cannot reasonably index profits from asset sales unless you also index borrowing costs. If people can buy an asset with borrowed money, fully deduct the interest [rather than just the portion of interest payments that exceed the inflation rate], but pay taxes on the profit only to the extent it exceeds inflation, they will be able to have their inflationary cake and eat it too. The mismatch between unindexed interest deductions and indexed gains will create grotesque opportunities for tax shelters.

"In Canada, taxpayers can set up special, tax-indexed brokerage accounts for their stocks and bonds. Increases in value in excess of inflation are taxed annually — whether or not the assets are sold. Moreover, Canada has much more stringent limits on interest deductions, and does not forgive capital gains taxes on inherited property, as does the U.S. Although the Canadian indexing system has many technical problems, at least it's a serious effort to address the inflation issue — not simply a one-sided giveaway to large owners of capital.

"At bottom, unless someone devises a technically and politically acceptable way both to tax unrealized gains and to index interest deductions, indexing capital gains would be bad tax policy, bad budget policy and bad economics."

Robert S. McIntyre, "Indexing Capital Gains," Citizens for Tax Justice, September 1990.

- Without the capital gains cut, the Boren plan removes $38 billion in tax increases that have been proposed by the Clinton Administration and that would affect only the richest two percent of taxpayers and the one-tenth of one percent of corporations with the largest profits. An additional $12 billion in tax breaks over the next five years would accrue primarily to upper-income taxpayers as a result of the capital gains cut, for a total of $50 billion. The plan does increase Medicare premiums on upper-income beneficiaries and claims this would raise $10 billion over five years, an estimate that may be too high, as is explained below. But that makes the net result, as compared to the Clinton plan, a shift of $40 billion in deficit reduction burdens from upper-income groups and large corporations to other Americans. In addition, for some wealthy investors with very large profits from capital gains, the plan might actually produce a net tax cut at a time when other Americans were being asked to sacrifice significantly.

Impacts on The Poor

While easing the tax increases on the wealthy, the proposal would be likely to have a harsh impact on the poor. It would be virtually certain to increase poverty. In unveiling the plan on May 20, Senator Boren stated that "there are no changes in existing programs designed to protect the poor." The Senator was misinformed. His statement is untrue.

- The plan eliminates all improvements in food stamp benefits for poor children that the Clinton Administration has proposed. It also cuts the President's proposed increase in the earned income tax credit for low-income working families more than in half. The Clinton goal that a family of four with a full-time year-round minimum wage worker should be raised to the poverty line would have to be jettisoned. Compared to the Clinton plan, low-income parents who work would do less well, while wealthy investors who manage stock and bond portfolios would do better.

- The proposal cuts the purchasing power of Social Security benefits for millions of elderly and disabled people, including many elderly couples with incomes below the poverty line. It requires that for each of the next five years, only the first $600 a month in Social Security, civil service retirement and military retirement benefits be fully adjusted for changes in the cost-of-living. Benefits above the $600-a-month level would be indexed at a rate two percentage points below the inflation rate.

  As a result, an elderly couple whose income is derived entirely from modest Social Security payments would have its cost-of-living adjustment reduced once its benefits (and its income) surpassed $7,200 a year. The poverty line for an elderly couple is close to $9,000. Thus, some poor elderly couples would be driven deeper into poverty, while many others just slightly above the poverty line would be pushed into poverty.

- The proposal also would cut the federal share of AFDC and Medicaid benefits in 13 states — Alaska, California, Connecticut, Delaware, the District of Columbia, Hawaii, Illinois, Maryland, Massachusetts, New Hampshire, New Jersey, New York, and Virginia. These states would lose $36 billion in federal funding over the next five years.[3] This would virtually necessitate that these states cut deeply into basic cash and medical assistance for poor families with children and the elderly and disabled poor to offset the large losses in federal funds.

- The Boren plan then cuts another $21 billion in federal funding for Medicaid. The plan envisions reducing payments to states for primary and acute care provided through Medicaid. The reduction would start at four percent on a per capita basis in fiscal year 1995 and rise to a reduction of 11.5 percent on a per capita basis by fiscal year 1998. Most states would be forced to eliminate Medicaid eligibility for various categories of poor families with children and poor elderly and disabled people, end coverage for various medical services, or cut fees paid to medical providers. In many areas, Medicaid fees are so low already that there is a shortage of physicians who will accept Medicaid patients, including Medicaid patients who are pregnant or young children. This is a particular problem in many rural ares.

