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A SURVEY OF N.A.M. BOARD MEMBERS

February 1993

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: OB DATE: 10/17/16

Peter D. Hart Research Associates
1724 Connecticut Avenue, NW
Washington, DC 20009

Executive Summary of Findings: Survey of N.A.M. Board Members

The following are some of the key findings that arise from a survey of 96 members of the National Association of Manufacturers' board of directors, conducted on Saturday, February 13.

1. **Manufacturers express moderate optimism about the economy's direction and their own firms' immediate future, but on balance, there is little evidence to suggest that there will be significant increases in manufacturing employment in 1993.** Although seven in ten N.A.M. board members anticipate both a stronger national economy and greater profitability at their own firms, most expect only moderate improvement in each area. Manufacturers foresee that their own domestic production will increase by about 4.5% this year, but on average, they anticipate only a 0.2% increase in domestic manufacturing employment. More board members expect an increase rather than a reduction in employment on the factory floor, in sales and service, and in research. However, more of these manufacturers envision cutbacks rather than increases in the number of management and administrative workers.

2. **When asked which government policies contributed the most to encouraging more manufacturing employment in the U.S. over the past five years, half of all N.A.M. board members volunteer that they cannot think of any government policy that has helped or say that government has done very little or nothing to increase employment. However, some do point to changes in trade and taxes.** In particular, these manufacturers volunteer three specific factors--tax cuts, lower interest rates, and the promotion of trade--as the policies that contributed the most.

3. **Manufacturers cite government regulations, changes in tax policy, social and legal obstacles, and the federal budget deficit as the general domestic government policies, failures, or omissions that have done the most to reduce manufacturing employment.** In fact, a majority (54%) of board members volunteer government mandates and regulations when asked which government policies have done the most to harm U.S. manufacturing employment levels in the past five years. The specific issues volunteered are environmental regulations (27%), the federal deficit (21%), regulations in general (19%), the loss of the investment tax credit (15%), workers' compensation burdens (10%), health care costs (10%) and the lack of health care reform (5%), product liability (8%), and the absence of tort reform (7%). Asked to name the top one or two problems facing their companies today, three in four (75%) manufacturers volunteer problems directly caused by government--taxes, regulations, or the federal budget deficit.

4. **Looking ahead, when asked what the most important steps would be for the government to take to increase manufacturing employment, these board members primarily offer suggestions related to government spending and taxing priorities, as well as continued vigilance on regulation to ensure that government mandates are cost-effective, and continued efforts to develop international trade agreements and open foreign markets.** N.A.M. board members are most likely to volunteer the following specific efforts: institution of a permanent investment tax credit (38%), deficit reduction through spending cuts (28%), less regulations in general (26%), and cutting health care costs (10%) and passing health care reform (14%).

On February 13, 1993, Peter D. Hart Research Associates, Inc., conducted a survey among 96 members of the National Association of Manufacturers' board of directors, who were meeting at Marco Island, Florida. The following key findings reflect the views of N.A.M.'s board members on economic and employment prospects for the coming year.

Structural Economic Problems Seen as Less Serious than Other Barriers

America's manufacturers agree, nearly unanimously, that 1993 will bring moderate growth in the economy.

- Three-quarters (75%) of manufacturers surveyed report that they expect the economy to be stronger a year from now. Only 5% envision that the economy will be much stronger, however, while 70% say they anticipate that the economy will be somewhat stronger.

- Ninety-five percent believe real gross domestic product will increase. On average, manufacturers believe total U.S. domestic production will increase about 2.2% in 1993.

- Eighty-one percent of board members predict that their own company's domestic production will increase this year. On average, these manufacturers believe their corporation's domestic production will increase by 4.5%.

- Manufacturers express moderate optimism about the potential for a growth in profitability at their firms. Comparing assessments of profitability growth worldwide for the past year with expectations for the coming year, we find that slightly fewer manufacturers expect 1993's profitability to be strong (16%) than the proportion who report that their company was much more profitable in 1992 than it had been in 1991 (24%). Overall, 70% of board members report at least some growth in profitability last year, and 70% expect their company worldwide to be much more or somewhat more profitable in 1993 than it was in 1992. One small sign of growing optimism: 19% of these manufacturers report that their firms were less profitable last year than they were the year before, but only 8% expect a decline in profitability this year.

- When asked to identify the primary barriers their companies must overcome today, manufacturers are more likely to mention government and social problems than weakness in the economy--a sign that these board members' concerns focus more on problems that can be addressed and fixed rather than structural problems in the economy. Asked to volunteer the most important problems facing their company today, three-quarters (75%) of N.A.M. board members point to government-created problems, including regulations (31%), the budget deficit (26%), and the absence of investment incentives (11%). Half (52%) cite social issues, including health care (36%) and legal system problems, such as product liability and the absence of tort reform (18%). Fewer than half (43%) mention economic problems, while 13% volunteer issues related to labor and 6% cite trade obstacles.

Manufacturers Will Boost Productivity not Employment

American manufacturers report little growth in U.S. domestic employment in the past year, and they foresee little growth in employment in the next year.

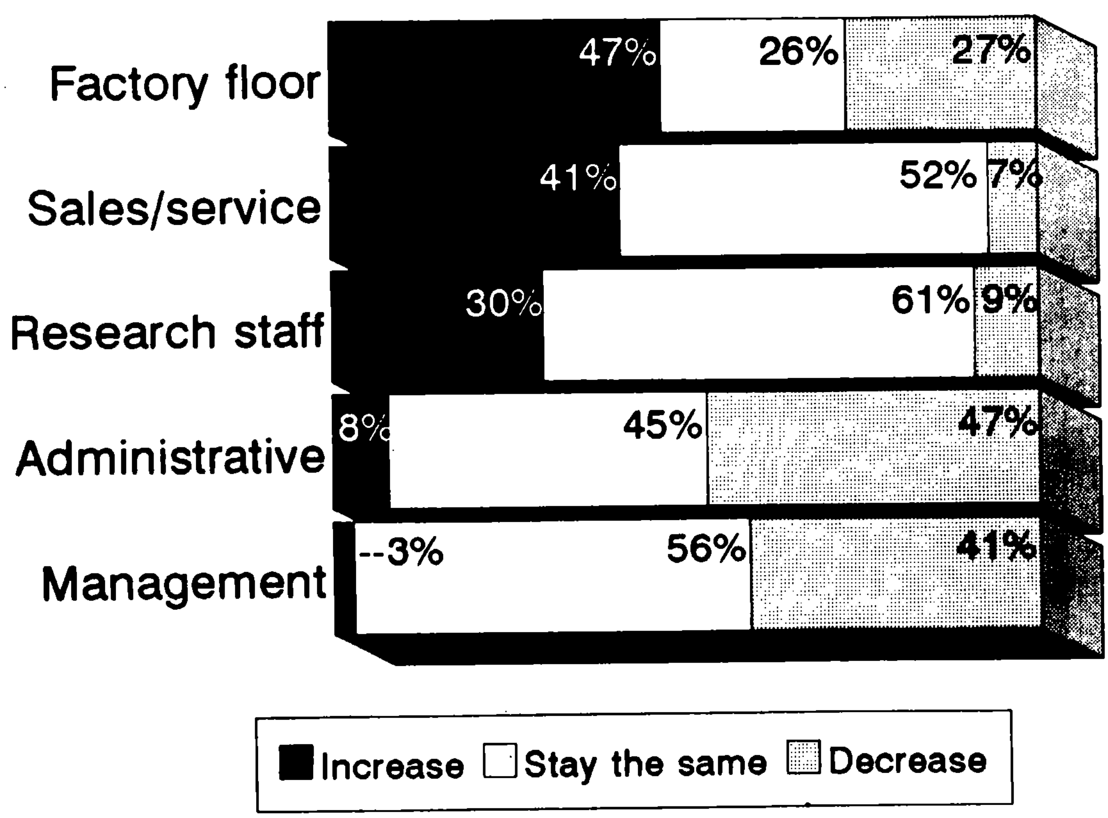
- In the past year, domestic employment at the firms covered in this survey grew by just 0.3% on average. Two in five (42%) board members report a growth in employment in the past year, 23% say there has been no change, and 34% describe a decline in employment.

- In 1993, firms intend to increase domestic employment by an even smaller 0.2% on average. Half (51%) of these manufacturers plan to increase employment, but 25% plan to increase their work forces by less than 2%. One in five (20%) board members anticipate no change, and 29% plan to reduce their work force in 1993, including 11% who will cut work forces by 4% or more.

- Among the manufacturers who expect their company's total real production volume to change, most intend to keep the number of employees steady despite plans to increase production by 4.5% on average. Overtime accounts for a great deal of that increased production; 43% of these firms say they will rely more on changes in overtime than in the number of employees, compared to 20% who anticipate relying more on changes in number of employees. Others indicate that boosts in productivity will allow them to augment production without increasing work force size.

- Manufacturers are planning to hold the line on the size of their management and administrative work forces, while increasing the work force on the factory floor, in sales and service, and (to a lesser extent) in research and development. Only 3% of N.A.M. board members foresee any increase in the size of their management force (while 41% plan a reduction), and just 8% predict an increase in their administrative staff (while 47% will reduce the number of administrators). By contrast, 47% of these manufacturers plan to increase the size of the work force on the factory floor (and 27% anticipate reducing the number of factory workers). Overall, 41% intend to bring on more people in sales and service (with only 7% planning sales and service personnel cutbacks); and 30% anticipate increasing the size of their research staffs (and only 9% will cut research staffs).

Anticipated Changes In U.S. Work Force
(by types of workers)



- In response to short-term changes in production, some manufacturers rely on part-time employees, but only 24% report that as many as one in ten employees are part-time workers. **The two most frequently volunteered reasons for using part-time employees relate to convenience**: 15% of board members say they use part-time employees because of the convenience and flexibility such staffing allows employers, and 15% say having part-time staff accommodates their employees, particularly new parents edging back toward full-time employment while raising infants or young children.

  An inability to predict whether immediate demand will be permanent enough to justify increasing full-time employment is another reason for using part-time employees: these manufacturers say they use part-time employees to meet temporary, short-term needs (14%); to adjust to short-term changes in orders (7%); to avoid being put in the position of laying off full-time employees in the future (4%); and to use as fill-in help for the full-time work force (2%).

  A modest number of manufacturers keep labor costs down by using part-time employees: 10% of board members use part-time employees because the cost of benefits packages preclude hiring more full-time employees; 5% cite lower costs overall; 4% specifically mention the difference in costs of hiring part-time instead of full-time workers; and 1% comment on the social costs associated with full-time workers, as mandated by government.

  Part-time employment is also used by some manufacturers as a tryout or to meet other special needs: 7% of board members say they hire part-timers with specialized skills that they need only temporarily; 3% retain contractors or engineers; 2% employ people to work part time as a way to recruit or test potential full-time employees; and 1% use part-timers in some entry-level jobs.

- The most significant reductions in work force size at American manufacturing firms may have occurred already. More than one-third of the manufacturers surveyed report that their firm has significantly reduced its work force size in the past few years. Most have completed or nearly have completed the planned cutbacks: 15% say their reductions now have been performed, 16% indicate the reductions are two-thirds or more complete, and only 6% report that reductions in work force are only half or less than half done at this point.

<u>Manufacturing and Government Policy</u>

Changes in trade and taxes are the leading reasons mentioned when manufacturers are asked to volunteer in their own words the government policies or successes that have done the most to increase manufacturing employment in the U.S. in recent years. On the other hand, half (50%) of all N.A.M. board members say government has done little or nothing to increase manufacturing employment in recent years, or say they do not know what policies have contributed the most. The remainder of the comments offered fall into the following categories.

- **Changes in trade policies and foreign affairs are volunteered by one in five manufacturers (21%), including 9% who cite government promotion of trade in general, 4% who offer international trade agreements, and 2% each who mention the devaluation of the dollar, copyright protection efforts, and progress on NAFTA and development of a North American economic sphere.**

- **Changes in tax laws are volunteered by 20%, including 12% who mention tax cuts in general, and 2% each who mention differences in investment or research-and-development tax credits.**

- **Changes in the overall economy are volunteered by about one in eight manufacturers (13%), including 11% who mention lower interest rates and 7% who cite lower inflation.**

- **Government spending, policies, priorities, and programs are volunteered by just one in ten board members (10%), including 2% each who cite government spending restraint, government programs to assist with worker training, and government programs to encourage quality and productivity.**

- **Controls on government mandates and regulations are mentioned by 9% of those surveyed, including 4% who specifically mention general cutbacks in regulations and 2% who cite former Vice President Dan Quayle's Council on Competitiveness.**

Government mandates and regulations, changes in tax policy, social and legal problems (such as health care costs, product liability, and the absence of tort reform), and the federal budget deficit are the primary public policy problems that have discouraged greater U.S. manufacturing employment over the past five years, N.A.M. board members say. The following illustrates the breakdown of the comments offered by these manufacturers.

- **Government mandates and regulations are mentioned by more than half (54%) of manufacturers when they are asked which government policies or failures have done the most to <u>reduce</u> U.S. manufacturing employment in the past five years.** Specifically, these board members cite environmental regulations (27%), too much regulation in general (19%), and workers' compensation issues (10%).

- **Tax issues are cited by almost one-third (31%) of manufacturers, including 15% who mention the loss of the investment tax credit.**

- **Social and legal problems (29%)**--particularly health care costs (10%) and the absence of health care reform (5%), product liability (8%), and the absence of tort reform (7%)--are among the comments offered frequently by these manufacturers.

- **Government spending (26%)--especially the federal budget deficit (21%)**--is also volunteered as a barrier to greater U.S. manufacturing employment.

- **Finally, other government failures and omissions in such areas as trade, the savings and loan crisis, monetary policy, and the absence of government efforts to encourage productivity and greater business-government cooperation** are also seen as contributing to the reduction in domestic employment in manufacturing during the past five years.

Looking ahead, when N.A.M. board members are asked what steps government could take now to increase U.S. manufacturing employment, most mention issues related to government spending and tax priorities, regulatory issues, and trade/foreign affairs issues.

- **More than half (55%) cite issues related to government spending, primarily the need for deficit reduction through spending cuts (28%) and for health care reform (14%) and cost controls (10%),** two of the key themes in President Clinton's recent address to Congress. Other government spending priorities mentioned include education improvements and worker training, long-term industrial planning and productivity efforts, an organized effort on domestic technology development using the DARPA model, and a short-term stimulus.

- **Half (51%) of these manufacturers volunteer tax issues, including 38% who cite the need for a permanent investment tax credit, 10% who mention the need for more favorable tax treatment of capital formation and capital gains, and 8% who urge capping or even reducing corporate taxes.** Other tax issues raised are research and development tax credits, growth-oriented incentives, and an end to double taxation of corporate profits.

- **Government mandates and regulations are mentioned by 39% of board members overall, including 26% who say the overall regulatory burden needs to be reduced,** and some who recommend cutting back on environmental regulations, costly government mandates on business, and banking regulations that discourage loan activity.

- **More than one in five (23%) manufacturers mention the need for action on trade and foreign affairs, including the need for NAFTA or GATT approval, enforcement of fair trade rules, planning for global competition, the need to keep the dollar relatively cheap, the importance of more international trade agreements, and the desire for more trade assistance** as ways to encourage more domestic manufacturing employment.

Barriers and Encouragements to U.S. Manufacturing Employment

In individual interviews, several board members expand on the barriers, related to both the market and public policy issues, that discourage greater manufacturing employment in the U.S. Some volunteer arguments in favor of producing in the U.S. and using American workers, including issues of patent security, work force flexibility, proximity to greater markets, and even the simple patriotic urge to manufacture here rather than elsewhere. The following quotations offer a flavor of some of the issues American manufacturers raise when discussing the factors for and against increasing manufacturing employment in the U.S.

> Health care is a real issue for us. We have outstanding benefits, but at the current rate of increase, we will not be able to continue to afford those benefits. It drives our costs up, [but] it will not affect the size of our work force. Safety-related regulations are being met and are not a serious issue, but, because of our chemical manufacturing operations, environmental regulations are costing us a considerable investment. The incremental environmental costs that add no value to the product caused our product cost to increase almost 1% last year. Polaroid is committed to environmental activities, but I believe we could have spent that money in a way that would have impacted the environment more favorably.
>
> Joseph Oldfield
> Executive Vice President, Photographic Imaging
> Polaroid Corporation

> The timber resource is the most significant factor in determining employment levels. Second to that is trying to achieve efficiency in production. Regulatory issues are incredibly burdensome to the process and add a great deal of inefficiency to our industry--manufacturing process, work force regulation, employment law, labor law. Our organization exists substantially to deal with employee relations regulations. We're an overhead in that sense, [though] hopefully we add value, too. The need to comply with regulations is a big factor in why we and labor lawyers exist, at great expense.
>
> Rodger Glos
> Executive Vice President and CEO
> Timber Operators Council

It's an absolute jungle [on price competition]. I've never seen it so bad in the 37 years of our history. Every new job is like a piece of raw meat to a lot of mad dogs, and we're absolutely chewing ourselves up over it. Our customers are calling us in, keeping us up until midnight, one o'clock in the morning, beating us over the head, and telling us that if we want their business, we have got to lower our prices 3% to 6% per year for the next three to five years, to stay in the ball game. Does that tell you what pricing's like out there? It absolutely mandates the continued and accelerated race for more technology and more productivity, and you generally don't do that with more people.

Roland L. Sutton, Jr.
President/CEO
Maine Machine Products

A significant element in our labor costs are added fringe costs, and the need to comply with certain regulations. [But] social costs are much higher overseas, and we have tremendous pressure to reduce our labor force in Europe, because of benefit costs, work rules, the many impositions, and burdensome rules and regulations in Europe--many more than here.

Thomas C. Coxe, III
Executive Vice President
Sonoco Products Company

In the filtration business--[which is] tied to the environment--it cuts both ways because we sell more product as a result of regulation. But by and large, the more stringent and costly regulations--particularly in the industrial relations area--the more difficult it is to bring people back to work.

John C. Read
Executive Vice President
Donaldson Co.

Our prejudice is that we are a U.S. company. We are kind of provincial in that respect, and we'd like to produce here whenever we can. Labor costs are really just one of the factors that go into a product. The United States is the biggest market in the world. The United States is the most attractive market. In most cases, we can offset [other costs], so we can still produce in the United States.

Robert Cizik
Chairman, N.A.M.
Chairman and CEO
Cooper Industries

Advantages in exporting can depend on the types of products involved. Puerto Rico, for example, thrives on medicines and pills and batteries and small electrical instruments because you can put them on a 747 and take them great distances in great volume. One of the factors that's in favor of U.S. production is security. There's an awful lot of pirating that goes into the patents and intellectual content of American products and, if you move that production overseas, quite often you are exposing that to people who don't think twice about just lifting your patent, producing the same thing, and even putting your label on it.

Alexander B. Trowbridge
President, Trowbridge Partners
Ex-President, N.A.M.

There's been pressure for three or four years to reduce the work force; 1991 was the first down year our industry has had in 17 years. There's a lot of excess capacity in the industry today. You read in the papers every day about companies downsizing, restructuring, and re-engineering their processes; the result is a reduction in the number of office workers. We sell office furniture, so obviously that has a direct effect on our business. Our customers like our products, but they want even better quality, even better service. They want us to be more flexible, and they want everything at lower prices. All of our competitors want to keep their share of the pie and, as a result, we really have to attack the cost side of our business. We have to be more productive, and we have to be really careful about adding new employees.

Jerry Myers
President and Chief Executive Officer
Steelcase, Inc.

3M [is] a company that's reducing people gradually--we have twice the business we had ten years ago, and we've got about the same number of people--still gets pressure from the security analysts to reduce people further. We don't respond directly to that, but we did reduce 1,500 people worldwide last year through attrition. [In terms of employment in the U.S. versus overseas], we generally try to produce in the market block where we sell. That protects us against currency shifts. It enables us to adapt products to those local markets. It also protects us against protectionism, which could be creeping in a little more under the current administration. Half our business is outside the United States, but 75% of what we sell overseas is made overseas, and 25% of that is made in the U.S. We exported $1.4 billion last year.

Harry A. Hammerly
Executive Vice President,
International Operations and Corporate Services
3M

If there is a recovery this year, we will probably see a modest increase in the work force. We have followed a policy of not laying people off. We have seen a reduction in overtime during the last two years but not any reduction in labor force. When N.A.M. is talking about its manufacturing campaign and talks about the importance of plant tours, it should not overlook that giving a plant tour has benefits for the plant as well for communications with the outside world. It says something to the people in the plant about their importance.

Scott Whitlock
Executive Vice President
Honda of America Manufacturing, Inc.

We have operations in a number of overseas locations. Our experience with the quality of the labor force in the U.S. has been pretty good. We would not make a decision not to build in the U.S. based on quality. One of the things that is a distinct advantage to us in terms of the United States is the flexibility that we have in dealing with the labor force, which is not true in European countries. The redundancies payments in Europe are incredible. Given the short workweek and the restrictive laws, Western Europe would not be your favorite place to expand employment. We spent a lot of time working on productivity, and there are a number of locations in Eastern Europe that offer a lot of potential. Other offshore locations, such as South America have a significant labor cost advantage over the U.S. and do not have the government-imposed restrictions we encounter in Europe.

James P. Melican
Executive Vice President
Legal and External Affairs
International Paper Company

Every person counts! We work pretty hard on preening the bottom 10%. They either have to upgrade their performance, get reassigned to a job that better fits their capability, or maybe be encouraged to look for work elsewhere. That's the philosophy we use rather than just to lay off 10% when business gets soft. We try to avoid layoffs if possible because this gets into trust. People who don't feel threatened about losing their jobs really do try to get in there and help to do the things to make your business better.

Ernest S. Micek
President, Food Sector
Cargill, Inc.

Where regulations affect us are communities or areas that prohibit us or make it very difficult for us to operate. There, we have to make a big decision about whether to continue an operation or move it to another location. Right now, the big issue is the health care issue--providing a good health care package at a reasonable cost to the company and the workers' responsibility. We're an international company. We don't face that in other countries, but it is a big goal in the United States this year.

Daniel W. Hurley
Vice President and Chief Administrative Officer
Cookson America, Inc.

PETER D. HART RESEARCH ASSOCIATES, INC.
1724 Connecticut Avenue, NW
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Interviews: 96 respondents

FINAL

Study #3727A
N.A.M. Conference Survey
February 1993

1a. How would you rate the overall state of the national economy today--excellent, good, only fair, or poor?

Excellent	-	Only fair	72	[6]
Good	25	Poor	3	
		Not sure	-	

1b. And in a year from now, do you think the economy in February 1994 will be much stronger, somewhat stronger, about the same, somewhat weaker, or much weaker than it is today?

Will be much stronger	5	Will be somewhat weaker	5	[7]
Will be somewhat stronger	70	Will be much weaker	-	
Will be about the same	18	Not sure	2	

2. Please indicate whether you expect the real U.S. gross domestic product to increase or decrease in 1993, and by what percentage. Just indicate your best guess as of today.

