

**PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET
THE FIRST BALANCED BUDGET IN 30 YEARS**

February 2, 1998

"Tonight, I come before you to announce that the federal deficit -- once so incomprehensibly large that it had 11 zeroes -- will be, simply, zero. I will submit to Congress for 1999 the first balanced budget in 30 years."

President Bill Clinton
January 27, 1998

THE FIRST BALANCED BUDGET IN THREE DECADES. The President's FY99 budget maintains our fiscal discipline while investing in the critical needs of our people. In only the second year of the historic balanced budget agreement that included \$900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years, the President's plan reaches balance three years earlier. And it does by paying for every new initiative dollar by dollar -- consistent with the 1997 Balanced Budget Agreement.

THE PRESIDENT'S FY 1999 BUDGET MAINTAINS OUR FISCAL DISCIPLINE WHILE INVESTING IN THE CRITICAL NEEDS OF OUR PEOPLE. This budget builds on the President's record of fiscal discipline. In 1992, the deficit was \$290 billion, job growth was weak, and the unemployment rate was 7.5 percent. The President's 1993 Economic Plan helped cut the deficit 92 percent, from \$290 billion in 1992 to \$23 billion in 1997 -- its lowest level since 1974. This year, our deficit is projected to be \$10 billion, and heading lower. The economy has produced over 14 million new jobs; and the unemployment rate is as low as it has been in 24 years.

- **This budget implements the historic balanced budget agreement reached last year with Congress.** That agreement included \$900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years.
- **In a historic shift, this budget delivers surpluses over the next ten years of \$1.1 trillion -- reserved pending Social Security reform.**
- **Everything is paid for dollar by dollar consistent with the 1997 Balanced Budget Agreement.**

SOCIAL SECURITY FIRST. Over the next two years, President Clinton is firmly committed to strengthening Social Security for the 21st century. He therefore proposes that we should not spend any of the projected budget surpluses on anything else until we have reformed Social Security. This proposal, which continues the fiscally responsible policies that have been the hallmark of this Administration, is intended to reserve the surpluses in case they are needed for Social Security reform.

THE PRESIDENT'S BUDGET INCLUDES NEW INVESTMENTS AND TAX CUTS TARGETED TO THE NEEDS OF WORKING FAMILIES, SUCH AS EDUCATION, CHILD CARE, HEALTH CARE, AND THE ENVIRONMENT. We are keeping our fiscal discipline and paying for

every initiative dollar for dollar. These initiatives include: Reducing **class size** and funding **100,000 new teachers** by 2005; a new **school construction** initiative; more services for **dislocated workers**; housing and urban initiatives, such as expanding the **Low-Income Housing Tax Credit**, flexible funding for **Empowerment Zones** and **welfare-to-work housing vouchers**; **child care** tax credits and investments; new options for Americans ages 55-65 to obtain health insurance by buying into **Medicare**; and tax incentives and R&D to **cut greenhouse gas emissions**.

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Haas**

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PRESIDENT CLINTON PROPOSES FIRST BALANCED BUDGET IN 30 YEARS

**Invests in Education, Child Care, Health, Research, Other Priorities;
Reserves Budget Surplus to "Save Social Security First"**

Speaking from the East Room of the White House, President Clinton today proposed a balanced Federal budget for 1999, marking the first balanced budget in 30 years and bringing an era of exploding deficits to an end.

By reaching balance, the President's budget represents a remarkable turnaround in the Nation's fiscal policy over the last five years. It brings to an end three decades of fiscal chaos, a period in which Americans had lost confidence in their Government and the ability of their leaders to do the people's business.

"We are not only balancing the budget for the first time in a generation, we are reaching balance three years ahead of the schedule we announced last summer with the Balanced Budget Act," the President said. "If we maintain our fiscal discipline, we may very well reach balance this year -- four years ahead of schedule."

The President's \$1.7 trillion budget for 1999 is not just balanced, it is balanced the right way. It not only ends the deficit, it reflects the values that Americans hold dear -- the values of opportunity, responsibility, and community. The budget reflects the President's commitment to continue helping working families with their basic needs -- to raise their children, send them to college, and pay for health care.

The budget invests in education and training and in research to raise the standard of living for average Americans. It invests in the environment and in law enforcement to raise the quality of life across the Nation. It invests in communities at home while providing the resources to maintain a strong defense and conduct the international relations that have become so important to the Nation's future.

Reflecting the President's call to "save Social Security first," the budget proposes a reserve for the projected budget surpluses for 1999 and beyond, pending a solution to the long-term financing challenge facing Social Security.

Within tight constraints, the President proposes major initiatives to build on his investments in high-priority areas -- from helping working families with child care to allowing Americans from 55 to 65 to buy into Medicare; from helping States and school districts reduce class size by recruiting and preparing 100,000 more teachers and building more classrooms to addressing global warming. The budget pays for every initiative dollar by dollar.

Challenging times demand innovative solutions, and this budget meets the challenge by proposing three new investment funds for America -- for research, the environment, and transportation -- that will focus attention on these critical priorities. Together, the funds provide \$75.5 billion, a \$4.7 billion increase over the 1998 level for the programs they contain. Because the funds rely on budget offsets to help finance the spending, they, in effect, apply pay-as-you-go principles to discretionary spending.

The funds are:

- The Research Fund for America, which includes a broad range of investments in knowledge, including programs of the National Institutes of Health, the Centers for Disease Control and Prevention, the National Science Foundation, the National Aeronautics and Space Administration, the Energy Department, the Commerce Department's National Institute of Standards and Technology, Agriculture Department research programs, the multi-agency Climate Change Technology Initiative, and other programs. The budget finances this Fund, in part, through receipts from tobacco legislation and savings in mandatory programs.
- The Environmental Resources Fund for America, which encompasses the multi-agency Clean Water Initiative; the new Land, Water, and Facility Restoration Initiative of the Interior and Agriculture Departments; the Agriculture Department's water and wastewater program for rural communities; and the Environmental Protection Agency's programs for cleaning up hazardous waste sites (within the Superfund) and upgrading clean water and safe drinking water infrastructure. The budget finances the Fund, in part, through an extension of Federal taxes that support the Superfund.
- The Transportation Fund for America, which includes the Transportation Department's highway, highway safety, and transit

programs; the Flight 2000 free flight demonstration program; and the Federal Aviation Administration's programs, including Airport Grants. The budget finances the Fund, in part, through a new Federal aviation user fee.

The budget continues the President's efforts to reduce the size and scope of Government. This budget is the smallest Federal budget, as a share of the economy, in 25 years. To date, the Administration has cut the civilian Federal workforce by over 316,000 employees, giving us the smallest workforce in 35 years and, as a share of total civilian employment, the smallest since 1931.

But the Administration set out to do more than cut Government. Under the leadership of the Vice President's National Performance Review, it sought to make Government work, to create a Government that is more efficient and effective, to create a Government focused on its customers, the American people. The Administration has reinvented parts of departments and agencies. Now, it proposes to turn agencies around from top to bottom. For 1999, the Vice President will lead an effort to improve the performance of agencies that interact most with the American people.

Under the 1993 Government Performance and Results Act, Cabinet departments and agencies have prepared individual performance plans that they will send to Congress with the performance goals they plan to meet in 1999. These plans, in turn, form the basis for the first Government-wide performance plan, which the Administration is sending Congress along with this budget.

Investing in Education and Training: Nothing is more important to America's future than education. It has become the dividing line between those who are moving ahead and those who are lagging behind. That is why the President has devoted so much effort to ensure that we have a world-class system of education and training in place for Americans of all ages. Over the last five years, the President has worked hard to ensure that every boy and girl is prepared to learn, that schools focus on high standards and achievement, that anyone who wants to go to college can get the financial help to attend, and that those who need a second chance at education and training or a chance to improve or learn skills can do so.

The budget significantly increases funds to help children, especially in the poorest communities, reach challenging academic standards and makes further progress in implementing voluntary national tests. It proposes to pay for 100,000 more teachers and build more classrooms in order to reduce class size. For higher education and training, the budget increases Pell Grants and other college scholarships from the record levels already achieved; expands College Work-Study to a record one million students; streamlines student loan programs and cuts

student fees; and expands access to job placement services, training, and related services for dislocated workers and others. Now that anyone who wants to attend college can find the means through Hope scholarships, Pell Grants, and other assistance that the Administration has worked so hard to enact, the President wants to provide the same universal opportunity for job training and re-training to those who need it.

Supporting Working Families: Over the last five years, the President has worked hard to help working families. Working with Congress, the Administration has cut taxes for 15 million working families, provided a tax credit to help families raise their children, ensured that 25 million Americans a year can change jobs without losing their health insurance, made it easier for the self-employed and those with pre-existing conditions to get health insurance, provided health care coverage for up to five million uninsured children, raised the minimum wage, and provided guaranteed time off for workers who need to care for a newborn or address the health needs of a family member.

Now, with his new Child Care Initiative, the President is determined to provide the help that families need when it comes to finding safe, high-quality, affordable child care. Parents should know that, when they go to work, their children are in safe, healthy environments. The President also proposes to address the problems faced by a particular group of working families -- legal immigrants. In signing the 1996 welfare reform law, the President said that he would try to restore the cuts in benefits for legal immigrants that were not only harsh and unnecessary but that had nothing to do with the fundamental goal of welfare reform -- to move people from welfare to work while protecting children. The budget restores Food Stamps to 730,000 legal immigrants and let States provide health insurance to the children of legal immigrants.

Strengthening Health Care: This past year, the President improved the health care of millions of Americans. Working with Congress, the Administration strengthened Medicare by extending the life of the trust fund until at least 2010 while investing in preventive benefits, introducing more choice of health plans, and strengthening the expanding array of activities to combat fraud and abuse. In addition, the Administration extended health care coverage to up to five million uninsured children, created the Advisory Commission on Consumer Protection and Quality in the Health Care Industry, and later endorsed the Commission's Health Care Consumer Bill of Rights.

With this budget, the President proposes to build on these achievements on a host of important fronts. The President wants to work with Congress to enact national bipartisan tobacco legislation; nothing is more potentially important to the health of our people, particularly children. The budget also proposes to expand health care coverage for some of the most vulnerable Americans aged 55 to 65, to enroll more eligible children in Medicaid, to provide for unprecedented levels of investment in health research, to expand access to powerful AIDS therapies, to expand access to cancer clinical trials, to increase funds for substance abuse treatment and prevention, and to help reduce health-related disparities across racial and ethnic groups.

Protecting the Environment: Last year was a remarkable one for the environment, and the President is determined to build on the progress. Led by the Vice President, the Administration reached an historic international agreement in Kyoto that calls for cuts in greenhouse gas emissions. The Administration also issued new, more protective air quality standards to better safeguard public health; strengthened our citizens' right to know about toxic chemical releases; continued to protect our natural treasures, such as Yellowstone National Park and Florida's Everglades; and made further progress toward the President's goal of cleaning up 900 hazardous waste sites under the Superfund by the end of the year 2001.

The budget proposes an Environmental Resources Fund for America that will

support increases for many key environmental programs. It provides for more construction, maintenance, and land acquisition for national parks, forests, refuges, and other public lands; for a new effort to improve the quality of our water; for improvements to community drinking water and wastewater facilities; and for continuing the Administration's efforts to clean up abandoned hazardous waste sites. The budget includes a five-year \$6 billion program to prevent global warming, and more resources to protect endangered species, control pollution, and preserve the global environment.

Investing in Infrastructure: The President proposes a Transportation Fund for America, reflecting his commitment to provide the resources to ensure that our transportation infrastructure remains safe, integrated, and efficient enough to serve our growing needs. Investment in infrastructure is good for America because it helps grow the economy, improve safety and public health, strengthen our competitiveness abroad, support our national security, and increase the mobility, access, and choice for Americans who need to travel.

The President believes that we must build upon our vast network of roads, highways, and bridges to meet the demands of the next century for a system that links our various modes of travel, that is cleaner and safer, and that helps bring together and support our urban and rural communities. The budget maintains the Administration's record support for transportation, and the Fund includes all of the Transportation Department's highway, highway safety, transit, and air transportation programs.

Promoting Research: Scientific and technological advances have created a world vastly different from the one our grandparents knew. They have helped generate huge leaps in the speed and economy of transportation, enormous increases in farm productivity, lightning-fast flows of information and services across national borders, and advances in treating and preventing diseases and protecting the environment.

Because the President is committed to America's continued leadership in science and technology, the budget proposes a Research Fund for America, from which many important Federal investments will flow. It includes record increases for the National Institutes of Health, higher funding for the National Science Foundation, new resources to address global climate change, and a wide variety of investments in basic and applied research. These investments are vital; they help the Nation to create new knowledge, train more workers, spur new jobs and industries, address our health care challenges, strengthen our understanding of environmental problems, better educate our children, and maintain a strong national defense.

Enforcing the Law: The President's anti-crime strategy is working. Serious crime is down five years in a row and, in 1996, the Nation witnessed the largest

drop in violent crime in 35 years. But, because crime remains unacceptably high, the President believes that we must go further.

The budget expands the Administration's community policing (COPS) program, which is already putting 83,000 more police on the streets toward the President's goal of 100,000 by the year 2000. The budget also proposes a new Community Prosecutors Initiative to help prosecutors prevent crimes from occurring, rather than simply prosecuting criminals after the fact. And it provides the necessary funds to prevent violence against women, to help States and Indian Tribes build prisons, and to address the growing law enforcement crisis on Indian lands. To boost the Administration's efforts to control illegal immigration, the budget provides the resources to strengthen border enforcement in the South and West, to remove illegal aliens, and to expand efforts to verify whether newly hired non-citizens are eligible for jobs. To combat drug use, particularly among young people, the budget expands programs that stress treatment and prevention, law enforcement, international assistance, and interdiction. It builds on the Administration's innovative Drug Courts initiative, proposes School Drug Prevention Coordinators for schools, supports local efforts that target drug-using offenders, expands drug testing, and strengthens the Administration's efforts to make ports and borders more secure from drugs while disrupting drug trafficking organizations overseas.

Strengthening the American Community: Most Americans are enjoying the fruits of our strong economy. But while many urban and rural areas are doing better, too many others have grown disconnected from our values of opportunity, responsibility, and community. Working with State and local governments and the private sector, the President is determined to help bring distressed areas back to life, to replace despair with hope.

