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STATEMENT CONCERNING DOMESTIC DISCRETIONARY CAPS

One of the positive features of the budget agreement approved this fall was the tight caps it contained on domestic discretionary spending. These statutory caps will require fiscal restraint and priority setting in next year's budget, and in those of future years. This need for spending restraint is not the result of a mistake. The specific caps were agreed to by the negotiators after extensive discussion, and were explicitly set in the law (OBRA) which both Houses passed and the President signed.

NOTE: This is in the voice of "OMB spokeswoman."

TEN POINTS RE: HALF TRILLION DOLLAR DEFICIT REDUCTION PROGRAM

- (1) Deficit Reduction: The largest reduction program in history -- almost half-a-trillion dollars -- seven times more permanent savings than in the previous record for a reconciliation bill under G-R-H.
- (2) Entitlement Reform: The first comprehensive and substantial reform of mandatory/"entitlement" programs -- about \$100 billion in long-sought savings from:
 - o Farm program reforms;
 - o FHA reforms;
 - o Student loan reforms;
 - o Veterans Program reforms;
 - o Postal subsidy reforms;
 - o Federal Employee benefit reforms;
 - o Medicare reforms.
- (3) Discretionary Program Caps: Five-year caps on overall discretionary spending -- in law, on day one -- bringing total discretionary spending down from 10.7% of GNP in '91 to about 7% in '95.
 - o Automatic "mini-sequesters" -- in law -- to keep domestic and international spending from growing any faster than inflation;
 - o "Nunn levels" for defense to allow orderly defense build-down without threatening national security.
- (4) Credit Reform: a new federal accounting and budgeting system to expose and limit previously hidden (and rapidly growing) liabilities.
- (5) Enforcement and Process Reform: toughest enforcement system ever; Gramm-Rudman extended and strengthened -- with caps, mini-sequesters, credit reform, and pay-as-you-go.
- (6) Energy Security: incentives for both conservation and for exploration and development of domestic energy resources.
- (7) Child Care: a major reform and expansion of child care -- with emphasis on tax credits to people, special credits for children under one, block grants to states, and vouchers.
- (8) Social Security: Social Security fully protected and taken off-budget.
- (9) Tax Changes: A tax rate cut -- from 33% to 31% -- for about 3.5 million middle/upper-middle income taxpayers; an overall decrease in taxes paid by those with incomes under \$20,000; disincentives for consumption of gas, tobacco, alcohol; tax increase for wealthy. Total taxes: 28% of package (versus total outlay reduction: 72%).
- (10) Threats avoided: income tax rate increase; indexing delay; excessive national security hit; sequester; higher interest rates; etc.

The Budget Agreement: Process Reform

- The "categorical sequester" means that for the first time, when a sequester occurs, "the offender pays." From now on, runaway growth in entitlement spending will stop eating away at our ability to invest.

Under the old Gramm-Rudman-Hollings law, when a sequester occurred, regardless of its cause, it applied to all government programs, unless they were exempt. Many of the big entitlements -- Social Security, Medicare, Medicaid, Food Stamps -- were either exempt or largely exempt from sequester. Thus big sequesters were being applied to a narrow base -- which explains why a \$100 billion sequester on a \$1.2 trillion budget would have caused a 38% sequester this year, instead of a 9% sequester. The result was that unanticipated growth in entitlement spending, including the creation of new entitlement programs, caused sequesters that primarily affected appropriated (discretionary) programs -- roads, bridges, universities, environmental protection, the space program, etc.

The budget agreement corrects this imbalance. Under the budget agreement, if mandatory spending is greater than planned because of a program expansion, then *mandatory programs only* will be subject to a sequester. If defense spending is greater than the agreed-to cap on defense, then *defense programs only* will be subject to a sequester. If non-defense discretionary spending exceeds its cap, *non-defense discretionary spending* will be subject to a sequester.

Further, the sequester base has been broadened. A larger proportion of mandatory programs will be subject to a sequester, should it occur.

These two changes will combine to have one important effect: from now on, the sequester will become more realistic, more usable, and more effective.

- **Mandatory entitlement spending will now be subject to a "pay as you go" rule.**

The single biggest area of runaway spending growth in the last 30 years has been in mandatory entitlement spending. It has gone from about 25% of the budget in 1960 to nearly 50% of the budget today. The budget agreement tries to address this unrestrained growth. From now on, any new entitlement

program or existing program expansion must be paid for with either cuts in other entitlement spending or a new revenue source.

- **The budget agreement caps *spending* in the major areas of government -- and not just deficits.**

The President has long believed that spending growth is the principal cause of the deficit. Where the old Gramm-Rudman-Hollings contained deficit targets for each fiscal year, the new budget agreement contains caps on *spending* in the categories of domestic discretionary, international, and defense. This is a much more effective and enforceable tool -- especially for OMB, which will be responsible for scoring the spending associated with appropriations bills and thus determining if a sequester is triggered.

- **The budget agreement gets control over supplemental appropriations.**

Under Gramm-Rudman-Hollings, once the final sequester snapshot is taken at the beginning of the fiscal year, all discipline was removed from the system. There was no effective method, short of a Presidential veto, for the executive branch to control supplemental appropriations and prevent them from becoming "Christmas trees" which sharply increased the deficit. Thus, the experience of the last few years has been that *actual* end of the year deficits have been much higher than *estimated* beginning of the year deficits.

Under the new budget agreement, only supplementals which reflect funding needed for "dire emergencies" -- *as defined by the President* -- are permitted. Thus, the President can now send forward a request for emergency assistance in response to an earthquake or a foreign policy crisis with the confidence that it won't become loaded up with unrelated domestic pork. Any additions to a supplemental beyond the Presidentially defined "dire emergency" would be subject to a Budget Act point of order and would require a supermajority vote to be approved.

- **The budget agreement retains the basic structure of Gramm-Rudman-Hollings for future years.**

One goal of those who advocate more Federal spending was to eliminate the bothersome constraint of Gramm-Rudman-Hollings. Under the new budget agreement, fixed targets (as in Gramm-Rudman-Hollings) are maintained for fiscal years 1994 and 1995. In 1991, 1992, and 1993, a system of categorical sequesters and spending caps applies, with adjustments permitted for various economic and technical reestimates.

- **The budget agreement allows the government, for the first time, to begin accurately account for and control its various contingent liabilities.**

The budget agreement contains an entire set of provisions related to "credit reform." Until now, when the government guaranteed loans in areas from education to agriculture to power generation, it never recorded any liability until the borrower defaulted. Thus, the government has been carrying and indeed increasing a huge portfolio of risk without any method of recording it. Under the new credit reform package, the subsidy value of these loan guarantees will be scored at the time the loan is made, and reforms will be required to increase the creditworthiness of borrowers and thereby limit the risk to the government.

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Substantial Power on Spending Is Shifted From Congress to Bush

Procedure Intended to Guarantee Cuts Are Made

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Oct. 29 — Congress has ceded substantial power over spending decisions to the Bush Administration's Office of Management and Budget under procedures approved as part of the \$490 billion deficit reduction package.

The procedures, intended to insure that spending cuts agreed to in the package are made, are a complicated variation on the existing Gramm-Rudman-Hollings balanced budget law. Like that 1987 law, they would require automatic spending cuts if Congress fails to meet its deficit reduction commitments, but there are important differences.

Under the new system, for three years Federal spending is divided into three broad categories — domestic, military and foreign aid — each of which has its own spending cap already agreed to by lawmakers and the White House. Rather than subject the entire budget to automatic spending cuts if a particular deficit target is not met each year, the new system imposes automatic spending cuts only in the category where a breach has occurred.

Something for Everyone

Therefore, cuts in military spending could not be used to offset overruns in domestic programs. If Congress should decide, for example, that housing programs need more Federal dollars, the money would have to come from other domestic programs. Under the old law, the money could come from military spending, so long as the overall deficit target was met.

Politically, the new budget process provides something for everyone. The sponsors of the original budget-balanc-

ing bill get to say that it is not dead. The Democrats are liberated from thinking about deficit targets that can sometimes be arbitrary. And the Administration can say it has put into place a true enforcement mechanism.

Under current budget procedures, the Congressional Budget Office and the Joint Committee on Tax, Congress's in-house budget experts, are responsible for the estimates of how much a particular spending program will cost or how much a particular tax increase will provide in new revenue. But the new rules leave these decisions largely in the hand of the Administration.

"It may sound like green-eyeshade stuff," said a senior aide on the Senate Budget Committee, "but you're talking about potentially billions of dollars in how the costs of these programs are figured."

In addition, the Office of Management and Budget will be the agency deciding whether on nuclear power, for example, research is a military program or a domestic one. Including it under the domestic cap would leave less money for domestic programs and provide leeway for military programs.

Similarly, on the question of taxes, if the Congressional tax-writing committees decide they want to cut the Social Security tax, it is the Office of Management and Budget that will decide how much money need be raised elsewhere to offset such a cut.

If a breach occurs, O.M.B. would dictate how much be cut, and Congress would have to comply within 15 days.

"I don't think people realize just how

Continued on Page A22, Column 1

Decisions on Spending Shift to the Administration

Continued From Page A1

much power has been shifted from one end of Pennsylvania Avenue to the other," said one senior Congressional aide involved in the negotiations on the new enforcement rules. Democrats promoted the changes as a way of warding off the White House insistence on a line-item veto, he said, adding: "but I think we may find that in a subterfuge sort of way the White House actually got what it wanted."

In the new process, new Gramm-Rudman deficit targets for each of the next five years will remain on the books. But Congress will no longer be responsible for achieving these largely arbitrary numbers that can change by billions of dollars in the course of a year. Instead, Congress will be responsible for meeting what lawmakers regard as much more concrete objectives — the spending caps in each of the three budget categories.

Rudolf G. Penner, a former director of the Congressional Budget Office, said the new enforcement system is far more practical than the across-the-board cuts stipulated under the Gramm-Rudman-Hollings law.

"The problem with Gramm-Rudman is that it was too severe," he said. "That's why we never had a full-fledged sequester," the automatic spending cuts.

"I can imagine, however, how this could work," Mr. Penner said. "The new rules are subject to accounting gimmicks, too, but there should be less incentive for it."

Allen Schick, a professor of public policy at the University of Maryland and an author of the 1974 legislation that created the framework for the current budget system, is less convinced. The problem, he said, is that the new procedures take aim at the wrong part of the budget and do not address the rapidly growing entitlement programs, which provide benefits to anyone who meets the criteria. These programs, like Social Security and Medicare, account for an increasing share of overall Federal spending.

Under the new procedures, entitlement programs will be subject to a "pay as you go" system, requiring Congress to offset any additional benefits it may want to provide with cuts elsewhere in entitlement programs. Given the difficulty that lawmakers had this year in finding ways to restrict the growth in Medicare and the refusal to even consider limiting the growth of Social Security, many in Congress worry that it will be impossible to make any fundamental changes in entitlement programs.

Senator Phil Gramm, the Texas Republican who was one of the authors of the Gramm-Rudman-Hollings law, said he remains hopeful. "It may be that we can now start having the kind of debates on real policy that we have not been able to have," he said. "I think the next few years are going to be very interesting."

For Democrats who are already concerned that the spending caps for mili-

tary programs and foreign aid were set too high, there will be an opportunity to adjust the system for the 1994 fiscal year, which begins Oct. 1, 1993. Under the enforcement system, the final two years of the budget agreement stipulate that spending for the military, foreign aid and domestic programs be consolidated under a single cap. This will permit lawmakers to reallocate money among the three divisions.

"We're almost certainly going to have to rethink everything after 1993," the Democratic budget strategist said.



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

November 9, 1990

Honorable J. Danforth Quayle
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

Enclosed is a copy of the President's final sequester order for fiscal year 1991. The order is based on the Final OMB Sequester Report to the President and Congress for Fiscal Year 1991, which was submitted separately to you today.

Respectfully yours,

A handwritten signature in dark ink, appearing to read "Richard Darman". The signature is fluid and cursive, with a large initial "R" and "D".

Richard Darman
Director

Enclosure

IDENTICAL LETTER SENT TO THE HONORABLE THOMAS S. FOLEY



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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

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IDENTICAL LETTER SENT TO THE HONORABLE J. DANFORTH QUAYLE

FINAL SEQUESTER ORDER

By the authority vested in me as President by the statutes of the United States of America, including section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), as amended by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Public Law 100-119) and Title XIII of the Omnibus Reconciliation Act of 1990 (Public Law 101-508) (hereafter referred to as "the Act"), I hereby order that the following actions be taken immediately to implement the sequestrations and reductions determined by the Director of the Office of Management and Budget as set forth in his report dated November 9, 1990, under sections 251 and 254 of the Act:

- (1) Budgetary resources for each non-exempt account within the international category of discretionary spending shall be reduced as specified by the Director of the Office of Management and Budget in his report of November 9, 1990.
- (2) Pursuant to sections 250(c)(6) and 251, budgetary resources subject to sequestration shall be new budget authority; new loan guarantee commitments or limitations; new direct loan obligations, commitments, or limitations; and obligation limitations.
- (3) For accounts making commitments for guaranteed loans as authorized by substantive law, the head of each Department or agency is directed to reduce the level of such commitments or obligations to the extent necessary to conform to the limitations established by the Act and specified by the Director of the Office of Management and Budget in his report of November 9, 1990.

All sequestrations shall be made in strict accordance with the specifications of the November 9th report of the Director of the Office of Management and Budget and the requirements of sections 251 and 254.

A handwritten signature in cursive script, appearing to read "C. Bush".

THE WHITE HOUSE,

November 9, 1990.

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Procedure Intended to Guarantee Cuts Are Made

By SUSAN F. RASKY

Special to The New York Times

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Under the new system, for three years Federal spending is divided into three broad categories — domestic, military and foreign aid — each of which has its own spending cap already agreed to by lawmakers and the White House. Rather than subject the entire budget to automatic spending cuts if a particular deficit target is not met each year, the new system imposes automatic spending cuts only in the category where a breach has occurred.

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"We're almost certainly going to have to rethink everything after 1993," the Democratic budget strategist said.

- o I oppose the Democrats' refusal to cut spending and the Democrats' demand for more taxes. I don't oppose the President.
- o I understand the responsibility of the Presidency and President Bush's obligation to do what he believes is best for the whole country. I recognize that by holding the economy hostage to higher taxes and fewer spending cuts, the Democrats have put the President in the position where he has to agree to this budget.
- o I support the President as the leader of the country and the leader of my Party. He has been at the forefront of the fight for spending cuts and low taxes. If it weren't for him, things would be much worse.
- o What the President needs more than anything else, is more elected Republicans which will give him a Congress that he can work with.

Monday, October 29, 1990

America Deserves a Better Deal

America is asking: "What on earth is wrong with Washington?" What is wrong is a Congress dedicated to special-interests over the national interest. What is wrong is a Democratic Majority that played politics with the budget negotiations, and has now left it up to us to face the prospect of an economic downturn.

In fact, the only thing that went right was President Bush's determination to defend the national interest, to hold the line:

0 He secured \$500 billion in deficit reduction -- including \$355 billion in spending cuts -- **the largest cut in history.**

0 The President also got Congress to agree to put itself on a **pay-as-you-go plan**, and to reduce the rate of spending growth with the first five-year curb on spending **ever.**

0 He held the line against reckless defense cuts, protecting America and our people in the Persian Gulf.

Most of all, when the Democrats who control the House of Representatives tried to slap an automatic tax increase on working families, **President Bush stopped them cold.**

0 If the Democrats had gotten their way, a working family of four, with a taxable income of \$34,000, would have been hit by an additional \$313 in income taxes. **The same Democratic Congress that pleads for "fairness" and taxing the rich resorted to a dishonest, backdoor maneuver to sock it to the middle-class.** And they would have -- had it not been for George Bush.

Still, by waiting eight months too late, until an agreement was absolutely necessary, the Democrats railroaded America with \$150 billion in new taxes. **This is the price we pay for one-party rule in the House and Senate.**

The President wanted to reduce the deficit with a careful balance of spending cuts -- not tax increases. He believes that a \$1.3 trillion budget gives us ample room to dream again, to advance new ideas -- **and reform.** But Congressional Democrats would rather raise taxes than raise the issue of reform.

That is why the Democrats prolonged the process for eight months -- 24 days into the new fiscal year -- a little more than a week before the election -- to hunt for every last morsel of opportunity -- **in the name of politics and higher taxes.**

Congress violated its lawful deadlines for the 38th time in less than a decade. They presented President Bush with a late budget and a stark choice between **this agreement and no agreement.**

0 In April, when the budget was due from Congress, unemployment was 5.4 percent. Unemployment last month was 5.7 percent.

0 In April, when the budget was due, the inflation rate was 1.9 percent. Now it is 9.5 percent.

Even after the economy was threatened by higher oil prices from the Persian Gulf crisis, Congress dithered and delayed. This Congress was content to stall an agreement and stall the economy, **again -- in the name of politics and higher taxes.**

While this Democratic Congress talks about "fairness," we should tell them what really isn't fair: **High interest rates aren't fair. Inflation isn't fair. And unemployment isn't fair.** But the Democrats could care less -- as long as they get re-elected. Under one-party rule, Congress itself has become the biggest, **most entrenched special interest of our time.**

Well, America deserves a **Better Deal.** And America deserves a new Congress -- a reform Congress -- a Republican Congress.

Of course, everyone agrees that Congress is the problem -- but not **my** Representative, not **my** Senator. But the only way to make an institution accountable is to make its Members accountable. The only way to send a message to Washington is to elect a new majority. The only way to send a message to Washington is **not** to **send the Democratic Majority back.**

Congress is out-of-touch and out-of-control as an institution. If we **overturn** the Congress, we can **turn out** the incestuous insiders who serve special interests. **That is why President Bush wants to limit the terms of Members of the House and Senate.**

We need a Congress where **reform** takes root -- not politicians. The next time a President negotiates a budget, it can be with a Congress that places the national interest over the special interests.

\$500 BILLION DEFICIT REDUCTION PROGRAM

- (1) Deficit Reduction: The largest reduction program in history -- half-a-trillion dollars.
- (2) Tax Reduction: A tax rate cut -- from 33% to 31% -- for about 3.5 million middle/upper-middle income taxpayers; and an overall decrease in taxes paid by those with incomes under \$20,000.
- (3) Entitlement Reform: The first comprehensive and substantial reform of mandatory/"entitlement" programs -- about \$100 billion in savings from:
 - o Farm program reforms;
 - o FHA reforms;
 - o Student loan reforms;
 - o Veterans Program reforms;
 - o Postal subsidy reforms;
 - o Federal Employee benefit reforms;
 - o Medicare reforms.
- (4) Discretionary Program Caps: Firm, fixed, five-year caps on overall discretionary spending -- in law, on day one.
 - o Automatic "mini-sequesters" -- in law -- to keep domestic and international spending from growing any faster than inflation;
 - o "Nunn levels" for defense to allow orderly defense build-down without threatening national security.
- (5) Energy Security: incentives for both conservation and for exploration and development of domestic energy resources.
- (6) Child Care: a major reform and expansion of child care -- with emphasis on tax credits to people, block grants to states, and vouchers.
- (7) Credit Reform: a new federal accounting and budgeting system to expose and limit previously hidden (and rapidly growing) liabilities.
- (8) Social Security: Social Security fully protected and taken off-budget.
- (9) Enforcement and Process Reform: toughest enforcement system ever; Gramm-Rudman extended and strengthened -- with caps, mini-sequesters, credit reform, and pay-as-you-go.
- (10) Threats avoided: income tax rate increase; Social Security hit; excessive national security hit; indexing delay; sequester; etc.
- (11) Growth: allows interest rates to be lower than they would otherwise be (NOTE: 1.5% lower means 100-150,000 more housing starts; 500,000 more auto sales; typical mortgage payment reduced by over \$100/month; more long-term investment, productivity, jobs.)

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CHIEF OF STAFF
226-1200

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Washington, DC 20515

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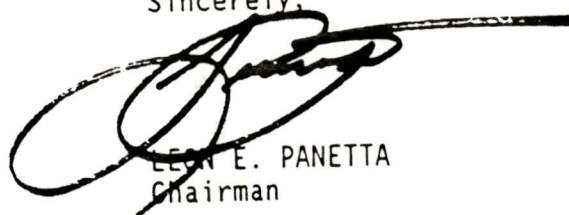
October 26, 1990

Dear Colleague:

Attached are preliminary estimates and descriptions of deficit reduction in the reconciliation conference report. As of 1 p.m. Friday conferees have completed action in most areas but final details are not available for the Medicare, Medicaid and revenue sections. That information will be provided as details are available. Currently committee staffs are drafting legislation and we are making every effort to have the reconciliation conference report on the House floor later this evening.

Questions on specifics should be directed to the Budget Priorities section of the House Budget Committee at X67166.

Sincerely,



LEON E. PANETTA
Chairman

COMPARISON OF RECONCILIATION DIRECTIVES
AND HOUSE- AND SENATE-PASSED BILLS
(deficit reduction in billions of dollars)

Directive	House-passed		Senate-passed		Conference Agreement (CBO)	
	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year
Committee:						
MERCHANT MARINE						
EPA User Fees*			-0.042	-0.254	-0.022	-0.154
Coast Guard user fees			-0.028	-0.173	-0.200	-1.080
Tonnage Taxes	NA	NA	-0.190	-0.950	NA	NA
Coastal Zone Management Fees			---	---	NA	NA
Committee total	-0.222	-1.231	-0.260	-1.377	-0.222	-1.234
					-0.236	-1.331
POST OFFICE						
Lump-Sum Retirement Option			-1.430	-7.550	-1.230	-8.050
Postal Service			-0.780	-5.795	-0.746	-4.799
FEHB limits age 65+	NA	NA	NA	NA	-0.190	-0.865
FEHB Administrative Reforms			-0.216	-1.115	-0.176	-1.075
DoD portability			NA	NA	-0.006	-0.030
Computer Matching & Pricing						0.000
Committee total 1/...	-2.165	-14.350	-2.426	-14.460	-2.348	-14.819
					-2.322	-14.350
PUBLIC WORKS						
EPA fees *			-0.042	-0.254	-0.022	-0.154
Aviation reauthorization	NA	NA	0.000	0.244	NA	NA
Corps of Eng. rec. fees			NA	NA	-0.020	-0.100
Committee total	-0.042	-0.254	-0.042	-0.010	-0.042	-0.254
					-0.028	-0.180
SCIENCE, SPACE & TECHNOLOGY						
NOAA User Fees	NA	NA	-0.001	-0.008	-0.005	-0.027
Nuclear Waste Fund Fees			-0.005	-0.025	NA	NA
Radon Program User Fees						
Committee total	-0.005	-0.025	-0.006	-0.033	-0.005	-0.027
					-0.004	-0.020
VETERANS						
Compensation			-0.125	-0.291	-0.125	-0.291
Vocational Rehabilitation			-0.020	-0.180	-0.063	-0.574
Compensation and Pensions			-0.010	-0.334	-0.010	-0.334
Third-party Collections			-0.113	-0.734	-0.113	-0.990
Pensions	NA	NA	-0.045	-1.056	-0.045	-1.100
Housing			-0.073	-0.073	-0.098	-0.416
Remarried Spouses			-0.019	-0.374	-0.019	-0.374
Prescription Drugs			-0.066	-0.085	-0.066	-0.411
Medical Care Eligibility			-0.035	-0.045	-0.035	-0.217
Miscellaneous Reforms			-0.121	-0.430	-0.074	-0.865
Committee total	-0.620	-3.350	-0.627	-3.602	-0.648	-6.059
					-0.621	-3.665
WAYS & MEANS						
Medicare*			-3.710	-43.812	-4.156	-49.267
Social Security				-0.071	-0.089	-0.046
Other income security			NA	NA	0.001	0.013
Child care grants			NA	NA	0.039	0.299
Customs Service User Fees	NA	NA		-2.292	0.001	-2.287
IRS user fees			-0.045	-0.225	NA	NA
PBGC*			-0.120	-0.640	-0.120	-0.640
Committee total:						
Mandatory/fee savings	-3.320	-55.603	-3.875	-47.040	-4.324	-51.928
Deficit reduction	DR -2.000	-20.000	NA	NA	NA	NA
+ Revenues	REV -13.225	-118.800	-22.400	-148.600	-17.500	-142.100
Committee total	DR -18.545	-194.403	-26.275	-195.640	-21.824	-194.028
					-18.545	-194.403

139?

COMPARISON OF RECONCILIATION DIRECTIVES
AND HOUSE- AND SENATE-PASSED BILLS
(deficit reduction in billions of dollars)

	Directive		House-passed		Senate-passed		Conference Agreement (CBO)	
	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year
House committee:								
AGRICULTURE								
Simple base.....			0.000	-7.906	-0.011	-7.186	-0.868	-9.085
Deficiency pmnt. calculations.....			-0.315	-3.364	-0.251	-2.691	...	-0.755
1991 ARPs.....			-0.435	-0.945	-0.724	-1.850	-0.289	-0.905
Dairy assessments.....			-0.058	-0.840	-0.100	-0.482	-0.051	-0.822
Origination/service fees.....	NA	NA	-0.003	-0.166	-0.004	-0.170	-0.010	-0.329
Subtotal, commodity programs.....			-0.811	-13.221	-1.090	-12.379	-1.218	-11.896
REA loans.....			-0.028	-0.610	-0.024	-0.697	-0.024	-0.516
Farm loans.....			-0.281	-2.082	-0.095	-1.636	-0.280	-2.114
APHIS fees.....			-0.066	-0.420	-0.066	-0.420	-0.059	-0.413
Savings in Farm Bill.....			NA	NA	NA	NA	...	...
Committee total.....	-1.022	-13.627	-1.186	-16.333	-1.275	-15.132	-1.581	-14.939
BANKING								
Bank Insurance Fund.....			-1.100	-9.000	-1.100	-9.000	-1.100	-9.000
FDIC borrowing authority.....			NA	NA	-0.003	-0.012	-0.003	-0.012
Priority of FDIC claims.....			NA	NA	0.000	-0.095	...	...
F-A Reforms.....	NA	NA	-0.216	-1.815	-0.218	-2.565	-0.216	-1.815
F-A Assignment Waivers.....			-0.212	-1.010	-0.212	-1.010	-0.212	-1.010
F-A maximum mortgage amount 2/ Flood & Crime Ins. Programs...			-0.181	-0.749	0.000	-0.568	0.000	-0.568
(Coin Redesign).....			-0.014	-0.833	-0.014	-0.833	-0.014	-0.833
			...	...	...	...	(...)	(-0.040)
Committee total.....	-1.507	-13.258	-1.723	-13.407	-1.547	-14.083	-1.545	-13.238
EDUCATION & LABOR								
Stafford Loans (GSL).....			-0.010	-1.665	0.000	-2.025	**	-1.695
FBGC.....			-0.120	-0.640	-0.120	-0.640	-0.120	-0.640
OSHA/MSHA fees.....	NA	NA	-0.119	-1.432	-0.069	-0.844	-0.112	-1.137
Child labor civil penalties...			-0.009	-0.045	NA	NA	-0.003	-0.015
WURA civil penalties.....			-0.013	-0.096	NA	NA	...	...
Committee total....DR	-0.215	-3.770	-0.271	-3.878	-0.189	-3.509	-0.235	-3.487
ENERGY & COMMERCE								
Medicare *.....			-3.895	-44.010	-4.156	-49.267	-3.710	-43.812
Medicaid.....			0.061	-0.337	0.026	-0.934	-0.061	...
ARC fees*.....	NA	NA	-0.287	-1.554	-0.287	-1.554	-0.287	-1.554
Railroad Safety Fees.....			-0.020	-0.169	-0.019	-0.166	-0.020	-0.169
EPA fees *.....			-0.042	-0.254	-0.022	-0.154	-0.028	-0.180
Travel & Tourism fees.....			NA	NA	-0.014	-0.079	-0.010	-0.078
Uranium enrichment*.....			NA	NA	-0.063	-0.194	...	...
Committee total.....	-3.731	-43.721	-4.183	-46.324	-4.535	-52.348	-4.116	-45.793
GOVERNMENT OPERATIONS								
Computer privacy bill.....	NA	NA	NA	NA	0.000	-0.270	3/	3/
Committee total.....	NA	NA	NA	NA	0.000	-0.270	0.000	0.000
INTERIOR								
ARC Fees *.....			-0.287	-1.554	-0.287	-1.554	-0.287	-1.554
Tongass Timber.....	NA	NA	-0.028	-0.204	-0.028	-0.204	-0.028	-0.204
Reclamation Fees.....			...	-0.618	NA	NA	...	-0.832
Fees of Oil Shale Claims.....			-0.010	-0.014	NA	NA	...	...
Corps of Eng. rec. fees.....			NA	NA	-0.020	-0.100	...	...
Uranium enrichment*.....			NA	NA	-0.063	-0.194	...	...
Committee total.....	-0.343	-2.018	-0.325	-2.390	-0.398	-2.052	-0.315	-2.590
JUDICIARY								
Patent & Trademark Fees.....	NA	NA	...	...	-0.091	-0.495	-0.102	-0.495
Committee total.....	-0.091	-0.495	...	...	-0.091	-0.495	-0.102	-0.495

COMPARISON OF RECONCILIATION DIRECTIVES
AND HOUSE- AND SENATE-PASSED BILLS
(deficit reduction in billions of dollars)

House committee:	Directive		House-passed		Senate-passed		Conference Agreement (CBO)	
	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year
ALL COMMITTEES (w/o double counts):								
MANDATORY/FEE SAVINGS..	-8.867	-103.636	-10.863	-103.817	-10.934	-110.147	-10.807	-100.762
DEFICIT REDUCTION....DR	-2.215	-23.770	NA	NA	NA	NA	NA	NA
REVENUES.....REV	-13.226	-118.800	-22.400	-148.600	-17.500	-142.100	-14.670	-147.363
TOTAL.....DR	-24.307	-246.206	-33.263	-252.417	-28.434	-252.247	-25.477	-248.125

* = guess

* Joint jurisdiction, double-counts not included in the totals.

