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

OA/ID Number: 13826
Folder ID Number: 13826-002

Folder Title:
Research File for Fredericksburg Small Business Event 8/13/92 [OA 7578]

Stack:	Row:	Section:	Shelf:	Position:
G	26	22	7	2

Steve P/A. Ferguson

(1) Need to refer to the ~~bill~~ he's going to sign (in Feb!)
in Small Busi Invest. ~~Say Don't~~
Describe it in a few lines. Close with a ~~few~~ few lines saying he'll now sign the bill

(2) We probably need to cut a bit given the need for intro

Ferguson/McGroarty/Gershowitz
September 3, 1992
2:30 p.m.
[small]

PRESIDENTIAL REMARKS: SMALL BUSINESS EVENT
FREDRICKSBURG, VIRGINIA
SEPTEMBER 4, 1992
10:40 A.M. ??

Thank you, --------. [Acknowledgments. Local color.]

Better add pronunciation

I came here today to make a point -- to drive home the fact that small businesses like Fredericksburg Hardware and Goolrick's do more than sell doorknobs and drywall, hairnets and lipsticks. They generate the hope and pride and jobs that hold this community together.

America ~~has been~~ is economy working its way through a ~~tough economic adjustment~~ period of ~~profound~~ profound/difficult change. Many of this country's larger companies have retrenched and restructured -- and ~~it's caused a lot of hardship~~ I know these changes have been difficult for many working Americans. But ~~even in these tough times,~~ America's small businesses have shown staying power -- creating new products by the hundreds ... and new jobs by the thousands. That shouldn't really surprise us, because small businesses are often the first to adapt to a changing economy -- the first to turn change to advantage -- the force at the leading edge of economic recovery.

(I'm trying to make the pt with a little less negative spirit)

Too low? thousands & hundreds of thousands

//

That's why it's so critical these days that we remember the importance of small businesses to our economy. Because today, the defining challenge of the '90s is to reinvigorate our national economy, so that we can win the competition in the new global economy.

Our goal is simple and straightforward: In the 21st century, America must be not only a military superpower -- but an export superpower, an economic superpower.

In this election, you'll hear two versions of how to do this. My opponent's answer is to look inward -- to pretend that we can protect what we already have. Ours is to look forward -- to open new markets, prepare our people to compete, restore the social fabric, to save and invest -- so that we can win.

That's why I've placed small business at the heart of our agenda for America's economic future. Small businesses employ half our workforce, create two-thirds of the new jobs in America. They're the hothouse for innovation, risk-taking, new ideas -- the powerful engine that will take our economy into the 21st century.

So let me declare my bias right up front: when it comes to renewing the American economy, my loyalty lies with small business. You ~~see, I've seen this economy from the other side~~ know. I've run a small business -- built it from the ground up, with a lot of help from some great employees. I know what it's like to sweat out a tough deal, knock on doors to find investors, shop for credit, try your darndest to meet the next payroll. And I even had the ulcers to prove it.

I happen to think that's not a bad qualification for being President of the United States.

And maybe that accounts for the sharp difference between me and my opponent when it comes to the economy.

Here's how I see it. Nationwide, at least one-third of small businesses say they want to expand -- but <u>they can't</u>. So we must help them do what they do better than anybody: create jobs and opportunity right here in communities like Fredericksbur g.

That means three things: relief from excess government regulation, increased access to credit and investment, and a lighter tax burden.

We start by reducing the burden of government regulation. A few days ago I was out in Western Michigan, talking to a group of small business leaders, and I met a guy who runs an asphalt paving company. He said, "Mr. President, government regulations are killing us." He made the point that when a regulation doesn't make sense, it's the worker who pays -- <u>with his job</u>.

We're tackling this problem head-on. In January of this year, I ordered a freeze on federal regulations -- a top-to-bottom reform designed to speed up those regulations that encourage our businesses to grow, and cancel those rules that tie their hands.

To stay a step ahead of the competition, a small business needs the freedom to take risks, to innovate, without waiting for Washington's approval. The days of government over-regulation are just that: <u>over</u>.

But even without the burden of over-regulation, businesses can't grow without capital. The credit crunch has hit our small businesses hard; we've been working with bankers and regulators

across the country to correct the imbalance. And I've had the Small Business Administration working double-time to help credit-starved businesses. This year, for example, we've increased by more than 50 percent the general business loan guarantees offered through SBA -- more than $6 billion through 1992.

And finally, we must reduce the tax burden on small business. Right now, small businesses have to file payroll taxes twice a week. That's a waste. I've proposed we change it to once a month. And we're now developing a Single Wage Reporting System -- so small businesses can report their wage information through a single entity -- rather than manuever the maze of federal and state tax collectors.

But when you own a small business, how you pay your taxes is less important than how much you pay. We're fighting for an investment tax allowance, to get companies buying new equipment, and hiring new workers.

None of our major competitors punishes investment capital with taxes as we do. We've got to get investment flowing to our small businesses. And because we know that almost half of all new businesses literally begin at home -- when enterprisers convert their own "nest eggs" into capital -- we want to cut the tax on capital gains.

That's my agenda for small business: three obstacles, and three concrete steps to clear the obstacles from our path.

Now, where does Governor Clinton stand on small business? It's a strange coincidence, but his plan has three parts, too: Taxes, taxes, and taxes.

Our differences couldn't be deeper, couldn't be clearer. I see small business as the backbone of the American economy. Governor Clinton sees it as the goose that laid the Golden Egg. //

He starts with a big idea -- it's called big government. Governor Clinton says he wants $220 billion dollars in new government spending. But that's just for starters. Newsweek magazine says his programs will cost at least three times that amount.

So how will he pay for it? Well, nobody knows for sure -- but he's already advocating another $150 billion in new income taxes.

Now, he says he wants to soak the rich -- raise taxes on the top 2%. What he won't tell you is three out of every four people in the top 2 percent are small businessmen or family farmers. These folks aren't millionaires -- they're Mom and Pop, Inc.

My opponent offers small business a reverse version of "Lifestyles of the Rich and Famous." **You may not live like a millionaire -- but you're taxed like one.** //

They're also going to come after small business to foot the bill for a government take-over of health care. They're talking about a new payroll tax of at least 7 percent -- out of your

pockets. The liberal Urban Institute estimates that tax will cost 700,000 jobs.

And before they're done, they're going to zero in on small business and scoop $40 billion right out of the till -- $40 billion in broad daylight. Those are the facts.

Governor Clinton's tax plan will take away more than half the total profits of all small businesses combined. //

Think about that for minute: That's money small business has earned -- that they can use to buy that new piece of equipment, or build that new addition to their plant, or hire a few more salesmen or pharmacists.

I say: let's leave it up to them. The American people know better than some Washington budget planner how to spend their own money.

So that's my opponents' plan: $150 billion in new taxes ... a new 7 percent payroll tax ... not to mention a new job training tax. Add it up, and it equals 2.6 million: 2.6 million jobs lost. 2.6 million Americans, thrown out of work ... and onto welfare -- because my opponent thinks government deserves a pay raise.

[[For the life of me, I can't think how that's good for small business -- unless your business happens to be selling pink slips at the stationery store.]]

I don't think that's what small business needs -- and I know it's not what Americans want.

H.R. 4111
small business credit
ed enhancement

McGroarty/Gershowitz
September 3, 1992
2:30 p.m.
[small]

PRESIDENTIAL REMARKS: SMALL BUSINESS EVENT
FREDRICKSBURG, VIRGINIA
SEPTEMBER 4, 1992
9:30 A.M. ??

Thank you, --------. [Acknowledgments. Local color.]

I came here today to make a point -- to drive home the fact that businesses like [xxxxxx] and [xxxxxx] do more than sell [nails and doorknobs and drywall]. They generate the hope and pride and jobs that hold this community together.

America has been through a tough economic adjustment. Many of this country's larger companies have retrenched and restructured -- and it's caused a lot of hardship for working Americans. But even in these tough times, America's small businesses have stayed strong -- creating new products by the hundreds ... and new jobs by the thousands. That shouldn't really surprise us, because small businesses are often the first to adapt to a changing economy -- the first to turn <u>change</u> to <u>advantage</u> -- the force at the leading edge of economic recovery.
//

That's an important point to understand these days. Because today, the defining challenge of the '90s is to win the competition in the new global economy.

Our goal is simple and straightforward: In the 21st century, America must be not only a military superpower -- but an export superpower, an <u>economic superpower</u>.

- continue by contrasting cold war competition] domestic sector
[private sector
malpractice

I want to help this nation's small businesses do what they do best -- create jobs and opportunity right here in your community.

My plan will work -- because I know how businesses work. Studies show that at least one-third of small businesses want to expand -- but can't. We have to attack the obstacles that keep them from doing so.

We start by reducing the burden of government regulation. A few days ago I was out in Western Michigan, talking to a group of small business leaders, and I met a guy who runs an asphalt paving company. He said, "Mr. President, government regulations are killing us." He made the point that when a regulation doesn't make sense, it's the worker who pays -- with his job.

So in January of this year, I ordered a freeze on federal regulations -- a top-to-bottom reform designed to speed up those regulations that encourage our businesses to grow, and throttle those that don't.

To stay a step ahead of the competition, a small business needs the freedom to take risks, to innovate, without waiting for Washington's approval.

Businesses can't grow without capital. We've made great strides in overcoming the credit crunch that reduced the investment small businesses need. This year we've increased by more than 50 percent the general business loan guarantees offered through the Small Business Administration -- more than $6 billion through 1992.

Third, we must reduce the tax burden on small business. I've ordered the IRS to change regulations so that small businesses can deposit payroll taxes on a monthly basis. And we're now developing a Single Wage Reporting System -- so small businesses can report their wage information through a single entity -- rather than manuever through the maze of federal and state tax collectors.

But when you own a small business, how you pay your taxes is less important than how much you pay. Because we know that almost half of all new businesses literally begin at home -- when enterprisers convert their own "nest eggs" into capital -- we want to cut the tax on capital gains. And we're fighting for an investment tax allowance, to get companies buying new equipment, and hiring new workers.

Right now, for small business, there's one need that dwarfs all others: the need to reform our nation's health care system. The costs of health care are crushing many small businesses. Our plan is comprehensive, eases the burden on small business, and will not place our health care system in the hands of the people who brought you the House Post Office.

As long as I'm President, there will be no government takeover of health care.

We will, however, build on our system's greatest strength -- the quality of care in the United States is the finest in the world. We want small businesses to take advantage of that fact. Our plan contains incentives for small employers to pool their

resources -- to form Health Insurance Networks that can strike the best deal in obtaining coverage for their employees. It's based on the principle of economies of scale -- a principle that often leaves small businesses at a distinct disadvantage.

A single small employer often can't carry the risk and can't bear the cost of health coverage. Our Health Insurance Networks address both problems: allowing businesses to spread risk, while at the same time greatly enhancing their purchase power. And the networks will keep government from controlling how you address you own health-care decisions.

From taxes, to regulations, to spending, to health care -- this election is a contest between two very different view of business, and of how our economy works.

Here's the bottom line: The other side talks a good game -- and then taxes and spends and regulates you to death. Small business shouldn't be big-government's piggy bank.

My plan does what's good for small business ... what's good for American jobs and American workers ... what's right for America. //

Thank you once again for this warm welcome -- and may God bless the United States of America.

# # #

THE WHITE HOUSE
WASHINGTON

9/3

Cindy,

As we discussed, please find attached the enrolled bill memo on H.R. 4111 to assist in your incorporation of reference to same in tomorrow remarks. Thanks

RD

Document No. 348430SS

PB

WHITE HOUSE STAFFING MEMORANDUM

DATE: 9/3/92 ACTION/CONCURRENCE/COMMENT DUE BY: 6:00PM, TODAY!!SEPT. 3

SUBJECT: ENROLLED BILL H. R. 4111 -- SMALL BUSINESS CREDIT AND BUSINESS OPPORTUNITY ENHANCEMENT ACT OF 1992 AND SIGNING STATEMENT

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	✓	MCBRIDE	☐	☐
BAKER	☐	✓	MOORE	☐	✓
SCOWCROFT	☐	☐	MULLINS	✓	☐
DARMAN	☐	✓	PETERSMEYER	☐	☐
BATES	☐	☐	PORTER	✓	☐
BRADY	☐	✓	PROVOST	☐	☐
BROMLEY	☐	☐	ROSS	☐	☐
CALIO	✓	☐	SMITH	☐	☐
DEMAREST	✓	☐	TUTWILER	☐	✓
FITZWATER	☐	✓	ZOELLICK	✓	☐
GRAY	✓	☐	CLERK	☐	✓
HOLIDAY	✓	☐	BOSKIN	✓	☐
HORNER	☐	☐		☐	☐

REMARKS:

Please provide comments on the attached enrolled bill memo and signing statement directly to this office NO LATER THAN 6:00PM, TODAY, THURSDAY, SEPTEMBER 3!!! Thank you.

RESPONSE:

PHILLIP D. BRADY
Assistant to the President
and Staff Secretary
Ext. 2702

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

THE DIRECTOR

September 3, 1992

92 SEP 3 P2:40

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 4111 - Small Business Credit and Business Opportunity Enhancement Act of 1992
Sponsors - Rep. LaFalce (D) New York and 28 others

Last Day for Action

September 11, 1992 - Friday

Purpose

(1) Establishes a new program to finance Small Business Investment Companies (SBICs); (2) changes SBIC program requirements concerning matching funds, safety and soundness, and other issues; (3) increases the authorized levels of Small Business Administration (SBA) loan guarantees to small businesses; and (4) amends miscellaneous laws affecting SBA programs.

Agency Recommendations

Office of Management and Budget	Approval (Signing statement attached)
Small Business Administration	Approval (Signing statement attached)
Department of Defense	Approval (Signing statement attached)
Department of Commerce	Approval
Council of Economic Advisers	Approval
General Services Administration	No objection
Department of Justice	No objection (Informally)
Department of Labor	No objection (Informally)
Department of State	No objection (Informally)
Department of the Treasury	No objection (Informally)
Office of the United States Trade Representative	No objection (Informally)
National Aeronautics and Space Administration	No objection (Informally)

Department of Energy	Defers to SBA (Informally)
Environmental Protection Agency	No comment (Informally)
Securities and Exchange Commission	No comment (Informally)

Discussion

The principal provisions of H.R. 4111 are described below; other provisions are described in the Attachment. The enrolled bill passed the House by a vote of 399-2 and the Senate by voice vote.

New SBIC Program. SBICs are private companies licensed by SBA to provide equity and debt financing to small businesses. They are financed through long term bonds guaranteed by SBA. The House Small Business Committee's report on H.R. 5191, a predecessor bill, states that investments made with the bonds' proceeds "generally take 5 or 6 years to result in income to the SBIC." SBICs must make interest payments on the bonds during this period. According to the report, "this mismatch of income and expenses . . . too often has resulted in losses to the Government under its guarantees."

H.R. 4111 would authorize SBA to guarantee new instruments, called participating securities, issued by SBICs. SBICs could generally use the proceeds only to make equity investments in small businesses. Interest-equivalent payments would be made at rates roughly equal to the Treasury's cost of bonds of comparable maturity, but would be due only if the SBIC makes a profit. (SBA could also charge an up-front guarantee fee of up to 2 percent.) Principal would be due even if there is no profit; in the event of liquidation, the participating security would take priority over all other equity interests.

The SBIC could not distribute profits to its shareholders until it had: (1) made timely payments on the securities or reimbursed SBA for any payments made by SBA; and (2) paid SBA a share of the profits, generally between 9 and 12 percent. The Government would not have any ownership rights in the SBIC.

The authorized level of SBA guarantees under this program would increase from $100 million in FY 1993 to $700 million in FY 1997. SBA would also be authorized to purchase directly participating securities during FYs 1995-1997. (The authorized level of direct purchases would increase from $23 million in FY 1995 to $25 million in FY 1997.) Appropriations would have to be enacted before the guarantees or purchases could be made.

SBIC Reforms. H.R. 4111 contains several other changes to the SBIC program, some of which are in response to recent substantial defaults by SBICs. The principal changes would:

- Reduce from 80 to 75 percent the maximum share of an SBIC's total capital that can be guaranteed by SBA. The ceiling on SBA guarantees to one SBIC would generally increase from $35 million to $90 million.

- Require SBA to determine an SBIC's financial viability prior to approving each financing request.

- Require SBICs to make semiannual valuations of the fair market value of their investments. An SBIC's board of directors or general partners would have sole responsibility for the valuations.

Loan Guarantee Authorizations. Public Law 102-302 provided supplemental FY 1992 appropriations for SBA's largest loan guarantee program. H.R. 4111 effectively would increase the authorized gross level of guaranteed general business loans from $4.5 billion to $6.1 billion. (SBA guarantees repayment of principal and interest on 85 percent of these gross amounts.) The $6.1 billion level is roughly $60 million above that provided by the appropriations act.

H.R. 4111 would also increase the FY 1993 and 1994 authorizations for this program. Gross guarantees would increase from $4.8 billion to $7.3 billion in FY 1993. The FY 1993 Budget requested $4.1 billion; the House- and Senate-passed appropriations bills would provide $3.8 billion and $3.0 billion, respectively. The gross authorization for FY 1994 would increase from $5.0 billion to $8.5 billion.

The enrolled bill would specifically authorize SBA to guarantee loans and provide other assistance to firms affected by defense spending reductions.

Conclusion and Recommendations

SBA recommends approval of H.R. 4111, but cites concerns that "may require technical corrections in the future." (These are addressed in the Attachment.) SBA also notes that a provision it supported which would prevent SBICs from filing for bankruptcy was deleted from the bill. SBA has prepared for your consideration a signing statement, which is attached to its views letter. The statement says that the bill will provide a "major stimulus to the growth and development of small businesses."

The Department of Defense recommends approval and has also attached a proposed signing statement to its views letter. The statement is intended to prevent a provision of H.R. 4111 concerning Federal procurement of dredging services from being interpreted as a mandatory set-aside for small businesses. (The provision is described in the Attachment.)

We join SBA, the Departments of Commerce and Defense, and the Council of Economic Advisers in recommending approval of H.R. 4111.

An edited version of SBA's signing statement, which also addresses the dredging provision, is attached for your consideration. It has been reviewed and approved by the affected agencies and by the White House Offices of Policy Development and Counsel.

Richard Darman
Director

Enclosures

STATEMENT BY THE PRESIDENT

Today I have signed into law H.R. 4111, the "Small Business Credit and Business Opportunity Enhancement Act of 1992." The Act will provide a major stimulus to the growth and development of small businesses.

H.R. 4111 will restructure the Small Business Administration's Small Business Investment Company (SBIC) program. This restructuring will boost investment by the private sector in growth-oriented small businesses, while enhancing the safety and soundness of SBICs. H.R. 4111 also provides a substantial increase in authorized levels of SBA's guaranteed business loan programs. Thousands of small businesses will be able to obtain much-needed credit as a result of the expansion of these programs.

Two-thirds of all jobs in the United States are created by small businesses. This bill ensures that capital, the lifeblood of our economy, is available to help small firms start up and to help tens of thousands of existing firms to expand and grow.

