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| **Record Group/Collection:** | George H.W. Bush Presidential Records |
| **Collection/Office of Origin:** | Chief of Staff, White House Office of |
| **Series:** | Sununu, John, Files |
| **Subseries:** | Issues Files |

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| **OA/ID Number:** | 29136 |
| **Folder ID Number:** | 29136-009 |

**Folder Title:**
Budget [1990] (1 of 2) [4]

| Stack: | Row: | Section: | Shelf: | Position: |
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# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 01. Letter | From William Bennett to John Sununu<br>Re: Funding for FY 1991 Drug Control Programs (3 pp.) | 11/20/89 | ~~P~~5 | |

**Collection:**

**Record Group:** Bush Presidential Records
**Office:** Chief of Staff, White House Office of
**Series:** Sununu, John, Files
**Subseries:** Issues Files
**WHORM Cat.:**
**File Location:** Budget [1990] (1 of 2) [4]

Open on Expiration of PRA
(Document Follows)
By JP (NLGB) on 1/19/09

| | | | |
|---|---|---|---|
| **Date Closed:** | 12/16/2004 | **OA/ID Number:** | 29136-009 |
| **FOIA/SYS Case #:** | 1998-0004-F[1] | **Appeal Case #:** | |
| **Re-review Case #:** | 2005-0426-S | **Appeal Disposition:** | |
| **P-2/P-5 Review Case #:** | | **Disposition Date:** | |
| **AR Case #:** | | **MR Case #:** | |
| **AR Disposition:** | | **MR Disposition:** | |
| **AR Disposition Date:** | | **MR Disposition Date:** | |

## RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

**Freedom of Information Act - [5 U.S.C. 552(b)]**

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

OFFICE OF NATIONAL DRUG CONTROL POLICY
EXECUTIVE OFFICE OF THE PRESIDENT
Washington, D.C. 20500

file
budget

November 20, 1989

Honorable John Sununu
Chief of Staff to the President
The White House
Washington, D.C. 20500

Dear Governor Sununu:

This concerns the funding level OMB has recommended for drug control programs for FY 1991. I understand that total funding for drugs would be $8.93 billion, an increase of $630 million over the FY 1990 postsequester level, and $82 million (or 0.9 percent) over the expected FY 1990 enacted presequester level. Enclosure #1 shows how OMB's FY 1991 recommended level compares with prior increases.

I do not accept this mark. In my judgment, the recommended level is politically unsustainable on Capitol Hill, and it will thus hurt the President -- badly -- to the point of ceding leadership on the drug issue. In his inaugural address, the President announced his intention to end the scourge of drugs, and the American people and the Congress now consider drugs the most important of all domestic issues.

Failure to continue our momentum on drugs -- just months after release of a popular strategy and an unprecedented television speech -- would severely damage the Administration's popular support and political position.

This problem of perception will be made especially acute by the fact that, sometime in the next few months, Federal agencies will release information revising upward by four to eight times, or more, the estimated quantity of cocaine consumed in the U.S. This is a recalculation prompted in part by huge seizures this fall. It means that total cocaine consumption -- and the drug problem -- is greater than previously believed. Given this news -- and the likelihood of a drug bill from the Congress next year, an election year -- the OMB recommended level will, in my view, further erode our political position on drugs.

On substantive grounds, OMB's proposed level falls far short of what is required by the President's Drug Control Strategy. For example:

- o Strategy I states that a priority for FY 1991 is to "increase assistance to State and local law enforcement." OMB's recommended level provides for no increase in assistance to States and localities.

- o Strategy I states that in FY 1991 we will "expand resources for treatment and prevention programs." OMB's recommended level provides for no increase in treatment and prevention.

- o Strategy I states that a funding priority for FY 1991 is to "establish order in the Nation's public housing projects." OMB's recommended level provides only marginal increases in this area.

- o Strategy I states that in FY 1991 "we will strengthen the presence of the Border Patrol along the Southwest Border." OMB's recommended level provides for virtually no increase for the Border Patrol.

- o Strategy I states that in FY 1991 a funding priority is to "reduce the amount of marijuana cultivated on American soil." OMB's recommended level provides for almost no increase in this area.

- o Strategy I states that a funding priority in FY 1991 is to step up "efforts against money laundering operations." OMB's recommended level provides for no increase in this area.

These are merely some of the shortfalls in the FY 1991 level OMB proposed. There are others. I am enclosing a table (Enclosure #2) showing my recommended funding for drug programs. As you will note, we have already reduced our original recommended level by a considerable amount. In some cases, as the table shows, we have reached agreement with OMB. In other cases, we have tentatively offered to come down below the "appeal" level noted on the table, but as yet we do not know on which, if any, of these OMB will agree. And on the large issues -- treatment, prevention, State and local law enforcement assistance, etc. -- there is no agreement at all. Please also note that in a number of cases -- particularly HUD and DOD -- the recommended increases would be earmarks of already approved funding levels and would not require add-ons in budget authority. In other words, while the increases would be new drug money, they would not necessarily require additional budget authority or unplanned outlays. Also enclosed (Enclosure #3) is narrative to explain my concerns about a number of particular areas, such as treatment, prevention, State and local law enforcement, and the like.

I would also recommend that we consider ways of generating additional funds for the drug war. One is an income tax refund check-off expressly dedicating funds for the drug war, an idea which the Administration supported during Senate consideration of S. 1735. It has been estimated by some, though this estimate is unofficial and in my view is probably low, that this would generate $50 million. It would not cost the Treasury any revenue. A second idea is the so-called "Drug War Bonds." Although the Administration has opposed this proposal in the past, given the apparent difficulty of finding revenue to support the drug war it seems worth revisiting. I have seen estimates indicating that expected public support for such an effort would generate up to $3 billion.

Meanwhile, as we are trying to resolve funding issues we are also trying to write and clear Strategy II -- due at the same time as the President's budget -- through the DPC/NSC. Obviously, until funding issues are settled, it seems almost impossible even to write, much less clear, Strategy II.

Finally, we have not been told what the recommended funding level for ONDCP itself is. I have asked for additional staff and S&E funds. It is imperative that we receive these. We are struggling to keep our heads above water at our current staffing levels, and recently passed legislation includes numerous additional requirements for studies, reports, and management efforts. We need the staff to get our mandated job done. My people have put in tremendous effort in the last year to get the office off the ground. They cannot continue to work at such a pace.

I remain willing, as I have been throughout this process, to discuss specific funding levels in these particularly critical areas.

Sincerely,

Bill

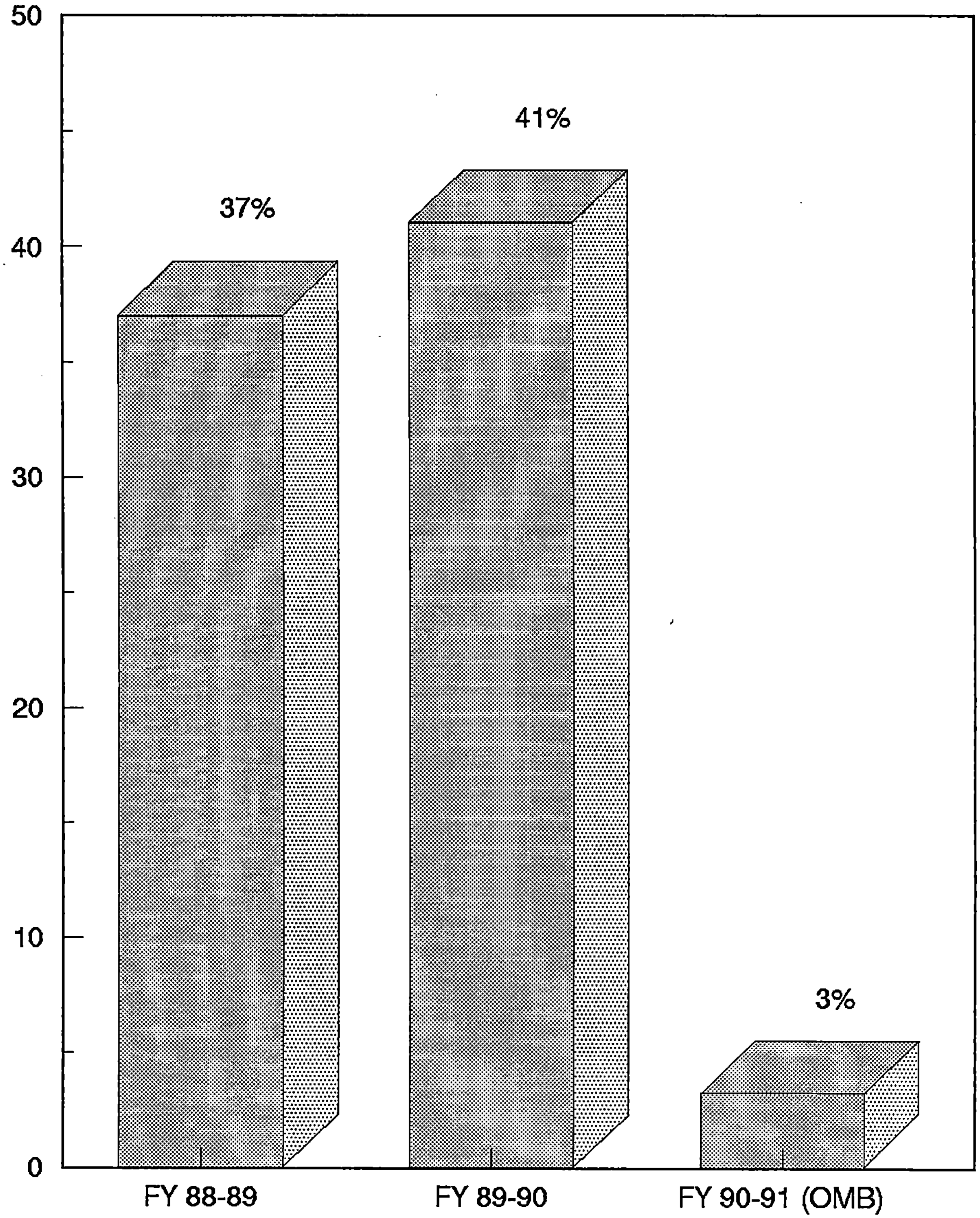
William J. Bennett

Enclosures

cc: Honorable Richard G. Darman

Enclosure 1

# REAL GROWTH IN FEDERAL DRUG CONTROL BUDGET




Change in constant 1982 dollars.
(Excludes U.S. Courts)

FY 1991 NATIONAL DRUG CONTROL BUDGET
(Budget Authority in Millions)

November 20, 1989

| | 1990 Estimated | | 1991 | | | | |
|---|---|---|---|---|---|---|---|
| | Enacted | Sequestered | ONDCP Initial Recommendation | ONDCP Revised Recommendation | OMB Passback | ONDCP Appeal | ONDCP Final (Passback+Appeal) |
| Office of National Drug Control Policy | 37 | 37 | 330 | 328 | 14 * | 300 | 314 |
| Special Forfeiture Fund | 115 | 115 | 150 | 150 | 128 | | 128 |
| Department of Justice | | | | | | | |
| DEA | 557 | 527 | 807 | 802 | 588 | 214 | 802 |
| FBI | 91 | 85 | 167 | 163 | 106 | 57 | 163 |
| OCDE | 215 | 215 | 439 | 430 | 282 | 148 | 430 |
| Criminal Div. | 15 | ? | 33 | 23 | 23 | | 23 |
| Tax Div. | 3 | ? | 2 | 3 | 1 | | 1 |
| U.S. Attorneys | 139 | 130 | 192 | 183 | 172 | | 172 |
| U.S. Marshals | 156 | 154 | 221 | 214 | 201 | | 201 |
| Prisons | 1,513 | 1,474 | 1,053 | 1,053 | 1,045 | | 1,045 |
| Support | 112 | 108 | 193 | 143 | 154 | | 154 |
| INS | 112 | 106 | 173 | 169 | 110 | 57 | 167 |
| OJP | 484 | 474 | 2,583 | 1,368 | 483 | 900 | 1,383 |
| Forfeiture Fund | 361 | 321 | 372 | 372 | 372 | | 372 |
| INTERPOL | 1 | ? | 1 | 1 | 1 | | 1 |
| Inspector General | 1 | ? | 1 | 1 | 0 | | 0 |
| | 3,759 | 3,609 | 6,235 | 4,924 | 3,538 | 1,376 | 4,914 |
| Department of Treasury | | | | | | | |
| Customs | 600 | 563 | 647 | 600 | 491 | 109 | 600 |
| IRS | 62 | 60 | 120 | 127 | 69 | 58 | 127 |
| BATF | 96 | ? | 114 | 114 | 106 | | 106 |
| Secret Service | 3 | ? | 3 | 3 | 3 | | 3 |
| FLETC | 17 | ? | 23 | 23 | 19 | 4 | 23 |
| | 778 | 623 | 906 | 867 | 688 | 171 | 859 |

Enclosure #2

FY 1991 NATIONAL DRUG CONTROL BUDGET
(Budget Authority in Millions)

