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A New Direction, February 23, 1993 [report]

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A NEW DIRECTION

The President's Address to
the U.S. Chamber of Commerce
at the
National Business Action Rally

February 23, 1993

A New Direction

When our Founders boldly declared America's independence to the world and our purposes to the Almighty, they knew that America to endure would have to change; not change for change sake, but change to preserve America's ideals: life, liberty, the pursuit of happiness.

Bill Clinton
Inaugural Address
January 20, 1993

Throughout our history, at every critical moment, Americans have summoned the courage to change, to adapt our nation's policies and institutions to address new problems in a changing world. Today we must once again find the courage to change. We must shift our energies from the Cold War priorities of the past to the economic priorities of the future. And we must reverse the distorted trends of the last twelve years—slow growth, stagnant family incomes, growing inequality, an increase in poverty among children, soaring health care costs, and rising fiscal deficits as far as the eye can see.

It is not enough simply to stay the course. We must change our course. In the words of Abraham Lincoln, "We must think anew and act anew . . . and then we shall save our country."

Americans have an underlying vision that has sustained us through previous challenges and that will sustain us through the challenges we now confront. It is a vision of economic and political freedom, of the rewards of hard work and initiative, of a fundamental sense of fairness, of the family and the community as the foundations of our strength, and of every generation's obligation to create a better life for the one that follows.

In recent years, our leaders lost sight of this vision. They embraced trickle-down policies that benefitted the wealthy at the expense of the middle class and the working poor. We have deluded ourselves that somehow economic growth and fairness are at odds, when in fact they go hand in hand. While the privileged few have prospered, millions of Americans who worked hard and played by the rules have been left behind.

Our family structures have weakened, often as a result of economic adversity and government negligence. Greed and financial scheming have eclipsed the virtues of hard work and sacrifice for the common good. Debt has soared as individuals, businesses, and governments have lived beyond their means. Our commitment to invest in the future and to bequeath a promising future to our children has somehow fallen by the wayside.

In this report, we share our economic vision for America. We attempt, candidly and forthrightly, to explain the challenges that face us. For too long, bland pronouncements and fiscal gimmicks have obscured harsh economic realities. We offer, instead, a detailed plan that can, if we work together, transform our vision and values into reality.

First, we seek an America that can provide rising living standards for all of its citizens. To achieve this, we must fundamentally shift our spending priorities away from consumption to investment. Investment is the key to a growing economy that produces good jobs and high-quality goods and services for ourselves and for the international marketplace. We must invest more in our people, our plant and equipment, our infrastructure, and our research and development if we are to restore the American dream for our children.

Second, we seek an America that provides opportunities for all who want to work hard and play by the rules and that offers assistance to those who want jobs but cannot find them. We seek meaningful opportunities for all Americans—not just for a privileged few. We must give all of our people a chance to acquire the skills they need to succeed, understanding that in today's world, education is a lifelong process. We must support parents in their efforts to balance the demands of work with the needs of their children. And we must commit to fundamental change in our health care system, to control skyrocketing costs and provide security for every individual and family.

Third, we seek an America that fosters a spirit of responsibility and service to community among its citizens. People must feel responsible not only for improving their own lives, but also for helping those in need. We must reject the idea that the individual stands in opposition to the community and embrace the idea that we are all members of the same community. There is no *them*; there is only *us*.

Fourth, we seek an America in which the government is viewed not as the enemy of prosperity but as a partner with the private sector working to foster growth. Only a government that works can ensure that view. Government must be accessible to those it serves and to those who pay its bills. It must be responsive to their concerns. It must be run efficiently and well with respect for the tax dollars on which it depends. It must be financed by a fair tax system that rewards work and requires a fair share from those most able to pay. And it must pay its way and live within its means.

Fifth, we seek an America that recognizes the importance of the environment to the quality of our life, rejecting false choices between economic prosperity and environmental quality. We must demand both for our future, not sacrifice one for the other.

Sixth, we seek an America that is prosperous and confident enough to continue its role as a world leader. The nations of the world look to us to strengthen the international trading system, to preserve the global environment, to nurture the growth of democracy, and to maintain global peace and security. Whether we will continue to shoulder these global responsibilities depends on whether we successfully overcome the economic problems we face at home. If we fail, America, like other global powers that preceded it, will ultimately be defeated not by external power but by internal weakness.

Productive jobs and rising standards of living; opportunity and fairness for all Americans; responsibility and community; a government that works and that continues to meet its global commitments. That is our vision. To achieve it, we must change our course.

HIGHLIGHTS OF THE PRESIDENT'S ECONOMIC PROGRAM

The President's economic program is a three-part plan for restoring the nation's economy, and raising the present and future incomes and living standards of America's families. It has three primary components: a stimulus program to strengthen the current recovery and provide for immediate job growth; a program of targeted investments in our people, infrastructure, technology, and equipment to lay the foundation for long-term economic growth; and a serious, balanced, and fair deficit-reduction plan that will reduce the drain on private investment that is critical to long-term growth and higher living standards.

ECONOMIC STIMULUS

- The President is proposing a $30 billion stimulus package to strengthen and prolong the economic recovery. The focus of the stimulus package is on creating jobs by placing a down payment in the current fiscal year on the long-term investments that will create greater economic growth in the future.

