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Series: Speech File Backup Files
Subseries: Chron File, 1989-1993

OA/ID Number: 13796
Folder ID Number: 13796-004

Folder Title:
State of the Union 1/28/92 [OA 7567] [4]

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f. memo



February 17, 1992

Memorandum to Bob Teeter

From: Jim Pinkerton

Re: Message

I. Three near-term phases for message development:

- 1) From now till the end of the week (2/17 to 2/21)
- 2) The next week (2/22 to 2/29)
- 3) The run-up to Super Tuesday (3/1 to 3/10)

II. Our immediate focus should be on this week. We should strive to get our message out every day:

Tue 2/18 AM: statement from the President in the wake of the Congressional leadership meeting -- hit Democrats on taxes: they offer a temporary tax cut and a permanent tax increase, etc. (See attached draft.)

PM: BQ and White House issue statements re: New Hampshire results. (See attached draft.)

Wed 2/19 Knoxville: non-political speech -- Plain English discussion of jobs, education, high tech, and the future of America in the global economy. Compare Democratic plan vs. GOP plan.

Thu 2/20 Press conference: opening statement pointing out that the President's SOU deadline is just a month away? (We need to be thinking about what we're prepared to do on 3/20!)

Fri 2/21 AM: ALEC -- thoughtful conservatism: welfare reform, mandates, etc.

PM: Charleston -- Southern Republican Leadership

~~Never mention~~ extremism: Cite, or allude, to Buchanan on

voluntary Social Security, Desert Storm, protectionism, women, etc. Earned media could be extremely helpful here. Note also the glaring holes in the opposition agenda: e.g., the lack of a meaningful health care plan.

5) Partisanship: Hold the White House for the Republicans, be loyal; don't undermine our Republican President and oppose the liberal Democrats in Congress. Keep bringing up term limits.

6) Responsibility: connect with people re: the general concern that America's social fabric is unraveling. Everyone agrees that the real issues are not about more or less spending: they are moral questions of right and wrong. The President is the perfect figure to share his wisdom on these essential questions. He understands that right now, for all of our national goodness and goodwill, all too often we are rewarding bad behavior. We need more accountability in the hearing room, in the boardroom, and in the classroom.

-- Personal responsibility -- welfare reform, points of light, job training, restraint. Here we stress the importance of sound families as the prerequisite to a civil society as well as sound government policy, hence the emphasis on the \$500 per child personal exemption.

-- Government responsibility -- educational choice, ethic of public service, reform, meet the minimum standards of a social compact: to wit, freedom from fear.

-- Corporate responsibility -- if not the Breeden SEC stuff, then at least some acknowledgement that record bonuses amidst layoffs are not acceptable behavior. We need good corporate citizenship, enlightened business leadership that advances the national interest.

The President is calling on all Americans to do their part -- to pull up our socks and summon up the traditions of family, community, and can-do involvement and activism that made us the greatest nation on earth. As the President said: what happens in the White House is not as important as what happens in the your house.

This line of argument -- really grappling with the "Grand Canyon" issues that transfix Americans -- could lead to a series of speeches/initiatives on the reform theme, in areas ranging from welfare to defense to ethics. We know that the Democrats are still the party of institutionalized, permanent, status quo government, but the American people need to be reminded. Furthermore, at a time when substantial majorities think we are going in the wrong direction, it is important for the President to be seen as the leading agent of change in American society.

The New York Times

Tuesday, February 18, 1992

Democrats' Tax Plan Under Attack

By ADAM CLYMER

Special to The New York Times

WASHINGTON, Feb. 17 — The Bush Administration attacked the House Democrats' tax bill today as a bad deal for the middle class that would bring them "25 cents a day for two years" in exchange for cuts in Medicare, farm subsidies and veterans' benefits and, eventually, tax increases.

In an interview, Richard G. Darman, director of the Office of Management and Budget, amplified the attacks President Bush has made in recent days on the Democratic measure, which is destined for a House vote next week.

Democrats argue that a temporary two-year tax credit of up to \$400 a year for families, paid for by permanent higher taxes on individuals with taxable incomes of \$85,000 and up, would result in higher taxes for only the top 1 percent of all taxpayers.

But Mr. Darman contended there would inevitably be pressure to extend the tax cut beyond two years, even though it would have little value to recipients. Each member of a family of four would be getting only about 25 cents a day, he said.

'The Heart of the Middle Class'

While House Democrats have maintained they want only a two-year bill as a way to help stimulate the economy. The Senate majority leader, George J. Mitchell of Maine, said Sunday on the NBC television program "John McLaughlin's One on One" that he felt any tax credit given to the middle class should be permanent.

After two years, Mr. Darman predicted, the Democrats would extend the reach of the 35 percent maximum tax rate proposed for individuals with \$85,000 of taxable income and couples at \$145,000. "It will take them another nanosecond," he said, to reduce the

\$85,000 minimum "right toward the heart of the middle class."

Mr. Darman said the Democratic measure would necessitate cuts in other domestic programs because it would break the 1990 budget agreement by failing to raise as much money as it paid out in each of the first two years. Democrats do not disagree, but they say that the plan is acceptable because it would balance out over six years.

Besides, the Democrats say, without accounting tricks the Bush Administration's proposals for a large capital gains cut and accelerated depreciation for business investments would also create an imbalance.

The dispute is another example of the opening long-range fire that attends the tax and growth debate in its early Congressional stages, where each side is looking at least as much for winning political arguments as for legislative solutions.

No one, in fact, expects the House Democrat's measure to become law as now written, even if it passes in the House, which is not a certainty. Some degree of compromise with the Bush Administration, and with the Senate, await the measure if any of its provisions are to end up in the tax code. The Senate Finance Committee is scheduled to begin writing its version of the measure on Feb. 25.

But ultimately, the budget director has the last word in the accounting judgments of whether the terms of the 1990 budget act are met, and Mr. Darman said the Democratic bill "would trigger a very large sequester — 27 to 30 billion."

A sequester requires offsetting spending cuts. The cuts "would have to come from entitlement programs, excluding Social Security," he said. "They would come principally from Medicare, from farm payments, from veterans, from student loans."

Mr. Darman also criticized the one percentage point corporate tax cut in the Democratic proposal, saying he doubted that one economist in a hundred would consider that an effective way "to stimulate jobs and growth."

Most economists, he said, would prefer either a tax credit for business investment, or the type of accelerated depreciation for new business investment that the Administration has proposed.

Democrats have argued that investment credits cut unevenly between industries and companies within industries, and distort rational economic thinking. Cutting the maximum corporate rate from 34 to 33 percent and the corporate alternate minimum tax from 20 to 19 percent, they maintain, gives all businesses some benefit.

Mr. Darman argued that the Administration's investment proposal and another proposed measure that the Democrats have rejected, a \$5,000 tax credit for first-time home buyers, would "accelerate purchases" and stimulate the economy.

Dispute on Capital Gains

He also criticized the Democrats' proposal for taxes on capital gains, which would index such gains for inflation. He said the approach was

not as likely to stimulate investment in high-growth industries as the Administration's proposal to make 40 percent of any capital gain exempt from taxation.

Mr. Darman said, moreover, that by accepting a capital gains cut that was anything more than trivial in scope, the Democrats "are abandoning their so-called issue of principle."

"They have decided, in their terms, to favor the rich," he said.

Democrats argue that their plan has a targeted, even more generous approach intended to encourage investment in small business. Indexing for inflation is only fair, sound tax policy, they say, to make sure that people are not taxed simply because of inflation that does not represent income. Mr. Darman acknowledged that indexing was "desirable."

Still, he ridiculed the bill as a whole: "The middle class gets a chance to get 25 cents a day for two years in exchange for Medicare cuts, student loan cuts, farm payment cuts, fewer jobs and eventually higher taxes. This is not a good deal."

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Democrats' Tax Plan Comes Under Attack

Continued From First Business Page

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Low Close Chg.				MONTREAL			
				(In Canadian Dollars and Cents)			
				Sales	Stock	High	Low Close Chg.
34	34	+	1/8	123061	Bank Mont	\$42 3/4	42 1/4 42 3/4 - 1/2
6 7/8	6 7/8	+	1/4	2600	BombdrA	\$16 1/8	16 16 1/8 + 1/2
8 1/4	8 1/4	+	1/4	97378	BombdrB	\$16 1/2	16 16 1/2 + 1/2
19 1/8	19 3/8	+	1/4	1165	Cambior	\$98 3/4	98 3/4 98 3/4
22 3/8	22 3/8	+	1/4	36765	Cascades	\$97 1/2	97 97 - 3/8
8 1/4	8 1/4	+	1/4	1882	DomTxA	\$98 3/8	98 3/8 98 1/2 - 1/4
9 1/4	9 1/4	+	1/4	517	Donohue	\$13 3/4	13 1/2 13 1/2 - 1/2
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18 1/2	18 3/4	+	1/4				
5 1/8	5 1/4	+	1/8				

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Communications
Calendar

Feb. 10
Feb. 29

Monday Feb. 10		Healthy Children	Tuesday Feb. 11		Plan: March 20	Wednesday Feb. 12		Kickoff & N.H.	Thursday Feb. 13		1st Time Home Buyers	Friday Feb. 14		?	Saturday Feb. 15		N.H.
AM NH press calls			2:30 Ways & Means Mtg. Sign "Multilateral Investment Act"			10:00 am Announce Candidacy			PM Baltimore Event w/ Homebuilders & Buyers								
2:00 pm "Healthy Children Ready to Learn"			5:30 pm BQ Reception			PM New Hampshire			PM Satellite Tour								
PM Satellite tour NH & Boston (4)			Satellite feeds to BQ leadership			N.H.: Gramm (Lincoln Dinner)			VP: Boston			N.H.: Gramm (Lincoln Dinner)			N.H.: Bennett (Lincoln Dinner) N.H.: President		
Sunday Feb. 16		N.H.	Monday Feb. 17		?	Tuesday Feb. 18		Primary Day	Wednesday Feb. 19		<i>Gov plan = Mars jobs</i>	Thursday Feb. 20			Friday Feb. 21		Declare War on Buchanan
			AM NH radio calls			10:00 am Congressional Leadership			Knoxville			IDC area economic event			11:30 am American Legis. Exec. Council (WH)		
			PM Satellite Tour (T) NH & Boston			11:30 am Rep. Archer to campaign			<i>compare plans</i>			Potus: Press Conference (T)			4:00 pm Charleston SLC		
						<i>taxes</i>						<i>one month until March 20</i>			<i>judge - imposed prison caps : Barr, Counsel's office</i>		
RT			Radio Actuality: Gingrich			8:00: Target Congressional satellite feeds NH reax (T)			Morning shows Teeter, Bond			National GOP Governor's Press Conf.			<i>poor camp staff - toughness</i>		
						11:00 am Teeter backgrounder Nat'l Polit. Press						VP: Atlanta GA Kickoff			Southern Leadership Conf. Charleston		
												Campaign Week Feed (Fayette, Griffin)					
Sunday Feb. 23			Monday Feb. 24			Tuesday Feb. 25			Wednesday Feb. 26		Drugs & Economy	Thursday Feb. 27			Friday Feb. 28		
						Los Angeles			San Antonio								
						<i>SF</i>											
						<i>LA</i>											
						VP: Maryland											

Democratic Tax Plan Sends Mixed Message

*Analysts See Little Economic Stimulus in Package;
Bush Attacks Hit-the-Rich Strategy*

By Steven Mufson
Washington Post Staff Writer

It was supposed to be an economic stimulus, a proclamation of how Democrats would make the tax system more fair to middle-income people and a model of fiscal responsibility.

Instead, economists and policy analysts say, the tax package endorsed Friday by Democrats on the House Ways and Means Committee provides trivial economic stimulus, threatens to destroy the tenuous consensus on budget discipline and sends a muddled message on tax fairness—with increased taxes on higher-income earners but income tax cuts for corporations and a repeal of luxury taxes on furs, jewelry, private boats and planes.

President Bush, who is supposed to find it tough to veto such a package in an election year, yesterday seized upon the Democrats' tax-the-rich strategy and tried to turn it into a threat to all Americans by arguing that tax pain trickles down.

"They say tax the rich. That hits the little guy over and over again," Bush said at an elementary school in New Boston, N.H., yesterday. "And we do not need to raise taxes, we need to put incentives into this economy. So my plea is don't vote for some gimmick."

He called for Congress to approve a Republican plan that he said "can start moving this economy out of the doldrums faster than any other answer."

At the center of the Ways and Means Democratic package is the plan of the committee's chairman Rep. Dan Rostenkowski (D-Ill.), who advocates a two-year temporary cut in Social Security and Medicare taxes up to \$200 per individual and up to \$400 per couple in return for the creation of a new 35 percent tax rate on individuals with incomes over \$85,000 and couples earning more than \$145,000. A 10 percent surcharge on income over \$1 million was tailored to hammer home the fairness message.

Economists said that such a tradeoff offers little economic stimulus. Just as Democrats ridiculed the president's plan for providing about a dollar a day in tax relief for the middle class, Republicans were quick to note that the Democratic Ways and Means plan provides no more than that either.

Moreover, the Democratic Ways and Means package is loaded with many items similar to those in the Bush package—blunting the message of tax fairness. It includes the indexing of capital gains for inflation, effectively cutting the tax burden on capital gains by nearly as much as the Bush plan would in future years. Like the Bush plan, the Democrats' plan also contains tax breaks for "passive losses" for real estate developers, repeal of luxury taxes and penalty-free withdrawals from Individual Retirement Accounts for those seeking to buy a home or pay for education or medical expenses.

The Democrats scrap Bush's tax incentives for new investments in favor of a 1 percentage point cut in the corporate income tax.

The additional provisions muffle whatever messages the Democrats were trying to send to the economy and the electorate, Democrats and Republicans alike said. "This is not so much a reflection of what was in the chairman's original package as it is what it took to get it out of the Democratic caucus," said House Budget Committee Chairman Leon E. Panetta (D-Calif.).

The cut in the corporate income tax rate—which would cost the federal government a hefty \$17 billion over five years—provides the economy with virtually no stimulus, economists said. A leading economist who has been advising lawmakers and Democratic presidential hopefuls said, "It's a stupid thing. You get no economic effect from a 1 percent reduction in the [corporate income tax] rate. Give me a break."

Unlike Bush's temporary investment tax incentives, the Democrats' cut in corporate income taxes is permanent, draining \$3 billion a year in tax revenue. Moreover, it rewards investments made in the past as well as investments made in the future, and thus gets less future impact for every dollar it costs.

"I don't know what the theory is, economic or political, of raising individual tax rates to pay for a corporate tax reduction," said Randall D. Weiss, a former congressional staff member and now director of tax economics for the accounting firm Deloitte & Touche.

