

F.Y.I.

To: All Speechwriters

From: Michael Waldman

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Comments: From today's Budget Working Group

A Balanced Budget Plan that's Tough but Fair

Key Points to Make About the President's Budget

- **Tough Choices are Made Now.** The President's budget makes the hard choices today to balance the budget by 2002. It locks in savings of \$350 billion over five years -- including \$137 billion in discretionary spending, \$100 billion in Medicare, and \$34 billion in corporate tax subsidies. The credibility of the budget is underscored by the first Presidential budget that has been declared "alive on arrival" since 1981.
- **Cuts are Sustainable and Workable.** The President's budget cuts non-defense discretionary spending by 9 percent in real terms over five years, while protecting investments in the President's priorities. The spending path is reduced slowly and steadily.
- **Built on Solid, Conservative Economic Forecasts.** The President's budget is based on prudent and conservative assumptions about future economic performance. For four years in a row, growth has been higher and the deficit has been lower than the Administration had predicted. The actual deficit has been \$50 billion lower we had forecast a year earlier -- a healthy break from the rosy scenarios of the previous two Administrations, in which the deficit was larger than forecast in 10 out of 12 years. In 1996, the President's budget office's estimate of growth and the deficit were too cautious -- and more accurate than the Congressional Budget Office's forecasts.
- **Major Investment in Education.** The President's plan makes a dramatic investment to open the doors of college to more Americans. It includes the largest increase in the maximum Pell Grant in two decades, provides a yearly \$1,500 HOPE scholarship tax credit, and creates a \$10,000-a-year tuition tax deduction for college costs to make education more affordable. It also expands IRAs, which in conjunction with the tuition tax deduction, allows families to save and pay for college tax-free.
- **Expanding Health Care and Investments in Children.** The President's plan makes critical savings in health care, while expanding coverage for as many as 5 million children. It also expands Head Start to meet our target of 1 million children by 2002; and increases funding in children's nutrition and prenatal programs (WIC) to \$4.1 billion.
- **Hard-Nosed Measures to Trim Corporate Subsidies.** The President's plan achieves more than \$34 billion dollars by cutting corporate subsidies. Those savings -- achieved by closing unwarranted and unnecessary tax loopholes, and by stiffening compliance measures -- are three times as much as the proposed savings in GOP Budget Chairman John Kasich's plan.

QUESTIONS & ANSWERS

Q: DOESN'T YOUR BUDGET AVOID ALL THE PAINFUL DECISIONS NEEDED TO ELIMINATE THE DEFICIT?

- A:**
- Not at all. We are locking in savings of \$350 billion over the next 5 years -- including \$137 billion in discretionary spending, \$100 billion in Medicare savings (\$138 billion over 6 years), and \$34 billion in reducing unneeded corporate tax subsidies -- and cutting the deficit by \$252 billion. Our budget will eliminate the deficit by the year 2002, the first time we will have balanced the budget since 1969.
 - We have carefully examined the budget for areas in which we can achieve savings. Our Medicare and Medicaid proposals achieve \$110 billion in savings over the next five years, and extend the life of the Medicare Trust Fund to 2007, while maintaining the integrity of both programs. Our non-defense discretionary outlays follow a smooth, steady decline -- falling by 9 percent in real terms between FY 1997 and 2002.
 - The Budget includes specific, credible cuts in many areas. In addition to the savings from Medicare, Medicaid, and unwarranted corporate subsidies, the budget reduces non-defense discretionary spending by 9 percent in real terms over 5 years. As just a few examples, we are reducing funding for Federal building construction; for the Corps of Engineers (as part of our effort to target new construction to projects that are national priorities); for P.L. 480 farm subsidies (farm incomes are at record levels); and for Clean Coal Technology projects that are no longer economically viable. We're also cutting USDA buildings and facilities, international conferences and contingencies, the Overseas Private Investment Corporation, and GSA Operations.

Q: DOESN'T YOUR BUDGET ACHIEVE 75 PERCENT OF ITS SAVINGS IN THE FINAL TWO YEARS?

- A:**
- Our budget is not backloaded. Just take a look at our record. We've already cut the deficit from \$290 billion in 1992 to \$107 billion last year. When the President took office, the deficit had to be cut by a cumulative \$2.75 trillion between 1993 and 2002 in order to reach balance by 2002. We have already locked in \$2.5 trillion of those savings, and this budget would lock in the extra \$250 billion needed. *The fact is that we've done most of the work in our first 4 years.*
 - We are making the hard decisions now. We are locking in savings of \$350 billion over the next 5 years -- including \$137 billion in discretionary spending and \$100 billion in Medicare savings (\$138 billion over 6 years) -- and cutting the deficit by \$252 billion.
 - As with any credible budget plan, the savings from making those hard decisions now grow over time. Our savings are not backloaded: 67 percent of the \$350 billion in savings occur in the last two years. That's within the range that Robert Reischauer, the former director of the CBO, has proposed as showing that the budget cuts are smooth and *not* backloaded. And over 6 years, only 61.7 percent of our savings occur in the final two years.