PLEASE CIRCLE ONLY ONE RESPONSE

Increase			**Decrease**		
By less than + 1.0%	2	[8]	By less than -1.0%	1	[9]
By +1.0% to +1.4%	8		By -1.0% to -1.4%	-	
By +1.5% to +1.9%	11		By -1.5% to -1.9%	-	
By +2.0% to +2.4%	37		By -2.0% to -2.4%	-	
By +2.5% to +2.9%	20		By -2.5% to -2.9%	1	
By +3.0% to +3.4%	17		By -3.0% to -3.4%	-	
By +3.5% or more	-		By -3.5% or more	-	
Stay About The Same	3		**Not Sure**	-	
			Mean	2.18	

3. Which <u>one</u> or <u>two</u> of the following do you think are the <u>most important problems</u> facing your company today? **<u>(PLEASE BE SURE TO CIRCLE NO MORE THAN TWO RESPONSES.)</u>** [10:11]

<u>Taxes/Government Spending</u> (net)	**<u>75</u>**
Regulations, red tape in general	31
Budget deficit	26
Taxes--need investment incentives	11
Government waste, mismanagement	9
Taxes--too high	2
<u>Social Problems</u> (net)	**<u>52</u>**
Health care, insurance costs	36
Product liability, need tort reform	18
Lack of cooperation with labor, government, business	3
<u>Economy</u> (net)	**<u>43</u>**
Weak sales, poor economy	33
Competition from U.S. firms	6
Inflation, prices	4
Interest rates, financing	1
<u>Labor</u> (net)	**<u>13</u>**
Education, training of workers	10
Finding, keeping quality labor	2
Wages and price of labor	1
Drug, alcohol abuse	-
<u>Trade</u> (net)	**<u>6</u>**
Access to foreign markets	4
Imports, foreign competition	2
<u>Other</u> (net)	**<u>3</u>**
None/not sure	-

<u>NOW WE'D LIKE TO ASK A FEW QUESTIONS ABOUT BUSINESS PROSPECTS</u>

4a. Was your company <u>worldwide</u> much more profitable in 1992 compared to 1991, somewhat more profitable, about the same, somewhat less profitable, or much less profitable in 1992 compared to 1991?

Much more profitable	24	Somewhat less profitable . .	15	[12]
Somewhat more profitable . .	46	Much less profitable	4	
About the same	11	Not sure	-	

4b. And looking ahead to 1993, do you expect your company worldwide to be much more profitable in 1993 compared to 1992, somewhat more profitable, about the same, somewhat less profitable, or much less profitable in 1993 compared to 1992?

Much more profitable	16	Somewhat less profitable	7	[13]
Somewhat more profitable	54	Much less profitable	1	
About the same	22	Not sure	-	

5a. What percentage of your company's U.S. labor force were part-time workers in 1992, and what percentage of your company's U.S. labor force will be part-time employees in 1993?

	1992 Work Force	1993 Work Force	
0 %	8	9	[14:16]
1% to 4%	37	36	[17:19]
5% to 9%	33	31	
10% to 19%	13	15	
20% or more	9	9	

5b. What are the reasons for your company's using part-time workers--that is, what are the advantages to your company of part-time rather than full-time workers? [20:23]

Costs/Employment Reasons (net)	61
Flexibility	15
Convenience of employees	15
Cover temporary, short-term needs	14
Avoids issue/cost of benefits	10
Adjust to short-term sales changes	7
Specialized skills	7
Lower costs	5
Costs of full-time v. part-time workers	4
Don't want to risk layoffs of full-time employees	4
Contractors/engineers	3
Recruitment/testing potential full-time employees	2
People who only want part-time work (e.g. mothers)	2
Fill-in help	2
Last resort	1
Social costs of full-timers mandated by government	1
Entry-level jobs	1
Business/Sales Reasons (net)	9
Seasonal business	7
Economy (general)	1
Need to be sure of permanent business prospects	1
Use no part-time workers	25
Don't know; no response	7

NOW, FOCUSING ONLY ON **U.S. PRODUCTION** FOR THE DOMESTIC & FOREIGN MARKETS

6a. Please indicate whether you expect your company's total real volume of production **in the U.S.** for both domestic and foreign markets (number of units produced in the U.S.) regardless of whether they will be sold in the U.S. or overseas to increase or decrease in 1993, and by what percentage--just your best guess as of today.

PLEASE CIRCLE ONLY ONE RESPONSE

Increase		[24]	Decrease		[25]
By less than + 2.0%	9		By less than -2.0%	4	
By +2.0% to +3.9%	22		By -2.0% to -3.9%	-	
By +4.0% to +6.9%	25		By -4.0% to -6.9%	3	
By +7.0% to +9.9%	8		By -7.0% to -9.9%	1	
By +10.0% to +14.9%	11		By -10.0% to -14.9%	3	
By +15.0% to +19.9%	6		By -15.0% to -19.9%	-	
By +20.0% or more	-		By -20.0% or more	-	
Stay About The Same	8		**Not Sure**	-	
			Mean	4.54	

IF YOU EXPECT YOUR COMPANY'S U.S. VOLUME TO CHANGE, PLEASE INDICATE THE SOURCE OF THAT CHANGE:

6b. If you expect total real volume in units in the U.S. to (increase or decrease), will you rely more on changes in overtime than on changes in the number of employees, or will you rely more on changes in number of employees than on changes in overtime? And do you expect to rely much more or just somewhat more on changes in (overtime or the number of employees)? **(CIRCLE THE ONE RESPONSE THAT BEST DESCRIBES YOUR PLANS.)**

Rely much more on changes in overtime than on changes in the number of employees	16	[26]
Rely somewhat more on changes in overtime than on changes in the number of employees	27	
Rely equally on changes in overtime AND changes in the number of employees	25	
Rely somewhat more on changes in the number of employees than on changes in overtime	15	
Rely much more on changes in the number of employees than on changes in overtime	5	
Do not expect U.S. volume to change	2	
Not sure	10	

NOW WE'D LIKE TO ASK A FEW QUESTIONS ABOUT LABOR

7a. Approximately how many employees does your firm employ worldwide today?

Under 300	11	[27:32]
300 to 999	6	
1,000 to 4,999	18	
5,000 to 9,999	9	
10,000 to 19,999	16	
20,000 to 39,000	17	
40,000 or more	22	

7b. And approximately how many employees does your firm employ IN THE U.S. today?

Under 300	14	[33:38]
300 to 999	6	
1,000 to 4,999	20	
5,000 to 9,999	15	
10,000 to 19,999	18	
20,000 to 39,000	12	
40,000 or more	15	

FOCUSING ONLY ON **U.S. EMPLOYMENT**

8a. Please indicate whether your company's number of employees **In the U.S.** was higher in 1992 than in 1991, and by what percentage. **PLEASE CIRCLE ONLY ONE RESPONSE**

Employment Increased (1992 over 1991)			**Employment Decreased (1992 over 1991)**		
By less than + 2.0% ...	11	[39]	By less than -2.0% ...	6	[40]
By +2.0% to +3.9% ...	14		By -2.0% to -3.9%	11	
By +4.0% to +6.9% ...	8		By -4.0% to -6.9%	8	
By +7.0% to +9.9% ...	3		By -7.0% to -9.9%	6	
By +10.0% to +14.9% .	5		By -10.0% to -14.9% ..	2	
By +15.0% to +19.9% .	-		By -15.0% to -19.9% ..	1	
By +20.0% or more ...	1		By -20.0% or more ...	-	
Stayed About The Same	23		**Not Sure**	1	
			Mean	0.29	

8b. Please indicate whether your company's number of employees **In the U.S.** is expected to increase or decrease in 1993, and by what percentage--just your best guess as of today.

PLEASE CIRCLE ONLY ONE RESPONSE

Employment Will Increase (1993 over 1992)			Employment Will Decrease (1993 over 1992)		
By less than + 2.0%	25	[41]	By less than -2.0%	7	[42]
By +2.0% to +3.9%	13		By -2.0% to -3.9%	11	
By +4.0% to +6.9%	8		By -4.0% to -6.9%	6	
By +7.0% to +9.9%	4		By -7.0% to -9.9%	3	
By +10.0% to +14.9% ...	1		By -10.0% to -14.9%	1	
By +15.0% to +19.9% ...	-		By -15.0% to -19.9%	-	
By +20.0% or more	-		By -20.0% or more	1	
Stay About The Same	20		**Not Sure**	-	
			Mean	0.17	

9. For each of the following areas of U.S. employment, please indicate whether you expect an increase or a decrease in the actual number of employees for this area in 1993.

(GO **ACROSS** EACH ROW, AND CIRCLE ONE RESPONSE IN EACH ROW)

Changes in number U.S. employees	Increase A Lot	Increase A Little	Stay The Same	Decrease A Little	Decrease A Lot	Not Sure	
On factory floor .	1	46	26	24	3	-	[43]
On research staff	2	28	61	9	-	-	[44]
Administrative ..	-	8	45	38	9	-	[45]
Sales/service ...	3	38	52	7	-	-	[46]
Management ...	1	2	56	39	2	-	[47]

10. In the past few years, has your firm significantly reduced its U.S. labor force?

Has significantly reduced	39	[48]
Has not significantly reduced .	60	
Not sure	1	

IF YOUR FIRM HAS SIGNIFICANTLY REDUCED ITS U.S. LABOR FORCE

11a. Have your company's current efforts at reducing its U.S. labor force been completed, or are the efforts still underway? (IF THEY ARE STILL UNDERWAY): Would you say that two-thirds or more of this work force reduction has been completed as of today, about half has been completed, or has only about one-third or less been completed as of today?

Company has not undertaken U.S. work force reduction ...	63	[49]
U.S. work force reduction is complete	15	
U.S. work force reduction still underway and...		
Two-thirds or more of U.S. reduction has been completed .	16	
Half of U.S. reduction has been completed	6	
One-third or less of U.S. reduction has been completed ..	-	
Not sure much of U.S. reduction has been completed	-	

IF YOUR FIRM HAS SIGNIFICANTLY REDUCED ITS U.S. LABOR FORCE

11b. What was the total number of U.S. jobs eliminated through work force reductions, and what percentage of your total U.S. labor force was eliminated through work force reductions?
(IF NEVER UNDERTOOK U.S. LABOR FORCE REDUCTION, INDICATE 0% FOR BOTH)

Number of U.S. jobs eliminated through work force reduction:

Under 300	19	[50:55]
300 to 999	19	
1,000 to 4,999	34	
5,000 or more	28	

Percentage of company's former U.S. labor force eliminated through work force reduction as of today (0%-100%):

1% to 9%	9	[56:58]
10% to 14%	53	
15% to 19%	22	
20% or more	16	

IF YOUR FIRM HAS SIGNIFICANTLY REDUCED ITS U.S. LABOR FORCE

11c. As of today, what percentage of the jobs eliminated as part of work force reductions were eliminated through layoffs, and what percentage were eliminated through attrition or early retirements? (IF NEVER UNDERTOOK U.S. LABOR FORCE REDUCTIONS, ANSWER "0%" FOR BOTH.)

	Layoffs	Attrition/ Early Retirement	
Under 50%	36	55	[59:61]
About 50%	16	15	[62:64]
Over 50%	48	30	

11d. Will your company undertake a significant reduction of the U.S. labor force in 1993?

Will significantly reduce U.S. work force ...	8	[65]
Will not significantly reduce U.S. work force	87	
Not sure	5	

12a. Compared to ten years ago, do employees in your firm have much more say, somewhat more say, about the same, somewhat less say, or much less say in how they do their jobs?

Much more say	56	Somewhat less say	-	[81]
Somewhat more say	37	Much less say	-	
About the same	7	Not sure	-	

12b. Compared to ten years ago, are employees in your firm much more often compensated on the basis of the following types of performance, more often, about as often, much less often, or less often compensated on the basis of the following types of performance?

(GO **ACROSS** EACH ROW, AND CIRCLE **ONE** RESPONSE IN **EACH ROW**)

	Not Applicable	Much Less Often	Less Often	About As Often	More Often	Much More Often	
Individual performance	2	3	8	35	49	3	[82]
Team performance	5	-	1	20	63	11	[83]
Company-wide performance	3	-	4	34	45	14	[84]

NOW WE'D LIKE TO ASK ABOUT WORKER TRAINING AT YOUR COMPANY

13. Looking ahead to 1993, when it comes to worker training at your company, will most worker training be handled in-house, or will most worker training be contracted out (to vocational training schools or other sources, for example)?

Almost all worker training done in-house	31	[85]
Most worker training done in-house	55	
Half worker training in-house, half contracted out	13	
Most worker training contracted out	1	
Almost all worker training contracted out	-	

NOW WE'D LIKE TO ASK A THREE QUESTIONS ABOUT GOVERNMENT POLICIES:

14a. What two or three government policies, failures, or omissions have done the most to reduce U.S. manufacturing employment over the past five years? **[86:89]**

Government Mandates/Regulations (net)	**54**
Environmental regulation, red tape	27
Increased regulations, too much regulation	19
Workers' compensation	10
Lack of regulatory controls	3
Increase in minimum wage	3
Payroll costs added by government/worker regulation	3
Energy Act of 1992	2
Congressional/government meddling	2
Endangered Species Act	1
Taxes (net)	**31**
Loss of investment tax credit	15
Unsatisfactory tax systems, taxes are too high	6
Tax Reform Act of 1986	5
High capital gains taxes	3
Need for new capital gains policy	2
Double taxation of corporate earnings	2
Alternative minimum tax	2
Failure to encourage research & development	1
Social/Legal Problems (net)	**29**
Health care costs	10
Product liability	8
Lack of tort reform	7
Lack of health care reform	5
Too much litigation	2
Hostility toward foreign investors	1
Poor education of workers	1
Government Spending (net)	**26**
Deficit	21
Failure to contain spending	3
Cuts in defense spending	3
Government Failures/Omissions (net)	**20**
Failure to enforce fair trade	5
No plan for global competition	5
Lack of progress on trade	3
Savings & loan crisis	2
Monetary policy (general)	1
Lack of export supports	1
Failure to boost productivity	1
Lack of government-business cooperation/incentives	1
Don't know; no response	17

14b. What two or three government policies, successes, or initiatives have done the most to increase U.S. manufacturing employment over the past five years? [90-93]

Foreign Affairs/Trade (net)	**21**
Promotion of trade (general)	9
International trade agreements	4
Devaluation of the dollar	2
Copyright protection	2
NAFTA/America's economic sphere	2
Promotion of exports	1
Commerce Department trade efforts	1
Promotion of trade by U.S. Trade Representative	1
Stabilizing Middle East	1
Ending Cold War	1
Taxes (net)	**20**
Tax cuts/tax reduction	12
Investment tax credit	2
R&D tax credit	2
401K plans	2
Control of taxes	1
Tax reform	1
Conservative on taxes	1
Lower corporate tax rates	1
Economy (net)	**13**
Lower interest rates	11
Low inflation	7
Government Spending/Programs (net)	**10**
Restrained self	2
Focus on productivity, quality	2
Worker training assistance	2
Reducing waste and inefficiency in government	1
Highway bill	1
Military spending	1
Health care reform	1
Government Mandates/Regulations (net)	**9**
Reduction of regulation (general), red tape	4
Council on Competitiveness	2
Easing environmental regulations	1
Environmental/OSHA regulations	1
Very little	2
None/nothing	24
Don't know; no response	24

14c. What two or three things are the most important steps government could take to increase U.S. manufacturing employment in the next five years? **[94:97]**

Government Spending/Programs (net)	**55**
Deficit reduction through spending cuts	28
Health care reform	14
Reduce health care costs	10
Improve schools, education	6
Long-term industrial policy/planning	4
Domestic DARPA on technology	3
Worker training	3
Government spending allocation/priorities	2
Short-term stimulus	1
Encourage productivity	1
Taxes (net)	**51**
Investment tax credit/incentives to invest	38
Favorable tax treatment of capital formation, capital gains	10
Control taxes, reduce corporate taxes	8
Encourage R&D, R&D tax credits	3
Growth-oriented incentives	2
End double taxation of corporate profits	2
Faster depreciation	1
Tax cut to encourage exports	1
Tax changes to reflect globalism	1
Tax on wealthy	1
Government Mandates/Regulations (net)	**39**
Reduce/reform regulation (general)	26
Reduce environmental regulation	6
Reduce government-mandated costs to business	4
Improve regulation on banks	2
Continued trucking deregulation	1
Foreign Affairs (net)	**23**
Approve NAFTA/GATT	4
Fair trade	4
Global competition planning	4
Keep dollar low	3
Satisfactory multilateral trade agreements	3
More trade assistance	2
Open Japanese market	1
Most Favored Nation status to China	1
Better export financing	1
Social/Legal Reforms (net)	**18**
Tort reform	10
Reform product liability	9
Interest Rates (net)	**3**
Keep interest rates low	3
Don't know; no response	14

15. Finally, where is the U.S. headquarters for your company located?

East	26	[98]
South	23	
Midwest	39	
West	12	

THE WHITE HOUSE

WASHINGTON

August 31, 1993

Dear Roger,

Your note of thanks was very much appreciated, as was your leadership. It was successful teamwork!

Sincerely,

Alexis M. Herman
Assistant to the President and
Director of Public Liaison

The Honorable Roger C. Altman
Deputy Secretary of the Treasury
15th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

You're terrific!

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D. C. 20220

August 12, 1993

AUG 17 1993

Ms. Alexis Herman
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Alexis:

It was a true pleasure to work with you over the past month. I couldn't have enjoyed it more, and you did a sensational job.

At some point, perhaps, we'll do it again.

Sincerely,

Roger C. Altman

GREENBERG
RESEARCH
INC

515 SECOND STREET NE
WASHINGTON DC 20002
TEL 202 547-5200
FAX 202 544-7020

THE ECONOMIC MESSAGE

There is a new urgency. With the unemployment level stagnant and too high and with a global recession, Congress and America must act. Doing nothing and saying, "no," is just not an acceptable alternative in the face of our economic problems. **[urgency, empathy, action vs. do nothing]**

This is a good economic plan that will be good for America. It will work and make things better. There will be more growth and more jobs. **[good economics, conviction]**

This is change -- a new direction for America. This economic program puts our economic house in order so that America can grow and create jobs. At least, leaders taking responsibility to improve America.

> This is not the old way -- deficits out of control and national decline, phony numbers, protecting the privileged, and hurting the most vulnerable (seniors and the middle class). If you want more of the same, more irresponsibility, stick with the old ways. **[change vs. more of the same] [responsibility vs. irresponsibility]**

Change:

- economic house in order
- taking responsibility
- America on the rise
- jobs

More of the same:

- deficits out of control and national decline
- phony numbers
- protecting the privileged
- hurting the most vulnerable (seniors, middle class)
- irresponsibility

What does the Clinton economic program do to make America economically strong and create jobs?

(In order of priority)

1. 500 billion dollars of deficit reduction. Biggest ever and bigger than any other proposal. Necessary to put our economic house in order. The first step toward growth.

2. Balanced and fair: 5 of every 10 dollars of deficit reduction from real spending cuts; 4 from taxes on the wealthy; just a dollar from everybody else. <u>The average middle class family will pay no more than $25 a year -- $25 a year.</u>

> **In fact, tax relief for low-wage full-time workers with families. Families earning under $30,000 held harmless.**

3. Tax incentives to encourage corporations and small businesses to create private sector jobs in America.

4. Medicare cuts kept to a minimum and no increase in premiums or co-pays for seniors -- as opposed to draconian health care cuts in Republican alternatives.

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[illegible]

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Middle Class
Relief

[illegible]

Taxes - House Vote

[illegible]

[illegible]

South

Ann Bussiere

Recom

SCOTT

PHILIP E. LIPPINCOTT
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

August 2, 1993

JAMES A. MORRILL
STAFF VICE PRESIDENT
GOVERNMENT AND COMMUNITY RELATIONS

202-331-0
FAX 202-429-1

SCOTT PAPER COMPANY. SUITE 901. 1726 M STREET N.W.
WASHINGTON, DC 20036

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am very concerned about an imminent White House action with grave implications for the paper industry and Scott Paper Company. Specifically, I am referring to the Presidential Executive Order on Federal Recycling, Acquisition and Use of Environmentally Preferable Products and Services, expected to be released in early August.

The Executive Order, I understand, includes provisions which require the federal government to purchase paper products which are totally chlorine free (TCF) by 1995. Most of Scott's paper products would be included in these TCF targets. Although the Executive Order specifies federal purchases, we have learned from experience that such an action has an immediate and severe impact on our private markets as well.

Undoubtedly you are aware that the Environmental Protection Agency is currently involved in a comprehensive clean air/clean water cluster rulemaking procedure that is expected to have a far-reaching impact on the U.S. paper industry. Scott has been an active participant in this process. While we continue to have serious concerns about the impact of this EPA initiative on our industry and business, the EPA process allows us to participate and inform your Administration about the impact of these changes. It is unclear to us why the White House staff has embarked on drafting an Executive Order that would preempt and possibly contradict EPA's findings.

For Scott Paper Company alone, the changes required to manufacture TCF products would result in an expenditure of hundreds of millions of dollars, assuming we could possibly arrange for this level of capital spending. Given the magnitude of this expenditure and the unreasonably short timeframe contemplated by the Executive Order, it would be infeasible for Scott to manufacture TCF products without consolidating or ceasing production at certain locations. Obviously, these kinds of actions would result in a potentially significant loss of jobs.

I urge you, on behalf of our 20,000 U.S. employees, to remove the TCF provisions from the Executive Order. As an alternative, I would ask that the Administration rely on the ongoing EPA process which is addressing the chlorine issue as part of a broader environmental initiative with the full benefit of public participation. I appreciate your attention to this issue, which is of critical importance to our company and our employees.

Sincerely,

Phil Lippincott

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

CONGRESSIONAL

Divider Title: ______________________________

Budget Reconciliation
Side by Side Comparison of House and Senate Bills

	House	Senate
Mortgage Revenue Bonds	Renewed and made permanent. Effective 7/1/92.	Extended from 7/1/92 through 6/30/94.
Low Income Housing Credit	Renewed and made permanent. Effective 7/1/92.	Same as House.
Passive Losses	Real estate professionals who incur losses from rental real estate can use them to offset any income.	Losses from rental real estate can offset only real estate income.
Pension Investment	Modifies pension investment and REIT rules to facilitate investment in real estate by pension funds.	Same as House.
Debt Restructure	The basis of trade or business property may be reduced by amount of discharged debt.	No provision.
Depreciable Life for non-residential property	Increased from 31.5 years to 39 years. Effective for property placed in service after 2/25/93.	Life increased to 38 years. Same effective date.
Insurance premiums	Renews deduction for 25% of health insurance premiums paid by self-employed persons. Effective 7/1/92 to 12/31/93.	Same as House.
Expensing for Depreciable Property	Increases amount of property that can be currently expenses from $10,000 to $25,000.	Increases cap to $15,000.
Capital Gains	Maximum tax rate on capital gains remains at 28%, even though highest tax rate is 39.6%.	Maximum capital gains rate is 28%, but 10% additional surtax imposed on individuals with more than $250,000 taxable income.
Lobbying expenses	Trade association members not permitted to deduct the portion of their dues attributable to lobbying.	Same as House, but could apply to greater universe of expenditures.
Moving expenses	Deductions for certain transaction costs on the purchase and/or sale of a home would be disallowed. Basis of property would be adjusted.	Same as House. Adds $10,000 overall cap on moving expenses.
Gas tax	No gas tax, but Btu tax would be equivalent to 7.5 cents per gallon gas tax.	No Btu tax. Imposes additional 4.3 cents per gallon increase on gasoline.

National Association of Realtors®
6/21/93

F.F. Conference

Real Estate: Commercial Provisions
Estimated Budget Effects of Revenue Reconciliation Provisions
As Approved by the
Committee on Ways and Means on May 13, 1993
and the
Senate Finance Committee on June 18, 1993

Fiscal Years 1994-1998
(millions of dollars)

Provision	House 1994-1998	Senate 1994-1998
Provide passive loss relief for real estate professionals	-2,658	-2,237
Debt relief for individuals	-366	No Provision
Facilitate pension investment in real estate	-310	-310
TOTAL	-3,334	-2,547
Increase recovery period for non-residential property	39 years/ +3,574	38 years/ +3,189
Excess to other provisions	+240	+642

Excess of Senate over House = $402 million

Source: House - JCX-4-93, May 17, 1993
Senate - Chairman's Mark #93-2 104 June 16, 1993, 5:00pm

TEL:202-456-6218

Budget Reconciliation
Side by Side Comparison of House and Senate Bills

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National Association of Realtors®
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OPL

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Omnibus Budget Reconciliation Act of 1993

Ways and Means Titles

Overview

I. Balanced, Progressive, Significant Deficit Reduction

- Overall the Conference Report reduces the deficit by approximately \$496 billion from FY 94-98, with more spending reduction \$255b than revenue increases \$241b.