November 20, 1989

| | 1990 Estimated Enacted | 1990 Estimated Sequestered | 1991 ONDCP Initial Recommendation | 1991 ONDCP Revised Recommendation | 1991 OMB Passback | 1991 ONDCP Appeal | 1991 ONDCP Final (Passback+Appeal) |
|---|---|---|---|---|---|---|---|
| Department of Transportation | | | | | | | |
| Coast Guard | 692 | 625 | 740 | 785 | 716 | 20 | 736 |
| FAA | 21 | 20 | 22 | 32 | 32 | | 32 |
| NHTSA | 8 | 6 | 50 | 50 | 10 | | 10 |
| | 721 | 651 | 811 | 867 | 758 | 20 | 778 |
| Department of State | | | | | | | |
| INM | 115 | ? | 214 | 214 | | | |
| AID (Direct) | 48 | ? | 238 | 218 | | | |
| USIA | 3 | ? | 4 | 4 | | | |
| Other Foreign Assistance | 160 | ? | 293 | 291 | | | |
| | 326 | 267 | 748 | 727 | 457 | 270 | 727 |
| Department of Agriculture | | | | | | | |
| Agriculture Research Service | 1 | ? | 2 | 1 | 2 | 5 | 7 |
| U.S. Forest Service | 5 | ? | 11 | 11 | 10 | | 10 |
| | 7 | 6 | 12 | 12 | 12 | 5 | 17 |
| Department of Interior | | | | | | | |
| Bureau of Land Management | 7 | ? | 12 | 12 | 7 | 5 | 12 |
| U. S. Park Service | 6 | ? | 15 | 12 | 12 | | 12 |
| Bureau of Indian Affairs | 15 | ? | 10 | 16 | 15 | | 15 |
| Fish and Wildlife Service | 1 | ? | 0 | 1 | 1 | | 1 |
| Bureau of Ter. & Intntl. Afr | 1 | ? | | 2 | 2 | | 2 |
| | 30 | 29 | 38 | 44 | 37 | 5 | 42 |
| Department of Defense | | | | | | | |
| Interdiction | 500 | ? | 907 | 987 | | | |
| International | 12 | ? | 0 | 0 | | | |
| Prevention/Treatment | 118 | ? | 122 | 118 | | | |
| | 630 | 612 | 1,029 | 1,105 | 744 | 0 | 744 |

FY 1991 NATIONAL DRUG CONTROL BUDGET
(Budget Authority in Millions)

November 20, 1989

| | 1990 Estimated Enacted | 1990 Estimated Sequestered | 1991 ONDCP Initial Recommendation | 1991 ONDCP Revised Recommendation | 1991 OMB Passback | 1991 ONDCP Appeal | 1991 ONDCP Final (Passback+Appeal) |
|---|---|---|---|---|---|---|---|
| Department of HHS | | | | | | | |
| ADAMHA | 1,211 | 1,173 | 1,811 | 1,818 | 1,218 | 600 | 1,818 |
| IHS | 24 | ? | 25 | 24 | | | |
| FDA | 7 | ? | 7 | 7 | | | |
| HDS | 38 | ? | 40 | 38 | | | |
| | 1,280 | 1,250 | 1,882 | 1,886 | 1,288 | 600 | 1,888 |
| Department of HUD | 100 | 94 | 304 | 300 | 150 | 50 | 200 |
| Department of Education | 569 | 536 | 824 | 769 | 559 * | 210 | 769 |
| Department of Labor | 6 | 5 | 6 | 10 | 10 | | 10 |
| ACTION | 10 | 9 | 13 | 12 | 9 | 3 | 12 |
| Veterans Administration | 141 | 141 | 196 | 191 | 143 | 48 | 191 |
| U.S. Courts | 345 | 321 | 409 | 398 | 398 | | 398 |
| TOTAL (w/ DOD, HUD, Courts) | 8,852 | 8,304 | 14,000 ** | 12,589 | 8,934 | 3,057 | 11,991 |
| TOTAL (w/o DOD, HUD, Courts) | 7,777 | 7,277 | 12,258 ** | 10,786 | 7,642 | 3,007 | 10,649 |

* = assumed level

** = Total included $106 million for initiatives
under development but not yet distributed by agency.

Enclosure #3

# NATIONAL DRUG INTELLIGENCE CENTER

| Original ONDCP Recommendation | OMB Passback | Revised ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|
| | (Dollars in Millions) | | |
| $100 | $0 | $86 | $86 |

**THE NEED**

- o Intelligence support is needed to dismantle major drug trafficking organizations and to improve U.S and foreign government capabilities to combat drug trafficking and associated financial crimes.

**ONDCP PROPOSAL**

- o ONDCP originally recommended $100 million for FY 1991 for this Center but has now modified its recommendation to $86 million.
  - -- The ONDCP plan builds on the FBI's existing Drug Information System rather than developing a separate system.
  - -- $53 million of the FY 1991 resources are for construction and equipment-related expenses. These funds do not recur in the outyears.
- o The annual outyear cost of operating the Center is only $33 million.

**JUSTIFICATION**

- o The Strategy commits the Administration to the "disruption and dismantlement of drug-trafficking organizations" and to developing "a proposal for a strategic drug intelligence center to be included in the February 1, 1990, Strategy."
- o Existing intelligence activities are not adequately coordinated. Current intelligence gathering, while serving individual agency needs, is not designed to support the drug effort in a cohesive, coordinated manner.
- o The Center will be proactive, rather than reactive, in its use of intelligence information and will reach beyond the U.S. borders to stem the flow of illegal drugs.

NNDIC (cont'd.)

- o The Center will provide broad ranging analysis of drug production, transportation, and distribution needed to target trafficking organizations.

- o The OMB passback provides no funds for this Center. Instead, it says that the Center's costs should be covered from whatever funds that might accrue in ONDCP's Special Forfeiture Fund (SFF), even though (as OMB acknowledges), there is no way of estimating how much will actually be realized in this Fund.

## LAW ENFORCEMENT DRUG GRANTS TO STATES

| Original ONDCP Recommendation | OMB Passback | Revised ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|
| | (Dollars in Millions) | | |
| $1,500 | $450 | $1,350 | $900 |

### The Need

o State and local governments are in dire need of immediate and sustained Federal assistance to maintain and expand critical drug law enforcement programs. This assistance is essential if we are to take back the streets from violent drug offenders.

### ONDCP Proposal

o ONDCP recommends an increase for Bureau of Justice Assistance (BJA) grants over FY 1990 of $900 million, bringing total BJA drug grant funding to $1,350 million.

o Matching grants from BJA provide partial funding for a variety of vital criminal justice initiatives aimed at combatting drugs. Some examples include:

-- Multijurisdictional task force programs which integrate Federal, State, and local drug agencies;

-- Programs designed to target domestic marijuana production;

-- Community and neighborhood anti-drug programs which assist citizens in taking back their streets;

-- Career criminal prosecution programs, including the development of model drug control legislation;

-- Programs to improve drug control technology, such as pretrial drug testing programs;

-- Demand reduction education programs in which law enforcement officers participate; and

-- Programs which provide for the identification, assessment, referral to treatment, case management, and monitoring of drug-dependent offenders.

Law Enforcement Drug Grants to States (cont'd.)

**Justification**

- In the Strategy, the Administration committed itself to increased funding in FY 1991 for law enforcement grants:

  "..[the Administration will] seek increased Federal aid to States and localities through matching funds to expand State and local criminal justice systems."

- ONDCP conducted a survey of several senior State law enforcement officials in order to assess the nationwide need for additional BJA grant funding. Contacted were the States of California, New York, Texas, Florida, Illinois, Ohio, Virginia, Louisiana, Arizona, Colorado, and Delaware. By population, these States represent 47 percent of the country. Their combined annual need alone is $602 million. Based on these representative examples, the national need is about $1.3 billion. ONDCP's recommendation for total BJA grant funding of $1.35 billion approximates the national need.

- The OMB passback provides no increase at all over the 1990 level, and is inconsistent with the commitment the Administration made to the American public just two months ago.

## HIGH INTENSITY DRUG TRAFFICKING AREAS

| Original ONDCP Recommendation | OMB Passback | Revised ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|
| | (Dollars in Millions) | | |
| $200 | $0 | $200 | $200 |

**THE NEED**

o Certain areas of the country require a direct, concentrated law enforcement presence if they are successfully to combat the serious drug problems they currently face.

**ONDCP PROPOSAL**

o ONDCP recommends $200 million to provide financial assistance to High Intensity Drug Trafficking Areas (HIDTAs) that will be designated in the January Strategy.

**JUSTIFICATION**

o The 1988 Anti-Drug Abuse Act calls on the Director of ONDCP to designate HIDTAs for the purpose of providing Federal assistance to alleviate drug-related problems. Amendments to the 1990 Transportation Appropriations bill will require the Director of ONDCP to designate HIDTAs by February 1990.

o The Strategy says, "The Administration intends to identify and so designate particular jurisdictions in a subsequent National Drug Control Strategy." Administration officials have testified before Congress that the Strategy to be released this January will designate HIDTAs.

o The Strategy requested $21 million for HIDTAs for FY 1990 (the likely enacted level is $25 million). This reflects the Administration's commitment to certain areas of the country to provide a special, focused effort to meet the serious needs facing them.

o HIDTA designation will mean direct assignment of additional Federal law enforcement officers and prosecutors. Additional funding is needed to cover the investigative, ADP, and other support costs attendant with a major Federal build-up.

o A serious problem requires a serious solution. The proposed level of $200 million for 1991 will enable the Administration to have a major impact in the designated HIDTAs.

HIDTA (cont'd.)

- o The OMB passback provides no funds for the HIDTAs. Instead, it says that the HIDTAs' costs should be covered from whatever funds that might accrue in ONDCP's Special Forfeiture Fund (SFF), even though (as OMB acknowledges), there is no way of estimating how much will actually be realized in this Fund.

# INTERNATIONAL INITIATIVES

| Original ONDCP Recommendation | OMB Passback | Revised ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|
| | (Dollars in Millions) | | |
| $748 | $457 | $727 | $270 |

## THE NEED

o The primary source of the most dangerous drugs threatening our nation is foreign. While most international threats are only potential threats, the damage and violence caused by the drug trade are actual and pervasive. The President has declared drugs a major threat to our national security.

## ONDCP PROPOSAL

o Pending the outcome of NSC deliberations, ONDCP recommends a total of $727 million in the international area--$270 million more than OMB is providing. These funds will permit a comprehensive approach to attacking drugs at their source.

-- $214 million is recommended for the Department of State's Bureau of International Narcotics Matters (INM). The cocaine source countries of the Andean Strategy (Colombia, Bolivia, and Peru) will benefit from $98 million (country program as well as interregional program funds). Cocaine transit countries will be targeted with $37 million. $60 million will support activities in heroin producing and transit countries. The precursor chemical problem will be addressed with $3 million. Other anti-drug activities, including coca eradication in non-Andean Strategy countries, marijuana eradication, and actions against other illegal drugs, will be supported with $17 million.

-- $291 million is recommended for military assistance under the Foreign Assistance Act of 1961, as amended, to be used for international narcotics control purposes. $141 million in Foreign Military Sales Financing (FMSF) and International Military Education and Training (IMET) will be provided to the Andean Strategy countries. Opium producing countries will receive $125 million in military assistance. $25 million in military assistance will support counter-narcotics activities in Latin American and Caribbean cocaine transit countries.

International Initiatives (cont'd.)

-- $218 million is recommended for the Agency for International Development (AID) for economic assistance to be used for international narcotics control purposes. $159 million in Economic Support Funds (ESF) and,

Development Assistance will be used for narcotics-related purposes in the Andean Strategy countries as provided for in NSD-18. Heroin producing countries in Southeast and Southwest Asia will receive $47 million for narcotics-related purposes. The remaining $12 million will support narcotics awareness programs in cocaine and heroin, producing and transit countries throughout the world.

-- $4 million is recommended for the U.S. Information Agency (USIA). These funds will support USIA's counter-drug efforts throughout the world, but especially in Latin America.

**JUSTIFICATION**

o The Strategy emphasizes that "two drugs -- cocaine and heroin -- constitute the most serious threat to the United States." Initially in FY 1990, the primary focus is to be on the major cocaine source countries of the Andean Strategy, which is projected as a five-year initiative. The Strategy emphasizes, however, that we must encourage enforcement and eradication programs in heroin countries. Our recommendation would permit us to support the Andean Strategy while, at the same time, addressing the growing heroin menace.

o The Strategy commits us to comprehensive international programs "directed at the foreign sources of illegal drugs" rather than concentrating our efforts on interdiction. These programs for "effectively attacking international production and trafficking" will "allow us to disrupt the drug trade from cultivation to arrival in the United States, rather than merely confronting it on our streets." Our recommendation will expand efforts in the cocaine transit countries to stop the transport of illegal drugs before they reach our borders.

International Initiatives (cont'd.)

- The *Strategy* clearly states that "a focus of our international anti-drug effort" must be multi-national criminal organizations and that "every element of these organizations, including their production, processing, transportation, distribution, and financial networks, must be attacked." Our recommendation will permit us to direct efforts to countries which supply and traffick in precursor chemicals needed to produce cocaine.

- The *Strategy* also calls for curtailing the foreign supply of marijuana and for the eradication of the coca crop when it can be made an effective strategy. Our recommendation provides for these activities.

## PREVENTION ACTIVITIES

| Agency | Original ONDCP Recommendation | OMB Passback | Final ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|---|
| | (Dollars in Millions) | | | |
| Education | $ 700 | $ 536 | $ 646 | $ 110 |
| ADAMHA | 437 | 237 | 352 | 115 |
| HUD | 304 | 150 | 200 | 50 |
| Total | 1,441 | 923 | 1,198 | 275 |

**THE NEED**

- Ultimately, we cannot win the drug war until we reduce demand for illegal drugs. This means that we must not only punish those who use drugs, we must also put great emphasis on preventing young people from ever using drugs in the first place. And we must do a far better -- and bigger -- job of this than we have been doing so far.

