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| **Record Group/Collection:** | George H.W. Bush Presidential Records |
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| **Series:** | Speech File Backup Files |
| **Subseries:** | Chron File, 1989-1993 |

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| **OA/ID Number:** | 13726 |
| **Folder ID Number:** | 13726-014 |

**Folder Title:**
White House Wire on the Budget Summit 8/24/90 [OA 8312]

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Factcheck Copy

WHITE HOUSE

Wire

All OK —
See Press Conference of 8-14-90
the briefing Rm.

# The President and the Budget: 'I stand ready to work'

*The following are excerpts of the President's remarks on August 14, 1990:*

"It is no secret to the American people that the congressional budget process has broken down. Over the last couple of decades we've seen the real problems of overspending. We've seen the stalemate in budgeting which is the result of internal congressional conflicts and a committee system that is so complex that not only have the hard decisions been postponed or avoided, but today nearly all budget decisions are finessed..."

"... I took the initiative in May in calling on the Democratic congressional leaders to join me in a bipartisan summit on the budget. The success of this summit is essential to ensure the economic health of the nation, to resolve once and for all the deficit dilemma, and in doing so, to avoid the painful sequester cuts which will occur without an agreement."

"... I stand ready to work on this process as long as it takes to get a five-year package which solves the problem. I've postponed what I think was a very important September trip to Latin America so as to focus on this issue. There are, however, a number of specific realities to be noted:

-- First, it is the Congress that has the responsibility to pass a budget. While they have the power of the purse, like any President, I've got the power of the veto pen. And I will use that pen to veto any and every spending bill that busts the budget.

-- Second, if no agreement is reached, that means a sequester on October 1st of about $100 billion. As painful as such deep cuts would be, I must uphold the law. I'm determined to manage them the best I can, knowing I've done all in my power to avoid them. So the Democrats in Congress should know that if it comes to sequester, they will bear a heavy responsibility for the consequences.

-- Third, if the Congress really wants economic growth and increased government revenues, the place to start is not with tax increases, but with incentives for growth, investment and jobs. And again, I cite the capital gains area as one that would stimulate and be investment-oriented. *(Continued on last page.)*

OK — per 8-14-90 Fact Sheet

# The Truth About the Budget Summit

**May 6 -- Taking the initiative, the President calls the bipartisan leadership of Congress to the White House to outline the two fundamental reasons for a budget summit:**

-- The economic growth and stability of the nation, and

-- Avoiding sequestration, the across-the-board cuts in federal spending which will automatically take place on October 15, 1990, unless the government acts to cut the deficit.

**May 15 -- Once again, the President meets with the Congressional budget negotiators at the White House to lay the groundwork for the summit meetings.**

-- Despite the Budget Summit negotiations and promises of good faith, it's business-as-usual on Capitol Hill. The House Appropriations committee begins action on appropriations bills with no apparent regard for current budget constraints, fiscal reality, or ongoing negotiations.

**Early June -- The Administration's negotiators ask the Democrats for more of everything: more meetings, more progress and more work.**

-- Meanwhile, back in Congress, Democratic Committee Chairmen appeal to negotiators to protect their pet programs and pork barrel projects from any spending cuts.

**June 20 -- The Administration cuts its budget to save over $50 billion in 1991. Plans include new reductions in defense and entitlement programs.**

**June-July -- Predictably, more business-as-usual in Congress. Various House and Senate committees have passed new spending bills that bust the budget.** These include:

-- Child care bill: **$20 billion over** the Administration request for 5 years.

-- Farm bill: **$7-9 billion over** the current law baseline for 5 years.

-- Housing bill: **$5 billion over** the Administration request for one year.

-- AIDS prevention: **$3-4 billion over** the Administration request for 5 years.

-- Education bill: **$916.8 million over** the Administration request for one year.

Democrat negotiators refuse to discuss spending cuts in advance of a Presidential commitment to discuss revenue increases.

**June 26-28 -- The President meets with the bipartisan leadership and issues a statement clearly stating that he will consider tax revenue increases, among five other proposals.**

-- Focussing on taxes to the exclusion of every other proposal, Democrat party officials and Congressmen stage "read his lips" media blitz to highlight Presidential statement on revenue increases.

-- Despite the President's statement that there would be "no preconditions," Senator Mitchell said that when it came to accepting a capital gains cut without an income tax increase, "There are certain points beyond which you cannot go."

-- The Senate Budget Committee votes on a make-believe resolution that contains billions in make-believe savings.

**July 5 -- Despite the Congressional recess, Administration negotiators and staff meet with Congressional staff to convene a special Task Force on credit reform proposals.**

-- Budget reform, one of the explicit goals of the summit, is thrown out the window when the Senate Budget Committee votes on a budget process reform bill that **weakens** the budget process.

**July 16 -- Midyear budget revisions** -- The Administration issues a complete update of the estimates of the budget deficit, revising the estimate to nearly $169 billion.

-- At a ridiculous pace, overspending in the House appropriations bills climbs during July. Discretionary appropriation bills are off the charts -- $25 billion over 1990 enacted levels, and $14 billion over the Administration request.

**July 17 -- The House kills a constitutional amendment to require a balanced budget.** Nearly all Republicans (169 of 174) support it, but a majority of Democrats (145 of 255) vote against it.

All OK per 8-14-90 Fact Sheet from Office of Press Sec.

**July 26 -- Both sides agree to put budget plans on the table. The Administration and Republican negotia tors 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:*

OK per OMB's Mid Session Review of the Budget of 7-16-90 p. 17, ch. VI.

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. p. 22

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. p. 33

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. p. 31

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. p. 30

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. p. 24

For meat and poultry, the absence of inspection services for about 140 days, thus forcing the shutdown of many processing plants. p. 21

# Business leaders, economists support President's call for budget action

"The President is right. He has gone more than halfway in attempting to get a budget compromise, and the Democratic congressional leadership has failed to respond in a responsible manner. The President is to be commended for announcing that he will veto all spending bills over his budget, and that he will accept a sequester if the Congres does not immediately comforward with a pro-growth budget."

-- Richard W. Rahn, Chief Economist,
U.S. Chamber of Commerce.

OK

"President Bush is right to reassert the necessity for a comprehensive deficit reduction agreement. With a $100 billion seqestration order set for October 1, the U.S. is lashed to a fiscal time bomb. Defusing that bomb is as much the responsibility of Congress as it is of the President. In that context, the silence of Congressional budget negotatiators is irresponsible."

-- Barry Rogstad, President,
American Business Conference.

OK

"As President Bush suggested, it is pure hypocrisy for Congress to proclaim its desire to reduce the deficit while it passes appropriations bills which increase spending by 11 percent. Citizens for a Sound Economy agrees with President Bush that the budget deficit can be traced to congressional overspending and a budget process which has broken down."

-- Wayne Gable, President,
Citizens for a Sound Economy.

OK

Also
OK per 8-14 briefing

## *'I Stand Ready to Work ..."*

*(Continued from page one)*

-- Fourthly, the Congress must recognize the utter failure of their budget process to control spending. It's got to be reformed. The process has to be reformed.
-- Fifth, our budget must maintain a defense posture consistent with the demands on American leadership in the world and in the dangers we face.

And finally, the Democratic leadership of Congress must understand that the American people expect them to get that job done, to come forward with concrete proposals to cut the deficit.

I and the members of my Administration stand ready to work with them in meeting these obligations. And I know that it's a complicated time for our country, but it is essential that the American people focus, as they are now on international matters, also focus on the domestic problems we face in terms of the budget. That's why I'm doing this today."

CW Copy

WHITE HOUSE

Wire

PHOTO

# The President and the Budget: 'I stand ready to work'

*The following are excerpts of the President's remarks on August 14, 1990:*

"It is no secret to the American people that the congressional budget process has broken down. Over the last couple of decades we've seen the real problems of overspending. We've seen the stalemate in budgeting which is the result of internal congressional conflicts and a committee system that is so complex that not only have the hard decisions been postponed or avoided, but today nearly all budget decisions are finessed..."

"... I took the initiative in May in calling on the Democratic congressional leaders to join me in a bipartisan summit on the budget. The success of this summit is essential to ensure the economic health of the nation, to resolve once and for all the deficit dilemma, and in doing so, to avoid the painful sequester cuts which will occur without an agreement."

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-- Third, if the Congress really wants economic growth and increased government revenues, the place to start is not with tax increases, but with incentives for growth, investment and jobs. And again, I cite the capital gains area as one that would stimulate and be investment-oriented. *(Continued on last page.)*

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For the FBI, funding for the President's Financial Fraud and Crime Initiative packages implemented in 1990 would be reduced. 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.

For the federal prison system, 3,300 fewer beds, 6,600 prisoners moved out of contract facilities, overcrowding increased to 90 percent, furloughs of 5,600 prison employees, and a significant increase in the risk of prison violence.

-- Education bill: $916.8 million over the Administration request for one year.

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June 26-28 -- The President meets with the bipartisan leadership and issues a statement clearly stating that he will consider tax revenue increases, among five other proposals.

