Class Size Reduction

Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding under President's Plan	Reduction in 2009 Funding Under Republican Budget	Number of Teachers Under President's Plan	Reduction in Teachers Under Republican Budget
Total	3,042,713,068	-1,565,515,218	100,764	-80,620
Alabama	47,258,889	-24,315,310	1,556	-1,247
Alaska	14,131,037	-7,270,601	467	-374
Arizona	45,631,527	-23,478,010	1,517	-1,212
Arkansas	28,799,958	-14,817,951	951	-762
California	341,975,780	-175,950,961	11,389	-9,094
Colorado	33,126,977	-17,044,258	1,096	-877
Connecticut	28,327,587	-14,574,910	936	-749
Delaware	14,131,037	-7,270,601	467	-374
D. C.	14,131,037	-7,270,601	467	-374
Florida	136,563,930	-70,263,908	4,545	-3,630
Georgia	78,701,362	-40,492,868	2,619	-2,092
Hawaii	14,131,037	-7,270,601	467	-374
Idaho	14,131,037	-7,270,601	467	-374
Illinois	122,123,672	-62,834,208	4,022	-3,224
Indiana	50,724,879	-26,098,606	1,679	-1,344
Iowa	24,297,802	-12,501,533	806	-644
Kansas	23,961,963	-12,328,740	792	-634
Kentucky	47,716,411	-24,550,711	1,571	-1,260
Louisiana	71,157,898	-36,611,659	2,341	-1,878
Maine	14,131,037	-7,270,601	467	-374
Maryland	43,359,245	-22,308,892	1,432	-1,147
Massachusetts	55,630,151	-28,622,432	1,837	-1,471
Michigan	121,850,147	-62,693,476	4,010	-3,215
Minnesota	41,370,634	-21,285,726	1,366	-1,094
Mississippi	46,434,975	-23,891,395	1,528	-1,225
Missouri	51,576,224	-26,536,634	1,705	-1,365
Montana	14,131,037	-7,270,601	467	-374
Nebraska	14,833,720	-7,632,141	491	-393
Nevada	14,131,037	-7,270,601	467	-374
New Hampshire	14,131,037	-7,270,601	467	-374
New jersey	68,687,804	-35,340,763	2,271	-1,818

New Mexico	24,710,262	-12,713,749	820	-656
New York	273,666,324	-140,804,863	9,101	-7,271
North Carolina	62,542,154	-32,178,747	2,071	-1,657
North Dakota	14,131,037	-7,270,601	467	-374
Ohio	112,395,547	-57,828,962	3,702	-2,968
Oklahoma	34,159,325	-17,575,414	1,131	-905
Oregon	28,863,180	-14,850,479	954	-764
Pennsylvania	124,042,773	-63,821,611	4,085	-3,275
Puerto Rico	97,643,597	-50,238,893	3,212	-2,576
Rhode Island	14,131,037	-7,270,601	467	-374
South Carolina	36,960,993	-19,016,909	1,225	-980
South Dakota	14,131,037	-7,270,601	467	-374
Tennessee	49,967,880	-25,709,120	1,651	-1,322
Texas	246,238,071	-126,692,671	8,153	-6,523
Utah	19,418,573	-9,991,107	643	-515
Vermont	14,131,037	-7,270,601	467	-374
Virginia	52,692,802	-27,111,128	1,742	-1,395
Washington	49,038,904	-25,231,150	1,621	-1,298
West Virginia	27,324,522	-14,058,820	899	-721
Wisconsin	50,674,981	-26,072,933	1,677	-1,342
Wyoming	14,131,037	-7,270,601	467	-374
Outlying Areas/BIA	30,427,131	-15,655,153	1,075	-841

Individuals with Disabilities Education Grants to States

Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget
US total	5,306,464,000	-2,773,627,685
Alabama	84,823,521	-44,336,279
Alaska	15,047,114	-7,864,953
Arizona	75,267,856	-39,341,642
Arkansas	50,240,304	-26,260,029
California	529,818,657	-276,930,117
Colorado	63,829,602	-33,362,999
Connecticut	65,193,968	-34,076,137
Delaware	13,790,640	-7,208,209
Florida	293,237,782	-153,272,015
Georgia	132,319,800	-69,162,037
Hawaii	17,458,968	-9,125,602
Idaho	23,407,472	-12,234,816
Illinois	241,013,794	-125,975,138
Indiana	124,508,247	-65,079,028
Iowa	60,281,909	-31,508,660
Kansas	49,634,579	-25,943,424
Kentucky	74,736,890	-39,064,113
Louisiana	80,914,772	-42,293,220
Maine	27,018,882	-14,122,459
Maryland	94,883,815	-49,594,678
Massachusetts	140,167,033	-73,263,696
Michigan	177,047,416	-92,540,647
Minnesota	90,216,423	-47,155,087
Mississippi	52,483,099	-27,432,312
Missouri	111,770,191	-58,420,993
Montana	15,976,515	-8,350,741
Nebraska	36,870,188	-19,271,623
Nevada	28,305,940	-14,795,189
New Hampshire	23,364,145	-12,212,170
New Jersey	178,478,897	-93,288,866
New Mexico	44,272,261	-23,140,602

New York	367,103,890	-191,880,980
North Carolina	140,457,577	-73,415,560
North Dakota	11,197,833	-5,852,979
Ohio	195,526,686	-102,199,549
Oklahoma	68,208,999	-35,652,059
Oregon	63,588,332	-33,236,889
Pennsylvania	192,317,960	-100,522,385
Rhode Island	21,592,847	-11,286,333
South Carolina	84,132,843	-43,975,269
South Dakota	13,339,532	-6,972,420
Tennessee	108,973,494	-56,959,192
Texas	413,514,453	-216,139,247
Utah	46,938,977	-24,534,464
Vermont	10,797,698	-5,643,833
Virginia	133,123,468	-69,582,105
Washington	96,970,294	-50,685,257
West Virginia	37,499,700	-19,600,662
Wisconsin	99,726,213	-52,125,744
Wyoming	11,326,964	-5,920,474
District of Columbia	6,933,974	-3,624,309
Puerto Rico	46,009,578	-24,048,677
Dep't of the Interior	65,057,249	-34,004,675
Virgin Islands	10,896,805	-5,695,635
Guam	14,372,934	-7,512,568
American Samoa	5,949,100	-3,109,526
Northern Marianas	3,668,661	-1,917,567
Pacific Basin Compet	8,916,573	-4,660,590
Evaluation	11,940,683	-6,241,257

Head Start

Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget	Number of Participants	Reduction in Participants Under Congressional Budget
Total	5,759,979	-2,994,989	834,996	-430,500
Alabama	105,896	(55,062)	15,351	-7,915
Alaska	8,833	(4,593)	1,280	-660
Arizona	77,436	(40,264)	11,226	-5,788
Arkansas	69,297	(36,032)	10,046	-5,179
California	604,974	(314,565)	87,700	-45,215
Colorado	62,082	(32,280)	9,000	-4,640
Connecticut	45,362	(23,587)	6,576	-3,390
Delaware	14,808	(7,700)	2,147	-1,107
Florida	212,135	(110,303)	30,752	-15,855
Georgia	148,463	(77,195)	21,522	-11,096
Hawaii	19,396	(10,085)	2,812	-1,450
Idaho	15,627	(8,126)	2,265	-1,168
Illinois	244,258	(127,005)	35,409	-18,256
Indiana	90,570	(47,093)	13,129	-6,769
Iowa	48,486	(25,211)	7,029	-3,624
Kansas	50,258	(26,132)	7,286	-3,756
Kentucky	106,211	(55,226)	15,397	-7,938
Louisiana	142,908	(74,307)	20,717	-10,681
Maine	24,775	(12,882)	3,592	-1,852
Maryland	66,593	(34,626)	9,654	-4,977
Massachusetts	83,194	(43,258)	12,060	-6,218
Michigan	233,365	(121,342)	33,830	-17,442
Minnesota	66,859	(34,764)	9,692	-4,997
Mississippi	174,786	(90,883)	25,338	-13,063
Missouri	107,976	(56,144)	15,653	-8,070
Montana	17,897	(9,306)	2,594	-1,338
Nebraska	30,365	(15,789)	4,402	-2,269
Nevada	14,254	(7,412)	2,066	-1,065
New Hampshire	9,680	(5,033)	1,403	-724
New jersey	99,472	(51,722)	14,420	-7,435
New Mexico	49,116	(25,539)	7,120	-3,671

New York	319,466	(166,111)	46,311	-23,877
North Carolina	120,626	(62,722)	17,487	-9,016
North Dakota	13,771	(7,160)	1,996	-1,029
Ohio	254,267	(132,210)	36,860	-19,004
Oklahoma	85,050	(44,223)	12,329	-6,357
Oregon	37,825	(19,668)	5,483	-2,827
Pennsylvania	202,447	(105,265)	29,348	-15,131
Rhode island	19,459	(10,118)	2,821	-1,454
South Carolina	77,821	(40,464)	11,281	-5,816
South Dakota	16,496	(8,577)	2,391	-1,233
Tennessee	103,304	(53,714)	14,975	-7,721
Texas	401,231	(208,626)	58,165	-29,988
Utah	32,599	(16,951)	4,726	-2,436
Vermont	9,834	(5,114)	1,426	-735
Virginia	84,427	(43,899)	12,239	-6,310
Washington	67,819	(35,263)	9,831	-5,069
West Virginia	48,164	(25,043)	6,982	-3,600
Wisconsin	90,394	(47,002)	13,104	-6,756
Wyoming	10,171	(5,288)	1,474	-760
District of Columbia	23,080	(12,001)	3,346	-1,725
Puerto Rico	233,064	(121,185)	33,786	-17,419
Virgin Islands	10,017	(5,208)	1,452	-749
Outer Pacific	41,951	(21,813)	6,081	-3,135
American Indian	151,384	(78,714)	21,945	-11,314
Migrant programs	259,983	(135,182)	37,689	-19,431

NOTES ON THE STATE-BY-STATE NUMBERS:

*For every program except Class Size Reduction, the 2009 funding levels and participation levels are based on current services. Therefore the 2009 funding levels and per student costs include increases to offset inflation, maintaining participation in 2009 at the 1999 levels. The Republican budget and tax proposal result in a roughly 50% cut from those levels. This approach conforms with the approach used for the President's speech to Boys' and Girls' Nation and the DPC press documents for that event.

*Class Size Reduction has its own funding path (using the President's 100,000 teacher goal) that is reflected in the table.

*Head Start figures reflect current services although the President has a goal of funding 1 million children on Head Start by 2002. (i.e the number in the chart represents a reduction from the number of children currently being served by the program)

*We do not include the impact on students served under IDEA. Participation levels will not change regardless of funding levels because eligible students are guaranteed services. Instead, Federal spending per child changes when the total funding levels changes. The Republican budget and tax proposal would result in a roughly 50% decrease in Federal funding per child in 2009.

PRESIDENT CLINTON URGES FISCAL DISCIPLINE AND DEBT REDUCTION
August 4, 1999

Today in the Rose Garden, President Clinton will urge Congress to maintain the fiscal discipline that has helped eliminate the budget deficit and usher in a new era of prosperity. He will reiterate his staunch opposition to a GOP tax plan that will undo that fiscal discipline and imperil our prosperity. The President has championed an approach that puts Social Security and Medicare first by paying down the debt, while also providing a $250 billion tax cut for working Americans.

Lower Interest Rates Provide the Effect of a $2,000 Tax Cut to Families with a $100,000 Mortgage. Because of debt reduction, it is estimated that a family with a home mortgage of $100,000, would save roughly $2,000 per year in mortgage payments -- in other words, families would have a "stealth tax cut" of roughly $2,000 per year because of President Clinton's strategy of maintaining fiscal discipline. There will also be significant savings on typical car payments and credit card loans.

The Largest Debt Pay Down On Record. On Monday, the Treasury Department announced that we will pay down $87 billion in publicly held debt this fiscal year. That is the largest pay-down of debt on record. Over the last two years, we have paid down $142 billion* in publicly held debt. Since its peak of $3.830 trillion in March of 1997, we will pay down the debt to $3.638 trillion this quarter.

Dramatic Change of Course on Debt. The publicly held debt is now $1.7 trillion less than was projected in 1993 when President Clinton took office.

> In 1993, the debt held by the public was projected to rise to $5.38 trillion by 1999, representing 61 percent of GDP, rather than the actual current $3.64 trillion or 41 percent of GDP, that is $1.74 trillion less than projected.
>
> As a result of President Clinton's fiscal discipline, the publicly held debt has dropped from 50 percent of the nation's economy in 1993 to 41 percent now. Under the President's framework to save Social Security and strengthen Medicare, the publicly held debt will be entirely <u>eliminated</u> by 2015. The last time the nation was debt free was during the administration of President Andrew Jackson in 1835.

New Tools to Reduce the Debt. Today, the Treasury Department has proposed new steps to help us manage federal finances in a new era of budget surpluses. They would give the government the same kind of tools - the same kind of flexibility - that families and companies have in managing their own finances. They would, in effect, allow us to refinance our debt and pay it down on the best terms possible - saving taxpayers billions of dollars in the process.

Creating a Stronger Economy and Real Benefits for America's Families. President Clinton and Vice President Gore's policy of fiscal discipline has turned our fiscal situation around, and has changed our task from financing a deficit to managing a surplus. As a result of this achievement, the Clinton-Gore Administration has already begun to pay down the nation's debt. This debt reduction means real benefits for American families and businesses and will help continue sustained economic growth.

Cutting the National Debt Will Lower the Federal Government's Interest Payments and Make Us Better Able to Respond to Economic Events. When President Clinton took office, interest payments on the publicly held federal debt were projected to eat up 27 cents of every budget dollar by the year 2014. Under the President's proposal, interest payments would be negligible (two-tenths of a cent) by 2014. This will free up productive business investments to help our nation sustain its economic growth. It will also leave the Federal Government more flexibility to deal with national contingencies. With lower debt or no debt at all, our nation will be better prepared to respond to the aging of the baby boom, economic slowdowns, and other contingencies.

Lower Debt Will Help Maintain Long Term Economic Growth. Lower interest rates encourage more business investment. In the last six years of responsible budgeting, inflation adjusted investment in plant equipment has surged, reaching a post World War II record as a share of GDP. More investment means a broader productive base for the economy, higher productivity and higher wages, and thus greater prosperity.

* Public debt pay down is less than the projected surplus due to borrowing to support direct loan financing accounts (primarily student loans) and the change in the government's cash balances.

Note: The $14 billion pay down this quarter consists of $11 billion pay down of marketable debt and a $3 billion pay down of non-marketable debt (savings bonds, etc.) announced by Treasury today.