The budget expands the President's national service program, giving more Americans the chance to serve their country and help solve problems at the local level while earning money for college. The budget proposes to create more Empowerment Zones and Enterprise Communities that offer tax incentives and direct spending to encourage the kind of private investment that creates jobs, and to provide more capital for lending through the President's Community Development Financial Institutions program. The budget also expands opportunities for homeownership, provides more funds to enforce the Nation's civil rights laws, maintains the Administration's Government-to-Government commitment to Native Americans, and strengthens the partnership that the President has begun with the District of Columbia.

Advancing United States Leadership in the World: Because America continues to have a tremendous stake in world affairs, the budget proposes the necessary funds to maintain national security, to conduct our diplomacy, to

promote democracy and free markets abroad, and to increase exports. Last year, the Administration worked with Congress to increase international affairs spending. But, Congress faces an unfinished agenda to provide financial support for, and fulfill America's obligations to, a number of international organizations that benefit our economy and serve other objectives, including the International Monetary Fund (IMF), the United Nations system, and the multilateral development banks.

Congress should continue to support the decisive action of the IMF as well as our leadership in that institution by providing the supplementary contingent IMF funding that the Administration has sought and replenishing the IMF's basic financial resources. Congress also should give the President traditional trade negotiating authority to help fuel our surging exports into the next century. To enhance national security, the budget maintains large-scale funding to support the Middle East peace process, continues assistance to Bosnia to carry out the Dayton Accords, supports NATO expansion, and increases aid to the New Independent States of the former Soviet Union to support the development of democracy and free markets. The budget also proposes a major initiative to provide critical, targeted assistance to African countries that are undertaking difficult economic reforms, increases counter-narcotics aid to Latin American countries, and supports the Summit of the Americas.

Supporting the World's Strongest Military Force: Our military serves as the backbone of our national security strategy, and the President is committed to maintain a strong and capable military that protects our freedoms and our global leadership role as we approach the 21st Century.

The budget continues the Administration's plan to complete the careful resizing of our military forces, to fully support military readiness, to strengthen quality of life programs for our armed forces, and to provide increased funding to modernize our forces as new technologies become available after the turn of the century. The budget reflects the recommendations of the Quadrennial Defense Review and of the Defense Department's recent Defense Reform Initiative to achieve a leaner, more efficient, and more cost-effective organization by improving management and business practices. To implement these improvements, the Defense Department will send legislation to Congress in conjunction with this budget, including a request for two more rounds of base closures and realignments.

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Summary Document: February 2, 1998**

THE FIRST BALANCED BUDGET IN THREE DECADES. The President's FY99 budget maintains our fiscal discipline while investing in the critical needs of our people. In only the second year of the historic balanced budget agreement that included \$900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years, the President's plan reaches balance three years earlier. And it does so by paying for every initiative dollar by dollar consistent with the 1997 Balanced Budget Agreement.

MAINTAINING OUR FISCAL DISCIPLINE AND INVESTING IN OUR PEOPLE. This budget builds on the President's record of fiscal discipline. In 1992, the deficit was \$290 billion, job growth was weak, and the unemployment rate was 7.5 percent. The President's 1993 Economic Plan helped cut the deficit 92 percent, from \$290 billion in 1992 to \$23 billion in 1997 -- its lowest level since 1974. This year, our deficit is projected to be \$10 billion, and heading lower. The economy has produced over 14 million new jobs; and the unemployment rate is as low as it has been in 24 years.

- **This budget implements the historic balanced budget agreement reached last year with Congress.** This is the second year of the budget agreement which included \$900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years.
- **In a historic shift, this budget delivers surpluses over the next ten years of \$1.1 trillion in surpluses -- reserved pending Social Security Reform.**
- **Everything is paid for *dollar by dollar* consistent with the 1997 Balanced Budget Agreement and President Clinton's successful record of fiscal discipline.**

SOCIAL SECURITY FIRST

- **Over the next two years, President Clinton is firmly committed to strengthening Social Security for the 21st century.** He therefore proposes that we should not spend any of the projected budget surpluses on anything else until we have reformed Social Security. This proposal, which continues the fiscally responsible policies that have been the hallmark of this Administration, is intended to reserve the surpluses in case they are needed for Social Security reform.

INVESTING IN THE FUTURE. The President's budget maintains our critical priorities by increasing our investments in health care, education and training, the environment and science and technology. It also establishes important new initiatives, which are all paid for, to help prepare America for the 21st century.

Education/Training/Child Care:

- **Class Size.** Aims to Reduce class size to 18 in grades 1-3 by funding 100,000 new teachers by 2005.
- **Head Start.** Increases Head Start funding by \$305 million for FY99; Head Start has increased 68%, from \$2.8 billion in FY93 to \$4.7 billion in FY99. In addition, the number of slots in Early Head Start is doubled over the next 5 years.
- **After-School Programs.** To provide after-school care for 500,000 children per year, the budget includes an \$800 million five-year investment to expand the 21st Century Community Learning Center program.
- **\$7.5 Billion Child Care Block Grant Over 5 Years.** Doubles the number of low-income families who receive child care subsidies to more than 2 million by the year 2003.
- **Child Care and Early Learning.** Establishes an Early Learning Fund with \$3 billion over five years to provide grants to communities to promote early childhood development and improve child care quality for young children.
- **Education Opportunity Zones.** \$1.5 billion over five years for competitive grants to about 50 urban and rural districts who adopt a school reform agenda to increase student learning and implement accountability measures.
- **Dislocated Workers.** Increases funding in FY99 by \$100 million to \$1.5 billion -- nearly tripling the funding since FY93. Provides services to nearly 700,000 dislocated workers.

Health Care:

- **Consumer Bill of Rights.** Protects patients by guaranteeing access to needed health care specialists, access to emergency room services, an assurance that medical records are confidential, and access to a meaningful appeals process for to resolve differences with health plans and health care providers.
- **Biomedical Research.** Provides unprecedented increases of more than \$1.1 billion of biomedical research with an emphasis on cancer research
- **Ryan White AIDS program.** Invests \$165 million more in the to find ways to prevent and treat diseases -- increasing funding 241% since FY 1993.

- **Expanding Medicare Coverage.** Provides new options for Americans ages 55 to 65 to obtain health insurance by buying into Medicare through a premium that ensures that this policy is self-financed.

Environment:

- **Initiative To Cut Greenhouse Gas Emissions.** A dramatic new \$6.3 program of tax cuts and R&D aimed at cutting greenhouse gas emissions. Package contains \$3.6 billion in tax cuts for energy efficient purchases and renewable energy, and \$2.7 billion in additional R&D spending.
- **Clean Water Initiative.** Targets the 40% of the nation's waterways still unsafe for fishing and swimming by assisting states and communities in implementing programs and incentives to adopt practices that protect water quality.

Community Empowerment:

- **Welfare-to-Work Housing Vouchers.** Includes \$283 million for 50,000 new vouchers for people who need housing assistance to make transition from welfare to employment.
- **Flexible Funding for Second-Round Empowerment Zones.** Provides \$150 million over ten years in mandatory funding for second-round urban and rural EZs. Funds could be used for economic development and housing projects, project-based rental assistance, job training and other social services.
- **CDFI Expansion.** The Administration is requesting a \$45 million increase in CDFI funding (from \$80 million to \$125 million). The increased funding also would be used in part to accelerate development of a secondary market for CDFI loans.
- **Community Empowerment Fund.** \$400 million community empowerment fund that will help local governments attract more businesses and jobs to poor and underserved neighborhoods by encouraging the standardization of economic development lending, a first step in creating a secondary market for such loans. It will provide capital to businesses who recognize the potential and the possibilities of the inner cities.

Drugs

- **COPS.** Funds 17,000 more police, helping to move towards the President's goal of 100,000 new police by the year 2000.
- **\$1 Billion Increase in Anti-Drug Budget.** Budget proposes to increase funding to \$16.9 billion in FY99 consisting of increases in drug treatment, prevention, domestic law enforcement, interdiction, and international programs.
- **Community Prosecutors.** Budget provides grants of \$100 million for hundreds of communities to hire as many as 1,000 new prosecutors.
- **Juvenile Crime Strategy.** Calls on Congress to pass a \$245 billion comprehensive anti-gang and youth violence strategy including preventing under 21s from buying guns, new prosecutors and probation officers, tough, new sentences on drug dealers, funding to keep schools open later and promote anti-truancy initiatives and curfews.

TAX CUTS TARGETED TO THE NEEDS OF WORKING FAMILIES:

The President's budget provides about **\$24.6 billion of tax cuts over five years** to:

- **Making Child Care More Affordable.** (1) The Child and Dependent Care Tax Credit would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about 35,000 for a family of four) who have maximum allowable child care expenses. (2) A 25% tax credit for building,

operating or contracting costs is also created to encourage businesses to provide child care for their employees.

- **Climate Change Initiative -- Increasing Energy Efficiency and Improving the Environment:** (1) Tax credits of \$3,000 to \$4,000 for fuel efficient cars; (2) tax credits of up to \$2000 for rooftop solar systems and new energy efficient homes; (3) a five-year extension of the tax credit for electricity produced by wind and biomass.
- **Promoting Expanded Retirement Savings:** (1) A three-year tax credit of up to \$2,000 for small businesses that establish pension plans; (2) a new, simplified defined benefit plan for small businesses and (3) and enhancing workers' ability to make contributions to IRAs by payroll deduction.
- **Expanding Education Incentives:** (1) *School Construction* -- federal tax credits to pay interest on nearly \$22 billion in bonds to build and modernize over 5,000 public schools; (2) *Employer-Provided Educational Assistance* -- Extends and expands this tax exclusion.
- **Expanding and Improving the Supply of Available Low-Income Housing.** Calls for increasing the per capita cap on the credit 40% which will mean 150,000 to 180,000 additional rental housing units in the next five years.

PRESIDENT CLINTON'S RECORD ON DEFICIT REDUCTION

- **CUT THE DEFICIT BY 92 PERCENT.** President Clinton has reduced the budget deficit by 92 percent -- from \$290 billion in FY 1992 to \$22 billion in FY 1997. This year the budget deficit is projected to be \$10 billion and heading lower. [Based on data from OMB, *FY 1999 Budget*, February 1998.]
- **LOWEST DEFICIT SINCE 1970 AND FIRST PROPOSED BALANCED BUDGET SINCE 1969.** The deficit has fallen from 4.7 percent of GDP in FY 1992 to 0.3 percent in FY 1997 -- the lowest for any year since 1970. [Based on data from OMB, *FY 1999 Budget*, February 1998.]
- **LOWEST DEFICIT OF ANY MAJOR ECONOMY EXCEPT FOR CANADA.** The total U.S. deficit in 1997 as a percentage of the economy was lower than for any other major country except for Canada. [OECD, *Economic Outlook*, December 1997.]
- **MAKING GOVERNMENT MORE EFFICIENT.** Federal employment has fallen by 318,000 from its 1993 base and is at its lowest level in three decades. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

AS A RESULT OF PRESIDENT CLINTON'S EFFORTS TO REDUCE THE DEFICIT, ECONOMIC PERFORMANCE HAS IMPROVED DRAMATICALLY:

- **LOWER INTEREST RATES LEADING TO INVESTMENT BOOM.** President Clinton's 1993 Economic Plan cut the deficit and helped cut long-term interest rates and strengthen the economy. Under President Clinton, the 30-year interest rate has averaged 6.9 percent -- down from 8.2 percent under President Bush and 10.3 percent under President Reagan. And with lower interest rates, businesses have invested in the future: business investment has grown by 11 percent per year under President Clinton -- faster than any Administration since John F. Kennedy was President. [Based on data from the Bureau of Economic Analysis, Department of Commerce.]
- **EMPLOYMENT BOOM.** Since January 1993, the economy has added more than 14 million new jobs -- including nearly 2 million new jobs in manufacturing and construction combined. [Based on data from the Bureau of Labor Statistics, Department of Labor.]
- **THE LOWEST COMBINED RATE OF UNEMPLOYMENT AND INFLATION SINCE 1967.** In 1997, the combined rate of unemployment and inflation will be the lowest in 30 years. And under President Clinton the combined rate of

unemployment and inflation has been the lowest since Lyndon Johnson was President. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

EXPERTS AGREE THAT ECONOMIC PERFORMANCE HAS BEEN REMARKABLE:

- ✓ ***Business Week:*** "Clinton's 1993 budget cuts, which reduced projected red ink by more than \$400 billion over five years, sparked a major drop in interest rates that helped boost investment in all the equipment and systems that brought forth the New Age economy of technological innovation and rising productivity." [5/19/97]
- ✓ **Alan Greenspan, Federal Reserve Chairman, 2/20/96:** The deficit reduction in the President's 1993 Economic Plan was "an unquestioned factor in contributing to the improvement in economic activity that occurred thereafter."

THE FACTS ON GOVERNMENT SPENDING UNDER PRESIDENT CLINTON

SPENDING IS LOWER TODAY THAN UNDER REAGAN OR BUSH:

- FEDERAL SPENDING WAS LOWER IN 1997 -- AND IS EXPECTED TO REMAIN LOWER IN 1998 -- THAN IN ANY YEAR SINCE 1974.** Federal outlays as a share of GDP in 1997 were 20.1 percent -- lower than in any year since 1974. And current projections suggest a slight decrease in outlays as a percent of GDP during 1998. Outlays as a share of GDP under President Clinton have been a smaller share of GDP than under Reagan or Bush. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

SPENDING GROWTH LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH

	Federal outlays (% of GDP)	Real growth in Federal outlays (percent per year)
CLINTON	20.1 [1997]	0.5
BUSH	22.5 [1992]	2.6
REAGAN	22.5 [1988]	2.6

[Based on data from OMB, *FY 1999 Budget*, February 1998.]

- SINCE PASSAGE OF PRESIDENT CLINTON'S 1993 DEFICIT REDUCTION PACKAGE, EXPECTED GOVERNMENT SPENDING BETWEEN 1993 AND 2002 HAS FALLEN BY MORE THAN \$1.8 TRILLION.** Compared to the spending path President Clinton inherited in 1993, total spending in 2002 is now projected to fall by 19 percent. [Based on data from OMB, *FY 1999 Budget*, February 1998.]
- GROWTH IN TOTAL FEDERAL SPENDING HAS BEEN LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH.** Real Federal outlays have grown by 0.5 percent per year under President Clinton -- lower than under President Bush (2.6 percent per year) or President Reagan (2.6 percent per year). [Based on data from OMB, *FY 1999 Budget*, February 1998.]
- WHILE MAINTAINING CRUCIAL INVESTMENTS IN PEOPLE, REAL DISCRETIONARY SPENDING HAS FALLEN UNDER PRESIDENT CLINTON -- A BETTER RECORD THAN UNDER REAGAN OR BUSH.** Real discretionary outlays have *fallen* two percent per year under President Clinton -- under President Bush or Reagan real discretionary outlays *increased* one percent a year. [Based on data

from OMB, *FY 1998 Budget*, February 1997.]