LONG-TERM PUBLIC INVESTMENTS IN ECONOMIC GROWTH AND JOBS

- The President is proposing a four-year $160 billion investment plan focusing on rebuilding America through investments in infrastructure, energy and the environment, and housing; improving education and encouraging job training to enhance the current and future productivity of our people; rewarding work by taking working families out of poverty; improving health care and research; and providing incentives to the nation's businesses to invest in technology and improved productivity of people, plants and equipment.

LONG-TERM DEFICIT REDUCTION

- The President is proposing the largest deficit reduction package in U.S. history - almost $500 billion over four years and over $700 billion over five years. The proposal seeks to reduce spending by eliminating spending in programs that do not work or are no longer needed, eliminating unfair or unnecessary subsidies, reforming programs for better management of taxpayers' dollars, controlling health care costs without harming program beneficiaries, and making substantial overall reductions in agency expenses and reducing the size of the Federal bureaucracy. In addition, the plan provides for additional revenues, primarily by ensuring that the wealthy and corporations pay their fair share.

- **The plan reduces the deficit as a percent of GDP from 5.4% of GDP in fiscal year 1993 to 2.7% of GDP in fiscal year 1997.**

STIMULUS

To sustain and strengthen the recovery and create additional jobs now, the President has proposed an economic stimulus plan totalling $30 billion to be passed by the Congress on an expedited schedule.

- This plan will produce over 500,000 full and part-year jobs through investments in highways, summer youth employment, community development, natural resource protection, summer Head Start, the WIC program, youth employment, veterans facility upgrading and energy conservation.

- Following are some major components of the stimulus proposal:

  - $3.0 billion in highway investments
  - $2.5 billion in Community Development Block Grants
  - $845 million in wastewater clean-up initiatives
  - $1.0 billion in summer youth employment and training
  - a temporary incremental investment tax credit

- The spending portion of the stimulus package will be within the overall discretionary spending totals for fiscal year 1993 agreed to in the 1990 Budget Agreement.

LONG-TERM INVESTMENTS

The long-term investments proposed by the President address the investment deficit -- both public and private -- that has shortchanged our children, workers, businesses, and communities. They are targeted to areas that have been starved for resources yet are critical to long-term economic growth and rising standards of living. Following are highlights of the additional investments proposed through fiscal year 1997:

REBUILD AMERICA - $18.6 billion by FY 97, $48 billion over four years, for initiatives to restore the nation's infrastructure, environment, housing stock, and technology base.

- Transportation - $3.0 billion in FY 97, $8.4 billion over four years; full funding of 1991 highway bill; investments in mass transit, high speed rail, airport improvements

- Technology - $6.1 billion in FY 97, $17.0 billion over four years; National Science Foundation, science, engineering and technology grants, high performance computing, extension of the research and development tax credit

- Environment - $3.5 billion in FY 97, $8.0 billion over four years; $4.5 billion for clean water and increases for environmental technology, weatherization grants, forestry research, and natural resource protection

- Energy - over $1.3 billion in FY 97, $3.0 billion over four years; energy conservation and renewable energy programs, fusion research and more energy efficient Federal buildings.

- Housing and Community Development - $3.1 billion in FY 97, $9.6 billion over four years; Community Development Block Grants, enterprise zones, assisted housing, extension of low-income housing tax credit

- Rural Development - $620 million in FY 97, $1.5 billion over four years; rural water and waste loans and grants, community and business development for rural areas

LIFELONG LEARNING - $15.7 billion in FY 97, $37.8 Billion over four years for programs to educate and train our people from early childhood through adulthood. Included are defense conversion measures. The following increases are for fiscal year 1997:

- National Service - $3.0 billion
- WIC: full funding by 1996 - $984 million
- Head Start: full funding by fiscal year 1999 - $3.7 billion
- Education reform and initiatives - $3.2 billion
- Worker training - $4.1 billion
- Youth Apprenticeship - $500 million
- Parenting and Family Support - $495 million

(MORE)

INVESTMENTS
2-2-2-2

REWARDING WORK - $7.5 billion in FY 97, $25 billion over four years to remove disincentives for work, protect those who are temporarily unemployed and secure safer communities.

- Expand Earned Income Tax Credit - $6.6 billion
- Extension of Unemployment Compensation
- Crime initiative - $837 million

HEALTH CARE - $9.4 billion in FY 97. $26 billion over four years for improving public health programs to help families and make our workers more productive, including:

- AIDS, women's health, and other public health initiatives - $3.4 billion
- AIDS - Ryan White Act full funding - $394 million
- Drug and substance abuse prevention and treatment - $800 million
- Nutrition assistance and USDA food safety initiative - $102 million
- Improving Social Security disability insurance processing -$200 million
- VA Medical Care - $800 million

PRIVATE SECTOR INCENTIVES. $3.0 billion in FY 97, $24 billion over four years in carefully targeted incentives and initiatives to encourage investments that provide technological gains and improved productivity of plants, equipment, and people, including:

- targeted capital gains provision
- alternative minimum tax relief for corporations
- permanent small business investment tax credit

DEFICIT REDUCTION

It is critical that we reduce long-term budget deficits in order to make room for greater private investment in the economy. This economic plan proposes the largest deficit reduction effort in U.S. history - larger than the 1990 Budget Agreement.