-- Focussing on taxes to the exclusion of every other proposal, Democrat ic party officials and Congressmen stage "read his lips" media blitz to highlight Presidential statement on revenue increases.

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-- No Democrat response.

-- 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 his plan to veto each and every spending bill the Democrats write that comes in one dime over his budget request, and tells Republicans in Congress that when it comes to dealing with the Democrats, all bets are off.

## Business leaders, economists support President Bush's call for budget action

"The President is right. He has gone more than halfway in attempting to get a budget compromise, and the Democratic congressional leadership has failed to respond in a responsible manner. The President is to be commended for announcing that he will veto all spending bills over his budget, and that he will accept a sequester if the Congres does not immediately comforward with a pro-growth budget."

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"President Bush is right to reassert the necessity for a comprehensive deficit reduction agreement. With a $100 billion seqestration order set for October 1, the U.S. is lashed to a fiscal time bomb. Defusing that bomb is as much the responsibility of Congress as it is of the President. In that context, the silence of Congressional budget negotatiators is irresponsible."

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"President Bush has for the first time publicly demonstrated frustration at Congress's refusal to seriously bargain at the Budget Summit. By expressing his willingness to accept a seqester, President Bush was laying the groundwork to blame Congress for a possible sequester. This is a movement in the right direction.

As President Bush suggested, it is pure hypocrisy for Congress to proclaim its desire to reduce the deficit while it passes appropriations bills which increase spending by 11 percent. Citizens for a Sound Economy agrees with President Bush that the budget deficit can be traced to congressional overspending and a budget process which has broken down. We call on the President to follow through on this logic, and state his determination to reduce the deficit through spending restraint, not tax increases."

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### *'I Stand Ready to Work ..."*

*(Continued from page one)*

-- Fourthly, the Congress must recognize the utter failure of their budget process to control spending.

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And finally, the Democratic leadership of Congress must understand that the American people expect them to get that job done, to come forward with concrete proposals to cut the deficit.

I and the members of my administration stand ready to work with them in meeting these obligations. And I know that it's a complicated time for our country, but it is essential that the American people focus, as they are now on international matters, also focus on the domestic problems we face in terms of the budget. That's why I'm doing this today."

U.S. Chamber of Commerce
1615 H. St., NW
Washington, DC 20062

Media Relations Department (202) 463-5682

# NEWS

FOR IMMEDIATE RELEASE

CONTACT: Cindy Bisset

COMMENT ON PRESIDENT BUSH'S STATEMENT ON THE BUDGET
BY RICHARD W. RAHN, VICE PRESIDENT AND CHIEF ECONOMIST
U.S. CHAMBER OF COMMERCE

WASHINGTON, Aug. 14 -- The President is right. He has gone more than halfway in attempting to get a budget compromise, and the Democratic Congressional leadership has failed to respond in a responsible manner.

The President is to be commended for announcing that he will veto all spending bills over his budget, and that he will accept a sequester if the Congress does not immediately come forward with a pro-growth budget.

Given our economic weakness, the President should be supported in his request to obtain an immediate reduction in the capital gains tax to get the economy moving again. The economy cannot withstand any tax increases. The President should postpone this year's deficit-reduction target of $50 billion and focus his energies on winning pro-growth tax cuts and meaningful spending restraint against a reluctant Congressional leadership.

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(Dr. Rahn is available for further comment. He can be reached after 6:30 p.m. at 703/759-0440.)

NewsRelease

AmericanBusinessConference

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Washington, DC 20006
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# BUSINESS GROUP BACKS PRESIDENT'S CALL FOR BUDGET ACTION

For Immediate Release:
Monday, August 14, 1990

Contact: John Endean
(202) 822-9300

Washington, DC -- "President Bush is right to reassert the necessity for a comprehensive deficit reduction agreement," said Barry Rogstad, president of the American Business Conference, an organization of the chief executive officers of 100 fast-growing, midsize companies. "With a $100 billion sequestration set for October 1, the United States is lashed to a fiscal time bomb."

"Defusing that bomb is as much the responsibility of Congress as it is of the President," Rogstad observed. "In that context, the silence of Congressional budget negotiators is irresponsible. At a time when America's military security is on everyone's mind, we must not lose sight of the importance of economic security. The United States faces enough problems at home and abroad without imposing upon itself the additional crisis implicit in sequestration."

####

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 14, 1990

FACT SHEET

**"There may have been some miscommunication about what was supposed to happen."**

-- A Democrat budget negotiator, July 31, 1990, explaining why, eighty six days after the President called on the Democrat leaders in the Congress to work out a bipartisan budget solution, they had yet to offer one single proposal.

**THE TRUTH ABOUT THE BUDGET SUMMIT**

May 6 -- Taking the initiative, the President calls the bipartisan leadership of Congress to the White House to outline the two critical, fundamental reasons for a budget summit:

-- The economic growth, stability and health of the nation, and

-- Avoiding sequestration, the across-the-board, "meat ax" cuts in federal spending which will automatically take place on October 15, 1990 unless the government acts to cut the deficit.

May 15 -- "Sleeves-up" the President again meets with the Congressional budget negotiators at the White House to lay the groundwork for the summit meetings.

-- **Despite the Budget Summit negotiations and promises of good faith, its business as usual on Capitol Hill. The House Appropriations committee begins action in early June on appropriation bills with no apparent regard for current budget constraints, fiscal reality or ongoing negotiations.**

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-- **Meanwhile, back in Congress, Democratic Congressional Committee Chairmen appeal to negotiators to protect their programs and pork barrel pet projects from any spending cuts.**

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- Education Bill: $916.8 million over Administration request for one year.

-- **Democrat negotiators just say no: they won't discuss spending cuts in advance of a Presidential commitment to discuss revenue increases.**

June 26-28 -- The President meets with the bipartisan leadership and issues a statement clearly stating that he will consider tax revenue increases, among five other proposals.

-- **Focusing on taxes to the exclusion of every other proposal, Democrat party officials and Congressmen stage "read his lips" media blitz to highlight Presidential statement on revenue increases.**

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-- **No Democrat response.**

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. Despite criticism of the Administration proposals, the Democratic leadership fails to put any proposals on the table and in fact fails to discuss any specific proposals at all.**

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

# # #

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 14, 1990

PRESS CONFERENCE BY THE PRESIDENT

The Briefing Room

4:19 P.M. EDT

THE PRESIDENT: Excuse the slight delay on the timing. I was just on the phone with Mr. Mandela.

Let me just say -- I have a statement here on the -- (laughter) -- it's that kind of world, I'll tell you. And with your forbearance, I will make a statement here at the beginning. Bear with me. It may be a tad longer than we're used to in this press room. But I want to get in focus the question of the budget.

I know that the focus of the media attention today, and understandably, is on a crisis 6000 miles away. But there's another important, well-known, long-standing crisis at home -- and that's the failure of the budget process to produce a solution to this nation's deficit -- terrible deficit. Even while we address our critical international obligations we must address that persistent, real need. Therefore, I want to just take a few minutes to talk about that.

Our current budget, or lack thereof, constitutes a real threat to the economic well-being of this country. In this case, the problem is a lack of action on the part of the Congress -- an abdication of responsibility that endangers our economic vitality and the jobs that go with it.

It is no secret to the American people that the congressional budget process has broken down. Over the last couple of decades we've seen the real problems of overspending. We've seen the stalemate in budgeting which is the result of internal congressional conflicts and a committee system that is so complex that not only have the hard decisions been postponed or avoided, but today nearly all budget decisions are being finessed.

Previous presidents have urged fundamental reform -- fundamental budget reform. We can all remember President Reagan slamming down that massive Continuing Resolution -- and yet Congress has failed to straighten out this procedural monstrosity. As a result, the deficit continues to grow.

With the growing threat such deficit spending poses, I took the initiative in May in calling on the Democratic congressional leaders to join me in a bipartisan summit on the budget. The success of this summit is essential to ensure the economic health of the nation, to resolve once and for all the deficit dilemma, and in doing so, to avoid the painful sequester cuts which will occur without an agreement.

As the talks flagged, I acted to jump-start them, and you're all familiar with that. When the Democrats sought to hold the talks hostage over new revenues, I made a very difficult decision to put everything, including taxes, on the table to make those budget talks succeed.

To keep those budget talks going, the administration kept -- I feel I kept my share of the bargain. The administration refrained from divisive rhetoric; we worked in earnest; we held

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meeting after meeting, without any preconditions -- and emphasized the need, above all, for progress to put a budget package together. We offered billions in additional spending cuts even as congressional committees were voting out spending bills that would bust the budget.

On July 26th, both sides agreed to put budget plans on the table. We again had a complete proposal ready for negotiation. After weeks of good faith negotiating, we expected -- we honestly believed there would be -- a specific democratic plan in exchange.

While the summit failed to move forward with specific solutions, the Congress continued with counterproductive legislation. For example, the House has already passed 10 appropriations bills, eight of which exceed my request for discretionary spending by $14 billion -- and are $25 billion higher than the budget for last year.

