

Originally Processed With FOIA(s):

S

FOIA Number:

FOIA MARKER

**This is not a textual record. This is used as an
administrative marker by the George Bush Presidential
Library Staff.**

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Speechwriting, White House Office of
Series: Aarhus, Carol, Files
Subseries: Alpha File, 1990-1992

OA/ID Number: 13860
Folder ID Number: 13860-008

Folder Title:
Budget Agreement, 1990

Stack:	Row:	Section:	Shelf:	Position:
G	19	2	5	1

THE WHITE HOUSE
WASHINGTON

Date: _____

9/25

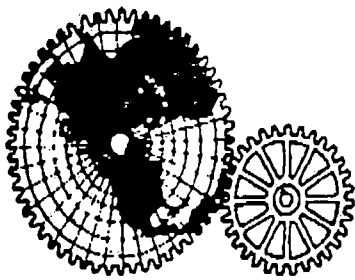
TO:

Mark Davis

FROM:

JAMES P. PINKERTON
Deputy Assistant to the President
for Policy Planning

fyi



POLYCONOMICS, INC.
Political and Economic Communications

Draft Language for Presidential Address on the Capital Gains Tax
September 24, 1990

My fellow Americans:

I have asked for this time to speak with you about our nation's budget crisis. Our nation is at a crossroads, and the actions we take during the next days and weeks will touch the lives of all Americans for years to come. We are in the eighth year of the longest peacetime economic expansion in our history. Now we must decide whether we shall pursue the path of growth taken by the Republican administration you elected in 1980, or whether we will revert to the policies that brought us to the brink of national ruin.

What I have to tell you this evening is that I have decided to order a sequester of Federal spending, in compliance with the Gramm-Rudman-Hollings law which requires the government to reduce its deficit in this fiscal year. I do this in full awareness that the results of my decision will be painful. It means that thousands of Federal workers will be furloughed, and many important government services will temporarily shut down. I could have postponed this difficult decision by making a "business-as-usual" compromise with the Democratic party leaders of the Congress. But the time for business as usual has past. I would not be fulfilling

my obligation to you as your President, if I did not use all the means in my power to make you aware of the serious nature of this budget crisis. I cannot accept a compromise that fails to address this problem with a prescription for economic growth. For without economic growth, we cannot solve our budgetary problems, or address any of the other urgent problems this country faces.

During the Presidential elections two years ago, I campaigned for a capital gains tax cut to foster economic growth. On Election Day, you gave me a mandate to pursue this growth policy. For the past several month, my Cabinet and I have been negotiating with the leaders of Congress to find a solution to this nation's budget problems that ensure that this country continues to grow. We have come to an impasse in these negotiations, and I feel I need to explain to you, the people of the United States, why I have refused to make a business-as-usual compromise.

Cutting the capital gains tax will benefit every American family, both directly and indirectly, and I want to show you how. Let's take stock for a moment of where the U.S. economy stands today. Since 1980, the United States has created 20 million new jobs. That's nine-tenths of all the jobs created in the whole industrial world. By that most fundamental measure of economic health, the United States economy is the wonder of the world. Some people complain that there are too many low-paying jobs. In fact, our big problem is not too many low-paying jobs, but educating our children well enough to fill all the high-paying, high-skill jobs the economy can create.

Where did all those jobs come from? Overwhelmingly, they came from the initiative and enterprise of small business. Two-thirds of all the jobs created during the 1980s came from small business. The nation's 500 biggest companies, meanwhile, have lost a fifth of their jobs since 1982.

America's small and medium-sized businesses are the engine of our economic growth, and I intend to keep it that way. I am not talking about tax breaks for the so-called rich: the average small business investment comes from a family making \$90,000 a year, which risks its savings in a new venture. They start a new business, sell it for a profit, and start another. Our small entrepreneurs will benefit most from a lower capital gains tax. Tax away that profit, and we lose investment, and the jobs that come with investment. As jobs disappear, the poorest Americans, and above all, minorities, will suffer the most. Those who are "last hired, first fired" are already feeling economic pain, as our rate of job creation slows.

The fact is that families pursuing the American Dream create most of this country's wealth. America offers more opportunities for ordinary people, including our minorities and our new immigrants, than any other country in the world. The capital gains tax is a tax on the creation of wealth. There is nothing wrong with taxing the creation of wealth -- but not at such a high rate that this wealth disappears, along with the jobs it generates. One of the reasons our economy now is weaker than it should be is that we are, in fact, taxing wealth out of existence. Worst of all, we are

taxing people who take risks, who innovate, who contribute something new to our economy. Three out of five small businesses fail during their first five years. In fact, the ventures that carry the greatest risk, in new technologies, add the most to our economic productivity. The government doesn't give you a tax break when you lose money you invested. To make it worthwhile to take risks, we have to set a lower tax rate on risk income than on ordinary income.

Our present capital gains tax is a big part of the reason why states like Massachusetts, which depend so much on high-technology industry, are showing signs of economic weakness. Since this tax went into effect in 1987, investors have almost stopped putting money into high-technology ventures.

Another problem, perhaps the biggest of all, is that our present law taxes capital gains resulting from inflation. The 28% tax rate on capital gains turns into a 75% rate on capital gains or more, when you consider that it is a tax on illusory gains due to inflation. It's no surprise that housing prices, like the prices of real estate and other assets, have fallen so sharply in many parts of the country. To solve this problem, we must index the capital gains tax for inflation, and tax only real capital gains, not artificial gains due to inflation.

This tax on capital gains due to inflation imposes a hardship on every family that owns a home, by reducing their wealth. It also imposes a hardship on state and local governments, who depend on the real estate industry for a large part of their income. If we

reduce the capital gains tax, as I propose, tax revenues will flow into the treasuries of state and local governments across the nation. The tax increases which have hit taxpayers across the country at the state and local level would no longer be necessary.

For this reason, our present tax law is a major cause of the problems among our savings and loans. Many of them risked depositors' money in the real estate market, and lost it when real estate prices fell. Taxing illusory capital gains due to inflation, though, undermines the real estate market. The chairman of the Federal Reserve Board, as well as the officials responsible for the savings and loan rescue operation, have assured me that the cost of the rescue operation will fall drastically if we lower the capital gains tax. Ultimately, this could save you, the taxpayers, hundreds of billions of dollars, and make resources available for other important programs.

Some people say that a lower capital gains tax will lose money for the government. That just doesn't make sense. Government revenues depend on economic growth. During the 1980s, the longest peacetime economic expansion in American history, federal tax revenues grew twice as fast as they did in the 1970s, even though our tax rates were much lower than before. We cannot solve our budget problem without economic growth, and we won't have the economic growth we need with a tax that punishes individual initiative.

Our international competitiveness also depends on a lower capital gains tax. We are the only industrial country in the world

which confiscates so much of the wealth created by our citizens. Germany and Britain have no capital gains tax, while Japan's capital gains tax amounts to less than 5 percent. America remains the world's greatest source of industrial inventiveness. But our most innovative companies are starving for capital, because we deter investors from funding them. Unless we change this destructive tax, other countries will reap the benefits of American ingenuity, by turning our ideas into marketable products.

I want to make clear that this debate is not about Republicans vs. Democrats. Last year, the House of Representatives, which has a majority of Democrats, passed a reduction of the capital gains tax that I could accept. But the Senate never had the chance to vote on this issue, because the Democratic leadership of the Senate refused to bring it to a vote.

The difference here is not one of political party, but of philosophy. To me, a capital gains tax cut means a chance for enterprising middle-class families to risk their money in businesses that create new jobs. To the Democratic leadership of the Senate, it means a tax giveaway to the rich. That just isn't true. The average small business investor, with a family income of \$90,000 a year, earns more than most Americans. Giving these families a good reason to risk their money in ventures that create jobs does not amount to a giveaway to the rich. But the fact is that rich people don't suffer from an excessive capital gains tax, because they don't have to pay it. The tax applies only when property is sold. The rich can choose not to sell property which

has gained in value, and avoid paying any tax at all. But a family that has to sell its home, or a small entrepreneur who has to sell his business, has no such choice. Ordinary people like them, not the rich, suffer from this oppressive tax.

Opponents of a capital gains tax cut know all these facts and figures, but they have a different philosophy. Where I see enterprise, jobs, international competitiveness, and fiscal health for government at all levels, they see only unfairness. To them, it is more important to punish the rich, than to ensure continued economic growth.

I am confident that more Americans share my philosophy than that of the Democratic leadership of the Senate. Not only did you elect me President, but the House of Representatives voted for this growth policy. It is time for the Democratic leadership of the Senate to stop using procedural tactics to block a vote on the capital gains issue, and bring the issue to the Senate floor. And I am asking you, the American people, to make your views known to your senators and congressmen. Together, we can ensure that the unprecedented economic growth of the 1980s continues through the next decade as well.

BACKGROUND ON THE BIPARTISAN BUDGET AGREEMENT

CONTENTS

- * OVERVIEW
- * ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT AGREEMENT
- * STRENGTHENING THE ECONOMY
- * ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS
- * REFORMING THE BUDGET PROCESS
- * ACHIEVING REAL SAVINGS
- * RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES
- * PROVIDING OPPORTUNITY AND EMPOWERING LOW INCOME AMERICANS
- * KEEPING OUR COMMITMENTS TO SENIOR CITIZENS
- * SAFEGUARDING NATIONAL SECURITY
- * PRESERVING GOVERNMENT SERVICES
- * MEDICARE PREMIUMS
- * LOW INCOME AND ENTITLEMENT PROGRAMS NOT AFFECTED BY THE BUDGET SUMMIT AGREEMENT
- * WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO
- * ENERGY TAX INCENTIVES
- * LIMITS ON ITEMIZED DEDUCTIONS WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING
- * THE NEED FOR ACTION

OVERVIEW

"It's time we put the interest of the United States of America first."

-- President George Bush, September 30, 1990
Announcing the Bipartisan Budget Agreement

We must stop mortgaging the future of our children and their children. America **needs** a budget agreement. The public **demands** it. And, as President Bush said, this agreement meets the challenge of putting America first.

The five-year bipartisan budget plan will enhance America's long-term economic vitality. It will give small and medium-size business **a shot in the arm, creating jobs**. It will cut the projected federal deficit by half-a-trillion dollars -- **the single biggest cut ever**.

This will mean **real and lasting spending cuts**. And it will **not raise individual income-tax rates**. The plan will support future economic growth.

Our nation's economic problems are everyone's concern. So this agreement is, above all, **fair**. Everyone will have to make a sacrifice, but no one will have to bear the burden alone.

**ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT
BIPARTISAN BUDGET AGREEMENT**

- o Bigger budget deficits -- soaring to \$300 billion per year.

Interest Rates Go Up

- o Interest rates 1-1/2 percentage point (or more) higher than if the budget agreement is passed.
 - Worsening outlook for the already weak housing and automobile sectors of the economy.
 - Major increases in mortgage payments for American families: an increase of \$110 on a typical adjustable rate mortgage.
 - A \$350 increase in the interest cost over the life of a \$10,000 car loan.
 - About \$30 billion more over the next three years in interest costs to the Federal Government -- ultimately the tax payer -- funds unavailable either for deficit reduction or worthy spending programs.

Growth Slows: Recession Risk Rises

- o Slower economic growth, meaning hundreds of billions less in income to American families in the coming decade.
- o Reduced entrepreneurial incentives, meaning foregone opportunities for new industries and new jobs.

STRENGTHENING THE ECONOMY

Interest Rates

- o The most pronounced effect is the expected reduction in interest rates as a result of the \$500 billion deficit reduction plan. By drastically reducing the Federal Government's drain on the Nation's scarce supply of private saving, the budget agreement would substantially reduce interest rates, spur investment, and create jobs.
 - Long-term interest rates have fallen by 1/3 percentage point since the middle of last week, largely because of the agreement.
 - Using conventional assumptions, long-run interest rates will decline by approximately 1-1/2 percentage points from what they would have been in the absence of an agreement.
- o Lower interest rates mean:
 - More job-creating investment in both business and housing:
 - Between 100,000-150,000 more housing starts in the year following the lower interest rates.
 - About 500,000 more auto sales in the year following the lower interest rates.
 - Increases in business equipment and structures over what they would have been without an agreement.
 - A reduction of about \$110 per month in payments on a mortgage on a typical home.
 - A savings of about \$350 of interest over the life of a \$10,000 auto loan.

Increased Growth

- o By the end of this decade, real GNP will be 2 percent higher per year as a result of more saving and investment and lower interest costs.
- o By the end of the decade, GNP will cumulatively total more than \$1 trillion more than if interest rates did not fall.
- o A lower deficit will provide an added safeguard against inflation.

ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS

- o A package of incentives for small businesses will substantially reduce their cost of capital and stimulate investment in new and growing enterprises.
 - Currently, about 2.3 million corporations would qualify, almost two-thirds of all U.S. corporations.
 - According to the SBA, nearly 70 percent of new jobs come from small businesses (\$50 million or less).
 - As the American Business Conference (ABC) -- the CEOs of the country's fastest growing midsize companies -- put it, "the growth initiatives in the package will spur creation of a whole new generation of ABC-like companies. These are the entrepreneurs that will be generating much of the new employment in the next decade."
- Deduction for Investment. Individuals can invest up to \$200,000 per year in small companies and receive a tax deduction for 25 percent of their investment. In effect, the company can raise each \$1 in funds at a cost to the investor of only 93 cents. The deduction is provided "going in", at the time of the stock purchase.
- Indexing. New stock purchases in these firms qualify for indexing for the next 5 years. For example, if inflation averages 4 percent and the total return over 5 years is 50 percent, indexing is equivalent to a 34 percent exclusion on the nominal gain.
- Basis Adjustment. This allows investors, particularly entrepreneurs and others who invest for at least five years, to limit their effective capital gains tax. "Zero basis" stock receives an effective 50 percent capital gains exclusion (a 14 percent effective rate for those in the 28 percent bracket.) Individuals whose investments have tripled receive a 25 percent capital gains exclusion (for a 21 percent effective rate).

- Research and Experimentation Credit. This important provision is extended through 1991. If not extended, companies with rapidly growing research programs would pay much more tax, which would discourage the research necessary to maintain American competitiveness in world markets. The agreement would increase the credit from 20 percent to 30 percent for small firms.
 - Expensing-- or first-year write-off of some investment--increases the value of the tax savings from depreciating new equipment. Additional expensing is provided for scientific equipment. This will stimulate equipment purchases by these companies.
 - Corporate Rate Change. This will effectively lower the corporate tax rate from 39 percent to 36.5 percent for many small corporations. For example, a company with taxable profits of \$300,000 will save \$5,000 in taxes from this provision. Large corporations with profits over \$570,000 will be unaffected by this provision.
- o Other growth incentives include enterprise zones, energy production incentives, and user fees for infrastructure and patent production.
- Enterprise zones would be established to create jobs and develop business in specially designed urban and rural areas in need of economic assistance. Tax incentives would be provided to encourage starting businesses and hiring workers.
 - Energy incentives would encourage exploration for oil and gas, production from marginal properties, and enhanced oil recovery. In addition, Section 29 would be extended and expanded to tight sands gas, and incentives for ethanol would be modified and extended. These provisions would not only improve our energy security, but would provide jobs, increase business, and help to constrain energy prices.

REFORMING THE BUDGET PROCESS

1. Strengthens Budget Law

- o Retains and Extends the existing Gramm-Rudman-Hollings (G-R-H) sequester system. Extends GRH to 1995, with deficit reduction path intended to reach zero in 1996.
- o For the first time, establishes in law binding caps on total discretionary spending for five years.
- o Establishes binding caps on each of the categories of domestic spending, international, and defense spending, for 1991-1993.

2. Tough New Enforcement

- o Adds to G-R-H new procedure triggering automatic across-the-board spending cuts if appropriations bills exceed any of the caps.
- o Automatic cuts equal to the excess spending occur in 15 days if bill is enacted before July 1, and on October 1 if the bill is enacted after July 1.
- o The reduction is ordered against the spending category exceeded, to focus and target enforcement.
- o Caps could be exceeded only in the event of an emergency request by the President.

3. Pay-As-You-Go For All New Entitlements

- o For the first time, ensures by law that no new entitlement legislation can increase the deficit.
- o Requires all entitlement or revenue legislation to meet pay-as-you-go test: any new entitlement spending legislation must be offset by reductions in other entitlements or by revenue increases.
- o Tough enforcement if Pay-As-You-Go is violated:
 - Any entitlement legislation not meeting the pay-as-you-go test would trigger an automatic across-the-board sequester in the entitlement category.

-- Doubles the amount of entitlement spending subject to sequester

4. Reforms Congressional Budgeting Procedure

- o Requires congressional budget to cover five years.
- o Requires 60 votes in the Senate to pass spending bills that would violate caps.
- o If a revenue losing bill is reported, then automatic instructions are issued to the offending committee to provide offset. In the Senate, a 60 vote point of order is established against revenue-losing bills.

5. Forces Action on Hidden Government Liabilities

- o Completely Reforms budgeting for federal credit programs.
- o For the first time, requires the subsidy value of new credit programs to be explicitly determined up front, before laws are passed to extend government credit. No more S&L surprises.
- o For the first time, new government credit would have to be explicitly paid for up front, before laws are passed -- not left to accumulate for payment later.
- o Government sponsored enterprises (GSEs): congressional action on reforms to ensure financial soundness is required in 1991.

6. Protects Social Security

- o Removes Social Security operating surpluses from G-R-H.
- o Requires 60 votes in the Senate for passage of legislation that would violate the actuarial soundness of Social Security.

ACHIEVING REAL SAVINGS

- o The agreement represents the biggest deficit-reduction package in American history.
- o The budget plan will cut \$120 billion in government spending on entitlement and mandatory programs -- **the largest such savings ever produced**. These programs have been the biggest single source of growth in government spending. This is the first time such cuts will be guaranteed in law. No more smoke and mirrors. Savings will include:
 - \$60 billion from Medicare
 - \$13 billion from Agricultural payments
 - \$4.2 billion in Postal Service reform
- o The agreement will also produce \$182 billion in discretionary program savings, including cuts in defense outlays of \$67 billion over three years.

RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES

- o Again, these cuts were made without caving in on raising individual income-tax rates. The agreement calls for raising \$134 billion in five years. And we can raise this tax-revenue with these measures:
 - A phased-in increase in the gasoline tax -- five cents a gallon the first year and another five cents the next year. This measure will produce the greatest revenues.
 - Increased taxes on alcohol and cigarettes, as well as selected luxury items.

PROVIDING OPPORTUNITY AND EMPOWERING LOW-INCOME AMERICANS

- o Lower interest rates will help working Americans by cutting mortgage payments.
- o The plan makes an historic breakthrough by providing federal tax incentives for the development of enterprise zones -- to create jobs and opportunity for those who need it the most. Enterprise zones will foster new businesses in depressed urban and rural areas and give poor people a better chance to work toward the American dream.
- o The agreement lends a hand to the working poor through an increase in the earned-income tax credit.
- o No one below the poverty line will have to pay for a Medicare premium increase. Medicaid will pay.
- o The budget preserves programs for low-income Americans, such as:
 - Aid to Families with Dependent Children.
 - Food Stamps.
 - Medicaid.
- o Above all, the plan provides for strong economic growth. The best way to expand opportunity for lower-income Americans is to increase the number of jobs in the private sector.

KEEPING OUR COMMITMENTS TO SENIOR CITIZENS

- o The plan does not touch Social Security cost-of-living increases.
- o The plan does not touch military or federal retirement.
- o The plan does not increase taxes on Social Security beneficiaries.
- o By helping prevent a return of high inflation, the plan will provide a special benefit to senior citizens on fixed incomes, who suffered most during the disastrous price increases of the late 1970s.

SAFEGUARDING NATIONAL SECURITY

- o Although the defense budget is cut by \$67 billion over three years (and more over five years), our men and women serving in the Persian Gulf region will still get **the backing they deserve** to defend themselves and accomplish their mission.
 - The budget plan provides important supplemental funds for Operation Desert Shield.
- o The agreement prevents deeper defense cuts that might have reduced America's military readiness and placed further strains on our brave men and women in uniform.

PRESERVING GOVERNMENT SERVICES

- o Enactment of the bipartisan budget plan will prevent a sequestration that could cut into important government services such as:
 - Drug enforcement
 - Crime control and prison management
 - Air traffic control
 - Meat and poultry inspections
 - Inspection of blood banks

MEDICARE PREMIUMS

	(Dollars in Billions)					
	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>Total</u>
Pre-Summit Medicare	\$116	\$130	\$145	\$161	\$179	\$730
Pre-Summit Growth Rate	11%	12%	12%	11%	11%	
Summit Savings	-\$5	-\$9	-\$12	-\$15	-\$19	-\$60
Post-Summit Medicare	\$111	\$121	\$133	\$146	\$160	\$670
Post-Summit Growth Rate		6%	9%	10%	10%	10%

Overview

- o The \$60 billion in Summit Agreement savings is derived equally from slower growth in provider payments, and increased beneficiary payments (substituting for general taxpayer financing).
- o After the Summit Agreement, Medicare provider payments will grow at 10% per year for FY91-95 -- only slightly less than the 11.5% average annual growth rate projected without the Summit.
- o After the Summit Agreement, general taxpayer support of Medicare (70% portion of cost) increases faster than beneficiary premiums and other payments.
- o Over the FY91-95 period, the Summit Agreement's proposals result in a net out-of-pocket increase in monthly payments by the average Medicare beneficiary (premiums, co-payments, and deductibles) of \$2.55, \$5.34, \$6.69, \$7.44, and \$7.92/month respectively.

Provider Savings (Doctors and Hospitals)

- o The Summit Agreement first-year provider savings of \$3.1 billion are comparable to those achieved in the past.
 - The 1989 reconciliation bill reduced FY90 provider payments by \$2.9 billion; total provider payments still grew by 11% over FY89-FY90.
 - The 1987 reconciliation bill reduced FY88 provider payments by \$2.1 billion; total provider payments still grew by 7% over FY87-FY88.

- o The Summit Agreement contains real savings for each of the five years -- unlike prior years, where Congress opted for one-year proposals which expired the next year.

Beneficiaries: Low-Income Protections

- o After the Summit Agreement, low-income Medicare beneficiaries will continue to pay nothing for Medicare coverage.
 - Medicaid will pay these individuals' premiums, co-payments, and deductibles.
 - The Summit Agreement specifically set aside additional funds (\$2 billion Federal matched by \$1.6 State) to expand the number of beneficiaries whose Medicare costs are paid entirely by Medicaid.
- o After the Summit Agreement, the remaining beneficiaries will incur slightly higher out-of-pocket costs for Medicare coverage.
 - However, compared to the original structure of the Medicare program, these beneficiaries incur much lower out-of-pocket costs

Premiums:

- As enacted in 1965, Medicare beneficiaries paid a premium for Part B insurance (primarily physician services) set to cover 50% of the cost of the program.
- Beginning in 1973, Congress capped premium increases so that by 1990, Part B premiums covered only 25% of the program -- with the remainder financed by general taxpayer revenues.
- The Summit Agreement's 30% premium still requires a 70% subsidy from wage-earner's taxes.

Deductible:

- In 1965, Medicare required beneficiaries to pay a \$50 deductible. This was increased to \$60 in 1972 and \$75 in 1982. If it had increased to keep pace with program costs, the deductible today would exceed \$800.
- The Summit Agreement's gradual buildup to a \$150 deductible still represents a significant benefit relative to the program's original structure.

**LOW INCOME AND ENTITLEMENT PROGRAMS NOT
IMPACTED BY BUDGET SUMMIT AGREEMENT**

I. No Social Security Cola Delay or Adjustment .

Numerous Approaches Advocated a COLA Freeze, a Delay of a COLA Increase Below CPI

II. No Increase in Taxes on Social Security Benefits

Numerous Approaches Advocated Raising the Taxable Rate on Social Security from 50% to 85%

- Under This Package Social Security Grows From \$268B to \$335B '91-'95

III. No Medicare Impact on Low Income

- No Impact on Those Below Poverty Line: They Are Held Harmless for all Increases in Medicare Premiums, Copays and Deductibles 100%. Medicaid Will Pick-Up the New Costs

- What About Those Just Above the Poverty Line?

\$2B Provided in Package to Protect Additional Low Income Above the Poverty Line (Along With the State Share of Medicaid, \$3.6B Will Protect These Low Income Beneficiaries)

IV. No Impact on Other Low Income Programs

- Aid to Families
with Dependent
Children
- Food Stamps
- Medicaid

WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO

- o It will not raise individual income tax rates.
- o It does not touch Social Security Cost of Living Increases, nor does it increase taxes on Social Security beneficiaries.
- o It does not touch federal or military retirement.
- o It does not affect Operation Desert Shield -- our men and women will still get the backing they deserve.
- o It has no impact on families participating in low income programs such as Aid to Families with Dependent Children, Medicaid, WIC, and food stamps.

ENERGY TAX INCENTIVES

Proposed Tax Incentives

Tax incentives to enhance energy security include:

- incentives for new oil and gas exploration
- incentives to continue production from marginal properties
- incentives for enhanced oil recovery from existing fields
- an extension of current incentives for production of non-sands gas
- extension and modification of ethanol tax credits.

Total revenue loss from the incentives will be \$0.4 billion in FY 1991 and \$4.0 billion over the 5 year period FY 91-95.

Rationale

- o The proposed tax incentives are designed to encourage increased domestic oil, gas and ethanol production, and help reverse the decline in recent years. For example:
 - Over the last ten years exploration activity (as measured by the U.S. annual average rotary rig count) has fallen by 77 percent from a high of about 4000 in 1981 to under 1000 in 1989.
 - U.S. domestic oil production in 1989 averaged only 9.2 million barrels per day, the lowest in 25 years.
 - Because the U.S. is unable to meet its needs from domestic production oil import levels have risen. In 1989 imported oil accounted for 41 percent of our oil use. This increased to over 50 percent earlier this year.
- o Even though current prices are high, they are not stable, and could decline substantially in the coming months. Because of this uncertainty the necessary long-term investments in new domestic oil and gas production may not occur. Although there is a strong relationship between oil prices and domestic exploration activity, other factors such as government tax policy will have a significant impact on domestic oil exploration and future production levels.
- o Historically, oil prices fluctuate widely creating substantial risks for investors in exploration and drilling activities. Oil prices can fall 25 percent to 50 percent between the time an exploration project is financed and drilling actually is completed. This price volatility can make an otherwise risky and costly investment in oil

drilling completely uneconomic overnight. Tax credits can reduce these risks, providing investors an incentive to explore.

- o Enhanced Oil Recovery Techniques can recover some of the nearly two-thirds of the original oil left in place after conventional production ceases. Because the reserves are established and wells are already in place additional production can be initiated relatively quickly.
- o Credits for Marginal Production will ensure that producing wells are not prematurely abandoned. Stripper wells (marginal wells producing less than 10 barrels per day) account for about 15 percent of U.S. production. Over the past 5 years, an average of almost 18,000 wells have been abandoned each year. In addition, another 50,000 wells have been temporarily shut-in. (The average stripper well produces about 3 barrels per day, compared with an average of 2,500 b/d for a well in the Middle East.)
- o Credits for new oil and gas exploration would help to reverse the decline in U.S. proven reserves, establishing a reserve base to sustain long-term production.
- o The Section 29 non-conventional fuels tax credit will help stimulate additional production from a vast resource base of non-conventional fuels, including tight sands gas. Production of tight sands gas accounts for about 10 percent of U.S. natural gas production.
- o Extension and modification of the ethanol credits will provide both energy security as well as environmental benefits. Current U.S. ethanol production represents the equivalent of about 1 percent of U.S. gasoline demand. In addition, ethanol is an important component of the clean fuels programs contained in the pending clean air act.

**LIMITS ON ITEMIZED DEDUCTIONS
WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING**

Under the budget agreement, taxpayers with Adjusted Gross Income (AGI) over \$100,000 would have their itemized deductions reduced by three percent of the amount their AGI exceeded \$100,000. This would increase their taxable income and the taxes paid.

-- **Example** A taxpayer has \$250,000 of AGI and \$50,000 of itemized deductions. The taxpayer's itemized deductions would be reduced by \$4,500: three percent of the \$150,000 by which AGI exceeded \$100,000. The taxpayer would thus be able to claim itemized deductions of \$45,500.

The incentive to contribute more to charity would be unaffected. Additional contributions to charity would still be fully deductible.

-- **Example** Assume our hypothetical taxpayer gave \$10,000 more to charity, raising his itemized deductions to \$60,000. The amount of disallowed deductions would remain unchanged at \$4,500. The taxpayer's allowed itemized deductions would rise by the full amount of his charitable contribution.

Very few taxpayers would lose the tax deduction for their existing charitable contributions.

THE NEED FOR ACTION

- o Congress must act, and act soon. We need measures to boost economic growth, and solve long-term problems.
- o We can meet the challenge through bipartisan leadership and quick and decisive action.
- o No one will agree with all measures, but everyone will benefit in the long run.
- o If we do not reform entitlements to control their growth -- as this agreement provides -- America may never be able to solve its deficit problem.
- o Most of all, this is our last best chance to get the federal budget deficit under control. We owe this much to our country, and to generations of Americans to come.

Davis
Title: Primet
Date: Oct. 2, 1990
Draft: Two

TELEVISED ADDRESS TO THE NATION
THE OVAL OFFICE/OCTOBER 2nd, 1990

Good evening.

Tonight I want to talk to you about a problem that has lingered and dogged and vexed this country for far too long -- the federal budget deficit.

Thomas Paine said, many years ago, "these are the times that try men's souls." As we speak, our nation is standing together against Saddam Hussein's aggression. But here at home there is another threat -- a cancer gnawing away at our nation's health. That cancer is the budget deficit. Year after year, it mortgages the future of our children.

No family, no nation, can continue to do business the way the federal government has been operating -- and survive. When you get a bill, that bill must be paid.\\ When you write a check, you're supposed to have money in the bank.\\ If you don't obey these simple rules of common sense, there is a price to pay.

But for too long, the nation's business in Washington has been conducted as if these basic rules did not apply.