- The four year deficit reduction plan totals $496 billion

- In FY 1997 the deficit is reduced by $140 billion

- Federal spending is cut by $253 billion over four years, including:
  - Defense savings of $76 billion
  - Non-defense discretionary spending cuts of $54 billion
  - Entitlement reductions of $91 billion

o Revenues are increased by $242 billion over four years

A. Programs That Don't Work or Are No Longer Needed. Making government work for the next century means ending funding in programs that don't work and updating policies and programs that were designed to meet the needs of an earlier era. Savings here include:

- Consolidating overseas broadcasting programs
- Terminating obsolete commissions
- Terminating State Justice Institute

B. Eliminating Subsidies and Wasteful Programs, Charging Fees for Government Services. The nation can no longer afford subsidies and giveaways to those who don't need them, and we must assure that the taxpayer is fairly compensated for services or resources provided by government. Savings here include:

- Auctioning spectrum for new communications services to end windfalls
- Reducing export promotion support for large companies
- New or increased user fees for SEC registration and grain inspection
- Extending fees for DOE environmental clean-up costs to foreign customers

C. Managing Government for Cost-Effectiveness and Results. Making our government more effective and efficient means abandoning structures and practices that impede flexibility, waste resources, and frustrate service delivery. Savings here include:

- White House and government-wide administrative and employee reductions
- Streamlining USDA offices
- Strengthening child support enforcement mechanisms
- Phasing out Impact Aid "b" payments

(MORE)

D. Controlling Health Care Costs. Systemwide reform is a top priority, but some additional short-term savings proposals which do not harm beneficiaries are necessary as a down-payment on controlling health care costs. Savings here include:

• Setting laboratory and durable medical equipment rates at market levels
• Capping excessive physician and hospital reimbursement

E. Shared Contribution. For deficit reduction to succeed, all groups must contribute. Only if there is a sharing of the load can the entire country be sure that everyone is participating. Savings here include:

• Taxing more of Social Security benefits for upper-income recipients, affecting 22% of beneficiaries
• Ending lump-sum benefits for Federal retirees

HIGHLIGHTS OF THE PLAN

(In billions of dollars)

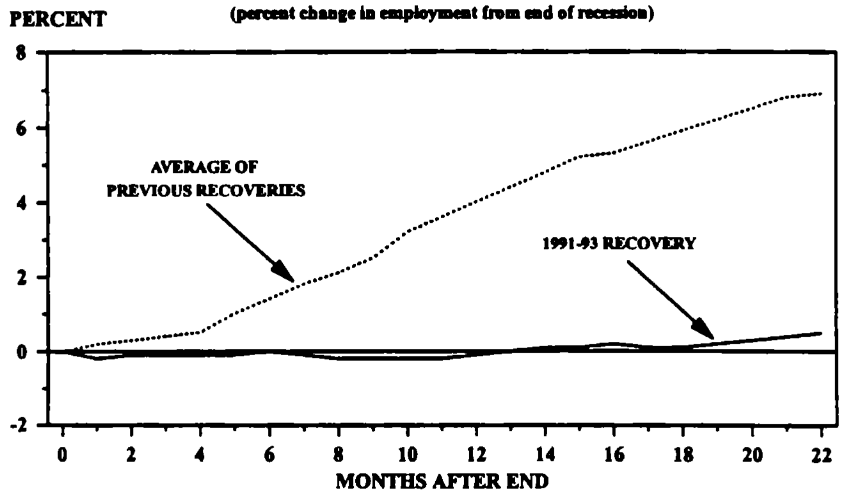
	1993	1994	1995	1996	1997	1998	1994–1997 Total	1994–1998 Total
Baseline Deficit	**319**	**301**	**296**	**297**	**346**	**390**	**1,241**	**1,630**
Spending Changes:								
Defense Discretionary	....	-7	-12	-20	-37	-36	-76	-112
Nondefense discretionary	1	-4	-10	-15	-20	-23	-50	-73
Entitlements	-*	-6	-12	-24	-34	-39	-76	-115
Social Security	....	-3	-6	-6	-7	-8	-21	-29
Subtotal	*	-20	-40	-65	-98	-106	-223	-329
Debt Service	*	-*	-3	-7	-14	-22	-24	-46
Total spending cuts (-)	1	-20	-43	-73	-112	-128	-247	-375
Revenue increases (-)	-3	-46	-51	-66	-83	-82	-246	-328
Gross deficit reduction	-2	-66	-93	-139	-195	-210	-493	-704
Stimulus and Investment:								
Stimulus outlays	8	6	2	1	*	*	9	9
Investment outlays	....	9	20	32	39	45	100	144
Tax incentives	6	13	17	15	15	17	60	77
Total stimulus and investment	15	27	39	47	55	62	169	231
Total Deficit Reduction	13	-39	-54	-92	-140	-148	-325	-473
Resulting Deficit	332	262	242	205	206	241	916	1,157
Deficit as a percent of GDP	5.4%	4.0%	3.5%	2.9%	2.7%	3.1%	3.3%	3.2%

* $500 million or less.

NONFARM PAYROLL EMPLOYMENT IN POST-WWII RECOVERIES

The current recovery has not produced the growth in employment that characterized previous recoveries.