** Less than \$500,000

- 1/ DOD portability is a revenue item and only half of computer privacy is scored to this Committee with Energy & Commerce receiving the other half.
- 2/ The conference figures do not include the savings (-\$181 million) from the first-year increase in the FHA maximum mortgage amount because these savings also were included in the conference report on the FY 1991 VA-HUD Appropriations bill which passed the House on October 20, 1990.
- 3/ These savings were credited to Post Office and Energy and Commerce Committee.

NOTES: All amounts are outlays unless specified as REV (revenues) or DR (deficit reduction -- outlays and revenues combined). Revenue increase are reflected as minuses because they reduce deficit.

NA = Not applicable -- the reconciliation directives did not assume savings from specific programs.

5.7 SHORT
267
8.4

171 gross
151 gross net
142 net

- 1) .5 FROM MEDICAID
(ELIGIBILITY -- MAKE IT OPTIONAL ...)
- 2)



Pres. Required: Skinner
Rally

137-
NOT RIGHT
WILL BE 139.7
NEEDED
246.2
9.3 125

DESCRIPTION OF RECONCILIATION SAVINGS

Agriculture Committee

The conference agreement assumes the following savings:

- Establishes a triple base plan which reduces the amount of farm acreage eligible for crop subsidies by 15% for crop years 1991-95. In return, producers will be able to grow program crops, oilseeds and non-program crops (except fruits and vegetables) on the flexible acres. Crops planted on the flexible acres will not be eligible for deficiency payments but would be for crop loans.
- Changes the calculation of deficiency payments on wheat, feed grains, and rice to a 12-month national average market price in 1994 and 1995, rather than the current 5-month average price.
- Mandates a 1991 crop year acreage reduction program of 15% for wheat and 7.5% for feed grains.
- Establishes a service fee on CCC dairy purchases of 5 cents per hundredweight in FY 1991 and 11 cents per hundredweight thereafter as an offset to the costs of the dairy support program.
- Establishes a program service fee of 1% on sugar, peanuts, honey, and tobacco loans and deducts 1% from wool and mohair payments.
- Establishes a new marketing loan program for oilseeds at \$5.02 per bushel with a 2% loan origination fee for deficit reduction purposes.
- REA direct loans would be reduced by approximately 25%, and REA loan guarantees increased correspondingly.
- Shifts about 50% of FmHA farm loans from direct loan to guaranteed loans over the next 5 years.
- Establishes user fees to recover the costs of inspecting common carrier passengers arriving in the U.S. for agricultural products and pests by the Animal and Plant Health Inspection Service.
- Eliminates spending increases provided in the 1990 farm bill passed by the House for food stamps and other programs in the jurisdiction of the Agriculture Committee. This is necessary to bring the farm bill down to baseline levels.
- GATT Trigger--The reductions in the commodity price support programs are made contingent upon the implementation of an agricultural trade agreement resulting from the Uruguay Round of GATT. If such an agreement is not negotiated by June 30, 1992,

commodity export promotion programs would be increased and a marketing loan for wheat and feed grains would be implemented. If an agreement is negotiated, but not put in force by June 30, 1993, the Secretary of Agriculture would be authorized to restore the reductions made in reconciliation.

Banking, Finance, and Urban Affairs Committee

The conference agreement assumes the following savings:

- Changes in the Bank Insurance Fund program which grant the FDIC more flexibility to increase commercial bank insurance premiums. As a result, it is estimated that commercial bank deposit insurance premiums would increase to .195 percent on January 1, 1991 and to .23 percent on January 1, 1992. This provision saves \$1.1 billion in 1991 and \$9.0 billion over 5 years. The agreement also includes a provision which allows the FDIC to borrow from the Federal Financing Bank (FFB), saving \$3 million in 1991 and \$12 million over 5 years.
- Reforms of the FHA mortgage insurance program agreed to in the conference on the housing reauthorization bill, which save \$216 million in 1991 and \$1,815 million over 5 years. These reforms include changes in the down payment and mortgage insurance premiums required for FHA mortgage insurance. These reforms are expected to restore the single family FHA insurance program to actuarial soundness.
- Establishes permanent increase in the maximum mortgage amount eligible for FHA insurance to \$124,875. This increase generates additional insurance volume and, hence, additional premium receipts for FHA, which are expected to total \$568 million between FY 1992 and 1995. These figures do not include the savings (-\$181 million) from the first-year increase in the FHA maximum mortgage amount because the provision also was included in the conference report on the FY 1991 VA-HUD Appropriations bill which passed the House on October 20, 1990.
- Provides for annual subsidy payments to the holders of mortgages otherwise eligible for assignment to FHA in order to bring the yield on those mortgages up to current market yields. In return, the holders of the mortgages would waive their existing option to assign those mortgages to HUD and receive a payment for the remaining principal amount of the mortgage in the form of an FHA debenture. The current market yield would be determined, if necessary, through an auction of the mortgage, including the interest subsidy, by the current holder to other private investors. This provision saves \$212 million in 1991 and \$1,010 million over 5 years.
- Extends the National Flood and Federal Crime Insurance programs for FY 1992 through 1995, which saves \$304 million in 1992 and \$609 million over four years. Under current law, these programs are scheduled to expire at the end of FY 1991. The agreement also allows FEMA to increase flood insurance premiums to cover the administrative costs of the flood insurance and flood management programs, saving \$14 million in 1991 and \$224 million over 5 years.

Education and Labor Committee

The conference agreement assumes the following savings:

Stafford Student Loan Program:

- Requires 30 day delay in disbursement of loans to all first-time borrowers;
- Requires borrowers without a high school diploma or GED to take and pass an independently administered test;
- Eliminates from all student loan programs any school with a calculated default rate over the last three years in excess of 35 percent for 1991 and 1992 and 30 percent or more for 1993 and beyond (does not apply to Historically Black Colleges or Universities or Tribally Controlled Community Colleges until July 1, 1994);
- Extends the current limitation on SLS loan limits in short-term programs;
- Extends the current limitation on SLS loan program eligibility for borrowers attending schools with a calculated default rate in excess of 30 percent;
- Prohibits eligibility of a school filing bankruptcy;
- Amends the Bankruptcy Code to tighten laws as they relate to student borrowers; and
- Mandates supplemental pre-claims assistance on all delinquent loans and reimburse guarantee agencies for successfully preventing a default claim through early intervention.

Pension Benefit Guaranty Corporation:

- Increases the flat premium from \$16 to \$19 and the variable rate premium from \$6 to \$9 (capped at \$53 per participant) under the Pension Benefit Guaranty Corporation.

OSHA/MSHA Revenues:

- Increases by seven times the maximum civil penalties that can be imposed by the Occupational Safety and Health Administration (OSHA) for violations of OSHA laws with a mandatory minimum penalty of \$5,000 for a willful violation.
- Increases by five times the maximum civil penalties that can be imposed by the Mine Safety and Health Administration (MSHA) for violations of MSHA laws, with no minimum penalty.

- Increases the maximum civil penalties that can be imposed by the Labor Department for violations of child labor laws, with no minimum penalty.

Pension Reversions:

- Transfer of excess pension plan assets to health benefit plans and excise tax on pension plan reversions.

Energy and Commerce Committee

The conference agreement assumes the following savings:

- Establishes Nuclear Regulatory Commission (NRC) user fees which fully recover NRC costs, which results in savings of \$287 million in FY 1991 and \$1,554 million over 5 years.
- Establishes Railroad safety fees which total \$20 million in FY 1991 and \$169 million over 5 years.
- Establishes travel and tourism fees which generate savings of \$14 million in FY 1991 and \$79 million over 5 years.
- Authorizes the Environmental Protection Agency (EPA) to assess additional fees for certain permits and activities, which increases receipts by \$28 million in FY 1991 and \$180 million over 5 years.

Judiciary Committee

The conference agreement assumes the following savings:

- Establishes a 69 percent surcharge on certain existing patent and trademark fees during fiscal year 1991 through 1995 to cover more of the costs of the Patent and Trademark Office, saving \$102 million in 1991 and \$495 million over 5 years. The provision also establishes statutory ceilings on an annual basis and other controls on the use of these fees by the Patent and Trademark Office.

Interior and Insular Affairs Committee

The conference agreement assumes the following savings:

- Eliminates the permanent appropriation for the Tongass Timber Supply Fund, which saves \$28 million in 1991 and \$204 million over 5 years;
- Increases existing Nuclear Regulatory Commission (NRC) fees to recover 100 percent of the NRC costs incurred in regulating nuclear power plants, which would save \$287 million in 1991 and \$1.544 billion over 5 years; and
- Reauthorizes reclamation fees collection for use in cleaning up abandoned coal mines, which increases receipts by \$832 million over 5 years.

Merchant Marine and Fisheries Committee

The conference agreement assumes the following savings:

EPA Fees

- Authorizes the Environmental Protection Agency to assess additional fees for certain permits and activities.

Coast Guard Fees

- Allows the Coast Guard to collect direct fees for services, including inspection and examination of vessels; licensing of masters, mates, pilots and engineers; and the engagement and discharge of seamen, and;
- Establishes a schedule of fees for owners of boats over 16 feet in length using United States navigable waters where there is a Coast Guard presence.

Tonnage Duties

- Increases the tonnage charges presently collected from vessels arriving in the United States from foreign ports.

Coastal Zone fees

- Establishes fees to recover to costs of processing appeals under section 307 of the Coastal Zone Management Act.

Post Office and Civil Service Committee

The conference agreement assumes the following savings:

- Suspends for five years the lump-sum retirement option effective December 1, 1990. Employees retiring on or before November 30, 1990 would not be affected by the suspension of the lump sum benefit. Exemptions are provided for workers with a terminal illness, Federal workers who are mobilized because of Operation Desert Shield and employees who are classified as involuntarily separated. The lump-sum proposals save \$1,390 million in fiscal year 1991 and \$7,600 million over five years.
- Requires Federal Employee Health Benefit (FEHBP) carriers to implement cost-containment measures including: exempting the FEHBP from State premium taxes; requiring improved coordination between the Office Of Personnel Management and the Department of Health and Human Services in order to ensure that Medicare's payments and limits can be correctly applied when the FEHBP carriers make a secondary payment; instituting mandates for cash management controls in administering payments from the Employees Health Benefits Fund and applying Medicare hospital payment limits to payments to providers of services to FEHBP annuitant enrollees who are age 65 and older but not eligible for Medicare (effective

MAJOR PROVISIONS IN BUDGET PROCESS REFORM PACKAGE

PROVISIONS SPECIFICALLY ENFORCING THE FIVE-YEAR BUDGET PACKAGE

- Discretionary Spending Limits There are ceilings on defense, international, and domestic discretionary spending in Fiscal Years 1991-1993, and a single ceiling on total discretionary spending in Fiscal Years 1994-1995. These ceilings are enforced by an end-of-session sequester applied across-the-board solely to the corresponding category.
- Pay-As-You-Go for Entitlements and Revenues Any increase in direct spending or reduction in revenues after enactment of the current reconciliation bill must be paid for by other spending reductions or revenue increases. Otherwise there will be a special reconciliation to eliminate any net revenue loss and a sequester to eliminate any deficit increase. The sequester would come from entitlements, except those that are exempt.

OTHER ENFORCEMENT AND REFORM PROVISIONS

- Social Security Completely Off-Budget Social Security receipts and disbursements would be removed from the Gramm-Rudman-Hollings (GRH) law. (Social Security is already off-budget.) The Social Security trust funds would be protected by "firewall" points of order in the House and Senate against legislation which would reduce trust fund balances.
- Multi-year Budgeting and Enforcement To prevent temporary savings and timing shifts, budget resolutions in each year through Fiscal Year 1995 would be for five years, with five-year 302(a) discretionary spending allocations, revenue floors, and reconciliation. The budget resolution would be required to conform to GRH limits.
- Deficit Targets GRH is extended through 1995, with new Fiscal Years 1991-1995 deficit targets to reflect current economic and technical assumptions. These targets will be adjusted before the Fiscal Year 1992 and Fiscal Year 1993 budget cycles to prevent sequesters due only to changes in economic and technical assumptions. (Hence only "categorical sequesters," based on policy violations, as described above, could occur in Fiscal Years 1991-1993.) In Fiscal Years 1994-1995, the GRH system would return to fixed deficit targets enforced by the current sequestration rules unless the President exercised an option to fully adjust the targets for later economic and technical reestimates.
- Locked-in Estimating Assumptions The economic and technical assumptions used in estimating the President's budget would be locked-in for the GRH sequestration projection later in the year. Congress would no longer be aiming at "moving targets" as the President altered his estimating assumptions during the year.
- Credit Reform Budget accounting for credit programs is modified to reflect true economic costs instead of cash flow.

Science, Space and Technology Committee

The conference agreement assumes the following savings:

- Increases existing NOAA user fees based on the fair market value of a variety of NOAA products and services, which saves \$2 million in 1991 and \$12 million over 5 years.
- Authorizes EPA to assess fees to offset the costs of EPA radon research program, which saves \$2 million in 1991 and \$8 million over 5 years.

Veterans' Affairs Committee

The conference agreement assumes the following savings:

- Eliminates compensation for mentally incompetent veterans whose incomes exceed \$25,000 which would save \$125 million in FY 1991 and \$291 over 5 years;
- Requires pension reforms such as eliminating the presumption of total disability at age 65, reducing pensions to Medicaid nursing home patients, and verifying income through IRS would save \$67 million in FY 1991 and \$1.2 billion over 5 years;
- Establishes a VA medical care cost recovery fund, modifying co-payments and deductibles, and requiring a \$2 monthly fee for outpatient drugs would save \$214 million in FY 1991 and \$956 million over 5 years;
- Limits vocational rehabilitation to veterans with disability ratings of 20% or more would save \$20 million in FY 1991 and \$180 million over 5 years;
- Changes in the manufactured home loan program and a 0.625% increase in VA housing loan origination fees for 1 year would save \$83 million in FY 1991 and \$93 million over 5 years;
- Eliminates burial headstone and marker allowances and limiting the burial plot allowances would save \$30 million in FY 1991 and \$166 million over 5 years;
- Prohibits the payment of compensation for secondary effects of willful misconduct such as alcohol or drug abuse which would save \$10 million in FY 1991 and \$334 million over 5 years;
- Repeals benefit restoration eligibility for remarried survivors which would save \$19 million in FY 1991 and \$374 million over 5 years; and
- Rounding down compensation COLAs and requiring disclosure of social security numbers would save \$53 million in FY 1991 and \$91 million over 5 years.

January 1, 1992). These proposals save \$216 million in fiscal year 1991 and \$1,905 million over five years.

- Requires the Postal Service to pay the employer FEHBP premiums for those postal employees (and survivors) who retired after June 30, 1971 (postal reorganization), but prorates the Postal Service's liability to reflect only that portion of total service performed as an employee of the Postal Service. This proposal saves \$116 million in fiscal year 1991 and \$594 million over five years.
- Requires the Postal Service to fund Civil Service Retirement System (CSRS) cost-of-living adjustments for postal retirees (and survivors) who retire after postal reorganization. The payment is prorated to reflect only that portion of total service performed as an employee of the Postal Service. The fiscal year 1991 saving is \$322 million and the five year savings are \$1,946 million.
- Requires the Postal Service to make payments to the Civil Service Retirement and Disability Fund and the Employees Health Benefits Fund to fund liabilities incurred between July 1, 1971 and September 30, 1986. Payments are spread over fiscal years 1991 through 1995. The fiscal year 1991 saving is \$272 million and the five year savings are \$2,140 million.
- Amends H.R. 5450, the House-passed Computer Matching and Privacy Protection Act Amendments of 1990 in terms of the time required by law to notify recipients of Federal benefit programs about the results of a computer match prior to taking adverse action against individuals. The bill is also amended to establish an alternative to independent verification requirements set up in 1988. The savings credited to this committee in FY 1991 is zero and the five-year savings are \$135 million.
- Assumes the provisions of H.R. 3139, the Portability of Benefits for Department of Defense Nonappropriated Fund Employees Act of 1989. The Act allows the Department of Defense to reorganize the nonappropriated fund (NAF) work force which would cause up to 6,000 NAF employees to be converted to the civil service and up to 2,000 civil service employees to be converted to nonappropriated fund status and provides for appropriate transfer of employee benefits. The fiscal year 1991 saving is \$6 million (revenues) and the five-year savings are \$30 million.

Public Works and Transportation Committee

The conference agreement assumes the following savings:

Environmental Protection Agency Fees:

- Authorizes the EPA to assess additional fees for certain permits and activities.

COMPARISON OF FIVE-YEAR DEFICIT REDUCTION IN SUMMIT AGREEMENT AND RECONCILIATION

(Billions)

	Summit Agreement		Senate-passed Reconciliation		Tentative Conference Reconciliation	
	\$	%	\$	%	\$	%
SPENDING:						
Discretionary (current status).....	182.4	36.1%	182.4	36.0%	182.4	37.2%
<u>Entitlement and mandatory:</u>						
Agriculture.....	13.0	2.6%	15.1	3.0%	14.9	3.0%
Federal workforce and retirement.....	14.4	2.8%	15.1	3.0%	14.5	3.0%
Stafford loans (GSLs).....	2.0	0.4%	2.0	0.4%	1.7	0.3%
FHA reforms.....	3.4	0.7%	4.1	0.8%	4.1	0.8%
Veterans.....	2.7	0.5%	6.1	1.2%	3.7	0.7%
Other.....	8.1	1.6%	0.9	0.2%	0.2	0.0%
Medicare.....	60.0	11.9%	49.3	9.7%	43.0 ✓	8.8%
Medicaid.....	2.4	0.5%	2.9	0.6%	3.1	0.6%
Entitlement add-backs.....	-4.1	-0.8%	-2.9	-0.6%	-2.5	-0.5%
Subtotal, Entitlements.....	101.8	20.1%	92.6	18.3%	82.7	16.9%
<u>User Fees:</u>						
Bank Insurance Fund.....	9.0	1.8%	9.0	1.8%	9.0	1.8%
Coast Guard.....	1.1	0.2%	1.1	0.2%	0.9	0.2%
NRC.....	1.6	0.3%	1.6	0.3%	1.6	0.3%
OSHA/MSHA.....	1.1	0.2%	0.8	0.2%	1.1	0.2%
Customs.....	2.3	0.5%	2.3	0.5%	2.3	0.5%
Other.....	3.7	0.7%	2.5	0.5%	2.7	0.5%
Subtotal, User Fees.....	18.8	3.7%	17.2	3.4%	17.5	3.6%
Total Mandatory.....	120.6	23.9%	109.8	21.7%	100.2 ✗	20.4%
TOTAL SPENDING.....	303.0	59.9%	292.2	57.6%	282.6	57.6%
REVENUES:						
Tax credits/incentives/other losers.....	-24.0	-4.7%	-29.1 #2	-5.7%	NA	0.0%
Revenue raisers.....	153.9	30.4%	171.2 #2	33.8%	138.0	28.1%
IRS enforcement initiative.....	9.4	1.9%	9.4	1.9%	9.4	1.9%
TOTAL REVENUES.....	139.3	27.5%	151.5	29.9%	147.4	30.0%
NET INTEREST.....	63.3	12.5%	63.5	12.5%	60.5	12.3%
TOTAL DEFICIT REDUCTION.....	505.6	100.0%	507.2	100.0%	490.5	100.0%

Details may not add to totals due to rounding.

Discretionary savings not specified by category in 1994 and 1995.

Summit Agreement does not include Child Care.

Congressional Budget Office, Joint Committee on Taxation, and staff estimates.

Prepared by SBC Minority Staff, October 26, 1990.

SUPPLEMENTAL INFANT CREDIT.-

"(A) IN GENERAL.-In the case of a taxpayer with a qualifying child who has not attained age 1 as of the close of the calendar year in which or with which the taxable year of the taxpayer

"(i) the credit percentage shall be increased by 4 percentage points and

"(ii) the phaseout percentage shall be increased by 2-5/6 percentage points.

The percentages under this paragraph shall be in addition to the percentages determined under paragraph (2) [An EITC young child supplement and the EITC] with respect to such child.

"(B) ELECTION BETWEEN DEPENDENT CARE CREDIT AND CREDIT FOR CHILD CLAIMED UNDER THIS PARAGRAPH.-If the taxpayer elects to take a child into account under this paragraph, such child shall be treated as not being a qualifying individual under section 21."

10 BILLION SHORT

Plans.

ST CHANGE

GATT Trigger ✓

GOV. AFFAIRS:
1/2 BILLION BACK -

2M:
VGF/ENT/
Fed operations = f(CBM) ✓

CHILD CARE
WBE TOTS
TITLE II
1st 2nd TOTS
STRUCTURE PROG. OR TRADE - ✓

EDICARD -
Not a deal breaker \$ 500,000
200 MIL. TRADE -

FAA REAUTHORIZATION
House of
Senate? \$114M ✓

MEDICARE ?

*8) PROCESS REFORM
ABSOLUTE MUST
DEAL BREAKER

1/2 *9) MEDICARE SEQUESTER
(24% (NEED 4%))
(NOW 2% HIT)
IF OTHER ENTITLEMENTS EXPOSED

1/2 *10) DESERT SHIELD ADJUSTMENT
MAKE EXIT PLAN CAP

? 11) SOFT LANGUAGE ON QSE'S

TAKES

1). PEP 1% FLATTEN ... HOW REBALANCE
1/2 C ~ 55/66 \$2.8B

2). TECHNICAL/TREATY OVERRIDE IN DAC.

ROUGH OUTLINE OF PROPOSAL

All Expiring Provisions - One Year

HI at \$125,000 (\$100K)
31% rate/24% AMT
PEP - 2% - \$2500 - 100K/125K/150K (5 year sunset)
Pease 3% - 100K (cosmetic surgery not a deduction) (5 year sunset)
5 cent gas tax 50/50 - 20% mass transit - 95% rule
Energy Incentives - 2.5 Billion -
alcohol 32 cents/21 cents/\$1.00
luxury - furs/jewelry 10K - raises \$1.5 billion
OASDI for state and local - those not covered by pension plan -
begin 7/1/91 - raises \$9.1 billion.

