Budget – Framework

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WHY THE PRESIDENT WILL VETO THE REPUBLICAN TAX BILL

September 23, 1999

The President Has Said That the He Will Veto the Republican Tax Cut Because:

- It would likely drain hundreds of billions of dollars from the Social Security surplus, money that should have been used for debt reduction.
- It puts at risk our fiscal discipline and the continuing economic expansion.
- It would explode in cost, threatening our fiscal discipline and leaving America permanently in debt.
- It would leave no money to extend Medicare solvency or provide for prescription drugs.
- It would lead to an untenable reduction in domestic spending, with potentially huge cuts in education, law enforcement, public health, the environment, and veterans programs.
- It would be unfair to working Americans.

PROTECTING SOCIAL SECURITY SURPLUSES AND FISCAL DISCIPLINE

The Republican Tax Bill Would Likely Drain Hundreds of Billions of Dollars From the Social Security Surplus, Diverting Money From Debt Reduction While Not Extending The Solvency of Social Security By a Single Day.

- Uses the entire non-Social Security surplus. The Republican tax cut, without sunsets, would cost more than $850 billion over 10 years; with interest added it would use up the entire $996 billion non-Social Security surplus projected by the Congressional Budget Office.
- Uses Social Security surpluses after 2004. The Republican tax cut uses more than the entire on-budget surplus after 2004, forcing the Republicans to choose between using Social Security revenues to pay for their tax cut or making even larger cuts in education and other parts of core government.
- Predictable consequence of the tax and budget plan is to drain hundreds of billions of dollars from the Social Security surplus. The Republican budget resolution plans to cut defense and domestic discretionary spending by nearly $700 billion relative to the President's plan. Spending cuts of this magnitude would require a nearly 50 percent cut in non-defense discretionary spending in 2009. If these untenable cuts were not made, the consequence of the tax and budget plan would be to divert hundreds of billions of dollars of the Social Security surplus from promised debt reduction.
- The Republican plan would not extend Social Security solvency. The Republican plan does not extend solvency past 2034. Worse still, by diverting money from debt reduction it will make it even more difficult for the Nation to meet our obligations to future retirees.

The Republican Tax Cut, Assuming It Was Continued, Would Explode After 10 Years, Just When Social Security Begins To Come Under Strain and Medicare Approaches its Projected Insolvency (2015). The tax cut, together with funding for essential national defense, would leave America permanently in debt.

- Sunsets hide potential cost. To keep to a $792 billion tax cut, the Republicans sunset many of the major provisions after 2008; the result is that taxes *increase* by more than $60 billion in 2009 relative to their 2008 level. Reversing this implausible provision would bring the total cost to more than $850 billion.
- Cost would explode to $2.7 trillion in second decade. Projections by the Department of the Treasury indicate that the tax cut would cost $2.7 trillion between 2010 and 2019. The extra debt service associated with the tax would be another $1.4 trillion – bringing the total cost of the tax cut over the second 10 years to about $4 trillion.
- Cost, with interest, is $5 trillion over 20 years. If continued, the tax cut and the associated interest would cost $5 trillion over 20 years.
- Does not pay down the debt. The President's plan invests in key priorities and pays off the debt by 2015. If the Republican tax cut were continued, and defense was funded at the levels requested by the President, the debt would never be repaid.

The Republican Tax Bill Would Threaten Our Fiscal Discipline and Risk Our Economic Expansion.

- Paying down the debt is best for the economy. Leading experts, from Federal Reserve Chairman Alan Greenspan to Wall Street's Henry Kaufman, have recognized that paying down the debt, not large tax cuts or spending increases, would be best for our economy.
- President's plan would pay down more debt. The predictable consequence of the Republican tax and budget plan, because it ignores Medicare and requires 50 percent cuts in domestic spending, would be to contribute less to debt reduction than would the President's plan, resulting in less investment in the technologies and equipment that make America's workers the most productive – and the highest paid – in the world.
- Republican plan threatens our fiscal discipline. The commitment to a large and exploding tax cut *based merely on projected surpluses* threatens our commitment to fiscal discipline and risks raising interest rates.