(percent change in employment from end of recession)

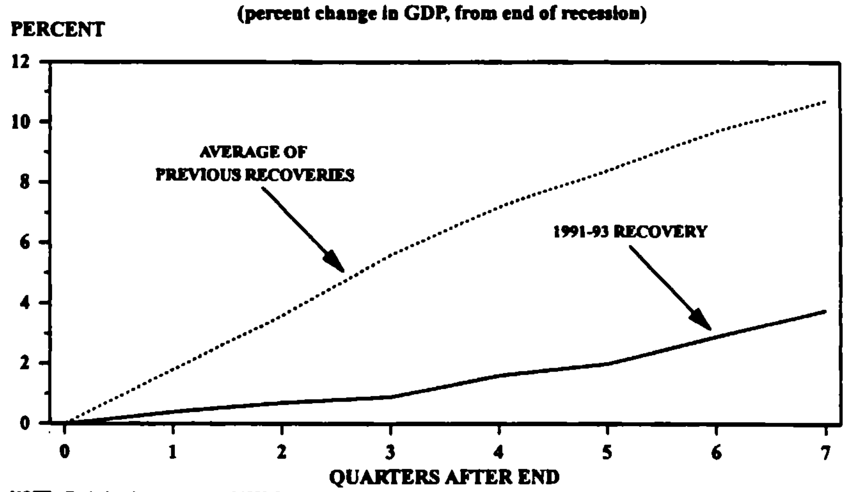


NOTE: Excludes short recovery of 1980-81.
SOURCE: Department of Labor

GROWTH OF GROSS DOMESTIC PRODUCT IN POST-WWII RECOVERIES

Output in 1991-93 has grown much more slowly than in a typical recovery.

(percent change in GDP, from end of recession)



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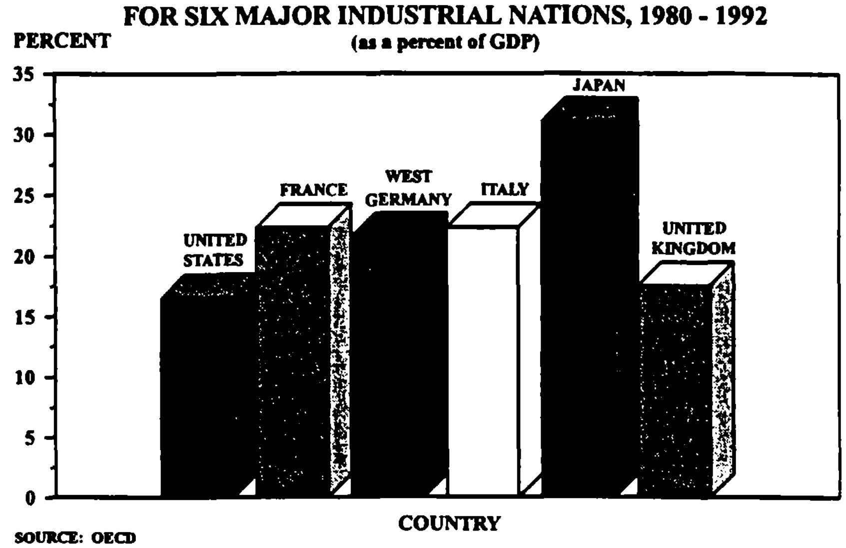
SOURCE: Department of Labor

FIXED PRIVATE INVESTMENT AS A PERCENT OF GDP FOR SIX MAJOR INDUSTRIAL NATIONS, 1980 - 1992

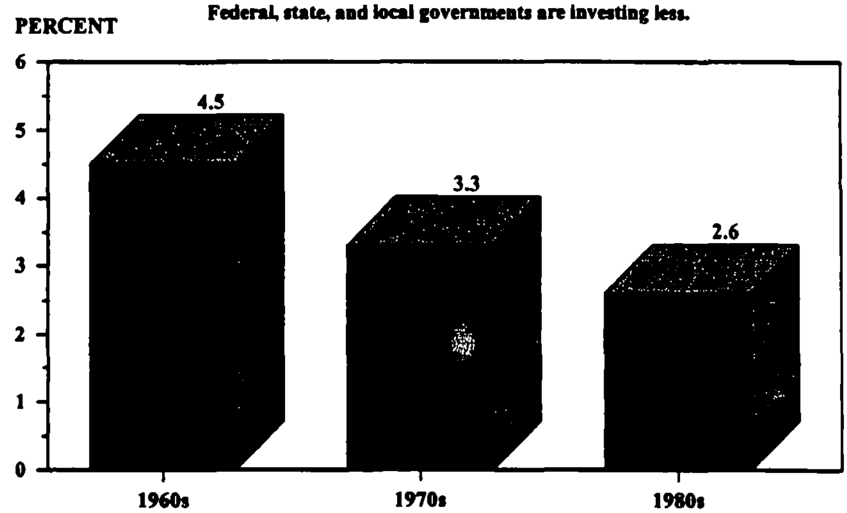
(as a percent of GDP)