And the Senate is asking that the taxpayer now put up another $150 million to finance election campaigns of Congress. And let me be clear on that one -- I oppose adding this kind of taxpayer financing of congressional elections, and I'm going to veto any such bill that appears on my desk.

Congress is now on recess. And 100 days after I called on Democrats and Republicans in the Congress to work with me toward a bipartisan solution, I note, frankly in sadness, that after three full months the Democrats have yet to offer one single proposal at the budget summit.

I've been reluctant to go public in this manner. We've dealt in good faith with the leaders. We have played by the rules. Now it is up to the Democrats who control Congress -- it is up to the Democrats in Congress.

I stand ready to work on this process as long as it takes to get a five-year package which solves the problem. I've postponed what I think was a very important September trip to Latin America so as to focus on this issue. There are, however, a number of specific realities to be noted:

First is the Congress that has the responsibility to pass a budget. While they have the power of the purse, like any President, I've got the power of the veto pen. And I will use that pen to veto any and every spending bill that busts the budget.

Second, if no agreement is reached, that means a sequester on October 1st of about $100 billion. As painful as such deep cuts would be, I must uphold the law. I'm determined to manage them the best I can, knowing I've done all in my power to avoid them. So the Democrats in Congress should know that if it comes to sequester, they will bear a heavy responsibility for the consequences. Box

Third, if the Congress really wants economic growth and increased government revenues the place to start is not with tax increases, but with incentives for growth, investment and jobs. And again, I cite the capital gains area as one that would stimulate and be investment-oriented.

Fourthly, the Congress must recognize the utter failure of their budget process to control spending. It's got to be reformed. The process has to be reformed.

Fifth, our budget must maintain a defense posture consistent with the demands on American leadership in the world and in the dangers we face.

And finally, the Democratic leadership of Congress must understand that the American people expect them to get that job done -- to come forward with concrete proposals to cut the deficit. I and the members of my administration stand ready to work with them in meeting these obligations. And I know that it's a complicated time for our country, but it is essential that the American people focus,

MORE

as they are now on international matters, also focus on the domestic problems we face in terms of budget. That's why I'm doing this today. Congress will be back soon. I hope we can rejoin these talks and get this budget deficit under control once and for all.

Now, I'll be glad to take some questions. Who is the first? Helen?

Q Mr. President, I have a two-part question. After successfully internationalizing opposition to the Iraqi aggression through the U.N., why did you jump the gun and unilaterally order a blockade, upsetting other members? And two, is the U.S. policy against the annexation of captured lands in the Middle East an across-the-board policy with the U.S.?

THE PRESIDENT: Upsetting -- I don't think we've upset members on our policy of interdiction. We are acting within our legal rights. And I don't think -- I think the world wants to see these Chapter 51 sanctions carried out, and that's the role that the United States is trying to do.

Q We didn't go through the step-by-step of Chapter 7.

THE PRESIDENT: Well, we're doing it the way our attorneys and others around the world recommend. And I think we're doing it properly, and I hope we're doing it to the degree that all ships will turn back if they are in contravention of the U.N. action.

Q How about the last --

THE PRESIDENT: Last? What was that?

Q Opposition to annexation of conquered lands -- is that our policy --

THE PRESIDENT: I can only address myself in the current -- currently. I don't know whether there are any exceptions, or not. But I know that annexation, if this is what one calls this invasion of Kuwait, is unacceptable, and that it won't stand.

Q Mr. President, Jordan says that it's abiding by the U.N. sanctions, yet truckloads of goods are rolling through Jordan into Iraq, coming from the Port of Aqaba. Do you think that Jordan is subverting the sanctions? And what will you do about it?

THE PRESIDENT: Before I have a chance -- before I answer your question I ought to let King Hussein tell me whether -- what is happening. And if a country is not -- is permitting a flow of commerce, it would be in violation of the sanctions. But he's coming here and I'll have a chance to talk to him and explain the U.S. view, though I'm pretty sure he understands it clearly.

Q Let me ask you, what do you think about King Hussein's charges that the American forces in the Persian Gulf have created an explosive situation?

THE PRESIDENT: I don't know what he means by that, but I don't agree with that. I think we are there not to have the situation explosive, but to supplement fully what the United Nations has done in condemning this outrageous aggression. So we'll discuss that one, too. It's going to be an interesting conversation, I see, if you're writing his agenda for him.

Q Why is King Hussein coming? When he called to ask you that he'd like to come -- his brother has told reporters in Jordan that one of Jordan's problems is it would suffer so economically if it abided by the sanctions that they complained that they had no guarantee or assurances from the West for Jordan. What can you --

THE PRESIDENT: Maybe that's what he wants to talk about. I hope it is. Because, clearly, we've always been a friend of

MORE

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 16, 1990

PRESS BRIEFING BY
TREASURY SECRETARY NICHOLAS BRADY;
OFFICE OF MANAGEMENT AND BUDGET DIRECTOR RICHARD DARMAN;
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS MICHAEL BOSKIN

Room 450
Old Executive Office Building

9:05 A.M. EDT

SECRETARY BRADY: Good morning. This morning, the administration will announce the results of its annual midsession budget review. This analysis provides an updating of budget outlay revenue and deficit estimates for the current and next fiscal year, and a tentative look at budget prospects through Fiscal Year 1995. Director Dick Darman is here to present the results of the administration's review.

It also provides a new set of economic forecasts reflecting actual results in policy since the official estimates published last January. Chairman Mike Boskin is here to review the economic forecast.

This year's review is particularly important because it sets forth the present budget situation at a time of budget summit discussions. The increase in projected budget deficit reflects the fact that revenues are falling below anticipated levels and outlays are running ahead of our January forecast.

This review emphasizes the importance of acting now to reduce the deficit. The budget summit discussion should focus on three objectives: First, an immediate deficit reduction consistent with sustained economic growth. This will enable monetary policy to become more flexible. Second, budget reform, to increase the efficiency and effectiveness of the budget process. And third, credible deficit reductions over the next five years that are large enough to bring the budget into balance.

Looking at the economy, we are now well into the eighth year of economic expansion. We expect moderate growth to continue and an unwinding of the temporary inflationary surge that occurred at the beginning of this year. But there remain concerns about the future that require coordinated fiscal and monetary policy responses.

In last year's midsession review, the administration adjusted its economic forecast to reflect changing conditions, and those estimates turned out to be right on the mark. This year, we again are revising our earlier forecast by lowering the estimated growth rate of GNP in 1990 to 2.2 percent from 2.6 percent, the figure that was reported last January, measured from fourth quarter to fourth quarter.

Finally, I must emphasize the fundamental importance of coordinated fiscal and monetary actions to sustain moderate, noninflationary economic growth.

Now I'd like to ask Mike Boskin to comment on the economic forecast.

CHAIRMAN BOSKIN: Thank you, Secretary Brady. Let me

MORE

I would note that, according to the law, the underlying economic and technical assumptions are now fixed for purposes of any sequester calculations. They cannot be changed. These are the assumptions that must be used in preparing the August 25th initial sequester order and the October 15th final sequester order. Current law prescribes a deficit target of $64 billion. It is, therefore, evident that, in the absence of congressional action, to reduce the deficit dramatically, a major sequester will ensue. Indeed, if the Congress fails to enact a responsible deficit reduction program, the required sequester across-the-board spending reductions would be of totally unprecedented size.

The current year's sequester totalled $3.5 billion, and at that, it was strongly resisted. For Fiscal Year '91, as I've noted, assuming the food stamp program is continued and putting the S&L question aside, the sequester would have to exceed $100 billion. This is not some far-fetched theoretical construct; it is what the law now requires. And it is enforceable with criminal penalities.

A $100 billion sequester cannot be taken lightly. It is highly relevant to the current budget summit negotiations and, if those negotiations fail, it will have major implications for virtually everything the federal government touches.

With that prospect in view, I have advanced the presentation of the sequester calculations. They would ordinarily not have appeared until August 25th. And I have included in the midsession review an illustrative set of implications for particular programs. In general, a $100 billion sequester means an across-the-board reduction of 38.4 percent in nondefense programs, and an across-the-board reduction from 25.1 percent to 41.3 percent in defense programs, depending upon whether or not the President decides to exempt military personnel.

To make these abstractions somewhat more meaningful, let me cite a few specific examples of what the $100 billion sequester would mean.

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 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 disease control, a crippling of efforts to prevent HIV transmission, and a reduction of polio, measles, mumps, rubella, diphtheria and tetanus vaccinations for one million children.

For Head Start, a reduction of $715 million, cutting the number of enrolled four-year-olds by about 200,000, or 40 percent below the intended level.

For meals for the elderly, about $160 million less in grants, thus, supporting about 100 million fewer meals.

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

For Indian elementary and secondary education, about $2,200 less for Indian students.

For the Small Business Administration, the forced closure of 40 field offices and $2.1 billion less for lending and surety bond programs.