**ONDCP PROPOSAL**

- An additional $275 million is needed above the OMB passback for education and community prevention programs. This includes:

  -- $100 million for community prevention grants administered by ADAMHA.

  -- $100 million for programs authorized by the Drug Free Schools and Communities Act administered by ED.

  -- $50 million for Drug Elimination grants administered by HUD.

  -- $15 million for demonstration grants for high risk populations and for increased administrative expenses for ADAMHA and OSAP.

**JUSTIFICATION**

- The Strategy commits us to the expansion of community-wide drug prevention efforts. The increase in funding provided by Congress for 1990 will provide $50 million for community prevention grants. This amount falls short of the $135 million requested as part of our Strategy for 1990. Our recommendation for 1991 will provide an additional $100

Prevention Activities (cont'd.)

million for these grants, thereby bringing us up to our second year goal. The OMB passback provides no additional funding for this program.

- According to the *Strategy*, the primary goal of prevention is to see to it that Americans -- especially school children -- never start down the slippery slope of drug use. The *Strategy* emphasizes the use of "refusal skills training" and "resistance training" in preventing student drug use. Congress provided more than a 50 percent increase in funding in 1990 for school-based prevention programs. Our recommendation for 1991 would push these programs forward and ensure that solid prevention programs become a permanent fixture in school curricula. The OMB passback provides no additional funding for these programs.

- The *Strategy* commits us to "establish order in the nation's public housing projects." Our original recommendation would have added \$200 million for this initiative. OMB provided only a quarter of that amount for this critical program. We recommend that at least \$100 million be added to the 1990 level to help us rid our public housing projects of drug traffickers.

## DRUG TREATMENT AND RESEARCH

| Agency | Original ONDCP Recommendation | OMB Passback | Revised ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|---|
| ADAMHA | $ 1,374 | $ 981 | $ 1,466 | $ 485 |
| ED/RSA | 124 | --- | 100 | 100 |
| VA | 196 | 143 | 191 | 48 |
| Total | 1,694 | 1,124 | 1,757 | 633 |

**THE NEED**

o Millions of Americans need help to stop using drugs. If our treatment system is to do the job required of it, the system must be expanded and improved. Increased capacity will become particularly important as greater numbers of drug users seek or are forced into treatment due to stepped up user sanctions.

**ONDCP PROPOSAL**

o An additional $633 million is needed above the OMB passback to increase the number of treatment slots and improve treatment services. This includes:

  -- $410 million is requested for the ADAMHA Block grant program to generate the equivalent of an additional 78,800 treatment slots across the nation, of which 19,500 would be used by the States for incarcerated individuals, and 13,800 could be used by the Office of Treatment Improvement to establish a treatment campus in one or two States.

  -- $100 million is requested for the Rehabilitation Services Administration to increase the number of clients served by the Vocational Rehabilitation system whose primary or secondary disability is drug dependency as well as to provide aftercare and postemployment services for recovering addicts.

  -- $45 million is requested for the VA to generate additional inpatient and outpatient services and halfway house placements for drug users.

  -- $15 million for demonstration grants for high risk populations and for increased administrative expenses for ADAMHA and OSAP.

Drug Treatment & Research (cont'd.)

- An additional $65 million is needed above the OMB passback for drug use and treatment surveys and for the evaluation of drug treatment programs.

**JUSTIFICATION**

- The Strategy commits us to the expansion of our treatment capacity. The increase in funding provided by Congress for 1990 will generate the equivalent of an additional 60,000 slots. The amount recommended for 1991 will generate the equivalent of another 78,800 slots, producing in total a treatment capacity that should be adequate to service the 2 million Americans presently in need of treatment. The OMB passback provides no additional funding for slots.

- The Strategy commits us to correcting system inefficiencies which make it difficult to generate more slots and to match users to appropriate treatment strategies. Our request for 1991 will allow the Office of Treatment Improvement to use up to a limited portion of Block grant funds (up to $70 million) to establish one or two State demonstration projects to bring rapidly on line a large number of treatment slots. Campus-like institutions could be developed where separate treatment facilities could function independently while sharing joint services and having available to them campus-wide resources. These campuses could be at the heart of the State systems, providing detoxification and residential treatment for the most needful and disordered of the State's drug users.

- The Strategy commits us to the expansion of services to those drug-dependent persons who need other services in addition to treatment. The amount recommended for 1991 will ensure the provision of vocational rehabilitation, job placement, and post-employment services for these people. The OMB passback provides no funding for this initiative.

- The Strategy commits us to the expansion and improvement of Federal information collection and research. The appropriation provided by Congress for 1990 increased funding only for NIDA research. The amount recommended for 1991 will provide funding for the Office of Treatment Improvement to learn more about the people who enroll in treatment programs (the types of drugs they are using, their treatment history, and their rate of recidivism) and about the treatment programs themselves (their methods, success rates, and clientele). The OMB passback provides no funding for these activities.

## OTHER HIGH PRIORITY DRUG INITIATIVES

| Original ONDCP Recommendation | OMB Passback | Revised ONDCP Recommendation | Amount Over Passback |
|---|---|---|---|
| | (Dollars in Millions) | | |
| $8,338 | $5,980 | $6,673 | $693 |

### The Need

- o The Strategy states that "the Nation's drug control program is an integrated system." In addition to the increased resources detailed in the previous papers, additional resources must be provided for a wide range of drug control agencies for them to function as a balanced, integrated system.

### ONDCP Proposal

- o ONDCP recommends increases for a number of very high priority initiatives needed to accomplish the goals and objectives stated in the Strategy. In total, we recommend $693 million more than OMB provided in its passback. These funds will be used primarily by the law enforcement agencies to attack drug trafficking organizations and reduce the overall supply of drugs in the United States.

- o A full display of the increases is provided in the attached table. Below is a justification for several of the most important elements.

### Justification

- o The Strategy commits the Administration to "step up efforts against money laundering operations." The OMB passback provides no resources to do this, whereas our appeal contains $65 million for FBI, DEA, IRS, and Customs.

- o The Strategy states that "areas of vulnerability, such as the Southwest land border, will continue to be strengthened" and that "the presence of the Border Patrol along the Southwest border [will be] strengthened." But the OMB passback actually cuts the Border Patrol below its 1990 enacted level and provides no increases for any other land border activity. We would increase the Border Patrol by $57 million and provide $55 million for Customs border control efforts.

Other High Priority Drug Initiatives (cont'd.)

- The Strategy commits the Administration to "reduce the amount of marijuana cultivated on American soil," but the OMB passback provides no increase for this activity. We recommend a $45 million increase.

- The Strategy commits the Administration to "expand inter-agency drug task force operations" and states that the Organized Crime Drug Enforcement Task Force program "will be expanded to serve as the model and vehicle for future Federal drug enforcement efforts." OMB provides only $67 million for this crucial program, but we recommend an additional $148 million.

- The Strategy states that "a substantial volume of key drug information is not readily brought to bear in the fight against drug traffickers" because of inadequate ADP resources. The Strategy states that "this fundamental deficiency must be corrected as a matter of high priority. The agencies involved must use sophisticated ADP technology." And yet, the OMB passback provides no resources to add any additional ADP capability. We recommend an additional $80 million for FBI, DEA, Customs, INS, and the Coast Guard.

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 02. Outline | Re: Drug War Financing Gimmicks (1 pp.) | n.d. | ~~P-5~~ | |

**Collection:**

**Record Group:** Bush Presidential Records
**Office:** Chief of Staff, White House Office of
**Series:** Sununu, John, Files
**Subseries:** Issues Files
**WHORM Cat.:**
**File Location:** Budget [1990] (1 of 2) [4]

Open on Expiration of PRA
(Document Follows)
By JP (NLGB) on 10/28/05

| | | | |
|---|---|---|---|
| **Date Closed:** | 12/16/2004 | **OA/ID Number:** | 29136-009 |
| **FOIA/SYS Case #:** | 1998-0004-F[1] | **Appeal Case #:** | |
| **Re-review Case #:** | 2005-0426-S | **Appeal Disposition:** | |
| **P-2/P-5 Review Case #:** | | **Disposition Date:** | |
| **AR Case #:** | | **MR Case #:** | |
| **AR Disposition:** | | **MR Disposition:** | |
| **AR Disposition Date:** | | **MR Disposition Date:** | |

## RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

**Freedom of Information Act - [5 U.S.C. 552(b)]**

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(b)(9) Release would disclose geological or geophysical information

Budget

## RE DRUG WAR FINANCING GIMMICKS

(1) Tax check-off

Treasury estimates the likely yield at less than $50 million -- on the order of $5-10 million/year. The reduce-the-debt check-off introduced in the Reagan administration -- and advertised by President Reagan and Secretary Regan -- yielded an average of $300,000/year over 5 years.

(2) Drug War Bonds

A few simple points:

(a) If outlays increase, outlays increase. If receipts (taxes and fees) do not increase correspondingly, the deficit increases.

(b) Selling bonds can increase the deficit by increasing interest costs. But selling bonds (of any non-indexed, non-gold-backed kind) does not reduce the deficit.

(c) The reason that selling bonds is not scored as a receipt (like a tax or a fee) is straightforward:

(i) A tax or a fee does not have to be repaid; proceeds from a bond sale do.

(ii) One can't sensibly take budgetary credit for bond proceeds -- and use these to offset additional spending -- unless either:

- one does not plan to repay the bonds; or
- one is consciously running a Ponzi scheme.

(d) If selling bonds reduced the deficit, we would have no deficit.

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 03. Outline | A Few Basic Points on Funding Drug Control Programs (2 pp.) | 12/13/89 | ~~P-5~~ | |

**Collection:**

**Record Group:** Bush Presidential Records
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Budget

RGD 12/13/89

# A FEW BASIC POINTS

(1) "Throwing money at the problem" is not a serious substantive strategy. It is a political gesture.

NOTE: Most agencies do not want -- or cannot use -- more money than has been agreed to with OMB. Many asked for less. If given more resources, most would choose to fund higher priorities (at the margin) than additional increments for the already fast-growing drug programs.

(2) If the test is political credibility:

(a) The agency/OMB settlement level totals more than $10 billion. To the average American, that sounds like a lot. It allows the President to say "I am proposing to spend $2.2 billion [outlays] more than the Congress enacted last year -- a 31% increase." (NOTE: This would be 48% more than the President asked for in the September strategy.)

(b) For those in the local Congressinal crowd (not the general public) who will "see-you-and-raise-you-ten," no amount of money will pass the initial political test. From their perspective, whatever we propose will be found wanting.

(3) If the test is a serious substantive test -- with the objective of actually solving the drug problem:

(a) Buying out (displacing) the states at the margin will not solve it. That would just waste federal resources at the expense of other federal interests.

(b) Creating a modest slush fund in the ONDCP will not solve it. If there are specific needs, they ought to be identified and funded if justified.

(c) Adding tokens across the board will not solve it.

(d) And all of the above will not solve it.

(4) To get at the fundamentals -- above and beyond a $10 billion annual federal investment in enforcement, prevention, research and treatment -- one would have to look seriously at doing more to:

(a) advance a cultural reawakening in America to restore the values of work, responsibility, and future-orientation;

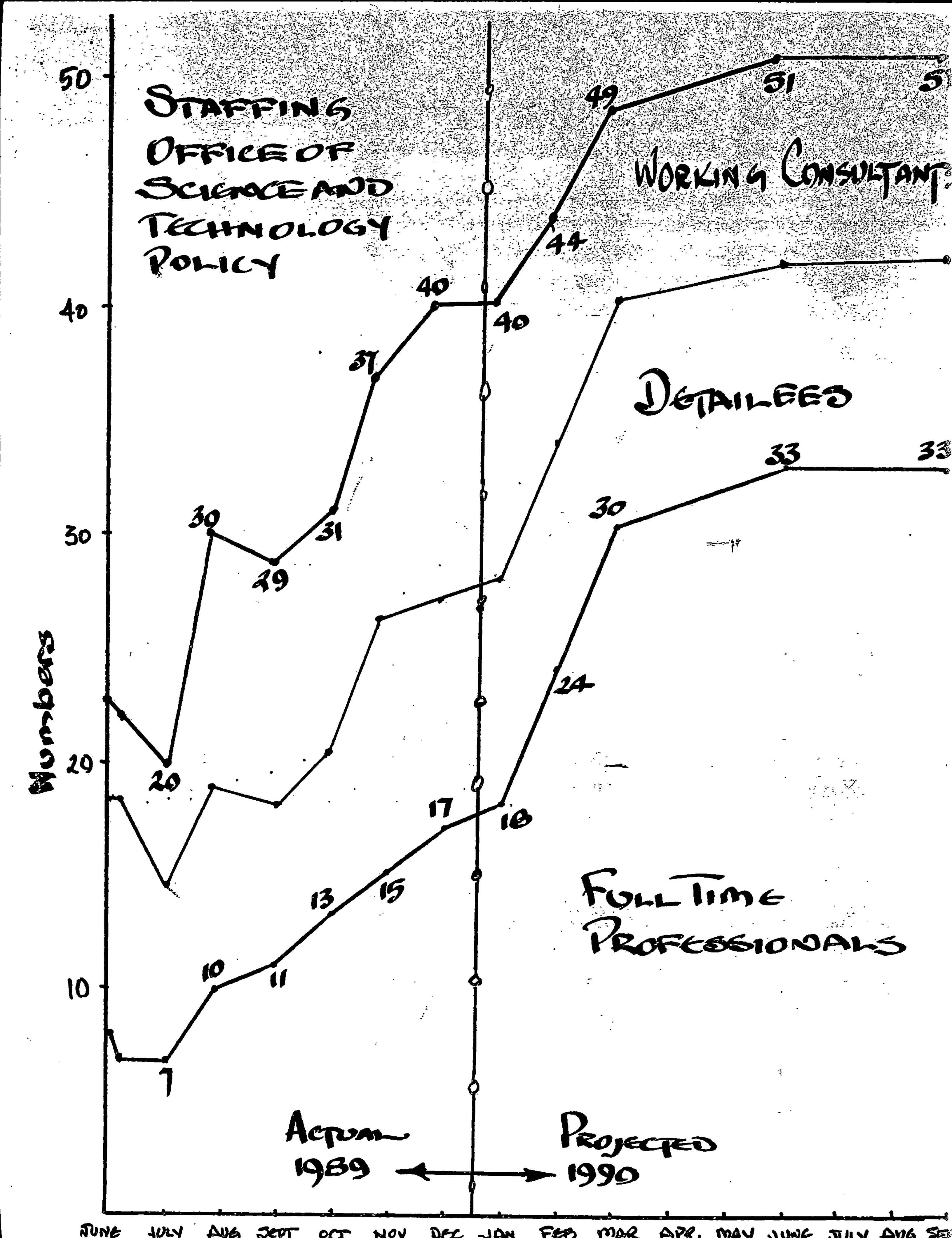
(b) find a workable and constructive substitute for -- or complement to -- the disappearing or decomposed family structure of hard-core urban America (as, for example, through a radical increase in Head Start and a more radical approach to education reform);

(c) provide more jobs, hope, and opportunity for inner cities by:

- -- increasing investment in Enterprise Zones;
- -- increasing funding for Project Hope; and
- -- increasing the overall U.S. growth rate by:
    - o investing more in R&D;
    - o increasing tax incentives for savings and investment; and
    - o bringing the fiscal deficit under control.