Section 203 of the bill enhances small business contracting goals for a dredging program. In signing the legislation, I note that current law requires the Department of the Army to make every reasonable effort to award the designated contracting business to small business concerns.

Attachment

Other Provisions of H.R. 4111

Loan Guarantees for Certified Development Companies

H.R. 4111 would increase the authorized levels of SBA-guaranteed loans to certified development companies (CDCs). (CDCs are financial intermediaries, chartered by State or local governments, that use the proceeds of SBA-guaranteed bonds to help finance small firms' plant and equipment costs. SBA guarantees 100 percent of principal and interest payments on the bonds.)

The authorization level for FY 1992 would be increased from $546 million to $725 million. (Enacted FY 1992 appropriations provide for $682 million in guaranteed loans.) The FY 1993 authorization would increase from $573 million to $775 million. (This compares with the FY 1993 Budget request of $505 million and House- and Senate-passed appropriations bills that provide for $461 million and $433 million, respectively.) The FY 1994 authorization would increase from $602 million to $825 million.

"Microloan" Program Expansion

H.R. 4111 would expand a program established last October under which SBA makes loans to intermediaries who in turn make "microloans" to small businesses. (Microloans are short-term loans of $25,000 or less.) The enrolled bill would:

- Lower the interest rates charged to intermediaries and increase the maximum difference (or "spread") between these rates and the rates on microloans.

- Increase the number of authorized programs from 35 to 60 in FY 1992 and to 110 in FY 1993. The maximum number of programs per State and the dollar cap per State would also be increased.

- Allow quasi-public agencies to be intermediaries.

- Authorize appropriations of $55 million for FY 1992, $105 million for FY 1993, and $95 million for 1994. (These amounts include authorizations for technical assistance grants to intermediaries and their borrowers.) The House- and Senate-passed FY 1993 appropriations bills provide zero and $21 million, respectively, for this program.

Procurement Demonstration Programs

H.R. 4111 would extend, until September 30, 1996, several industry-specific "demonstration programs" that are scheduled to expire on December 31, 1992. OMB's Office of Federal Procurement Policy oversees a program to determine whether small businesses can compete for Federal contracts without mandatory set-asides. This program covers construction, refuse removal, architectural, engineering, and non-nuclear ship repair services. The Department of Defense oversees related programs on dredging services and textiles and clothing.

The enrolled bill would make some changes to these programs. For example, for the dredging program, goals are established for the percentage of contract dollars to be awarded to small businesses. Defense's proposed signing statement seeks to clarify that the goals are non-binding.

Buy America

H.R. 4111 would require SBA to give preference, "when practicable," to applicants for small business loans which use or purchase equipment and supplies produced in the United States.

Preemption of State Usury Laws

SBA would be authorized to establish nationwide interest rates for its loan guarantee programs which supersede any limits in State constitutions or usury laws. Proponents of this provision note that other Federally guaranteed financing programs have similar authority.

Procedural Changes

Sections 221 and 222 of the enrolled bill would change certain SBA procedures in ways that, according to SBA, may require future technical corrections.

Section 221 would require SBA to publish its decisions (including its reasoning) in cases where firms have protested the denial of "small disadvantaged business" (SDB) status. (This status makes firms eligible for certain benefits.) SBA's decisions made prior to enactment of H.R. 4111 would have no precedential value until they are published. SBA advises that section 221 "may have an adverse effect on the interests of firms seeking [SDB] status . . . ."

Section 222 of the bill would revise procedures for the establishment of small business size standards. (A "small" business is defined by different agencies in different ways for purposes of various Federal programs.) SBA would generally be required to approve standards issued by other agencies, and other criteria for the standards would have to be met. SBA advises that this section is poorly drafted, but that the agency will interpret the provision as allowing it to use the factors it currently employs in developing size standards.

Small Business Development Company Regulations

Current law prohibits SBA from issuing regulations concerning the Small Business Development Company (SBDC) program. (SBDCs are not-for-profit institutes funded by SBA and by State and local governments to provide technical and management assistance to small businesses.) The FY 1993 Budget designated the SBDC program as a "High Risk Area" because of legislative impediments to regulatory changes that would enable SBA to control the program.

H.R. 4111 would require SBA to submit proposed regulations for the SBDC program to designated congressional committees within 180 days of its enactment. The proposed regulations could not, however, be published in the Federal Register.

Commission on Minority Business Development

The enrolled bill would reverse a General Services Administration determination that the Commission on Minority Business Development expired on June 30, 1992. It specifies that the Commission shall continue to exist until it submits its final report to Congress and the President, or until September 30, 1992, "whichever is later." (The Commission is responsible for reviewing and assessing the operation of all Federal programs assisting minority business enterprise.)

SBIC Examinations

The enrolled bill would transfer responsibility for examining SBICs from SBA's Inspector General to its Investment Division. The related resources would also be transferred.

Studies and Reports

H.R. 4111 would require the following reports to be submitted to specified congressional committees:

- A General Accounting Office report on the experiences of small businesses in meeting Federal, State, and local construction bonding requirements.

- A report by the Treasury, the Congressional Budget Office, and the Securities and Exchange Commission on the potential benefits of developing a secondary market for loans to small businesses.

- An SBA report on so-called "contract bundling" (the combination of several small contracts into a single large contract) by Federal agencies.

In addition, SBA would be required to conduct a "National Seminar on Small Business Exports" in Buffalo, New York, during July 1993.

BUSH
QUAYLE
92

Issues Fax Transmittal

Date _____ **Time** _____ **No Pages** _____

From: Jay Shane

Fax No: 202-336-7943 **Phone No:** 202-336-7232

To: Andy Ferguson

Organization:

Fax No: 456218

Phone No:

Information:

Attached is memorandum from Dominic's staff summarizing the JCT study + a 1 page summary of the JCT's findings. As I said on the phone, there

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had to use these statistics in place of the Treasury Dept study we were not able to obtain.

FOOTNOTE 23 BACKUP
(including next 6 pages)

15

MEMORANDUM

April 21, 1992

SUBJECT: JCT study of taxpayers affected by the proposed 36-percent bracket

---

During floor debate on the Senate tax bill and the tax bill conference report, the Treasury Department provided opponents of the legislation with data which showed how small business people would be affected by the proposed 36-percent individual marginal tax rate. Senators explained that it was not simply "individuals" that would be affected by the higher marginal rate. Specifically, based on Treasury's data, "about three-quarters of taxpayers affected by the tax rate increases report unincorporated or small business income" and "ninety percent of the revenue raised by the tax rate provisions come from these taxpayers." Senator Domenici took the lead on this, and several other Republican senators joined in the cause.

Senator Bentsen in turn argued that the figures were a "misrepresentation of the facts." He said that Treasury had used 1985 data that was irrelevant today. In fact, Treasury used 1989 data, the latest available individual income tax data.

The Joint Committee on Taxation has finished a short study which looks more closely at the affect of the 36-percent individual bracket. JCT started with the broadest possible classification (used by Treasury), then sequentially applied "filters" or conditions to narrow the field.

JCT + Treas 15b

The broadest classification of small businesses identified taxpayers (above the threshold for the 36-percent bracket) who reported income or loss on schedules C (sole proprietor income), E (partnership or S corporation income), or F (farm income). This broad classification matches up with Treasury's data: 837,000 returns, or 77% of the taxpayers affected by the 36-percent rate filed schedules C, E or F; 85% of the tax liability of those affected by the top rate is from taxpayers filing schedules C, E or F. (See attached table).

JCT felt that the 77% figure was an overestimate because it included many taxpayers who received no schedule C or F income, and only passive income from partnerships or S corporations (schedule E). Rental income and income from business activities in which the taxpayer does not materially participate is defined as passive income, and I think JCT rightfully argues that these people are not the small business entrepreneurs Senator Domenici was trying to defend. Taking these people out of the analysis reduces the set of taxpayers to 669,000, or 62% of taxpayers affected by the 36-percent bracket.

The set of taxpayers now includes only those with active income or losses. Senator Domenici was trying to make the point that a great many taxpayers were going to be paying a higher marginal rate because their business income would push

them over the threshold. The taxpayers who are still in this set and who show net losses would qualify for the proposed higher bracket on the basis of their nonbusiness income alone, and should arguably be removed from the set. The 519,000 remaining taxpayers account for 48% of taxpayers affected by the 36-percent bracket.

The JCT study then applied a filter to remove some professionals, such as doctors and lawyers, whose business is organized either as a sole proprietorship, partnership, or S corporation. JCT argues that such taxpayers may not differ materially from fellow professionals receiving salaries from other forms of organizations (for example a lawyer who works for the federal government). When these taxpayers were removed, a set of 358,000 was left, or 33% of taxpayers affected by the 36-percent bracket.

I disagree with a couple things here. First, I do think there is a material difference between doctors and/or lawyers who essentially run their own business and a similar professional who works for someone else. Doctors and lawyers whose businesses are organized as schedule C or E usually hire support staff, rent or buy office space, own or lease equipment -- business operations that involve decisions small business people have to make. If they make bad business decisions, their business suffers. Second, the impact that the service professional sector has on employment growth should not be discounted. We may not agree that there should be as many lawyers as there are, but they do hire a lot or people to work at their law firms. And, employment growth in the health services area has been the stronger than any other sector over the past decade.

JCT applied one final condition which excluded from the set of taxpayers those for whom wage income equalled or exceeded business income. This filter was designed to remove the true "entrepreneur" from those whose small business activities did not generate a considerable fraction of their income. The remaining 169,000 taxpayers represent 15.6 percent of taxpayers affected by the 36-percent bracket.

I'm not sure this is an appropriate filter either. Someone who has wage income that is higher than his small business income may just be getting the business off the ground. He may be doing it only part time. There are lots of reasons why business income could be less than wage income, and I think it is inappropriate to make a blanket decision to remove these businesspeople from the analysis.

JCT's analysis shows that Treasury used the broadest possible definition to come up with their numbers. It is not a mistake to use the 77% number, but it is helpful to understand what it means. I think a number of about 50% is more appropriate for what Senator Domenici wants to get across -- he wants to show that hard working people, who create jobs and keep this country growing, would pay higher taxes on their business income if the individual marginal tax rate is increased.

Attachments

NUMBER OF 1989 INDIVIDUAL RETURNS AND 1989 TAX LIABILITY FOR GROUPS OF TAXPAYERS REMAINING AFTER APPLICATION OF SELECTED CUMULATIVE FILTERS[1]

	Returns (Thousands)	Tax Liability (Billions)
0.) Universe of all taxpayers	112,136	$451.9
1.) Affected by top rate	1,083	$101.9
2.) With Schedule C, E or F income or loss	837	$86.8
3.) With active income	669	$72.9
4.) With net active income	519	$55.4
5.) Eliminating medical and legal services (Schedule C only)	441	$49.8
6.) Elimnating occupations of doctor or lawyer (for principal taxpayer only)	358	$42.5
7.) Requiring business income to be greater than wages	169	$23.8

[1] Table presents the number of taxpayers remaining after each of the listed filters is applied and the total amount of 1989 tax liability incurred by that set of taxpayers. The filters are cumulative. For example, the taxpayers on line 4 meet all of the requirements on lines 1, 2, 3, and 4.

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SOUTHWEST AIRLINES CO.
Herbert D. Kelleher
Chairman of The Board,
President & Chief Executive Officer

P. O. Box 36611
Dallas, Texas 75235-1611
(214) 904-4110

June 24, 1992

The Honorable Jim Chapman
U. S. House of Representatives
440 Cannon House Office Bldg.
Washington, D.C. 20515-4316

Dear ~~Congressman Chapman:~~ Jim

Last year you were very helpful to Southwest Airlines with regard to an FAA rulemaking. The FAA wanted to phase out so-called "stage 2 aircraft" for noise reasons well in advance of the date mandated by Congress. The regulation would have put many smaller carriers out of business and would have severely injured the ability of carriers like Southwest to compete with the larger airlines.

In addition to the help from Congress, we had another strong ally: The Council on Competitiveness. We do not believe the FAA would have revised its final rule in accordance with Congress' intent without the very active and vocal participation of the Competitiveness Council.

We recognize the Council is controversial. However, we know from experience that it is effective and diligent in pursuing its own mandate to preserve the strength and competitiveness of American business. We believe the Council plays a useful and vital role and urge you to vote against any attempt to eliminate funding for the Council in the Treasury and Postal Service Appropriations bill.

Thank you for your consideration.

Very truly yours,

Herb

Herbert D. Kelleher

HDK/lj
xc: Mr. Ron Ricks, Vice President-Governmental Affairs

The FLOC
Fairness to Land Owners Committee

1730 Garden of Eden Rd.
Cambridge, MD 21613

(410) 228-3822
Fax (410) 228-8357

June 21, 1992

Congressman Steny Hoyer
1705 Longworth House Office Building
Washington, DC 20515

BY FAX

RE: HOUSE APPROPRIATIONS COMMITTEE
The President's Council on Competitiveness

Dear Congressman Hoyer:

We are writing to ask for your help – as a powerful member of the House Appropriations Committee and as a fellow Marylander.

The press has been reporting that some members of the Appropriations Committee are determined to slash the funding for the staff of the President's Council on Competitiveness. These reports indicate that many members believe that the Council meets in secret with and panders to the wishes of the rich and powerful special interests groups, concerning their review of regulations.

We would like to give you another perspective. **This minuscule staff has been a tiny glimmer of hope for the 10,000+ bureaucratically abused "mom and pop" member families which we, as volunteers, represent in our effort to assist them in protecting their private property rights on many land-use issues.**

These "little people" are up against very powerful, overwhelming, and many times malicious bureaucrats. I assure you, Congressman, that in "real life" these bureaucrats, through regulations and enforcement, are exceeding the laws passed by Congress. Further, most of this abuse falls on the "little guys", who have neither the power nor the resources to hire professionals to represent them, nor do they have the deep pockets necessary to litigate in order to obtain fair treatment.

Frequently, these regulations and abuses do not affect the "rich and powerful", since these individuals can afford attorneys and consultants and can also influence their U.S. Senators or Congressmen to intercede.

We have observed this first hand over the last two years and have assisted many of these small landowners in obtaining fair treatment against the iron hand of the bureaucracy. We have found that most times their Congressmen have not been able to help them, tending to believe the bureaucrat's rhetoric, and some members of Congress have just not cared, as they view the individual's problem as a single vote.

NFIB SENT TO THE HOUSE APPROPRIATIONS COMMITTEE (EXCLUDING SKAGGS)

National Federation of
Independent Business

June 23, 1992

Honorable Tom Bevill
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Bevill:

The over 550,000 small business owner members of the National Federation of Independent Business (NFIB) urge you to oppose any amendment to cut off funding for the activities of the Council on Competitiveness.

A recent NFIB survey (Problems and Priorities) placed "Unreasonable Government Regulations" and "Federal Paperwork" among the top problems of small business owners. To be sure, regulatory mandates impose significant costs on businesses and consumers. Obviously, most federal regulations provide some benefit to society. Too many, however, are unnecessary, duplicative, excessively costly, or simply extremely difficult to comply with.

Our regulatory review process may not be ideal, but it is vital to ensuring that our laws and regulations achieve their goals effectively without impeding productivity or competitiveness. Offices such as the Council on Competitiveness and the Office of Information and Regulatory Affairs are among the few real options for small business participation in the regulatory process. Historically, the federal agencies themselves have been less than sympathetic to the concerns of the small business community. Small business owners fear direct communication with them because of their reluctance to become targets, or open their business to disclosure of proprietary information in the future.

Effective regulatory review, spurred on by the Council, has produced several tangible, fair changes to federal rules: clarification of the lender liability rule and payroll tax deposit rule simplification are two good examples. [Prior to the recent changes in payroll tax deposit rules, so much confusion existed that 40% of all IRS correspondence dealt with trying to clarify these rules, and in 1988 alone, businesses were fined $2 billion in penalties for filing incorrectly.] The changes will simplify the process for 75% of all businesses, saving money, easing paperwork burdens, and allowing businesses to target resources where they belong -- to jobs, wages, and investment.

ite 700
00 Maryland Ave. S.W.
ashington, DC 20024
02) 554-9000
rect Line (202) 554-0822
x (202) 554-0496

Guardian of
all Business

P002/003 NO. 519

Significant economic improvements achieved for small business, with the help of the President's regulatory moratorium and the Council on Competitiveness, benefit business, consumers, state and local governments, and the economy in general. Therefore, we urge your strong opposition to any effort to eliminate funding for the Council. If we may answer any questions, please do not hesitate to contact us.

Sincerely,

John

John J. Motley III
Vice President
Federal Governmental Relations

NEW ENGLAND LENDING AND RECOVERY PROJECT
UPDATE
August 3, 1992

The latest phase of a regional recovery plan begun in May 1991, the U.S. Small Business Administration's (SBA) New England Lending and Recovery Project ***addresses credit problems that firms in the region face as a result of the recession and bank failures.*** It provides new loans to small businesses and, where possible, restructures existing loans made by banks taken over by the Federal Deposit Insurance Corporation (FDIC). **The objective is to return small businesses to the mainstream of private-sector credit, preserve jobs and bolster local economies.**

The project began operating on January 6, 1992, in New Hampshire and was expanded to Maine and Massachusetts in mid-February and to Connecticut, Rhode Island and Vermont in late March.

RESULTS TO DATE

Region-wide Totals

* SBA has initially committed to restructure loans worth **$477.2 million** to **2,727 small firms.** Each loan restructured saves both a business and the jobs of its employees.

  -- The Project has already saved or created **3,465 jobs** by restructuring loans worth **$53.8 million** to **179** businesses.

Connecticut

* SBA has initially committed to restructure **309 loans** worth **$72 million** to small firms in Connecticut since the New England Project began operating at the end of March. So date, **245 jobs** have been saved or created by the project in the state as a result of loans worth **$5.5 million** to **11 businesses.**

Maine

* SBA has initially committed to restructure **406 loans** worth **$74.1 million** to small firms in the state. So far, restructured loans worth **$10 million** have been completed for **46 businesses,** saving or creating **436 jobs.**

Massachusetts

* Since beginning reviews of loan portfolios in Massachusetts, SBA has restructured **37 loans** worth **$9.9 million,** saving or creating **783 jobs** in the state. SBA has also made initial commitments to restructure loans worth **$143 million** to **742 small firms.**

New Hampshire

* SBA has initially committed to restructure **1,227 loans** worth **$174.6 million** to New Hampshire businesses. The Project has saved or created **1,567 jobs** in the state by restructuring **77 loans** worth **$24.3 million.**

Rhode Island

* Since the New England Project began operating in Rhode Island at the end of March, the SBA has made initial commitments to restructure **43 loans** worth **$13.5 million** to state businesses. The project has saved or created **434 jobs** in Rhode Island by restructuring **8 loans** worth **$4.1 million.**

OTHER DEVELOPMENTS

* **Loan Processing Center:** SBA expects to begin operations in late August at its new **Loan Processing Center** in the Hartford, Conn., area. The center will allow the agency to streamline the restructuring and approval of loans made under the New England Lending and Recovery Project.

* **Massachusetts Pension Fund:** On February 14, the state treasurer of Massachusetts announced that the state's public employees' pension fund would purchase $50 million worth of SBA-guaranteed loans on the secondary market, thereby committing to reinvest in the people and small businesses of Massachusetts.