For white collar crime, a drop of about 25 percent in completed investigations and about 1,000 fewer convictions.

For the demand side of the drug war -- that's research, prevention and treatment -- about a one-third reduction of activity.

For the federal prison system, 3,300 fewer beds, 6,600 prisoners moved out of contract facilities, overcrowding increased to 90 percent, furloughs of 5,600 prison employees, and a significant increase in the risk of prison violence.

And so it goes on down a long list that is provided on pages 18 through 38 of the report. I repeat, if the summit negotiations fail, if the Congress fails to enact a responsible multiyear deficit reduction program, these effects of sequester are exactly what we will face in the fall. To allow them to occur without having made an extraordinary effort to prevent them would be irresponsible. But it would be equally irresponsible to seek to escape the discipline of sequester without facing up to our underlying budgetary problems.

The need for progress toward a responsible, growth-oriented budget summit agreement is clear. If Congress fails to enact a growth-oriented deficit reduction program, not only will a highly disruptive sequester ensue, there may also be a signficant threat to what is now the longest period of peacetime economic growth in American history.

The President and the administration remain fully committed to continuing on the path of economic growth, to negotiating in good faith, and to encouraging the Congress to enact a responsible deficit reduction program. Thank you.

SECRETARY BRADY: We'll be glad to take any questions you might have.

Q Wouldn't it be better for the economy and for the country if you came to that crunch to give up the Gramm-Rudman law than to allow us to go through this sequester?

SECRETARY BRADY: No, I don't think so. I think the Gramm-Rudman law is what provides the discipline to face the problems that needed to be faced. If there weren't a Gramm-Rudman law, in my opinion, Congress would just skate by the problem with fixes that don't fix the problem. What we need to do here is fix it, do it in a way that maintains growth, and make sure we have in place enough strictures like Gramm-Rudman to make sure it works.

Q If I could follow up, isn't it already implicit in this report that you are slipping the Gramm-Rudman targets? You say five years to get down to zero as opposed to getting --

SECRETARY BRADY: Well, I think what you said originally, Lesley, shouldn't we kind of abandon Gramm-Rudman -- I think that what we have to do is face this problem in a way that the world knows it's fixed and our people know it's fixed. So that if it takes more than the two or three years that the present Gramm-Rudman targets envisage, so be it. The fact that it's real, that it cures the problem -- the numbers are there to cure the problem -- and that there's a process by which Congress can't slip out of the traces, then that will do the job.

MORE

THE WHITE HOUSE

WASHINGTON

(Lange/Cawley)
August 3, 1990
3:00 P.M.
[CITIES.DOC]

PRESIDENTIAL REMARKS: ALL-AMERICA CITY AWARDS
THE ROSE GARDEN
MONDAY, AUGUST 6, 1990
10:00 A.M.

Welcome! Henry Cisneros, Chair of the National Civic League; Wayne Hedien [heh-DEEN] of Allstate; Members of Congress, State Representatives, Mayors -- and above all, friends of some of the finest cities in America. /// It's an honor and a pleasure to have you here at the White House.

[[ Before we get started, I need to ask your forebearance in order to bring up an issue of particular interest to this group -- and of great interest to the nation as a whole. You see, after this ceremony, I'll be heading right over there to the Briefing Room, to explain to the American public what didn't happen in the budget summit -- and why it didn't happen.

**I took the initiative last spring**, and invited the leaders of Congress to the White House for a bipartisan budget summit. For two reasons: to preserve economic growth; and to avoid the meat-ax of indiscriminate cuts across the board -- the kind a sequestration brings.

**When you take the initiative, you've got to take the heat.** And yes, I took my share this summer, for agreeing to put everything on the table in those negotiations -- including tax revenue increases -- and we all watched as some took the opportunity to make political hay, instead of progress.

Well, in spite of that summit, the <u>House</u> has passed ten appropriations bills, eight of which exceed my request. In total, the ten bills exceed my request by $14 billion.

And in spite of our calls for budget reform, the <u>Senate</u> Budget Committee voted on a bill that **weakened** the budget process.

Now Congress has gone on recess. Vacation. And **86 days after I called on the Democrat leaders in the Congress to work with me toward a bipartisan budget solution -- after nearly three months -- the Democrats have yet to offer <u>one single proposal</u>.**

**<u>I</u> took the initiative -- <u>I</u> took the heat -- and now I'm taking my case to the American public.** So I'm laying my cards on the table. When the Congress comes back, let them understand this: **I will veto <u>any</u> and <u>every</u> spending bill that busts the budget.**

One more thing. If the Congress really wants economic growth <u>and</u> increased government revenues, the place to start is <u>not</u> with tax increases -- it's with a capital gains tax <u>cut</u>.

[PAUSE] /// I feel better already. Now that we've cleared <u>that</u> up, on to the business at hand. ]]

This event <u>is</u> special. It's special because too often it seems that the function of the Federal government is to make laws and set limits. But the cities and citizens we honor today are reminders that America's potential is truly <u>un</u>limited.

# ASAE GOVERNMENT INROADS

*"Provided as a service to key contributors to ASAE's Government Relations Education Fund and Political Action Committee."*

1575 Eye Street, N.W.
Washington, D.C. 20005

**Week of August 19, 1990**
**vol. 5, no. 33**

BUDGET NOTES...EDUCATIONAL ASSISTANCE BILL ACTION...GET YOUR FORM 990 GUIDEBOOK..401(k) MARCHES ON...

**Dear Contributor:**

How will the Middle East situation impact budget talks? It can provide the excuse many in Congress seek to put off the tough choices on reducing the deficit. Increased energy costs associated with the Persian Gulf crisis is bound to have a negative impact on the softening economy. An important new element in budget discussions is the fact that budgeteers are considering lowering their fiscal 1991 deficit-reduction target from $50 billion to between $30 and $40 billion, reflecting how the Mideast situation will impact a softening economy. The near universal endorsement of the President's actions comes as relief to Congressional woe over the budget responsibilities. No one wants to cut spending. Wouldn't it be nice to handle your check book the way our elected representatives do the federal budget?

Come September, look for a flurry of drama with negotiators "retreating" to some quasi-isolated location where they thrash out differences and come up with an agreement. According to Congressional aides, all parties to the talks remain committed to reaching an agreement on a five year deficit reduction package in September. A budget reconciliation bill is expected to be on the President's desk by October 1. Despite Constitutional responsibility for passing a budget, Congress has still not even proposed one...

One of the first "victims" of the situation in the Mideast crisis may be a broad-based energy tax which had been seriously considered for inclusion in the revenue portion of the budget package. As **Treasury Secretary Nicholas Brady** commented, a higher tax on energy "doesn't make a whole lot of sense" with oil prices so high. The tax would have yielded between $12 and $14 billion a year in increased revenue, no small loss for the revenue-hungry budgeteers ...

EMPLOYER PROVIDED EDUCATIONAL ASSISTANCE ON YOUR 'MUST HAVE' LIST? **Senator Daniel Patrick Moynihan (D-NY)** has introduced S.2988, the *Employee Educational Assistance Act of 1990*, which would make *IRC* Sec.127 (under which employees can receive up to $5,250 annually in tuition reimbursements or similar educational benefits on a tax-free basis) a permanent part of the Code. It would also restore tax-free treatment of graduate-level courses. Fifty-eight Senators are cosponsoring the bill, among them ten of Senator Moynihan's colleagues on the Senate Finance Committee ...

The bill would eliminate the uncertainty concerning educational assistance which has existed since 1986, when the program lost its status as a permanent part of the tax code. Since then, the association community has been working to get tax-free educational assistance reinstated on a permanent basis, a difficult assignment given the budget deficit ...

What can you do? Write your Senators and request that they cosponsor S.2988, if theyave have not already done so. If they have, drop them a note thanking them for doing so. It is particularly important to reach **Members of the Senate Finance Committee** with the message that you want them to support S.2988 ...

SALES TAX ON SERVICES ISSUE CONCERNING YOU? If so, you may want a copy of a position paper prepared by the American Institute of Certified Public Accountants. Titled "Sales and Use Tax on Services: An Analysis of the Issues, Including Arguments Opposing Implementation of Such a Tax", it provides a summary of the arguments in opposition to a sales or use tax on professional services. Contact the AICPA, 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1007, (202) 638-4512 for a free copy of the report.

EFFORTS TO ELIMINATE DISCRIMINATORY PROVISIONS IN THE TAX CODE REGARDING TAX EXEMPT ORGANIZATIONS' DEFERRED COMPENSATION PLANS may be set back by H.R.5415 (colorfully titled the "Deadwood Act of 1990"). Introduced by **Ways and Means Chairman Rostenkowski (D-IL)**, the bill pushes back the due date for a Treasury study of tax-exempts' deferred compensation plans from January 1, 1990 to January 1, 1992. The Section 457 Task Force has been actively seeking such a study.