Budget

**CONTENTS**



Staffing
Office of Science and Technology Policy
Working Consultants
Detailees
Full Time Professionals
Numbers
50
40
30
20
10
49
51
44
40
40
37
30
31
29
20
33
33
30
24
17
18
13
15
10
11
7
Actual 1989
Projected 1990
June July Aug Sept Oct Nov Dec Jan Feb Mar Apr. May June July Aug

OSTP BUDGET SUMMARY
$(000)

| | 1989 | 1990 Feb. 9 Budget | 1990 Bromley Budget Amendment | 1990 Enacted/ Current Estimate | 1991 Passback | 1991 Request |
|---|---|---|---|---|---|---|
| **Funding** | | | | | | |
| Budget Authority............ | 1,587 | 2,027 | 2,997 | 2,829 | 3,207 | 4,066 |
| Outlays.................... | 1,339 | 1,851 | 2,433 | 2,332 | 3,056 | 3,571 |
| Percent Change Over Prior Year(BA)............ | --- | +28% | +89% | +78% | +13% | +44% |
| **Staffing** | | | | | | |
| FTE....................... | 12 | 20 | 39 | 36* | 39 | 52 |
| Detailees.................. | 12 | 12 | 0 | 12 | 2 | 2 |
| Current on-board: | | | | | | |
| Full-time permanent...... | --- | --- | --- | 18 | --- | --- |
| Detailees............... | --- | --- | --- | 12 | --- | --- |

*Includes the equivalent of 5 FTEs from paid and unpaid consultants.

**FY 1991 Passback Provides for:**

Staffing: 39 FTE, more than a doubling of current on-board levels

Funding: $3,207K, an increase of 13 percent above FY 1990,

Cost Assumptions: Passback level is based on OSTP assumptions on unit costs, including

- $51.5k average salary
- $1.9k travel per FTE
- $1.6k equipment per FTE
- 320 sq. ft of office space per FTE.

OFFICE OF SCIENCE AND TECHNOLOGY POLICY

BA in thousands

| Item | 1989 | 1990 | 1991 Request | 1991 Passback | 1991 Appeal | Possible Adj 1 | Possible Adj 2 |
|---|---|---|---|---|---|---|---|
| Salaries | 898 | 1945 | 2941 | 1984 | 3054 | 2307 | 2677 |
| Permanent | 563 | 1620 | 2295 | 1485 | 2368 | 1699 | ~~2008~~ 2007 |
| Consultants | 20 | | 30 | 30 | 30 | 30 | 30 |
| Detailees | 225 | | 103 | 103 | 128 | 128 | 128 |
| Other | 10 | | 40 | 40 | 40 | 40 | 40 |
| Benefits | 80 | 325 | 473 | 326 | 488 | 410 | 472 |
| Travel | 75 | 100 | 436 | 311 | 126 | 101 | 113 |
| Staff | 75 | 100 | 242 | 117 | 100 | 75 | 87 |
| PCAST | 0 | 0 | 194 | 194 | 26 | 26 | 26 |
| Other | 614 | 784 | 988 | 766 | 886 | 800 | ~~810~~ 809 |
| Total | 1587 | 2829 | 4365 | 3061 | 4066 | 3207 | 3599 |
| Change from Prior Year | --- | 78% | 54% | 8% | 44% | 13% | 27% |
| Personnel | | | | | | | |
| FTP | 11 | 33 | 46 | 33 | 46 | 33 | 39 |
| FTE | 12 | 39 | 52 | 39 | 52 | 39 | 45 |
| Detailees | 12 | 7 | 3 | 2 | 2 | 2 | 2 |
| Budget Costs per FTE/FTP | | | | | | | |
| Average Salary (FTP) | | | $49,891 | $45,000 | $51,478 | $51,478 | $51,478 |
| Travel (FTE) | | | $4,654 | $3,000 | $1,923 | $1,923 | $1,923 |
| Square Footage (FTE) | | | 320 | 320 | 320 | 320 | 320 |
| Equipment (FTP) | | | $1,804 | $152 | $1,630 | $1,630 | $1,630 |

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**STANDARD FORM 300**
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

DECEMBER 8, 1989

Office of Science and Technology Policy
Salaries and Expenses

Object Classification (in thousands of dollars)

| Identification code 11-2600-0-1-802 | 1989 | 1990 | |
|---|---|---|---|
| Direct obligations: | | | |
| Personnel compensation: | | | |
| 11.1 Full-time permanent | 563 | 1,213 | |
| 11.3 Other than full-time permanent | 20 | 30 | |
| 11.5 Other personnel compensation | 10 | 40 | |
| 11.8 Special personal services payments (Detailees) | 225 | 337 | |
| 11.9 Total personnel compensation | 818 | 1,620 | |
| 12.1 Personnel benefits: Civilian | 80 | 325 | |
| 21.0 Travel and transportation of persons | 75 | 100 | |
| 22.0 Transportation of things | 3 | 3 | |
| 23.1 Rental Payments to GSA | 442 | 497 | |
| 23.3 Communications, utilities, and miscellaneous charges | 114 | 152 | |
| 24.0 Printing and reproduction | 4 | 6 | |
| 25.0 Other services | 27 | 51 | |
| 26.0 Supplies and materials | 19 | 43 | |
| 31.0 Equipment | 5 | 32 | |
| 99.0 Subtotal, direct obligations | 1,587 | 2,829 | |
| 99.0 Reimbursable obligations | --- | --- | |
| 99.9 Total obligations | 1,587 | 2,829 | |
| FTP | 11 | 33 | |
| FTE | 12 | 39 | |
| DETAILEES | 12 | 7 | |
| BUDGET COSTS PER FTE/FTP | | | |
| AVERAGE SALARY (FTP) | $51,182 | $36,758 | |
| TRAVEL (FTE) | $ 6,250 | $ 2,564 | |
| SQUARE FOOTAGE (FTE) | 320 | 320 | |
| EQUIPMENT (FTP) | $ 455 | $ 970 | |
| (Mono cast: 21.5) | (Mono cast: 5) | (Mono cast: 5) | (Mono cast: 4.9) |

GPO : 1971 O - 442-317

DECEMBER 8, 1989

# OSTP STAFFING PROJECTS

| 1989 | FTP | DETAILEES | WORKING CONSULTANTS | REMARKS |
|---|---|---|---|---|
| JUNE 2 | 8 | 10 | 5 | Only active consultants, Hoppe, Simon, Schaefer, Beecham and Huray. Detailees: Berger, Bishop, Bowden, Dorigan, English, Lance, Maraio, Murray, Neuhardt, O'Neil. |
| JUNE 3 | 7 | 10 | 5 | Dr. Graham departed. Maintain consultant and detailees. Remaining staff Rona, Post, Diering, Nida, Sherman, Clawson, and Fisher. |
| JULY | 7 | 8 | 5 | Detailees, Berger and Dorigan departed the Staff. |
| AUGUST | 10 | 9 | 11 | Dr. Bromley, Hardin, Cutler appointed. Ratchford, Hammond, Olson and Ling appointed as Consultant. Eltinge and York appointed as Fellows. Mary Harley Kruter entered on board under an IPA agreement. |
| SEPTEMBER | 11 | 7 | 11 | Bostock appointed; Hawkins assigned. Maraio and Bishop departed. |
| OCTOBER | 13 | 7 | 11 | Van Cleave, Hawkins, Lance, and Maynard appointed. Hardin and Rona departed. Wyngaarden assigned. |

| | FTP | DETAILEES | WORKING CONSULTANTS | REMARKS |
|---|---|---|---|---|
| NOVEMBER | 15 | 11 | 11 | Ratchford and Rosell appointed; Quinlan, Gale, Keegan and Levinson assigned. Blake appointed as a Fellow. [TWO AGENCY LIAISONS ABOARD*] |
| DECEMBER | 17 | 10 | 13 | Bowden and Dustira appointed to permanent staff. Phillips and Wong added as Consultants. * |

AS OF END OF THE YEAR, TOTAL MANPOWER IN USE IS 42. (NOTE: 30 FTE AND 17 FTP)

PROJECTION

1990

| | FTP | DETAILEES | WORKING CONSULTANTS | REMARKS |
|---|---|---|---|---|
| JANUARY | 18 | 10 | 12 | Appointment of Olson to permanent staff. Assignment of Longus and departure of Murray. * |
| FEBRUARY | 24 | 10 | 10 | Appointment of Phillips and Wong and their support staffs. * |
| MARCH | 30 | 10 | 9 | Appointment of Hammond, Policy Analysts and support staff. * |
| JUN-SEPT 30 | 33 | 9 | 9 | Appointment of remaining staff members. Departure of O'Neil. * |

PHASE I FULL COMPLEMENT OF SENIOR STAFF COMPLETED BY JUNE 1990. TOTAL MANPOWER IN-USE IS 53! (NOTE: 42 FTE AND 33 FTP)

PHASE II - ASSUME CONGRESSIONAL BUDGET NOT RESOLVED UNTIL NOVEMBER 1990, THEN CAN EXPECT BY SECOND WEEK IN JANUARY 1991, 13 PEOPLE HAVING BEEN IDENTIFIED WILL BE APPOINTED. THE LIAISONS AND "FELLOWS" WILL BE CONTINUED AS WELL AS TWO DETAILEES FOR SPECIAL IN-DEPTH ASSIGNMENTS (E.G., SUBSTANCE BASED REPORTS TO CONGRESS).

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**STANDARD FORM 300**
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

DECEMBER 8, 1989

Office of Science and Technology Policy
Salaries and Expenses

Object Classification (in thousands of dollars)

| Identification code 11-2600-0-1-802 | OMB PASSBACK FY 1991 | OSTP APPEAL REQUEST | CURRENT OMB ADJUSTMENT |
|---|---|---|---|
| Direct obligations: | | | |
| Personnel compensation: | | | |
| 11.1 Full-time permanent | 1,557 | 2,368 | 1,699 |
| 11.3 Other than full-time permanent | 30 | 30 | 30 |
| 11.5 Other personnel compensation | 40 | 40 | 40 |
| 11.8 Special personal services payments (Detailees) | 31 | 128 | 128 |
| 11.9 Total personnel compensation | 1,658 | 2,566 | 1,897 |
| 12.1 Personnel benefits: Civilian | 326 | 488 | 410 |
| 21.0 Travel and transportation of persons | 311 | 126 | 101 |
| 22.0 Transportation of things | 3 | 3 | 3 |
| 23.1 Rental Payments to GSA | 449 | 514 | 514 |
| 23.3 Communications, utilities, and miscellaneous charges | 120 | 165 | 158 |
| 24.0 Printing and reproduction | 100 | 20 | 20 |
| 25.0 Other services | 46 | 66 | 56 |
| 26.0 Supplies and materials | 43 | 43 | 43 |
| 31.0 Equipment | 5 | 75 | 5 |
| 99.0 Subtotal, direct obligations | 3,061 | 4,066 | 3,207 |
| 99.0 Reimbursable obligations | --- | --- | --- |
| 99.9 Total obligations | 3,061 | 4,066 | 3,207 |
| FTP | 33 | 46 | 33 |
| FTE | 39 | 52 | 39 |

GPO : 1971 O - 442-317

(Mono cast: 21.5) (Mono cast: 5) (Mono cast: 5) (Mono cast: 4.9)

December 8, 1989

INFORMATION

(IN THOUSANDS)

| | FY 91 REQUEST | OMB PASSBACK | OSTP APPEAL |
|---|---|---|---|
| SALARIES AND BENEFITS | $2,941 | $1,984 | $3,054 |
| PERMANENT | 2,295 | 1,485 | 2,368 |
| FTP | 46 | 33 | 46 |
| FTE | 52 | 39 | 52 |
| DETAILEES | 3 | 2 | 2 |
| AVERAGE SALARY (FTP) | $49,891 | $45,000 | $51,478 |

PERSONNEL OVERVIEW

| | FY 91 REQUEST | OMB PASSBACK | OSTP APPEAL |
|---|---|---|---|
| EXLEVEL 2 | 1 | 1 | 1 |
| EXLEVEL 3 | 3 | 3 | 3 |
| SES 6 | 0 | 0 | 1 |
| SES 4 | 4 | 4 | 4 |
| SES 3 | 1 | 1 | 1 |
| GS 14/15 | 20 | 7 | 20 |
| GS 13 | 2 | 2 | 2 |
| GS 7-12 | 15 | 15 | 14 |
| TOTAL | 46 | 33 | 46 |

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 04. Outline | Budget Status Overview for Discussion 11/28/89 (6 pp.) | 11/28/89 | ~~P~~5 | |

**Collection:**

**Record Group:** Bush Presidential Records
**Office:** Chief of Staff, White House Office of
**Series:** Sununu, John, Files
**Subseries:** Issues Files
**WHORM Cat.:**
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**(b)(9) Release would disclose geological or geophysical information**

file budget

**BUDGET STATUS OVERVIEW**
**FOR DISCUSSION 11/28/89**

I. ECONOMIC ASSUMPTIONS AND THE STATE OF THE ECONOMY

NOTE: Agencies have been provided with three alternative sets of assumptions. In order to allow budget calculations to be completed on time, agencies must be provided with a single set of final assumptions by Tuesday, December 5th.