Well these rules **do** apply. And if we fail to act, next year alone we will face a federal budget deficit of more than \$300 billion -- a deficit that could weaken our economy further and

cost us thousands of precious jobs. If what goes up, must come down -- then the way down could be very hard.\\

But it doesn't have to be that way. We **can** do something -- in fact, we have started to do something -- but we must act **this week** -- when Congress will hold the first of two crucial up or down votes. These votes will be on a deficit-reduction agreement worked out between the Administration and the bipartisan leaders of Congress.

This budget agreement is the result of eight months of blood, sweat and fears -- fears of the economic chaos that would follow our if we fail to reduce the deficit.\\

Of course, I cannot claim it is the best deficit-reduction plan possible. It is not. Any one of us alone might have written a better plan. But it is the **best agreement that can be legislated now**.

It is the **biggest deficit-reduction agreement ever** -- half-a-trillion dollars.

It is the **toughest deficit-reduction package ever** -- with new enforcement rules to make sure that what we fix now **stays fixed**.

And it has the largest spending savings **ever** -- more than \$300 billion.

For the first time, a Republican President and leaders of a Democratic Congress have agreed to **real cuts** that will be enforced by law, not promises. No smoke, no mirrors, no magic act -- but real and lasting spending cuts.

This agreement will also raise revenue. I'm not -- and I know you're not -- a fan of tax increases. But if there have to be tax measures, they should allow the economy to grow, they should not turn us back to higher income-tax rates, and they should be fair. Everyone who can, should contribute something. And no one should have to contribute beyond their fair share.

Our bipartisan agreement meets these tests. And through specific new incentives, it will help create more jobs.

It's a little known fact, but America's best job-creators and greatest innovators tend to be our smaller companies. So our budget plan will give small and medium-size companies a needed shot in the arm.

Just as important, I am convinced that this agreement will help lower interest rates. And lower interest rates mean savings for consumers, lower mortgage payments for new homeowners, and more investment to produce more jobs.

That is what this agreement will do. Now, let me tell you what this agreement will not do.

It will not raise income tax rates -- personal or corporate.

It will not mess with Social Security in any way.

It will not put America's national security at risk.

And, most of all, it will not let our economy slip out of control.

Clearly, each and every one of us can find fault with something in this agreement. In fact, that is a burden that any

truly fair solution must carry. Any workable solution must be judged as a whole, not piece by piece.

Those who dislike one part or another, may pick our agreement apart. But if they do, believe me, the political reality is that no one can put a better one back together again. Everyone will bear a small burden; but if we succeed, every American will have a large burden lifted.\\

If we fail to enact this agreement, our economy will falter, markets may tumble, and recession will follow.

In just a moment, the Senate Majority Leader, Senator Mitchell, will offer what is known as the "Democratic response" - - offer a rebuttal. But not tonight.

Tonight, the Democratic leadership and I speak with **one voice** in support of this agreement. Tonight, we ask you to help us move this agreement forward. The Democratic leadership and I both have a job to do in getting the Congress to enact it.

And tonight I ask for your help. First, I ask you to understand how important -- and for some, how difficult -- this vote is for your Congressman and Senators. Many worry about your reaction to one part or another. But I know **you** know the importance of the whole. So, second, I ask you to take this initiative: tell your Congressman and Senators you support this deficit-reduction agreement.

If they are Republicans, urge them to stand with your President. Urge them to do what the bipartisan leadership has done -- come together in the spirit of compromise to solve this

national problem. If they are Democrats, urge them to stand with their Congressional leaders. Ask them to fight for the future of your kids by supporting this budget agreement.

Now is the time for you -- the American people -- to have a real impact. Your Senators and Congressmen need to know that you want this deficit brought down -- that the time for politics and posturing is over -- and the time to come together is now.

This deficit-reduction agreement is tough. So are the times. This agreement is fair. So is the American spirit. This agreement is bipartisan. So is the vote. This agreement is real. So is this crisis.

This is the first time in my Presidency I have made an appeal like this to you, the American people. With your help, we can at last put this budget crisis behind us and face the other challenges that lie ahead.

If we do, the long-term result will be a healthier nation and something more. We will have once again put ourselves on the path of economic growth. And we will have demonstrated that no challenge is greater than the determination of the American people.

Thank you, God bless you and good night.

#

#

#

Since President Bush called for bi-partisan budget negotiations, the Democratic-controlled House of Representatives has passed ten appropriations bills adding up to \$211 billion: \$25.119 billion over 1990 appropriations levels -- 13.5 percent increase, and \$14.348 billion above the amount the President asked for. A chart is attached summarizing the bills and examples of some of the wasteful spending follows:

SUMMARY

1990 Appropriations Spending	= \$186.5 billion
1991 Bush Appropriation Request	= \$197.3 billion
1991 Congressional (House) Appropriation Action	= \$211.6 billion

- o House Action is \$25 billion (13.5 percent) above last year's level of spending.
- o House Action is \$14 billion (7.2 percent) above the amount the President asked for.

WHAT DEFICIT CRISIS? CONGRESS CONTINUES ITS PORK-LADEN SPENDING SPREE

(Updating *Backgrounder* No.780, "While Talking About A Deficit Crisis, Congress Proposes Billions in New Spending," July 25, 1990.)

How is Congress responding to George Bush's broken no-new-tax pledge? With visions of new revenues dancing in its head, Congress has gone on a spending spree that will push the federal budget and the tax burden on the American people to record highs. While many in Congress thus publicly wring their hands and gnash their teeth about what they call the deficit crisis, what they really seem to care about is only more spending. Examples: On July 18, the House of Representatives passed a \$50.34 billion Rural Development/Agriculture appropriations bill, which is \$5.18 billion or 11.46 percent higher than the 1990 amount. On July 19 the House approved a \$170.44 billion Labor/Health and Human Services appropriations bill, which increases spending by \$17.31 billion or 11.3 percent over last year's level.

With only eight of the thirteen appropriations bills passed so far, the House already has spent \$403.09 billion, or \$41 billion over 1990 levels, an increase of 11.4 percent. This is \$68 billion over 1989 levels, an increase of 20 percent.

Table 1
Appropriations Bills
(\$billions for Fiscal Year)

BILL	1989 Approps.	1990 Approps.	1991 Bush Proposal	1991 Approps.	\$ Change 90 - 91	% Change 89 - 91	% Change 90 - 91
Commerce/ Justice	14.85	11.70	11.10	10.50	-1.20	-29.30	-10.20
Energy/Water	17.83	18.43	20.20	20.77	+2.40	+16.52	+12.70
Foreign Operations	14.29	15.52	15.52	15.78	+0.30	+10.46	+1.69
VA/HUD	59.39	71.28	78.78	83.57	+12.30	+40.72	+17.25
Transportation	25.67	28.17	26.73	30.94	+2.70	+20.54	+9.50
Treasury/P.O.	16.02	18.45	20.71	20.72	+2.27	+29.34	+12.30
Labor/HHS	140.37	153.13	166.23	170.44	+17.31	+21.42	+11.30
Agriculture	46.61	45.17	50.43	50.35	+5.18	+8.00	+11.46
TOTALS	335.03	361.85	390.00	403.09	+41.24	+20.00	+11.40

If the House continues at this record pace in the remaining five appropriations bills and if both the Senate and President approve, spending will rise by nearly \$75 billion over similar fiscal year 1990 levels. This dramatic increase is of particular concern because the 13 appropriations bills represent only about 60 percent of all federal spending. When combined with the automatic increases in entitlement programs and interest on the national debt, which comprise the remaining 40 percent of the budget, fiscal 1991 spending could top last year's levels by nearly \$110.

George Bush is partly to blame for this spending spree. He ignited it by bowing to pressure from Budget Director Richard Darman and Treasury Secretary Nicholas Brady to agree to a budget summit with Congressional leaders in which all issues, including taxes, were on the table. And taking the cue from Darman and Brady again, Bush threw open the floodgates on June 26 when he announced that it was clear to him that "tax revenue increases" would be needed to bring the deficit in line. Smelling blood in the water, the liberal-dominated House of Representatives went on a feeding frenzy. It rejected proposals by some House members to reduce the rate of spending increases on the Agriculture appropriations bill and the Labor/HHS appropriations bill. It defeated eleven such amendments by wide margins. Six amendments that would have slowed spending across the board were offered by Republican representatives William Dannemeyer, from California, and Bill Frenzel, from Minnesota, in addition to Timothy Penny, the Minnesota Democrat. The House even rejected the symbolic amendment by Robert S. Walker, the Pennsylvania Republican; it would have trimmed the overall level of spending in the Agriculture bill by just \$19.90 — a piddling 0.0000000002 percent.

Table 2
(\$ billions for Fiscal Year)

Bill	1990 Approps.	Penny ¹ (9.5%)	Frenzel ²	Dannemeyer ³	Penny ⁴ (2%)	1991 Approps.
Agriculture	45.17	46.01	46.65	47.95	49.39	50.35
Labor/HHS	153.13	N/A	163.74	N/A	169.90	170.44

1. There were two amendments offered by Representative Penny to the Agriculture Bill. The first was an across-the-board 9.5 percent cut on the proposed 1991 appropriations, which was actually an amendment to Frenzel's 7.7 percent cut. This amendment contained an exemption to the cut, the Women and Infant Children program, which was not cut at all.

2. The Frenzel amendments were an across-the-board 7.7 percent cut on the Agriculture bill, and an across-the-board 15.2 percent cut on proposed HHS spending bill. This cut on the HHS bill amounts to only a little over 3 percent of the total bill when the unauthorized funds are added in.

3. The Dannemeyer amendment to the Agriculture bill was an across-the-board cut of 5 percent, but again, this percentage only would have an effect on discretionary spending. The percentage of the total bill was much less.

4. The second Penny amendment to the Agriculture bill was an across-the-board 2 percent cut. The Penny amendment to the HHS bill was also a 2 percent across-the-board cut, but it excluded certain programs such as Chapter 1 Compensatory Education, Education for the Handicapped, and Higher Education.

Other amendments were offered to prevent spending increasing above fiscal 1990 levels on specific programs. Walker proposed four amendments to test the House's resolve for holding the line on spending increases. The first amendment would have prevented a \$65,000 increase for the \$4,935,000 Law School Clinical Experience program; the second would have prevented \$10,000,000 from being spent on a new "Education Summit Follow-Up" study; the third would have prevented a \$65,000 increase in the \$3,806,000 Physician Payment Review Commission; and the fourth would

**FY 1990 ENACTED AND FY 1991 BUSH BUDGET
(BUDGET AUTHORITY AND OUTLAYS IN BILLIONS OF DOLLARS)**

<u>BILL</u>	<u>FY 1990 ENACTED</u>		<u>FY 1991 BUSH BUDGET REQUEST</u>		<u>HOUSE FLOOR</u>		<u>HOUSE FLOOR vs. 1990 ENACTED</u>		<u>LATEST HOUSE vs. 1991 BUSH BUDGET</u>	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
Commerce, Justice, & State 1/..	19.527	17.932	19.145	18.869	18.417	18.651	-1.110	0.719	-0.728	-0.218
District of Columbia.....	0.538	0.578	0.540	0.539	0.550	0.550	0.012	-0.028	0.010	0.011
Energy & Water.....	18.472	17.669	20.251	19.422	20.901	19.730	2.429	2.061	0.650	0.308
Foreign Operations.....	14.739	13.382	14.843	13.741	14.971	13.605	0.232	0.223	0.128	-0.136
Labor/HHS/Education 1/.....	44.243	48.909	45.705	52.232	50.579	53.924	6.336	5.015	4.874	1.692
Military Construction.....	8.244	8.760	9.058	8.743	8.598	8.787	0.354	0.027	-0.460	0.044
Rural Development, Agriculture.....	9.184	9.009	5.796	7.397	9.997	9.670	0.813	0.661	4.201	2.273
Transportation.....	12.612	27.876	11.377	28.324	12.599	29.665	-0.013	1.789	1.222	1.341
Treasury-Postal Service 2/.....	9.836	9.733	11.468	11.002	11.476	10.926	1.640	1.193	0.008	-0.076
Veterans Affairs, HUD, Independent Agencies.....	49.133	54.647	59.116	59.927	63.559	59.052	14.426	4.405	4.443	-0.875
TOTAL.....	186.527	208.496	197.301	220.198	211.648	224.560	25.119	16.065	14.348	4.364

Note: Detail may not add to totals due to rounding.

1/ Commerce/Justice/State and Labor/HHS/Education data for House floor include OMB estimates for unauthorized programs.

2/ FY 1990 enacted BA for Treasury/Postal adjusted to exclude \$1,254 million for lease-purchase projects authorized prior to FY 1990. FY 1991 Bush Budget Request outlays increased by \$344 million to reflect outlay estimates consistent with G-R-H outlay estimates.

APPROPRIATIONS

Energy/Water

- o The House and Senate voted to continue subsidies to power marketing administrations out west in areas which already enjoy the cheapest power in America. (Hatfield, Foley)
- o In the House, \$36 million was added to keep the Fast Flux Test Facility nuclear reactor operating in Hanford, Washington, for a purpose for which the reactor was not even designed. (Foley)
- o University of Alabama: House added \$10 million for the Biomedical Research Facility. (Bevill)
- o Mississippi State University: House added \$4.0 million for Diagnostic Instrument and Analysis Laboratory. (Whitten)
- o Riverfront Park, Charleston, West Virginia: The Corps has been directed to spend \$350,000 to build a park facility that other cities use their own funds to construct. (Byrd, Rockefeller)
- o Boudinot Harbor, Oklahoma: The Corps has been directed to spend an additional \$400,000 for dock facilities usually provided by private companies.
- o Wallisville, Texas: The corps has been directed to build, over its own objections, a \$70 million single-purpose water supply project that would sacrifice over 5,000 acres of pristine wetlands, (including over 3,000 acres of virgin cypress swamps). The purpose of this new expense is to provide heavily subsidized water to a local Texas community. Meanwhile, other American cities and towns bear this expense on their own, without Federal subsidies. (Brooks)
- o Garrison Diversion, North Dakota: The President's budget proposed terminating this uneconomic and environmentally damaging project, which would require over \$1 billion to complete. The irrigation component would benefit only about 400 farmers at an investment of \$6,000 to \$8,000 per acre to grow crops that are already heavily subsidized by the government. Hence its completion will only lead to higher government payments under the farm program. The Department of the Interior's Inspector General recently found that farmers would be unable to repay even the annual operation and maintenance expenses, which they are required by law to do. (Burdick, Conrad, Dorgan)

Transportation

Federal Highway "Demonstrations": The House and Senate combined added \$523 million worth of special earmarkings. Among the pet projects are the following three that supposedly "demonstrate" road safety, but are simply road construction projects:

- o \$4 million for a highway project between Paintsville and Prestonburg, Kentucky. (Perkins)
- o \$2 million to improve U.S. Route 931 in Jackson County, Florida. (Grant)
- o \$20 million for four projects in Mississippi. The eventual costs for these projects will exceed \$320 million. (Whitten)

Treasury/P.O.

The GSA Federal Buildings Fund was established to build and renovate federal buildings. Yet Congress appropriates funds for such projects as:

- o Northern Arizona University, Flagstaff: Southwest Forestry Science Complex. Senate - \$5,000,000. (DeConcini)
- o University of Georgia: Dean Rusk Center for International and Comparative Law. Senate - \$1,000,000. (Fowler)
- o Christopher Columbus Center on Marine Research and Exploration, Baltimore, Maryland: Grant for planning and design. House - \$5,000,000. (Hoyer)

Agriculture and Rural Development

- o The bill passed by the House is \$4.2 billion over the President's request -- that's more than 72%!!
- o The House added \$250,000 for research on methods to improve the texture of sweet potatoes -- an idea proposed by an industry group. The industry group sponsor also obtained approval for research on sweet potato pox viruses by Agricultural Research Service scientists.

- o The House added \$175,000 of agriculture funds for a firm in New York to do a film on youth at risk.
- o \$500,000 for the University of Mississippi: Food Service Management Institute. (Whitten)

District of Columbia

- o Board of Education: \$15.1 million of Federal funding for a local school board. This is an unique, direct federal contribution for maintenance and improvement of the District's public schools. Since 1985, public school enrollment in the District has dropped by 6,376 students (pre-kindergarten through 12th grade). The District already receives \$56.0 million of its public school funding from Federal grants that are also available to other local school districts.

Supplemental Appropriations (For FY 1990; Passed 5/25/90)

- o In early March of 1990, President Bush sought \$800 million in emergency supplemental funds to help the world's newest democracies, Nicaragua and Panama. Nearly three months later the Democratic House and Senate perpetrated budgetary hijacking. The House and Senate waylaid the proposal and stuffed it with new spending. When they were done, the Congress added over \$1.3 billion for unrequested domestic spending.
- o By a vote of 246-160 (R 32-130; D 214-30), the House agreed to a Senate amendment to force a federal agency that is supposed to do ocean research to procure a fish farm in Arkansas. (Bumpers)
- o Congress added \$1.8 million for renovating a Great Lakes research vessel in Michigan (not in either the House- or Senate-passed bills). (Traxler)
- o The Senate added \$185 million for an FBI building in West Virginia that is not expected to be built for five years. (Byrd)
- o Congress added \$6 million for a wildlife park in Iowa (a provision that was not in either the House- or Senate-passed supplemental bills and was snuck in, in conference). (Neal Smith)
- o Congress added \$750,000 to buy a ferry vessel for American Samoa. (Inouye)

ENTITLEMENTS/AUTHORIZATIONS

Excellence in Education

- o In February 1989, President proposed the Educational Excellence Act, a bill to authorize seven educational improvement initiatives increasing flexibility in the system, at a cost of \$423 million for the first year.
- o Congressman Hawkins (D. Calif) sponsored H.R. 5115, adding dozens of new costly and bureaucratic categorical programs. Total cost: \$1.4 billion in budget authority for FY 1991.

Child Care

- o The President proposed an 8-page, \$9.4 billion bill.
- o The Senate doubled the cost. \$18 billion.
- o The House tripled the cost: \$28.9 billion and included 120 pages of child care regulation.
- o Key members: Sen. Kennedy, Sen. Dodd, Rep. Downey.

Foster Care Administrative Cost Reforms

- o Between FY 1981 and FY 1991, state claims for administrative costs have grown over 2,800 percent.
- o The Administration proposed limiting the growth to 10 percent a year, saving \$121 million in outlays.
- o Congress (Sen. Bentsen [D-Texas], Rep. Downey [D-New York] have proposed program expansion without fixing the abuses. Total cost: \$426 million in outlays for FY 1991, and \$6.4 billion over FY 1991-95.
- o In the District of Columbia, 86 percent of foster care funds goes to administrative expenses and 14 percent goes to children. In D.C., per child:
 - \$22,050 is spent on city costs.
 - \$5,000 is spent on foster care.

Railroad Retirement Tax Diversion

- o In the last 10 years, Congress subsidized the Railroad Retirement Board to the tune of \$1.2 billion.
- o These subsidies will cost the Federal government over \$100 million in FY 91.
- o Congress extended this subsidy through FY 90. Sen. Baucus (D-Mont) who has a disproportionate number of railroad retirees in Montana, proposed legislation to extend this again this year.

Housing

- o The President proposed \$23.7 billion for housing programs.
- o The House bill exceeds the President's FY 1991 Budget by over \$4.6 billion in Budget Authority due in part to an emphasis on new housing construction including the Title III Rental Housing Production Program and the Title IV Community Housing Partnership program.
- o The Senate bill exceeds the President's Budget by over \$4 billion in B.A. due to higher authorizations for existing programs and for the new Housing Opportunity Partnerships (HOP block grants to states and localities).

1990 Farm Bill

The Administration sent to Congress in February a bill which would have continued of the market-oriented farm support programs instituted by the successful 1985 farm bill. Moreover, in his FY '91 budget, the President proposed to reduce farm subsidies by \$1.5b this year. The Congress, in bills now out of both houses but not yet in conference, essentially rejected that proposal and raised subsidies above current levels.

- o Both the House and the Senate passed bills that set five year farm subsidy spending at around \$54 billion, close to \$20 billion over the amounts recommended by the President.
- o The House rejected a proposal by the Administration to eliminate government subsidies to people who earn more than \$100,000 per year. Thus, people who earn 3 times the average income for an American family of four will

keep getting income supports from the government under the farm program. Similarly, the Senate rejected a cut-off of subsidies to those very large farmers who gross more than a half million dollars a year. Either of these proposals would have saved the taxpayer on the order of \$1 billion over five years.

- o The House also rejected a proposal to tighten loopholes in the farm laws. Payments are supposed to be limited to \$50,000 per person -- but big corporate farmers re-organize to evade the limit. Some farmers made almost \$1 million each in subsidies last year. The House voted no on a Republican amendment (by Rep. Conte) to close this loophole, and in the process saved close to three-quarters of a billion dollars over five years.
- o The House and the Senate voted against any reform in sugar subsidies, which cost American consumers more than \$1.5 billion each year. The Administration had proposed a two cent per pound reduction in the sugar support price, but not even this modest adjustment was adopted. So American consumers will keep paying twice the world price to keep a handful of sugar producers wealthy.
- o The House voted "no" on an amendment to phase out honey support, even though it would have saved \$200 million between now and 1995. That's \$200 million for only a handful of beekeepers; eliminating their payments would not endanger the work of the vast majority of beekeepers.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 10/3/90 ACTION/CONCURRENCE/COMMENT DUE BY: _____SUBJECT: FACT SHEET ON THE BIPARTISAN BUDGET AGREEMENT

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	☐	☒	MCCLURE	☐	☒
SUNUNU	☐	☒	NEWMAN	☐	☒
SCOWCROFT	☐	☒	PORTER	☐	☒
DARMAN	☐	☒	ROGICH	☐	☒
CARD	☐	☒	UNTERMAYER	☐	☒
CICCONI	☐	☒	<u>WINSTON</u>	☐	☒
DEMAREST	☐	☒	<u>BOSKIN</u>	☐	☒
FITZWATER	☐	☒	<u>PINKERTON</u>	☐	☒
GRAY	☐	☒	<u>GREEN</u>	☐	☒
HAGIN	☐	☒	<u>AMEND</u>	☐	☒
HOLIDAY	☐	☒	<u>DELAND</u>	☐	☒
			<u>BROMLEY</u>		☒
REMARKS:			CARNEY		☒

The attached has been cleared for your use.

RESPONSE:

James W. Cicconi
 Assistant to the President
 and Deputy to the Chief of Staff
 Ext. 2702

BACKGROUND ON THE BIPARTISAN BUDGET AGREEMENT

CONTENTS

- * OVERVIEW
- * ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT AGREEMENT
- * STRENGTHENING THE ECONOMY
- * ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS
- * REFORMING THE BUDGET PROCESS
- * ACHIEVING REAL SAVINGS
- * RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES
- * PROVIDING OPPORTUNITY AND EMPOWERING LOW INCOME AMERICANS
- * KEEPING OUR COMMITMENTS TO SENIOR CITIZENS
- * SAFEGUARDING NATIONAL SECURITY
- * PRESERVING GOVERNMENT SERVICES
- * MEDICARE PREMIUMS
- * LOW INCOME AND ENTITLEMENT PROGRAMS NOT AFFECTED BY THE BUDGET SUMMIT AGREEMENT
- * WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO
- * ENERGY TAX INCENTIVES
- * LIMITS ON ITEMIZED DEDUCTIONS WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING
- * THE NEED FOR ACTION

OVERVIEW

"It's time we put the interest of the United States of America first."

-- President George Bush, September 30, 1990
Announcing the Bipartisan Budget Agreement

We must stop mortgaging the future of our children and their children. America needs a budget agreement. The public demands it. And, as President Bush said, this agreement meets the challenge of putting America first.

The five-year bipartisan budget plan will enhance America's long-term economic vitality. It will give small and medium-size business a shot in the arm, creating jobs. It will cut the projected federal deficit by half-a-trillion dollars -- the single biggest cut ever.

This will mean real and lasting spending cuts. And it will not raise individual income-tax rates. The plan will support future economic growth.

Our nation's economic problems are everyone's concern. So this agreement is, above all, fair. Everyone will have to make a sacrifice, but no one will have to bear the burden alone.

ECONOMIC CONSEQUENCES IF CONGRESS FAILS TO ADOPT
BIPARTISAN BUDGET AGREEMENT

- o Bigger budget deficits -- soaring to \$300 billion per year.

Interest Rates Go Up

- o Interest rates 1-1/2 percentage point (or more) higher than if the budget agreement is passed.
 - Worsening outlook for the already weak housing and automobile sectors of the economy.
 - Major increases in mortgage payments for American families: an increase of \$110 on a typical adjustable rate mortgage.
 - A \$350 increase in the interest cost over the life of a \$10,000 car loan.
 - About \$30 billion more over the next three years in interest costs to the Federal Government -- ultimately the tax payer -- funds unavailable either for deficit reduction or worthy spending programs.

Growth Slows: Recession Risk Rises

- o Slower economic growth, meaning hundreds of billions less in income to American families in the coming decade.
- o Reduced entrepreneurial incentives, meaning foregone opportunities for new industries and new jobs.

STRENGTHENING THE ECONOMY

Interest Rates

- o The most pronounced effect is the expected reduction in interest rates as a result of the \$500 billion deficit reduction plan. By drastically reducing the Federal Government's drain on the Nation's scarce supply of private saving, the budget agreement would substantially reduce interest rates, spur investment, and create jobs.
 - Long-term interest rates have fallen by 1/3 percentage point since the middle of last week, largely because of the agreement.
 - Using conventional assumptions, long-run interest rates will decline by approximately 1-1/2 percentage points from what they would have been in the absence of an agreement.
- o Lower interest rates mean:
 - More job-creating investment in both business and housing:
 - Between 100,000-150,000 more housing starts in the year following the lower interest rates.
 - About 500,000 more auto sales in the year following the lower interest rates.
 - Increases in business equipment and structures over what they would have been without an agreement.
 - A reduction of about \$110 per month in payments on a mortgage on a typical home.
 - A savings of about \$350 of interest over the life of a \$10,000 auto loan.

Increased Growth

- o By the end of this decade, real GNP will be 2 percent higher per year as a result of more saving and investment and lower interest costs.
- o By the end of the decade, GNP will cumulatively total more than \$1 trillion more than if interest rates did not fall.
- o A lower deficit will provide an added safeguard against inflation.

ENCOURAGING SMALL BUSINESS AND CREATING NEW JOBS

- o A package of incentives for small businesses will substantially reduce their cost of capital and stimulate investment in new and growing enterprises.
 - Currently, about 2.3 million corporations would qualify, almost two-thirds of all U.S. corporations.
 - According to the SBA, nearly 70 percent of new jobs come from small businesses (\$50 million or less).
 - As the American Business Conference (ABC) -- the CEOs of the country's fastest growing midsize companies -- put it, "the growth initiatives in the package will spur creation of a whole new generation of ABC-like companies. These are the entrepreneurs that will be generating much of the new employment in the next decade."
- Deduction for Investment. Individuals can invest up to \$200,000 per year in small companies and receive a tax deduction for 25 percent of their investment. In effect, the company can raise each \$1 in funds at a cost to the investor of only 93 cents. The deduction is provided "going in", at the time of the stock purchase.
- Indexing. New stock purchases in these firms qualify for indexing for the next 5 years. For example, if inflation averages 4 percent and the total return over 5 years is 50 percent, indexing is equivalent to a 34 percent exclusion on the nominal gain.
- Basis Adjustment. This allows investors, particularly entrepreneurs and others who invest for at least five years, to limit their effective capital gains tax. "Zero basis" stock receives an effective 50 percent capital gains exclusion (a 14 percent effective rate for those in the 28 percent bracket.) Individuals whose investments have tripled receive a 25 percent capital gains exclusion (for a 21 percent effective rate).

- Research and Experimentation Credit. This important provision is extended through 1991. If not extended, companies with rapidly growing research programs would pay much more tax, which would discourage the research necessary to maintain American competitiveness in world markets. The agreement would increase the credit from 20 percent to 30 percent for small firms.
 - Expensing -- or first-year write-off of some investment--increases the value of the tax savings from depreciating new equipment. Additional expensing is provided for scientific equipment. This will stimulate equipment purchases by these companies.
 - Corporate Rate Change. This will effectively lower the corporate tax rate from 39 percent to 36.5 percent for many small corporations. For example, a company with taxable profits of \$300,000 will save \$5,000 in taxes from this provision. Large corporations with profits over \$570,000 will be unaffected by this provision.
- o Other growth incentives include enterprise zones, energy production incentives, and user fees for infrastructure and patent production.
- Enterprise zones would be established to create jobs and develop business in specially designed urban and rural areas in need of economic assistance. Tax incentives would be provided to encourage starting businesses and hiring workers.
 - Energy incentives would encourage exploration for oil and gas, production from marginal properties, and enhanced oil recovery. In addition, Section 29 would be extended and expanded to tight sands gas, and incentives for ethanol would be modified and extended. These provisions would not only improve our energy security, but would provide jobs, increase business, and help to constrain energy prices.

REFORMING THE BUDGET PROCESS

1. Strengthens Budget Law

- o Retains and Extends the existing Gramm-Rudman-Hollings (G-R-H) sequester system. Extends GRH to 1995, with deficit reduction path intended to reach zero in 1996.
- o For the first time, establishes in law binding caps on total discretionary spending for five years.
- o Establishes binding caps on each of the categories of domestic spending, international, and defense spending, for 1991-1993.

2. Tough New Enforcement

- o Adds to G-R-H new procedure triggering automatic across-the-board spending cuts if appropriations bills exceed any of the caps.
- o Automatic cuts equal to the excess spending occur in 15 days if bill is enacted before July 1, and on October 1 if the bill is enacted after July 1.
- o The reduction is ordered against the spending category exceeded, to focus and target enforcement.
- o Caps could be exceeded only in the event of an emergency request by the President.

3. Pay-As-You-Go For All New Entitlements

- o For the first time, ensures by law that no new entitlement legislation can increase the deficit.
- o Requires all entitlement or revenue legislation to meet pay-as-you-go test: any new entitlement spending legislation must be offset by reductions in other entitlements or by revenue increases.
- o Tough enforcement if Pay-As-You-Go is violated:
 - Any entitlement legislation not meeting the pay-as-you-go test would trigger an automatic across-the-board sequester in the entitlement category.