###

Department of Labor Youth Activities

Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget	Number of Participants	Reduction in Participants Under Republican Budget
TOTAL	1,230,705,036	(639,966,618)	635,039	(330,220)
Alabama	16,773,140	(8,722,033)	8,655	(4,501)
Alaska	4,380,521	(2,277,871)	2,260	(1,175)
Arizona	19,110,976	(9,937,707)	9,861	(5,128)
Arkansas	12,352,036	(6,423,059)	6,374	(3,314)
California	203,777,852	(105,964,483)	105,149	(54,677)
Colorado	7,336,942	(3,815,210)	3,786	(1,969)
Connecticut	9,469,402	(4,924,089)	4,886	(2,541)
Delaware	3,021,600	(1,571,232)	1,559	(811)
District of Columbia	5,644,748	(2,935,269)	2,913	(1,515)
Florida	51,643,907	(26,854,832)	26,648	(13,857)
Georgia	25,171,393	(13,089,125)	12,988	(6,754)
Hawaii	6,790,914	(3,531,275)	3,504	(1,822)
Idaho	5,316,393	(2,764,524)	2,743	(1,426)
Illinois	50,441,170	(26,229,409)	26,027	(13,534)
Indiana	13,544,935	(7,043,366)	6,989	(3,634)
Iowa	4,009,124	(2,084,744)	2,069	(1,076)
Kansas	4,230,486	(2,199,853)	2,183	(1,135)
Kentucky	19,581,986	(10,182,633)	10,104	(5,254)
Louisiana	26,172,445	(13,609,671)	13,505	(7,023)
Maine	5,173,737	(2,690,343)	2,670	(1,388)
Maryland	19,176,155	(9,971,601)	9,895	(5,145)
Massachusetts	15,934,422	(8,285,899)	8,222	(4,275)
Michigan	33,548,740	(17,445,345)	17,311	(9,002)
Minnesota	9,898,600	(5,147,272)	5,108	(2,656)
Mississippi	16,450,935	(8,554,486)	8,489	(4,414)
Missouri	19,430,722	(10,103,975)	10,026	(5,214)
Montana	4,438,321	(2,307,927)	2,290	(1,191)
Nebraska	3,021,600	(1,571,232)	1,559	(811)
Nevada	4,502,270	(2,341,181)	2,323	(1,208)
New Hampshire	3,021,600	(1,571,232)	1,559	(811)
New Jersey	29,610,945	(15,397,691)	15,279	(7,945)
New Mexico	11,781,412	(6,126,334)	6,079	(3,161)
New York	109,091,206	(56,727,427)	56,291	(29,271)
North Carolina	18,876,086	(9,815,564)	9,740	(5,065)
North Dakota	3,021,600	(1,571,232)	1,559	(811)
Ohio	49,082,250	(25,522,770)	25,326	(13,170)
Oklahoma	9,881,383	(5,138,319)	5,099	(2,651)
Oregon	15,392,083	(8,003,883)	7,942	(4,130)
Pennsylvania	47,639,703	(24,772,646)	24,582	(12,783)
Rhode Island	3,063,413	(1,592,975)	1,581	(822)
South Carolina	14,870,651	(7,732,739)	7,673	(3,990)
South Dakota	3,021,600	(1,571,232)	1,559	(811)
Tennessee	25,642,404	(13,334,050)	13,231	(6,880)
Texas	105,015,673	(54,608,150)	54,188	(28,178)
Utah	3,397,917	(1,766,917)	1,753	(912)
Vermont	3,021,600	(1,571,232)	1,559	(811)
Virginia	17,265,057	(8,977,830)	8,909	(4,633)
Washington	21,757,489	(11,313,895)	11,227	(5,838)
West Virginia	12,395,079	(6,445,441)	6,396	(3,326)
Wisconsin	10,404,045	(5,410,103)	5,368	(2,792)
Wyoming	3,021,600	(1,571,232)	1,559	(811)
American Samoa	174,631	(90,808)	90	(47)
Guam	1,711,871	(890,173)	883	(459)
North Mariana Island	99,613	(51,799)	51	(27)
Puerto Rico	68,049,340	(35,385,657)	35,113	(18,259)
Freely Associated St	488,228	(253,878)	252	(131)
Virgin Islands	1,096,975	(570,427)	566	(294)
Indian Tribes	18,464,105	(9,601,335)	9,527	(4,954)

Pell Grants
Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget	Number of Students Served	Reduction in Students Served Under Republican Budget
Maximum Award	3,850	(1,675)		
Total	9,462,038,000	(4,896,480,000)	4,002,588	(784,523)
Alabama	171,547,000	(91,450,000)	74,051	(16,094)
Alaska	11,469,000	(6,108,000)	4,656	(16,093)
Arizona	173,312,000	(92,306,000)	76,718	(16,595)
Arkansas	92,378,000	(49,261,000)	38,311	(8,330)
California	1,209,672,000	(597,386,000)	484,675	(73,505)
Colorado	116,282,000	(61,932,000)	51,706	(11,185)
Connecticut	56,076,000	(29,875,000)	25,995	(5,630)
Delaware	14,085,000	(7,502,000)	6,662	(1,441)
District of Columbia	26,946,000	(14,351,000)	11,333	(2,452)
Florida	471,978,000	(242,200,000)	199,689	(36,313)
Georgia	216,286,000	(108,853,000)	105,226	(34,237)
Hawaii	21,177,000	(11,279,000)	9,117	(1,972)
Idaho	50,671,000	(27,002,000)	21,353	(4,629)
Illinois	320,302,000	(168,514,000)	142,241	(30,328)
Indiana	159,590,000	(85,056,000)	73,012	(15,832)
Iowa	104,773,000	(55,802,000)	47,703	(10,319)
Kansas	92,577,000	(49,307,000)	41,836	(9,050)
Kentucky	151,311,000	(80,588,000)	63,249	(13,682)
Louisiana	208,595,000	(111,101,000)	81,740	(17,684)
Maine	35,658,000	(18,991,000)	15,545	(3,363)
Maryland	123,808,000	(65,940,000)	56,283	(12,175)
Massachusetts	177,898,000	(94,749,000)	77,736	(16,816)
Michigan	245,493,000	(130,277,000)	115,183	(26,466)
Minnesota	144,236,000	(76,820,000)	66,786	(14,447)
Mississippi	138,111,000	(73,558,000)	54,654	(11,823)
Missouri	169,053,000	(90,037,000)	75,129	(16,252)
Montana	41,898,000	(22,315,000)	17,318	(3,746)
Nebraska	58,559,000	(31,189,000)	27,514	(5,952)
Nevada	21,728,000	(11,572,000)	9,864	(2,134)
New Hampshire	27,867,000	(14,842,000)	12,980	(2,808)
New Jersey	185,920,000	(99,104,000)	78,353	(17,006)
New Mexico	76,883,000	(40,948,000)	32,433	(7,016)
New York	960,398,000	(482,927,000)	375,807	(60,692)
North Carolina	191,711,000	(102,106,000)	84,411	(18,260)
North Dakota	32,916,000	(17,531,000)	14,172	(3,066)
Ohio	298,915,000	(156,185,000)	135,257	(30,065)
Oklahoma	145,731,000	(77,911,000)	61,361	(13,456)
Oregon	86,118,000	(45,866,000)	37,756	(8,167)
Pennsylvania	361,915,000	(194,509,000)	156,757	(38,433)
Puerto Rico	573,455,000	(268,051,000)	198,361	(12,399)
Rhode Island	38,566,000	(20,605,000)	17,542	(3,838)
South Carolina	115,959,000	(61,760,000)	52,577	(11,373)
South Dakota	33,849,000	(18,028,000)	14,747	(3,190)
Tennessee	164,975,000	(87,878,000)	70,984	(15,362)
Texas	647,176,000	(333,167,000)	280,290	(50,273)
Utah	88,721,000	(47,253,000)	41,258	(8,925)
Vermont	19,666,000	(10,474,000)	9,143	(1,978)
Virginia	189,864,000	(101,122,000)	83,127	(17,982)
Washington	169,707,000	(90,386,000)	71,675	(15,505)
West Virginia	73,158,000	(38,964,000)	29,310	(6,341)
Wisconsin	120,645,000	(64,256,000)	55,627	(12,034)
Wyoming	18,114,000	(9,647,000)	7,828	(1,693)
Subtotal	9,447,698,000	(4,888,841,000)	3,997,041	(783,321)
American Samoa	1,507,000	(803,000)	579	(126)
Fed. Sts. of Micronesia	4,213,000	(2,244,000)	1,555	(337)
Guam	2,322,000	(1,237,000)	938	(203)
Marshall Islands	1,539,000	(820,000)	656	(142)
Northern Marianas	1,196,000	(637,000)	503	(109)
Palau	1,257,000	(670,000)	455	(98)
Virgin Islands	2,306,000	(1,228,000)	861	(187)
Subtotal	14,340,000	(7,639,000)	5,547	(1,202)

Note: In addition to the aid available to students displayed above, the Department pays postsecondary institutions an administrative cost allowance in the amount of $5 per Pell Grant recipient.

Federal Work Study Program
Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget	Number of Participants	Reduction in Participants Under Republican Budget
TOTAL	1,144,000,000	(541,000,000)	1,019,000	(523,000)
ALABAMA	17,035,958	(8,056,340)	15,316	(7,861)
ALASKA	1,313,961	(621,375)	504	(259)
ARIZONA	12,084,720	(5,714,889)	8,105	(4,160)
ARKANSAS	10,328,985	(4,884,599)	10,271	(5,272)
CALIFORNIA	111,279,020	(52,624,082)	75,637	(38,820)
COLORADO	12,688,994	(6,000,652)	9,320	(4,783)
CONNECTICUT	15,105,626	(7,143,482)	13,792	(7,079)
DELAWARE	1,642,693	(776,833)	1,989	(1,021)
FLORIDA	31,645,874	(14,965,400)	27,646	(14,189)
GEORGIA	18,840,647	(8,909,781)	17,596	(9,031)
HAWAII	2,293,016	(1,084,372)	1,458	(748)
IDAHO	3,657,058	(1,729,430)	3,537	(1,815)
ILLINOIS	46,771,976	(22,118,566)	39,569	(20,309)
INDIANA	23,279,765	(11,009,050)	22,600	(11,599)
IOWA	19,175,585	(9,068,174)	21,382	(10,974)
KANSAS	10,182,030	(4,815,103)	10,222	(5,247)
KENTUCKY	22,306,465	(10,548,774)	16,362	(8,398)
LOUISIANA	17,234,047	(8,150,017)	15,841	(8,131)
MAINE	12,358,176	(5,844,208)	10,892	(5,590)
MARYLAND	15,449,318	(7,306,015)	12,534	(6,433)
MASSACHUSETTS	73,771,981	(34,886,925)	57,718	(29,624)
MICHIGAN	34,405,248	(16,270,314)	29,500	(15,141)
MINNESOTA	28,452,656	(13,455,321)	25,699	(13,190)
MISSISSIPPI	13,826,245	(6,538,460)	13,585	(6,973)
MISSOURI	24,203,381	(11,445,830)	21,220	(10,891)
MONTANA	4,974,243	(2,352,330)	4,693	(2,409)
NEBRASKA	7,488,392	(3,541,276)	7,772	(3,989)
NEVADA	1,636,162	(773,744)	938	(481)
NEW HAMPSHIRE	10,182,942	(4,815,535)	11,470	(5,887)
NEW JERSEY	19,564,158	(9,251,931)	18,914	(9,708)
NEW MEXICO	10,557,952	(4,992,878)	6,507	(3,340)
NEW YORK	110,858,953	(52,425,431)	101,330	(52,008)
NORTH CAROLINA	22,367,459	(10,577,618)	24,977	(12,819)
NORTH DAKOTA	4,386,723	(2,074,491)	5,013	(2,573)
OHIO	46,326,576	(21,907,935)	41,417	(21,257)
OKLAHOMA	13,469,470	(6,369,741)	11,726	(6,018)
OREGON	17,927,115	(8,477,770)	16,374	(8,404)
PENNSYLVANIA	66,576,244	(31,484,045)	68,213	(35,010)
RHODE ISLAND	10,127,798	(4,789,457)	9,310	(4,778)
SOUTH CAROLINA	13,375,095	(6,325,111)	13,927	(7,148)
SOUTH DAKOTA	6,221,186	(2,942,012)	6,592	(3,383)
TENNESSEE	17,752,022	(8,394,969)	16,921	(8,684)
TEXAS	55,567,947	(26,278,199)	43,914	(22,539)
UTAH	5,886,251	(2,783,620)	3,667	(1,882)
VERMONT	9,589,438	(4,534,865)	9,119	(4,680)
VIRGINIA	22,811,355	(10,787,538)	20,937	(10,746)
WASHINGTON	21,105,327	(9,980,753)	16,074	(8,250)
WEST VIRGINIA	9,119,713	(4,312,731)	9,545	(4,899)
WISCONSIN	24,780,168	(11,718,594)	26,537	(13,620)
WYOMING	1,267,281	(599,300)	1,352	(694)
DC	9,958,357	(4,709,328)	7,085	(3,636)
PUERTO RICO	19,725,533	(9,328,246)	30,636	(15,724)
TERRITORIES	1,062,715	(502,560)	1,746	(896)

Class Size Reduction
Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding under President's Plan	Reduction in 2009 Funding Under Republican Budget	Number of Teachers Under President's Plan	Reduction in Teachers Under Republican Budget
Total	3,042,713,068	(1,565,515,218)	100,764	(80,620)
ALABAMA	47,258,889	(24,315,310)	1,556	(1,247)
ALASKA	14,131,037	(7,270,601)	467	(374)
ARIZONA	45,631,527	(23,478,010)	1,517	(1,212)
ARKANSAS	28,799,958	(14,817,951)	951	(762)
CALIFORNIA	341,975,780	(175,950,961)	11,389	(9,094)
COLORADO	33,126,977	(17,044,258)	1,096	(877)
CONNECTICUT	28,327,587	(14,574,910)	936	(749)
DELAWARE	14,131,037	(7,270,601)	467	(374)
D. C.	14,131,037	(7,270,601)	467	(374)
FLORIDA	136,563,930	(70,263,908)	4,545	(3,630)
GEORGIA	78,701,362	(40,492,868)	2,619	(2,092)
HAWAII	14,131,037	(7,270,601)	467	(374)
IDAHO	14,131,037	(7,270,601)	467	(374)
ILLINOIS	122,123,672	(62,834,208)	4,022	(3,224)
INDIANA	50,724,879	(26,098,606)	1,679	(1,344)
IOWA	24,297,802	(12,501,533)	806	(644)
KANSAS	23,961,963	(12,328,740)	792	(634)
KENTUCKY	47,716,411	(24,550,711)	1,571	(1,260)
LOUISIANA	71,157,898	(36,611,659)	2,341	(1,878)
MAINE	14,131,037	(7,270,601)	467	(374)
MARYLAND	43,359,245	(22,308,892)	1,432	(1,147)
MASSACHUSETTS	55,630,151	(28,622,432)	1,837	(1,471)
MICHIGAN	121,850,147	(62,693,476)	4,010	(3,215)
MINNESOTA	41,370,634	(21,285,726)	1,366	(1,094)
MISSISSIPPI	46,434,975	(23,891,395)	1,528	(1,225)
MISSOURI	51,576,224	(26,536,634)	1,705	(1,365)
MONTANA	14,131,037	(7,270,601)	467	(374)
NEBRASKA	14,833,720	(7,632,141)	491	(393)
NEVADA	14,131,037	(7,270,601)	467	(374)
NEW HAMPSHIRE	14,131,037	(7,270,601)	467	(374)
NEW JERSEY	68,687,804	(35,340,763)	2,271	(1,818)
NEW MEXICO	24,710,262	(12,713,749)	820	(656)
NEW YORK	273,666,324	(140,804,863)	9,101	(7,271)
NORTH CAROLINA	62,542,154	(32,178,747)	2,071	(1,657)
NORTH DAKOTA	14,131,037	(7,270,601)	467	(374)
OHIO	112,395,547	(57,828,962)	3,702	(2,968)
OKLAHOMA	34,159,325	(17,575,414)	1,131	(905)
OREGON	28,863,180	(14,850,479)	954	(764)
PENNSYLVANIA	124,042,773	(63,821,611)	4,085	(3,275)
PUERTO RICO	97,643,597	(50,238,893)	3,212	(2,576)
RHODE ISLAND	14,131,037	(7,270,601)	467	(374)
SOUTH CAROLINA	36,960,993	(19,016,909)	1,225	(980)
SOUTH DAKOTA	14,131,037	(7,270,601)	467	(374)
TENNESSEE	49,967,880	(25,709,120)	1,651	(1,322)
TEXAS	246,238,071	(126,692,671)	8,153	(6,523)
UTAH	19,418,573	(9,991,107)	643	(515)
VERMONT	14,131,037	(7,270,601)	467	(374)
VIRGINIA	52,692,802	(27,111,128)	1,742	(1,395)
WASHINGTON	49,038,904	(25,231,150)	1,621	(1,298)
WEST VIRGINIA	27,324,522	(14,058,820)	899	(721)
WISCONSIN	50,674,981	(26,072,933)	1,677	(1,342)
WYOMING	14,131,037	(7,270,601)	467	(374)
Outlying Areas/BIA	30,427,131	(15,655,153)	1,075	(841)