- **NON-DEFENSE DISCRETIONARY SPENDING IS NOW A SMALLER SHARE OF THE ECONOMY THAN IN 11 OF THE 12 YEARS UNDER REAGAN OR BUSH.**

Non-defense discretionary outlays are now lower than in 11 of the 12 Reagan-Bush years. Non-defense discretionary outlays are expected to equal 3.4 percent of GDP in 1998. During all the Reagan-Bush years, this ratio dropped this low only once in 1989. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

SOCIAL SECURITY

THE SOCIAL SECURITY SYSTEM. Since its inception in 1935, the Social Security system has proven to be an outstanding success in providing security for the retired and disabled, as well as their families. The elderly poverty rate has fallen from more than 35 percent in 1959 to just 10.8 percent in 1996. It currently provides benefits to about 45 million Americans, and keeps roughly 15 million of them out of poverty. And Social Security benefits represent more than 75 percent of income for elderly households in the bottom 40 percent of the income distribution.

THE LONG-RUN CHALLENGE. The Social Security system, however, is expected to face increasing strains, because the retirement of the baby boomers means that the number of retirees is expected to grow much faster than the number of workers. There are currently just over 3 workers who contribute for every Social Security beneficiary. By 2030, it is expected that there will be only 2 workers for every Social Security beneficiary. According to the intermediate projection of the Social Security Trustees Report, the retirement of the baby boomers is expected to cause the Social Security Trust Fund to start falling by 2019, and to be depleted by 2029 -- after which the Social Security system would be able to finance only 75 percent of current law benefits.

PRESIDENT CLINTON'S APPROACH TO SOCIAL SECURITY REFORM. President Clinton is strongly committed to strengthening Social Security over the next two years. His plan includes:

(1) Putting Our Fiscal House in Order. Before we could begin to address the long-run problems in Social Security, we first had to put our fiscal house in order. Under President Clinton's leadership, we have now done that. The budget deficit has fallen from \$290 billion in 1992 to \$22 billion last year, and President Clinton's FY 1999 budget will produce balance by next year.

(2) Surpluses Reserved Pending Social Security Reform. As the President emphasized in his State of the Union address, the projected budget surpluses should be reserved pending Social Security reform. Until we address the critical challenge of strengthening the Social Security system and ensuring retirement and disability security for America's hard-working families, the Administration believes that we should not use the projected surpluses for anything else.

(3) Bipartisan Regional Conferences in 1998. The President believes 1998 should be used to engage Americans in an inclusive national debate about Social Security reform. He challenges every American to attend a conference or forum on the issue -- or to organize and host one if there aren't any planned in a given area. The President has asked the AARP and the Concord Coalition to convene bipartisan and

balanced regional conferences. The President or Vice President will attend three to four of these conferences, and will also be hosting a conference on private retirement savings in July. The President and Vice President also encourage other groups to organize conferences. The national dialogue should allow all Americans to express their views, and hear the views of others.

(4) White House Conference. At the end of the year, the President will host a bipartisan White House Conference on Social Security as a culmination of the various conferences, forums, and discussions held throughout the year. The purpose of the White House conference is to bring together the lessons learned from the national dialogue.

(5) Bipartisan Negotiations in January 1999. Following the White House conference at the end of the year, the President and his team will begin negotiations in January 1999 with the bipartisan Congressional leadership over Social Security reform. The President is firmly committed to strengthening the Social Security system.

PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET TAX RELIEF FOR WORKING FAMILIES

A RECORD OF TAX RELIEF FOR WORKING FAMILIES. Beginning with the tax cut for 15 million working families in 1993, President Clinton has delivered tax relief to make it easier for working families to raise their children and send them to college. The new \$500 Child Tax Credit the President pushed for and signed into law last year will help 27 million working families. The President's \$1,500 HOPE Scholarship advances his goal of making access to two years of college universal. His Lifetime Learning Tax Credit will help 7.1 million college juniors and seniors, graduate students and working Americans upgrade their skills and education. Because of this strong record, the typical working family of four making the median income now faces the lightest federal tax burden in decades:

Consider a middle income family of four making about \$53,720 this year. When President Clinton took office, this family paid 16.8 cents on each dollar of income to the federal government to cover income and payroll taxes. Since then, this tax burden has fallen, so that this year, the typical middle-income family will pay 15.5 cents on each dollar of income to the federal government -- the lowest federal tax rate in 20 years. And this burden will fall even further next year, as it reaches 15.1 percent.

The budget takes the next step and provides \$24.6 billion over five years and \$56 billion over ten years in tax relief to:

MAKING CHILD CARE MORE AFFORDABLE.

- **The Child and Dependent Care Tax Credit** would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about \$35,000 for a family of four) who have maximum allowable child care expenses. These families will receive an average annual tax cut of \$330 at a cost of \$5.2 billion over five years.
- **New Business Tax Credits.** The budget also invests one-half billion dollars over five years in a 25 percent tax credit (up to \$150,000) for annual building, acquisition, operational or contracting costs to encourage businesses to provide child care for their employees.

INCREASING ENERGY EFFICIENCY AND IMPROVE THE ENVIRONMENT. The budget contains \$3.6 billion over the next 5 years in tax cuts for energy efficient purchases and renewable energy:

- **Tax Credits For Fuel Efficient Cars.** The tax package includes tax credits of \$3,000 and \$4,000 for consumers who purchase advanced-technology, highly fuel efficient vehicles -- expected to total \$660 million over the next five years.

- **Tax Credits For Rooftop Solar Systems.** Another tax provision provides a 15 percent credit (up to \$2,000) for purchases of rooftop solar equipment -- to provide incentives for meeting the Million Solar Roofs goal.
- **Other Tax Credits For Energy Efficiency.** The tax cuts also include a 20 percent credit (subject to a cap) for purchasing energy-efficient building equipment, a credit of up to \$2,000 for purchasing energy-efficient new homes, an extension of the wind and biomass tax credit, and a 10 percent investment credit for the purchase of combined heat and power systems.

PROMOTING EXPANDED RETIREMENT SAVINGS.

- **Payroll Deduction IRAs.** Contributions of up to \$2,000 made to an IRA through a payroll deduction would be excluded from the employee's income for tax purposes.
- **Tax Credit for Small Businesses.** To encourage and help small businesses establish pension plans for their employees, the budget also includes a three year tax credit. For the first year of the plan, the credit would be 50 percent of up to \$2,000 in administrative and retirement education expenses associated with a new defined benefit plan (including the new SMART plan described below), 401(k), SIMPLE or other pension plan or payroll deduction IRA arrangement. For each of the second and third years, the credit would be 50 percent of up to \$1,000 in such costs. The payroll deduction IRA and the tax credit cost \$508 million over five years and \$945 million over ten years.
- **A New Simplified Defined Benefit Plan for Small Businesses.** The budget also includes a new simplified defined benefit plan for small businesses. This new pension choice, the SMART plan, is designed to be easy to administer and to provide a guaranteed pension benefit to all eligible employees. The proposal costs \$304 million over five years and \$555 million over ten years.

EXPANDING EDUCATION INCENTIVES.

School Construction. To spur construction and rehabilitation of our public schools, the President proposes Federal tax credits to pay interest on nearly \$22 billion in bonds at a cost of \$5 billion over five years and \$11.6 billion over ten years. Two types of bonds would be authorized: 1) School Modernization Bonds - special 15 year bonds with half targeted to the 100 school districts with the largest number of low-income children and the other half allocated to states; 2) Qualified Zone Academy Bonds -- bonds enacted last year, that encourage public school-business partnerships in high poverty areas, would be expanded.

Employer Provided Education Assistance. The budget also extends and expands the tax exclusion for employer-provided educational assistance. The current exclusion for assistance with undergraduate education is extended for one year to cover courses that begin before June 1, 2001. The tax exclusion is also expanded to assistance with graduate education. This proposal costs \$1 billion over both five and ten years.

INCREASING THE LOW INCOME HOUSING TAX CREDIT. To expand and improve the supply of available low income housing, the budget raises the allocation of tax credits to states. Currently, the amount of credits a state can award annually is limited to \$1.25 per capita. The President proposes to raise that limit to \$1.75 per capita beginning in 1999 at a cost of \$1.6 billion over five years and \$6.7 billion

over ten years. This increase will lead to an additional 150,000 to 180,000 units of affordable housing over five years.

EXTENDING KEY TAX INCENTIVES TO HELP CLEAN UP DISTRESSED COMMUNITIES, MOVE PEOPLE FROM WELFARE TO WORK AND ENCOURAGE RESEARCH AND EXPERIMENTATION:

- **Expensing of Brownfields Remediation Costs.** The budget would make permanent this tax incentive that allows certain environmental remediation costs to be immediately deducted.
- **Work Opportunity Tax Credit.** Set to expire on June 30, 1998, the budget extends this credit to cover employees who begin work before May 1, 2000.
- **Welfare-to-Work Tax Credit.** Designed to encourage employers to hire long-term family assistance recipients, this important credit would be extended for one year and would cover employees who begin work before May 1, 2000.

- **R & E Tax Credit.** To encourage research and experimentation, this credit would be extended for one year through June 30, 1999.

TAX CUTS ARE PAID FOR WITH REDUCTIONS IN UNWARRANTED TAX BENEFITS. *For example, the budget proposes that firms allocate their export profits between domestic and foreign source income in proportion to their activity in the United States and abroad, to raise \$6.6 billion over five years. The budget also proposes to modify reserve rules for annuity contracts and modify corporate owned life insurance rules to more closely reflect the actual economics.*

**PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET
EDUCATION: PREPARING OUR CHILDREN FOR THE 21ST CENTURY**

MAINTAINING OUR COMMITMENT TO MAKING EDUCATION OUR NUMBER ONE PRIORITY. Building on the historic balanced budget agreement in 1997 which secured the largest education investment in 30 years and the largest investment in higher education since the G.I. Bill in 1945, the President's FY 1999 budget includes the following:

- **Small Classes with Qualified Teachers to Improve Reading in Grades 1-3.** President Clinton is proposing a \$12.4 billion initiative over 7 years (\$7.3 billion over 5 years) to help local schools provide small classes with qualified teachers in the early grades. This initiative will help ensure that every child receives personal attention, learns to read independently, and gets a solid foundation for further learning. The new initiative will reduce class size from a nationwide average of 22 in grades 1-3 to an average of 18, providing funds to help local school districts hire an additional 100,000 well-prepared teachers. The initiative will also provide funds to states and local school districts to test new teachers, develop more rigorous teacher testing and certification requirements, and train teachers in effective reading instruction practices. School districts will be accountable for demonstrating gains in reading achievement. These steps will help ensure that first through third grade students are receiving high-quality reading instruction in smaller classes from competent teachers.
- **Modern School Buildings to Improve Student Learning.** For students to learn, schools must be well-equipped and be able to accommodate smaller class sizes. To address these and other critical needs, President Clinton is proposing federal tax credits to pay interest on nearly \$22 billion in bonds to build and renovate public schools. This initiative provides more than double the assistance of the Administration's earlier school construction proposal, which covered half the interest on an estimated \$20 billion in bonds. The tax credits will cost the Treasury \$5 billion over 5 years, and more than \$10 billion over ten years. Of the \$22 billion in bond authority, nearly \$20 billion for a new School Modernization Bonds. Half of this bond authority will be allocated to the 100 school districts with the largest number of low-income children, and the other half will be allocated to the states.
- **Education Opportunity Zones: Helping Students in Poor Communities Reach High Standards.** This initiative will strengthen public schools and help students master the basic and advanced skills where the need is greatest: in high-poverty urban and rural communities where low expectations, too many poorly prepared teachers, and overwhelmed school systems create significant barriers to high achievement. The Education Department will select

approximately fifty high-poverty urban and rural school districts with: (1) a demonstrated commitment to use high standards and tests as tools to identify and provide help to students, teachers and schools who need it; (2) a strategy to prevent students from falling behind by ensuring quality teaching, challenging curricula, and extended learning time; (3) programs to end social promotion and turn around failing schools; and (4) evidence of improved student achievement. Added investments in these communities will accelerate their progress and provide models of successful, standards-based reform for the nation. The President's initiative will invest \$200 million in FY99, and \$1.5 billion over 5 years, in raising achievement and sharing lessons learned with school districts around the country.

- **After-School Learning Opportunities.** The FY99 Budget includes a five-year, \$1 billion investment in school-community partnerships that create or expand before - and after-school programs. The Department of Education's 21st Century Learning Center Program, funded at \$40 million in FY98, would be expanded to \$200 million per year. With a local matching requirement --aided by a \$55 million gift from the C.S. Mott Foundation -- this initiative will leverage a total of \$2 billion overall for after-school programs.
- **Reduce and Eliminate Student Loan Fees.** Saving students \$3 billion over five years, the budget will phase out the fees that students pay on need-based loans (about 60 percent of all student loans), and will reduce fees on other loans by 25 percent. Until 1993, students lost up to 8 percent of their loans in fees to intermediaries and to the Federal government. Already reduced to 4 percent as a result of reforms enacted in 1993, the Administration's new plan would reduce fees on all loans to 3 percent in 1999, and on need-based loans to 2 percent in 2001, 1 percent in 2002, and eliminated completely in 2003.
- **Work-Study.** The Budget includes a \$70 million increase in funding for the Federal Work-Study program, bringing the total number of participants to just over one million in the 1999-2000 school year -- reaching that goal one year earlier than planned. This represents a nearly 50 percent funding increase since 1996.
- **Education Technology.** The President's FY 1999 budget includes an increase of \$137 million over the 1998 level to ensure that all children have access to the Internet, That teachers know how to use technology effectively, and to broaden access to high quality learning opportunities for adults using the Internet and other new technologies.
- **Teacher Training in Technology.** This program will ensure that all new teachers entering the workforce can integrate technology effectively into the curriculum and can understand new styles of teaching and learning enabled by technology.
- **Learning Anytime, Anywhere Initiative.** This initiative makes it easier for Americans who live in remote, rural areas, have a disability, or have competing family and work demands to have access to individualized up-to-date affordable education and training.
- **Early Intervention to Promote College Attendance.** President Clinton will soon announce a long-term effort to bring college opportunity to children in high-poverty areas by providing their families with early information about

financial aid and appropriate academic preparation, as well as mentoring and other support services to help the children stay on track through high school graduation and into college.