NEED HELP WITH THE NEW IRS 990 FORM? If so, you may want to get a copy of the publication prepared by ASAE entitled "Preparing the 1989 IRS Form 990: A Guide for Tax Exempt Organizations." Designed to help associations use the new form (which was revised to provide more information on the amount and types of income earned by exempt organizations) copies can be obtained from the ASAE after September 1; the cost is $25 for ASAE members and $40 for nonmembers. NOTE: A single copy of the guidebook will be provided to each of ASAE's member CEOs, a project underwritten by the ASAE Government Relations Fund (GREF). For more information call ASAE's Publication's Department at (202) 626-2748.

To help offset the cost of producing and mailing the 990 guidebook, you should urge your organization to make a contribution to ASAE's Government Relation's Education Fund (GREF). To receive information on how you and your organization can participate in GREF, please contact us at (202)626-2703.

EFFORTS BY THE 401(k)'s FOR 501(c)'s COALITION TO REINSTATE ACCESS TO 401(k)'s CONTINUE---with a visit to Capitol Hill in late July by members of the Coalition Steering Committee. Strategies for reinstatement were discussed with Congressional supporters, including **Rep. Bill Frenzel (R-MN)**, who agreed to request new revenue estimates for the Coalition from the Joint Committee on Taxation on the impact of several revenue offset proposals being considered by the Steering Committee. If the estimates show that the potential revenue loss (admittedly small) can be offset, a stronger argument can be made for 401(k) reinstatement.

After more than two very rewarding years as ASAE's Director of Government Affairs, I am leaving to pursue other opportunities. While I look forward to new career challenges, I will not forget those of you who helped make ASAE's government affairs programs more effective. It is truly your support that makes the difference. Keep up the good work!

**<u>As always</u>, your support is appreciated ...**

Sincerely,

G. Harris

**G. Harris Jordan**
**Director, Government Affairs**

Barry K. Rogstad
*President*

# AmericanBusinessConference

1730 K Street, NW Suite 1200
Washington, DC 20006
(202) 822-9300
FAX (202) 467-4070

August 14, 1990

The Honorable Bobbie Kilberg
Deputy Assistant to the President
for Public Liaison
The White House
Washington, D.C. 20500

Dear Bobbie:

The President did a magnificent job at the press conference this afternoon.

I thought you would be interested in the attached press release. An op-ed on the same topic is forthcoming.

Sincerely,

Barry

Barry K. Rogstad

Attachment

NewsRelease

AmericanBusinessConference
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# BUSINESS GROUP BACKS PRESIDENT'S CALL FOR BUDGET ACTION

For Immediate Release:
Tuesday, August 14, 1990

Contact: John Endean
(202) 822-9300

Washington, DC -- "President Bush is right to reassert the necessity for a comprehensive deficit reduction agreement," said Barry Rogstad, president of the American Business Conference, an organization of the chief executive officers of 100 fast-growing, midsize companies. "With a $100 billion sequestration set for October 1, the United States is lashed to a fiscal time bomb."

"Defusing that bomb is as much the responsibility of Congress as it is of the President," Rogstad observed. "In that context, the silence of Congressional budget negotiators is irresponsible. At a time when America's military security is on everyone's mind, we must not lose sight of the importance of economic security. The United States faces enough problems at home and abroad without imposing upon itself the additional crisis implicit in sequestration."

####

Barry K. Rogstad
*President*

# AmericanBusinessConference

1730 K Street, NW Suite 1200
Washington, DC 20006
(202) 822-9300
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August 15, 1990

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

On behalf of the members of the American Business Conference (ABC), I would like to congratulate you for your leadership in seeking a sound, long-term solution to the federal budget deficit. We at ABC strongly supported your decision last month to negotiate in earnest and without preconditions with the leaders of Congress. We similarly support your strong statement yesterday reasserting the importance of a disciplined, fiscally responsible budget process.

Unfortunately, Congressional leaders seem unwilling to heed your call for a bipartisan budget agreement. That must change.

I want you to know that at ABC, we shall do all that we can to urge Congress back to the negotiating table. On September 18, about seventy of our chief executives from all over the country will be calling on the offices of key Congressional leaders to deliver a very simple message: the economic stakes are too high to permit the sort of Congressional foot-dragging we witnessed earlier this summer. It is time to stop the posturing and get on with the job of governing.

Mike Boskin has agreed to meet with our executives before they go up to the Hill for the purpose of giving them a background briefing on the economics of the budget. We have also invited Governor Sununu to share with our members his perspective on budget politics and how best to get our message across to Congress.

Mr. President, in your efforts to get the budget process under control and reduce the federal deficit, you have the full backing of the most progressive elements of the business community. As always, if there is anything the American Business Conference can do to help you in your work, please do not hesitate to call upon us.

Sincerely,

Barry K Rogstad

Barry K. Rogstad

Barry K. Rogstad
*President*

**AmericanBusinessConference**

1730 K Street, NW Suite 1200
Washington, DC 20006
(202) 822-9300
FAX (202) 467-4070

August 14, 1990

The Honorable John Sununu
Chief of Staff
The White House
Washington, D.C. 20500

Dear Governor Sununu:

As you know, the American Business Conference (ABC) is a coalition of one hundred chief executives of fast-growing, midsize American companies. ABC's mission is the promotion of economic growth, job creation, and a higher standard of living.

While we have exciting projects in the areas of international trade and investment and educational reform, our most vigorous efforts have for many years been directed toward the improvement of the nation's fiscal affairs. ABC executives believe that the economy suffers from an inadequate savings rate. They regard the reduction of the federal deficit as one important way to address that savings problem and encourage economic growth.

Accordingly, ABC members support President Bush in his attempt to achieve meaningful deficit reduction and budgetary discipline. We were one of the very few business groups in Washington to offer unqualified praise for the President's decision to consider higher tax revenues as part of a comprehensive deficit reduction package.

On September 18, during our membership meeting here in Washington, our members will be going to Capitol Hill in groups of two or three, to talk with as many Senators and Representatives as possible. The purpose is to reiterate in the strongest terms possible ABC's view of the importance of achieving a good deficit reduction package.

Before embarking for Capitol Hill, our members would very much appreciate your insights on the deficit reduction process as well as your thoughts on the presentation they should deliver to members of Congress. Accordingly, I would like to invite you to address our members on September 18 at 1:45 p.m. at the Willard Hotel. I have in mind about fifteen minutes of remarks followed by an equivalent period of questions and answers.

I have already discussed our plans with Mike Boskin and Fred McClure. They have assured me that our efforts are in harmony with the Administration's aims. My purpose in inviting you to our meeting is to insure that ABC chief executives will be delivering a constructive, consistent, and timely message.

I hope that you will be able to join us on September 18. In the meantime, should you or a member of your staff require further information, please contact me or Fran Frazier here at ABC.

Sincerely,

Barry K Rogstad

Barry K. Rogstad

CAPITOL COMMENT

No. 57
April 25, 1990

A TIMELY PERSPECTIVE ON CURRENT PUBLIC POLICY.

## Wrong Solution to the Budget Impasse

The House Budget Committee has produced a budget resolution for 1991 that would raise taxes by $88.9 billion over the next five years. The plan also purports to cut spending to achieve a balanced budget by 1995. However, the credibility of this "solution" is jeopardized by the fact that past budget proposals to increase taxes and spending have failed to provide the deficit reduction policymakers had hoped for.

Policymakers should try to avoid the pitfalls that plague the budget resolution. It contains phony budget cuts, and it actually allows spending increases that will soak up the "peace dividend." Its tax increase proposals could slow the economy, which would only make the deficit worse. A more effective approach, and one more likely oriented to economic growth, would restrain spending growth and use any defense savings to help lower the deficit.

Phony Cuts. The resolution has been billed as a fair combination of spending cuts and tax increases that will help lower the deficit. In fact, except for the defense budget, the spending "cuts" in the budget resolution are actually modest reductions from increases proposed in the latest budget baseline. For example, the resolution reportedly requires Medicare "cuts" of $1.7 billion in 1991. However, this "cut" is really only a reduction from a previously proposed increase. Medicare spending would still grow by more than $8 billion over last year's level.

Squandering the "Peace Dividend." Growing consensus for real defense spending cuts offers policymakers a unique opportunity to reduce the deficit and eventually start reducing the tax burden. However, unless Congress holds the line on spending in other programs, any peace dividend will evaporate long before the deficit is brought under control.

While the budget resolution would trim defense spending, it would also allow increases in other programs that will absorb much of the savings. The resolution claims to "cut" defense spending $251 billion by 1995, but that "cut" is a comparison to the rising budget baseline. Compared to actual levels, defense spending in 1995 would be $31 billion below the amount spent in 1990. However, over the next five years, spending on other programs would rise by more than six times the amount of defense spending reductions. In 1995 total spending would be $195 billion higher than 1990 levels.