Individuals with Disabilities Education Grants to States
Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget
US total	5,306,464,000	(2,773,627,685)
Alabama	84,823,521	(44,336,279)
Alaska	15,047,114	(7,864,953)
Arizona	75,267,856	(39,341,642)
Arkansas	50,240,304	(26,260,029)
California	529,818,657	(276,930,117)
Colorado	63,829,602	(33,362,999)
Connecticut	65,193,968	(34,076,137)
Delaware	13,790,640	(7,208,209)
Florida	293,237,782	(153,272,015)
Georgia	132,319,800	(69,162,037)
Hawaii	17,458,968	(9,125,602)
Idaho	23,407,472	(12,234,816)
Illinois	241,013,794	(125,975,138)
Indiana	124,508,247	(65,079,028)
Iowa	60,281,909	(31,508,660)
Kansas	49,634,579	(25,943,424)
Kentucky	74,736,890	(39,064,113)
Louisiana	80,914,772	(42,293,220)
Maine	27,018,882	(14,122,459)
Maryland	94,883,815	(49,594,678)
Massachusetts	140,167,033	(73,263,696)
Michigan	177,047,416	(92,540,647)
Minnesota	90,216,423	(47,155,087)
Mississippi	52,483,099	(27,432,312)
Missouri	111,770,191	(58,420,993)
Montana	15,976,515	(8,350,741)
Nebraska	36,870,188	(19,271,623)
Nevada	28,305,940	(14,795,189)
New Hampshire	23,364,145	(12,212,170)
New Jersey	178,478,897	(93,288,866)
New Mexico	44,272,261	(23,140,602)
New York	367,103,890	(191,880,980)
North Carolina	140,457,577	(73,415,560)
North Dakota	11,197,833	(5,852,979)
Ohio	195,526,686	(102,199,549)
Oklahoma	68,208,999	(35,652,059)
Oregon	63,588,332	(33,236,889)
Pennsylvania	192,317,960	(100,522,385)
Rhode Island	21,592,847	(11,286,333)
South Carolina	84,132,843	(43,975,269)
South Dakota	13,339,532	(6,972,420)
Tennessee	108,973,494	(56,959,192)
Texas	413,514,453	(216,139,247)
Utah	46,938,977	(24,534,464)
Vermont	10,797,698	(5,643,833)
Virginia	133,123,468	(69,582,105)
Washington	96,970,294	(50,685,257)
West Virginia	37,499,700	(19,600,662)
Wisconsin	99,726,213	(52,125,744)
Wyoming	11,326,964	(5,920,474)
District of Columbia	6,933,974	(3,624,309)
Puerto Rico	46,009,578	(24,048,677)
Dep't of the Interior	65,057,249	(34,004,675)
Virgin Islands	10,896,805	(5,695,635)
Guam	14,372,934	(7,512,568)
American Samoa	5,949,100	(3,109,526)
Northern Marianas	3,668,661	(1,917,567)
Pacific Basin Compe	8,916,573	(4,660,590)
Evaluation	11,940,683	(6,241,257)

Head Start
Estimated Impact on States of Republican Tax and Budget Cuts in 2009

	2009 Funding	Reduction in 2009 Funding Under Republican Budget	Number of Participants	Reduction in Participants Under Congressional Budget
Total	5,759,979	(2,994,989)	834,996	(430,500)
ALABAMA	105,896	(55,062)	15,351	(7,915)
ALASKA	8,833	(4,593)	1,280	(660)
ARIZONA	77,436	(40,264)	11,226	(5,788)
ARKANSAS	69,297	(36,032)	10,046	(5,179)
CALIFORNIA	604,974	(314,565)	87,700	(45,215)
COLORADO	62,082	(32,280)	9,000	(4,640)
CONNECTICUT	45,362	(23,587)	6,576	(3,390)
DELAWARE	14,808	(7,700)	2,147	(1,107)
FLORIDA	212,135	(110,303)	30,752	(15,855)
GEORGIA	148,463	(77,195)	21,522	(11,096)
HAWAII	19,396	(10,085)	2,812	(1,450)
IDAHO	15,627	(8,126)	2,265	(1,168)
ILLINOIS	244,258	(127,005)	35,409	(18,256)
INDIANA	90,570	(47,093)	13,129	(6,769)
IOWA	48,486	(25,211)	7,029	(3,624)
KANSAS	50,258	(26,132)	7,286	(3,756)
KENTUCKY	106,211	(55,226)	15,397	(7,938)
LOUISIANA	142,908	(74,307)	20,717	(10,681)
MAINE	24,775	(12,882)	3,592	(1,852)
MARYLAND	66,593	(34,626)	9,654	(4,977)
MASSACHUSETTS	83,194	(43,258)	12,060	(6,218)
MICHIGAN	233,365	(121,342)	33,830	(17,442)
MINNESOTA	66,859	(34,764)	9,692	(4,997)
MISSISSIPPI	174,786	(90,883)	25,338	(13,063)
MISSOURI	107,976	(56,144)	15,653	(8,070)
MONTANA	17,897	(9,306)	2,594	(1,338)
NEBRASKA	30,365	(15,789)	4,402	(2,269)
NEVADA	14,254	(7,412)	2,066	(1,065)
NEW HAMPSHIRE	9,680	(5,033)	1,403	(724)
NEW JERSEY	99,472	(51,722)	14,420	(7,435)
NEW MEXICO	49,116	(25,539)	7,120	(3,671)
NEW YORK	319,466	(166,111)	46,311	(23,877)
NORTH CAROLINA	120,626	(62,722)	17,487	(9,016)
NORTH DAKOTA	13,771	(7,160)	1,996	(1,029)
OHIO	254,267	(132,210)	36,860	(19,004)
OKLAHOMA	85,050	(44,223)	12,329	(6,357)
OREGON	37,825	(19,668)	5,483	(2,827)
PENNSYLVANIA	202,447	(105,265)	29,348	(15,131)
RHODE ISLAND	19,459	(10,118)	2,821	(1,454)
SOUTH CAROLINA	77,821	(40,464)	11,281	(5,816)
SOUTH DAKOTA	16,496	(8,577)	2,391	(1,233)
TENNESSEE	103,304	(53,714)	14,975	(7,721)
TEXAS	401,231	(208,626)	58,165	(29,988)
UTAH	32,599	(16,951)	4,726	(2,436)
VERMONT	9,834	(5,114)	1,426	(735)
VIRGINIA	84,427	(43,899)	12,239	(6,310)
WASHINGTON	67,819	(35,263)	9,831	(5,069)
WEST VIRGINIA	48,164	(25,043)	6,982	(3,600)
WISCONSIN	90,394	(47,002)	13,104	(6,756)
WYOMING	10,171	(5,288)	1,474	(760)
District of Columbia	23,080	(12,001)	3,346	(1,725)
PUERTO RICO	233,064	(121,185)	33,786	(17,419)
VIRGIN ISLANDS	10,017	(5,208)	1,452	(749)
OUTER PACIFIC	41,951	(21,813)	6,081	(3,135)
AMERICAN INDIAN	151,384	(78,714)	21,945	(11,314)
MIGRANT PROGRAMS	259,983	(135,182)	37,689	(19,431)

The purpose of this memo is to provide general background on the tax cut debate raging in Congress on how to allocate the projected on-budget surplus of roughly $1 trillion over 10 years.

Status of House and Senate Tax Bills.

House Action. Last week, the House narrowly passed the Archer $792 billion over 10 years tax reduction plan, the centerpiece of which is a 10 percent reduction in personal income tax, capital gains tax cuts and inheritance tax cuts. To ensure bill passage, Chairman Archer included a gimmick that would make some of the tax cut conditional on debt reduction progress (preliminary analysis suggests that this is likely an unworkable scheme). A House Democratic alternative costing $250 billion over 10 years was defeated.

Senate Action. Last week, the Senate Finance Committee approved a $792 billion over tax years tax relief measure sponsored by Chairman Roth. The Roth measure would, among other things, reduce the income tax rate, expand the IRA program, and eliminate the so-called "marriage penalty." Senators Breaux and Kerrey offered an alternative at $500 billion over 10 years, but after their proposal failed, they both voted with the Republicans (all other Committee Democrats voted against the Roth plan). A Senate Democratic alternative, offered by Senator Moynihan, which would have cut taxes by a net $295 billion over 10 years, was rejected in Committee on a party-line vote. Senate floor debate on the Roth proposal is scheduled for this week and is likely to begin on Wednesday. The Democrats will have six primary message amendments: (1) the Democratic alternative tax cut of approximately $295 billion over ten years; (2) an amendment to keep the tax bill from spending Social Security surpluses; (3) the Democratic Lockbox (covering funds for Social Security and Medicare); (4) a prescription drug amendment; (5) Medicare BBA 97 "fixes"; and (6) a Social Security and Medicare reform first amendment. There are also reports that other tax packages are in development on both sides of the aisle for floor consideration, as well.

Administration Position. The Administration's plan for on-budget surplus allocation (the Social Security and debt reduction lockbox is off-budget) includes the following: (1) $374 billion over 10 years for Medicare; (2) $328 billion over ten years for defense and non-defense spending; and (3) a tax cut of $250 billion over 10 years in the form of USA Accounts to enable Americans to save for their retirement. Because of our USA Account proposal, the Administration is on record in support of using $250 billion over 10 years of projected surplus dollars for tax cuts. (The President's budget also includes approximately $70 billion over 10 years in other tax cuts, such as for long-term care and child care, but these are off-set by tax raisers and therefore do not rely on the surplus.)

The President and the Administration have been highly critical of the Republican tax plans, arguing that tax cuts of that magnitude would drain nearly all projected surplus dollars and therefore would eliminate our ability to deal with pressing challenges, such as shoring up Social Security and Medicare and to meet our other key discretionary spending priorities, such as education. The President repeatedly has stressed that the surplus must first be used to strengthen our existing unfunded liabilities – Medicare and Social Security. And, while Medicare is projected to become insolvent in 2015, the Republican tax plans leave no room to invest in the program over a ten-year period. Furthermore, Administration analysis shows that tax cuts of the magnitude advanced by the Republicans would necessitate drastic cuts in discretionary spending priorities, such as Head Start and education, assuming defense spending levels are maintained as under the President's budget request. The Center on Budget and Policy Priorities posits that because Congress is unlikely to enact these draconian cuts, massive tax cuts will instead return us to the days of escalating budget deficits.

The Republican tax bills, particularly the House bill, disproportionately benefit the wealthy. Under the Archer tax proposal, the top 1 percent of all taxpayers (incomes above $301,000) would receive nearly half of the benefits. And, the top 10 percent of all taxpayers (with average income of $204,000) would receive 69 percent of the total tax benefits when the provisions are fully phased in. Under the Roth tax proposal, two-thirds of the benefits go to families with the top 20 percent of income (those with more than $100,767). And, some 44 percent of the benefits under the Roth proposal go to families in the top ten percent of income.

The President has said that he would veto tax cuts of the magnitude advanced in the chief House and Senate bills ($792 billion over 10 years). His senior advisors have pledged recently that the President would also veto the Breaux-Kerrey $500 billion over 10 years alternative, because even this size of a tax cut leaves insufficient surplus dollars for priorities such as Social Security, Medicare, and discretionary spending programs like education. However, tax cuts of the moderate size offered by the House and Senate Democrats as alternatives – $250 billion in the House and $295 billion in the Senate – fit into the President's framework for responsible surplus allocation and therefore are not off the table. The President and his advisors, however, have pushed the message of "first things first" – first we should commit to addressing the long-term needs of Medicare and Social Security and other priorities, then we can talk about tax cuts.

General Points

(1) Most important, we must have a responsible tax cut that does not threaten our ability to pay down the debt, shore up Social Security and Medicare, and strengthen education and health care. The tax cuts offered by the President and by the House and Senate Democrats (including the Moynihan alternative) are in a range that allows us to do that.

(2) It is important that these tax cuts be targeted not to the wealthy, but rather to Americans struggling to take care of their families and make ends meet. The tax cut offered by the President and the House and Senate Democrats meet that test. The Republican plans don't.

(3) The plans offered by the President and the House and Senate Democrats all have good ideas in them – we should take the best of ideas of those proposals. In so doing, I hope that the President's idea of a progressive tax cut that helps average Americans save and create wealth will be part of any final package.

THE HOUSE REPUBLICAN TAX BILL: COMMENTS FROM EDITORIAL BOARDS, ECONOMISTS, REPUBLICANS & OTHERS
July 23, 1999

RECENTLY, A LARGE NUMBER OF ECONOMISTS, LEADING EDITORIAL PAGES, AND EVEN REPUBLICAN MEMBERS OF CONGRESS HAVE EXPRESSED SERIOUS CONCERNS ABOUT THE REPUBLICAN TAX CUT BILL.

ECONOMISTS AND OPINION LEADERS

- **Fifty leading economists, including six Nobel laureates, said in a letter in the Economist on July 21, 1999 that big tax cuts were bad economic policy.** The letter stated, *"In contrast, a massive tax cut that encourages consumption would not be good economic policy. With the unemployment rate at its lowest point in a generation, now is the wrong time to stimulate the economy through tax cuts. Moreover, an ever growing tax cut would drain government resources just when the aging of the population starts to put substantial stress on Social Security and Medicare. Further, the projections assume substantial undesirable reductions in real spending for non-entitlement programs, including important public investments. Given the uncertainty of long-term budget projections, committing a large tax cut would create significant risks to the budget and the economy."*

- **Alan Greenspan, Chairman of the Federal Reserve Board, told the House Banking Committee on July 22, 1999**, *"I remain where I was last time I was here and the time before. I think that the reduction that is occurring in the Federal debt at this stage as a consequence of the ongoing surplus is an extraordinarily effective force for good in this economy. I think it has moved interest rates lower than they otherwise would have been. I think the cost of capital is lower. And for a number of other reasons, I think it has been a major factor in expansion of economic growth."*

  Greenspan added, *"As I have said before I would therefore prefer, because we are being confronted with a very large demographic change down the road which means the ratio of retirees to workers is going to go up very dramatically, that our emphasis needs to be on national savings which creates capital investment which creates increasing productivity and therefore the capacity when finally the baby boomers retire, that their standard of living will be kept high without creating problems in growing standards of living for our working population. Therefore as I have said, my first priority, if I were given such a priority, is to let the surpluses run."* (Humphrey-Hawkins Testimony of Chairman Greenspan, Before the House Banking Committee, July 22, 1999).