No Small Business Expensing
Estate Freeze language
Disability Access Credit
1 Year AMT tangible property preference repeal ✓
Some Child Care
double gas guzzler
tobacco
Ozone
LUST
Airport
Harbor
P&C salvage value
DAC at \$8 billion
Compliance
Retiree Health
Corporate Interest Disallowance
Business loopholes
IRS User Fees
FUTA surtax
Payroll Stabilization
Telephone
Statute of limitations on collections
House cash reporting rules
House foreign grantor trust provision

26-Oct-90 4:04pm

#90-3344
 PRELIMINARY
 26-Oct-90
 (D-#90-5352)

**BUDGET RECONCILIATION (H.R. 5835) - REVENUE PROVISIONS
 SUBJECT TO APPROVAL BY THE CONFEREES**

Fiscal Years 1991-1995

[Millions of Dollars]

Item	Effective	1991	1992	1993	1994	1995	1991-95
I. REVENUE-LOSING PROVISIONS							
A. Extend Expiring Provisions through 12/31/91 (1)							
1. Foreign allocation of R&D.....	—	-503	-289	—	—	—	-792
2. Research and experimentation tax credit.....	—	-602	-381	-105	-74	-47	-1,209
3. Employer-provided educational assistance (include graduate students).....	—	-340	-128	—	—	—	-468
4. Employer-provided group legal services.....	—	-98	-29	—	—	—	-127
5. Targeted jobs tax credit.....	—	-81	-104	-67	-31	-20	-303
6. Business energy tax credits (solar and geothermal property).....	—	-55	-28	3	2	1	-77
7. Low-income housing credit (with modifications).....	—	-266	-355	-420	-420	-420	-1,881
8. Mortgage revenue bonds and mortgage credit certificates.....	—	-10	-50	-110	-100	-100	-370
9. Qualified small-issue manufacturing bonds.....	—	-10	-50	-80	-70	-70	-280
10. Health insurance for self-employed (25% deduction).....	—	-253	-102	—	—	—	-355
11. Orphan drug tax credit.....	—	-4	-3	—	—	—	-7
Subtotals, Extension of Expiring Provisions.....		-2,222	-1,519	-779	-693	-658	-5,889
B. Other Tax Incentives							
1. Energy Incentives:							
a. Extend nonconventional fuels tax credit (section 29) for two years and expand to tight sands gas.....	1/1/91	-35	-115	-163	-152	-131	-597
b. Adopt tax incentives for ethanol production.....	1/1/91	16	18	-32	-89	-135	-221
c. Adopt 15% credit for enhanced oil recovery costs.....	1/1/91	-21	-42	-49	-50	-51	-213
d. Amend percentage depletion provisions.....	1/1/91	-24	-48	-61	-67	-78	-278

Item	Effective	1991	1992	1993	1994	1995	1991-95
e. Cut back AMT preference for certain intangible drilling costs (IDCs).....	1/1/91	-98	-188	-165	-154	-151	-756
f. Reduce AMT preference for percentage depletion on marginally producing properties.....	1/1/91	-42	-84	-87	-92	-100	-405
2. Additional small business incentives:							
a. Modify estate freeze rules (section 2036(c)).....	10/9/90	12	-17	-126	-251	-393	-775
b. Disabled access expenditures:							
i. Adopt disabled persons access tax credit (50%/\$5,000).....	D/o/E	-50	-90	-92	-94	-96	-422
ii. Lower cap on section 190 expensing to \$15,000.....	D/o/E	58	95	92	90	89	424
c. Repeal AMT preference for charitable contributions of tangible personal property (expires 12/31/91).....	1/1/91	-8	-22	8	-	-	-22
Subtotals, Other Tax Incentives		-192	-493	-675	-659	-1,046	-3,285
C. Progressivity Enhancement Provisions							
1. Increase EITC and adjust for family size (2).....	1/1/91	-75	-1,495	-2,091	-2,969	-5,730	-12,380
2. Child health insurance credit (3).....	1/1/91	-58	-1,155	-1,239	-1,329	-1,426	-5,207
3. Increase standard deduction by \$500 for taxpayers with children under 1 year old.....	1/1/91	-65	-135	-145	-155	-166	-666
Subtotals, Progressivity Enhancement Proposals		-198	-2,785	-3,475	-4,453	-7,322	-18,233
SUBTOTALS: REVENUE-LOSING PROVISIONS		-2,612	-4,797	-4,929	-6,005	-8,024	-27,967

II. REVENUE-RAISING PROVISIONS

A. Deficit Reduction Provisions

1. Provisions affecting high-income taxpayers and itemized deductions:							
a. Individual rate structure: 15%/28%/31% (24% AMT rate; 28% maximum capital gains rate).....	1/1/91	767	2,313	2,478	2,723	2,955	11,234
b. Phase out personal exemption (2%/\$2,500; \$100,000/\$125,000/\$150,000 thresholds; indexed) (5 year sunset).....	1/1/91	1,046	2,028	2,275	2,552	2,863	10,764
c. Limit on itemized deductions of high-income taxpayers (3%; \$100,000 threshold; indexed) (5 year sunset).....	1/1/91	548	3,714	4,101	4,531	5,010	17,904
d. Eliminate medical deduction for cosmetic surgery.....	1/1/91	9	60	60	70	70	269
2. Impose 5-cent per gallon tax on motor fuels (4).....	12/1/90	4,406	5,203	5,111	5,119	5,200	25,039
3. Double gas guzzler tax.....	1/1/91	75	95	85	70	60	385
4. Increase all tobacco excise taxes by 25% (e.g., for cigarettes 4 cents per pack in 1991 and 4 cents per pack in 1993).....	1/1/91	542	792	1,546	1,519	1,477	5,878
5. Increase beer, wine, and distilled spirits excise taxes.....	1/1/91	1,300	1,850	1,862	1,874	1,882	8,768
6. Impose 10% luxury excise tax.....	1/1/91	25	65	426	461	502	1,479

Item	Effective	1991	1992	1993	1994	1995	1991-9
7. Expand ozone-depleting chemicals excise tax.....	1/1/91	73	72	84	134	122	48
8. Extend Leaking Underground Storage Tank (LUST) Trust Fund excise tax (5 years).....	12/1/90	94	122	124	126	128	59
9. Increase and extend Airport Trust Fund aviation excise taxes (5 years).....	12/1/90	1,351	2,335	2,520	2,727	2,975	11,904
10. Increase harbor maintenance excise tax.....	1/1/91	314	342	369	395	422	1,844
11. Extend telephone excise tax and modify collection period (5).....	1/1/91	1,843	2,578	2,757	2,946	3,145	13,064
12. Revise treatment of loss deductions and salvage values for insurance companies.....	1/1/90	204	83	90	98	106	58
13. Amortize insurance policy deferred acquisition expenses (DAC).....	9/30/90	1,445	1,730	1,677	1,610	1,533	7,994
14. Adopt tax compliance provisions including certain provisions from H.R. 4308 and S. 2410.....	3/20/90	42	47	78	63	68	29
15. Adopt retiree health provision with reversion excise increase and asset cushion requirement.....	--	491	196	140	83	39	949
16. Increase by 2 percentage points the interest rate on corporate tax underpayments over \$100,000 following notice from IRS.....	1/1/91	1,559	98	79	46	46	1,821
17. Certain corporate business tax provisions:							
a. Expand and clarify reporting and allocation rules for certain asset acquisitions.....	10/10/90	9	13	15	17	19	7
b. Require accrual of redemption premium for certain preferred stock.....	10/10/90	19	55	86	104	109	37
c. Expand application of CERT rules to subsidiary acquisitions.....	10/10/90	45	81	84	77	69	35
d. Require recognition of corporate-level gain in certain divisive corporate transactions (5-year limitation period).....	10/10/90	9	25	38	49	60	18
e. Clarify treatment of debt exchanges.....	10/10/90	111	95	75	53	25	35
18. Extend IRS user fees (5 years) (5).....	9/30/90	45	45	45	45	45	22
19. Extend Social Security (OASDHI) to State and local employees not participating in a public employee retirement system (6).....	7/1/91	444	1,970	2,106	2,253	2,414	9,187
20. Extend FUTA 0.2% surtax (5 years).....	1/1/91	787	1,106	1,137	1,167	1,199	5,396
21. Adopt payroll tax deposit stabilization.....	--	950	2,200	-3,150	--	--	--
22. Extend Hazardous Substance Superfund taxes (4 years) (7).....	1/1/92	--	--	--	--	--	--
23. Increase Medicare (HI) wage cap to \$125,000.....	1/1/91	1,848	5,709	6,058	6,439	6,827	26,881
24. Extend statute of limitations for collection from 6 years to 10 years.....	1/1/91	1	1	2	2	2	8

Item	Effective	1991	1992	1993	1994	1995	1991-95
25. Increase penalty for intentional disregard of cash reporting requirement and adopt certain other modifications.....	1/1/91	-	-	-	-	-	-
26. Treat U.S. beneficiary as grantor of foreign trust indirectly funded by beneficiary.....	D/o/E	2	23	46	91	135	297
Subtotals, Deficit Reduction Provisions.....		20,204	35,044	32,402	37,444	39,507	164,601
B. Other Provisions							
1. Technical corrections.....	-	-	-	-	-	-	-
2. Repeal obsolete provisions (deadwood).....	-	-	-	-	-	-	-
3. Revise Treasury Department study mandates.....	-	-	-	-	-	-	-
4. Increase Joint Committee on Taxation refund review threshold.....	D/o/E	-	-	-	-	-	-
5. Review impact of IRS Regulations on small business.....	D/o/E +30	(8)	(8)	(8)	(8)	(8)	(8)
6. Require pie charts in IRS tax form instruction booklets.....	1/1/91	-	-	-	-	-	-
Subtotals, Other Provisions.....		-	-	-	-	-	-
SUBTOTALS: REVENUE-RAISING PROVISIONS.....		20,204	35,044	32,402	37,444	39,507	164,601
GRAND TOTALS.....		17,582	30,247	27,473	31,439	30,483	137,234

NOTES: Details may not add to totals due to rounding.

Interaction between or among items has not been taken into account for the purpose of this table.

In "Effective" column: D/o/E = Date of enactment; D/o/E +30 = 30 days after date of enactment.

(1) All estimates assume full restoration of tax benefits for 1990.

(2) Increased EITC by number of children:

In 1991: 1 child = 16.7% credit, 11.93% phaseout; 2 children = 17.3% credit, 12.36% phaseout.

In 1992: 1 child = 17.6% credit, 12.57% phaseout; 2 children = 18.4% credit, 13.14% phaseout.

In 1993: 1 child = 18.5% credit, 13.21% phaseout; 2 children = 19.5% credit, 13.93% phaseout.

In 1994 and thereafter: 1 child = 23% credit, 16.43% phaseout; 2 children = 25% credit, 17.86% phaseout.

Estimate incorporates the Treasury proposal to enhance compliance with EITC eligibility rules.

(3) 6% credit rate; 4.29% phaseout rate; phaseout income levels are the same as EITC.

(4) Railroads will pay 50% of increase in rates. 50% of motor fuels tax increase dedicated to deficit reduction; remainder dedicated to Highway trust fund (20% of this portion to be allocated to mass transit account).

(5) Modification of collection period effective after 12/31/90.

(6) Estimate provided by the Congressional Budget Office (CBO).

(7) The estimate is presented relative to the CBO baseline which assumes automatic extension of provisions in present law when revenues are dedicated to specific trust funds and when the provision is scheduled to expire within the current budget period.

(8) Negligible amount.

(R→)

SUMMARY OF DISTRIBUTIONAL EFFECTS, BY INCOME CATEGORY (1)
Budget Reconciliation (H.R. 5835) - Revenue Provisions
Subject to Approval by the Conference
(1990 Income Levels)

Income Category (2)	Change in Federal Taxes (1)(3)		Federal Taxes Under Present Law (4)		Federal Taxes Under Proposal (1)(4)		Effective Tax Rates	
	Billions	Percent	Billions	Percent	Billions	Percent	Present Law	Proposal
							Percent	Percent
Less than \$10,000.....	-\$0.3	-2.0%	\$14.2	1.6%	\$14.0	1.6%	13.3%	13.1%
10,000 to 20,000.....	-2.1	-3.2%	65.8	7.6%	63.7	7.2%	15.6%	15.1%
20,000 to 30,000.....	1.8	1.8%	102.5	11.9%	104.3	11.8%	18.4%	18.8%
30,000 to 40,000.....	2.3	2.0%	115.8	13.4%	118.1	13.4%	20.0%	20.4%
40,000 to 50,000.....	1.8	2.0%	87.9	10.2%	89.7	10.2%	21.4%	21.9%
50,000 to 75,000.....	2.6	1.5%	172.8	20.0%	175.3	19.9%	24.7%	25.1%
75,000 to 100,000.....	1.4	2.1%	66.5	7.7%	68.0	7.7%	25.8%	26.4%
100,000 to 200,000.....	2.4	2.3%	104.4	12.1%	106.7	12.1%	26.2%	26.8%
200,000 and over.....	8.4	6.3%	133.3	15.4%	141.7	16.1%	25.2%	26.8%
Total, All Taxpayers..	\$18.3	2.1%	\$863.2	100.0%	\$881.5	100.0%	21.8%	22.3%

Joint Committee on Taxation

- (1) Distributional analysis includes effects from the Budget Reconciliation (H.R. 5835)-Revenue Provisions with respect to beer, wine, and distilled spirits taxes, tobacco tax, motor fuels tax, telephone tax, increase in HI wage cap, increased individual and AMT rates, phaseout of personal exemption, limitation on itemized deductions, individual AMT component of oil and gas production incentives, increase and modification of the EITC, child health insurance tax credit, and increase in standard deduction for taxpayers with children under 1 year old. Analysis does not take into account effects from changes in taxpayer behavior.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] inside buildup on life insurance, [4] workers' compensation, [5] nontaxable social security benefits, [6] deductible contributions to individual retirement accounts, [7] the minimum tax preferences, and [8] net losses in excess of minimum tax preferences from passive business activities.
- (3) Estimates of total tax liability presented in distributions will not match estimated changes in receipts because of differing time periods (CY 1990 vs. FY 1991-95), because of varying patterns of fiscal year receipts.
- (4) Distributions represent combined effects of individual income taxes, payroll taxes, Federal excise taxes, and estate and gift taxes. For the purpose of distributions, the full burden of payroll taxes is assigned to employees. Excise taxes are assumed to be borne fully by individuals either directly through purchase of the taxed commodity or indirectly through higher prices on all commodities as businesses pass along these added costs. Because of the uncertainty concerning the incidence of the corporate income tax, it is excluded from this table. Information in table excludes individuals who are dependents of other taxpayers.

Budget Summit Agreement In Nominal Dollars And As A Percentage of GNP

(\$ in billions)	Actual 1990	1991	1992	1993	1994	1995
Outlays	1252	1361	1392	1381	1343	1385
Revenues	1032	1138	1221	1306	1395	1473
Economic Adjustments	--	30	58	54	36	19
Deficit	-220	-254	-229	-129	17	68
Deficit-w/o Social Sec	-278	-317	-297	-208	-76	-40
GNP	5486	5807	6199	6670	7141	7607

The average annual growth in outlays during this period is 2.1%.
(2% on a compound basis.)

(As a % of GNP)	1990	1991	1992	1993	1994	1995
Outlays	22.8	23.4	22.5	20.7	18.8	18.2
Revenues	18.8	19.6	19.7	19.6	19.5	19.4
Deficit	-4.0	-4.4	-3.7	-1.9	0.2	0.9

NOTE: Based on information available at 4 p.m. October 26, 1990.
All numbers subject to change.

Prepared by:
HBC Republican Staff
October 26, 1990

THE WHITE HOUSE

WASHINGTON

October 17, 1990

MEMORANDUM FOR KEY POLITICAL CONTACTS

FROM: DAVID M. CARNEY
SPECIAL ASSISTANT TO THE PRESIDENT AND
DIRECTOR, OFFICE OF POLITICAL AFFAIRS

SUBJECT: Background on the budget

In our continuing effort to keep you informed with the most up-to-date information I am sending the most recent information on the budget.

This package is a compilation of information gathered over the last two days during the President's visit to Illinois, Iowa, and Nebraska. Also included is additional information on the budget from the President, the Office of Management and Budget, the New York Times, and Governor Sununu.

Please contact this office if you have any questions.

THE WHITE HOUSE

WASHINGTON

October 17, 1990

BACKGROUND ON THE BUDGET

Attached is background material on the debate over the budget, including:

- Statement by the President announcing his intentions to veto the House passed budget plan.
- Statement of Administration policy on the "Ways and Means Democratic Alternative" legislation.
- New York Times editorial from October 17, 1990
- Excerpts from President Bush's remarks in Wheaton, Illinois; Des Moines, Iowa; and Omaha, Nebraska.
- Transcript of Governor Sununu's interview on the "Today" show this morning.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

October 16, 1990

STATEMENT BY THE PRESIDENT

Tonight the Democrats in Congress have turned back the clock. By a partisan vote in the House of Representatives, the Democrats pushed through a tax increase on working men and women.

The hidden tax is back. By removing the indexing of tax rates, the Democrats have resurrected an inequity most Americans thought was a thing of the past: bracket creep.

Also, I find unacceptable surcharges and other hidden mechanisms that increase income taxes on all Americans.

I am determined that the budget deficit reduction package be fair. I am determined that the budget not be balanced on the backs of working Americans. That's why I will veto the Democratic plan passed by the House should it reach my desk.

I am hopeful that it will not come to that. The bipartisan plan now being considered in the Senate does not raise income tax rates. Its approach is therefore much more in keeping with our efforts to insure that the final budget plan is fair to all Americans.



October 16, 1990
House Floor

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

THE "WAYS AND MEANS DEMOCRATIC ALTERNATIVE" TO THE OMNIBUS RECONCILIATION ACT OF 1990

The "Ways and Means Democratic Alternative" relies principally on increases in income taxes for people in all brackets. Delaying the indexation of tax rates for inflation will increase the income taxes paid by middle class families -- hardly an argument for fairness. In addition, there is nothing in the package to encourage economic growth, the driving force behind increases in the standard of living for all Americans. Because of these serious flaws, the President's senior advisors would recommend that he veto the "Ways and Means Democratic Alternative" if it were presented to him for his signature.

The "Ways and Means Democratic Alternative" includes a \$93.6 billion across-the-board income tax increase. Specifically:

- The proposal reduces the tax benefits of the personal exemption by removing indexing for inflation. This will increase taxes on everyone except the wealthiest one million taxpayers who lost their personal exemptions in the 1986 tax bill.
- The "Ways and Means Democratic Alternative" brings back bracket creep with a vengeance. Since World War II every taxpayer was subject to ever-increasing taxes through inflation. Bracket creep was the favorite tool of the tax and spenders. It was stopped in 1985 with indexing of personal exemptions and tax brackets. By reversing this policy, the "Ways and Means Democratic Alternative" brings back silent rate increases for everyone. This provision raises \$36 billion over 5 years, largely on the backs of low and middle class income families. This is advertised as a "one-year tax increase." What will keep the Democratically-controlled Congress from repeated extensions?
- It increases income taxes for people in all brackets.
 - A married couple with two children, who have taxable income of \$34,000 in 1991 would pay income taxes of \$5,100 under current law. Under the no-

indexing provision of the "Ways and Means Democratic Alternative," they would pay \$5,413.50, an increase of \$313.50, more than six percent.

- A single person with no dependents who has taxable income of \$21,000 in 1991 would pay income taxes of \$3,150 under current law. Under the no-indexing provision of the "Ways and Means Democratic Alternative," that person would pay \$3,301.50, an increase of nearly five percent.

- These tax increases are permanent. Even if indexing is delayed for just one year, the increase will apply for every year thereafter.

* * * * *

The New York Times

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Fooling Around With Taxes

10/17/90

The House is on the verge of passing a \$500 billion deficit reduction package. But it is hard to take the bill seriously. It includes amendments imposing stiff tax increases, aimed at the rich, that are unlikely to pass the Senate and that President Bush is sure to veto.

The principle of taxing the rich more than the poor to pay for deficit reduction might be noble. But the amendments amount to demagoguery. They would eliminate an increase in the gas tax, undermining energy conservation. They would postpone correction of the income tax code for inflation, leaving an invisible tax on the middle class. They would lower the capital gains tax for exactly the wrong kinds of investments.

The House plan was well designed to embarrass Republicans into voting against a package weighted in favor of the poor. The Republicans responded with some demagoguery of their own, proposing a deficit reduction package that pretended to cut the deficit without raising taxes. Congress owes the country a responsible deficit reduction package. Three days before the deadline for closing down the Government again, the country is still waiting.

Last month's budget summit produced a plan to cut the deficit by \$500 billion over five years. But it would have raised taxes on the poorest families three times as much as on the richest. That was the main reason the House rejected the package.

The alternative plan approved last week by the

House Ways and Means Committee, similar to one before the Senate Finance Committee, would have increased taxes on gasoline, alcohol, cigarettes and several luxury items. It would also have reduced the total amount of deductions for rich families and expanded tax credits for the working poor. Roughly speaking, it would have affected most income groups proportionately.

The plan voted in the House yesterday drops the tax hike on gasoline and postpones for a year the indexing of tax rates and personal exemptions for inflation. That's a cynical way to hit the middle class with an invisible rather than a visible tax. And it would undo a boost for energy conservation.

The House plan would also raise the tax rate on the highest incomes to 33 percent from 28, and raise the tax on wealthy families that take advantage of enormous amounts of deductions and exemptions. But the Democrats surely know that Mr. Bush would veto any package that raised income taxes unless it also capitulated to his obsessive quest for a capital gains tax cut.

It is precisely on capital gains that the House plan reverberates with ignorance — or cynicism. It would allow individuals \$100,000 of capital gains free of income tax over a lifetime — but only on the sale of real estate, farms, businesses and timber, not stocks. The tax code already heavily favors investments in real estate and timber. To direct more precious resources their way is shameless.

The budget clock is still ticking. Congress is still fooling around.

Excerpt from the President's Remarks at the Reception for Kay Orr, Hal Daub and Ally Milder, in Omaha, Nebraska:

October 15, 1990

"...And you know, much of the political debate we hear in Washington is tired and it's old and it's all this 'inside the beltway' jargon. And it's jargon that just gets in the way of what's really at stake. So let me try to simplify it. America must have a real and significant deficit reduction budget to get this economy moving. And that deficit reduction will bring down interest rates on home purchases and car loans. And it will create new jobs.

And to get these results, the budget cannot be the same old political shell game. We must not tolerate business as usual. The budget must be real, enforceable, and preserve incentives for growth in this country.

And you know what the problem has always been -- it's the unwillingness in Congress to vote to hold down federal spending. And you know, with higher spending, higher taxes are usually not far behind. And that said, let me mention here one thing that appeals to me about what's going on now, appeals to me about the current Senate package is that it holds the line on income tax rates. And that is worth fighting for in my view.

I have this concern that's always been that Congress will continue to pay for its spending habits by raising income tax rates on everybody. After concessions by both the Democratic and the Republican leaders -- the budget summit -- nobody liked every part of it. It did move us in the right direction, and it has brought us to the final countdown week. And in the next five days, Congress has the chance -- in fact, I'd put it this way -- Congress has the obligation to act. And I believe the American people have every right to expect the United States Congress to act responsibly.

And so my message -- and I expect it would be your message -- to the Congress is simple and straightforward: complete your work, meet Friday's deadline and pass a sensible budget. We've got to put this nation back on the path to long-term economic growth. And the way to do that, is to get a budget through, and that will bring the interest rates down, and that will put more and more Americans back to work where they belong."

Excerpt from the President's Remarks at the Edgar for Governor Rally at the College of DuPage, Wheaton, Illinois:

October 16, 1990

"...Sometimes the rhetoric back there gets pretty thick inside that Washington beltway. So let me just put it in perspective for you.... We must have a significant and real deficit reduction budget to get this country moving. And when we get that kind of a deal, it will bring down the interest rates on home purchases and car loans. It will bring them down and create new jobs. So the time for Democratic rhetoric is over, and the time to move ahead is to get the Congress moving now to get us that kind of an agreement.

I guess what I'm saying is that we can't afford business as usual. The budget's got to be real; it's got to be enforceable; and it's got to preserve our incentives for growth.

You know, I do believe -- I'll take my fair share of the hits, but I believe the American people really know that the problem has always been the failure of this one-party controlled Congress to hold down spending. We're not taxing you too little: we're spending too much.

And so make no mistake about it: when you hear this liberal crowd that runs the Congress in Washington talking about taxing the rich, they're going to be after you the next thing you know, because that's the way it works -- tax and spend, tax and spend. And I want to end it once and for all.

So today, they're marking up a big budget plan back in Washington. It's a Democratic tax plan. If it reaches my desk, the one that comes out of the House of Representatives, I will veto it because it raises the income taxes of the working men and women of this country. And I'm not going to do that.

One thing, incidentally, that appeals to me on this Senate package is that it holds the line on income tax rates. Republicans have always feared that Congress will continue to pay for its spending habits by raising the income tax rates on everybody. So, clearly, the budget summit moved us in the right direction, brought us to this final countdown week. And now we're down to four days back there in Washington. And Congress has the opportunity and the obligation to act. And the American people have every right to expect the Congress to act responsibly for the taxpayers' interest in this country."

Excerpt from the President's Remarks at the Fundraising Breakfast for Terry Branstad and Tom Tauke, Des Moines, Iowa:

October 16, 1990

"...Year after year, Congress has to pass emergency measures. It's all Washington jargon called continuing resolutions.... Enough is enough.... And this Friday, the Congress must face the budget deadline once again. But this time, let them face up to their responsibilities as well....

America must have a real and significant deficit reduction -- real and significant -- deficit reduction to get the economy moving. And that deficit reduction will, indeed, and almost instantly bring down the interest rates that are holding back new job creation and holding back job opportunity. The deficit rate is going to bring those interest rates down; you're going to have more home purchases, more car loans, create new jobs.

And to get those results, Congress cannot simply play with the numbers in order to get phony savings. We cannot afford business as usual in Washington anymore. So the budget must be real, it must be enforceable, and it must preserve our incentives for growth. I want to see this economy grow, not shrink, from higher taxes and more government spending....

We're not dumb in this country. Most people know that when -- the failure to hold down spending is inevitably followed by higher taxes. They might be just around the corner. And that said, let me reiterate that the one thing that appeals to me about the current Senate package -- you've got a House bill that looks like it's going through. Raise the rates, index the taxes -- that's on the middle class and the lower middle class. That's every taxpayer in this country. Nobody understands it, but that's what indexing means. So they're saying it's a "soak the rich" deal. But, inevitably, it gets into your pocket. It gets into the pocket of every working man and woman. And that's exactly what's coming out of the House.

But the Senate bill has some merit to it. It holds the line on income tax rates. And I've always been concerned, and I think the American people share this concern, that the Congress will continue to pay for its spending habits by going back and starting to raise the income tax rates on everyone. And I want to hold the line on the tax rates.

So we're in a countdown. We're in another countdown. The next four days, Congress has the responsibility and the obligation to act. And the American people have every right to see this Congress act responsibly."

TODAY SHOW INTERVIEW

Guest: White House Chief of Staff John Sununu
October 17, 1990

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BRYANT GUMBEL: The president's chief of staff is John Sununu. This morning he's in our NBC bureau in Washington. Governor, good morning.

JOHN SUNUNU: Good morning.

Q: I know there's a lot of reasons you find the plan unacceptable. Is the president determined to veto any plan that hikes the tax rates?

SUNUNU: Yes. The president realizes the Democrats may have conned the media into suggesting that the tax plan is just raising taxes on the rich. But what it does is rip off middle America, working men and women with an income tax increase for them.

You leave that out every time you describe the tax plan. But the fact is that it is there. And so with that tax increase on the working men and women, the president is going to veto that package if it gets to his desk.

Q: Well, it delays the adjustment of rates for inflation a year, and eliminates some middle class tax breaks, but--

SUNUNU: It raises their income tax though, Bryant. And--and you ought not to become an apologist for the Democratic Party by rationalizing that the rise in the income tax that the people have to pay is not a rise in income tax.

Q: In logical terms, does it follow that those who can afford to pay more in times of crisis should pay more?

SUNUNU: Absolutely. But the fact is that the addiction to tax and spend that the Democrats have leads them, every time they play around with the income tax rate at the high end, to have to play around with income tax on working men and women.

That's what the president warned America about. And that's exactly what has happened. One quarter of this package takes money out of the pockets of working men and women by extra income taxes. That is a part of a tax-and-spend plan that the president has said he will veto.

Q: But only a month ago the president conceded that higher taxes were necessary; had signed on to a budget agreement that included \$134 billion in added revenues. Why now is it so unacceptable?

SUNUNU: Well, don't revise history now. Remember, the president was holding out against taxes, but he recognized that the economy was about to go into a decline. He asked for a deficit reduction package. Congress refused to come forward. We are six months late on this budget by their own calendar. They refused to come forward with a package. They held the deficit reduction package hostage until the president agreed to allow taxes on the table.

The fact that they made the president eat his tax broccoli doesn't mean that he's very happy about what's in the package.

Q: But, Governor, that doesn't change the fact that the president signed on to that agreement, went on national TV behind that agreement, and said that this was a good agreement and one we could live with and it included new revenues. Why now is that unacceptable?

SUNUNU: It was one that he could live with, because that package did not raise the income tax of middle America, of working America. There is a difference between that package and this one, which rips off the men and women of America who are out there working and earning a living.

Q: Governor, the Senate seems headed towards a plan that would double the gasoline tax, raise the taxes of higher income folks while lowering the capital gains taxes for everybody on a proportional basis. You like that one?

SUNUNU: There's no capital gains reduction in the Senate package. You ought to be more accurate in your description.

Q: Well, there is a capital gains reduction in the Senate package, Governor, the one that--that lowers the rates proportionally to the income of Americans.

SUNUNU: No, not in the Senate package. In the Senate package there is no capital gains piece. There is no tax rate increase in the Senate package; there's no capital gains piece. That's what the president has said: Let's pass that package now.

Q: Governor, have you any new ideas to break the impasse? Any new offerings? It's easy to find fault with a number of packages that are coming off the Hill.

SUNUNU: There's I think general agreement between the president and the Republican and Democratic leadership in Congress that the best package is one that is close to the summit agreement. It's not the kind of package the president would have written alone; it's not the kind of package that the Democratic or Republican leaders would have written alone. It is a compromise package, but it is good for the country. It reduces the deficit. And it deals with some of the problems of the economy, and gets the economy going again. That's what we ought to pass.

Q: But, Governor, that's a package that even the Republicans in the House rejected?

SUNUNU: Well, that's the reference point that we ought to work towards. We think that the Senate package is relatively close to that, and that's the package that the president has said he would feel comfortable getting come out of conference and sign. The fact that that Senate package is supported by both Republicans and Democrats in the Senate is a good sign. It is a bipartisan package. It is one that doesn't raise the income tax on lower and middle income America. It's a good package. We ought to get it.

Q: Governor, you've seen the numbers as we all have. People are tired of the finger pointing. They feel Congress isn't doing the job. They feel the president isn't prepared to work with Congress. What's the White House prepared to do on an active basis over the next two days to break the deadlock?

SUNUNU: White House is ready to receive the bipartisan package, similar to the Senate package; get it to the president's desk; and he'll sign it. When the president asks the Congress to stay instead of going on vacation in August, they promised they'd get a package as soon as they came back. The clock is running out; government's about to shut down. They ought to put a package together in the next day or two, get it to the president and let him sign it, and let them go home and let America go about its business.