-- Doubles the amount of entitlement spending
subject to sequester

4. Reforms Congressional Budgeting Procedure

- o Requires congressional budget to cover five years.
- o Requires 60 votes in the Senate to pass spending bills that would violate caps.
- o If a revenue losing bill is reported, then automatic instructions are issued to the offending committee to provide offset. In the Senate, a 60 vote point of order is established against revenue-losing bills.

5. Forces Action on Hidden Government Liabilities

- o Completely Reforms budgeting for federal credit programs.
- o For the first time, requires the subsidy value of new credit programs to be explicitly determined up front, before laws are passed to extend government credit. No more S&L surprises.
- o For the first time, new government credit would have to be explicitly paid for up front, before laws are passed -- not left to accumulate for payment later.
- o Government sponsored enterprises (GSEs): congressional action on reforms to ensure financial soundness is required in 1991.

6. Protects Social Security

- o Removes Social Security operating surpluses from G-R-H.
- o Requires 60 votes in the Senate for passage of legislation that would violate the actuarial soundness of Social Security.

ACHIEVING REAL SAVINGS

- o The agreement represents the biggest deficit-reduction package in American history.
- o The budget plan will cut \$120 billion in government spending on entitlement and mandatory programs -- the largest such savings ever produced. These programs have been the biggest single source of growth in government spending. This is the first time such cuts will be guaranteed in law. No more smoke and mirrors. Savings will include:
 - \$60 billion from Medicare
 - \$13 billion from Agricultural payments
 - \$4.2 billion in Postal Service reform
- o The agreement will also produce \$182 billion in discretionary program savings, including cuts in defense outlays of \$67 billion over three years.

RAISING REVENUES, BUT HOLDING THE LINE ON INCOME TAX RATES

- o Again, these cuts were made without caving in on raising individual income-tax rates. The agreement calls for raising \$134 billion in five years. And we can raise this tax-revenue with these measures:
 - A phased-in increase in the gasoline tax -- five cents a gallon the first year and another five cents the next year. This measure will produce the greatest revenues.
 - Increased taxes on alcohol and cigarettes, as well as selected luxury items.

PROVIDING OPPORTUNITY AND EMPOWERING LOW-INCOME AMERICANS

- o Lower interest rates will help working Americans by cutting mortgage payments.
- o The plan makes an historic breakthrough by providing federal tax incentives for the development of enterprise zones -- to create jobs and opportunity for those who need it the most. Enterprise zones will foster new businesses in depressed urban and rural areas and give poor people a better chance to work toward the American dream.
- o The agreement lends a hand to the working poor through an increase in the earned-income tax credit.
- o No one below the poverty line will have to pay for a Medicare premium increase. Medicaid will pay.
- o The budget preserves programs for low-income Americans, such as:
 - Aid to Families with Dependent Children.
 - Food Stamps.
 - Medicaid.
- o Above all, the plan provides for strong economic growth. The best way to expand opportunity for lower-income Americans is to increase the number of jobs in the private sector.

KEEPING OUR COMMITMENTS TO SENIOR CITIZENS

- o The plan does not touch Social Security cost-of-living increases.
- o The plan does not touch military or federal retirement.
- o The plan does not increase taxes on Social Security beneficiaries.
- o By helping prevent a return of high inflation, the plan will provide a special benefit to senior citizens on fixed incomes, who suffered most during the disastrous price increases of the late 1970s.

SAFEGUARDING NATIONAL SECURITY

- o Although the defense budget is cut by \$67 billion over three years (and more over five years), our men and women serving in the Persian Gulf region will still get **the backing they deserve** to defend themselves and accomplish their mission.
 - The budget plan provides important supplemental funds for Operation Desert Shield.
- o The agreement prevents deeper defense cuts that might have reduced America's military readiness and placed further strains on our brave men and women in uniform.

PRESERVING GOVERNMENT SERVICES

- o Enactment of the bipartisan budget plan will prevent a sequestration that could cut into important government services such as:
 - Drug enforcement
 - Crime control and prison management
 - Air traffic control
 - Meat and poultry inspections
 - Inspection of blood banks

MEDICARE PREMIUMS

	(Dollars in Billions)					
	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>Total</u>
Pre-Summit Medicare	\$116	\$130	\$145	\$161	\$179	\$730
Pre-Summit Growth Rate	11%	12%	12%	11%	11%	
Summit Savings	-\$5	-\$9	-\$12	-\$15	-\$19	-\$60
Post-Summit Medicare	\$111	\$121	\$133	\$146	\$160	\$670
Post-Summit Growth Rate		6%	9%	10%	10%	10%

Overview

- o The \$60 billion in Summit Agreement savings is derived equally from slower growth in provider payments, and increased beneficiary payments (substituting for general taxpayer financing).
- o After the Summit Agreement, Medicare provider payments will grow at 10% per year for FY91-95 -- only slightly less than the 11.5% average annual growth rate projected without the Summit.
- o After the Summit Agreement, general taxpayer support of Medicare (70% portion of cost) increases faster than beneficiary premiums and other payments.
- o Over the FY91-95 period, the Summit Agreement's proposals result in a net out-of-pocket increase in monthly payments by the average Medicare beneficiary (premiums, co-payments, and deductibles) of \$2.55, \$5.34, \$6.69, \$7.44, and \$7.92/month respectively.

Provider Savings (Doctors and Hospitals)

- o The Summit Agreement first-year provider savings of \$3.1 billion are comparable to those achieved in the past.
 - The 1989 reconciliation bill reduced FY90 provider payments by \$2.9 billion; total provider payments still grew by 11% over FY89-FY90.
 - The 1987 reconciliation bill reduced FY88 provider payments by \$2.1 billion; total provider payments still grew by 7% over FY87-FY88.

- o The Summit Agreement contains real savings for each of the five years -- unlike prior years, where Congress opted for one-year proposals which expired the next year.

Beneficiaries: Low-Income Protections

- o After the Summit Agreement, low-income Medicare beneficiaries will continue to pay nothing for Medicare coverage.
 - Medicaid will pay these individuals' premiums, co-payments, and deductibles.
 - The Summit Agreement specifically set aside additional funds (\$2 billion Federal matched by \$1.6 State) to expand the number of beneficiaries whose Medicare costs are paid entirely by Medicaid.
- o After the Summit Agreement, the remaining beneficiaries will incur slightly higher out-of-pocket costs for Medicare coverage.
 - However, compared to the original structure of the Medicare program, these beneficiaries incur much lower out-of-pocket costs

Premiums:

- As enacted in 1965, Medicare beneficiaries paid a premium for Part B insurance (primarily physician services) set to cover 50% of the cost of the program.
- Beginning in 1973, Congress capped premium increases so that by 1990, Part B premiums covered only 25% of the program -- with the remainder financed by general taxpayer revenues.
- The Summit Agreement's 30% premium still requires a 70% subsidy from wage-earner's taxes.

Deductible:

- In 1965, Medicare required beneficiaries to pay a \$50 deductible. This was increased to \$60 in 1972 and \$75 in 1982. If it had increased to keep pace with program costs, the deductible today would exceed \$800.
- The Summit Agreement's gradual buildup to a \$150 deductible still represents a significant benefit relative to the program's original structure.

LOW INCOME AND ENTITLEMENT PROGRAMS NOT
IMPACTED BY BUDGET SUMMIT AGREEMENT

I. No Social Security Cola Delay or Adjustment .

Numerous Approaches Advocated a COLA Freeze, a Delay of a COLA Increase Below CPI

II. No Increase in Taxes on Social Security Benefits

Numerous Approaches Advocated Raising the Taxable Rate on Social Security from 50% to 85%

- Under This Package Social Security Grows From \$268B to \$335B '91-'95

III. No Medicare Impact on Low Income

- No Impact on Those Below Poverty Line: They Are Held Harmless for all Increases in Medicare Premiums, Copays and Deductibles 100%. Medicaid Will Pick-Up the New Costs
- What About Those Just Above the Poverty Line?

\$2B Provided in Package to Protect Additional Low Income Above the Poverty Line (Along With the State Share of Medicaid, \$3.6B Will Protect These Low Income Beneficiaries)

IV. No Impact on Other Low Income Programs

- Aid to Families
with Dependent
Children
- Food Stamps
- Medicaid

WHAT THE BIPARTISAN BUDGET AGREEMENT WON'T DO

- o It will not raise individual income tax rates.
- o It does not touch Social Security Cost of Living Increases, nor does it increase taxes on Social Security beneficiaries.
- o It does not touch federal or military retirement.
- o It does not affect Operation Desert Shield -- our men and women will still get the backing they deserve.
- o It has no impact on families participating in low income programs such as Aid to Families with Dependent Children, Medicaid, WIC, and food stamps.

ENERGY TAX INCENTIVES

Proposed Tax Incentives

Tax incentives to enhance energy security include:

- incentives for new oil and gas exploration
- incentives to continue production from marginal properties
- incentives for enhanced oil recovery from existing fields
- an extension of current incentives for production of non-conventional fuels (Section 29), with inclusion of tight sands gas
- extension and modification of ethanol tax credits.

Total revenue loss from the incentives will be \$0.4 billion in FY 1991 and \$4.0 billion over the 5 year period FY 91-95.

Rationale

- o The proposed tax incentives are designed to encourage increased domestic oil, gas and ethanol production, and help reverse the decline in recent years. For example:
 - Over the last ten years exploration activity (as measured by the U.S. annual average rotary rig count) has fallen by 77 percent from a high of about 4000 in 1981 to under 1000 in 1989.
 - U.S. domestic oil production in 1989 averaged only 9.2 million barrels per day, the lowest in 25 years.
 - Because the U.S. is unable to meet its needs from domestic production oil import levels have risen. In 1989 imported oil accounted for 41 percent of our oil use. This increased to over 50 percent earlier this year.
- o Even though current prices are high, they are not stable, and could decline substantially in the coming months. Because of this uncertainty the necessary long-term investments in new domestic oil and gas production may not occur. Although there is a strong relationship between oil prices and domestic exploration activity, other factors such as government tax policy will have a significant impact on domestic oil exploration and future production levels.
- o Historically, oil prices fluctuate widely creating substantial risks for investors in exploration and drilling activities. Oil prices can fall 25 percent to 50 percent between the time an exploration project is financed and drilling actually is completed. This price volatility can make an otherwise risky and costly investment in oil

drilling completely uneconomic overnight. Tax credits can reduce these risks, providing investors an incentive to explore.

- o Enhanced Oil Recovery Techniques can recover some of the nearly two-thirds of the original oil left in place after conventional production ceases. Because the reserves are established and wells are already in place additional production can be initiated relatively quickly.
- o Credits for Marginal Production will ensure that producing wells are not prematurely abandoned. Stripper wells (marginal wells producing less than 10 barrels per day) account for about 15 percent of U.S. production. Over the past 5 years, an average of almost 18,000 wells have been abandoned each year. In addition, another 50,000 wells have been temporarily shut-in. (The average stripper well produces about 3 barrels per day, compared with an average of 2,500 b/d for a well in the Middle East.)
- o Credits for new oil and gas exploration would help to reverse the decline in U.S. proven reserves, establishing a reserve base to sustain long-term production.
- o The Section 29 non-conventional fuels tax credit will help stimulate additional production from a vast resource base of non-conventional fuels, including tight sands gas. Production of tight sands gas accounts for about 10 percent of U.S. natural gas production.
- o Extension and modification of the ethanol credits will provide both energy security as well as environmental benefits. Current U.S. ethanol production represents the equivalent of about 1 percent of U.S. gasoline demand. In addition, ethanol is an important component of the clean fuels programs contained in the pending clean air act.

LIMITS ON ITEMIZED DEDUCTIONS
WOULD NOT AFFECT INCENTIVES FOR CHARITABLE GIVING

Under the budget agreement, taxpayers with Adjusted Gross Income (AGI) over \$100,000 would have their itemized deductions reduced by three percent of the amount their AGI exceeded \$100,000. This would increase their taxable income and the taxes paid.

-- Example A taxpayer has \$250,000 of AGI and \$50,000 of itemized deductions. The taxpayer's itemized deductions would be reduced by \$4,500: three percent of the \$150,000 by which AGI exceeded \$100,000. The taxpayer would thus be able to claim itemized deductions of \$45,500.

The incentive to contribute more to charity would be unaffected. Additional contributions to charity would still be fully deductible.

-- Example Assume our hypothetical taxpayer gave \$10,000 more to charity, raising his itemized deductions to \$60,000. The amount of disallowed deductions would remain unchanged at \$4,500. The taxpayer's allowed itemized deductions would rise by the full amount of his charitable contribution.

Very few taxpayers would lose the tax deduction for their existing charitable contributions.

THE NEED FOR ACTION

- o Congress must act, and act soon. We need measures to boost economic growth, and solve long-term problems.
- o We can meet the challenge through bipartisan leadership and quick and decisive action.
- o No one will agree with all measures, but everyone will benefit in the long run.
- o If we do not reform entitlements to control their growth -- as this agreement provides -- America may never be able to solve its deficit problem.
- o Most of all, this is our last best chance to get the federal budget deficit under control. We owe this much to our country, and to generations of Americans to come.

THE WHITE HOUSE

WASHINGTON

October 17, 1990

BACKGROUND ON THE BUDGET

Attached is background material on the debate over the budget, including:

- Statement by the President announcing his intentions to veto the House passed budget plan.
- Statement of Administration policy on the "Ways and Means Democratic Alternative" legislation.
- New York Times editorial from October 17, 1990
- Excerpts from President Bush's remarks in Wheaton, Illinois; Des Moines, Iowa; and Omaha, Nebraska.
- Transcript of Governor Sununu's interview on the "Today" show this morning.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

October 16, 1990

STATEMENT BY THE PRESIDENT

Tonight the Democrats in Congress have turned back the clock. By a partisan vote in the House of Representatives, the Democrats pushed through a tax increase on working men and women.

The hidden tax is back. By removing the indexing of tax rates, the Democrats have resurrected an inequity most Americans thought was a thing of the past: bracket creep.

Also, I find unacceptable surcharges and other hidden mechanisms that increase income taxes on all Americans.

I am determined that the budget deficit reduction package be fair. I am determined that the budget not be balanced on the backs of working Americans. That's why I will veto the Democratic plan passed by the House should it reach my desk.

I am hopeful that it will not come to that. The bipartisan plan now being considered in the Senate does not raise income tax rates. Its approach is therefore much more in keeping with our efforts to insure that the final budget plan is fair to all Americans.



October 16, 1990
House Floor

STATEMENT OF ADMINISTRATION POLICY

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

THE "WAYS AND MEANS DEMOCRATIC ALTERNATIVE" TO THE OMNIBUS RECONCILIATION ACT OF 1990

The "Ways and Means Democratic Alternative" relies principally on increases in income taxes for people in all brackets. Delaying the indexation of tax rates for inflation will increase the income taxes paid by middle class families -- hardly an argument for fairness. In addition, there is nothing in the package to encourage economic growth, the driving force behind increases in the standard of living for all Americans. Because of these serious flaws, the President's senior advisors would recommend that he veto the "Ways and Means Democratic Alternative" if it were presented to him for his signature.

The "Ways and Means Democratic Alternative" includes a \$93.6 billion across-the-board income tax increase. Specifically:

- The proposal reduces the tax benefits of the personal exemption by removing indexing for inflation. This will increase taxes on everyone except the wealthiest one million taxpayers who lost their personal exemptions in the 1986 tax bill.
- The "Ways and Means Democratic Alternative" brings back bracket creep with a vengeance. Since World War II every taxpayer was subject to ever-increasing taxes through inflation. Bracket creep was the favorite tool of the tax and spenders. It was stopped in 1985 with indexing of personal exemptions and tax brackets. By reversing this policy, the "Ways and Means Democratic Alternative" brings back silent rate increases for everyone. This provision raises \$36 billion over 5 years, largely on the backs of low and middle class income families. This is advertised as a "one-year tax increase." What will keep the Democratically-controlled Congress from repeated extensions?
- It increases income taxes for people in all brackets.
 - A married couple with two children, who have taxable income of \$34,000 in 1991 would pay income taxes of \$5,100 under current law. Under the no-

indexing provision of the "Ways and Means Democratic Alternative," they would pay \$5,413.50, an increase of \$313.50, more than six percent.

- A single person with no dependents who has taxable income of \$21,000 in 1991 would pay income taxes of \$3,150 under current law. Under the no-indexing provision of the "Ways and Means Democratic Alternative," that person would pay \$3,301.50, an increase of nearly five percent.
- These tax increases are permanent. Even if indexing is delayed for just one year, the increase will apply for every year thereafter.

* * * * *

The New York Times

Founded in 1851

ADOLPH S. OCHS, Publisher 1896-1935
ARTHUR HAYS SULZBERGER, Publisher 1935-1961
ORVIL E. DRYFOOS, Publisher 1961-1963

ARTHUR OCHS SULZBERGER, Publisher
ARTHUR OCHS SULZBERGER JR., Deputy Publisher

MAX FRANKEL, Executive Editor
JOSEPH LELYVELD, Managing Editor
WARREN HOGE, Assistant Managing Editor
DAVID R. JONES, Assistant Managing Editor
CAROLYN LEE, Assistant Managing Editor
JOHN M. LEE, Assistant Managing Editor
ALLAN M. SIEGAL, Assistant Managing Editor

JACK ROSENTHAL, Editorial Page Editor
LESLIE H. GELB, Deputy Editorial Page Editor

LANCE R. PRIMIS, President
RUSSELL T. LEWIS, Sr. V.P., Production
ERICH G. LINKER JR., Sr. V.P., Advertising
JOHN M. O'BRIEN, Sr. V.P., Finance/Human Resources
ELISE J. ROSS, Sr. V.P., Systems
JAMES A. CUTIE, V.P., Marketing
WILLIAM L. POLLAK, V.P., Circulation

Fooling Around With Taxes

10/17/90

The House is on the verge of passing a \$500 billion deficit reduction package. But it is hard to take the bill seriously. It includes amendments imposing stiff tax increases, aimed at the rich, that are unlikely to pass the Senate and that President Bush is sure to veto.

The principle of taxing the rich more than the poor to pay for deficit reduction might be noble. But the amendments amount to demagoguery. They would eliminate an increase in the gas tax, undermining energy conservation. They would postpone correction of the income tax code for inflation, leaving an invisible tax on the middle class. They would lower the capital gains tax for exactly the wrong kinds of investments.

The House plan was well designed to embarrass Republicans into voting against a package weighted in favor of the poor. The Republicans responded with some demagoguery of their own, proposing a deficit reduction package that pretended to cut the deficit without raising taxes. Congress owes the country a responsible deficit reduction package. Three days before the deadline for closing down the Government again, the country is still waiting.

Last month's budget summit produced a plan to cut the deficit by \$500 billion over five years. But it would have raised taxes on the poorest families three times as much as on the richest. That was the main reason the House rejected the package.

The alternative plan approved last week by the

House Ways and Means Committee, similar to one before the Senate Finance Committee, would have increased taxes on gasoline, alcohol, cigarettes and several luxury items. It would also have reduced the total amount of deductions for rich families and expanded tax credits for the working poor. Roughly speaking, it would have affected most income groups proportionately.

The plan voted in the House yesterday drops the tax hike on gasoline and postpones for a year the indexing of tax rates and personal exemptions for inflation. That's a cynical way to hit the middle class with an invisible rather than a visible tax. And it would undo a boost for energy conservation.

The House plan would also raise the tax rate on the highest incomes to 33 percent from 28, and raise the tax on wealthy families that take advantage of enormous amounts of deductions and exemptions. But the Democrats surely know that Mr. Bush would veto any package that raised income taxes unless it also capitulated to his obsessive quest for a capital gains tax cut.

It is precisely on capital gains that the House plan reverberates with ignorance — or cynicism. It would allow individuals \$100,000 of capital gains free of income tax over a lifetime — but only on the sale of real estate, farms, businesses and timber, not stocks. The tax code already heavily favors investments in real estate and timber. To direct more precious resources their way is shameful.

The budget clock is still ticking. Congress is still fooling around.

Excerpt from the President's Remarks at the Reception for Kay Orr, Hal Daub and Ally Milder, in Omaha, Nebraska:

October 15, 1990

"...And you know, much of the political debate we hear in Washington is tired and it's old and it's all this 'inside the beltway' jargon. And it's jargon that just gets in the way of what's really at stake. So let me try to simplify it. America must have a real and significant deficit reduction budget to get this economy moving. And that deficit reduction will bring down interest rates on home purchases and car loans. And it will create new jobs.

And to get these results, the budget cannot be the same old political shell game. We must not tolerate business as usual. The budget must be real, enforceable, and preserve incentives for growth in this country.

And you know what the problem has always been -- it's the unwillingness in Congress to vote to hold down federal spending. And you know, with higher spending, higher taxes are usually not far behind. And that said, let me mention here one thing that appeals to me about what's going on now, appeals to me about the current Senate package is that it holds the line on income tax rates. And that is worth fighting for in my view.

I have this concern that's always been that Congress will continue to pay for its spending habits by raising income tax rates on everybody. After concessions by both the Democratic and the Republican leaders -- the budget summit -- nobody liked every part of it. It did move us in the right direction, and it has brought us to the final countdown week. And in the next five days, Congress has the chance -- in fact, I'd put it this way -- Congress has the obligation to act. And I believe the American people have every right to expect the United States Congress to act responsibly.

And so my message -- and I expect it would be your message -- to the Congress is simple and straightforward: complete your work, meet Friday's deadline and pass a sensible budget. We've got to put this nation back on the path to long-term economic growth. And the way to do that, is to get a budget through, and that will bring the interest rates down, and that will put more and more Americans back to work where they belong."

Excerpt from the President's Remarks at the Edgar for Governor Rally at the College of DuPage, Wheaton, Illinois:

October 16, 1990

"...Sometimes the rhetoric back there gets pretty thick inside that Washington beltway. So let me just put it in perspective for you.... We must have a significant and real deficit reduction budget to get this country moving. And when we get that kind of a deal, it will bring down the interest rates on home purchases and car loans. It will bring them down and create new jobs. So the time for Democratic rhetoric is over, and the time to move ahead is to get the Congress moving now to get us that kind of an agreement.

I guess what I'm saying is that we can't afford business as usual. The budget's got to be real; it's got to be enforceable; and it's got to preserve our incentives for growth.

You know, I do believe -- I'll take my fair share of the hits, but I believe the American people really know that the problem has always been the failure of this one-party controlled Congress to hold down spending. We're not taxing you too little: we're spending too much.

And so make no mistake about it: when you hear this liberal crowd that runs the Congress in Washington talking about taxing the rich, they're going to be after you the next thing you know, because that's the way it works -- tax and spend, tax and spend. And I want to end it once and for all.

So today, they're marking up a big budget plan back in Washington. It's a Democratic tax plan. If it reaches my desk, the one that comes out of the House of Representatives, I will veto it because it raises the income taxes of the working men and women of this country. And I'm not going to do that.

One thing, incidentally, that appeals to me on this Senate package is that it holds the line on income tax rates. Republicans have always feared that Congress will continue to pay for its spending habits by raising the income tax rates on everybody. So, clearly, the budget summit moved us in the right direction, brought us to this final countdown week. And now we're down to four days back there in Washington. And Congress has the opportunity and the obligation to act. And the American people have every right to expect the Congress to act responsibly for the taxpayers' interest in this country."

Excerpt from the President's Remarks at the Fundraising Breakfast for Terry Branstad and Tom Tauke, Des Moines, Iowa:

October 16, 1990

"...Year after year, Congress has to pass emergency measures. It's all Washington jargon called continuing resolutions.... Enough is enough.... And this Friday, the Congress must face the budget deadline once again. But this time, let them face up to their responsibilities as well....

America must have a real and significant deficit reduction -- real and significant -- deficit reduction to get the economy moving. And that deficit reduction will, indeed, and almost instantly bring down the interest rates that are holding back new job creation and holding back job opportunity. The deficit rate is going to bring those interest rates down; you're going to have more home purchases, more car loans, create new jobs.

And to get those results, Congress cannot simply play with the numbers in order to get phony savings. We cannot afford business as usual in Washington anymore. So the budget must be real, it must be enforceable, and it must preserve our incentives for growth. I want to see this economy grow, not shrink, from higher taxes and more government spending....

We're not dumb in this country. Most people know that when -- the failure to hold down spending is inevitably followed by higher taxes. They might be just around the corner. And that said, let me reiterate that the one thing that appeals to me about the current Senate package -- you've got a House bill that looks like it's going through. Raise the rates, index the taxes -- that's on the middle class and the lower middle class. That's every taxpayer in this country. Nobody understands it, but that's what indexing means. So they're saying it's a "soak the rich" deal. But, inevitably, it gets into your pocket. It gets into the pocket of every working man and woman. And that's exactly what's coming out of the House.

But the Senate bill has some merit to it. It holds the line on income tax rates. And I've always been concerned, and I think the American people share this concern, that the Congress will continue to pay for its spending habits by going back and starting to raise the income tax rates on everyone. And I want to hold the line on the tax rates.

So we're in a countdown. We're in another countdown. The next four days, Congress has the responsibility and the obligation to act. And the American people have every right to see this Congress act responsibly."

TODAY SHOW INTERVIEW

Guest: White House Chief of Staff John Sununu
October 17, 1990

.....

BRYANT GUMBEL: The president's chief of staff is John Sununu. This morning he's in our NBC bureau in Washington. Governor, good morning.

JOHN SUNUNU: Good morning.

Q: I know there's a lot of reasons you find the plan unacceptable. Is the president determined to veto any plan that hikes the tax rates?

SUNUNU: Yes. The president realizes the Democrats may have conned the media into suggesting that the tax plan is just raising taxes on the rich. But what it does is rip off middle America, working men and women with an income tax increase for them.

You leave that out every time you describe the tax plan. But the fact is that it is there. And so with that tax increase on the working men and women, the president is going to veto that package if it gets to his desk.

Q: Well, it delays the adjustment of rates for inflation a year, and eliminates some middle class tax breaks, but--

SUNUNU: It raises their income tax though, Bryant. And--and you ought not to become an apologist for the Democratic Party by rationalizing that the rise in the income tax that the people have to pay is not a rise in income tax.

Q: In logical terms, does it follow that those who can afford to pay more in times of crisis should pay more?

SUNUNU: Absolutely. But the fact is that the addiction to tax and spend that the Democrats have leads them, every time they play around with the income tax rate at the high end, to have to play around with income tax on working men and women.

That's what the president warned America about. And that's exactly what has happened. One quarter of this package takes money out of the pockets of working men and women by extra income taxes. That is a part of a tax-and-spend plan that the president has said he will veto.

Q: But only a month ago the president conceded that higher taxes were necessary; had signed on to a budget agreement that included \$134 billion in added revenues. Why now is it so unacceptable?

SUNUNU: Well, don't revise history now. Remember, the president was holding out against taxes, but he recognized that the economy was about to go into a decline. He asked for a deficit reduction package. Congress refused to come forward. We are six months late on this budget by their own calendar. They refused to come forward with a package. They held the deficit reduction package hostage until the president agreed to allow taxes on the table.

The fact that they made the president eat his tax broccoli doesn't mean that he's very happy about what's in the package.

Q: But, Governor, that doesn't change the fact that the president signed on to that agreement, went on national TV behind that agreement, and said that this was a good agreement and one we could live with and it included new revenues. Why now is that unacceptable?

SUNUNU: It was one that he could live with, because that package did not raise the income tax of middle America, of working America. There is a difference between that package and this one, which rips off the men and women of America who are out there working and earning a living.

Q: Governor, the Senate seems headed towards a plan that would double the gasoline tax, raise the taxes of higher income folks while lowering the capital gains taxes for everybody on a proportional basis. You like that one?

SUNUNU: There's no capital gains reduction in the Senate package. You ought to be more accurate in your description.

Q: Well, there is a capital gains reduction in the Senate package, Governor, the one that--that lowers the rates proportionally to the income of Americans.

SUNUNU: No, not in the Senate package. In the Senate package there is no capital gains piece. There is no tax rate increase in the Senate package; there's no capital gains piece. That's what the president has said: Let's pass that package now.

Q: Governor, have you any new ideas to break the impasse? Any new offerings? It's easy to find fault with a number of packages that are coming off the Hill.

SUNUNU: There's I think general agreement between the president and the Republican and Democratic leadership in Congress that the best package is one that is close to the summit agreement. It's not the kind of package the president would have written alone; it's not the kind of package that the Democratic or Republican leaders would have written alone. It is a compromise package, but it is good for the country. It reduces the deficit. And it deals with some of the problems of the economy, and gets the economy going again. That's what we ought to pass.

Q: But, Governor, that's a package that even the Republicans in the House rejected?

SUNUNU: Well, that's the reference point that we ought to work towards. We think that the Senate package is relatively close to that, and that's the package that the president has said he would feel comfortable getting come out of conference and sign. The fact that that Senate package is supported by both Republicans and Democrats in the Senate is a good sign. It is a bipartisan package. It is one that doesn't raise the income tax on lower and middle income America. It's a good package. We ought to get it.

Q: Governor, you've seen the numbers as we all have. People are tired of the finger pointing. They feel Congress isn't doing the job. They feel the president isn't prepared to work with Congress. What's the White House prepared to do on an active basis over the next two days to break the deadlock?

SUNUNU: White House is ready to receive the bipartisan package, similar to the Senate package; get it to the president's desk; and he'll sign it. When the president asks the Congress to stay instead of going on vacation in August, they promised they'd get a package as soon as they came back. The clock is running out; government's about to shut down. They ought to put a package together in the next day or two, get it to the president and let him sign it, and let them go home and let America go about its business.

Q: Are you willing to agree, is the White House willing to agree, to a continuing resolution if you see progress on a bill that you find acceptable?

SUNUNU: You know, whenever Congress comes to a tough decision they run to a continuing resolution which is business as usual. Thirty-seven times in the last 10 years they've evaded the tough decisions of budgets by going to a continuing resolution. They tried to do that a couple of weeks ago with a soft resolution; the president vetoed it.