- The income tax rate increases will affect only high-income Americans -- the top 1 percent of the population.

- No family of four will pay higher income taxes unless they have adjusted gross income above \$180,000.

- For middle-class Americans, the 4.3 cent-per-gallon gas tax will cost the average driver about \$28 per year.

- Working families with children in the lower-income categories will have a tax reduction as a result of the expanded earned income tax credit. The maximum credit will be approximately \$2,000 for families with 1 child and, when fully phased in, well over \$3,000 for families with more than one child.

- Other revenues are raised through increases in the top corporate rate on large business, affecting only 1% of all businesses. The increase in the personal income tax rates would not affect 96% of all incorporated family businesses (Subchapter S), sole proprietorships and partnerships. Many of this businesses will have their taxes reduced through the increase in small business expensing.

Prepared by the Staff of the Committee on Ways and Means
August 3, 1993

- The bill limits corporate deductions for executive compensation in excess of $1 million which is not tied to performance and also limits deductibility of lobbying without burdening charities and trade associations.

- Entitlement spending is reduced by: cutting Medicare expenditures with no new cuts affecting beneficiaries; increasing the taxation of social security benefits for an elderly married couple earning over $44,000 and an elderly single person earning $34,000 and welfare savings.

II. Prudent Human Investments

- The earned income tax credit (EITC) is simplified and expanded by $21 billion to ensure that no American family with a full-time worker would be below the poverty line.

- Enterprise and empowerment zones are created to demonstrate efforts to rebuild America's cities and offer real opportunity to urban and rural distressed areas.

- $1 billion is authorized in spending on family preservation programs designed to help families avoid foster care and improve the foster care experience for those children who must be placed.

- The trade adjustment assistance program for dislocated workers and impacted firms is reauthorized for five years.

III. Business Investments to Spur Growth

- The effect of the corporate alternative minimum tax (AMT) is substantially reduced by shortening the depreciable life of many assets. This change also greatly simplifies calculation for all companies under the minimum tax.

- Significant investment incentives are provided for small businesses by increasing the amount of investments which can be deducted immediately (i.e. "expensed") from $10,000 to $17,500, and targeted capital gains for investments in small businesses.

- Passive loss relief is provided for real estate professionals by relaxing the passive loss rules so that losses from real estate activities would not be subject to limitation if most of the taxpayer's professional work is in the rental real estate business.

- Certain "expiring tax provisions" are extended permanently from the date on which they expired (e.g., low-income housing tax credit; mortgage revenue bonds; and small issue industrial revenue bonds) and others are extended temporarily for twenty four months (e.g., research and development credit) or eighteen months (e.g. allocation of research expenditures, targeted jobs credit; and educational assistance).

- The luxury excise tax on furs, jewelry, airplanes, and boats, effective January 1, 1993, is repealed. The conference report also indexes for the $30,000 threshold for luxury automobiles for inflation occurring since 1990 and exempts equipment installed for use by disabled individuals.

- The barge fuel tax proposed by the Administration and opposed by farmers, barge operators, and ports is eliminated.

- Foreign taxpayers will pay their fair share of U.S. tax by strengthening penalties for abusive transfer pricing and by eliminating loopholes relating to excessive interest payments to foreign parent corporations.

- The conference report simplifies rules for payment of estimated taxes by individuals, including unincorporated businesses.

DRAFT

H.R. 2264
CONFERENCE AGREEMENT
(provisions within the jurisdiction of the Committee on Ways and Means)

	HOUSE	SENATE	AGREEMENT
I. SPENDING			
A. Reductions			
Medicare	50.4	58.3	55.8
AFDC/CSE/SSI savings	1.2	1.0	1.1
Customs fee/overtime	2.5	2.4	2.5
45-day interest rule	0.2	0.2	0.2
VA info sharing	0.1	0.1	0.1
B. Investments			
EITC (outlays)	-25.7	-16.8	-19.1
Family preservation	-1.5	-.-	-1.0
Title XX/e zones	-.-	-.-	-1.0
FSLIC double-dip	-0.3	-0.3	-0.3
Election checkoff	-.-	-0.1	-0.1
NET SPENDING CUTS	**26.9**	**44.8**	**38.2**
II. REVENUES			
A. Investments			
Human Investments			
Empowerment zones	-5.2	-0.2	-2.5
EITC (revenues)	-2.7	-1.5	-1.7
Targeted jobs tax credit	-1.8	-0.6	-0.7
Employer educational assist.	-2.8	-0.8	-0.9
Youth apprenticeship	-0.6	-.-	-.-
Real Estate Investments			
Low-income housing credit	-4.9	-4.9	-4.9
Passive loss	-2.7	-2.2	-2.6
Mortgage revenue bonds	-1.0	-0.6	-1.0
Real estate indebtedness	-0.4	-.-	-0.4
Pension real estate	-0.3	-0.3	-0.3

	HOUSE	SENATE	AGREEMENT
General Business Investments			
R&D credit	-10.0	-1.6	-4.9
Expensing (17,500)	-8.1	-6.3	-4.6
ACE depreciation	-8.9	-4.3	-4.3
Targeted capital gains	-1.0	-.-	-0.8
Luxury tax repeal	-0.7	-0.7	-1.1
25% health deduction	-0.6	-0.6	-0.6
R&E allocation	-2.6	-0.5	-0.5
AMT charitable	-0.4	-0.4	-0.4
Small issue IDBs	-0.3	-0.2	-0.3
High-speed rail	-0.2	-.-	-0.1
Orphan drug	-.-	-.-	-.018
GSP extension	-0.8	-.-	-0.8
FICA tips	-.-	-.-	-0.7
New York waiver	-.-	-0.2	-0.2
Subtotal	-56.0	-25.9	-34.3
B. **Revenue Raisers**			
Individuals			
Income tax rates	115.1	106.2	115.1
HI wage base	29.1	29.1	29.1
Social security	32.0	26.3	24.6
Estate and gift	2.8	2.8	2.8
Moving expenses	1.6	2.2	2.3
Club dues	1.1	1.1	1.1
Individual estimated tax	0.7	0.7	0.7
Vaccine excise tax	0.7	0.7	0.7
Charitable reporting	0.5	0.5	0.5
Bonus withholding	0.2	0.1	0.1
Capital gains surtax	-.-	0.6	-.-
Corporations			
Corporate rate	16.4	16.4	16.4
Business meals	15.3	15.5	15.3
Corporate estimated tax	7.8	7.8	7.8
Mark-to-market	3.8	3.8	3.8
Section 936	6.7	4.1	3.8
Intangibles	2.1	5.1	2.5
Foreign oil and gas	2.5	2.5	2.5
Pension cap	2.4	2.5	2.5
FUTA	2.1	-.-	2.1
FSLIC double-dip	1.0	1.0	1.0
Lobbying expenses	0.8	1.2	0.7
FDIC/indebtedness	0.5	0.5	0.5

	HOUSE	SENATE	AGREEMENT
Corporations (Cont'd)			
Transfer pricing	0.4	0.4	0.4
Timber	-.-	0.4	0.4
Earnings stripping	0.4	0.4	0.4
Executive pay	0.3	0.3	0.3
Deferral	0.8	0.3	0.3
Stock-for-debt	-.-	0.6	0.3
Business travel/spouse	0.1	0.1	0.1
Service industry	0.4	-.-	-.-
Miscellaneous			
Energy tax (4.3 cents)	71.5	23.0	24.4
Gas tax extension	7.8	7.8	7.8
Real estate depreciation	3.6	3.2	3.4
Subst. understatement penalty	0.5	0.5	0.5
Passive/loss indebtedness	-.-	0.4	0.4
AMT credit indebtedness	-.-	0.4	0.4
Federal Reserve transfer	0.2	0.2	0.2
Motor boat fuel tax	0.1	0.1	0.1
Subtotal	**331.3**	**268.8**	**275.3**
TOTAL REVENUES	**275.3**	**242.9**	**241.2**
TOTAL SPENDING CUTS	**26.9**	**44.8**	**38.2**
GRAND TOTAL	**302.2**	**287.7**	**279.4**

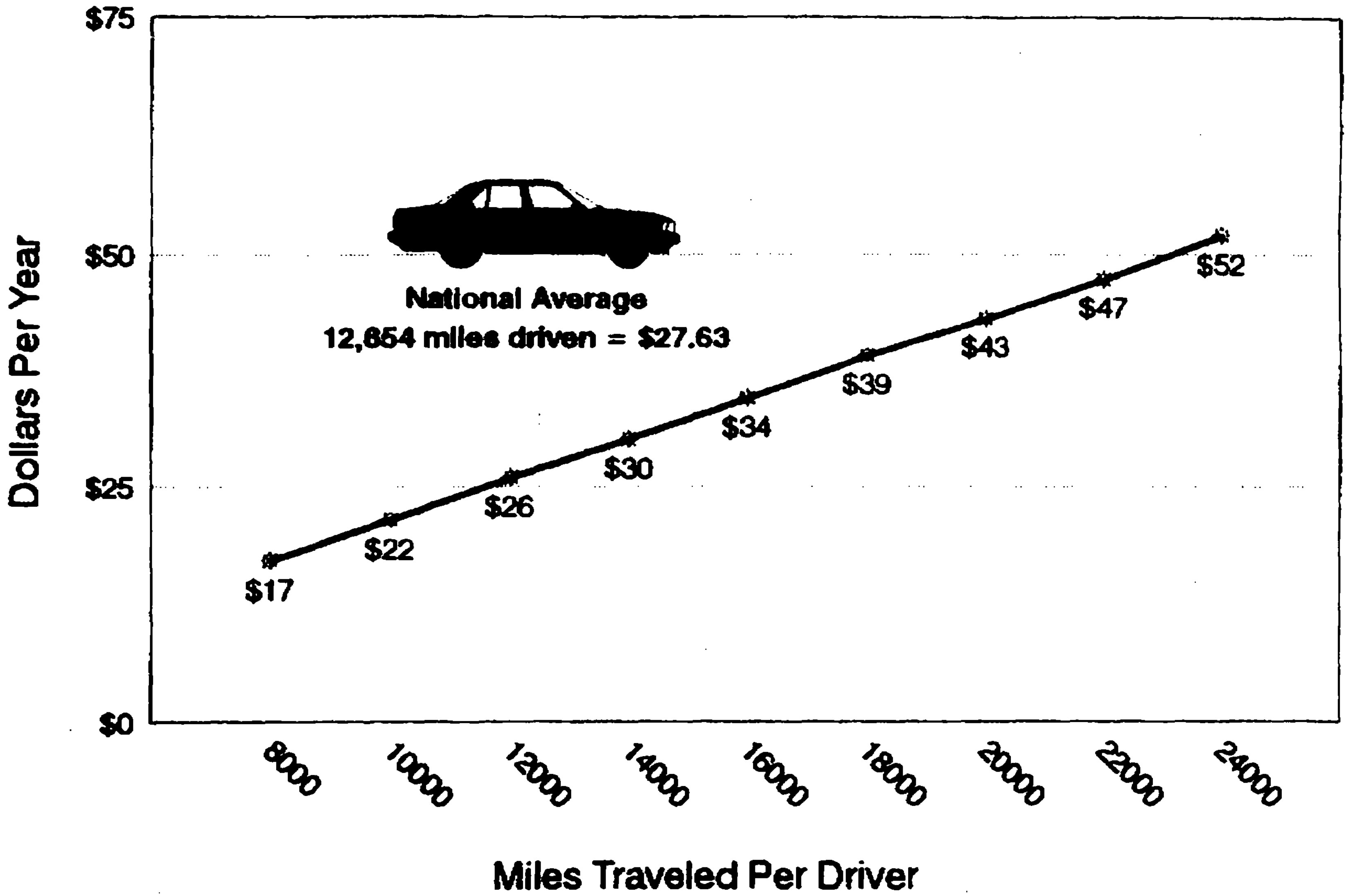
August 2, 1993 8:55 PM

Effect of Gas Tax on Average Driver, per State

STATE	Ave. Miles per Driver	Effect of 4.3 cent tax
Alabama	14,610	$31.41
Alaska	12,645	$27.19
Arizona	14,554	$31.29
Arkansas	12,752	$27.42
California	12,943	$27.83
Colorado	13,313	$28.62
Conneticut	12,033	$25.87
Delaware	13,578	$29.19
D.C.	8,448	$18.16
Florida	11,708	$25.17
Georgia	15,836	$34.05
Hawaii	11,633	$25.01
Idaho	14,492	$31.16
Illinoios	11,607	$24.96
Indiana	15,716	$33.79
Iowa	12,396	$26.65
Kansas	13,019	$27.99
Kentucky	14,587	$31.36
Louisiana	13,376	$28.76
Maine	13,328	$28.66
Maryland	12,865	$27.66
Massachus	11,064	$23.79
Michigan	12,735	$27.38
Minnesota	15,418	$33.15
Mississippi	12,934	$27.81
Missouri	13,661	$29.37
Montana	14,334	$30.82
Nebraska	13,185	$28.35
Nevada	11,562	$24.86
New Hampshire	11,716	$25.19
New Jersy	10,475	$22.52
New Mexico	15,516	$33.36
New York	10,486	$22.54
North Carolina	14,269	$30.68
North Dakota	13,969	$30.03
Ohio	12,450	$26.77
Oklahoma	14,998	$32.25
Oregon	10,852	$23.33
Pennsylvania	10,977	$23.60
Rhode Island	10,580	$22.75
South Carolina	14,345	$30.84
South Dakota	13,395	$28.80
Tennessee	13,931	$29.95
Texas	14,058	$30.22
Utah	14,425	$31.01
Vermont	14,248	$30.63
Virginia	13,137	$28.24
Washington	13,305	$28.61
West Virginia	12,462	$26.79
Wisconsin	13,394	$28.80
Wyoming	17,589	$37.82
TOTAL	12,854	$27.64

Source: Majority Staff, Committee on Ways and Means

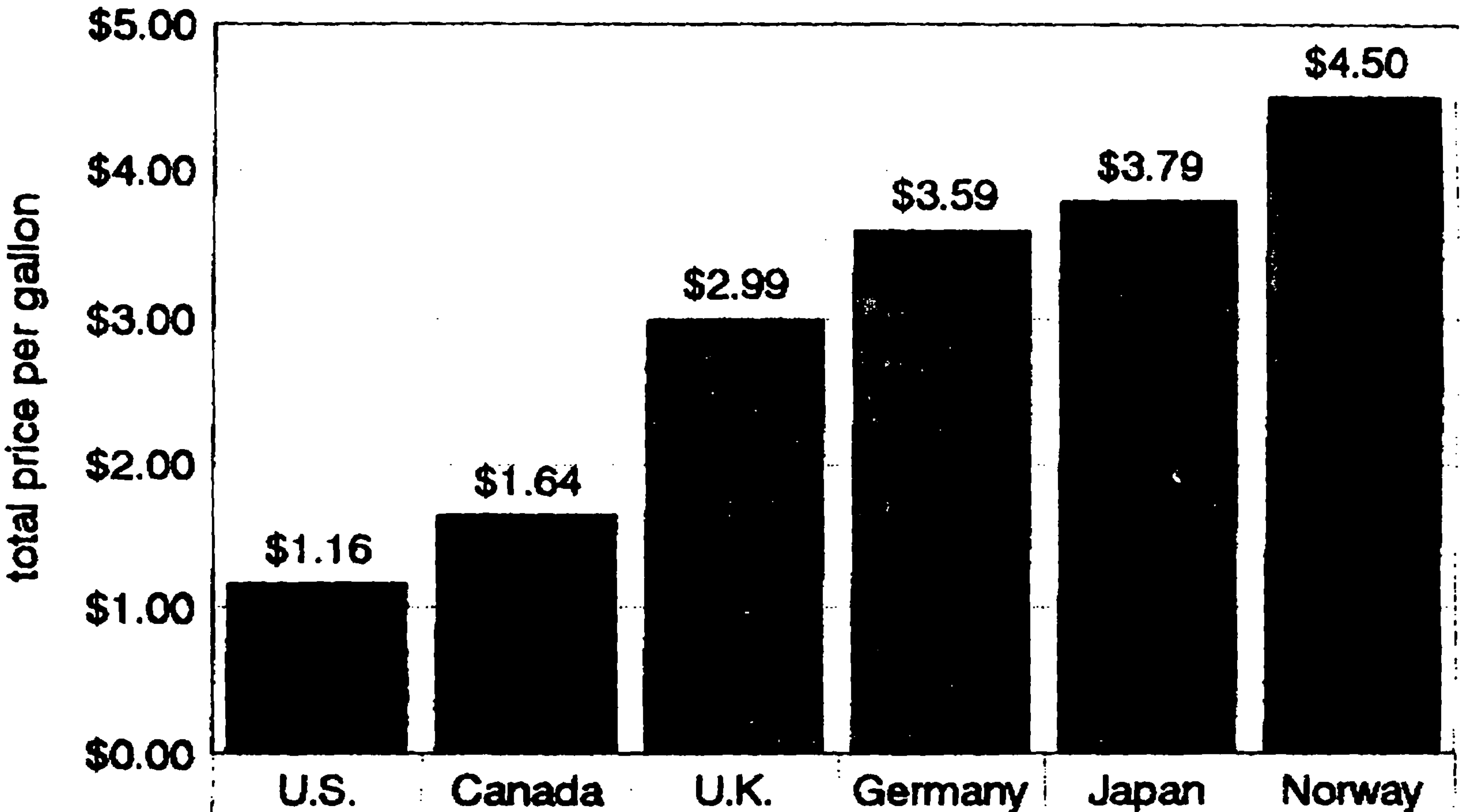
How Much will the Gas Tax Cost a Typical Driver?



Prepared by the Majority Staff, Committee on Ways and Means

AUG-03-1993 11:47 FROM CONG. J J PICKLE D.C. TO 94562362 P.10

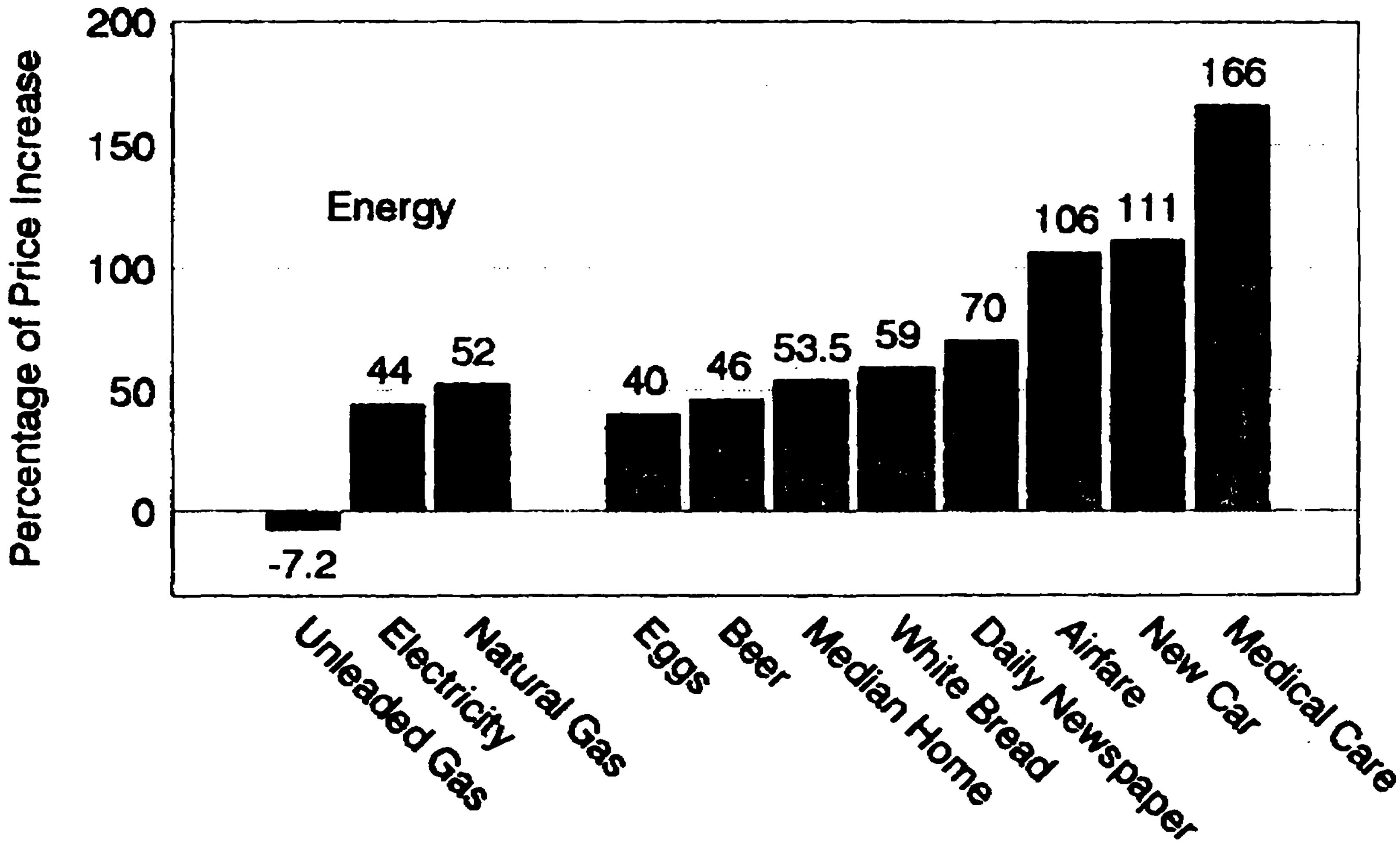
International Gasoline Prices
Cost/Tax Analysis
October - December 1992



	U.S.	Canada	U.K.	Germany	Japan	Norway
Tax per gallon	$0.40	$0.77	$2.05	$2.63	$1.74	$3.02
Price per Gallon	$0.76	$0.87	$0.94	$0.96	$2.05	$1.48

Source: Majority Staff, Committee on Ways and Means, July 29, 1993

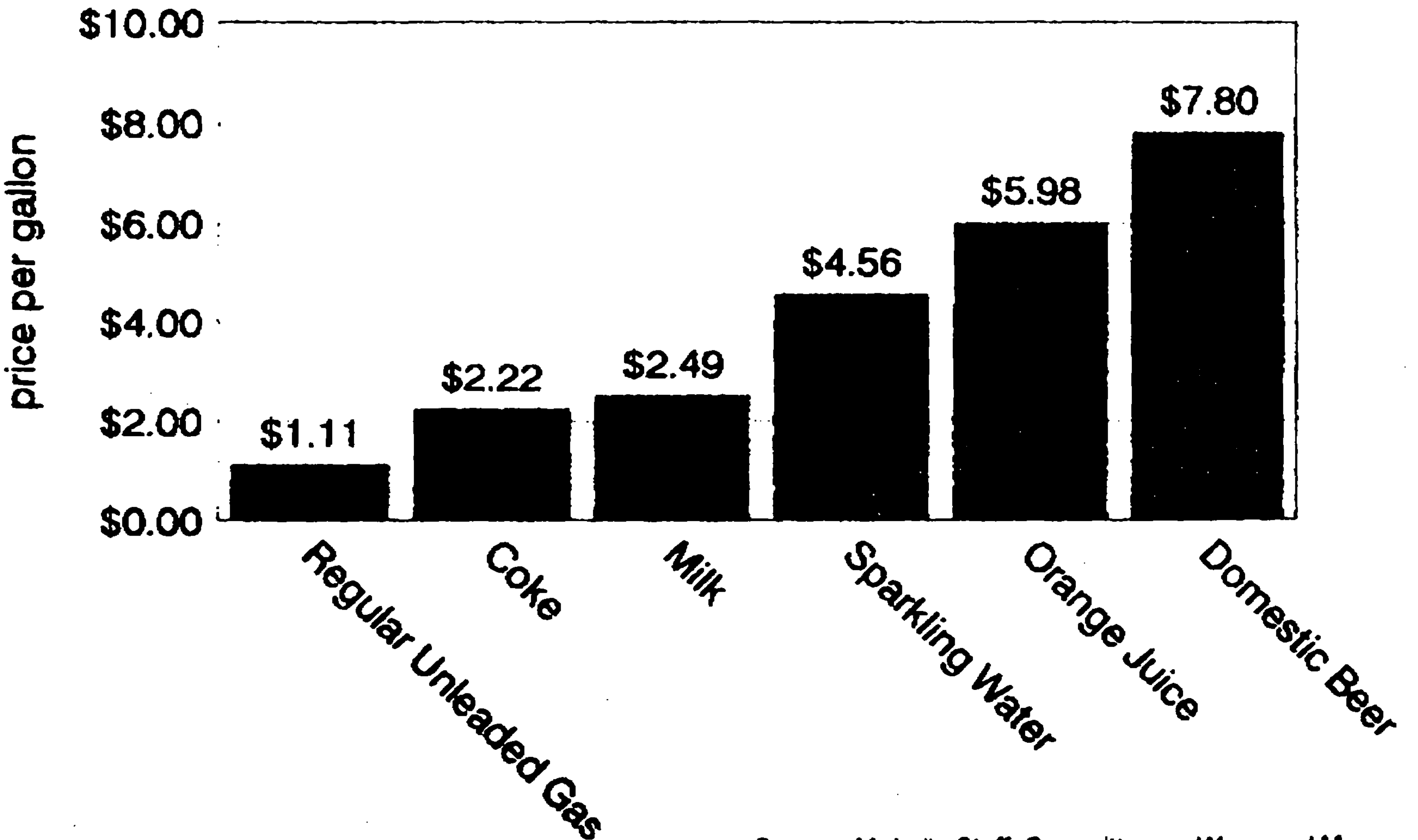
Changes in Price 1980 - 1990



Source: Majority Staff, Committee on Ways and Means; Data: Statistical Abstract 1992

Price of Gasoline vs. Common Household Items

July 1993



Source: Majority Staff. Committee on Ways and Means
July 29, 1993

Medicare Reconciliation Provisions

House Items potentially dropped due to Byrd rule:

Medicare Part A

1. **Hospital Wage Index**: The Secretary would be authorized to account for occupational mix in reclassification criteria where appropriate. Provision included to protect against court case which, if lost, would hurt urban hospitals.