Moreover, while leading Dem-

ocrats such as House Majority Leader Richard A. Gephardt (D-Mo.) have been waging a battle against a cut in the capital gains tax rate, the committee's proposal to index capital gains for inflation would produce an effect similar to the president's plan.

The measure was included, a senior Democrat said, to win the support of four Democrats on the Ways and Means Committee who favor a capital gains tax cut: Rep. Ed Jenkins (Ga.), Rep. Robert T. Matsui (Calif.), Rep. Beryl F. Anthony Jr. (Ark.) and Rep. Andrew Jacobs Jr. (Ind.).

For those lawmakers concerned about budget discipline, the indexing of capital gains raises the prospect that the amount of capital gains excluded from taxation will grow sharply beyond the five-year range of the budget forecasts.

And while the Democrats' plan funds itself over five years, in the first three it increases the deficit as much as \$30 billion. Senate Majority Leader George J. Mitchell (D-Maine) has already advocated extending the Social Security and Medicare tax cut beyond two years.

A Treasury Department spokesperson seized on that to warn that if the Democrats want to pay for a permanent cut in Social Security and Medicare taxes, the 35 percent tax rate would have to apply to far lower earnings levels—around \$35,000 for individuals and just over \$70,000 for couples.

Meanwhile, in New Hampshire yesterday the president kept pushing his own proposal and tried to encourage voters to cast their ballots for him as a way of voting against Congress.

At an airport hangar in Nashua, Bush said, "The Ways and Means Committee Democrats, every one of them" voted against his plan twice. "Thursday in a closed meeting, they surfaced a scheme that—you guessed it—raises taxes and kills this plan for first-time homebuyers. In this campaign you hear a lot about sending messages. Well, my request to the people of this state is send the Congress a message."

The New York Times

FRIDAY, FEBRUARY 14, 1992

HOUSE DEMOCRATS WORK ON TAX PLAN WITH \$400 CREDIT

AN ALTERNATIVE TO BUSH'S

Corporations and Capital Gains Would Get Lower Rates — Top Bracket to Increase

By ADAM CLYMER
Special to The New York Times

WASHINGTON, Feb. 13 — House Democrats began working today on an alternative to President Bush's tax legislation, centered on temporary tax credits of up to \$400 for 80 percent of all taxpayers, a permanent one percentage point reduction in the corporate tax rate and a modest cut in taxes on capital gains.

The costs of the Democrats' five-year \$90.9 billion measure would be made up mainly by increasing the top individual income tax rate from 31 to 35 percent and imposing a 10 percent surtax on taxable income over \$1 million.

The plan was discussed today by Democrats on the House Ways and Means Committee. They will vote on various provisions of the plan on Friday and Saturday before putting it before the whole House at the end of this month.

A Plan to Aid Parents

One major challenge to the proposal will be an effort by Representatives Marty Russo of Illinois and Thomas J. Downey of Long Island to replace the middle-income tax credits with credits only for families with children. "I think there's a real good chance" of making the change, Mr. Russo said, but he added that he was waiting for overnight computer runs to figure out how generous the credits could be without raising the overall cost of the bill.

And there may be challenges to the measure's complex plan for reducing taxes on capital gains in a manner much more limited than what Mr. Bush has proposed. This part of the proposal, offered by Representative Dan Rostenkowski, the Illinois Democrat who is chairman of the committee, borrows from a plan he supported in 1990 and is structured in a way to encourage investment in small business and to win votes from those Democrats who favor a capital gains cut.

Mr. Rostenkowski said after today's session, "I was impressed that my membership was so receptive." In recent years, when tax bills get passed, his ideas usually end up as a big part of them.

That may be true again, although increasingly bitter partisan exchanges in an election year make the outcome

unpredictable. If Democrats get some version of this measure through the House, it will supply important elements for any eventual negotiations involving Mr. Rostenkowski, senators and the White House.

The chairman said that when this proposal gets to a vote in the House and is measured against Mr. Bush's plan, the American people can see "who has the best interests of the middle class" in mind.

At the White House, Marlin Fitzwater, the President's spokesman, denounced the Democrats for their party-line vote on Wednesday to send all of Mr. Bush's tax proposals to the floor in one package, instead of deferring to the smaller package he has said he wants passed first. Both of his plans feature a cut in capital gains taxes for all taxpayers who have them; the House will have a chance to vote on both of them and on the Democratic plan, too.

Mr. Fitzwater said the White House is "going to make America quite aware of just who is holding this plan up, who cares about jobs and who doesn't, who cares about economic stimulus and who doesn't, who cares about the economy and who doesn't." "We do and they don't; we do and they don't," he continued.

Mr. Fitzwater said the White House was stalled for now by Democrats on the Ways and Means Committee, whom he compared to "weasels going into a hole." But he said, "On the Senate side, we will try to work with the Finance Committee and others to get good legislation."

But at the Finance Committee today, Senator Lloyd Bentsen of Texas, its chairman, complained of "the kind of vacillation that we've seen from the President." He accused Mr. Bush of changing his own plan this week, saying, "And for all we know there are going to be more changes to come in the days ahead."

President in a Hurry

Mr. Bush has all along advocated quick passage of a smaller package that he says will stimulate economic growth, saying he could wait for his other proposals, like a bigger tax exemption for parents with children.

But he has altered the capital gains proposal in recent days. Originally, he would have reduced the rate from its current maximum of 28 percent to no more than 15.4 percent. But those gains would still have been subject to the alternative minimum tax rate of 24 percent that applies to certain taxpayers with a wide range of deductions and exemptions. More recently, he has agreed that it should not be subject to that 24 percent rate.

Mr. Bush's capital gains proposal was estimated in Congress as likely to cost \$15.4 billion in revenues over five years, although the Administration believes it would stimulate so much growth that it would add to Federal revenues.

Mr. Rostenkowski's proposal was presented to Democrats today as costing only \$4.2 billion over five years. His proposal has the following three elements:

First, to stimulate the development of new enterprises, individuals would be taxed at only 16.8 percent on gains realized from small-business stock held more than five years.

Second, individuals whose other adjusted gross income does not exceed \$150,000 would be taxed at 19.6 percent for gains on items, other than collectibles like art or stamps, acquired after the effective date of the new tax law.

Third, for items other than collectibles acquired before the effective date of the tax law such individuals would be taxed at the 19.6 percent rate for up to \$80,000 worth of gains during a lifetime.

The latter two elements appear to be intended to meet political desires for some capital gains cuts for many taxpayers without doing so at great expense.

Unlike the latest Bush plan, these capital gains preferences would be subject to the alternative minimum tax.

The proposal would also make one other change in capital gains rules, indexing for inflation the current once-in-a-lifetime \$125,000 exclusion for a gain on the sale of a residence.

The heart of the Rostenkowski proposal is a credit of one-fifth of the 7.65 percent payroll tax that a worker pays for Social Security and Medicare, up to \$400 for married couples and \$200 for individuals. Some of it would be "refundable," so that the poor would get something even if they paid no taxes. The credits would be temporary, applying only to 1992 and 1993.

Mr. Russo and Mr. Downey have each proposed plans that would give refundable tax credits for children.

Mr. Russo's plan has a \$350 credit per child; Mr. Downey's plan has an \$800 credit instead of the personal exemption.

But each of those plans would cost more than twice the \$45.9 billion Mr. Rostenkowski's proposal would cost, so the two lawmakers were seeking approaches that would reduce the credit, or apply it only to younger children, as a way to keep the total cost under control.

The biggest other cut in the Rostenkowski plan is the reduction of one percentage point in both the corporate income tax rate, to a 33 percent maximum, and in the corporate alternative minimum tax rate, to 19 percent. The cost estimate of that was \$17.8 billion over five years. Another \$7.8 billion would go for a permanent extension of the research and development tax credit. Several other expiring credits would also be made permanent, including those intended to promote low-income housing, jobs for welfare recipients and employer-provided educational assistance.

Seeking Revenue

The major offsets to these cuts would be in individual income taxes. The current maximum rate of 31 percent would be raised to 35 percent, for individual taxpayers with taxable income of \$85,000, joint filers at \$145,000 and heads of household at \$125,000. (Under an anomaly in the current tax law, families with taxable income from about \$80,000 to \$200,000 already pay 33 percent on the portion of their income that falls in that range.)

In addition, the alternative minimum tax would be raised a point, to 25 percent.

Those changes would bring in \$53.3 billion over five years, and another \$10.5 billion would come from imposition of a 10 percent surtax on the taxes of those with taxable income of \$1 million or more.

Another \$11.6 billion would be raised by extending for two years the current limits on the itemized deductions and the personal exemption of certain high-income taxpayers.

For Immediate Release

February 4, 1992

FACT SHEET

ACCESS TO JUSTICE ACT OF 1992

The President today transmitted to the Congress proposed legislation entitled the "Access to Justice Act of 1992". The legislation would implement Federal civil litigation reforms proposed in the "Agenda for Civil Justice Reform in America" issued last August by the President's Council on Competitiveness. It embodies the Administration's comprehensive plan to make our judicial system simpler and more efficient.

The specific reforms proposed in this Act incorporate market-type incentives into the procedural system, seek to encourage earlier settlement, and effect changes in the structure of our Federal judiciary that will enable the courts to resolve litigation more effectively. None of the reforms would impair substantive legal rights or limit an individual's access to the courthouse. These reforms, coupled with proposed reforms to the Federal rules of procedure and proposed models for State reforms, will go a long way toward making our system of justice a model of fairness and enabling the courts to perform their functions effectively.

Background

The tremendous growth of civil litigation in the past 30 years, including litigation involving the United States Government, has overburdened the American court system. Excessive litigation imposes high costs on our citizens, small businesses, industry, professionals, and government at all levels. The United States has 70 percent of the world's lawyers. The number of lawsuits filed in the Federal courts each year has more than tripled in the last 30 years -- from approximately 80,000 in 1960 to more than 250,000 in 1988.

Excessive litigation results in higher prices for American consumers for everything from household goods to medical treatment. Every year our legal system costs Americans, directly and indirectly, an estimated \$300 billion -- including wasted legal fees, court costs, and individual time and effort devoted to litigation.

Several current litigation practices add to these burdens and costs by prolonging the resolution of disputes, thus delaying just compensation and encouraging wasteful litigation. Although procedural changes alone cannot solve all of these problems, the excessive costs and long delays that have plagued our legal system can be reduced by these reforms.

Specific Reforms

To promote a more fair and efficient utilization of the Federal judiciary, the Access to Justice Act of 1992 would enact the following reforms:

- o Amount in Controversy. In cases where Federal jurisdiction is predicated upon a specific amount in controversy, the amount shall be determined on the basis of reasonable ascertainable damages. The amount will exclude pain and suffering, punitive damages, and attorney's fees and costs. Exclusion of these latter sums will prevent unfounded Federal court jurisdiction from being grounded upon vague, subjective claims.

more

(OVER)

- o The Fairness Rule. In most countries, the prevailing party is entitled to recover the amount of its attorney's fees from the losing party. The Act would apply a modified version of this "fairness rule" to cases brought under Federal courts' diversity jurisdiction. The payment to the prevailing party would be limited to the amount of the losing party's attorney's fees and subject to court-imposed limits when payment of all or a portion of the fees would be unjust.
- o Calculations for Cost of Living Adjustments. The Act establishes a clear, uniform methodology, based on the Consumer Price Index, for calculating awardable fees under the Equal Access to Justice Act.
- o Pre-litigation Notice of Claims. Where appropriate, the intended targets of potential litigation would be informed of the nature of the dispute, thereby permitting pre-litigation settlement before suit is filed.
- o Attorney's Fees in Disputes Involving the United States. The Act would entitle the prevailing party to recover from the losing party its attorney's fees and costs, by agreement of the parties, (1) in suits initiated by the United States, (2) in disputes pursuant to the Contract Disputes Act of 1978, or (3) where the United States and another party have agreed to use outcome-determinative mediation.
- o Multi-Door Courthouses. Innovative "multi-door courthouses" would be established in Federal district courts for a 3-year period. This would allow parties to select from different kinds of alternative dispute resolution plans including: (1) early neutral evaluation; (2) traditional mediation; (3) outcome-determinative mediation; (4) mini-trials; (5) summary jury trials; and (6) arbitration.
- o Reform of the Judicial System. The Act would enhance management of the Federal judiciary by: (1) permitting flexible assignment of district court judges; (2) requiring the collection of information to encourage more efficient use of judicial resources; and (3) clarifying procedures for use in in banc hearings. The Act would also facilitate use of administrative procedures to resolve inmate grievances and assure immunity of State judicial officers.

The Access to Justice Act of 1992 would greatly reduce the burden of excessive, needless litigation while protecting and enhancing every American's ability to vindicate legal rights through our legal system.

#

winters

THE WHITE HOUSE
WASHINGTON

February 18, 1992

MEMORANDUM FOR SECRETARY SAM SKINNER

FROM: CLAYTON YEUTTER 

Sam, I agree with the consensus at the leadership meeting this morning that everybody ought to trash the Democratic tax proposal the rest of the week. The House Democrats have obviously made a decision to thumb their noses at the Administration, so there's no point in trying to work out any kind of accommodation with them. As Vin Weber said, the only way we'll get tax legislation this year will be to veto whatever the Democrats send up, blister their hides for wasting everyone's time, and then take another crack at getting something worthwhile.

One of the points that didn't get any mention at the leadership meeting is that the Democrats are irresponsibly delaying the economic recovery and irresponsibly delaying the creation of new jobs, by ignoring the President's proposal while concentrating their attention on a counterproposal that they know the President will and should veto. This will deprive people who are now without jobs of any benefit from tax legislation for at least two months, maybe more--a cruel outcome. And they accuse the President of lacking compassion for those who are out of work!

I'd suggest that the President make the above points this week, in addition to the other very good talking points that are already available.

And he ought to hit this subject tomorrow during his trip.

cc: D. Darman
H. Moore
D. Demarest
R. Porter
N. Calio

writers

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Themes for follow-up

Heavy emphasis on the deadline for action, March 20

Public awareness is essential - "mark your calendar"
Too little time? We won the ground war in four days.
Other examples of when Congress acts quickly.

The onus is squarely on the Congress. Isolate the Congress - states, communities, individuals, this President have all acted already.

Personalize the connection between the President's proposals and the average American.

Health care - choosing a doctor
Cap gains - selling your house
Cost to consumers - tab for a bag of groceries
ETC.

Changed world requires continued American leadership - that's good for Americans - define it in human terms.

Confident and determined -- we will lift this nation step by step.

Humor

The President's plan is the ONLY plan that is comprehensive, doesn't raise tax rates, doesn't gut defense, doesn't let Congress off the spending hook. What will it do? It will work.

Anticipate opponent's arguments.