Clinton Seeks \$170 Billion for Research in Budget

By WARREN E. LEARY

WASHINGTON, Feb. 2 — Calling research and development the source of future advances and jobs, the Clinton Administration today proposed a large increase in research spending, including substantial increases for medical and university studies.

Vice President Al Gore, appearing at a special budget briefing on research, said President Clinton was designating \$170 billion over five years for civilian research and development, the largest such commitment in history.

The proposal calls for \$78.2 billion for all Federal research in the next fiscal year, including \$38 billion for civilian projects.

"The budget, although in balance, reflects the nation's priorities and one of these priorities is science and technology," Mr. Gore said.

One of the chief beneficiaries of the research increases would be the

National Institutes of Health. The Administration proposed increasing the medical research agency's budget by \$1.15 billion for the coming year, bringing it to \$14.8 billion, and pledged to increase its financing to \$20 billion in five years.

"This is a budget in which everyone wins," said Dr. Harold Varmus, the director of the institutes, because advocates for research into "every disease will see increases." The money will be used for more research into cancer, diabetes, brain disorders, asthma and for developing a vaccine against AIDS, he said.

Dr. Varmus said \$640 million of the money would go into new researcher-initiated grants to study various diseases and medical conditions. The number of these grants fell to about 6,000 in recent years, he said, but now will increase to about 8,300.

Another budget winner was the National Science Foundation, the agency that finances almost half of the nation's nonmedical research in universities.

The proposal called for a 10 percent increase in the agency's budget to \$3.7 billion, with broad increases for computer and engineering research, and more money for public science education.

"Two years ago, we were worried about projected major cuts," said Dr. Neal Lane, the foundation's director. "Today, we celebrate recognition of the critical role of science and technology in this society's future."

NASA was one of the few research agencies to show an overall budget decrease, a small cut to \$13.4 billion. Dr. John Gibbons, the White House science adviser, said NASA's budget reflected the stable finances of some mature programs and a decrease in spending on some Earth observation research programs.

New money was allotted to the space agency for several new programs, including building a spacecraft to orbit and study Jupiter's ice-crusted moon Europa and studies on a replacement for the Hubble Space

Telescope. Daniel S. Goldin, the NASA Administrator, said the agency would challenge engineers to design a telescope more than three times more powerful than Hubble, but that cost only one-tenth as much.

The budget proposal also called for \$7.2 billion for research on energy; \$4.3 billion for research on military advances and \$770 million for food safety and agricultural research.

Administration officials labeled the initiative the 21st Century Fund, reflecting the promise of the research. But officials said the money would stay in each agency or department's budget and would not be pooled into a special fund.

Standing before two pictures of Mars taken by a new National Aeronautics and Space Administration spacecraft, Mr. Gore said they illustrated how past investments in science were paying off. One of the pictures was the first to show conclusively that meandering rivers once were common on Mars, he said.

Money Is Hypothetical, But Agenda Is Very Real

By RICHARD W. STEVENSON

WASHINGTON, Feb. 2 Eliminating the Federal budget deficit might help win President Clinton a place in tomorrow's history books, but his new tax and spending proposals just as clearly take aim at today's politics, offering a dissonant mix of conditional generosity and virtuous austerity.

Mr. Clinton has never been content to manage a Government of declining resources and influence, and he has more reasons than ever to want to be seen as active and engaged. So he took a budget that should show a modest surplus next year, thanks to a booming economy and the budget agreement he hammered out last year with the Republican-led Congress, and through a bit of legerdemain tacked on an expansive, shrewd set of spending proposals.

"We've done more than simply balance the budget, more than just line up numbers on a ledger," Mr. Clinton said today at a White House ceremony. "We have restored the balance of values in our policy, restored the balance of confidence between government and the public."

Mr. Clinton is sticking within the overall restrictions of last year's stringent budget agreement, and he has sought to burnish an image of fiscal prudence by insisting that any surpluses be put aside until the Federal Government solves the long-term problems of Social Security.

But to pay for new and expanded programs, including more teachers, classrooms, child care and medical research, Mr. Clinton has created two hypothetical pots of money, without which the budget would look a lot less generous.

The first is \$65.5 billion that the White House assumes the Federal Government will reap over the next five years from a settlement with the tobacco industry — a settlement that faces immense hurdles in Congress.

The other is \$24 billion in measures to raise revenues over the next five years by closing tax loopholes and taking away tax breaks from powerful interest groups. Half of the tax proposals have been rejected by Congress in the past, and much of the other half will also generate intense opposition.

If those two pools of money — plus another generated by cuts in a variety of programs, including veterans' benefits — fail to materialize, the Administration will find it difficult, if

not impossible, to pay for its new programs. And in the meantime, the White House budget is being criticized by the Republican leadership as a fantasy, if not a deception.

"I am having a great deal of difficulty understanding how the Presi-

merology should know that it's not," said Martha Phillips, the executive director of the Concord Coalition, a non-partisan fiscal watchdog group.

"It's political," Ms. Phillips said. "It's about developing your vision for the next 5 or 10 years, and working backwards from there to make the numbers add up."

In his budget, she said, Mr. Clinton "is being a Democratic President leading his party."

Indeed, Mr. Clinton's budget encompasses an ideological view of Government very different from that of most Republicans. Democrats hail the economic benefits from eliminating the deficit — lower interest rates and more economic growth — but also focus on the increased flexibility that balanced budgets provide in addressing problems through new tax and spending programs.

Most Republicans, by contrast, see both economic benefits and an opportunity to reduce the size and influence of the Federal Government.

"Republicans are asking Americans to make a false choice between big government and less government," said Representative Richard A. Gephardt of Missouri, the Democratic leader. "Democrats believe the choice is between smart government and idle government."

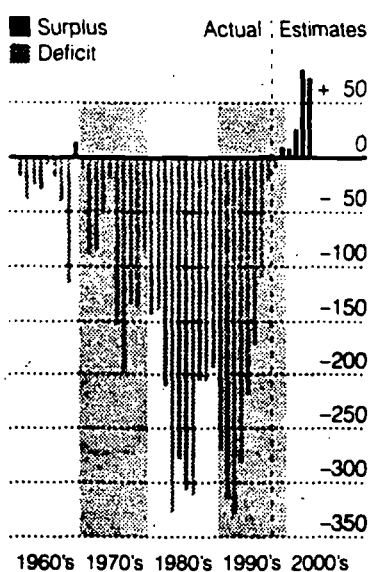
In spite of his troubles, from accusations about his relationship with a former White House intern to criticism that he was allowing his Administration to drift, Mr. Clinton has had considerable success in setting this year's political agenda.

If the tobacco settlement comes together, Mr. Clinton would have a good shot at enacting at least some of his spending proposals, few of which Republicans would want to be on record as voting against. Even without the settlement, Mr. Clinton will have given Democrats a positive agenda to take on the campaign trail. And by invoking the need to fix Social Security before parcelling out surpluses, he has complicated the task of Republicans in advancing the centerpiece of their agenda, tax cutting.

The entire debate would become moot if the remarkably positive outlook for the economy and the Federal budget that is now shared by both parties proves to be a mirage. Neither the White House nor the Congressional Budget Office is counting on unrealistically high levels of economic growth or tax revenues to wipe out the deficit. Both have factored in a moderate impact from the financial turmoil in Asia. But neither is anticipating any major economic downturn. And even a moderate recession could leave the budget projections unrealistic, as could a substantial drop in the stock market.

Tracking the Deficit

Federal surplus or deficit, in billions of 1997 dollars.



Source: Office of Management and Budget

The New York Times

dent of the United States can in a straight face tell the American people we're living up to last year's agreement, we're going to be in balance and have a surplus, but don't worry about a thing, we can spend \$150 billion on new programs and tax credits and everything is going to be all right," said Senator Pete V. Domenici of New Mexico, the chairman of the Senate Budget Committee.

Mr. Clinton is hardly the first President to use the budget to set out a political agenda, and it is hardly surprising that he would push his partisan program as hard as possible in a year when Democrats plan to mount an aggressive attack on the Republican majority in the midterm Congressional elections.

"Anyone who thinks the budget process is about accounting or nu-

**A leader leads
(right to Fantasy
Island, critics say).**

DOMESTIC PROPOSALS

Increases Urged for Child Care, Medicare and Medical Research

By ROBERT FEAR

WASHINGTON, Feb. 2 — President Clinton proposed expanding a wide range of domestic programs today, with initiatives intended to appeal in this Congressional election year to voters from soccer moms to retired workers to aging baby boomers.

There were few surprises in the budget package; most of the programs had been selectively unveiled in the last few weeks. Mr. Clinton proposed increased spending for child care, broader Medicare coverage for older Americans and additional money for biomedical research.

Mr. Clinton asked Congress to expand Medicaid to cover legal immigrant children who have arrived recently in the United States — a proposal favored by many Hispanic Americans and Asian Americans.

Another proposal would help small businesses band together to buy health insurance for their employees. Mr. Clinton requested "\$100 million in seed money over five years" to help states establish such voluntary purchasing cooperatives.

Under another proposal, Mr. Clinton would allow states to provide Medicaid coverage to legal immigrants under the age of 18 who have arrived in this country since August

1996 and those who arrive in the future.

Currently, states may provide coverage to immigrant children who entered the country before August 1996, when Mr. Clinton signed major legislation revamping the nation's welfare system. But immigrant children who arrive after that date generally must wait five years before receiving benefits.

In his budget request to Congress, Mr. Clinton offered few new details of his proposal to open Medicare to able-bodied people 55 to 64 years old. He said only that "the proposal is self-financing, because over time participants pay the full cost of their coverage."

The White House had previously acknowledged that people with medical problems were more likely to sign up for the new Medicare coverage. The budget does not compare the costs for the new beneficiaries with the costs for healthy people of the same age.

The President estimated that his "Medicare buy-in policies" would cost \$1.5 billion over the next five years.

Donna E. Shalala, the Secretary of Health and Human Services, said, "Any costs associated with this proposal will be offset by new initiatives to combat Medicare fraud, waste

and abuse."

Medicare now finances health care for 38 million people who are over the age of 64 or disabled. A Federal advisory commission is studying ways to redesign the program to keep it solvent for the baby boom generation. Although the deadline for the commission to complete its study is March 1999, Dr. Shalala said that Congress should expand Medicare this year, without waiting for the panel's recommendations.

Mr. Clinton asked Congress for \$900 million over the next five years to locate and sign up three million children who are eligible for Medicaid but not enrolled in the program.

Of this amount, he said, \$330 million would be used for advertising and other activities to find low-income families and inform them that their children might be eligible. The remainder of the money would permit schools and child care centers to enroll children in Medicaid temporarily, on the presumption that they would later be found eligible.

Mr. Clinton also proposed an initiative to let elderly Medicare patients participate in clinical trials testing experimental treatments for cancer.

Dr. Richard D. Klausner, director of the National Cancer Institute, said the President's budget earmarked

\$750 million of tobacco revenue to pay the costs of such clinical trials.

The elderly account for half of cancer patients, but Medicare generally does not pay for the care of

Trying to appeal to voters in a Congressional election year.

patients in clinical trials of new treatments.

Whether such clinical trials save money or increase the cost of patient care is unclear, Dr. Klausner said in an interview. The new initiative is intended to answer that question.

Mr. Clinton requested \$14.8 billion for the National Institutes of Health in 1999. That represents an increase of \$1.15 billion, or 8.4 percent, which is about half of the increase sought by Congressional champions of biomedical research. All of the additional money sought by Mr. Clinton would be derived from an increase in tobacco revenue.

Senator Arlen Specter, the Penn-

sylvania Republican who is chairman of the Appropriations subcommittee responsible for the N.I.H., said last week that he would seek an increase of \$2 billion, which would raise the agency's budget to \$15.6 billion next year.

Over five years, Mr. Clinton would increase spending for the health institutes by nearly 50 percent, to \$20.2 billion in 2003 from \$13.6 billion this year. The Senate, by contrast, has endorsed the goal of doubling the agency's budget in five years.

The President seeks \$80 million next year for public health programs to help low-income blacks and other racial minorities. He noted that the infant mortality rate for blacks was still twice that of whites, even though the rates have declined among both groups.

Mr. Clinton would provide \$21.4 billion to subsidize child care in the next five years. This includes an increase of \$7.5 billion in Federal grants to the states for child care, \$4.8 billion in new tax credits for working parents and \$478 million for employers who arrange child care for their employees.

The remainder of the money, \$8.6 billion over five years, would be spent on child care programs, including Head Start.

A Warning About Chaos From Asia

By PHILIP SHENON

WASHINGTON, Feb. 2 — The Clinton Administration's budget for foreign affairs is built on the assumption that prominent members of Congress will overcome their distaste for the United Nations and for American involvement in the bailout of faltering Asian economies.

The budget released today calls for an additional \$18 billion in appropriations for the International Monetary Fund, which is overseeing the bailouts in South Korea, Indonesia and Thailand.

The budget report warned that without the extra money for the I.M.F., the chaos in Asia could spread to the United States.

"The U.S. economy is not immune," the report said. "These funds are urgently needed in case the emergency demand on I.M.F. resources depletes the I.M.F.'s liquidity so much that it cannot maintain international monetary stability."

But the request will face a tough

An Asian bailout faces a tough fight from Senator Helms.

fight in Congress, where many lawmakers oppose any increased American role in the Asian bailouts. The chairman of the Senate Foreign Relations Committee, Senator Jesse Helms, Republican of North Carolina, said last weekend that he would oppose any request to raise American appropriations for the I.M.F.

There may be an equally bruising struggle over the Administration's request for \$1 billion to begin repaying the nearly \$1.5 billion that the United States owes to the United Nations in back dues. Mr. Helms and other prominent lawmakers have refused to free up the money without significant budgetary and administrative changes at the United Nations.

Legislation that would have allowed the Administration to pay some of the arrears stalled last year in Congress, "undermining U.S. diplomatic efforts to achieve budgetary reforms and leading to a serious loss of U.S. credibility in the U.N.," the budget report said.

The Administration called for the overall State Department budget to hold steady at about \$5.3 billion, but proposed increases in several programs like financing for the Peace Corps, up 20 percent to \$270 million.

CULTURE

A Showdown Over the Arts

By The New York Times

WASHINGTON, Feb. 2 — The Clinton Administration's budget proposal for the next fiscal year seeks to restore financing levels of the past for the National Endowment for the Arts and the National Endowment for the Humanities, two perennial targets of conservatives in Congress.