Let's not bandaid the problem. Let's put a package together in the Senate. Compromise it down to a package the president can accept with the House, and get a package on his desk. There's enough time to do that before Friday evening. Instead of trying to figure out a way to avoid the decision, Congress ought to do its business, get it done, and get out of town.

Q: Governor, can I ask you to stay a couple of minutes, we'll come back and do a little more?

SUNUNU: Sure.

Q: Okay, let me take a break right.
(Announcements)

Q: As we come back, it's 7:18, we're continuing-- excuse me--in Washington with Governor John Sununu, White House chief of staff. Governor, thank you--

SUNUNU: Thank you.

Q: --for--for extending your stay. I appreciate it. When we left for a commercial you were talking of bandaids solutions and how the White House rejects that, but is that to say a firm no that if there is work towards a compromise bill on Friday that you're unwilling to extend the deadline?

SUNUNU: If there was a deadline extension that carried with it a really significant reduction in the deficit built into the deadline extension to show that Congress meant business about it, I'm sure the president would, you know, consider that as a good faith extension. But that continuing resolution can't continue spending levels at current levels without any effort to reduce the deficit even for a couple of days.

Q: And if not, is the president prepared to shut down the government and live with the consequences?

SUNUNU: The president vetoed one about a week ago when Congress wanted to leave for the Columbus Day weekend, the president vetoed the continuing resolution; convinced them to stay. They passed the budget resolution. I think the president likes that formula of keeping folks around to work and get their business done.

Q: Have you contingency plans to run a government saddled with Gramm-Rudman cuts?

SUNUNU: Well, the president has had contingency plans in place for a long time. We ran the government for a couple of months last year under sequester. People hardly noticed.

Q: Governor, you can't be, I'm sure, unconcerned about the polls that show the president's approval ratings taking a nose dive. What is he prepared to do to reverse the feeling that in this time of crisis he is not proving an effective leader?

SUNUNU: Look, the president is not one to just store his political capital. The deficit is an important issue, and the president was willing to take his political lumps. He saw that the deficit had to be reduced, so he allowed the Democrats to bring taxes onto the table. He took a lot of lumps for that, but it was important to the country to get a deficit reduction package. It's important to get this deficit reduction package done this week.

He's willing to take his political lumps to do that. But if folks think that after he gets this package he's going to sit around and mope, he's wrong. He's going to go out and explain to the American public the fact that this budget, deficit reduction package was held hostage. He's going to point out to folks that for over two decades Congress has been on a tax-and-spend binge.

SUNUNU continues: The budget that passed last night is just a reflection of that. It reduces the cuts in spending -- there's less spending cuts in that package and more taxes. Whenever Congress runs into a tough vote, it runs to more spending and more taxes. The president will point that out.

So I think he'll be able to restore his political capital quite effectively in the process.

Q: That was a good argument, but it would seem again from the polls that a great many in the public are not buying that argument.

SUNUNU: Let's look at what the polls say, Bryant. Sixty percent blame Congress; 20 percent blame the president. If I were a politician in America, I'd walk into any campaign with that kind of ratio in my favor.

Q: The polls also say the president's popularity has dropped something like 25 percent in the last month.

SUNUNU: Now, instead of being astronomical, it's just exceptionally good. The president is willing to deal with that and live with that.

Q: We'll have to stop playing the numbers game, because our number is coming up. It's 7:22. Governor, thank you.

SUNUNU: Thank you very much, Bryant.

Q: Again, I appreciate your extending the stay.

SUNUNU: It's good to be here.

END INTERVIEW

.....

.....

The Reuter Transcript Report
Sununu interview (Today Show)

Oct. 17, 1990

REUTER

Reut09:01 10-17

THE WHITE HOUSE

WASHINGTON

October 31, 1990

D2
Chris -
speechwriting
FY2
DDBA

MEMORANDUM FOR LARRY LINDSEY

FROM: ANDY MITRUSI

SUBJECT: Economic Fun Facts for the President

- o We are currently in the 96th month of an economic expansion that is the longest peacetime expansion in our nation's history. Only the Vietnam War expansion lasted longer - 107 months.
- o During the last Democrat Presidency from 1977 to 1981, the economy grew at a 2.4 percent rate. Between the time Republicans took over in 1981 until 1989, the most recent date data is available, the economy has grown at a 3.0 percent rate.
- o If the economy had continued to grow at the Democrat rate in the 1980s, our economy would be about \$250 billion smaller today than it actually is today. That works out to \$1000 per person per year.
- o During the Democrats' 4 years, average¹ family income fell by 1.5 percent per year. During the Republican years, average family income grew by 2.1 percent per year. Inflation masked this incredible deterioration in incomes during the Democrat years.
- o Had family income done as poorly in the Republican years as they had in the Democrat years, the average family income in 1989 would have been \$10,150 lower than the current \$41,500.
- o The Republican years saw incomes rise among all groups, whereas the Democrat years saw incomes falling for everyone but especially for the poor. Under the Democrats, the poorest fifth of the population saw their income fall 13 percent from 1977 to 1981, the other groups lost between 3 and 6 percent. Under the Republicans, every group gained between 6 and 21 percent from 1981 to 1988.
- o Inflation was rampant during the Democrat years, rising from 6.5 percent in 1977 to 10.3 percent in 1981. In the Republican years the rate fell to 4.8 percent in 1989.

¹ mean income for families

- o Unemployment in the Democrat years went from 6.9 percent in 1977 to 7.5 in 1981, and then fell back during the Republican years to 5.2 percent in 1989 -- the lowest level since 1973.
- o Jimmy Carter spoke of the misery index during his campaign -- the sum of inflation and unemployment. This index rose from 13.4 in 1977 to 17.8 in 1981, and then fell to 10.0 in 1988, more than making up for the Democrat years.
- o Contrary to myths one hears from detractors, American industry is stronger than ever. During the Democrat years, manufacturing fell from 22 percent of GNP to 21 percent. The Republican years reversed that so that by 1989, manufacturing represents 23 percent of GNP.
- o American industry is growing faster than that of Europe and is keeping pace with growth in Japan. Since 1982, the industrial production index in the U.S. and Japan has grown nearly 40 percent whereas the European Economic Community has grown less than 20 percent.
- o Job growth in the U.S. has outpaced both Japan and Europe -- 16 percent from 1981 to 1989 for the U.S. compared to 10 percent for Japan and 3 percent for Europe.
- o Job growth has not been limited to hamburger flippers as detractors often maintain. In reality, from 1981 to 1989, the fastest growing category of workers has been professional and managerial, growing 34 percent. Technical sales and support has grown 18 percent, service occupations 17 percent, precision production 13 percent and operators and laborers 1 percent.
- o Taxes paid by the rich have been going up dramatically, contrary to popular claims. From 1981 to 1986, the share of income taxes paid by top 1/10 of 1 percent of taxpayers has gone from 6.5 percent to 13.2 percent -- a doubling in the tax share. The top 2 percent saw their share rise from 24 percent to 33.3 percent.
- o Education spending in the Republican years has grown substantially per school age child compared to the Democrat years. Total spending after inflation per elementary and high school age child has been growing at a 4 percent rate in the 1980s compared to a 2 percent rate in the Democrat years, adjusted for inflation. College and University spending has been increasing at a 7 percent rate after inflation in the 1980s, compared to 1 percent in the Democrat years.

THE UNEMPLOYMENT RATE WAS UNCHANGED IN OCTOBER

- o The civilian unemployment rate remained steady at 5.7 percent in October.
 - This was below the median forecast of 5.8 percent.
 - The overall unemployment rate also remained steady at 5.6 percent.
 - Both the labor force and the work force declined.
- o Although the unemployment rate had increased in the last few months, it remains close to a 16 year low, and is well below the average of the late 1970s and early 1980s.
- o For adult females the unemployment rate fell from 5.0 to 4.9 percent; for adult men it as was unchanged at 5.1 percent.
- o The unemployment rate fell for both blacks and hispanics, but rose for teenagers.
- o The number of unemployed workers on layoff declined in October, after rising in September, while the number of persons working part time because of slack demand fell.

NONFARM EMPLOYMENT FELL IN OCTOBER

- o Nonfarm payroll employment fell by 68,000 workers in October
 - Jobs in service industries--including retail trade and government--rose by 74,000, but jobs in construction and manufacturing fell by 142,000.
- o Average weekly hours in manufacturing fell from 41.1 hours to 40.8 hours
 - Combined with the reduction in employment, the decline in average weekly hours lead to a decline in total production hours of 2.6 percent.

THE INDEX OF LEADING INDICATORS FELL FOR SEPTEMBER

- o The index of leading indicators fell by .8 percent in September, the second monthly decline in a row.
 - The decline was completely expected, representing old news about September.
- o This index is not a reliable forecaster of recessions: for example, it fell four months in a row starting in October 1987, while 1988 turned out to be a very strong growth year.

There's something hollow in their "make the crooks pay" rhetoric, their efforts to revise the history of the eighties. Sort of like Nikita Khrushchev pinning the blame on Joe Stalin.

Call it the Big Lie.

Well, my friends, you can fool some of the people all the time. They're the ones who vote the straight Democratic ticket.

You can fool some of the people some of the time. They're ticket splitters. Just enough Democratic House and Senate candidates manage to run away from the national party to fool them.

But you can't fool all the people, all of the time.

We've got the Democratic Party's number.

Another example of the Big Lie.

Crime. The Democrats say they're tough on it. But watch what they do.

In the House of Representatives they've bottled up President Bush's crime bill for more than a year. Meantime, the FBI reports crime rates soaring -- especially crime against women. Over the past ten years, rapes have increased four times the total crime rate.

Republicans care about the rights of victims of crime; Democrats care about the rights of criminals.

There's another Big Lie coming. You can smell it in the air. You can be sure the Democrats will try to blame us for any entitlement cuts that come out of the budget summit.

What they won't do is admit that Republican leadership has given us the longest period of sustained economic growth in peacetime history. We've created tens of millions of jobs. Incomes for average working people -- what's left after taxes -- have gone up steadily. The dream of home ownership has been restored.

We led in the eighties. We're proud of our record, and we won't run and hide from it.

You won't catch us trying to salvage our future by savaging our past.

And we'll lead in the nineties.

We'll lead, because we want parents and communities in control of our schools, not educational bureaucrats and remote unions.

We'll lead, because we want to control crime by punishing criminals, not by depriving honest Americans of their rights or making them in fear of walking the streets.

We'll lead, because we believe that the working people deserve to keep the money they earn, not fork it over in taxes to pay for Congress' waste.

Ron Brown says the Democratic Party is on a roll.

Is he right, or is he wrong?

Here's his idea of a roll -- the recent "urgent, dire, emergency" supplemental spending bill -- that's what they called it.. Three-quarters of a million dollars to buy an 800-ton ferry for Samoa. \$6 million to fund a fish farm, in Iowa. And in this time of high deficits, \$20 million for Congress' own private art collection.

Maybe they got that idea from David Paul. With \$20 million, they can buy David Paul's \$12 million Rubens' painting at CenTrust's fire sale.

Since President Bush called for bi-partisan budget negotiations, the Democratic-controlled House of Representatives has passed ten appropriations bills adding up to \$211 billion: \$25.119 billion over 1990 appropriations levels -- 13.5 percent increase, and \$14.348 billion above the amount the President asked for. A chart is attached summarizing the bills and examples of some of the wasteful spending follows:

SUMMARY

1990 Appropriations Spending	= \$186.5 billion
1991 Bush Appropriation Request	= \$197.3 billion
1991 Congressional (House) Appropriation Action	= \$211.6 billion

- o House Action is \$25 billion (13.5 percent) above last year's level of spending.
- o House Action is \$14 billion (7.2 percent) above the amount the President asked for.

WHAT DEFICIT CRISIS? CONGRESS CONTINUES ITS PORK-LADEN SPENDING SPREE

(Updating *Backgrounder* No.780, "While Talking About A Deficit Crisis, Congress Proposes Billions in New Spending," July 25, 1990.)

How is Congress responding to George Bush's broken no-new-tax pledge? With visions of new revenues dancing in its head, Congress has gone on a spending spree that will push the federal budget and the tax burden on the American people to record highs. While many in Congress thus publicly wring their hands and gnash their teeth about what they call the deficit crisis, what they really seem to care about is only more spending. Examples: On July 18, the House of Representatives passed a \$50.34 billion Rural Development/Agriculture appropriations bill, which is \$5.18 billion or 11.46 percent higher than the 1990 amount. On July 19 the House approved a \$170.44 billion Labor/Health and Human Services appropriations bill, which increases spending by \$17.31 billion or 11.3 percent over last year's level.

With only eight of the thirteen appropriations bills passed so far, the House already has spent \$403.09 billion, or \$41 billion over 1990 levels, an increase of 11.4 percent. This is \$68 billion over 1989 levels, an increase of 20 percent.

Table 1
Appropriations Bills
(\$billions for Fiscal Year)

BILL	1989 Approps.	1990 Approps.	1991 Bush Proposal	1991 Approps.	\$ Change 90 - 91	% Change 89 - 91	% Change 90 - 91
Commerce/ Justice	14.85	11.70	11.10	10.50	-1.20	-29.30	-10.20
Energy/Water	17.83	18.43	20.20	20.77	+2.40	+16.52	+12.70
Foreign Operations	14.29	15.52	15.52	15.78	+0.30	+10.46	+1.69
VA/HUD	59.39	71.28	78.78	83.57	+12.30	+40.72	+17.25
Transportation	25.67	28.17	26.73	30.94	+2.70	+20.54	+9.50
Treasury/P.O.	16.02	18.45	20.71	20.72	+2.27	+29.34	+12.30
Labor/HHS	140.37	153.13	166.23	170.44	+17.31	+21.42	+11.30
Agriculture	46.61	45.17	50.43	50.35	+5.18	+8.00	+11.46
TOTALS	335.03	361.85	390.00	403.09	+41.24	+20.00	+11.40

If the House continues at this record pace in the remaining five appropriations bills and if both the Senate and President approve, spending will rise by nearly \$75 billion over similar fiscal year 1990 levels. This dramatic increase is of particular concern because the 13 appropriations bills represent only about 60 percent of all federal spending. When combined with the automatic increases in entitlement programs and interest on the national debt, which comprise the remaining 40 percent of the budget, fiscal 1991 spending could top last year's levels by nearly \$110.

George Bush is partly to blame for this spending spree. He ignited it by bowing to pressure from Budget Director Richard Darman and Treasury Secretary Nicholas Brady to agree to a budget summit with Congressional leaders in which all issues, including taxes, were on the table. And taking the cue from Darman and Brady again, Bush threw open the floodgates on June 26 when he announced that it was clear to him that "tax revenue increases" would be needed to bring the deficit in line. Smelling blood in the water, the liberal-dominated House of Representatives went on a feeding frenzy. It rejected proposals by some House members to reduce the rate of spending increases on the Agriculture appropriations bill and the Labor/HHS appropriations bill. It defeated eleven such amendments by wide margins. Six amendments that would have slowed spending across the board were offered by Republican representatives William Dannemeyer, from California, and Bill Frenzel, from Minnesota, in addition to Timothy Penny, the Minnesota Democrat. The House even rejected the symbolic amendment by Robert S. Walker, the Pennsylvania Republican; it would have trimmed the overall level of spending in the Agriculture bill by just \$19.90 — a piddling 0.0000000002 percent.

Table 2
(\$ billions for Fiscal Year)

Bill	1990 Approps.	Penny ¹ (9.5%)	Frenzel ²	Dannemeyer ³	Penny ⁴ (2%)	1991 Approps.
Agriculture	45.17	46.01	46.65	47.95	49.39	50.35
Labor/HHS	153.13	N/A	163.74	N/A	169.90	170.44

1. There were two amendments offered by Representative Penny to the Agriculture Bill. The first was an across-the-board 9.5 percent cut on the proposed 1991 appropriations, which was actually an amendment to Frenzel's 7.7 percent cut. This amendment contained an exemption to the cut, the Women and Infant Children program, which was not cut at all.

2. The Frenzel amendments were an across-the-board 7.7 percent cut on the Agriculture bill, and an across-the-board 15.2 percent cut on proposed HHS spending bill. This cut on the HHS bill amounts to only a little over 3 percent of the total bill when the unauthorized funds are added in.

3. The Dannemeyer amendment to the Agriculture bill was an across-the-board cut of 5 percent, but again, this percentage only would have an effect on discretionary spending. The percentage of the total bill was much less.

4. The second Penny amendment to the Agriculture bill was an across-the-board 2 percent cut. The Penny amendment to the HHS bill was also a 2 percent across-the-board cut, but it excluded certain programs such as Chapter 1 Compensatory Education, Education for the Handicapped, and Higher Education.

Other amendments were offered to prevent spending increasing above fiscal 1990 levels on specific programs. Walker proposed four amendments to test the House's resolve for holding the line on spending increases. The first amendment would have prevented a \$65,000 increase for the \$4,935,000 Law School Clinical Experience program; the second would have prevented \$10,000,000 from being spent on a new "Education Summit Follow-Up" study; the third would have prevented a \$65,000 increase in the \$3,806,000 Physician Payment Review Commission; and the fourth would

FY 1990 ENACTED AND FY 1991 BUSH BUDGET
(BUDGET AUTHORITY AND OUTLAYS IN BILLIONS OF DOLLARS)

<u>BILL</u>	<u>FY 1990 ENACTED</u>		<u>FY 1991 BUSH BUDGET REQUEST</u>		<u>HOUSE FLOOR</u>		<u>HOUSE FLOOR vs. 1990 ENACTED</u>		<u>LATEST HOUSE vs. 1991 BUSH BUDGET</u>	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
Commerce, Justice, & State 1/..	19.527	17.932	19.145	18.869	18.417	18.651	-1.110	0.719	-0.728	-0.218
District of Columbia.....	0.538	0.578	0.540	0.539	0.550	0.550	0.012	-0.028	0.010	0.011
Energy & Water.....	18.472	17.669	20.251	19.422	20.901	19.730	2.429	2.061	0.650	0.308
Foreign Operations.....	14.739	13.382	14.843	13.741	14.971	13.605	0.232	0.223	0.128	-0.136
Labor/HHS/Education 1/.....	44.243	48.909	45.705	52.232	50.579	53.924	6.336	5.015	4.874	1.692
Military Construction.....	8.244	8.760	9.058	8.743	8.598	8.787	0.354	0.027	-0.460	0.044
Rural Development, Agriculture.....	9.184	9.009	5.796	7.397	9.997	9.670	0.813	0.661	4.201	2.273
Transportation.....	12.612	27.876	11.377	28.324	12.599	29.665	-0.013	1.789	1.222	1.341
Treasury-Postal Service 2/.....	9.836	9.733	11.468	11.002	11.476	10.926	1.640	1.193	0.008	-0.076
Veterans Affairs, HUD, Independent Agencies.....	49.133	54.647	59.116	59.927	63.559	59.052	14.426	4.405	4.443	-0.875
TOTAL.....	186.527	208.496	197.301	220.198	211.648	224.560	25.119	16.065	14.348	4.364

Note: Detail may not add to totals due to rounding.

1/ Commerce/Justice/State and Labor/HHS/Education data for House floor include OMB estimates for unauthorized programs.

2/ FY 1990 enacted BA for Treasury/Postal adjusted to exclude \$1,254 million for lease-purchase projects authorized prior to FY 1990. FY 1991 Bush Budget Request outlays increased by \$344 million to reflect outlay estimates consistent with G-R-H outlay estimates.

APPROPRIATIONS

Energy/Water

- o The House and Senate voted to continue subsidies to power marketing administrations out west in areas which already enjoy the cheapest power in America. (Hatfield, Foley)
- o In the House, \$36 million was added to keep the Fast Flux Test Facility nuclear reactor operating in Hanford, Washington, for a purpose for which the reactor was not even designed. (Foley)
- o University of Alabama: House added \$10 million for the Biomedical Research Facility. (Bevill)
- o Mississippi State University: House added \$4.0 million for Diagnostic Instrument and Analysis Laboratory. (Whitten)
- o Riverfront Park, Charleston, West Virginia: The Corps has been directed to spend \$350,000 to build a park facility that other cities use their own funds to construct. (Byrd, Rockefeller)
- o Boudinot Harbor, Oklahoma: The Corps has been directed to spend an additional \$400,000 for dock facilities usually provided by private companies.
- o Wallisville, Texas: The corps has been directed to build, over its own objections, a \$70 million single-purpose water supply project that would sacrifice over 5,000 acres of pristine wetlands, (including over 3,000 acres of virgin cypress swamps). The purpose of this new expense is to provide heavily subsidized water to a local Texas community. Meanwhile, other American cities and towns bear this expense on their own, without Federal subsidies. (Brooks)
- o Garrison Diversion, North Dakota: The President's budget proposed terminating this uneconomic and environmentally damaging project, which would require over \$1 billion to complete. The irrigation component would benefit only about 400 farmers at an investment of \$6,000 to \$8,000 per acre to grow crops that are already heavily subsidized by the government. Hence its completion will only lead to higher government payments under the farm program. The Department of the Interior's Inspector General recently found that farmers would be unable to repay even the annual operation and maintenance expenses, which they are required by law to do. (Burdick, Conrad, Dorgan)

Transportation

Federal Highway "Demonstrations": The House and Senate combined added \$523 million worth of special earmarkings. Among the pet projects are the following three that supposedly "demonstrate" road safety, but are simply road construction projects:

- o \$4 million for a highway project between Paintsville and Prestonburg, Kentucky. (Perkins)
- o \$2 million to improve U.S. Route 931 in Jackson County, Florida. (Grant)
- o \$20 million for four projects in Mississippi. The eventual costs for these projects will exceed \$320 million. (Whitten)

Treasury/P.O.

The GSA Federal Buildings Fund was established to build and renovate federal buildings. Yet Congress appropriates funds for such projects as:

- o Northern Arizona University, Flagstaff: Southwest Forestry Science Complex. Senate - \$5,000,000. (DeConcini)
- o University of Georgia: Dean Rusk Center for International and Comparative Law. Senate - \$1,000,000. (Fowler)
- o Christopher Columbus Center on Marine Research and Exploration, Baltimore, Maryland: Grant for planning and design. House - \$5,000,000. (Hoyer)

Agriculture and Rural Development

- o The bill passed by the House is \$4.2 billion over the President's request -- that's more than 72%!!
- o The House added \$250,000 for research on methods to improve the texture of sweet potatoes -- an idea proposed by an industry group. The industry group sponsor also obtained approval for research on sweet potato pox viruses by Agricultural Research Service scientists.

- o The House added \$175,000 of agriculture funds for a firm in New York to do a film on youth at risk.
- o \$500,000 for the University of Mississippi: Food Service Management Institute. (Whitten)

District of Columbia

- o Board of Education: \$15.1 million of Federal funding for a local school board. This is an unique, direct federal contribution for maintenance and improvement of the District's public schools. Since 1985, public school enrollment in the District has dropped by 6,376 students (pre-kindergarten through 12th grade). The District already receives \$56.0 million of its public school funding from Federal grants that are also available to other local school districts.

Supplemental Appropriations (For FY 1990; Passed 5/25/90)

- o In early March of 1990, President Bush sought \$800 million in emergency supplemental funds to help the world's newest democracies, Nicaragua and Panama. Nearly three months later the Democratic House and Senate perpetrated budgetary hijacking. The House and Senate waylaid the proposal and stuffed it with new spending. When they were done, the Congress added over \$1.3 billion for unrequested domestic spending.
- o By a vote of 246-160 (R 32-130; D 214-30), the House agreed to a Senate amendment to force a federal agency that is supposed to do ocean research to procure a fish farm in Arkansas. (Bumpers)
- o Congress added \$1.8 million for renovating a Great Lakes research vessel in Michigan (not in either the House- or Senate-passed bills). (Traxler)
- o The Senate added \$185 million for an FBI building in West Virginia that is not expected to be built for five years. (Byrd)
- o Congress added \$6 million for a wildlife park in Iowa (a provision that was not in either the House- or Senate-passed supplemental bills and was snuck in, in conference). (Neal Smith)
- o Congress added \$750,000 to buy a ferry vessel for American Samoa. (Inouye)

ENTITLEMENTS/AUTHORIZATIONS

Excellence in Education

- o In February 1989, President proposed the Educational Excellence Act, a bill to authorize seven educational improvement initiatives increasing flexibility in the system, at a cost of \$423 million for the first year.
- o Congressman Hawkins (D. Calif) sponsored H.R. 5115, adding dozens of new costly and bureaucratic categorical programs. Total cost: \$1.4 billion in budget authority for FY 1991.

Child Care

- o The President proposed an 8-page, \$9.4 billion bill.
- o The Senate doubled the cost. \$18 billion.
- o The House tripled the cost: \$28.9 billion and included 120 pages of child care regulation.
- o Key members: Sen. Kennedy, Sen. Dodd, Rep. Downey.

Foster Care Administrative Cost Reforms

- o Between FY 1981 and FY 1991, state claims for administrative costs have grown over 2,800 percent.
- o The Administration proposed limiting the growth to 10 percent a year, saving \$121 million in outlays.
- o Congress (Sen. Bentsen [D-Texas], Rep. Downey [D-New York] have proposed program expansion without fixing the abuses. Total cost: \$426 million in outlays for FY 1991, and \$6.4 billion over FY 1991-95.
- o In the District of Columbia, 86 percent of foster care funds goes to administrative expenses and 14 percent goes to children. In D.C., per child:
 - \$22,050 is spent on city costs.
 - \$5,000 is spent on foster care.

Railroad Retirement Tax Diversion

- o In the last 10 years, Congress subsidized the Railroad Retirement Board to the tune of \$1.2 billion.
- o These subsidies will cost the Federal government over \$100 million in FY 91.
- o Congress extended this subsidy through FY 90. Sen. Baucus (D-Mont) who has a disproportionate number of railroad retirees in Montana, proposed legislation to extend this again this year.

Housing

- o The President proposed \$23.7 billion for housing programs.
- o The House bill exceeds the President's FY 1991 Budget by over \$4.6 billion in Budget Authority due in part to an emphasis on new housing construction including the Title III Rental Housing Production Program and the Title IV Community Housing Partnership program.
- o The Senate bill exceeds the President's Budget by over \$4 billion in B.A. due to higher authorizations for existing programs and for the new Housing Opportunity Partnerships (HOP block grants to states and localities).

1990 Farm Bill

The Administration sent to Congress in February a bill which would have continued of the market-oriented farm support programs instituted by the successful 1985 farm bill. Moreover, in his FY '91 budget, the President proposed to reduce farm subsidies by \$1.5b this year. The Congress, in bills now out of both houses but not yet in conference, essentially rejected that proposal and raised subsidies above current levels.

- o Both the House and the Senate passed bills that set five year farm subsidy spending at around \$54 billion, close to \$20 billion over the amounts recommended by the President.
- o The House rejected a proposal by the Administration to eliminate government subsidies to people who earn more than \$100,000 per year. Thus, people who earn 3 times the average income for an American family of four will

keep getting income supports from the government under the farm program. Similarly, the Senate rejected a cut-off of subsidies to those very large farmers who gross more than a half million dollars a year. Either of these proposals would have saved the taxpayer on the order of \$1 billion over five years.

- o The House also rejected a proposal to tighten loopholes in the farm laws. Payments are supposed to be limited to \$50,000 per person -- but big corporate farmers re-organize to evade the limit. Some farmers made almost \$1 million each in subsidies last year. The House voted no on a Republican amendment (by Rep. Conte) to close this loophole, and in the process saved close to three-quarters of a billion dollars over five years.
- o The House and the Senate voted against any reform in sugar subsidies, which cost American consumers more than \$1.5 billion each year. The Administration had proposed a two cent per pound reduction in the sugar support price, but not even this modest adjustment was adopted. So American consumers will keep paying twice the world price to keep a handful of sugar producers wealthy.
- o The House voted "no" on an amendment to phase out honey support, even though it would have saved \$200 million between now and 1995. That's \$200 million for only a handful of beekeepers; eliminating their payments would not endanger the work of the vast majority of beekeepers.



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

MID-SESSION REVIEW OF THE BUDGET

NOTICE:

Embargoed: There should be
no release of this document
until 9:00 a.m. (E.D.T.)
Monday, July 16, 1990

July 16, 1990

July 26 -- Both sides agree to put budget plans on the table. The Administration and Republican negotiators develop a plan to produce \$50 billion savings in the first year and \$500 billion in savings over 5 years.

-- No plan from the Democrats.

-- Administration states and restates its willingness to exchange offers.

July 31 -- When in doubt, go back on recess. Unable and unwilling to come up with their own plan, Democrats propose to delay exchange until after the August recess. Eighty six days after the President called on Democrat leaders to work out a bipartisan budget solution, they had yet to offer one single proposal.

August 1 -- Enough is enough. The President announces he will veto each and every spending bill the Democrats write that busts the budget, and tells Republicans in Congress that when it comes to dealing with the Democrats, all bets are off.

Here's a Few Examples of What the \$100 billion Sequester Will Mean:

The following are just a few of the effects should a sequester order take place on October 15, 1990:

For defense, reductions of up to one million military personnel, about half the force, if military personnel are not exempted. And if military personnel are exempted, reductions-in-force or furloughs of up to 850,000 defense civilian employees along with a severe degradation of military force readiness.

For the Federal Aviation Administration, major cutbacks in air traffic controllers, extensive closure of facilities, the curtailment or removal from service of over 100 air traffic control towers, a substantial reduction in the number of flights, and an increase in traveler delays of 400 to 600 percent.

For Superfund, a halt in all new cleanups of toxic waste sites.

For INS, no new hiring of Border Patrol staff and building of new traffic checkpoints to intercept drug and alien smugglers.

PHOTO

PHOTO

For white collar crime, a drop of about 25 percent in completed investigations and about 1,000 fewer convictions. Prosecution of those who have perpetrated S & L institutions fraud would be slowed.

For student aid, the outright elimination of Pell grants to 1.2 million students and a 22 percent reduction of all other Pell grants to 2.2 million additional students.