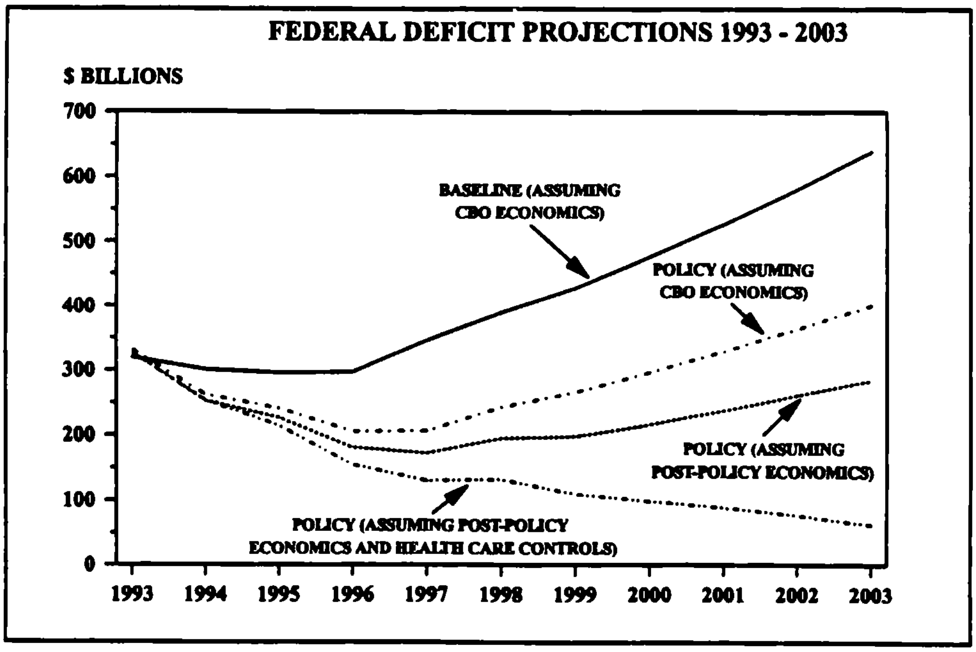
SOURCE: OECD

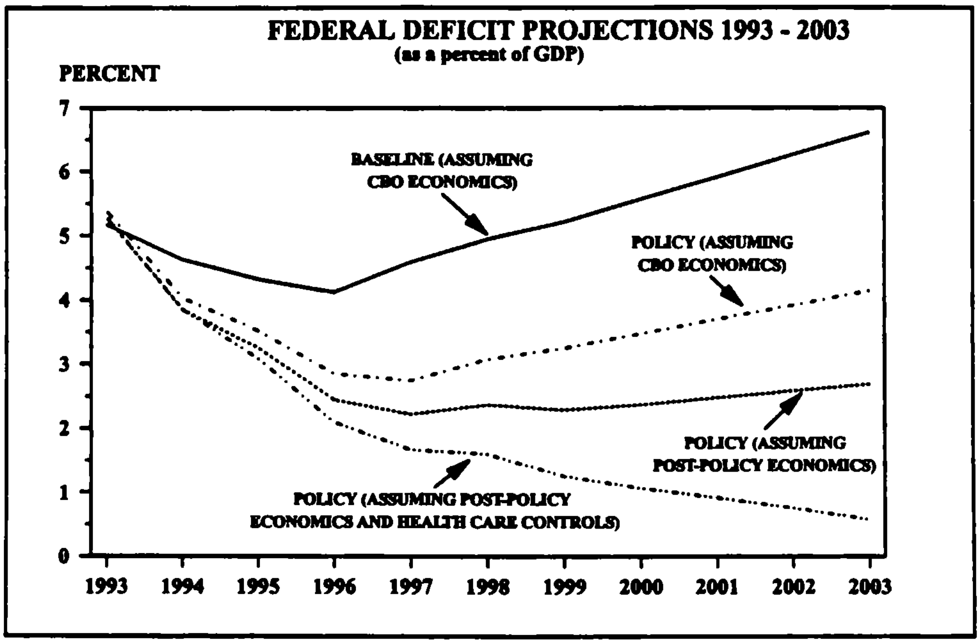
PUBLIC INVESTMENT AS A PERCENT OF GDP

Federal, state, and local governments are investing less.



NOTE: Defined to be fixed non-residential government capital and federal outlays for R & D.
SOURCE: Department of Commerce


FEDERAL DEFICIT PROJECTIONS 1993 - 2003
$ BILLIONS
700
600
500
400
300
200
100
0
BASELINE (ASSUMING CBO ECONOMICS)
POLICY (ASSUMING CBO ECONOMICS)
POLICY (ASSUMING POST-POLICY ECONOMICS)
POLICY (ASSUMING POST-POLICY ECONOMICS AND HEALTH CARE CONTROLS)
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003