2. **Essential Access Community Hospital Amendments** : The EACH program would be reauthorized through fiscal year 1995 at currently authorized levels.Other changes would be made in program requirements and the program wold be reauthorized.

3. **Rural Health Transition Grant**: Would reauthorize program at $30 million for FY 1993 through FY 1997.

4. **State Hospital Payment Program** (Maryland waiver): No other provision of law would prohibit a State with a hospital payment waivers under section 1814(b) of the Social Security Act to require that payment for covered services be made under the State system. (May end up being scored for a savings.)

5. **Psychology Services in Hospitals**: To the extent permitted by State law, clinical psychologists could supervise the care of hospital inpatients receiving qualified psychologist services (May end up being scored for a savings.)

6. **SNF Wage Index**: The Secretary would be required to begin collection of data needed to compute a wage index based on wages specific to skilled nursing facilities (rather than hospitals.)

7. **.DRG Window/Other Technicals**: Provision would clarify that the DRG window only applies to hospitals paid on the basis of DRGs; other technical corrections would be made to OBRA 1990.

Medicare Part B

1 **Geographic Practice Cost Index (GPCI) Refinement**: The Secretary would review and revise the geographic practice cost index by not later than January 1, 1995; The Secretary would conduct a study and report to the Congress on the data necessary to review and revise the GPCI indices.

2. **Extra-billing**: Carriers would be required to screen all unassigned claims prior to making payment.; Carriers would provide limiting charge information on the EOMB. The Secretary would report to the Congress annually on the extent to which annual charges exceeded limiting charges. Clarifies that PAs, nurse practitioners, clinical nurse specialists, CRNAs, nurse-midwives, social workers and psychologists may only bill on assignment.

3. **RB RVS for pediatric services**: The Secretary would be directed to develop pediatric RB RVS by July 1, 1994. The Secretary would study whether there are variations in the resources used in providing similar services to different populations

4. **Claims relating to physician services**: The Secretary would be prohibited from imposing any fees related to the filing of claims. Certain substitute billing arrangements between two physicians would be permitted, effective 60 days after enactment.

5 **Physician Technical Amendments**: Certain technical amendments to OBRA 90 would be made

6. **Technical amendments to ASCs**: Would establish update for ASCs, based on survey. Secretary would develop a process for reviewing reimbursement for new technology IOLs

7. **Durable medical equipment reforms (Pickle)**: Suppliers would be required to obtain a supplier number. To obtain a supplier number, the supplier would have to meet certain requirements. Only one billing number would be issued to any supplier. Secretary would develop one or more standardized Certificates of Medical Necessity (CMN). Prohibition on the distribution by suppliers of completed or partially completed CMNs would be limited to certificates relating to potentially overused and abused items. Suppliers of items which are not potentially overused or abused would be permitted to complete basic administrative information. Secretary would be required to develop a uniform national coverage and utilization review criteria for 100 items. Secretary would conduct a study on the used of covered items by disabled beneficiaries. Secretary would study prosthetic devices, orthotics and prosthetics that do not require individualized or custom fitting. Suppliers would be required to submit claims to the carrier having jurisdiction over the geographic area that includes the permanent residence of the patient.DME suppliers would be prohibited from making unsolicited calls to beneficiaries, unless the individual gives permission or the supplier has furnished the individual with the item within the preceding 15 months. The exemption from anti-kickback penalties for employees in bona-fide employment relationships would be modified. A beneficiary would not be liable for medical equipment and supplies in a number of limited situations. Adjustments would be made to the payment of decubitus care equipment and TENS, if such payment is not inherently reasonable. Various technical amendments, including: corrections to the update; overused items; and oxygen testing provisions of OBRA 90 would be made. Provides for study of variations in supplier costs.

8. **Part B premium payments by States**: States could make premium payments for penalties associated with late enrollment under Part B on a lump-sum basis.

11. **Federally-qualified health centers (FQHCs)**: Radiology services, and physician services povided to inpatients would be FQHC services.

12. **Mammography certification**: Providers of screening mammography services would be required to meet certain national certification requirements.

13. **Other technical amendments**: A variety of technical amendments would be made to OBRA 90

Medicare Part A and B

1. **Medicare secondary payer reforms**: HCFA would be required to mail questionnaires to individuals, before they become entitled to Part A or enrolled in Part B, to determine whether the individual is enrolled in a primary plan. Payments under Part B could not be denied for covered services solely on the grounds that the questionnaire fails to include coverage under another plan. Providers and suppliers would be required to complete information on claims forms regarding potential coverage under other plans. Contractors would be required to report to the Secretary on steps taken to recover mistaken payments.

2. **Qualified medicare beneficiary**: The Secretary would be required to obtain information from individuals, when they become entitled to benefits under Part A or become enrolled under Part B, that could be used to determine eligibility for QMB benefits.

3. **PRO**: The requirement for prior approval of selected surgical procedure by PROs would be repealed.

4. **HMO**: Beginning in 1994, the average adjusted per capita cost (AAPCC) payment methodology would be adjusted to take into account regional variations in the proportion of working aged for whom Medicare is a secondary payer. The Secretary would develop a proposal for further revisions to the AAPCC for contract years beginning in 1995.

5. **Standards for supplemental insurance**: Technical and conforming amendments would be made to the Medigap provisions of OBRA 90 pertaining to preventing duplication, loss ratios, and pre-existing condition limitations.

Coalition To Preserve The
Low Income Housing Tax Credit

Recd ... Read

It looks like ... groups are doing their part. Keep up the good work!

RICHARD S. GOLDSTEIN
ATTORNEY AT LAW

PEABODY & BROWN
2300 M STREET, N.W.
WASHINGTON, D.C. 20037

TELEPHONE (202) 973-7730
TELEFAX (202) 973-7750

Amy

THE PRESER'...

AUG - 3 1993

Newsletter for the Coalition to Preserve the Low Income Housing Tax Credit

Vol. 6/No. 3 July 30 1993

URGENT

CONFEREES PERMANENTLY EXTEND LOW INCOME HOUSING TAX CREDIT; MEMBERS URGED TO CONTACT THEIR REPRESENTATIVES AND SENATORS.

As of this writing, the Conferees on the Budget Reconciliation Bill have included a permanent extension of the low income housing tax credit in the legislation. Although we do not have the exact text of the bill, we believe that the bill may include several amendments beneficial to the low income housing tax credit, including the 9% credit for HOME projects. The bill also contains several other provisions favorable to real estate including the use of rental real estate losses by real estate professionals against all other income. The Conferees are expected to reach final agreement later today (July 30th) with both houses expected to vote in the week of August 2nd.

As you know, the Budget Reconciliation Bill passed by three votes in the House and by one vote in the Senate - that of Vice President Gore. An equally close vote is expected on the conference report. We urge every member to immediately call their representative and senators who are Democrats and urge them to vote for the Budget Reconciliation Bill. In that any Republican support for the bill is most unlikely, our effort should be concentrated on the Democratic members of your congressional delegation.

Please make these calls upon receipt of the Preserver. There are many wavering Democrats, and they need to know that there is strong support for the President's package.

We are now on the one inch line poised to score the victorious touchdown. Please help us push the ball over.

COALITION TO PRESERVE THE LOW INCOME HOUSING TAX CREDIT

John P Manning Boston Capital Corporation	President
Charles L. Edson	Counsel
Richard S. Goldstein Peabody & Brown	Counsel
Linda D. Kirk	Administrative Director

2300 M Street, N.W. - Washington, DC 20037 - (202) 973-7700

COALITION TO PRESERVE THE
LOW INCOME HOUSING TAX CREDIT

THE PRESERVER

Newsletter for the
Coalition to Preserve the Low Income Housing Tax Credit

Vol. 6/No. 3 July 30 1993

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Council For Rural Housing And Development

July 30, 1993
Vol. X, No. 3

RURAL SURVIVAL ALERT NO. 3

CONFEREES PERMANENTLY EXTEND LOW INCOME HOUSING TAX CREDIT; MEMBERS URGED TO CONTACT THEIR REPRESENTATIVES AND SENATORS.

As of this writing, the Conferees on the Budget Reconciliation Bill have included a permanent extension of the low income housing tax credit in the legislation.

Although the exact text of the bill is not yet available, it is believed that the bill may include several amendments beneficial to the low income housing tax credit, including the 9% credit for HOME projects. The bill also contains several other provisions favorable to real estate, including the use of rental real estate losses by real estate professionals against all other income. The Conferees are expected to reach final agreement later today (July 30), with a final floor vote in the House August 4 and in the Senate on August 6.

The Budget Reconciliation Bill passed by only three votes in the House and by only one vote in the Senate - that of Vice President Gore. An equally close vote is expected on the conference report. Every CRHD member is encouraged to *immediately* call their Representatives and Senators who are Democrats and urge them to vote for the Budget Reconciliation Bill. Since any Republican support for the bill is most unlikely, efforts should be concentrated on the Democratic members of the Congressional delegations. All Senators and Representatives can be reached through the Capitol Switchboard at (202) 224-3121.

Please make these calls immediately. There are many wavering Democrats, and they need to know that there is strong support for the President's package.

As always, CRHD staff is available to answer any questions or provide any assistance.

National Leased Housing Association

serving America's rental housing needs

NLHA

2300 M STREET, N.W. / SUITE 260 / WASHINGTON, D.C. 20037 / (202) 785-8888

July 30, 1993

URGENT!

CONFEREES PERMANENTLY EXTEND LOW INCOME HOUSING TAX CREDIT

As of this writing, the conferees on the Budget Reconciliation bill have included a permanent extension of the low income housing tax credit in the legislation. Although the exact text of the bill is not available, NLHA believes that the bill may include several amendments beneficial to the tax credit, including the nine percent credit for HOME projects. The bill also contains several other provisions favorable to real estate including the use of rental real estate losses by real estate professionals against all other income. A permanent extension of mortgage revenue bonds is also currently included.

The conferees are expected to reach final agreement this week with both houses expected to vote during the week of August 2nd. As you know, the Budget Reconciliation bill passed by only three votes in the House and one vote in the Senate - that of Vice President Gore. An equally close vote is expected on the conference report. NLHA urges you to immediately contact your representative and senators who are Democrats and urge them to vote for the Budget Reconciliation bill. Since any Republican support is unlikely, the efforts should be focused on Democratic members of your congressional delegation.

Again, NLHA urges you to make calls upon receipt of this notice. There are many wavering Democrats, and they need to know that there is strong support for the President's package.

The Morning Briefing -- Friday July 30, 1993

WHY CONGRESS SHOULD VOTE FOR THE CLINTON PLAN

JUL 30 1993

Budget To Reach Final Stage Today

It is expected that at some point today the House-Senate Conference will finalize its budget report. This will set the stage for a final vote in the House and Senate to turn the Clinton economic plan into law.

Following Through On Change

Last November, voters across the country cast their ballots for change. Democrats across the country campaigned on the promise of changing the way Washington does business. The Clinton economic plan delivers on this central issue that dominated last year's election. It answers the call of the American people. We promised we would bring economic change and we must follow through. The best campaign tool next year for candidates across the country is the success of this economic plan.

New Polling Shows That People See Clinton Plan As Change

A new Wall Street Journal/NBC News poll demonstrates that people want Congress to take action and pass the President's economic plan.

* By a margin of 54% to 32%, people say that the Clinton economic plan is a step in the right direction.

* In a trial heat, Americans by 49% to 40% would support a Democratic Member of Congress who supported the President against a Republican Member of Congress who opposed the President's program.

* The Republicans are seen by the public as playing politics -- 64% say the GOP is acting for political reasons.

We Must Follow Through On What We Started

The Clinton Administration and Democrats in Washington have already begun the process of change. We've signed into law the Family and Medical Leave and the "Motor Voter" bill and set in motion the process of national health care reform. But it is the economy that the American people care most about. Without following through, as a Party, on our promise for economic change all of our other accomplishments will carry little weight.

Now Is The Time To Act

For everyone who voted for change last November, now is the time to act. Call your representatives in Washington and remind them that you voted for economic change, the type of change that the President's plan delivers, and you urge him or her to support the plan.

The Morning Briefing c/o the DNC 430 S. Capitol Street SE Washington DC 20003 (202) 863 8132 phone (202) 863 8012 fax. Paid for and authorized by the Democratic National Committee.

Amy / Reco'd

cc Amy

Karen / Legislative

National Council of State Housing Agencies

July 20, 1993

Ms. Alexis Herman
Assistant to the President and Director
for Public Liaison
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear ~~Ms. Herman:~~ Alexis

Enclosed is the letter I mentioned containing 184 House Democratic signatures asking Chairman Rostenkowski to insist on the permanent MRB extension contained in the House-passed bill. It joins the letter (also enclosed) 72 Senators sent Chairman Moynihan last week asking him to accept the House-passed permanent MRB extension in the Conference.

Between the two letters and cosponsors of MRB permanent extension legislation in both Houses who are either already conferees or whom we did not have time to reach with these letters, nine of every ten Democrats in both Houses have asked the two Chairmen for a permanent MRB extension.

Please make sure that the President is aware of these letters and the fact that H.R. 11 just last fall treated MRBs differently from other expiring tax provisions, granting MRBs a permanent status. It will do so again if the President stands by his commitment and Chairman Rostenkowski's position in the Conference.

Sincerely,

John T. McEvoy
Executive Director

Enclosures

Need to call

444 North Capitol Street, NW, Suite 438 Washington, DC 20001 (202)624-7710 FAX (202)624-5899

Congress of the United States
House of Representatives
Washington, DC 20515

July 15, 1993

Hon. Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth Building
INSIDE MAIL

Dear Mr. Chairman:

We strongly urge you to include the permanent Mortgage Revenue Bond (MRB) extension contained in the House bill and requested by the President in the final Budget Reconciliation Bill. We are also supportive of the permanent extension of the Low-Income Housing Tax Credit included in both the House and Senate bill.

We are grateful for your leadership on the House-passed permanent MRB extension. The Senate bill, however, provides an MRB extension only through next June. That brief extension effectively assures another jarring and lengthy disruption of the MRB program, because Congress will not pass another tax bill by next July and may not consider one at all next year.

In floor action on the bill, however, the Senate spoke strongly and unanimously in favor of a permanent MRB extension when it adopted a "Sense of the Senate" resolution urging the acceptance of a permanent MRB extension in conference.

The MRB program expired nearly a year ago, denying tens of thousands of low income American families decent and affordable housing and costing the economy thousands of jobs and billions in wages and tax revenues. The new homes financed with MRB loans in 1992 produced 27,000 jobs and generated over $750 million in wages and tax revenues. The National Association of Home Builders estimates that if MRBs are not extended, as many as 37,000 jobs will be lost in 1993 and 63,000 each year thereafter.

MRBs provide mortgages to more than 130,000 lower-income first-time homebuyers every year, and account for one of every twelve mortgages made to first-time buyers and most of the mortgages for buyers at the bottom of the homeownership ladder who need the most help. The National Council of State Housing Agencies reports that MRB homebuyer incomes in 1992 averaged $28,500, under 74 percent of the national median, compared to $42,300 for the average conventional first-time homebuyer and $49,800 for all conventional homebuyers. The average purchase price of an MRB home was $64,270, compared to $100,200 for first-time conventional homes and $131,300 for all conventional homes.

According to the Joint Tax Committee's estimates, the Senate bill already invests $550 million for the one-year MRB extension. The Joint Committee estimates that a permanent MRB extension would cost only about $350 million more than the short-term extension included in the Senate bill.

The MRB program deserves permanent extension. It is the most heavily cosponsored legislation in either house. An unprecedented 90 percent of the 102nd Congress (490 Representatives and Senators) cosponsored permanent MRB extension legislation. Permanent MRB extension legislation introduced in the 103rd Congress has already captured the support of a majority of both houses and their tax committees in less than five months.

In the last decade, MRBs have been extended seven times. Now is the time to make this proven program permanent. We strongly urge you to support a permanent extension of the MRB program in the final Budget Reconciliation bill.

Sincerely,

Nancy Pelosi
MEMBER OF CONGRESS

David Price
MEMBER OF CONGRESS

Barney Frank
MEMBER OF CONGRESS

Sonny Montgomery
MEMBER OF CONGRESS

MEMBER OF CONGRESS

R L Mazzoli
MEMBER OF CONGRESS

Rick Boucher
MEMBER OF CONGRESS

Dale E Kildee
MEMBER OF CONGRESS

Charlie Rose
MEMBER OF CONGRESS

Tim Valentine
MEMBER OF CONGRESS

Phil Sharp
MEMBER OF CONGRESS

Austin Murphy
MEMBER OF CONGRESS

George Miller
MEMBER OF CONGRESS

Glenn English
MEMBER OF CONGRESS

Pat Schroeder
MEMBER OF CONGRESS

Marilyn Lloyd
MEMBER OF CONGRESS

Charles Schumer
MEMBER OF CONGRESS

Sam Gejdenson
MEMBER OF CONGRESS

Bob Filner
MEMBER OF CONGRESS

[illegible]
MEMBER OF CONGRESS

Wm. J. Jefferson
MEMBER OF CONGRESS

[illegible]
MEMBER OF CONGRESS

Tim Penny
MEMBER OF CONGRESS

José E. Serrano
MEMBER OF CONGRESS

Bart Gordon
MEMBER OF CONGRESS

[illegible]
MEMBER OF CONGRESS

Jerrold Nadler
MEMBER OF CONGRESS

Nick Kopetski
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Esteban E. Torres
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United States Senate

WASHINGTON, DC 20510

July 1, 1993

The Honorable Daniel Patrick Moynihan
Chairman, Senate Committee on Finance
205 Dirksen Senate Office Building
Washington DC 20510

Dear Chairman Moynihan:

As you are aware, the Senate unanimously approved a Sense of the Senate resolution urging the Senate conferees to agree to the permanent extension of the Mortgage Revenue Bond (MRB) program. As cosponsors of legislation, S.348, first introduced by Senators Riegle and Chafee, we urge its inclusion in the final Budget Reconciliation bill to conform to the House bill and to the request by the President.

In this 103rd Congress, more than a majority of both houses and their tax writing committees have already cosponsored legislation to extend the MRB program permanently. During the 102nd Congress, 490 Senators and Representatives cosponsored permanent extension, making it the most heavily cosponsored legislation of either house and resulting in its inclusion in HR 11 which passed the Congress last fall.

The bill passed by the Senate only extends the program through next June. Though described as a 24-month extension, the 12 month retroactive application is meaningless for most states. Expiration next June will effectively assure another jarring and lengthy disruption of the MRB program.

The expiration of the MRB program a year ago has denied tens of thousands of low income American families access to decent and affordable housing and has cost the economy thousands of jobs and billions in wages and tax revenues. New homes financed with MRB loans in 1992 produced 27,000 jobs and generated over $750 million in wages and tax revenues. The National Association of Home Builders estimates that if MRBs are not extended, as many as 37,000 jobs will be lost in 1993 and 63,000 each year thereafter.

MRBs provide mortgages to more than 130,000 lower-income first-time homebuyers every year and account for one of every twelve mortgages made to first-time buyers who are those at the bottom of the home ownership ladder needing the most help. The National Council of State Housing Agencies reports that MRB homebuyer incomes in 1992 averaged $28,500 which is less than 74 percent of the national median income, compared to $42,300 for the average conventional first-time homebuyer and $49,800 for all conventional homebuyers. The average purchase price of an MRB home was $64,270, compared to $100,200 for first-time conventional homes and $131,300 for all conventional homes.

According to the Joint Tax Committee's estimates, the Senate bill expends $550 million for the one-year MRB extension whereas the permanent MRB extension would cost only an additional $350 million.

In the last decade, MRBs have been extended seven times. It is a program that works. Now is the time to extend it permanently. We strongly urge you to support a permanent extension of the MRB program in the final Budget Reconciliation bill.