Talking Points

THE STATE OF THE UNION:

Copy for
Speechwriters &
researchers

- * The President hit a home run tonight. He was Presidential, composed, and decisive.
- * He looked and sounded like the leader of the free world:
 - "The cold war didn't end, it was won."
- * The President separated himself from the pack of pretenders with his vision for the new world order:
 - "Strength in the pursuit of peace is no vice; isolationism in the pursuit of security is no virtue."
- * The President demonstrated the same resolve on the economy as he did on the liberation of Kuwait:
 - "This will not stand."
- * The President's plan had all the elements:
 - A response to the changing world (\$50 billion defense cut);
 - Help for homebuyers and real estate (\$5,000 tax credit, penalty-free withdrawal, deduction for loss on residence);
 - Incentives for investment to create jobs (cap gains, investment tax allowance, AMT reform, enterprise zones);
 - Tax relief for families (increase in personal exemption, deductability of student loans, flexible IRA, penalty free IRA for medical & education);
 - Investments in the future (R&D, Education, Head Start);
 - Help for those in need (UI benefit extension);
 - Controlling the size of government (Regulatory review, budget freeze, personnel freeze);
 - Opening foreign markets (GATT, NAFTA, Enterprise for Americas);
 - Attacking crime (Crime bill, funds for crimefighting)
 - Dynamic reform proposals (Health care, America 2000, HOPE, tort reform, banking reform, the National Energy Strategy, welfare reform).
- * Unlike the Democrats' proposals, the President's Plan is responsible:
 - It doesn't violate the budget agreement;
 - It doesn't raise taxes;
 - It doesn't cut defense beyond what is reasonable.
- * The President set a firm deadline for action from Congress:
 - After March 20, "if it must be, the battle is joined."
- * The President sounded the right confident and hopeful note:
 - "We are still and ever the freest nation on earth, the kindest nation on earth, the strongest nation on earth."

Talking Points:

THE PRESIDENT'S GROWTH AGENDA: EFFECTS ON THE ECONOMY

Economic Growth:

- * The President's plan will add hundreds of billions of dollars of goods and services to the nation's output over the next five years.¹

Jobs:

- * By the end of this year alone, the President's Plan will create 500,000 more jobs than would otherwise be created -- and many more in the years following that.

Home Sales:

- * The President's proposed tax credit of up to \$5,000 for first-time homebuyers is itself is projected to enable up to a quarter of a million additional Americans to buy their first home in 1992.

Asset Values:

- * Enactment of the President's Plan will increase the value of assets held by Americans, including real estate, by hundreds of billions of dollars.

1

Note: Enactment of the President's Plan would increase the economy's growth rate by 25 percent over the next five years -- adding an average of almost 1/2 of a percentage point per year to the real growth rate of the economy relative to the "business as usual" baseline, which includes the Administration's spending acceleration proposal, reduced income tax withholding proposal, and other administratively discretionary actions.

*Copies for
writers
researchers*

Overall:

The budget reflects the President's Comprehensive Agenda for Growth.

The budget is consistent with the Budget Agreement -- all of the tax cuts proposed by the President can be paid for under "pay-as-you-go"; all discretionary spending is below the caps.

Tax Cuts:

The budget includes incentives for homeownership and real estate (tax credit & free IRA withdrawal for 1st-time homebuyers, "passive loss", deduction for loss on personal residence), incentives for job creating investment (cap gains, Investment Tax Allowance, liberalized depreciation under the AMT, permanent R&D credit), and pro-family incentives (increase in the personal exemption, Flexible IRA, and deductibility of student loan interest)

Spending:

The budget would freeze domestic discretionary spending at \$203 billion for FY 1993 -- the same amount as in FY 1992.

Nevertheless, within that freeze, the budget contains:

- \$100 Billion for children's programs, up 66% since FY '89;
- A record amount for education (up \$1.6B over '92);
- \$2.1 Billion for math/science education (up 69% over FY '89);
- A record amount for prevention, including increases for childhood immunizations, infant mortality prevention, breast and cervical cancer screening, AIDS prevention, and others.
- A new one-stop shopping job training program, Job Training 2000.
- A record amount for R&D (\$76.6B), with initiatives in high performance computing (up 23% over '92), advanced materials science, biotechnology, advanced manufacturing R&D, and basic research.
- A record amount for transportation (\$19.2B for highways alone)
- New initiatives in housing, including \$1B for the homeless and \$1B (over double '92) for HOPE Homeownership grants.
- \$15.8B for fighting crime (59% above '89) and \$12.7B to fight drug abuse (double the '89 amount).
- A \$3.1 billion increase for key environmental programs, including parks & the outdoors, EPA, border cleanup, and DOE facilities cleanup.

To pay for these increases, the budget proposes to terminate 246 programs (saving \$5B) and reduce dozens of others (saving \$8.1B).

The budget would also freeze government employment at the '92 level. Some agencies will go up, some down.

The budget reflects the President's announced \$50 billion defense spending reduction from previously planned levels through 1997.

*** Controlling Entitlements:**

The budget proposes to cap the growth of mandatory entitlements (except for Social Security), which now consume over half the budget, at a rate high enough to accomodate inflation and growth in the beneficiary population, but lower than the projected growth.

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

January 29, 1992

The President's Budget for FY 1993

FACT SHEETS

The attached materials present the highlights of the President's budget for Fiscal Year 1993.

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The President's FY 1993 Budget

OVERVIEW OF THE PRESIDENT'S GROWTH AGENDA

The FY 1993 Budget translates the President's Comprehensive Agenda for Economic Growth into a set of specific budget and policy recommendations.

The President's agenda for job-creating growth is comprised of both short-term measures to get the economy moving and longer-term measures to secure American growth for the future.

Short-Term Measures:

- (1) Executive Actions: to strengthen economic activity in areas where the executive branch can proceed without depending upon Congressional action,
 - o a reduction of excessive personal income tax withholding by an average of \$345 per year (joint return) for those taxpayers who wish to have this burden reduced;
 - o continued acceleration of previously appropriated federal spending;
 - o prudent execution of measures to reduce the "credit crunch";
 - o reinvigorated action to reduce the burden of regulation; and
 - o management of monetary policy (through the Federal Reserve) on a basis that yields both lower interest rates and low inflation.
- (2) New Investment Incentives: to stimulate job-creating investment,
 - o a capital gains incentive that reduces the tax on long-term gains to 15.4 percent (also important for the long term);
 - o a new 15% Investment Tax Allowance;
 - o simplified and liberalized treatment of depreciation under the Alternative Minimum Tax.
- (3) New Real Estate Incentives: to increase home sales and real estate values,
 - o a new \$5,000 tax credit for first-time home-buyers;

- o a modified "passive loss rule" for active real estate investors;
- o penalty-free IRA withdrawal for first-time home-buyers;
- o extension of tax preferences for mortgage revenue bonds and low-income housing;
- o allowance of deductions for losses on personal residences--
- o all in addition to the favorable effects of a capital gains incentive.

Longer-Term Measures:

This set of short-term initiatives unquestionably would help get the economy moving. But to strengthen growth for the intermediate and longer term, as well, a serious agenda must be more complex and comprehensive. The list of necessary initiatives is long, and its reach is broad. A narrower focus simply will not get the long-term job done.

The President's comprehensive agenda for growth involves both reform and restructuring. In addition to short-term measures, it includes such initiatives as the following:

- (4) Investment in the Future: to shift public expenditures toward investment in the future and to improve private productivity,
- o record investment in federal research and development (\$76.6 billion) and in federal support of both basic research and applied civilian R&D along with permanent extension of the R&D tax credit;
 - o record investment in Head Start (\$2.8 billion, \$600 million above the 1992 level) -- for the first time covering all participating eligible 4-year-olds;
 - o record investment in children (over \$100 billion) and in preventive health;
 - o record investment in Education generally, and in Math and Science Education, funding for which is recommended at a level that is 69 percent higher than in FY 1989);
 - o record investment in combatting crime and drug abuse;
 - o record investment in infrastructure (including a 13 percent increase, to \$19 billion, for highways under the newly enacted Surface Transportation Act);

- "Job Training 2000", to improve the delivery and effectiveness of job training and vocational education programs;
 - major expansion of "Weed and Seed" (\$500 million) linking law enforcement and social services -- and linking these, in turn, with:
 - Enterprise Zones -- to bring entrepreneurship and opportunity to areas of "hard core" distress.
- (5) International Market Expansion: to expand opportunities for American exports in a regime of free and fair trade,
- GATT negotiations;
 - negotiations to establish a North American Free Trade Agreement;
 - the President's Enterprise for the Americas Initiative; and
 - continued bilateral efforts to open markets for U.S. exports.
- (6) Pro-family Incentives: to ease the financial burdens of raising a family and saving for the future,
- a new Flexible IRA -- with penalty-free withdrawal for medical and educational expenses (in addition to first-time purchase of a home), and with tax-free withdrawal after 7 years;
 - tax deductibility of interest paid on student loans;
 - an increase in the personal income tax exemption of \$500 per child (i.e., \$2,000 per year for a family with four children) -- as well as:
- (7) The President's Plan for Comprehensive Health Reform: to increase the affordability and security of health insurance for all, while making the high-quality American health system cost-effective and economically sustainable,
- (8) Budget Discipline: to bring the growth of the federal budget and deficit under control (and to reduce the drain on savings),
- a freeze on federal domestic discretionary budget authority; and a cut in total discretionary budget authority;
 - complete elimination of 246 programs and over 4000 projects whose funding is not sufficiently justified;

- o a freeze on federal domestic government employment, and a cut of total federal personnel by nearly 4 percent;
 - o in response to changes in the external threat, an orderly and carefully-planned further reduction in defense spending of \$50.4 billion by 1997 -- making the total real defense cut 29 percent since 1989;
 - o an enforceable cap on the growth of unfinanced "mandatory" spending;
 - o a cap on cumulative subsidies of hidden liabilities;
 - o extension and refinement of the caps, accounting improvements, and pay-as-you-go discipline of the Budget Enforcement Act;
 - o all in addition to the most important deficit-reduction measure: enactment of the rest of the President's agenda for growth.
- (9) Management Improvement: to eliminate fraud and waste in Government and improve the quality of Federal services: \$2.1 billion for management improvements to reduce the potential for fraud and mismanagement in high risk areas; \$1.7 billion to improve service delivery, and 3 quality demonstration projects; \$2.2 billion to strengthen Federal financing management; and record amounts (\$1.2 billion) to improve Federal statistics.

Reform Proposals Still Awaiting Congressional Action:

Most of the elements of the President's growth agenda noted above are new. In addition, there are major reform proposals still before the Congress awaiting action. The fact that the Congress has not yet acted on these does not make them any less important for long-term growth. They are, indeed, essential.

- (10) America 2000: to revolutionize American education, strengthen accountability, and improve performance -- through a nation-wide reform movement and such federal programmatic initiatives as New American School and Educational Choice;
- (11) Financial Service Sector Reform: including deposit insurance reform, interstate banking, and provisions for integrating financial services;
- (12) Legal Reform: including tort reform, product liability reform, malpractice reform, and civil justice reform; and
- (13) The President's National Energy Strategy: which received heightened, if fleeting, interest after the Iraqi invasion of Kuwait; and which, like the other major areas of

of Kuwait; and which, like the other major areas of unfinished business, continues to await Congressional action.

The President's FY 1993 Budget for:

INCENTIVES FOR INVESTMENT, FAMILIES AND HOMEBUYERS

The President's Comprehensive Agenda for Economic Growth contains a variety of new investment incentives, to stimulate job-creating investment; pro-family incentives, to ease the financial burden of raising a family and saving for the future; and new real estate incentives, to increase home sales and real estate values.

Job-Creating Investment:

- o Capital gains tax reductions, to enhance long-term investment: Long-term investment would be enhanced through cuts in the tax on capital gains. Specifically, when fully phased in -- in 1994 -- gains from all capital assets held by individuals (other than collectibles) would qualify for an exclusion of 45 percent, if held more than three years, 30 percent if held for more than two years, and 15 percent if held for more than one year. For example, if a taxpayer is subject to a 28 percent capital gains rate, gains eligible for a 45 percent exclusion will in effect be taxed at a rate of 15.4 percent; if a taxpayer is subject to a 15 percent rate, gains eligible for a 45 percent exclusion will in effect be taxed at a rate of 8.25 percent. The reduction of taxes on capital gains will stimulate job-creating investment through costs of capital.
- o Modify "passive loss" rules for real estate development: The Administration proposes that if a taxpayer actively participates in real estate development business, income and loss from such activity can be netted for tax purposes. This proposal will conform the tax rules regarding losses in real estate to those that apply in other businesses, and help stop the slide in real estate values.
- o Adopt investment tax allowance (ITA): For equipment acquired on or after February 1, 1992, and before January 1, 1993, and placed in service before July 1, 1993, the Administration proposes to allow additional first-year depreciation equal to 15 percent of the purchase price of the equipment. This provides a powerful new incentive for capital investment in equipment.
- o Simplify and enhance alternative minimum tax depreciation: Effective for property placed in service on or after February 1, 1992, the Administration proposes to eliminate the depreciation component of the adjusted current earnings (ACE) adjustment for alternative minimum tax purposes. This will encourage capital-intensive companies, subject to AMT, to invest in productive machinery and equipment.

- o Extend research and experimentation (R&E) tax credit: The Administration proposes permanent extension of the 20 percent tax credit provided to certain incremental R&E expenditures scheduled to expire June 30, 1992. This will encourage private sector investment in research and development. Domestic operations and 64 percent of foreign R&E expenditures to their foreign operations.
- o Extend research and experimentation (R&E) allocation rules: The Administration proposes an 18-month extension of the rules that allow companies with foreign operations to allocate 64 percent of domestic R&E expenditures to their foreign operations.
- o Establish enterprise zones: The Administration proposes to provide tax incentives to promote entrepreneurship and job creation in up to 50 economically distressed urban and rural communities. Beginning in 1993, the proposal provides for elimination of the capital gains tax with respect to tangible investments located in a zone, expensing of investments in certain corporate stock issued by zone businesses, and refundable tax credits for low-income zone employees. The establishment of Enterprise Zones will help create jobs in distressed urban and rural areas.
- o Extend targeted jobs tax credit: The Administration proposes to extend this credit of up to \$2,400 (40 percent of the first \$6,000 of qualified first-year wages), for hiring disadvantaged workers, through December 31, 1993.
- o Extend business energy tax credits: The Administration proposes to extend through December 31, 1993, the business energy tax credits for solar and geothermal properties.
- o Extend first-time farmer bonds: The Administration proposes to extend the authority to issue first-time farmer bonds, in amounts of up to \$250,000 per farmer, provided the proceeds are used to acquire qualifying farmland and certain farm-related depreciable property, through December 31, 1993.
- o Repeal excise tax on airplanes and boats: The Administration proposes to repeal the excise tax on airplanes and boats, effective for sales on or after February 1, 1992.