THE WHITE HOUSE

WASHINGTON

September 3, 1992

MEMORANDUM FOR MEL LUKENS

FROM: RONALD C. KAUFMAN RCK

SUBJECT: GREETERS FOR THE PRESIDENT'S TRIP TO VIRGINIA
FRIDAY -- SEPTEMBER 4, 1992

The Office of Political Affairs would like to recommend the following individuals greet the President at the landing zone on arrival in Fredricksburg, Virginia on Friday, September 4, 1992.

1) Congressman George Allen

2) Congressman Herb Bateman

3) Mr. Bill Howell
VA State Delegate

4) Mr. Bobby Orrock
VA State Delegate

5) Jackie Slape
Fredricksburg City GOP Chairman

6) Duval Dickenson
Spotsylvania Co. GOP Chairman

7) June Funkhauser
7th District GOP Chairman

8) The Hon. Lawrence Davies
Mayor of Fredricksburg

Op. ed. Article on New England Project

The world of finance and business is a complex mechanism, in which every meaningful action causes an equally significant reaction. In New England, such reactions are endangering the health of the small businesses that form the bedrock of the region's economy.

The danger arises as an unintended side effect of the necessary efforts of the Federal Deposit Insurance Corporation (FDIC) to preserve the solvency of the banks of New England during their worst crisis in 50 years. The unfortunate result of the FDIC's effort is that many business owners have seen their loans called in despite never having missed a payment. For them, the danger of bankruptcy is very real.

The New England Lending and Recovery Project was designed by the U.S. Small Business Administration (SBA) specifically to work with the FDIC, and by using existing government programs and resources, help preserve credit options for small businesses.

The roots of the problem lie in the characteristics of the recession. During recent years, a widespread decline in real estate values has aggravated the crisis in the banking system and pushed many commercial lenders into insolvency. The FDIC has quite properly stepped in to assure the health of the financial

system and protect the deposits of bank customers by saving or restructuring many of these lenders.

In doing so, however, the FDIC has set in motion the law of unintended consequences. Nowhere have these consequences been felt more keenly than in New England, where real estate values in the six Northeastern states have fallen sharply. The number of lenders placed under FDIC control or supervision as a result has reduced its ability to maintain the availability of credit. That credit is vital to financing the revival of the region's economy.

The problems affect businesses seeking new credit and businesses with existing loans. Many small firms that had existing loans from banks that subsequently fell under FDIC control have found their credit pulled -- even in cases where they had made loan payments on time, in full, every month. To the FDIC, the fact that the lowered value of the real estate offered by borrowers as collateral would no longer cover the balance of the loan presented risks that the FDIC viewed as unacceptable. Thus, the loans were classified technically by the FDIC as "non-performing," even though they were current.

Each time a healthy business has its credit pulled, the business is put at risk and the jobs of its employees and its suppliers' employees are placed in jeopardy. For the SBA, the clear challenge was to find a way to preserve the ability of healthy, creditworthy firms to obtain capital, thereby saving and

creating jobs. It was equally clear that we needed to provide firms in the region with a new source of capital in addition to the banks.

This was not something the SBA could do alone. SBA needed help from the FDIC, which willingly offered it. SBA also had to find an alternative source of fresh capital that did not depend on New England banks or the regional deposit base.

After months of negotiations and planning, the result -- which is called the New England Lending and Recovery Project -- is now in place. It addresses the credit problems facing small businesses in the region, returning them to the mainstream of private-sector credit and helping to preserve jobs and bolster local economies.

This is not a case of the government simply throwing money at a problem. In fact, the key to its success is that it does not depend on new federal money, but on the creative application of SBA's existing program of guaranteeing loans made to small businesses by private sector lenders. It is an inexpensive program. The SBA requires an appropriation of five cents for every dollar it guarantees. Thus, $1 billion in guarantees costs the agency $50 million.

To provide a fresh source of new credit, SBA brought into the region one of the non-bank lenders -- Small Business Lending

Companies (SBLCs) -- that the agency has licensed to make SBA-guaranteed loans. Unlike commercial banks, SBLCs are non-depository lenders which fund their activities by selling the guaranteed portion of the loans they make on the secondary loan market. This allows them to import capital from regions of the country where it is plentiful into regions like New England where it is scarce. They can therefore provide new capital to small firms without burdening the deposit base of the region's troubled banks, yet provide these same banks with the competitive incentive to resume making small business loans.

The SBA project's second element involves working with the FDIC to help ensure that creditworthy firms are not unintended victims of bank takeovers. Under an unprecedented arrangement with the FDIC, SBA is reviewing small business loans under FDIC control to determine whether the loans can be saved by restructuring them with an SBA guarantee.

SBA's credit criteria are stiff, and its record as a lender and as a guarantor is the envy of many banks. But SBA bases loan decisions on a range of factors -- particularly the borrower's cash flow, business plan and projected ability to repay the loan -- rather than focusing narrowly on the loan's collateral. As a result, many borrowers with "performing non-performing" loans can qualify for an SBA guarantee -- and SBA has no doubt that those whose loans are restructured will perform as well, on average, as our overall portfolio.

Besides reviewing and, where appropriate, restructuring these loans, SBA also will take and service SBA-guaranteed loans made by the banks now controlled by the FDIC. This not only helps the businesses in question -- they can keep their lines of credit -- it also helps the FDIC. SBA has a long record of high-quality loan servicing, a record that helps minimize delinquencies and maximize recovery when loans must be liquidated. By taking responsibility for these loans, SBA helps restore much-needed cash to the FDIC, while minimizing the number of businesses which lose their credit.

Although the project began on a pilot basis in New Hampshire only in early January, it is already having a striking impact. As of Jan. 30, SBA personnel had already tentatively committed to restructure loans worth $96 million to 579 small businesses (with approximately 2,500 employees) in the state. Another 37 SBA-guaranteed loans will be transferred to the agency by the FDIC. So clear and urgent is the need that SBA plans to expand the pilot project to the remaining New England states by the end of March.

As the SBA gains experience with these new mechanisms, it expects to find that they can be exported to other parts of the country experiencing similar problems. New England is the laboratory in which the SBA will test its assumptions and iron out the kinks.

The project is not a panacea. But by using the tools of government judiciously to help the marketplace overcome temporary difficulties, it can go a long way to restoring that critical, intangible commodity -- confidence. And once confidence is restored -- to the business community, to the banking community and to the public at large -- the economic recovery we are striving for cannot be far behind.

McGroarty/Gershowitz
August 11, 1992
2:00 p.m.
[small]

PRESIDENTIAL REMARKS: SMALL BUSINESS EVENT
---------, VIRGINIA
AUGUST 13, 1992
9:30 A.M. ??

Thank you, --------. [Acknowledgements.]

I came here today to make a point -- to drive home the fact that businesses like [xxxxxx] and [xxxxxx] do more than sell [nails and doorknobs and drywall]. They generate the hope and pride and jobs that hold this community together.

America has been through a tough economic adjustment. Many of this country's larger companies have retrenched and restructured -- and it's caused a lot of hardship for working Americans. But even in these tough times, America's small businesses have stayed strong -- creating new products by the hundreds ... and new jobs by the thousands. That shouldn't really surprise us, because small businesses are often the first to adapt to a changing economy -- the first to turn change to advantage -- the leading edge of economic recovery. //

The question today is what government can do to keep small businesses growing: To help [xxxxx] grow up to run [family store] -- or to start a new business of [her] own.

Let me tell you what I told [local store owner]. I've seen government from the other side. I know what it's like to run a

business ... to meet a payroll ... and I happen to think that's not a bad qualification for being President. //

Now I know it's political season: Talk is as cheap as a two-penny nail. When you go into that voting booth November 3rd -- when you pull that curtain closed -- ask yourselves: Which candidate understands what makes this economy work? Do they look at small business, and see the backbone of the American economy -- or the goose that laid the Golden Egg? //

It matters -- to xxxx, and to communities just like this one all across America.

Because if you don't know what the other side has planned, let me tell you what they've got in store:

They start with a big idea -- and it's called big government. They're on the record for $200 billion dollars in new spending -- and another $150 billion in new taxes.

Now, they're going to come back at me and say: "We're not Mondale or Dukakis" -- and maybe they're right. //

$150 billion in new taxes ... is more than Mike Dukakis and Walter Mondale ever dreamed of -- combined. //

Now, the money's got to come from somewhere -- and let me tell you: Small business will take a big hit.

Sure, the other side likes to say they're going to soak the rich -- raise taxes on the top 2%. What they won't tell you is three out of every four people in the top 2 percent are small businessmen or family farmers. These folks aren't millionaires -- they're Mom and Pop, Inc.

My opponent offers America a reverse version of "Lifestyles of the Rich and Famous." **You may not live like a millionaire -- but you can be taxed like one.** //

They're also going to come after small business to foot the bill for a government take-over of health care: They're talking about at least a new 7 percent payroll tax -- out of your pockets.

And before they're done, they're going to zero in on small business and scoop $40 billion right out of the till -- $40 billion in broad daylight: My opponent's tax plan will, at the start, take away more than half the total profits of all small businesses combined. //

$150 billion in new taxes ... a new 7 percent payroll tax ... add that up, and it equals 2.6 million: 2.6 million jobs lost. 2.6 million Americans, thrown out of work ... and onto welfare -- because government can't get enough.

[[Now I can't think of one way that's good for small business -- unless your business happens to be selling pink slips at the stationery store.]]

I don't think that's what our economy needs -- and I know it's not what Americans want.

We've got something different in mind. My plan starts from this fundamental fact: Small business generates two out of every three new jobs in our economy. My plan will help this nation's small businesses do what they do best -- create jobs and opportunity right here in your community.

My plan will work -- because I know how businesses work:

Because we know that a third of all small businesses want to expand but can't -- we back an investment tax allowance, to get companies buying new equipment, and hiring new workers.

Because we know most small businesses spend too much time scrambling for credit -- we've worked with banks and the boards that regulate them to ease regulations that helped create the credit crunch. //

Because we know that almost half of all new businesses literally begin at home -- when enterprisers convert their own "nest eggs" into capital -- we want to cut the tax on capital gains. //

Here's the bottom line: The other side talks a good game -- and then taxes you to death. Small business shouldn't be big-government's piggy bank. My plan does what's good for small business ... what's good for American jobs and American workers ... what's right for America. //

Thank you once again for this warm welcome -- and may God bless the United States of America.

# # #

Most famous historical sight in Fredericksburg,

[redacted]

Area museum

James Monroe Museum

Belmont

Vicky - @ 373-1776

Visitor's center

786-7080

Historic Area: Caroline Street & William Street } Major intersection

Typical small business stores

(1) Toy stores — "Bears Everywhere"

(2) ~~Bank~~ Ant stores

(3) clothing stores

Verified by Kim, Visitors Center

Small Business, Stores along Caroline St

A

(1.) Names of two family-owned successful small businesses — how many employees do they have — what do they do (what does the business do)

2. What major street(s) + intersection are these businesses on?

DONE

B

(1) Where will speech be?

(2) Who will introduce President?

(3) How many people will attend?

(4) What is the general composition of the audience?

(5) Who will be on stage with the President; what local dignataries will attend, whether on stage or in the audience — who should Pres. acknowledge?

August 11, 1992

MEMORANDUM FOR DAN McGROARTY

FROM: GARY GERSHOWITZ

SUBJECT: VA SMALL BUSINESS EVENT--LOCAL COLOR

"Vicky" & "Kim" at the Fredericksburg Visitors Center and Carol Foley of the Fredericksburg Chamber of Commerce CONFIRMED that a major and well-known intersection in downtown Fredericksburg is **CAROLINE** & **WILLIAM** Streets.

They also confirmed that there are many small business (retail shops -- antique shops, a toy store--"Bears Everywhere" clothing stores) along Caroline & William Streets.

AUGUST 11, 1992

MEMORANDUM FOR DAN McGROARTY

FROM: GARY GERSHOWITZ

SUBJECT: VA SMALL BUSINESS EVENT

I spoke to Pete Gaillard who's doing the advance for the event. It will be in Fredericksburg, but Advance still has not worked out the particulars yet. They're going back down this morning to finalize the site, and they're going to call/fax the Advance Office the "local color" stuff -- and a contact who can provided me with information on the types of small businesses in Fredericksburg -- and hopefully any relevant info about a particular business.

However, Pete said he would not have any information for me before 1:00. He suggested I stay in touch with the Advance Office.

The speech reads well -- a strong argument has been made. It reads "tough." My only suggestion would be to omit the line (or re-work it): "It's like some nightmare version of "Lifestyles of the Rich and Famous." " I think it may be a little out of place for the President to make reference to "Lifestyles of the Rich and Famous" -- At first blush the sentence strikes a false note and sounds a bit too pretentious. Again (on a first read), "It's like some nightmare version" sounds awkward, abstract.

(P.S. Hope you don't mind my comment, and that it make sense.)

Thanks Gary —

~~H B = 20,000~~

Alec speech 8-6-'92

But before you get taken in by the new labels being marketed by the other side, read the Surgeon General's warning. It says: "A $150 billion dollar tax increase will be hazardous to your health." → To verify that this figure can be used on Pg 2, 4th para of "small business" speech - 8/92

And that raises the central question: whom do you trust to control the size of government, to cut taxes, and to get this economy moving again? A President who vetoed the Democrats' tax increase, and sustained that veto?

Or a team that, given the chance to start with a clean sheet of paper on how to fix our economy, proposed in their economic plan the largest tax increase in American history -- larger than those proposed by Jimmy Carter and Walter Mondale combined.

Now there is no denying that the other side has become more clever. Witness their recent convention in New York. Finding the Democratic leadership of the Congress on that podium was harder than playing "Where's Waldo?" on a board the size of a football field.

But that is a symptom of the bottomless cynicism of a campaign and a Congress that talk of change but block it, that speak of growth but smother it, that feign interest in a different future but remain wedded to the policies of the past.

Make no mistake: the Democratic leadership in Congress is happily in collusion with the would-be new leadership of the other party. They are rubbing their hands with glee at the prospect of a President who, when it comes to new spending, will replace the veto pen with the printing press.

PINK ↗ 7/7/92

Bill Clinton: More Liberal than Walter Mondale and Mike Dukakis -- *Combined*

Bill Clinton's revised "Putting People First" economic plan has been called a traditional Democratic Party tax-and-spend proposal. Yes and no. Yes, it's a tax-and-spend proposal. But, no, it's not traditional. It's *worse.*

Clinton wants to hit the American people with almost twice the new taxes that Walter Mondale and Mike Dukakis proposed -- *combined.*

Clinton also wants almost three times the new spending that Walter Mondale and Mike Dukakis proposed -- *combined.*

Walter Mondale's proposals: He's remembered for a 49-state defeat guaranteed by his promise that "taxes will go up." But he actually proposed "only" $85 billion in new taxes over four years, and "only" $30 billion in additional federal spending (*New York Times*, 11/4/84).

Mike Dukakis's proposals: Dukakis, too, is remembered for a crushing defeat brought on, in part, by his refusal to rule out new taxes. But he actually proposed no specific tax increases during his campaign. And his proposed additional federal spending amounted to "only" $46.16 billion over four years (*Washington Post*, 5/23/88; *USAToday*, 8/1/88; "Mike Dukakis on the Issues" campaign literature, 1988; and a Congressional Budget Office study, 5/13/88).

Bill Clinton's proposals: By his own, disingenuous account, Clinton proposes just over $154 billion in new taxes over four years, and just under $220 billion in additional federal spending.

	Taxes (billions)	Spending (billions)
Mondale/Dukakis combined	$85	$76.16
Bill Clinton	$154	$220
Clinton increases over combined Mondale/Dukakis:	81+ percent	188+ percent

NOTE: Above figures and calculations are in current, unadjusted dollars. When figures are adjusted for inflation using 1992 dollars, the Clinton tax increase is 40+ percent higher than Mondale/Dukakis, and the Clinton spending increase is 140+ percent higher than Mondale/Dukakis.

From Dick Armey's office.

PUTTING PEOPLE OUT OF WORK: FIRST-YEAR EMPLOYMENT EFFECTS OF THE CLINTON ECONOMIC PLAN

EVALUATING CLINTON'S ECONOMIC PLAN

Democrat presidential nominee Bill Clinton's "National Economic Strategy for America," "Putting People First (PPF)," has received mostly favorable media comment but scarce economic scrutiny. This analysis evaluates the claims in the Democrat party's major economic policy document and estimates the impact its provisions would have on job creation.

"Putting People First" is a well-packaged campaign document, which explains its positive media reviews. It is, however, poor economic policy. In essence, "Putting People First" claims supply-side growth from returning to discredited Keynesian policies. The plan is a disingenuous package of traditional tax and spend that will depress the economy and make more than 1.7 million people jobless in 1993. Its deficit reduction claim is vacuous, its growth claims full of air, and its job creation promises a cruel joke.

The PPF plan is based upon the proposition that government knows how to spend the taxpayers' money better than do taxpayers, the same fundamental premise as LBJ's Great Society, Jimmy Carter's national energy strategy and Michael Dukakis's Massachusetts "Miracle." Taxes are to be raised to finance a shifting of resources from selfish private citizens to virtuous and omniscient government bureaucrats and Congress. The proffered Democrat solution to the reality of incompetent government is more government, just as it has always been.

The view that "Putting People First" is economically unsound is widespread among independent economists. Robert Samuelson has called Clinton's plan "bogus," "wishful thinking" and "nonsensical."[1] Martin Feldstein agreed that Clinton's "numbers don't make any sense," that it is "politically dishonest and fiscally irresponsible," and that the plan would "increase the budget deficit and slow the rate of economic growth."[2] Rudolph Penner noted that Clinton's "policy changes don't make much difference."[3] It has come under criticism from supply-siders like Paul Craig Roberts and traditional liberals like Isabel Sawhill.[4] Former Council of Economic Advisors Chairman Beryl Sprinkel noted that the plan will

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[1] Robert Samuelson, "This Plan is Too Slick," Newsweek, July 6, 1992, pg. 39.

[2] Martin Feldstein, "Clinton Flunks the Budget Test," Wall Street Journal, July 3, 1992, pg. A6.

[3] Jeffrey H. Birnbaum, "Clinton's Plan to Reduce Deficit Relies More on Economic Growth Than Policy," Wall Street Journal, June 25, 1992, pg. A22.

[4] Bill Nichols, "Clinton Takes Gamble With Recovery Plan," USA Today, June 23, 1992, pg. A2.

"reduce incentives and deter growth."[5] Even Clinton economic advisory Derek Shearer noted that the plan had not been evaluated by economic models.[6]

DEFICIT REDUCTION CLAIMS

The first sign of a problem in PPF is its deficit reduction claim. Under present trends, the Federal deficit will already decline from $333 billion in 1993 to $200 billion in 1996, a reduction of $133 billion or about 40 percent. PPF claims to reduce the deficit to $141 billion, "cutting the deficit in half." Impressive at first blush, nearly two-thirds of PPF's deficit reduction is already built into the budget baseline.[7] However, past evidence suggests the tax increases in the plan will actually stimulate higher levels of deficit spending.[8]

ECONOMIC GROWTH CLAIMS

A more misleading claim is PPF's asserted impact on economic growth, which is extremely questionable. The fundamental premise of the plan is that its implementation will spur higher economic growth, providing a "growth dividend" in more tax revenue and lower government spending to achieve the claimed deficit reduction figures.