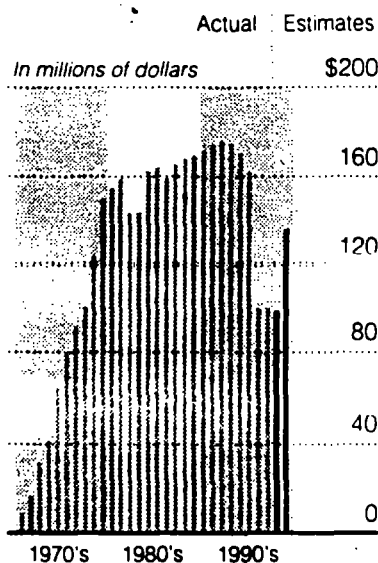
The budget proposal, issued today, requests \$136 million for the National Endowment for the Arts, the same amount sought a year ago. Spending by the agency this year is \$98 million, the lowest level in more than two decades.

The House voted last year to eliminate the arts endowment's budget entirely, but most of its requested financing was restored in a compromise with the Senate. Authorization to renew and extend the agency's operations has not passed either house of Congress, though, and its future remains uncertain.

The Administration also seeks \$136 million for the National Endowment for the Humanities, again the

Art Funds

The budget proposal for the National Endowment for the Arts is \$136 million.



Source: National Endowment for the Arts

The New York Times

same as what was requested a year ago. Congress agreed to provide \$110 million in the current fiscal year, an amount that has not changed in three years.

THE ENVIRONMENT

5% Increase, Much for Cleanups

By The New York Times

WASHINGTON, Feb. 2 — The President's budget request for environmental and natural resources programs, spread over several Federal agencies, amounts to \$31.5 billion in 1999, an increase of 5 percent over the \$30 billion being spent on these programs this budget year.

Spending to clean up polluted nuclear weapons production plants and other military sites, a lingering problem left by the cold war, takes up more than one third of the total.

The budget of the Environmental Protection Agency would rise 6 percent, to \$7.8 billion in 1999.

At the center of the Clinton Administration's request for new environmental programs is a big expansion of spending to clean waterways and

drinking water supplies. The budget includes \$2.2 billion, a \$568 million or 35 percent increase over 1998, for a multi-agency initiative to prevent polluted runoff and otherwise address water quality.

The two biggest such projects involve restoration of the California Bay and Delta watershed near San Francisco and the Everglades in Florida.

Another highlight of the environmental budget is a five-year, \$6.3 billion series of tax credits and research subsidies for fuel efficient automobiles, factory machinery, and buildings, all intended to reduce the risk of global warming from emissions of carbon dioxide and other heat-trapping gases into the atmosphere.

The New York Times

TUESDAY, FEBRUARY 3, 1998

AN INTERNATIONAL PERSPECTIVE

Lewinsky Lawyer Cites Support of Israel

By JOEL GREENBERG

JERUSALEM, Feb. 2 — Well before he began softening his tone toward President Clinton this week, William H. Ginsburg, the lawyer representing Monica S. Lewinsky, was quoted in an Israeli newspaper interview as saying that as Jews, neither he nor his client wanted to topple a President friendly to Israel.

Yediot Ahronot, Israel's largest mass-circulation daily, published an interview with Mr. Ginsburg last Tuesday that highlighted the Jewish faith of both the lawyer and Ms. Lewinsky, the former White House intern. The popular tabloid often seeks out links to Israel and Judaism in its coverage of major foreign news.

In an introduction to the interview, the newspaper's New York correspondent, Tzadok Yehezkel, wrote that Mr. Ginsburg had agreed to talk to him by saying, "You're a Jew, I'm a Jew, so why not?"

Asked whether Ms. Lewinsky sought the down-

fall of Mr. Clinton, Mr. Ginsburg was quoted as replying: "Absolutely not. We are both supporters of Clinton and appreciate his positions and policy toward Israel. Clinton is very positive toward Israel and the Jews, and Monica and I are Jews. But we can't decide what will happen as a result of her testimony."

Responding to another question about how the scandal was affecting him, Mr. Ginsburg was quoted as saying: "I'm torn, because I'm concerned about the fate of the Presidency in our democracy now, and I don't want the President to resign. Who knows who will come after Clinton and what his attitude to Israel will be."

Asked whether any consideration had been given to moving Ms. Lewinsky to Israel to shelter her from the pressures of the scandal, Mr. Ginsburg was quoted as saying that such a move was not advisable now, but "after it's all over, if Monica wants to go, it could be a wonderful possibility."

The New York Times

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Lewinsky Friend Says She Told of an Affair

LOS ANGELES, Feb. 2 (AP) — A college student who worked as a Pentagon intern says Monica S. Lewinsky told him last summer that she had had a sexual relationship with President Clinton, the campus newspaper at the University of California at Los Angeles reported today.

The student, Dennis Lytton, a political science major at U.C.L.A., was

quoted in the newspaper, The Daily Bruin, as saying he briefly dated Ms. Lewinsky after they met at the Pentagon last July. "It was kind of shocking," Mr. Lytton, 24, said of Ms. Lewinsky's statements. "I didn't want to go into it further."

[Reached at his home by The New York Times on Monday, Mr. Lytton said that the article was accurate.]

BUSINESS

Companies Would Be Given Rewards for Retirement and Education Plans

By DAVID CAY JOHNSTON

Businesses could receive tax incentives for expanding workers' pension, retirement and education plans under the budget President Clinton unveiled yesterday. The budget also would give tax breaks to employees who lose their jobs.

On the other hand, it would end several devices that moderately wealthy Americans use to avoid paying estate taxes and would impose 39 tax increases on businesses.

To help workers save, the Administration proposed letting them use payroll deductions to contribute to Individual Retirement Accounts. To encourage businesses to allow those deductions, and to get more businesses to adopt 401(k) and similar plans, the Administration proposed new tax credits of up to \$2,000 per

company over three years, aimed primarily at small businesses.

Only about one-fourth of American workers have 401(k) or similar retirement plans, according to the Employee Benefits Research Institute, a nonprofit group in Washington.

These proposals are likely to find favor with Republicans, who have championed expanding retirement savings plans.

The Administration proposed to extend a variety of business tax breaks, including a welfare-to-work credit, educational grants to employees and a research and experimentation credit. It would also make permanent a provision of the 1997 Taxpayer Relief Act that allows companies to treat the costs of cleaning up toxic waste sites as expenses that can be immediately deducted, in-

stead of capital investments that must be amortized over many years.

The Administration also proposed a variety of tax credits for businesses that invest in energy-efficient equipment and roof-top solar collectors. Buyers of very highly fuel efficient vehicles could receive \$4,000 per vehicle in tax credits in 2002. Those buyers are likely to be corporations.

For workers who lose their jobs, the Administration would eliminate taxes on the first \$2,000 of severance pay. It is unclear whether this would be a boon to workers or simply encourage companies to reduce the size of severance packages.

The Administration also proposed extending the current law allowing up to \$5,250 a year in educational aid to be taken as a deductible expense

by employers, but not be counted as income for workers.

The Administration wants to expand a tax break for investors in about 80 companies licensed under the Black Capitalism program begun 29 years ago by the Nixon Administration. Investors who buy shares of Specialized Small Business Investment Companies would be allowed to roll over \$2 million in capital gains, deferring taxes so long as they held shares of the specialized companies. The current limit is \$50,000 per year, a figure that critics say is too small to create a significant capital market for minority and immigrant entrepreneurs. Only one of these companies, Freshstart Venture Capital Corporation of New York City, has publicly traded shares.

The plans to increase 39 business

taxes drew prompt criticism from Bruce Josten, executive vice president of the United States Chamber of Commerce. "These are not the kinds of proposals that the greater business community is going to like because there are about \$23 billion in new tax proposals that affect different slices and slivers of the business community," he said.

Mr. Josten, noting that President Clinton cited expanding exports as a major factor in the strength of the economy, also objected to a change in a tax on manufacturers that he said, "dings our exporters with \$6.5 billion in new taxes and does so in a very convoluted way."

The estate tax proposals were completely unexpected, said Evelyn Capassakis, director of estate planning for the Coopers & Lybrand ac-

counting firm. "It looks like they are taking the offensive against the Republicans, who want to repeal the estate tax," Ms. Capassakis said.

"The Administration is saying not only do we not want to repeal the estate tax, we want to tighten it up," she said.

One Administration proposal would require portfolios of stocks and bonds to be valued at market price, ending the growing practice of claiming discounts on publicly traded securities.

Few of the tax proposals are likely to get past Representative Bill Archer of Texas, chairman of the tax-writing House Ways and Means Committee, who said the budget was "a disappointment" and reiterated his pledge to continue closing loopholes, but to kill any tax increase.

Ex-Clinton Aide Declines California Race

MONTEREY, Calif., Feb. 2 (AP) — President Clinton's former White House chief of staff, Leon E. Panetta, said today that he would not enter the race for the Democratic nomination for governor of California.

In a written statement from his Carmel Valley home, Mr. Panetta said he had agreed to reconsider entering the race after Senator Dianne Feinstein decided two weeks ago not to seek the nomination.

But, he said, "My conclusion is that at this late date, it's just not realistic to expect that I could put together an effective campaign with

the necessary resources and organization needed to win."

Mr. Panetta also cited the enormous task of fund-raising in his decision, saying that he believed that he had a broad base of support but that he did not think he could raise the \$1 million a week it would take to be a competitive candidate this year.

Mr. Panetta's decision leaves Lieut. Gov. Gray Davis and Al Checchi, a multimillionaire businessman, as the only announced candidates for the Democratic primary on June 2.

Gov. Pete Wilson, a Republican, is barred from seeking a third term.

Florida Jury Urges Absentee Voting Overhaul

By MIREYA NAVARRO

MIAMI, Feb. 2 — A state grand jury today recommended a wholesale revamping of the absentee ballot system here, saying its flaws led to voter fraud that "played an important part" in last November's mayoral election.

Evidence of voter fraud has led to three arrests in the Miami area as the Florida Department of Law Enforcement pores over some 5,000 ballots in a criminal investigation of the election, won by Mayor Xavier L. Suarez. So far, state investigators have found evidence of ballots cast using the names of dead voters, illegal registrations based on fraudulent addresses, and manipulation of elderly voters by volunteers working for the various candidates who witness the signing of absentee ballots and deliver them to election officials.

The voting irregularities, which also extended to the mayoral election in the city of Miami Beach, were discovered shortly after the November election, and the grand jury was convened to recommend changes in the absentee ballot procedure to deter voter fraud.

State Department of Law Enforcement officials said that the grand jury report released today did not produce any new evidence. But Doyle Jourdan, the department's regional director here, said there could be more arrests before the investigation is closed in about a month.

The report comes just days before the trial on Feb. 9 of a lawsuit filed by the former mayor of Miami, Joe Carollo. The suit seeks to overturn the election results on grounds of fraud in the absentee ballots. Mr. Carollo won at the polls but trailed in absentee ballots in the first-round election that preceded the runoff won by Mr. Suarez.

Mr. Carollo's lawyer, Kendall B.

Dead people were voting in Miami's mayoral election.

Coffey, said it was difficult to say how the grand jury report or the recent arrests of campaign volunteers and a secretary for Miami City Commissioner Humberto Hernandez, who is awaiting trial on Federal charges of mortgage and money laundering, would bolster Mr. Carollo's case. The civil suit is before the state judge who can order a new election.

Mr. Coffey said that throwing out the election results would ultimately prove the best deterrent to voter fraud.

"That would be much more meaningful to the operatives in the political world," Mr. Coffey said, "because in their world it's all about winning or losing. There has to be a consequence that reverses that windfall of illicit activity. Otherwise grand jury reports and even arrests may not overcome this problem."

State investigators say none of the mayoral candidates is a suspect. But the cloud of doubt over the election has enveloped Miami's politics in uncertainty just as the city was putting behind the financial troubles that had hobbled it since 1996. Last week, auditors told the state board that monitors the city's spending that Miami no longer faced a deficit and had ended the 1997 budget year with a general fund surplus.

Mr. Suarez, who lately has been sending out weekly press releases promoting the city's accomplishments, did not return telephone calls.

In today's report, the grand jury said that the absentee voting was so

riddled with flaws that "no one solution exists which will immediately restore credibility to the process." It offered nine pages of recommendations that included imposing restrictions that would allow absentee ballots only as a necessity and not merely for convenience, and increasing the criminal penalties for voting violations.

The grand jury also recommended more stringent requirements for obtaining and casting absentee ballots, such as the presence of two witnesses instead of one, improving the way the Miami-Dade County Elections Department inspects the ballots for fraud and using devices like random voting audits to catch cheaters. Currently, the panel said, suspicious absentee ballots "are usually simply tossed into a box, stored for a year and then destroyed." The grand jury also recommended raising voter fraud violations from a misdemeanor to at least a third-degree felony.

Many recommendations would require action by the Florida Legislature to be implemented.

"We can never advance and confront the problems of the 21st century," the report said, "unless we take these basic preliminary steps to insure that our leaders are men and women of vision and ideas, not charlatans well-versed in theft and deceit."

The Miami-Dade County State Attorney, Katherine Fernandez-Rundle, said the grand jury had the difficult task of balancing the access of some voters to the polls with maintaining the integrity of the balloting process.

"You don't want to exclude people but minimize the potential for fraud," she said. "The grand jury, speaking as the conscience of this community, has spoken wisely."

The New York Times

TUESDAY, FEBRUARY 3, 1998

Clinton's Budget Recalls His '92 Agenda

New-Spending Plan Likely To Spark Classic Fight On Role of Government

By CHRISTOPHER GEORGES

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — President Clinton's fiscal 1999 budget, with proposals for new programs totaling more than \$100 billion over five years, is being dubbed by opponents as a return of big government. More accurately, even supporters agree, it marks the return of Bill Clinton.

"With the budget balanced, the president is much freer to move back to his basic agenda," said Robert Reich, Mr. Clinton's former Labor secretary. "It's much harder for Republicans to oppose him now, and the public itself feels freer to embrace it."

The Clinton Budget

The priorities in Mr. Clinton's \$1.733 trillion budget for the fiscal year beginning Oct. 1, 1998, more closely match his 1992 campaign manifesto "Putting People First" and his first budget than any budget since. The proposal calls for \$135 billion over five years in new and increased spending, as well as tax breaks for education, technology, research, job training,

fighting crime and drugs, among others.