- **Robert D. Reischauer, a senior fellow at the Brookings Institute**, stated in his July 12, 1999, Center on Budget and Policy Priorities Briefing: *"...were there to be a tax cut, even of the House of Representatives proportions, $800-and-something over ten years, the amount of relief that would actually be distributed in the next year or so would be pretty modest. And so, the impact on the economy would be really quite small but inevitably in the wrong direction to the extent that it stimulated consumption and therefore boosted aggregate demand in an economy that is already straining against its capacity limits."*

- **Former U.S. Senators Sam Nunn (D-Ga.) and Warren Rudman (R-NH)** stated in their July 12, 1999 op-ed in The Washington Post,: *"If spending is increased or taxes are cut based on the expectation of huge surpluses and the projection turns out to be wrong, deficits easily could reappear where surpluses are now forecast."*

- **Edward Gramlich, a member of the Federal Reserve Board of Governors,** told The New York Times (Louis Uchitelle, The New York Times, July 14, 1999.) *"If taxes were cut while the nation's resources are highly employed, that would put more pressure on monetary policy."* The New York Times added, *"He suggested, in effect, that the Fed might have to raise interest rates to prevent the extra spending that would over stimulate the economy. Others worried that the higher rates might reduce investment or bring down inflated stock prices, damaging the economy through these avenues."*

(ECONOMISTS & OPINION LEADERS CONT.)

- **Alan Blinder, a Princeton University Economist** who served as Fed vice chairman from 1994 to 1996 said a tax cut offset by higher interest rates today *"would reverse the policy mix that we have followed in the 1990s with such splended effect: low interest rates and high corporate investment."*

- **Sandra Shaber, an economist at the WEFA Group in Philadelphia,** told USA Today (Owen Ullman, July 13, 1999) that *"Tax cuts would be a good idea if the economy were to slow significantly. But things look like they're going pretty well."*

- **Iris Lav of the Centre on Budget and Policy Priorities** told the Economist (July 17, 1999) that the annual cost of the Archer plan jumps from $152 billion in 2008 to $203 billion in 2009; thereafter the costs "explode" to $2.8 trillion between 2010 and 2019, *"at the same period of time when the baby-boom generation will begin to retire and non-Social Security surpluses are expected to level off and ultimately to decline."*

- **Joel Slemrod**, director of the Office of Tax Policy Research at the University of Michigan, was quoted in The New York Times (Michael Weinstein, July 15, 1999), as saying the *" idea of cutting capital gains tax to move the economy significantly is implausible"* The amount of taxes involved which in typical years hovers between $20 billion and $50 billion, *"is too small to shift an $8 trillion economy"*

MANY LEADING NEWSPAPERS IN THEIR EDITORIAL PAGES OR IN NEW ANALYSIS HAVE EXPRESSED CONCERNS REGARDING THE REPUBLICAN TAX PLAN.

LEADING NEWSPAPERS

- **The New York Times** (July 22, 1999) said of the Republican tax cuts: *"The biggest damage to Federal revenues would come just as the baby boomers begin to retire, driving up the costs of Social Security and Medicare. To make the numbers work, the House Republicans are using rosy forecasts of a continued strong economy and unrealistic assumptions about the level of spending cuts that they are likely to make. We hope the economic predictions prove accurate, but there is a good chance they will not."*

- **The Washington Post** (July 23, 1999) criticized the Republican tax cut: *"The true cost of the tax cuts in the Republicans' bills would also be much greater than the surplus. The bills were carefully written in such a way as to mask their cost by delaying the full effect."*

- **The Wall Street Journal** (Gregg Hitt, July 16, 1999) in news analysis called the House bill *"a budget buster built around a 10% cut in each of five individual income-tax brackets... While spreading tax benefits to almost every GOP constituency, it soaks up most of the projected surplus, excluding Social Security... fiscal conservatives in both parties wring their hands over whether the huge tax cut envisioned by GOP leaders will crimp the Treasury's ability to reduce the federal debt. It could also pose a long-term threat to Social Security."*

- **USAToday** (July 23, 1999) stated in an editorial entitled "Tax Cut May Look Appetizing, But It's Loaded With Hidden Costs." *"The latest poster child for political excess is the whopping $792 billion, 10-year tax cut passed by House Republicans. It has something for almost everyone—a 10% reduction in income tax rates...But no matter what you may think of the package, it is built on fanciful accounting."*

SEVERAL HOUSE REPUBLICANS VOTED AGAINST THE HOUSE REPUBLICAN TAX BILL.

HOUSE REPUBLICANS

- **Rep. Michael Castle (R-NY): "***To have no latitude whatsoever, I think, is an error. We need to have a smaller tax cut."* [Associated Press 7/20/99]

  Castle also said, *"We already have a very large tax cut... We're struggling to increase all our appropriations bills for education, health, the welfare of the country. ... My own personal vote is we should not increase the tax cut at all."* [Associated Press, 7/1/99]

- **Rep. Connie Morella (R-MD)**: *"I want debt retirement and [putting money into] Medicare and Social Security. I think the tax bill will be better coming next session, after proving what we can do with the budget."* [The Washington Times, 7/22/99]

- **Rep. Greg Ganske (R-IA)***: "I cannot support an $870 billion tax cut...I think it would be much more reasonable for us to sit down, reach across the aisle, reach down Pennsylvania Avenue, and come to an agreement."* [The Wall Street Journal, 7/15/99]

  Ganske, criticizing the Republican tax cut tactics, also said, *"They just figured they could bulldoze everyone, twist arms and break off legs. Do my Republican colleagues want to see a campaign ad of Bill Gates and the billions and billions of dollars he is saving from this?"* [The Wall Street Journal, 7/22/99]

SEVERAL ECONOMIC OPINION MAKERS HAVE SPOKEN OUT AGAINST THE REPUBLICAN "GIMMICK" AS IT WAS TERMED BY AN ANONYOMOUS GOP CONGRESSMAN THAT PERSUADED SOME MODERATE HOUSE REPUBLICANS TO SUPPORT THE TAX BILL

STATEMENTS

- **Robert D. Reischauer**, a budget expert and former CBO director was quoted in The Washington Post (Eric Pianin, July 23, 1999) saying yesterday that the compromise measure *"appears to provide some modest safety valve, but I wouldn't bet a nickel on its effectiveness."*

- **Reischauer** told The New York Times (David Rosenbaum, 7/23/99) that *"It doesn't make a whole lot of sense."*

- **Stephen Entin**, an economist at the Institute for Research on the Economics of Taxation, who was a Treasury official during the Reagan Administration and is a devotee of deep tax reductions, said of the Republicans new tax cut measure: *"It's just a dumb idea."* [The New York Times, 7/23/99]

- **A Senior Republican Congressman**, who spoke on the condition of anonymity, told The New York Times that *"It was a gimmick, a smear of grease to get us past a sticky spot last night."* [The New York Times, 7/23/99]

FOR IMMEDIATE RELEASE | **July 21, 1999**

Economists Say Big Tax Cuts Are Bad Economic Policy

Fifty economists, including six Nobel laureates, are advising policymakers that big tax cuts now under consideration would be unwise economic policy. The text of their statement appears below.

> The federal budget is projected to show substantial surpluses over the next 15 years. These surpluses offer an exceptional opportunity to pay down government debt and thereby strengthen Social Security and Medicare in order to prepare for the retirement of the baby boomers.
>
> President Clinton's budget proposal makes the correct decision, to save most of these surpluses. The Administration estimates that its plan would entirely pay off the publicly held debt by saving over $4 trillion in projected surpluses by 2015. This dramatic contribution to national saving would reduce interest rates, boost business investment in plant and equipment, lead to a more productive workforce, and raise the standard of living.
>
> In contrast, a massive tax cut that encourages consumption would not be good economic policy. With the unemployment rate at its lowest point in a generation, now is the wrong time to stimulate the economy through tax cuts. Moreover, an ever growing tax cut would drain government resources just when the aging of the population starts to put substantial stress on Social Security and Medicare. Further, the projections assume substantial undesirable reductions in real spending for non-entitlement programs, including important public investments. Given the uncertainty of long-term budget projections, committing to a large tax cut would create significant risks to the budget and the economy.

A list of the economists signing this statement is attached.

\+ + +

For further information contact:
Matthew D. Shapiro
tel. 734 764-5419

Economists Signing Statement

Nobel Laureates:	
Kenneth Arrow	Stanford University
Lawrence R. Klein	University of Pennsylvania
Franco Modigliani	Massachusetts Institute of Technology
Paul A. Samuelson	Massachusetts Institute of Technology
Robert M. Solow	Massachusetts Institute of Technology
James Tobin	Yale University
Henry J. Aaron	Brookings Institution
George A. Akerlof	Brookings Institution and University of California, Berkeley
Alan Auerbach	University of California, Berkeley
Robert Barsky	University of Michigan
Susanto Basu	University of Michigan
Olivier Blanchard	Massachusetts Institute of Technology
Rebecca Blank	University of Michigan
John Bound	University of Michigan
Christopher Carroll	Johns Hopkins University
Karl E. Case	Wellesley College
J. Bradford De Long	University of California, Berkeley
William F. Dickens	Brookings Institution
Christopher L. Foote	Harvard University
Pierre-Olivier Gourinchas	Princeton University
Donald D. Hester	University of Wisconsin, Madison
E. Philip Howrey	University of Michigan
Shane Hunt	Boston University
Erik Hurst	University of Chicago
Saul Hymans	University of Michigan
Paul L. Joskow	Massachusetts Institute of Technology
Phillip B. Levine	Wellesley College
Robert E. Litan	Brookings Institution
Anna Lusardi	Dartmouth College and University of Chicago
Louis Maccini	Johns Hopkins University
Alicia H. Munnell	Boston College
Maurice Obstfeld	University of California, Berkeley
Janet Rothenberg Pack	University of Pennsylvania and Brookings Institution
Howard Pack	University of Pennsylvania
Uwe Reinhardt	Princeton University
Susan Rose-Ackerman	Yale University
Robert W. Rosenthal	Boston University
Shinichi Sakata	University of Michigan
Charles L. Schultze	The Brookings Institution
Matthew D. Shapiro	University of Michigan
Robert J. Shiller	Yale University
Robert Shimer	Princeton University
Jonathan Skinner	Dartmouth College
Peter Temin	Massachusetts Institute of Technology
Laura Tyson	University of California, Berkeley
David N. Weil	Brown University
David Weiman	Social Science Research Council
Kenneth D. West	University of Wisconsin, Madison
Barbara L. Wolfe	University of Wisconsin, Madison
H. Peyton Young	John Hopkins University

Affiliations are provided for identification only

July 22, 1999

CENTER ON BUDGET AND POLICY PRIORITIES

July 22, 1999

Is an $800 Billion Tax Cut Fiscally Responsible?

by Robert Greenstein and James Horney(1)

Testimony of CBO director Dan Crippen released July 21 notes that the reduction of the publicly held debt would be modestly larger over the next 10 years under the policies assumed in the Congressional budget resolution than under the President's revised budget request. The testimony projects that the debt held by the public would fall to 13 percent of GDP by 2009 under the Clinton plan and 12 percent of GDP under the budget resolution.

This has led to claims by some policymakers that the CBO testimony shows that the $800 billion tax cut now before Congress is fiscally responsible and would lead to greater debt reduction than the Administration's proposal. Such claims, however, are inaccurate; the CBO testimony does not demonstrate anything of this sort. Such claims rest on misapplication of the CBO figures.

In fact, if one uses CBO's estimates and applies realistic assumptions about discretionary spending levels, the finding is that tax cuts of the magnitude of the tax reduction measures now before Congress could lead to cumulative non-Social Security deficits exceeding $800 billion over the next decade.

What The CBO Testimony Actually Says

The CBO testimony says that if *both* of the key sets of assumptions in the budget resolution are faithfully followed and enacted — both the budget resolution's tax cuts *and* its rather extraordinary reductions in expenditures for appropriated (i.e., discretionary) programs — then the plan would result in slightly more debt reduction than the President's over the next 10 years. But there appears to be virtually no chance that the discretionary spending reductions assumed in the budget resolution — or anything close to them — will be adopted.

- The CBO testimony notes that the budget resolution assumes cuts in expenditures for discretionary programs over the next 10 years that are *$180 billion deeper* than the daunting cuts that would be needed to fit within the austere budget caps through 2002 and then, as assumed in the CBO baseline, to hold expenditures in the years from 2003 through 2009 to the level of the 2002 cap, adjusted for inflation for years after 2002.
- Last week, CBO issued a table showing that to fit within the caps (and, for years after 2002, to fit within the 2002 cap adjusted for inflation) would require $595 billion in discretionary program cuts over the next 10 years (i.e., discretionary programs would have to be reduced $595 billion below the FY 1999 level of non-emergency expenditures for discretionary programs, adjusted for inflation).
- The *budget resolution thus assumes a whopping $775 billion in real discretionary program cuts over the next 10 years*. Statements that the CBO

testimony shows you can enact an $800 billion tax cut and still reduce the debt more than the Clinton proposal hold water *only* if these massive discretionary cuts can actually be achieved.

But the notion that discretionary cuts of this magnitude can be made is wildly unrealistic. The discretionary side of the budget includes everything from defense to education, highways, the FBI, veterans' hospitals, environmental protection and clean-up, aid to Israel and Egypt, NIH research to find cures for diseases, air traffic control, food safety, and programs such as Head Start and WIC.

- Suppose Congress provides, over the next 10 years, the amount the Clinton budget requests for defense. Under the discretionary spending levels assumed in the budget resolution (and thus used in the July 21 CBO testimony), overall expenditures for non-defense discretionary programs would have to be cut *43 percent* by 2009. In other words, total expenditures for these programs in 2009 would be 43 percent below today's level, adjusted for inflation.

  Areas such as highways, NIH research, education, the FBI, and others are not likely to be cut at all, let alone by 43 percent. This means the rest of the non-discretionary side of the U.S. Government would have to be *cut in half* to meet these budget assumptions.

- Nor do these difficulties ease substantially if defense spending is held to its FY 1999 level adjusted for inflation, with *no real increase* in defense spending for the next 10 years. Given the increases Congress is passing in military pay, pensions, and other defense programs, defense spending levels that provide no real increase for the next 10 years seem unlikely.

  But even if this occurred, overall non-defense discretionary spending still would have to be cut 36 percent by 2009, after adjusting for inflation. Given that some areas of non-defense discretionary spending would inevitably be shielded from cuts, the rest of the discretionary budget would need to be cut 40 percent to 50 percent.(2)

The Second 10 Years

The figures in the July 21 CBO testimony have a major limitation — they stop after 10 years. Even using the budget resolution assumptions that cuts of stunning depth will be achieved in discretionary programs, the Congressional plan would produce substantially less debt reduction than the Clinton plan once you get past the initial 10-year period.

Using the Joint Tax Committee's estimates of the cost of the tax cuts through 2009 and conservative assumptions for the years after that, the Center on Budget and Policy Priorities has estimated that the House tax package would explode in cost from $792 billion in the first 10 years to $2.8 trillion in the second 10 years. The Senate Finance Committee package would burgeon in cost from $792 billion to $2.0 trillion in the second 10 years.