For meat and poultry, the absence of inspection services for about 140 days, thus forcing the shutdown of many processing plants.

VI. POTENTIAL EFFECTS OF \$100 BILLION SEQUESTER

If the Budget Summit negotiations do not produce a satisfactory deficit reduction program, a large sequester will ensue. With that possibility in view, this section discusses the sequester calculations and the potential effects of a 1991 sequester of \$100 billion.

For purposes of determining the sequester amount, it seems reasonable to assume the continuation of the food stamp program, and a return to normal operating levels for the Census Bureau. Spending from the Resolution Trust Corporation (RTC), however, including administrative expenses and interest payments to the Federal Financing Bank, is excluded from the baseline totals at this point—in part because current law limits total RTC spending and in part because many believe that RTC expenditures should be excluded from G-R-H sequester calculations. Under these assumptions, the adjusted baseline deficit would be \$168.8 billion in 1991, \$104.8 billion above the \$64 billion deficit target required by the G-R-H law. Thus if no additional policy actions were taken to reduce this adjusted baseline deficit before the initial sequester report is issued on August 25th, the President must issue an order to withhold roughly \$100 billion effective October 1st. If no policy actions were taken before the final sequester report is issued on October 15th, a sequester of roughly \$100 billion would be required. (If RTC were authorized to spend more, and if such expenditures were included in the sequester calculation, the likely sequester would exceed \$150 billion.)

Sequestration Calculations

Reductions associated with a \$100 billion sequester would be determined using the following steps, as shown in Table 11.

**Table 11. MID-SESSION REVIEW:
SEQUESTRATION CALCULATIONS FOR 1991**

(Outlays in billions of dollars)

	Outlays
Required deficit reduction (assumed as of July 15, 1990)...	100.0
Defense (military personnel sequestered):¹	
Total required reductions	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources	198.8
Uniform reduction percentage	25.1%
Nondefense:	
Total required reductions	50.0
Estimated savings from automatic spending	0.1
Estimated savings from special rules	1.8
Amount remaining to be obtained from uniform percent- age reductions of budgetary resources	48.1
Estimated outlays associated with across-the-board sequesterable budgetary resources ²	125.3
Uniform reduction percentage	38.4%
MEMORANDUM	
Defense (military personnel exempt):¹	
Total required reductions	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources	198.8
Uniform reduction percentage	25.1%

¹ Excludes \$5.7 billion in estimated 1991 outlays for CCC.

First, one-half of the required deficit reduction, \$50 billion, would be assigned to defense programs (budget accounts in the national defense function, 050, excluding the Federal Emergency Management Agency) and the other half to nondefense programs.

Second, savings from eliminating automatic spending increases in three specific programs (the National Wool Act, the special milk program, and vocational rehabilitation) would be applied to the required reduction in outlays for nondefense programs. Savings from eliminating these adjustments would be \$58 million.

Third, the amount of outlay savings to be obtained by applying four special rules would be calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare and certain other health programs. The estimated savings from these special rules, \$1.8 billion for 1991, would be applied toward the required spending reductions in nondefense programs.

The reductions in defense programs and remaining reductions in nondefense programs would be taken on a uniform percentage basis, computed separately for each category. Under the adjusted baseline estimates, the uniform percentage reductions would be 38.4 percent for nondefense programs. For defense programs, the uniform percentage reduction would be 25.1 percent if military personnel accounts were sequestered and 41.3 percent if these accounts were exempted by the President from sequestration.

In the event that a sequester is required, not all programs will be subject to reductions. For defense and nondefense programs combined, about 67 percent of total outlays are associated with budgetary resources exempt from sequestration. The burden of sequester falls on programs that comprise the remaining 33 percent of budget outlays. Of these outlays, defense programs account for 47 percent, special rule nondefense programs for 25 percent, and other nondefense programs account for 28 percent.

Programmatic Impact of a \$100 Billion Sequester

In addition to the sequester effects described for individual programs that follow, most, if not all, Federal agencies would be forced to reduce staff costs through reductions-in-force, furloughs, and hiring freezes.

Reductions-in-force are required to be implemented in an orderly way, generally using the criteria, within Federal job classifications, of abolishing positions, thereby terminating the employment of the most junior and non-veteran employees first. Severe reductions-in-force (of the size necessary under this sequester) also can affect senior employees whose jobs are abolished. These employees may then "bump" more junior employees in other job classifications for which the senior employee is qualified.

Furloughs involve telling employees not to come to work for a certain length of time and then not paying them for that time period (e.g., involuntary leave without pay). By law, military personnel cannot be furloughed.

Hiring freezes result in the random loss of employees and frequently the loss of the most critical specialties and the creation of imbalances within an organization.

Legal requirements, the regulations of the Office of Personnel Management, and labor-management agreements must be followed in administering both reductions-in-force and furloughs. In order to yield any savings, the reduction-in-force process should begin at the time of the initial sequester report on August 25th or not later than the issuance of the final sequester report on October 15th. Termination expenses (payments for unused annual leave, return of retirement contributions, unemployment compensation payments, etc.) offset the savings made possible by discontinuing employment. Separating a person at the beginning of the year on average saves only \$11,500 or 35-40 percent of compensation and benefits during the first year after a reduction-in-force. In subsequent years, the former employees' full compensation and benefits would normally be saved. On this basis, the separation of 100,000 employees through a reduction-in-force would save only \$1.1 billion in 1991. Many thousands

of dependents, businesses, and creditors who depend upon the income and purchasing power of Federal employees would be hurt by these actions.

Agencies also would reduce travel, training, printing, contractual services, and supply and equipment purchases. Those employees who remained would be hampered in their efforts to enforce the law, carry out agency missions mandated by law, and supply previous levels of services not only because of the reduced number of personnel, but also because of organizational disruptions created by adverse personnel actions and by the lack of non-personnel resources.

While the description of the effect of the sequester by program that follows is extensive, it is not comprehensive and is *intended for illustrative purposes only*.

Department of Agriculture

Commodity Credit Corporation (CCC)

A sequester applies to CCC cash deficiency payments and commodity loan programs by crop year. Based on projected 1991 crop year cash deficiency payments of \$7.1 billion, a sequester would require a reduction of \$2.7 billion in deficiency payment outlays in fiscal years 1991 and 1992. The value of 1991 crop loans estimated in fiscal years 1991 and 1992 is \$6.0 billion. Checks written during harvest time to farmers who place crops under loan would be reduced by about \$2.3 billion in 1991 and 1992. Reductions in CCC outlays, net of loan repayments would be \$3.9 billion during fiscal years 1991 and 1992.

To illustrate the wide-spread impact of a sequester, note that approximately 300,000 commodity loans and 9,000,000 deficiency payments are currently issued through the CCC. For 1989 crop programs, the following number of farms received cash deficiency payments for crops:

Cotton	100,000
Feed grains.....	1,100,000
Wheat.....	435,000
Rice	18,500

In addition, an estimated 175,000 dairy producers would face large assessments on their milk marketings (the assessment of 10.4 cents per hundredweight of milk markets would reduce cash receipts of dairy farmers by approximately \$150 million), and 40,000 peanut farms and 424,000 tobacco farms would be affected through loan proceeds reductions.

The average deficiency payment for the 1989 feed grain crop was \$4,363, and the average for all commodity loans was \$13,771. A sequester would reduce the average deficiency payment by \$1,658 and the average commodity loan by \$5,233.

Conservation

The 1985 Food Security Act (FSA) established the Conservation Reserve Program. People who agree to retire highly erodible land for 10 years receive an annual rental payment and financial assistance in establishing a permanent cover on the land. Under a sequester, annual rental payments due under the nearly 334,000 conservation reserve program contracts with farmers could not be paid in full.

The FSA also established several new conservation initiatives that require Soil Conservation Service (SCS) technical assistance. Under the law, SCS is responsible for defining highly erodible lands (HEL) and wetlands and for helping farmers develop and install conservation plans that producers will need if they are to continue receiving program benefits from the Department of Agriculture. While conservation planning and HEL determinations have been completed, only about 30 percent of the measures have been installed. The law requires that producers install the approved conservation systems by December 31, 1994. The "swampbuster" provisions of the FSA require that SCS also conduct wetland determinations and inventories to help farmers recognize wetlands and prevent unintentional conversions. The target date for completing the wetland determinations is

December 31, 1991 with wetland inventories being scheduled for completion by the end of 1992. In addition to these efforts, SCS must provide technical assistance for the conservation reserve program, for any necessary revisions to FSA plans, and for compliance reviews to ensure that conservation plans are properly installed.

A sequester would require that SCS emphasize meeting the provisions and deadlines mandated by FSA at the expense of other conservation operations such as the water quality initiative, soil mapping, and plant center renovation, which are authorized but not subject to statutory deadlines. Even with best efforts to meet the highest priority needs, it is unlikely that many of the FSA conservation targets could be met. Continued assistance to the nearly 3,000 conservation districts would be jeopardized and service would be reduced at most SCS field offices. Watershed planning and construction would be delayed or terminated for many projects that address high priority national problem areas such as local flood control, emergency assistance, land treatment, and water quality. Cost sharing projects would be stopped or slowed down.

Cooperative State Research and Extension

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Across-the-board cuts would reduce USDA's National Research Initiative (designed to use competitive research grants to enhance production efficiency, food safety, and environmental quality). One important component of this initiative is an effort to map the genomes of plants to permit scientists to explore more fully the genetics of plants. Other research that would be cut could contribute to the design of more economical production practices and to dealing with pests and disease in ways that protect the environment. A large number of special interest research grants and construction projects would also be affected.

Farmers Home Administration (FmHA)

A sequester would impair efforts to service FmHA's portfolio of almost \$59 billion in outstanding debt. This would reduce borrowers' chances of success in meeting their loan obligations and increase losses to the Government. In particular, efforts to restructure about \$5 billion in delinquent farm loans would be delayed, causing borrowers undue hardship and reducing the recovery value of these loans.

Federal Crop Insurance Corporation

A sequester would reduce the funds available for commission payments on insurance policy sales made by private insurers, causing a suspension in sales when funds run out. The reduction in the amount of insurance sold would also reduce the premiums paid to the Government.

Federal Research (Including Buildings and Facilities)

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Such reductions would reduce USDA's Food Safety Initiative and the collection of food safety information. This information is expressly intended for further use in setting Federal food safety policies and regulations. Other research, such as water quality research projects included in the Water Quality Initiative and federally sponsored human nutrition studies, also would be constrained.

The layoff of Federal scientists and technicians would impede the delivery of new technologies to improve agricultural competitiveness and address environmental issues. Reductions in research programs at 59 agricultural experiment stations, as well as at other colleges and universities, would impair the ability of States to continue a full range of research to address local and regional concerns. Most adversely affected would be the historically black 1890 colleges and Tuskegee University that receive nearly 100 percent of their research funding from the Federal Government.

Foreign Agricultural Service

A sequester would compromise the execution of trade policy responsibilities, including those related to the Uruguay round during the most crucial stage of this multilateral trade negotiation. Reductions in our overseas presence, including attaches and counselors, would impair the collection and reporting of agricultural intelligence and the administration of export and market development programs. Some overseas cooperator offices would have to be closed and some smaller cooperator organizations would have to end participation in the program. Since agriculture is the one major "positive" in U.S. trade, these reductions would have a detrimental effect on the balance of trade.

Forest Service

A sequester would severely affect the ability of the Forest Service to maintain projected targets for recreation, wildlife and fish habitat management, and timber sales. Timber sales could decline to below eight million board feet. Timber preparation work would be greatly reduced, reducing 1991 and out year sales. Receipts to the Treasury and to States and counties would decline significantly. Economic effects, particularly in the West, would be substantial.

Certain campgrounds and other recreational facilities would be closed. Services at remaining sites would be significantly curtailed. Efforts to protect and improve habitat to achieve recovery goals for endangered and threatened species would be substantially reduced.

No seasonal hiring would occur, further inhibiting quick response to fire fighting emergencies and significantly curtailing services (e.g., garbage pickup and rest room cleaning) at the recreational facilities that remain open. Road maintenance and most other field work would all but cease, resulting in the deterioration of roads and facilities and ultimately road closures for safety concerns.

Meat and Poultry Inspection

The Federal Meat Inspection Act (P.L. 90-201) and the Poultry Products Inspection Act (P.L. 90-449) require carcass-by-carcass inspection by Federal inspectors in establishments slaughtering food animals. All plants engaged in further processing of meat and poultry must also be inspected by Federal inspectors. Since meat packing plants cannot operate without these Federal inspectors, the meat and poultry slaughter and processing industry would be forced to limit or curtail production by the same extent that inspectors are not available. The meat and poultry industry is one of the largest in the country. It employs over 400,000 people at 7,800 meat and poultry plants and has an annual retail value of more than \$100 billion. Many thousands more people are employed in the breeding, raising, transportation, storage, and distribution of food animals. The economic loss from any shut down due to a sequester would result in the loss of billions of dollars to the American economy. In addition to the economic disruption, the limited inspection coverage would erode the high level of safety of the nation's meat and poultry products.

A sequester would result in the absence of inspection services (and the shutting down of meat and poultry slaughter and processing plants) for about 140 days.

Quarantine and Inspection Activities

A sequester would defeat recent progress by the Animal and Plant Health Inspection Service to eliminate pseudorabies, brucellosis, and the Russian wheat aphid. Emergency eradication of the Mediterranean fruit fly and grasshopper would be defeated. All 39 quarantine and inspection activities would be reduced. This would result in serious delays in import shipments of plants and animals as well as baggage inspection for international travel. Extensive delays or disruption of service could cause significant losses of plants and animals in quarantine or awaiting inspection. It would also drastically reduce the number of inspections and thus increase the risk of introducing serious animal and plant diseases and pests into the United States. Implementation of the pending regulations on animal welfare might not be possible.

The Federal Grain Inspection Service would totally eliminate contractual research including aflatoxin research outlined in the Administration's farm bill proposal. The Agricultural Cooperative

Service would not be able to conduct research studies in support of farmer cooperatives and the Office of Transportation would not be able to assist in solving transportation problems related to agriculture.

Department of Commerce

National Oceanic and Atmospheric Administration (NOAA)

A sequester would severely impair several high priority research programs, in particular, NOAA's contribution to the interagency U.S. Global Change Research program and the Coastal Ocean Science program. Several major system procurement actions supporting the modernization of the Weather Service would be canceled or deferred including such safety programs as the NEXRAD doppler radars (that detect severe weather patterns) and the next generation of geostationary weather satellites.

It would severely reduce fisheries stock assessments and research, thereby requiring an extremely conservative fisheries management regime including closure of certain grounds to commercial fishing. Operations of the NOAA research fleet and air wing would be reduced to the minimum required to support hurricane reconnaissance responsibilities. These actions would be required to ensure that NOAA would be able to provide weather warnings and, on a less frequent basis than normal, weather forecasts.

Department of Defense—Military

Military personnel exempted.—The President can exempt up to 100 percent of the military personnel accounts from sequester. If he chose to do this, force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by more than 50 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 10 hours per month (compared to the current 19.5 hours per month that is considered the minimum necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 25 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require reductions-in-force (RIFs) or furloughs of up to 80 percent of the requested level of 1.1 million civilian employees. Contractor personnel also would be reduced significantly. Roughly \$8 billion of equipment maintenance and \$3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 115 fighter aircraft could be cut from the 276 requested, six major combatant ships could be cut from the 15 requested, and about 250 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

Military personnel not exempted.—Not exempting military personnel could result in a reduction of up to 1.0 million military, about one-half of the force. A sudden force cut of this magnitude would severely weaken our ability to react to any major crisis. Morale and force readiness would be severely degraded. Force structure cuts would include up to eight Army divisions (16 requested in 1991 versus 18 in 1990), the equivalent of one Marine Corps division and air wing (3 divisions and wings requested), twelve Air Force tactical air wings (24 requested), and seven aircraft carrier battle groups (14 requested).

Force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by over 30 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 14 hours per month (compared to the current 19.5 hours per month that is considered the minimum).

necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 35 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The force reductions in conjunction with the operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require RIFs and furloughs of up to one-half of civilian employees (requested level is 1.1 million). Contractor personnel also would be reduced significantly. Roughly \$6 billion of equipment maintenance and \$3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 70 fighter aircraft could be cut from the 276 requested, four major combatant ships could be cut from the 15 requested, and about 150 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

Department of Defense—Civil

Army Corps of Engineers

The effect of a sequester on the civil works program would be twofold: substantial reductions in personnel in labor-intensive activities, and contract delays and cutbacks in the construction and operation and maintenance of water resources development projects.

A sequester would require reductions-in-force (RIF) affecting some 3,300 positions. A RIF of some 850 work-years is likely for the Regulatory program and General expenses accounts. Such cuts would require delays in some, if not all, non-cost-shared preconstruction engineering and design studies; and handicap new partnership arrangements with non-Federal cost-sharing project sponsors.

A RIF of 450 staff years would be required in the Corps labor intensive Regulatory program under which the Corps administers Section 404 permits for dredge-and-fill activities in wetlands and other waters, and for section 10 permits construction and other activities in navigable waterways. These RIFs would adversely affect support for the environmental initiative to improve permit enforcement and compliance.

Construction contracts on non-cost-shared projects, including seven Inland Waterways lock and dam projects, would be delayed and in some cases terminated. Work would be postponed for previously funded, cost-shared new starts for which a local cooperative agreement had not been executed. Some continuing contracts for cost-shared construction projects would be terminated.

The Operation and maintenance program would experience reductions in service delivery and increased backlogs. Specifically, the use of seasonal labor would be minimized, the recreation season shortened, recreational and other dredging deferred, and the number of shifts employed for the operation of the locks on the Inland Waterways System constrained. Moreover, there would be insufficient funds available to retain the number of employees needed to safeguard public safety and health and to assure the integrity of project operations and work placement. Recreational facilities would be closed and maintenance for flood control and navigation projects would be cut. Revetment (repair of embankments) of the navigation channels of the Mississippi River and its tributaries would be reduced by over 60 percent. Reductions would be imposed on the supervision and inspection of work placement and the engineering and design of follow-on construction contracts. Additionally, new programmed maintenance would be deferred, including channel and harbor dredging, lock and dam repairs, and hydropower maintenance.

Department of Education

Pell Grants

In the major discretionary student aid program, Pell grants, the 1991 request would provide an average award of \$1,443 to 3.4 million students. Under the Pell law, the reduction in the appropriation

is translated into award reductions in accord with a specified "linear reduction" schedule that protects awards to the poorest students. However, a sequester above 24 percent would reach the awards to the poorest Pell grant recipients (those with expected family contributions of \$200 or less).

If these students are not protected, then a sequester would eliminate grants to 1.2 million students, at an average grant of \$1,000, and reduce all remaining grants (2.2 million recipients) by \$320 each, or 22 percent of the average grant under the 1991 request.

Department of Energy (DOE)

Atomic Energy Defense Activities

A sequester would require a delay in cleanup activities, deferral of operational safety improvements, a decimation of the ability of DOE to support future nuclear weapons production, and a serious detriment to our nuclear deterrent. As an illustration only, the cut would require:

- A 12-month delay in cleanup activities at contaminated sites.
- DOE would not be able to meet the terms of agreements with States for obtaining compliance with environmental requirements.
- Deferring the operating safety and environmental measures that are now being instituted for assured safe operation of the tritium production reactors.
- Deferring work on safety improvements at weapons production facilities and suspending production of new nuclear weapons.
- Placing all plutonium processing facilities on standby at the very time we are returning weapons to be reprocessed due to successful START negotiations.
- Deferring indefinitely all design and construction activities for new facilities, which include improvements for environment, safety, and health deficiencies found by the DOE Tiger Teams.
- Substantially reducing nuclear weapons testing, and cutting research and development by about 25 percent, which will severely imperil initiatives to enhance nuclear weapons safety.

To effect the savings, contractor employees at the shut-down and deferred facilities would have to be laid off. Significant numbers of personnel would have to remain, however, to ensure safety and security of facilities. The maintenance of facilities in safe and secure conditions (even with no production) could be somewhat compromised. Rehiring of employees after such a major disruption would take years.

This would, in essence, force the Defense Weapons complex to proceed expeditiously to shut down all operations, and place them in as safe a standby position as possible.

Energy Conservation Grants

A sequester would reduce the number of low-income homes weatherized through the Weatherization Assistance program from approximately 125,000 to approximately 85,000 homes. This decrease would place increased burdens on State and local governments in the colder winter months and would create a hardship for many poorer American families. The number of grants to schools and hospitals for weatherization activities would be reduced by 250. Grants to States for energy conservation planning and extension activities would also be reduced. Because a sequester must be applied uniformly, higher priority research and development projects could not be preserved by applying larger reductions to (or canceling) lower priority projects.

General Science Program

A sequester would force the cancellation or delay of facility upgrades at several sites by at least a year. Start up of the Continuous Electron Beam Accelerator Facility in Virginia as well as construction of the Relativistic Heavy Ion Collider facility at Brookhaven National Laboratory would also be delayed. Operating levels of high energy facilities (Fermilab, Stanford Linear Accelerator Center, and

the Los Alamos Meson Physics Facility) would be reduced by 50 percent or more. The impact of layoffs of highly skilled staff would take years to reverse.

It would severely reduce research productivity at all the major national laboratories (e.g., Fermilab, Brookhaven, and the Stanford Linear Accelerator Laboratory) and at one or more of the smaller accelerator and research facilities. University research programs would experience large cuts in funding.

Superconducting Super Collider (SSC)

A sequester would severely affect the basic ongoing research programs as well as the construction of the Superconducting Super Collider.

Virtually all site work, research and development on detector designs, and purchase of capital equipment for detector systems would cease. Design activities would have to be scaled back significantly from 1990, causing personnel layoffs.

Implementation of the magnet industrialization plan would be impossible. The magnet contract award would be delayed at least one year. This action would increase the total cost of the magnets and significantly delay the project.

Cuts of this size would send a strong negative signal to potential international collaborators about the commitment of the United States to the project and would jeopardize their participation. The sequester would almost certainly result in no foreign contributions to SSC construction. In this event, the United States would have to assume the full costs after the Texas contribution.

Department of Health and Human Services

Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) Drug Abuse Programs

Activities that address the demand side of the war on drugs—research, prevention, and treatment—would be reduced by over one-third. All new research, including medications development, would be eliminated. Prevention programs for high risk youth and pregnant women would be unable to support new grants, and the number of continuing grants could be reduced by approximately 20 percent.

The Alcohol, Drug Abuse, and Mental Health Block Grant would fall sharply, reducing the number of treatment slots far below Administration goals.

Centers for Disease Control

A sequester would cut the Preventive Health Care block grant, grants for sexually transmitted disease clinics, childhood immunization grants, research on occupational safety and health, health statistics, and HIV/AIDS grants.

A sequester would sharply reduce service to the public, including approximately 1,000,000 children who would not be vaccinated for polio, measles, mumps, rubella, haemophilus influenza b, diphtheria, tetanus, and pertussis. Other effects include: (1) decreased support for block grants could eliminate over 50 percent of States' prevention programs in tuberculosis, smoking, nutrition, and chronic diseases; (2) efforts to prevent the spread of sexually transmitted diseases would be hampered: 300,000 fewer persons would be examined for syphilis, 2,500,000 fewer persons would be tested for gonorrhea, and 1,000,000 fewer persons would be tested for chlamydia; (3) the number of births monitored for changes in the incidence of birth defects would decrease by 60,000; and (4) approximately 200 disease outbreaks would not be investigated.

Food and Drug Administration (FDA)

A sequester could (1) lengthen the drug review process, (2) suspend efforts to make experimental therapies available to patients with no therapeutic alternatives, and (3) reduce inspections of foods,

drugs, devices, and imports. The expedited review proposed for AIDS drugs would be slowed and field inspections and product-related research would be reduced. The number of new orphan drug grants awarded, laboratory equipment, and automobiles necessary for field inspections would be substantially reduced. A sequester also would eliminate proposed enhancements for seafood and generic drug inspections.

HIV/AIDS

A sequester would seriously cripple the Public Health Service's (PHS) efforts to prevent HIV transmission and conduct research into therapies and vaccines, reducing funding below 1989. Fewer promising therapies could be tested, fewer education and prevention programs could be supported, and fewer research initiatives to develop cures and therapies could be pursued. Specifically, about 400 fewer AIDS research grants could be supported, and instead of hiring the 300 additional PHS staff requested in 1991 for fighting AIDS, staff levels probably would be reduced.

Maternal and Child Health Block Grant—Health Resources and Services Administration

A sequester would reduce these block grants \$114 million below the 1986 level, and could require the States to reduce sharply perinatal health services for pregnant women and their infants. Perinatal services provided by the States and the ability of States to carry out new requirements contained in the Omnibus Budget Reconciliation Act of 1989 would be severely limited. Cutbacks in perinatal health care will have a direct effect on infant mortality and low birth weight, and will severely hamper State efforts to establish case-management and community-based services that are accessible to the most needy. The number of Special Projects of Regional and National Significance (SPRANS) could be cut by a minimum of 150 (from 445). SPRANS grants focus on improved services to high risk groups, promotion of early and continuous prenatal care, reduction in neonatal mortality, and reduced behavioral risk activities in pregnant women.

Research at the National Institutes of Health (NIH) and the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)

A sequester would threaten the Federal Government's substantial commitment to pursuing new scientific opportunities and searching for new cures and therapies and seriously curtail efforts to invest in the nation's future health. A sequester could reduce by over 9,000 the number of Public Health Service-supported research grants (from a total of 28,000) and cut by over 4,200 the number of scientists receiving Federal research training assistance.

Social Security Administration (SSA)

A sequester in SSA's Limitation on Administration Expense account would force SSA to postpone new hiring and training, defer most work not directly related to paying and processing benefits (such as issuance of Personal Earnings and Benefit Statements to young workers and reconciling discrepant wage records of young workers), slow down contract payments and other deferrable payments, and postpone nearly all automation system upgrades. All of these steps would affect service over time, but not immediately.

After taking these initial cost savings steps, SSA would be forced to slow down or divert staff resources from non-payment related services. For instance, SSA might be forced to focus resources on taking initial applications for social security benefits and to close portions of the 800 number telephone service for a period during the year. SSA would also cut back significantly on monitoring of the benefit rolls (such as evaluations of continuing disability and eligibility for Supplemental Security Income—SSI) which would increase overpayment of benefits that may be difficult to collect.

Even with these cost savings steps, SSA would be forced to develop priorities for claims related to the payment of benefits. SSA would have to focus on those most in need of SSI and SSI applications while deferring or turning down claims by persons with other means (high income retirement applications).

Timely payment of Social Security and Supplemental Security Income benefits to some new applicants could be threatened. SSA would likely be able to continue to pay benefits to currently

entitled persons, although any post-entitlement changes, such as new addresses, would probably be deferred or significantly slowed. New applicants, however, might have to wait longer to get their first monthly checks.

In addition to reducing Federal staffing available to process work, a sequester of this size would force a significant reduction in the administrative budget available for State agencies determining disabilities for SSA. These agencies, which are budgeted to receive \$800 million in 1991, make all initial disability determinations. A reduction in their resources could slow their processing of disability decisions.

Social Services

A sequester would result in: (1) a reduction of \$715 million from the budget for Head Start (this would fund the enrollment of 208,400 fewer poor four-year-old children from the planned 548,400); (2) a reduction of \$163 million from the budget in grants to support meals for the elderly (this would fund 106 million fewer meals from the planned 258,740,000); and (3) a reduction of \$1,065 million from the budget for the Social Services block grant that would require States to decide whether to make across-the-board cuts, redistribute reductions among all service areas, or eliminate certain service categories and maintain others at current funding.

Department of Housing and Urban Development (HUD)

A sequester would:

- Reduce funds available for the extension of expiring housing contracts to a level that might cause some low-income families to lose their housing assistance and possibly become homeless.
- Cut the number of new subsidized households assisted from 82,000 in the budget to 45,000 after the sequester.
- Force some public housing agencies (PHA's) to discontinue their efforts to eliminate drugs in public housing, defer regular maintenance on the housing stock, increase future modernization costs, and possibly threaten the health and safety of residents.
- Delay and hamper efforts to help end homelessness. Funding would be below 1990 and far below the levels authorized in the McKinney Act. Long term solutions to aid the homeless would be prevented.
- Delay efforts to assist tenants adversely affected by prepayment of HUD subsidized mortgages.
- Eliminate proposed improvements in the oversight and monitoring of HUD funds and jeopardize recent improvements. These improvements are aimed at reducing waste, fraud, and abuse in multi-billion dollar HUD programs.
- Impair management of HUD's programs because of a lack of staff—instead of focusing on improvements in monitoring and internal control systems, HUD officials would need to manage staff furloughs to stay within constrained funding. Such furloughs would increase further the risk of waste, fraud and abuse in these multi-billion dollar programs.
- Delay the approval of housing construction projects due to insufficient staff.

Department of the Interior

Bureau of Indian Affairs (BIA)

A sequester would reduce funds from the 1991 request for BIA elementary and secondary school operations by \$2,200 per Indian student. At least half (about 80) of BIA's schools would close and the school year would have to be shortened for the remaining schools.

One of BIA's two post-secondary schools would close entirely. The remaining school would have to operate with a shortened school year. All capital expenditures on facilities improvements would be deferred. Aid for post-secondary education would be unavailable for 6,100 Indian students (a 44

percent reduction from the 1991 request). Vocational education training would be denied to 1,300 Indian students.

Funding for the BIA general assistance (welfare) program would be reduced by \$20 million below the request. This would prevent the BIA from making assistance payments for almost five months during the year to an estimated 50,000 needy individual Indians.

Bureau of Land Management (BLM)

A sequester would curtail on-the-ground management of public lands, including inspection and enforcement of mining and mineral leasing operations, grazing, timber, recreation, wilderness, and wildlife programs. Reduced inspection of mineral leases would result in reduced revenues from Indian and Federal leases. A major automation initiative, the Automated Land and Mineral Records System (ALMRS) that is part of BLM's integrated Modernization effort, would be postponed, and hazardous materials management inventory and cleanup efforts would be drastically reduced on 270 million acres of public land managed by BLM in 28 States. Also, discretionary fire fighting pre-suppression activities would be cut back, possibly increasing the ultimate cost of emergency fire suppression operations.