Q: Are you willing to agree, is the White House willing to agree, to a continuing resolution if you see progress on a bill that you find acceptable?

SUNUNU: You know, whenever Congress comes to a tough decision they run to a continuing resolution which is business as usual. Thirty-seven times in the last 10 years they've evaded the tough decisions of budgets by going to a continuing resolution. They tried to do that a couple of weeks ago with a soft resolution; the president vetoed it.

Let's not bandaid the problem. Let's put a package together in the Senate. Compromise it down to a package the president can accept with the House, and get a package on his desk. There's enough time to do that before Friday evening. Instead of trying to figure out a way to avoid the decision, Congress ought to do its business, get it done, and get out of town.

Q: Governor, can I ask you to stay a couple of minutes, we'll come back and do a little more?

SUNUNU: Sure.

Q: Okay, let me take a break right.
(Announcements)

Q: As we come back, it's 7:18, we're continuing-- excuse me--in Washington with Governor John Sununu, White House chief of staff. Governor, thank you--

SUNUNU: Thank you.

Q: --for--for extending your stay. I appreciate it. When we left for a commercial you were talking of bandaid solutions and how the White House rejects that, but is that to say a firm no that if there is work towards a compromise bill on Friday that you're unwilling to extend the deadline?

SUNUNU: If there was a deadline extension that carried with it a really significant reduction in the deficit built into the deadline extension to show that Congress meant business about it, I'm sure the president would, you know, consider that as a good faith extension. But that continuing resolution can't continue spending levels at current levels without any effort to reduce the deficit even for a couple of days.

Q: And if not, is the president prepared to shut down the government and live with the consequences?

SUNUNU: The president vetoed one about a week ago when Congress wanted to leave for the Columbus Day weekend, the president vetoed the continuing resolution; convinced them to stay. They passed the budget resolution. I think the president likes that formula of keeping folks around to work and get their business done.

Q: Have you contingency plans to run a government saddled with Gramm-Rudman cuts?

SUNUNU: Well, the president has had contingency plans in place for a long time. We ran the government for a couple of months last year under sequester. People hardly noticed.

Q: Governor, you can't be, I'm sure, unconcerned about the polls that show the president's approval ratings taking a nose dive. What is he prepared to do to reverse the feeling that in this time of crisis he is not proving an effective leader?

SUNUNU: Look, the president is not one to just store his political capital. The deficit is an important issue, and the president was willing to take his political lumps. He saw that the deficit had to be reduced, so he allowed the Democrats to bring taxes onto the table. He took a lot of lumps for that, but it was important to the country to get a deficit reduction package. It's important to get this deficit reduction package done this week.

He's willing to take his political lumps to do that. But if folks think that after he gets this package he's going to sit around and mope, he's wrong. He's going to go out and explain to the American public the fact that this budget, deficit reduction package was held hostage. He's going to point out to folks that for over two decades Congress has been on a tax-and-spend binge.

SUNUNU continues: The budget that passed last night is just a reflection of that. It reduces the cuts in spending -- there's less spending cuts in that package and more taxes. Whenever Congress runs into a tough vote, it runs to more spending and more taxes. The president will point that out.

So I think he'll be able to restore his political capital quite effectively in the process.

Q: That was a good argument, but it would seem again from the polls that a great many in the public are not buying that argument.

SUNUNU: Let's look at what the polls say, Bryant. Sixty percent blame Congress; 20 percent blame the president. If I were a politician in America, I'd walk into any campaign with that kind of ratio in my favor.

Q: The polls also say the president's popularity has dropped something like 25 percent in the last month.

SUNUNU: Now, instead of being astronomical, it's just exceptionally good. The president is willing to deal with that and live with that.

Q: We'll have to stop playing the numbers game, because our number is coming up. It's 7:22. Governor, thank you.

SUNUNU: Thank you very much, Bryant.

Q: Again, I appreciate your extending the stay.

SUNUNU: It's good to be here.

END INTERVIEW

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The Reuter Transcript Report
Sununu interview (Today Show)
Oct. 17, 1990

REUTER

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BUDGET SUMMIT AGREEMENT

September 30, 1990

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TABLE I.A.--DEFICIT REDUCTION
(in billions of dollars)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>91-95</u>
Discretionary:						
Domestic.....	--	--	-- }			
International.....	--	--	-- }	53.2	62.0	182.4
Defense.....	9.8	22.6	34.8 }			
Mandatory.....	12.1	20.9	23.9	28.8	33.3	119.0
Tax and receipt measures.....	16.2	26.7	27.0	32.1	31.8	133.8
Interest.....	<u>2.0</u>	<u>6.5</u>	<u>12.2</u>	<u>18.4</u>	<u>25.7</u>	<u>64.8</u>
Total deficit reduction.....	40.1	76.7	97.9	132.5	152.8	500.0

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TABLE I.B.—DEFICIT TARGETS AND PROPOSED SAVINGS
(in billions of dollars)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>91-95</u>
Mid-Session baseline consolidated deficit.....	231.4	205.0	135.2	79.6	76.8	728.0
Adjustments for:						
Economics.....	30.4	58.4	54.4	35.8	19.3	198.3
Technical changes.....	31.2	41.5	37.1	0.1	-12.0	97.9
Enacted legislation and regulations.....	<u>0.7</u>	<u>1.2</u>	<u>0.6</u>	<u>0.3</u>	<u>0.4</u>	<u>3.2</u>
Subtotal, adjustments.....	<u>62.3</u>	<u>101.1</u>	<u>92.1</u>	<u>36.2</u>	<u>7.7</u>	<u>299.4</u>
Current baseline consolidated deficits.....	293.7	306.1	227.3	115.8	84.5	1027.4
Proposed savings.....	<u>-40.1</u>	<u>-76.7</u>	<u>-97.9</u>	<u>-132.5</u>	<u>-152.8</u>	<u>-500.0</u>
Agreement consolidated deficits (+) or surplus (-).....	253.6	229.4	129.4	-16.7	-68.3	527.4
Agreement GRH deficits (excludes deposit insurance and social security).....	205.0	197.1	168.6	111.6	63.3	745.6
Revised GRH targets.....	205.0	197.1	168.6	111.6	63.3	745.6

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TABLE I.C.--BASELINE AMOUNTS AND REDUCTIONS BY CATEGORY
(in billions of dollars)

	1991	1992	1993	1994	1995	91-95
Total Discretionary						
Adjusted baseline.....	522.9	546.1	567.4	588.0	602.8	2827.2
Savings.....	-9.8	-22.6	-34.8	-53.2	-62.0	-182.4
Agreed level.....	513.1	523.5	532.6	534.8	540.8	2644.8
Mandatory						
Adjusted baseline.....	664.8	692.7	678.5	651.1	703.8	3390.9
Savings.....	-12.1	-20.9	-23.9	-28.8	-33.3	-119.0
Agreed level.....	652.7	671.8	654.6	622.3	670.5	3271.9
Interest						
Adjusted baseline.....	197.0	203.0	205.6	204.0	199.8	1009.4
Savings (includes revenues).....	-2.0	-6.5	-12.2	-18.4	-25.7	-64.8
Agreed level.....	195.0	196.5	193.4	185.6	174.1	944.6
Total Outlays						
Adjusted baseline.....	1384.7	1441.8	1451.5	1443.1	1506.4	7227.5
Savings.....	-23.9	-50.0	-70.9	-100.4	-121.0	-366.2
Agreed level.....	1360.8	1391.8	1380.6	1342.7	1385.4	6861.3
Tax and Receipt Measures						
Adjusted baseline	1121.4	1194.2	1278.6	1363.0	1441.1	6398.3
Savings.....	16.2	26.7	27.0	32.1	31.8	133.8
Agreed level.....	1137.6	1220.9	1305.6	1395.1	1472.9	6532.1
Revised Economic Assumptions						
Adjusted baseline/Agreed level.....	30.4	58.4	54.4	35.8	19.3	198.3
Consolidated Deficit						
Adjusted baseline.....	293.7	306.1	227.3	115.8	84.5	1027.4
Savings.....	-40.1	-76.7	-97.9	-132.5	-152.8	-500.0
Agreed level.....	253.6	229.4	129.4	-16.7	-68.3	527.4
GRH Deficit (excludes deposit insurance and social security)						
Adjusted baseline.....	243.1	271.7	264.2	241.7	213.6	1234.3
Savings.....	-38.1	-74.5	-95.5	-130.0	-150.1	-488.2
Agreed level.....	205.0	197.2	168.7	111.7	63.5	746.1
ADDENDUM (Agreed Level)						
Social security operating surpluses	48.7	47.3	60.2	74.6	86.8	317.6
Deposit insurance.....	97.3	79.6	21.0	-53.6	-44.8	99.5

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TABLE II.A.--DISCRETIONARY PROGRAMS
(in billions of dollars)

	<u>1991</u>		<u>1992</u>		<u>1993</u>		<u>1994</u>		<u>1995</u>		<u>1991-1995</u>	
	<u>BA</u>	<u>Q</u>	<u>BA</u>	<u>Q</u>	<u>BA</u>	<u>Q</u>	<u>BA</u>	<u>Q</u>	<u>BA</u>	<u>Q</u>	<u>BA</u>	<u>Q</u>
Defense:												
Baseline 1/.....	313.6	306.2	326.0	316.9	338.3	326.1						
Savings.....	<u>-25.1</u>	<u>-9.8</u>	<u>-35.1</u>	<u>-22.6</u>	<u>-47.2</u>	<u>-34.8</u>						
Agreed level 2/.....	288.5	296.4	290.9	294.3	291.1	291.3						
International:												
Adjusted baseline 3/.....	20.1	18.6	20.5	19.1	21.4	19.6						
Savings.....	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>						
Agreed level.....	20.1	18.6	20.5	19.1	21.4	19.6						
Domestic:												
Adjusted baseline 3/.....	182.7	198.1	191.3	210.1	198.3	221.7						
Savings.....	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>						
Agreed level.....	182.7	198.1	191.3	210.1	198.3	221.7						
TOTAL DISCRETIONARY:												
Adjusted baseline.....	516.4	522.9	537.8	546.1	558.0	567.4	570.1	588.0	588.0	602.8	2770.3	2827.2
Savings.....	<u>-25.1</u>	<u>-9.8</u>	<u>-35.1</u>	<u>-22.6</u>	<u>-47.2</u>	<u>-34.8</u>	<u>-58.6</u>	<u>-53.2</u>	<u>-69.6</u>	<u>-62.0</u>	<u>-235.6</u>	<u>-182.4</u>
Agreed level.....	491.3	513.1	502.7	523.5	510.8	532.6	511.5	534.8	518.4	540.8	2534.7	2644.8

1/ The adjustments for revised economics for defense accounts will be made in March, 1991.

2/ Agreed Level:

Defense discretionary.....	288.5	296.4	290.9	294.3	291.1	291.3
Defense mandatory.....	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
Total defense.....	289.1	297.0	291.6	295.0	291.8	292.0

3/ Adjustments for anomalies to the GRH baseline include subsidized housing contract renewals and revised scoring of certain lease purchase contracts.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
The Summit negotiators agreed to total savings in the amounts listed below (under OMB scoring) for the programs indicated. Except where specifically noted, the policies described are illustrative only. The committees of jurisdiction retain the right to achieve the savings required through alternative policies. However, the President and the Bipartisan Leadership have pledged their best efforts to deliver a legislative package that fully reflects the Summit Agreement, as is noted specifically in Part IV, "Agreement Concerning Enactment."						
MANDATORY/ENTITLEMENTS						
1 Agriculture CCC	1,300	13,000	1,300	13,000	--	--

It is presumed that these savings would be achieved through a combination of target price and/or base acre reduction programs (potentially including the "triple base" approach). "Triple base" means that acres which become ineligible for deficiency payments could be planted to any crop. The following provides OMB scoring of several possible options:

	<u>FY91</u>	<u>FY91-95</u>
2% per year target price cut and 3% per year base acre reduction	500	12,400

One time 2% target price cut and one-time 15% "triple base" cut:	1,000	12,200
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One-time 25% "triple base" cut (no target price reduction):	1,100	13,800
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TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
2 Medicare.....	4,600	60,000	4,850	59,911	-250	89

	<u>FY91</u>	<u>FY91-95</u>
Medicare Beneficiaries:		
Deductible/Premium/Coinsurance*		
CBO	1,725 *	27,775 *
OMB	1,750 *	29,911 *

Policy agreement assumes a) \$100, \$125, \$150, \$150, \$150 ('91-'95) deductible,
b) 20% clinical lab coinsurance and c) a Part B premium of 30%.

	<u>FY91</u>	<u>FY91-95</u>
Providers		
CBO	*	*
OMB	*	*

* Scoring has varied between CBO/OMB and estimates are subject to change.
Agreement assumes this beneficiary policy and that the total Medicare savings
will be a minimum of \$4.6 b ('91) and \$60.0 b ('91-'95). This difference
between the beneficiary total and the overall target will be met with reductions in
reimbursement to providers (approx. \$30-35 b over 5 years).

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

		<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
		<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
Specific policies have not been identified, but the following policy changes would produce savings beyond those needed to meet these assumptions:							
Part A:	MBI at 4.1% in FY91; MBI -.75% in FY92; capital at 85% (continuation of current law); indirect medical education at 6.0% [Total: 2.2/16.3]						
Part B:	Reduce payment for overpriced procedures; update primary care services only; reduce payment for overpriced localities; cap technical copayment of diagnostic tests; extend payment limit on new physicians; limit radiology to 90% and limit technical reimbursement; limit anesthesiology to 90%; limit supervised anesthesia payments; reform assistant at surgery payments; limit surgical global fee payment; ESRD secondary payor identification; outpatient capital at 85%, effective FY92; Durable medical equipment payment reforms; reform clinical lab payments [Total: 1.3/12.5]						
Other:	Medicare secondary payor policies (continuation of current law); eliminate return on equity for SNFs [Total: .1/6.1]						

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
3 Eliminate lump sum Civil Service Retirement	1,000	8,100	1,000	8,100	0	0

Federal employees currently may withdraw a portion of their pension funds in lump sum at retirement. Current law, through FY90, allows this lump sum to be paid in 2 annual installments. This will eliminate the lump sum option, effective 11/1/90 (1 month after announcement of agreement).

4 Other Post Office/Govt. Affairs	935	6,300	935	6,300	0	0
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Although the agreement does not identify specific policies, it is assumed the following options or options substantially similar will be used to meet the savings total:

	<u>FY91</u>	<u>FY91-95</u>
Postal Service Reform/FEHB funding		
CBO	689	4,200
OMB	689	4,200

Requires Postal service to pick up the employer health care premium component of its annuitants who retired between 1971 and 1986. The employer portion of these benefits is now paid from general revenues. This was expected to be part of OBRA '89, but postal reforms were not included in Reconciliation/ USPS off budget package.

TABLE II.B---MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

		<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
		<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
	<u>FY91</u>	<u>FY91-95</u>					
Extend Medicare limits to 65+ FEHB							
(mand) CBO	250	1,080					
(mand) OMB	185	1,195					
[Disc Memo / CBO]	[0]	[810]					
[Disc Memo / OMB]	[185]	[1,195]					

Includes the 1% of 65+ population not covered by Medicare (pre - 1984 civil service retirees still under FEHB) under the Medicare payment limits. Holds physician payments to Medicare rates and should actually reduce beneficiary premium costs.

Increase Postal Service Contributions to CSRS

CBO	0	1,187
OMB	0	1,187

Beginning In 1994, the Postal Service would increase contributions to the Civil Service Retirement Fund to pay for annuity COLA benefits that current Postal Service employees will receive after they retire. The new rate applies only to Postal Service employees covered by the CSRS.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
5 Unspecified Energy & Commerce/Finance	220	2,600	220	2,600	0	0

A combination of the following Medicaid proposals are presumed to make up these savings:

	<u>FY91</u>	<u>FY91-95</u>
Prudent Pharmaceutical Purchasing		
CBO	220	1,611
OMB	220	1,611

Manufacturers of the multiple source (generic) drugs with the highest Medicaid volume would bid to become sole source providers for individual Medicaid drugs in each State. For single source drugs (patented), manufacturers would be limited to charging Medicaid the best price given any bulk purchaser in State, subject to a maximum discount (20% in '91) and a minimum discount (10%), with savings returned to Medicaid through quarterly rebate. Numerous drug companies have recently proposed similar packages. VA and DOD already receive such discounts. Savings will be tied to the Medicaid baseline through a year-end reconciliation with state programs to assure achievement of baseline savings.

Pay employee health premium, if cost effective		
CBO	120	1,090
OMB	110	1,100

Many Medicaid beneficiaries have parents or spouses who have employer health coverage that could cover family members. This would allow states to opt for payment of private insurance premiums for qualified family members if those premiums are if cheaper than Medicaid coverage. Many states already do so.

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
6 GSL reforms	0	2,000	0	2,000	0	0
Reform GSL by identifying for disqualification proceedings the worst high default schools, with special provisions to help protect good schools with high rates; improve guarantee agency oversight and financial strength; protect students and reduce program abuses.						
7 Fund rail pension liability	25	200	25	200	0	0
Railroads did not accrue retirement payments sufficient to meet systems obligations. Pension fund has \$34 billion unfunded liability. This proposal funds only a small portion of the underfunding (approx. 1/20) Scoring assumes a .40% increase on the RRB wage base payroll (capped at \$38,100). Alternative policy would use recalculation at current rates, but attributing employer contributions on a rolling 10 yr. base to account for reduced number of rail employees and thus greatly reduced contribution by some railroads.						
8 Social Security Overpayments	26	160	26	160	0	0
Collect outstanding social security overpayments by withholding the amount due from Federal income tax refunds. Use tax refund offsets only for amounts owed by former beneficiaries, and only when benefit adjustments or direct payments by the overpaid individual have not been successful.						

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
9 FHA Assignment	193	965	193	965	0	0
This proposal would offer a cash settlement to lenders not to assign eligible section 221(g)(4) mortgages to HUD's FHA.						
10 Other FHA Reforms	200	2,500	200	2,500	0	0
Assumes the elimination of distributive shares and the retention of current loan limits. Also assumes enactment of S.566 or similar reforms necessary to restore actuarial soundness. Per the agreement, it is understood that any proposals must include an aggregate increase in the actuarial soundness of the FHA loan program.						
11 Unemployment Insurance	0	4,600	0	3,165	0	1,435
States would not pay employment benefits for the first two weeks after job separation. 41 states currently have a one week delay.						
12 Tongass Forest	28	204	28	204	0	0
Elimination of permanent appropriation for Tongass timber fund.						

TABLE II.B--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(in millions of dollars)

	<u>CBO Savings</u>		<u>OMB Savings</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>	<u>1991</u>	<u>91-95</u>
13 Unspecified Veterans	500	2,700	500	2,700	0	0

Specific policies have not been identified. However, the following proposals have been discussed and would meet these savings totals:

- Expand and improve third party recoveries in medical care;
- in the loan guaranty program, include resale losses in net-value and allow eligibility for only 10 years after service;
- In compensation and pensions, limit inheritance of remote heirs and do not pay compensation for secondary effects of willful misconduct; and verify pension eligibility as well as revise eligibility for veterans over age 65.

14 Miscellaneous Other Mandatory Entitlements/Fees.....	600	3,000	600	3,000	0	0
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Specific selection of this set of mandatory savings is to be determined by the summit negotiators prior to enactment of the reconciliation bill.

Subtotal, Mandatory/Entitlements.....	9,627	106,329	9,877	104,805	-250	1,524
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TABLE II.B.--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(Outlay savings in millions of dollars)

	<u>CBO Scoring</u>		<u>OMB Scoring</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>1991-1995</u>	<u>1991</u>	<u>1991-1995</u>	<u>1991</u>	<u>1991-1995</u>
MANDATORY/USER FEES						
1 Animal and plant health inspection.....	79	433	79	433	--	--
Establish a fee that would recover the cost of certain veterinary diagnostic services, import-export inspections, and agricultural quarantine inspections at ports of entry.						
2 Bank Insurance Fund assessment increase.....	999	4,045	999	4,045	--	--
The Bank Insurance Fund fee increase is consistent with legislation recently proposed by Gonzalez, Riegle, and the Administration. The legislation would remove restrictions on FDIC's ability to raise rates. The estimates assume that, if the legislation passes, rates will increase from .15 percent of deposits to .195 percent in FY 1991 and to .23 percent thereafter.						
3 Coast Guard: \$25 annual decal.....	200	1,077	200	1,077	--	--
Charge each recreational and commercial boater using waterways patrolled by the Coast Guard \$25 annually for a decal, and charge direct fees for specific Coast Guard services, such as licensing and inspections.						
4 Corps of Engineers recreational fee.....	20	100	20	100	--	--
Establish fees at developed recreational sites administered by the Corps. Receipts would be used to expand operation and maintenance activities at the recreational sites beginning in 1992.						
5 Customs passenger and merchandise processing..	291	2,256	--	2,823	291	-567
Extend the merchandise and passenger processing fees. The proposal should be structured to ensure that the higher target and equivalent deficit reduction are accomplished.						
6 EPA permit, certification, and registration fees.....	18	134	31	155	-13	-21
Establish fees on EPA-issued water permits, auto fuel and certification tests, radon proficiency ratings, and pesticide registrations.						

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TABLE II.B.--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(Outlay savings in millions of dollars)

	<u>CBO Scoring</u>		<u>OMB Scoring</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>1991-1995</u>	<u>1991</u>	<u>1991-1995</u>	<u>1991</u>	<u>1991-1995</u>
7 FEMA flood and crime insurance.....	14	833	14	224	--	609
For FEMA flood insurance, increase fees on policy holders to recover the cost of administering the program; and establish a student registration fee of \$25 per week or any part of a week for State and local officials attending training sessions at the Emergency Management Institute or the National Fire Academy. The Democratic estimates include savings from reauthorization of the existing program. These should not be counted as savings, since the baseline assumes the program continues.						
8 Forest Service recreational fee.....	8	40	8	40	1	1
Broaden the type of existing fees that may be charged at Forest Service recreation facilities, with increased receipts funding the cost of associated recreation operation and maintenance beginning in 1992.						
9 Hardrock mining claim holding fee.....	--	120	78	390	-78	-270
Establish an annual fee of \$100 per claim to keep mining claims on public lands active, replacing the current Federal requirement that claimholders spend at least \$100 per year on development of the claim.						
10 NOAA weather service.....	5	25	5	25	--	--
Establish fees to recover NOAA costs associated with providing weather data and information.						
11 Nuclear Regulatory Commission.....	299	1,661	296	1,646	3	15
Increase existing fees to recover 100 percent of the NRC's costs incurred in regulating nuclear power plants.						

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TABLE II.B.--MANDATORY/ENTITLEMENTS/USER FEES -- OMB AND CBO SCORING
(Outlay savings in millions of dollars)

	<u>CBO Scoring</u>		<u>OMB Scoring</u>		<u>CBO less OMB</u>	
	<u>1991</u>	<u>1991-1995</u>	<u>1991</u>	<u>1991-1995</u>	<u>1991</u>	<u>1991-1995</u>
12 OSHA/MSHA fees.....	95	1,130	95	1,130	--	--
Increase the penalties for not complying with the law. For OSHA, the maximum fine for non-serious violations would increase from \$1,000 to \$5,000 per violation. For serious violations, the maximum OSHA fine would increase from \$10,000 to \$50,000; and for MSHA, from \$10,000 to \$30,000.						
13 Patent and trademark.....	100	540	100	540	--	--
This increase would fully fund the program in 1991; all applicants would be required to pay a fee; and public search rooms would be operated on a fee basis.						
14 Pension Benefit Guaranty Corporation (PBGC).....	120	640	120	640		
Amend ERISA to raise the basic PBGC insurance premium rate, the maximum variable rate portion of the premium, and the assessment per \$1,000 of unfunded vested benefits.						
15 Railroad safety inspections.....	20	170	20	170	--	--
Establish a fee, to be phased in over two years, to cover the cost of the railroad safety program.						
16 U.S. Travel and Tourism Administration (USTTA).	7	43	7	63	--	-20
Establish a fee to be assessed on commercial airlines and cruise ship carriers to recover the full cost of USTTA operations. Under the proposal, USTTA would still require an annual appropriation.						
17 Veterans fees (unspecified).....	120	650	120	650	--	--
Subtotal, Mandatory/User Fees.....	2,395	13,897	2,192	14,152	203	-255
TOTAL MANDATORY.....	12,308	120,226	12,069	118,957	239	1,269

II.C. TAX AND RECEIPT TABLES

#90-3 231
PRELIMINARY
30-Sep-90

- BUDGET SUMMIT AGREEMENT -

Fiscal Years 1991-1995

[Billions of Dollars]

Item	Effective	1991	1992	1993	1994	1995	1991-95
A. Budget Outlays							
State and local Social Security offset:							
a. Social Security package [target].....	--	-0.5	-0.3	-0.4	-0.4	-0.4	-2.0
b. Medicaid package [target].....	--	-0.5	-0.4	-0.4	-0.4	-0.4	-2.0
B. Revenue-Losing Provisions							
1. Enterprise zones [target].....	1/1/91	--	-0.1	-0.2	-0.3	-0.4	-1.0
2. Energy incentives [target].....	1/1/91	-0.4	-0.6	-0.9	-1.0	-1.1	-4.0
3. Extend certain expiring provisions through 12/31/91:							
a. R&E credit (1).....	--	-0.6	-0.4	-0.1	-0.1	(2)	-1.2
b. Low-income housing credit.....	--	-0.2	-0.3	-0.4	-0.4	-0.4	-1.7
4. Additional growth incentives for certain small businesses:							
a. Minimum basis.....	10/1/91	0.2	-0.1	-0.2	-0.3	-0.3	-0.7
b. Research and development credit of 30% (1 year).....	1/1/91	-0.1	-0.2	-0.1	(2)	(2)	-0.4
c. Deduction for stock purchases (25%)..... (3)	1/1/91	-0.4	-1.0	-1.4	-1.9	-2.6	-7.3
d. Indexing of common stock..... (4)	1/1/92	(2)	(2)	-0.1	-0.1	-0.2	-0.4
e. 2-year expansion of expensing.....	1/1/91	-2.8	-3.4	0.7	2.1	1.5	-1.9
f. Additional expensing for scientific equipment.....	1/1/91	-0.5	-0.6	0.1	0.4	0.3	-0.3
g. Reduce corporate phaseout rate from 5% to 2-1/2%.....	1/1/91	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
h. Additional growth incentives subject to mutual agreement [target].....	--	(2)	-0.1	-0.1	-0.2	-0.2	-0.6
5. Increase EITC (5) [target].....	1/1/91	-0.1	-1.1	-1.2	-1.3	-1.3	-5.0
Subtotals, Revenue-Losing Provisions.....		-5.0	-8.0	-4.0	-3.2	-4.8	-25.0

Item	Effective	1991	1992	1993	1994	1995	1991-95
C. Revenue-Raising Provisions							
1. Energy taxes:							
a. Motor fuels tax (5 cents; 10 cents after 7/1/91)(4).....	12/1/90	5.4	10.1	9.8	9.9	9.9	45.0
b. 2-cent petroleum tax, (6).....	1/1/91	1.4	2.4	2.5	2.7	2.9	11.8
2. Increase tobacco taxes by 4 cents per pack in 1991 and by 4 cents per pack in 1993.....	1/1/91	0.6	0.8	1.5	1.5	1.5	5.9
3. Beer, wine, and distilled spirits taxes.....	1/1/91	1.5	2.1	2.1	2.1	2.2	10.0
4. 10% luxury excise tax (7).....	1/1/91	0.2	0.3	0.4	0.5	0.5	1.9
5. Ozone-depleting chemical excise tax.....	1/1/91	0.1	0.1	0.1	0.1	0.1	0.5
6. Loss deductions and salvage values for insurance companies.....	1/1/90	0.3	0.2	0.2	0.2	0.2	1.1
7. Adopt foreign compliance provisions including certain provisions from H.R. 4308 and S. 2410.....	3/20/90	(8)	(8)	0.1	0.1	0.1	0.3
8. Amortize insurance policy deferred acquisition expenses (DAC).....	9/30/90	1.5	1.7	1.7	1.6	1.5	8.0
9. Leaking underground storage tank (LUST) trust fund (5 years).....	10/1/90	0.1	0.1	0.1	0.1	0.1	0.6
10. Increase Airport Trust Fund aviation excise taxes (5 years) (9)..... (10)	1/1/91	1.3	2.3	2.5	2.7	3.0	11.8
11. Increase harbor maintenance tax (9)..... (11)	1/1/91	0.3	0.3	0.4	0.4	0.4	1.8
12. IRS enforcement initiatives [target]..... (11)	--	3.0	1.8	1.8	1.5	1.2	9.4
13. Retiree health with reversion compromise increase [target].....	1/1/91	0.5	0.2	0.2	0.1	0.1	1.0
14. State and local HI (12) [target].....	1/1/92	--	0.7	1.4	1.6	1.6	5.2
15. Corporate interest deduction partial disallowance [target].....	1/1/91	1.4	0.7	0.6	0.4	0.6	3.9
16. Certain business tax provisions [target].....	--	0.2	0.3	0.4	0.5	0.6	2.0
17. Limitation on itemized deductions (13) [target].....	1/1/91	0.5	4.1	4.0	4.5	4.9	18.0
18. Increase HI wage cap to \$73,000 [target].....	1/1/91	0.9	2.8	2.9	3.1	3.3	13.0

Item	Effective	1991	1992	1993	1994	1995	1991-95
19. State and local social security (OASDI) (14)	--	2.0	2.2	2.4	2.5	2.7	11.7
20. Payroll tax deposit stabilization.....	--	1.0	2.2	-3.2	--	--	--
Subtotals, Revenue-Raising Provisions.....		22.2	35.4	31.8	36.1	37.4	162.9
Net Deficit Reduction.....		16.2	26.7	27.0	32.1	31.8	133.8

Joint Committee on Taxation

NOTES: Details may not add to totals due to rounding.