In the first year, under moderate economic growth, PPF claims its $62 billion in new spending programs ($35.7 billion net new spending, and a negative $15.9 billion net fiscal stimulus) will create between $96 billion and $206 billion in higher gross domestic product (GDP). Over four years, $302 billion in new spending ($161.4 billion net new spending and negative $74.9 billion net fiscal stimulus) is to generate between $455 billion to $800 billion higher GDP. This GDP bonus will raise tax receipts and reduce entitlement spending, painlessly cutting the deficit between $11.4 and $24.5 billion in the first year and between $67.7 billion and $230 billion over four years.

Calculated by percent of GDP, the "moderate" growth path assumes PPF will boost 1993 real GDP growth 1.5 percentage points, from the current baseline. The "strong" growth path in the plan assumes 3.3 percentage points real GDP growth above

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[5] Beryl W. Sprinkel, "Clintonomics: A Loser," Christian Science Monitor, July 15, 1992, pg. 18.

[6] John R. Cranford, "Clinton Makes Priorities Clear in Revised Economic Plan," Congressional Quarterly Weekly Report, June 27, 1992, 1899-1901.

[7] For further details on this claim, see Rep. Dick Armey, "Assessing Clinton's 'National Economic Strategy for America,'" July 1992.

[8] JEC\GOP staff study, "Taxes and Deficits: New Evidence ('The $1.59 Study')" prepared for Senator William V. Roth, Jr. (R-DE) and Representative Richard K. Armey (R-TX), October 30, 1991.

the baseline.

No credible economist will defend these assertions about the GDP impact of new Federal spending. The most generous economic models use a multiplier of between 1.0 and 2.0 for fiscal stimulus. That is, for every $1 in net new fiscal stimulus, there is between $1 and $2 in higher GDP. Economic models would project that PPF would cause from $16 billion to $32 billion lower GDP for 1993, and between $75 and $150 billion lower over four years. Only if gross new spending is considered by itself (ignoring spending cuts and tax increases) would economic models predict GDP changes approaching even Clinton's "moderate" growth path scenario.

More fundamental, there are two flaws with asserting that new government spending generates growth -- one, the stimulative aspects of government spending itself; two, the removal of taxed and government-leveraged funds away from the private sector.

There is little basis for the conclusion that new government spending generates large or lasting economic stimulus. The most direct demand inducement the Federal government employs, speeding up previously authorized public works spending, will generate a few jobs in the short term. But no causal relationship has been established between this or any other type of Federal spending and lasting higher economic growth. A few economists using Keynesian economic models did publish articles in the late 1970s and early 1980s, showing a correlation between public works spending, private investment and economic growth in the 1950s and 1960s. These results were interpreted by some as implying higher economic growth from more public works spending. But later studies using the same and more recent data showed no causal relationship between public works spending and economic growth, with changed energy costs explaining most of the correlation previously attributed to public works spending.[9]

The possibilities of economically effective fiscal stimulus is even more limited in the present climate. President Bush earlier this year authorized Federal agencies to speed up fiscal year 1992 public works funding. These "pipelines" are now full; for example, only about sixty percent of the funds available under the new highway bill has been committed by the states. New obligations for highways and other public works would be unspent, or wasted on "make-work" projects of lower priority.

Second, Clinton/Gore economic advisors failed to note the negative economic consequences of a transfer of resources from private to public spending. Government spending on "infrastructure" increases aggregate welfare only as long as extra dollars spent on public works projects yield benefits greater than those derived from private use of the same funds. To be of net benefit, government spending has to outperform private

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[9] For a review of the literature and a critique of the public capital hypothesis see, for example, John A. Tatom, "Public Capital and Private Sector Performance," Federal Reserve Bank of St. Louis Review May/June 1991, pp. 3-15.

investment. This expected return is highly dubious. For example, Clinton's plan to "leverage" public pension money for public works projects fails to consider the current private activities in which many pension funds are invested. PPF claims that pension fund investors will anticipate greater economic return from, say, building a bridge than in a new business in a high-growth private industry. The fiscal and economic growth effects of Clinton's economic plan do not stand up to scrutiny. His combination of $236.9 billion in net new taxes and $161.4 billion in net new spending over four years will not stimulate growth or have a positive impact on any economic indicator. Moreover, it would put at risk the pension benefits and retirement security of the middle class.

EMPLOYMENT EFFECTS OF KEY ELEMENTS

The remainder of this study examines the employment effects of the major elements of Clinton's "Putting People First" plan. The analysis evaluates the first-year effects of full implementation of the Democrat candidate's policies as outlined in PPF. The major elements and their fiscal impact, as asserted by Governor Clinton (when they are provided), are listed in Table 1.

Table 1 - ASSERTED POLICY EFFECTS OF CLINTON ECONOMIC PLAN
(Key Elements and Budgetary Consequences)

	1993	1994	1995	1996	4-Year Total
SPENDING CUTS					
Defense cuts beyond Bush request	-11.0	-12.5	-14.5	-20.5	-58.5
Overhead, personnel & administrative cuts	-11.1	-17.7	-20.1	-22.3	-71.2
Specified cuts (item veto, HUD Grants, nuclear waste disposal fee, honey subsidy)	-4.0	-2.2	-2.2	-2.2	-10.6
SUBTOTAL - SPENDING CUTS	-26.1	-32.4	-36.8	-45.0	-140.3
SPENDING INCREASES					
Putting America to work (non-tax portion)	23.2	29.3	27.2	26.1	105.8
Rewarding work & families (non-tax portion)	3.5	5.0	6.0	6.5	21.0
Lifetime learning (non-tax portion)	35.1	41.3	46.2	52.3	174.9
SUBTOTAL - SPENDING INCREASES	61.8	75.6	79.4	84.9	301.7
TAX REDUCTIONS					
Expand EITC	0	0.5	0.5	0.5	1.5
Urban Enterprise Zones	0	0.1	0.2	0.3	0.6
R&D Tax Credit	0.8	1.4	1.6	1.8	5.6
Targeted ITC	4.5	5.0	6.0	6.3	21.8
Limited Capital Gains	-0.2	-1.2	0.4	0.9	-0.1
Apprenticeship Program	0	0	0.1	0.1	0.2

SUBTOTAL - TAX REDUCTIONS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TAX INCREASES/ENTITLEMENT CUTS					
Cut Medicare	-0.6	-1.0	-1.0	-1.8	-4.4
Individual Income Taxes*	-17.8	-20.5	-21.6	-23.0	-84.9
Individual Taxpayer Fraud	-2.0	-2.2	-2.3	-2.3	- 8.8
U.S. Corporation Taxes	-2.3	-3.4	-3.8	-3.8	-13.3
Foreign Corporation Taxes	-9.0	-11.0	-11.5	-13.5	-45.0
Training Tax (Lifetime Learning)	-25.0	-27.0	-28.9	-30.6	-111.5
SUBTOTAL - TAX INCREASES	-56.7	-65.1	-69.1	-75.0	-265.9
REGULATORY CHANGES/UNSCORED ITEMS					
Play or Pay Health Care					
Indexing Minimum Wage					
Environmental regulation					
Family and Medical Leave					

Source: Governor Bill Clinton, Putting People First: A National Economic Strategy for America.

POLICIES CAUSING JOB LOSSES

Defense Cuts

The PPF plan proposes to reduce defense outlays below President Bush's proposed levels by $11.0 billion in the first year and $58.5 billion over four years. Already, the president's proposal will generate significant employment dislocation in the defense industry. Dr. Avraham Shama of the University of New Mexico simulated the employment effects of a $50 billion (the Administration plan) and a $100 billion (slightly less than the PPF proposal) defense cut. This analysis relied on the New Mexico study, adjusting for the additional $8.5 billion four year cut. The result is an estimated 240,685 jobs lost, beyond the Administration proposal, in 1993 for Clinton's defense cuts.

Pay or Play Health Care

Earlier this year, the Joint Economic Committee Republican staff estimated the employment effects of a "play or pay" health care plan which incorporated a 7 percent payroll tax, modeled on the Democrat Senate leadership plan. The direct costs to employers was calculated at $42.09 billion, a figure which compares favorably with other estimates.[10] Governor Clinton has embraced "play or pay" as his model for health care

[10] For example, the Urban Institute estimated employer costs of a slightly different play or pay plan, with a seven percent payroll tax, at $36.4 billion, in Zedlewski, Acs, Wheaton and Winterbottom, "Pay or Play Employer Mandates: Effects on Insurance Coverage and Costs." (Washington: Urban Institute, January 1992). A higher tax rate would increase employer costs.

reform. In our earlier analysis, projected 712,742 lost jobs in 1993 from the Clinton health care plan.

Environmental Regulations

The anticipated employment effects of PPF's goals for meeting CO2 levels, higher CAFE and other standards, and CFC emission goals would create additional burdens on industry, especially high wage manufacturing. In this analysis we estimate only the CAFE and CO2 costs. Clinton's platform includes ambitious environmental goals that mean increased regulatory and tax costs to American industries. The Democrat ticket has endorsed the goals of limiting carbon dioxide emissions to 1990 levels by the year 2000 and increasing the Corporate Average Fuel Economy (CAFE) standard from the present 27.5 MPG to 45 MPG.

A commitment to major carbon dioxide emissions regulation would create large economic losses and job loss. The base case, assuming no new emission controls, predicts an annual growth in CO2 emissions of between 1.4 and 2.7 percent. Freezing those levels will be very costly. Most experts agree that the most efficient means available to achieve a stabilization of CO2 emission levels is a carbon tax. Jorgenson and Wilcoxen[11] estimated that carbon taxes needed to stabilize CO2 emissions at 1990 levels would reduce real GNP by 0.5 percent by 2000, or $34.865 billion (in constant 1990 dollars). Others have projected a tax of this size would reduce GNP in 2000 by 2.0 percent, or $139.46 billion (in constant 1990 dollars).[12]

This lost economic output will generate very large job losses. The Urban Institute[13] calculates that a carbon tax of $15 per ton, rising by five percent annually for twenty consecutive years, would be necessary in order to stabilize CO2 emissions at 1990 levels. Such a tax would lead to a loss of 616,300 jobs in the first three years following imposition.[14] About 31.7 percent of the three-year burden of this tax would be borne in the first year. If job losses are distributed in the same pattern, the first-year employment effects would be 195,500 lost jobs in 1993.

A Senate bill endorsed by Senator Gore, S. 279, would raise the CAFE standard

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11 Dale W. Jorgenson and Peter J. Wilcoxen, "Reducing U.S. Carbon Dioxide Emissions: An Assessment of Different Instruments," Harvard Institute of Economic Research, Discussion Paper 1590, April 1992.

12 Congressional Budget Office, Carbon Charges as a Response to Global Warming: the Effects of Taxing Fossil Fuels (Washington, D.C.: August 1990).

13 Urban Institute, Preliminary Analysis of Distributional Effects of Energy Taxes (Washington, D.C.: February 1992).

14 See Wilbur A. Steger and Frederick H. Rueter, Jobs-at-Risk: Short-term and Transitional Employment Impacts of Global Climate Policy Options (Pittsburgh, PA: Consad Research Corporation, May 1992).

to 40 MPG by 1996. Such a CAFE standard would lose approximately 166,000 jobs in auto manufacturing, and at least 150,000 jobs in general manufacturing, for a total job loss of 316,000.[15] If the cost in jobs lost of every additional MPG increase in the CAFE standard is constant, a 45 MPG CAFE standard would lead to a loss of at least 232,400 jobs in automobile manufacturing and another 210,000 jobs in general manufacturing, for a total job loss of 442,400. If there is a 3-4-5-5 MPG improvement over the four years with a similar cost burden to industry, the first year share of the employment losses is 75,840 jobs.

The cost of a more stringent CAFE standard will by partly passed on to consumers of automobiles. Based on Crandall and Graham (1989),[16] increasing the CAFE standard to 45 MPG will result in added costs to car consumers of $17.5 billion. A more stringent CAFE standard would also generate large human costs. The chief means available to increase vehicle MPG is to reduce vehicle weight; lighter vehicles go farther on a gallon of gas. Unfortunately, lighter vehicles are inherently less safe than heavier cars. Robert Crandall of the Brookings Institution estimates that a 40 MPG CAFE standard would result in between 4,800 and 8,600 additional highway fatalities over the life of a model year.

Total jobs lost in 1993 from the carbon dioxide and automobile mileage goals of the national Democrat ticket is 271,340, with far greater job losses in later years.

Indexing Minimum Wage

The platform passed at the Democratic Convention in New York advocates "an indexed minimum wage"[17] yet fails to provide any details of how this would be achieved. In a conservation with our staff, Paul Weinstein of Clinton's staff indicated that the Governor "was committed to the notion of indexing the minimum wage, however, he has not as yet focused on any details of that process."[18] Given this lack of detail, we chose a conservative methodology for adjusting the Federal minimum hourly wage rate to account for changes in the cost of living. The current Federal minimum wage was indexed to the Consumer Price Index (CPI) to find the required adjustment to keep the Federal minimum hourly wage constant.

The minimum wage was $4.25 per hour in 1990 and the percent change in the CPI between 1990 and 1991 (the latest available year) 4.2; therefore, a CPI-indexed

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15 Job loss estimates calculated by the Motor Vehicles Manufacturers' Association.

16 Robert W. Crandall and John D. Graham, "The Effect of Fuel Economy Standards on Automobile Safety," Journal of Law and Economics, XXXII (April 1989), pp. 97-118.

17 "Party Statement of Policies Mirrors Clinton's Goals," Congressional Quarterly, July 18, 1992, pg. 2111.

18 Personal conservation with Mr. Paul Weinstein, Clinton-Gore for President Committee, July 22, 1992.

minimum wage would be $4.43 per hour, up 18 cents. There is no dispute that an increase in the minimum wage creates disemployment. GAO has summarized the empirical evidence regarding the minimum wage, finding "virtually total agreement that employment is lower than it would have been if no minimum wage existed....As the minimum wage reduces employment, some workers lose jobs or are unable to find jobs, and thus lose income."[19]

We estimate that a 4.2 percent increase in the minimum wage will adversely affect employment by directly raising the absolute and relative cost of hiring and retaining low-wage workers. Given the higher Federal minimum and the limited productivity of low-wage workers, employers will find that many of these workers are not economically advantageous to employ. We estimate that the first year employment adjustment will be a loss of 42,000 jobs in the economy. The state-by-state aggregate disemployment effects were based an existing analysis by the National Chamber Foundation.[20]

An alternative approach to indexing the Federal minimum wage rate has been contained in legislation offered previously by the Democrat leadership.[21] This methodology would set the minimum wage rate equal to 50 percent of the average private, nonsupervisory, nonagricultural hourly wage, as determined by the Bureau of Labor Statistics. Using the BLS-indexed minimum wage, the current Federal minimum hourly wage rate would equal $5.17 or a 92 cent increase. First year disemployment effects from the BLS-indexed minimum are estimated to exceed 360,000 jobs.

For the sake of this analysis, we accept the lower disemployment effects of the first proposal.

Family and Medical Leave

Advocates of government-mandated family and medical leave present it as pro-family legislation; however, they neglect to mention that only upper income families benefit. Without question, legislation such as the Family and Medical Leave Act of 1991, which Mr. Clinton says he "will immediately sign into law,"[22] differentially benefits baby boomers such as Messrs Clinton and Gore. This benefit, however, comes at the

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19 U.S. General Accounting Office, Minimum Wage Policy Questions Persist, Report to the U.S. Senate Committee on Labor and Human Resources, 1983.

20 R. McKenzie and C. Simon, The Proposed Minimum Wage Increase: Associated Job Loss by State, Region and Industry, The National Chamber Foundation, Washington, D.C., 1988.

21 See for example, The Minimum Wage Restoration Act of 1987, S. 837 offered by Senators Kennedy and Mitchell.

22 Governor Bill Clinton, Putting People First: A National Economic Strategy for America, June 1992, pg. 9.

expense of poor working families, low skilled workers and working women who are least able to afford it:

- Low-income workers will be forced to work longer to compensate for lost productivity due to higher paid co-workers taking leave;

- The set of benefits available to low-income workers will be restricted and of less value. Low-income workers are more likely to work for small firms that offer increased flexibility in working conditions. Mandates have a chilling effect on tailoring working conditions to individual needs.

- Mandated family leave reduces employment opportunities for females. Women are less likely to be hired and are more likely to face employment discrimination on the job.

- Low skilled workers are more likely to be phased out of the production process as employers shift to more capital-intensive processes.

Mandated family and medical leave is a costly addition to employee benefit packages, yet employees indicate it has little value when compared with other more desirable benefits such as health care or increased sick or vacation leave. This is because there are relatively few two-worker families with young children or aging parents who have the economic resources to take up two three months of unpaid vacation. A 1988 Small Business Administration (SBA) study, updated to 1991, indicates that slightly more than two million workers would take up to 12 weeks unpaid leave upon passage of a federally mandated, employer provided parental/family leave policy.

This mandate would impose significant new costs on business even if the leave was unpaid. The 1991 average per worker cost is estimated at $1,995 to cover continued health benefits and handle the leave takers' workload. This figure represents an increase in payroll costs of 8.9 percent for the average full-time worker in 1991. The new labor cost burden on America's business would exceed $4.2 billion a year. Even though employers may not pay the salaries of leave-taking employees, according to the SBA firms incur costs in excess of the salary "savings." In addition, costs arise from the mandate that firms continue to provide health benefits during the three month leave period. The new mandate burden translates into 75,629 lost jobs, disproportionately affecting America's least skilled, lowest paid workers.

Training Tax

This direct tax on all private payroll is part of Clinton's "Lifetime Learning" initiative. "Lifetime Learning" has a net cost of $10.1 billion in the first year and $63.4 billion over four years. PPF packaged the proposal to hide an approximately $25 billion first year tax increase, and a total $111.5 billion four year tax hike. Burying the tax

proposal in the "Lifetime Learning" budget line hides this huge tax increase on business. When evaluated, this new regressive payroll tax will increase payroll costs enough to result in employment losses of 104,126 jobs in the first year.