Please see discussion materials provided by Michael Boskin.

II. REVISED BASELINES FOR FY'90 AND '91

(A) FY'90

(1) All things considered, we have completed the first year in relatively good shape:

-- The "no new taxes" pledge has been kept.

-- Congressional appropriations and reconciliation have (largely) met the terms of the Bipartisan Budget Agreement.

-- Major spending threats have been restrained or postponed -- drugs, Medicaid, child care, etc. -- without political cost.

-- For the first time, a major entitlement program has been repealed -- with a minimum of political cost.

-- The expressed willingness to "manage under sequester" -- and the enactment of a partial sequester -- have increased the President's power in the budget process, and reassured many that there is some trace of fiscal discipline.

-- On paper, by OMB scoring (in accordance with GRH rules), the FY'90 deficit target of $110 billion has been "met."

(2) A more accurate view of the deficit would paint a less rosy picture, however:

(a) Adjusting the 110 for "technical" changes since the mid-session GRH baseline estimate would produce an FY'90 deficit of about $134 billion. This higher estimate will have to be published with the January budget. (NOTE: The largest adjustments come from on-budget scoring of the S&L bailout, $14 billion; higher DOD outlays, $7.7 billion; and higher unemployment benefits.)

(b) This $134 billion estimate still assumes Administration mid-session economics. <u>If the economy softens more than assumed</u>, the FY'90 deficit will be worse than 134.

(c) These deficit numbers still <u>mask</u> (benefit from) what is going on in <u>trust funds</u> -- the most noteworthy of which is the Social Security trust fund: It increases, on paper, by $64 billion in FY'90 and by $77 billion in FY'91. But this money is in fact spent on current expenditures.

(3) As a general matter, <u>the consolidated budget deficit is only inching down from the $150 billion range</u>, where it has been stuck for the past two fiscal years ('88 and '89).

<u>NOTE</u>: If the Social Security account were excluded, and if there were no recession, the deficit would appear now to be stuck in the <u>$180-200 billion range</u>.

(B) <u>FY'91 BASELINE ESTIMATE</u>

(1) The revised OMB GRH <u>baseline</u> deficit estimate for FY'91 --after all Congressional action, technical adjustments, and inflation, but still using mid-Session economics -- is now about <u>$113 billion</u>.

-- NOTE: The GRH target is $64 billion. So, <u>about $50 billion in savings must be found</u> (relative to the baseline): 113 - 49 = 64.

III. <u>HOW TO CLOSE THE GAP -- THE OMB DIRECTOR'S "PASSBACK"</u>

(1) The <u>$50 billion gap can be closed by</u> a combination of the following:

(a) reproposing savings in entitlement and mandatory programs -- i.e., resubmitting proposals that were submitted on February 9th, but were not enacted;

(b) cutting non-DOD agency requests below the baseline -- beyond the reproposals;

(c) proposing non-duck revenue measures in these categories:

(i) reproposals (leftover from February 9th);
(ii) proposals previously not opposed by the Administration, but leftover from House- or Senate-passed reconciliation bills;
(iii) new fees or revenue measures that can pass the duck test;

(d) cutting DOD below the baseline;

(e) increasing estimated receipts;

(f) proposing non-scorable gimmicks (timing shifts, asset sales);

(g) proposing ducks; and

(h) limiting all new spending initiatives to those that can be fully offset by additional deficit-reducing measures from (d)-(g).

(2) The <u>OMB Director's passback</u> has addressed categories (a), (b), and (c) directly -- with proposed savings as follows:

(a) reproposals -- $15.6 billion;

(b) additional savings -- $12.6 billion;

(c) reproposed and additional receipt measures -- $11.0 billion.

(3) The OMB passback provides $39.2 billion in total savings -- bringing the estimated deficit down to <u>$74.5 billion</u>. (See table.) This is <u>before</u> funding spending initiatives that are subject to the appeals process.

(4) Thus, <u>additional net savings of about $10 billion must be found</u> from a combination of: initiatives and successful appeals (which increase the required savings) <u>offset by</u> DOD cuts below the baseline; revised receipt estimates; outlay gimmicks; and/or ducks.

(5) <u>NOTE</u>: The OMB passback includes a host of politically difficult measures -- such as:

- freezing all non-Social Security retirement COLAs;
- cutting hospital capital reimbursements, medical education subsidies, and doctors fees;
- reducing retirement benefits and health insurance subsidies for federal employees;
- reducing subsidies (hence increasing utility rates) for Power Marketing Administrations;
- reducing farm subsidies;
- reducing postal subsidies;
- charging or increasing fees for veterans housing loans, SBA loan guarantees, Fannie Mae, Freddie Mac, Sallie Mae, and Ginnie Mae; REA; Agricultural Credit Insurance Fund; FDA processing; animal, plant, and fish health inspection; NRC; Coast Guard; Corps of Engineers recreation; etc.
- reforming school lunch subsidies and means-testing family day care;
- extending Medicare and Social Security tax obligations to certain state and local employees.

(6) FURTHER NOTE: The passback leaves unresolved appeals re, e.g.:

- Drugs;
- Education;
- FAA;
- "Mission to Planet Earth";
- Nuclear Weapons Production and Clean-up;
- Selected Scientific Research (AIDS, Energy, Environment, NIH, NSF);
- Space Station and Shuttle;
- Space Exploration -- Moon and Mars;
- Veterans Affairs.

(7) The dollars at stake in these appeals -- the amount by which the requests exceed the baseline -- are far greater than the available resources. <u>"Available resources" are actually negative</u> -- short $10 billion! Indeed, if DOD were at its "post-scrub," "reduced" level, available resources would be <u>short about $14 billion</u>.

But if DOD were at 290, and if receipts estimates and outlay gimmicks yielded the missing $10 billion, there would be $2.9 billion available for appeals and initiatives above the baseline. With a very tight appeals review process, a barely credible package of initiatives could be fit in the $2.9 billion envelope.

(8) If DOD is to be above 290 and/or if initiatives and appeals are to exceed the $2.9 billion available, it will be necessary to consider the black (carbon) duck(ling). <u>NOTE</u>: It may be necessary anyhow to keep the bottom from falling out on DOD.

$25B

14/16.C

## IV. <u>NEXT STEPS IN THE BUDGET PROCESS</u>

Final technical estimates and agency appeals are being reviewed by OMB now. When the President returns from Malta, meetings are scheduled as follows -- with suggested topics:

| | |
|---|---|
| 12/5 -- 11:00 a.m.: | DOD |
| 12/5 -- 3:00 p.m.: | Capital Gains/IRAs/Receipts/Collections |
| 12/6 -- 11:00 a.m.: | Outlay Overview -- agency-by-agency |
| 12/6 -- 2:00 p.m.: | Outlay Overview (continued) |
| 12/11 -- 11:00 a.m.: | Appeals Overview |
| 12/11 -- 2:30 p.m.: | Appeals -- Round I (all appellants) |
| 12/12 -- 11:00 a.m.: | Appeals -- Round II (selected appellants) |
| 12/12 -- 2:30 p.m.: | Appeals -- Round III (selected appellants) |
| 12/13 -- 11:00 a.m.: | Appeals -- Round IV (selected appellants) |
| 12/13 -- 2:00 p.m.: | Appeals Decision Meeting |
| 12/14 -- 11:00 a.m.: | Health Policy Review |
| 12/14 -- 11:30 a.m.: | Carbon Policy Review |
| 12/15 -- 10:00 a.m.: | Director's Wrap-up |

<u>NOTE</u>: Per section 4 of H.J. Res. 449 (the last paragraph of the last act of the last session of Congress), the President's Budget is due "not later than January 22, 1990."

POST-ACTION BASELINE ESTIMATES (in billions of dollars) 27-Nov-89

| | 1990 BA | 1990 Outlays | 1991 BA | 1991 Outlays | NOTES |
|---|---|---|---|---|---|
| DoD-Military | 291.6 | 285.7 | 303.4 | 292.9 | 1/ |
| Other defense | 10.0 | 9.5 | 10.4 | 10.2 | 2/ |
| Nondefense discretionary | 180.0 | 202.0 | 188.2 | 214.2 | 3/ |
| Mandatory | NA | 569.2 | NA | 597.4 | |
| Net interest | 178.4 | 178.4 | 178.0 | 178.0 | |
| Undistributed offsetting receipts | -36.7 | -36.7 | -38.0 | -38.0 | |
| Total, outlays | NA | 1,208.0 | NA | 1,254.6 | |
| Revenues | NA | 1,073.7 | NA | 1,140.9 | |
| Deficit | NA | 134.3 | NA | 113.7 | |
| Adjust for: | | | | | |
| Census baseline anomaly | | | | -0.9 | |
| Leg. and Judicial branch request | | | | 0.7 | |
| Mandatory savings reproposed | | | | -15.1 | |
| Receipt initiatives reproposed | | | | -6.5 | 4/ |
| Child care initiative reproposed | | | | 0.2 | |
| Debt service | | | | -0.7 | |
| Additional Savings from Passback: | | | | | |
| Discretionary savings (net) | | | | -6.2 | |
| Mandatory savings and user fees | | | | -6.0 | |
| Receipts (deficit change) | | | | -4.1 | |
| Debt service | | | | -0.5 | |
| Total outlays (adjusted for above) | | | | 1,226.0 | 5/ |
| Total revenues (adjusted for above) | | | | 1,151.5 | |
| Deficit with passback and changes included above | | | | 74.4 | 3/ |

NOTES:

1/ This shows DOD budget authority growing at 4 percent nominal; it is not the OMB passback.

2/ "Other defense" will have to be higher than this to accommodate plans for nuclear weapons production and clean-up.

3/ Total does not include initiatives for Eastern Europe, space, drugs, nuclear weapons, veterans, education, etc.

4/ This assumes capital gains is reproposed in February 9th form. If Packwood approach is selected, the deficit effect will be less favorable.

5/ This is about a 1.5% increase for the Government as a whole (i.e., a "cut" of 2.5% in real terms).

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 05. Report | Economic Assumptions for the 1991 Budget (1 pp.) | n.d. | ~~P~~5 | |

**Collection:**

**Record Group:** Bush Presidential Records
**Office:** Chief of Staff, White House Office of
**Series:** Sununu, John, Files
**Subseries:** Issues Files
**WHORM Cat.:**
**File Location:** Budget [1990] (1 of 2) [4]

Open on Expiration of PRA
(Document Follows)
By JP (NLGB) on 10/28/05

| | | | |
|---|---|---|---|
| **Date Closed:** | 12/16/2004 | **OA/ID Number:** | 29136-009 |
| **FOIA/SYS Case #:** | 1998-0004-F[1] | **Appeal Case #:** | |
| **Re-review Case #:** | 2005-0426-S | **Appeal Disposition:** | |
| **P-2/P-5 Review Case #:** | | **Disposition Date:** | |
| **AR Case #:** | | **MR Case #:** | |
| **AR Disposition:** | | **MR Disposition:** | |
| **AR Disposition Date:** | | **MR Disposition Date:** | |

## RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

# ECONOMIC ASSUMPTIONS FOR THE 1991 BUDGET

- For purposes of the budget process we are considering 3 alternative paths of the economy. (See Table 1). At this time, I consider Path 2 the one most likely to be chosen. Paths 1 and 3 show relatively more pessimistic and optimistic alternatives, respectively. A final decision must be made by mid-December.

- Path 2 is an updated version of the Mid-Session Review forecast, which has been on track so far in 1989.

  - The MSR forecast has been well received, viewed as optimistic, but "reasonable," and has added to the credibility of the budget process. The Mid-Session Review is much more optimistic relative to private forecasts, CBO, the Fed, etc. in 1990 and 1991 than it was for 1989.

- Path 2 projects that the moderate growth experienced in recent quarters will continue into 1990, followed by a pickup in 1991.

  - Inflation is predicted to remain at approximately current levels over the next 2 years.