Interaction between or among items has not been taken into account for the purpose of this table.

- (1) Base limitation is retained at current level of 50%.
- (2) Loss of less than \$50 million.
- (3) For small business equity deduction, preference included in minimum tax, recapture deduction as ordinary income, and 25% on annual deduction per taxpayer of \$50,000.
- (4) For stock of small business corporations purchased after date of Summit agreement, allow indexing of basis for inflation occurring after 12/31/90, sold after 12/31/91, and held for at least one year.
- (5) Amount does not correspond to that used in the accompanying distributional analysis.
- (6) Each State to receive Highway account apportionments and allocations equal to at least 95% of its contribution attributable to increased revenue; 50% of tax on gasoline to trust fund.
- (7) Tax applies to specific newly-manufactured items with retail prices above the following thresholds: automobiles--\$30,000; private boats and yachts--\$100,000; jewelry--\$5,000; and furs--\$5,000. Tax is 10% of purchase price in excess of thresholds.
- (8) Gain of less than \$50 million.
- (9) Estimate is net of income tax offset.
- (10) This estimate is presented relative to the CBO baseline which assumes extension of the Airport and Airway Trust Fund (AATF) taxes with the trigger in effect. The estimate reflects the effects both of removing the trigger and of increasing the rates of certain of the AATF taxes as proposed in the President's budget. Increased revenue to be dedicated to deficit reduction.
- (11) Estimate to be provided by the Congressional Budget Office (CBO).
- (12) Rate = 0.8% in 1992, 1.35% in 1993, 1.45% in 1994 and thereafter.
- (13) Disallow itemized deductions in an amount equal to 3% of AGI in excess of \$100,000 for single returns, \$100,000 for joint returns, and \$100,000 for head of household returns. Proposal does not apply to medical expenses or investment interest. Disallowance under the proposal cannot exceed 80% of otherwise deductible itemized deductions subject to the proposal.
- (14) See related outlay offset in Section A.

(Revenue-Losing Provisions in Billions of Dollars)

The Summit negotiators agreed to total savings in the amounts listed below (under OMB scoring) for the programs indicated. Except where specifically noted, the policies described are illustrative only. The committees of jurisdiction retain the right to achieve the savings required through alternative policies. However, the President and the Bipartisan Leadership have pledged their best efforts to deliver a legislative package that fully reflects the Summit Agreement, as is noted specifically in Part IV, "Agreement Concerning Enactment."

	<u>1991</u>	<u>1991-1995</u>
B.1. Enterprise Zones	0.0	-1.0

Provisions, designed to provide tax incentives to specially-designated areas in need of economic assistance, similar to those described in H.R. 4993 and H.R. 5190, as mutually agreed will be adopted with a total revenue cost over the five-year budget period of \$1.0 billion.

B.2. Energy Incentives	-0.4	-4.0
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Tax incentives would be provided to enhance energy security, including incentives for oil and gas exploration, production from marginal properties and enhanced oil recovery. In addition, section 29 will be made permanent and extended to tight sands gas. Incentives for ethanol will be modified and extended. The total of energy security incentives including the foregoing will not exceed \$4.0 billion over the five-year budget period.

B.3 Extension of Expiring Provisions

Under the agreement, the following provisions would be extended through December 31, 1991:

a. Research and experimentation credit. The 25% reduction enacted for 1990 will be restored.	-0.6	-1.2
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(Revenue-Losing Provisions in Billions of Dollars)

	<u>1991</u>	<u>1991-1995</u>
b. Low-income housing credit. The low-income housing credit allocation limit would also be restored to \$1.25 per State resident for 1990 and would be continued at that limit in 1991.		-0.2 -1.7

B.4. Provisions relating to qualified small corporations

Definition of qualified small corporation -- Qualified small corporations are domestic subchapter C corporations with paid-in capital and retained earnings of less than \$50 million. Such corporations must be engaged in an active trade or business for at least 5 years (or, if shorter, the period of their existence), and substantially all of the corporation's assets must be used in active trades or businesses. Among the types of corporations that would be excluded are: banks, savings and loan associations, insurance companies, finance companies, securities holding and management corporations, real estate holding and management companies, personal service corporations, regulated investment companies, real estate investment trusts, and cooperatives.

B.4.a. Basis Adjustment for Qualified Small Corporations	0.2	-0.7
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An individual who sells common stock of a qualified small corporation acquired after September 30, 1990, and before December 31, 1995 and held for at least five years would be entitled to claim a tax basis in such stock equal to the greater of (i) his adjusted stock basis or (ii) 50% of the sales price. This rule would be available only if such corporation was a qualified small corporation at any time during the two years immediately preceding the date of the stock sale.

B.4.b. 30% research and experimentation credit for qualified small corporations	-0.1	-0.4
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Qualified small corporations would be entitled to an additional 10% credit for research and experimentation expenses (resulting in a total credit of 30%) during 1991.

(Revenue-Losing Provisions in Billions of Dollars)

	<u>1991</u>	<u>1991-1995</u>
B.4.c. Deduction for investment in qualified small corporations	-0.4	-7.3

Individuals would be allowed to deduct 25 percent of the purchase price of "qualified small business stock" purchased after December 31, 1990. The amount of the deduction for each individual per year would be limited to \$50,000. The individual would reduce the basis of such stock by the amount of the deduction.

"Qualified small business stock" would be defined as common stock of a qualified small corporation originally issued to an individual (either directly or through an underwriter) for money or other property (including debt, but not including stock of the corporation). It would not include stock transferred in exchange for services or issued in redemption of (or otherwise in exchange for) stock or any other equity interest that was issued prior to the effective date.

The deduction would be recaptured as ordinary income in the same manner as depreciation recapture. In addition, any of four other events would trigger recapture of an individual's deduction: (i) the death of the individual within 2 years of purchasing the stock (to prevent deathbed transfers for stock that receives a step-up in basis at death); (ii) transfer by the individual to an IRA or other benefit plan; (iii) transfer to a charity (the recapture is accomplished by denying a charitable deduction for the amount of the deduction allowed for qualified business stock), or (iv) failure of the corporation to continue to meet the definition of "qualified small corporation" for reasons other than growth of the corporation or participation in a tax-free reorganization transaction.

Individuals would be allowed to claim deductions only for amounts that they are "at-risk" with respect to the investment. The deduction would not be allowed in computing

(Revenue-Losing Provisions in Billions of Dollars)

1991 1991-1995

the alternative minimum tax. If the individual is subject to the alternative minimum tax, he would not have to reduce his basis in the stock by the amount of the deduction. The deduction would not be allowed to trusts, estates, or dependent children.

To prevent abuse, an excise tax would be imposed on corporations that during the 2 years after issuing the qualified business stock either (i) failed to satisfy the active trade or business requirement, or (ii) redeemed a substantial amount of stock without a good business purpose for the redemption. The amount of the tax would be equal to 5 percent of the fair market value of qualified business stock issued during the 2-year period.

B.4.d. Indexing investment in common stock --- -0.4

Individuals would increase the tax basis of common stock of a qualified small corporation, whether or not newly issued, acquired after September 30, 1990 and held for at least one year to reflect inflation occurring after December 31, 1991. The provision would expire December 31, 1995.

B.4.f. Expand election to expense certain depreciable
business property -0.5 -0.3

Corporations with total assets of not more than \$50 million would be allowed to elect to expense certain amounts in excess of current law limits set forth in section 179. Additional expensing may be provided for certain research and experimentation equipment. Revenue cost over the budget period will not exceed \$2.2 billion.

(Revenue-Losing Provisions in Billions of Dollars)

1991 1991-1995

B.4.g. Reduce corporate tax rate phase-out of benefit
 of lower tax brackets -0.1 -0.5

For corporations with taxable income in excess of \$100,000, the amount of tax would be increased by the lesser of 2.5 percent of such excess or \$11,750. Thus, a corporation would not be subject to the flat income tax rate of 34 percent until the corporation has taxable income of \$570,000 or more.

B.4.h. Additional incentives to promote growth --- -0.6

In addition to the foregoing, the Agreement includes additional growth incentives as may be mutually agreed with a revenue cost of \$600 million over the 5-year budget period.

B.5. Earned Income Tax Credit -0.1 -5.0

Under the agreement, the earned income tax credit would be increased at a revenue cost of \$5 billion during the period 1991-1995. (This amount is in addition to any increases in the earned income tax credit under child care legislation.)

(Revenue-Raising Provisions in Billions of Dollars)

	<u>1991</u>	<u>1991-1995</u>
C.1.a. Motor Fuels Taxes	5.4	45.0

Increase the excise taxes on gasoline, diesel, and special motor fuels by 5 cents per gallon effective on December 1, 1990, and 10 cents per gallon effective on July 1, 1991 with floor stocks taxes being imposed.

Each State is to receive highway account apportionments and allocations equal to at least 95 percent of its contribution attributable to increased revenue.

C.1.b. Tax on Certain Refined Petroleum Products	1.4	11.8
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Effective January 1, 1991, a tax would be imposed at a 2 cent per gallon rate on refined petroleum products including gasoline, diesel fuel, aviation gasoline and jet fuel kerosene and residual fuel oil. Products not used as fuel, such as asphalt, lubricants, waxes and feedstocks, would not be taxed. A floor stocks tax will be imposed.

In general, taxes would be paid by refiners of refined petroleum products and importers. Imported fuels are taxed, and exported fuels are exempt from tax.

Fuels sold for use in manufacturing (including agriculture) would be exempt from tax. Manufacturing would be defined to include all steps in the processing, conversion, or fabrication of raw, unfinished, or semifinished materials into a packaged and finished article of tangible personal property. The exemption would not apply to such things as transportation (including transportation in connection with manufacturing or agriculture), construction, retail trade, wholesale trade, or financial or other services.

C.2. Tobacco Excise Taxes	0.6	5.9
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The agreement would increase by 25 percent the current excise taxes on all tobacco products, including cigarettes, cigars, chewing tobacco, snuff, and pipe tobacco (e.g., increase the tax on a pack of 20 small cigarettes from 16 cents to 20 cents per pack), effective January 1, 1991. Further, the agreement would increase by the same dollar amount as the previous 25-percent increase the excise taxes on all tobacco products (e.g.,

(Revenue-Raising Provisions in Billions of Dollars)

increase the tax on a pack of 20 small cigarettes from 20 cents to 24 cents per pack), effective January 1, 1993. Finally, the agreement would impose floor stocks taxes at the time of each rate increase.

	<u>1991</u>	<u>1991-1995</u>
C.3. Increase Excise Taxes on Distilled Spirits, Beer, and Wine.....	1.5	10.0

In developing the \$10 billion target, the Summit leadership contemplated a distribution of tax changes, effective January 1, 1991, roughly as follows:

- (1) The distilled spirits tax rate by \$1.50 per proof gallon, from \$12.50 per proof gallon to \$14.00 per proof gallon.
- (2) The tax rate on beer from \$9.00 per barrel (16 cents per six pack) to \$18.00 per barrel (32 cents per six pack).
- (3) The tax rate on wine will generally be increased by 22 cents per bottle as follows:
 - (a) Wine with up to 14 percent alcohol content (commonly referred to as table wine) from \$0.17 per wine gallon (3 cents on a 750-milliliter bottle) to \$1.77 per wine gallon (25 cents on a 750-milliliter bottle).
 - (b) Wine with 14 to 21 percent alcohol content (commonly referred to as fortified wine) from \$0.67 per wine gallon (13 cents on a 750-milliliter bottle) to \$1.77 per wine gallon (35 cents on a 750-milliliter bottle).
 - (c) Wine with 21 to 24 percent alcohol content from \$2.25 per wine gallon (45 cents on a 750-milliliter bottle) to \$3.35 per wine gallon (67 cents on a 750-milliliter bottle).
 - (d) Artificially carbonated wine from \$2.40 per wine gallon (48 cents on a 750-milliliter bottle) to \$3.50 per wine gallon (70 cents on a 750-milliliter bottle).

(Revenue-Raising Provisions in Billions of Dollars)

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A domestic small producer exemption from the above rate increases (i.e., present law rates would remain in effect with respect to such producers) would apply to the first 100,000 gallons of wine produced by wineries with total production for the calendar year not exceeding 200,000 gallons and to the first 30,000 barrels of beer produced by breweries with total production for the calendar year not exceeding 60,000 barrels. Additional changes will be made to reach a revenue target of \$10 billion over the period 1991-1995. Appropriate floor stocks taxes will be imposed.

C.4. Luxury Excise Tax 0.2 1.9

Impose a 10-percent excise tax on the portion of the retail price of the following items that exceeds the thresholds specified below.

- (1) Automobiles above \$30,000 -- An automobile is any passenger automobile manufactured primarily for use on public streets, roads, and highways that is rated at 6,000 pounds unloaded gross vehicle weight or less. This includes trucks and vans, except that only trucks and vans with a loaded gross vehicle weight of 6,000 pounds or less are subject to this tax. (No weight limitation applies to limousines.) Also, the tax does not apply to the sale of any passenger vehicle for use by the purchaser exclusively in the active conduct of a trade or business of transporting persons or property for compensation or hire.
- (2) Private boats and yachts above \$100,000 -- Boats and yachts that are used exclusively in a trade or business (except for leasing, rental, business entertainment or other recreational purposes) are exempt from this tax.
- (3) Jewelry above \$5,000 -- The tax applies on a item-by-item basis. Custom fabrication of jewelry also is subject to this tax. Watches are included as jewelry.
- (4) Furs above \$5,000 -- The tax applies to items made from fur or in which fur is a major component. It does not apply to leather or to artificial fur.

This tax applies only to the first retail sale of newly manufactured items subject to the tax occurring on or after January 1, 1991. This tax would apply to these items upon their importation into the United States, unless the item is being imported by someone in

(Revenue-Raising Provisions in Billions of Dollars)

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the trade or business for subsequent retail sale (in which instance the subsequent retail sale would be subject to tax). This tax does not apply to exported items.

Exemptions - The tax on automobiles and boats would not apply to the sale of those items to a State or local government for use exclusively in police or other law enforcement activities or to any person for use exclusively in providing emergency medical services.

C.5. Ozone Depleting Chemical Excise Tax 0.1 0.5

In June of 1990, the Montreal Protocol on Substances that Deplete the Ozone Layer was amended to expand the list of controlled chemicals and to make other changes. The list of controlled chemicals was expanded to include carbon tetrachloride and methyl chloroform, among others. Under the amendments to the protocol, consumption and production controls are not applicable to carbon tetrachloride prior to January 1, 1995; consumption and production controls are not applicable to methyl chloroform prior to January 1, 1993; and consumption and production controls are not applicable to CFC-13, CFC-111, CFC-112, CFC-211, CFC-212, CFC-213, CFC-214, CFC-215, CFC-216, and CFC-217 prior to January 1, 1993.

The agreement would add carbon tetrachloride, methyl chloroform, CFC-13, CFC-111, CFC-112, CFC-211, CFC-212, CFC-213, CFC-214, CFC-215, CFC-216, and CFC-217 to the list of taxed chemicals, effective January 1, 1991.

C.6 Loss Deductions and Salvage Values for Insurance
Companies 0.3 1.1

The agreement would reduce the deduction allowed to property and casualty insurance companies for losses incurred, both paid and unpaid, by estimated recoveries of salvage (including subrogation claims) attributable to such losses, whether or not the salvage is treated as an asset for statutory purposes. The provision would apply to taxable years beginning after December 31, 1989. (The change would be treated as a change in the taxpayer's method of accounting requiring a spread of the adjustment over a period not to

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exceed eight years. The amount of the adjustment is the difference between the amount of unreduced loss reserves at the end of the taxable year immediately preceding the first taxable year beginning after December 31, 1989, and the amount of the reduced loss reserve determined under this proposal as of the beginning of the first taxable year beginning after December 31, 1989.)

C.7. Foreign Compliance Provisions: Information
Reporting and Related Provisions of the Foreign
Tax Equity Act (H.R.4308/S.2410)

--- 0.3

The agreement includes two provisions from the Foreign Tax Equity Act of 1990, which is pending in the House as H.R. 4308 and in the Senate as S. 2410.

a. Apply the information reporting and related provisions of section 6038A, as amended in 1989, to any action the time for performance of which is after the date of enactment of the agreement, without regard to the tax year involved. The 1989 amendments to section 6038A expanded the scope of reporting requirements applicable to any foreign-owned domestic corporation (as well as any foreign-owned foreign corporation that conducts a trade or business in the United States) with respect to transactions with related parties, added a recordkeeping requirement with respect to such transactions, increased monetary penalties related to such requirements, and enhanced the enforceability of IRS summonses pertaining to such transactions (by, among other things, adding a special noncompliance rule applicable to such summonses). Under the agreement, the increased monetary penalties apply only to noncompliance that occurs or continues after enactment, and the special noncompliance rule applies only with respect to summonses that are issued after enactment. In addition, the new recordkeeping requirement only applies to records that were in existence on March 20, 1990.

b. Apply the information reporting and related provisions of section 6038A, as amended in 1989, to any foreign corporation that conducts a trade or business in the United States, and extend the application of those provisions to all tax-related items, not only transactions with related parties. Under the agreement, the extended scope of those provisions applies to any act in the time for performance of which is after the date of enactment, without regard to the tax year involved.

(Revenue-Raising Provisions in Billions of Dollars)

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The agreement includes the following additional provisions:

a. Statute of limitations: The statute of limitations would be extended in certain situations where the IRS has issued a special summons to any corporation. The statute of limitations would in addition be tolled if the Justice Department has sought to enforce the summons in court or the taxpayer has moved to quash the summons. Only one summons issued during an examination may trigger such extension and tolling.

b. Penalty: The current law overvaluation penalty would be broadened to cover large understatements (as well as large overstatements) in valuation, and also would be applicable to services. In addition, the overvaluation penalty would be revised to cover large section 482 adjustments (those in excess of \$10 million per taxable year). As under present law, the reasonable cause exception would continue to apply.

c. Section 6103: Clarify that current restrictions against disclosure of taxpayer information by IRS employees and agents cover people (such as experts) who provide services to the IRS.

d. The Treasury Department and GAO would be required to study various issues relating to transfer pricing and compliance.

e. The IRS would be required to revise certain procedures to ensure effective handling of section 482 cases.

C.8. Amortize Policy Acquisition Expenses

of Insurance Companies 1.5 8.0

Effective September 30, 1990, insurance companies would be required to amortize policy acquisition expenses on a straight-line basis over a period of 10 years. Policy acquisition expenses would be defined for each category of insurance contract as a percentage of total premiums (net of reinsurance premiums) for that category of contract. Separate categories are provided for annuity contracts, group life insurance contracts, and for all other life insurance contracts and noncancelable or guaranteed renewable accident and health insurance contracts. Reinsurance contracts are included in each

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category. Contracts entered into under qualified pension plans are generally excluded from the provision.

Acquisition expenses subject to amortization are deemed percentages of total premiums according to the following schedule:

Group Life.....	1.65%
Annuities.....	1.40%
Other Life and Noncancelable or Guaranteed Renewable Accident & Health.....	6.25%

For cancelable accident and health insurance contracts and other similar contracts, the reserves of life insurance companies for unearned premiums and for premiums received in advance (a) would be reduced by 20 percent, and (b) would include in income over a 6-year period 20 percent of such reserves as of the last day of the first taxable year ending on or after September 29, 1990. For noncancelable or guaranteed renewable accident and health insurance contracts, clarify that the reserves of property and casualty insurance companies are to be determined under the present-law rules applicable to life insurance companies. The special treatment of acquisition expenses of life insurance companies under the adjusted current earnings provision of the corporate alternative minimum tax would be repealed.

For a taxable year that includes September 30, 1990, the agreement would apply the amortization requirement only with respect to the portion of premiums deemed attributable on a pro rata basis to the portion of the taxable year that occurs after September 29, 1990. The agreement would not treat the amortization of acquisition costs as a change in a method of accounting. The provisions relating to reserves and the provision relating to the alternative minimum tax would apply to taxable years beginning after September 29, 1990.

C.9. Leaking Underground Storage Tank (LUST) Trust Fund . . 0.1 0.6

Beginning October 1, 1990, extend the Leaking Underground Storage Tank Trust Fund taxes for five years with no Trust Fund revenue ceiling. As under present law, excise taxes of 0.1 cent per gallon will be imposed on gasoline, diesel fuel, aviation, special

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1991 1991-1995

motor fuels, and fuel used on inland waterways. Receipts from the taxes will be deposited in the Leaking Underground Storage Tank Trust Fund.

C.10. Increase Airport and Airway Trust Fund Excise Taxes. . . 1.3 11.8

Effective January 1, 1991, increase the following Airport and Airway Trust Fund excise taxes: air passenger ticket tax from 8 percent to 10 percent; domestic air cargo tax from 5 percent to 6.25 percent; noncommercial aviation gasoline tax from 12 cents per gallon to 15 cents per gallon; noncommercial aviation jet fuel tax from 14 cents per gallon to 17.5 cents per gallon. (The international departure tax would remain at \$6 per person.) The tax reduction trigger would be repealed.

Revenues from the current aviation tax rates would continue to go to the Airport and Airway Trust Fund. Revenues from the increased tax rates (but not the extension) would go to the General Fund.

C.11. Increase Harbor Maintenance Excise Tax 0.3 1.8

Increase the harbor maintenance excise tax from 0.04 percent to 0.125 percent, effective January 1, 1991. As under present law, the tax will be imposed on the value of commercial cargo loaded or unloaded at U.S. ports and on commercial ship passenger fares. Revenues from the tax will continue to be transferred to the Harbor Maintenance Trust Fund.

C.12. IRS enforcement initiatives 3.0 9.4

The agreement would require IRS management reforms and provide additional funding for IRS audit and collection efforts to meet a revenue target of \$9.4 billion for the 5-year budget period. The agreement anticipates specific appropriations to meet the revenue target.

C.13. Reversions of Excess Pension Assets 0.5 1.0

(Revenue-Raising Provisions in Billions of Dollars)

1991 1991-1995

1. General Rule. The current law 15% excise tax on reversions of excess pension assets to the employer would be raised to 20%. In addition, the employer would be required to transfer a cushion equal to 20% of the excess to a new retirement plan. If the employer fails to establish any new plan, then an additional excise tax equal to 20% of the excess would be applied (this additional 20% excise tax would not apply if the employer is in bankruptcy liquidation). (Retirees are not treated as pension plan participants.)

2. Special Rule to Encourage Provision of Additional Benefits to Retirees. If the employer provides benefit increases to retirees as a part of the plan termination transaction, then the 20% cushion would be reduced to 15%.

Allow certain limited annual transfers of assets from ongoing pension plans to pay for retiree health benefits subject to certain conditions:

-- Transfers could not reduce pension plan assets below the level specified in the current law full funding limitations (i.e., below the point where further pension contributions are not permitted). Transfers could in no event reduce plan assets below the greater of 125% of current liability or projected benefit obligations.

-- All participants in the ongoing plan are immediately vested in 100% of their benefits.

-- The employer could not decrease expenditures on retiree health expenses for a period of 5 years.

-- The transfer could not be for the benefit of key employees of the employer.

-- Advance notice of the transfer would have to be given to the Federal government and to affected participants.

-- Conforming ERISA changes would be made.

C.14. Extend Medicare to State and Local Employees 0.0 5.2

(Revenue-Raising Provisions in Billions of Dollars)

1991 1991-1995

Extend coverage under the Medicare system to all employees of State and local governments not currently covered under the system. Effective January 1, 1992, subject the wages of such employees to the Medicare (HI) portion of tax under the Federal Insurance Contributions Act phased-in to raise revenues of \$5.2 billion over the 5-year budget period.

C.15. Deny Deduction for Interest Paid by Corporations to the IRS on
Tax Obligations 1.4 3.9

Deny a deduction for interest paid by a corporation to the IRS on underpayments relating to Federal income tax (and, if necessary to meet the revenue target, other types of Federal tax). The provisions would be effective for payments made, in the case of a cash basis taxpayer, or interest accrued, in the case of an accrual basis taxpayer, on or after January 1, 1991, regardless of the taxable period (if any) to which the interest payment may relate. The present-law procedures permitting a taxpayer to make a payment of contested tax and interest thereon after a deficiency notice has been mailed, while continuing to contest the asserted deficiency in Tax Court, would not be changed. Provided the revenue target can be satisfied, consideration will be given to providing appropriate relief in cases in which there has been an extraordinary delay in the issuance of a statutory notice of deficiency or assessment beyond the control of the taxpayer.

C.16. Certain business revisions. 0.2 2.0

The agreement provides for the inclusion of certain revisions in business tax provisions as may be mutually agreed upon to raise approximately \$2 billion during the period 1991-1995.

C.17. Limitation on Itemized Deductions. 0.5 18.0

Effective January 1, 1991, reduce total otherwise allowable itemized deductions (other than medical expenses and investment interest expense) by an amount equal to three percent of the amount of a taxpayer's adjusted gross income (AGI) in excess of \$100,000. In no event, however, would total otherwise allowable itemized deductions (excluding medical expenses and investment interest) be reduced by more than 80 percent.

(Revenue-Raising Provisions in Billions of Dollars)

1991 1991-1995

In computing the amount of the reduction of total itemized deductions under the proposal, all present-law limitations applicable to such deductions first would be applied and the otherwise allowable total amount of deductions would then be reduced until this rule. An appropriate adjustment will be provided for alternative minimum tax purposes.

C.18. Increase the Cap on Wages Subject to the
Medicare Hospital Insurance Payroll Tax. 0.9 13.0

Effective January 1, 1991, the agreement would increase to \$73,000 the cap on wages and self-employment income considered in calculating the tax liability for the Medicare hospital insurance (HI). In 1990, the HI tax is 1.45 percent of the first \$51,300 of wages and is paid by both the employer and the employee.