Higher Taxes On Individual Investment Income and On Corporations

Although the magnitude of the effects vary, virtually all economic literature and all economic models agree that higher taxes on individuals and on corporations reduce economic growth and employment. This study analyzed the employment effects of the higher taxes on "wealthy" taxpayers (defined by PPF as individuals with incomes above $90,000 and families above $130,000 in yearly taxable income) and on corporations with two separate methodologies, taking the average of the two estimates. Two methods are used because of the special emphasis of the Clinton tax increases on business and on the investment income of individuals. Taxes so targeted will have a disproportionate impact on employment as they more directly tax productive enterprises and sound investors. The first method which does not distinguish between types of taxation is based on a DRI/McGraw-Hill model which calculates that every $10 billion in tax increases raises joblessness 0.1 percent. Under this rule of thumb, PPF's net $26 billion first-year tax increase would raise unemployment 0.26 percent, or by about 325,000 persons.[23]

The second method, which more fully considers the employment impact of taxes on investment, is slightly more complex. Robbins and Robbins have found that a $1 billion tax change on investment income correlates negatively with a $25 billion change in nominal GDP over five years.[24] First year effects are about 20 percent of the five year total effect, consequently every $1 billion in higher investment taxes correlates with $5 billion lower GDP in the first year. For individuals, we observe that about 40 percent of the taxable income of the top 2 percent of individual tax returns is generated by investment (rents, interest, dividends or capital gains). PPF's $19.8 billion individual tax increase on "the wealthy" means a $7.92 billion tax on the investment income of individuals. On the business side, PPF's net tax increase is $6 billion in the first year ($11.3 billion increase minus $5.3 billion in an expanded R&D and investment tax credit (TTC) incentives). Consequently, the total new tax on investment is $13.92 billion in the first year of implementation.

This $13.92 billion tax increase will result in $69.6 billion lower GDP for 1993, about 1.1 percent below the projected $6.3 trillion. The standard rule of thumb on the relationship of employment losses to changes in GDP is Okun's law, which notes that a 2.5 percent decrease in GDP is associated with a 1.0 percent increase in the civilian

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[23] Rule of thumb obtained from staff conversation with Congressional Research Service, Economic Division, July 29, 1992.

[24] National Center for Policy Analysis, "Study: Recession Lingers Because of U.S. Tax Policy," January 22, 1992, pg. 1.

unemployment rate. With a work force of approximately 125 million, the projected decrease in GDP would mean 549,156 lost jobs in 1993. Taking the mid-point estimate of these two methodologies generates 437,078 lost jobs in 1993 as a result of Clinton/Gore's higher taxes on upper income Americans and businesses.

Reduction in Federal Workforce

Governor Clinton has pledged to reduce the Federal workforce by 100,000, and that figure is incorporated in this study. PPF includes $15.1 billion in proposed in his first-year reductions in current domestic program administration and spending. Of this $15.1 billion, $11.1 billion is in overhead, personnel, administrative and accounting changes within the Federal government. The remaining $4 billion 1993 domestic spending cut consists of the line-item veto, reducing HUD grants, increasing nuclear waste disposal fees, and eliminating the honey program. Presumably, the 100,000 claimed Federal workforce reduction is the employment effect of these changes.

POLICIES CREATING JOBS

Expanding EITC and the "Middle Class Tax Cut"

These tax cut elements of "Rewarding Work and Families" are aimed at spurring consumption rather than encouraging investment; as such, the economic growth potential is lessened. According to the Clinton budget, the EITC would have zero revenue effect in 1993, and a net $1.5 billion revenue loss over four years. The "middle class" tax cut was not scored in the PPF document, but Clinton economic policy advisor Gene Sperling indicated later that the revenue loss would be at least $60 billion over four years.[25]

By themselves, these tax cuts would increase consumer demand, thus production of consumer goods, and eventually jobs in goods producing industries. However, $59 billion of the four-year $60 billion tax cut is offset by the proposed new taxes on non-investment income of upper income individuals. Some have argued that redistributing income from upper income levels to lower income levels would be stimulative because persons at lower income levels are more likely to consume. But the theoretical and empirical evidence suggests that there are no significant differences in the marginal propensity to consume or save across the income spectrum.[26] Consequently, there is no net positive economic or employment effects to this portion of the Clinton tax plan.

Highway Portion of "Putting America to Work" -- "Rebuild America"

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[25] Birnbaum, Wall Street Journal, op. cit.

[26] Library of Congress, Congressional Research Service. "Current Tax Cut Proposals: An Economic Analysis," Issue Brief 92-004, December 9, 1991.

Both PPF and an earlier version of Clinton's economic plan (A Plan For America's Future) would "spend the first two years of (highway bill) money in the first year."[27] This amount is about $17 billion. The claim is made that expedited highway construction spending would create 200,000 additional jobs. Despite the full "pipeline" for highway spending noted above, this analysis accepts this jobs claim at face value.

Non-Highway Portion of "Putting America To Work"

The non-highway portion of "Rebuild America" is $6.2 billion in 1993, to initiate a high-speed rail network, develop the V-22 Osprey for commercial use, create a fiber-optic network, spend more on "environmental technology" to reduce pollution and energy consumption, and other initiatives. Although most projects would entail more than one year in planning time before implementation, we generously assume that the job creation rate of the remaining $6.3 billion will equal Clinton's claims for highway spending. Thus, this portion of "Putting America to Work" will create 72,941 jobs in 1993.

SUMMARY

This analysis has considered virtually all of the major elements of Governor Clinton's economic and policy proposals put forward in the late June 1992 version of "Putting People First." The analysis concludes that, at a minimum, Clinton's economic plan will cause 1.7 million jobs to be lost in the first year, increasing unemployment by 1.4 percent above what it would otherwise be. The projected first-year employment effect of the Clinton economic plan is summarized in Table 2.

Table 2 -- First-Year Job Effects of Clinton Economic Plan

POLICIES DESTROYING JOBS	
Policy	First-Year Employment Effects
Defense Budget Cuts	240,685
Health Care Mandate	712,742
New Environmental Regulation	271,340
Increases In Minimum Wage	42,000
Family and Medical Leave Mandate	75,629
New Training Tax	104,126
New Individual and Corporate Taxes	437,078
Federal Work Force Cuts	100,000
GROSS EMPLOYMENT LOSSES	1,983,600

[27] Clinton for President Committee, "A Plan for America's Future," January 1992, pp. 4-5.

POLICIES CREATING JOBS	
Policy	First-year Employment Effect
Highway Spending Increases	200,000
Non-highway Spending Increases	72,941
GROSS EMPLOYMENT GAINS	**272,941**
NET EMPLOYMENT EFFECT OF CLINTON ECONOMIC PLAN	
NET EMPLOYMENT LOSSES	**1,710,659**

Source: JEC\GOP staff calculations.

This study was prepared by JEC\GOP staff: Senior Economist Dolores "Dee" Martin, PhD., and Senior Policy Analyst Doug Koopman, PhD., and Visiting Scholar Gary Anderson, PhD. (authors); and Visiting Scholar Lowell Gallaway, PhD. (editor).

BACKGROUNDER

Issues Office

BUSH QUAYLE 92

August 10, 1992

A SUMMARY OF THE CLINTON ECONOMIC PLAN: HIGHER TAXES, FEWER JOBS

Bill Clinton is selling his "National Economic Strategy" as a way to "put people first," but he is really trying to put one over on the American people.

- Taxes: Clinton unabashedly proposes the largest tax increase in American history, at least $150 billion over four years.

  -- That's before counting the cost of his health care plan, which could add another $80 billion in taxes. New taxes and mandates on business could alone cost American businesses $101 billion next year, 54% of their 1991 profits.

- Spending: Clinton's plan will not cut spending. In fact, Clinton proposes to increase spending by at least $219 billion.

  -- Of his supposed $145 billion in spending cuts, $61.3 billion are generated through ill-conceived additional defense cuts, and another $57.5 billion consists of fraudulent gimmicks which will produce no real savings.

  -- Including Clinton's play-or-pay health care plan, the total spending increase could reach $416.5 billion.

  -- Clinton acknowledges he would add one trillion dollars to the national debt over the next four years. On top of this, his program would likely squander another $200 billion in additional deficit spending.

- Job Destruction: Clinton's strategy would cause 2.6 million jobs to be lost:

Additional defense cuts	1,000,000
Play-or-Pay health care	700,000
Business tax increases	300,000
1.5% payroll tax mandate	300,000
Higher CAFE standards	300,000
Total	2,600,000

- Clinton's "investment" is a code word for more government spending -- and new spending financed by higher taxes is no "investment" in America's future.

  -- Clinton's few growth-oriented policies are largely Republican proposals that have been consistently blocked by Democrats in Congress.

Issued by Bush Quayle '92 Primary Committee, Inc.
1030 15th St. N.W., Washington, D.C. 20005

FACT SHEET

Issues Office

BUSH QUAYLE 92

August 10, 1992

THE CLINTON ECONOMIC PLAN: HIGHER TAXES, FEWER JOBS

"Clinton's program brims with cliches and dubious calculations . . . His plan seems slick because it is."

-- Robert J. Samuelson
Washington Post, July 1, 1992

Summary: Clinton Returns to "Tax and Spend"

- Bill Clinton is selling his "National Economic Strategy" as a way to "put people first." What Clinton will really do is put government first. His plan will impose the largest single tax increase in American history, followed by over $219 billion in new spending.[1] Hard-working Americans investing in new jobs and economic growth will be the first to be hit by the Clinton tax hikes and the last to be helped by new federal spending.

- Clinton pretends his plan would reduce the deficit, when in fact it would worsen it with massive new spending and new constraints on economic growth. Instead of addressing the largest threat to our future -- the deficit -- the Clinton plan would return America to a tired formula of higher taxes and higher spending.

  -- The Clinton plan would put the United States further into debt and farther from a balanced budget.

  -- Bill Clinton unabashedly proposes to raise taxes by at least $150 billion -- the largest first- and four-year tax increase in our country's history -- and use the proceeds to increase spending by at least $219 billion.

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[1] See Table 2, Senate Budget Committee Minority Staff Summary of Clinton Budget Proposal, duplicated from "Putting People First: A National Economic Strategy," June 20, 1992. The estimate excludes the cost of Clinton's health care reform proposal. If included, spending increases exceeding $416.5 billion would result.

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-- The few growth-oriented policies Clinton suggests have already been proposed by Republicans in Congress. However, they have been blocked by the same Democratic leaders that refused to pass the President's growth plan -- a plan that would have created at least 500,000 jobs this year.[2] Now those Democratic leaders are licking their chops at the prospect of at least $150 billion in new taxpayer dollars to spend.

-- The majority of Clinton's proposals would hurt the economy and cost jobs -- imposing massive new taxes on job-creating small businesses, destroying the chance that any foreign company would invest in factories in the U.S., and forcing on all businesses massive new federal mandates and government regulation. Some strategy.

o Clinton's tax and spend plans, reminiscent of the Carter era, will resurrect the scourge of inflation. Clinton's economic plan hardly refers to the need for stable monetary policy, the bulwark of any lasting anti-inflationary policy. As former Federal Reserve Chairman Paul Volcker commented on June 14, "Great big budget deficits remind people that the threat of inflation still exists."[3] In fact, the mere possibility of a Clinton Administration -- and the fiscal irresponsibility it will bring -- sends shudders through financial markets.

Clinton's New Spending Will Destroy Jobs

o Clinton's "strategy" would cause 2.6 million jobs to be lost:[4]

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[2] Council of Economic Advisors' estimate for job creation by the President's plan.

[3] "Volcker Still a Force in Global Economics," Los Angeles Times, June 14, 1992.

[4] Job losses from defense cuts, business tax increases, and Clinton's 1.5% worker retraining payroll tax mandate were computed by the Senate Budget Committee Minority Staff. Job loss estimates for play-or-pay come from the Office of Management and Budget publication, "The President's Comprehensive Health Reform Program," February 6, 1992. While at the upper end of OMB estimates, the job loss number concords with a Joint Economic Committee Minority Staff estimate that a 9 percent play-or-pay payroll tax would cost in excess of 800,000 jobs. These job loss estimates do not take into account other job-costing measures endorsed by Clinton, including a new carbon tax, indexation of the minimum wage, and cuts in the federal workforce.

Additional defense cuts	1,000,000
Play-or-Pay health care	700,000
Business tax increases	300,000
1.5% payroll tax mandate	300,000
Higher CAFE standards	300,000

-- New Clinton defense cuts would put as many as one million individuals out of work. Defense-intensive states like California, already having to adjust, will be hit even harder.[5]

-- An Office of Management and Budget study concludes that a Clinton-style play-or-pay health care plan would cause as many as 700,000 jobs to be lost.[6]

-- In addition, the 7 percent payroll tax that a play-or-pay health plan requires could result in a pay cut of $1,680 a year for the average 30-year old male high school graduate, currently earning $24,000 a year in wages, and a pay cut of $1,260 a year for the average 30 year old male high school dropout, currently earning $18,000 a year in wages.[7]

o Clinton's new tax increases and mandates on business will cost jobs.

-- Small businesses will be the hardest hit by new mandates. Play-or-pay will cause per worker health care costs to soar by at least two-thirds[8], while mandated family leave will cost $1.2 billion each year.[9]

-- A recent survey by the National Federation of Independent Businesses (NFIB) underscores the drastic effect of new taxes and mandates. One-quarter of respondents in the NFIB survey reported that if the

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[5] Job loss estimates were computed by the Senate Budget Committee Minority Staff based on a New Mexico University econometric model. See Tables 8 and 9 entitled "Defense Comparisons" estimating the employment impact of Clinton defense cuts beyond those proposed by the President.

[6] "The President's Comprehensive Health Reform Program," Office of Management and Budget, February 6, 1992, p. 80.

[7] Ibid.

[8] "Pay-or-Play Employer Mandates: Effects on Insurance Coverage and Costs," The Urban Institute, January 8, 1992.

[9] Small Business Administration, April 1991.

cost of health coverage rose to $150 per month per employee, they would opt to close their doors. Another 24 percent said they would keep their business open but would lay off employees. All told, the NFIB concluded, "between one and two million small business jobs would evaporate."[10]

-- In sum, mandates are taxes on the use of labor and, as such, will particularly damage the employment prospects and wages of low skilled workers -- the very group Clinton claims to want to help.

- All told, Clinton's new taxes and mandates on business will cost American businesses $101 billion next year -- fully 54% of their 1991 profits.[11] At a time when the economy is starting to grow again, any plan that takes away half of American business' profits -- profits that are being invested in new workers and better products -- is bound to cost jobs.

- In addition to whatever jobs Clinton would lose through his economic plan, Clinton and Gore have endorsed dramatic increases in Corporate Average Fuel Economy (CAFE) standards. This radical and unwise step would put at risk between 150,000 and 300,000 jobs. Of these jobs, 142,000 are auto workers, including 4,500 GM workers in Senator Gore's home-state of Tennessee.[12]

- Clinton's $220 billion transfer from the free-market through the federal agencies and back to the private sector will generate neither growth nor incremental jobs. Rather, Clinton will replace productive investment and real growth with massive spending in huge new government bureaucracies. Spending couched as "investment" is no more than spending by another name.

Phony Spending Cuts

- Clinton claims to cut spending by $145 billion, but the numbers do not add up. Of the alleged $145 billion in spending cuts, $57.5 billion (or 40%) are administrative gimmicks and unspecified measures, and $61.3 billion (or

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10 "Small-business jobs, growth would decline under play-or-pay health plan," National Federation of Independent Business, August 7, 1992.

11 Figure for total after-tax profits of U.S. corporations from the U.S. Department of Commerce, Bureau of Economic Analysis.

12 Motor Vehicle Manufacturers Association of the United States, March 1992.

42%) are additional and irresponsible cuts in America's national security programs. In short, at most 18% of the cuts proposed by Clinton could even remotely be termed "real."

- Clinton's administrative gimmicks are the kind of smoke and mirrors "cuts" that, like the inherent contradiction of a "pro-growth strategy" that raises taxes, confirms that Clinton's "deficit reduction" will really raise spending.[13]

- Of the $145 billion in spending cuts, Clinton would only terminate one federal program -- the honey bee program -- which Senator Gore has voted for on four occasions. This stands in sharp contrast to the President who proposed in his FY93 Budget to eliminate 246 federal programs, saving an estimated $5 billion.[14]

- In an obvious "me-too" of the President, Clinton calls for a line-item veto, but estimates that he would get just $10 billion in savings over four years. Unfortunately, it is the Democratic Congress that has refused time and again to give the President line-item veto authority. What are they waiting for? Were Clinton truly serious about a line-item veto, he would write the Democratic leaders tomorrow and urge its passage. If a line-item veto were passed this year, with a stroke of the pen President Bush would save more than $10 billion this year alone.

- Spending reform and control of entitlement spending are needed -- a fact acknowledged by even Democrat Barbara Jordan when she spoke before the Democratic Convention. Evidently Governor Clinton was not listening. Not only does President Bush understand this problem, he has already proposed ways to stop out-of-control spending. In this year's budget, the President proposed to cap the growth of non-Social Security entitlement programs, saving nearly $180 billion over the next four years.[15]

Illusory Deficit Reduction

- By his own numbers, Clinton would add one trillion dollars to the national debt over the next four years.[16] But, even

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[13] See Table 1.

[14] Ibid.

[15] Estimates of savings from a CPI-based cap on growth in entitlement spending, Mid-Session Review of the Budget, Appendix I, p. 415.

[16] See Table 3.

this estimate significantly understates the cost of Clinton's spending programs and overstates his claimed budgetary savings. Once again, Clinton's numbers do not add up.

-- Over $110 billion of his "savings" arise through unspecified gimmicks, questionable revenues, and vague proposals such as "RTC management reforms."[17]

-- Clinton fails to include in his spending estimates massive new spending promises that he repeats almost daily -- $197 billion for more government-controlled health care[18] and $45 billion for "middle income" tax cuts.[19]

- The likely impact of Clinton's program over four years is at least $200 billion in deficit spending on top of the $1 trillion addition to the national debt he already acknowledges.[20]

- The Clinton plan relies on a grossly overstated estimate of future real GDP growth, a so-called "rosy scenario." For 1993, Clinton's "moderate" growth path forecasts real growth of 4.6% -- a full percentage point higher than anyone else's estimates, even those by the pro-Democrat Congressional Budget Office.[21]

- The hypocrisy, and the real danger of the Clinton budget, is that the growth he must assume in order to claim a reduction in the deficit is a fantasy based not on economics, but on

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17 "Putting People First: A National Economic Strategy," June 20, 1992. Cuts designated as vague reforms or administrative gimmicks are grouped in Table 1.

18 Preliminary CBO estimate of the cost of play-or-pay, (H.R. 3205, August 2, 1991).

19 Congressional Joint Committee on Taxation scoring of FICA and dependent credits included in H.R. 4210.

20 This statistic represents the difference between the Clinton deficit as advertised, and the "real" Clinton deficit. See Table 4.

21 A one percent increase in the growth rate will make up the difference between the "real" Clinton deficit and the CBO baseline. See CBO, The Economic and Budget Outlook: Fiscal Years 1993-1997, January 1992, p. 37. Clinton's plan also contains a "strong" growth path that would require 5.5% real GDP growth in 1993 according to an analysis by the Minority Staff of the Joint Economic Committee.

the political need to support his rhetoric. In fact, it is unlikely that he could even meet the much lower, but generally accepted, growth estimates of the CBO, OMB, and others.

Taxes, Taxes, Taxes

- Clinton proposes massive tax increases amounting to the largest first year ($31.1 billion) and four year ($150 billion) increases in our country's history.[22]

- Clinton will hike marginal tax rates to approximately 40% (a top rate of 36% plus a 10% surtax),[23] and increase the Alternative Minimum Tax (AMT) rate to 29%.

- Clinton hides behind the veil of class warfare, claiming that his tax increases will only "soak the rich." In reality, he plans to drown small business.