Sincerely,

Barbara A. Mikulski

John F. Kerry

[illegible]

Bob Smith

[illegible]

Paul Sarbanes

Bob Graham

Patrick Leahy

Clai Pell

Byron L. Dorgan

Howell Heflin

Dianne Feinstein

Wendell Ford

John Breaux

Chris Dodd

Thad Cochran

Tom Daschle

Barbara Boxer

Dave Durenberger

[illegible]

Pete V. Domenici

Fritz Hollings

Tom Harkin

Dennis DeConcini

Arlen Specter

MRB 7/12/93

Fred [illegible]

Harry Reid

Harlan Mathews

Chuck Robb

Patty Murray

John Glenn

Harris Wofford

John Warner

Frank R. Lautenberg

Chuck Grassley

[illegible]

Larry E Craig

Kent Conrad

Dan Coats

[illegible]

Richard G Lugar

Herb Kohl

Edward M Kennedy

Richard Shelby

Orrin Hatch

Dale Bumpers

Paul D. Wellstone

Joe Biden

Jim Exon

Bob Kerrey

Frank H. Murkowski

[illegible]

Howard M. Metzenbaum

Bennett Johnston

Ted Stevens

Hank Brown

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16-Jun-93 5:00pm

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PRELIMINARY
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- Chairman's Mark -

ESTIMATED BUDGET EFFECTS OF THE HOUSE-PASSED RECONCILIATION BILL, AS MODIFIED BY THE SENATE COMMITTEE ON FINANCE

Fiscal Years 1994-1998

[Millions of Dollars]

Provision	Effective	1994	1995	1996	1997	1998	1994-98
I. REVENUE-RAISING PROVISIONS							
A. Individual Income and Estate and Gift Tax Provisions							
1. Increase tax rates paid by high-income individuals (1)........................ [a.] Add fourth bracket at 36% rate for taxable income over $140,000 (joint), $127,500 (head of household), $115,000 (single). [b.] Impose a 10% surtax on taxable income over $250,000 (also applicable to capital gains). [c.] Increase minimum tax rate to 26% for AMTI of less than $175,000 and 28% for AMTI over $175,000; increase AMTI exemption to $45,000 (joint) and $37,500 (single). [d.] Extend itemized deduction limitation and personal exemption phaseout scheduled to expire for 1996 and 1997, respectively.	7/1/93	21,309	13,217	20,837	24,856	26,545	106,764
2. Repeal Health Insurance (HI) wage base cap (2).............................	1/1/94	2,750	6,030	6,374	6,808	7,200	29,161
3. Reinstate top estate and gift tax rates at 53% and 55%.....................	1/1/93	475	512	553	598	647	2,785
4. Reduce deductible portion of business meals and entertainment from 80% to 50%...	1/1/94	1,823	3,124	3,287	3,448	3,605	15,287
5. Deny deduction for club dues (includes hotel and airport clubs)...	1/1/94	132	227	236	247	259	1,101
6. Deny deduction for executive pay over $1 million............................	1/1/94	42	55	57	76	105	335
7. Reduce compensation that can be taken into account for purposes of benefits and contributions under qualified retirement plans to $150,000 in 1994 (1993 cap is $235,840), with modifications..	1/1/94	179	574	565	581	561	2,460

Provision	Effective	1994	1995	1996	1997	1998	1994-98
8. Disallow moving expense deduction for meals and real estate expenses; impose $10,000 cap	1/1/94	50	499	525	554	597	2,224
9. Individual estimated tax simplification	1/1/94	-1,900	--	--	2,600	--	700
10. Impose 2-tier system to determine taxable portion of Social Security and Railroad Retirement Tier 1 benefits	1/1/94	2,072	4,932	5,680	6,435	7,154	26,273
B. Provisions Affecting Businesses							
1. Increase corporate tax rate to 35% for taxable income above $10 million (phaseout benefit of 34% rate beginning at $15 million) (3)	1/1/93	4,404	2,808	2,943	3,080	3,186	16,421
2. Deny deduction for lobbying expenses	e/a 12/31/93	148	254	267	279	288	1,236
3. Require mark-to-market accounting method for dealers in securities; transition rule for LIFO inventory	tyeo/a 12/31/93	822	795	804	816	558	3,796
4. Prohibit double-dip related to FSLIC assistance	3/4/91	278	78	31	266	363	1,016
5. Extend and modify corporate estimated tax rules	tyba 12/31/93	2,116	428	59	4,279	929	7,810
6. a. Repeal stock-for-debt exception to section 108	DoCA	35	83	125	167	212	622
b. Add passive activity losses and credits to list of tax attributes reduced by cancellation of indebtedness	1/1/94	8	34	73	112	152	378
c. Add AMT credits to list of tax attributes reduced by cancellation of indebtedness	1/1/94	28	64	91	116	139	439
7. Limit section 936 credit	tyba 12/31/93	447	907	884	780	669	3,687
8. Modify earnings stripping, portfolio interest, and conduit rules	tyba 12/31/93	63	78	83	88	93	405
C. Foreign Tax Provisions							
1. Repeal deferral for excessive accumulated foreign earnings	tyba 9/30/93	25	54	69	75	84	306
2. 50% place of performance R&E allocation for 12 months	(4)	-225	-225	--	--	--	-450
3. Revise foreign tax credit for oil and gas and shipping income	tyba 12/31/92	622	440	461	486	510	2,520
4. Transfer pricing compliance initiative (enhanced penalty provision)	tyba 12/31/93	73	73	73	73	73	366
5. Deny tax subsidies for exports of certain unprocessed timber	tyba DoE	56	77	81	87	92	393
D. Energy and Motor Fuels Provisions							
1. Transportation motor fuels tax increase of 4.3 cents/gallon:							
a. Motor fuels tax	10/1/93	4,791	4,887	4,839	4,838	4,884	24,238
b. Diesel fuel compliance	1/1/94	249	188	193	198	204	1,031
c. Exempt ethanol and methanol from 1.7 cents of the 4.3 cents/gallon tax	10/1/93	-25	-35	-39	-41	-45	-187
2. Extend 2.5 cents/gallon motor fuels tax (10/1/95 - 9/30/99); transfer revenues to Highway Trust Fund (5)	10/1/95	--	--	2,595	2,670	2,651	7,916

Provision	Effective	1994	1995	1996	1997	1998	1994-98
E. Compliance Provisions							
1. Service industry non-compliance initiative	1/1/94	26	89	94	99	103	411
2. Modified substantial understatement penalty	1/1/94	84	104	101	94	85	469
3. Raise standard for tax shelter and preparer penalties	1/1/94	--	--	--	--	--	--
4. Information reporting for discharge of indebtedness for FDIC, RTC, and financial institutions	DoE	115	115	102	82	75	490
F. Intangibles							
1. Amortization of acquired intangible assets (14 years; 75% amortizable)	DoE (7)	245	642	1,007	1,390	1,791	5,075
G. Miscellaneous Revenue-Raising Provisions							
1. Deny business travel deductions for spouse and dependents on non-business travel	1/1/94	2	20	21	23	24	90
2. Increase withholding rate on bonuses to 28%	1/1/94	188	9	10	10	11	228
3. Permanent extension of vaccine excise tax	DoE	147	154	154	139	133	727
SUBTOTAL: REVENUE-RAISING PROVISIONS		41,654	41,291	53,235	66,409	63,937	266,523
II. INVESTMENT AND TRAINING PROVISIONS							
A. Education and Training Provisions							
1. Extend employer-provided educational assistance through 6/30/94 (24 months)	7/1/92	-601	-156	--	--	--	-757
2. Extend targeted jobs tax credit through 6/30/94 (24 months)	7/1/92	-253	-175	-91	-35	-12	-566
B. Investment Incentives							
1. Extend research and experimentation credit through 6/30/94 (12 months)	7/1/93	-811	-408	-201	-142	-77	-1,639
2. Elimination of ACE depreciation adjustment	ppisa 12/31/93	-344	-986	-1,112	-1,026	-880	-4,348
3. Increase section 179 expensing to $15,000	tyba 12/31/92	-1,509	-624	-433	-254	-109	-2,928
4. Extend small-issue manufacturing and agricultural bonds through 6/30/94 (24 months)	7/1/92	-14	-29	-38	-37	-34	-152
C. Expansion and Simplification of Earned Income Tax Credit (EITC) (8)	1/1/94	-6	-95	-411	-423	-434	-1,369
D. Real Estate Investment Provisions							
1. Extend mortgage revenue bonds through 6/30/94 (24 months)	7/1/92	-50	-97	-135	-140	-132	-554

Provision	Effective	1994	1995	1996	1997	1998	1994-98
2. Extend low-income housing tax credit permanently, with modifications	7/1/92	-373	-597	-938	-1,296	-1,660	-4,864
3. Provide passive loss relief for real estate professionals	1/1/94	-261	-471	-436	-491	-578	-2,237
4. Facilitate pension investments in real estate	1/1/94	-46	-60	-63	-68	-73	-310
5. Increase recovery period for non-residential real property to 38 years	ppiso/a 2/25/93	112	316	587	926	1,248	3,189
E. Luxury Excise Tax; Diesel Fuel Tax for Motorboats							
1. a. Repeal luxury excise tax on boats, aircraft, jewelry, and furs	1/1/93	-69	-46	-49	-52	-55	-270
b. Index luxury excise tax on automobiles for inflation (9)	1/1/93	-98	-124	-179	-237	-300	-938
2. Impose excise tax on diesel fuel used in noncommercial motorboats	1/1/94	25	37	37	38	41	178
F. Other Provisions							
1. Extend AMT treatment of gifts of all appreciated property to charities permanently	(11)	-100	-77	-78	-80	-82	-417
2. Substantiation and disclosure of charitable contributions (10)	1/1/94	15	103	109	118	124	469
3. Extend General Fund transfer to Railroad Retirement Tier 2 Fund permanently	(2)	*No Revenue Effect*					
4. Extend 25% deduction for self-employed health insurance for individuals through 12/31/93 (18 months)	7/1/92	-566	--	--	--	--	-566
SUBTOTAL: INVESTMENT AND TRAINING PROVISIONS		-4,949	-3,489	-3,431	-3,199	-3,013	-18,079
INCREASE IN PUBLIC DEBT LIMIT	DoE	--	--	--	--	--	--
OUTLAY PROVISIONS: (12)							
1. Expand 45-day interest rule for certain refunds (2)	1/1/94	4	46	64	64	64	242
2. Prohibit double-dip related to FSLIC assistance	3/4/91	136	-14	29	95	109	355
3. BATF user fees for alcohol labeling and formula applications (2)	90 days after DoE	5	5	5	5	5	25
4. Use of Harbor Maintenance Trust Fund for administrative expenses (6)	fya DoE	--	3	9	11	12	35
5. Increase Presidential checkoff (2)							81
6. Extend tax information access for Department of Veterans Affairs (through 9/30/98)	10/1/97	--	--	--	--	136	136
7. Access to tax information by the Department of Education (through 9/30/98)	DoE	--	--	--	--	--	--

Provision	Effective	1994	1995	1996	1997	1998	1994-98
8. Access to tax information by the Department of Housing and Urban Development (through 9/30/98)...	DoE	--	–	–	--	–	---
NET TOTAL (Does not include Outlay Provisions)....................................		**36,705**	**37,802**	**49,804**	**63,210**	**60,924**	**248,444**

Joint Committee on Taxation

NOTES: Details may not add to totals due to rounding.
The effects of certain interactions are not accounted for in this table.

Legend for "Effective" column: DoCA = date of Committee Action
DoE = date of enactment
e/a = expenses after
fya = fiscal years after
ppisa = property placed in service after
ppiso/a = property placed in service on or after
tyba = taxable years beginning after
tyeo/a = taxable years ending on or after

(1) Effective 7/1/93, but no penalties for underwithholding or estimated tax in 1993; indexing of 36% rate and surtax brackets effective 1/1/95. Estimate includes certain provisions to prevent conversion of ordinary income to capital gains.
(2) Estimate for this provision provided by the Congressional Budget Office (CBO).
(3) Effective 1/1/93, but no penalties for underwithholding or estimated tax in 1993.
(4) Effective upon expiration of Rev. Proc. 92-56, which is generally the third taxable year beginning after 8/1/91.
(5) Revenues from the 2.5-cent-per-gallon tax on diesel used in trains would be retained in the General Fund, as would 2.5 cents per gallon of the tax on motorboat, small-engine, and nonhighway recreational fuels.
(6) Subject to passage of legislation to appropriate funds from the Harbor Maintenance Trust Fund (estimate does not include effect on outlays).
(7) Taxpayer may elect to apply to all property acquired after 7/25/91. Estimate also includes a provision affecting payments to partners retiring or dying on or after 1/5/93.
(8) EITC outlays would be $198 million in 1994, $2,305 million in 1995, $5,231 million in 1996, $5,484 million in 1997, and $5,750 million in 1998.
(9) Estimate includes the effects of (i) exempting demonstrator cars from the luxury tax, effective 1/1/93, and (ii) exempting equipment installed on vehicles for use by disabled individuals, effective 1/1/91.
(10) Substantiation requirement for charitable contributions of $250 or more; disclosure related to quid pro quo contributions ($75 exemption).
(11) Effective for contributions of tangible personal property made after 6/30/92, and for contributions of all property made after 1992.
(12) Estimates are not included in Net Total.

PROVISIONS IN HOUSE BILL THAT ARE MODIFIED IN POSSIBLE SENATE FINANCE MARK

<u>Individual tax rates</u>

The effective date for all rate increases would be changed to July 1, 1993, by using blended tax rates for taxable years beginning in 1993. Capital gains income would be subject to the surtax rate included in the House-passed bill. Minor modifications would be made to anti-conversion provisions.

<u>Deny deduction for club dues</u>

Subject hotel and airline clubs to the deduction disallowance.

<u>Deny deduction for executive compensation over $1 million</u>

Committee report may vary from House report.

<u>Reduce compensation that can be taken into account</u>

Indexing of the $150,000 would occur only in $10,000 increments. The effective date would be delayed for certain collectively bargained plans, and certain employees of State and local governmental plans would be grandfathered.

<u>Deduction for moving expenses for meals and real estate expenses</u>

Add $10,000 cap on expenses eligible for the deduction, adjusted annually for inflation.

<u>Increase taxable portion of Social Security and Railroad Retirement Tier I Benefits</u>

Impose a two-tier system for taxing social security benefits. Taxpayers with provisional income below $32,000 (unmarried individuals) or $40,000 (married taxpayers filing jointly) would be subject to present law; taxpayers with provisional income above those thresholds would be taxed on up to 85 percent of social security benefits. Increased revenues attributable to this increase would be deposited in the HI Trust Fund.

<u>Deny deduction for lobbying expenses</u>

Expanded provision applicable to certain Federal executive branch lobbying, with other modifications.

<u>Require mark-to-market accounting method for dealers in securities</u>

Markup document will differ as to valuation method. Add special 15 year rule: Allow floor specialists and market makers to include ratably their LIFO reserves in taxable income over a 15-year period for taxpayers that have maintained LIFO inventories for a minimum of 5 years. A 5-year spread would be provided for taxpayers that have maintained LIFO inventories for less than 5 years.

Prohibit double dip related to FSLIC assistance

Delete footnote from House revenue table. Revenue number is gross, rather than net.

Provisions relating to cancellation of indebtedness income

Add new provisions: Repeal stock-for-debt exception. Add passive activity losses and credits to list of tax attributes reduced by cancellation of indebtedness. Add AMT credits to list of tax attributes reduced by cancellation of indebtedness.

Limitation on section 936 credit

[Open]

Repeal deferral for excessive accumulated foreign earnings

[Open]

Allocation of R&E expenses

50 percent place of performance R&E allocation for 12 months.

Energy tax provisions

a. Modified BTU energy tax

Delete the modified Btu energy tax. Substitute a 4.3-cents-per-gallon excise tax on the transportation motor fuels that currently are subject to the Leaking Underground Storage Tank Trust Fund ("LUST") excise tax. In general, these taxable motor fuels are--

(a) Gasoline, diesel fuel, and special motor fuels used in highway transportation;

(b) Diesel fuel used in rail transportation;

(c) Gasoline and jet fuel used in domestic commercial and general aviation; and

(d) Fuels used in water transportation on the inland waterways system.

In addition, the tax would apply to gasoline and diesel fuel used in motorboats.

Exemptions.--All fuel uses that are exempt from the LUST tax would be exempt from the new tax. These uses include, for example, diesel fuel used as heating oil; gasoline and diesel fuel used for farming purposes; highway fuels used by States and local governments and nonprofit schools; exported fuels, including fuels used in international aviation and international and domestic shipping, other than shipping on inland waterways; and off-highway business uses such as natural resource exploration and development, timber operations, and fisheries. Ethanol and methanol would be exempt from 1.7 cents of the 4.3 cents/gallon tax.

Effective date.--The provisions would be effective on October 1, 1993, with appropriate floorstocks taxes being imposed on that date.

b. Modification of the collection of the diesel fuel excise tax

Modify the House bill provision to move the effective date to January 1, 1994, and to conform September payment rules for the diesel tax to the gasoline tax rules.

c. Increase inland waterways fuel tax

Delete the House bill provision.

Use of Harbor Maintenance Trust Fund for administrative expenses

Move to outlay provisions.

Treatment of intangibles

Treat 25 percent of all acquired intangibles as nonamortizable. With respect to purchased mortgage servicing rights, require amortization over 9 years. With respect to the acquisition of certain software companies, 50 percent of the 75 percent that is amortizable is amortized over 5 (?) years and 50 percent over 14 years.

Substantiation and disclosure of charitable contributions

(a) The dollar threshold for the substantiation requirement would be reduced from $750 to $250. Thus, taxpayers who claim a charitable contribution of $250 or more would be required to obtain from the donee written substantiation of the contribution, rather than relying solely on a canceled check.

(b) The quid pro quo information disclosure requirement imposed on charities would apply only if the payment made to a charity in a quid pro quo contribution transaction exceeds $75.

(c) The proposal would clarify that the required quid pro quo information disclosure must be made in writing at the time of the solicitation of the contribution or the furnishing of goods or services by the charity to the contributor.

(d) The statutory language would be clarified to provide that, for purposes of the substantiation and disclosure provisions, a quid pro quo contribution does not include a payment to a religious organization in return for which the payor receives solely an intangible religious benefit (such as admission to a religious ceremony) that generally is not sold in commercial transactions outside the donative context.[1]

(e) The statutory language would be clarified to provide that the substantiation provision does not require charities to value a non-cash donation that the donor claims to exceed the $250 threshold.

Expand 45-day interest rule for certain refunds

Move to the outlay provisions.

Extend employer-provided educational assistance

Exclusion expires after June 30, 1994, and delete the transition rules available for 1993 (i.e., waiver of penalties, special rules for 1992, and income tax treatment).

Targeted jobs tax credit and youth apprenticeship program

Credit expires after June 30, 1994; no extension to youth apprenticeship programs.

Extend research and experimentation credit

One year extension of the credit (i.e., from 1/1/93 to 12/31/93); prospective only

Targeted capital gains incentives for investment in small businesses

Delete the House bill provision.

Modify AMT depreciation schedule

Repeal the depreciation component of the adjusted current earnings (ACE) adjustment of the corporate AMT, effective for property placed in service after December 31, 1993. Thus,

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[1] However, no inference would be intended whether or not any contribution outside the scope of the substantiation or disclosure requirements is deductible (in full or in part) under the present-law requirements of section 170.

corporations would compute AMT depreciation by using the methods applicable to individuals (generally, the 150-percent declining-balance method over the class life of the property for tangible personal property).

Increase section 179 expensing

Change $25,000 cap on expensing to $15,000.

Exempt high-speed rail bonds from private activity bond caps

Delete the House bill provision.

Extension of qualified small-issue bonds

Authority to issue qualified small-issue bonds expires after June 30, 1994.

Earned income tax credit

Round the earned income tax credit (EITC) rates to full percentage numbers. Phase in the new EITC for workers with no qualifying children over a three-year period. The credit rate for 1994 and 1995 would be 3.8 percent, and the credit rate for 1996 and later would be 7.65 percent.

Extend mortgage revenue bonds

Authority to issue qualified mortgage revenue bonds (QMBs) and to elect to trade in private activity bond volume limit for authority to issue mortgage credit certificates (MCCs) expires after June 30, 1994.

Extend low-income housing credit

Extend the low-income housing credit permanently, with possible modifications.

Provide passive loss relief for real estate professionals (Administration proposal)

Permit an eligible individual taxpayer's net loss from certain rental real estate activities generally to offset income from real property trade or business activities. The loss allowed under the provision could not exceed the lesser of (1) the taxpayer's net income from real property trade or business activities which are not passive activities, or (2) the taxpayer's taxable income (determined without regard to this provision). A similar rule would apply with respect to passive activity credits. An individual taxpayer would be eligible if more than half of the personal services he performs in a trade or business are in real property trades or businesses in which he materially participates (not including services as an employee unless he owns more than 5 percent of the employer).

Treatment of certain real property business indebtedness of individuals

Delete House bill provision.

Increase recovery period for nonresidential real property to 38 years

Extend the recovery period for determining the depreciation deduction with respect to nonresidential real property from 31.5 years to 38 years, applicable generally to property placed in service on or after February 25, 1993.

Empowerment zones and enterprise communities

Delete the House bill provisions.

Access to tax information by the Department of Veterans Affairs

Move to outlay provisions.

BATF user fees for alcohol labeling and formula application

Move to outlay provisions.

Childhood immunization program

Delete the House bill provision.

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CBC

Congressional Black Caucus
Congress of the United States

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U.S. Senate
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JUN - 9 1993

June 9, 1993

The Honorable William Jefferson Clinton
President of the United States
The White House
Washington, DC 20500

Dear Mr. President:

The members of the Congressional Black Caucus have asked me to express our strongest opposition to current negotiations surrounding budget reconciliation and proposals which call for significant cuts in programs impacting the nation's poor, middle class and the elderly.

We urge you to maintain the key elements of the original economic plan pertaining to entitlement and jobs creation programs, and restate our firm opposition to capping entitlement spending and triggering automatic sequestration. Additionally, we view as non-negotiable the expanded Earned Income Tax Credit as reported by the House Ways and Means Committee; the summer youth jobs program and the targeting of the hard-core unemployed passed by the House; and full funding for the Mickey Leland Childhood Hunger Prevention Act which provides for food stamps and feeds the poorest families. We are deeply concerned about proposed modifications in Medicare and Medicaid spending and the Family Preservation Act as well as attempts to further reduce the Low-Income Housing Energy Assistance Program, Small Business Administration loan guarantees, and newly-created empowerment zones.

Many of our constituents were left behind and neglected by two previous administrations. They cannot be expected to bear the brunt of deficit reduction alone. We will not support a reconciliation package that shifts the burden from the wealthiest Americans and corporations to the disadvantaged. Senate negotiations incorporating the aforementioned proposals significantly imperil the prospect of passage of the economic plan in the House.

President Clinton
June 9, 1993
Page 2

We have attempted to support the original principles of the Clinton Economic Plan, however, we cannot support a move away from commitments to disadvantaged Americans. We are expressing today these same concerns to the leadership of the House and Senate.

Sincerely,

[illegible]
Chairman
Congressional Black Caucus

KM/tdh

cc: Honorable George Mitchell
    Honorable Thomas S. Foley

IRET Congressional Advisory

June 3, 1993 No. 15

The Bracket Racket: House Tax Bill Lowers Top Tax Thresholds with Inflation

A review of the fine print in the House-passed tax proposals reveals that it would let inflation lower the real income thresholds at which the proposed 36% bracket and the 10% surtax kick in.

Ostensibly, the 36% bracket would begin at $140,000 for married taxpayers and $115,000 for a single taxpayer in 1993. The (formerly) millionaires' 10% surtax would begin at $250,000 in 1993. The other tax brackets, the personal exemptions, and standard deductions are adjusted (indexed) for inflation. These new thresholds would be indexed too, but only after a year's delay, that is, for tax years beginning after December 31, 1994.

The proposed delay in implementing indexing... proves once again just how eager Washington is to pull a fast one on the taxpayers, and how important a safeguard for taxpayers indexing is.

In other words, assuming 4% inflation between 1993 and 1994, the 36% bracket thresholds for 1994 and beyond would be allowed to slip to $134,615 in real 1993 dollars for married taxpayers and to $110,577 for single taxpayers. The 1994 surtax threshold would slip to $240,385 in real 1993 dollars, and remain at this depressed real level forever after.