C.19. Extend social security (OASDI) coverage to
certain State and local employees. 2.0 11.7

Effective January 1, 1991, OASDI coverage would be mandatory for State and local government employees not participating in a public employee retirement system in conjunction with their current State or local employment.

C.20. Stabilize Payroll Tax Deposit Rules 1.0 0.0

Under the Omnibus Budget Reconciliation Act of 1989, employers who have accumulated \$100,000 or more of withheld employee taxes must deposit these taxes by the close of the next working day in 1990, 1993, and 1994. The employer must make the deposit within 2 days in 1991, and within three days in 1992. The agreement would make the deposit requirements consistent for all years by requiring that the deposit be made by the close of the next working day.

Note: Child care provisions (to be offset by extension of the telephone excise tax) to be included separately and subject to a subsequent authorization bill.

III. BUDGET PROCESS REFORM AND ENFORCEMENT

- o Extend the G-R-H sequester system with new deficit targets for five years, and a deficit reduction path intended to reach zero (balance) by 1996.
- o Pay-as-you-go for entitlements and revenues. All entitlement or revenue legislation passed by Congress after adoption of this Summit Agreement must be deficit neutral. This will prevent entitlement or revenue policy actions from causing a sequester on discretionary accounts.
- o Require reconciliation instructions to cover five years.
- o Discretionary caps on budget authority and outlays for each year, 1991-1993, for each of the following three categories: defense; international; and domestic. Combine defense, international, and domestic discretionary into one category in '94 and '95 with one cap on budget authority and outlays in each of these years.
- o Automatic across-the-board offset triggered within each of the categories (defense; domestic discretionary; international discretionary) to the extent any appropriation bill (including supplementals) violates either the budget authority or outlay cap for that category (trigger 15 days after enactment if bill enacted before July 1, lookback if after July 1).
 - For a Presidentially-declared emergency request in supplementals or regular appropriations bills, this across-the-board offset would not apply to the extent of the funds requested by the President (only if the Congress agreed in the Act that it was for an emergency). If Congress proposes and the President requests new items or additional amounts for the supplemental, the offset would not apply to the items or additions.
- o Add categorical sequester for mandatories; add reconciliation for revenues:
 - Mandatory: Automatic across-the-board offset within mandatory category triggered to the extent any legislation is enacted that adds mandatory spending that is not fully offset. Change limits on sequester for existing mandatory sequester base

from two percent to four percent. The offsets are triggered 15 days after enactment if the bill is enacted before July 1; look back sequester is triggered if bill is enacted after July 1.

-- Revenues: If revenue decreases are not offset, then automatic reconciliation instruction by Budget Committee to Ways and Means, Finance, or relevant offending committee to provide offset.

-- Sixty vote point of order would apply to all revenue losing bills.

- o Include social security in the consolidated budget, but remove social security operating surplus from G-R-H baseline, which will prevent technical or economic changes in social security estimates from causing a sequester on discretionary accounts.
- o Include all deposit insurance accounts in the consolidated budget, but remove those accounts from G-R-H baseline, which will prevent technical or economic changes in deposit insurance accounts from causing a sequester on discretionary accounts. (Deposit insurance accounted for an estimated 99.6% of the net mandatory technical changes in 1990.)
- o Two revisions of economic assumptions:
 - Update assumptions at the time of the Summit Agreement, thus holding appropriations harmless for 1991.
 - Update assumptions at the end of March 1991. The end of March economic assumptions will be used in calculating the sequester in '92, thus holding appropriations harmless for economic changes in FY 1992.
- o Credit reform:
 - Begin in '92 thus holding harmless discretionary accounts for the new scoring method in '91.
 - Adjust discretionary caps for current service credit levels scored under credit reform in '92 and '93, thus holding harmless discretionary accounts to changes in scoring in these years.

- Hold adjusted baseline harmless for revisions in credit reform subsidy estimates in '92 and '93.
 - o Hold cap harmless for IMF.
 - o Hold cap harmless for Egyptian debt forgiveness (See Section VI).
 - o Hold harmless for Desert Shield funding requirements (see Section VI).
 - o Hold cap harmless for contributions to DoD.
 - o Sixty vote points of order would apply to budget resolution and to appropriation bills that exceed caps.
 - o Sections 302 and 311 points of order would be extended to out-years.
 - o Budget authority and outlays caps for 1991-1995 (see Table 2A).
 - o New methods to protect discretionary appropriations from sequester:
 - In 1991, discretionary appropriations held completely harmless for technical and economic adjustments.
 - In 1992, discretionary appropriations held completely harmless for economic adjustments, and held harmless for technical reestimates for caps in the outlay amounts of:
 - \$2.5 billion for domestic;
 - \$1.5 billion for international; and
 - \$2.5 billion for defense.
- The G-R-H cushion will be \$15.0 billion less any of the above amounts that are used.
- Aggregate budget authority for the three categories for 1991, 1992, and 1993 (together) may exceed the caps by not more than 0.4 percent, provided that not more than 0.2 percent may be applied to any one category.

-- In calendar 1993, a meeting will be convened of the two Budget Committee Chairmen and Ranking Members, the two Appropriations Chairmen and Ranking Members, the Chairmen of Ways and Means Committee and the Senate Finance Committee and their Ranking Members, the Speaker, House and Senate leaders and the Director of the Office of Management and Budget, the Secretary of the Treasury and the Chief of Staff of the White House. They will review technical and economic assumptions for fiscal 1994. Any adjustments the group unanimously agrees upon will be legislatively pursued jointly and expeditiously. In 1994, and 1995, baseline held completely harmless for economic and technical adjustments enacted in accordance with unanimous leadership group recommendations. Additionally, technicals adjusted for 1993 so that they do not cause or contribute to a 1993 sequester.

-- In 1993, 1994, and 1995, discretionary appropriations held harmless for technical estimates for caps in the outlay amounts of:

-- \$2.5 billion for domestic;

-- \$1.5 billion for international; and

-- \$2.5 billion for defense.

The G-R-H cushion will be \$15.0 billion less any of the above amounts that are used.

-- In all years, 1991 through 1995, discretionary appropriations held harmless for new or expanded mandatory spending by categorical sequester on mandatories and for new revenue losing measures by pay-as-you-go and automatic reconciliation instructions to provide offset.

o Cancellation of the FY 1991 sequester order will be accomplished when a reconciliation bill and appropriations bills reflecting agreement are enacted (as stated in section IV, Agreement Concerning Enactment).

o Protect Social Security by establishing, in the House, a point of order against legislation that would violate either the 5-year or 75-year actuarial balance of the funds and, in the Senate, by establishing a 60 vote point of order against legislation that would violate the 5-year actuarial balance. In addition, a study must be submitted by the Finance Committee on the 75-year actuarial balance effect. A feedback mechanism would also apply to such legislation.

- o GSEs: Treasury shall submit a report and proposed legislation to Congress on the financial soundness of Government-sponsored enterprises. CBO will also prepare a report on the types of risks that each GSE assumes. The appropriate committees will study GSE proposals and report legislation ensuring GSEs financial soundness by September 15, 1991. If such legislation is not reported, the leadership of the House and Senate commit to provide for the consideration of Administration proposals by the end of the first session of the 102nd Congress.
- o Scorekeeping -- adopt scorekeeping guidelines to be included in report entitled "Scorekeeping Guidelines for 1991."
- o Extend statutory limit on the public debt for 5 years.
- o The credit reform provisions of the Budget Summit Agreement include:
 - Makes the subsidy component of Federal direct and guaranteed loans the focus of credit budgeting.
 - Defines the subsidy to be the cost to the Government of a direct loan or loan guarantee.
 - Except for entitlements, subsidy budget authority will be controlled by appropriations.
 - Treats the non-subsidy cash flows as a means-of-financing the deficit and excludes them from the calculation of the budget deficit.
 - Provides for adjustment of budget baselines and allocations to reflect changes in accounting.
 - Prohibits Federal agencies from making or modifying a direct or guaranteed loan unless budget authority is appropriated for subsidy associated with the loan, guarantee, or modification.

IV. AGREEMENT CONCERNING ENACTMENT

UNDERSTANDING RE: TIMING & PROCESS FOR ENACTMENT BUDGET SUMMIT AGREEMENT -- 9/30/90

The President and the Bipartisan Congressional Leadership (The Speaker of the House, the Senate Majority Leader, the Senate Republican Leader, the President Pro Tempore of the Senate, the House Majority Leader, and the House Republican Leader) agree to the following undertakings. These represent commitments to good faith efforts; they do not purport to amend or suspend rules of the House or Senate; nor do they in any way affect Constitutional powers and prerogatives of the parties.

- (1) The President and the Bipartisan Congressional Leadership agree to engage in a coordinated bipartisan effort seeking to enact the Budget Summit Agreement by Friday, October 19, 1990.
- (2) Their coordinated effort shall seek to produce support for the Agreement by a majority of both Democrats and Republicans in both the House and the Senate.
- (3) Joint announcement of the Agreement shall occur on September 30th.
- (4) Immediately following joint announcement, a continuing resolution authorizing appropriations through October 5, and suspending sequester through October 5, shall be made in order in both houses of Congress -- with a view toward its prompt enactment.
- (5) The Appropriations Committees shall revise their 302(b) allocations to be consistent with the Budget Summit Agreement as reflected in the budget resolution by October 10.

(6) Prior to the expiration of the continuing resolution on October 5, both houses shall pass the 1991 budget resolution with detailed reconciliation instructions fully reflecting the Budget Summit Agreement and no other matters. Such budget resolution shall be voted upon prior to the expiration of the continuing resolution on October 5. Such budget resolution shall instruct appropriate Committees to report, with or without a recommendation, all legislation necessary to implement fully the Budget Summit Agreement (except appropriations) by October 12.

(7) The President has stated that his intention is that no further continuing resolution (beyond October 5) shall be signed until a budget resolution with reconciliation instructions fully reflecting the Budget Summit Agreement shall have passed both houses of Congress.

(8) Upon passage of a budget resolution fully reflecting the Budget Summit Agreement, a second continuing resolution -- authorizing appropriations until October 19 and suspending sequester until October 19 -- shall be voted in both Houses.

(9) The Budget Summit Agreement shall be fully legislated (except for appropriations) through a Reconciliation bill.

(10) Throughout the conference, the reconciliation Conference report shall be reviewed by the parties to this Agreement to assure its consistency with the Budget Summit Agreement. If it is deemed to be inconsistent, remedial efforts shall be made by all parties to assure consistency. Such efforts shall include bi-partisan leadership amendments as necessary.

(11) On or before October 19, 1990, a Conference Report on the reconciliation bill that fully reflects the Budget Summit Agreement shall be voted in both houses of Congress.

(12) The parties to this Agreement shall work together to support all amendments and provisions consistent with the Budget Summit Agreement and to oppose all amendments and provisions inconsistent with, or unrelated to, the Budget Summit Agreement.

(13) Conference reports on all appropriations bills consistent with the Budget Summit Agreement shall be voted in both houses by October 19.

(14) The President has stated that it is his intention that no bill suspending sequester beyond October 19 shall be signed until the following have occurred: a) a reconciliation conference report on a bill fully reflecting the Budget Summit Agreement has been passed by both houses of Congress; and b) a reconciliation bill and all 13 appropriations bills consistent with the Budget Summit Agreement have been presented to the President.

(15) To the maximum extent possible, all parties shall employ "Scorekeeping Guidelines for FY'91" (included as part of this Agreement). Nonetheless, all scoring issues related to this agreement shall be determined by OMB for the Executive Branch and by the Budget Committees for the Congress -- with the understanding that parties from each branch shall respect the appropriateness of the other's using its own scoring conventions and scoring organizations for interpretation of consistency with this Agreement. In no case will payment timing shifts or other artificial savings measures be deemed acceptable for deficit reduction scoring unless they have been specifically approved by all parties to this Agreement.

(16) The parties to this Agreement shall, in their respective areas of jurisdiction, support waiving points of order that might impede the implementation of this Agreement.

30-Sep-90
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TABLE V.A.--ECONOMIC ASSUMPTIONS
(calendar years)

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Nominal GNP: Level (\$ billions).....	5201	5486	5807	6199	6670	7141	7607
Percent change, 4th/4th.....	5.4	6.0	6.0	7.3	7.5	6.8	6.4
Real GNP, percent change, 4th/4th.....	1.6	0.7	1.3	3.8	4.1	3.7	3.5
GNP deflator, percent change, 4th/4th.....	3.8	5.2	4.6	3.4	3.2	3.0	2.8
Unemployment rate.....	5.2	5.6	6.1	6.4	5.6	5.3	5.1
Interest rates:							
91-day Treasury bills.....	8.1	7.7	7.2	5.7	4.9	4.4	4.2
10-year Treasury notes.....	8.5	8.7	8.3	7.1	6.1	5.6	5.3
Domestic oil prices (\$/bbl).....	17.88	21.15	24.15	21.10	21.79	22.41	23.02

30-Sep-90

TABLE V.B.--MAJOR TECHNICAL REVISIONS
(outlays in billions)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Bank Insurance Fund.....	3.7	4.5	1.8	0.5	0.8
Resolution Trust Corporation.....	25.9	29.5	18.8	-14.2	-25.9
Credit Reform;					
International Discretionary:					
BA.....	--	-0.1	-0.1	-0.2	-0.2
Outlays.....	--	0.3	-0.2	-0.1	0.0
Domestic Discretionary:					
BA.....	--	1.6	1.7	1.7	1.8
Outlays.....	--	1.1	1.3	1.3	1.3
Mandatory:					
BA.....	--	1.5	-0.3	-1.1	-4.3
Outlays.....	--	3.5	2.2	-0.2	0.6
Interest (BA & Outlays).....	--	0.2	0.5	0.6	0.6

VI. MISCELLANEOUS ADDITIONAL UNDERSTANDINGS

- o Scorekeeping guidelines reflecting general budget accounting conventions that will be used in measuring compliance with the Budget Agreement will be included in the reports accompanying the budget resolution presenting this agreement. Attached to the scorekeeping guidelines will be a complete listing of budget accounts included within each budget agreement category.
- o Additional funding for losses and working capital requirements of the Resolution Trust Corporation are included in this agreement and displayed on-budget. However, GRH baselines will be held harmless for these requirements to remove uncontrollable mandatory spending from sequester calculations.
- o International discretionary spending will be held harmless for the periodic assessment to the International Monetary Fund (IMF). The U.S. and other IMF countries have agreed to a 50% increase in special drawing rights (SDR). The U.S. participation will require budget authority in 1992, but will not result in outlays. Budget authority will be exchanged for SDRs of the IMF, a monetary asset of equal value.
- o Baselines will be held harmless for Egyptian debt forgiveness. International discretionary budget authority and outlays will be adjusted for not more than the amounts specified below as a result of debt relief proposed by the President and approved by the Congress. New scoring procedures will be developed by OMB and CBO that reflect the real value of debt relief proposals. These procedures will be developed for use at least in time for the FY '92 budget.

(\$ billions)

	<u>FY '91</u>	<u>FY '92</u>	<u>FY '93</u>	<u>FY '94</u>	<u>FY '94</u>
BA.....	.157	.177	.205	.246	.300
Outlays.....	.207	.294	.361	.446	.522

o Treatment of Desert Shield Supplemental:

- The amount of the presumed level in the absence of hostilities is \$15 billion. This amount is in addition to the total Defense level proposed by Senator Nunn.
- It is assumed that half of the proposed supplemental will be financed by contributions from other countries.
- It is assumed that the remainder of this proposed supplemental will not require offsets because the Summit Agreement takes into account the supplemental costs. This supplemental will have no matters extraneous to the President's request. All matters must pertain solely to Desert Shield.
- In the event of hostilities, the President may submit a dire emergency request for supplemental funding for Desert Shield purposes that will not be required to be offset. This supplemental, if needed, will contain no matters extraneous to the President's request. All matters must pertain to Desert Shield.

Defense (Function 050) Budget Levels

	<u>1991</u>		<u>1992</u>		<u>1993</u>	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
Nunn levels.....	289.1	297.0	291.6	295.0	291.8	292.0
Desert Shield						
Supplemental Total.....	15.0	11.5	--	2.8	--	0.6
Less: Contributions from						
other countries.....	<u>- 7.5</u>	<u>- 5.8</u>	<u>--</u>	<u>- 1.4</u>	<u>--</u>	<u>- 0.3</u>
Net Supplemental.....	7.5	5.7	--	1.4	--	0.3
Additional Desert Shield						
Supplemental in the						
Event of Hostilities.....	?	?	?	?	?	?

THE WHITE HOUSE

WASHINGTON

August 14, 1990

MEMORANDUM FOR KEY POLITICAL CONTACTS

FROM: DAVID M. CARNEY
SPECIAL ASSISTANT TO THE PRESIDENT AND
DIRECTOR, OFFICE OF POLITICAL AFFAIRS

SUBJECT: BUDGET SUMMIT UPDATE

In our continuing effort to provide you with current information we are sending you this information on the progress of the budget summit as outlined by the President during a press briefing on August 14.

The enclosed information outlines three basic points:

1. The President has provided the necessary leadership to bring together Congressional Democrats to deal with this critical issue.
2. After almost 100 days the Democrat Congress went on August recess without proposing a single item to reduce the \$100 billion federal deficit.
3. In fact, not only has Congress failed to provide a single idea to solve this huge deficit, they recently passed additional spending bills which were billions of dollars above and beyond the President's original request.

Clearly this issue should be put forward to the American public.

We thank you for your effort.

THE WHITE HOUSE

WASHINGTON

**Excerpts from President Bush's August 14, 1990
News Conference on the Budget**

"Our current budget or lack thereof constitutes a real threat to the economic well-being of our country. And in this case, the problem is a lack of action on the part of the Congress -- an abdication of responsibility that endangers our economic vitality and the jobs that go with it."

"I took the initiative in May in calling on the Democratic Congressional leaders to join me in a bipartisan summit on the budget."

"When the Democrats sought to hold the talks hostage over new revenues, I made the very difficult decision to put everything, including taxes, on the table to make those budget talks succeed."

"The Administration refrained from divisive rhetoric, worked in earnest, held meeting after meeting, without any preconditions ... We offered billions in additional spending cuts even as Congressional committees were voting out spending bills that would bust the budget."

"On July 26, both sides agreed to put budget plans on the table. We again had a complete proposal ready for negotiation. After weeks of good faith negotiating, we expected a specific Democratic plan in exchange."

"While the summit failed to move forward with specific solutions the Congress continued with counterproductive legislation. For example, the House has already passed ten appropriations bills, eight of which exceed my request for discretionary spending by \$14 billion -- and are \$25 billion higher than the budget for last year."

"And the Senate is asking that the taxpayer now pay up to \$150 million to finance their election campaigns. I oppose asking the public to pay for the re-election of Members of Congress, and I will veto any such bill that appears on my desk."

"Congress now has gone on recess. And 100 days after I called on the Democrats and Republicans in the Congress to work with me toward a bipartisan budget solution ... the Democrats have yet to offer one single proposal at the budget summit."

"I stand ready to work on this process as long as it takes to get a 5 year package which solves the problem. I have postponed what I think was a very important September trip to Latin America to focus on this issue."

"There are, however, a number of specific realities to be noted:

-- First, the Congress has the responsibility to pass a budget. But make no mistake: I will use that pen to veto any and every spending bill that busts the budget.

-- Second, if no budget agreement is reached, that means a sequester on October 1 of about \$100 billion. As painful as such deep cuts would be, I'm determined to manage them the best I can, knowing I've done all in my power to avoid them. So, the Democrats in Congress should know that if it comes to sequester, they will bear a heavy responsibility for the consequences."

-- Third, if the Congress really wants economic growth and increased government revenues, the place to start is not with tax increases, but with incentives for growth, investment and jobs -- I cite the capital gains area as one that would stimulate and be investment oriented.

-- Fourth, Congress must recognize the utter failure of their budget process to control spending. It must be reformed.

-- Fifth, our budget must maintain a defense posture consistent with the demands on American leadership in the world and the dangers we face.

-- And finally, the Democratic leadership of Congress must understand that the American people expect them to do their job -- to come forward with concrete proposals to cut the deficit. Our nation's fiscal problems are vitally important to America's future, and all of us have an obligation to address them."



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

ASSOCIATE DIRECTOR
FOR HUMAN RESOURCES,
VETERANS AND LABOR

8/7

~~Ann~~ Ed

This is an updated version of the Friday effort. The first version had a few minor errors:

- Some misstatements about the Housing bill that have been deleted; and
- an inadvertent "port" project in a Republican district (Grant - FL), which has been removed.

If you could toss the original, the Governor will finally have good information.

Thanks
Tom

Since President Bush called for bi-partisan budget negotiations, the Democratic-controlled House of Representatives has passed ten appropriations bills adding up to \$211 billion: \$25.119 billion over 1990 appropriations levels -- 13.5 percent increase, and \$14.348 billion above the amount the President asked for. A chart is attached summarizing the bills and examples of some of the wasteful spending follows:

SUMMARY

1990 Appropriations Spending	= \$186.5 billion
1991 Bush Appropriation Request	= \$197.3 billion
1991 Congressional (House) Appropriation Action	= \$211.6 billion

- o House Action is \$25 billion (13.5 percent) above last year's level of spending.
- o House Action is \$14 billion (7.2 percent) above the amount the President asked for.

Rev. 8/7/90

03-Aug-90

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**FY 1991 APPROPRIATIONS BILLS: HOUSE-PASSED BILLS COMPARED TO
FY 1990 ENACTED AND FY 1991 BUSH BUDGET
(BUDGET AUTHORITY AND OUTLAYS IN BILLIONS OF DOLLARS)**

<u>BILL</u>	<u>FY 1990 ENACTED</u>		<u>FY 1991 BUSH BUDGET REQUEST</u>		<u>HOUSE FLOOR</u>		<u>HOUSE FLOOR vs. 1990 ENACTED</u>		<u>LATEST HOUSE vs. 1991 BUSH BUDGET</u>	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
Commerce, Justice, & State 1/..	19.527	17.932	19.145	18.869	18.417	18.651	-1.110	0.719	-0.728	-0.218
District of Columbia.....	0.538	0.578	0.540	0.539	0.550	0.550	0.012	-0.028	0.010	0.011
Energy & Water.....	18.472	17.669	20.251	19.422	20.901	19.730	2.429	2.061	0.650	0.308
Foreign Operations.....	14.739	13.382	14.843	13.741	14.971	13.605	0.232	0.223	0.128	-0.136
Labor/HHS/Education 1/.....	44.243	48.909	45.705	52.232	50.579	53.924	6.336	5.015	4.874	1.692
Military Construction.....	8.244	8.760	9.058	8.743	8.598	8.787	0.354	0.027	-0.460	0.044
Rural Development, Agriculture.....	9.184	9.009	5.796	7.397	9.997	9.670	0.813	0.661	4.201	2.273
Transportation.....	12.612	27.876	11.377	28.324	12.599	29.665	-0.013	1.789	1.222	1.341
Treasury-Postal Service 2/.....	9.836	9.733	11.468	11.002	11.476	10.926	1.640	1.193	0.008	-0.076
Veterans Affairs, HUD, Independent Agencies.....	49.133	54.647	59.116	59.927	63.559	59.052	14.426	4.405	4.443	-0.875
TOTAL.....	186.527	208.496	197.301	220.198	211.648	224.560	25.119	16.065	14.348	4.364

Note: Detail may not add to totals due to rounding.

1/ Commerce/Justice/State and Labor/HHS/Education data for House floor include OMB estimates for unauthorized programs.

2/ FY 1990 enacted BA for Treasury/Postal adjusted to exclude \$1,254 million for lease-purchase projects authorized prior to FY 1990. FY 1991 Bush Budget Request outlays increased by \$344 million to reflect outlay estimates consistent with G-R-H outlay estimates.

APPROPRIATIONS

Energy/Water

- o The House and Senate voted to continue subsidies to power marketing administrations out west in areas which already enjoy the cheapest power in America. (Hatfield, Foley)
- o In the House, \$36 million was added to keep the Fast Flux Test Facility nuclear reactor operating in Hanford, Washington, for a purpose for which the reactor was not even designed. (Foley)
- o University of Alabama: House added \$10 million for the Biomedical Research Facility. (Bevill)
- o Mississippi State University: House added \$4.0 million for Diagnostic Instrument and Analysis Laboratory. (Whitten)
- o Riverfront Park, Charleston, West Virginia: The Corps has been directed to spend \$350,000 to build a park facility that other cities use their own funds to construct. (Byrd, Rockefeller)
- o Boudinot Harbor, Oklahoma: The Corps has been directed to spend an additional \$400,000 for dock facilities usually provided by private companies.
- o Wallisville, Texas: The corps has been directed to build, over its own objections, a \$70 million single-purpose water supply project that would sacrifice over 5,000 acres of pristine wetlands, (including over 3,000 acres of virgin cypress swamps). The purpose of this new expense is to provide heavily subsidized water to a local Texas community. Meanwhile, other American cities and towns bear this expense on their own, without Federal subsidies. (Brooks)
- o Garrison Diversion, North Dakota: The President's budget proposed terminating this uneconomic and environmentally damaging project, which would require over \$1 billion to complete. The irrigation component would benefit only about 400 farmers at an investment of \$6,000 to \$8,000 per acre to grow crops that are already heavily subsidized by the government. Hence its completion will only lead to higher government payments under the farm program. The Department of the Interior's Inspector General recently found that farmers would be unable to repay even the annual operation and maintenance expenses, which they are required by law to do. (Burdick, Conrad, Dorgan)

Transportation

Federal Highway "Demonstrations": The House and Senate combined added \$523 million worth of special earmarkings. Among the pet projects are the following two that supposedly "demonstrate" road safety, but are simply road construction projects:

- o \$4 million for a highway project between Paintsville and Prestonburg, Kentucky. The justification for the project is that it will demonstrate the benefits of improving highways in "mountainous areas."
- o \$20 million for four projects in Mississippi. The eventual costs for these projects will exceed \$320 million. (Whitten)

Treasury/P.O.

The GSA Federal Buildings Fund was established to build and renovate federal buildings. Yet Congress appropriates funds for such projects as:

- o Northern Arizona University, Flagstaff: Southwest Forestry Science Complex. Senate - \$5,000,000. (DeConcini)
- o University of Georgia: Dean Rusk Center for International and Comparative Law. Senate - \$1,000,000. (Fowler)
- o Christopher Columbus Center on Marine Research and Exploration, Baltimore, Maryland: Grant for planning and design. House - \$5,000,000. (Hoyer)

Agriculture and Rural Development

- o The bill passed by the House is \$4.2 billion over the President's request -- that's more than 72%!!
- o The House added \$250,000 for research on methods to improve the texture of sweet potatoes -- an idea proposed by an industry group. The industry group sponsor also obtained approval for research on sweet potato pox viruses by Agricultural Research Service scientists.
- o The House added \$175,000 of agriculture funds for a firm in New York to do a film on youth at risk.
- o \$500,000 for the University of Mississippi: Food Service Management Institute. (Whitten)

District of Columbia

- o Board of Education: \$15.1 million of Federal funding for a local school board. This is an unique, direct federal contribution for maintenance and improvement of the District's public schools. Since 1985, public school enrollment in the District has dropped by 6,376 students (pre-kindergarten through 12th grade). The District already receives \$56.0 million of its public school funding from Federal grants that are also available to other local school districts.