In addition, the Boren proposal would establish entitlement caps and set them well below the levels that entitlements would otherwise be expected to cost. The Boren entitlement cap proposal is similar to a Bush Administration proposal designed by Richard Darman; it is far harsher than the entitlement control mechanism included in the House reconciliation bill. It sets its caps at the current cost of entitlements, with adjustments in coming years for inflation and changes in program caseloads and a small additional adjustment that ends after fiscal year 1997. Under the proposed caps, increases in health care entitlement costs that exceed the *general* inflation rate — as distinguished from the health care inflation rate — would not be covered, and each individual program that grows faster than the allowed rate would have to be cut whenever the overall entitlement cap is breached. The Boren entitlement cap proposal thus would require that deep cuts in Medicare and Medicaid be made over time. These cuts would have to be more severe than the specific Medicare and

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[3] The documents accompanying the Boren plan state that a $31 billion loss is involved, but CBO cost estimates show the correct estimate is $36 billion. See Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, February 1993, p. 274.

Medicaid entitlement cuts outlined in the Boren plan. By fiscal year 1998 (and possibly by fiscal year 1997 as well), the cuts outlined in the plan would be insufficient to bring entitlement spending within the plan's own entitlement cap. (This issue is explained in more detail below.)

Effects on the Middle Class and the Near-Poor

The Boren plan is presented as benefitting the middle class through elimination of the energy tax. Yet many middle-class people would be hit much harder under the Boren plan than under the Clinton budget. They would suffer the brunt of the large benefit cuts featured in the plan.

- Millions of elderly and disabled Social Security beneficiaries and civil service and military retirees would have their retirement benefits reduced in purchasing power each year for the next five years due to the reduction in the cost-of-living adjustments for these programs. Beneficiaries would lose $23 billion over the next five years. They also would lose billions more in years after that because their benefits would permanently be at a lower base.

- Elderly and disabled Medicare beneficiaries with incomes above the poverty line who use home health services or skilled nursing facilities would be hit a second time as well. They would be responsible for making Medicare co-payments equal to 10 percent of their home health care costs and 20 percent of skilled nursing facility charges. Co-payments of this magnitude can entail heavy financial burdens. Those affected would lose another $11 billion over the next five years. Some of the elderly and disabled people who would be affected have incomes as low as $7,500 a year. (See the box on the next page.)

- Middle-income families that rely on a variety of other benefits from student loans to veterans benefits to farm price supports also could be affected by benefit cuts; reductions in these programs could be triggered by the Boren entitlement cap. For example, if farm price supports spurted in one year due to unexpected weather conditions and harvests, the farm programs would have to be cut even if the spurt were temporary and had no long-term deficit implications.

- In return, middle-income families would escape a modest energy tax that would cost families in the very middle of the income spectrum an average of less than $15 a month under the Clinton budget and families in the $20,000 to $30,000 range an average of just two to three dollars a month. Many middle-income families — and the vast bulk of near-poor and middle-income elderly and disabled people — would lose more under the Boren plan than under the Clinton budget. Their additional losses would partly be used to finance the elimination of some of the tax increases on the wealthy included in the Clinton plan.

- Middle-income people would be affected in another way as well. It is likely that in many states, their state taxes would be raised. The Boren plans hammers states especially hard, cutting deeply into federal Medicaid funding for "disproportionate share" hospitals,[4] reducing federal contributions for primary and acute care provided through Medicaid, slicing federal funding for AFDC and Medicaid costs in 13 states, and — in all likelihood — shifting still more health care costs to states in subsequent years due to the ultimate effects on Medicaid of the steadily tightening entitlement cap.

  Most states would have to raise taxes, cut benefits and services, or take both types of actions to make up the losses. The cost-shifting to states would be so large that tax increases probably would be inescapable in most areas. Since nearly every state has a regressive tax system, the resulting tax increases would likely affect middle- and low-income households disproportionately.

Inflated Savings Estimates

The Boren plan claims to achieve $170 billion in non-Social Security entitlement savings over five years. It also claims its savings would meet its entitlement cap. These claims are open to question.

For example, the Boren plan claims $10 billion in entitlement savings over five years from increasing Medicare premiums and deductibles charged to beneficiaries with incomes over $75,000. Yet Social Security offices, which administer Medicare, lack information on beneficiaries' incomes. They do not know who has income exceeding $75,000 a year. As a result, it is unclear how these higher premiums and deductibles would be collected. If Social Security offices had to determine the income of each beneficiary, the administrative costs would be huge. As a result, the $10 billion savings figure appears to be inflated.

[4] The deficit reduction options book issued by the Congressional Budget Office in February 1993 includes a tough option to reduce by $4.9 billion the federal portion of Medicaid payments for disproportionate share hospitals. The Boren plan assumes savings in this area that are about twice that large.

Inequitable Impacts on the Elderly and Disabled

The Boren plan claims to protect the elderly and disabled poor from its Social Security and Medicare cuts. Yet it not only falls short of doing so, but also creates substantial inequities in its treatment of the elderly and disabled population. It hits some poor and near-poor elderly and disabled harder than some elderly and disabled people who are at much higher income levels.