FEDERAL DEFICIT PROJECTIONS 1993 - 2003
(as a percent of GDP)
PERCENT
7
6
5
4
3
2
1
0
BASELINE (ASSUMING CBO ECONOMICS)
POLICY (ASSUMING CBO ECONOMICS)
POLICY (ASSUMING POST-POLICY ECONOMICS)
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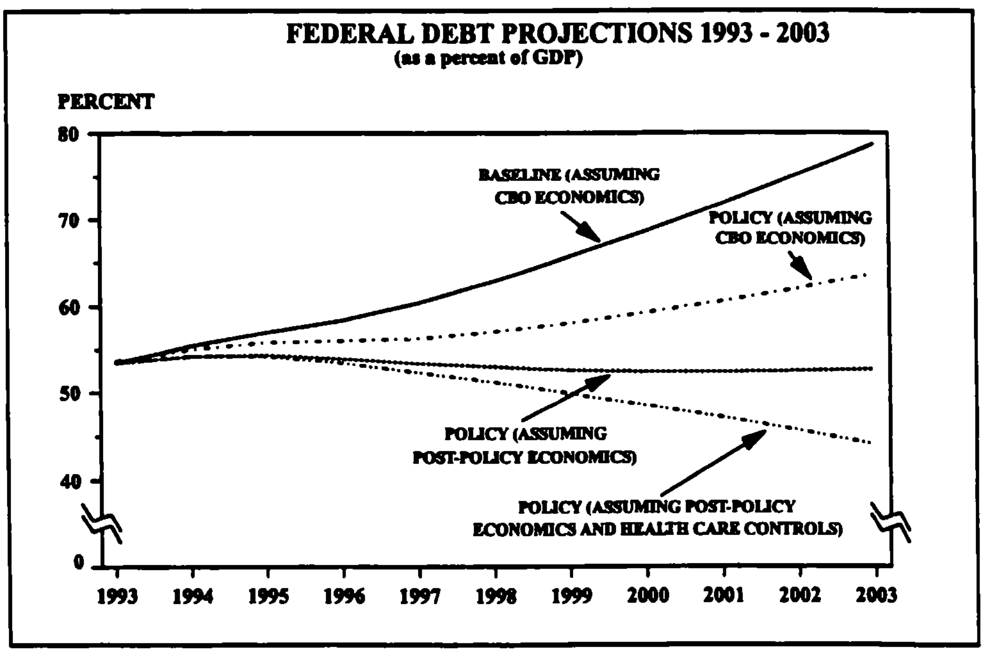
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003


FEDERAL DEBT PROJECTIONS 1993 - 2003
(as a percent of GDP)
PERCENT
80
70
60
50
40
0
BASELINE (ASSUMING CBO ECONOMICS)
POLICY (ASSUMING CBO ECONOMICS)
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(MORE)

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2-2-2-2

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- Improving Social Security disability insurance processing -$200 million
- VA Medical Care - $800 million

PRIVATE SECTOR INCENTIVES. $3.0 billion in FY 97, $24 billion over four years in carefully targeted incentives and initiatives to encourage investments that provide technological gains and improved productivity of plants, equipment, and people, including:

- targeted capital gains provision
- alternative minimum tax relief for corporations
- permanent small business investment tax credit

DEFICIT REDUCTION

It is critical that we reduce long-term budget deficits in order to make room for greater private investment in the economy. This economic plan proposes the largest deficit reduction effort in U.S. history - larger than the 1990 Budget Agreement.

- The four year deficit reduction plan totals $496 billion

- In FY 1997 the deficit is reduced by $140 billion

- Federal spending is cut by $253 billion over four years, including:
    - Defense savings of $76 billion
    - Non-defense discretionary spending cuts of $54 billion
    - Entitlement reductions of $91 billion

o Revenues are increased by $242 billion over four years

A. Programs That Don't Work or Are No Longer Needed. Making government work for the next century means ending funding in programs that don't work and updating policies and programs that were designed to meet the needs of an earlier era. Savings here include:

- Consolidating overseas broadcasting programs
- Terminating obsolete commissions
- Terminating State Justice Institute

B. Eliminating Subsidies and Wasteful Programs, Charging Fees for Government Services. The nation can no longer afford subsidies and giveaways to those who don't need them, and we must assure that the taxpayer is fairly compensated for services or resources provided by government. Savings here include:

- Auctioning spectrum for new communications services to end windfalls
- Reducing export promotion support for large companies
- New or increased user fees for SEC registration and grain inspection
- Extending fees for DOE environmental clean-up costs to foreign customers

C. Managing Government for Cost-Effectiveness and Results. Making our government more effective and efficient means abandoning structures and practices that impede flexibility, waste resources, and frustrate service delivery. Savings here include:

- White House and government-wide administrative and employee reductions
- Streamlining USDA offices
- Strengthening child support enforcement mechanisms
- Phasing out Impact Aid "b" payments

(MORE)

D. Controlling Health Care Costs. Systemwide reform is a top priority, but some additional short-term savings proposals which do not harm beneficiaries are necessary as a down-payment on controlling health care costs. Savings here include:

• Setting laboratory and durable medical equipment rates at market levels
• Capping excessive physician and hospital reimbursement

E. Shared Contribution. For deficit reduction to succeed, all groups must contribute. Only if there is a sharing of the load can the entire country be sure that everyone is participating. Savings here include:

• Taxing more of Social Security benefits for upper-income recipients, affecting 22% of beneficiaries
• Ending lump-sum benefits for Federal retirees

HIGHLIGHTS OF THE PLAN

(In billions of dollars)