Supplemental Appropriations (For FY 1990; Passed 5/25/90)

- o In early March of 1990, President Bush sought \$800 million in emergency supplemental funds to help the world's newest democracies, Nicaragua and Panama. Nearly three months later the Democratic House and Senate perpetrated budgetary hijacking. The House and Senate waylaid the proposal and stuffed it with new spending. When they were done, the Congress added over \$1.3 billion for unrequested domestic spending.
- o By a vote of 246-160 (R 32-130; D 214-30), the House agreed to a Senate amendment to force a federal agency that is supposed to do ocean research to procure a fish farm in Arkansas. (Bumpers)
- o Congress added \$1.8 million for renovating a Great Lakes research vessel in Michigan (not in either the House- or Senate-passed bills). (Traxler)
- o The Senate added \$185 million for an FBI building likely to be housed in West Virginia that is not expected to be built for five years. (Byrd)
- o Congress added \$6 million for a wildlife park in Iowa (a provision that was not in either the House- or Senate-passed supplemental bills and was snuck in, in conference). (Neal Smith)
- o Congress added \$750,000 to buy a ferry vessel for American Samoa. (Inouye)

ENTITLEMENTS/AUTHORIZATIONS

Excellence in Education

- o In February 1989, President proposed the Educational Excellence Act, a bill to authorize seven educational improvement initiatives increasing flexibility in the system, at a cost of \$423 million for the first year.
- o Congressman Hawkins (D. Calif) sponsored H.R. 5115, adding dozens of new costly and bureaucratic categorical programs. Total cost: \$1.4 billion in budget authority for FY 1991.

Child Care

- o The President proposed an 8-page, \$9.4 billion bill.
- o The Senate doubled the cost. \$18 billion.
- o The House tripled the cost: \$28.9 billion and included 120 pages of child care regulation.
- o Key members: Sen. Kennedy, Sen. Dodd, Rep. Downey.

Foster Care Administrative Cost Reforms

- o Between FY 1981 and FY 1991, state claims for administrative costs have grown over 2,800 percent.
- o The Administration proposed limiting the growth to 10 percent a year, saving \$121 million in outlays.
- o Congress (Sen. Bentsen [D-Texas], Rep. Downey [D-New York]) have proposed program expansion without fixing the abuses. Total cost: \$426 million in outlays for FY 1991, and \$6.4 billion over FY 1991-95.
- o In the District of Columbia, 86 percent of foster care funds goes to administrative expenses and 14 percent goes to children. In D.C., per child:
 - \$22,050 is spent on city costs.
 - \$5,000 is spent on foster care.

Railroad Retirement Tax Diversion

- o In the last 10 years, Congress subsidized the Railroad Retirement Board to the tune of \$1.2 billion.
- o These subsidies will cost the Federal government over \$100 million in FY 91.
- o Congress extended this subsidy through FY 90. Sen. Baucus (D-Mont) who has a disproportionate number of railroad retirees in Montana, proposed legislation to extend this again this year.

1990 Farm Bill

The Administration sent to Congress in February a bill which would have continued the market-oriented farm support programs instituted by the successful 1985 farm bill. Moreover, in his FY '91 budget, the President proposed to reduce farm subsidies by \$1.5b this year. The Congress, in bills now out of both houses but not yet in conference, essentially rejected that proposal and raised subsidies above current levels.

- o Both the House and the Senate passed bills that set five year farm subsidy spending at around \$54 billion, close to \$20 billion over the amounts recommended by the President.
- o The House rejected a proposal by the Administration to eliminate government subsidies to people who earn more than \$100,000 per year. Thus, people who earn 3 times the average income for an American family of four will keep getting income supports from the government under the farm program. Similarly, the Senate rejected a cut-off of subsidies to those very large farmers who gross more than a half million dollars a year. Either of these proposals would have saved the taxpayer on the order of \$1 billion over five years.
- o The House also rejected a proposal to tighten loopholes in the farm laws. Payments are supposed to be limited to \$50,000 per person -- but big corporate farmers re-organize to evade the limit. Some farmers made almost \$1 million each in subsidies last year. The House voted no on a Republican amendment (by Rep. Conte) to close this loophole, and an amendment that would have saved close to three-quarters of a billion dollars over five years.
- o The House and the Senate voted against any reform in sugar subsidies, which cost American consumers more than

\$1.5 billion each year. The Administration had proposed a two cent per pound reduction in the sugar support price, but not even this modest adjustment was adopted. So American consumers will keep paying twice the world price to keep a handful of sugar producers wealthy.

- o The House voted "no" on an amendment to phase out honey support, even though it would have saved \$200 million between now and 1995. That's \$200 million for only a handful of beekeepers; eliminating their payments would not endanger the work of the vast majority of beekeepers.

**COMPARISON OF ADMINISTRATION AND
CONGRESSIONAL DEMOCRATIC
ACTIONS ON THE BUDGET SUMMIT**

Administration Actions

- May 6 -- The President calls the Bipartisan leadership of Congress to the White House to outline the need for a budget summit.
- May 15 -- The President meets with the Congressional budget negotiators at the White House to present the reasons for the summit meetings.
- Early
June -- After sitting through hours of meetings that largely provide a forum for Democratic Committee Chairmen to appeal to the negotiators to protect their programs from cuts, the Administration's negotiators complain about the Tuesday-Thursday schedule set by Budget Summit Chairman Gephardt, and request a more definite schedule with more frequent meetings.
- June 20 -- The Administration revises its budget proposals to include new proposed reductions in Defense and entitlement programs, and incorporate some of the proposals made in the Senate Budget Resolution. (Saving over \$50 billion in 1991.)
- June 26 -- After the negotiations have stalled because of, in part, the Democratic unwillingness to discuss spending cuts in advance of revenue increases, the President meets with the Bipartisan leadership and issues a statement clearly stating that the deficit package requires tax revenue increases, as well as several other items.
- July 5 -- Despite the fact that the members of Congress are on their 4th of July Holiday, Administration negotiators and staff meet with Congressional staff to convene a special Task Force on credit reform proposals.
- July 16 -- The Administration issues a complete update of the estimates of the budget deficit, revising the estimate to nearly \$169 billion without taking into account RTC.
- July 26 -- For purposes of exchanging offers with the Democratic negotiators, as agreed, the Administration and Republican negotiators develop a plan to produce \$50 billion savings in the first year and \$500 billion in savings over 5 years. No Democrat response. Administration states and restates its willingness to exchange offers. Democrats are unable to develop offer; propose to delay exchange until September.

Congressional Democratic Actions

- June -- Despite the Budget Summit negotiations, the House Budget committee passes a budget resolution with domestic discretionary totals more than \$17 billion in excess of the G-R-H baseline. These numbers are very unlikely to reflect what comes out of the budget summit.
- June -- The House Appropriations committees begin action on appropriation bills that almost certainly will need to be modified once the budget summit is completed.
- June -
- July -- Various House and Senate authorization committees have passed bills that far exceed the levels likely to come out of the budget summit. These include:
- o Child Care bill: \$22 billion over the Administration request for 5 years
 - o Farm bill: \$7-9 billion over the current law baseline for 5 years
 - o AIDs prevention: \$3-4 billion over the Administration request for 5 years
- June -- The Senate Budget Committee votes on a resolution that contains billions in "IRS compliance" savings and billions more in unreconciled -- and therefore unachievable -- user fees and other entitlement savings.
- July -- The Senate Budget Committee votes on a budget process reform bill that substantially alters the G-R-H process despite the fact that budget process reform is one of the explicit assignments of the summit.
- July -- House action to date on domestic discretionary appropriation bills is \$24 billion in budget authority over 1990 enacted levels, and \$14 billion in budget authority over the G-R-H baseline, which is the 1990 enacted levels increased by inflation.
- July -- Despite criticism of the Administration proposals, the Democratic leadership fails to put any proposals on the table and in fact fails to discuss any specific proposals at all.

THE WHITE HOUSE

WASHINGTON

Talking Points for Coffee with Republican Members of the House and Senate

- o Regarding the budget, the Democrats are passing bills that would increase the deficit rather than reduce it. It is clear that they will leave without having done the job to reduce the deficit.
- o A \$100 billion sequester should not be anyone's first choice. Congressional enactment of a more responsible, five-year deficit reduction program is clearly preferable.
- o That is why I convened a budget summit. That is why I offered to the summit negotiators what remains the only detailed deficit reduction plan yet put on the table. That is why I agreed to offer a further deficit-reduction plan just ten days ago - if the Democratic negotiators would offer just one plan, and exchange it with us.
- o Last week, we informed the Democratic leadership that we were ready to exchange plans as the Democratic leaders suggested. They did not respond. Again this week, we informed them that we were ready. We are still waiting for a Democratic proposal.
- o Their plan seem to be: leave town for vacation.
- o The disruptive effects of deep across-the-board cuts lie ahead - if the Congress does not act responsibly.
- o If the Democrats really care about preserving economic growth and essential public services, the Democratic negotiators must offer a deficit reduction plan before leaving for vacation.
- o Our negotiators remain ready to meet at any time, anywhere, to exchange serious deficit reduction proposals with the Democratic negotiators.
- o I hope budget negotiations will move forward in good faith. They should intensify in early September at the very latest. The Congress - before adjourning for recess - must set a firm date in September for an up-down vote on a summit agreement.

- o And just so everyone's cards are on the table, I will veto any spending bill that exceeds the budget I have proposed. Until the Congress enacts a responsible, five-year program for economic growth and deficit reduction.
- o And if the Democratic in Congress fail to act by October 1, it is they who will have to bear the responsibility for the consequences.
- o I need the support of each and every one of you. We must stand together if we are going to get some action on a sensible deficit reduction plan.
- o That is the message I will make sure is heard over the next few weeks, until serious negotiations are resumed again. I believe the public does care that the democrats have lead congress into this deficit swamp and should know that failure is the cause of the crunch of Sequester.
- o Thanks for coming, and have a safe, happy recess.

President's political speeches this week

- o It is important to address the budget negotiations and budget deficit problem and the President's role head-on.
- o Basic strategy should be to put and keep the ball deep in the Democrat's/Congress' court. Keep the pressure on them to come up with their part of the deal -- "I did my part, now it's their turn." -- of the President's statement, remind them that the Democratic leadership agreed to it in the meeting and supported it later that day publicly.
- o The object is to get the press and the public to put the heat on the Democrats, to get serious about the negotiations and what they are willing to do on domestic spending, entitlements, and process reform -- the tough stuff for them.
- o Characterize the issue as critical to the health of our national economy, the welfare of the country and one that will have a direct effect on many individual citizens now and in the future. Don't use language that lets the press characterize this simply as a wrestling match between Republicans and Democrats.
- o Use the word "Congress" if you want to be a little less political and the word "Democrats" if you want to be more political.
- o The five points I used in Chicago are attached which is generally what I think the President should do.

RMT
7/16/90

Let me stop right here for a moment and address what I know is on a lot of your minds as you came to Chicago. That is the President's statement two weeks ago regarding the budget deficit and a potential increase in tax revenue. I think there are several points that need to be made and kept in mind as we think about the implications of the President's statement.

First, the President knows that good government is good politics and that there is no issue where that is more true than the importance of a strong growing economy. We have had 92 months of economic growth under Republican administrations. There would be no greater threat to the country, and to us politically, than to have that growth end.

The President believes that the budget deficit is the one thing that could threaten that economic growth and that is the issue that needs to be solved and solved this year.

Second, the President is the person who supplied the leadership to start these negotiations, has now taken the leadership to get them off the dime

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and into a serious mode, and he will be the person who supplies the leadership to ultimately get a solution to this problem.

Third, the President was dealing with political reality. He said in his press conference two weeks ago that his convictions about taxes had not changed at all, but recognized it would be necessary to have some tax revenue increases in order to get a deficit agreement. Remember, he has said time and again that if Congress would give him a line item veto he would be happy to take responsibility for reducing the deficit and would do so without raising taxes. However, the political reality is that no package can be agreed on or get passed without agreement of the Democrats who control Congress.

Fourth, the President has put the ball deep in the Democrats territory. He has done the one thing that the Democrats have been saying he needed to do for over a year in order to get serious budget negotiations moving. Remember, the Democrat leaders last week agreed and supported the statement that not only included the

RMT
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phrase, 'Tax Revenue Increases' which is what they wanted, but it included domestic spending cuts, entitlement reforms and budget process reform. Now the ball is in their court and as they come back to Washington, I think we will find the voters interested in what they are going to bring to the table in those areas.

Fifth, I know George Bush well and there is not going to be a deal that is not a good deal for the economy and the country. And that in the end will give this party a very strong record to run on.

Poll we had done:

President Bush said earlier this week that he and the leaders of Congress agreed that a solution to the budget deficit problem would have to include tax revenue increases, major cuts in domestic spending, reduction in the growth of entitlements, cuts in defense spending, and budget process reform. Do you approve or disapprove of the statement President Bush made?

Approve	58%
Disapprove	31

RMT
7/12/90

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

June 26, 1990

STATEMENT BY THE PRESIDENT

I met this morning with the Bipartisan leadership -- the Speaker, the Senate Majority Leader, the Senate Republican Leader, the House Majority Leader, and the House Republican Leader -- to review the status of the deficit-reduction negotiations.

It is clear to me that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform; tax revenue increases; growth incentives; discretionary spending reductions; orderly reductions in defense expenditures; and budget process reform -- to assure that any Bipartisan agreement is enforceable and that the deficit problem is brought under responsible control. The Bipartisan leadership agree with me on these points.

The budget negotiations will resume promptly with a view toward reaching substantive agreement as quickly as possible.

#

CNN COVERAGE OF CONGRESSIONAL NEWS CONFERENCE
FOLLOWING PRESIDENT'S BUDGET ANNOUNCEMENT

Note: Draft transcript. CNN broke into the news conference already in progress.

SEN. MITCHELL: -- and we share the President's view.

QUESTION: The question was, though, were you surprised that he chose this time to make that statement?

MITCHELL: This has been the subject of discussion for some time and we accept the President's decision.

QUESTION: Is there any element here of I told you so?

MITCHELL: No.

QUESTION: For the longest time the President said read my lips, no new taxes. Now that he seems to have changed, you must have some response.

MITCHELL: I've just given the response. Let me restate it and I'll be pleased to let the Speaker and the Majority Leader respond, but we believe the statement does speak for itself. The President has concluded that tax increases are necessary and we share the President's view in that regard. Tom, why don't you go ahead --

QUESTION: You now quickly reach a budget deal, do you think you can conclude a budget deficit agreement?

MITCHELL: Yes, we do, and we hope that we will.

QUESTION: In the area of taxes, can you give us any specific areas -- taxes that you've agreed should be raised or will be raised now?

MITCHELL: No decision has been made with respect to any specific measure.

QUESTION: Did he suggest you talk about any specifics --

MITCHELL: No specific measures were discussed and there is no agreement with respect to any specific measures.

QUESTION: So what is the next stage then? Where really are we in terms of the time frame, in your view?

REP. GEPHARDT: Well, we hope to have a resumption of the summit on tomorrow. We will be meeting among the Democrats and I would assume perhaps the Republicans will meet today as well. We'll meet as a summit again tomorrow morning. And we want to conclude this as quickly as we can. I think that the big next dates coming up are, we have a debt ceiling that's due sometime in July. And I think it would be very helpful if we can have conclusion or near conclusion of the summit before that has to be passed.

QUESTION: The President's statement refers to entitlement and mandatory program reform. Do you understand that to mean Social Security?

MITCHELL: No specific program was discussed. No decision has been made with respect to any specific agreement. We understand it to mean precisely what it says: that there will be some entitlement and mandatory program reform without regard to any specific program.

QUESTION: What happened between yesterday and today? I mean, yesterday you seemed very far apart, this morning you go to the White House and the President seems to say okay. What happened?

MITCHELL: We had discussions with the members of the Administration, the Speaker met with Mr. Darman and Mr. Brady on Friday, I met with them yesterday. Majority Leader Gephardt has talked to Mr. Darman over the weekend, I believe. Am I correct? Yes. And we met this morning and the President indicated that he had reached these conclusions and we indicated that we shared that view.

QUESTION: -- Foley, you have for a long time said that any talk of tax increases is going to have to be an initiative of the President. Do you feel vindication now --

FOLEY: I don't think it's a matter of vindication. I think most commentators, business and other economists, have been saying for many months that an effective approach to deficit reduction requires dealing with all of the issues of tax increases, entitlements, spending reductions, budget reform, so this is really reflecting a consensus that already exists in many economic quarters and regardless of party. But the President's statement is important, in my view, and he has stated explicitly that he believes that all these elements, including tax increases, are necessary because of the size of the deficit and the necessity of enacting budget remedies, and we have said on a bipartisan basis, including Mr. Michel, and Sen. Dole, as well as Sen. Mitchell and Mr. Gephardt and I that we agree with that.

QUESTION: Just to get this out, do you three Democrats now consider that the President has broken his campaign pledge?

FOLEY: We're not going to make any comments of that character. The President is acting the way --

QUESTION: Is there any particular thing that you can point to? I mean, this is crossing the Rubicon here. What caused it, what particular thing caused this? Was it the size? The realization that it's getting larger? What triggered it?

FOLEY: Well, the statement is the President's statement, with which he correctly says we agree. The questions on how the President came to make this determination are questions that should be made to him.

QUESTION: Mr. Speaker, is it up to the Administration now to make the first specific proposals on revenue increases? Where are the specific proposals going to --

FOLEY: Well, Mr. Gephardt is the chairman of these meetings, but based on previous summits in the past I would think that we may have combinations of approach, across the board recommendations that deal with all these subjects, taking them up individually or separately is part of the discussion as well. The general principle has always applied that nothing is agreed to until all elements are agreed to. So it's a consensus process.

QUESTION: But it hasn't been --

FOLEY: I don't know what the next step is. In other words, I can't tell you, assure you, whether there will be individual members of the negotiating group making recommendations in specific form on one or the other of the subject matters of budget reduction or whether it will be a package offer.

QUESTION: For several elections now the Republicans have effectively used the tax issue against you, in 84 and 88. They were planning to use it again in 1990. Do you think this decision effectively undercuts their ability to use the tax issue against the Democrats in 90 and 92?

FOLEY: This is, we hope, not going to be the subject of a political campaign effort. The task here in which we've entered these discussions is to try and reach the conclusion to the budget problems that face the country. Democrats and Republicans in both parties and the President have entered into those discussions and I would hope that this would not be the subject of anybody's effort to create political advantage.

QUESTION: But it has been for many years. The question is whether you have effectively now undercut that issue.

FOLEY: Well, I think someone who is complaining about taxes being raised in the budget, someone will have to complain against both parties and the President if they wish to make that kind of complaint, but we're not going to go into these thinking that's going to be the result. There is some hard work that lies ahead for both of us, both parties, the House and the Senate, the President, in trying to reach an agreement. And I think we want to hopefully conclude that as soon as possible, by the middle of July if it is possible.

QUESTION: Mr. Speaker, how costly has it been to delay these many months repeating that word, taxes? The President coming to this point.

FOLEY: Well, I think that there has been some useful work done. I think it would be a mistake to say that the meetings of this budget summit have been wasted. There has been a consensus reached on the size and scope of the deficit, a general consensus on what has to be done in terms of the goals for this next year and over the next five years, a very close coming together of estimates between the Office of Management and Budget and the Congressional Budget Office, which has not always been typical. And now there's a statement by the President, with which we concur. There is bipartisan leadership. Republicans and Democrats concur that we have to deal in a budget summit with each one of these specifics, including tax increases.

QUESTION: Did you -- some pain on the part of the President as he made this announcement? Was there any --

FOLEY: I'm not going to interpret the President's countenance.

QUESTION: What did the Democrats give up?

FOLEY: This is a matter of, nobody should believe that Democrats want to raise taxes any more than anybody else or that we want to see reductions in some of the programs that have been very generally useful and important programs. But we're going to have to do some things that are probably not going to be universally popular in dealing with the budget deficit.

QUESTION: With the President agreeing that tax increases are necessary, did the Democrats agree to anything on budget process?

FOLEY: The statement is exactly right. The President made a statement and we, Republican and Democratic leadership, agreed with the President's statement. There's no other --

QUESTION: -- capital gains now?

FOLEY: The specifics were not discussed in any of these categories and they will be discussed in the budget summit where they should be.

QUESTION: Did the President start off the meeting by giving a statement, or was this --

MITCHELL: Mr. Darman started the meeting with a detailed description of the problem and the situation that we face.

-- CNN interrupts for a programming announcement.

FOLEY: To answer your question, the President seemed calm. (Laughter.)

QUESTION: Let me follow up on Mary's question if I can. It seems to this disinterested observer that you won here. Is there no political advantage that the Democratic Party can get out of forcing the President to admit what you all have been saying all along?

FOLEY: We are not here looking for political advantage. We are trying to go forward with the very difficult but important undertaking in dealing with the deficit with a minimum of political posturing on anybody's part. And we are not interested in anything else but trying to reach a conclusion with a minimum amount of -

QUESTION: Did you agree to take that stance as part of this agreement?

MITCHELL: No.

FOLEY: No, there was no undertaking, except the undertaking that's in the statement that we agree with the President's statement.

-more-

QUESTION: Mr. Darman said that you could, he would hope that you could work together as a group, not as Republicans or Democrats but as a group, that everyone would have a give and take of ideas, people would put on the table whatever seemed appropriate --

-- CNN interrupts for a programming announcement.

QUESTION: You had talks all weekend -- what has happened to change the White House's mind?

MITCHELL: You should direct that question to the White House, not to us.

QUESTION: Okay, what were your talks with the White House leaders Friday and over the weekend, the talks you told us about? What did you say in those talks?

MITCHELL: We discussed the problem of the deficit, the size and scope of it, and the areas of action that would be required if we were to have a meaningful deficit reduction.

QUESTION: On that note, did you tell them during those meetings on Friday, on Monday, each of you that the package that the President put forth last week as their opening gesture was totally inadequate and that the talks would break down or possibly fall apart unless they came forth with a more -- proposal that included tax increases? Did either of you tell Darman --

MITCHELL: We discussed the full range of the budget deficit problem and the actions necessary and the whole issue was discussed in some detail.

FOLEY: There were no conditions to continuing, there were no conditions of any kind to continuing the discussion.

QUESTION: -- bipartisan agreement among congressional leaders. Do you have an agreement among top party leaders, Mr. Brown, Mr. Rollins, not to make political damage from today's statement?

FOLEY: We haven't discussed that statement of the President's with him so it would be very difficult to have their concurrence -- I think it's important that neither political party attempt to make political capital out of serious bipartisan efforts to reach a budget settlement?

-end-

THE WHITE HOUSE
Office of the Press Secretary

PRESS BRIEFING
BY
MARLIN FITZWATER

June 26, 1990
The Briefing Room

10:47 A.M. EDT

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11:30 A.M. EDT

#221-06/26

THE WHITE HOUSE
Office of the Press Secretary

PRESS BRIEFING
BY
MARLIN FITZWATER

June 26, 1990

The Briefing Room

10:47 A.M. EDT

MR. FITZWATER: You all have the President's statement from this morning following the breakfast. Let me just add to it a couple of notes. First of all, the session was in the Residence. It lasted approximately two hours. The President feels they had a very productive meeting, that they reached a significant consensus on the broad outlines and directions that they want to pursue in the weeks ahead.

There probably will be more presidential involvement as we go through this process. The President would like to have an agreement signed and implemented by the August recess, if that's possible. At least that's the timetable we're working on. He feels that we have made good progress so far. The meetings that have been held to date have been fruitful in terms of understanding, agreement on some of the baseline data, on some of the numbers involved, and on the general direction that we need to be going in.

There will be a session tomorrow. I don't have an exact time yet, but many of you probably saw the press conference on the Hill with the leadership, and they indicated there would be a press conference tomorrow, so we'll have a time for that at some point.

Q One that the President will be involved in?

MR. FITZWATER: The President will not be involved tomorrow in that session. It would be the negotiators that have been meeting in the past several days.

Q When will we hear from the President, Marlin, about this change?

MR. FITZWATER: I don't know. You could hear from him at any time on the statement. I don't expect anything on the statement, and I don't believe -- let's see, what's on the public schedule today. Got a Rose Garden session this afternoon is the only other coverage event we have today.

Q In the statement, the line about growth incentives -- does that mean that you have a commitment from the Democrats to cut taxes on capital gains?

MR. FITZWATER: We aren't willing to give definition to any of these terms in the sense that those are all decisions that will have to be taken by the negotiators. The definitions of what these specific categories mean are ones that are subject to negotiation. So I just can't answer that at this point.

The discussions in the breakfast meeting this morning were definitive in the sense that they did talk about a lot of specific ideas that would be involved in these issues. This statement was worked out in the breakfast, and they all have a good understanding of the direction that they want this to take them. But

MORE

#221-06/26

there was agreement that they would not try to give definition to this outside the negotiating process.

Q If I might, I mean, with what degree of specificity then should we look at all of this? If growth incentives doesn't mean capital gains, then does tax -- if they don't give you capital gains, then might you go back later on if those negotiations break down and not come up with tax revenues?

MR. FITZWATER: I don't think you can be too specific at this point. You have to look at this as kind of midway in the process, if you will; that we've been going on for a month or two now and we've got a month or so to go. We have turned the corner from discussion of baseline data to one of proposals. But we just don't have definitions at this point. We just can't do it.

Q On tax revenues, do you mean income taxes?

MR. FITZWATER: We aren't willing to -- again, to give a definition. I would point to the fact that in the President's previous budgets and the one we submitted this year, there were some \$13 billion in tax increases. But beyond that, this is simply an area that we are committing to, but we have to take a look at all the specifics.

Q Marlin, on that very point, are you saying then that this statement today does not mean that the President is even going to go beyond that \$13 billion in user fees?

MR. FITZWATER: I'm not saying --

Q That's the limit to which he's going to go, or is this going to be something beyond that?

MR. FITZWATER: No. What I'm saying is that these are the areas that clearly will have to be a part of any package; that we obviously have already had a number of proposals in this tax revenue area. But beyond that, we aren't willing to give a definition, but certainly it's open to discussion.

Q Why the big change in this? Just yesterday, Domenici and Gramm were out there, running down the Democrats, saying that all they were interested in was tax increases. What caused this overnight swing in the statement by the President this morning?

MR. FITZWATER: I don't know that it is that big a change. The main purpose of this statement is to show that the leaders did get together this morning and agreed to pursue the process, that they all believe progress has been made, that they have a definite commitment to work in the days ahead in these specific areas. But we're still a long ways from the final details of a settlement.

Q You emphasize that this statement was worked out with the congressional leaders this morning. Are you saying that this is not exclusively a statement by the President, but it's a joint statement by the President and these congressional leaders?

MR. FITZWATER: No, this is a statement by the President and does represent his feelings and thoughts on the matter. What I'm saying is simply that it was drafted in the meeting and has the understanding of all the participants in terms of what it means and doesn't mean.

Q One of the concerns of the Democrats in these negotiations was that they were being forced into a position where they might have to put the tax issue -- not necessarily new taxes, but the tax issue on the table first. Now, do you consider this statement as being the President's first move in putting the tax issue on the table?

MR. FITZWATER: This statement represents a feeling by both sides that we want to move forward together. We're not interested in who's first and who's last and who gets the blame for this and that, but that both sides want to move in a bipartisan way to resolve this issue. And this statement is designed to reflect that feeling.

Q And one more follow-up, please. Speaker Foley said that he hoped this issue would not be used as a political club in the upcoming elections. Was that part of the discussion this morning? Was there a deal cut where neither side would use this politically?

MR. FITZWATER: It's been part of the understanding since the beginning of these negotiations that we would not negotiate outside the process, that we would not be trying to define terms or take political advantage during the course of these negotiations. And so that situation has not changed.

Q How about after the course of the negotiations?

Q Marlin, whether you want to acknowledge a change or not, the fact of the matter is, that as everybody is well aware, the President said no new taxes. He now says, "It is clear to me both the size of the deficit problem and the need for a package require tax revenue increases." At what point did he reach that conclusion? What convinced him that his basic "no new taxes" pledge had to be abandoned?