"This budget marks the end of an era, an end to decades of deficits that have shackled our economy, paralyzed our politics and held our people back," President Clinton said in a budget ceremony in the East Room of the White House.

The new budget predicts the first federal surplus since 1969: nearly \$10 billion next year and more than nearly \$220 billion over the next five years. And it tries to make room for the new initiatives while remaining true to the tight spending limits set in last year's balanced-budget law. It does this largely by counting on billions of dollars from business-related tax increases and revenues from a hoped-for tobacco settlement.

The blueprint sets the stage for a classic Republican-Democrat debate over expanding government's role. White House officials stressed that any new spending is offset elsewhere in the budget and does not rely on surpluses. Those funds, President Clinton has said, will be reserved to help extend the life of Social Security. But Republicans leaders see a big spending agenda based on flimsy offsets that ultimately will lead to higher taxes and more government regulation.

While the question of who's right is certain to simmer in Congress, a definitive answer isn't likely to emerge. "When you're considering a \$1.7 trillion budget, \$100 billion over five years is a modest amount of money," said Robert Reich, a budget expert at the Brookings Institution.

But some conservative economists see in Mr. Clinton's plan seeds for further federal regulation. "No matter how these programs are constructed — especially those in education — they will ultimately be accompanied by more federal strings," said Murray Weidenbaum of Washington University in St. Louis. Others argue that the range of proposals — \$5 billion in tax incentives to encourage school construction, \$21.7 billion to help low-income and middle-income families pay for child care, and a Medicare buy-in option for people age 62-64, among others — will balloon. "President Clinton is cleverly planting

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Budget Highlights

Major provisions of Clinton's proposed budget:

- Add 100,000 teachers
- Allow some Americans age 62-64 to buy into Medicare
- Expand child-care tax credits for employers, families
- Raise tobacco taxes to discourage smoking, fund domestic priorities
- Tax credits, spending to cut greenhouse-gas emissions
- Direct surpluses to shore up Social Security
- Boost spending on biomedical research

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little bombs that will eventually explode," said Stephen Moore, a budget analyst at the libertarian Cato Institute.

The budget plan combines some shaky assumptions about future revenues with a mix of wishful thinking. Administration budget writers rely on \$65 billion over five years from anticipated tobacco legislation that would codify a proposed settlement reached by the industry and state attorneys general. But the legislation is far from certain.

Mr. Clinton is also counting on \$23 billion over five years in tax increases, a number of which will likely face strong opposition from congressional Republicans. The budget contains no backup mechanism to ensure funding for the new initiatives if the revenues fail to materialize. In that case, senior administration officials said, new spending initiatives would be trimmed.

Given the tenuous nature of proposed new revenues, not to mention the long odds of getting the programs through Congress anytime soon, the president's budget essentially is a master plan Mr. Clinton will use over the next few years to focus the nation's attention on policies.

The 1999 budget, with its renewed zeal in technology, the environment and education, was built on three pillars. For one, Mr. Clinton and his policy advisers place their faith in education and technology as the engines of long-term economic growth. Economists from both sides of the aisle agree that the more educated the work force, the greater the value of goods and services it produces per hour of work. Thus, for example, Mr. Clinton has proposed adding \$100 million over five years to help workers who have lost their jobs.

Second, with surpluses now projected, the public as well as politicians appear

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open to considering a more activist agenda. Mr. Clinton's \$7.5 billion proposal for grants in child-care and child-development programs, for example, would have been a rough sell last year when he was calling for more than \$100 billion in savings from Medicare, Medicaid and other programs.

Finally, with the fall elections approaching, Mr. Clinton wants to help Democrats win back the House by touting popular programs Republicans can't stomach. So expanding Medicare, increasing the minimum wage, and adding more money for nationwide school testing became attractive. At the same time, the White House wanted an agenda that the middle class could embrace and that many Republicans could attack at their own political peril. That translated into billions of dollars for funding charter schools, shrinking classroom sizes, biomedical research, saving Social Security and fighting drugs and crime. "The emphasis here is clearly on middle and working class Americans," said Mr. Reich.

Some elements, such as Mr. Clinton's Patients' Bill of Rights, are similar to ones put forth by conservatives. Even proposals aimed directly at poor Americans have special appeal to Republican lawmakers. A \$2 billion plan to restore food stamps to nearly 800,000 legal immigrants, for example, has been a top priority for Hispanics, a group Republicans strategists want to win over.

This puts Republicans on the spot. "For anyone who disagrees with these ideas, it will be like saying I don't like apple pie, motherhood and Chevrolets," said Wisconsin GOP Rep. Mark Neumann, a leader in recent years among House budget-cutters. "I don't want to see an expansion of government, but I don't want to not support apple pie and motherhood."

Budget at a Glance

In billions of dollars of outlays, by fiscal year

	1997 ACTUAL	1998 ESTIMATED	1999 PROPOSED	2000 PROPOSED
Defense	\$270.5	\$264.1	\$265.5	\$268.7
International Affairs	15.2	14.5	14.5	15.3
Science, space, technology	17.2	17.1	17.6	18.2
Energy, environment, natural resources	22.9	24.2	22.2	24.1
Agriculture	9.0	10.6	11.0	10.5
Commerce, housing, community development	3.6	15.3	14.5	22.0
Transportation	40.8	41.5	42.3	43.1
Education and training	53.0	55.1	59.5	62.5
Medicaid, health	123.8	131.8	141.5	149.9
Govt. pensions, unemployment, welfare	230.9	239.3	252.8	263.3
Medicare, Social Security	555.3	579.8	603.5	629.5
Veterans	39.3	43.1	43.3	44.0
Justice	20.2	22.3	25.5	25.9
Misc., offsetting receipts	37.2	33.5	25.3	28.3
Net Interest	244.0	242.7	241.8	236.5
TOTAL OUTLAYS	\$1,601.3	\$1,667.8	\$1,733.2	\$1,785.0
TOTAL REVENUES	\$1,579.3	\$1,657.9	\$1,742.7	\$1,703.6
DEFICIT/SURPLUS	-\$21.9	-\$10.0	\$9.5	\$8.5

Note: Totals may not add due to rounding. Not adjusted for inflation.

Source: Office of Management and Budget

Budget Manages to Skirt Spending Caps

By DAVID WESSEL
And CHRISTOPHER GEORGES

Staff Reporters of THE WALL STREET JOURNAL
WASHINGTON President Clinton found a way to get around the strict spending caps set by Congress: raise tobacco taxes by \$65.5 billion over five years and then allocate that money to domestic priorities.

Since 1990, federal law — at least as interpreted by budget wonks — has required that tax increases go to reduce other taxes, to pay for sweetened federal benefit programs or for deficit reduction. They're not supposed to go toward raising the spending ceiling on annual appropriations, which represent about one-third of federal spending, including much of Mr. Clinton's agenda for education, research, health, transportation and the environment.

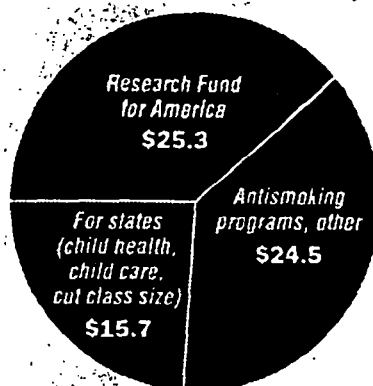
The provision, crafted by Bush administration Budget Director Richard Darman, was intended to block what Republicans deride as Democrats' inclination to tax and spend. But that's precisely what Mr. Clinton wants to do — if Republicans will let him.

Some are already resisting. House Appropriations Committee Chairman Robert Livingston (R., La.) said yesterday the Clinton proposal "violates the spirit" of the spending caps and "has no basis in legislative reality."

"I don't think it's credible to say to Republicans, 'Don't use the surplus to cut taxes,' and then for him to propose that we bust the budget caps," said Sen. Phil

Tobacco Windfall

How Clinton would spend tobacco-settlement revenue, a total of \$65.5 billion over five years



Source: Office of Management and Budget

Gramm (R., Texas).

Mr. Clinton's budget projects revenue of \$65.5 billion over five years from a settlement of pending tobacco litigation; that works out to a 65-cent-a-pack increase next year, rising to a total of \$1.10. He proposes to spend much of that on research of various sorts, antismoking programs and on grants to states for child care, child health and smaller class sizes in school.

Mr. Clinton long has chafed under the caps, and unsuccessfully sought to breach them in his first budget in 1993. In last year's budget talks, Mr. Clinton persuaded Congress to allow somewhat more spending, but not enough to satisfy his appetite.

The 1997 balanced-budget law set a ceiling of \$294.9 billion for outlays on nondefense spending in fiscal 1999; tobacco revenues would allow Mr. Clinton to propose spending about \$5 billion more.

In the next four years, the ceilings allow for \$1.17 trillion in nondefense outlays; thanks to the tobacco money, Mr. Clinton's budget calls for spending \$39 billion more than that, or about 3.4%.

Federal Reserve Chairman Alan Greenspan last week said that the caps have had "a significant effect" on the government's fiscal credibility, and urged Congress to "think twice, maybe four or five times" before "moving them around."

The Clinton proposal is "not part of the procedures that were adopted in 1990," said Robert Reischauer, the Brookings Institution fellow who was director of the Congressional Budget Office at the time. "But there's no reason why, as the fiscal environment changes, there shouldn't be some loosening and modifying of the 1990 procedures."

"This doesn't upset me at all," he said, "provided that he stays true to his word that if the tobacco settlement doesn't come through, he will find other sources to support these initiatives or will drop them altogether."

White House Budget Director Frank Raines said that if the tobacco legislation doesn't pass, "We will have to trim our proposals." But he predicted that the revenue-raising portion of the proposed settlement will be enacted, even if other parts aren't.

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The Impact on Key Agencies

PRESIDENT CLINTON'S budget for fiscal 1999, which begins Oct. 1, 1998, calls for total outlays of \$1.733 trillion, 3.9% more than is projected to be spent in the current fiscal year.

Of the total, nearly 54% would go to pay various federal benefits, about 15% would go to defense, 16% to annually appropriated domestic spending and slightly more than 1% to international activities. About 14%—\$241.8 billion in all—would go for interest on the federal debt.

Federal receipts, including the proceeds of a tobacco tax that Mr. Clinton supports, would total \$1.743 trillion, up 5.1% from this year's projections.

Here are some highlights of the president's proposal:

COMMERCE

THE ADMINISTRATION'S fiscal 1999 budget contains several new programs designed to spark the emerging digital economy.

The centerpiece, say White House technology advisers, is the "21st Century Research Fund," \$31 billion in allotments for key scientific and technological research programs that would grow to \$38 billion by 2003.

The Commerce Department's "Advanced Technology Program" would benefit from the fund. It offers money for research and development of high-risk technologies, such as "adaptive learning" projects, World Wide Web-based systems used for teaching. Funding for the program would increase to \$399 million by 2003 from \$182 million in 1998.

Another high-tech boon: President Clinton's "Next Generation Internet" will receive \$110 million. The aim of the initiative is to connect 100 universities and national laboratories at speeds that are 100 to 1,000 times faster than today's Internet. The budget also devotes another \$770 million for educational technology.

EDUCATION & LABOR

THE CENTERPIECE OF the education budget is the president's plan to reduce class size to 18 children in the first three grades.

Some 100,000 teachers would be added over the next seven years at a cost of \$1.1 billion in fiscal 1999 alone. Proposals to build and repair classrooms, improve teacher training and certification, and help struggling young readers are linked to the class-size initiative.

But in the same way that national testing, the centerpiece of last year's budget, bogged down in Congress, class size faces an uphill battle. It depends on passage of tobacco-settlement legislation, which is far from certain, and House Republicans are challenging it as a grab for more federal control of education.

The Labor Department plans to spend \$20 million, a \$6 million increase, to expand America's Job Bank, an Internet site where employers post job openings. Also, the department wants to spend \$1.1 million to expand its on-line system that lets workers and employers get answers to labor-law questions.

HEALTH

BIG INCREASES are proposed for biomedical research and disease prevention, pushed hard by Vice President Al Gore.

The National Institutes of Health would be a big winner; its funding would rise \$1.15 billion to \$14.8 billion next year and top \$20 billion in 2003. High priorities would be research on cancer, diabetes, brain disorders and genetics.

Spending would be bolstered on improving health-care quality and on Food and Drug Administration bids to curb food-borne illnesses and tobacco use by youth. The budget also proposes spending \$900 million over five years to help states enroll millions of eligible children in either Medicaid or a new children's health-insurance program.

The administration expects that many initiatives would be funded through \$65.5 billion raised over five years from the proposed tobacco settlement. Officials pledged to find funding should the settlement collapse.

The administration also proposed antifraud measures aimed at saving Medicare \$2.4 billion over five years.

TRANSPORTATION

TRANSPORTATION Department outlays would rise slightly to \$43.3 billion, just 1% above this year's budget.

Safety spending would increase 11% to \$3.1 billion, with expansion of special programs to reduce drunken driving, enforce seat-belt laws and modestly increase hiring of air-traffic controllers and aviation inspectors.

Total Federal Aviation Administration outlays would increase by \$640 million to \$9.75 billion. The amount devoted to civil-aviation security would double, and would include funds for some new airport explosives-detection equipment. The \$2.13 billion proposed by the FAA for new buildings and equipment, however, falls short of what planners say they'll actually need.

Spending for Amtrak and for Coast Guard drug interdiction also would increase. There would also be a new incentive fund to get states to build highway projects they cannot afford to build on their own. In all, \$1.1 billion would be allocated to research and development.

JUSTICE

MUCH OF THE Justice Department's proposed 4.4% funding increase focuses on youth violence, drug trafficking, computer crimes and illegal immigration.

The department, which is seeking \$20.9 billion, would dedicate nearly \$2 billion to establish programs to combat juvenile violence and violence against women. Of that, \$1.4 billion would be used to put 16,000 additional police officers on the street.

The department's fight against computer crime would get a boost of nearly \$64 million to add 75 FBI agents and 24 attorneys.

The department is seeking \$7.7 billion to combat drug trafficking. As part of that effort, the department wants to hire more than 250 Drug Enforcement Agency agents and 64 prosecutors. To curtail illegal immigration, the department wants \$103 million to hire more than 1,000 agents to patrol the nation's borders. More than \$14.6 million has been set aside for new technology, such as night-vision goggles.

More than \$150 million would be used to crack down on crime on Indian lands.