The America the Beautiful initiatives for BLM, including Recreation 2000 and Wildlife 2000, would effectively be shut down. BLM's increased drug eradication and interdiction program could not be supported. Land acquisition, maintenance and construction projects would be cut in half. The ability to offer allowable cut timber volumes in western Oregon would be greatly reduced, thereby significantly reducing receipts and payments to Oregon and California counties.

Bureau of Reclamation

A sequester would result in no new contract awards to continue work on water projects currently under construction and no major rehabilitation or improvement work at existing projects. Further adjustments would be required, including the termination of contingent construction contracts (with payment of penalties) for existing projects. This would lead to delays in the completion of projects, the realization of project benefits, and, in some cases, the initiation of project repayment.

Routine preventive maintenance efforts at dams, pumping plants, canals, and other project features would be curtailed, as necessary, in order to continue the operation of project facilities. This might result in higher project maintenance and repair costs in future years. Operations at some existing projects might be curtailed due to a lack of funds for repairs or required maintenance to ensure safe operation of project facilities.

Fish and Wildlife Service (FWS)

A sequester would not permit nine new National Wildlife Refuges to open in 1991 as planned, 100 refuges would be placed in caretaker status, law enforcement activities associated with drug control on FWS lands would be severely curtailed, funding for FWS America the Beautiful land acquisition and resource protection initiatives would be drastically reduced, and the North American Waterfowl Management Plan (that provides the focal point for the restoration of North American waterfowl populations) would not be implemented.

Other examples would be: (1) planned acquisition of water rights to help restore the important Stillwater National Wildlife Refuge in Nevada would not be implemented; (2) FWS would not meet its planned target of restoring some 13,000 acres of high priority wetlands; (3) at least 15 national fish hatcheries would have reduced operations and curtailed production, and several hatcheries would be closed; (4) the environmental contaminants program would be adversely affected, resulting in reduced contaminant clean-up on FWS lands; and (5) substantial funding to States would be delayed for one year for the Wallop-Breaux and Pittman-Robertson fish and wildlife programs.

Geological Survey

A sequester would adversely affect operation of the Global Climate Change Research program; the National Water Quality Assessment program, designed to determine the status and trends of the Nation's ground and surface waters, and which would not become operational in 1991 as planned; and the Advanced Cartographic System (ACS), an effort to develop and implement a new, state-of-the-art cartographic data collection, analysis, and presentation system.

Ongoing programs adversely affected would be geologic and mineral resources investigations, including important studies in earthquake and volcano hazards and energy resources assessments. The collection and analysis of water resources data would be lessened, possibly resulting in voids in various databases or delays in research dependent on such information.

Operation of approximately 675 water quality streamflow stations would be discontinued in the Federal Data Collection and Analysis program. Approximately 3,000 water quality streamflow gauges and as many as 180 cooperative investigations would have to be discontinued in the Federal-State Cooperative Data Collection and Analysis program. The grant to each of the 54 State Water Resources Research Institutes would be significantly reduced.

Historic Preservation fund

A sequester would translate into smaller grants to State historic preservation offices and to the National Trust for Historic Preservation. Some grants might be eliminated. Fewer properties would be nominated to and placed on the National Register of Historic Preservation; efforts to ensure that State and local development planning and permitting recognize historic values would be reduced; and public visitation to National Trust properties might be curtailed. Efforts that now help to ensure that local planning and permitting recognize historic values would be eliminated.

Minerals Management Service

A sequester would cause major reductions to the auditing staff and reduce the accuracy of revenue collections of royalties from minerals production on Federal lands. Revenues would be reduced due to an inability to audit royalty collections effectively. In addition, there would be a reduction in inspection staff and helicopter support needed to enforce safe and environmentally sound operations of outer continental shelf oil and gas operations. Revenues would be reduced due to the cancellation of new off-shore oil and gas leasing. Environmental studies and lease preparation activities would be curtailed, leading to further delays in off-shore leasing.

National Park Service (NPS)

A sequester would severely and adversely affect NPS's ability to keep parks safe and open to the visiting public. Park operating funds would be reduced to levels available in the mid-1970's. There has been significant expansion of the park system since that time. Many of these newer and smaller units would be closed to permit the "Crown Jewels" (e.g., Yellowstone, Yosemite, and the Grand Canyon) to remain open to the public. Funding for regional repair and rehabilitation programs would be cut to focus only on emergencies. Resource protection efforts would be continued at a suitable level in some areas, while other areas would be essentially closed until greater resources became available.

Seasonal hiring would be eliminated and hundreds of park rangers and maintenance staff would be furloughed. All back country areas would be closed to hikers and campers because there would be no one to patrol the areas. Park Police efforts in urban parks, including drug law enforcement, would be substantially curtailed. Discretionary ecological research projects, such as the effects of acid rain and aircraft noise studies, would be suspended.

The America the Beautiful initiative for NPS covering land acquisition, resource protection, and recreation enhancement would be severely curtailed.

Office of Surface Mining Reclamation and Enforcement (OSM)

A sequester would lead to reduced inspections for surface mine land reclamation activities and oversight of State inspection activities. Reductions in State regulatory grants would endanger the primacy of State oversight programs. OSM's ability to respond to emergency reclamation needs through its emergency reclamation program would be limited. This could lead to increased risks to the health and safety of miners and communities experiencing emergency reclamation requirements.

Payments to States by the Minerals Management Service

A sequester would delay a portion of the payments due to 27 States (primarily in the West) until 1992 and disrupt planned activities. States might not have adequate funding for schools, roads, and emergencies.

The impact on the six largest payments would be:

(In millions of dollars)

	1991 Budget	Reduction	Post Sequester
Wyoming.....	\$202	-\$77	\$125
New Mexico.....	101	-38	63
Utah.....	61	-23	38
Colorado	37	-14	23
California	28	-11	17
Montana	23	-9	14
21 Other States	31	-12	19
Total	483	-184	299

Department of Justice

Drug Enforcement Administration (DEA)

A sequester would eliminate 1991 program enhancements, thereby crippling this element of the President's drug strategy. Across-the-board reductions to domestic marijuana eradication programs, State and local task forces, foreign cooperative investigations, domestic enforcement programs, and intelligence activities would also be required. Training for State and local police officers and implementation of the Chemical Control and Trafficking Act would also be curtailed. Further, planned purchases of investigative and automated data processing equipment and some major computer contracts would be canceled.

In some cities and rural areas, DEA would simply have no presence. Foreign support would be spread so thin that cooperative efforts with foreign governments would be hindered and the security of our agents would be at great risk. All State and local programs such as task forces, training, and laboratory support would be eliminated. The result might be increased drug trafficking because drug dealers are quick to notice the level of effort expended by the Federal Government on law enforcement.

Federal Bureau of Investigation (FBI)

A sequester would leave all 1991 program enhancements unfunded. Funding for the President's Financial Fraud and Crime Initiative packages implemented in 1990 would be reduced. Prosecution of those who have perpetrated savings and loan institutions fraud would be slowed. New investigative programs such as white collar crime investigations aimed at procurement fraud, and investigations of Asian organized crime would be severely impaired. The foreign counterintelligence and drug programs would be diminished substantially. Specifically, the anticipated completion of white collar crime investigations would likely drop by 25 percent (1,000-plus fewer convictions) from planned 1991 levels. The FBI's efforts directed at Asian groups would not advance in 1991 while current investigative efforts would be cut in half. Investigations into La Cosa Nostra and other major organized crime

groups would be cut by 20 percent from planned 1991 levels. Major equipment purchases affecting the fingerprint automation and field office management system programs would be canceled. Training for State and local officers would also be curtailed.

Priority investigative programs and those in which the FBI has sole law enforcement jurisdiction would be affected. As all equipment purchases would be foregone, agents would be inadequately equipped to use the sophisticated investigative techniques required for complex cases. Continued use of obsolete protective equipment would expose agents to possibly dangerous situations. The FBI would be unable to provide adequate support for automated data processing and telecommunications operations integral to information collection and analysis in support of investigative operations. All State and local programs, such as the Uniform Crime Report publications, laboratory analysis of evidence, and fingerprint identification work, would be halted. It is also likely that crime and foreign intelligence activities would increase during this period as the deterrence factor decreases.

Federal Prison System (FPS)

A sequester would prevent newly constructed prisons with 3,315 beds from becoming operational, and force FPS to move 6,595 prisoners out of non-Federal contract facilities and into its already overcrowded facilities, increasing overcrowding to well over 89 percent from the current level of about 70 percent. It would eliminate the staff increases (2,000 work years) necessary to address inadequate staff levels, and require furloughing 5,600 employees. This would eliminate staff training, greatly reduce FPS's administrative efforts, and reduce the quality and amount of food and medical services, inmate security, and inmate supervision.

Virtually every program available to inmates within the prisons (e.g., rehabilitative and educational) would be eliminated, thereby causing FPS to "lock down" all institutions and inviting inmate idleness, violence, and court intervention.

Immigration and Naturalization Service (INS)

A sequester would prevent INS from hiring 200 new Border Patrol staff and building new traffic checkpoints to intercept drug and alien smugglers that are important elements of the President's drug strategy. Such a funding level would hamper INS's border enforcement activities, processing of travelers across our land borders, and efforts to deter illegal immigration through detention of aliens and enforcement of employer sanctions. Such massive cutbacks would be likely to lead to major influxes of illegal aliens that were common prior to the enactment of the Immigration Reform and Control Act in 1986.

Even basic operations would be seriously impacted. Reductions in enforcement activities would immobilize operations and seriously jeopardize the ability of the INS to stem the flow of illegal aliens and the ever-increasing flow of illegal drugs. The ability of INS to detain and process criminal aliens apprehended by the Border Patrol would be constrained because of a lack of detention officers and funding to operate detention facilities. Investigations of major alien smuggling operations would be seriously reduced. Major backups would be experienced at ports-of-entry. Backlogs in processing of refugee and asylum applications as well as adjudication requests would be inevitable.

U.S. Attorneys' Office

Reduced staff resulting from a sequester would prevent litigation of any cases that would have been litigated as a result of increased resources provided for the crime and financial institution fraud initiatives in 1990. Specific areas that would be affected are prosecutions of narcotics cases, bankruptcy and procurement fraud cases, and other criminal fraud prosecutions.

U.S. Attorneys would be forced to abandon almost 25 percent of all ongoing litigation designed to obtain criminal convictions against violators of substance abuse, immigration and civil rights laws, organized criminal groups, and tax evaders. Attorneys would slow down efforts to recover monies from failed institutions resulting from saving and loan and bank fraud violations. All ongoing activities for collecting monies owed to the Government would be limited. Litigation designed to defend the Government from substantial monetary losses as a result of other types of fraud would be reduced.

Department of Labor

A sequester would have the following effects on Department of Labor (DOL) programs, compared with the 1991 request:

- Some 8,000 work years would be lost across all DOL agencies, requiring reductions-in-force in all enforcement programs. Among other effects, some 29,100 fewer work places would be inspected by the Occupational Safety and Health Administration, 27,400 fewer mine inspections would be initiated, increases for improving pension oversight as well as some base funding would be eliminated, and DOL's ability to maintain its core national labor force statistical series would be in jeopardy.
- In the DOL State grant programs area, States would close 250 or more of the 1,900 local offices that process walk-in unemployment insurance claims and provide employment services. Staff at remaining offices and operating hours would be reduced. Claims delays would be universal—taking up to five days in some areas; States would divert any remaining resources from program integrity efforts and devote them to processing claims. The quality control program would be abandoned.
- For the Job Corps, the sequester would mean reducing the program by up to 15,600 slots. This could require closing about 39 of the existing 107 Job Corps centers, reducing the number of centers to 68. Work on acquiring and operating the six new centers mandated by Congress would have to cease if current centers have to be closed. As a result, no funds would be available to operate the two new centers scheduled to open in 1991, while plans to open two new centers in 1992 and 1993 would be postponed or curtailed. The Job Corps anti-drug initiative would be canceled.
- Some 141,000 fewer participants would be served in the President's Job Training Partnership Act (JTPA) training program for severely disadvantaged adults and 260,000 fewer low-income young adults would be enrolled in the new initiatives targeted on this at-risk group. Participation in each program would drop by about 38 percent. Implementation of the President's new JTPA initiative would be curtailed. About 91,000 fewer displaced workers would receive readjustment assistance in JTPA's dislocated worker program.
- Approximately 21,500 fewer subsidized job slots for low income persons age 55 and older would be financed in the Older Americans Employment program, representing a 38 percent cut in program participation.

Department of State

Under a sequester in operations accounts, large infrastructure related projects, such as construction of the new Foreign Service training facility would stop, and procurement and maintenance would be eliminated. Maintenance at over 2,200 Government-owned and long-term leased properties overseas would fall below minimum levels, and the Department would be forced to defer the foreign affairs community's high priority telecommunications enhancement (DOSTN) as well as important consular, procurement, accounting and finance computer upgrades. In addition, nine embassy construction projects at high threat posts planned to begin in 1991 would be put on hold because of a lack of construction security funds, and plans for new construction projects would be eliminated. Major rehabilitations of four high priority posts would also be deferred.

The Department of State would be required to either close, or significantly reduce staffing in, the majority of its over 240 overseas missions. Except in a few critical instances, most diplomatic reporting and representational activities would stop. Public oriented activities such as consular and visa services and trade promotion programs would either cease or be limited to only emergency situations. Services to the public from Washington and other domestic offices in areas such as passport issuances, munitions licensing, Freedom of Information requests, and export promotion would either cease or be reduced to unacceptable levels.

The security of the Department's personnel, property, and classified information would be threatened by reductions in physical and technical security programs. The multi-billion dollar inventory in overseas properties, anti-terrorism equipment, and information management systems would be left

vulnerable to both technical and security failures because of the lack of funds for required maintenance and repair. Overseas inspections, including those of the newly-established Office of Security Oversight, would be eliminated.

The State Department would be unable to meet U.S. treaty obligations for our assessed share of the budgets of international organizations, thereby increasing total U.S. arrearages to over \$1 billion. This would likely result in the loss of our vote in some of the UN-affiliated and other international organizations. In addition, U.S. effectiveness would be hurt in shaping the agendas of multilateral organizations that manage programs such as nuclear energy safety, AIDS research, and the peaceful resolution of armed conflicts in important regions of the world such as Central America and Middle East. It would also reduce the U.S. ability to participate in the critical Conference on Security and Cooperation in Europe (CSCE), "Open Skies", and other conferences that are aimed at influencing the fundamental changes occurring in East-West relations.

Anti-narcotics efforts associated with the National Drug Control Policy in the Andean nations of South America, overseas humanitarian assistance, and funded refugee admissions into the United States, particularly from the Soviet Union, would be reduced. Efforts to improve anti-terrorism programs designed to prevent the reoccurrence of disasters like that of Pan Am 103 would be hindered.

Department of Transportation

Federal Aviation Administration (FAA)

Under a sequester, the hours of operation at virtually all airport control towers and, therefore, the number of flights between cities, would be reduced. The air traffic control system would turn into chaos. Reductions of this magnitude would unquestionably require the airlines to cancel numerous scheduled flights with negative financial consequences for the airline industry. Major cutbacks in the air traffic controller work force would produce service interruptions far more extensive than those experienced after the 1981 strike. Delays to air travelers would increase by 400-600 percent. Even worse, a major FAA cutback and disruption in 1991 would affect air travelers for at least three years due to recovery problems.

There would be extensive closure of facilities, including all contract towers. Over 100 control towers would have to be taken out of service or the hours of operation drastically reduced. Implementation activity and training for modernization of the airspace system would be curtailed. Training and hiring for the future air traffic control computer system would fall three years behind schedule.

Delays in repairing navigational aids would cause time-consuming rerouting of aircraft and intermittent closure of some airports. Reductions in safety inspector and security staff, including Federal air marshals, would result in fewer scheduled inspections of aircraft and airports.

Many major computer and radar contracts that are approaching the peak year of their delivery schedules would be canceled or renegotiated. This would add several years to the schedule for modernization the air traffic control system. Contract penalties due to stop-restart requirements of the sequester would exceed \$500 million. Critical technical skills would be lost for several years.

FAA also would have to postpone: (1) the replacement of various facilities, such as airport control towers planned for San Diego, Chicago Midway, Kansas City, and Los Angeles and stall construction already underway at Chicago O'Hare, St. Louis, and Newark; (2) upgrading computer software and hardware used by controllers to separate aircraft, which could exacerbate the problem at some facilities of information disappearing from controller radar screens; (3) joint development of long range radar replacements used to ensure safe operation and separation of aircraft; (4) establishment of a voice communications system required for the sector suite system; and (5) maintenance of many FAA buildings and facilities, which would delay FAA work to strengthen buildings in earthquake risk areas and to extend the service life of buildings built in the 1940's that house electronic systems. Cuts of this size would also postpone installation of equipment needed at the new Denver airport and continued expansion at Dallas/Fort Worth.

Installation of approximately 400 items of national airspace system equipment procured in prior years would be delayed. This would jeopardize the safety of the air transportation system and result in further delaying modernization of the system. Such delays would include the upgrade of radar, communications, weather information, automated data processing, and tower and en route center equipment.

Critically needed airport improvement and capacity enhancement programs related to providing new capabilities directly aimed at reducing congestion in the national air system would be deferred. This would include a slowdown in the interim plan to support the airspace system until modernization is completed.

The FAA would be unable to follow-through with current efforts to expand its overseas security presence and full implementation of the recommendations of the President's Commission on Aviation Security and Terrorism would be slowed. Also, FAA would delay implementation of anti-drug activities required by the Drug Control Act of 1988.

Select research and development contracts would be canceled or delayed. Progress on numerous FAA research and development programs that are directly tied to safety and capacity improvements for air traffic control computers would be delayed by more than a year. Progress on new explosive detection technology research would continue but at a much slower rate. The President's Commission on Airline Security and Terrorism recently urged acceleration of this research.

Federal Railroad Administration

A sequester would result in a 40 percent reduction in scheduled safety inspections of railroad track, bridges, equipment, and operations. In addition, DOT's automated track inspection vehicle would have to reduce planned operations from a planned 28,500 miles to 20,500 miles on passenger, hazardous materials, and other priority routes. Federal oversight of the railroad industry's actions to eliminate drug and alcohol usage among railroad workers would be interrupted.

Department of the Treasury

Internal Revenue Service (IRS)

A sequester would primarily affect revenue-generating enforcement activities with an estimated revenue loss of \$8.5 billion. The indirect effects on voluntary compliance produced by the perception of a faltering IRS enforcement presence would be even greater. Taxpayer service would fall precipitously and taxpayers would find it more difficult to complete their returns; 15 million fewer taxpayers would receive assistance and busy signals for those seeking assistance by telephone would increase exponentially.

All computer investments, including the critical Tax System Modernization project, would be deferred, increasing the chance of a returns processing breakdown in the future. Returns processing work would demand top resource priority but there would be delays in refund checks. If it takes IRS longer than 45 days to process a refund, interest must be paid to the taxpayer. The impact of the sequester would greatly increase these interest payments. Tax processing errors would increase as fewer employees, struggling to meet workload, would not be able to exercise proper care and attention to their work.

The projected loss of 9,000 workers in returns processing would prevent a closure of filing season work (e.g., returns processing for one year would not be completed before returns for the next year arrived). Inventories of unprocessed returns would grow into subsequent years. There would be no IRS participation in the war on drugs in order to preserve a focus on essential criminal tax fraud issues.

United States Customs Service

A sequester would eliminate all 1991 initiatives, including staffing for the southwest border, canine enforcement teams, money laundering investigations, and financial integrity. Additionally,

staffing cuts of roughly 50 percent would be required, with commensurate declines in enforcement and commercial program effectiveness.

In practical terms, a sequester would mean fewer cargo container inspections (36 percent less than 1990), a 120 percent increase in delays in releasing cargo, lost tariff revenues, and fewer drug seizures. The protection afforded domestic industry by Customs enforcement efforts would erode. Investments in the labor saving Automated Commercial Systems (ACS) program would be postponed. Longer passenger processing delays would occur at border crossings and airports. Many of the smaller ports along the northern border and other locations could be closed or face curtailed service hours.

An estimated \$1 billion in revenue would be lost due to lack of adequate processing controls. Contraband entries would expand and the war against drug imports would be severely hampered.

Department of Veterans Affairs

A sequester, compared with the 1991 request, would:

- Require significant reductions in purchases of medical and other supplies and equipment, prevent the opening of new facilities, cancel 1991 initiatives (e.g., increases for drug abuse treatment, quality assurance, physician and nurses pay), reduce medical care staff years by 15,600 or eight percent, and reduce the number of incidents of care (e.g., hospital stays and outpatient visits) provided to veterans by 2.0 million;
- Reduce operating staff associated with the Veterans Benefits Administration, the National Cemetery System, and administrative activities, forgo scheduled computer upgrades and acquisitions, and delay interments in many of the smaller national cemeteries. Staff reductions in regional offices would be inevitable and would reduce the timeliness and quality of benefits claims processing and the servicing of delinquent guaranteed loans below 1990 levels;
- Reduce bed levels (by 350) and clinical services in all proposed construction and renovation projects (medical centers, regional offices, and cemeteries). Project redesigns caused by reductions in the size and scope of these projects would delay planning and construction by at least a year and nine months and hamper the provision of quality health care to eligible veterans; and
- Disproportionately reduce the contributory Montgomery bill program (because over half of the educational programs for disabled veterans' dependents and vocational rehabilitation are exempt) affecting annual benefit payments ranging from \$1,300 to \$2,200 to nearly 125,000 veterans and service persons.

Other Agencies

Commodity Futures Trading Commission (CFTC)

A sequester would have a devastating impact on enforcement actions, especially in light of the recent trading abuses in the Chicago futures markets. This would permit only 79 enforcement actions to be completed compared to 124 in 1989, a reduction of 64 percent. Market surveillance would be reduced by 25 percent at a time when additional surveillance is needed to protect hedging and pricing functions of these markets. There could be increased commodities fraud as no new enforcement actions would be undertaken. The result would be a less competitive market environment with less protection for market participants. For example, family farmers who forward price their products with county grain elevators would be exposed to greater market risks. CFTC's overall program output would be reduced by one-half, reversing actions to increase and strengthen CFTC's regulatory capacity.

Environmental Protection Agency (EPA)

The major impacts of a sequester would be:

- Severe reductions in State environmental programs, which typically receive half their funding from EPA grants;
- Cancellation of EPA's wetlands initiatives;

- A decreased level of corrective actions undertaken at operating hazardous waste facilities at a time when EPA will be responsible for an expanded universe of regulated facilities and hazardous substances;
- Delays in the development of regulations and inability to meet court-ordered deadlines for various regulations;
- Reduced information made available to the public because of reductions in automated data processing funding;
- Severe limitations on EPA's ability to implement the new Clean Air Act amendments. EPA probably could not meet the first year deadlines in the Clean Air Act amendments and technical and financial assistance to States to implement the amendments would be severely restricted;
- Halting all new Superfund cleanups, undermining the public's confidence in Federal clean-up efforts; and the Government's leverage to make the polluters pay. Decreased enforcement and fewer cleanups funded by responsible parties, and more fund-financed cleanups. Lower cost recoveries would prevent the fund from being replenished;
- Severe slippage in numerous Clean Water Act requirements, including monitoring of water quality, issuance of National Pollutant Discharge Elimination System (NPDES) permits, and development of water quality criteria;
- Serious delays in the cleanups of specific bodies such as the Great Lakes, the Chesapeake Bay, and the 17 estuaries in the national estuary program;
- Reduction of 50 percent in air pollution enforcement activities such as stationary source inspections, notices of violation, administrative orders, and civil and criminal litigation; and
- Curtailed analysis of Toxic Release Inventory (TRI) reports, delay availability of the TRI data base to the public, reduce resources available for data quality assurance, and eliminate enforcement actions against non-reporters.

Judicial Branch

A sequester would have the following effects:

- 30 percent of Federal defenders' cases and 100 percent of panel attorney cases would be dismissed for failure to provide counsel, or counsel would be appointed without compensation;
- 3 percent of the estimated payments committed to pay panel attorneys for prior year case assignments could not be paid;
- Inmates filing new death penalty *habeas corpus* petitions would not have their cases reviewed by a Federal court, or counsel would have to be appointed without compensation;
- Funds would not be available for fees of jurors for civil trials, denying the public their right to a civil jury trial;
- Funds would not be available for fees of jurors for approximately two months of the year for criminal trials;
- The community supervision programs of the probation system would suffer the burden of personnel shortages; 52 percent of the offenders in these programs would not have their supervision enforced;
- Testing and treatment of 19 percent of drug offenders would be terminated; and
- Expansion of home detention (electronic monitoring) of offenders could not be accomplished resulting in increased jail costs.

National Aeronautics and Space Administration (NASA)

A sequester would cause a major restructuring of all NASA activities. The Space Station would be canceled (with a termination liability of about \$600 million). In space science, technology and aeronautics, the Moon/Mars Initiative and Mission to Planet Earth would be deferred and two to

three major science projects under development would have to be canceled (e.g., Comet Rendezvous/Asteroid Flyby, Advanced X-Ray Astrophysics Facility). In addition, reductions would have to be made in the operations support for spacecraft (e.g., Magellan mission to Venus). With the exception of critical safety-related items, all facility construction and renovation would be stopped.

The 10 planned Shuttle flights during 1991 would be postponed or canceled. The eleven missions planned for 1992 would also have to be postponed or canceled, effectively suspending Shuttle operations until 1993. (Recovery from this suspension would entail a re-hiring and recertification of the contractor work force.) The purchase of critical spare parts, the development of the Advanced Solid Rocket Motor, and the procurement of expendable launch vehicles would be terminated. All planned safety improvements to the Shuttle would be deferred. Additional terminations or postponements would include all shuttle engine ground testing, all orbiter modifications, all planned Shuttle equipment upgrades, and all procurement of upper stage rockets and payload operations. Engineering laboratories and on-line Shuttle facilities would be placed on a "caretaker" status.

National Science Foundation (NSF)

A sequester would terminate support to roughly 28,000 individuals, including senior investigators, graduate and undergraduate students, pre-college teachers, and high school students. In addition, it would defer or terminate all new initiatives and many existing programs, including Science and Technology Centers, Engineering Research Centers, precollege education programs, graduate fellowships, and global change research. It would shut down the U.S. Antarctic program for 1991 operations and defer or terminate any remaining activities in the economic competitiveness and human resources areas.

Office of Personnel Management (OPM)

A sequester of OPM's civilian retirement obligation limitation would: (1) increase existing backlogs in death claims, refunds, and initial annuity payout processing (currently, the initial annuity payment can take as long as six to nine months and lump-sum refunds about 3 months to process) and would likely extend by three to six months the processing of initial annuity and lump-sum payments; (2) stall design and development of the automated Federal Employees' Retirement System (FERS) project that is meant to automate FERS retirement processing and definitely push into 1992 or beyond the major start-up activities for the FERS automated record keeping system. This would result in the continuing build-up of paper records for the FERS system similar to what exists for the Civil Service Retirement System.; and (3) force cutbacks in essential processing staff training and quality assurance activities.

OPM would eliminate all 1991 initiatives including funding for the Public Policy Scholarship, training for front-line workers, and the Commission on the Public Service. The Presidential Management Intern Program would not be permitted to double in size as was authorized by Executive Order. It would eliminate OPM's ability to implement pay reform, would cut current staffing levels, and require the consolidation of area offices and the deferral of the acquisition of new computer equipment. The backlog of National Agency Checks and Investigations would increase by about 32,000 cases as OPM would not be able to provide timely investigations for agencies.

OPM would lose oversight and evaluation capacity and staffing research and development.

OPM's retirement and insurance functions would probably not possess the level of resources for account maintenance activities, to carry out its fiduciary responsibilities, or to provide a minimally acceptable level of services to its beneficiaries.

Civilian retirement claims processing reductions would put in jeopardy the timely payment of monthly annuities to 2.2 million Federal civilian retirees. The typical annuitant receives a monthly annuity of approximately \$1,450 (\$17,400 per annum) and may have no other source of retirement income. Delays in the payment of annuities could prevent annuitants from being able to finance their basic necessities.

Retirement and insurance processing times for interim payments, annuity cases, death cases and refund claims would double and triple. Workload balances for annuity, death, refund and deposit claims, annuity roll maintenance, and health benefits disputed claims would increase three- to ten-fold.

Congress and senior citizen advocates would strongly object to delayed processing of monthly annuity checks. The lengthy delay in processing initial annuity payments would directly conflict with an Administration goal and a President's Commission on Management Initiatives commitment to expedite new retiree initial annuity payments.

Reductions in the Government Payments for Annuitants would prevent payment of the Government's share of health premiums. A cut in enrollee payments might occur.

Front-line training initiatives would be eliminated. The time needed to fill agency job requests would double or triple, and the Presidential Management Intern Program and other entry-level programs designed to bring new talent into the Federal Government would be eliminated.

The time needed to process special rate requests would more than double and compliance activity and work on classification standards would be cut by half. This would result in less qualified staff Government-wide, thus severely degrading the quality of products and services.

OPM could not pay the Federal Employee Health Benefit carriers the Government share of employee health insurance premiums. The result would be a cut in enrollee benefits. Reductions in the Government Payment for Annuitants would result in the Government being negligent in meeting its statutorily required payment on behalf of annuitants.

Railroad Retirement Board

A sequester would reduce railroad retirement supplemental annuities by \$34 million. Supplemental annuities are paid to roughly 200,000 rail retirees who have 25 or more years of railroad service. Railroad unemployment and sickness insurance benefits would be reduced by \$40 million from the estimated \$105 million. The reduction would affect the welfare of 60,000 railroad workers dependent on unemployment and sickness benefits.

Small Business Administration

A sequester would force as many as 40 field offices to close. Small Business Assistance and Advocacy programs, including programs for the promotion of minorities, women and international trade assistance, would be sharply curtailed. Lending and surety bond program levels would be reduced by more than \$2.1 billion.