Q: DOESN'T YOUR BUDGET FAIL TO BALANCE UNDER CBO ASSUMPTIONS?

- A:**
- We have submitted a plan that balances the budget in 2002 under our assumptions. Our assumptions have proven to be conservative over the past four years: *every year, the deficit has been lower and growth has been higher than we had predicted.* Our current assumptions are equally prudent and conservative.
 - Since we took office, the actual deficit has on average been about \$50 billion lower than we had projected the year before. CBO has been less accurate: they have overestimated the deficit by \$59 billion on average.
 - It is important that the numbers we use as part of a balanced budget agreement be credible and conservative -- and that they are supported by both the markets and the public. Our projections for GDP growth and inflation over the next five years match those of the Blue Chip private sector consensus.
 - If, despite our expectations, our assumptions do not prove correct, we will pursue an expedited process with Congress to agree on how to close any budget gap. And in order to ensure that we eliminate the deficit in 2002, we have identified precisely what steps would be taken by statute if our assumptions prove inaccurate and the expedited process with Congress doesn't work. Specifically, most of our tax cut proposals would sunset in 2001, and a 2.25 percent across-the-board reduction in spending (except Social Security) would be triggered. The discretionary spending reductions would start in 2001 and the reductions in mandatory programs would begin in 2002.

Q: YOU HAVE INCLUDED A HOME HEALTH CARE TRANSFER GIMMICK IN THE BUDGET. HOW CAN YOU POSSIBLY DEFEND IT?

- A:**
- Let's be clear: our savings of \$138 billion in Medicare over 6 years (\$100 billion over 5 years) does *not* include the home health care transfer from Part A to Part B of the program. The \$138 billion is the net reduction of Medicare spending relative to the budget baseline -- and thus is the amount by which our Medicare changes contribute to deficit reduction. The transfer does not contribute to the \$252 net deficit reduction in our package.
 - The policy you mentioned was in our budget last year, and it was in the House Republican budget in 1995 that every Republican in the House voted for.
 - Shifting long-term home health visits (other than the first 100 visits following a hospitalization) away from Part A of the Medicare program makes sense because home health care has increasingly become a chronic care benefit not linked to hospitalization. It was also the established policy prior to the 1980s. And it protects the Medicare Trust Fund until 2007, while not imposing harmful cuts on hospitals or other priorities, or excessive burdens on beneficiaries.

[Background: Originally designed as a post-acute care benefit for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit, not linked to hospitalization. Our proposal restores the original split of home health care benefits so that the first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A and all other visits -- including those not following hospitalization -- would be reimbursed by Part B.]

Q: FOLLOW: IF THE HOME HEALTH TRANSFER IS NOT A GIMMICK, THEN WHY DON'T YOU INCLUDE IT AS PART OF THE PART B PREMIUM?

A:

- We have always been concerned about out-of-pocket costs for Medicare beneficiaries. Older Americans spend, on average, 20 percent of their income on health care and three-fourths have incomes lower than \$25,000. We have to be careful that as we reform the Medicare program, we do not place undue burden on lower-income seniors.

Q. DOESN'T YOUR BUDGET CREATE \$60 BILLION IN NEW ENTITLEMENTS?

A.

- No. My budget actually *saves* \$121 billion in entitlement spending over the next 5 years.
- We are proposing some new additions to our health care programs, but they are aimed at reducing the number of uninsured Americans and are *not* open-ended entitlements. For example:
 - Our program to provide health insurance for unemployed workers is capped. The program is structured as a grants program to States. While there are provisions to help States that have unanticipated increases in unemployment, there is an overall Federal cap on spending that cannot be breached. Moreover, the program is sunset after 4 years.
 - There are no new entitlements in children's health as well. The children's health initiative also contains no new individual entitlement. It provides States with grants that, by law, will not exceed \$750 million in each year. Medicaid spending itself, under my plan, will be capped for the first time in its history. The Federal funding limits are set based on the number of people covered so that States — not the Federal government — make the decisions about coverage.
- We are also proposing some changes to the welfare reform legislation that was enacted last year, but our purpose is to fix unnecessary and damaging provisions in that legislation -- involving legal immigrants and Food Stamp recipients. We do not view these changes as new spending or new entitlements.
- It is ironic that we are sometimes criticized for phasing out new proposals -- such as school construction -- and simultaneously for creating permanent new mandatory spending programs. Our phase-outs are designed to allow an evaluation of how well the new programs are working -- and we have been careful to avoid creating permanent new entitlements without knowing the effects.

Q: WHY DO YOU ELIMINATE MANY OF YOUR NEW PROGRAMS BEFORE 2002?

A.

- Many of our proposals -- such as school construction, welfare to work, skill grants, and health insurance for the unemployed -- are new programs. They are untried. We want to see how they work before the government funds these initiatives permanently.
- For example, our school construction initiative -- providing \$5 billion over 4 years -- is explicitly designed to jump-start \$20 billion in local projects. The Federal government has traditionally not been involved in school construction and renovation; our proposal is therefore not supposed to be a permanent Federal program.