Families, Health, Education and Savings:

- o Family tax allowance: Personal exemptions will be \$2,300 for 1992. In order to assist families with children, the Administration proposes to increase the amount of such exemptions for dependent children who are under 18 years of age by \$500 per child. The increase in exemptions for children would be effective October 1, 1992. Thus, a family with four children would receive a \$2,000 increase in tax exemptions.

- o Permit deduction of interest on student loans: The Administration proposes to allow the deduction of interest paid on or after July 1, 1992 on student loans for higher education or post-secondary vocational education.
- o Establish Flexible Individual Retirement Accounts (FIRAs): Americans would be encouraged to increase personal savings by establishing FIRAs with contributions of up to \$2,500 per year (with a limit of two such accounts per family). Although contributions would not be deductible, earnings on amounts contributed to FIRAs would be excluded from income while in the account and would be permanently excluded if the contribution to which they relate remains in the account for more than seven years. The new FIRAs are available to single individuals with income up to \$60,000 or to couples filing jointly up to \$120,000. In addition to the annual limits for new contributions, amounts in existing Individual Retirement Accounts (IRAs) may be contributed to a FIRA if the contribution is made by December 31, 1992. These new Flexible IRAs will increase family savings.
- o Promote retirement savings and simplify taxation of pension distributions: The Administration proposes a series of measures to encourage employers to sponsor retirement plans, to promote retirement savings, and to simplify the taxation of pension distributions.
- o Waive penalty for withdrawals from IRAs for medical and educational expenses: The Administration proposes to waive the 10 percent penalty on early withdrawals from an IRA on or after February 1, 1992, if the money is used for qualified medical or educational expenses.
- o Extend health insurance deduction for self-employed: The Administration proposes to extend the availability of the deduction provided to self-employed individuals for 25 percent of the cost of health insurance coverage through December 31, 1993.
- o Extend Medicare hospital insurance (HI) coverage to all State and local government employees: Extending Medicare coverage to those State and local employees not currently covered would assure that they have access to Medicare and would eliminate the inequity and the drain on the Medicare Trust Fund caused by those who receive Medicare without contributing fully.
- o Double and restore special needs adoption deduction: The Administration proposes to restore and double to \$3,000 the special needs adoption deduction, effective for adoptions on or after February 1, 1992.
- o Expand public transit exclusion to \$60 per month: To encourage employees to use energy-efficient mass transit in

going to and from work, the Administration proposes to increase the amount of employer-provided public transit pass expense that may be excluded from an employee's income from \$21 to \$60 per month.

Homebuyers and Real Estate:

- o **Provide first-time homebuyers a \$5,000 tax credit:** The Administration proposes to provide first-time homebuyers a tax credit on the purchase of a principal residence. The credit would equal 10 percent of the purchase price of the residence, up to a maximum credit of \$5,000.
- o **Allow deduction for loss on sale of principal residence:** The Administration proposes to modify the current law rules that disallow deductions for losses on the sale of a principal residence. Under the proposal, owners who sell a principal residence at a loss would be permitted to treat the loss as a casualty loss, thus allowing a partial deduction.
- o **Extend low-income housing tax credit:** The Administration proposes to extend for 18 months State authority to allocate the low-income housing tax credit to qualifying rental housing.
- o **Waive penalty for withdrawals from IRAs for first-time homebuyers:** The Administration proposes to waive the 10 percent penalty for early withdrawals on or after February 1, 1992, if the money is used for a first-time home purchase. The maximum amount that could be withdrawn without penalty for a first-time home purchase would be \$10,000.
- o **Facilitate real estate investments by pension funds and others:** The Administration proposes to modify the rules governing taxation of certain investments in real estate by pension funds and certain tax-exempt investors. These changes will facilitate direct equity investments in real estate by providing pension funds and other qualified investors greater flexibility in making investments without incurring unrelated business income tax (UBIT).
- o **Extend mortgage revenue bonds:** The Administration proposes to extend the authority for State and local governments to issue mortgage revenue bonds and mortgage credit certificates through December 31, 1993.

Other:

- o **Support revenue neutral tax simplification:** To reduce the burden of taxpayer compliance with the Nation's tax laws, the Administration will continue to support revenue neutral tax code simplification, including simplification of tax rules applying to individual taxpayers, rules relating to amortization of purchased intangible assets and rules governing payroll tax deposits for small and medium-sized businesses.
- o **Revise rules for charitable contributions:** The Administration proposes to make charitable gifts deductible for alternative minimum tax purposes to the same extent as under the regular tax.

THE PRESIDENT'S COMPREHENSIVE HEALTH PLAN

The President's Comprehensive Health Plan will be a comprehensive, market-based reform that builds on the strengths of our current system to provide access to affordable insurance for all Americans. The full details of the plan will be presented in early February.

- o The plan will guarantee access to all poor families through a transferable health insurance credit (voucher) that is large enough to purchase a basic health package (\$3,750 for a family).
- o Insurance security will be provided for all Americans. The fear of "job lock" -- where a worker can't move to another job without losing access to insurance is eliminated.
- o Major market reforms will change the way insurance is provided. Smaller businesses and individuals will be pooled into larger groups -- so they can enjoy the health coverage of large employers. Millions of people who now can't find affordable insurance will be covered.
- o The middle class will get new help to pay for health care. Millions of individuals will have increased deductibility of health care expenses to help make health insurance more affordable.
- o The plan will encourage the growth of coordinated care -- in private plans, Medicare and Medicaid.
- o Administrative costs will be reduced through regulatory reforms that will streamline the current paperwork maze.
- o Malpractice reform. A comprehensive liability reform plan will be proposed to reduce the costs of malpractice and the resulting defensive medicine that burdens the US health system.
- o Services will be expanded in underserved areas. The inner city and rural America have acute shortages of doctors and clinics. The President's budget expands funding for Community Health Centers, Migrant Health Centers and the National Health Service Corps to expand preventive care in these areas.

The President's Plan Does Not:

- include governmental price regulation or rationing of health care
- burden small business with new mandates
- require any tax increases
- threaten older Americans with benefit reductions or premium increases.

The President's FY 1993 Budget for:

DEFENSE

The budget provides resources necessary to maintain military forces that are highly trained, well equipped and capable of protecting vital U.S. interests around the world. Savings, in addition to those reflected in last year's budget, are made possible by the collapse of the Soviet Union and the reduced military threat. These additional savings result from canceling or slowing the deployment of several advanced systems. This reflects a new approach to acquisition. Fewer new systems will be put into production but new technologies will be aggressively pursued and existing systems will be improved using proven technologies.

DOD Funding:

- o The budget provides \$267.6 billion in DOD budget authority for FY 1993 and \$272.8 billion in outlays. The FY 1993 budget authority level is \$9.9 billion below the FY 1992 level enacted by Congress, a decline of 7 percent in real terms adjusted for inflation. The FY 1993 outlay level is \$10.4 billion below the level of the FY 1992 enacted program.
- o The budget reduces the Department of Defense's six year FY 1992-1997 defense plan by \$63.8 billion in budget authority and \$36.7 billion in outlays compared to the February 1991 plan. Reductions are \$50.4 billion in budget authority and \$27.4 billion in outlays compared to the February 1991 plan adjusted for Congressional action, technical corrections and inflation reestimates.
- o From FY 1992 through FY 1997, DOD budget authority will decline in real terms by an average of 4 percent per year. By FY 1997 the cumulative real decline in budget authority is 37 percent from FY 1985, the peak year, and 29 percent from FY 1989. Outlays decline in real terms by 26 percent from FY 1985 and 30 percent from FY 1989.
- o Defense outlays as a share of the U.S. GNP are projected to fall to 3.4 percent in FY 1997, a 50 year low. Outlays as a share of total federal outlays fall to 16 percent in FY 1997, again a 50 year low.

Force Structure and Personnel:

- o The budget reflects acceleration of the sizeable force and manpower adjustments that were included in last year's plan.
- o Force structure will decline by about 25 percent from FY 1990 level by FY 1995. Reductions include ten Army

divisions, ten Air Force tactical fighter airwings and 95 battle force ships, including three aircraft carriers.

- o Active military personnel is projected to decline by more than 500,000 between FY 1990 and FY 1997, reserve manpower by over 250,000, and civilian end-strength by over 200,000 over this period.

Major Program Changes:

- o **B-2 Stealth Bomber.** Deliveries of the B-2 will continue for several years. However, total production will be limited to 20 aircraft compared to 75 in the previous plan. Because of the changes in the Soviet threat, America's strategic bomber force is less likely to face the sophisticated air defenses for which the B-2 stealth bomber was designed. Current bomber forces including B-1B and B-52 aircraft can be adapted to ensure adequate capabilities for strategic nuclear and conventional missions. Projected savings are \$14.5 billion through FY 1997.
- o **Small ICBM/Improved MM III Guidance.** Development of the small ICBM will be terminated. The guidance system for existing Minuteman III missiles will be improved and the service life of these missiles will be extended. Projected savings are \$1.0 billion through FY 1997.
- o **Advanced Cruise Missile.** Procurement funding will be terminated after FY 1992 for a total buy of 640 vs. the previously planned 1,000 missiles. This reflects reductions in the strategic target base and in the strategic threat. Projected savings are \$1.3 billion through FY 1997.
- o **Seawolf Submarine (SSN-21).** This program will be terminated in view of the reduced threat from ballistic missile submarines. Development of other anti-submarine warfare systems will proceed including development of a lower cost submarine. Projected savings are \$17.5 billion through FY 1997.
- o **Comanche Helicopter.** Production will be deferred and effort concentrated on building prototypes and on technology demonstrations. With the change in the Soviet threat U.S. forces can be adequately supported in the near term with appropriate improvements to the existing helicopter fleet. Projected savings are \$3.4 billion through FY 1997.
- o **Air Defense Antitank System.** This advanced system will be terminated and development initiated of an improved aircraft tracking system and seven advanced guidance technologies that can be incorporated in existing systems. Projected savings are projected to be \$1.7 billion through FY 1997.

- o Other Major Program Adjustments. The budget also proposes to defer funding until FY 1997 for the Block III tank -- part of the Army's armored systems modernization program; forego engineering and manufacturing development for the Advanced Air-to-Air Missile; forego procurement and proceed with research and development only for the Navy's Fixed Distribution System underwater surveillance network; and postpone procurement and stretch out development of the Army's line of sight antitank program (LOSAT). Projected saving are \$2.6 billion through FY 1997.

Rescissions and Environmental Supplemental Request:

- o Rescissions of FY 1992 and prior year programs are proposed totalling \$7.7 billion. These rescissions would cancel funding for programs that do not address genuine defense needs including many programs that were placed in the budget by Congress without the Department's request.
- o These requested rescissions will more than offset budget authority and outlays associated with a planned FY 1992 environmental supplemental request of \$1.1 billion required to achieve full compliance with federal, state and local environmental laws and regulations.

Other Highlights:

- o Readiness. The budget funds training and maintenance necessary to sustain high current level of force readiness.
- o Strategic Defense Initiative. The budget provides funding of \$5.4 billion in FY 1993 and projected FY 1992-1997 funding of \$39.6 billion. This will allow initial deployment of a ground-based system in FY 1996 or as soon as technology permits and vigorous research and development on space-based components. The growing threat from ballistic missile proliferation makes the need for this system of highest priority.
- o Science and Technology. Funding for technology programs will increase by \$1.4 billion to a level of \$12 billion in FY 1993, a growth of 9.1 percent. This will allow emphasis on technology demonstration and prototype development necessary to maintain future military capabilities.

Desert Shield/Desert Storm:

- o Incremental costs for Desert Shield/Desert Storm are estimated by the Department of Defense to be \$61.1 billion. Under the 1990 Budget Enforcement Act, spending on Desert Shield/Desert Storm is treated as an emergency funding requirement. To offset these incremental costs, U.S. allies have pledged \$54 billion, of which \$52.6 billion has been received -- \$47 billion in cash and \$5.6 billion in in-kind

assistance. Receipt of the remaining \$1.3 billion is expected in the near future.

The President's FY 1993 Budget for:

EDUCATION

A better educated workforce is essential to America's economic growth and world competitiveness. Federal programs provide essential support to States and localities to improve elementary and secondary education achievement and help low and middle income students go on to higher education. The President's budget contains proposals to help States go farther and faster on education reform, help States extend educational choice to low and middle income families, broaden access to higher education, and continue progress on restoring integrity to student aid programs.

Education Funding:

- o The Education Department would receive the largest discretionary program increase for any Department, \$1.6 billion over 1992, a total of \$24.3 billion; an increase over 1989 of \$7.2 billion or 42 percent.
- o Education Department total outlays would grow by \$3.9 billion or 15 percent over 1992, to a total of \$30.4 billion.
- o In the Department of Health and Human Services, the budget recommends that Head Start increases by \$600 million or 27 percent over 1992 -- the largest one year increase in history. The 1993 Head Start budget of \$2.8 billion is \$1.6 billion (or 127 percent) higher than 1989.
- o Government-wide, the budget proposes \$81.3 billion for programs that support the National Education Goals, an increase of \$6.1 billion or 8 percent over 1992, and an increase of \$24.9 billion or 44 percent over 1989.
- o The President's AMERICA 2000 Excellence in Education proposal would be funded at \$768 million, \$668 million over 1992. It includes choice initiatives to help give lower and middle income families more of the same elementary and secondary education choices that wealthier families have:
 - The Choice Grants for America's Children Act, funded in the budget at \$500 million, would match up to \$500 of State funds per child, for a total of up to \$1,000 or more, in model State projects for public and private school choice.
 - The Low-Income School Choice Demonstration Act, funded in the budget at \$30 million, would fund carefully designed and evaluated demonstrations to address and answer concerns about the effects on the public schools

of funding the full cost of private and public school choice for low-income families in low-income areas.

- o Other Excellence in Education Act programs funded in the budget and included in the President's reforms proposal are:
 - New American Schools: Grants of up to \$1 million would be provided to 535 schools that are developed as "break the mold" models. The purpose of New American Schools is to change the old ways of schooling and raise the achievement of all students;
 - Merit Schools, to reward schools that show sustained progress in educational achievement;
 - Governor's Academies for Teachers and School Leaders, to train teachers and others for the demands of better schooling; and
 - Alternative Certification, to help States bring better teachers and administrators into the schools.
- o The budget provides Pell Grant funding of \$6.6 billion, \$1.2 billion or 22 percent more than 1992, and \$2.2 billion, or 48 percent more than 1989. The maximum Pell Grant award is \$3,700, 54 percent more than in 1992.
 - 3.4 million students would receive awards.
 - Compared to 1992, students from families with incomes up to \$50,000 receive more funds; students from all income groups receive higher average awards.
 - Students with family income up to \$20,000 receive average awards 31 percent above 1992 and receive \$545 million more than in 1992.
- o For the first time, Pell recipients with high academic achievement receive \$500 Presidential Achievement Scholarships on top of their Pell Awards. (Total proposed funding: \$170 million).
- o Guaranteed student loans spending increases by \$2.1 billion or 60 percent of 1992, providing needy students more loans in larger amounts than ever before. \$16 billion in loans would be available, \$3 billion more than in 1992.
 - The Administration proposed needed legislative reforms to restore program integrity; simultaneously, its management reforms are addressing the administrative issues under current law.
- o Government-wide, mathematics and science education funding would increase to \$2.1 billion, \$137 million or 7 percent

over 1992, and \$856 million or 69 percent over 1989. The highest priority, elementary and secondary education, would increase \$117 million, or 18 percent over 1992. 770,000 teachers would be trained in 1993.