MR. FITZWATER: This issue is one that has been addressed from the very beginning. Again, as I said, our original budget proposal had tax revenue increases in it. It's been discussed at all phases of the process. And this agreement reflects the status of where we are and where we're going, but I wouldn't try to pinpoint any kind of specific decision-making yardsticks in this or any kind of minute-by-minute decision-making process associated with this statement.

Q Does he regret having said that -- no new taxes?

MR. FITZWATER: The President has been very forthright on his feeling about this issue all along. He continues to have strong beliefs. He also is interested in pursuing a process that resolves the deficit, cuts federal spending and gets this problem under control. That's the process that we're in. We've tried to be very careful in all of our statements on all these issues, and we stand by everything that's ever been said.

Q Yes, but wait a minute, wait, wait, wait, wait. You say the President's been very forthright, yet you won't say in any regard what this means.

MR. FITZWATER: What this means is that this is an area that the negotiators will be focusing on and they will give a definition in the negotiations.

Q Americans will pay higher taxes?

MR. FITZWATER: I'm not willing to do the negotiating for them here.

Q Were you concerned that without this sort of specific set of conditions being put on the table by the President, that these talks might collapse?

MR. FITZWATER: No. The talks had reached a point where they had to turn the corner, if you will, into a discussion of specific issues and policies. We did put a proposal on the table a few days ago. There have been some ideas floated by the Democrats as well. And clearly, this was a turning point at which the President

wanted to reinsert himself and to say let's now move into the hard decisions that are going to be involved in selecting deficit reduction issues.

Q Marlin, did the Democrats either say overtly or hint subtly that they could not go any farther in considering how to arrive at a specific package until Bush made a public statement?

MR. FITZWATER: No, I don't think there were any threats or anything. They just all agreed that they needed a statement by both sides -- this statement by the President and, of course, their statement in their press conference a few minutes ago that had everybody on record and assuring the American people again of our commitment that we were making progress and that they had defined areas of achievement.

Q But is it fair to say that the Democrats pressed for a statement like this? Wanted one?

MR. FITZWATER: No. I think it was agreed by all sides that this was a useful statement to put out at this point in the process.

Q A senior adviser to the President has said that the reason he wouldn't go for taxes is that he believed every \$10 billion in new taxes would cost \$30 billion in growth. And since growth is a cornerstone of his economic policy that was unproductive. Has he decided he's wrong on that and has he changed his view? And why would he do it if it was going to cost growth?

MR. FITZWATER: Well, I don't know anything about this person's feelings. That's a hypothetical matter. We are not talking any numbers here at this point. There's no way to respond to that.

Q You say they seem to agree on the size of the problem now and now they're dealing with the solution. Did they agree on how large the budget deficit will be?

MR. FITZWATER: Well not in absolute precise terms. But you'll recall that we put on the table on the 20th of June our numbers indicating a deficit of about \$159 billion. The Democrats are close to that. They don't agree on that precise number but very, very close, within a few billion. So we're fairly close on that over number.

Q Including or not including savings and loan?

MR. FITZWATER: I don't believe that includes all of it, no.

Q To what degree of specificity did they get into this morning? Because if you read this statement in one way it's simply putting in words what you said at the beginning of the process, that everything is on the table. Did they talk about specific parameters of what they're going to negotiate and go back with instructions for staff to come up with something? Or did they just go as far as this says, that everything is on the table, but now we've put it in words?

MR. FITZWATER: Well, certainly, that's kind of a fair representation in a sense it does reflect the everything is on the table philosophy. And it does give a little more definition to that and describes the categories and so forth. The discussions this morning were more definitive in talking about specific issues within these categories and so forth, but we aren't willing to discuss them publicly.

Q Well, you're saying it's a turning point. I mean, how much of a turning point beyond just saying here in words is what we've said all along?

MR. FITZWATER: Well, it's a turning point in the process of moving -- again moving to discuss the hard decisions that are going to have to be made about various proposals to reduce the deficit.

Q Do you think now it's going to be easier -- now that the President has said taxes in public, it's going to be easier to negotiate with the Democrats?

MR. FITZWATER: This process will never get easier.
(Laughter.)

Q Marlin, can you give us a little flavor -- for example, when the invitation was issued? This didn't appear on the President's schedule that we understood this morning. And how it came about?

MR. FITZWATER: The negotiators agreed yesterday that -- well, let's put it this way -- the President issued an invitation to the negotiators yesterday to come down for breakfast and they accepted and that's how it came about.

Q Did he ask them to keep it -- sort of keep it quiet?

MR. FITZWATER: The intention was to keep it off the record, yes.

Q Did he give them an agenda? Did he let them know, we're going to talk about taxes and get together a statement? I mean, did they know what they were coming for, that they were coming to do this -- come out with this statement?

MR. FITZWATER: That I have no idea.

Q Can you explain the evolution in the President's thinking over the last 18 months from when he laid out a case for why the deficit could be eliminated without any tax increases to the current situation where he says tax revenue increases have to be part of the solution? What are the circumstances, economic and political, that have changed during that period? Could you provide us that context, please?

MR. FITZWATER: There are a number of factors involved. Certainly, first, we have to go to the budget process itself, which was not able to produce a budget on the Hill. You will recall votes in the House and the proposal in the Senate sides that were unsatisfactory. You will recall that our budget did not receive universal endorsement. And so there reached a point where clearly the budget process itself had stalled down in terms of congressional consideration.

Secondly, there were economic figures reported after the first quarter that showed growth rates probably were not going to produce -- certainly, interest rates were holding down growth to the point where we're not going to receive revenues as we originally hoped for. And then the work began also on sequestration, which, as you know, we are duty-bound to report on the 15th of July. And that imposed a rather large figure that seemed to all of us to imply reductions and cuts in the federal budget that would be unacceptable to all parties.

Having said that, we are willing to take sequestration, if that's what necessary, but we certainly would not like to have that happen. So when you consider sequestration, the growth rate and the resulting revenue losses, the general size of the deficit and the fact that we have a stalemate in the Congress over existing budgets, you very quickly reach the point where this negotiation process was warranted in the President's eyes, and that's how we got to this point.

Q You're not willing to take sequestration now, are you -- now that we've got the revised budget figures at \$159 billion? I mean, that's out of the question, isn't it?

MR. FITZWATER: We certainly would not want to do that, but it is looming out there, and it remains a very powerful force as to why these negotiations need to be successful.

Q You mentioned that they talked about specific proposals today. Did the President himself -- you don't have to tell us what they are unless you want to -- but did he mention any specific proposals to raise taxes?

MR. FITZWATER: I just can't discuss any specific ideas that were tossed around in the meeting.

Q Marlin, you said that they had agreed on the -- or seemed to be getting closer to agreeing what the 1991 deficit is. But did they agree how large a package -- first-year, five-year terms, and whether they need to slip the targets?

MR. FITZWATER: No. I was just talking about the \$159 billion figure was the one we used.

Q But they didn't agree on how much they'd do this year or over five years, and what to do about the Gramm-Rudman target?

MR. FITZWATER: No. That all would be a part of the final agreement.

Q You concede that this is going to be widely interpreted as a concession by the President -- nobody else, right? And is it a crime to say you changed your mind? (Laughter.)

MR. FITZWATER: Let me take that in reverse fashion. First of all, that we have said from the beginning of this process that we need to be open and everything is on the table, and to consider all the opportunities before us to reduce the deficit. This is a refinement of that initial statement. So basically, we've already addressed the fact that we've got to deal realistically with this problem.

What was the first part of your question? (Laughter.)

Q Do you concede this will be widely interpreted as a concession by the President?

MR. FITZWATER: I can't define your interpretation, but I simply give you these words and to say that we still have not reached the agreement, and those things still have to be worked out.

Q Marlin, would you say that today the President agreed to break his pledge of no new taxes?

MR. FITZWATER: I would go back to the beginning of the process and -- (laughter) -- recount for you --

Q Is that a no?

Q Wait a minute. Let him answer it.

MR. FITZWATER: -- and recount for you our initial commitment to putting everything on the table and facing all the hard choices that have to be made. And we have had any number of refinements to that statement ever since. But essentially, that was the point at which everyone faced up to the realities here.

Q In other words, Marlin, can you say that as of --

Q Does this represent a turning point?

MR. FITZWATER: The turning point in the process, as I said, in the sense that we're moving into having to discuss these options.

Q Can you say that by now, after these many steps, whenever the moment came, that as of today he has agreed to break his pledge of no new taxes?

MR. FITZWATER: No. Are you crazy? (Laughter.)

Q How can you say that? How can you say --

Q Is this the sound of concrete cracking under this President's feet?

MR. FITZWATER: No. This is the sound of a foundation being poured.

Q Oooh.

MR. FITZWATER: For a very constructive deficit reduction plan. (Laughter.)

Q With your feet in it, Marlin. (Laughter.)

MR. FITZWATER: Put those babies in concrete. (Laughter.)

Q But the statement itself appears to lock the President into some kind of additional tax revenue increase when it says that "the deficit and the need for a package requires a tax revenue increase." It doesn't say "may require," "could require," "is on the table, open for discussion." It says "require."

MR. FITZWATER: We've always had tax revenue increases in all of our previous budgets, and including this one.

Q That was revenue enhancement, Marlin.

MR. FITZWATER: But we just -- the question is, how do we define this, and that's something for the negotiators.

Q But are you saying that the President is not willing to put any additional tax revenue increase on the table other than this \$13 billion --

MR. FITZWATER: I can't say what will come out of the negotiations. Those things have to --

Q You're going to have to admit it someday. Isn't this a good day to just admit it?

MR. FITZWATER: Never.

Q Are you conceding that the use of the words "tax revenue increases" is not necessarily limited to the \$13.9 billion you proposed in January?

MR. FITZWATER: I can't give it that definition. I don't know where it will end up.

Q So are you saying it's limited to that?

MR. FITZWATER: I can't say. It might turn out to be less, it might turn out to be more.

Q Newt Gingrich would be an equivalent of a Majority Leader of the House. Why was he not included in this list?

MR. FITZWATER: The leadership on the Democratic side is -- I guess I need to check what Gephardt's -- he has a special role. He's the head of the budget negotiations. I'm not sure how that all came about, but that's not an issue. It's not an issue with us. I don't think it is with Newt, either.

Q Marlin, you've said repeatedly that this doesn't necessarily commit the President to any more tax increases than what we've had so far. Is it then true that we really don't have any movement here? We've got the use of the word "tax," but aside from that, the President is not committed to anything here that he wasn't before the statement was made, that there really is no change in his position?

MR. FITZWATER: We're in the midst of a negotiating process, and what this does is commit the negotiators to work in these areas to come up with proposals. But it doesn't define what they are, no.

Q Everything was on the table before, supposedly including revenues. So what has changed? What is new in this statement that we didn't have before? What's different?

MR. FITZWATER: You have this -- a commitment by the President and by the leaders to continue to work in these areas. You have a statement of the progress they have made. You have a little more definitive direction in terms of the areas that they're working in.

Q The "read my lips, no new taxes" pledge was probably the most frequently repeated phrase during the President's campaign. Does he feel that if he had gone around the country saying that "the size of the deficit problem and the need for a package that could be enacted required tax revenue increases" that he would have been elected President? (Laughter.)

MR. FITZWATER: We feel he said the right thing then and he's saying the right thing now.

Q But are they the same thing?

Q But does he feel that the circumstances have changed so much that what he said was true then?

MR. FITZWATER: Everything we said was true then and it's true now. No regrets, no backing off.

Q What has changed since then that has changed the circumstances so much that it's gone from no new taxes to --

MR. FITZWATER: I'm glad you asked. I'd like to go through once again the same litany I did with John. First of all, we took a look at the first quarter economic assessment, which showed a declining growth rate and declining interest rates. And it became clear that we were not achieving the revenues that we had originally thought.

Q Are you just going to repeat that again?

MR. FITZWATER: I'm going to repeat every word of it.

Q Can we stipulate?

Q Marlin, since I know what you're going to say, let me ask my follow-up question. Does that mean that you are now saying that the economy has gotten worse under George Bush's presidency?

Q Whooo!

MR. FITZWATER: Whooo!

Q You can only duck so long.

Q What's the answer? Has it or not?

MR. FITZWATER: The economy is strong and is continuing to grow, and we want to maintain that growth, and we have the foresight to look ahead and say we need to undertake the fiscal kinds of policies that will maintain 90 months of economic expansion, a world record expansion, and we want to continue right out 100 months, 110 months -- 120 months. There's no stopping us, David. I want to see that on the front page of The L.A. Times tomorrow.

Q Yeah, right.

Q He counter-punches his way out of the corner --

Q You could have been on camera with that.

Q In terms of the economy overall, it's been --

MR. FITZWATER: Don't you want to talk about German reunification, Nick? (Laughter.)

Q Marlin, let's talk about the Egyptian Foreign Minister.

Q Anyway, it's been said that not only must the deficit come down, but the savings rate must also increase for overall economic health of the economy. Are you concerned that the stated need for a tax revenue increase is going to hurt the other side, the savings rate, or, are there provisions in these negotiation to also provide for an increase in the savings rate?

MR. FITZWATER: It's pretty tough to answer that question because we don't have -- the specifics have yet to be worked out, so you can't really judge impacts. Overall, we certainly want to increase the savings rate, and that's why we've proposed a family assistance savings plan and other measures. I think it's fair to say that as we go through this, as the negotiators go through it, I'm sure they will have in their minds maintaining a savings rate that increases the pool of money for investment. But that's something again that would have to be considered in the context of the specifics.

Q What about the Egyptian Foreign Minister --

MR. FITZWATER: Let's finish this, and then we'll go to -- we've got several other important issues, including one for Leo. So let's go on.

Q Who from the administration side was in this meeting this morning? And if the President's going to be out of town for the next two weeks, essentially, starting Friday, how is he going to be more involved in the budget talks?

MR. FITZWATER: In the meetings this morning we had -- of course, you know the congressional members, and then Governor Sununu, Secretary Brady and Director Darman. We'll just have to go through the process. As I said, we're hoping to do it by August recess, but the President will be available as is needed and as he's here, obviously. He can't -- when we're in Houston and in London we won't be available, but when we're back, we will be.

Q What about in Kennebunkport? Is he planning any kind of discussions with his advisors up there on this subject?

MR. FITZWATER: I don't think it's anticipated there would be during this upcoming three-day stay, no. And by August,

hopefully, it will all be done.

Q Marlin, this statement says it also would require entitlement and mandatory program reform. Does that mean that Social Security will be cut at least temporarily?

MR. FITZWATER: My answer there is the same, that we cannot give definition at least for --

Q Is there any other way to read that that you could possibly see?

MR. FITZWATER: Oh, I'm sure there are all kinds of ways to read this, but I would not suggest any specific way of doing it.

Q Was there any kind of arrangement whereby Bush included the tax portion and the Democrats agreed to include the Social Security portion?

MR. FITZWATER: No. They went through all of these issues, had a lengthy discussion of all the various options and decided upon these categories. But I couldn't get into any give-and-take or suggest the process. I think they all agree that these are the categories that are necessary.

Q Can you tell us -- the President's well aware of all the "read my lips" jokes. Can you tell us if he expressed any of the sense of humor, recognition of humor that you have here this morning?

MR. FITZWATER: I haven't talked to the President at length about this. I did go over the statement with him. He feels very comfortable with it and thinks it points us in a very strong direction. But I didn't really get a chance to give him any of my best lines.

Q Is that why he answered our questions this morning?

Q Marlin, were you in it?

MR. FITZWATER: No, I was not. -- at the very end, but I was not at the meeting.

Q Why is he not coming before the cameras today? Is he ducking us?

MR. FITZWATER: Nothing to say.

Q Marlin, did the White House take any political soundings before deciding to go ahead with this statement? And if so, what kind of reading did you get?

MR. FITZWATER: No.

Q You took no political -- you made no effort to find out what Atwater or Mary Matalin or Ed Rollins or anyone thought about the political ramifications of taking the step?

MR. FITZWATER: Not to my knowledge. Doing the right thing for the right reasons.

Q To follow up on that, how much lobbying -- let me see -- how active were the Republicans in this, in trying to persuade the President that a statement like this was necessary? We heard from Bob Michel that a statement like this would be necessary several weeks ago. I wonder how active he and other members of the Republican leadership might have been in --

MR. FITZWATER: I'm not aware of any conversations about this outside the meeting this morning. There may have been some, but I'm just not aware of it.

Q Another point the President made repeatedly during the campaign is, he said the surest way to cut economic growth in this country is to raise taxes. And that was an argument he made repeatedly. Now you're saying it and in the statement he's saying that you have to consider tax increases to keep the economy growing.

MR. FITZWATER: No, I'm saying we have to consider --

Q Why the reversal?

MR. FITZWATER: We have to consider a budget that gets the deficit down. We cannot continue this huge deficit. We cannot face the sequestration without having significant cuts. There are impacts in the economic cycle from interest rates; and all these matters that have to be considered. But I would not lay that conclusion on any one specific item.

Q Well, but does the President believe that tax revenue increases can help continue economic growth or stifle economic growth?

MR. FITZWATER: Well, again, I'm not going to comment on any specific item because I don't want to prejudge the talks. We've said everything's on the table.

Q I mean generally.

MR. FITZWATER: But you'll interpret it as specifics, so I can't get involved.

Can't we move on to a lot of other issues here?

Q Marlin, can I ask one more on this? Let me ask the other side of that question. How much is the President concerned that without some kind of agreement, that does include taxes and that is substantial, that there will be an adverse market reaction that in the long run is going to have a devastating effect on the economy?

MR. FITZWATER: I don't think the market is reflective of the specific content of the package as much as it is the overall deficit reduction effort that's made. And history has shown that the markets are sensitive to efforts to reduce the deficit; certainly, interest rates are often reflected in budgetary considerations of that kind. But I would not try to tie market expectations to any specific aspect. The important thing is --

Q But, Marlin, what about the decision to try to push forward today? I mean, how much is he worried about the markets?

MR. FITZWATER: I don't know that this would have that much impact on the markets. We've been talking about budget reduction. I think the markets will take heart today from the fact that they've made progress, that they've issued a joint statement saying there are areas of agreement that they are pursuing. But I suspect it would be more related to this overall progress rather than any specific item.

Q OCS?

MR. FITZWATER: Bill, how about a final question. Let's go on to some other things. Haven't we exhausted every aspect of this budget?

Q Yes.

Q No.

MR. FITZWATER: No. Patrick, go ahead.

Q You did mention the savings and loans --

MR. FITZWATER: I'm sorry, Bill, go ahead.

Q I have a follow-up. (Laughter.) I just want to make sure that I understand one of your previous answers. Are you saying in the briefing here this morning that the President's "no new taxes" pledge is still in effect?

MR. FITZWATER: I'm saying that we have agreed that for this process that we would not comment on specific aspects, that everything's on the table. As I've said here so many times, I don't want to prejudice this debate in any way by giving you speculation on the various specifics.

Q I understand, but is the pledge still in effect?

MR. FITZWATER: I'm saying that everything's on the table and we aren't going to make comments that prejudice the process.

Q Mitchell said at his press conference on the Hill 45 minutes ago, quote, "The President has concluded that tax increases are necessary." Are you saying that is not true? That the Majority Leader is wrong?

MR. FITZWATER: I'm saying that the statement speaks for itself, that I've defined it here in our terms for the better part of an hour almost. And I will live by those words. And everybody's free to characterize it in any way they want to.

Q I think you also said at one point that the negotiators agreed on what the statement means. Was Mitchell right when he said that is what the statement means?

MR. FITZWATER: I say they were there when the statement was written and I'm sure they all have different impressions, and they're all free to comment on those. I'm just telling you what our attitude is.

Q You are?

MR. FITZWATER: But I wouldn't comment on them.

Patrick, a final question on the budget.

Q You didn't mention the savings and loan and this litany of things that brought about the need for this reassessment here. Is that not a factor -- doesn't enter in at all?

MR. FITZWATER: Only in a sense of its impact on the deficit, yes. (Laughter.)

Q Is it not one of the considerations here, or not?

MR. FITZWATER: In that it raises the deficit, sure.

Q The President issued the invitation for this meeting. When he did so, did he intend at the time to have such a statement worked out, or was this something that was volunteered by the Democrats in the course of talks today?

MR. FITZWATER: I don't know the intentions beforehand.

Q Why did he call the meeting?

Q Why weren't you invited?

MR. FITZWATER: Because he thought it was important that they meet again to -- at the leadership level to put new emphasis behind the process which now is going to have to focus on these

difficult decisions. The budget negotiators have been meeting almost daily in various subgroups and negotiating sessions usually under the direction of Congressman Gephardt. And the Speaker of the House and the Majority Leader, Mr. Mitchell, and the President all felt it was important to gather this leadership group back together at this point to give new emphasis to the process.

Let's cut it off. I mean we exhausted every possible --

Q OCS.

MR. FITZWATER: OCS -- we will release a statement and a fact sheet at 12:30 p.m. today announcing the President's decision on offshore drilling. The announcement will be followed by a press conference at the Department of Interior with Secretary Lujan and Director of the Mineral Management Service Barry Williamson.

Q What time?

MR. FITZWATER: That's at approximately 1:00 p.m. Just by way of background, in his February 9, 1989, address to Congress the President posed a moratorium on three lease sales -- Sale 91 off the coast of northern California, Sale 95 off the coast of southern California, and Sale 116, part 2, off the coast of southwestern Florida. On March 21st, 1989, a task force was named consisting of the Secretary, Secretary Watkins at Energy, Administrator Knauss of NOAA, Administrator Reilly of EPA and Director Darman.

Q What was the date on that?

MR. FITZWATER: March 21. The task force delivered its report to the President on January 3. The President met with the members on January 18 and May 16 to discuss it. And his decision will be carefully crafted and written and available to you with a fact sheet at 12:30 p.m.

Q Are the people in Florida still going to be happy?

Q What do you mean will be, it is, isn't it?

Q You said January 16th and --

MR. FITZWATER: The task force meetings were on January 18 and May 16.

-- Second announcement. On the Spotted Owl. At 2:30 p.m.

Q Wait a minute.

MR. FITZWATER: Yes.

Q When did he make a decision?

Q Wait a minute, OCS first.

MR. FITZWATER: On OCS. Okay. Helen asked first. First question, she asked when he made the decision. I pointed out this process in order to emphasize that it's been a continuing decision-making process in which he has listened to a number of people. He met with the congressional delegations from Florida and California, as well as with the task force twice, and with individual members as well. He has talked to individuals related to this case and Congress and others, and within the last few days, has begun to make decisions regarding to the specifics of the case in terms of drafting language and defining exactly how this decision would go. So it's impossible to specify a minute, but I would say in the last few days.

Q Why is he not doing it himself? Why are you doing

it by paper and leaving it to Lujan?

MR. FITZWATER: The decision is a complicated one.

Q Then why are you leaving it to Luhan? (Laughter.)

MR. FITZWATER: Doing it on paper specifies the exact nature of it. Secretary Lujan is the definitive expert who can give you all of the information on the background of these leases and what goes into them.

Q Is Pete Wilson going to be with him?

Q Would he at any point be available to answer questions about it in the next few days? And also, have there been any discussion at all or prior notification to Pete Wilson or to California Republicans?

MR. FITZWATER: I'm sure he'll be glad to answer questions at some point. And I'm sure there will also be prior notification, although I don't know when that happened -- probably already this morning.

Q Logistical question -- will the White House paper be available at Interior?

MR. FITZWATER: At Interior? We can make sure that happens, can't we? Sure.

Q The Egyptian Foreign Minister -- I have a deadline.

MR. FITZWATER: You're on deadline? All right, let's do that then. There's nothing else on OCS, is there? Let me do the Spotted Owl first and get it out of the way.

At 2:30 p.m. in the press room at the Department of Agriculture, Secretary Yeutter and Secretary Lujan -- this man has a busy day today -- will announce their agencies' plans to protect the Northern Spotted Owl. The plans will be implemented by the Forest Service and the Bureau of Land Management, the two key federal agencies involved. And it will take effect on July 23.

I have a lengthy process here that goes into this. I don't know that I need to go through all of it here.

Q Press room at Agriculture?

Q Put it on paper.

Q Paper.

MR. FITZWATER: It is available here at least. I can make it available to you.

Q The departmental auditorium, Marlin?

Q Where is it?

MR. FITZWATER: At 2:30 p.m. at the Department of Agriculture.

Q Where?

MR. FITZWATER: Press room.

Q Marlin, does the President feel that protecting the entire habitat of the Spotted Owl is not fair to the loggers and jobs that would be lost?

MR. FITZWATER: Well, I would wait until you see the

decision and then we'll face those questions.

Let me do a readout on the Meguid visit.

Q On the Egyptian Foreign Minister meeting with President Bush, the Foreign Minister said he was encouraged by President Bush. What is the new element which Mubarak needed to send his Foreign Minister after he talked to the President on Saturday? What is the new element to bring him here?

MR. FITZWATER: The meeting lasted approximately a half an hour. President Bush and Foreign Minister Meguid are old friends, have known each other for a number of years. The discussion focused on the peace process and the President's recent decision with regard to the PLO.

The President made two essential points in the discussion. First, that the United States is committed to continuing the peace process and we want to work as best we can to get a dialogue going that will help resolve those issues. Secondly, the President reiterated that his action with regard to the PLO was a suspension of our dialogue and that we continue to look to the PLO to make those actions and statements that would allow us to resume a dialogue at some point in the future. And the discussion for the entire period really focused around those two questions in terms of the Minister's information from the Middle East and our reaction to that.

Q To follow up, the State Department said yesterday that Abdel Meguid is not discussing the PLO because of the suspension, there is no other channel. The Egyptians will not be the channel to the PLO. So now you are saying he discussed the PLO suspension, suspension of the dialogue.

MR. FITZWATER: I'm saying there was a discussion of that, yes. But that does not -- that's not the same as defining their role. I don't know what their role would be.

Q What is the new element in it? Do you know why he sent him after the telephone conversation, why did he send him? What is the new element?

MR. FITZWATER: I assume the reference to a new element would simply be listening to the President express his personal commitment on these issues.

Q What did President Mubarak propose in his letter to President Bush to move the peace process forward?

MR. FITZWATER: He did give a letter -- Minister Meguid did deliver a letter to the President, but we didn't get a chance to read it before the meeting was over. And I came right here from that, so I don't --

Q So the President is not sending a reply to Mubarak? Because he implied there was a reply.

MR. FITZWATER: He will reply, yes.

Q But he did not give it to Abdel Meguid?

MR. FITZWATER: He hadn't read the first letter yet.

Q Do you have any comment on the --

MR. FITZWATER: I mean, he will.

Q -- the progress or lack of progress with the structural initiatives talks with the Japanese after a few days?

MR. FITZWATER: I don't really have anything to add on that. We continue to keep pressure on. We continue to believe that we will be able to reach a satisfactory final report.

Q Parental leave?

MR. FITZWATER: Parental leave not here yet.

Q Can we follow up on Tokyo?

MR. FITZWATER: I'll come back, Helen.

Q Has Governor Sununu met with Chinese government officials or their representatives here in New York in recent days or weeks?

MR. FITZWATER: I'm not aware of any meeting.

Q You weren't aware that Sununu did some of the spade work leading up to the announcement yesterday?

MR. FITZWATER: I don't think so. I've not heard anybody even speculate on that.

Q Why do you ask, John?

MR. FITZWATER: Why do you ask, John? (Laughter.)

Q We have a story from Tokyo quoting a high administration official as saying that they're going to have budget surpluses by 1993 by using Social Security surpluses.

MR. FITZWATER: No, that -- you mean the United States?

Q U.S.

MR. FITZWATER: Yes, I saw that statement, but that's just a slightly -- I don't know what to put it -- garbled version of the existing budgetary process, which is that Social Security trust funds are counted as a part of the deficit. Our budget aims at a balanced budget in 1993, and so you would have that outcome. But it does not mean that we're going to use trust funds to pay off the deficit in any new sense, no.

THE PRESS: Thank you.

END

11:30 A.M. EDT

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