ENVIRONMENT & ENERGY

AMID FLAT OR slumping budgets, agencies that protect the environment are focusing on ways to combat global warming and to further promote clean air and water resources in the fiscal 1999 budget.

The one exception is the Department of Energy, whose budget will rise to \$16.1 billion from \$14.5 billion, with part of the increase devoted to a \$6.3 billion, five-year program to develop and promote "super-efficient" cars and new electricity generation that cut carbon dioxide emissions by using less fuel.

The Interior Department, whose budget remains frozen at last year's \$7.9 billion level, wants to spend \$282 million, a 24% increase, to buy land north of Florida's Everglades to function as a natural buffer zone to filter the flow of water from sugar plantations into the park.

The Environmental Protection Agency, whose budget would grow to \$7.8 billion from \$7.2 billion, would help the Agriculture Department oversee a program to prevent polluted runoff from farmland. The agencies want a 35% increase in funding for the program to \$568 million.

AGRICULTURE

HIGHER FOOD PRICES and more recipients would require the Agriculture Department to boost outlays for food stamps 6% to \$23.6 billion.

The department assumes Congress will restore the eligibility of legal immigrant families who were cut off from food stamps in August 1997. Spending on school meals and other nutrition programs would increase 4% to \$13.2 billion.

Outlays for meat and poultry inspection would rise 5% to \$709 million. Of that, \$573 million would come from user fees that Congress would have to authorize. Meat and poultry processors are certain to lobby fiercely against such fees.

As part of President Clinton's food-safety initiative, spending on research and fruit and vegetable testing would more than double to about \$100 million.

These increases would be more than offset by cuts in farm subsidies and an anticipated 57% jump in debt repayments, leaving the Agriculture Department with a \$54.3 billion budget, down 1.3% from the current fiscal year.

HOUSING & URBAN DEVELOPMENT

IN THE DEPARTMENT of Housing and Urban Development's requested budget, which would rise to \$31.6 billion from \$31 billion, it proposes a new way to help provide housing for some families moving to work from welfare.

It would create 50,000 rental-housing vouchers, to allow families to either move to areas with more job opportunities or to shorten a long commute. The administration is also proposing another 50,000 vouchers, with 34,000 for homeless people and 8,800 for the elderly.

Also included in the budget is a new Community Empowerment Fund to create and retain about 280,000 jobs. State and local governments would use its grants to leverage about \$2 billion in private-sector loans to businesses. The spending plan also would create 15 urban "empowerment zones" to stimulate jobs and economic development.

The budget also would raise the limit on Federal Housing Administration home mortgage loans to \$227,150, from the current \$86,317 limit in most communities and \$170,362 in high-cost neighborhoods.

FOREIGN AID

THE REAL FIGHT on foreign spending will focus on the fiscal 1998 supplemental spending request, which also goes to Congress this week.

That includes \$3.5 billion for a new lending facility for the International Monetary Fund, \$14.5 billion for an IMF quota increase and \$921 million to pay off U.S. arrears, mainly to the United Nations.

The U.N. and IMF don't have many friends in Congress. Part of their money is being held hostage in an unrelated fight over funding overseas family-planning organizations.

The fiscal 1999 international affairs budget request should prove less controversial. The administration wants \$20.15 billion for foreign aid and operating expenses for the State Department and other international agencies, a \$1 billion increase. Outlays would decline by \$300 million, to \$18.6 billion.

A few proposals could draw fire, especially plans to double aid to Haiti and Russia. Officials predict more support for \$200 million to rebuild the crumbling U.S. Embassy in Beijing.

FY 1999: Winners & Losers

The Washington Post

TUESDAY, FEBRUARY 3, 1998

culture—a surplus is possible only if the government collects the \$65 billion it anticipates receiving as part of a tobacco industry settlement. The discretionary funds discussed below are in outlays—the amount of money the government spends in the fiscal year, which begins in October—unless specified. How agencies would be affected.

The 1999 budget plan that President Clinton sent to Congress yesterday would leave the United States \$10 billion in the black—the first federal surplus in 30 years. The proposal calls for spending \$1.733 trillion and collecting \$1.743 trillion. Because the budget contains many new spending initiatives and tax breaks while cutting the budget of only one department—Agriculture—



AGRICULTURE

Food Stamps

Restoring the eligibility of 730,000 legal immigrants for food stamps next year will contribute to a \$1.6 billion boost in the government's biggest feeding program, now running at \$22.9 billion annually.

President Clinton vowed to restore the benefit after it was eliminated in the 1996 welfare law. Agriculture Secretary Dan Glickman noted that even with legal immigrants back on the rolls, 4 million fewer persons will receive food stamp benefits than in 1993.

The \$54.3 billion Agriculture Department budget also includes a \$34 million increase for the Food Safety and Inspection Service. Though an increase of only 5 percent, a separate Clinton initiative would provide an additional \$101 million government-wide for research, consumer education and other steps to reduce food contamination.

Despite booming farm prosperity, the overall agriculture budget declines only slightly from 1998, reflecting continuing large fixed payments to farmers mandated in the 1996 Farm Act. In addition, the administration proposes improved access to credit by disadvantaged farmers and full funding of the crop insurance program.

— Dan Morgan



COMMERCE

2000 Census

The Commerce Department budget would rise about 12 percent under Clinton's budget, to \$4.6 billion in fiscal 1999, mostly because of the expense of preparing for the 2000 census.

Spending on the census would increase by 69 percent in 1999, to \$1.087 billion, reflecting an increase in staff of 11,000, for a total of 16,500.

The administration also wants to increase spending on the controversial Advanced Technology Program, which promotes research and development partnerships with private industry. The program has been repeatedly cut by the Republican Congress on the grounds that it is a form of "industrial policy" requiring Washington to pick winners and losers among promising technologies.

The White House wants to spend \$240 million on ATP in 1999, increasing to nearly \$400 million by 2003 as more new technologies are funded.

— Paul Blustein



DEFENSE

Flat Spending

Clinton's \$270.6 billion defense budget proposal, adjusted for inflation, fits a pattern of flat spending that administration officials expect to hold for the next few years.

The administration is proposing to boost funds in two critical areas, however. The budget adds \$1 billion to address spare-parts shortages and maintenance backlogs and to sustain training levels, amid reports that increased deployments at a time of troop cuts have eroded military readiness. Defense Secretary William S. Cohen yesterday promised "new management systems to track unit deployments and to focus corrective action whenever they exceed certain thresholds."

Further, the budget provides \$48.7 billion to update aging weaponry, a rise of about \$4 billion over current procurement levels.

Notably absent are funding requests for military operations in Bosnia or the Persian Gulf region, which Pentagon officials said would come later in the year.

— Bradley Graham



EDUCATION

More Teachers

The nation's schools would receive another large infusion of money in the fiscal 1999 education budget—\$33.9 billion in outlays, an increase of more than 10 percent.

The most striking proposal is to spend \$1 billion to start a seven-year program to help schools hire 100,000 teachers and to reduce class size in most elementary grades to 18 students per teacher.

Much of the new spending targets poor, urban schools with severe academic problems. Clinton is proposing to add \$392 million to Title I, a program that provides classroom aid to the neediest students. He also wants to spend \$200 million on an initiative to designate some urban districts "Education Opportunity Zones" and award grants to help them improve. The budget calls for increases for after-school programs, independent "charter" public schools, a new tutoring program—called America Reads—and to upgrade classroom technology.

Access to college was the focus of last year's education budget, and Clinton wants more spending on that subject again this year. He is proposing increases for Pell Grants, which needy college students use for tuition, and for work-study programs.

— Rene Sanchez



ENERGY

Stressing Science

The Department of Energy is asking for \$18 billion in budget authority in fiscal 1999, up approximately \$1.5 billion, or 9 percent, from its 1998 budget authority. DOE outlays, or actual spending, would be increased in the president's budget to \$17.2 billion, up 5.6 percent from an estimated \$16.4 billion in 1998.

Energy Secretary Federico Peña said the budget emphasizes "science, technology and energy for our future." Major increases include more money for research and development in energy efficiency, renewable energy, fossil energy and nuclear energy. That includes spending on research to improve the operations of aging nuclear power plants.

About \$330 million of President Clinton's proposed \$6 billion in expenditures to reduce emissions of greenhouse gases are included in the DOE budget.

The budget also includes a request for \$421 million to support the Comprehensive Test Ban Treaty and address the threat of nuclear proliferation and \$317 million to continue the cleanup of highly radioactive and toxic waste at old nuclear weapons facilities. DOE is requesting budget authority of \$160 million to support the operation of the Strategic Petroleum Reserve without relying on oil sales from the reserve.

— Martha M. Hamilton

1/3

**EPA**

Climate Change

New assaults against water pollution, toxic waste and global warming add up to the biggest bottom line ever for the Environmental Protection Agency. Outlays would jump nearly 11 percent to \$7.1 billion, according to the White House.

EPA Administrator Carol M. Browner is asking for \$116 million in new spending for climate change initiatives, more than doubling the agency's current efforts. The increase is part of the \$6.3 billion President Clinton wants to spend over the next five years to reduce the country's emissions of heat-trapping greenhouse gases.

Another \$145 million in new spending will fund the clean-water initiative announced by Vice President Gore in the fall, Browner said. Most would go to states and local communities to help them reduce indirect pollution from farms, lawns and city streets.

— Joby Warrick

**HHS**

Medicare Growth

Health and Human Service Department outlays would rise from \$359 billion in fiscal 1998 to \$381 billion, a 6 percent increase. The administration has proposed expanding Medicare to some Americans age 55 and older, growing the program to \$205 billion, nearly 5 percent.

The administration proposed a \$1.15 billion increase, or 8.4 percent, for the National Institutes of Health, the single largest dollar increase in its history. Additional funds would create a Research Fund for America to bolster the nation's investment in basic medical research and focus more effort on disease prevention.

The president has also proposed a major increase in resources for child care, including a \$7.5 billion increase over five years to help cover the cost for low- and moderate-income families.

Medicaid, which supplies health care to the poor, would grow from \$101 billion to \$108 billion.

—Barbara Vobejda

**HUD**

Modest Proposals

The fiscal 1999 budget for the Department of Housing and Urban Development is peppered with modest initiatives in nearly every program area. Nearly \$1 billion is earmarked for housing rental assistance and economic development, while big percentage increases were proposed in spending to help the homeless and to fight housing discrimination.

Most notably, the administration proposes the first increases in vouchers to help poor families pay for housing costs since the number was frozen at 3.1 million in 1994. Half of the 100,000 new vouchers would be reserved for families leaving welfare for work, 34,000 for the homeless and 8,800 for the elderly.

Overall, HUD spending in fiscal year 1999 will go up less than 2 percent to \$31.6 billion, but the department is seeking to launch \$1.8 billion in new programs, some of which will be paid for over several years.

The budget also includes \$400 million to help economically distressed communities retain and create jobs, and \$50 million in additional Community Development Block Grants, the department's mainstay program for local governments.

—Judith Havemann

**INTERIOR**

Park Repairs

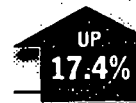
Some long overdue repairs are in store for America's 350 national parks if Congress fully funds Interior Secretary Bruce Babbitt's 1999 spending plan. Babbitt wants to expand the parks' maintenance budget by 18 percent, or \$86 million, as part of a five-year effort to repair crumbling infrastructure.

The department's \$8.1 billion budget proposal represents a 6 percent jump over the current budget. The actual 1999 outlays would total \$7.9 billion, or about the same as the current year.

The budget calls for a 42 percent increase for endangered-species programs, including 100 new "Habitat Conservation Plans" to protect threatened creatures and plants on private lands. It proposes \$213 million in new land acquisitions, including ecologically important tracts in the Everglades, Southern California and the Mississippi Delta.

The Bureau of Indian Affairs would receive an additional \$142 million to fund education programs and improve law enforcement.

—Joby Warrick

**JUSTICE**

Attacking Crime

Citing a need to intensify the fight against youth violence, narcotics, illegal immigration and "cybercrime," Attorney General Janet Reno said the Justice Department is seeking a 4.4 percent increase in its budget for fiscal 1999.

That would bring the department's budget authority to \$20.9 billion, up 87 percent since Clinton took office.

The new budget includes \$481 million for various programs to curb violent juvenile crime and support additional prosecutors. A total of \$1.4 billion would go toward putting 16,000 more "community oriented police officers" on the street.

The budget request also calls for 75 additional FBI agents and 24 government attorneys to "keep pace with the cybercriminals of the 21st century," Reno said.

The budget also includes \$7.7 billion to fight drug trafficking, adding 257 new anti-narcotics agents. The department also wants \$4.2 billion for the Immigration and Naturalization Service, up 10.3 percent from this year. The agency plans to hire 1,000 new Border Patrol agents.

—Bill Branigin

2/3



LABOR

Mostly Mandatory

The overall Labor Department budget calls for \$36 billion in outlays for fiscal 1999, a 12.1 percent increase over President Clinton's budget request last year. But all the increase is in mandatory programs over which the department has no control. Discretionary spending for new programs actually is down \$100 million from \$10.6 billion in the previous year.

Two-thirds of Labor's budget involves mandatory spending for such programs as job training and unemployment insurance benefits.

Nonetheless, Labor Secretary Alexis M. Herman said the department was asking for increased spending in areas such as summer hiring for out-of-school youth, adult training grants and veterans' employment.

— Frank Swoboda



STATE

Africa Aid Boost

Although the State Department spending remains flat, the president's budget seeks about \$20 billion for international affairs, including foreign aid, operation of the State Department, military aid, payment to the United Nations and other international agencies, as well as U.S. contributions to international development banks.

That figure represents an increase of about 6 percent from this year's appropriated level, and it is more than 10 percent above the level in fiscal 1997, when international affairs spending bottomed out.

Much of the new money would be spent on aid to Africa, including \$35 million in debt relief and \$30 million for a special program mostly focused on building judiciary systems in Rwanda and Burundi. Aid to Haiti would double, from \$70 million to \$140 million.

Not included is \$1.02 billion the administration is seeking to pay this country's debt to the United Nations. That money will be sought in a separate supplemental appropriation.

— Thomas W. Lippman



TRANSPORTATION

Details to Come

Overall spending on the nation's transportation infrastructure would rise under the administration's fiscal 1999 budget to the highest level in the Department of Transportation's history. But details of the increases remain murky. Congress has yet to agree on a highway construction spending formula and DOT officials were unable yesterday to offer specifics on how the administration would finance Clinton's proposed Transportation Fund for America.

