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001. memo	JP to D2; re: Cleaning the Laundry (3 pages)	n.d.	P5	
002. memo	Leon Panetta & Alice Rivlin to John Podesta et al; re: State of the Union Address (4 pages)	01/04/1994	P5	1289

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

THE DIRECTOR

January 4, 1994

MEMORANDUM FOR: JOHN PODESTA
MARK GEARAN
CHRISTINE VARNEY
DAVID DREYER

FROM: LEON PANETTA
ALICE RIVLIN

SUBJECT: STATE OF THE UNION ADDRESS

I. INTRODUCTION

Perhaps more than in most years, the State of the Union message will be an opportunity for the President to establish momentum for his 1994 legislative program and political message. The successes, as well as the turmoil, of 1993, combined with public interest in health care reform, will establish considerable anticipation and curiosity, certainly more than for State of the Union messages by other recent Presidents.

The President should remind the country of where the country was and was headed when he was elected, describe last year's successes and what they have done for the country, including the end of gridlock, and declare that we have laid a solid foundation for economic growth, more and better jobs, and national prosperity. He should then emphasize a limited number of key initiatives for 1994.

More broadly, it is very important that the President use this address is an opportunity to give the American people a picture of his vision for the nation's future -- what he believes this country is all about and where he is trying to take us.

II. WHERE WE WERE

The President should be emphatic about the fundamental change that has taken place in how Washington thinks and what it does when it comes to taxes, spending, the deficit, and the economy.

Deficits

The deficit was headed for $302 billion in Fiscal Year 1995 and well over $400 billion by the end of the decade.

Taxes

In 1981, the tax burden had been radically shifted from the wealthy to the middle class. From the late 1970's to 1990, the total Federal effective tax rate for the wealthiest fifth of families had declined by over 6 percent while rates for the middle 60% of Americans had either increased or declined imperceptibly. Despite efforts to restore fairness, the wealthy were still benefiting in the 1990's from the 1981 legislation at the expense of the middle class.

Economy

In 1992, the economy was still struggling to break out of recession, with few new jobs and continuing high interest rates. In 1992, mortgage rates averaged 8.24% in 92, unemployment at the end of 1992 stood at 7.3%, and fewer than a million jobs had been added to the economy in the previous four years. The outlook for the future was for slow productivity growth, stagnant wages, and rising inequality.

III. WHERE WE ARE: THE SUCCESSES OF 1993

A. Budget

Deficits

1. Our new budget will project the 1995 deficit at around $190 billion, a drop of more than $110 billion from where it would otherwise have been.

2. Here is another way of putting it: The deficit declined in FY 1993. We are projecting that it will decline further in FY 1994. That will be the first consecutive two years of improvement since 1973/74. We project further decline in FY 1995. That would be the first consecutive three years of improvement since 1946-48, the period following the wartime deficits of the early 1940's.

3. Here is still another way of putting it: We project that the FY 1996 deficit will be at the lowest level, as a percentage of GDP, since 1979, meaning that, in terms of the impact on the economy, we will have finally shed the budget excesses of the 1980's.

4. And, finally, this was the largest deficit reduction package in history -- over $500 billion -- and the bond markets have ratified our policy with a major decline in interest rates.

Spending

We have frozen discretionary spending. Except in emergencies, we cannot spend a dime of new money unless we cut it from another part of the budget. We're wiping out low-priority spending in order to fulfill the promise of deficit reduction as well as to fund limited, targeted investments in our future. We need to maintain that discipline. Hundreds of programs were cut in Fiscal Year 1994, and there are further cuts in hundreds of programs in our new budget. As for entitlement spending, health care reform will address the fastest growing entitlement programs, and the bipartisan commission on entitlement reform will examine the possibility of additional savings in entitlement programs. While we've imposed tough disciplines, there is one more that we need -- enhanced rescission authority, which will enable the President to single out wasteful items in appropriations bills and force Congress to vote on them in the light of day.

Taxes

For the first time in over a dozen years, a serious effort was made to restore fairness to the tax code, with the wealthy being asked to pay their fair share -- not an excessive amount, just their fair share -- and the middle class being protected -- one hesitates to remind people that their tax forms are waiting to be filled out, but, despite the claims of some that taxes for middle class Americans were rising, more than 98% of Americans -- and if you're sitting at home right now watching your TV, you are probably a part of that 98% -- are finding that their income tax rates have not increased.

B. The economy

The result of the President's commitment to reversing the course of how Washington does business is growing economic confidence: investment is up, in businesses, in residences, and in consumer durables; mortgage rates are down to 6.8%; well over one and a half million more Americans are working than were working when the President took office, a substantially greater increase in one year than was achieved in the previous four years combined, and the rate of unemployment is down to 6.4%; fundamentals are solid and strong, and we are building for the future; this is not a one-quarter wonder, it is a disciplined and sustainable expansion. There are still problems; many Americans have not shared in past prosperity, and we have to pull them into the current expansion.

C. Other successes

Other 1993 successes noted should be those related specifically to long-term goals: (a) NAFTA and GATT for economic growth; (b) national service for helping to meet educational goals; (c) NPR (including 252,000 reduction of Federal employees and procurement reform) for making government work better and cost less; (d) regulatory reform to improve the health, safety, environment, and well-being of the American people but not to impose an excessive burden on businesses and state and local governments.

IV. SPECIFIC GOALS FOR 1994 AND BEYOND

The President should emphasize a relatively few key reform and investment goals for 1994.

A. Health care reform is far and away the most important. We need to emphasize not only how important this is for families but also how it important it is for our economic future, i.e. the growing burden on businesses of the current system.

B. A second key area for emphasis should be lifelong learning, which fits in with the President's long-term economic goals. We are trying to create more and higher-paying jobs, and we are seeking to prepare today's workers, as well as our children, to step into those jobs. We have a strong record on educational reform and investments, and we will have an ambitious program for job training as well as a number of educational initiatives. Preparing children to learn -- through Head Start and WIC, for example -- are important here as well.

C. A third area for emphasis is crime. The President should emphasize that the crime bill now in the Congress would fulfill his pledge to put 100,000 more cops on the street and that his budget will help to fulfill that goal. The discussion of crime should be far broader than as a budget or policy issue. The President's strong message on crime and personal and community responsibility should be built upon here.

D. Welfare reform needs to be mentioned, with an emphasis on personal responsibility, working (and making it possible for people to work), and not increasing the deficit.

E. A set of other investments should also be emphasized as ways of increasing jobs and strengthening long-term economic growth -- investments in technology, in research, and in physical capital.

V. VISION FOR THE FUTURE

All of these accomplishments and goals add up to an America that, like a family or like any strong community, plans, saves, and invests for its future, works hard to achieve its goals, emphasizes individual responsibility as well as fairness, protects itself from violence, and cares for its children, its sick, and its elderly --

-- a more prosperous America, with good jobs at rising wages, with opportunities for moving from welfare to jobs, from low-skill to higher-skilled and better-paid jobs

-- health security for every American, with health insurance that cannot be taken away, providing more personal security and freeing people to seek different and better jobs.

-- personal security, with less fear of crime, with fewer guns and less violence, and with more and better opportunities for our young people.

These are some of the basic elements of what that vision can be, but it should be stated not in a programmatic way but rather with a thematic approach that connects on a human level rather than a policy level.