NOTHING FOR MEDICARE

The Republican Plan Leaves Nothing for Medicare, Which Is Projected To Become Insolvent In 2015.

- Tax cut uses all non-Social Security surpluses. The Republican tax cut spends the entire non-Social Security surplus, leaving nothing for Medicare solvency.
- Substantial solvency for Medicare will require additional resources. Medicare experts agree that additional resources are needed to extend Medicare solvency substantially without risky cuts or higher payroll taxes.
- No surplus to modify 1997 reforms. Many Republican Members of Congress have supported increasing Medicare spending by repealing some Balanced Budget Act of 1997 provisions. If none of the surplus is saved for Medicare, even larger cuts in hospitals and nursing homes would be required to extend solvency.

LARGE CUTS IN MEDICARE AND CORE GOVERNMENT

As Written, GOP Tax Bill Would Also Trigger Automatic Across-The-Board Cuts That Would Cut Medicare & Entirely Eliminate Key Programs.

- Triggers mandatory cuts. The Republican tax cut, as written, would trigger across-the-board spending cuts in mandatory programs (known as sequestration) under the Budget Enforcement Act's pay-as-you-go rules.
- Cuts Medicare. These cuts would eliminate $41.4 billion from Medicare over the next 5 years (2000-2004), according to an Office of Management and Budget analysis.
- Eliminates key programs. These cuts would automatically eliminate several key programs, including farm safety net programs (cut by $19.2 billion), veterans education and training (cut by $2.0 billion), child support enforcement (cut by $10.3 billion), and Social Service Block Grants that pay for child protection, child care, and the needs of the elderly and disabled ($4.4 billion).
- Even these cuts would not pay for the tax cut. Even the reduction or elimination of these programs would offset only a small fraction of the Republican tax cut; the remainder would force choices between large and untenable cuts in core government or diverting Social Security funds from promised debt reduction.

The Republican Tax Cut Is Based On Untenable Reductions in Domestic Priorities, Including Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- President's spending is tight but realistic. The President's budget devotes $328 billion to discretionary spending, which still keeps spending slightly below its current level adjusted for inflation. Domestic discretionary spending will be kept roughly 10 percent below its current level adjusted for inflation by 2009.
- 50 percent cuts under Republican plan. The Republican tax and budget plan, if they match the President's defense request, would lead to a nearly 50 percent cut in all domestic discretionary spending in 2009. This could require massive cuts in everything from education, to the environment, to public safety.
- Predictable consequence is less debt reduction. If these highly damaging cuts are not made, the Republican tax and budget plan would divert hundreds of billions of dollars from promised debt reduction.

UNFAIR TO WORKING AMERICANS

The Large Republican Plan Delivers Only a Fraction of Its Benefits to the Middle Class; Even These Benefits Could Be More than Wiped Out by the Higher Interest Rates That Could Result from this Fiscally Irresponsible Policy.

- Little tax relief for the middle class. Under the Republican tax plan, 24 percent of the tax cuts go to the top 1 percent of families, those earning over $347,000 per year. At the same time, less than 22 percent of the benefits go to the roughly 90 million families – 80 percent of all families – earning less than $82,000 per year.
- Higher mortgage payments could reverse tax break. Under the Republican plan, middle-income families will see an average tax reduction of about $350. *If mortgage rates rose even ½ percentage point, this tax break would be fully offset by higher mortgage payments* for a typical middle-income family with a $100,000 mortgage.
- Estate tax elimination provides large benefits to a few, just years before Medicare is projected to become insolvent. Eliminating all estate tax revenues for 2009 would cost almost $36 billion, which would provide an average benefit of over $700,000 to the roughly 50,000 estates – less than 2 percent of all deaths – subject to taxes. At the same time, if no steps are taken, the Medicare trust fund will start to be depleted and will become insolvent in 2015.