- o Funding proposed in the budget for research, statistics and improvement is \$243 million, \$90 million or 64 percent more than 1992; \$165 million or 212 percent more than 1989.
- o The budget provides \$6.8 billion in funding for Compensatory education for the disadvantaged. This serves over 5 million children in a variety of programs. Includes Even Start, funded at \$90 million, \$20 million or 29 percent more than 1992.

The President's FY 1993 Budget for:

PREVENTION AND THE NEXT GENERATION

CHILDREN:

The 1993 Budget invests over \$100 billion in programs serving children, a \$7 billion (7%) increase over 1992 levels and \$40 billion (66%) over 1989 levels. This Administration has placed a priority on programs serving children, which will help to ensure a better future for the next generation.

PREVENTION:

The President's health care reform proposal will point out that practicing healthy lifestyles and taking preventive measures are the keys to improving the health of all Americans. Better control of fewer than 10 factors -- such as diet, prenatal care, exercise, the use of tobacco, alcohol and illegal drugs, and the use of seat belts -- could prevent between 40 and 70% of all premature deaths, a third of all cases of acute disability, and two-thirds of all cases of chronic disability. The 1993 Budget invests \$26.4 billion in programs that will help prevent premature deaths, extend average life expectancy, and reduce illness and disability. The combination of the Budget's additional dollars and continued improvements in healthy personal behavior will help reduce morbidity and mortality -- providing better lives for all Americans.

Head Start:

- o The Budget includes the largest funding increase in Head Start history -- \$600 million. This 27% increase over 1992 will bring total Head Start funding to \$2.8 billion. The 1993 Budget brings the increase since 1989 to \$1.6 billion (127%). This unprecedented increase will provide one year of Head Start participation for eligible children wanting to participate.

Childhood Immunizations:

- o The Budget increases support for childhood immunization grants by \$52 million (18% increase). Childhood immunizations are among the most cost-effective prevention activities; a \$1 investment in Measles-Mumps-Rubella vaccine may save as much as \$14 in averted medical care costs. Because of such well-established payoffs for childhood immunizations, the Federal Government has continued to increase its investment in this activity.
- o The 1993 Budget will help to provide 6,710,000 polio immunizations, 4,147,000 measles, mumps, and rubella immunizations, and 2,600,000 hepatitis b immunizations.

Through coordinated efforts by all levels of government and the private sector, the Nation has achieved a 98% immunization rate for children entering school.

Healthy Start/Infant Mortality Prevention:

- o The Budget proposes \$9.4 billion for all Federal activities to reduce infant mortality, 18% above 1992 levels. The 1993 Budget proposal of \$9.4 billion for infant mortality reduction represents an increase of 65% since 1989. The Budget follows up on the President's FY 1992 proposal to target Federal resources to 15 areas with exceptionally high rates of infant mortality, called Healthy Start, by providing a 123% increase to \$143 million in 1993.

Women, Infants, and Children Nutrition Assistance (WIC):

- o The Budget proposes the largest ever one-year funding increase to WIC, \$240 million (9%), for a total of \$2.84 billion. In 1989, WIC served 3.3 million eligible women, infants, and children each month. For 1993, the budget funds participation by 5.4 million eligible women and their children — over 60% more than in 1989.

Educational Excellence:

- o The Budget includes \$768 million to support the AMERICA 2000 Excellence in Education Act, an increase of \$668 million over the amount appropriated for 1992. Included are two major Choice initiatives that would give middle- and low-income families more of the same choices that wealthier families now have: the Choice Grants for America's Children Act, funded at \$500 million and The Low-Income School Choice Demonstration Act, funded at \$30 million. Also included is support for new programs such as New American Schools, Merit Schools, Governors' Academies for Teachers and for School Leaders, Alternative Certification for Teachers and Principals.

Eisenhower Math and Science Education:

- o The Budget includes \$316 million for Eisenhower Math and Science programs, an increase of \$48 million over the 1992 level. The \$248 million State grant program is the principal source of Federal support for improving the skills of elementary and secondary mathematics and science teachers. \$36 million will be used for a special competition to fund demonstration projects using experienced secondary school teachers of mathematics and science to train elementary and middle school teachers.

Child Care Block Grant:

- o The Budget contains \$850 million for this block grant, which

was enacted as part of OBRA '90 as a result of Administration negotiations with Congress. The enactment of this new block grant illustrates the President's strong commitment to parental choice. Three-quarters of these block grant funds support child care vouchers, which parents can use to choose a provider. Administration leadership in the child care legislation also resulted in the expansions of the refundable family-oriented tax credits discussed below.

Access to Primary Health Care/Expanding Community Health Centers:

- o In addition to the President's comprehensive health care reform strategy, the Budget includes an additional \$1.3 billion for primary and preventive health care. This includes a 15% increase for community and migrant health centers, which will be used to open new centers in areas characterized by high poverty rates and low rates of public and private insurance coverage. The Budget also contains a 19% increase for the National Health Service Corps (NHSC), which will train additional physicians to provide health services in low income and underserved areas. In total, the budget increases child-oriented health care funding (through Medicaid, the Maternal and Child Health Block Grant, and Community and Migrant Health Centers), by \$2.1 billion, or 12.5 percent over FY 92 levels.

Breast and Cervical Cancer:

- o The budget will invest an additional \$99 million in breast and cervical cancer screening through the Medicare program and CDC Breast and Cervical Cancer Mortality Prevention Grants. CDC's program increases by \$20 million to a total of \$70 million, a 40% increase over 1992 and a 14-fold increase since 1990. This investment will target low-income, high-risk women for screening. The Centers for Disease Control (CDC) estimates that its grant program alone will provide breast and cervical cancer screenings for 96,000 more women than in 1992.

HIV/AIDS Funding:

- o The Budget includes an additional \$565 million for HIV/AIDS government-wide, an increase of 13% over 1992. Funding for HIV/AIDS treatment also increases substantially (by 20%) over 1992. This includes a 9% increase for HIV treatment programs authorized by the Ryan White "CARE" Act of 1990.

Smoking Cessation:

- o The Budget increases support of smoking cessation by 5% over 1992. Included in this increase is an additional \$3 million for the CDC Office on Smoking and Health, enabling CDC to expand its smoking cessation education activities for

specific at-risk populations, including minority and low-income, pregnant women.

Injury Prevention:

- o The Budget increases funding for injury prevention to over \$2 billion, a 9% increase over 1992. Preventing injury through encouraging increased personal responsibility can save lives. If the U.S. were to increase the national average of seat belt use from the 1990 rate of 48% to the President's goal of 70% by the end of 1992, we could save 3,800 lives annually and prevent 100,000 serious injuries.

Family Planning:

- o The Budget contains an additional \$37 million for HHS family planning grants and Federal Medicaid payments for family planning activities, an increase of 8%.

Lead Poisoning Prevention:

- o The Budget includes a 90% increase (\$19 million), for CDC Lead Poisoning Prevention Grants, which support about 30 state-wide lead poisoning screening programs. CDC grants help states identify low-income children at risk of lead poisoning and refer those with high blood lead levels for medical treatment. These funds also will provide lead poisoning screenings for an additional 125,000 children in 1993.

Tuberculosis Control:

- o Recent outbreaks of tuberculosis have been observed in selected cities, in part due to HIV. The Administration has acted quickly to attack recent outbreaks of TB and the Budget includes a 133% increase over 1992 for CDC tuberculosis control grants. Through TB diagnosis and treatment, the Administration is determined to stem the recent growth of this preventable disease.

Refundable Tax Credits:

- o The Budget continues family-oriented refundable tax credits, which will bring over \$11 billion in payments and tax reductions to low- and moderate-income Americans in 1993. Enacted as a result of Administration efforts, three refundable credits will increase the income of these families by \$31 billion over the next five years. The credits are: 1) the basic earned income tax credit; 2) the credit for families with young children; and 3) the family health insurance credit.

The President's FY 1993 Budget for:

JOB TRAINING

Federally-funded vocational education and training programs supplement private sector workforce development investments. Individuals who need access to jobs and training through the Federal system face an uncoordinated maze of programs and services. This existing program structure does not meet the demands of the changing work place and competitive economy. Job Training 2000 would create the market-driven, effective, and efficient system essential to a dynamic economy.

THE CURRENT PROGRAM STRUCTURE:

- o More than 60 programs administered by seven Federal agencies offer vocational education and job training at a cost of about \$18 billion each year. \$12 billion is not effectively utilized for overlapping populations and services.
 - Services are disjointed, administration is inefficient, and individuals do not get good information on jobs, skill requirements, or the quality of training.
- o Weak quality controls have allowed hundreds of unscrupulous proprietary institutions to take billions of dollars in student aid subsidies without providing effective training.
- o Except for the Job Training Partnership Act (JTPA), Federal programs do not have a way to get effective input from local employers--the source of jobs.
- o Youth and adults seeking training and jobs face a complex, incoherent, uncoordinated maze.

JOB TRAINING 2000:

- o The Employment Service would be restructured and its resources incorporated into Skill Centers. (Certain activities, such as veterans employment services, would continue as adjunct activities of the Skill Centers.)
- o These "one-stop shopping" Skill Centers would replace the many uncoordinated entry points that the programs now have in each community. Skill Centers would offer testing, counseling, and job market information, referral to jobs and vouchers for PIC-approved education and training programs.
- o Private Industry Councils (PICs), originally created to administer JTPA, would be expanded and modified to manage and coordinate \$12 billion in Federal resources:

- \$4.1 billion of proposed 1993 funds would be under direct PIC control: Training and summer youth funds from JTPA; funds now allocated for the Employment Service; Job Corps recruitment; Food Stamp employment and training; postsecondary vocational training under the Perkins Vocational Education Act.
- \$7.6 billion of proposed 1993 funds would be coordinated through PICs: AFDC/JOBS; Pell grants, Guaranteed student loans and other Education Department student aid for vocational training; training funded through Rehabilitation services; Veterans vocational training; JTPA dislocated worker program; Perkins Act "Tech-Prep" projects.
- o Working with State agencies, PICs would approve all training programs based on training quality, reasonable cost, student experience (program completion rate, job placement, job retention and loan default rates) and employer satisfaction.
- o Only participation in certified training programs would be funded by any major Federal program.
- o \$7.2 billion would be in voucher form: \$2.2 billion in new vouchers; \$5 billion from Pell and GSL in voucher form.
- o PICs would have resources to contract for services in areas with few training opportunities, where programs are unable to serve the disadvantaged effectively, or where necessary to provide support services for the disadvantaged.
- o Financial incentives will make training institutions accountable. At least 20 percent of the payment a training institution would otherwise receive (excluding student living expenses) would be paid only when the trainee completes the program and holds a job in the field of training for at least 90 days.
- o The transition of young people from school to work would become more efficient through skill standards and youth apprenticeships. A nationwide system of apprenticeships would be tried to voluntary industry skill standards. Students could make agreements with the school, employer and parents for a structured combination of academic instruction, classroom skill training, paid on-the-job training, work experience, and mentoring. Fair Labor Standards Act changes would allow training wages in approved programs.
- o To help AFDC recipients get jobs, pilot projects will try incentives to for-profit companies to train and place AFDC clients in jobs; and test providing lump-sums to recipients who work their way off AFDC. The President's health plan would eliminate loss of health care coverage when AFDC

recipients work; their health insurance credits would help cover employer health insurance costs.

The President's FY 1993 Budget for:

RESEARCH AND DEVELOPMENT

A key to enhancing long-term economic growth in America is improving productivity, thus making possible improvements in America's standard of living. Investments in R&D are the key to innovation and productivity improvement.

The 1993 budget proposes to invest over \$76 billion for research and development, including R&D facilities, an increase of nearly \$2 billion or 3 percent. Within a budget which freezes domestic discretionary spending, Federal civilian R&D would increase by 7 percent. The total increase for R&D is affected by the fact that defense-related R&D would increase by only 1 percent. The budget proposes over \$14 billion for basic research, an increase of over \$1 billion or 8 percent. The budget also proposes over \$17 billion for civilian applied research and development, an increase of over \$1 billion or 6 percent.

Applied Research and Development:

- o High Performance Computing and Communications. The budget proposes \$803 million, an increase of \$148 million or 23 percent for the second year of a successful program to move to a new generation of computers and computer networks. The President's sweeping high performance computing Initiative will help develop computing capability with roughly 1,000 times improvement over current systems by 1996 and communications systems 100 times faster than those currently in use.
- o Advanced Materials and Processing. The budget proposes \$1,821 million, an increase of 10 percent, for a new Presidential program intended to improve the manufacture and performance of materials. Advances in materials will enable improvements in a wide range of other technologies -- from aircraft, to computers, to automobiles.
- o Biotechnology Research. The budget proposes \$4,030 million, an increase of \$271 million or 7 percent, for a new cross-cutting program involving 12 Federal agencies. Biotechnology will play a key role in enhancing the Nation's technological strength, economic growth, and health and quality of life of its people.
- o Advanced Manufacturing R&D. The budget proposes a total of over \$1 billion. This includes \$321 million, an increase of 27 percent, for nondefense-related manufacturing R&D, including \$105 million for an initiative at the National Science Foundation and \$27 million for the National Institute of Standards and Technology.

- o The National Institute of Standards and Technology and the Advanced Technology Program. The budget proposes \$311 million, a 26 percent increase, for NIST. In addition, the budget proposes \$68 million for the Advanced Technology Program, an increase of 36 percent over 1992.
- o Energy Technology R&D. The budget proposes \$914 million, an increase of \$140 million or 18 percent for targeted high-payroll energy technologies. These investments, guided by the National Energy Strategy, will increase energy efficiency, and will lead to cost-effective alternatives to petroleum and to advances in new electricity technologies, including battery technology.
- o Fusion R&D. The budget proposes \$360 million, an increase of \$23 million or nearly 7 percent for the development of energy from nuclear fusion. This initiative maintains the U.S. commitment to the International Thermonuclear Experimental Reactor (ITER) engineering design.
- o Transportation R&D. The budget proposes \$1,433 million, an increase of 17 percent, for transportation R&D. The Department of Transportation (DOT) will provide \$498 million for R&D on aviation and high-speed rail projects, and the National Aeronautics and Space Administration (NASA) will provide \$855 million for aeronautics R&D. In addition, NASA and DOD will together provide \$260 million for technology development for the National Aerospace Plane (NASP) program.
- o Protecting the Public Health. The budget proposes \$4.8 billion for applied research and development at the Department of Health and Human Services, an increase of \$92 million, or 2 percent. The budget proposes a total of \$10.6 billion for basic and applied research and development at the Department of Health and Human Services, including over \$1.2 billion for research on Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome, and an 80 percent increase for the Women's Health Initiative.
- o Space Research and Technology. The budget proposes \$305 million, an increase of 12 percent, for NASA space technology development. This increase will help create the new technology for future U.S. space missions.