The plan provides a full Social Security cost-of-living adjustment only for the first $600 a month in Social Security benefits. Sizable numbers of middle-income and affluent retirees who spent much of their careers in jobs that were outside the Social Security system — and only a modest number of years in jobs covered by the system — receive Social Security payments of less than $600. They typically receive other pension payments as well. Meanwhile, some poor elderly couples with incomes as low as $7,500 a year — and millions of near-poor elderly and disabled individuals and couples whose incomes are only modestly higher — receive Social Security payments of more than $600 a month. Under the Boren plan, the affluent retirees with small Social Security payments would receive a full cost-of-living adjustment and suffer no income loss. But poor and near poor beneficiaries who receive payments of more than $600 a month would be denied a full cost-of-living adjustment and would have their standard-of-living reduced.

The Boren plan also imposes substantial co-payments on elderly and disabled Medicare beneficiaries who receive home health care services or are being cared for in a skilled nursing facility. The plan claims that low-income seniors would not be forced to shoulder these additional costs "because the costs would be covered by the Qualified Medicare Beneficiary (QMB) program." That program, however, covers only elderly and disabled people with incomes below the poverty line. An elderly widow living on $7,500 a year and an elderly couple at $9,000 a year could be hit with the full brunt of these expenses. Moreover, due to a lack of understanding of the QMB program and other factors, large numbers of the elderly and disabled poor are not enrolled in it despite being eligible for it. They, too, would have to pay these costs unless they are poor enough and have low enough assets to be covered under Medicaid.

Seniors with Medigap insurance policies could probably get these co-insurance costs picked up under their policies — but the policies would become significantly more costly as a result. The premiums that millions of elderly people pay for Medigap policies would rise. Furthermore, the near-poor elderly are those least likely to have Medigap coverage, because they often cannot afford these policies. Having neither QMB eligibility nor a Medigap policy, they could be wiped out financially if they needed home health care or spent some time in a skilled nursing facility.

To be sure, there is a way to save close to $10 billion in this area — by using the tax system to identify Medicare beneficiaries with incomes over $75,000 and collect the higher premiums from them. In other words, about $10 billion could be saved through a Medicare-related tax increase. But if this is what the Boren plan envisions, then its claimed reductions in taxes and increases in entitlement savings are inaccurate. If increased taxation that is linked to Social Security benefits is counted as a tax increase — as it is by Senator Boren and his colleagues — how can a Medicare-related tax increase be considered as a spending cut and not a tax hike?

Furthermore, if the $10 billion was saved through the tax system, these savings evidently would not count toward meeting the Boren entitlement cap. The cap measures outlays for entitlement programs; it does not appear to provide credit against the entitlement cap for tax increases that are entitlement-related.

There also is a second problem in this area. Even if all of the savings claimed by the Boren plan are considered to be entitlement cuts, the plan appears still to fall short of meeting its own entitlement caps. The Boren plan says its entitlement caps require savings of $170 billion over five years. It claims that its specific entitlement reduction proposals generate $170 billion in savings. But the Boren entitlement cap requires no entitlement savings in fiscal year 1994 and only modest savings in fiscal year 1995, while requiring substantially larger savings in fiscal year 1996 and savings that become extremely large in fiscal year 1997 and especially in fiscal year 1998. The savings that would be generated by the specific entitlement proposals in the Boren plan appear to fall short of saving enough to meet the Boren entitlement cap in fiscal year 1998 (and possibly in fiscal year 1997 as well). Essentially, the authors of the Boren plan have improperly counted entitlement savings that would not be needed to meet the caps in fiscal years 1994 and 1995 in an effort to claim that their plan contains enough cuts to meet the caps over the next five years.

In other words, the savings generated by the specific proposals in the plan do not appear to accord with the *year-by-year* deficit reduction requirements that the Boren entitlement cap entails. Hence, deeper cuts than those identified in the plan would ultimately be needed to meet the entitlement caps.

Jeopardizing National Health Care Reform

Finally, the Boren plan would make it more difficult to pass comprehensive national health care legislation. The plan would use up some of the types of savings in the health care area that are needed to help finance health care reform. The number of financing mechanisms that would be left to pay for health care reform might be inadequate unless tax increases that could prove too large to be politically feasible were included in the health care plan.

In addition, the Boren entitlement caps on health care entitlements would be set at such low levels that it would be exceedingly difficult to fit national health care reform legislation within them, especially if that legislation provided access to care for the millions of Americans who are now uninsured or underinsured.

June 7, 1993

APPENDIX

THE BOREN ENTITLEMENT CAP AND THE HOUSE ENTITLEMENT CONTROL MECHANISM

The entitlement cap included in the Boren plan differs in significant ways from the entitlement control mechanism included in the House reconciliation bill.