THE PREDICTABLE CONSEQUENCE OF THE REPUBLICAN TAX CUT WOULD BE TO DIVERT HUNDREDS OF BILLIONS OF DOLLARS FROM THE SOCIAL SECURITY LOCKBOX AND DEBT REDUCTION

September 23, 1999

The Republican Tax Cut, With Interest, Would Break the Social Security "Lockbox" After 2004 as shown in the table below.

	2005	2006	2007	2008	2009
Non-Social Security Surplus (CBO)	92	129	146	157	178
Republican Tax Cut*	85	117	140	168	188
Additional Interest From Tax Cut	11	16	24	33	44
Social Security Surplus Diverted From Debt Reduction	-4	-4	-18	-44	-54

*Assumes that the full tax cut is continued after 2008.

To Avoid Using Social Security Surpluses, the Republican Tax and Budget Plan Is Forced To Cut All Domestic Discretionary Spending by Nearly Half in 2009 (assuming that defense is funded at the President's level). This could require cuts of nearly 50 percent in everything from air traffic safety to education to healthcare to veterans programs.

- The Republican budget resolution sets aside $606 billion for all discretionary spending in 2009. If the Republicans fund defense at the levels requested by the President ($384 billion in 2009), they would be able to devote only $222 billion to all domestic spending, including education, healthcare, and veterans programs, in 2009. This is substantially below the roughly $304 billion spent on non-defense discretionary spending in 1999. This represents a nearly 50 percent cut relative to 1999 levels adjusted for inflation.

If These Unfeasible and Undesirable Cuts Are Not Made, then the Republican Tax Cut Would Spend Hundreds of Billions of Dollars from the Social Security Surplus. Under highly conservative assumptions, even with large discretionary spending cuts, the fully phased in Republican tax cut would divert Social Security surpluses from debt reduction, leaving the debt hundreds of billions of dollars higher than the President's plan.

The Republican Tax Cut, If Continued, Would Leave America Permanently In Debt. It is unrealistic to assume that the Republican tax cut will be reversed. If the tax cuts were continued:

- The cost of the tax bill would explode just when the baby boomers begin to retire, Medicare becomes insolvent (2015), and Social Security payroll revenues begin to fall short of benefits.
- The cost between 2010 and 2019 would be $2.7 trillion, according to projections by the Treasury Department. The total cost, including lost interest savings, would be over $4 trillion.
- The total cost over the 20 years between 2000 and 2019, including interest, would be about $5 trillion.

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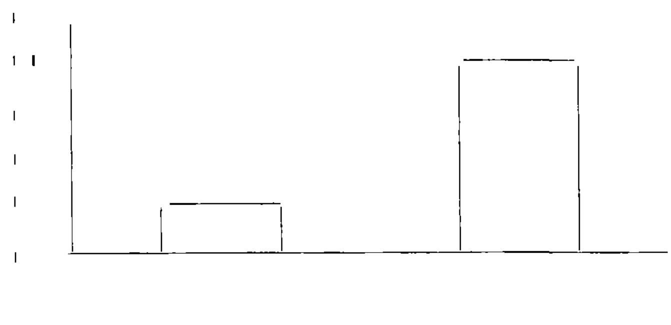

PRESIDENT CLINTON and VICE PRESIDENT GORE'S NEW BUDGET FRAMEWORK

The President's New Framework has Six Key Components:

BUDGET - FRAME- WORK

1. ***Balances the budget each year without using Social Security funds.***
2. ***Creates a new Social Security lockbox that keeps Social Security solvent until 2053.***
3. ***Keeps Medicare solvent for over 25 years while adding a new prescription drug benefit.***
4. ***Establishes a Children and Education Trust Fund, while protecting military readiness, education, environment, agriculture, veterans affairs and core government.***
5. ***Calls for USA Accounts -- the largest and most progressive tax relief plan for savings – and targeted tax credits for childcare, long-term care, school construction, new markets investment, and aiding disabled Americans in the workplace.***
6. ***Eliminates debt held by the public by 2015.***

A New Social Security Lockbox Strengthens Solvency and Doubles Protection Against Diverting Social Security Resources

- The President, in the State of the Union Address, called for saving the entire amount of the Social Security surplus over the next 15 years for debt reduction and higher returns for Social Security.
- Building on that proposal the President is calling for a new lockbox that provides double protection for Social Security by: (1) ensuring that each year all payroll taxes go to savings and debt reduction for Social Security; and (2) that after a decade of debt reduction from the Social Security lockbox, the interest savings resulting from the debt reduction will be dedicated to lengthening the solvency of Social Security instead of being diverted to other uses.