Initiatives in Basic Research:

- o Doubling the National Science Foundation (NSF) Budget by 1994. The budget proposes an increase of 18 percent overall for NSF, including a 21 percent increase for basic research.
- o Increasing Support for Individual Investigators. The budget proposes nearly \$8 billion, an increase of 9 percent, for individual investigators funded by the Departments of Health and Human Services and Energy, and the National Science

Foundation. Individual investigators are the backbone of the U.S. scientific and engineering enterprise -- and have been the source of many of America's most pioneering inventions and discoveries.

- o Human Genome Project. The budget proposes \$175 million, an increase of \$11 million, or 7 percent, in the Departments of Energy and Health and Human Services. The goal of the project is to analyze within 15 years the entire complement of human genetic material at the molecular level.
- o Superconducting Super Collider (SSC). The budget proposes \$650 million, an increase of \$166 million, for the SSC. This will support the continued prototype superconducting magnet development, and construction of support facilities and a test tunnel segment. The budget maintains the 10-year schedule approved last year. The total cost of slightly over \$8 billion assumes one-third non-Federal contributions, including \$233 million in 1993.
- o U.S. Global Change Research Program (USGCRP). The budget proposes \$1,372 million, an overall increase of \$262 million, or 24 percent. This Initiative is the most advanced program on global change research issues in the world. Understanding more fully the Earth's climate system will facilitate development of sound policies concerning issues such as ozone depletion and global warming.
- o Astronomy and Astrophysics. The budget proposes a total of \$890 million, an increase of 6 percent for these programs, funded primarily by the National Science Foundation and the National Aeronautics and Space Administration. The budget proposals are consistent with the recommendations of a recent report of the National Research Council.
- o Agricultural National Research Initiative (NRI). The budget proposes \$150 million, an increase of 53 percent. Six areas of research will be funded: natural resources and the environment; nutrition, food quality and health; plant systems (including mapping of plant genomes); animal systems; markets, trade, and policy; and processes antecedent to adding value and developing new products.

Maintaining National Security: Defense R&D. The budget proposes a total of \$43 billion for R&D for national security activities, an increase of \$438 million, or 1 percent over 1992. This amount includes \$40 billion for R&D supported by the Department of Defense, and almost \$3 billion for defense-related R&D supported by the Department of Energy.

Accelerating Technology Transfer. The budget projects a significant increase in the level of technology transfer activities, including almost 1,700 Cooperative Research and Development Agreements, an increase of 40 percent over the two

years since 1991; about 3,300 new invention disclosures; 1,500 patent applications; and almost 500 technology licenses awarded.

- o Expanding the Role of the National Laboratories. The budget proposes that the National Laboratories play an increasing role in high priority areas of civilian applied research and development, and in helping to form R&D consortia and other collaborative R&D arrangements led by industry and universities.

Stimulating Private Sector R&D Investments. R&E Tax Credit: The budget proposes to make the Research and Experimentation tax credit permanent. Encouraging R&D by Multinational Companies: The budget proposes a 18-month extension in the rules for allocation of foreign and domestic expenditures for companies with foreign operations.

Expanding the Geographical Frontier: Space. The budget proposes about \$15 billion for the National Aeronautics and Space Administration, an increase of 5 percent over 1992.

- o Space Station Freedom. The budget proposes \$2,250 million, an increase of 11 percent, for continued development. This will allow fabrication and testing of critical components in preparation for first element launch in 1996.
- o Improving Access to Space. The budget proposes \$5.4 billion, an increase of 2 percent, for civil space transportation, including the Space Shuttle, commercial expendable launch vehicle services, and other initiatives such as the SpaceHab module for microgravity research.
 - New Launch System. NASA and the Department of Defense will propose \$250 million for joint development of a new launch system to reduce the cost of access to space, improve reliability, increase operability and flexibility, and extend U.S. launch capability to heavier payloads.
- o Space Exploration. The budget proposes a total of \$586 million for programs leading to exploration of the Moon and the planets. Plans for 1993 include supporting ongoing planetary missions including the planned mission to Saturn, initiating two new robotic missions to explore the Moon, and advancing key technologies needed for future missions to the Moon and Mars.

The President's FY 1993 Budget for:

TRANSPORTATION AND OTHER INFRASTRUCTURE

The President's budget supports two key goals: (1) meeting today's needs by maintaining and expanding the current infrastructure, including highways, bridges and airports; and (2) preparing for tomorrow's needs by supporting research on new transportation technologies, such as magnetically levitated trains ("maglev"). An efficient transportation infrastructure stimulates economic growth and productivity -- virtually every good produced uses transportation services. The budget reflects four underlying principles: (1) a partnership among the Federal Government, State and local governments and the private sector; (2) using public resources wisely; (3) encouraging private investment; and (4) removing barriers to an efficient transportation system.

Federal Capital Spending:

- o Federal capital outlays for major physical capital infrastructure will grow 8 percent in 1993, from the 1992 level of \$46.5 billion to \$50.4 billion.

Highways:

- o The budget requests \$19.2 billion, a \$2.2 billion or 13 percent increase over 1992, for highway construction and rehabilitation and will support over 1 million jobs in 1993.
- o States are provided new tools to address highway needs through the following four programs: the National Highway System (NHS), Surface Transportation block grant program, Interstate Maintenance and Bridge Rehabilitation. States primarily determine the funding mix among these programs based on their individual needs. The proposed \$2.2 billion increase will finance a significant increase for each program. These four programs were either created or expanded in the 1991 Surface Transportation Act, signed by President Bush in December, 1991.
- o Toll Roads: The Surface Transportation Act provides States with broad discretion to use Federal funds to construct and rehabilitate toll roads. This provides States with a new, significant funding source to expand capacity and improve and maintain existing highways.

Aviation:

- o The budget requests \$9.4 billion, a \$564 million or 6 percent increase over 1992, to operate, maintain, and ensure the safety of the aviation system. It will also expand the modernization of air traffic control facilities.

- o Included in the request is \$2.7 billion for air traffic control modernization, a \$306 million or 13 percent increase over 1992. Modernization will improve efficiency and safety and expand capacity. Over \$204 billion in lifecycle benefits will be realized through modernization.
- o To further increase aviation system capacity, the Federal Government will: provide greater State flexibility in allocating airport improvement grants; support the use by airport authorities of the newly authorized passenger facility charge (PFC) to finance capacity and other improvement projects; enhance public/private efforts to expand capacity and conduct needed research; and encourage peak period pricing to ensure that existing capacity is used efficiently.

Environmental Infrastructure:

- o The budget proposes \$2.5 billion for EPA wastewater treatment grants, a \$100 million or 4 percent increase over 1992. These grants will assist cities in providing adequate secondary sewage treatment to protect health and the environment as well as allow business expansion by providing sufficient treatment capacity. Specific grants are proposed for: Boston Harbor-\$100M; New York-\$70M; Los Angeles-\$55M; San Diego-\$40M; Baltimore-\$40M; and Seattle-\$35M.

Space Infrastructure:

- o The budget proposes \$5.4 billion for civil space transportation, a \$100 million or 2 percent increase over 1992, to improve the Space Shuttle's efficiency and develop alternative expendable launch vehicles. That investment includes \$250 million for NASA and DOD to proceed with development of a New Launch System, which will provide the infrastructure for a new generation of space missions.

Weather:

- o The budget includes \$437 million, a \$108 million or 33 percent increase over 1992, for weather satellites, and \$177 million, a \$21 million or 14 percent increase, for Weather Service modernization which will improve weather forecasts and storm warnings. Weather impacts aviation, shipping and overland commerce and weather system modernization is essential to the efficient use of the transportation system.
- o Modernization will replace obsolete equipment, reduce gaps in weather observations and permit the National Weather Service to take advantage of technological and scientific advances in the detection and prediction of severe weather.

Research and Development:

- o **Maglev/High-Speed Rail:** The budget includes \$28 million, an \$8 million or 40 percent increase over 1992, for high-speed rail and maglev research and development. The Administration proposes to complete a full and fair evaluation of maglev technology before deciding to undertake prototype development.

The President's FY 1993 Budget for:

HOUSING

The investments proposed in the President's FY 1993 budget for housing will help to:

- o expand homeownership opportunities;
- o give low-income families more choice in where they live through vouchers;
- o reform significantly existing Federal housing programs to ensure that all assisted low-income families live in decent, well-managed housing;
- o remove barriers that add to the cost of housing; and,
- o support the homeless through a wide array of housing and service arrangements that are tailored to their varied needs.

Expanding Homeownership:

- o The President's 1993 Budget requests over \$1 billion for the Homeownership and Opportunity for People Everywhere (HOPE) program, a 180 percent increase over the 1992 enacted level of \$361 million. HOPE grants will help public housing and other low-income people become homeowners.
- o The budget proposes a change in the law to allow Section 8 vouchers to be used to pay for either a home mortgage or rent. Currently, such vouchers can only be used by very-low-income households to help pay rent. This change in the law would greatly expand the opportunity for low-income tenants to become homeowners.
- o Through the President's Low-Income Housing Preservation program, tenants will have the right to purchase buildings from private owners who wish to terminate low-income housing rental subsidies. The budget requests \$1.2 billion for this program, almost double the 1992 enacted resources for this program.
- o The budget proposes penalty-free withdrawal of up to \$10,000 in IRA funds for making downpayment on homes by first-time homebuyers.
- o The budget proposes up to a \$5,000 tax credit for eligible first-time homebuyers.
- o The budget proposes extending for 18 months the tax-exempt Mortgage Revenue Bond, which lowers the cost of home payments for moderate income buyers.

Support for the Homeless:

- o The budget proposes over \$1 billion for homeless programs, a 6 percent increase above funding enacted by Congress in 1992. For HUD homeless programs, the budget recommends an increase of \$87 million, or 19 percent, above 1992 levels.
- o The budget supports a new \$50 million initiative, "Safe Havens," for the mentally ill homeless who are unwilling or unable to commit to existing treatment programs. It offers a stable living environment and the opportunity, but not the requirement, to participate in mental health services. The primary goal of this program is to establish a stable residence for these individuals. This security will lead to their being able to commit to supportive service programs later on.

More Choice in Housing:

- o The budget requests 82,699 vouchers for low-income housing assistance provided through HUD, a 74 percent increase over the number enacted in 1992. In addition, the budget requests 5,895 housing vouchers for rural areas. These would be administered through the Farmer's Home Administration (FmHA) and would give rural residents more freedom to choose where they live than the current project-specific FmHA Rental Assistance program.
- o HOPE for Elderly Independence is a demonstration program funded in the budget at \$48 million. It will test the effectiveness of combining housing vouchers with supportive services to assist frail elderly persons to continue to live independently rather than be institutionalized. Of the \$48 million, \$10 million will be for supportive services and \$38 million will cover the costs of the vouchers. Funds for supportive services will have to be matched.

Housing Reforms:

- o The budget requests \$2.292 billion to modernize public housing; \$292 million will be for "Perestroika for Troubled Public Housing: New Choices for Residents." This initiative focuses on the limited number of severely troubled public housing developments where either a change in management may be desirable or where there may be better uses for the buildings. Under the "Perestroika" proposal, tenant associations and state and local governments will have the opportunity to buy public housing developments from Federal Public Housing authorities.

- o "Restore" is a \$412 million budget initiative to improve the housing conditions, financial health, and affordability of an estimated 1,800 troubled projects insured by FHA that are in danger of defaulting. Like "Perestroika," "Restore" maximizes resident involvement in managing and owning these projects.

Removing Barriers:

- o In 1990, the Administration established a bipartisan commission to study the impact of government regulation on housing affordability. In July 1991, the Commission submitted its report to the President and Secretary Kemp.
- o Several key recommendations from that report are adopted in the budget, such as:
 - extending the Low-Income Housing Tax Credit and Mortgage Revenue Bond programs for one-and-a-half years and incorporating how they will be used into the States' required Comprehensive Housing Affordability Strategies (CHAS);
 - requesting \$10 million to fund planning grants to States for barrier-removal;
 - creating a Regulatory Reform Clearinghouse in HUD for States, localities, and others interested in reform;
 - establishing an Interagency Affordable Housing Regulatory Review Board to expedite waivers to Federal regulations;
 - appointing a Barrier Removal Officer within HUD to assist States and localities to initiate barrier-removal programs; and
 - encouraging the development of model zoning and other types of housing regulations for States and localities to follow.

CRIME AND DRUGS

The Bush Administration's investment in fighting crime will grow from \$14.6 billion in 1992 to \$15.8 billion for 1993 -- an 8 percent increase over 1992, and a 59 percent increase over 1989. These resources will address crimes that continue to threaten the American family, the infrastructure and security of neighborhoods, and the financial strength of America. Crime statistics show that while the overall crime rate is edging down, rates for certain violent crimes, particularly in our cities, continue to rise. Growth of the judicial and prison systems is a necessary corollary to increased law enforcement, and certainty of punishment is the key to deterrence.

The Administration's budget to fight drug abuse will grow from \$12.0 billion in 1992 to \$12.7 billion for 1993 -- an increase of more than 6 percent above 1992, and nearly double the sum appropriated in 1989.

FIGHTING CRIME:

Fighting Violent Crime: To fight violent crime the Administration will devote over \$589 million in 1993, an increase of \$99 million or 20 percent over 1992 and double the amount spent to fight violent crime in 1989.

- o The Administration's 1993 budget proposes a new \$500 million initiative called "Weed and Seed" (see below), which will coordinate law enforcement programs with programs to support social regeneration and economic growth in targeted inner city neighborhoods. This program will complement the President's proposal to create Enterprise Zones in distressed urban areas.
- o The Federal Bureau of Investigation (FBI) will field over 2,000 new agents, devoting 385 of these agents to a national network of violent crime task forces. Working with State and local law enforcement agencies, these task forces will target criminal street gangs and other violent criminals. By the end of 1993, the FBI will add \$46.7 million to its violent crime resources, reflecting an 83 percent increase since 1989.
- o To go after violent gang members, the Bureau of Alcohol, Tobacco, and Firearms (BATF) will devote \$38 million to its National Violent Gang Enforcement Program to investigate gang members who are weapons violators. This is part of the \$100 million proposed in 1993 for BATF's Armed Career Criminal Program. Total BATF spending to remove violent repeat offenders from the Nation's streets will increase over \$5 million, almost a 6 percent increase, in 1993.
- o To identify fugitive felons and other violent criminals apprehended for often minor violations, the 1993 budget includes \$100 million for the FBI to continue development of a state-of-the-art Fingerprint Identification System. When operational it will provide Federal, State and local law

enforcement agencies with the ability to identify within hours fugitive rapists, murderers, and other violent criminals and get them off the street.