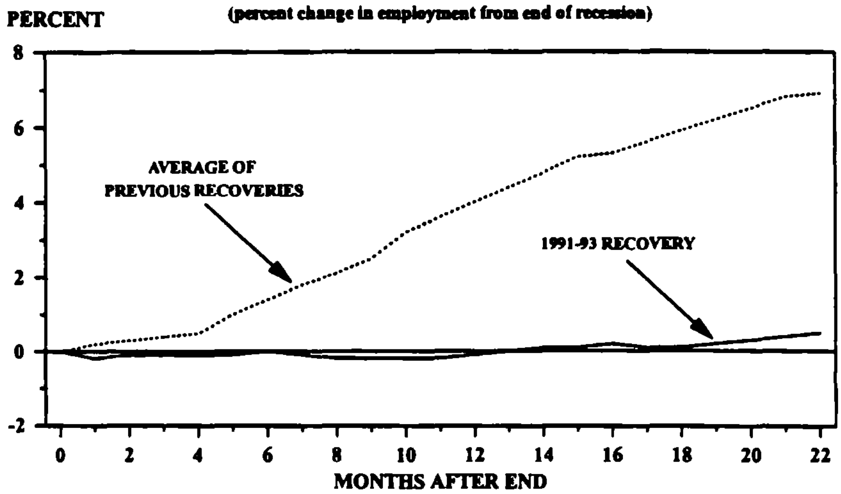
	1993	1994	1995	1996	1997	1998	1994–1997 Total	1994–1998 Total
Baseline Deficit	**319**	**301**	**296**	**297**	**346**	**390**	**1,241**	**1,630**
Spending Changes:								
Defense Discretionary	....	-7	-12	-20	-37	-36	-76	-112
Nondefense discretionary	1	-4	-10	-15	-20	-23	-50	-73
Entitlements	-*	-6	-12	-24	-34	-39	-76	-115
Social Security	....	-3	-6	-6	-7	-8	-21	-29
Subtotal	*	-20	-40	-65	-98	-106	-223	-329
Debt Service	*	-*	-3	-7	-14	-22	-24	-46
Total spending cuts (-)	1	-20	-43	-73	-112	-128	-247	-375
Revenue increases (-)	-3	-46	-51	-66	-83	-82	-246	-328
Gross deficit reduction	-2	-66	-93	-139	-195	-210	-493	-704
Stimulus and investment:								
Stimulus outlays	8	6	2	1	*	*	9	9
Investment outlays	....	9	20	32	39	45	100	144
Tax incentives	6	13	17	15	15	17	60	77
Total stimulus and investment	15	27	39	47	55	62	169	231
Total Deficit Reduction	13	-39	-54	-92	-140	-148	-325	-473
Resulting Deficit	332	262	242	205	206	241	916	1,157
Deficit as a percent of GDP	5.4%	4.0%	3.5%	2.9%	2.7%	3.1%	3.3%	3.2%

* $500 million or less.

NONFARM PAYROLL EMPLOYMENT IN POST-WWII RECOVERIES

The current recovery has not produced the growth in employment that characterized previous recoveries.

(percent change in employment from end of recession)

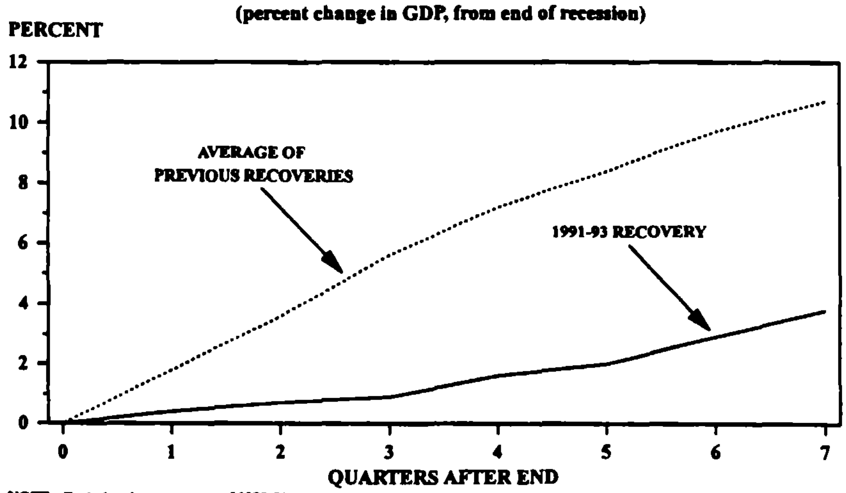


NOTE: Excludes short recovery of 1980-81.
SOURCE: Department of Labor

GROWTH OF GROSS DOMESTIC PRODUCT IN POST-WWII RECOVERIES

Output in 1991-93 has grown much more slowly than in a typical recovery.

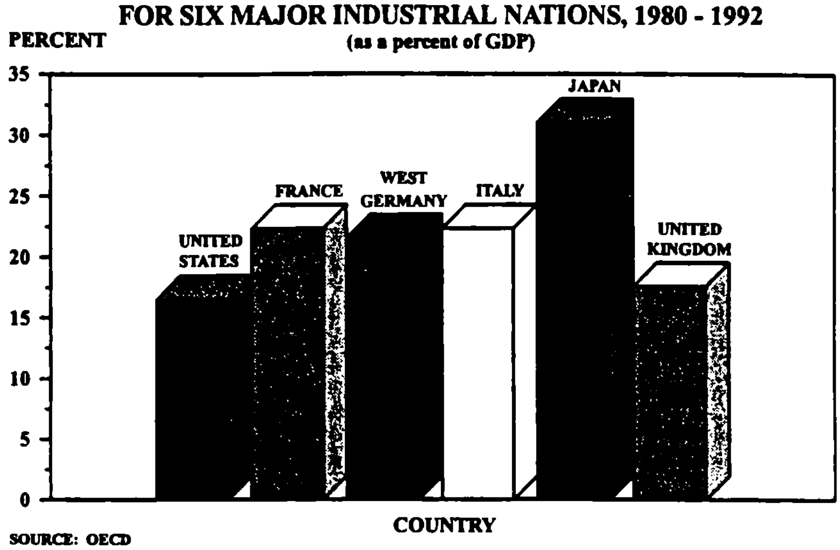
(percent change in GDP, from end of recession)