VI. POTENTIAL EFFECTS OF \$100 BILLION SEQUESTER

If the Budget Summit negotiations do not produce a satisfactory deficit reduction program, a large sequester will ensue. With that possibility in view, this section discusses the sequester calculations and the potential effects of a 1991 sequester of \$100 billion.

For purposes of determining the sequester amount, it seems reasonable to assume the continuation of the food stamp program, and a return to normal operating levels for the Census Bureau. Spending from the Resolution Trust Corporation (RTC), however, including administrative expenses and interest payments to the Federal Financing Bank, is excluded from the baseline totals at this point—in part because current law limits total RTC spending and in part because many believe that RTC expenditures should be excluded from G-R-H sequester calculations. Under these assumptions, the adjusted baseline deficit would be \$168.8 billion in 1991, \$104.8 billion above the \$64 billion deficit target required by the G-R-H law. Thus if no additional policy actions were taken to reduce this adjusted baseline deficit before the initial sequester report is issued on August 25th, the President must issue an order to withhold roughly \$100 billion effective October 1st. If no policy actions were taken before the final sequester report is issued on October 15th, a sequester of roughly \$100 billion would be required. (If RTC were authorized to spend more, and if such expenditures were included in the sequester calculation, the likely sequester would exceed \$150 billion.)

Sequestration Calculations

Reductions associated with a \$100 billion sequester would be determined using the following steps, as shown in Table 11.

**Table 11. MID-SESSION REVIEW:
SEQUESTRATION CALCULATIONS FOR 1991**

(Outlays in billions of dollars)

	Outlays
Required deficit reduction (assumed as of July 15, 1990)..<	100.0
Defense (military personnel sequestered):¹	
Total required reductions	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources	198.8
Uniform reduction percentage	25.1%
Nondefense:	
Total required reductions	50.0
Estimated savings from automatic spending	0.1
Estimated savings from special rules	1.8
Amount remaining to be obtained from uniform percentage reductions of budgetary resources	48.1
Estimated outlays associated with across-the-board sequesterable budgetary resources ²	125.3
Uniform reduction percentage	38.4%
MEMORANDUM	
Defense (military personnel exempt):¹	
Total required reductions	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources	121.1
Uniform reduction percentage	41.3%

¹ Function 050, excluding FEMA programs.

² Includes \$5.7 billion in estimated 1992 outlays for CCC.

First, one-half of the required deficit reduction, \$50 billion, would be assigned to defense programs (budget accounts in the national defense function, 050, excluding the Federal Emergency Management Agency) and the other half to nondefense programs.

Second, savings from eliminating automatic spending increases in three specific programs (the National Wool Act, the special milk program, and vocational rehabilitation) would be applied to the required reduction in outlays for nondefense programs. Savings from eliminating these adjustments would be \$58 million.

Third, the amount of outlay savings to be obtained by applying four special rules would be calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare and certain other health programs. The estimated savings from these special rules, \$1.8 billion for 1991, would be applied toward the required spending reductions in nondefense programs.

The reductions in defense programs and remaining reductions in nondefense programs would be taken on a uniform percentage basis, computed separately for each category. Under the adjusted baseline estimates, the uniform percentage reductions would be 38.4 percent for nondefense programs. For defense programs, the uniform percentage reduction would be 25.1 percent if military personnel accounts were sequestered and 41.3 percent if these accounts were exempted by the President from sequestration.

In the event that a sequester is required, not all programs will be subject to reductions. For defense and nondefense programs combined, about 67 percent of total outlays are associated with budgetary resources exempt from sequestration. The burden of sequester falls on programs that comprise the remaining 33 percent of budget outlays. Of these outlays, defense programs account for 47 percent, special rule nondefense programs for 25 percent, and other nondefense programs account for 28 percent.

Programmatic Impact of a \$100 Billion Sequester

In addition to the sequester effects described for individual programs that follow, most, if not all, Federal agencies would be forced to reduce staff costs through reductions-in-force, furloughs, and hiring freezes.

Reductions-in-force are required to be implemented in an orderly way, generally using the criteria, within Federal job classifications, of abolishing positions, thereby terminating the employment of the most junior and non-veteran employees first. Severe reductions-in-force (of the size necessary under this sequester) also can affect senior employees whose jobs are abolished. These employees may then "bump" more junior employees in other job classifications for which the senior employee is qualified.

Furloughs involve telling employees not to come to work for a certain length of time and then not paying them for that time period (e.g., involuntary leave without pay). By law, military personnel cannot be furloughed.

Hiring freezes result in the random loss of employees and frequently the loss of the most critical specialties and the creation of imbalances within an organization.

Legal requirements, the regulations of the Office of Personnel Management, and labor-management agreements must be followed in administering both reductions-in-force and furloughs. In order to yield any savings, the reduction-in-force process should begin at the time of the initial sequester report on August 25th or not later than the issuance of the final sequester report on October 15th. Termination expenses (payments for unused annual leave, return of retirement contributions, unemployment compensation payments, etc.) offset the savings made possible by discontinuing employment. Separating a person at the beginning of the year on average saves only \$11,500 or 35-40 percent of compensation and benefits during the first year after a reduction-in-force. In subsequent years, the former employees' full compensation and benefits would normally be saved. On this basis, the separation of 100,000 employees through a reduction-in-force would save only \$1.1 billion in 1991. Many thousands

of dependents, businesses, and creditors who depend upon the income and purchasing power of Federal employees would be hurt by these actions.

Agencies also would reduce travel, training, printing, contractual services, and supply and equipment purchases. Those employees who remained would be hampered in their efforts to enforce the law, carry out agency missions mandated by law, and supply previous levels of services not only because of the reduced number of personnel, but also because of organizational disruptions created by adverse personnel actions and by the lack of non-personnel resources.

While the description of the effect of the sequester by program that follows is extensive, it is not comprehensive and is *intended for illustrative purposes only*.

Department of Agriculture

Commodity Credit Corporation (CCC)

A sequester applies to CCC cash deficiency payments and commodity loan programs by crop year. Based on projected 1991 crop year cash deficiency payments of \$7.1 billion, a sequester would require a reduction of \$2.7 billion in deficiency payment outlays in fiscal years 1991 and 1992. The value of 1991 crop loans estimated in fiscal years 1991 and 1992 is \$6.0 billion. Checks written during harvest time to farmers who place crops under loan would be reduced by about \$2.3 billion in 1991 and 1992. Reductions in CCC outlays, net of loan repayments would be \$3.9 billion during fiscal years 1991 and 1992.

To illustrate the wide-spread impact of a sequester, note that approximately 300,000 commodity loans and 9,000,000 deficiency payments are currently issued through the CCC. For 1989 crop programs, the following number of farms received cash deficiency payments for crops:

Cotton	100,000
Feed grains.....	1,100,000
Wheat.....	435,000
Rice	18,500

In addition, an estimated 175,000 dairy producers would face large assessments on their milk marketings (the assessment of 10.4 cents per hundredweight of milk markets would reduce cash receipts of dairy farmers by approximately \$150 million), and 40,000 peanut farms and 424,000 tobacco farms would be affected through loan proceeds reductions.

The average deficiency payment for the 1989 feed grain crop was \$4,363, and the average for all commodity loans was \$13,771. A sequester would reduce the average deficiency payment by \$1,658 and the average commodity loan by \$5,233.

Conservation

The 1985 Food Security Act (FSA) established the Conservation Reserve Program. People who agree to retire highly erodible land for 10 years receive an annual rental payment and financial assistance in establishing a permanent cover on the land. Under a sequester, annual rental payments due under the nearly 334,000 conservation reserve program contracts with farmers could not be paid in full.

The FSA also established several new conservation initiatives that require Soil Conservation Service (SCS) technical assistance. Under the law, SCS is responsible for defining highly erodible lands (HEL) and wetlands and for helping farmers develop and install conservation plans that producers will need if they are to continue receiving program benefits from the Department of Agriculture. While conservation planning and HEL determinations have been completed, only about 30 percent of the measures have been installed. The law requires that producers install the approved conservation systems by December 31, 1994. The "swampbuster" provisions of the FSA require that SCS also conduct wetland determinations and inventories to help farmers recognize wetlands and prevent unintentional conversions. The target date for completing the wetland determinations is

December 31, 1991 with wetland inventories being scheduled for completion by the end of 1992. In addition to these efforts, SCS must provide technical assistance for the conservation reserve program, for any necessary revisions to FSA plans, and for compliance reviews to ensure that conservation plans are properly installed.

A sequester would require that SCS emphasize meeting the provisions and deadlines mandated by FSA at the expense of other conservation operations such as the water quality initiative, soil mapping, and plant center renovation, which are authorized but not subject to statutory deadlines. Even with best efforts to meet the highest priority needs, it is unlikely that many of the FSA conservation targets could be met. Continued assistance to the nearly 3,000 conservation districts would be jeopardized and service would be reduced at most SCS field offices. Watershed planning and construction would be delayed or terminated for many projects that address high priority national problem areas such as local flood control, emergency assistance, land treatment, and water quality. Cost sharing projects would be stopped or slowed down.

Cooperative State Research and Extension

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Across-the-board cuts would reduce USDA's National Research Initiative (designed to use competitive research grants to enhance production efficiency, food safety, and environmental quality). One important component of this initiative is an effort to map the genomes of plants to permit scientists to explore more fully the genetics of plants. Other research that would be cut could contribute to the design of more economical production practices and to dealing with pests and disease in ways that protect the environment. A large number of special interest research grants and construction projects would also be affected.

Farmers Home Administration (FmHA)

A sequester would impair efforts to service FmHA's portfolio of almost \$59 billion in outstanding debt. This would reduce borrowers' chances of success in meeting their loan obligations and increase losses to the Government. In particular, efforts to restructure about \$5 billion in delinquent farm loans would be delayed, causing borrowers undue hardship and reducing the recovery value of these loans.

Federal Crop Insurance Corporation

A sequester would reduce the funds available for commission payments on insurance policy sales made by private insurers, causing a suspension in sales when funds run out. The reduction in the amount of insurance sold would also reduce the premiums paid to the Government.

Federal Research (Including Buildings and Facilities)

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Such reductions would reduce USDA's Food Safety Initiative and the collection of food safety information. This information is expressly intended for further use in setting Federal food safety policies and regulations. Other research, such as water quality research projects included in the Water Quality Initiative and federally sponsored human nutrition studies, also would be constrained.

The layoff of Federal scientists and technicians would impede the delivery of new technologies to improve agricultural competitiveness and address environmental issues. Reductions in research programs at 59 agricultural experiment stations, as well as at other colleges and universities, would impair the ability of States to continue a full range of research to address local and regional concerns. Most adversely affected would be the historically black 1890 colleges and Tuskegee University that receive nearly 100 percent of their research funding from the Federal Government.

Foreign Agricultural Service

A sequester would compromise the execution of trade policy responsibilities, including those related to the Uruguay round during the most crucial stage of this multilateral trade negotiation. Reductions in our overseas presence, including attaches and counselors, would impair the collection and reporting of agricultural intelligence and the administration of export and market development programs. Some overseas cooperator offices would have to be closed and some smaller cooperator organizations would have to end participation in the program. Since agriculture is the one major "positive" in U.S. trade, these reductions would have a detrimental effect on the balance of trade.

Forest Service

A sequester would severely affect the ability of the Forest Service to maintain projected targets for recreation, wildlife and fish habitat management, and timber sales. Timber sales could decline to below eight million board feet. Timber preparation work would be greatly reduced, reducing 1991 and out year sales. Receipts to the Treasury and to States and counties would decline significantly. Economic effects, particularly in the West, would be substantial.

Certain campgrounds and other recreational facilities would be closed. Services at remaining sites would be significantly curtailed. Efforts to protect and improve habitat to achieve recovery goals for endangered and threatened species would be substantially reduced.

No seasonal hiring would occur, further inhibiting quick response to fire fighting emergencies and significantly curtailing services (e.g., garbage pickup and rest room cleaning) at the recreational facilities that remain open. Road maintenance and most other field work would all but cease, resulting in the deterioration of roads and facilities and ultimately road closures for safety concerns.

Meat and Poultry Inspection

The Federal Meat Inspection Act (P.L. 90-201) and the Poultry Products Inspection Act (P.L. 90-449) require carcass-by-carcass inspection by Federal inspectors in establishments slaughtering food animals. All plants engaged in further processing of meat and poultry must also be inspected by Federal inspectors. Since meat packing plants cannot operate without these Federal inspectors, the meat and poultry slaughter and processing industry would be forced to limit or curtail production by the same extent that inspectors are not available. The meat and poultry industry is one of the largest in the country. It employs over 400,000 people at 7,800 meat and poultry plants and has an annual retail value of more than \$100 billion. Many thousands more people are employed in the breeding, raising, transportation, storage, and distribution of food animals. The economic loss from any shut down due to a sequester would result in the loss of billions of dollars to the American economy. In addition to the economic disruption, the limited inspection coverage would erode the high level of safety of the nation's meat and poultry products.

A sequester would result in the absence of inspection services (and the shutting down of meat and poultry slaughter and processing plants) for about 140 days.

Quarantine and Inspection Activities

A sequester would defeat recent progress by the Animal and Plant Health Inspection Service to eliminate pseudorabies, brucellosis, and the Russian wheat aphid. Emergency eradication of the Mediterranean fruit fly and grasshopper would be defeated. All 39 quarantine and inspection activities would be reduced. This would result in serious delays in import shipments of plants and animals as well as baggage inspection for international travel. Extensive delays or disruption of service could cause significant losses of plants and animals in quarantine or awaiting inspection. It would also drastically reduce the number of inspections and thus increase the risk of introducing serious animal and plant diseases and pests into the United States. Implementation of the pending regulations on animal welfare might not be possible.

The Federal Grain Inspection Service would totally eliminate contractual research including aflatoxin research outlined in the Administration's farm bill proposal. The Agricultural Cooperative

Service would not be able to conduct research studies in support of farmer cooperatives and the Office of Transportation would not be able to assist in solving transportation problems related to agriculture.

Department of Commerce

National Oceanic and Atmospheric Administration (NOAA)

A sequester would severely impair several high priority research programs, in particular, NOAA's contribution to the interagency U.S. Global Change Research program and the Coastal Ocean Science program. Several major system procurement actions supporting the modernization of the Weather Service would be canceled or deferred including such safety programs as the NEXRAD doppler radars (that detect severe weather patterns) and the next generation of geostationary weather satellites.

It would severely reduce fisheries stock assessments and research, thereby requiring an extremely conservative fisheries management regime including closure of certain grounds to commercial fishing. Operations of the NOAA research fleet and air wing would be reduced to the minimum required to support hurricane reconnaissance responsibilities. These actions would be required to ensure that NOAA would be able to provide weather warnings and, on a less frequent basis than normal, weather forecasts.

Department of Defense—Military

Military personnel exempted.—The President can exempt up to 100 percent of the military personnel accounts from sequester. If he chose to do this, force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by more than 50 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 10 hours per month (compared to the current 19.5 hours per month that is considered the minimum necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 25 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require reductions-in-force (RIFs) or furloughs of up to 80 percent of the requested level of 1.1 million civilian employees. Contractor personnel also would be reduced significantly. Roughly \$8 billion of equipment maintenance and \$3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 115 fighter aircraft could be cut from the 276 requested, six major combatant ships could be cut from the 15 requested, and about 250 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

Military personnel not exempted.—Not exempting military personnel could result in a reduction of up to 1.0 million military, about one-half of the force. A sudden force cut of this magnitude would severely weaken our ability to react to any major crisis. Morale and force readiness would be severely degraded. Force structure cuts would include up to eight Army divisions (16 requested in 1991 versus 18 in 1990), the equivalent of one Marine Corps division and air wing (3 divisions and wings requested), twelve Air Force tactical air wings (24 requested), and seven aircraft carrier battle groups (14 requested).

Force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by over 30 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 14 hours per month (compared to the current 19.5 hours per month that is considered the minimum

necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 35 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The force reductions in conjunction with the operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require RIFs and furloughs of up to one-half of civilian employees (requested level is 1.1 million). Contractor personnel also would be reduced significantly. Roughly \$6 billion of equipment maintenance and \$3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 70 fighter aircraft could be cut from the 276 requested, four major combatant ships could be cut from the 15 requested, and about 150 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

Department of Defense—Civil

Army Corps of Engineers

The effect of a sequester on the civil works program would be twofold: substantial reductions in personnel in labor-intensive activities, and contract delays and cutbacks in the construction and operation and maintenance of water resources development projects.

A sequester would require reductions-in-force (RIF) affecting some 3,300 positions. A RIF of some 980 work-years is likely for the Regulatory program and General expenses accounts. Such cuts would require delays in some, if not all, non-cost-shared preconstruction engineering and design studies; and handicap new partnership arrangements with non-Federal cost-sharing project sponsors.

A RIF of 450 staff years would be required in the Corps labor intensive Regulatory program under which the Corps administers Section 404 permits for dredge-and-fill activities in wetlands and other waters, and for section 10 permits construction and other activities in navigable waterways. These RIFs would adversely affect support for the environmental initiative to improve permit enforcement and compliance.

Construction contracts on non-cost-shared projects, including seven Inland Waterways lock and dam projects, would be delayed and in some cases terminated. Work would be postponed for previously funded, cost-shared new starts for which a local cooperative agreement had not been executed. Some continuing contracts for cost-shared construction projects would be terminated.

The Operation and maintenance program would experience reductions in service delivery and increased backlogs. Specifically, the use of seasonal labor would be minimized, the recreation season shortened, recreational and other dredging deferred, and the number of shifts employed for the operation of the locks on the Inland Waterways System constrained. Moreover, there would be insufficient funds available to retain the number of employees needed to safeguard public safety and health and to assure the integrity of project operations and work placement. Recreational facilities would be closed and maintenance for flood control and navigation projects would be cut. Revetment (repair of embankments) of the navigation channels of the Mississippi River and its tributaries would be reduced by over 60 percent. Reductions would be imposed on the supervision and inspection of work placement and the engineering and design of follow-on construction contracts. Additionally, new programmed maintenance would be deferred, including channel and harbor dredging, lock and dam repairs, and hydropower maintenance.

Department of Education

Pell Grants

In the major discretionary student aid program, Pell grants, the 1991 request would provide an average award of \$1,443 to 3.4 million students. Under the Pell law, the reduction in the appropriation

is translated into award reductions in accord with a specified "linear reduction" schedule that protects awards to the poorest students. However, a sequester above 24 percent would reach the awards to the poorest Pell grant recipients (those with expected family contributions of \$200 or less).

If these students are not protected, then a sequester would eliminate grants to 1.2 million students, at an average grant of \$1,000, and reduce all remaining grants (2.2 million recipients) by \$320 each, or 22 percent of the average grant under the 1991 request.

Department of Energy (DOE)

Atomic Energy Defense Activities

A sequester would require a delay in cleanup activities, deferral of operational safety improvements, a decimation of the ability of DOE to support future nuclear weapons production, and a serious detriment to our nuclear deterrent. As an illustration only, the cut would require:

- A 12-month delay in cleanup activities at contaminated sites.
- DOE would not be able to meet the terms of agreements with States for obtaining compliance with environmental requirements.
- Deferring the operating safety and environmental measures that are now being instituted for assured safe operation of the tritium production reactors.
- Deferring work on safety improvements at weapons production facilities and suspending production of new nuclear weapons.
- Placing all plutonium processing facilities on standby at the very time we are returning weapons to be reprocessed due to successful START negotiations.
- Deferring indefinitely all design and construction activities for new facilities, which include improvements for environment, safety, and health deficiencies found by the DOE Tiger Teams.
- Substantially reducing nuclear weapons testing, and cutting research and development by about 25 percent, which will severely imperil initiatives to enhance nuclear weapons safety.

To effect the savings, contractor employees at the shut-down and deferred facilities would have to be laid off. Significant numbers of personnel would have to remain, however, to ensure safety and security of facilities. The maintenance of facilities in safe and secure conditions (even with no production) could be somewhat compromised. Rehiring of employees after such a major disruption would take years.

This would, in essence, force the Defense Weapons complex to proceed expeditiously to shut down all operations, and place them in as safe a standby position as possible.

Energy Conservation Grants

A sequester would reduce the number of low-income homes weatherized through the Weatherization Assistance program from approximately 125,000 to approximately 85,000 homes. This decrease would place increased burdens on State and local governments in the colder winter months and would create a hardship for many poorer American families. The number of grants to schools and hospitals for weatherization activities would be reduced by 250. Grants to States for energy conservation planning and extension activities would also be reduced. Because a sequester must be applied uniformly, higher priority research and development projects could not be preserved by applying larger reductions to (or canceling) lower priority projects.

General Science Program

A sequester would force the cancellation or delay of facility upgrades at several sites by at least a year. Start up of the Continuous Electron Beam Accelerator Facility in Virginia as well as construction of the Relativistic Heavy Ion Collider facility at Brookhaven National Laboratory would also be delayed. Operating levels of high energy facilities (Fermilab, Stanford Linear Accelerator Center, and

the Los Alamos Meson Physics Facility) would be reduced by 50 percent or more. The impact of layoffs of highly skilled staff would take years to reverse.

It would severely reduce research productivity at all the major national laboratories (e.g., Fermilab, Brookhaven, and the Stanford Linear Accelerator Laboratory) and at one or more of the smaller accelerator and research facilities. University research programs would experience large cuts in funding.

Superconducting Super Collider (SSC)

A sequester would severely affect the basic ongoing research programs as well as the construction of the Superconducting Super Collider.

Virtually all site work, research and development on detector designs, and purchase of capital equipment for detector systems would cease. Design activities would have to be scaled back significantly from 1990, causing personnel layoffs.

Implementation of the magnet industrialization plan would be impossible. The magnet contract award would be delayed at least one year. This action would increase the total cost of the magnets and significantly delay the project.

Cuts of this size would send a strong negative signal to potential international collaborators about the commitment of the United States to the project and would jeopardize their participation. The sequester would almost certainly result in no foreign contributions to SSC construction. In this event, the United States would have to assume the full costs after the Texas contribution.

Department of Health and Human Services

Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) Drug Abuse Programs

Activities that address the demand side of the war on drugs—research, prevention, and treatment—would be reduced by over one-third. All new research, including medications development, would be eliminated. Prevention programs for high risk youth and pregnant women would be unable to support new grants, and the number of continuing grants could be reduced by approximately 20 percent.

The Alcohol, Drug Abuse, and Mental Health Block Grant would fall sharply, reducing the number of treatment slots far below Administration goals.

Centers for Disease Control

A sequester would cut the Preventive Health Care block grant, grants for sexually transmitted disease clinics, childhood immunization grants, research on occupational safety and health, health statistics, and HIV/AIDS grants.

A sequester would sharply reduce service to the public, including approximately 1,000,000 children who would not be vaccinated for polio, measles, mumps, rubella, haemophilus influenza b, diphtheria, tetanus, and pertussis. Other effects include: (1) decreased support for block grants could eliminate over 50 percent of States' prevention programs in tuberculosis, smoking, nutrition, and chronic diseases; (2) efforts to prevent the spread of sexually transmitted diseases would be hampered: 300,000 fewer persons would be examined for syphilis, 2,500,000 fewer persons would be tested for gonorrhea, and 1,000,000 fewer persons would be tested for chlamydia; (3) the number of births monitored for changes in the incidence of birth defects would decrease by 60,000; and (4) approximately 200 disease outbreaks would not be investigated.

Food and Drug Administration (FDA)

A sequester could (1) lengthen the drug review process, (2) suspend efforts to make experimental therapies available to patients with no therapeutic alternatives, and (3) reduce inspections of foods,

drugs, devices, and imports. The expedited review proposed for AIDS drugs would be slowed and field inspections and product-related research would be reduced. The number of new orphan drug grants awarded, laboratory equipment, and automobiles necessary for field inspections would be substantially reduced. A sequester also would eliminate proposed enhancements for seafood and generic drug inspections.

HIV/AIDS

A sequester would seriously cripple the Public Health Service's (PHS) efforts to prevent HIV transmission and conduct research into therapies and vaccines, reducing funding below 1989. Fewer promising therapies could be tested, fewer education and prevention programs could be supported, and fewer research initiatives to develop cures and therapies could be pursued. Specifically, about 400 fewer AIDS research grants could be supported, and instead of hiring the 300 additional PHS staff requested in 1991 for fighting AIDS, staff levels probably would be reduced.

Maternal and Child Health Block Grant—Health Resources and Services Administration

A sequester would reduce these block grants \$114 million below the 1986 level, and could require the States to reduce sharply perinatal health services for pregnant women and their infants. Perinatal services provided by the States and the ability of States to carry out new requirements contained in the Omnibus Budget Reconciliation Act of 1989 would be severely limited. Cutbacks in perinatal health care will have a direct effect on infant mortality and low birth weight, and will severely hamper State efforts to establish case-management and community-based services that are accessible to the most needy. The number of Special Projects of Regional and National Significance (SPRANS) could be cut by a minimum of 150 (from 445). SPRANS grants focus on improved services to high risk groups, promotion of early and continuous prenatal care, reduction in neonatal mortality, and reduced behavioral risk activities in pregnant women.

Research at the National Institutes of Health (NIH) and the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)

A sequester would threaten the Federal Government's substantial commitment to pursuing new scientific opportunities and searching for new cures and therapies and seriously curtail efforts to invest in the nation's future health. A sequester could reduce by over 9,000 the number of Public Health Service-supported research grants (from a total of 28,000) and cut by over 4,200 the number of scientists receiving Federal research training assistance.

Social Security Administration (SSA)

A sequester in SSA's Limitation on Administration Expense account would force SSA to postpone new hiring and training, defer most work not directly related to paying and processing benefits (such as issuance of Personal Earnings and Benefit Statements to young workers and reconciling discrepant wage records of young workers), slow down contract payments and other deferrable payments, and postpone nearly all automation system upgrades. All of these steps would affect service over time, but not immediately.

After taking these initial cost savings steps, SSA would be forced to slow down or divert staff resources from non-payment related services. For instance, SSA might be forced to focus resources on taking initial applications for social security benefits and to close portions of the 800 number telephone service for a period during the year. SSA would also cut back significantly on monitoring of the benefit rolls (such as evaluations of continuing disability and eligibility for Supplemental Security Income—SSI) which would increase overpayment of benefits that may be difficult to collect.

Even with these cost savings steps, SSA would be forced to develop priorities for claims related work, perhaps trying to get benefits first to those most in need (SSI applicants) while deferring or slowing down claims by persons with other means (high income retirement applications).

Timely payment of Social Security and Supplemental Security Income benefits to some new applicants could be threatened. SSA would likely be able to continue to pay benefits to currently

entitled persons, although any post-entitlement changes, such as new addresses, would probably be deferred or significantly slowed. New applicants, however, might have to wait longer to get their first monthly checks.

In addition to reducing Federal staffing available to process work, a sequester of this size would force a significant reduction in the administrative budget available for State agencies determining disabilities for SSA. These agencies, which are budgeted to receive \$800 million in 1991, make all initial disability determinations. A reduction in their resources could slow their processing of disability decisions.

Social Services

A sequester would result in: (1) a reduction of \$715 million from the budget for Head Start (this would fund the enrollment of 208,400 fewer poor four-year-old children from the planned 548,400); (2) a reduction of \$163 million from the budget in grants to support meals for the elderly (this would fund 106 million fewer meals from the planned 258,740,000); and (3) a reduction of \$1,065 million from the budget for the Social Services block grant that would require States to decide whether to make across-the-board cuts, redistribute reductions among all service areas, or eliminate certain service categories and maintain others at current funding.

Department of Housing and Urban Development (HUD)

A sequester would:

- Reduce funds available for the extension of expiring housing contracts to a level that might cause some low-income families to lose their housing assistance and possibly become homeless.
- Cut the number of new subsidized households assisted from 82,000 in the budget to 45,000 after the sequester.
- Force some public housing agencies (PHA's) to discontinue their efforts to eliminate drugs in public housing, defer regular maintenance on the housing stock, increase future modernization costs, and possibly threaten the health and safety of residents.
- Delay and hamper efforts to help end homelessness. Funding would be below 1990 and far below the levels authorized in the McKinney Act. Long term solutions to aid the homeless would be prevented.
- Delay efforts to assist tenants adversely affected by prepayment of HUD subsidized mortgages.
- Eliminate proposed improvements in the oversight and monitoring of HUD funds and jeopardize recent improvements. These improvements are aimed at reducing waste, fraud, and abuse in multi-billion dollar HUD programs.
- Impair management of HUD's programs because of a lack of staff—instead of focusing on improvements in monitoring and internal control systems, HUD officials would need to manage staff furloughs to stay within constrained funding. Such furloughs would increase further the risk of waste, fraud and abuse in these multi-billion dollar programs.
- Delay the approval of housing construction projects due to insufficient staff.

Department of the Interior

Bureau of Indian Affairs (BIA)

A sequester would reduce funds from the 1991 request for BIA elementary and secondary school operations by \$2,200 per Indian student. At least half (about 80) of BIA's schools would close and the school year would have to be shortened for the remaining schools.

One of BIA's two post-secondary schools would close entirely. The remaining school would have to operate with a shortened school year. All capital expenditures on facilities improvements would be deferred. Aid for post-secondary education would be unavailable for 6,100 Indian students (a 44

percent reduction from the 1991 request). Vocational education training would be denied to 1,300 Indian students.

Funding for the BIA general assistance (welfare) program would be reduced by \$20 million below the request. This would prevent the BIA from making assistance payments for almost five months during the year to an estimated 50,000 needy individual Indians.

Bureau of Land Management (BLM)

A sequester would curtail on-the-ground management of public lands, including inspection and enforcement of mining and mineral leasing operations, grazing, timber, recreation, wilderness, and wildlife programs. Reduced inspection of mineral leases would result in reduced revenues from Indian and Federal leases. A major automation initiative, the Automated Land and Mineral Records System (ALMRS) that is part of BLM's integrated Modernization effort, would be postponed, and hazardous materials management inventory and cleanup efforts would be drastically reduced on 270 million acres of public land managed by BLM in 28 States. Also, discretionary fire fighting pre-suppression activities would be cut back, possibly increasing the ultimate cost of emergency fire suppression operations.