- o To prosecute violent offenders and others, \$814 million will be requested for the U.S. Attorneys, 77 percent more than was spent in 1989.
- o Every year nearly 6 million people are victims of violent crimes. In 1993, the Administration will provide \$144 million to assist victims of crime and to fund programs that offer support to overcome the traumas caused by violent criminals.

Fighting White-Collar Crime: To fight white-collar crime, including financial, insurance, Medicaid, and bankruptcy fraud, the Administration will devote \$864 million in 1993. This represents an increase of \$70 million, or 9 percent over 1992, and more than double the amount spent on white-collar crime in 1989.

Jailing Criminals: To ensure that prison space is available so convicted criminals will serve their entire sentences, the 1993 budget proposes \$2.2 billion for Federal prisons, an increase of \$185 million, or 9 percent over 1992. This is 44 percent more than was spent in 1989. In 1993, space for 4,640 more prisoners will be added to the Federal Prison System, and over 3,400 more prisoner slots will be made available in future years, based on prison construction requested for 1993. Implementation of the Federal Sentencing guidelines has mandated consistent, tougher sentences, with mandatory minimum sentences for armed, violent, and repeat offenders.

ENDING THE SCOURGE OF DRUGS

Building a Strong Drug Law Enforcement System: The Administration is continuing to build up law enforcement as a base for fighting drugs. To attack drug trafficking organizations at the source and on the street, interdict the flow of drugs into the country, and deny traffickers the profits from their activities, the 1993 budget proposes \$8.6 billion. This is an increase of \$443 million or 5 percent over 1992, and 88 percent more than the 1989 level.

- o To fight the drug traffickers on their home turf, the 1993 budget proposes \$768 million to support international counter-drug efforts. Successful international programs were responsible for the seizure of over 12 tons of cocaine in Guatemala since July 1991.
- o To protect U.S. borders from the inflow of drugs, the 1993 budget proposes \$2.2 billion for interdiction activities, including 200 new Border Patrol agents on the Southwest border.
- o To fight drugs at home, the 1993 budget proposes \$7.7 billion for domestic law enforcement activities, an increase of \$470 million over 1992. As a result of past efforts, nearly \$630 million in cash and property has been obtained from organized criminals and drug traffickers through Federal asset forfeiture laws in 1991.

Increasing Emphasis on Drug Prevention: The Administration is increasing emphasis on prevention, especially targeting the young. These programs are working. Casual drug use is down. To prevent people from becoming users and to help persuade current users to stop, the 1993 budget proposes \$1.8 billion, an increase of \$77 million, or 5 percent over 1992. Special attention will be focused on children and adolescents. More than \$63 million will be allocated to demonstration projects to identify high risk youths -- an increase of 9 percent over 1992. In addition, \$114 million will be made available to community organizations to coordinate drug prevention strategies -- an increase of 15 percent over 1992. Funding for emergency grants targeting the Nation's hardest hit schools will double, from \$30 million in 1992 to \$60 million in 1993. Finally, to continue efforts that promote drug prevention in schools, \$655 million will be requested to fund Drug Free schools and communities grants.

Treating Drug Users: The Administration is making more drug treatment available, and is improving and targeting treatment to where it is most needed. To treat and rehabilitate those whose lives have been disrupted by drug use, the 1993 budget proposes \$2.3 billion, an increase of \$256 million, or 12 percent over 1992. In 1993, drug and alcohol treatment will be provided to over 403,000 users, an increase of nearly 13 percent over 1992. Selected populations will receive special attention -- veterans, pregnant women, residents of public housing -- where needs are acute.

WEED AND SEED

The President's budget includes a new \$500 million "Weed and Seed" initiative designed to help reclaim and rejuvenate embattled neighborhoods and communities. In concert with other Cabinet officials, the Attorney General will lead this effort to combine the strength of Federal law enforcement with the expertise and resources of Federal and local social services and community assistance programs.

"Weed and Seed" will use a neighborhood-focused, two-part strategy to control violent crime, and to provide social and economic support to areas in which high crime rates and social ills are prevalent.

- o To remove or "weed" gang leaders, violent criminals and drug dealers from the neighborhoods, the initiative targets Federal law enforcement to select communities. To support this initiative, the Department of Justice will provide \$30 million for law enforcement activities in over 30 neighborhoods. In total, the President announced that his budget will request a \$1.2 billion increase, 8 percent above 1992 levels, for Administration-wide efforts to fight crime.
- o To prevent the return of criminal activity, the initiative "seeds" the neighborhoods with public and private services, community-based policing, and the tax incentives of Enterprise Zones. Federal departments would make available \$470 million to fund a broad range of educational opportunities, job training, health care, housing, and social programs for use in

these neighborhoods. Specifically, the Federal Government will assist by providing:

- Education and prevention activities, such as school drug use prevention, adult education, and dropout prevention;
- Job training for youths and adults, including counseling, skills assessment, and day care assistance;
- Drug treatment, including a full range of treatment services;
- Access to health care, including primary and prenatal care, and to nutrition assistance, HIV counseling and testing, and transportation services;
- Tax incentives provided by Enterprise Zones to stimulate economic growth and create jobs; and
- Improved housing and community infrastructure to create a better physical environment.

The President's FY 1993 Budget for:

THE ENVIRONMENT AND AMERICA'S HERITAGE

The President's Budget provides \$18.3 billion, a \$3.2 billion (+21 percent) increase, for programs to protect and enhance America's natural resources and environment in a way consistent with Administration efforts to promote economic growth. This Budget marks the fourth year in a row that the President has proposed to increase the Nation's investment in its national parks, forests, refuges, and other outdoor recreation areas, pollution control and hazardous waste cleanup.

- o The America the Beautiful (ATB) program would increase by \$272 million, a 17 percent increase, which includes nearly tripling State matching grants for parks and other outdoor recreation facilities; more than doubling reforestation activities to support the President's program to plant a billion trees a year; and the creation of a new \$30 "America the Beautiful" Passport which will allow year-long access to Federal outdoor recreation areas, with Passport revenues earmarked for expanded recreation opportunities.
- o The Budget ensures that adequate funds are provided to clean up contamination of Federal facilities to the same environmental standards that apply to private facilities. The budget proposes \$5.5 billion for DOE's environmental restoration and waste management program, an increase of \$1.1 billion, or 26 percent. This level of funding was based on an extensive interagency review of DOE's funding needs that concluded unanimously that the \$5.5 billion level is sufficient to meet legal requirements, DOE Orders, and necessary and prudent discretionary activities associated with cleanup of DOE facilities.
- o The Department of Defense environmental program would be increased \$957 million over the enacted 1992 level, with an additional \$1 billion supplemental increase requested to accelerate cleanup and compliance activities in 1992.
- o Funding of \$201 million, a 95 percent increase, is provided to address major environmental problems along the U.S. - Mexican Border and meet commitments made in connection with the North American Free Trade Agreement. This includes \$80 million for construction of sewage treatment infrastructure in Tijuana near San Diego, Nogales, Arizona, and the New River in California, and \$50 million in wastewater grants and \$25 million in drinking water grants to the impoverished "colonias" in Texas.

- o The budget and manpower for the EPA's crucial operating programs are increased to nearly \$2.7 billion and 14,000 staff - both all-time high levels. This includes \$229 million, an increase of \$42 million (+22 percent), to ensure that the objectives of the 1990 Clean Air Act amendments are achieved; \$247 million for targeted efforts to address geographic areas of high human health and ecological risks including the Great Lakes, Chesapeake Bay, and Gulf of Mexico; and \$264 million to strengthen EPA's research capabilities to ensure that environmental decisions are based on sound science. President Bush has increased EPA's operating budget by 54% since coming into office.
- o Sewage treatment plant construction would be accelerated under the President's budget. Grants totalling \$340 million would be provided to all 6 of the Nation's largest 25 cities that do not now have adequate secondary treatment capacity -- Boston Harbor, New York, Baltimore, Los Angeles, San Diego, and Seattle. A total of \$680 million in targeted grants will have been provided during 1992 - 1993 to these large coastal cities.
- o The budget proposes an increase of \$134 million for the Superfund program, to \$1.75 billion, to accelerate cleanup of hazardous waste sites. The budget places a continued emphasis on making polluters pay to clean up the problems they created and refocusing Superfund resources on actual site cleanup.
- o Wetlands activities would increase \$212 million to maintain the Administration's commitment to the President's goal of "no net loss" of wetlands, balanced with economic growth and protection of private property rights. Since President Bush came to office, wetlands acquisition, protection, and research funding will have grown from \$295 million to \$812 million. Key measures include funding USDA's Wetlands Reserve program at 1 million acres through 1995; giving top priority to acquisition of critical wetlands under the Land and Water Conservation Fund; providing \$15 million to fully fund the North American Wetlands Conservation Act; and increased funding to accelerate Army Corps of Engineers processing of Section 404 wetlands permits.
- o The proposed budget for the Army Corps of Engineers' environmental protection and restoration activities is \$408 million, an increase of \$47 million, to accelerate permit evaluation and improve compliance monitoring under the Section 404 program and to modify facilities to mitigate adverse environmental impacts of Corps projects, such as construction of fish bypass facilities at 6 Corps dams on the Columbia and Snake

Rivers to improve downstream migration of juvenile salmon.

- o Global Climate Change research would increase \$262 million to nearly \$1.4 billion, a 24 percent increase, to expand interagency efforts to document and predict global climate change and better understand the scientific and social processes that influence global climate change.
- o Historic Preservation matching grants would be increased to \$41 million, including \$4 million for Historically Black Colleges to sponsor a preservation effort with the United Negro College Fund and \$1 million for James Madison's ancestral home in Virginia (Montpelier).
- o The budget proposes an increase of 18% for energy research and development to support the National Energy Strategy, with over \$900 million provided to develop more energy efficient technologies, increase production and use of natural gas, improve oil recovery from domestic reservoirs and develop advanced transportation fuels. The budget also provides funds to purchase an additional 5,000 alternative fuel vehicles for Federal use. This effort will provide manufacturers with "market pull" to help accelerate market penetration of this technology.
- o Funding for the U.S. Advanced Battery Consortium would increase by 50% to \$42 million, to develop affordable advanced and environmentally benign vehicles. This program is cost-shared 50/50 with private industry. In addition, the budget initiates a Government-industry cooperative effort to develop hybrid vehicles that use a combination of battery technology with other systems such as fuels cells or gas turbines.

The President's FY 1993 Budget for:

MANDATORY PROGRAM REFORM

Overview:

- o Apart from returning to strong economic growth, slowing the growth of "mandatory" programs is the most important key to bring the deficit under control.
- o Mandatory programs for 1993 now amount to \$766.8 billion in spending per year (\$980.6 billion including interest).
- o They are projected to grow at an average of 7.2 percent over the next five years.
- o Mandatory programs now account for over half of the Federal budget (64.4 percent including interest). By contrast, such programs amounted to only 23 percent of the budget in President Kennedy's day.
- o There is no realistic or responsible set of additional discretionary program reductions that will return the budget to balance. The budget can be brought into balance in the intermediate term only by enacting both a growth agenda and restraint on the growth of mandatory programs.
- o If the growth of mandatory programs were held to a rate that accounted for the expansion of the eligible population and the CPI, -- but only for population and inflation -- the cumulative deficit savings would amount to a shocking total: almost \$390 billion over 5 years. Of these savings, almost \$295 billion are a result of growth in Medicare and Medicaid that far outstrips the combination of inflation and population changes.

Summary of Mandatory Reform Proposals:

- o The President's Budget includes proposals to reduce the growth of mandatory spending by \$68.4 billion. This total does not include the substantial additional savings that can and should be achieved with a serious approach to health reform.
- o The mandatory savings proposed in the budget do not affect low- or middle-income beneficiaries of entitlement programs. They are primarily composed of proposals to:

- o reduce subsidies for the rich in Medicare and agriculture (saves \$3.8 billion over 5 years);
- o reduce subsidies from the government for cheap electric power only in certain regions of the country (saves \$2.2 billion)
- o increase competition by auctioning available radio spectrum space (generates \$3.8 billion in receipts)
- o cuts the growth in excessive Federal payments for laboratory services, durable medical equipment, and hospital charges to Medicare (saves \$10.8 billion);
- o improve efficiencies in disposition of property and recertification of eligibility for pensions of veterans programs (saves \$3.5 billion);
- o extend the ban on lump sum payment of pensions to government employees (saves \$5.1 billion); and
- o require employers to provide more prudently for pension liabilities (saves \$21.8 billion on an accrual basis);
- o further reform the deposit insurance system (saves \$16 billion on an accrual basis); and
- o improves America's energy security by allowing oil and gas leasing in the ANWR in Alaska (generates \$2.0 billion).

Proposal for Entitlement Cost Cap:

Further, the Administration supports an "entitlement cost cap." The proposal is as follows:

- o To cap "mandatory" program growth in aggregate;
- o To set the cap at one growth rate prior to the enactment of comprehensive health reform, and at a lower growth rate following the enactment of comprehensive health reform;
- o To set these growth rates at population expansion plus CPI plus an average of 2.5 percent and 1.6 percent, respectively;

- o To require that any projected growth beyond the mandatory cap trigger the legislative reconciliation process to correct the excess spending growth; and
- o As a fail-safe, to modify the pay-as-you-go system so that any uncorrected breach of the aggregate mandatory cap automatically triggers the sequester provisions for mandatory programs (while exempting Social Security from any such sequester).

This one procedural reform would go a long way toward remedying the most serious weakness in the discipline system of the current Budget Enforcement Act. We now have deficit targets, credit reform accounting, discretionary spending caps and associated mini-sequesters, and the pay-as-you-go system for new mandatory and revenue legislation. These disciplinary systems do not reach the entire inherited structure of automatic expenditure under pre-1990 law governing mandatory programs. Hence, there is an inescapable need for an enforceable cap on the growth of total mandatory spending.

The President's FY 1993 Budget

REFORMING THE PENSION AND DEPOSIT INSURANCE SYSTEM

PENSION BENEFIT GUARANTEE REFORMS

The Pension Benefit Guarantee Corporation (PBGC) guarantees pension payments for our nation's citizens who participate in defined benefit pension plans. Administration reforms will stem the growing deficit in PBGC's single employer plan program, enhancing pension protection and safeguarding taxpayers against a potential bailout of the system.