NOTE: Excludes short recovery of 1980-81.
SOURCE: Department of Labor

FIXED PRIVATE INVESTMENT AS A PERCENT OF GDP FOR SIX MAJOR INDUSTRIAL NATIONS, 1980 - 1992

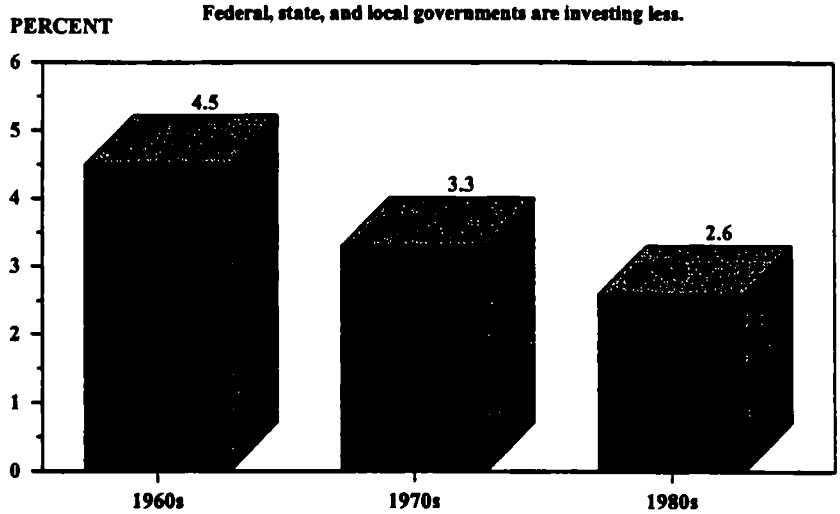
(as a percent of GDP)



SOURCE: OECD

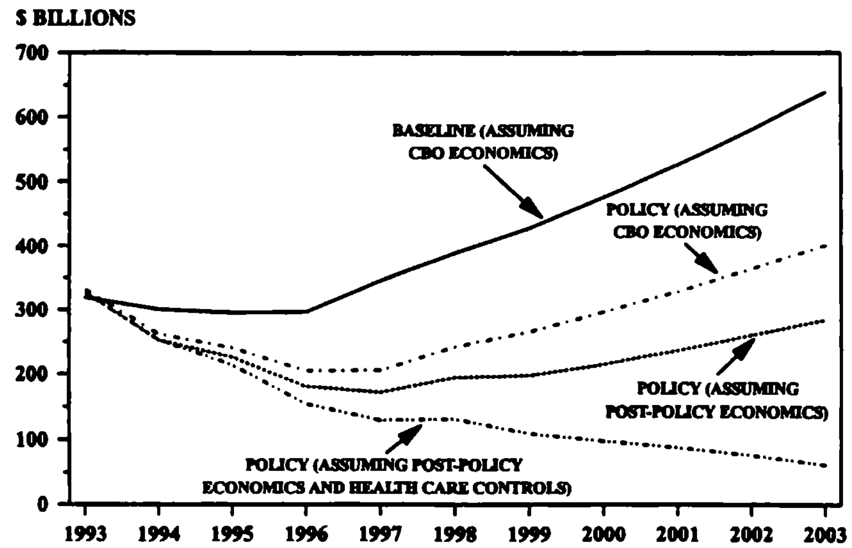
PUBLIC INVESTMENT AS A PERCENT OF GDP

Federal, state, and local governments are investing less.

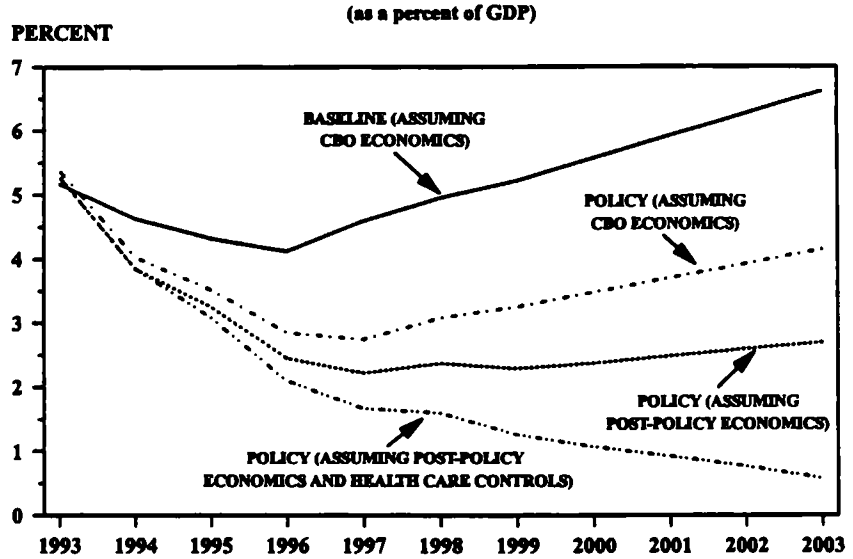


NOTE: Defined to be fixed non-residential government capital and federal outlays for R & D.
SOURCE: Department of Commerce

FEDERAL DEFICIT PROJECTIONS 1993 - 2003



FEDERAL DEFICIT PROJECTIONS 1993 - 2003
(as a percent of GDP)



FEDERAL DEBT PROJECTIONS 1993 - 2003
(as a percent of GDP)