These explosions in costs would occur in the same years that the baby boom generation begins to retire and Social Security and Medicare costs mount. Projections by the Social Security actuaries and CBO indicate that in these years, both the Social Security surplus and the non-Social Security surplus will stop growing and start shrinking.

By contrast, the Administration's proposals do not similarly burgeon in cost after the first 10 years. After 2010, the Administration's proposal calls for using a sizeable share of the non-Social Security surplus for transfers to the Social Security trust fund, rather than for increases in government expenditures or tax reductions.

Will Congress Make These Discretionary Cuts?

The evidence is accumulating daily that Congress will not make such cuts in discretionary programs. In its July 1 budget report, CBO reported that due to scoring gimmicks that the appropriations committees are using, they already have effectively raised the caps by $14 billion for 2000 and consumed *all* of the non-Social Security surplus projected for 2000. (See the box on page 6 of the CBO report.) Moreover, on July 21, the same day the CBO testimony was released, the House Republican leadership called off indefinitely a mark-up of the largest domestic appropriations bill — the Labor, Health, and Human Services bill — because the leadership could not secure the votes for cuts of sufficient magnitude to fit within the spending constraint set for that bill.

Furthermore, these developments concern the difficulties of fitting the FY 2000 appropriations bills within the FY 2000 discretionary spending cap. The caps for the years after 2000 are *tighter* than the 2000 cap.

What Happens Under More Realistic Assumptions?

The CBO testimony also employs a second unrealistic assumption, which applies to CBO's analysis of both the Clinton and the budget resolution plans. The CBO budget projections effectively assume *zero* emergency spending over the next 10 years. (CBO lacks a specific emergency spending level to assume so it makes no assumption in this area.) No one seriously believes, however, that there will be no hurricanes, tornados, floods, or international incidents for the next 10 years.

If two more realistic assumptions are made — that overall discretionary spending will simply remain at FY 1999 levels adjusted for inflation (which would require real reductions in non-defense expenditures if defense spending rises), and that emergency spending will remain at its 1991-1998 average level, excluding expenditures for Desert Storm, a picture of fiscal irresponsibility emerges. Using CBO figures — including CBO estimates of expenditure levels for discretionary programs if discretionary spending remains at today's levels adjusted for inflation — we find the following:

- *There would be cumulative deficits of $821 billion in the non-Social Security budget over the next 10 years if the Senate Finance Committee tax package were adopted.*
- *The effect with the House tax package would be essentially the same.* (The Joint Tax Committee has not released year-by-year revenue estimates of the House package as it is has been revised to total $792 billion in cost over the next 10 years. We thus cannot project the precise level of deficits that would occur. That level should, however, be very close to the $821 billion cumulative deficit level projected for the Senate plan, since both plans now contain a $792 billion tax cut.)

Does the Clinton Plan Also Make Unrealistic Assumptions?

The Clinton budget also assumes some savings measures that appear unachievable, such as a proposed tobacco tax increase, legislation requiring that a portion of state tobacco settlement proceeds be used in certain program areas (with accompanying reductions in federal expenditures for those areas), and some proposals to narrow or eliminate special-interest tax breaks. These measures differ, however, from the unrealistic discretionary cuts assumed in the Congressional budget resolution in two important ways.

First, these Administration measures are much smaller. The savings from such measures are dwarfed by the $775 billion in discretionary program cuts the Congressional budget resolution assumes. Second, the Clinton savings measures that may be unrealistic are entitlement and tax proposals. This means that if they are not approved, the amounts they would save cannot be used. By contrast, the Congressional budget resolution assumes large unspecified reductions in discretionary programs, the vast bulk of which would be slated to be achieved in future years by future Congresses. This is precisely the sort of approach that creates substantial risk that unrealistic and unachievable assumptions will be conveniently employed now to enable large tax cuts to be enacted this year, *without* Congress having to enact specific cuts in specific programs and without the assumed savings actually materializing.

Conclusion

When realistic assumptions are used, $800 billion tax cuts are seen to lead to the return of substantial on-budget deficits. The figures appearing to show greater debt reduction under these plans than under the Administration's proposal rest upon assumptions of rather gargantuan cuts in the non-defense discretionary spending, the first installment of which Congressional leaders already are flinching from making.

End Notes:

1. James Horney recently joined the Center on Budget and Policy Priorities as a Senior Fellow. Until July 12, he directed the budget projections unit at the Congressional Budget Office, which coordinates CBO's estimates of expenditures, surpluses, and deficits. Robert Greenstein is the Center's executive director.

2. The depth of the reductions in non-defense discretionary spending is not quite as sharp (although it still is very large) under the budget resolution. This, however, is because the budget resolution conveniently assumes real cuts in defense spending from 2006 through 2009, to make room on paper for a bigger tax cut.

Home | Background Information | Board of Directors | Center Staff
Publication Library | Search this site | Job Opportunities | Internship Information
International Budget Project | State Fiscal Analysis Initiative
"Start Healthy, Stay Healthy" Child Health Insurance Outreach

To join the Center's e-mail notification list, ask questions,
or send comments, write to bazie@cbpp.org
Center on Budget and Policy Priorities
820 First Street, NE, Suite 510
Washington, DC 20002
Ph: (202) 408-1080
Fax: (202) 408-1056

EXCERPT OF THE PRESIDENT'S RADIO ADDRESS
July 24 1999

This week, the Republicans in the House of Representatives passed a reckless plan that would cost $800 billion in the next 10 years, and a staggering $3 trillion over the next two decades. It is so large, and it balloons in size so dramatically in future years that it would make it impossible to invest our surplus to save Social Security, to save and strengthen Medicare with a prescription drug benefit, to pay off our national debt.

Beyond that, the GOP tax cut is so large it would require dramatic cuts in vital areas, such as education, the environment, biomedical research, defense and crime fighting. The Republican budget already cuts our successful community policing proposal in half. Their reckless tax plan would threaten law enforcement across the board, forcing reductions in the number of federal agents and cutting deeply into support for state and local law enforcement. To make matters worse, of course, the House Republicans are refusing to take steps to keep guns out of the hands of criminals, like closing the gun show loophole. Indeed, they want to weaken the existing laws with a pawn shop loophole.

To keep the crime rate falling we need more police on the street and fewer guns in the hands of criminals, not the reverse.

We have a rare and fleeting chance to use the fruits of our prosperity today to build America for tomorrow. We can invest now to save Social Security and modernize Medicare for the 21st century with more prevention for cancer, osteoporosis and other conditions and with that prescription drug benefit; to lift our children by improving their education; to pay off the national debt for the first time since 1835 and give a generation lower interest rates for businesses, for home mortgages, for car, credit card and college loan payments -- that means more jobs and higher incomes; to bring economic opportunity through investment to our poorest areas that are left behind; to have an affordable tax cut for child care, long-term care, retirement savings and other things Americans need; and to give our families the securities they deserve by keeping the crime rate coming down.

We can do all these things and have an affordable tax cut, or we can squander our hard-won progress on short-term thinking.

Just remember a few years ago -- many people never thought we could balance the budget, but we did, and now we actually have a chance to pay off the national debt. Many never thought we could bring down crime rates, but we did, dramatically. Now we have a chance to achieve something that not too long ago would have seemed pure fantasy. In the early years of the new century we can make America the safest big nation on Earth. We can do this, but only if we act now in the long-term interest of our nation.

So, again, I call on the Congress and all Americans to make this a season of progress. Let's keep thinking about tomorrow.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 27, 1999

REMARKS BY THE PRESIDENT
AND THE FIRST LADY
ON WOMEN AND MEDICARE

Presidential Hall

10:24 A.M. EDT

MRS. CLINTON: Thank you very.much. And I want to thank Secretary Shalala, who has been a strong voice and strong force on behalf of issues that affect how we live and what kind of country we are.

I want to thank all of you for being here, as we come together to talk about one of most important challenges our nation faces today -- saving and preserving Medicare. I want to acknowledge the many people here who have done so much over the years to help us meet our obligations to each other and to the next generation -- members of the Older Women's League, the American Association of University Women, and those of you who represent women's and seniors' groups and Medicare advocates from one end of our country to the other.

We've come here today because our nation is engaged in a critical debate about America's future. We're living in a time of great prosperity and blessings, and of almost unparalleled opportunities for progress for all of our citizens. And we should all take pride in what we have been able to accomplish together over the last six and a half years. But the question before us now is how do we take advantage of this historic opportunity to take on some of the tough challenges our nation faces? How do we strengthen, rather than weaken, our fundamental commitments not only to our parents and our grandparents, but to future generations as well?

And that brings me to an issue that touches all of us, the urgent need to protect and preserve Medicare. Unless we act now, current projections say the Medicare trust fund will be insolvent in the year 2015, which is not very long at all. While this is a major concern for all of us, we're here today to spotlight those who have the greatest stake in a strong and healthy Medicare program, and that is America's women.

As the Henry Kaiser Family Foundation and OWL have reminded us again and again, women simply live longer than men. Now, we hope that is one gender gap that will eventually be closed, but it is the fact. And it is the fact as we project out into the 21st century. Now, that means we have more years to cherish our mothers and our grandmothers, but it also means that they and we are more likely to suffer from multiple and chronic illnesses and have greater long-term care needs. Four out of five of America's elderly women are widowed and almost half live out their days alone. And, not surprisingly, elderly women are much more likely to be poor. Nearly 7 in 10 Medicare beneficiaries living in poverty are women.

For all these reasons, supported by new data that the President will talk about in a few minutes, women rely more on Medicare than men and are, therefore, more vulnerable to changes in Medicare policies.

Over the past six and a half years, and as recently as a few weeks ago, I've spoken with women around the country about their concerns about the future: Women living alone who worry about who's going to care for them when they can no longer live independently; women with limited incomes who are struggling to pay for their prescription drugs, who don't think they can afford to get regular check-ups or get screening tests for osteoporosis, or breast cancer; women who, in their 60s and their 70s, are taking care of their aging or disabled parents, and who rely on Medicare to help them meet their family responsibilities.

I'm sure each of us here today has a story to tell. And we have with us just one example of a devoted daughter: Mary Lee DiSpirito, whose mother came to live with her in Virginia after her father died. As her mother became increasingly frail, Mary Lee had to stop working to care for her mother full-time. Like so many elderly women today, Mary Lee's mother suffered from multiple health problems. And while she had Medicare, and even a Medigap policy, it did not cover prescription drugs.

Because her mother's sole source of income was a monthly $800 Social Security check, Mary Lee and her family paid $4,500 a year in out-of-pocket expenses for prescription drugs -- an amount that would have -- if her mother had been alone, without a devoted daughter and family -- would have depleted half of her mother's yearly income. Mary Lee's mother passed away last November. But her valiant efforts to care for her mother, often under very difficult circumstances, are a vivid reminder of why we must act now to protect and preserve Medicare. I'd like to ask Mary Lee to stand up, because she is emblematic, and symbolic, of women throughout our country. (Applause.)

We owe Mary Lee and all of us the commitment that goes not only to our parents and our grandparents, but to those of us in this generation who are the caretakers who will soon begin to age, may become disabled or chronically ill ourselves. And we owe it to our children and eventually our children's children -- because if we don't invest in our nation's priorities and dedicate the necessary funds to save and modernize Medicare, countless women, like Mary Lee and all of us, and her mother and ours, will be at even greater risk than they are today.

If we don't save and modernize Medicare, then women will continue to struggle to pay for out-patient prescription drugs, and the problem will only get worse as medical advances increasingly rely on drug treatments that even today are beyond the means of most ordinary citizens. If we don't save and modernize Medicare, then women will continue to skip regular screenings and check-ups that would enhance the quality of their lives and reduce Medicare's long-term costs.

And perhaps most importantly, if we don't take advantage of this time of prosperity that we have worked so hard to achieve, then we will look back at our generation as having missed a unique opportunity to make responsible decisions and we will instead have run the risk of becoming a great burden to our own children that none of us ever wanted to be.

That's why I believe that to meet these critical challenges we must take a responsible and balanced approach to tax cuts. Only then will we be able to meet our obligations to America's elderly and disabled, and extend the life of the trust fund for the next quarter century. Only then will we be able to modernize the benefit package to include prescription drugs and preventive care, and support the teaching hospitals that are so critical to serving America's poor and elderly. And only then will we be able to sustain and expand the investments we are making now in our schools, in our environment, in our cities and our country that are so critical to our future prosperity.

So, as we continue to debate these critical issues, not only in the halls of Congress, but around our kitchen tables -- let's not forget the human dimension of what we stand for and we fight for, and what we are seeking to protect and support. Sometimes these debates have a way of making our eyes glaze over as hundreds of billions of dollars are talked about. So let's remember to keep a human face on this debate. (Applause.)

And I want to introduce someone who will add to our understanding and make sure we keep that human dimension, just as Mary Lee has, someone who knows firsthand the challenges of caring for an aging mother at a time when her own daughter had not even yet left home. She knows what's at stake for women in this debate over the future of Medicare. She also represents millions of women who would benefit if we act now to strengthen and modernize Medicare. So it is my great pleasure to introduce Judith Cato. (Applause.)

* * * * *

THE PRESIDENT: Well, I must say that Judith did such a good job, there's hardly anything left to say. (Laughter.) Thank you very much for being here, and we welcome your daughter here.

I want to thank Secretary Shalala, and acknowledge the presence in the audience of Deborah Briceland Betts, the Executive Director of the Older Women's League; the people here from the Henry Kaiser Family Foundation, and the other representatives of women's groups, senior women's groups, and Medicare advocates. Hillary and Secretary Shalala and I are delighted to welcome you to the White House today, and we thank you for your interest in this critical issue.

We are here to discuss what I have repeatedly called a high-class problem: the American people are living longer, especially women. And it is a high-class problem because we have this surplus today, and a projected surplus for several years into the future, which will enable us to deal with the challenge of people living longer and spending more money on Medicare, and then the retirement of the baby boomers, which will put additional pressure on Medicare and on Social Security.

It is a high-class problem, but we don't want it to turn into a nightmare because we walked away from it when we could have dealt with it and we had the money to deal with it -- when we had the time to deal with it, and we knew good and well we ought to deal with it. So, again I say I thank you for being here, and I hope today we can get out some information which will persuade the American people and members of the Congress that the approach I have recommended for the future is the right one.

For 34 years now, Medicare has protected the health of our seniors -- it has enriched the lives of the disabled, it has eased the financial burdens on families as they cared for their loved ones. For millions of American women, in particular, Medicare has been the lifeline to a dignified retirement.

As the report released today by the Older Women's League so clearly tells us, a strong and modern Medicare system is absolutely vital to the health and future of America's women. First it is critical because the majority of beneficiaries quite simply are women. Listen to this: 20 of the 34 million Americans currently enrolled in Medicare are women. I think we've got a chart that says that. But look here: 41 million -- 41 percent of the people in this country on Medicare over 65 are men; 59 percent are women.

And, of course, as time goes one, the percentages get better or worse, depending on the perspective. (Laughter.) Twenty-nine percent of the people over 85 are men, 71 percent are women; 17 percent of people over 100 are men, 83 percent are women. You may think those numbers are insubstantial, but Americans over 80 are the fastest growing population group in the United States, and I'm sure that most of us hope to be among them some day. So this is very important.

Second, without Medicare the doors to hospitals and doctor's offices to basic medical treatment and good health would actually be closed to millions of older women. Throughout their lives, women's incomes have always lagged behind those of men, a gap underscored in retirement through smaller pensions and Social Security checks. So even as they must make ends meet on smaller incomes, women must meet greater health care needs. Nearly three-fourths of older women have two or more chronic illnesses, compared to just 65 percent of older men. For these women, Medicare has truly meant the difference between a healthy retirement and one clouded by uncertainty, untreated illness and poverty.