Tax Increases. Rather than lowering taxes as the defense budget drops, the Budget Committee would increase them

Citizens for a Sound Economy 470 L'Enfant Plaza, SW, East Building #7112, Washington, D.C. 20024, (202) 488-8200

substantially. The resolution calls for $15.3 billion in new taxes and user fees in 1991 and $96 billion in higher taxes and fees over the next five years. These tax increases are intended to supplement the $70 billion in new tax revenue already expected between 1990 and 1991 and the $371 billion expected over the next five years from inflation, economic growth, and previously enacted tax increases. If Congress enacts the tax increases contained in the budget resolution, by 1995 the government would collect $438 billion more in revenue than it is expected to collect this year.

The budget resolution's tax increases simply allow Congress to increase spending while purporting to reduce the deficit. Without any tax increases or accounting gimmickry, the most Congress would be able to spend next year is $1.211 trillion, the sum of expected tax revenues, the $64 billion Gramm-Rudman-Hollings target, and a $10 billion margin of error afforded under the law. However, the House budget plan calls for spending of $1.239 trillion, $28 billion higher than if taxes were not raised.

The Wrong Approach. In the years when Congress has raised revenue as a way to reduce the deficit, spending has increased and anticipated deficit reduction has failed to materialize. After last year's budget summit agreement, revenues increased $76 billion, spending increased by $62 billion, and the deficit remained well above the $100 billion Gramm-Rudman-Hollings target for 1990. Following the budget summit agreement of 1987, when President Reagan agreed to $23 billion worth of tax increases over two years, the deficit remained stalled above $150 billion.

A Growth-Oriented Solution. Congress has enjoyed more success in reducing the deficit in years when it kept spending growth below the growth of tax revenues. Between 1986 and 1987, spending grew by 1.4 percent, and the deficit dropped by $71.5 billion. This approach spurns new taxes which could jeopardize economic growth, and it recognizes that tax revenues generated by a growing economy can lower the deficit if policymakers hold the line on spending.

One way to implement such a deficit reduction strategy would be to freeze domestic spending and use savings from defense budget cuts to help reduce the deficit. Simply freezing spending at last year's total would reduce the deficit by $70 billion, almost twice the amount of deficit reduction contained in the resolution.

Conclusion. If Congress has any interest in balancing the budget by 1993, as required by Gramm-Rudman-Hollings, and maintaining economic growth, it should not increase spending by $108 billion and taxes by $270 billion over the next three years as this budget resolution would require. A growth-oriented solution would eschew economically destructive tax increases and rely upon domestic spending restraints and defense budget cuts to lower the deficit.

David Makarechian
Project Director

Citizens for a
Sound Economy
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January 29, 1990

# THE 1991 BUSH BUDGET AND DEFICIT REDUCTION: HIGHLIGHTS AND ANALYSIS

By David Makarechian
Director of Tax and Budget Policy

## The 1991 Budget

- President Bush's budget calls for the federal government to spend a record high $1.233 trillion in 1991, an increase of $36.1 billion over 1990 levels.

- The president's budget calls for federal receipts to rise by $96.8 billion next year, to $1.170 trillion. With no change in current law, the Office of Management and Budget (OMB) predicts that receipts would rise by $82.9 billion. This increase results from inflation, economic growth, and previously enacted tax increases. The administration has proposed policy changes to increase revenues by an additional $13.9 billion next year.

- The budget includes a projected deficit of $63.1 billion for 1991. The estimated deficit for the current fiscal year is $123.8 billion, well above the 1990 Gramm-Rudman-Hollings target of $100 billion.

- Highlights of the president's budget include a three-point savings initiative. This initiative reduces capital gains tax rates based on the length of time an asset is held, and provides a maximum exclusion of 30 percent on gains from investments held for more than three years; allows use of Individual Retirement Accounts (IRAs) for first-time home purchases; and creates Family Savings Accounts, which allow households with incomes below $120,000 to deposit up to $5000 per year in seven-year, tax free accounts.

- Revenue-raising proposals likely to attract attention include extending Social Security coverage to state and local employees not participating in public employee retirement programs, permanently extending the telephone excise tax, and increasing the airport and airway fees. The budget also includes new or expanded "user fees" for the Securities and Exchange Commission, the Internal Revenue Service, mine reclamation, the Commodity Futures Trading Commission, the Federal Emergency Management Agency, and the Corps of Engineers.

- The president also proposes to expand and make permanent research and experimentation tax credits, provide tax relief for the oil and gas industry, permanently extend the health insurance deduction for the self-employed, extend the low-income housing tax credit, establish a new tax credit for low-income families with young children, restore and double the adoption tax credit, and establish urban enterprise zones.

- Military outlays would rise by $5.3 billion from 1990 levels, to $292.1 billion. However, total budget authority for the Department of Defense will decline by 2.6 percent after adjusting for inflation. Medicare spending would be allowed to increase by $2 billion.

- Spending initiatives emphasized in the Bush budget include increases in budget authority of $3.3 billion for space and other science programs, $4.5 billion for research and development programs, $500 million for Head Start, $1.1 billion for drug programs, and $2 billion for environmental programs.

- President Bush also unveiled the "Social Security Integrity and Debt Reduction Fund." The plan would mandate that after 1993, Social Security trust fund surpluses be gradually used to pay down the national debt. The purpose of the plan is to increase the national savings rate and lower government interest payments. By 1996, 100 percent of the surpluses would be committed to the debt repayment fund. The Social Security Trust Funds reduce the 1991 deficit by $80 billion.

## Spending Facts

- Since 1980, federal spending has increased by $606 billion, or 102 percent, from $591 billion in 1980 to an estimated $1.197 trillion in 1990.

- Federal spending grew by an average of more than $60 billion annually between 1980 and 1990. After adjusting for inflation, federal expenditures have grown by $213 billion since 1980.

- The total increase of $606 billion has occurred in all parts of the budget. Since 1980, defense expenditures have increased $162 billion, interest payments have risen $123 billion, and payments to individuals (which represents mostly entitlement programs) climbed $300 billion.

## Tax Facts

- Federal tax revenues have climbed from $517 billion in 1980 to an estimated $1.073 trillion in 1990, an increase of more than 107 percent. After adjusting for inflation, federal receipts have grown by more than $206 billion since 1980.

- Over the 1980-90 period, revenues grew by an average of more than $55.6 billion annually. In the last five years, tax revenues have grown by an average of more than $67.9 billion annually.

## Deficit Facts

- Despite the growth of tax revenues, the even larger growth of spending has caused high deficits. The first triple-digit deficit was $127.9 billion in 1982. Since then, yearly deficits have averaged more than $170 billion.

- In 1987, when the growth of spending was held to 1.4 percent, the deficit dropped from $221.2 billion to $150.4 billion. By comparison, spending is projected to increase by 4.7 percent between 1989 and 1990, leaving a deficit for 1990 of $123.8 billion.

- Another reason for the limited progress toward reducing the deficit last year is that the deficit reduction bill contained $7 billion in one-time savings, and only $3 billion in permanent spending restraints from the temporary budget sequester.

- The national debt has tripled since 1980. From $908 billion in 1980, the national debt has soared to $2.87 trillion in 1989. This represents more than $12,000 for every man, woman, and child in America.

## Budget Freeze Proposals

- If the economy grows by 3.3 percent after adjusting for inflation, as predicted by OMB, tax revenues will grow by an average of $63.5 billion annually through 1993. Limiting the growth of spending would allow revenues to catch up with spending very quickly.

- The 1991 Bush budget meets next year's Gramm-Rudman-Hollings target of $64 billion by limiting spending growth to $36 billion, or 3 percent. Accounting changes that shift payments into other fiscal years reduce the projected deficit from $64 billion to $63.1 billion.

- A complete freeze on federal spending would create a $49 billion surplus in 1992, assuming OMB's economic assumptions are accurate.

- The president's budget offers a more accurate picture of spending trends because it compares 1991 budget proposals with actual spending levels in 1990. In an essay accompanying the budget, OMB Director Richard Darman derides mandated comparisons to inflated "current services" baselines as "Wonderland" budgeting. The accompanying table compares expected outlays in 1990 to the president's proposals for 1991.

## Tax Increases

- The 1991 Gramm-Rudman-Hollings deficit target is $64 billion. Whether Congress raises taxes $10 billion or increases them $50 billion, the deficit target remains $64 billion. Additional revenues would only mean more spending.

- Tax increases would impede economic growth, and a less robust economy produces less tax revenue. The Commerce Department's preliminary estimate of economic growth in the 4th quarter of 1989 was a miserly 0.5 percent. It is possible that a tax increase would hasten an economic downturn and result in a higher deficit.

- The largest reduction in the deficit occurred between 1986 and 1987, a year in which the growth of spending was limited to 1.4 percent and taxes were not increased. When taxes were raised to reduce the deficit between 1987 and 1988, the deficit actually increased. These experiences suggest that permanent spending restraint is the most effective means of reducing the deficit.

## Conclusion

Some suggest that a deficit reduction package must be balanced between spending cuts and revenue increases. However, in order to meet annual deficit targets and balance the budget by 1993, spending need not be reduced from current levels, and revenues need not be increased faster than they are already projected to grow. The OMB projects that tax revenues will grow by $254 billion over the next three years, but only about $124 billion in revenue growth is need to eliminate the deficit. The key to deficit reduction is making sure Congress devotes additional tax revenues to deficit reduction rather than simply increasing spending.