  -- The real burden of Clinton's tax hikes will be felt largely by job-creating small businesses -- the sole proprietorships, partnerships, Subchapter S corporations and family farms that form the backbone of the small business community.

  -- More than 75% of those whose taxes will be raised fall into this category, and more than $40 billion of the Clinton tax hikes will be paid for directly from the profits of small business.[24]

  -- Small businesses provide the engine for economic growth, creating two out of every three new American jobs. Indeed, small businesses were the driving force behind the 850,000 new jobs created last year.[25]

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[22] "Putting People First: A National Economic Strategy," June 20, 1992. Tax increase revenue estimates are listed in Table 2. Additional taxes of at least $80 billion would be required to implement Clinton's health care reform proposal.

[23] Tax rate figures calculated are based on revenue estimates generated by the Joint Committee on Taxation.

[24] Joint Committee on Taxation study of taxpayers that would be affected by a proposed 36 percent tax bracket, April 10, 1992.

[25] Presidential Proclamation, "Small Business Week 1992," May 12, 1992.

-- Simply stated, more than 800,000 small businesses will see their taxes increase each year under a Clinton presidency; up to 15 million small business owners could be adversely affected.[26] Millions of hard-working Americans dependent on higher growth and new jobs will see their hopes dashed by a Clinton tax hike that costs jobs and slows growth -- all so that Clinton can score political points.

o Clinton claims his plan will only raise taxes for individuals making more than $115,000. The truth is, at a tax rate of 36%, Clinton will fall $23.4 billion short of his self-proclaimed $82.9 billion revenue goal for "tax fairness" measures. To make up this revenue shortfall, Clinton would either have to increase the new top marginal rate, or lower the income floor on those subject to higher taxes.

-- In his initial economic plan, released during the primaries, Clinton favored the first option, proposing a new top bracket with a 38.5% tax rate.[27] In December 1991, Robert Shapiro, the Clinton advisor most closely associated with this first plan, admitted that "the 38.5% rate would apply to taxable income exceeding $90,000 for singles and exceeding $120,000 for heads of households."[28] Shapiro was also a chief architect of Clinton's second plan. If Shapiro would admit a 38.5% rate would entail higher taxes for those earning $90,000, then logically the same would have to be true of the lower 36% tax rate.

-- Clinton's new-found partner, liberal Senator Al Gore, is the most candid of all: he has already proposed tax increases on individuals making $47,000.[29]

o Clinton's play-or-pay approach would require employers to provide private insurance for workers and dependents, or pay

government plan. Play-or-pay would quickly lead to most Americans being in a government-run health plan.

-- According to the CBO, $80 billion in new taxes would be required to finance play-or-pay.[30]

o Clinton also proposes to collect $45 billion over four years by imposing higher taxes on foreign companies operating in the U.S.[31]

-- Contradicting Clinton's accounting, the Democratic-dominated Joint Committee on Taxation has said that this tax could generate at most $1 billion, and that over four years.[32]

-- The tax jeopardizes current and future American jobs by penalizing foreign firms that want to invest in jobs here at home. Thus, firms like BMW, which have been attracted by America's high worker productivity and hospitable business climate, will likely turn their backs on creating new jobs in the U.S.

-- In Ohio, for example, 215,000 persons are employed in industries related to foreign-owned businesses. These businesses have invested $5 billion in the state and have created millions of dollars in tax revenue for communities and school districts.[33]

-- Coming at a time when President Bush is pushing the Europeans to cut unfair subsidies to their farmers, and other nations to end barriers to American goods, the Clinton tax will invite retaliation against American products and cost more American jobs. One of the IRS's former top international tax experts described as "just nuts" the thinking that underlies a Clinton-style tax.[34]

Spending, Spending, Spending

- Everyone agrees that the biggest problem facing our nation is the federal deficit; everyone, except Bill Clinton. Clinton does not even pretend that his new tax hikes would be used to cut the deficit.

  -- Clinton admits that he would spend an additional $220 billion on domestic programs, almost three times as much as proposed by Mondale and Dukakis combined![35]

  -- But, Clinton has left out of his plan the $197 billion price tag of his play-or-pay health care proposal.

  Including play-or-pay, Clinton's real increase in government spending is $416.5 billion.[36]

- If Clinton were truly concerned about securing a prosperous future for our children, he would have put forth a plan that cut the deficit or at least endorsed a Balanced Budget Constitutional Amendment. Instead, he has committed to at least $200 billion more in deficit spending.

- Clinton fails to differentiate between productive investment and wasteful spending. He assumes that using the word "investment" will ensure that taxpayer funds go to projects with high return. But here, Congress' track record is dreadful. Most often, taxpayer dollars go to the politically powerful rather than the economically productive. Clinton's term "investment" is simply a codeword for more government spending.

  -- Clinton spares no time "investing" on behalf of the Democratic Party's favorite special interests -- teachers' and public sector employee unions. For instance, Clinton pretends that more education spending, without reforms like complete school choice,

Slashing America's Defense

- Of Clinton's supposed $145 billion in spending cuts, $61.3 billion (or 42%) come from slashing America's national security programs -- cuts larger and deeper than those the President and Congress have deemed appropriate, and have already started to make.[37]

- Clinton's excessive "sounds good" defense cuts will not sound good to the one million defense industry workers who will lose their jobs. This, coming on the heels of defense cuts already passed by Congress, would devastate defense-intensive states like California. With Clinton's new taxes and mandates also soaking job-creating small businesses, the employment prospects of workers laid off by Clinton cuts will be grim.

- Clinton's slashing of defense is also irresponsible from the standpoint of our Nation's security -- the first responsibility of any would-be commander-in-chief. The fact is, even with the end of the Cold War, the world remains a dangerous place. U.S. interests and U.S. citizens may be threatened at any time, and our President must have the means to defend them.

Growth Policies Are Republican Policies

- By and large, the growth proposals in Clinton's plan have been "borrowed" from President Bush. Some are already being implemented, and others are being blocked by Clinton's Democratic colleagues in the Congress.

- The Clinton plan includes enterprise zones, a capital gains exclusion, and a permanent research and development tax credit. President Bush and Republicans in Congress have been pushing these same measures for over twelve years in

industry would have been put at risk by treaties proposed at the Rio Conference on the Environment that both he and Al Gore endorsed.

The President's Plan: Creating Jobs and Spurring Growth

- Clinton's economic plan will hurt economic growth because of the tax hikes included in it and the tax incentives left out of it.

- Clinton abandons young, working families by failing to include the President's proposed $5,000 tax credit for first-time homebuyers. This provision, along with the President's capital gains and flexible IRAs, would make real the dream of home ownership for thousands of young, working families. The homebuyers credit will also:

  -- Create 272,500 total jobs, the vast majority in now-distressed construction and manufacturing industries.

  -- Generate an additional 125,000 housing starts, producing an estimated $12.5 billion in additional residential construction.[38]

- For working Americans, the President's tax relief will mean real and significant tax savings, particularly for young families:

  -- The homebuyers credit in combination with the President's proposals for penalty-free IRA withdrawals for first-time homebuyers, deduction of interest on student loans, and a $500 increase per child in the personal exemption could cut a family of four's 1992 tax burden by almost $2500, or about 60%.[39]

- Job creation estimates of growth proposals similar to the

Economic Experts Evaluate Clinton's Plan

- Martin Feldstein:

  "My rough calculations suggest that the Clinton plan would actually raise the 1996 deficit by $26 billion even without any extra health care spending." (Wall Street Journal, July 3, 1992)

  ". . . many of Governor Clinton's projected increases in revenues and cuts in spending are unrealistic estimates . . . Proposing to tax foreigners may be good politics, but the Clinton numbers are implausible as budget policy." (Ibid.)

- Robert J. Samuelson:

  "Should Clinton become President, the fate of his 'strategy' is already sealed. It would fail." (Washington Post, July 1, 1992)

  "[Clinton's] theory that 'investing in people' automatically leads to economic growth is largely wishful thinking. And the notion that he's being candid is nonsensical." (Ibid.)

  "What we have here is a man who hasn't made choices. There's a pitch for everyone. The megapitch is that "investments" will soon speed up growth. They won't." (Ibid.)

- Paul Craig Roberts:

  "To fend off foreign competition, Clinton wants to re-arm us with the greatest pork-barrel spending program since the Great Society." (Wall Street Journal, June 24, 1992)

- Committee for a Responsible Federal Budget

  "The numbers in the Clinton plan do not add up." (July 8, 1992)

  "We must control the growth of entitlements -- especially the health care entitlements -- if we ever expect to get the deficit under control. This package fails to face that fact." (July 8, 1992)

# # #

TABLES AND GRAPHS

TABLE 1

CLINTON BUDGET PROPOSAL

(Deficit impact in $ billions)

	1993	1994	1995	1996	4-Year Total
DEFICIT REDUCTION					
Defense:					
Unspecified cuts beyond Bush	−2.0	−8.5	−10.5	−16.5	−37.5
Intelligence cuts	−1.0	−1.5	−1.5	−1.5	−5.5
Procurement reform	−5.7	--	--	--	−5.7
Inventory system reform	−2.3	−2.5	−2.5	−2.5	−9.8
Subtotal defense cuts	−11.0	−12.5	−14.5	−20.5	−58.5
International:					
Consolidate overseas broadcasting system (USIA)	−0.1	−0.2	−0.3	−0.3	−0.8
Unspecified cuts	−2.0	--	--	--	−2.0
Subtotal international	−2.1	−0.2	−0.3	−0.3	−2.8
Subtotal defense/international	−13.1	−12.7	−14.8	−20.8	−61.3
Vague reforms and administrative gimmicks:					
Unspecified 3% admin cut	−2.0	−5.0	−6.5	−8.5	−22.0
Line-item veto of pork barrel projects	−3.8	−2.0	−2.0	−2.0	−9.8
Federal agency energy conservation	--	−0.9	−0.9	−0.9	−2.6
Reform debt financing	--	−2.0	−2.0	−2.0	−6.0
RTC reform	−4.0	−4.0	−4.5	−4.6	−17.1
Subtotal gimmicks	−9.8	−13.9	−15.9	−18.0	−57.5
Real reforms:					
Workforce reduction	−2.0	−4.3	−4.5	−4.5	−15.3
White House staff cut	(*)	(*)	(*)	(*)	(*)
Legislative branch cut	−0.1	−0.1	−0.1	−0.1	−0.4
University projects	−0.7	−0.8	−0.8	−0.8	−3.1

TABLE 2

CLINTON BUDGET PROPOSAL

(Deficit impact in $ billions)

	1993	1994	1995	1996	4-Year Total
TAXES					
Highly questionable increases in revenue estimates due to IRS enforcement initiatives:					
Unearned income tax fraud	−2.0	−2.2	−2.3	−2.3	−8.8
Foreign corporations	−9.0	−11.0	−11.5	−13.5	−45.0
Subtotal questionable revenues	−11.0	−13.2	−13.8	−15.8	−53.8
Increased income taxes due to tax code changes:					
Individual	−17.8	−20.5	−21.6	−23.0	−82.9
Corporate:					
Cap executive pay deduction	−0.1	−0.4	−0.4	−0.4	−1.3
Eliminate overseas plant expense deduction	−0.3	−0.4	−0.4	−0.4	−1.5
Increase pollution-related taxes	−1.8	−2.5	−2.9	−2.9	−10.1
Eliminate lobbying expense deduction	−0.1	−0.1	−0.1	−0.1	−0.4
Subtotal corporate	−2.3	−3.4	−3.8	−3.8	−13.3
Subtotal tax code changes	−20.1	−23.9	−25.4	−26.8	−96.2
Total tax increases	−31.1	−37.1	−39.2	−42.6	−150.0
SPENDING INCREASE PROPOSALS					
Putting America to work	28.3	34.6	35.4	35.4	133.7
Rewarding work and families	3.5	5.5	6.5	7.0	22.5
Lifetime learning	10.1	14.3	17.3	21.7	63.3
Total spending increase	41.9	54.4	59.2	64.1	219.5

TABLE 3

CLINTON BUDGET PROPOSAL

(Deficit impact in $ billions)

	1993	1994	1995	1996	4-Year Total
BUDGET PLAN SUMMARY					
CBO Baseline deficit a/	332.8	276.7	219.9	200.8	1,030.2
Clinton budget plan	-15.8	-16.1	-17.8	-25.3	-75.1
"Real" impact	5.0	11.0	11.8	8.5	36.2
"Gimmicks" and questionable revenues	-20.8	-27.1	-29.7	-33.8	-111.3
"Play or pay" health reform	9.0	15.0	23.0	70.0	117.0
Middle-income tax cut	1.0	14.0	15.0	15.0	45.0
Clinton budget deficit	317.0	260.6	202.1	175.5	955.1
"Real" Clinton deficit, including costs of other proposals	347.8	316.7	269.7	294.3	1,228.4

a/ Assumes conformance with 150 and domestic discretionary caps; assumes Bush request for defense.

NOTE: Details may not add to totals due to rounding. (*) Less than $50 million. Prepared 29-Jul-92

TABLE 4

ANALYSIS OF FISCAL IMPACT OF CLINTON BUDGET PROPOSAL

Billions of dollars

Spending	
219.5	Clinton plan
197.0	pay or play costs
416.5	**Total new spending**
Cuts	
61.3	Defense per Clinton plan
25.9	"Real" non-defense
87.2	**"Real" cuts** (57.5 in "gimmicks" excluded)
Net New Spending	
416.5	Spending
87.2	"Real" cuts
329.3	**Net new spending**
Taxes	
150.0	Clinton plan
80.0	Pay or play costs
230.0	**Total tax increases**

TABLE 5

Clinton Budget Proposal

(Deficit impact in $ billions, relative to CBO Capped Baseline)

	1993	1994	1995	1996	4-Year Total
CBO Baseline Deficit [a]	**332.8**	**276.7**	**219.9**	**200.8**	**1,030.2**
Impact of Clinton Budget as Advertised	-15.8	-16.1	-17.8	-25.3	-75.1
Clinton Deficit As Advertised	**317.0**	**260.6**	**202.1**	**175.5**	**955.1**
Remove "Gimmicks"	+20.8	+27.1	+29.7	+33.8	+111.3
Add Play or Pay Health Reform	+9.0	+15.0	+23.0	+70.0	+117.0
Add Middle Income Tax Cut [b]	+1.0	+14.0	+15.0	+15.0	+45.0
"Real" Impact of Clinton Budget Plan	+15.0	+40.0	+49.8	+93.5	+198.2
"Real" Clinton Deficit	**347.8**	**316.7**	**269.7**	**294.3**	**1,228.4**

a/ Assumes conformance with 150 and domestic discretionary caps; assumes Bush request for defense.
b/ Estimate assumes a $300 credit for children under 19. The Clinton budget states "middle class" Americans would have a choice between a children's tax credit or a significant reduction in their income tax rate. Revenue loss is shown as a positive number because it increases the deficit.

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TABLE 6

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Clinton & Bush Budget Proposals

(Deficit impact in $ billions)

	1993	1994	1995	1996	4-Year Total
CBO Baseline Deficit a/	332.8	276.7	219.9	200.8	1,030.2
Clinton Deficit As Advertised	317.0	260.6	202.1	175.5	955.1
"Real" Clinton Deficit	347.8	316.7	269.7	294.3	1,228.5
Bush Mid-Session Policy Deficit b/	329.7	253.4	163.1	130.1	876.3

a/ Assumes conformance with 150 and domestic discretionary caps; assumes Bush request for defense.
b/ Includes President's mandatory cap proposal

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TABLE 7

Clinton & Bush Budget Proposals

(Deficit impact in $ billions)

	1993	1994	1995	1996	1997	1998
Clinton Deficit Under Strong Growth Scenario	-282.6	-207.0	-125.5	-75.8	NA	NA
"Real" Clinton Deficit	-313.4	-263.1	-193.1	-194.6	NA	NA
Bush Mid-Session Policy Deficit Including Mandatory Cap, Under Moderate Growth Scenario	-315.3	-215.2	-106.4	-60.9	-33.1	+0.5

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(Billions of Current Dollars)

	1993	1994	1995	1996	1993–96
CBO Budget Plan in 1992					
BA	288.4	289.4	292.8	295.2	1165.8
OT	294.1	288.7	289.0	292.1	1163.9
President 1993 Plan (CBO Re-estimate)					
BA	281.0	281.6	284.3	285.7	1132.6
OT	292.2	283.4	282.9	286.1	1144.6
Clinton (estimate)					
BA	264.8	263.2	263.0	255.6	1046.6
OT	281.2	270.9	268.4	265.6	1086.1
Aspin Option C (see below)					
BA	n.a.	n.a.	n.a.	n.a.	1094.2
OT	n.a.	n.a.	n.a.	n.a.	n.a.

1144.6
1086.1
58.5

Clinton Cuts Relative to the President

Clinton -- Outlays (provided in campaign material)					
Defense cuts	−2.0	−8.5	−10.5	−16.5	−37.5
Intell cuts	−1.0	−1.5	−1.5	−1.5	−5.5
Proc Reform	−5.7	0.0	0.0	0.0	−5.7
Inven Reform	−2.3	−2.5	−2.5	−2.5	−9.8
TOTAL OT	−11.0	−12.5	−14.5	−20.5	−58.5
Clinton -- Budget Authority estimate (assumes 68% spendout)					
TOTAL BA	−16.2	−18.4	−21.3	−30.1	−86.0

Aspin's Alternatives (BA Cuts) Relative to President

	four-fifths of Aspin	Aspin 1993–97
Option D, would cut less than the President's Plan	22.4	28.0
Option C, Aspin's preferred option	−38.4	−48.0
Option B	−58.4	−73.0
Option A	−132.0	−165.0

Clinton's Plan would mean BA cuts lying somewhere between Aspin's options A and B -- cutting $86 billion more than what the President has proposed over the 1993–1996 period and more than twice what is Aspin's preferred option.

SBC Minority Staff 07/16/92

TABLE 9

Defense Related Employment

	Bush 1992	Bush 1996	Clinton 1996	Bush Delta	Clinton Delta	Clinton–Bush
Direct Employment						
Active [1]	1937	1640	1300	−311	−637	−326
Reserve [2]	111	92	70	−19	−41	−22
DoD Civ [3]	940	905	611	−36	−329	−293
Industry [4]	3050	2267	2067	−856	−983	−127
Subtotal Direct	6038	4907	4048	−1222	−1990	−768
Industry Indirect Employment [5]						
CBO Assumption (0.5 Multiplier)				−428	−492	−64
New Mexico Univ. Assumption (2.0 Multiplier)				−1712	−1966	−254
Total Employment Effects						
With CBO Indirect Employment Assumption				−1650	−2482	−832
With New Mexico Indirect Employment Assumption				−2934	−3956	−1022

Notes:

[1] Active figures for Bush from DoD Comptroller; Clinton based on Aspin Options A and B.

[2] Reserve figures count 10 percent of Selected Reserve as employed (consistent with annual reserve training). Figures for Bush from DoD Comptroller; Clinton based on Aspin Options A and B.

[3] DoD civilian figures for Bush from DoD Comptroller; Clinton based on cuts proportional to active/reserve cuts.