Now, as you have just heard, the clock is ticking on Medicare's ability to meet the needs of our seniors in the next century. People living longer than ever, the retirement of the baby boom approaching, the Medicare trust fund will become insolvent by 2015. Now, you may think that's a good ways away, but let me tell you, when I took office, Medicare was supposed to become insolvent this year. And we took a lot of very strong steps to stop it from happening.

But we have taken all the easy steps, and some that, arguably, have gone too far. Everywhere I go, people say, you know, the therapy services have been cut back too much, or the inner-city hospitals with big teaching loads or the teaching hospitals generally -- not just in the big urban centers -- everywhere I go, people talk to me about this. So it should be obvious to everyone, there are no longer any easy ways to lengthen the life of the Medicare trust fund -- just as people are living longer and accessing it more. So that is problem one.

Problem two is that Medicare's benefits have not changed significantly since 1965, although the world of modern medicine has changed dramatically. There are some who really believe we can afford to put off this until later. I disagree. To them I say, listen to Judith Cato's story. Like millions of women in the same situation, affording prescription drugs for herself is right around the corner, and for her mother is today.

The typical 65-year-old woman retiring this year can expect to live to be 84. That's 19 more years of retirement. But if we don't act soon, the Medicare trust fund will expire in 16 years. Over the past six and a half years, we have managed to transform an economy burden by an unconscionable deficit of $290 billion to an economy that today is the picture of fiscal health, with a surplus of $99 billion and a large projected surplus over the net decade. We've done this by balancing the budget, cutting unnecessary spending, expanding our investments in education and training, expanding our trade abroad; all of it bringing interest rates down and getting investment up and giving us a remarkable period of economic growth -- the longest peacetime expansion in our history; nearly 19 million new jobs and the lowest minority unemployment and the highest home ownership ever recorded.

The question is, what are we doing to do with this? We know what one plan is -- you have talked about it. The majority in Congress say, well, let's approve a big tax cut now and worry about Medicare and extending the life of the Social Security trust fund, scheduled to run out of money in a little more than 30 years -- let's worry about that later.

One of my bright staff members said, it's kind of like a family sitting around the kitchen table saying, you know, we have always wanted to plan a really fancy vacation to Europe -- let's just do it and blow the works, and when we get home, we'll figure out whether we can pay the mortgage, the car payment and send the kids to college. (Laughter.)

You're laughing, but you know, it's not just a question of the size of the tax cut. Why are we even discussing it before we decide what it takes to save and strengthen Medicare, and what it takes to save Social Security, and what we have to invest in the education of our children, the defense of our nation, the protection of our environment. Why don't we ask ourselves what it is we have to do before we ask ourselves what it is we would like to do?

Now, so what do I think we have to do? Here's what I think we should do. I think, first of all, my plan would secure Medicare by dedicating over $320 billion of our budget surplus for 10 years, to extend the life of the trust fund from 2015 to 2027. That would be the longest projected life we've had on the trust fund in many years. But we have not been this financially healthy in many years, nor have we faced the challenge of so many people retiring and living so long ever before. So we need to know it's going to be all right for a good while.

Secondly, we will introduce more modern mechanisms of competition to improve quality, but to control costs as well as we can, as private sector innovations have done. We will give seniors the chance to choose between lower-cost Medicare managed-care plans and the traditional program, but we will not support changes that would force them to move from one to the other.

I also believe it's important to modernize benefits and, over the long run, the economical thing to do. Over the last 30 years, a medical revolution has transformed health care, and in many cases prescription drugs now supplant what used to be routinely dealt with with surgeries. They have lengthened and improved the quality of life.

As the Older Women's League study shows, women have borne the greatest cost of this pharmaceutical revolution. According to the next chart, women spend $1,200 a year on prescription drugs, on average -- about 20 percent more than men. Now, as you have already heard, our plan will help seniors to afford the prescription drugs that have become essential to modern medicine. The plan is completely voluntary, but available to all Medicare beneficiaries.

This is a challenge, I might add, not just for poor women. It is also a challenge for middle-class women as well. Look at the next chart. Half of all middle-class women -- that is, for seniors, those who make at least $12,700 a year or, with couples, $17,000 a year -- have no prescription drug coverage at all. So among those who have no coverage, a quarter are below the poverty line, a quarter are between 100 and 150 percent of poverty, half are over 150 percent of the poverty line -- although, if your drug bills are big enough, it doesn't take long to get down below the poverty line again.

Women who have tried to buy extra coverage through private Medigap policies have to cope with escalating premiums as they get older. That's one of the great ironies of these Medigap policies that -- I keep hearing about, you know, we don't really need this because of Medigap. They get more and more and more expensive as you get older and older and older and less and less and less able to come up with the money to pay for them.

Now, I think anybody that says we don't need to do this is out of touch with people's real lives and out of date. I'd also like to point out that our plan would eliminate the last barrier between seniors and preventive screenings -- tests for breast cancer, colon cancer, prostate cancer, diabetes and osteoporosis -- that can help save their lives. For too many seniors on fixes incomes, especially low-income women, the cost of the modest co-payment is prohibitive. Last year, for example -- listen to this -- just one in seven women took advantage of the mammograms covered by Medicare.

So what we want to do is to eliminate the deductible and the co-payments for the preventive screenings -- (applause) -- and we pay for it by introducing a modest co-pay on lab tests that are frequently overused, ones that have been identified, and by indexing to inflation the modest Part B premium, which will be much less burdensome because it's more broadly spread in a smaller amount of money. But the people who need these preventive screenings, this will save lives.

Consider the irony of this. Every condition I just outlined, we pay for the doctor benefits, we pay for the hospital benefits, but we don't want to let people get the preventive screenings that will keep them from spending that money in the first place -- keep them healthy and keep them alive. This is a good thing to do.

Now, this is a good plan. It is a responsible plan. And it is important that we deal with the Medicare challenge now, while we have the funds and the prosperity to do so. I have proposed to dedicate the Social Security portion of the surplus to Social Security, but also to lengthen the life of the trust fund by taking the interest savings we'll have, because this will allow us to pay the debt down, and putting it into the Social Security trust fund, so it will last longer. So we'll have at least over 50 years of life on the Social Security trust fund. (Applause.)

And as I said, I proposed to put over $320 million in Medicare. There's not a single expert on this program who believes that we can stabilize the fund and lengthen the life of it and deal with the coming demographic challenges without more money. No one who has looked into this believes it. And I think this is very, very important, because if the tax cut being pushed by the congressional majority, which includes vast benefits for people in my income group and higher -- who have done quite well in the stock market, thank you very much -- (laughter) -- and are not clamoring for it, and are worried that it will destabilize the economy -- even today, there are stories in the paper that if we have a big tax cut, with the economy growing as fast as it is, it might stimulate inflation, which would cause increases in interest rates, which would take away all the economic benefits of the tax cuts in higher interest rates.

So I say to you, I do not believe that is the wise thing to do. I think first we should say, let's save Social Security and Medicare; let's add this responsible prescription drug benefit; let's decide the commitments that we ought to make -- to give our children good education, to keep our streets safe, to biomedical research, to national defense, to the environment -- and then let's decide what we can afford in a tax cut. Let's do first things first.

In addition, another benefit of my plan not present in any other one is that if my proposal were to pass the Congress, in about 15 years we would actually be out of debt as a nation, for the first time since 1835. (Applause.)

Now, the significance of that for older Americans is quite important. Why? Because if we are out of debt, it means we will have long-term prosperity, lower interest rates -- which means lower costs for business borrowing, more investment, more jobs, higher incomes, and for families, lower home mortgages, car payments, credit card payments and college loan payments. That amounts to a very big tax cut over 10 or 15 years, getting this country out of debt, making us less vulnerable to the vagaries of the international financial system, securing the long-term economic stability for the young people here in the audience and throughout our country.

Believe it or not, we can do all that and still have a fairly sizable tax cut. I propose to let people use it for retirement savings, for long-term care, for child care. But the point I want to make today is not so much what we spend it on, but how much it can be, and in what order we are doing this. We did not get to this moment of prosperity by figuring out how to eat our cake, and then looking around for the vegetables. (Laughter.) That's not how we got here. We got here -- and a lot of members of Congress lost their jobs over it because we took the tough decisions in 1993 to get the deficit down, to bring interest rates down, and to do it without having to give up on obligations to education and to our other important national priorities.

So here we are with this opportunity of a lifetime to deal with this, and I think we ought to do it. Now, I regret that, as all of you know, the congressional majority appears to have a different philosophy. Look what happened -- last week, in the House of Representatives, they passed an irresponsible tax bill that would spend our surplus, it wouldn't devote a dime -- not a dime -- not one dime to extending the solvency of Medicare. And interestingly enough, these tax cuts are worded so that they won't go into full effect until the year 2010, just when the baby boomers start to retire. And in the second 10 years, they'll cost way over twice as much as they did in the first 10 years.

Now -- so the whole impact of them will hit us right between the eyes as the baby boomers retire, Medicare nears insolvency, Social Security starts to show strains.

This week, the Senate is going to take up a similar bill. They also, I might say, as all the analysis -- I don't know if you've had -- I don't want to take time today to do this, but if you haven't seen the analysis of the bills, you ought to, because they're standing up there saying if we don't give this money back to you -- "they" -- i.e., me and my allies in Congress -- will spend it on "their" friends.

Well, Judith is my friend. (Laughter and applause.) It sounds so great: "we want to give it back to you, they're going to spend it on their friends." We want to spend it on saving Social Security and Medicare, educating our children, paying down the national debt and getting us out of debt, to help our friends, the American people.

They tickle me, you know, these guys. They were fighting the patients' bill of rights several days ago and they said, oh, these Democrats, all they do is stand up and tell stories, we're talking about something besides stories. Well, I don't know about you, but the older I get the more it seems to me like life is just a collection of stories. (Laughter.) And people are pretty important -- a lot more important than statistics.

And I'm telling you, I've been at this business a long time. This country may never have an opportunity like this. And they're spending it on their friends. (Laughter and applause.) And, ironically, their friends are better off under our plan because the stock market has more than tripled -- their friends have done very well under our plan. We have had an economic policy that has been non-discriminatory, benefitting Republicans and Democrats, alike. (Laughter.)

Look, today I want you to read the papers today. They point out that the Congress, the majority, has begun resorting now to accounting gimmicks, because they've approved such a big tax cut they can't meet the fundamental obligations of government without beginning, right now, to spend the surplus. And they don't want to acknowledge that, so they've resorted to accounting gimmicks to disguise the fact that they're dipping into the surplus. They can't live within the budget limits we set in 1997 -- I told you, we all know we cut Medicare too much in '97; we're going to have to fix it. A lot of you know it. A lot of you deal with these programs and these health care providers.

But they want to give the illusion they're living within the budget limits, nothing has to be done, and they can have this tax cut. I'm telling you what's going to happen. If this tax cut were to become law, it would mean huge cuts in education, huge cuts in the environment, huge cuts in medical research, huge cuts in health care, and huge cuts in national defense -- or, if they didn't do that, we would see -- balloon the deficit again, just like we did in the 12 years before I took office, when the national debt quadrupled.

We tried it that way; it didn't work very well. Why are we going down the same road we tried before, when we have a road that we have tried for six and a half years that has brought us to this point? Why would we reverse course instead of building on what we've done and going beyond it? It is a big mistake, and it's wrong. It's not just wrong for the seniors. It's not just wrong for the women of this country. It's wrong for all Americans. It is not the right thing to do.

Now, it also -- it will take away the single best opportunity any of us will ever have in our lifetimes to save Social Security for the baby boomers, to save and strengthen Medicare, and to get us out of debt for the first time since 1835 -- to give the young people in this room a chance at a generation of prosperity. And I don't believe any thinking person, once they understand what the real numbers are -- let's get out of the rhetoric here, who's going to give it to whose friends and all that. What are the numbers? This is an arithmetic problem.

You know, I told people when I got elected President -- I'd come from a state with fairly straightforward values and ways of doing things, and I thought we ought to have a radical new idea in Washington -- we'd bring basic arithmetic back to the budget. (Laughter.) And basic arithmetic has worked pretty well. This doesn't add up.

And so I ask you to help me send the word to the Congress that let's do first things first. Let's fix Medicare. The women of America especially need it. (Applause.)

You know, we have to work together. Every time we get in one of these fights people throw their hands up. But there's normally a process that goes on here. When we were doing welfare reform I vetoed two bills because it took away the mandate of health care and nutrition for children. We finally got a welfare reform that I thought was right, it carried by big majorities in both parties, in both Houses -- we have the lowest welfare rolls in 30 years. And we did it in an election year.

Then the next year we did the Balanced Budget Act and it has worked superbly. The only problem with it is that the Medicare cuts were too burdensome on certain groups, and we're trying to fix that. But I can tell you that if this tax cut passes there will be breathtaking cuts in every area of our national life that you would believe is important, over and above what it would do to totally rob us of any chance to stabilize and improve Medicare and save it for the baby boom generation.

We have big tests as a country: How are we going to deal with the aging of America? How are we going to give all of our kids a world-class education, especially since more and more of them come from families whose first language is not English? Those of us who expect to be alive in 20 years, or hope to be, better hope we do a good job of educating those kids.

How are we going to deal with all these other challenges? How are we going to bring economic opportunity to people who still haven't felt it? How are we going to stabilize the economy so that we'll still be growing even better 10, 15, 20 years from now? These are big challenges. But they are high-class problems in the sense that nations rarely get these opportunities. Once in a lifetime you get a chance to stand up with your country in good shape, bring people together, look down the road and say, yes, these are big challenges and we're going to check them off -- one, two, three, four -- because we have the money and the vision to deal with them.

So my appeal today is that we not get into a big fight, we just go back to basic arithmetic. These tax bills the majority is pushing could not get the support of their own members if we had a chart up on the wall that says, here is what we have to spend just to stay where we are today in education, defense, the environment, medical research; here's what every expert says it takes to stabilize Medicare; here is the interest savings you ought to be putting into the Social Security trust fund; here is what we have to do to fix health care. They agree we have to do some more for veterans care. They agree with these things -- the numbers don't add up. We cannot take the vacation without paying the home mortgage, the car payment, and the college loan bill. We can't do it. We can't eat the cake until the vegetables and the soup are out of the way. And we cannot defy the basic laws of arithmetic.

And contrary to some of the debate, we cannot forget the stories. This is about how millions upon millions upon millions of Americans will live. Will they live in dignity and health, or will they live in want and insecurity, imposing unconscionable burdens on their children, and limiting their children's ability to raise their grandchildren?

Or will we use this moment to build a more prosperous, more just, more decent society? This is about way more than drugs and trips to the doctor. This is about what kind of people we are and whether we can look beyond today to the tomorrow we all want for all of us.

Thank you. (Applause.)

END 11:06 A.M. EDT

This paper was developed to illuminate the effects of the House-proposed $864 billion tax cut. The House has since scaled its proposal to $792 billion, but the descriptions below remain relatively accurate.

Programmatic Impacts in FY 2009 of Republican Tax Cut
Assuming Defense is Equal to the President's Request

Education and Training

- A cut of this magnitude would force **Head Start** to cut services to 425,000 of the 835,000 children who would otherwise be served in FY 2009.