  - Moderate real growth in 1990 reflects reduced growth of business fixed investment and continued slow growth of net exports and Federal Government spending.

  - Recent declines in interest rates and expected additional declines in coming months should increase the demand for consumer durables and investment, contributing to a pickup in real growth in late 1990 and 1991. Renewed improvement in real net exports should also boost growth later next year.

  - GNP growth in Path 2 is noticeably faster than is projected by most private forecasters (Table 2), and interest rates fall much farther.

- The assumptions about taxable income and its components are favorable.

  - For example, corporate profits have come in well below MSR projections in 1989, but the proposed forecasts include a substantial rebound, much greater than that of private forecasters, the Fed, or CBO. (See chart.)

- For the period 1992-95, real growth is projected to be around 3.0 percent, helped by a 1.8 percent average annual increase in productivity; inflation is projected to decline a gradual 0.3 percentage point a year.

  - In an environment of relatively high but stable levels of resource utilization, the Federal Reserve Board is expected to continue to make modest progress toward the long-term goal of price stability.

- Implications for the budget deficit. Student Exchange / Good people.

TABLE 2

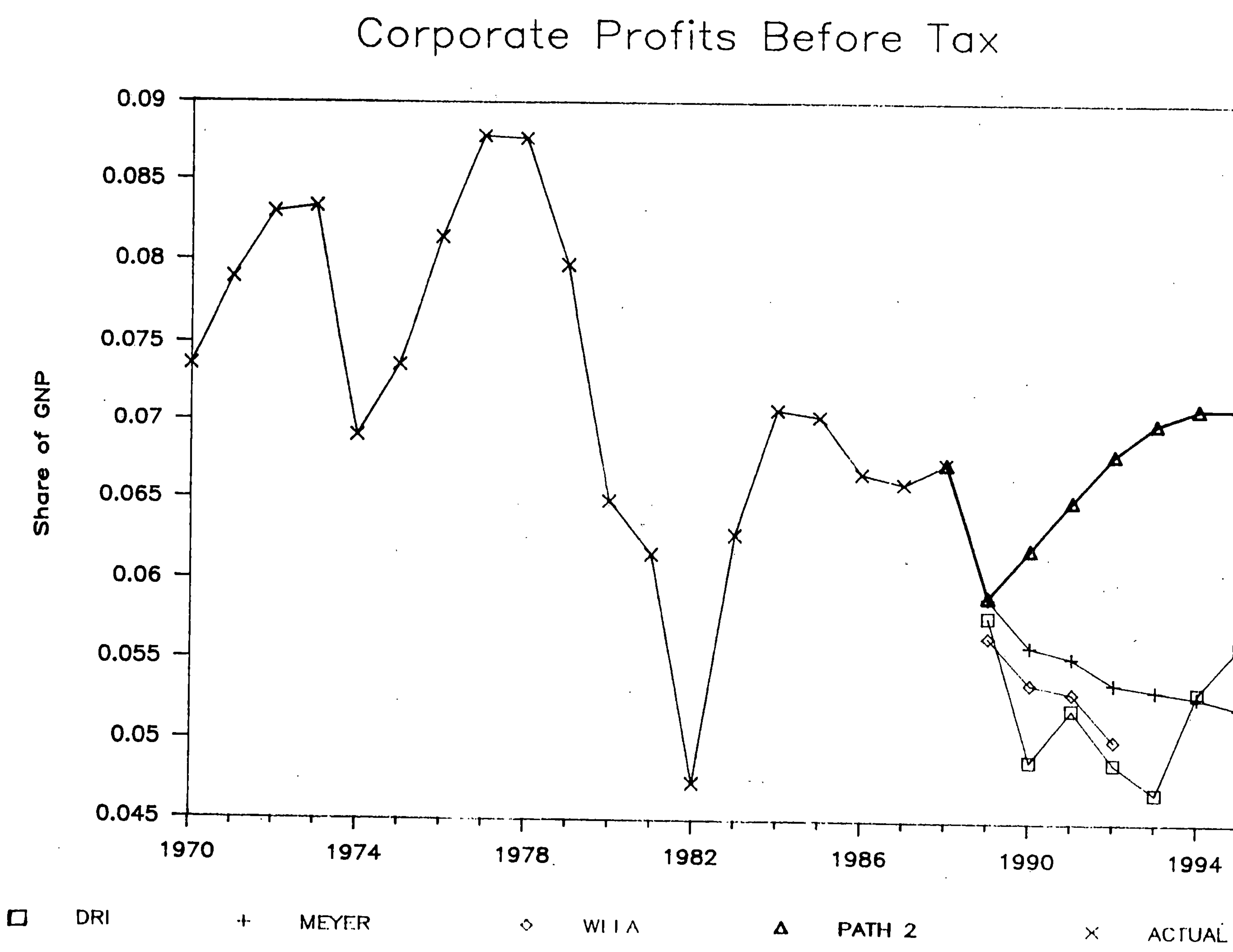
COMPARISONS OF ECONOMIC PROJECTIONS

Fourth-Quarter-to-Fourth-Quarter Percentage Change

| | 1990 | 1991 |
|---|---|---|
| Real GNP | | |
| Path 2 | 2.6 | 3.3 |
| Blue Chip (11/89) | 1.9 | NA |
| Data Resources Inc. (11/89) | 1.8 | 3.0 |
| Laurence Meyer (10/89) | 1.6 | 2.5 |
| WEFA Group (11/89) | 2.2 | 2.5 |
| Federal Reserve Board (11/89) | 1.6 | 2.0 |
| GNP Deflator | | |
| Path 2 | 4.2 | 4.1 |
| Blue Chip (11/89) | 4.0 | NA |
| Data Resources Inc. (11/89) | 3.9 | 4.1 |
| Laurence Meyer (10/89) | 3.9 | 3.7 |
| WEFA Group (11/89) | 4.2 | 4.3 |
| Federal Reserve Board (11/89) | 4.0 | 3.8 |

Levels (Annual Averages)

| | 1990 | 1991 |
|---|---|---|
| Civilian Unemployment Rate | | |
| Path 2 | 5.5 | 5.3 |
| Blue Chip (11/89) | 5.6 | NA |
| Data Resources Inc. (11/89) | 5.5 | 5.4 |
| Laurence Meyer (10/89) | 5.5 | 5.6 |
| WEFA Group (11/89) | 5.7 | 5.6 |
| Federal Reserve Board (11/89) | 5.6 | 6.1 |
| 3-Month Treasury Bill Rate | | |
| Path 2 | 6.7 | 5.4 |
| Blue Chip (11/89) | 7.2 | NA |
| Data Resources Inc. (11/89) | 7.1 | 7.8 |
| Laurence Meyer (10/89) | 6.9 | 6.9 |
| WEFA Group (11/89) | 7.4 | 7.5 |
| Federal Reserve Board (11/89) | NA | NA |


Corporate Profits Before Tax
Share of GNP
0.09
0.085
0.08
0.075
0.07
0.065
0.06
0.055
0.05
0.045
1970
1974
1978
1982
1986
1990
1994
DRI
MEYER
WI I A
PATH 2
ACTUAL

Governor Sununu

file

# FY 1991 BUDGET

# RECEIPTS/USER FEES

**December 1989**

RECEIPTS/USER FEES

RECEIPTS/USER FEES

## RECEIPTS/USER FEES

RECEIPTS/USER FEES

RECEIPTS/USER FEES

## SUMMARY TABLE

### Effect of Receipts/User Fees on the Deficit
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| (A) February 9, 1989 budget measures: | | | | |
| Governmental receipt increases (+)............................ | 7.143 | 7.742 | 6.193 | 4.850 |
| Outlay decreases (+)............ | 4.004 | 3.139 | 4.314 | 2.688 |
| Outlay increases (-) associated with governmental receipt increases..................... | -.091 | -1.939 | -2.272 | -2.551 |
| Deficit reduction (+). | 11.056 | 8.942 | 8.235 | 4.987 |
| (B) Items dropped from Reconciliation bill: | | | | |
| Governmental receipt increases (+)............................ | .542 | .612 | .459 | .367 |
| Outlay decreases (+)............ | .093 | .186 | .247 | .260 |
| Deficit reduction (+).. | .635 | .798 | .706 | .627 |
| (C) Issues for decision -- new proposals (recommended): | | | | |
| Governmental receipt increases (+)............................ | 3.260 | 3.731 | 4.204 | 4.463 |
| Outlay decreases (+)............. | .495 | .522 | .552 | .572 |
| Outlay increases (-) associated with governmental receipt increases..................... | -.152 | -.228 | -.276 | -.319 |
| Deficit reduction (+).. | 3.603 | 4.025 | 4.480 | 4.716 |

SUMMARY TABLE

Effect of Receipts/User Fees on the Deficit
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| (D) Issues for decision -- extension of expiring provisions not included elsewhere: Governmental receipt decreases (-)............................ | -.704 | -1.342 | -1.753 | -2.205 |
| (E) Issues for decision -- modification of capital gains and IRAs: Governmental receipt decreases(-) relative to reproposal......... | -.200 | -2.400 | -2.600 | -.800 |
| (F) Issues for decision -- additional potential receipt measures: Governmental receipt increases (+)/decreases(-)............... | 1.858 | 3.410 | -1.690 | 1.610 |
| (G) Issues for decision -- offsetting collections to be reviewed in the appeals process: Outlay decreases (+)............ | .457 | .459 | .460 | .462 |
| Total, deficit reduction (A-G), assuming February 9, 1989 capital gains......... | 16.705 | 15.992 | 10.138 | 9.897 |
| Total, deficit reduction (A-G), assuming new capital gains initiative........... | 16.705 | 13.892 | 7.838 | 9.397 |

Effect on Governmental Receipts of Reproposing the February 9, 1989
Budget Measures 1/
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Enhance long-term investment (last year's capital gains proposal) | 4.800 | 4.900 | 3.500 | 2.200 |
| Extend HI coverage to State/local employees 2/ | 1.660 | 1.673 | 1.665 | 1.647 |
| Extend telephone excise tax 2/ | 1.586 | 2.606 | 2.804 | 3.013 |
| Extend IRS user fee | 0.030 | 0.030 | 0.030 | 0.030 |
| Establish FEMA fees | 0.008 | 0.008 | 0.008 | 0.009 |
| Increase D.C. contribution to CSRS | 0.055 | 0.055 | 0.055 | 0.055 |
| Establish taxpayer telephone information svcs fee | --- | 0.046 | 0.046 | 0.046 |
| Extend R&E credit 3/ | -0.495 | -0.871 | -1.009 | -1.146 |
| Provide a credit for intangible drilling | -0.200 | -0.300 | -0.400 | -0.400 |
| Establish enterprise zones | -0.150 | -0.200 | -0.300 | -0.400 |
| Revise AMT for exploratory drilling by independents | -0.100 | -0.100 | -0.100 | -0.100 |
| Modify oil and gas depletion rules | -0.039 | -0.045 | -0.047 | -0.045 |
| Establish child care credit (receipt effect) | -0.005 | -0.048 | -0.050 | -0.055 |
| Extend and expand railroad UI reimbursable status | -0.007 | -0.009 | -0.006 | -0.001 |
| Double and restore adoption deduction | -* | -0.003 | -0.003 | -0.003 |
| Other | * | * | * | * |
| Net receipt increase | 7.143 | 7.742 | 6.193 | 4.850 |

Addendum

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Outlay effect of governmental receipt measures: | | | | |
| Child care credit (outlay increase) | .091 | 1.939 | 2.272 | 2.551 |

*     $500 thousand or less.

1/  OMB estimates. In general, except for the extension of expiring provisions, an effective date of 1/1/91 is assumed.

2/  Net of income tax offsets.

3/  Effect of permanent extension relative to the extension provided in the Omnibus Budget Reconciliation Act of 1989.

February 9, 1989 Budget Governmental Receipt Measures

Enhance long-term investment (last year's capital gains proposal).--Long-term investment would be enhanced through restoration of a capital gains differential, as discussed in Section E.-1.

Extend medicare hospital insurance (HI) coverage to all State and local government employees.--Effective October 1, 1990, mandatory HI coverage would be extended to State and local employees who were hired prior to April 1, 1986.

Extend telephone excise tax.--The 3 percent excise tax imposed on local and toll telephone service, and on teletypewriter exchange service, which expires after December 31, 1990, would be permanently extended.

Extend IRS user fee.--The existing fee on each request for a letter ruling, determination letter, opinion letter, or other similar ruling or determination filed after January 31, 1988 and before October 1, 1990 would be permanently extended.

Establish Federal Emergency Management Agency (FEMA) user fees.--Beginning October 1, 1990, 100 percent of FEMA's costs incurred as the Nuclear Regulatory Commission's agent in regulating the evacuation plans of nuclear power plants would be recovered through user fees.

Increase the District of Columbia (D.C.) employer contribution to the civil service retirement system (CSRS).--Effective January 1, 1991, the D.C. government would be required to phase-in payments for current CSRS employee COLA liabilities as well as to pay the cost of COLAs for post-1986 CSRS annuitants. The February 9, 1989 Budget proposal required amortized COLA payments for all D.C. CSRS annuitants, including survivors.

Establish taxpayer telephone information services fee.--A user fee on IRS taxpayer telephone information services is proposed for 1992. Toll-free 800 service would be replaced by a fee charge 900 service with fees billed to users by local telephone companies.

Extend research and experimentation (R&E) tax credit.--The 20 percent tax credit provided certain incremental research and experimentation expenditures, which was scheduled to expire after December 31, 1989, was extended through December 31, 1990 under the Omnibus Budget Reconciliation Act of 1989. The establishment of a permanent R&E tax credit would be proposed.