CAPITOL COMMENT

No. 63
June 28, 1990 A TIMELY PERSPECTIVE ON CURRENT PUBLIC POLICY

# THE BIG MYTH OF THE BIG DEAL

President Bush's June 26 announcement that "tax revenue increases" must be included as part of the deficit reduction package now being negotiated in the budget summit is superfluous. Tax revenues are already expected to grow between $60 billion and $70 billion between 1990 and 1991, from economic growth, previously enacted tax increases, and inflation. However, increasing taxes beyond what the government already expects to collect would be a reversal of the president's "read my lips" pledge, and it would only lead to higher spending.

<u>The Old Approach to Budget Summitry.</u> In the past, budget summits produced deficit reduction deals that claimed to combine spending cuts and tax increases. For example, the 1989 budget summit agreement initially claimed half of its deficit reduction from spending "cuts" and half from revenue increases. Some have urged negotiators to construct a deficit reduction package worth between $45 billion and $60 billion using a similar "50-50" framework.

While this approach may appear evenhanded, it is actually biased toward higher taxes and spending. The reason is that the "cuts" are from a budget baseline that has spending increases built into it. While negotiators might claim "painful budget cuts" in their summit agreement, they will likely be relying on modest reductions in planned increases and higher taxes. Table 1 compares the spending growth that would result from a $50 billion deficit reduction plan under the "50-50" framework and a hypothetical plan of $50 billion in spending restraint.

TABLE 1
(figures in billions)

| | 1990 | 1991 | Change |
|---|---|---|---|
| **March CBO Baseline:** | | | |
| Revenues | $1,067 | $1,137 | $70 increase |
| Outlays | $1,226 | $1,298 | $72 increase |
| **Fifty-Fifty Plan:** | | | |
| Revenues | $1,067 | $1,162 | $95 increase |
| Outlays | $1,226 | $1,273 | $47 increase |
| **Spending Restraint Plan:** | | | |
| Revenues | $1,067 | $1,137 | $70 increase |
| Outlays | $1,226 | $1,248 | $22 increase |

Citizens for a Sound Economy 470 L'Enfant Plaza, SW, East Building #7112, Washington, D.C. 20024, (202) 488-8200

PAGE 2 Of "Big Myth of Big Deal"

As the table indicates, the sole purpose for including tax increases in a deficit reduction package is to allow faster spending growth than if the government relied upon spending restraints alone. Even under the example of restraining spending by $50 billion, the budget would expand.

If Congress and the administration are interested in addressing the problem of runaway federal spending, the best solution would be a spending freeze. A simple freeze on government spending at last year's level could provide more deficit reduction than budget negotiators are currently aiming for. And if a tax increase provides any deficit reduction at all, it would be at a higher level of spending.

<u>Disappointing Results.</u> The last two budget summits should have taught the summit negotiators that raising taxes and spending are the wrong approach to the deficit problem. The high-profile summits in 1987 and 1989 illustrate the problem. A two-year budget agreement in 1987 between the White House and Congress to limit the growth of spending eventually fell by the wayside. Despite agreeing to limit spending growth to $50 billion in 1988 and 1989, spending in those two years actually increased by $139 billion.

Last year's budget summit agreement similarly flopped. The agreement called for outlays of $1.168 trillion, $18.3 billion above the amount the president originally requested for that year. Spending for 1990 is estimated to be close to $30 billion more than the levels in the budget agreement.

The lack of specific enforcement mechanisms in the budget agreements contributed considerably to the failure of past budget summits. Budget process reforms could help ensure that policymakers adhere to an agreement to restrain spending. A budget agreement gives policymakers an opportunity to tighten the budget process and reinvigorate Gramm-Rudman-Hollings discipline. The many enforcement mechanisms negotiators may want to consider include baseline budget reform, a ban on accounting gimmickry, enforcement of spending limits, a second Gramm-Rudman-Hollings sequester, and presidential rescission authority. Any of these would be welcome improvements to the current system.

<u>Recommendations.</u> The priority task for budget negotiators ought to be to create a package that addresses the problem of runaway spending. Raising taxes above the amount already expected would simply allow higher spending, and it could further impede economic growth. A bold, new approach centered on controlling spending growth and budget process reform would be a welcome change from past budget summits and a decisive step toward balancing the budget.

David Makarechian
Project Director

Bryan Riley
Policy Analyst

## TABLE 1

### OUTLAYS BY FUNCTION: 1990-1991
(in billions of dollars)

| Function | Expected 1990 | Proposed 1991 |
|---|---|---|
| 050 National defense | 296.3 | 303.3 |
| 150 International affairs | 14.6 | 18.2 |
| 250 General science, space, and technology | 14.1 | 16.6 |
| 270 Energy | 3.2 | 3.0 |
| 300 Natural resources and environment | 17.5 | 18.2 |
| 350 Agriculture | 14.6 | 14.9 |
| 370 Commerce and housing credit | 22.7 | 17.2 |
| 400 Transportation | 29.2 | 29.8 |
| 450 Community and regional development | 8.8 | 7.8 |
| 500 Education, training, employment and social services | 37.7 | 41.0 |
| 550 Health | 57.8 | 63.7 |
| 570 Medicare | 96.6 | 98.6 |
| 600 Income security | 146.6 | 153.7 |
| 650 Social Security | 248.5 | 264.8 |
| 700 Veterans benefits and services | 28.9 | 30.3 |
| 750 Administration of justice | 10.5 | 12.6 |
| 800 General government | 10.6 | 11.3 |
| 900 Net interest | 175.6 | 173.0 |
| 920 Total allowances | | (1.1) |
| 950 Total undistributed Offsetting receipts | (36.5) | (43.6) |
| Total outlays | 1,197.2 | 1,233.3 |

(Lange/Cawley)
August 6, 1990
3:30 P.M.
[BUDGET.DOC]

PRESIDENTIAL STATEMENT: THE BUDGET
PRESS BRIEFING ROOM
TUESDAY, AUGUST 6, 1990
10:00 A.M.

Every President submits a budget to the Congress, every year. But this year was different.

Because after I submitted my budget, I invited the Congressional leadership to join me in a bipartisan budget summit.

Then, I presented a revised proposal.

Then I went further, agreeing to put everything on the table in those negotiations -- including tax revenue increases -- to make those budget talks a success.

But as time went by, it seemed cynicism was outrunning good sense -- and too many were taking the opportunity to make political hay instead of progress.

Still, to keep those budget talks going, I remained silent, worked in earnest, attended meeting after meeting, set aside conditions -- and emphasized the need, above all, for progress to reduce the deficit.

The result has been a source of great regret and frustration. I expected **criticism** from both sides of the aisle -- got it -- and was willing to take it. What I <u>didn't</u> expect was the degree of **cynicism** shown by those more interested in scoring political points than solving a serious national problem.

On the day we were ready to submit our ideas for deficit reduction, we notified the Democratic leadership, and asked them for theirs. Our plan was leaked -- then attacked by special interests -- and seeing the outcry, the Democrats pulled back and refused to offer any concrete proposals at all.

Instead, there was cynical commentary from the Democratic leadership. A summit member, no less, saying, "We did not pledge that every time the Republicans slit their wrists, we would slit ours." Or another, saying, "I feel a personal distrust of President Bush's motives." Or, "By our silence we have been successful in these talks."

<u>No</u>body should think they were successful in those talks. Instead, we saw the triumph of gamesmanship at the expense of leadership. As a budget solution was delayed, undermining confidence in the government's ability to keep this expansion on track, too many seemed willing to risk selling out the economy for a handful of soundbites.

Let's be clear on what the problem is. Congress has the power of the purse. A President can't spend a dime. He only has the power of the veto pen. I've used it -- and I'll use it again.

But what is <u>truly</u> needed is fundamental reform, to bring this accelerating spending machine screeching to a halt. And that begins with a balanced budget amendment, and a line item veto.

Because in spite of the budget summit, the <u>House</u> has already passed ten appropriations bills, eight of which exceed my request by **14 billion dollars** -- for a budget **25 billion dollars** higher than the one passed last year.

And in spite of our calls for budget reform, the Senate Budget Committee voted on a bill that **weakened** the budget process.

Meanwhile, the Senate is asking that the public now pay up to $150 million to finance their campaigns. I oppose asking the taxpayer to pay more for the re-election of Members of Congress, and I will veto any such bill that slouches toward my desk.

Congress has now gone on recess. And **86 days after I called on the Democrat leaders in the Congress to work with me toward a bipartisan budget solution -- after nearly three months -- the Democrats have yet to offer one single proposal**.

I've been reluctant to go public in this manner. I have dealt in good faith with the leaders. Shot after shot has been aimed at the White House -- and I have declined to retaliate. Now, it is up to the Democrats in Congress.