- About 306,000 summer **jobs and training opportunities** for low-income youth could be eliminated from the 577,700 that would otherwise be provided in FY 2009.

- **Title I, Education for the Disadvantaged** could be slashed, cutting more than 7.4 million children (from the total 14.6 million assumed in the baseline) in high poverty communities from key educational services necessary to improve their future prospects.

- The **Reading Excellence** program, which would otherwise help 1.2 million children learn to read by the 3rd grade, could serve 622,000 fewer students.

Environment and Health

- In FY 1999, the **VA Medical Care** budget projects providing treatment for 3,468,000 veteran patients, a figure that would drop by 1,622,00 should a cut of this magnitude take place.

- Funding for the **Health Resources and Services Administration** would be cut by $2.5 billion from the current services baseline, resulting in the loss of health services for roughly 15 million women, children, uninsured people, and people living with AIDS from the total 30 million recipients assumed in the baseline.

- Funding for the **National Institutes of Health** would be cut by $9.8 billion from the current services baseline, resulting in approximately 15,000 fewer biomedical research grants being funded from the total 31,000 assumed in the baseline. At this level, NIH might not be able to fund any new research grants, and support for research grants begun in previous years would have to be reduced.

- **Stopping Toxic Waste Cleanup --** EPA's Superfund program would be cut by nearly $1 billion, eliminating funding for all new Federally-led cleanups due to begin in 2009. Major reductions would also be needed in emergency response actions, ongoing Superfund cleanups, negotiation and oversight of private party-led cleanups, cost recoveries, EPA's brownfields program, and support for other federal agencies and states. Over a thousand employees could lose their jobs, and Superfund contractors would be out of work.

Crime, Housing, and Other Priorities

- Cuts to the **Immigration and Naturalization Service** could result in a reduction of approximately 6,993 Border Patrol agents (from the total 8,947 assumed in the baseline). Cuts to the **FBI** could result in a reduction of approximately 7,187 FBI agents (from the total 10,687 assumed in the baseline).

- Cuts of this magnitude to **HUD**'s housing rental subsidy could result in the termination of rent subsidies to approximately 1.5 million HUD subsidized low-income tenants in FY 2009.

- Cuts of this magnitude would reduce **NASA**'s funding to the lowest level since FY 1984. With this level of funding, NASA could support either a human spaceflight program or a science program relying on robotic missions, but not both.

- The **National Park Service** operating budget would be cut by almost a billion dollars below the FY 2009 baseline. Park rangers and other staff would have to be reduced through hiring freezes and RIFs. Seasonal workers could not be hired, resulting in widespread cutbacks in visitor services, seasonal programs, and hours of operations, as well as closures at many of the 378 park units serving almost 300 million visitors annually.

THE WHITE HOUSE

Office of the Press Secretary

Embargoed For Release
Until 10:06 A.M. EDT
Saturday, July 17, 1999

RADIO ADDRESS BY THE PRESIDENT
TO THE NATION

Des Moines, Iowa

THE PRESIDENT: Good morning. I want to talk to you today about a great debate now underway in Washington -- the debate over how best to use America's record-breaking budget surpluses. That we can even have this debate is remarkable. Just remember six and a half years ago, when I first became President, we faced budget deficits that were $290 billion and rising. In the previous 12 years, those deficits had quadrupled the total debt of America.

But beginning in 1993, we put in place a new economic strategy of fiscal discipline, coupled with greater investments in areas like education, training and technology. That strategy has helped to produce a private sector-led economic expansion of historic proportions. It's also produced not only a balanced budget, but budget surpluses of $99 billion this year, and a projected surplus over the next 10 years of about $2.9 trillion, including Social Security taxes.

Now, America must decide how best to use the fruits of our hard work. I believe we should stay with the fiscal discipline that got us here, and invest the surplus to meet our long-term challenges. That's why I've proposed that we set aside the vast bulk of this surplus to protect and secure Social Security and Medicare, and to modernize Medicare by adding a long-overdue prescription drug benefit.

By saving most of the surplus from Medicare and Social Security, we can also pay off all our publicly-held debt by the year 2015. That would make America debt-free for the first time since 1835. What would that mean? It would mean lower interest rates, more business investments, more jobs, higher wages, lower car payments, lower house payments, lower credit car payments, lower student loan payments.

Now, my balanced budget would do this, while increasing investments in areas like education, technology, the environment and defense. It would also offer a quarter of a trillion dollars in targeted tax cuts to help middle-income families meet the crucial needs for child care, for long-term care for aging relatives, for saving for their own retirement, and tax cuts for inducing people to invest in building modern schools or rehabilitating those that exist now, and for investing in the areas of our country which have not yet fully participated in our recovery.

But my plan puts first things first. It says, first strengthen Social Security and Medicare and pay down the debt. Take care of the baby boom retirement; take care of our families and our children; take care of the long-term challenges to America. Then, we can allocate the rest of the surplus for other spending priorities like education and for tax cuts.

Unfortunately, the plan the Republican leadership put forward this week does not do that. Their plan would devote virtually all the non-Social Security surplus, nearly $1 trillion, to a tax cut, while failing to extend the solvency of Social Security and Medicare even by a single day. The plan also doesn't go far enough in paying down the debt, which will mean higher interest rates and a weaker economy down the road. And it would force drastic cuts in areas where we should be investing more.

In education, for instance, I've proposed an education and children's trust fund that will, among other things, guarantee our ability to hire 100,000 new highly-trained teachers to lower class size in the early grades. Yet, early next week, the House Republicans will offer legislation that would go back on the bipartisan commitment both Republicans and Democrats made just last year to the American people to hire those 100,000 new teachers. We've hired 30,000 now, or we've given the states and school districts the money to do that. We shouldn't go back on a commitment that we made last year; that's the wrong way to go. But that isn't the worst of it.

Republican leaders have estimated their tax plan would cost more than three-quarters of a trillion dollars between now and the year 2010. What they haven't said is what it would cost after 2010 when the baby boomers retire and the need for revenues for Social Security and Medicare will be most acute. Earlier this week, I asked the Treasury Department to analyze the Republican plan's long-term impact. And the answer I've received is quite disturbing.

According to the Treasury Department's preliminary estimate, the costs of the Republican plan will explode between the year 2010 and 2019 from $1 trillion a decade to an unimaginable $3 trillion. At the very time the nation will be confronting the demographic challenge of the baby boom, the Republican plan will blow a $3-trillion hole in the federal budget, threatening our ability to secure Social Security and Medicare for the next generation and risking return to the era of deficits with high interest rates and economic stagnation.

Tax cuts that size quite simply are bad economic policy. It's bad not to save Social Security and Medicare; it's bad not to pay the debt off. It is certainly bad to cut education at a time when it's more important to our children's future than ever.

So I say to Congress: Put first things first. Set aside most of the surplus for Social Security and Medicare. Make sure we invest enough in education. Then, together, we can budget for the kind of tax cuts we need and can afford while we pay off the debt and guarantee a strong America in the 21st century.

This is a very good time for our country. We're on the right path. Let's stay on it, use our surplus wisely, think about our children's future. Then the 21st century will be America's best days.

Thanks for listening.

END

THE WHITE HOUSE

WASHINGTON

July 26, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

CC: **MELANNE VERVEER**
SHIRLEY SAGAWA
MARSHA BERRY

FROM: **NICOLE RABNER**

SUBJECT: **BACKGROUND ON TAX CUT DEBATE**

The purpose of this memo is to provide you with general background on the tax cut debate raging in Congress on how to allocate the projected on-budget surplus of roughly $1 trillion over 10 years.

Status of House and Senate Tax Bills.

House Action. Last week, the House narrowly passed the Archer $792 billion over 10 years tax reduction plan, the centerpiece of which is a 10 percent reduction in personal income tax, capital gains tax cuts and inheritance tax cuts. To ensure bill passage, Chairman Archer included a gimmick that would make some of the tax cut conditional on debt reduction progress (preliminary Administration analysis suggests that this is likely an unworkable scheme). A House Democratic alternative costing $250 billion over 10 years was defeated.

Senate Action. Last week, the Senate Finance Committee approved a $792 billion over tax years tax relief measure sponsored by Chairman Roth. The Roth measure would, among other things, reduce the income tax rate, expand the IRA program, and eliminate the so-called "marriage penalty." Senators Breaux and Kerrey offered an alternative at $500 billion over 10 years, but after their proposal failed, they both voted with the Republicans (all other Committee Democrats voted against the Roth plan). A Senate Democratic alternative, offered by Senator Moynihan, which would have cut taxes by a net $295 billion over 10 years, was rejected in Committee on a party-line vote. Senate floor debate on the Roth proposal is scheduled for this week and is likely to begin on Wednesday. The Democrats will have six primary message amendments: (1) the Democratic alternative tax cut of approximately $295 billion over ten years; (2) an amendment to keep the tax bill from spending Social Security surpluses; (3) the Democratic Lockbox (covering funds for Social Security and Medicare); (4) a prescription drug amendment; (5) Medicare BBA 97 "fixes"; and (6) a Social Security and Medicare reform first amendment. There are also reports that other tax packages are in development on both sides of the aisle for floor consideration, as well.

Administration Position. As you know, the Administration's plan for on-budget surplus allocation (the Social Security and debt reduction lockbox is off-budget) includes the following: (1) $374 billion over 10 years for Medicare; (2) $328 billion over ten years for defense and non-defense spending; and (3) a tax cut of $250 billion over 10 years in the form of USA Accounts to enable Americans to save for their retirement. Because of our USA Account proposal, the Administration is on record in support of using $250 billion over 10 years of projected surplus dollars for tax cuts. (The President's budget also includes approximately $70 billion over 10 years in other tax cuts, such as for long-term care and child care, but these are off-set by tax raisers and therefore do not rely on the surplus.)

The President and the Administration have been highly critical of the Republican tax plans, arguing that tax cuts of that magnitude would drain nearly all projected surplus dollars and therefore would eliminate our ability to deal with pressing challenges, such as shoring up Social Security and Medicare and to meet our other key discretionary spending priorities, such as education. The President repeatedly has stressed that the surplus must first be used to strengthen our existing unfunded liabilities – Medicare and Social Security. And, while Medicare is projected to become insolvent in 2015, the Republican tax plans leave no room to invest in the program over a ten-year period. Furthermore, Administration analysis shows that tax cuts of the magnitude advanced by the Republicans would necessitate drastic cuts in discretionary spending priorities, such as Head Start and education, assuming defense spending levels are maintained as under the President's budget request. The Center on Budget and Policy Priorities posits that because Congress is unlikely to enact these draconian cuts, massive tax cuts will instead return us to the days of escalating budget deficits.

The Republican tax bills, particularly the House bill, disproportionately benefit the wealthy. Under the Archer tax proposal, the top 1 percent of all taxpayers (incomes above $301,000) would receive nearly half of the benefits. And, the top 10 percent of all taxpayers (with average income of $204,000) would receive 69 percent of the total tax benefits when the provisions are fully phased in. Under the Roth tax proposal, two-thirds of the benefits go to families with the top 20 percent of income (those with more than $100,767). And, some 44 percent of the benefits under the Roth proposal go to families in the top ten percent of income.

The President has said that he would veto tax cuts of the magnitude advanced in the chief House and Senate bills ($792 billion over 10 years). His senior advisors have pledged recently that the President would also veto the Breaux-Kerrey $500 billion over 10 years alternative, because even this size of a tax cut leaves insufficient surplus dollars for priorities such as Social Security, Medicare, and discretionary spending programs like education. However, tax cuts of the moderate size offered by the House and Senate Democrats as alternatives – $250 billion in the House and $295 billion in the Senate – fit into the President's framework for responsible surplus allocation and therefore are not off the table. The President and his advisors, however, have pushed the message of "first things first" – first we should commit to addressing the long-term needs of Medicare and Social Security and other priorities, then we can talk about tax cuts.

General Points to Make

(1) Most important, we must have a responsible tax cut that does not threaten our ability to pay down the debt, shore up Social Security and Medicare, and strengthen education and health care. The tax cuts offered by the President and by the House and Senate Democrats (including the Moynihan alternative) are in a range that allows us to do that.

(2) It is important that these tax cuts be targeted not to the wealthy, but rather to Americans struggling to take care of their families and make ends meet. The tax cut offered by the President and the House and Senate Democrats meet that test. The Republican plans don't.

(3) The plans offered by the President and the House and Senate Democrats all have good ideas in them – we should take the best of ideas of those proposals. In so doing, I hope that the President's idea of a progressive tax cut that helps average Americans save and create wealth will be part of any final package.

Attachments

New York Times 7/26/99 Article, *White House Says No To $500 Billion Tax-Cut Proposal*
NEC Document: *House Republican Tax Bill: Comments from Editorial Boards, Economists, Republicans & Others*
Nobel Laureates Statement on Tax Cuts
NEC Document: *Highlights of Analysis of Rep. Archer Tax Proposal from Key Organizations*
NEC Document: *Highlights of Treasury Distribution Table for Roth Tax Proposal*
Excerpt from Radio Address by the President, July 23, 1999
Radio Address by the President on House Republican Tax Cuts, July 17, 1999
OMB Document: *Programmatic Impacts of FY 2009 of Republican Tax Cut*

Highlights of Analysis of Rep. Archer Tax Proposal from Key Organizations
July 16, 1999

DISTRIBUTION OF TAX BENEFITS IS REGRESSIVE

Overall

- The top 1 percent of all taxpayers, incomes above $301,000, would receive almost half of the benefits. The average tax cut for this group would be $54,027. (Citizens for Tax Justice, July 15,1999).

- The top 10% of all taxpayers, with average income of $204,000, would receive 69% of the total tax benefits when the provisions are fully phased in. (Citizens for Tax Justice, July 15,1999).

- The middle 20%, with incomes between average $30,300 would receive just 5.8% of the total tax cut and receive an average of $350.

- The bottom three-fifths of all tax payers (with average income of $19,000) would receive just 8.7 percent of the overall tax cuts. (Citizens for Tax Justice, July 15,1999).

Estate Tax Elimination

- The first $650,000 of an estate is already exempt from taxation n 1999 and the exemption rises to $1 million in 2006. An unlimited amount of property can be transferred to a spouse free of tax. (Center on Budget and Policy Priorities, July 12, 1999).

- The Joint Committee on Taxation estimates that less than 2 percent of all decedents in 1999 will have estates large enough to require payment of some estate tax. (Present Law and Background on Federal Tax Provisions Relating to Retirement Savings Incentives, Health and Long Term Care, and Estate and Gift Taxes (JCX-29-99), June 15, 1999.

- An analysis by IRS of the 32,000 taxable estates filing in 1995 showed that the 16% of estates with gross value exceeding $2.5 million paid nearly 70 percent of the total estate taxes. (Internal Revenue Service, SOI Bulletin, Winter 1996-98.)

- The top 1%, with incomes above $301,000, would receive almost 91% of the benefits and an average tax cut of $19,914. (Citizens for Tax Justice, July 15,1999).

- The top 10%, with average incomes of $204,000, would receive more than 9% of the benefits and an average tax cut of $489. (Citizens for Tax Justice, July 15,1999).

- Those with incomes below the top 10% are not estimated to benefit. (Citizens for Tax Justice, July 15,1999).

10% Income Tax Rate Cut

- The top 1%, with incomes above $301,000, would receive almost 30% of the benefits, and receive an average of $17,461. (Citizens for Tax Justice, July 15,1999).