Provide a credit for intangible drilling.--A 10 percent credit would be provided on the first $10 million of annual expenses for exploratory intangible drilling costs. A 5 percent credit would be provided on the balance. These changes would be effective January 1, 1991.

Establish enterprise zones.--The Administration would provide selected employment and investment tax credits for up to 70 enterprise zones beginning in 1991.

Revise AMT for exploratory drilling by independent producers.--The Administration would propose to eliminate 80 percent of minimum tax preference items from exploratory intangible drilling costs in excess of amortization and income allowances. The proposed change would be effective January 1, 1991.

Modify oil and gas depletion rules.--Independent oil producers are limited in their use of depletion deductions by two provisions: (1) "proven" properties transferred from integrated oil companies to independent producers are ineligible for percentage depletion, and (2) the deduction may not exceed 50 percent of the owner's net income from the property. The Administration proposes to remove the transfer rule restrictions and to raise the deduction limit to 100 percent of the property's net income, effective January 1, 1991.

Establish a new tax credit for young children.--A new tax credit of up to $1,000 for each child under age 4 would be established. The credit would be based on family earnings and would be refundable. Families with incomes up to $13,000 would be eligible in 1991, rising to $20,000 by 1995. In addition, the existing child care and dependent care credit would be made refundable; however, parents would not be entitled to claim both credits with respect to the same child.

Extend and expand railroad unemployment insurance (UI) reimbursable status.--To prevent public subsidies from being diverted to pay for the high unemployment costs of the private sector railroads, public commuter railroads are exempted from the full railroad unemployment tax rate in 1989 and 1990. Instead, they are required to reimburse the unemployment insurance fund for the actual costs of their employees. Under this proposal the exemption provided to public commuter railroads would be extended beyond its current law expiration date and would be expanded to apply to Amtrak beginning in 1991.

Double and restore adoption deduction.--The Administration proposes to restore and double to $3,000 the special needs adoption deduction, effective January 1, 1991.

Other.--Additional proposals include the establishment of a credit for tertiary enhanced recovery and an increase in the HUD interstate land sales fee.

Impact of Reproposing February 9, 1989, Budget
User Fee and Other Offsetting Collection Measures
(In billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Credit fees: | | | | |
| SBA loan guarantees | 0.102 | 0.103 | 0.107 | 0.110 |
| Government-sponsored enterprises: | | | | |
| Fannie Mae | 0.036 | 0.144 | 0.324 | 0.432 |
| Freddie Mac | 0.022 | 0.088 | 0.198 | 0.264 |
| Sallie Mae | 0.004 | 0.019 | 0.045 | 0.063 |
| Subtotal, GSE | 0.062 | 0.251 | 0.567 | 0.759 |
| Veterans housing | 0.029 | 0.029 | 0.030 | 0.032 |
| Ginnie Mae | 0.026 | 0.053 | 0.081 | 0.110 |
| Rural Electrification Administration | 0.013 | 0.020 | 0.028 | 0.036 |
| Agricultural credit insurance fund | 0.000 | 0.014 | 0.028 | 0.041 |
| Subtotal, credit fees | 0.232 | 0.470 | 0.841 | 1.088 |
| Service fees: | | | | |
| Customs: | | | | |
| Extend merchandise processing fee and and conform to GATT | 0.606 | 0.613 | 0.619 | 0.625 |
| Extend passenger processing fee | 0.157 | 0.167 | 0.177 | 0.187 |
| Subtotal, Customs | 0.763 | 0.780 | 0.796 | 0.812 |
| Nuclear Regulatory Commission | 0.281 | 0.283 | 0.286 | 0.289 |
| Coast Guard ($25 annual decal fee) | 0.200 | 0.207 | 0.214 | 0.220 |
| FDA application processing and inspections | 0.100 | 0.101 | 0.102 | 0.103 |
| Animal plant and health inspection | 0.078 | 0.078 | 0.078 | 0.078 |
| Veterans medical care | 0.030 | 0.031 | 0.032 | 0.033 |
| Railroad safety inspection | 0.020 | 0.036 | 0.037 | 0.037 |
| Army Corps of Engineers recreation fee 1/ | 0.020 | 0.000 | 0.000 | 0.000 |
| Agriculture marketing | 0.012 | 0.012 | 0.012 | 0.012 |

Impact of Reproposing February 9, 1989, Budget
User Fee and Other Offsetting Collection Measures
(In billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Forest Service recreation fee 1/ | 0.008 | 0.000 | 0.000 | 0.000 |
| U.S. Travel and Tourism Administration | 0.007 | 0.014 | 0.014 | 0.014 |
| SBA publications | 0.001 | 0.001 | 0.001 | 0.001 |
| Subtotal, service fees | 1.520 | 1.543 | 1.572 | 1.599 |
| Other offsetting collections: | | | | |
| FCC spectrum auction | 2.252 | 1.126 | 0.000 | 0.000 |
| Arctic National Wildlife Refuge | 0.000 | 0.000 | 1.901 | 0.001 |
| Subtotal, other collections | 2.252 | 1.126 | 1.901 | 0.001 |
| Total, net outlay reduction | 4.004 | 3.139 | 4.314 | 2.688 |

1/ Savings in 1991 only, because receipts in the outyears are used for program expansion.

**User Fee and Other Offsetting Collection Proposals in the February 9, 1989, Budget**

**Credit Fees**

Small Business Administration (SBA).--Increase fees on SBA loan guarantees from 1.2 percent to 3 percent for minority enterprise small business investment companies and from 2 percent to 5 percent for most other SBA loan guarantee programs. The February 9, 1989, Budget proposed that all SBA loan guarantee fees be increased to 5 percent.

Government-sponsored enterprises (GSEs).--Establish an annual fee on new securities. The fee would be phased in over three years, starting with 10 basis points in 1991, increasing to 20 basis points in 1992, and 30 basis points each year thereafter. For issuances of Fannie Mae and Freddie Mac mortgage-backed securities, the fee would be slightly lower: 5 basis points in 1991, increasing to 10 in 1992, and to 15 in each year thereafter. GSEs affected by the proposal include the Student Loan Marketing Association (Sallie Mae), the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the College Construction Loan Insurance Association (Connie Lee).

Department of Veterans Affairs.--Charge a 1.25 percent fee on new VA housing loan guarantees regardless of whether a veteran makes a downpayment. Enrolled bill H.R. 901 will raise the current 1.0 percent fee to 1.25 percent in 1990, but will reduce the fee for those veterans that make a downpayment of at least 5.0 percent. The February 9, 1989, Budget proposed to extend the fee at 1.0 percent.

Government National Mortgage Association (Ginnie Mae).--Increase existing fee from 6 basis points to 10 basis points. This proposal differs slightly from the February 9, 1989, Budget measure, which would have further increased the fee from 10 basis points to 15 basis points in 1992.

Rural Electrification Administration (REA).--Establish a 1 percent fee on REA loan guarantees in 1991 and increase the fee by 0.5 percent each year thereafter, with a maximum fee of 5 percent. This proposal differs slightly from the February 9, 1989, Budget measure, which would have increased the fee by 1 percent each year after 1991.

Agricultural Credit Insurance Fund (ACIF).--Increase the fee on ACIF loan guarantees by 0.5 percent each year beginning in 1992, with a maximum fee of 5 percent. This proposal differs slightly from the February 9, 1989, Budget measure, which would have increased the fee by 1 percent each year beginning in 1992.

**Service Fees**

Customs Service.--(1) Extend the Customs merchandise processing fee, which is scheduled to expire on September 30, 1990, and conform the fee to General Agreement on Trade and Tariffs (GATT) requirements. Conforming the fee to GATT requirements reduces receipts by $245 million in 1991. (2) Extend the Customs passenger processing fee, which is also scheduled to expire September 30, 1990, at current rates.

Nuclear Regulatory Commission (NRC).--Increase existing fees to recover 100 percent of the NRC's costs incurred in regulating nuclear power plants. As provided in the enacted reconciliation bill, the NRC will be able to recover 45 percent of its costs through user fees in 1990. When this authority expires at the end of 1990, however, NRC can recover only 33 percent of its costs through fees.

Coast Guard.--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.

Food and Drug Administration (FDA).--Establish several fees for a wide variety of FDA services, including medical product evaluations, application processing for food additives and new drugs, and inspections of manufacturing establishments.

Animal Plant and Health Inspection Service.--Establish a fee that would recover the cost of certain veterinarian diagnostic services, import-export inspections, and agricultural quarantine inspections at ports of entry.

Veterans medical care.--Establish modest copayments for moderate and higher income veterans for their inpatient subsistence and their outpatient visits and prescriptions. This fee would apply only to veterans who did not incur disabilities during military service. In contrast to the February 9, 1989, Budget measure, this proposal also indexes the fee to the CPI.

Railroad safety.--Establish a fee, to be phased in over two years, to cover the cost of railroad safety inspections. The February 9, 1989, Budget proposed that the fee be phased in over three years.

Army Corps of Engineers.--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.

Agriculture Marketing Service.--Increase existing fees on commodity grading to cover the cost of operations. This proposal is a slightly higher fee than one proposed in the February 9, 1989, Budget, reflecting new estimates of increased operations.

Forest Service.--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.

U.S. Travel and Tourism Administration (USTTA).--Establish a fee to be assessed on commercial airlines and cruise ship carriers to recover the full cost of USTTA operations. The February 9, 1989, Budget proposed slightly higher fees. In addition, that proposal would have reimbursed USTTA directly, eliminating the need for an annual appropriation, and then credited any remaining receipts above the USTTA budget to the general fund. Under the current proposal, USTTA would still require an annual appropriation.

Small Business Administration (SBA) publications.--Increase fees for SBA publications. The February 9, 1989, Budget had proposed a slightly higher increase in fees.

## Other Offsetting Collections

Federal Communication Commission (FCC) unassigned spectrum.--Establish a competitive bidding process to grant licenses for the exclusive use of certain frequencies in the unassigned spectrum. Revenues expected at $2.3 billion in 1991 and $1.1 billion in 1992.

Arctic National Wildlife Refuge.--Permit lease sales for oil and gas exploration and development on Federal lands in Alaska's Arctic National Wildlife Refuge, with the first sale to be held in 1993. The February 9, 1989, Budget proposed lease sales beginning in 1990; but the proposal was revised in the Mid-Session Review of the Budget after the Valdez oilspill, with the first lease sale now assumed to be scheduled for 1993.

Effect on Governmental Receipts of Increases in House/Senate Reconciliation Bills that did not Become Law 1/
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Permit limited use of excess pension funds to pay current retiree health benefits.............................. | .172 | .348 | .144 | --- |
| Limit like-kind exchanges to similar use property.......................... | .143 | .222 | .273 | .325 |
| Change point of imposition of gasoline excise tax.......................... | .117 | .030 | .030 | .030 |
| Modify collection period of telephone excise tax.......................... | .110 | .012 | .012 | .012 |
| Net receipt increase......... | .542 | .612 | .459 | .367 |

1/ Includes only those provisions that the Department of Treasury indicated that the Administration could support.

Governmental Receipt Increases in House/Senate Reconciliation Bills that did not Become Law

Permit limited use of excess pension funds to pay current retiree health benefits.--The transfer of excess pension plan assets to pay current retiree health benefits would be allowed. The transfer would have to occur before January 1, 1993, and in a plan year beginning after December 31, 1990.

Limit like-kind exchanges to similar use property.--Under section 1031, no gain or loss is recognized if property held for productive use in a trade or business or for investment is exchanged for property of a "like-kind." In general, any kind of real estate is treated as of like-kind with other real estate. This contrasts with the standard under section 1033 where nonrecognition of gain applies to involuntary conversions only if the taxpayer acquires replacement property that is "similar or related in service or use." Under this provision, which would be effective January 1, 1991, the standard for nonrecognition under section 1031 would be conformed to the standard under section 1033.

Change point of imposition of gasoline excise tax.--The existing gasoline excise tax is imposed on the removal or sale of gasoline by the refiner, importer, or terminal operator. The bulk transfer of gasoline to a terminal by a refiner or importer is not considered a removal or sale of gasoline. The tax would be imposed on receipt of the gasoline at any terminal or its earlier removal or sale by a refiner or importer under this provision. This change would be effective January 1, 1991.

Modify collection period of telephone excise tax.--Under present law the telephone tax billed to a customer in a given semi-monthly period is considered to be collected during the second following semi-monthly period. The tax is deposited within three banking days after the semi-monthly period in which it is considered to be collected. Under this provision the tax would be collected during the first week of the second following semi-monthly period and would be deposited within three banking days after the end of that week. This change would be effective for taxes considered collected for semi-monthly periods beginning after December 31, 1990.

User Fees and Other Offsetting Collections Provisions Dropped
from the Enacted Reconciliation Bill
(In billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Veterans eligibility verification | 0.051 | 0.142 | 0.202 | 0.213 |
| Securities Exchange Commission fee | 0.042 | 0.044 | 0.045 | 0.047 |
| Total, net outlay reduction | 0.093 | 0.186 | 0.247 | 0.260 |

## User Fee and Other Offsetting Collection Proposals Dropped from the Enacted Reconciliation Bill

Veterans eligibility verification.--Permit use of a beneficiary's income information to verify income for purposes of needs-based benefits and services administered by the VA. The proposal also requires the VA to verify independently disclosed income information to meet due process requirements.