The result of the slippage in the bracket thresholds will be to subject more of the nation's most productive people to punitive tax rates, disproportionately discouraging output and saving. Punishing the nation's major savers and investors is strange behavior for Members of Congress who publicly fret over the inadequacy of national saving and investment.

The tinkering with indexing may be part of a broader strategy to suck an increasing share of everyone's income into the Treasury: add more tax brackets, repeal indexing, and inflate away! The effect on the economy would be devastating.

President Carter tried using inflation and bracket creep to balance the budget. The result was higher labor costs and reduced employment growth as workers were forced to demand pay increases in excess of the cost of living to maintain the same real after-tax income after bracket creep. U.S. competitiveness collapsed. At its peak, the bracket creep due to the inflation of the late 1970s was absorbing 100% of the productivity-related gains in gross national product. Not a penny of the gains went to labor or capital, and after-tax incomes fell. Carter did Marx one better: From each according to his ability, to the government.

Workers and businesses did not sit still for this, of course. Strikes against mandatory overtime became common; no one wanted time-and-a-half in cash with wages spilling over into higher tax brackets. The flight to shorter hours and non-taxable fringe benefits took off (including ever-more generous health fringes that added fuel to the medical cost fire that consumes the federal budget today). Production moved offshore. Higher tax rates depressed private saving and investment. The tax element of interest rates zoomed, raising capital costs for businesses and lifting the interest expense on the federal debt. Ultimately, the bracket creep resulted in stagflation, recession, and the Reagan revolution. Come to think of it, maybe that's what the economy needs, if this time around we could make it stick!

Tax increases should be enacted in a forthright, above-board manner. The government should not steal money away like a thief in the night. Letting inflation sneak a tax increase past the public without a vote being taken in the Congress is despicable. It is exactly this sort of slick policy trick that tax indexing is meant to correct. The proposed delay in implementing indexing for the new brackets proves once again just how eager Washington is to profit from inflation at taxpayer expense, and how important a safeguard for taxpayers indexing is.

Stephen J. Entin
Resident Scholar

Institute for Research on the Economics of Taxation

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IRET Congressional Advisory

June 3, 1993 No. 16

House Tax Bill Conversion Provision: Futures Out, Options In, Risks Up

The House-passed tax bill would tax capital gains on commodities and stocks as if they were ordinary income if the positions were hedged by means of futures contracts. The Ways and Means Committee print claims that a hedged position — in which the holder of the stock or commodity has a firm agreement to sell the asset to a buyer at a certain price at a specific future date — is "indistinguishable from loans in terms of the returns anticipated and the risks borne by the taxpayer". The asset-holder is supposedly in a position like that of a lender whose income is due to the "time value of money" rather than market risk, earning interest rather than profits from speculation. The contention is absurd. The rationale is based on brainless semantics, not economics.

It is ludicrous tax policy to regard the returns of one party to a transaction as ordinary interest income and the losses of the other party to the same transaction as capital losses, yet that is what the House bill does.

The problem, as the House sees it, is this. Suppose X bought $100 of gold bullion, cotton, or World Wide Widget Corporation stock and agreed to sell it (or some similar property) to Y at some future date for $115. Under current law, X would report a $15 capital gain on the sale of the asset. However, because the sale was definite from the day of purchase, the House would consider the transaction to be not risky enough to deserve capital gains treatment — being too much like interest. The House would call the transaction a "conversion transaction" and treat a portion of the $15 profit as if it were ordinary income ("but not as interest", according to the cryptic Ways and Means Committee print). The portion that would be treated as ordinary income would be the $100 asset acquisition price multiplied by 120% of some interest rate selected by the Treasury.

As the proposal states: "For example, assume that X purchases stock for $100 on January 1, 1994, and on that same day agrees to sell it to Y on January 1, 1996 for $115. Assume that the applicable rate is 5%. On January 1, 1996, X delivers the stock to Y in exchange for $115 in satisfaction of their agreement. Assume that under current law X would have recognized a capital gain of $15. Under the provision, $12.36 of that amount would be recharacterized as ordinary income (i.e., 120% of 5% compounded for two years, applied to an investment of $100)."

Petty criticisms of the example aside (e.g., anyone familiar with financial markets knows that they are not open on New Year's Day; If the futures trade were made the day after the purchase, would the 24 hours of risk let the taxpayer avoid the penalty? If the income is to be taxed as ordinary income because it resembles interest, why is it to be viewed "not as interest"? If it is to be viewed "not as interest", why is the amount denied capital gains treatment set with reference to an interest rate?), does the proposal make sense? It does not.

Consider the more sensible treatment of stock options which would be retained under the proposal. Asset sales resulting from the sale of options to buy, as opposed to firm commitments to buy, would not be considered "conversion transactions". One could buy stock for $100 and sell a call option giving the option buyer, in exchange for a modest fee or premium, the right to buy the stock at $115 prior to some future date, but there would be no "conversion" treatment even if the option were exercised and the stock were ultimately sold for $115. There would be a capital gain of $15 (plus the premium from the sale of the option). Why a capital gain and not ordinary income? Because, according to the Committee print, the holder of the stock was not guaranteed a sale, and was subject to the risk that the stock might not be called, and might even fall in value.

This prissy distinction about the risk to a particular holder of the asset at a particular point in time is not

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good tax policy and completely misses the economics of the situation. The distinction between interest and capital gains has nothing to do with risk, and is not merely semantics. Interest is a flow of current income reflecting current economic output. People borrow to invest in assets that earn a return greater than the cost of the loan. For example, they may borrow to buy a machine that earns a profit. The profit reflects the addition to GNP that the machine provided. If the profit is large enough to cover the debt service and the wear and tear on the machine, with a little left over, the investor will proceed with the transaction. The interest received by the lender in effect gives the lender credit for much of the net increase in the GNP produced by the machine.

A capital gain is the result of a change in the valuation of an asset. The gain is a pure price change, not additional GNP or national income. For example, a share of stock may rise in price today because of an increase in the company's expected future production and profit. The future profit will be part of GNP when and if it occurs (and will be taxed then, too). The current jump in the share price is merely the present value of the company's expected future after-tax income. The capital gain itself is not income. Counting it as income would double count the future profit, and overstate GNP. Taxing the gain would double tax the future profit.

In a hedged position, the two parties to the futures contract are engaged in activities that help the market value an asset. The seller of the contract is betting that the price of the commodity or stock is not going to exceed the contract price by the date set. The buyer of the contract is betting that it will. Neither is necessarily the ultimate user of the commodity. Any profit, interest, or dividend resulting from the use of the commodity or the operations of the company whose stock underlay the futures trade is part of GNP, and will be taxed as such by the income tax. The futures market valuation process is not part of GNP and clearly represents a capital gains situation for both parties to the futures process. It is bad economics to regard it as anything else.

In brief, the rise in the value of a hedged asset is a capital gain, period. It is not a loan; there is no borrower; there is no investment of borrowed money in an output-producing, income-generating piece of property; there is no interest paid to share the returns with the provider of the funding.

Clearly, the potential for gains for the seller of the futures contract is matched by the potential for losses for the buyer. It is ludicrous tax policy to regard the returns of one party to a transaction as ordinary interest income and the losses of the other party to the same transaction as capital losses, yet that is what the House bill
Will the House next declare that wages paid by
ness are to be amortized as capital outlays over t
of the worker while the wages received by the worker are to be treated as ordinary income and taxed when received? That too would raise revenue but be utter nonsense.

The result of the House bill provision would be to pressure some individuals to use options rather than futures. Potential futures buyers, who bear the risk that the House views as meriting a differential, would have to bid more for the contracts as a result of the higher tax on the seller, and would share the penalty. Risk would be harder to spread, the attractiveness of owning assets would be reduced, and the amount of productive capital created by the economy would be less than in the absence of this tax bias.

The House claims to be eliminating an artificial distinction between ordinary income (interest-like earnings) and capital gains. In fact, there is nothing artificial about such a distinction. They are different.

In fact, however, the case against the provision does not depend solely on the disti between interest and capital gains. Ideally, neither the interest on a bond nor the capital gains that trouble the House in the hedging situation should be taxable items. Income is taxed when earned. If used for consumption, there is little additional federal tax. If saved or invested, it is taxed again on the returns (e.g., interest, dividends, undistributed profits). Capital gains are hit even harder. Both the returns and the current valuation change reflecting the returns are taxed. Consequently, interest is doubly taxed, while capital gains are subject to triple taxation or worse. A neutral tax would allow a deduction for saving and tax all the returns (akin to an IRA), or allow no deduction and not tax the returns (as with tax exempt bonds).

The current treatment of gains on hedged asset holdings is multiple taxation. Insofar as the gains receive somewhat diminished tax rates due to the limited capital gains differential, it is a small degree of relief from multiple taxation. That relief ought not to be ended.

Stephen J. Entin
Resident Scholar

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IRET Congressional Advisory

June 3, 1993 No. 17

House Tax Bill Provision on Market Discount Bonds: Assault on Tax Exempt Bonds; Double Tax on Saving

Bonds are generally issued at face value and pay explicit interest on the face amount. If interest rates rise after the bond is issued, the price of the bond will fall. A new buyer will receive the higher market interest rate in the implicit form of a gradual rise in the price of the bond toward face value at maturity plus the explicit interest payment in force at the time of issue. The gradual rise in price is called accrued market discount.

In the case of original issue zero coupon bonds, the bond is originally issued at a discount — the original issue discount, or OID — and all interest is paid in the form of a rise toward face value at maturity — accrued OID. In this case, a market discount from the accrued OID value due to a subsequent rise in interest rates provides added interest to the new buyer over time. The accrued market discount in this case is any gain in excess of the rise due to the accrued OID that constitutes the implicit interest payments in force at the time of issue.

Under current law, when a bond purchased at market discount is later sold or reaches maturity, the accrued market discount is treated as interest income, taxable at ordinary rates. (A rise in price in excess of the implicit interest — as would occur if interest rates subsequently fell — is considered a capital gain.)

In the case of tax exempt bonds, interest is not supposed to be taxed. If the rise from market discount to face value is interest, as the House admits, then there should be no tax at all on the rise if the bond is tax exempt. Far from changing the current capital gains treatment of such increases to ordinary income, the correct adjustment is to exempt such gains from tax entirely.

There are two exceptions to the interest treatment of accrued market discount. Gains on bonds issued before July 18, 1984 (when current law treatment began) and gains on tax exempt bonds are treated as capital gains when the bonds are sold. (Note that this component of the interest on tax exempt bonds is not tax exempt under current law.) The House tax bill would eliminate these two exceptions, and treat any gain resulting from purchase at a market discount as ordinary income.

It is correct to consider as interest the rise in the price of a bond from a discounted level at time of purchase toward face value at maturity. Bonds may pay interest explicitly by coupon or implicitly by accrual from a discounted price. There is no economic difference between the two methods. What is at issue is not whether the price increase due to accrued market discount is interest or a capital gain. What is at issue is the correct tax treatment of interest however it is paid. Under current law, some interest is treated correctly, and some incorrectly. Instead of moving toward the correct tax treatment of all interest, the House bill would increase uniformity by treating all accrued market discount interest incorrectly. In the process, the House bill would move the tax code in the wrong direction, and would worsen the current tax bias against saving.

The income tax is biased against saving. Income is taxed when earned. If used for consumption, there is little additional federal tax. If used for saving or investment, it is taxed again on the returns. A neutral tax code would either give a deduction for amounts saved and tax the gross returns (akin to a deductible IRA) or give no deduction and tax none of the returns on saving (akin to the treatment of coupon interest on tax exempt bonds). All saving would be given one or another of these treatments.

In the case of bonds, neutral treatment calls either for allowing a deduction for the purchase of a bond while taxing the interest and accrued market discount, or allowing no deduction and not taxing the interest (as with current tax exempt bonds) or the accrued market discount. In particular, under the latter treatment, the rise in the price of a bond purchased at market discount would be treated as non-taxable interest under a neutral tax code. Insofar as the accrued market discount on old bonds is currently accorded capital gains treatment rather than ordinary income treatment, it faces a reduced rate of double taxation. This is a tiny step in the right direction, and should not be eliminated. If anything, it should be extended to all bonds.

In the case of tax exempt bonds, interest is not supposed to be taxed. If the rise from market discount to face value is interest, as the House admits, then there should be no tax at all on the rise if the bond is tax exempt. Far from changing the current capital gains treatment of such increases to ordinary income, the correct adjustment is to exempt such gains from tax entirely.

The current tax exempt treatment of explicit tax exempt bond coupon interest (or zero coupon tax ex[illegible] accrued OID) is the proper way to treat all in[illegible] income. The House proposal erodes one of the few areas of the tax treatment of saving and investment that is correct and unbiased. The House proposal would move the tax code closer to universal double taxation of saving, raise the cost of capital and reduce saving in the United States, and slow the growth of investment, productivity, wages, and employment.

Stephen J. Entin
Resident Scholar

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IRET Congressional Advisory

June 3, 1993 No. 18

House Tax Bill: Stripping Stripped Stock of Capital Gains Treatment

"Strips" are the principal component of bonds stripped of their interest coupons (which are sold separately) and resold at an original issue discount to yield interest via price appreciation. The accruing price appreciation is treated as taxable interest for tax purposes.

The practice has spread to preferred stock. The stock is stripped of its dividend rights (which are sold separately) and the stock is resold at a discount from a fixed redemption price payable at a future date. Current law treats the rise in the stock price as a capital gain. The House tax bill converts the treatment to ordinary income. In doing so, it accentuates the income tax bias against saving.

The House proposal would move the tax code in the wrong direction, i.e., closer to universal double taxation of saving, raise the cost of capital and reduce saving in the United States, and slow the growth of investment, productivity, wages, and employment.

Current law subjects the returns on saving to double taxation. Income is taxed when earned. If used for consumption, there is little additional federal tax. If used for saving or investment, it is taxed again on the returns. A neutral tax code would either give a deduction for amounts saved and tax the gross returns (akin to a deductible IRA) or give no deduction and tax none of the returns on saving (akin to tax exempt bond treatment). All saving would be given one or another of these treatments.

With no deduction for saving, the correct treatment for either the interest on bonds or the dividends on stock is not to tax them. In the case of the stripped principal sold at a discount, the price appreciation should not be taxable to the holder.

Under current law, dividends are paid from after-tax corporate income. The dividend payments are not deductible by the corporation. Furthermore, dividends on stock (common or preferred shares, whether stripped or not) are taxed as ordinary income to the shareholder, who purchased the stock with after-tax income. Thus, the dividend is subject to repeated taxation, reducing the value of the stock and raising the cost of capital to the company.

If stripped preferred stock can be reissued at a discount and subject to capital gains treatment, it enhances the initial value of the original issue stock, and lowers the cost of capital, making up in some small part for the multiple taxation of the regular dividend.

The correct solution to the stripped preferred stock problem is to stop taxing the regular dividend, or, as a second best answer, to allow the corporation a deduction for the dividends it pays out. Absent such fundamental reform, the capital gains treatment of the stripped stock is preferable to the higher tax rates on ordinary income. The House proposal would move the tax code in the wrong direction, i.e., closer to universal double taxation of saving, raise the cost of capital and reduce saving in the United States, and slow the growth of investment, productivity, wages, and employment.

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IRET Congressional Advisory

June 3, 1993 No. 19

The House Tax Bill: Further Restrictions on Deduction of Investment Interest

Under current law, investors may deduct the interest on money they borrow to purchase stock, bonds, or other property up to the amount of their investment income — whether interest or capital gains. The interest deduction reduces total taxable income, and in that sense is deductible against ordinary income subject to the 31% top tax rate even if some of the investment return is in the form of capital gains subject to a top rate of 28%. The House tax bill limits the interest deduction to the amount of investment income (interest) subject to ordinary tax rates, and excludes capital gains in computing the deduction limit. Any interest deduction in excess of that amount would have to be carried forward. (The taxpayer would have the option of treating some capital gain as ordinary income to take the interest deduction earlier.)

In the House's view, the ideal situation is one in which all lenders are taxed on the interest they receive, and borrowers may not deduct their interest payments. This is "Heads I win, tails you lose."

For example, suppose the taxpayer had $10,000 in interest expenses, $5,000 in interest income, $5,000 in capital gains, plus $50,000 in salary. Under current law, the taxpayer could deduct the full interest expense. Under the House bill, the taxpayer could only deduct $5,000 in interest expenses in the current year. He could deduct the full interest cost only if he were willing to give up the 28% tax rate on the $5,000 capital gain.

The House bill would worsen the anti-saving, anti-investment bias of the tax code, raise the cost of capital and reduce saving in the United States, and slow the growth of investment, productivity, wages, and employment.

The correct treatment of interest outlays and investment income should not be determined taxpayer by taxpayer but activity by activity. That is, the tax should not be set by looking only at a taxpayer's end of the various transactions in which he engages. Rather, each separate economic activity involving a borrower and lender should be taxed, in toto, in an appropriate way that avoids double-taxing the economic activity in which they have jointly engaged.

The economic activity in this case involves an exchange between the borrower and the lender. The borrower pays interest; the lender receives interest. If the lender is taxed on the interest, the borrower should be allowed to deduct the interest. The interest deduction of the borrower should not depend on what the borrower used the money for or whether his income took the form of capital gains, interest, or tips from a paper route. If the lender is being taxed on the interest the borrower pays, the borrower should be allowed to deduct the interest against any and all income.

The flap over limits on interest deductions, therefore, is just another case of the House looking narrowly at the borrowing taxpayer and ignoring the other side of the transaction. In the House's view, the ideal situation is one in which all lenders are taxed on the interest they receive, and borrowers may not deduct their interest payments. This is "Heads I win, tails you lose." People with that attitude should work in carnivals, not in government. Or is there no difference?

Current law is the result of a philosophy that seeks to tax different people at different rates according to their "ability to pay", rather than levying a uniform, non-distorting tax on all economic output to give government the use of a portion of GNP. That is, the government taxes activity according to who did it rather than according to how much the activity adds to national product. This pernicious approach to taxation severely depresses incentives to work, save, and invest. It retards investment, productivity growth, wages, and employment, injuring people at all income levels. Each of the House bill provisions regarding capital gains and interest would make this damage worse.

Stephen J. Entin
Resident Scholar

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IRET Congressional Advisory

June 3, 1993 No. 20

The Tax Treatment of Real Estate: Two Steps Back, One Half Step Forward

Overlooked in much of the debate about President Clinton's budget initiatives are two proposed income tax changes that directly target real estate investment. The House of Representatives proposes to lengthen the cost recovery period for non-residential real property from the current 31.5 to 39 years. The House also accepted a second Treasury proposal that would relax the rules limiting the deductibility of "passive losses" for "real estate professionals." In terms of reducing the current tax bias against real estate, these changes tug in opposite directions.

The proposed changes in the tax treatment of real estate constitute mere tinkering with the tax code where a complete overhaul is in order.

Lengthening the Cost-Recovery Period: One Giant Step Backward

The Tax Reform Act of 1986 (TRA86) lengthened the cost recovery periods for most capital assets. This had an especially damaging effect on the real estate industry. By lengthening the cost recovery period for most real estate investments from 19 to 31.5 years and by changing the accounting method that was used in calculating depreciation, TRA86 significantly reduced the after-tax return on all real estate investment. These changes also represented a movement away from what sound economics urges is the appropriate tax treatment of such investments.

The lengthening of depreciation periods in TRA86 was based on the fallacy that, for tax purposes, the costs of production facilities should be deductible over the years in which the facilities continue to be used, i.e., over their so-called "economic lives." This argument was invoked once again by the Clinton administration to justify lengthening the depreciation period for real estate. As stated by the Treasury department: "The recovery period for non-residential property under current law results in depreciation allowances that are larger than the actual decline in value of the property...[t]he recovery period for the depreciation of such property should be increased."

Treasury's assessment is wrong. If tax policy is to be efficient, i.e., if it is not to favor one kind of investment over another, the depreciation system should insure that the present value of depreciation deductions per dollar of investment is the same for all property. Tying the cost recovery period to the "life" of the property, and limiting total depreciation deductions to the amount paid for the property, creates a bias against investment in "long-lived" capital, i.e., capital that is expected to be useful for a relatively long period of time, such as real estate.

The House bill would decrease the present value of non-residential real property tax write-offs and, hence, increase the present value of the taxes paid on the return on investment in such property. The result would be a reduction in the value of non-residential real estate. This is because, the present value of any tax write-off is lower the more remote it is in time. A dollar is worth more to someone now than at any point in the future. Therefore, at any given discount rate, the further into the future a dollar of production costs can be deducted for tax purposes, the less that deduction is worth to an investor now. Given two production facilities with equal pre-tax returns, the one that faces the shorter cost recovery period will enjoy a higher after-tax return. By increasing the depreciation period for non-residential real property from 31.5 to 39 years (more than double the pre-1986 write off period), the House provision would decrease the value of such property to both current holders and all prospective buyers. It would worsen a bias against real estate which was heightened by TRA '86.

Real property already has a longer cost recovery period than any other form of depreciable property. The extension of this period is highly punitive of investment in such property. A constructive policy change that would help to bring the real estate industry out of its sustained slump while reducing the tax code's bias against the industry would be to reduce, not lengthen, the depreciation period for real property.

Passive Loss Relief: One Small Step Forward

A second change in the tax treatment of real estate, proposed in the House bill, also has its roots in TRA '86 and

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what is typically referred to as the "passive loss limitation rule" (PLLR). The PLLR creates a distinction for tax purposes between "passive" and "active" investments. For investments to be categorized as "active", the taxpayer must "materially participate" in the activity associated with the investment. For example, a person who invests in a race horse would have to actively participate in the training and maintenance of the horse in order to have income received from the investment categorized as "active." Losses that are associated with "active" investments can be offset against any other source of income that the taxpayer might have. On the other hand, losses that arise in connection with "passive" investments can only be offset against passive income. In other words, the amount of passive losses that may be claimed in a taxable year is limited by the amount of "passive" income that the tax-payer has earned in that year. Excess losses may be carried over to future years when, and if, passive income is realized.

The PLLR is even stricter with respect to real estate. Unlike other investments, all income from real estate, with minor exceptions, is considered "passive." This would be true even if the investor managed the property, took care of maintenance, or otherwise was an active participant in maintaining the investment. If, in a given year, a real estate investor has losses with no passive income to offset them, then those losses cannot be deducted from taxable income in that year. The only exception to this unbalanced treatment of real estate investments has been for investors in rental property who actively participate in the investment and have an adjusted gross income of under $100,000. This class of investor can deduct up to $25,000 in losses from "active" income sources. (There is a phase out range above $100,000 AGI.)

The major target of the PLLR were individuals who participated in investment "syndicates," usually organized as a limited partnerships and often involving real estate, that produced tax losses in its early years. By highly leveraging their real estate investments with non-recourse loans, the investors were able, under the pre-1986 tax code, to take advantage of tax write-offs that were disproportionately large relative to the initial investment for which they were at risk. The alleged purpose of the PLLR was to prevent such investors from sheltering their "active" income from tax by claiming deductions with respect to their leveraged investment as well as their equity investment in the real property.

The actual rule, however, was much broader than this, partially retroactive, and especially severe with regard to real property investments. It has had a profoundly negative impact on the real estate industry. Like the changes that were made in depreciation schedules, this aspect of the tax code has no grounding in the economics of taxation and, in fact, runs counter to any considerations of economic efficiency.

As incorporated in the House bill, President Clinton's proposal would offer some real estate investors limited relief, but would retain the punitive treatment of real estate overall. The proposal would create a distinct category of real estate investor — referred to in the President's original prop[illegible] "real estate professionals" — who would face the [illegible] passive loss limitation rules as non-real estate investors. A taxpayer would meet the eligibility requirements if more than half of the personal services the taxpayer performs are in real property trades or businesses in which he materially participates. Clearly, income to such investors should never have been categorized as "passive" in the first place.