The President's Plan is the First Budget Proposal that Calls for Balancing the Budget Each Year -- Without Using Social Security Surpluses -- While Strengthening the Solvency of Social Security and Medicare and Still Leaving Resources for Military Readiness, Key Investments in People and Communities, and Significant Tax Relief

- The Republican Budgets sought to answer the President's call to save the surplus for Social Security by setting aside the entire Social Security Surplus. Yet, they (1) failed to lengthen the solvency of Social Security by even a single day; (2) failed to dedicate any resources to strengthening the solvency of Medicare; and (3) called for discretionary budgets that would have resulted in severe cuts in such key priorities as law enforcement, education, health, and environment.

Maintains Commitment to Strengthening Social Security and Medicare First, While Eliminating Our Publicly Held Debt by 2015

- The President's framework continues its commitment to pay down the debt for Social Security and Medicare first before making commitments to spending or new tax cuts. The framework extends Social Security solvency into the second half of the next century and we expect an even greater extension of Medicare than we expected in February---to at least 2025.
- Between 1981 and 1992, the publicly held debt quadrupled. As a result of new fiscal discipline that has occurred since 1993, the publicly held debt as a percent of GDP has dropped from 50 percent in 1993 to 44 percent in 1998. Under the President's framework to save Social Security, the publicly held debt will be eliminated by 2015.

SOCIAL SECURITY LOCK BOX
PROTECTS TRUST FUNDS AND STRENGTHENS SOLVENCY

Building on a Commitment To Save Social Security First: In the State of the Union Address, the President called for locking the entire amount of the Social Security surplus over the next 15 years for debt reduction and higher returns for Social Security. Stronger budgetary numbers now allow us to lock in the entire amount of the Social Security surplus *each and every year*, while still maintaining enough funding to strengthen and extend the solvency of Medicare, make needed discretionary investments, and provide targeted tax cuts.

A Basis To Build On: While the President's framework extends Social Security solvency to 2053, he remains committed to working together with Congress in a bi-partisan fashion to enact reforms to make Social Security solvent for 75 years.

The President therefore calls for a new Social Security lock box that:

- ensures that each year all payroll taxes go to savings and debt reduction for Social Security;
- after a decade of debt reduction from the Social Security lock box, dedicates the interest savings resulting from that debt reduction to extend the solvency of Social Security; and
- provides the basis for bipartisan agreement on debt reduction and Social Security.

How the Social Security Lock Box Would Work:

(1) All current-law Social Security surpluses – an estimated $3.1 trillion -- would be devoted solely to debt reduction and national savings.

(2) As an added protection, the receipts and outlays of the Social Security Trust Fund would be taken out of the budget.

(3) There will be tough protections, including maintaining the pay/go rules to ensure that the Social Security surpluses can not be used for any purpose other than Social Security.

(4) After a decade of fiscal responsibility, annual interest savings from that cumulative debt reduction would be transferred to the Social Security Trust Fund, instead of being diverted to other spending and tax priorities. For example, by 2011 we will have reduced the debt by a projected $2.1 trillion, yielding projected interest savings in that year of $107 billion. This amount will be transferred to Social Security.

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THE MID-SESSION REVIEW AND MEDICARE

Challenges Facing Medicare: Medicare is one of our most successful public programs, providing critical health care services to our nation's elderly and people with disabilities. Medicare faces serious challenges, however, in the next century.

- *Demographic explosion:* Enrollment will double between 1999 (39 million) and 2032 (78 million) as the baby boom generation retires. Not only will there be more elderly, but they will live longer, spending a greater amount of their lives on Medicare.