The America the Beautiful initiatives for BLM, including Recreation 2000 and Wildlife 2000, would effectively be shut down. BLM's increased drug eradication and interdiction program could not be supported. Land acquisition, maintenance and construction projects would be cut in half. The ability to offer allowable cut timber volumes in western Oregon would be greatly reduced, thereby significantly reducing receipts and payments to Oregon and California counties.

Bureau of Reclamation

A sequester would result in no new contract awards to continue work on water projects currently under construction and no major rehabilitation or improvement work at existing projects. Further adjustments would be required, including the termination of contingent construction contracts (with payment of penalties) for existing projects. This would lead to delays in the completion of projects, the realization of project benefits, and, in some cases, the initiation of project repayment.

Routine preventive maintenance efforts at dams, pumping plants, canals, and other project features would be curtailed, as necessary, in order to continue the operation of project facilities. This might result in higher project maintenance and repair costs in future years. Operations at some existing projects might be curtailed due to a lack of funds for repairs or required maintenance to ensure safe operation of project facilities.

Fish and Wildlife Service (FWS)

A sequester would not permit nine new National Wildlife Refuges to open in 1991 as planned, 100 refuges would be placed in caretaker status, law enforcement activities associated with drug control on FWS lands would be severely curtailed, funding for FWS America the Beautiful land acquisition and resource protection initiatives would be drastically reduced, and the North American Waterfowl Management Plan (that provides the focal point for the restoration of North American waterfowl populations) would not be implemented.

Other examples would be: (1) planned acquisition of water rights to help restore the important Stillwater National Wildlife Refuge in Nevada would not be implemented; (2) FWS would not meet its planned target of restoring some 13,000 acres of high priority wetlands; (3) at least 15 national fish hatcheries would have reduced operations and curtailed production, and several hatcheries would be closed; (4) the environmental contaminants program would be adversely affected, resulting in reduced contaminant clean-up on FWS lands; and (5) substantial funding to States would be delayed for one year for the Wallop-Breaux and Pittman-Robertson fish and wildlife programs.

Geological Survey

A sequester would adversely affect operation of the Global Climate Change Research program; the National Water Quality Assessment program, designed to determine the status and trends of the Nation's ground and surface waters, and which would not become operational in 1991 as planned; and the Advanced Cartographic System (ACS), an effort to develop and implement a new, state-of-the-art cartographic data collection, analysis, and presentation system.

Ongoing programs adversely affected would be geologic and mineral resources investigations, including important studies in earthquake and volcano hazards and energy resources assessments. The collection and analysis of water resources data would be lessened, possibly resulting in voids in various databases or delays in research dependent on such information.

Operation of approximately 675 water quality streamflow stations would be discontinued in the Federal Data Collection and Analysis program. Approximately 3,000 water quality streamflow gauges and as many as 180 cooperative investigations would have to be discontinued in the Federal-State Cooperative Data Collection and Analysis program. The grant to each of the 54 State Water Resources Research Institutes would be significantly reduced.

Historic Preservation fund

A sequester would translate into smaller grants to State historic preservation offices and to the National Trust for Historic Preservation. Some grants might be eliminated. Fewer properties would be nominated to and placed on the National Register of Historic Preservation; efforts to ensure that State and local development planning and permitting recognize historic values would be reduced; and public visitation to National Trust properties might be curtailed. Efforts that now help to ensure that local planning and permitting recognize historic values would be eliminated.

Minerals Management Service

A sequester would cause major reductions to the auditing staff and reduce the accuracy of revenue collections of royalties from minerals production on Federal lands. Revenues would be reduced due to an inability to audit royalty collections effectively. In addition, there would be a reduction in inspection staff and helicopter support needed to enforce safe and environmentally sound operations of outer continental shelf oil and gas operations. Revenues would be reduced due to the cancellation of new off-shore oil and gas leasing. Environmental studies and lease preparation activities would be curtailed, leading to further delays in off-shore leasing.

National Park Service (NPS)

A sequester would severely and adversely affect NPS's ability to keep parks safe and open to the visiting public. Park operating funds would be reduced to levels available in the mid-1970's. There has been significant expansion of the park system since that time. Many of these newer and smaller units would be closed to permit the "Crown Jewels" (e.g., Yellowstone, Yosemite, and the Grand Canyon) to remain open to the public. Funding for regional repair and rehabilitation programs would be cut to focus only on emergencies. Resource protection efforts would be continued at a suitable level in some areas, while other areas would be essentially closed until greater resources became available.

Seasonal hiring would be eliminated and hundreds of park rangers and maintenance staff would be furloughed. All back country areas would be closed to hikers and campers because there would be no one to patrol the areas. Park Police efforts in urban parks, including drug law enforcement, would be substantially curtailed. Discretionary ecological research projects, such as the effects of acid rain and aircraft noise studies, would be suspended.

The America the Beautiful initiative for NPS covering land acquisition, resource protection, and recreation enhancement would be severely curtailed.

Office of Surface Mining Reclamation and Enforcement (OSM)

A sequester would lead to reduced inspections for surface mine land reclamation activities and oversight of State inspection activities. Reductions in State regulatory grants would endanger the primacy of State oversight programs. OSM's ability to respond to emergency reclamation needs through its emergency reclamation program would be limited. This could lead to increased risks to the health and safety of miners and communities experiencing emergency reclamation requirements.

Payments to States by the Minerals Management Service

A sequester would delay a portion of the payments due to 27 States (primarily in the West) until 1992 and disrupt planned activities. States might not have adequate funding for schools, roads, and emergencies.

The impact on the six largest payments would be:

(In millions of dollars)

	1991 Budget	Reduction	Post Sequester
Wyoming.....	\$202	-\$77	\$125
New Mexico.....	101	-38	63
Utah.....	61	-23	38
Colorado	37	-14	23
California	28	-11	17
Montana	23	-9	14
21 Other States	31	-12	19
Total	483	-184	299

Department of Justice

Drug Enforcement Administration (DEA)

A sequester would eliminate 1991 program enhancements, thereby crippling this element of the President's drug strategy. Across-the-board reductions to domestic marijuana eradication programs, State and local task forces, foreign cooperative investigations, domestic enforcement programs, and intelligence activities would also be required. Training for State and local police officers and implementation of the Chemical Control and Trafficking Act would also be curtailed. Further, planned purchases of investigative and automated data processing equipment and some major computer contracts would be canceled.

In some cities and rural areas, DEA would simply have no presence. Foreign support would be spread so thin that cooperative efforts with foreign governments would be hindered and the security of our agents would be at great risk. All State and local programs such as task forces, training, and laboratory support would be eliminated. The result might be increased drug trafficking because drug dealers are quick to notice the level of effort expended by the Federal Government on law enforcement.

Federal Bureau of Investigation (FBI)

A sequester would leave all 1991 program enhancements unfunded. Funding for the President's Financial Fraud and Crime Initiative packages implemented in 1990 would be reduced. Prosecution of those who have perpetrated savings and loan institutions fraud would be slowed. New investigative programs such as white collar crime investigations aimed at procurement fraud, and investigations of Asian organized crime would be severely impaired. The foreign counterintelligence and drug programs would be diminished substantially. Specifically, the anticipated completion of white collar crime investigations would likely drop by 25 percent (1,000-plus fewer convictions) from planned 1991 levels. The FBI's efforts directed at Asian groups would not advance in 1991 while current investigative efforts would be cut in half. Investigations into La Cosa Nostra and other major organized crime

groups would be cut by 20 percent from planned 1991 levels. Major equipment purchases affecting the fingerprint automation and field office management system programs would be canceled. Training for State and local officers would also be curtailed.

Priority investigative programs and those in which the FBI has sole law enforcement jurisdiction would be affected. As all equipment purchases would be foregone, agents would be inadequately equipped to use the sophisticated investigative techniques required for complex cases. Continued use of obsolete protective equipment would expose agents to possibly dangerous situations. The FBI would be unable to provide adequate support for automated data processing and telecommunications operations integral to information collection and analysis in support of investigative operations. All State and local programs, such as the Uniform Crime Report publications, laboratory analysis of evidence, and fingerprint identification work, would be halted. It is also likely that crime and foreign intelligence activities would increase during this period as the deterrence factor decreases.

Federal Prison System (FPS)

A sequester would prevent newly constructed prisons with 3,315 beds from becoming operational, and force FPS to move 6,595 prisoners out of non-Federal contract facilities and into its already overcrowded facilities, increasing overcrowding to well over 89 percent from the current level of about 70 percent. It would eliminate the staff increases (2,000 work years) necessary to address inadequate staff levels, and require furloughing 5,600 employees. This would eliminate staff training, greatly reduce FPS's administrative efforts, and reduce the quality and amount of food and medical services, inmate security, and inmate supervision.

Virtually every program available to inmates within the prisons (e.g., rehabilitative and educational) would be eliminated, thereby causing FPS to "lock down" all institutions and inviting inmate idleness, violence, and court intervention.

Immigration and Naturalization Service (INS)

A sequester would prevent INS from hiring 200 new Border Patrol staff and building new traffic checkpoints to intercept drug and alien smugglers that are important elements of the President's drug strategy. Such a funding level would hamper INS's border enforcement activities, processing of travelers across our land borders, and efforts to deter illegal immigration through detention of aliens and enforcement of employer sanctions. Such massive cutbacks would be likely to lead to major influxes of illegal aliens that were common prior to the enactment of the Immigration Reform and Control Act in 1986.

Even basic operations would be seriously impacted. Reductions in enforcement activities would immobilize operations and seriously jeopardize the ability of the INS to stem the flow of illegal aliens and the ever-increasing flow of illegal drugs. The ability of INS to detain and process criminal aliens apprehended by the Border Patrol would be constrained because of a lack of detention officers and funding to operate detention facilities. Investigations of major alien smuggling operations would be seriously reduced. Major backups would be experienced at ports-of-entry. Backlogs in processing of refugee and asylum applications as well as adjudication requests would be inevitable.

U.S. Attorneys' Office

Reduced staff resulting from a sequester would prevent litigation of any cases that would have been litigated as a result of increased resources provided for the crime and financial institution fraud initiatives in 1990. Specific areas that would be affected are prosecutions of narcotics cases, bankruptcy and procurement fraud cases, and other criminal fraud prosecutions.

U.S. Attorneys would be forced to abandon almost 25 percent of all ongoing litigation designed to obtain criminal convictions against violators of substance abuse, immigration and civil rights laws, organized criminal groups, and tax evaders. Attorneys would slow down efforts to recover monies from failed institutions resulting from saving and loan and bank fraud violations. All ongoing activities for collecting monies owed to the Government would be limited. Litigation designed to defend the Government from substantial monetary losses as a result of other types of fraud would be reduced.

Department of Labor

A sequester would have the following effects on Department of Labor (DOL) programs, compared with the 1991 request:

- Some 8,000 work years would be lost across all DOL agencies, requiring reductions-in-force in all enforcement programs. Among other effects, some 29,100 fewer work places would be inspected by the Occupational Safety and Health Administration, 27,400 fewer mine inspections would be initiated, increases for improving pension oversight as well as some base funding would be eliminated, and DOL's ability to maintain its core national labor force statistical series would be in jeopardy.
- In the DOL State grant programs area, States would close 250 or more of the 1,900 local offices that process walk-in unemployment insurance claims and provide employment services. Staff at remaining offices and operating hours would be reduced. Claims delays would be universal—taking up to five days in some areas; States would divert any remaining resources from program integrity efforts and devote them to processing claims. The quality control program would be abandoned.
- For the Job Corps, the sequester would mean reducing the program by up to 15,600 slots. This could require closing about 39 of the existing 107 Job Corps centers, reducing the number of centers to 68. Work on acquiring and operating the six new centers mandated by Congress would have to cease if current centers have to be closed. As a result, no funds would be available to operate the two new centers scheduled to open in 1991, while plans to open two new centers in 1992 and 1993 would be postponed or curtailed. The Job Corps anti-drug initiative would be canceled.
- Some 141,000 fewer participants would be served in the President's Job Training Partnership Act (JTPA) training program for severely disadvantaged adults and 260,000 fewer low-income young adults would be enrolled in the new initiatives targeted on this at-risk group. Participation in each program would drop by about 38 percent. Implementation of the President's new JTPA initiative would be curtailed. About 91,000 fewer displaced workers would receive readjustment assistance in JTPA's dislocated worker program.
- Approximately 21,500 fewer subsidized job slots for low income persons age 55 and older would be financed in the Older Americans Employment program, representing a 38 percent cut in program participation.

Department of State

Under a sequester in operations accounts, large infrastructure related projects, such as construction of the new Foreign Service training facility would stop, and procurement and maintenance would be eliminated. Maintenance at over 2,200 Government-owned and long-term leased properties overseas would fall below minimum levels, and the Department would be forced to defer the foreign affairs community's high priority telecommunications enhancement (DOSTN) as well as important consular, procurement, accounting and finance computer upgrades. In addition, nine embassy construction projects at high threat posts planned to begin in 1991 would be put on hold because of a lack of construction security funds, and plans for new construction projects would be eliminated. Major rehabilitations of four high priority posts would also be deferred.

The Department of State would be required to either close, or significantly reduce staffing in, the majority of its over 240 overseas missions. Except in a few critical instances, most diplomatic reporting and representational activities would stop. Public oriented activities such as consular and visa services and trade promotion programs would either cease or be limited to only emergency situations. Services to the public from Washington and other domestic offices in areas such as passport issuances, munitions licensing, Freedom of Information requests, and export promotion would either cease or be reduced to unacceptable levels.

The security of the Department's personnel, property, and classified information would be threatened by reductions in physical and technical security programs. The multi-billion dollar inventory in overseas properties, anti-terrorism equipment, and information management systems would be left

vulnerable to both technical and security failures because of the lack of funds for required maintenance and repair. Overseas inspections, including those of the newly-established Office of Security Oversight, would be eliminated.

The State Department would be unable to meet U.S. treaty obligations for our assessed share of the budgets of international organizations, thereby increasing total U.S. arrearages to over \$1 billion. This would likely result in the loss of our vote in some of the UN-affiliated and other international organizations. In addition, U.S. effectiveness would be hurt in shaping the agendas of multilateral organizations that manage programs such as nuclear energy safety, AIDS research, and the peaceful resolution of armed conflicts in important regions of the world such as Central America and Middle East. It would also reduce the U.S. ability to participate in the critical Conference on Security and Cooperation in Europe (CSCE), "Open Skies", and other conferences that are aimed at influencing the fundamental changes occurring in East-West relations.

Anti-narcotics efforts associated with the National Drug Control Policy in the Andean nations of South America, overseas humanitarian assistance, and funded refugee admissions into the United States, particularly from the Soviet Union, would be reduced. Efforts to improve anti-terrorism programs designed to prevent the reoccurrence of disasters like that of Pan Am 103 would be hindered.

Department of Transportation

Federal Aviation Administration (FAA)

Under a sequester, the hours of operation at virtually all airport control towers and, therefore, the number of flights between cities, would be reduced. The air traffic control system would turn into chaos. Reductions of this magnitude would unquestionably require the airlines to cancel numerous scheduled flights with negative financial consequences for the airline industry. Major cutbacks in the air traffic controller work force would produce service interruptions far more extensive than those experienced after the 1981 strike. Delays to air travelers would increase by 400-600 percent. Even worse, a major FAA cutback and disruption in 1991 would affect air travelers for at least three years due to recovery problems.

There would be extensive closure of facilities, including all contract towers. Over 100 control towers would have to be taken out of service or the hours of operation drastically reduced. Implementation activity and training for modernization of the airspace system would be curtailed. Training and hiring for the future air traffic control computer system would fall three years behind schedule.

Delays in repairing navigational aids would cause time-consuming rerouting of aircraft and intermittent closure of some airports. Reductions in safety inspector and security staff, including Federal air marshals, would result in fewer scheduled inspections of aircraft and airports.

Many major computer and radar contracts that are approaching the peak year of their delivery schedules would be canceled or renegotiated. This would add several years to the schedule for modernization the air traffic control system. Contract penalties due to stop-restart requirements of the sequester would exceed \$500 million. Critical technical skills would be lost for several years.

FAA also would have to postpone: (1) the replacement of various facilities, such as airport control towers planned for San Diego, Chicago Midway, Kansas City, and Los Angeles and stall construction already underway at Chicago O'Hare, St. Louis, and Newark; (2) upgrading computer software and hardware used by controllers to separate aircraft, which could exacerbate the problem at some facilities of information disappearing from controller radar screens; (3) joint development of long range radar replacements used to ensure safe operation and separation of aircraft; (4) establishment of a voice communications system required for the sector suite system; and (5) maintenance of many FAA buildings and facilities, which would delay FAA work to strengthen buildings in earthquake risk areas and to extend the service life of buildings built in the 1940's that house electronic systems. Cuts of this size would also postpone installation of equipment needed at the new Denver airport and continued expansion at Dallas/Fort Worth.

Installation of approximately 400 items of national airspace system equipment procured in prior years would be delayed. This would jeopardize the safety of the air transportation system and result in further delaying modernization of the system. Such delays would include the upgrade of radar, communications, weather information, automated data processing, and tower and en route center equipment.

Critically needed airport improvement and capacity enhancement programs related to providing new capabilities directly aimed at reducing congestion in the national air system would be deferred. This would include a slowdown in the interim plan to support the airspace system until modernization is completed.

The FAA would be unable to follow-through with current efforts to expand its overseas security presence and full implementation of the recommendations of the President's Commission on Aviation Security and Terrorism would be slowed. Also, FAA would delay implementation of anti-drug activities required by the Drug Control Act of 1988.

Select research and development contracts would be canceled or delayed. Progress on numerous FAA research and development programs that are directly tied to safety and capacity improvements for air traffic control computers would be delayed by more than a year. Progress on new explosive detection technology research would continue but at a much slower rate. The President's Commission on Airline Security and Terrorism recently urged acceleration of this research.

Federal Railroad Administration

A sequester would result in a 40 percent reduction in scheduled safety inspections of railroad track, bridges, equipment, and operations. In addition, DOT's automated track inspection vehicle would have to reduce planned operations from a planned 28,500 miles to 20,500 miles on passenger, hazardous materials, and other priority routes. Federal oversight of the railroad industry's actions to eliminate drug and alcohol usage among railroad workers would be interrupted.

Department of the Treasury

Internal Revenue Service (IRS)

A sequester would primarily affect revenue-generating enforcement activities with an estimated revenue loss of \$8.5 billion. The indirect effects on voluntary compliance produced by the perception of a faltering IRS enforcement presence would be even greater. Taxpayer service would fall precipitously and taxpayers would find it more difficult to complete their returns; 15 million fewer taxpayers would receive assistance and busy signals for those seeking assistance by telephone would increase exponentially.

All computer investments, including the critical Tax System Modernization project, would be deferred, increasing the chance of a returns processing breakdown in the future. Returns processing work would demand top resource priority but there would be delays in refund checks. If it takes IRS longer than 45 days to process a refund, interest must be paid to the taxpayer. The impact of the sequester would greatly increase these interest payments. Tax processing errors would increase as fewer employees, struggling to meet workload, would not be able to exercise proper care and attention to their work.

The projected loss of 9,000 workers in returns processing would prevent a closure of filing season work (e.g., returns processing for one year would not be completed before returns for the next year arrived). Inventories of unprocessed returns would grow into subsequent years. There would be no IRS participation in the war on drugs in order to preserve a focus on essential criminal tax fraud issues.

United States Customs Service

A sequester would eliminate all 1991 initiatives, including staffing for the southwest border, canine enforcement teams, money laundering investigations, and financial integrity. Additionally,

staffing cuts of roughly 50 percent would be required, with commensurate declines in enforcement and commercial program effectiveness.

In practical terms, a sequester would mean fewer cargo container inspections (36 percent less than 1990), a 120 percent increase in delays in releasing cargo, lost tariff revenues, and fewer drug seizures. The protection afforded domestic industry by Customs enforcement efforts would erode. Investments in the labor saving Automated Commercial Systems (ACS) program would be postponed. Longer passenger processing delays would occur at border crossings and airports. Many of the smaller ports along the northern border and other locations could be closed or face curtailed service hours.

An estimated \$1 billion in revenue would be lost due to lack of adequate processing controls. Contraband entries would expand and the war against drug imports would be severely hampered.

Department of Veterans Affairs

A sequester, compared with the 1991 request, would:

- Require significant reductions in purchases of medical and other supplies and equipment, prevent the opening of new facilities, cancel 1991 initiatives (e.g., increases for drug abuse treatment, quality assurance, physician and nurses pay), reduce medical care staff years by 15,600 or eight percent, and reduce the number of incidents of care (e.g., hospital stays and outpatient visits) provided to veterans by 2.0 million;
- Reduce operating staff associated with the Veterans Benefits Administration, the National Cemetery System, and administrative activities, forgo scheduled computer upgrades and acquisitions, and delay interments in many of the smaller national cemeteries. Staff reductions in regional offices would be inevitable and would reduce the timeliness and quality of benefits claims processing and the servicing of delinquent guaranteed loans below 1990 levels;
- Reduce bed levels (by 350) and clinical services in all proposed construction and renovation projects (medical centers, regional offices, and cemeteries). Project redesigns caused by reductions in the size and scope of these projects would delay planning and construction by at least a year and nine months and hamper the provision of quality health care to eligible veterans; and
- Disproportionately reduce the contributory Montgomery bill program (because over half of the educational programs for disabled veterans' dependents and vocational rehabilitation are exempt) affecting annual benefit payments ranging from \$1,300 to \$2,200 to nearly 125,000 veterans and service persons.

Other Agencies

Commodity Futures Trading Commission (CFTC)

A sequester would have a devastating impact on enforcement actions, especially in light of the recent trading abuses in the Chicago futures markets. This would permit only 79 enforcement actions to be completed compared to 124 in 1989, a reduction of 64 percent. Market surveillance would be reduced by 25 percent at a time when additional surveillance is needed to protect hedging and pricing functions of these markets. There could be increased commodities fraud as no new enforcement actions would be undertaken. The result would be a less competitive market environment with less protection for market participants. For example, family farmers who forward price their products with county grain elevators would be exposed to greater market risks. CFTC's overall program output would be reduced by one-half, reversing actions to increase and strengthen CFTC's regulatory capacity.

Environmental Protection Agency (EPA)

The major impacts of a sequester would be:

- Severe reductions in State environmental programs, which typically receive half their funding from EPA grants;
- Cancellation of EPA's wetlands initiatives;

- A decreased level of corrective actions undertaken at operating hazardous waste facilities at a time when EPA will be responsible for an expanded universe of regulated facilities and hazardous substances;
- Delays in the development of regulations and inability to meet court-ordered deadlines for various regulations;
- Reduced information made available to the public because of reductions in automated data processing funding;
- Severe limitations on EPA's ability to implement the new Clean Air Act amendments. EPA probably could not meet the first year deadlines in the Clean Air Act amendments and technical and financial assistance to States to implement the amendments would be severely restricted;
- Halting all new Superfund cleanups, undermining the public's confidence in Federal clean-up efforts; and the Government's leverage to make the polluters pay. Decreased enforcement and fewer cleanups funded by responsible parties, and more fund-financed cleanups. Lower cost recoveries would prevent the fund from being replenished;
- Severe slippage in numerous Clean Water Act requirements, including monitoring of water quality, issuance of National Pollutant Discharge Elimination System (NPDES) permits, and development of water quality criteria;
- Serious delays in the cleanups of specific bodies such as the Great Lakes, the Chesapeake Bay, and the 17 estuaries in the national estuary program;
- Reduction of 50 percent in air pollution enforcement activities such as stationary source inspections, notices of violation, administrative orders, and civil and criminal litigation; and
- Curtailed analysis of Toxic Release Inventory (TRI) reports, delay availability of the TRI data base to the public, reduce resources available for data quality assurance, and eliminate enforcement actions against non-reporters.

Judicial Branch

A sequester would have the following effects:

- 30 percent of Federal defenders' cases and 100 percent of panel attorney cases would be dismissed for failure to provide counsel, or counsel would be appointed without compensation;
- 3 percent of the estimated payments committed to pay panel attorneys for prior year case assignments could not be paid;
- Inmates filing new death penalty *habeas corpus* petitions would not have their cases reviewed by a Federal court, or counsel would have to be appointed without compensation;
- Funds would not be available for fees of jurors for civil trials, denying the public their right to a civil jury trial;
- Funds would not be available for fees of jurors for approximately two months of the year for criminal trials;
- The community supervision programs of the probation system would suffer the burden of personnel shortages; 52 percent of the offenders in these programs would not have their supervision enforced;
- Testing and treatment of 19 percent of drug offenders would be terminated; and
- Expansion of home detention (electronic monitoring) of offenders could not be accomplished resulting in increased jail costs.

National Aeronautics and Space Administration (NASA)

A sequester would cause a major restructuring of all NASA activities. The Space Station would be canceled (with a termination liability of about \$600 million). In space science, technology and aeronautics, the Moon/Mars Initiative and Mission to Planet Earth would be deferred and two to

three major science projects under development would have to be canceled (e.g., Comet Rendezvous/Asteroid Flyby, Advanced X-Ray Astrophysics Facility). In addition, reductions would have to be made in the operations support for spacecraft (e.g., Magellan mission to Venus). With the exception of critical safety-related items, all facility construction and renovation would be stopped.

The 10 planned Shuttle flights during 1991 would be postponed or canceled. The eleven missions planned for 1992 would also have to be postponed or canceled, effectively suspending Shuttle operations until 1993. (Recovery from this suspension would entail a re-hiring and recertification of the contractor work force.) The purchase of critical spare parts, the development of the Advanced Solid Rocket Motor, and the procurement of expendable launch vehicles would be terminated. All planned safety improvements to the Shuttle would be deferred. Additional terminations or postponements would include all shuttle engine ground testing, all orbiter modifications, all planned Shuttle equipment upgrades, and all procurement of upper stage rockets and payload operations. Engineering laboratories and on-line Shuttle facilities would be placed on a "caretaker" status.

National Science Foundation (NSF)

A sequester would terminate support to roughly 28,000 individuals, including senior investigators, graduate and undergraduate students, pre-college teachers, and high school students. In addition, it would defer or terminate all new initiatives and many existing programs, including Science and Technology Centers, Engineering Research Centers, precollege education programs, graduate fellowships, and global change research. It would shut down the U.S. Antarctic program for 1991 operations and defer or terminate any remaining activities in the economic competitiveness and human resources areas.

Office of Personnel Management (OPM)

A sequester of OPM's civilian retirement obligation limitation would: (1) increase existing backlogs in death claims, refunds, and initial annuity payout processing (currently, the initial annuity payment can take as long as six to nine months and lump-sum refunds about 3 months to process) and would likely extend by three to six months the processing of initial annuity and lump-sum payments; (2) stall design and development of the automated Federal Employees' Retirement System (FERS) project that is meant to automate FERS retirement processing and definitely push into 1992 or beyond the major start-up activities for the FERS automated record keeping system. This would result in the continuing build-up of paper records for the FERS system similar to what exists for the Civil Service Retirement System.; and (3) force cutbacks in essential processing staff training and quality assurance activities.

OPM would eliminate all 1991 initiatives including funding for the Public Policy Scholarship, training for front-line workers, and the Commission on the Public Service. The Presidential Management Intern Program would not be permitted to double in size as was authorized by Executive Order. It would eliminate OPM's ability to implement pay reform, would cut current staffing levels, and require the consolidation of area offices and the deferral of the acquisition of new computer equipment. The backlog of National Agency Checks and Investigations would increase by about 32,000 cases as OPM would not be able to provide timely investigations for agencies.

OPM would lose oversight and evaluation capacity and staffing research and development.

OPM's retirement and insurance functions would probably not possess the level of resources for account maintenance activities, to carry out its fiduciary responsibilities, or to provide a minimally acceptable level of services to its beneficiaries.

Civilian retirement claims processing reductions would put in jeopardy the timely payment of monthly annuities to 2.2 million Federal civilian retirees. The typical annuitant receives a monthly annuity of approximately \$1,450 (\$17,400 per annum) and may have no other source of retirement income. Delays in the payment of annuities could prevent annuitants from being able to finance their basic necessities.

Retirement and insurance processing times for interim payments, annuity cases, death cases and refund claims would double and triple. Workload balances for annuity, death, refund and deposit claims, annuity roll maintenance, and health benefits disputed claims would increase three- to ten-fold.

Congress and senior citizen advocates would strongly object to delayed processing of monthly annuity checks. The lengthy delay in processing initial annuity payments would directly conflict with an Administration goal and a President's Commission on Management Initiatives commitment to expedite new retiree initial annuity payments.

Reductions in the Government Payments for Annuitants would prevent payment of the Government's share of health premiums. A cut in enrollee payments might occur.

Front-line training initiatives would be eliminated. The time needed to fill agency job requests would double or triple, and the Presidential Management Intern Program and other entry-level programs designed to bring new talent into the Federal Government would be eliminated.

The time needed to process special rate requests would more than double and compliance activity and work on classification standards would be cut by half. This would result in less qualified staff Government-wide, thus severely degrading the quality of products and services.

OPM could not pay the Federal Employee Health Benefit carriers the Government share of employee health insurance premiums. The result would be a cut in enrollee benefits. Reductions in the Government Payment for Annuitants would result in the Government being negligent in meeting its statutorily required payment on behalf of annuitants.

Railroad Retirement Board

A sequester would reduce railroad retirement supplemental annuities by \$34 million. Supplemental annuities are paid to roughly 200,000 rail retirees who have 25 or more years of railroad service. Railroad unemployment and sickness insurance benefits would be reduced by \$40 million from the estimated \$105 million. The reduction would affect the welfare of 60,000 railroad workers dependent on unemployment and sickness benefits.

Small Business Administration

A sequester would force as many as 40 field offices to close. Small Business Assistance and Advocacy programs, including programs for the promotion of minorities, women and international trade assistance, would be sharply curtailed. Lending and surety bond program levels would be reduced by more than \$2.1 billion.