Budget documents say the fund would be financed in part by new aviation user fees. Beginning in 2000, the administration assumes that the current aviation excise taxes will be "gradually reduced and replaced with a more efficient system of cost-based user fees" for Federal Aviation Administration services.

Transportation Secretary Rodney Slater said Amtrak, the federally-financed rail passenger service, will get the highest level of taxpayer support it has known in years. The budget calls for \$621 million in fiscal 1999 for Amtrak.

— Bill McAllister



TREASURY

IRS Improvements

Under attack in Congress for mistreating taxpayers and lagging in its computer modernization program, the Internal Revenue Service would get an increase of \$534 million to improve customer service and update its computers. The IRS, part of the Treasury Department, would get an overall increase of \$8.3 billion, from fiscal 1998.

The budget adds 1,500 full-time staff positions to handle telephone calls from taxpayers and provide other services.

Outlays for the Treasury Department would be about \$399 billion, up from about \$387 billion in fiscal 1998.

— Judy Sarasohn



VETERANS AFFAIRS

Slow Growth

The Clinton administration made good on its promise to slow the rate of growth in the Department of Veterans Affairs, a ploy that, no doubt, will increase pressure on Congress to enact legislation allowing VA hospitals to tap Medicare funding. Without Medicare, VA officials say the future of their 170 hospitals is in doubt.

Overall VA spending would increase slightly to \$42.3 billion, while spending on medical programs would dip slightly. That decrease should be offset by insurance payments which Congress has agreed to let the VA keep.

The administration will ask Congress once again to overturn smoking-benefit rulings by its own general counsel. Those rulings would grant millions in compensation to veterans who smoked on active duty and have become ill as a result.

— Bill McAllister

Area Officials Mostly Praise Clinton Budget

Wilson Bridge Funding Is Disappointment; Schools, Waterways and Technology to Benefit

By Richard Tapscott
Washington Post Staff Writer

The Washington area found several of its wishes fulfilled in the federal budget plan that President Clinton sent to Congress yesterday, but the proposal fell far short of local expectations on funding to replace the Woodrow Wilson Bridge over the Potomac River.

Officials from Maryland and Virginia praised the president for his plans to put money into school construction and teacher training and his emphasis on protecting waterways from pollution. They also said he had placed priorities on research and capital projects at such suburban facilities as the National Institute of Standards and Technology and the National Institutes of Health, both in Montgomery County, and Goddard Space Flight Center in Prince George's County.

But local leaders bitterly criticized the funding for the aging Wilson bridge, which engineers say is nearing the end of its safe life. The

president asked for \$180 million next year and a total of \$400 million over six years to replace the bridge.

"That's almost laughably inadequate," said Rep. James P. Moran Jr. (D-Va.).

Through a spokeswoman, Virginia Gov. James S. Gilmore III (R) accused the president of "shirking" his responsibility to replace the federally owned bridge. Local officials say a new 12-lane span could cost as much as \$1.8 billion.

Maryland officials were buoyed by Clinton's request for a 35 percent increase in spending by the Department of Agriculture and by the Environmental Protection Agency on efforts to prevent contamination of waterways by agriculture runoff. Such pollution was one of the suspected culprits in last summer's outbreak of the toxic microorganism *Pfiesteria piscicida*, which was blamed for the deaths of thousands of fish on the lower Eastern Shore.

Maryland Gov. Parris N. Glendening (D) said he cheered when Clinton discussed his efforts to improve

water quality in the State of the Union speech last week. "I've said pfiesteria is a symptom of a broader problem," Glendening said yesterday. "The president now has committed \$568 million in clean water funds and \$9 million specifically for pfiesteria research."

The District of Columbia learned last week how it would fare in the budget, when the administration announced early that it would propose spending an additional \$120 million, which would both bolster the local economy and pump extra money into schools for teacher training and student assistance. Clinton also asked Congress for \$50 million in new economic development efforts for the city and \$25 million in Metro station improvements at the city's proposed convention center site.

Under Clinton's budget, federal installations that employ thousands of Maryland residents would get substantial increases. The budget contains \$40 million to complete an advanced measurement laboratory building at the National Institute of

Standards and Technology in Gaithersburg.

"In terms of our federal institutions, they're all doing quite well," said Rep. Constance A. Morella (R-Md.). "The president gives NIH a 9 percent increase, the largest in history, and cancer research gets a 10 percent increase. He increases the National Science Foundation 11 percent and research at Department of Energy by 11 [percent]."

Metrorail would get \$50 million for Green Line construction and to complete the Red Line to Glenmont in Montgomery County. That is the final federal installment to complete the 103-mile rail system. Also, the budget includes \$17.6 million for MARC, the Maryland commuter rail system, for purchase of cars, track improvements and completion of an extension to Frederick.

Rep. Thomas M. Davis III (R-Va.) said the president's budget is "great" for the District. In its treatment of federal workers, he said, it is "better than in the past." But Davis questioned whether Clinton will be able



FILE PHOTO

Rep. Constance A. Morella (R-Md.) lauds funding for federal institutions.

to deliver on all the budget promises.

"I'm not sure if this budget is balanced," Davis said.

Sen. Barbara A. Mikulski (D-Md.) said in a statement that the president's budget "protects my priorities for Maryland: maintaining a robust economy, providing a safety net for our seniors, getting behind our kids, providing safe streets and a safer world and investing in science and technology."

Clinton Asks Big Increases for Science, Technology Research

By Curt Suplee
Washington Post Staff Writer

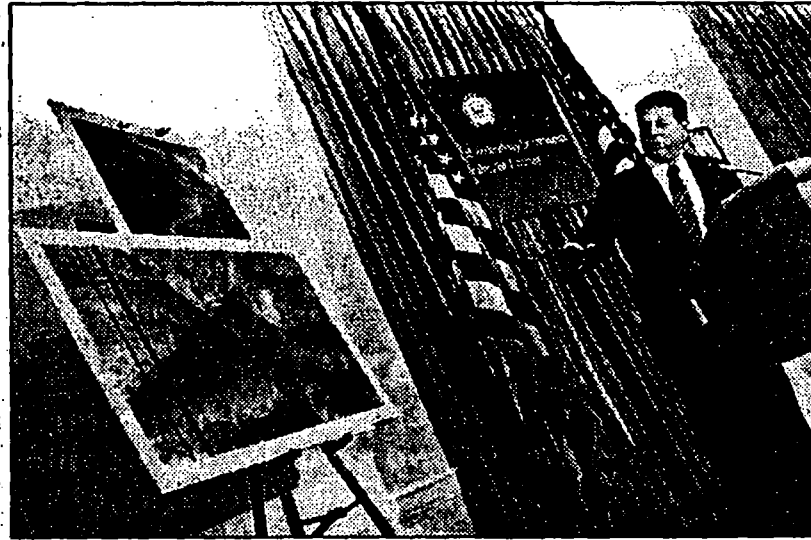
The Clinton administration has proposed substantial, and in some respects unprecedented, increases in federal funding for science and technology research in fiscal 1999.

Overall, the budget requests \$78.2 billion—a comparatively modest expansion of about \$2 billion, or 3 percent above 1998 levels—for military and civilian research programs combined.

But many agencies, including the National Institutes of Health, Department of Energy and National Science Foundation, are slated for sizable increases, reflecting administration priorities in medical research, energy efficiency, climate studies and science education.

The NIH would receive an additional \$1.15 billion, or 8.4 percent, the largest dollar increase in its history. That would bring its 1999 budget to \$14.8 billion to accommodate new initiatives in cancer, diabetes, brain disorders and genetic medicine, among others. Over the next five years, NIH funding would rise nearly 50 percent.

NSF funding would go up 10 percent, to \$3.8 billion, to underwrite research on computers, information



BY SUSAN BIDDLE—THE WASHINGTON POST

Vice President Gore, gesturing to photos from Mars, hails research proposal.

technology, education and basic research. The Energy Department's research and development programs would increase 11 percent to \$7.2 billion, boosting efforts to improve energy efficiency, cut "greenhouse" gas emissions and pay for shared science facilities. Department of Veterans Affairs medical research programs would get a 10 percent raise to \$300 million.

The self-proclaimed "centerpiece" of this year's science budget is a category the White House calls the "Research Fund for America," which is basically a new name for collective federal spending on civilian research. Grouping those projects together is intended to emphasize cross-agency interconnections in areas such as vehicle fuel efficiency, which span the departments

of Energy, Transportation and Commerce, among others. To provide "long-term stability" for such programs, administration officials said the budget calls for their funding to grow by 32 percent over the next five years.

That is "the largest commitment to key civilian research in the history of the United States of America," Vice President Gore said at a news conference yesterday. The five-year total, over \$160 billion, "would have been considered unthinkable only a few short years ago."

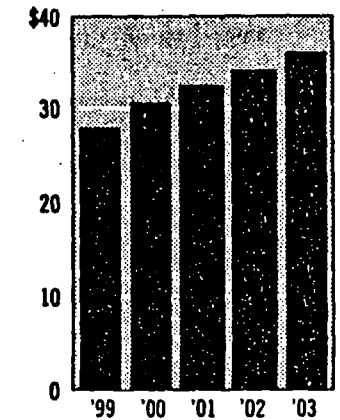
No agencies are targeted for drastic R&D cuts. The budget calls for reducing R&D outlays at the Pentagon and Environmental Protection Agency by 1 percent each. NASA would lose 3 percent, including some international space station funding. The departments of Agriculture and Commerce would be largely unchanged.

Among prospective winners are technology research projects related to climate change (collectively up \$473 million), the National Oceanic and Atmospheric Administration, the National Institute of Standards and Technology, the Centers for Disease Control and Prevention and the Agency for Health Care Policy and Research.

RESEARCH FUNDS

President Clinton's fund for civilian science and technology research would cost \$161 billion over five years.

Proposed outlays, in billions



SOURCE: 1999 budget

THE WASHINGTON POST

Administration officials acknowledged that the proposed R&D funding levels assume a number of anticipated revenue sources, including tobacco company payments to the government. But agency heads were enthusiastic. The funding initiatives "set the stage for a new century of progress," said NSF chief Neal Lane.

Clinton Seeks More Arts Funds

Budget Proposal Leaves Room for Bargaining

By Jacqueline Trescott
Washington Post Staff Writer

President Clinton yesterday asked Capitol Hill lawmakers for a hefty increase in the fiscal 1999 budget for the National Endowment for the Arts—a margin of \$38 million that underscores the president's confidence in the embattled agency and allows opponents of the agency to whittle away and probably leave enough money to keep the program going.

The \$136 million proposed for the NEA matches the president's strategy for last year when he requested the same amount. At the time, the agency was under attack by House Majority Leader Richard K. Arney (R-Tex.) and had been threatened with elimination by conservative Republicans. As a long, heated debate over the need for a federal arts agency continued for most of last

See ARTS BUDGET, B5, Col. 1

ARTS BUDGET, From B1

year, the NEA ended up with no money in the House's version of its appropriation. The Senate suggested \$98 million, a figure that prevailed, and was only slightly smaller than the \$99.5 million budgeted the previous two years.

In his proposal, Clinton requested modest increases for other federal cultural agencies, including the National Endowment for the Humanities. He placed the NEH at the starting gate with a \$136 million proposal; last year Congress allotted the agency \$111 million.

The Smithsonian Institution, which receives the lion's share of its budget from the federal government, was earmarked for \$419 million by the president, including money for mandated salary increases, \$40 million for general repairs on its aging buildings and another installment of \$16 million for construction of the National Museum of the American Indian.

Repair work is also a priority for the Kennedy Center. The 1999 budget sets aside \$20 million to start extensive repairs to bring the central part of the building in compliance with the Americans With Disabilities Act. An additional \$13 million would go to general maintenance on the building, which is an official presidential memorial.

Other cultural items listed in the proposed budget include \$65 million for the National Gallery of Art; \$33 million for the U.S. Holocaust Memorial Museum; \$26 million for the museum portion of the Institute of Museum and Library Services (\$143

million for the library section); \$7 million for the National Capital Arts and Cultural Affairs Fund, a program that substitutes for the lack of a state grant; and \$6 million for the Woodrow Wilson Center, which was also threatened with closing last year but was resurrected by Senate supporters.

In recent days, both the president and Hillary Rodham Clinton have pointed out the urgent need to preserve

historic artifacts and buildings in anticipation of the millennium commemorations. Yesterday President Clinton proposed the establishment of a fund, consisting of \$150 million spread over the next three years and administered by the Interior Department, and a national program called "Save America's Treasures." Federal buildings, such as the Smithsonian and the National Archives, are expected to identify

their most critical needs and half of the fund's money would go to the states. Officials of the other cultural agencies are expected to participate in the millennium council the White House has set up to work out a preservation plan.

"These funds will support one of the most important tasks facing America at the turn of the century—to preserve America's treasures for future generations," Clinton announced.

The Washington Post

TUESDAY, FEBRUARY 3, 1998

ACCESS TO HEALTH INSURANCE FOR PEOPLE AGES 55 TO 65

BACKGROUND

Americans ages 55 to 65 face special problems of access and affordability. They face greater risks of health problems, with twice the chances of heart disease, strokes, and cancer as people aged 45 to 54. As people approach 65, many retire or shift to part-time work or self-employment as a bridge to retirement, sometimes involuntarily. Displaced workers aged 55 to 65 are much less likely than younger workers to be re-employed or re-insured through a new employer. As a result, more of them rely on the individual health insurance market. Without the benefits of having their costs averaged with younger people, as with employer-based insurance, these people often face high premiums.

Such access problems will increase, due to two trends: declines in retiree health coverage and the aging of the baby boom generation. Recently, businesses have cut back on offering health coverage to pre-65-year-old retirees; only 40 percent of large firms now do so. In several small but notable cases, businesses have dropped retirees' health benefits after workers have retired. These "broken promise" retirees lack access to employer continuation coverage and could have problems finding affordable individual insurance. Finally, the number of people 55 to 65 years old will rise from 22 million to 35 million by 2010 — or by 60 percent.

POLICY DESCRIPTION

The President has proposed three policy options to improve access to affordable health insurance for targeted groups of Americans ages 55 to 65.

1. Medicare Buy-In for People Ages 62 to 65

The centerpiece of this initiative is the Medicare buy-in for people ages 62 to 65.

- **Eligibility:** People ages 62 to 65 who do not have access to employer sponsored or Federal health insurance may participate.
- **Premium Payments:** Participants would pay two, geographically adjusted premiums:
 - **Pre-65 premium:** The pre-65 premium would be paid monthly between enrollment and when the participant