- The top 10%, with average incomes of $204,000, would receive almost 60% of the benefits and receive and average tax cut of $3,563. (Citizens for Tax Justice, July 15,1999).

- The middle 20%, with average income of $30,300, would receive just 6.9 % of the benefits and receive an average tax cut of $207. (Citizens for Tax Justice, July 15,1999).

- The bottom 60% (with average income of $19,000), would receive under 10% of the benefits and receive an average tax cut of $99. (Citizens for Tax Justice, July 15,1999).

Capital Gains

- The top 1%, with incomes above $301,000, would receive almost 70% of the benefits and an 7average tax cut of $8,319. (Citizens for Tax Justice, July 15,1999).

- The top 10%, with average incomes of $204,000, would receive more than 90% of the benefits and an average tax cut of $1,099. (Citizens for Tax Justice, July 15,1999).

- The middle 20%, with average incomes of $30,300, would receive less than 1% of the benefits and an average tax cut of $4. (Citizens for Tax Justice, July 15,1999).

- The bottom 60% (with average income of $19,000), would receive 1 % of the benefits. (Citizens for Tax Justice, July 15,1999).

Estate Tax Elimination

- The first $650,000 of an estate is already exempt from taxation n 1999 and the exemption rises to $1 million in 2006. An unlimited amount of property can be transferred to a spouse free of tax. (Center on Budget and Policy Priorities, July 12, 1999).

- The Joint Committee on Taxation estimates that less than 2 percent of all decedents in 1999 will have estates large enough to require payment of some estate tax. (Present Law and Background on Federal Tax Provisions Relating to Retirement Savings Incentives, Health and Long Term Care, and Estate and Gift Taxes (JCX-29-99), June 15, 1999.

- An analysis by IRS of the 32,000 taxable estates filing in 1995 showed that the 16% of estates with gross value exceeding $2.5 million paid nearly 70 percent of the total estate taxes. (Internal Revenue Service, SOI Bulletin, Winter 1996-98.)

- The top 1%, with incomes above $301,000, would receive almost 91% of the benefits and an average tax cut of $19,914. (Citizens for Tax Justice, July 15,1999).

- The top 10%, with average incomes of $204,000, would receive more than 9% of the benefits and an average tax cut of $489. (Citizens for Tax Justice, July 15,1999).

- Those with incomes below the top 10% are not estimated to benefit. (Citizens for Tax Justice, July 15,1999).

Highlights of Treasury Distribution Table for Roth's Tax Proposal
July 23, 1999

Benefits to The Wealthy Families . . .

- Two thirds (66.9%) of the benefits go to families with the top 20 percent of income – those with more than $100,767 and will receive an average tax benefit of $2,885.
- Some 44 percent of the benefits go to families in the top 10 percent of income – those with more than $140,581 and will receive an average tax benefit of $3,811
- About 30 percent of the tax benefits go to families in the top 5 percent of income – those with more than $189,835 and will receive an average tax benefit of $4,999.

. . . Not to Middle and Lower Income Families

- These compare to just 9.8 percent of the benefits going to middle income families earning between $34,844 and $59,019 – and receive just $415.
- Lower income families earning between $17,988 and $34,844 will receive just 2.5 percent of the benefits and receive an average of just $107 dollars.

Comparison of Roth and Archer

Family Economic Income Quintile	Average Tax Change ($)		Percent Distribution of Benefits (%)	
	Archer	Roth	Archer	Roth
Lowest	21	12	0.4	0.3
Second – begins $17,988	111	107	1.9	2.5
Third – begins $34,844	340	415	5.9	9.6
Fourth – begins $59,019	781	894	13.5	20.7
Highest – begins $100,767	4,501	2,885	78.1	66.9
Top 10% - begins $140,581	7,381	3,611	64.0	44.2
Top 5% - begins $189,935	12,260	4,999	53.2	29.0
Top 1% - begins $462,053	36,952	9,207	32.3	10.8

Source: Department of Treasury, Office of Tax Policy

WHITE HOUSE SAYS NO TO $500 BILLION TAX-CUT PROPOSAL

COMPROMISE IS UNLIKELY

Some Democrats in the Senate Push for a Middle Ground on Spending of Surplus

By JOEL BRINKLEY

WASHINGTON, July 25 — The Clinton Administration said for the first time today that it would not accept a compromise $500 billion tax-cut plan proposed by a group of Senate Democrats, virtually assuring that the debate over how to spend the projected budget surplus will not be settled quickly or easily.

"The President will veto a $500 billion tax cut because it doesn't leave room for what's necessary," said Lawrence H. Summers, the Treasury Secretary.

Echoing that statement, Gene Sperling, the White House economic adviser, said, "The President will veto a tax cut of $800 billion or $500 billion because it threatens our ability to secure Medicare and Social Security and pay down our national debt."

Before today the White House had said it favored limiting any tax cut to about $300 billion but had never said it would reject the Senate Democrats' compromise. The Senate Democratic leadership has also said it favors a tax cut plan of about $300 billion.

About a half-dozen Senate Democrats who have often been at odds with the Administration proposed the plan earlier this month to cut taxes by $500 billion over 10 years, as a way to bridge the gap between the $792 billion cut approved by the House of Representatives and the $250 billion to $300 billion proposal offered by the White House.

But for the compromise to have had any chance of being accepted, either the White House or the Republican leadership in Congress had to endorse it. The Senate Republicans have already rejected the plan, and today's statements from the White House mean the proposal is most likely dead.

Senator John B. Breaux of Louisiana continued to promote the $500 billion plan today, arguing that it would "give us enough money to address Medicare, prescription drugs, and also give us enough money for discretionary spending."

But Senator Breaux, a member of the Finance Committee, added that without a compromise "we are headed for a major train wreck, which I think would be terrible for the American people. Here we have a trillion-dollar surplus, and the two political parties in Washington can't figure

Continued From Page A1

out what to do with it. Only in Washington could you have that type of a problem."

Mr. Breaux and Mr. Summers spoke on the CBS program "Face the Nation." Mr. Sperling appeared on the Fox Sunday news program.

The Government's current estimates project a surplus of $2.9 trillion over the next 10 years, and that has set off the loud and contentious debate over how the money should be spent. Both party proposals are mirrors of their basic philosophies, and both are addressing the issue with the 2000 elections clearly in mind.

Speaking of the House tax cut bill on CNN today, Representative Dick Armey of Texas, the House majority leader, said, "There's so much compassion in this package that I have to tell you, my heart warms."

Senator Pete V. Domenici, Republican of New Mexico, who is chairman of the Budget Committee, said, "Frankly, if we don't do something like this, I think the American people can justifiably ask: Who is going to spend the surplus?"

Republicans are trying to make the argument that, without a tax cut, the budget surplus will be squandered by Democratic spending programs. "And the important thing is," said Senator Phil Gramm, Republican of Texas, "if you create all these new programs, you'll never get the money back."

Democrats contend that the budget projections are just that — uncertain looks at the future of the economy. Therefore, large tax cuts are risky. But Senator Gramm proposed a solution. "If you give it back to the American people," he said, referring to the surplus, "if you ever really needed it you could get it back by raising taxes."

With the White House promise to veto the $500 billion tax cut proposal proffered by some in Mr. Clinton's own party, and no other compromise on the table, both sides turned to harsh rhetoric.

In his weekly radio address on Saturday, the President called the Republican tax-cut plan "reckless," adding that "it would require dramatic cuts in vital areas, such as education, the environment, biomedical research, defense and crime fighting."

Senator Gramm appeared with Mr. Sperling on the Fox show this morning and said the Administration's arguments were "like everything else you all do. It's totally dishonest. You guys are shameless, shameless."

Senator Breaux suggested that both sides postpone the debate until the fall and then take it up in the context of related issues.

Under that plan, he said: "You don't have a veto, you don't have an agreement. You just take the time off in August to take a breath of fresh air and listen to the people back home, come back in September and let us do a real Medicare reform bill with prescription drugs."

After that, Senator Breaux added, Congress could tackle the tax-cut question. That would hold an additional potential benefit for the Democrats. It would force the Republicans to defend their tax-cut plans at the same time they try to reach agreement on the next Federal budget, a process that requires painful choices about which Federal programs to support and which to cut.

Responding to the Senator's proposal, Senator Domenici said, "What I would say right here is I would have no trouble working with this Senator," adding that his suggestion "is probably very constructive."

The New York Times

MONDAY, JULY 26, 1999

Scant Rain Stirs Fear of Drought In Eastern U.S.

A\

By DOUGLAS MARTIN

Corn leaves are shriveling into cigarlike shapes, trout are dying in hot and diminished streams and once-green lawns have become patches of yellow as exceptionally dry weather nears drought proportions in the eastern United States.

From Virginia to Massachusetts, extending as far west as Ohio, a stagnant high-pressure system stubbornly lurking over the southeastern United States has caused a dearth of rain this summer, the National Weather Service said. The arid weather follows almost a year of low precipitation, resulting in pernicious cumulative effects like trees falling ill, with some beginning to die.

"It's as if in the last 12 months, in 3 of those months, it didn't rain at all," said Paul Knight, a meteorologist for Pennsylvania State University. "It's a cumulative sort of thing."

In the last week, Pennsylvania, New Jersey, New York, Delaware, Virginia and Maryland have issued drought alerts or warnings, and on Wednesday, the National Weather Service placed the New York City region on a drought watch. Mandatory water conservation measures have been imposed in 55 Pennsylvania counties, in three dozen New Jersey communities and in New York State's Rockland County, among other places.

Rainfall in the region in June and July has been the lowest in more than a decade, according to the Weather Service. Still, conditions are much better than in the four-year drought in the early 1960's.

Though water supplies are not universally low — in New York City, they are still adequate — the lack of rainfall threatens crop yields and the long-term health of trees, not to mention businesses like landscaping companies. Federal officials warn of a "very high" fire danger in the mid-Atlantic states.

A solution may not come quickly. Penn State meteorologists calculate that it would take the precipitation from two, possibly three, hurricanes to bring moisture levels back to normal. But for two months, the weather system in the East has been in suspended animation. No strong cold front has confronted the massive pile of hot air.

"You need something to trigger the rain," said Kipp Hogan, a meteorologist for the Weather Service.

In the first three weeks of July, less than an inch of rain fell on the New York City area, eastern Pennsylvania, southern New Jersey and most of Maryland and Kentucky, the Federal Government said in its National Drought Summary. In most of this area, precipitation in the last year has been 20 to 40 percent below normal.

Maryland has experienced its driest year in 33 years as fresh waters flowing into Chesapeake Bay are at their lowest levels since 1964.

On Long Island, Suffolk County and state officials closed 140,000 acres of parks, pine barrens and nature preserves to visitors, calling drought conditions there the worst since August 1995, when a series of wildfires ravaged 6,850 acres of pine barrens.

Some seemingly smaller effects are telling. In Manheim, Pa., a town just north of Lancaster that is at the epicenter of the drought, Root's Country Greenhouse has seen half of the 2,000 Christmas trees it planted this year die. Other business is disastrously off at the nursery because few people want to buy outdoor plants while watering of lawns and gardens is restricted.

So the manager, Janet Freedline, said daily rain dances were now being staged, though the afternoon ritual belies a gathering sadness. "We can joke about it, but there are a lot of farmers who are losing everything they have," she said.

Orrin Pierson, who farms in Orange County near Middletown, N.Y., fears that he may be one of them. "The fields look like somebody put Roundup on them," he said, referring to the powerful pesticide. "They're dead. There's nothing there."

At Longwood Gardens, the 1,000-acre arboretum between Wilmington, Del., and Philadelphia, has suspended afternoon water fountain displays to conserve water.

And on Staten Island, Steve Titner, who cuts about 60 lawns for a living, says he used to mow each lawn three times a month but is now lucky to do it twice. Adding insult to injury, he said, customers blame him rather than the lack of rain for the sorry appearance of their yards.

"I've had to deal with more complaints and I've lost more customers than ever," he said. "They're blaming me for their lawns looking like garbage."

Gov. George E. Pataki asked last week for Federal drought relief in nine New York counties to aid farmers of fruit, hay, corn and other crops, while Virginia asked for Federal relief for 11 parched counties. In Washington, D.C., Federal officials ordered the release of more than a billion gallons of water stored in reservoirs to protect fish and other species in the Potomac River. In Connecticut, environmental authorities reported fish kills stemming from a combination of heat and reduced water flows.

In Central Park in Manhattan, less than an eighth of the normal rainfall has been recorded since June 1, with the 34.1 inches since July 1, 1998, at 17.5 inches below normal levels. But the dire effects of the lack of moisture are more graphically suggested by the desiccated conditions in the park itself: unirrigated grass is the color of straw; ash trees have lost their leaves, and shrubs are wilting.

Withering crops worry farmers in the New York region.

Neil Calvanese, vice president for operations of the Central Park Conservancy, the private group that manages the park, said desiccated trees, over time, were more vulnerable to insect and fungal infestations like Dutch Elm disease. He then pointed to a patch of dying Japanese knotweed on a rocky hillside.

"Look, the toughest weed in the world is wilting," he said, with a forced grin. "I don't think it's ever going to rain again."

Other New York City parks show similar stresses. On Riverside Park's esplanade, there are drifts of leaves from struggling London plane trees. In Brooklyn, hundreds of newly planted trees in Prospect Park hover near death, and a new ball field in Sunset Park has gone from brilliant green to dirty brown.

"The drought is a silent, creeping menace," said Henry J. Stern, the New York City Parks Commissioner. "It doesn't have the immediacy of fire or an explosion or even a heat wave, but the cumulative effect has been very serious."

So far, water supplies in New York City are considered adequate. The city's upstate reservoirs are 82.7 percent full, compared with a normal level of 92.7 percent. Charles G. Sturcken, chief of staff for the city's Department of Environmental Protection, said this was within the normal range. But if current trends continue, he said, the city will probably move to a drought watch in September, a status that requires only voluntary measures.

In Pennsylvania, however, the drought has reduced ground-water levels and stream flows to such a degree that Gov. Tom Ridge has declared a drought emergency. "Unless we act now, we will encounter pretty severe consequences," he said.

Pennsylvania residents are no longer permitted to water their lawns, rinse their patios, top off their pools or wash their cars with a hose. (A bucket is permitted.) The state's Department of Environmental Conservation estimates that the measures could mean as much as a 50 percent savings in the amount of water residents use at this time of year.

In New Jersey, Gov. Christine Todd Whitman last week asked residents to conserve water voluntarily, and state officials say that by the end of July, mandatory curbs may be imposed. At least 35 towns in north-central New Jersey have asked residents to cut water use voluntarily. The state's reservoirs are about 6 percent below normal.

Other effects in New Jersey include stunted corn and a forest fire alert in the 12 counties north of the Raritan River. On Friday, the United States Geological Survey reported very low flows for rivers at several monitoring stations in northern New Jersey.

For example, at a point on the Rockaway River 1.8 miles upstream from the Boonton Reservoir, Jersey City's main water supply, the average daily flow was 9 cubic feet per second, compared with an average of 74.5 cubic feet.

In Connecticut, water supplies are considered adequate, although stream flows are so low that fish have been dying. But demand for water has been exceptionally high, making it difficult for pipes to carry sufficient water from the reservoirs. For this reason, Hartford and its suburbs were placed under mandatory water restrictions in the first week of July, when temperatures were extremely high.

In New York, Rockland County has suffered from the lack of rain be-

The New York Times

MONDAY, JULY 26, 1999

1/2