The President and the House should be applauded for recognizing the disadvantages that are being suffered by a taxpayer whose principle business is real estate. But it should be equally clear that anyone who invests in real estate, whether it is his principle business or not, is disadvantaged under current law. The distinction being made between "real estate professionals" and those who, for example, might own an apartment building as one of many investments.

Tax reform for real estate investment, in addition to shortening the cost recovery period, should eliminate the differential and punitive treatment of real estate investment entirely. Beyond this, if the President and the Congress are truly interested in changing the tax code with an eye toward economic growth, and not just government growth, they should consider complete elimination of the PLLR. This [illegible] has no legitimate justification except as a means of enha[illegible] the flow of revenue to the Treasury. It simply ad[illegible] additional layer of bias against saving and capital formation to the tax code.

Conclusion

The proposed changes in the tax treatment of real estate constitute mere tinkering with the tax code where a complete overhaul is in order. TRA '86 hit the real estate industry particularly hard. In addition to the lengthening of the depreciation period for real property and the blanket categorization of income and losses from real estate as passive, TRA '86 reduced the after tax returns to real estate investments by significantly increasing the capital gains tax. These changes were not just bad for real estate, but were bad for the economy as a whole. The House proposals do little to change the overall tax penalty against real estate. In this regard they pull in opposite directions. The Senate should reject lengthening the recovery period for real property and make fundamental changes in the PLLR.

Roy E. Cordato
Senior Economist

Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.

ROBERT T. MATSUI
FIFTH DISTRICT, CALIFORNIA

COMMITTEE ON
WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES
SUBCOMMITTEE ON TRADE

WHIP AT LARGE

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House of Representatives
Washington, DC 20515-0505

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TO: Doris Matsui FAX NUMBER ______

FROM: Alan

DATE: 5/27

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IN PROGRESS: ROLL NO. 199 YEA-AND-NAY TIME REMAINING FINAL
AUTHOR(S):
ON PASSAGE

OMNIBUS BUDGET RECONCILIATION ACT OF 1993

H R 2264

	YEA	NAY	PRES	NOT VOTING
DEMOCRATIC	218	38		
REPUBLICAN		175		1
INDEPENDENT	1			
TOTALS	219	213		1

TIME REMAINING FINAL

- Henry

ROLL NO. 199 REPUBLICAN -NOT VOTING -

EARL F. HILLIARD
7TH DISTRICT, ALABAMA

Congress of the United States
House of Representatives
Washington, DC 20515-0107

Steve ASAP
+ Amy
2nd Marilyn took one 5/27/93

RECONCILIATION

Date: 5/27/93

To: Ms. Alexis Herman
Assistant to The President for Public Affairs

From: Congressman Earl F. Hilliard

No. of Pages: 2
(including this one)

Message: Please find attached an amended letter to the one I sent to you earlier today. Do not hesitate to call me if you have any questions.

Phone: (202)225-2665
Fax: (202)226-0772

EARL F. HILLIARD
7TH DISTRICT, ALABAMA

COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

COMMITTEE ON SMALL BUSINESS
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Congress of the United States
House of Representatives
Washington, DC 20515-0107

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May 27, 1993

Alexis Herman
Assistant to The President
for Public Affairs
The White House
Washington, D.C. 20230

Dear Ms. Herman:

I have considered the vote concerning the taxation of people who are poverty stricken and have a high rate of unemployment. However, if I am able to get certain programs moved forward in my district, it will help to offset the detrimental effects of the additional taxation imposed by the President's proposed bill.

Please look at the following programs that I wish to have funded in the 7th district of Alabama:

1. Miles College: Forgive the debt of approximately $900,000 that Miles College owes the United States Department of Education.
2. Establish a Community Bank to serve the Black Belt area of Alabama in one of the following cities: Birmingham, Tuscaloosa or Montgomery.
3. Establish an Enterprise Zone in one of the five rural counties in Alabama that is among the top 100 poorest counties in the nation.
4. George Wallace Community College, Selma. - Establish a Job Corps Center.
5. Trenholm State College, Montgomery - Job Corps Center.
6. Judson College, Marion - Summer Science Program.
7. Selma University, Selma - Expand TRIO Program.
8. Expand the ARC area to include Sumter County.
9. Designate a Rapid Rail Corrider from Tuscaloosa through Birmingham to Atlanta.

I would appreciate your favorable consideration of the items above. If you have any questions or comments, please do not hesitate to contact me.

Sincerely yours,

Earl F. Hilliard

Earl F. Hilliard
Member of Congress

05/28/93 10:50 NO. 702 001

EARL F. HILLIARD
... DISTRICT, ALABAMA

...TEE ON AGRICULTURE
...COMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

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May 27, 1993

~~FAX~~ FO

Ms. Alexis Herman
Assistant to The President

Dear Ms. Herman:

Please find the list of considerations that we discussed today by phone. Do not hesitate to call me if you have any questions.

I am most concerned with the poor economic problems that my consitutents face in my district. A heavier tax burden would be more than they could bear.

Personally,

Earl

Earl F. Hilliard
Member of Congress

EFH:rf

enclosure

05/28/93 10:51 NO.702 D02

EARL F. HILLIARD
7TH DISTRICT, ALABAMA

COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
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May 27, 1993

Ms. Alexis Herman
Assistant to The President

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4. George Wallace Community College, Selma. - Establish a Job Corps Center.
5. Trenholm State College, Montgomery - Job Corps Center.
6. Judson College, Marion - Summer Science Program,
7. Selma University, Selma - Expand TRIO Program.

Sincerely yours,

Earl F. Hilliard
Member of Congress

Question Number 2

~~63~~ —Yes 5/26/93 [illegible]

15—Leaning Yes

Byrne (VA) – Eng 51492
Clement – VP 54311
Durbin – Kantor, EPA 55271
Fields (LA) – Eng 58490
Holden (PA) – Asp 55546
Hughes – Janet 56572
Johnson (SD) – Kantor 52801
Klink (PA) – Riley 52565
Lambert (AR) – Eng 54076
Menendez (NJ) – Chris 57919
Asp Montgomery – VA 55031
Pickett – ASD 54215
Tanner – VP 54714
Carol Thurman (FL) 51002
Whitten – Espy 54306

16—Undecided

Applegate – Reich 56265
Cooper – VP Eng 56831
Coppersmith – Int 52635
Chris Fingerhut (OH) 55731 no
Green (TX) – Bentsen 51688
Hutto – Carol 54136
Kaptur – HUD, Mickey 54146
Klein (NJ) – HUD 55751
Lloyd – V.P. 53271
Mollohan – Reich 54172
~~Ortiz~~ 57742
Penny – Riley Espy 52472
Sangmeister – Janet 53635
Stenholm 56605
~~Valentine~~ 54531 No
Volkmer – OMB 52956

12—Leaning No

Carr – DOT 54872
Dooley – Babbitt 53341
Asp Edwards (TX) Bentsen 56105
Laughlin – Bentsen 52831
Mann (OH) – Reno 52216
McCurdy – Mickey 56165
Peterson (MN) Esp 52165
Asp Roemer – Reich 53915
RHB Schenk (CA) – Mickey 52040
Skelton – Asp 52876
Swett – Mickey 55206 → no
Wilson – Bentsen 52401

29—No

Andrews (NJ) 56501 – Donna
Baesler (KY) 54706 – Donna
Browder 53261 – Aspin
Cantwell (WA) 56311 – Mickey & Laura
Chapman 53035 – HUD
Condit 56131 – Brown
Danner (MO) 57041 – RHB
Deal (GA) 55211 – Riley
Deutsch (FL) 57931 – HUD, Mickey Ros
English (OK) 55565 – Espy, Bell
Geren 55071 – Aspin, Bentsen
Hall (TX) 56673 – Browner
Hayes 52031 – Browner
Inslee (WA) 55816 – Hazel
Lehman 54540 – Kantor, Larry RHB
Lipinski 55701 – DOT
Long 54436 – Donna
Margolies (PA) 56111 – Kantor
McHale (PA) 56411 – Aspin
Minge (MN) 52331
Orton 57751 – Bentsen
Pallone 54671 – HHS
Parker 55865 – EPA
* Poshard 55201
Rowland 56531 – HHS, Riley
Sarpalius 53706 – Bentsen
Tauzin 54031 – Reich
Taylor 55772 – Espy
Traficant 55261 – Kantor

ORTIZ

0—No Response

7:30

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Rob S

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Ruby
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FAX COVER SHEET

THE PROCTER & GAMBLE COMPANY
National Government Relations
801 Pennsylvania Avenue, N.W.
Suite 720
Washington, D.C. 20004-2604

Telephone
(202)393-3405

Panafax UF-230
(202)393-4606

DATE: 5/26/93

PAGES (INCLUDING COVER SHEET) 2

TO: Alexis Herman

FAX 456-6218

FAX #

FAX #

FAX #

FAX #

FROM: R. MARVIN WOMACK TELEPHONE:(202)393-3404

COMMENTS

Please call Irene Bond at (202)393-3400 if you have any problems with this transmission. Thank you.

Procter&Gamble

National Government Relations
Suite 720, 801 Pennsylvania Avenue N. W., Washington, D. C. 20004-2604
Telephone: (202) 393-3400. Fax: (202) 393-4606

May 26, 1993

Alexis Herman via fax
Assistant to the President
Old Executive Office Building
Room 122
Washington, DC 20500

Reconciliation Tax Bill

You probably know that Procter & Gamble has lobbied very hard in favor of H.R.2141. Earlier this week, we contacted about 50 House Members both in writing and in person, soliciting their vote in favor of the bill reported by the Ways and Means Committee.

At his lunch with the business leaders at the White House today, the President specifically asked our Chairman, Ed Artzt, to solicit six members from Ohio. We had contacted a number of these Members earlier -- but following the lunch we again made calls to seek their vote for the bill. On behalf of Mr. Artzt, here's a report on how we came out with those six Members:

David Mann - Against
Marcy Kaptur - Undecided
Doug Applegate - Undecided
Ted Strickland - Favor
Eric Fingerhut - Against
Jim Traficant - Undecided

We also made some additional calls this afternoon on other Members who were on the undecided list. Here's the outcome of that effort:

Roy Rowland - Undecided
John Tanner - Undecided
Alan Wheat - Leans Favor
Scott Baesler - Leans Against

We will keep plugging away right up to the time of the vote.

Marvin Womack

Democratic National Committee

POLITICAL DEPARTMENT

PH 202-863-8000
FX 202-863-8196

FAX COVER SHEET

DATE: May 25, 1993 TIME: ____________

TO: Alexis Herman

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FROM: Caren Wilcox

SUBJECT: ____________

IF YOU HAVE TROUBLE WITH THIS TRANSMISSION,

PLEASE CALL ____________ AT 202-863-________.

COMMENTS: ____________

____

____

____

___ PLEASE VERIFY RECEIPT OF DOCUMENT IMMEDIATELY

The attached list has been identified as not committed and needing work to encourage to vote for the Reconciliation package.

In addition, the following individuals were identified as needing further work.

Condit
English
Hayes
Long
Pallone
Roemer
Williams

The entire New Jersey delegation is trying to decide how to vote, and needs encouragement.

3:30 p.m. May 25, 1993

218 pass

Applegate
AA ✓ Bishop
Boucher
Brooks
Browder
Byrne
Cantwell — yes
Carr #
Chapman
AA ✓ Clay
Clement
~~Collins (IL)~~ yes
Cooper
Coppersmith — ~~Babbitt~~
Costello
Cramer
(MO) Danner — no
Darden
Deutsch
Dooley — Paretta
Durbin Paretta
Edwards (TX)
~~Eshoo~~
Evans #
Fields
Fingerhut — white
Green
Calif ~~Harman~~ yes
Penn Holden — Sean yes
Hughes — Per Illinois yes
Hutto
Inslee
~~Johnson (GA)~~ yes
Johnson (SD)
Kaptur
Klein
Penn Klink -
* Wa Kreidler — Sean yes
Lambert
Laughlin
Lapinsky
5-AA

Ill / Iowa / Kansas / mich / mo / nebra / ohio / SD / wis /

Lehman
TN Lloyd
Maloney
Mann
Margolies-Mezvinsky — no
McCloskey
Penn McHale — Sean yes
Meehan
NJ Menendez — wil
Minge
Mollohan
Montgomery
(Penn) Murphy — no
Nadler
Penny
Peterson (MN) no
Pickett
Poshard
Sangmeister
Schenk
W Schroeder — Sean yes
AA Scott —
W Shepherd — yes
Skelton
Slattery
Stenholm
Strickland
NH Swett — no
Tejeda
~~Thornton~~ — AP / yes
Th Thurman — Sean yes
Traficant
AA ✓ Tucker walter
NC Valentine — no
Volkmer
AA ✓ Wheat

nc + ng

MEMORANDUM
5/25/93

TO: Craig & Minyon
FM: Marcy
RE: Congressional Support of the Reconciliation Package

****

Listed below is the present vote count on the President's Reconciliation Package in delegation order.

ARIZONA
Ed Pastor - Yes
Sam Coopersmith - Leaning No
Karen English - Leaning No

* Coopersmith & English are freshmen from marginal districts. They are having a tough time selling this package as deficit reduction. They are also amongst a group of freshmen who do not like the Stenholm proposal and are looking for alternatives.

DNC Efforts:
* State Chair Owens is organizing a press conference with other Democratic leaders in the state, to support the President's package.
* State Representative Art Hamilton will be issuing a statement to the press in support of the President.
* Radio feeds with Owens and Hamilton for Wednesday's talk shows and drive time.
* Distribution of flyers will being today at Leisure World and Sun City.
* Satellite feed with Secretary Bentsen.
* Radio with DNC Senior Staff ?

CALIFORNIA

YES:	NO:	UNCERTAIN:
Dan Hamburg	Gary Condit	Ron Dellums
Vic Fazio	Richard Lehman	Walter Tucker
Robert Matsui	Clavin Dooley	
Lynn Woolsey	Jane Harman - Leaning No	
George Miller	Lynn Schenk - Leaning No	
Nancy Pelosi		
Tom Lantos		
Pete Stark		
Anna Eshoo - Leaning Yes		
Norman Mineta		
Don Edwards		

Anthoncy Beilenson
Howard Berman
Henry Waxman
Xavier Becerra
Matthew Martinez
Julian Dixon
Lucille Roybal_Allard
Esteban Torres
Maxine Waters
George Brown

* Eshoo, Tucker, & Dellums are not confidant that the President will not sell them out and we are working this through other means. This is a trust factor. Harman & Schenk are having a very tough time selling the Reconciliation as deficit reduction. They are in marginal districts and have many wealthy constituents who think we are taxing and spending. However, their districts are very environmentally conscience and someone like EPA's Carol Browner could help sell the plan. With respect to Condit, Lehman, & Dooley, they are from farm districts and don't like the package and have not yet joined Stenholms.

DNC Efforts:
* State Party will release a statement in support of the President.
* Working with the statewide democrats to come together in a press conference in support of the President's plan.
* Radio feeds with elected officials in key areas on Wednesday's talk shows and drive time.
* Fax trees are moving our talking points, flyers, and editorials throughout the state.
* Satellite with Secretary Bentsen and Secretary Shalala.
* Radio with Wilhelm into LA and SF.

HAWAII
Neil Abercrombie - Yes
Patsy Mink - Yes

DNC Efforts:
* The Governor and the State Party will issue a statement in support of the President.

NEVADA
James Bilbray - Undecided

* He's having trouble selling the Reconciliation as deficit reduction. The trust issue is a big concern with the Congressman. He doesn't want to put himself on the line and be sold out later.

DNC Efforts:
* The Governor will call the Congressman.
* Satellite feed with Secretary Bentsen.

* Radio feed with DNC Senior Staff ?

NEW MEXICO
Bill Richardson - Yes

<u>DNC Efforts:</u>
* The Governor's wife will do a press conference with senior citizens, supporting the President's plan.
* The state party will issue a statement.
* The Native American Governors from both the Pueblo and Navajo Tribes will issue statements in support of the President's Plan.
* Radio feeds with elected officials for Wednesday drive time.

Post-it™ brand fax transmittal memo 7671 | # of pages ▸ 1

To Alexis Herman	From Bob McAlpine
Co.	Co.
Dept.	Phone # 898-1604
Fax # 456-2983	Fax #

National Urban League, Inc.

Washington Operations
1111 14th Street, N.W., 6th Floor
Washington, D.C. 20005-5603
Telephone (202) 898-1604

May 25, 1993

Dear Representative:

The National Urban League views the Budget Reconciliation package as a critical component to President Clinton's overall economic plan for the nation. And the President's economic plan embodies many aspects of the National Urban League's Marshall Plan for America, which is a comprehensive, targeted program of investments in our human resources and physical infrastructure. **The National Urban League therefore strongly urges your support for immediate passage of the President's Reconciliation bill without damaging amendments.**

The Budget Reconciliation bill is an important step towards re-ordering our nation's priorities. The bill would lay the foundation for fairness in raising revenue by making the tax system more progressive. It would begin to restore health to our economy by cutting the deficit $500 billion over five years. And it would begin the process of investing in our children and families who have suffered the most from the last recession.

The National Urban League believes that we have an unprecedented opportunity to turn this nation around by investing in the future productivity of our people, particularly African Americans who have been disproportionately negatively impacted by the policies of the prior Administration. Therefore, the Reconciliation bill must be passed intact to move the President's economic plan forward. We urge you to support it.

Sincerely,

Robert McAlpine

Robert McAlpine
Director
Policy and Government Relations
RMC:sb

Econ Package
Reconciliation
Binder

~~CONFIDENTIAL~~

CORRECTED VERSION

May 4, 1993

MEMORANDUM FOR ALEXIS HERMAN

From: Chris Lin
Subject: House Ways and Means Committee

This is the memo I prepared for Alexis per our meeting this morning.

DEMOCRATS

Dan Rostenkowski **CHAIR**	IL
Sam Gibbons	FL
J.J. Pickle	TX
Charles Rangal	NY
Forney Stark	CA
Andrew Jacobs	IN
Harold Ford	TN
Robert Matsui	CA
Barbara Hennelly	CT
William Coyne	PA
Michael Andrews	TX
Sander Levin	MI
Benjamin Cardin	MD
Jim McDermott	WA
Gerald Kleczka	WI
John Lewis	GA
Lewis Payne, Jr.	VA
Richard Neal	MA
Peter Hoagland	NE
Michael McNulty	NY
Mike Kopetski	OR
William Jefferson	LA
Bill Brewster	OK
Mel Reynolds	IL

REPUBLICANS

Bill Archer **RANKING MEMBER**	TX
Philip Crane	IL
William Thomas	CA
E. Clay Shaw	FL
Don Sundquist	TN
Nancy Johnson	CT
Jim Bunning	KY

Alexis -
I've given
similar copies
to each of the
OPL staff
- Chris

DETERMINED TO BE AN ADMINISTRATIVE MARKING Per E.O. 13526
Sec. 3.2(C) Initials: OB **Date:** 10/17/16

Fred Grandy	IA
Amo Houghton	NY
Wally Herger	CA
Mel Hancock	MO
Rick Santorum	PA
David Camp	MI

I have provided you with a brief profile on each of the Republican members in this committee for your information (see attached). According to Doris, none of the Republicans are going to budge at this point; Rosty thinks he has enough votes from Democrats to pull this off. Perhaps we should focus on the wavering Democrats rather than the Republicans...or work on a few from both sides.

Let me know if you need anything else.

ATTACHMENT

REPUBLICAN PROFILES:

- Bill Archer TX
  Ranking Member

Archer represents one of the most affluent and economically productive places in America, the west side of Houston. A sign of its faith in the free market, Houston remains America's only large city without zoning. 77% of this district cast its votes for Bush. The constituency here favors free economic markets, honors traditional cultural values and an assertive foreign policy. Its primary industry is oil.

Archer has been a staunch opponent to increases in social security and unemployment benefits. "He is not temperamentally a team player... he voted for spending cuts even when most Texas Republicans opposed them in order to protect the Supercollider).

- Philip Crane IL

Crane represents a predominantly WASP, high income, and very Republican constituency right outside of Chicago. Crane's beliefs center around free market economics, a strong national defense and traditional American ideals. He is most impassioned on issues of free trade; he is often the lone dissenting vote in this issue area.

- William Thomas CA

The political trends in Bakersfield is ancestrally Democratic but, in practice, Republican. Political attitudes here are ultraconservative, strongly pro-defense, and pro-free market. It is no surprise that business in Bakersfield centers around the Lockheed plant.

Thomas has been active in campaign finance and motor voter legislation.

- E. Clay Shaw FL

Shaws district centers around Fort Lauderdale. His popularity is due less to his party's appeal than to hi record in local politics. Shaw spent much of his career visibly fighting crime and drugs. He has also been a proponent of environmental taxes. With Charles Stenholm, Shaw had sponsored a bill based on the theory that parents, rather than the government, can best make decisions on child care.

- Don Sundquist TN

Representing a white affluent area by Memphis, Sundquist shows one of the most conservative record in the House. On the Ways and Means Committee, he pushed hard for a capital gains tax cut. Sundquist has shown an interest in the chairmanship of the

National Republican Campaign Committee; he and Nancy Jacobson have sided together on this front.

Nancy Johnson CT

Johnson's constituency is heavily ethnic and politically closely contested. Her voting record is a mixture: mostly market-oriented on economic issues and fairly liberal on foreign policy. In the past, she backed a Republican initiative to fund community grants. She has also worked on improving child care and is active with other children's issues. Johnson is a budget buff. She served on the Budget Committee in 1987-88 and helped to frame a 92 Group budget that included some sharp cuts and some tax increases. In the past, she has opposed Newt Gingrich, and National Republic Congressional Committee director Ed Rollins.

Jim Bunning KY
Bunnings politics are conservative, by far the most conservative in the Kentucky delegation on economic, cultural and foreign issues -- a reflection of the preponderant view in the Kentucky suburbs. He is a staunch opponent of tax increases.

Fred Grandy IA
Sioux City, the leading city of Iowa's 6th Congressional district represents an ethnic melange of Irish catholics, Dutch, and English descendants. Grandy has please many Republicans by support party positions, even on votes unpopular in the district. He has avoided the extremes of Farm Belt demagoguery and calls himself a "knee-jerk moderate."

Amo Houghton NY
Houghton is the only former CEO of a Fortune 500 company currently in Congress. His district holds two Indian reservations, numerous dairy farms and wineries. More than almost any other member of the House, Houghton seems dedicated to cutting the federal budget deficit and strongly supported the budget summit packages against Republic Whip Newt Gingrich.

Wally Herger CA
Representing the Sacramento Valley, Wally Herger, one of the Mormons in Congress has one of the most solidly conservative records overall in the California delegations. He has been active in high-tech issues and issues of human rights abuses in India. He is mixed on the environment: Herger promotes fishery restoration in the upper Sacramento Riger, but is no friend of the spotted owl.

Mel Hancock MO
Historically, southwestern Missouri is Republican although the growing Farm Belt discontent and anti-incumbent feelings have threatened to change this record. Hancock survived as representative of this district despite these attitudinal changes. His record is consistently conservative.

Rick Santorum PA
Representing the affluent suburbs of Pittsburgh, Santorum has the support of right-to-lifers. On issues, he has opposed congressional pay raise, backed line-item veto, and came out for limits on PAC contributions.

David Camp MI
Camp's district holds large lumber companies, resorts and college towns. Camp's record is difficult to evaluate as he was newly elected in 1990.