[4] Industry figures for 1992 from DoD Comptroller; Bush 1996 from Defense Budget Project (DBP); Clinton based on DBP.

[5] Industry multipliers based on CBO (2/92) and New Mexico Univ. (7/92) studies.

SEC Minority Staff 07/16/92

FACSIMILE COVER SHEET

FREDERICKSBURG - STAFFORD - SPOTSYLVANIA

CHAMBER OF COMMERCE

FAX # (703) 786-6683

OFFICE # (703) 786-7000

DATE: Aug 11 1992

TIME: 2:15

TO: White House Office of Speechwriting
(Company Name or Department)

ATTN: Gary Gershaunty

FROM: Dave Foley

OF PAGES TO FOLLOW 7

SPECIAL MESSAGE OR INSTRUCTIONS:

If there is anything else I can do please contact me. If the visit happens could you let me know Monday pm.

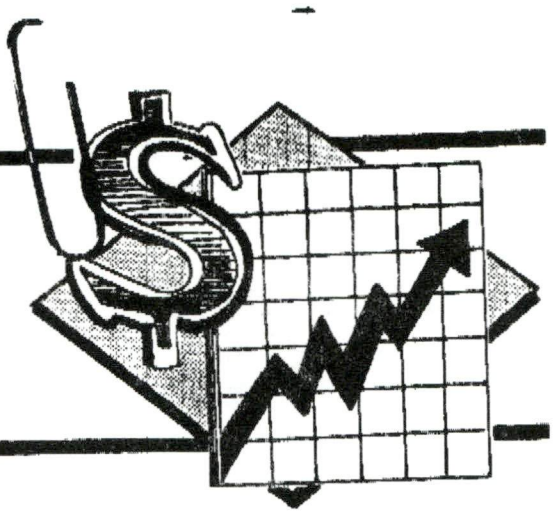
Thanks for a peek into my past.

Dave

FACt sheet—

Fredericksburg—

Economic Overview



The City of Fredericksburg forms the nucleus of the greater Fredericksburg region, with Stafford and Spotsylvania counties surrounding it and defining its perimeter. All three jurisdictions are bordered in part by the Rappahannock River, leading to the informal designation of the River Region.

The area encompasses nearly 700 square miles, with Spotsylvania the largest segment at over 400 square miles. Fredericksburg, an independent city located between the two counties, lies midway between the capital of the Commonwealth and the capital of the United States—about 50 miles from each. Stafford County, 277 square miles, lies to the northeast of the city; Spotsylvania to the southwest.

The relatively mild climate (mean annual temperature 56 degrees Fahrenheit) and annual rainfall of some 41 inches allow for a growing season of over six months. Annual snowfall averages just under 12 inches.

POPULATION

If there is a trend in population for the greater Fredericksburg area, it is growth. From 1980 to 1990, according to U.S. Census Bureau figures, the population of greater Fredericksburg increased from just over 90,000 to almost 138,000, or about 66 percent. The greatest growth in the state, as well as in the region, was in Spotsylvania County, which jumped by 79.4 percent. Stafford County, third in the state, registered a 51.3 percent increase in population over the past ten years. The chart below shows this growth by city and county.

	1980	1990	%
Fredericksburg	17,762	19,027	+ 7.1
Stafford	40,470	61,236	+51.3
Spotsylvania	31,995	57,403	+79.4
TOTAL	90,227	137,666	+65.5

MAJOR INDUSTRIES

Industry

With its strategic location 50 miles from both Richmond, Virginia, and Washington, D.C., the Fredericksburg-Stafford-Spotsylvania area is home to a diverse and growing business and industrial base.

Major businesses, with 100 or more employees, include:

CITY OF FREDERICKSBURG:
Free Lance Star Publishing Co.
Publishing

Mary Washington College
Education

City snapshot

■ **Size and character:** The city of Fredericksburg sits at the fall line of the Rappahannock River. Centered between Washington, D.C. and Richmond, it serves in many ways as the hub of a mini-region that includes the fast-growing Stafford and Spotsylvania counties.

After decades of slow growth, the city's population grew 24 percent during the 1980s as the region boomed. In 1984 the city's size increased too, when it annexed 4.4 miles of Spotsylvania. City leaders had hoped for development in the annexed area, which includes large areas of open space, but a three-year state ban on additional sewer connections (lifted in 1989) and a sluggish economy have kept developers away.

In the older area of the city, the land rising up from the riverbanks is dotted with historic homes and tree-shaded residential neighborhoods. The city's downtown business center is Caroline Street, where many shops cater to the thousands of tourists who visit each year. The city also has a 40-block historic district around the downtown area.

Major changes coming: Commuter rail service begins in late July, and the city's traffic patterns will change in 1994 with the opening of the second leg of the East–West Bypass, which will connect Dixon Street with Lafayette Boulevard.

■ **Major communities:** In the western section just beyond the College Heights neighborhood are Westmont, Westwood and Altoona. Braehead Woods, Confederate Ridge, Mayfield, Morningside and Twin Lakes neighborhoods are on the south end of the city, while Normandy Village is on the northern border. Elwood City lies on the eastern border near Old Mill Park.

■ **Public schools:** Hugh Mercer (grades K–3), Walker–Grant Middle (grades 4–7), and James Monroe High School (grades 8–12). 1991-92 school population: 2,060.

■ **Population, income:** Population: 19,027. Median family income: $33,353.

■ **Occupations:** Of the 9,629 working people in the city, 64 percent work in private enterprise; 24 percent work for local, state or federal government, and 5 percent are self-employed. The retail industry employs 21 percent of the workforce, education employs nearly 14 percent and construction, 12 percent.

Major employers include Mary Washington College, Mary Washington Hospital, Pratt Medical Center and The Free Lance–Star. The city owns an industrial park near Lafayette Boulevard.

A new hospital is under construction near the U.S. 1 Bypass and will open in April 1994, replacing the current building, which will be used for hospital-related services.

■ **History:** In 1671 when settlers first came here the region was part of a 2,000-acre land grant from Charles II of England. The city was established in 1728 by an act of the Virginia General Assembly.

A young George Washington moved here in 1738 with his family to Ferry Farm, located across the river from the City Dock. Washington lived there until age 20. His mother Mary later moved to a home on Charles Street, where she died in 1789.

James Monroe practiced law in the city, and a third president, Thomas Jefferson, wrote the Virginia Statute of Religious Freedom here. It was later used as a cornerstone for the first amendment to the U.S. Constitution.

During the Civil War, Fredericksburg and its surroundings were the sites of several bloody battles, including a major confederate victory in December of 1862 and the nearby battles at Chancellorsville, Spotsylvania Courthouse and the Wilderness.

The Fredericksburg City Council first met in 1782, making it the

Continued

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and U.S. Route 17 and Virginia Route 3, east-west thoroughfares also traverse the two counties and the city.

Air

Washington Dulles International and Washington National airports, offering commercial, air-freight, and charter services, are located in Northern Virginia near Washington, D.C., within an hour's driving time from the River Region. Richmond International is situated about 50 miles south of Fredericksburg.

Shannon Airport, located in northeastern Spotsylvania County, is a general aviation facility with a 3,000-foot runway catering to private planes and charter aircraft.

Rail

The Richmond, Fredericksburg, and Potomac Railroad provides freight and piggyback service through the River Region. Amtrak offers daily passenger service to points north and south.

The Virginia Railway Express offers a new commuter rail service from the City of Fredericksburg and Stafford County to Alexandria and L'Enfant Station and Union Station in Washington, D.C., Monday through Friday. Once in Northern Virginia and Washington, commuters may make connections with the Metro bus and subway system.

The train may be boarded in the City of Fredericksburg, and stations at Leeland Road and Brooke in Stafford County. A third station is planned in Stafford at Widewater.

The trip from Fredericksburg to Alexandria takes approximately 53 minutes. To Union Station, travel time is one hour and 15 minutes.

Tickets may be purchased for single rides, ten trips, or monthly passes.

For more information, call TRACS (Train Rider's Automated Customer Service) at 497-7777; TDD 800-828-1120.

Waterways

The Rappahannock River has a 12-foot-wide, 138-foot-deep channel which allows for river traffic to the Chesapeake Bay, Hampton Roads, and the Port of Baltimore..

UTILITIES

Cable TV

Media General Cable of Fredericksburg
(City of Fredericksburg, Spotsylvania County)
1310 Belman Road
Fredericksburg
373-6343

Prestige Cable
(City of Fredericksburg, Spotsylvania County)
10843 Howser Drive
Fredericksburg
891-0176

Rappahannock Cablecast (RCC-TV)
(Spotsylvania County)
606 Amelia Street
Fredericksburg
371-2299

Electricity

Northern Virginia Electric Cooperative
(Stafford)
752-5008

Rappahannock Electric Cooperative
(Stafford, Spotsylvania)
898-8500

In an area that was the boyhood home of the first president and, for a time, home of the law practice of the fifth, as well as the site of four major battles of the Civil War, it is also no surprise that the greater Fredericksburg area plays host to hundreds of thousands of visitors each year. As an industry, tourism here ranks second only to homebuilding.

What may be surprising is that, during a time of financial hardship for many Americans, tourism in greater Fredericksburg actually increased. And this is in an area that does not offer theme parks or ocean beaches.

Spotsylvania County experienced four major Civil War Battles: Fredericksburg, Chancellorsville, Wilderness and Spotsylvania Courthouse. Maintained by the National Park Service, the battlefields encompass nearly 6,000 acres of land, with over 1.8 million visitors in 1990.

Major attractions in Stafford County include George Washington's boyhood home, Ferry Farm, artist Gary Melcher's home, Belmont, and the Aquia Episcopal Church.

Apparently, as long as history is taught in America's schools, Americans will flock to those places where history was made, and greater Fredericksburg has a wealth of history and hospitality that will keep those visitors coming, year after year.

Fredericksburg Visitor Center
706 Caroline Street
Fredericksburg
373-1776

Spotsylvania Visitor Center
4704 Southpoint Parkway
Spotsylvania
891-TOUR

EMPLOYMENT

Employees in the greater Fredericksburg area have felt the effects of the recession in the past year. In May 1992, for example, the national unemployment rate was 7.2 percent. Virginia's rate was 6.9 percent. For the same month, the jobless rate in the City of Fredericksburg was 6.6 percent; for Stafford County, 6.3 percent; and for Spotsylvania County, 10.2 percent.

(For the same period one year earlier, figures showed the national unemployment rate to be 6.5 percent; Virginia, 3.6 percent; Fredericksburg, 6.0 percent; Stafford, 5.8 percent; and Spotsylvania, 8.7 percent.)

With a combined civilian labor force of 71,861, the city and two counties had a total of 5,365 workers seeking jobs in May. This translates to an overall unemployment rate of 7.5 percent for the area.

Virginia Employment Commission
3501 Lafayette Boulevard
Fredericksburg 22401
898-3800
Hours: 8:30 a.m. to 4:30 p.m., Monday through Friday

In addition to processing unemployment insurance claims, the local office of the Virginia Employment Commission will register anyone over the age of 14 who is seeking full-time, part-time, temporary, or summer employment. Testing, placement, and counseling services are available to all Virginia residents through the VEC.

TRANSPORTATION

Automobile

The major north-south thoroughfare on the East Coast, Interstate 95, runs its way through Stafford County, the City of Fredericksburg, and Spotsylvania County. U.S. Route 1, also a north-south highway,



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COMMEMORATIVE EDITION

DELUXE LIBRARY EDITION

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and furthered the establishment of an Anglican-Lutheran bishopric in Jerusalem.

Frederick William was convinced that he had been called by God to rule and was hostile to the idea of representative government. He called a joint meeting of all the provincial diets in 1847, but this United Diet had no popularly elected members. The revolutions of 1848, which brought bloodshed to Berlin, finally led the King on Dec. 5, 1848, to grant a constitution. In 1849 the Frankfurt Parliament, which was trying to unite Germany, offered the imperial crown to Frederick, but he could not bring himself to accept it. If he was to rule a united Germany, he wanted to receive the crown from his fellow princes. An attempt to establish a smaller German Confederation that excluded Austria was opposed by Austria and Russia and ended with Frederick's acknowledgement of defeat, known as the "humiliation of Olmütz," in 1850.

When he became unable to carry out his duties because of a stroke, his brother William was formally recognized as regent in 1858. Frederick William died at Potsdam on Jan. 2, 1861.

ERNST C. HELMREICH
Bowdoin College

Historical Facts

FREDERICKSBURG, an independent city in eastern Virginia, is in the upper Tidewater region at the fall line of the Rappahannock River, 50 miles (80 km) south of Washington, D. C.

It is the commercial center of an agricultural area and manufactures plastics, clothing, shoes, cement and cinder blocks, and business forms.

The city is the home of Mary Washington College of the University of Virginia. Many buildings of the 18th and early 19th century remain in use. Historic shrines open to the public include Kenmore, the home of George Washington's sister, Betty Washington Lewis; the last home of his mother, Mary Ball Washington; the law office of James Monroe, 5th president of the United States; the Hugh Mercer apothecary shop; and the Rising Sun Tavern, where the Marquis de Lafayette was entertained.

Fredericksburg was laid out in 1727 and named for the father of King George III of England. It was a trading and shipping center for planters. In Revolutionary times it was a political and social meeting place. In the Civil War it was the scene of a harsh Union defeat on Dec. 13, 1862.

It was incorporated as a town in 1781 and as a city in 1879. Government is by city manager. Population: 15,322.

FREDERICKSBURG, Battle of, fought on Dec. 13, 1862, at Fredericksburg, Va., resulting in the most disheartening defeat suffered by the Union Army of the Potomac in the Civil War.

After the Battle of Antietam (or Sharpsburg), on Sept. 17, 1862, Gen. Robert E. Lee's Army of Northern Virginia withdrew across the Potomac River. In November, President Lincoln appointed Maj. Gen. Ambrose E. Burnside to command the Union army. Burnside did not feel qualified but reluctantly assumed command.

Burnside evolved a plan to advance rapidly on Fredericksburg, cross the Rappahannock River, and march on Richmond, the Confederate capital. Pontoon bridging equipment was ordered but failed to arrive on time. When it did, the opportunity had passed. Lee's army was waiting.

Burnside had organized the army into three "Grand Divisions," each composed of two corps of three divisions. The Right Grand Division, commanded by Maj. Gen. Edwin V. Sumner, was to cross at Fredericksburg, while Maj. Gen. William B. Franklin's Left Grand Division was to cross below the town. Maj. Gen. Joseph Hooker's Center Grand Division was to be in general reserve.

Operations began on the night of December 10. Franklin met little opposition, but Sumner encountered a brigade in Fredericksburg that so delayed the bridge building that the crossing was not completed until December 12.

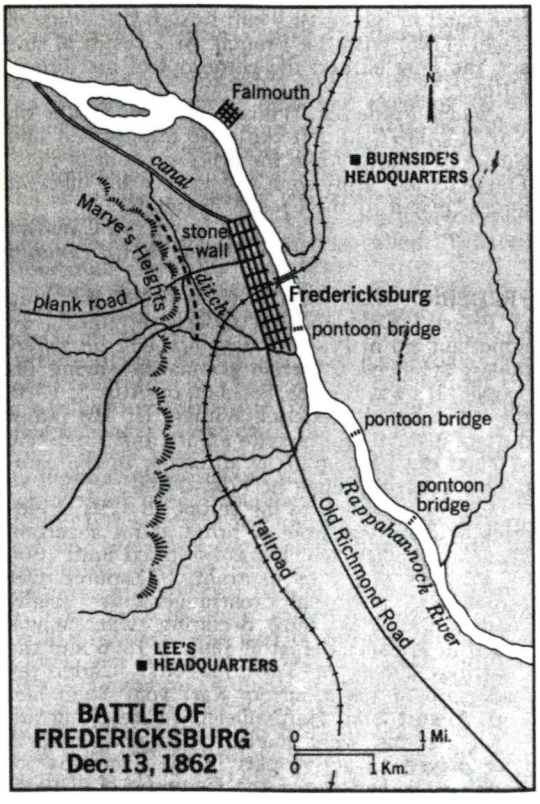
The main Confederate position was along the plateau south of the river. Lt. Gen. James Longstreet's 1st Corps held the high ground behind Fredericksburg, and Lt. Gen. Thomas J. ("Stonewall") Jackson's 2d Corps held the right of the line. Here the first Union attack was launched on December 13. Maj. Gen. George G. Meade's division broke through the Confederate line but was repulsed by a strong counterattack.

Under Marye's Heights at the opposite end of the line, Sumner's troops had to advance across an open plain cut by a deep ditch. They faced a sunken road and a stone wall just high enough to protect the defenders shooting over it.

With incredible bravery, Sumner's troops charged repeatedly. Burnside then ordered Hooker to continue the assault. Hooker protested but complied. Fourteen separate unsuccessful assaults were made. On the evening of December 15 the Union army withdrew across the river.

Union casualties were 12,653; those of the Confederates, 5,309.

JOSEPH B. MITCHELL
Author of "Decisive Battles of the Civil War"





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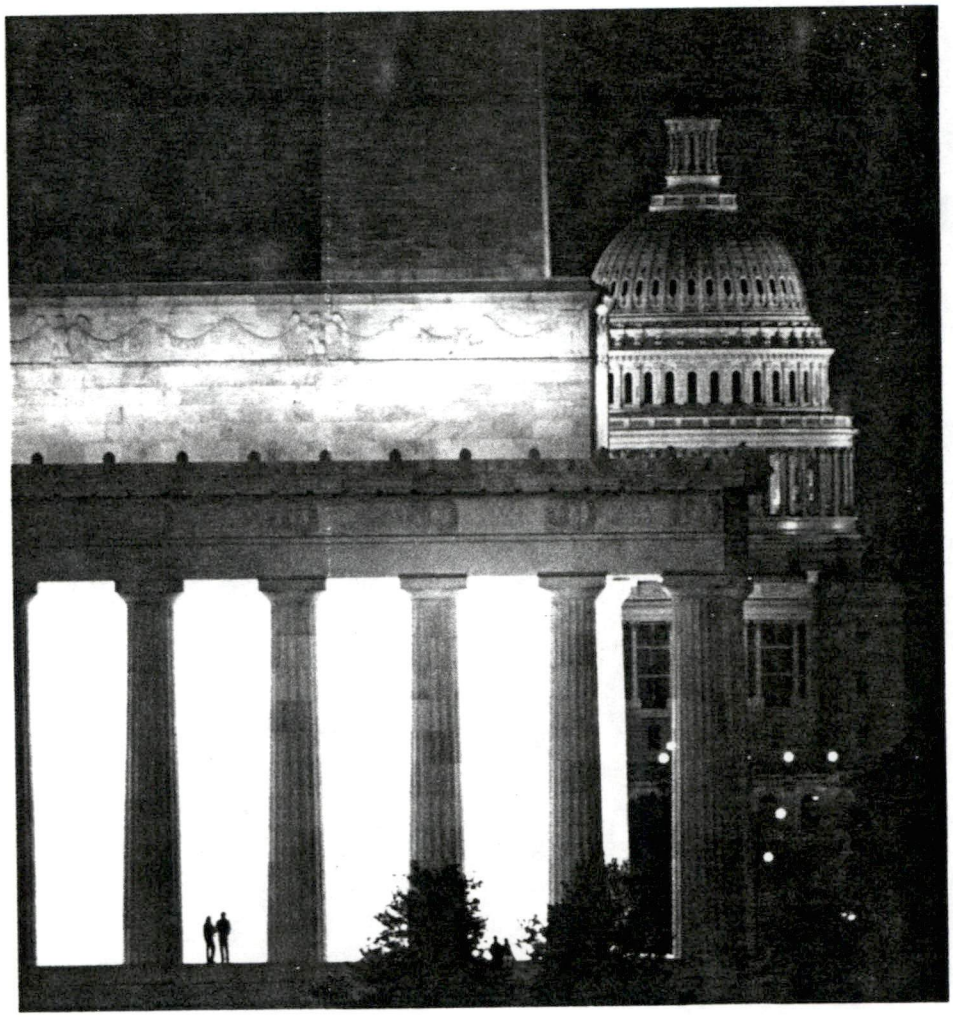
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THE

SMITHSONIAN

GUIDE TO

HISTORIC AMERICA



VIRGINIA AND THE CAPITAL REGION

WASHINGTON, D C ▪ VIRGINIA ▪
MARYLAND ▪ DELAWARE

1989

as "one of our really great men, and of the first order of greatness."