- *Advances in medicine and health:* Changing disease patterns, technological advances, and a high value placed on health will also affect Medicare in the next century. As a result, both Medicare and private health spending growth per person are projected to increase at rates considerably above general inflation.

President's Commitment to Strengthening and Improving Medicare: The President has an unparalleled record of strengthening and improving Medicare. When he took office, the Medicare Hospital Insurance (HI) Trust Fund was projected to be bankrupt this year -- 1999. Today, because of improvements enacted in the President's 1993 budget plan and the bipartisan 1997 Balanced Budget Act, the Trust Fund is projected to be solvent through 2015 and the Medicare spending growth rate per beneficiary is below that of private health spending in the next few years.

Plan to Strengthen and Improve Medicare for the 21st Century: Despite this impressive improvement, Medicare is still projected to become insolvent shortly after the baby boom generation retires. Equally as important, Medicare benefits and payment systems still, in large part, reflect the best practices of the 1960s when Medicare was created.

- To address these challenges, the President will submit a proposal that will: (1) make Medicare more competitive and efficient; (2) modernize and reform Medicare's benefits, including the provision of a long-overdue prescription drug benefit; and (3) make an unprecedented long-term financing commitment to the program that, in the context of the President's reform plan, will significantly extend the life of the Medicare Trust Fund.

Today, the President Renews *and Extends* the Commitment He Made in the State of the Union Address. This framework renews the commitment to dedicating 15 percent of the unified budget surplus to Medicare. Over the 15-year window covered by the President's Framework, more than $700 billion would be dedicated to strengthening and extending the solvency of Medicare – more than the $686 billion from the budget since the surplus has increased.

- Under the latest projections, this would push the forecasted date of insolvency back to later than 2025.

PRESIDENT CLINTON AND VICE PRESIDENT GORE: WORKING TO HELP CHILDREN AND EDUCATION IN THE 21ST CENTURY AND INVEST IN A SECURE FUTURE

Investing in Our Future: A Children and Education Trust Fund: President Clinton's and Vice President Gore's growth and productivity agenda calls for not only significant debt reduction to spur private investment, but also public investment in a secure future and in the skills, education, and health of our youth to ensure that they can graduate from school with the real competencies needed for the workforce.

This is why, even though since 1993, the deficit has been eliminated, funding in Head Start has increased 67 percent, and participation in WIC has increased 30 percent, the President and Vice President are today going further to propose a Children and Education Trust Fund.

Elements of the Trust Fund:

- It dedicates $156 billion in outlays from fiscal years 2001 to 2014 to improve the health and education of children in the opening years of the 21st Century.
- These resources will be in addition to and provide increments above the discretionary levels provided for in the 1997 Balanced Budget Act. Regular appropriations will separately provide at least those base levels.
- The President wants to work with Congress to develop the appropriate allocations among major education and health programs for children.

Programs Included: Among the programs whose resources could be augmented by the Trust Fund are: Head Start, Title I - Education for the Disadvantaged, After-school programs, Class Size Reduction, the Safe Schools/Health Students initiative, Special Education, Pell Grants, Maternal and Child Health Block Grant, childhood immunizations, research on children's health, the Women, Infant and Children Supplementary Nutrition Program, and other education and health programs.

Illustrative Benefits: By way of illustration, this fund could:

- help reach the goal of 1 million Head Start opportunities for low-income children;
- raise the quality of education available to all children through reducing class sizes in the early grades by hiring 100,000 qualified new teachers;
- triple the number of communities that develop and implement comprehensive strategies for ensuring safe and drug-free schools and promoting healthy childhood development; and
- provide primary health care and support services for over 5,000 families living with HIV.

Investing in a Secure Future: The Trust Fund will allow this needed investment while maintaining military readiness ($183 over 15 years), and investing in crime prevention, agriculture, veterans, environmental protection, health research, protecting Americans at home and abroad, and other priorities (($183 over 15 years).

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