THE NEED FOR REFORM:

PBGC has a large and growing deficit from already terminated plans and the potential for much larger losses in the future. Between the end of 1990 and 1991:

- o The deficit (commitments to pay pensions in terminated plans in excess of the resources available to pay them) grew to \$2.5 billion, an increase of \$700 million.
- o The two largest terminations in history occurred: Eastern (\$700 million underfunded) and Pan Am (\$900 million underfunded).
- o Underfunding grew by 75%, to \$13 billion, in troubled companies.

Without reforms, PBGC's financial condition will continue to deteriorate and pension protection could suffer.

- o Reforms enacted in 1987 are not taking effect quickly or well enough to reduce underfunding in single employer plans.
- o An October 1991 district court ruling in the LTV bankruptcy case allows firms to escape pension plan payments during bankruptcy and makes virtually all PBGC claims in bankruptcy "general unsecured" claims rather than "priority" claims.

In the absence of Administration reforms, there are only three ways to deal with PBGC's deficit: increases in premiums, reduced guarantees in all plans, or taxpayer subsidies.

- o Increased premiums, even if risk adjusted, can drive sound plans out of the PBGC program, reducing protection for their plans' participants, as well as for those whose plans remain.
- o Reduced guarantees would offer less protection to workers across the board.

- o Taxpayer subsidies simply encourage companies to use their pension plans as source of cheap, unsecured debt.

PROPOSED REFORMS:

The Administration's proposed reforms would increase minimum pension plan funding requirements, clarify and improve PBGC's status in bankruptcy, and freeze benefit guarantees in chronically underfunded plans. The Administration's first announced its intention to develop these reforms in the FY 1992 budget. These reforms are intended to plan more prudently now to address hidden future liabilities of the government -- liabilities, which while they may not be evident in the current cash accounting system, are in fact accruing and are likely to come due in the future.

Minimum funding requirement reforms are designed to fully fund plans within ten to twenty years. They require companies with plans covering more than 100 participants annually to contribute the highest of amounts calculated under three rules:

- o The 1974 minimum funding rule, put in place when ERISA was enacted.
- o A stronger version of the 1987 reform deficit reduction contribution rule.
- o A new solvency maintenance rule, with contributions equal to annual plan disbursements plus interest on unfunded liability.

Transition rules, including a cap on the new solvency maintenance rule, will smooth the impact of the minimum funding proposal.

Bankruptcy reforms will improve both incentives for funding and PBGC recoveries in bankruptcy. Changes to the bankruptcy code and, where needed, conforming changes to ERISA would:

- o Clarify that contributions required under ERISA must be made during bankruptcy.
- o Ensure priority status for all contributions claims during bankruptcy, claims for underfunding prior to bankruptcy, and claims for shutdown benefits granted within three years of plan termination.
- o Increase very gradually the priority amount PBGC can claim for underfunding prior to bankruptcy.
- o Give PBGC, often the largest creditor in bankruptcy, the option to be a member of the Creditors committee.

The guarantee reform is designed to prevent PBGC's exposure to losses from increasing when a company gives a benefit in a chronically underfunded plan. Under the reform:

- o Future benefit increases would not be guaranteed if a plan is underfunded. Firms could negotiate such increases, but they would not be guaranteed.
- o Guarantees would be restored once the plan is fully funded.

BANKING AND DEPOSIT INSURANCE

To restore the health of our financial system and reduce long-term taxpayer exposure, the Administration proposes critical banking reforms that would help banks become more competitive and profitable. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) did provide essential, additional funding for the Bank Insurance Fund and enhanced capital and other regulatory standards. More reforms are needed, however, to limit the deposit insurance safety net and strengthen banks through full authorization of nationwide banking and branching and expanded powers. Finally, the Administration proposes to change the budget accounting for Federal deposit insurance in response to Congressional interest in improving the accountability of these federal liabilities. The estimated savings (on an accrual accounting basis) from implementing these reforms is \$16.2 billion over the FY92-97 period.

PROPOSED REFORMS:

- o **Nationwide banking and branching:**
 - Promotes diversification of risk.
 - Improves efficiency by reducing non-interest expenses and eliminating operational redundancy.
 - Facilitates consolidation of weak banks with strong banks.
- o **Expanded powers and ownership:**
 - Allowing any firm to own a bank would further expand the pool of capital available to the banking industry.
 - Allowing banks to engage in full range of financial activities would increase and stabilize bank profitability, enable banks to compete more effectively in the international marketplace, and provide more choices to American consumers.

- o **Limitations on the deposit insurance coverage:**
 - Reduce taxpayer exposure and restore the original intent of the Federal deposit insurance.
- o **Improved accountability:**
 - Proposes changing budget accounting from a cash to an accrual basis for federal deposit insurance programs.
 - Recognizes increases in Federal contingent liability costs up-front, requiring immediate action to either address the cause of the increase, or provide new funding to cover the increase or both.
 - Treats Federal deposit insurance contingent liabilities the same as those for Federal credit programs now that the Credit Reform Act has been implemented.

BLOCK GRANT TO THE STATES

The President's budget proposes a single consolidated block grant totalling \$14.6 billion. The President's goal is to move power and decision-making authority closer to the people and allow State and local Governments greater flexibility to manage programs more efficiently and effectively. The proposed block grant encourages the natural innovative powers of State and local Governments as laboratories of change.

To achieve general agreement on a single consolidated block grant with representatives of State and local government, the Administration has modified the block grant proposal contained in the 1992 Budget to include a generally agreed set of programs; and to provide for transitional arrangements phasing in the block grant, maintenance of delivery systems' provisions, audits, and intended use reports.

Programs to be Included in the Block Grant:

	<u>1993</u> <u>(In millions of dollars)</u>	
	<u>BA</u>	<u>O</u>
<u>Education:</u>		
Chapter 2	450	478
College assistance migrant program	2	2
High school equivalency	8	8
Drug Free Schools and Communities Act	654	648
Vocational education	1,138	961
Education for homeless youth	25	22
Follow-through	--	7
Adult Education Act (State Grants)	261	202
Foreign language assistance	--	8
Student literacy corps	--	4
Workplace literacy partnerships	19	16
Literacy training for the homeless	10	8

1993
(In millions of dollars)

	<u>BA</u>	<u>O</u>
<u>Environment:</u>		
Construction Grants	2,030	2,110
<u>Health and Human Services:</u>		
Maternal and child health block grant	674	674
Social services block grant	2,800	2,800
State welfare administrative expenses:		
Medicaid	2,868	2,802
AFDC	1,483	1,466
Food stamps	1,470	1,456
<u>Justice:</u>		
Drug control	496	502
Juvenile justice	8	58
<u>Other Programs:</u>		
Job training for the homeless	17	11
ASCS cost share	125	171
Community service employment for older Americans	75	85
National and Community Services Act	73	57
TOTAL	\$ 14.6	\$ 14.6

- o **Holdharmless Provision:** The funding formula proposed would approximate current funding distribution levels to ensure that no State would be harmed as these programs are incorporated into the new block grant.
- o **Transitional Arrangements:** The Administration recognizes that some type of transition period is necessary to ensure that sufficient fund controls and service delivery mechanisms are in place. Transitional provisions include: a phase-in period and maintenance of delivery systems' provisions.
- o **Other Specifications:** In order to ensure that State governments spend the money on the intended purpose, the block grant requires intended use reports and audits.

The President's FY 1993 Budget for:

MANAGEMENT IMPROVEMENT

The Administration remains committed to eliminating fraud and waste in Government and providing quality Federal services. This requires ensuring effectiveness, efficiency, accountability, and integrity in the management of Federal programs, rigorous program evaluations to ensure the highest possible Federal return on investment, and the elimination of unnecessary regulatory burdens that impede economic growth.

- o Improving Federal Management: To address specific problems, the Administration has initiated to date 20 joint agency-OMB "SWAT" and review teams. The Administration will propose additional SWAT teams during 1992. During 1991 the teams' efforts included improving (1) oversight and management of Education's Guaranteed Student Loan program (\$57 billion in loans outstanding), (2) budgeting and accounting for FEMA's \$320 million per year Disaster Assistance program, (3) estimating systems for the \$85 billion Federal portion of the Federal-State Medicaid program, and (4) the Bureau of Indian Affairs's inadequate accounting system.
- o Improving Federal Service: The budget requests \$1.7 billion, \$388 million more than in 1992, to improve service delivery activities and systems that are critical to most Americans (by the Internal Revenue Service, the Social Security Administration, the Federal Aviation Administration, and the Railroad Retirement Board). For example, the budget proposes expanded usage of IRS's electronic filing program to speed-up taxpayers' receipt of their refunds by as much as 4 weeks, and additional funding for the FAA's Advanced Automation System to improve the travelling public's safety and reduce their flight delays.
- o High Risk Management Areas: The budget requests \$2.053 billion for management improvements to reduce the potential for fraud and mismanagement in high risk areas, \$117 million more than enacted in 1992. Since creating the "High Risk" list in the fall of 1989, 28 items have been removed and 17 items have been added. The budget identifies six areas for intensive effort in 1992: HHS's third party liability policy; HUD's multifamily property management and disposition; Interior's Office of Territorial and International Affairs' financial management; AID's project administration the National Labor Relations Board's accounting system; and the Pension Benefit Guaranty Corporation's financial systems.
- o Strengthening Financial Management: To strengthen Federal financial management and implement the CFOs Act, the budget requests \$2.2 billion, \$83 million more than enacted in 1992.

Principal activities include correcting long-standing financial systems problems, improving asset management, and establishing accounting standards and principles and performance measures for Federal programs.

- o Improving Debt Collection: To improve the Government's ability to collect delinquent debts, the Administration's legislative proposal will expand the income tax refund offset program, bar delinquent debtors from obtaining new Federal loans or guarantees, and provide the Justice Department with permanent authority to contract with private sector attorneys for litigation and collection of delinquent debt referred to Justice by other agencies. Enactment of this legislation will lead to an estimated increase in collections of \$170 million in 1993 and avoidance of losses of \$140 million annually.
- o Strengthening Federal Information Systems: The budget includes \$2.8 billion, an increase of \$528 million over 1992 enacted levels, for investments in ten significant Federal systems programs. The largest increases support the FAA's modernization of the air traffic and airway management system (+\$202 million), IRS's tax systems modernization (+185 million), Defense Department's systems consolidation activities (+53 million), and FBI's fingerprint identification system (+52 million).
- o Reforming Procurement: The budget provides for several initiatives to improve the Federal government's acquisition of almost \$200 billion in goods and services each year. These include (1) strengthening controls over the procurement of services, (2) fostering the purchase of environmentally-safe and energy-efficient products, and (3) enabling increased procurement of standard, commercial products.
- o Using Program Evaluation: The budget makes use of rigorous evaluations to assure that limited funds are being used most effectively, and places increased emphasis on future evaluations to provide an improved basis for programmatic decisions. Examples of programs with planned evaluations include the Department of Education's Compensatory Education program, the Department of Housing and Urban Development's "HOPE" program, and the Department of Labor's Job Corps program.
- o Improving Federal Statistics: To modernize Federal statistics, the budget requests \$1.2 billion for major statistical agencies, an increase of 20% over the 1992 enacted level. The Administration's statistical program is aimed at recognizing the increasing role of services and international activities, changes in the population's demographics, and increased demands for environmental monitoring.

- o Reforming the Civil Justice System: The budget indicates that the Administration will propose legislation, developed through the Council on Competitiveness, to reduce costs and delays in the civil justice system. One major reform would deter meritless litigation, by requiring, for some civil cases, that the losing party reimburse the winning party for its attorney fees.
- o Reforming Regulation: To deal with the increased burden and adverse effect on economic growth of excessive regulation, the budget reflects the President's request that Federal agencies renew their efforts to eliminate unnecessary and growth retarding regulations. The budget sets out 57 of the most important final regulations expected to be issued in 1992. The budget also provides a concept for moving toward a "regulatory" budget.
- o Eliminating Legislative Impediments to Sound Management: The budget provides illustrative examples of the adverse effects of certain Congressional practices -- program earmarking, micro-management, and wasteful administrative requirements -- on effective Federal management.

Talking Points

Copy for
Speechwriters &
researchers

THE STATE OF THE UNION:

- * The President hit a home run tonight. He was Presidential, composed, and decisive.
- * He looked and sounded like the leader of the free world:
 - "The cold war didn't end, it was won."
- * The President separated himself from the pack of pretenders with his vision for the new world order:
 - "Strength in the pursuit of peace is no vice; isolationism in the pursuit of security is no virtue."
- * The President demonstrated the same resolve on the economy as he did on the liberation of Kuwait:
 - "This will not stand."
- * The President's plan had all the elements:
 - A response to the changing world (\$50 billion defense cut);
 - Help for homebuyers and real estate (\$5,000 tax credit, penalty-free withdrawal, deduction for loss on residence);
 - Incentives for investment to create jobs (cap gains, investment tax allowance, AMT reform, enterprise zones);
 - Tax relief for families (increase in personal exemption, deductability of student loans, flexible IRA, penalty free IRA for medical & education);
 - Investments in the future (R&D, Education, Head Start);
 - Help for those in need (UI benefit extension);
 - Controlling the size of government (Regulatory review, budget freeze, personnel freeze);
 - Opening foreign markets (GATT, NAFTA, Enterprise for Americas);
 - Attacking crime (Crime bill, funds for crimefighting)
 - Dynamic reform proposals (Health care, America 2000, HOPE, tort reform, banking reform, the National Energy Strategy, welfare reform).
- * Unlike the Democrats' proposals, the President's Plan is responsible:
 - It doesn't violate the budget agreement;
 - It doesn't raise taxes;
 - It doesn't cut defense beyond what is reasonable.
- * The President set a firm deadline for action from Congress:
 - After March 20, "if it must be, the battle is joined."
- * The President sounded the right confident and hopeful note:
 - "We are still and ever the freest nation on earth, the kindest nation on earth, the strongest nation on earth."

Talking Points:

THE PRESIDENT'S GROWTH AGENDA: EFFECTS ON THE ECONOMY

Economic Growth:

- * The President's plan will add hundreds of billions of dollars of goods and services to the nation's output over the next five years.¹

Jobs:

- * By the end of this year alone, the President's Plan will create 500,000 more jobs than would otherwise be created -- and many more in the years following that.

Home Sales:

- * The President's proposed tax credit of up to \$5,000 for first-time homebuyers is itself projected to enable up to a quarter of a million additional Americans to buy their first home in 1992.

Asset Values:

- * Enactment of the President's Plan will increase the value of assets held by Americans, including real estate, by hundreds of billions of dollars.

1

Note: Enactment of the President's Plan would increase the economy's growth rate by 25 percent over the next five years -- adding an average of almost 1/2 of a percentage point per year to the real growth rate of the economy relative to the "business as usual" baseline, which includes the Administration's spending acceleration proposal, reduced income tax withholding proposal, and other administratively discretionary actions.