Under both approaches, an entitlement spending target would be set for each fiscal year. But the targets would be set in a different manner and at different levels.

The House reconciliation bill sets the targets at the level that entitlements are projected to cost in each of the next four years if the reconciliation bill is enacted. To partially reflect the effect of unanticipated downturns in the economy, the House bill adjusts the caps on an annual basis if caseloads in entitlement programs prove to be higher than the caseload levels that were assumed when the caps were initially set.

Under the Boren plan, the caps would equal the current cost of entitlements, with an annual adjustment for inflation and changes in program caseloads, plus an adjustment of three percent in fiscal year 1995, two percent in fiscal year 1996, and one percent in fiscal year 1997. No other adjustments would be made.

The Boren plan fails to take into account a number of other important factors that affect entitlement costs. It does not take into account the fact that medical care costs in the public and private sectors are rising much faster than the overall inflation rate for various reasons, including advances in medical technology that produce new treatments that save or prolong life or improve health status but at a high cost. Similarly, the Boren cap does not reflect the fact that wages and some other income sources for poor families have been eroding over time, resulting in increases in the average benefits for which these families qualify in means-tested programs. (The poorer a family is, the higher its benefits usually are in means-tested programs.) Because the entitlement caps in the Boren plan are set in a manner that ignores such factors, these caps would fall farther below the projected cost of entitlement programs with each passing year.

In addition, the Boren approach effectively sets a rigid entitlement cap for each individual entitlement program and requires each program to be reduced enough to fit within its cap if the overall entitlement cap is exceeded. Since both the overall cap and all of the individual program caps would rise much more slowly than Medicare and Medicaid costs, the Boren approach guarantees that deep cuts in Medicare and Medicaid must be made. By contrast, the House plan allows more flexibility: if the entitlement target has been or will be exceeded, any entitlement program can be reduced, revenues can be raised, or discretionary program spending can be shaved. Also, under the House plan, the President and Congress can vote to raise the entitlement target instead of cutting programs or raising taxes; such a response can be particularly appropriate if the economy is in a weak state and spending cuts or tax increases might tip it into recession.

Another difference is that the House entitlement control mechanism covers all entitlements, including Social Security. The Boren entitlement cap excludes Social Security.[5]

Because of its rigidity and its failure to allow Congress and the President to use either a revenue increase or an entitlement cut if the cap is exceeded, the Boren entitlement cap proposal would be likely to tilt heavily in favor of the wealthy and against the middle class and the poor. The middle class and the poor receive the bulk of their government subsidies through entitlements. The affluent receive far more of their subsidies through tax expenditures, or "tax entitlements" as some call them. The Boren plan would cap spending on entitlement programs without capping tax expenditures. (The House entitlement control mechanism shares this shortcoming.) The Boren entitlement cap plan also would not allow any scaling back of tax expenditures as an alternative to entitlement cuts, a characteristic the House plan does not share.

Furthermore, the Boren approach of imposing a cap on each individual entitlement program would require that entitlements be cut when they exceeded their individual caps due to temporary factors that are not likely to be repeated and do not affect the long-term deficit. For example, if adverse weather conditions or international crop developments caused farm price support costs to rise in a particular year, the price support programs would have to be cut even if the cost increase was only temporary. There would be a similar effect if the cost of an entitlement program like food stamps rose on a one-time only basis due to the need to respond to a major natural disaster.

The Boren approach is, however, more soundly designed than the House approach in one significant respect. The Boren cap is adjusted each year to reflect inflation. While the entitlement targets established under the House provision have an inflation adjustment of 2.7 percent per year for each of the next four years built into them, no further adjustment is permitted if inflation proves to be higher than

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[5] The Boren cap also is restricted to entitlements under the jurisdiction of the Senate Finance Committee, but that appears to have been done to enable the proposal to be considered by the Finance Committee during its reconciliation mark-up. If this approach were to be adopted by the Finance Committee, an attempt could be made on the Senate floor to extend the cap to cover all entitlements except Social Security.

that. (The 2.7 percent rate represents last winter's CBO forecast.) The House approach to inflation is flawed. When inflation rises, both entitlement costs and revenue collections increase, and there is little effect on the deficit.[6] The failure of the House plan to adjust for higher-than-forecast inflation means that if inflation rises by more than 2.7 percent per year, entitlement cuts may be required even if the deficit has not substantially changed. Given the improbability that inflation will remain this low for four consecutive years, such an occurrence must be considered likely under the House plan.

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[6] See Office of Management and Budget, *Budget Baselines, Historical Data and Alternatives for the Future*, January 1993, pp. 158-161, and Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998*, January 1993, pp. 110-112.