When the Congress comes back, let them understand this: I **will veto any and every spending bill that busts the budget.**

I will remain steadfast in my conviction that if the Congress really wants economic growth and increased government revenues, the place to start is not with tax increases -- it's with a capital gains tax cut.

And I will neither yield nor compromise in my determination to put America's fiscal house in order.

# # #

# The Battle of the Budget

| White House Actions | | Congressional Infractions |
|---|---|---|
| President Bush proposes budget (1/29/90). | JAN | Democrats complain about the President's budget (1/30/90); they propose an unworkable alternative. |
| President requests a Budget Summit (5/7/90). | | Democrat-controlled House passes child-care bill $20 billion over Bush's request (4/5/90). |
| President enters budget negotiation: no preconditions (5/15/90). | MAY | |
| | | By piling on pork-barrel projects, Congress swells 1990 supplemental appropriations from Bush-requested $2.2 billion to $4.3 billion (5/25/90). |
| President proposes revised budget with cuts of $50 billion in 1991 (6/20/90). | JUNE | Democrats complain about revised budget. |
| President goes the extra mile by stressing that everything is on the table in budget negotiations (6/26/90). | | Democrat-controlled House votes to increase housing budget 74% over previous year — $4.5 billion above Bush's request (6/28/90). |
| President urges Congress to pass balanced budget amendment (7/16/90). | JULY | House defeats balanced budget amendment (7/17/90). |
| The administration details effects of possible $100 billion sequestration; calls on Congress to offer deficit reduction plan (7/16/90). | | House votes $13 billion increase in Labor-HHS appropriations bill—$4.4 billion above Bush's request (7/19/90). |
| Budget negotiators agree to put budget plans on the table. Republicans prepare plan saving $50 billion in first year and $500 billion over 5 years (7/26/90). | AUG | Democrats fail to offer a plan. |
| The President, fed up with Democratic inaction, announces plan to veto every spending bill that goes beyond his budget request (8/14/90). | | House and Senate balk at suggestion to continue budget negotiations during August recess. House recesses having passed 10 appropriations bills totaling more than $13 billion above Bush's budget request (8/3/90). |

New fiscal year begins ........................................ October 1, 1990

Gramm-Rudman sequestration scheduled to take effect ....... October 15, 1990

# RNC NEWS RELEASE

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FOR IMMEDIATE RELEASE
Tuesday, August 14, 1990
RNC90-048

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## STATEMENT BY CHARLES BLACK ON BUDGET NEGOTIATIONS

Washington, D.C. -- Since the budget negotiations began 100 days ago, President Bush has come up with all the ideas, gone every extra mile and taken all the heat.

Meanwhile, the Democrats have stalled, blocked, vacationed, passed bloated appropriations bills, and complained.

Last week, President Bush drew a line in the sand to protect America's vital interests around the world. Today, the President drew a line in the sand to protect America's vital economic interests here at home. President Bush's threat to veto every appropriation that's one dime over what he proposed is real -- and it's on target.

President Bush is going the final mile to bring congressional Democrats to the budget negotiationg table and keep America's economy growing. He's demonstrated his personal commitment to solving one of our nation's most urgent problems.

We need a rational, long-term plan to break the budget dealock before the sequestration axe falls on Oct. 15. It's time the Democrats stopped practicing political arson and got serious about the budget talks.

-30-

# POLITICAL ARSONISTS: DEMOCRATS AND THE DEFICIT

President Bush is going to veto every spending bill the Democrats write that comes in one dime over his budget request.

On June 26, President Bush displayed leadership and courage when he put everything on the table in the budget talks.

But instead of working toward a responsible solution, the Democrats have been bloating the budget and stonewalling proposed reforms. After 100 days, the President decided that enough is enough. When it comes to dealing with Democrats, all bets are off.

This memo explains how the Democrats are selling out the economy for a bowlful of soundbites. It has three parts:

I. BOMBS -- Bloated, Overstuffed Money Bills
II. Stonewalling Reform
III. Suggested talking points.

## I. B.O.M.B.s -- Bloated, Overstuffed Money Bills

The Democrats have been talking trim and voting fat. Ignoring the need to cut the budget, the Democrats have carried on their old tax-and-spend ways.

- Since President Bush made his June 26 statement, the Democratic-controlled House of Representatives has passed ten appropriation bills that exceed President Bush's budget request by a total of $13 billion.

- On May 24 and May 25, the Democratic House and Senate perpetrated budgetary hijacking. President Bush had sought $720 million in emergency funds to help the world's newest democracies, Nicaragua and Panama. The House and Senate waylaid the proposal and stuffed it with new spending. When they were done, the tab came to $4.3 billion, 600 percent more than the President had asked. For "cover," they cut $2 billion from defense, but that still left $2.3 billion in new spending, much of which was pork. The Democrat-controlled House made its intentions clear when it approved amendments to lard the bill:

    * To procure a fish farming laboratory in Arkansas.

    * To provide $750,000 to transfer a ferryboat to the government of American Samoa.

- To force HUD Secretary Kemp, under the Community Development Block Grant Program, to fund 37 programs that Kemp believes are unwarranted.

o When some legislators tried to slow down the spending express, Congress ignored them. On July 13, Rep. William Frenzel (R- MN) offered an amendment to the Treasury-Postal appropriations bill to provide for a 6.9 percent across-the-board cut in all discretionary accounts. Frenzel's proposal would only have reduced the bill to last year's level -- but the House rejected it (*CQ Weekly*, 7/21/90).

o On Wednesday, August 1, the House passed a $27.9 billion housing authorization bill. It authorizes a $6 billion increase in spending for fiscal 1991, compared with a $3 billion increase in the Senate version.

## II. Stonewalling Reform

The Democrats have had a number of chances to say "yes" to measures that would improve the economy and ensure budgetary discipline. But instead, they have said "no comment" or "no way."

o On July 17, by a vote of 279-158, the House failed to give the necessary two-thirds support to a constitutional amendment to require a balanced budget. Nearly all Republicans (169-5) supported it, but a majority (110-145) of Democrats voted against it.

o On May 9, President Bush launched the budget summit by saying "no preconditions" (*CQ Weekly*, 5/12/90). But when it came to accepting a capital gains cut without an income tax increase, Senator George Mitchell said: "There are certain points beyond which you cannot go" (*CQ Weekly*, 7/14/90).

o Even before the President's June 26 statement, House Majority Leader Richard Gephardt said: "We asked the president to put down a proposal, and he did" (*CQ Weekly*, 6/23/90). But on July 28, *The New York Times* reported: "Senator Jim Sasser, a Tennessee Democrat who heads the Senate Budget Committee, said he felt no obligation to put forward a proposal until the Democrats actually saw the Administration's plan."

o Sasser's House counterpart, Rep. Leon Panetta, said: "We did not pledge that every time the Republicans slit their wrists we would slit ours" (*New York Times*, 8-2-90).

## III. Talking Points

- Mario Cuomo summed up the Democrats' attitude: "And if you are going to do the taxes, you have to do them big. You should do them across the board, you do a rate, maybe you do some consumption taxes, too, maybe you do energy. Do them big. As long as you are going to take the hit for taxes, do them big" (*National Journal*, 7/28/90).

- The Democrats have long been the party of tax and tax, spend and spend, elect and elect. Now they are also the party of stonewall and stonewall, blame and blame.

- The Democrats don't want to solve the budget problem, they want to embarrass the President.

- If the Democratic-controlled Congress fails to meet the Gramm-Rudman targets, there would be an automatic, across-the-board cut of up to $100 billion.

- That cut would slice into the drug war, education, student aid, and other legitimate federal programs. And it could undermine people's confidence in the government's ability to keep the expansion on track.

- A few Democrats have applauded the President's courage. That's good. But now is the time for the Democratic leaders to show some courage of their own -- they should persuade their colleagues to do the right thing.

- The President took the heat. Now the Democrats should join him in the kitchen.

- The President is playing poker, not solitaire.
  The President has anted up. It's time for congressional Democrats to do likewise.

- For 36 years, the Democrats have ruled the House of Representatives.
  For 36 years, the Democrats have had the constitutional power of the purse.
  For 36 years, the Democrats have let the deficit grow in fits and starts.
  For 36 years, the Democrats have been a big part of the problem.
  Now it's time they were part of the solution.

- President Bush fulfilled his legal obligation on January 29, when he submitted his executive budget. That's all he was required to do. It would have been politically easy for him to leave it at that and blame Congress for its failure to act.
  But he went an extra mile when he called the budget summit.

He went another extra mile when he presented a revised budget proposal.
He went yet another extra mile when he made his June 26 statement.
So President Bush has gone three extra miles, but to date the congressional Democrats haven't moved an inch.

o The Democrats like to bob and weave. But now it's time they stand and deliver.

o What happens when the Democrats get their way?
Just look to Massachusetts, where they've taken the state from high tech to low farce.
Just look to New York, where spending is up and bond ratings are down.
Just look to New Jersey, where Governor Florio saw tax increases not as a last resort, but as a first resort.

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