Mason began the construction of the house in 1755. He later took as an indentured servant the British master carpenter and joiner William Buckland to design and create the woodwork for several of the rooms. Buckland's Palladian drawing room is his masterpiece; the woodwork in the dining room is probably the first use of Chinese decorative motifs in America (they are definitely the oldest extant examples on this continent). Buckland embellished the exterior with a handsome "Gothick" porch and carved cornices; a second porch was designed by Mason after a Buckland concept. Mason himself was responsible for the design of his gardens, and the house preserves many items of his own furniture. Buckland moved to Annapolis, Maryland, where he designed the superb Hammond-Harwood House.

LOCATION: Lorton, Exit 55 off Route 95. HOURS: 9:30–5 Daily. FEE: Yes. TELEPHONE: 703–550–9220.

QUANTICO

A naval center since the Revolutionary War, the Quantico area was leased as a Marine Corps base during World War I. Today, the town of Quantico is entirely surrounded by the 100-acre facility known as the Marine Corps Combat Development Command. The **Marine Corps Air-Ground Museum** on the base (703–640–2606) displays an impressive collection of aircraft, tanks, artillery, small arms, uniforms, and other military items.

FREDERICKSBURG

Located just south of the fall line of the Rappahannock River, Fredericksburg was an important port and center of trade for the region's tobacco and wheat farms in the eighteenth and nineteenth centuries. The Rappahannock, deep enough here for oceangoing ships, carried a flourishing commerce in grain, tobacco, farming equipment, and a variety of luxury items imported from Europe. George Washington spent part of his youth on his family's farm near the town. His sister, mother, and many close friends lived in Fredericksburg. Another distinguished American whose public-service career had its roots here was James Monroe, negotiator of the Louisiana Purchase and, later, minister to France. The **Old Town Hall and Market House,** built around 1816, is one of Ameri-

ca's few remaining colonial mark
ly used town hall in the South.

In the Civil War the town's
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The **James Monroe Museu**
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This structure was built about
Washington's brother Charles. G
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Golden Eagle, later renamed the
restored with pewter ware and
colonial tavern.

LOCATION: 1306 Caroline Street.
PHONE: 703–371–1494.

Hugh Merce

Mercer was a Scottish doctor wl
Prince Charlie that met defeat at
America, fought in the French an
friend of George Washington. Af
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In the Revolutionary War Merce
Trenton, New Jersey, and lost hi
A monument to him, erected in
and Faquier Street. His shop has
the period; the original shelves,
uncovered during a renovation.
descendant of Mercer.

LOCATION: 1020 Caroline Street
TELEPHONE: 703–373–3362.

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Route 95. HOURS: 9:30–5 Daily. FEE:
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ANTICO

lutionary War, the Quantico area was
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RICKSBURG

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later, minister to France. The **Old**
, built around 1816, is one of Ameri-

ca's few remaining colonial market houses and the oldest continually used town hall in the South.

In the Civil War the town's advantageous location along the Rappahannock and on the road between Washington and Richmond made it a battleground—the town changed hands seven times. The walls of the **Presbyterian Church** at Princess Anne and George streets still have the marks of cannonballs. **Caroline Street** is a well-preserved district of eighteenth- and nineteenth-century houses. The visitor center is at 706 Caroline Street (703–373–1776).

The **James Monroe Museum** (908 Charles Street, 703–373–8426) preserves the law offices he occupied from 1786 to 1789, including his lawbooks and the elegant Louis XVI furniture he bought in France. The museum is adjacent to a small **Masonic cemetery,** started by the local lodge in 1784.

Rising Sun Tavern

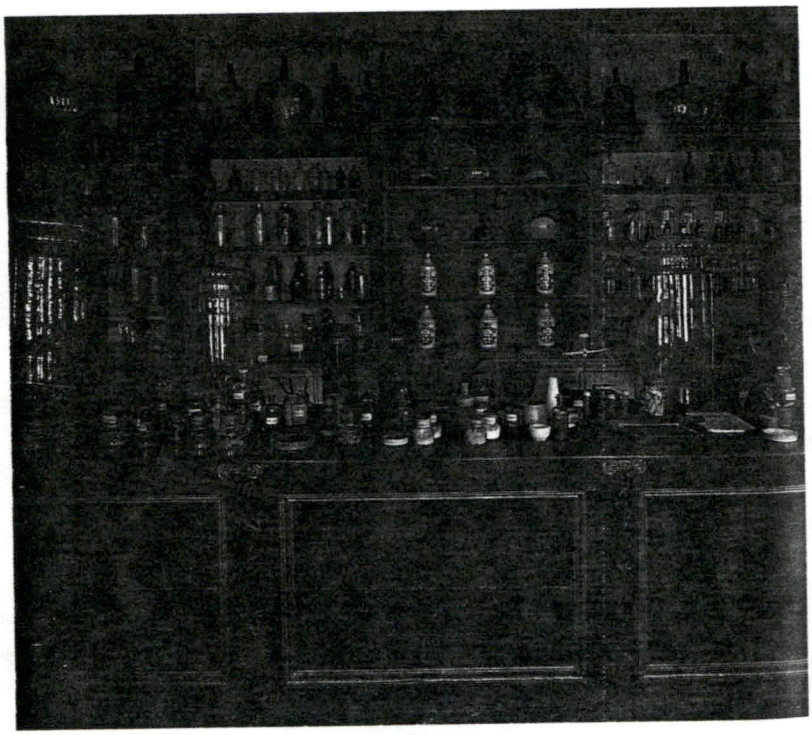
This structure was built about 1760 as a residence by George Washington's brother Charles. George visited the home on a number of occasions. In 1792 the house was converted to a tavern, the Golden Eagle, later renamed the Rising Sun. The tavern has been restored with pewter ware and gaming equipment typical of a colonial tavern.

LOCATION: 1306 Caroline Street. HOURS: 9–5 Daily. FEE: Yes. TELEPHONE: 703–371–1494.

Hugh Mercer Apothecary

Mercer was a Scottish doctor who served in the army of Bonnie Prince Charlie that met defeat at the Battle of Culloden. He fled to America, fought in the French and Indian War, and became a close friend of George Washington. After the war he opened this apothecary, which Washington used as an office when visiting the town. In the Revolutionary War Mercer was a commander at the Battle of Trenton, New Jersey, and lost his life in the fighting at Princeton. A monument to him, erected in 1906, is at Washington Avenue and Faquier Street. His shop has been restored with items typical of the period; the original shelves, drawers, and pigeonholes were uncovered during a renovation. General George S. Patton was a descendant of Mercer.

LOCATION: 1020 Caroline Street. HOURS: 9–5 Daily. FEE: None. TELEPHONE: 703–373–3362.



The Hugh Mercer Apothecary Shop, Fredericksburg.

Kenmore

Kenmore was built by Fielding Lewis, whose wife, Betty, was the sister of George Washington. Though Lewis never fought in a battle, he built ships, supplied the army with gunpowder, lead, food, and clothing, and operated a gun factory. Betty Lewis, along with many other Fredericksburg women, made powder cartridges. When the public funds authorized for the manufacture of weapons had been used up, Lewis pledged his own money and house to keep the factory in operation. He was never repaid. Fielding Lewis died in 1781 just after the victory at Yorktown; Betty Lewis died in 1797, after which the house was sold.

Kenmore is remarkable for its richly decorated, hand-molded ceilings. The dining room, drawing room, and bedroom ceilings are embellished with superb plaster reliefs done in 1775 by an unknown artisan, the same person who decorated two rooms at Mount Vernon. The drawing room reliefs are mainly floral motifs

such as garlands, swags, bouque
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Aesop's fables, "The Fox and th
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small museum, with a diorama o

LOCATION: 1201 Washington Av
vember: 9–5 Daily; December th
Yes. TELEPHONE: 703–373–3381.

Mary Wash

George Washington purchased t
for his mother in 1772. He ma
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The drawing room at Kenmore, with its elab



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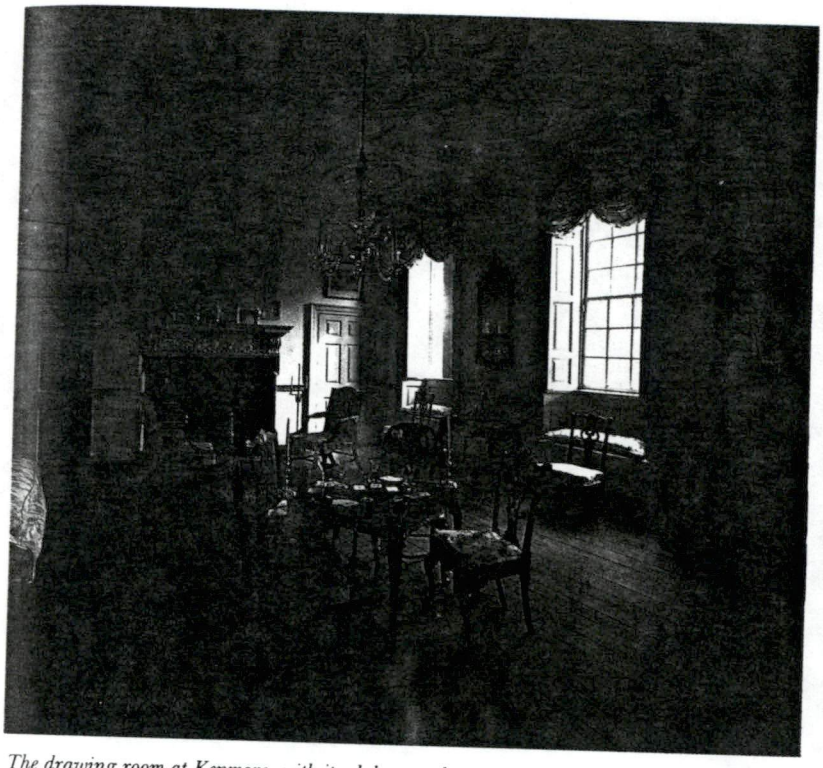
ichly decorated, hand-molded
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r reliefs done in 1775 by an
who decorated two rooms at
reliefs are mainly floral motifs

such as garlands, swags, bouquets, and rosettes, while the bedroom ceiling features seasonal symbols—palms, grapes, acorns, and mistletoe. The plaster overmantel in the drawing room depicts one of Aesop's fables, "The Fox and the Crow." The house, restored and furnished with an excellent collection of period furnishings, is surrounded by a garden in the eighteenth-century style. There is a small museum, with a diorama of colonial Fredericksburg.

LOCATION: 1201 Washington Avenue. HOURS: March through November: 9–5 Daily; December through February: 10–4 Daily. FEE: Yes. TELEPHONE: 703–373–3381.

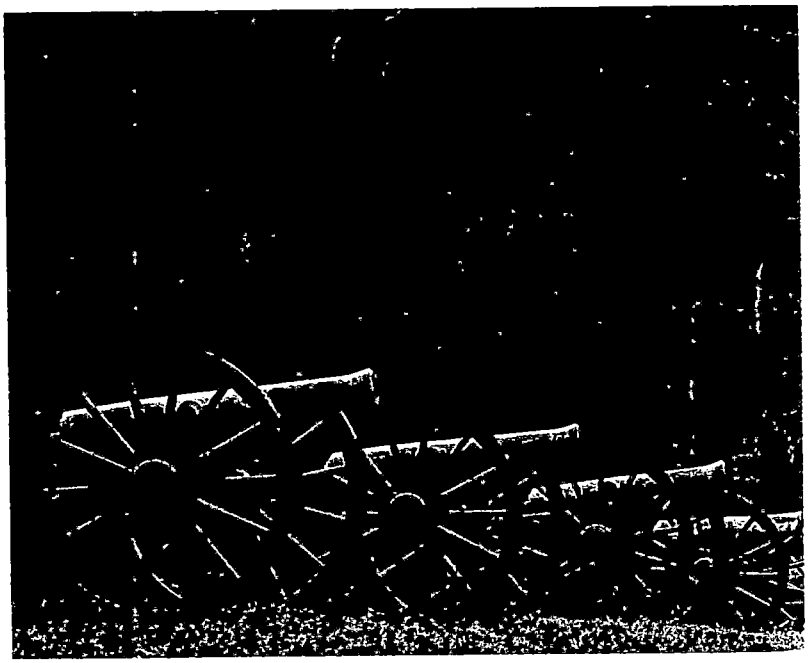
Mary Washington House

George Washington purchased this house, not far from Kenmore, for his mother in 1772. He made frequent visits, despite that his relationship with his mother was a difficult one. She complained he



The drawing room at Kenmore, with its elaborate plasterwork.

shin



Confederate cannon at Hazel Grove, just south of Chancellorsville.

neglected her and left her in poverty. Describing a visit Washington made in 1784, the biographer Elswyth Thane wrote, "Pursuing his always dutiful if reluctant way thither, he listened with his indestructible courtesy to her complaints and what now amounted to hallucinations of fraud and poverty." She had spread such heartbreaking stories about her condition that the Virginia Assembly was about to vote her a pension when Washington was informed of the plan and put a stop to it. The restored house displays some items owned by Mrs. Washington.

LOCATION: 1200 Charles Street. HOURS: April through November: 9–5 Daily; December through May: 9–4 Daily. FEE: Yes. TELEPHONE: 703–373–1569.

FREDERICKSBURG AND SPOTSYLVANIA NATIONAL MILITARY PARK

The armies of the North and South suffered more than 100,000 casualties in the four battles that took place within the confines of this park—Fredericksburg, Chancellorsville, the Wilderness, and

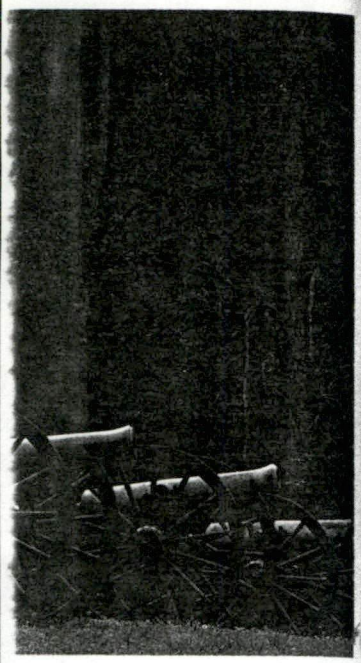


Trenches of the Confederate Army at Prospect

Spotsylvania Court House. This
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The Battle of

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Trenches of the Confederate Army at Prospect Hill, Fredericksburg.

Spotsylvania Court House. This ground was repeatedly and bitterly fought for because it was located halfway between the opposing capital cities.

The Battle of Fredericksburg

The Battle of Fredericksburg, fought from December 11 to 15, 1862, was an appalling disaster for the North. In November Lincoln had relieved General McClellan of his command of the Army of the Potomac when McClellan once again delayed attacking Lee while the Southerners were retreating from Antietam. Lincoln appointed General Ambrose Burnside, who planned an attack on Richmond by way of Fredericksburg, where he could be supplied by the Richmond, Fredericksburg, and Potomac Railroad. Burnside's 110,000 men reached the shore of the river at Falmouth, just north of Fredericksburg, in mid-November, but organizational confusion caused a week's delay in crossing the river. Lee was thus given time to fortify Marye's Heights west of Fredericksburg and Prospect Hill south of the city.

On December 11 some Northern units crossed the river on pontoon bridges, looting Fredericksburg the next day. On December 13 an attack on Prospect Hill, held by Stonewall Jackson, faltered when General William B. Franklin failed to commit his reserves to exploit a breach in the Confederate line. Meanwhile, a hideous slaughter was underway at Marye's Heights, as Burnside sent wave after wave of men against the virtually impregnable Confederate position. By the end of the day some 13,000 Northerners lay dead or wounded. Burnside retreated on December 15. The defeat touched off a political crisis in Washington, and Lincoln wrote in despair, "If there is a worse place than Hell, I am in it." It was during this battle that Lee said, "It is well that war is so terrible—we should grow too fond of it."

Battle of Chancellorsville

The Battle of Chancellorsville, fought May 1 to 6, 1863, was one of Robert E. Lee's most brilliant victories. That spring Lee had spread twenty-five miles of trenches along the Rappahannock to protect Fredericksburg. Union general Joseph "Fighting Joe" Hooker, now in command of the Army of the Potomac, proposed to send a 40,000-man column against Fredericksburg, but his main attack on Lee's army would fall on the Confederate western flank. To this end 70,000 men crossed the Rappahannock at Chancellorsville, threatening to encircle Lee. His plan now in place, Hooker was suddenly afflicted by the same reluctance to fight that had bedeviled McClellan.

Lee realized that the greater threat lay at Chancellorsville rather than Fredericksburg: He sent the bulk of his army west. On May 1, when the advance guards of the opposing armies encountered each other east of Chancellorsville, on open ground favorable to the Northerners, Hooker ordered a retreat into the woods. That night Lee and Stonewall Jackson hatched a bold and hazardous plan, calculated to take advantage of Hooker's apparent unwillingness to fight. Lee split his forces, keeping only 15,000 men to face Hooker and sending Jackson with 30,000 men in a flanking maneuver to the west. Hooker was informed of the movements but did nothing, believing that Lee was withdrawing.

Lee's gamble paid off handsomely. In the late afternoon of May 2, Jackson's men struck at the right end of Hooker's line and sent it reeling back two miles as Lee attacked Hooker's front. The fighting continued into the night. Riding back to their lines in the dark, Jackson and a group of officers were mistaken for Federals.



Salem Church, Chancellorsville, site of Confederat General Hooker.

Their own men fired upon them, w
which had to be amputated. The le
developed pneumonia, and he died
Guinea, ten miles south of Frederick

With an advantage of roughly tw
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Fredericksburg to attack Marye's H
disaster. But this time, after two as
Northerners succeeded in taking th
Lee sent two divisions to the relie
Hooker refused to press his numer
advice of his field commanders, H
Lee's prestige rose to its greatest heig

The Battle in the

The battles in the Wilderness and
began a yearlong campaign between t
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