COMPETITIVENESS POLICY COUNCIL

11 Dupont Circle, NW • Suite 650 • Washington, DC 20036-1207 • Tel: (202) 387-9017 • FAX: (202) 328-6312

NEWS RELEASE

MAR 12 1993

March 16, 1993

Contact: Howard Rosen (202) 387-9017

COMPETITIVENESS POLICY COUNCIL PROPOSES ENHANCEMENTS IN CLINTON ECONOMIC PROGRAM

JOINT HEARINGS BEFORE JOINT ECONOMIC COMMITTEE AND SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE: 10:00 am, Room 538 Dirksen Senate Office Building

EMBARGO: March 16, 1993, 10:00 a.m., E.S.T.

Washington, March 16---In its Second Report to the President and Congress, the Competitiveness Policy Council proposes a detailed blueprint for a "comprehensive competitiveness strategy for America." Its program goes beyond that of President Clinton in three major respects: stronger incentives for private investment, a new export expansion strategy and sweeping education reform.

The Council concludes that "the United States continues to face major competitiveness problems" despite recent pickups in the growth of both the economy and national productivity. Moreover, it finds that "the problem has been developing for two or three decades... so it will take some time to restore America's competitiveness." The group believes the United States should seek a fundamental turnaround by the year 2000--the end of the decade, the end of the century, and the end of the next two presidential terms. It suggests that the American public wants and will support such an effort, and that the present period may offer a unique opportunity to launch the needed reforms.

The Competitiveness Policy Council is a bipartisan national commission created by the Congress. Its twelve corporate leaders, labor union presidents, high government officials and representatives of the public were appointed by the President and by the joint leadership of the Senate and House of Representatives. It is chaired by Dr. C. Fred Bergsten, Director of the Institute for International Economics.

The Council adopts several key goals for the year 2000:

-- raising national productivity growth to an annual average of 2 percent from the 0.7 percent rate that prevailed from 1973 to 1991, thereby increasing family incomes by one third in a single generation;

-- achieving annual economic growth of at least 3-3 1/2 percent, to create enough high-wage jobs to restore full employment and a rising standard of living; and

-- eliminating the deficit in our external balance, halting the buildup of foreign debt that has turned America into the world's largest debtor nation.

To achieve these goals, the Council supports many of the investment proposals made by President Clinton and his budget program. The Council in fact expressed pleasure that the President's program includes a number of recommendations made both in its First Report, released in March 1992, and in its new Second Report. The Council's latest recommendations, however, go considerably further than those of the Administration in three areas.

First, American competitiveness and productivity will increase on a lasting basis only if private investment is raised permanently by at least 5 percent of GNP. Such investment should be encouraged through:

-- a permanent Equipment Tax Credit (ETC) rather than the temporary investment tax credit proposed for larger firms by the Administration;

-- a permanent Innovation and Commercialization Tax Credit (ICTC) to replace the recently expired Research and Experimentation Tax Credit, covering improvements in the manufacturing process as well as in product technology; and

-- depreciation allowances linked to the "competitive life" of equipment rather than its "tax life," which is often much longer and thus discourages new investment.

Second, international trade has become a crucial element of the American economy. We can compete at home only if we can compete abroad. The Council therefore recommends a major new export expansion strategy including:

-- increasing governmental export credits to $20 billion annually to compete fully with our major foreign rivals;

-- elimination or at least sharp reduction of export controls and other export disincentives that currently block billions of dollars of foreign sales by US companies;

-- doubling of the funding for, and sharp strengthening of, the government's export promotion effort; and

-- maintenance of competitive exchange rates, as called for in the Omnibus Trade and Competitiveness Act of 1988, via restoration of the currency reference ranges that were maintained during 1987-88.

Third, American competitiveness rests fundamentally on the skills of our people. The Council argues that "the bottom line is simple: if we want a higher standard of living, we will have to earn it by improving the education and training of our workforce." The Council therefore proposes sweeping educational reform including:

-- development of content and performance standards for what students should know and be able to do;

-- linking governmental assistance to higher education to actions by colleges to raise their admission standards;

-- adoption of a new uniform high school transcript to encourage employers to review school records;

-- development of "pay-for-knowledge" systems that reward teachers for acquiring the skills necessary to teach the new standards; and

-- rewards for districts and schools that are able to achieve these high standards.

The Council based most of its recommendations on the work of eight Subcouncils that it created a year ago to work on the problems to which it attached highest priority: Capital Formation, Corporate Governance and Financial Markets, Critical Technologies, Education, Manufacturing, Public Infrastructure, Trade Policy and Training. Over 200 leading Americans participated actively in developing the Subcouncils' analyses and proposals. The Council's program thus reflects a high degree of consensus among leaders of business, government (including 19 from the Administration and 22 members of Congress), labor and the public on most major aspects of improving American competitiveness. The full reports of all eight Subcouncils are appended to the Council's report and the Subcouncils will help the Council monitor the implementation of their respective proposals in 1993.

A summary of the Council's complete list of proposals is attached. Preliminary versions of its conclusions, and the reports of each of the Subcouncils, were conveyed to the newly elected Administration early in the transition period. Some of the more important, all which seek to sharply increase the "bang for each investment buck," include:

1. Worker training. The Council concludes that "the most striking waste of our national resources is in the tortuous road we force high school graduates to travel to make their initial entry into the work force. Other nations gain a 5 to 10 year head start (on the United States)... The government provides no help when (the young workers) need it most." In addition, "only five percent of our businesses have replaced traditional production with high performance systems." Remedies include:

    -- new school-to-work transition programs based on the German apprenticeship model;

    -- "lifetime learning systems" via more comprehensive corporate commitments to train all workers;

    -- doubling the resources available for retraining workers dislocated by structural changes in the economy; and

    -- broadening the current tax deduction for job-related educational expenses to cover training that improves employment skills beyond the current line of work.

2. Technology. It remains largely correct that "Americans are good starters while Japanese (and others) are good finishers." American industry has undervalued the importance of making continual improvements in products and processes, and of manufacturing in general. Government policy has emphasized scientific breakthroughs rather than commercial followthroughs. In addition to the new tax incentives already cited, the Government should:

    -- reorient its own R&D investment to civilian and dual-use purposes;

    -- rapidly expand the Advanced Technology Program in the Department of Commerce to an annual program level of $750 million; and

    -- modify federal procurement rules to make the government a better consumer of key technologies.

3. Corporate Governance. Major changes are obviously transpiring in the relationship among managements, boards of directors and shareholders in a number of companies. Continuation of that process should resolve many of the key governance problems. Companies should, however, also begin preparing periodic analyses of their long-term financial, strategic and organizational results in relation to goals established by management and the board. These should include non-financial measures of long-term prospects that emphasize intangibles such as worker training, quality of product, research and development and strategic positioning rather than relying solely on items which fall neatly into the traditional securities industry's valuations of price/earnings multiples.

4. Public Infrastructure. Public investment correlates closely with national productivity and yields high returns: 30-40 percent for maintenance of the highway system, 10-20 percent for expanding that system in congested areas. But such investments were only half as great in 1990 as in 1980 and were only one quarter as great as in Germany. One half of all American roads were recently rated "poor" or "low/fair." Highway congestion costs us an estimated $100 billion annually. Especially needed are:

-- new intermodal strategies, particularly to support a national export effort;

-- full funding for the Intermodal Surface Transportation Efficiency Act (ISTEA);

-- an increase of $12 billion in additional annual spending to put our roads, bridges and mass transit into good working order;

-- new federal techniques to encourage states to maintain roads and bridges, such as bond and grant covenants that incorporate a maintenance schedule; and

-- adoption of higher roadbuilding standards (as in parts of Europe) and life-cycle costing for transportation design.

It is essential to pay for all these new programs responsibly. In addition, the national saving rate must be increased substantially to fund the required increase in national investment. Since no one has been able to devise effective policy proposals to increase private saving, the increased resources must be generated primarily by reducing the budget deficit of the federal government.

The Council supports the President's budget program as a good first step in this direction. If fully implemented, it should generate an increase in the national saving rate of 2 1/2-3 percent of GNP. The group counsels an extensive review of the budget situation as the President's four-year program approaches its conclusion. It suspects that substantial further cuts in the deficit may then be required, probably requiring more extensive actions such as reductions in non-means-tested entitlement programs and institution of a consumption tax or value-added tax.

The Council is pleased to note that some of the proposals in its First Report have already been adopted. The International Trade Commission has created an Office of Competitiveness to begin providing the baseline projections of key American industries which the Council views as essential to permit intelligent responses to problems of specific sectors. The new Administration has created a National Economic Council to coordinate the several components of the required competitiveness strategy, drawing on detailed proposals from the Commission on Government Renewal that was partially inspired by the Council. On the other hand, there has been no progress in implementing the legal requirement that all legislative proposals carry Competitiveness Impact Statements and the Council reiterates it recommendation that Congress insist that this be done.

The Council plans to address five additional key issues in 1993:

-- the competitiveness impact of alternative proposals to reform health care;

-- how to create high performance workplaces;

-- tort reform;

-- capital allocation; and

-- social problems undermining the nation's competitiveness.

On the basis of the detailed proposals for a comprehensive strategy laid out in its new report, the Council now plans to fulfill the "competitiveness ombudsman" role called for in its founding legislation.

The Council's new report, A Competitiveness Strategy for America, will shortly be available at Government Printing Office bookstores. The eight subcouncil reports are reprinted in a separate volume which will also be available from the Government Printing Office. The Council's 1992 report, Building A Competitive America, can be obtained from the Council.

Competitiveness Policy Council
Second Report to the President and Congress
Summary of Recommendations

The Competitiveness Policy Council is a national commission established by the Congress in the Omnibus Trade and Competitiveness Act of 1988. Its mandate is to serve as a "national forum" and advise the President and Congress on improving the competitiveness of the United States.

The Council's membership is quadripartite: three corporate leaders (Rand Araskog, CEO of ITT, Jack Murphy, CEO of Dresser Industries; and Alexander B. Trowbridge, former President of the National Association of Manufactures), three labor union presidents (Jack Barry, President of the International Brotherhood of Electrical Workers; Al Shanker, President of the American Federation of Teachers; and Lynn Williams, President of the United Steelworkers of America), three high level government officials (one appointment to be made by President Clinton; Edward Regan, Comptroller of New York State; and William Graves, Secretary of State of Kansas) and three representatives of the public interest (C. Fred Bergsten, Director of the Institute for International Economics; Bruce Scott, professor at the Harvard Business School; and Edward Vetter, President of Vetter and Associates.) The President, the joint leadership of the House and the joint leadership of the Senate each appointed four members. The group includes six Democrats and six Republicans.

The Council made its first report in March 1992, highlighting the seriousness of the nation's competitiveness problem, analyzing its underlying causes, outlining possible responses without making firm recommendations, and launching a process to develop such recommendations on the basis of in-depth analysis of the most important components of the issue. The Council established eight Subcouncils, as authorized in its legislative mandate, to develop specific policy recommendations in the following areas: Education, Training, Critical Technology, Corporate Governance, Trade Policy, Manufacturing, Public Infrastructure and Capital Formation. Over 200 leading American representatives of business, government, labor and the public participated in the eight Subcouncils. Together, the subcouncils held over 30 meetings throughout the country, preparing detailed analyses and proposals that provided the foundation for most of the recommendations that the Council is making in its Second Report to the President and Congress.

The Council sets out several goals in its Second Report:

1. The United States should double its growth of national productivity--from less than 1 percent annually to at least 2 percent. Higher productivity is the only way to raise the national standard of living. Meeting the target of increasing productivity growth by 1 percent annually would raise family incomes by one third in a single generation.

2. The economy must grow by at least 3-3½ percent annually, combining our targeted productivity growth of 2 percent with the expected annual growth of at least 1 percent in the country's labor force, to achieve and maintain full employment.

3. We must improve the quality of American jobs at the same time we preserve their quantity.

4. Economic models show that doubling productivity growth will require increasing national investment by at least 4-6 percent of GDP, or about $300 billion annually at current prices. Most of the expansion must come from the private sector.

5. This increase in investment should be financed domestically. The United States is already the world's largest debtor country and cannot prudently continue to depend on foreign capital.

6. The national saving rate will have to rise by 5-7 percent to fund both the targeted increase in national investment (4-6 percent) and (about 1 percent). This would restore it to the level that prevailed prior to 1973.

The central thrust of our recommendations is a sharp increase in private investment and a cutback in the growth of consumption, especially by the public sector. There is considerable overlap between the Council's recommendations and President Clinton's proposals in A Vision of Change for America. In some cases, the Council's recommendation go beyond the President's program--especially in encouraging private investment, export expansion and education reform.

Education

The Council believes that the key to improving American education is the establishment of rigorous content and performance standards along the lines of the National Education Goals. Educators and technical experts must develop assessments that are based on these new standards. Schools and districts as a whole must be held accountable for the progress their students make in achieving them. We must change expectations from minimum competency to high achievement for both college and work-bound students. Our K-12 students must become productive workers instead of entitled consumers.

None of these steps will succeed if students do not assume responsibility for their own learning. Working hard and achieving in school must "count" for students, whether they go to college or enter the labor force immediately. We must therefore give students a stake in high performance through the following steps:

- External assessments, phased in over a 10-12 year period, should be given to high school students with the results serving as a major factor in their qualifying for college and for better jobs at better wages;

- Colleges and universities should raise their admissions standards, over a similar 10-12 year period, to reinforce the shift to higher standards in elementary and high schools;

- The federal and state governments should condition their assistance to higher education on evidence that colleges and universities are raising their admission standards, and they should offer more favorable financial aid terms to students who meet high standards;

- No student who meets high standards should be denied the opportunity for higher education for financial reasons;

- Employers should be encouraged to review school records --including course grades, conduct, and teacher recommendations--in choosing among job applicants. A new uniform transcript, jointly designed by employers and schools, should be developed.

Training

Our Training Subcouncil made recommendations in four major dimensions associated with training. The first is continuous worker retraining, or "lifetime learning," which could be achieved through requiring firms to invest 1.5 percent of payroll in training ("play or pay"), federal grants or training tax credits.

The second dimension is the school-to-work transition. Our Subcouncil recommends continued experimentation with different types of school-to-work transition programs: apprenticeship programs, compacts, cooperative education, and career academies. The federal government should finance pilot programs of public-private cooperation, create a national youth service corps as already proposed by President Clinton, and earmark a portion of public works funds for youth apprenticeship programs. Most importantly, as with education, the federal government should insist that agreed skill standards provide the foundation for all these efforts. Secretaries Reich and Riley have already called for a similar strategy. President Clinton's plan calls for $1.2 billion over four years.

Third, the United States needs a comprehensive program to ease the adjustment process for all workers dislocated by technological change, defense conversion, increased international trade flows and other sources of structural change. Such a program should combine various aspects of existing programs with benefits that include job search assistance, skills assessment, counseling, referral services, adequate income support, payments for retraining programs and extended income and benefit payments through the training period. The Clinton program calls for $4.6 billion to develop this type of program.

Finally, we need to better coordinate various worker training programs at the local, state, and national levels in order to better serve our training needs. A body of experts should be brought together to standardize the myriad of current retraining programs. Within one year, the group should submit specific recommendations for eliminating duplication among the 125 federal employment and training programs currently spread across 14 federal agencies.

Technology

A major problem facing American competitiveness is the lag of American firms in converting technological advances into a competitive advantage in the marketplace--the "commercialization" of technology. The Council recommends:

1. Private sector R&D should be stimulated and expanded by implementation of a permanent, incremental Innovation and Commercialization Tax Credit (ICTC) to cover R&D on process improvements as well as product development. President Clinton has called for a similar Research and Experimentation Tax Credit. The Council recommends an additional 25 percent credit for industry-sponsored university research and, to help overcome corporate reluctance to test traditional antitrust tenets, an additional 10 percent credit for participation in the first two years of new R&D consortia registered under the Cooperative Research Act of 1984.

2. The government should use defense spending reductions to reorient its own R&D spending from purely military to civilian and dual use R&D. Defense research and exploratory development should be kept strong but the new R&D budget should also emphasize generic technologies.

3. Some of these funds should be used to expand federal support for cooperative projects in areas of strong industry-government mutual interest. Specific steps include:

    - Encouraging ARPA and the military services to actively promote dual use technologies;

    - Expanding the Advanced Technology Program in the Department of Commerce to an annual program level of about $750 million. President Clinton's plan calls for an increase of $138 million in FY 1994, rising to $680 million by FY 1997;

    - Allocating 10-20 percent of the resources of the multi-program labs operated by the Department of Energy, of the NASA labs, and of selected DOD labs to jointly planned and jointly funded industry/government R&D on the basis of model Cooperative Research and Development Agreements (CRADAs) with private firms; a similar initiative is outlined in President Clinton's plan;

    - Modifying Federal procurement rules to make the federal government a better consumer of leading edge technologies;

    - Authorizing ARPA, the Department of Commerce, the National Institutes of Health and perhaps others to participate directly in the commercialization of technologies they have supported.

Trade Policy

The Council recommends six major initiatives in this area.

1. The new Administration should place high priority on developing a global growth strategy with our G-7 partners, especially Japan and Germany.

2. We must aim to maintain equilibrium exchange rates. The United States should therefore seek agreement in the G-7 on a credible system of reference ranges as maintained during 1987-88.

3. The United States must push hard--through multilateral, regional and bilateral negotiations--to open foreign markets to American products. It is essential to bring the Uruguay Round to a successful conclusion. To preserve the full benefit of a NAFTA agreement, it will have to contain strong provisions protecting the environment, labor adjustment and worker rights. Bilateral talks are especially important with Japan, and the Structural Impediments Initiative should be revised and reinvigorated.

4. We recommend a sharp increase in the quality and quantity of US export credit programs. The annual program level of the Export-Import Bank should be increased to $20 billion.

5. US export promotion efforts should be sharply increased, focused and improved. Working within the framework of the new National Economic Council, the Trade Promotion Coordinating Committee should streamline the 150 current export promotion programs scattered across ten different agencies. A single budget function for export support, including export finance, should be created and funding for export promotion should be doubled over the next five years.

6. A major effort is needed to eliminate, or at least sharply limit, our own export disincentives that block billions of dollars of foreign sales by American companies.

Manufacturing

There are three specific policy measures that should be adopted to promote new investment, especially in manufacturing:

1. Establishment of an incremental and permanent Equipment Tax Credit (ETC). By limiting its coverage to equipment, and excluding plant and real estate investment, the credit can generate much higher payoff per dollar of tax expenditure. President Clinton has proposed a similar incremental tax credit for all businesses on a temporary basis, and for small businesses on a permanent basis.

2. The government should authorize industry consortia for joint production as well as research.

3. The tax code should be modified to permit firms to depreciate manufacturing process equipment, newly installed after the adoption of this policy, at a rate such that the "tax life" of the equipment would be equal to its "competitive life."

Public Infrastructure

Our Subcouncil on Public Infrastructure identified several components of the nation's transportation system that require particular attention:

1. Immediate full funding of the spending levels authorized in 1991 by Intermodal Surface Transportation Efficiency Act (ISTEA), an increase of about $4 billion over FY 1993. The Clinton program calls for

almost $3 billion in additional spending in FY 1993 and $2.6 billion above baseline spending in FY 1994.

2. The nation's air traffic control system needs basic reform. The Clinton program calls for $720 million over four years.

3. Continue funding for emerging transportation technologies – including intelligent vehicle and highway systems, high speed rail, and magnetic levitation trains – at their ISTEA levels. This is consistent with the Clinton program.

4. Extend the live of our existing national roads and bridges and increase the life expectancy of all new construction.

5. Over and above ISTEA's authorized levels, aim to raise the current level of infrastructure spending by up to $12.5 billion. This increase would includes $1 billion for intermodal improvements; $1 billion for bridges; $1.5 billion to stop endlessly deferring maintenance on our public transit systems; and $9 billion for necessary capacity expansions and pavement repairs on the National Highway System.

6. The Federal Government should establish a capital budget to help rationalize the government's investment process by distinguishing clearly between current and capital expenditures.

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Congresswoman
ELEANOR HOLMES NORTON
District of Columbia
NEWS

FOR IMMEDIATE RELEASE
FEBRUARY 24, 1993

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NORTON TO CHAIR TWO HOUSE SUBCOMMITTEES

Washington, D.C.---Congresswoman Eleanor Holmes Norton was selected today to chair the Judiciary and Education Subcommittee of the House Committee on the District of Columbia, marking the second subcommittee she will chair this session in the House of Representatives. She won the chairmanship of the Post Office and Civil Service Subcommittee on Compensation and Employee Benefits earlier this month, and is believed to be the only two-term House member to chair two subcommittees at this time.

Congresswoman Norton said she expects some of the District's most important legislation to come through the Subcommittee on Judiciary and Education this year, and that therefore its jurisdiction is even broader than the name suggests. Ms. Norton, a tenured professor of law at Georgetown University, said that she wanted to chair the Judiciary and Education Subcommittee both because "law enforcement and education issues are of paramount importance to the District and because this subcommittee fits my background as a lawyer and an educator so well."

Congresswoman Norton's chairmanship of the Compensation and Employee Benefits Subcommittee puts her at the center of one of the most important elements of President Clinton's budget package. The President has recommended a one-year pay freeze for all federal employees and several other controversial program savings that affect the wage package of federal employees. The Congresswoman is planning two hearings in early March on the President's economic plan as it affects federal workers, including a field hearing to hear from federal employees who are District residents.

Congresswoman Norton commented: "When I came to Congress last session, I certainly did not expect to get two subcommittee chairmanships so soon, much less chairmanships of such vital importance to the District. I am very pleased to have posts of this quality, because they invest me with new instruments to get more of the benefits and the respect that District residents deserve."

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Congresswoman

ELEANOR HOLMES NORTON

District of Columbia

NEWS

<u>FOR IMMEDIATE RELEASE</u>
FEBRUARY 25, 1993

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NORTON TO HOLD TWO HEARINGS ON CLINTON ECONOMIC PLAN AND THE FEDERAL WORKFORCE

Washington, D.C.---Congresswoman Eleanor Holmes Norton, chair of the House Post Office and Civil Service Subcommittee on Compensation and Employee Benefits, announced today that she will hold a hearing next week and another the week after to examine President Clinton's proposals for federal workers.

The first will be an evening field hearing to hear directly from federal workers who live in the District of Columbia and from union representatives, while the second will be held on the Hill, to hear from the responsible federal government agencies.

The purpose of the field hearing to be held next Wednesday, March 3, 1993, from 4 p.m. to 9 p.m. in the Department of Labor auditorium, is to get the views of federal workers on the President's proposed one-year pay freeze and other wage reductions, as well as their ideas on how federal workers should contribute to deficit reduction. The Congresswoman particularly wants to hear from federal workers who live in the District of Columbia at the field hearing.

"The country too often sees federal workers as faceless, high-paid bureaucrats shuffling needless paper rather than people who hold jobs exactly like the ones other Americans hold in the private sector," said Congresswoman Norton. "As we seek a contribution from federal workers for deficit reduction, I think it is important that we hear from them before we go forward on a plan that so directly affects their own plans and pocketbooks."

The second hearing, scheduled for Wednesday, March 10, 1993, at 10:00 a.m. will be held in Room 311 of the Cannon House Office Building. The purpose of this hearing is to invite testimony from representatives of several federal government agencies, including the Office of Management and Budget, the Office of Personnel Management, the Congressional Budget Office and the General Accounting Office. Representatives from these agencies will be asked to discuss in detail what is being asked of federal workers in President Clinton's budget package, and why.

A two-term member of the House Committee on Post Office and Civil Service, Congresswoman Norton chairs the subcommittee which has jurisdiction over the pay, retirement and benefits of the approximately 62,000 federal workers who live and work in the District of Columbia and the 3 million federal employees in the country.

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