Securities Exchange Commission (SEC).--Increase the statutory rates and expand the base on a number of SEC fees. The proposal excludes an objectionable provision in the House-passed reconciliation measure that would have required the SEC to vary fees to ensure that receipts equal 100 percent of its budget by 1996. In addition, the proposal includes a somewhat different collection schedule than the House-passed measure. The receipt estimates for the proposal reflect these modifications to the House version. The SEC, as part of the appeals process, may offer an alternative proposal that establishes a fee on annual securities filings. The SEC proposal is likely to yield similar receipts.

Effect on Governmental Receipts of New Proposals (Recommended)
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Extend OASDI coverage to State and local employees not participating in retirement programs 1/ | 2.080 | 2.232 | 2.374 | 2.530 |
| Increase airport and airway taxes 1/ 2/ | .583 | .836 | .908 | .980 |
| Increase ad valorem fee on shippers 1/ | .265 | .277 | .292 | .300 |
| Impose user fees on recreational vehicles, all-terrain vehicles, camping equipment and pleasure boats (America the Beautiful initiative) 1/ | .310 | .321 | .332 | .343 |
| Change collection point -- liquor occupation taxes 1/ | .046 | .046 | .046 | .046 |
| Extend OASDHI coverage to D.C. employees 1/ | .001 | .006 | .012 | .016 |
| Extend abandoned mine reclamation fees | -- | .046 | .273 | .281 |
| Delay for 3-months the Federal employee pay raise from 10/1/90 to 1/1/91 | -.025 | -.033 | -.033 | -.033 |
| Net receipt increase | 3.260 | 3.731 | 4.204 | 4.463 |
| **Addendum** | | | | |
| Outlay effect of governmental receipt initiatives: | | | | |
| America the Beautiful initiative (net outlay increase) | .152 | .228 | .276 | .319 |

1/ Net of income tax offsets.

2/ Represents the net increase relative to the effect of repeal of the airport and airway trigger, as provided in the Omnibus Budget Reconciliation Act of 1989.

## New Governmental Receipt Proposals (Recommended)

Extend OASDI coverage to State and local employees not participating in public employee retirement programs.--The Federal Government does not require social security coverage of State and local employees. Currently some 30% of State and local government jobs (about 4 million) are not covered by OASDI. Effective October 1, 1990, mandatory coverage would be extended to those workers not participating in a public employee retirement system in conjunction with their current State and local employment.

Increase Airport and airway taxes.--The Airport and Airway Development and Revenue Acts of 1970 linked funding of FAA capital and operating programs to user fee receipts by increasing the passenger ticket fee from 5% to 8% (other fees were similarly increased) and depositing receipts in the Airport and Airway Trust Fund. Prior to 1971, the 5% passenger ticket fee and various other aviation fees were deposited in the general fund. User fees have always covered trust fund outlays, but have never covered total FAA outlays; in 1990 user fee receipts are projected to cover only 60% of total FAA outlays. OMB proposed, and Transportation has tentatively agreed, to raise the passenger ticket fee from 8% to 10% (other fees would be similarly increased).

Increase ad valorem fee on shippers.--The current ad valorem fee on shippers would be increased from .04 percent of cargo value to approximately 0.1 percent of cargo value. This increase would fully offset the cost of Corps of Engineers harbor maintenance dredging; currently 40% of the cost of the program is recovered by the fee. It would also offset the cost of NOAA marine programs, including coastal mapping, marine weather, and circulation and tide data.

Impose user fees on recreational vehicles, all-terrain vehicles, camping equipment, and pleasure boats.--A 2.5 percent fee would be levied on the sale of recreational vehicles, all-terrain vehicles, and camping equipment. In addition, a 1.0 percent fee would be levied on the sale of pleasure boats, motors, and accessories. These two fees are modeled on the existing Wallop-Breaux sport fish restoration fees levied on fishing equipment. They would help fund the proposed "America the Beautiful" initiative, under which spending would be increased for Federal land acquisition, natural and cultural resource protection, recreation enhancement, and reforestation.

Change collection point of special taxes in connection with liquor occupations.--To increase compliance rates and revenues, the special occupation taxes currently levied on retailers would be eliminated and the existing taxes on wholesalers and manufacturers would be increased effective October 1, 1990.

Extend OASDHI coverage to D.C. employees.--This proposal would extend OASDHI coverage to all newly hired D.C. employees effective January 1, 1991. Most D.C. employees are already covered.

Extend abandoned mine reclamation fees.--The abandoned mine reclamation fees, which are scheduled to expire in August 1992, would be extended. Collections from the existing fees of 35-cents per ton for surface mined coal and 15-cents per ton for underground mined coal are allocated to States for reclamation grants. Extensive abandoned land problems are expected to exist after all the money from the collection of existing fees is expended.

Delay for 3-months the Federal employee pay raise.--The Federal employee pay raise, which affects employee contributions to civil service retirement, is proposed to be delayed 3-months from October 31, 1990 to January 1, 1991.

New User Fee and Offsetting Collection Proposals (Recommended)
(In billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Medicare and Medicaid survey and certification: | | | | |
| Fees | 0.509 | 1.082 | 1.119 | 1.151 |
| Increased outlays for program expansion | 0.278 | 0.836 | 0.861 | 0.879 |
| Subtotal, net outlay reduction | 0.231 | 0.246 | 0.258 | 0.272 |
| Hardrock mining claim rental fee | 0.090 | 0.090 | 0.090 | 0.090 |
| FEMA flood insurance and student registration | 0.052 | 0.053 | 0.055 | 0.056 |
| Commodity Futures Trading Commission | 0.041 | 0.045 | 0.048 | 0.052 |
| Environmental Protection Agency (3 fees) | 0.029 | 0.029 | 0.029 | 0.029 |
| Coal mine royalties | 0.022 | 0.028 | 0.032 | 0.032 |
| Army Corps of Engineers permits | 0.017 | 0.017 | 0.018 | 0.018 |
| Grain inspections | 0.006 | 0.006 | 0.006 | 0.006 |
| Rural housing insurance fund | 0.006 | 0.007 | 0.015 | 0.016 |
| Agriculture marketing | 0.001 | 0.001 | 0.001 | 0.001 |
| Commerical space launch licenses | * | * | * | * |
| Total, net outlay reduction | 0.495 | 0.522 | 0.552 | 0.572 |

* -- $500,000 or less

**New User Fee and Offsetting Collections Proposals (Recommended)**

Medicare and Medicaid survey and certification.--Establish fees to cover all the costs of survey and certification activities, which ensure that health care providers comply with Medicare and Medicaid health and safety standards, and associated Federal FTE costs. Fee receipts would also be used to fund expanded Medicare survey and certification activities required by law. In addition, the proposal would consolidate all Medicaid and Medicare survey and certification activities in one Health Care Financing Administration account.

Hardrock mining claim rental fee.--Establish an annual rental fee of $5 per acre to keep a mining claim active, replacing the current requirement that claimholders spend at least $100 per year on development of the claim.

Federal Emergency Management Agency (FEMA).--(1) Increase fees on FEMA flood insurance policy holders to recover the cost of administering the program (about $50 million in receipts in 1991); and (2) 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 (about $350,000 in receipts in 1991).

Commodity Futures Trading Commission (CFTC).--Establish a futures market transactions fee to cover the cost of the CFTC budget.

Environmental Protection Agency (EPA).--Establish fees on EPA water permits ($10 million annually), auto fuel and certification tests ($5 million annually), and pesticide registrations ($14 million annually).

Coal mine royalties.--Reverse a 1988 decrease in the base from which royalties on coal mined from Federal lands is calculated. Under the proposal, severance taxes and Abandoned Mine Land Reclamation and Black Lung fees would be included in the coal product-value calculation, as they were prior to January 19, 1989. These types of expenses are included in the base for other minerals. (Actual savings are only half of total receipts, because half must be shared with the States.)

Army Corps of Engineers.--Establish an application fee for Corps dredge-and-fill permits (known as 404 permits).

Grain inspections.--Establish a fee for Federal Grain Inspection Service standardization and quality-assurance inspections.

Rural housing insurance fund.--Establish a 1 percent origination fee on loan guarantees, increasing to 2 percent in 1993 and thereafter.

Agriculture Marketing Service (AMS).--Establish a fee on commodity distributors to cover AMS costs of coordinating marketing development activities.

Commercial space launch licenses.--Establish a fee for Department of Transportation (DOT) licenses for launching commercial space vehicles. DOT inspects commercial space vehicles and certifies that they meet safety standards prior to issuing launch licenses.

Effect on Governmental Receipts of Extension of Expiring Provisions
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Expiring provisions not included elsewhere: | | | | |
| Extend and revise R&E allocation rules | -.380 | -.708 | -.772 | -.837 ? |
| Extend health insurance deduction for self-employed | -.273 | -.365 | -.384 | -.403 |
| Extend low-income housing credit | -.051 | -.269 | -.597 | -.965 |
| Subtotal, net receipt decrease | -.704 | -1.342 | -1.753 | -2.205 |
| Expiring provisions included elsewhere: | | | | |
| Extend telephone excise tax | 1.586 | 2.606 | 2.804 | 3.013 |
| Extend IRS user fee | .030 | .030 | .030 | .030 |
| Extend abandoned mine reclamation fees | --- | .046 | .273 | .281 |
| Extend R&E credit | -.495 | -.871 | -1.009 | -1.146 |
| Extend and expand railroad UI reimbursable status | -.007 | -.009 | -.006 | -.001 |
| Subtotal, net receipt increase | 1.114 | 1.802 | 2.092 | 2.177 |
| Total, net receipt increase/ decrease | .410 | .460 | .339 | -.028 |

for a # of large multinationals

* $500 thousand or less.

## Governmental Receipt Extensions Not Included Elsewhere

<u>Extend and revise research and experimentation (R&E) allocation rules</u>.--Companies with foreign operations are allowed to allocate 64 percent of domestic R&E expenditures to their domestic operations and 64 percent of foreign R&E expenditures to their foreign operations. The remaining expenses are to be allocated on the basis of gross income or sales. Under the Omnibus Budget Reconciliation Act of 1989, these rules were extended through the first taxable year beginning after August 1, 1989 and before August 2, 1990. Under the proposal companies would be allowed to allocate at least 67 percent of total R&E expenditures to domestic source income effective for tax years beginning after August 1, 1990.

<u>Extend health insurance deduction for self-employed</u>.--The 25 percent deduction provided to self-employed individuals for the cost of health insurance expenses, which was scheduled to expire after December 31, 1989, was extended through September 30, 1990 under the Omnibus Budget Reconciliation Act of 1989. Under this proposal the deduction would be permanently extended.

<u>Extend low-income housing credit</u>.--Under the Omnibus Budget Reconciliation Act of 1989, the low-income housing tax credit was extended, with modification, through December 31, 1990. Under this proposal the credit would be permanently extended.

## Reduction in Individual Capital Gains Tax Rate

Under current law, individual capital gains are included as ordinary income on a individual's tax return.

Two basic capital gains options are presented: (1) a simple reproposal of the provisions in last year's budget, and (2) a new proposal providing for a 30-percent exclusion (19.6-percent rate) applicable to all assets, other than collectibles, held by individuals.

### Last Year's Budget Proposal

The proposal would provide for a 45-percent exclusion (15-percent rate) on gains from sales of qualified capital assets. To be eligible for the exclusion, assets would need to satisfy the following holding periods: (1) assets sold in 1990, 1991, 1992, or 1993 would need to be held more than 1 year; (2) assets sold in 1994 or 1995 would need to be held more than 2 years; and (3) assets sold in 1996 and thereafter would need to be held more than 3 years.

The proposal would provide for a 100-percent exclusion on sales of assets by married taxpayers with adjusted gross incomes of less than $20,000 ($10,000 for singles).

The capital gain exclusion would be allowed in computing the alternative minimum tax. The entire amount of depreciation deductions taken with respect to all property would be recaptured as ordinary income.

The proposal would be effective July 1, 1990.

## New Proposal

The new proposal would initially provide a 30-percent exclusion on gains from sales of all individual assets held more than 1 year. Over a 3-year period, a sliding scale to encourage longer retention of capital assets would be phased in, so that in 1993 and thereafter, the following schedule would apply:

| Assets held more than | Exclusion | Rate[1] |
|---|---|---|
| 3 years | 30 % | 19.6 % |
| 2 years | 20 % | 22.4 % |
| 1 year | 10 % | 25.2 % |

[1] Assumes 28-percent marginal tax rate on ordinary income.

The proposal would produce the same first-year revenue as last year's budget proposal but substantially broadens the category of assets eligible. Reestimation of last year's proposal would probably produce lower revenues.

The capital gain exclusion would not be allowed in computing the alternative minimum tax. The entire amount of depreciation deductions taken with respect to all property would be recaptured as ordinary income.

The proposal would be effective March 15, 1990.

## Possible Modification

While not a part of the new proposal, a capital gains tax reduction for corporations and an alternative indexing feature could be added at modest cost. The Treasury Department does not recommend addition of either for purposes of the budget submission.

## Reduction in Individual Capital Gains Tax Rate

**Revenue Estimates:**

| | (fiscal years) 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1990-95 |
|---|---|---|---|---|---|---|---|
| | ($ billions) | | | | | | |
| Last Year's Budget Proposal | 0.7 | 4.8 | 4.9 | 3.5 | 2.2 | -6.8 | 9.3 |
| New Proposal 1/ | 0.8 | 4.8 | 2.8 | 1.2 | 1.7 | 1.4 | 12.7 |
| With indexing commencing 1/1/92 | 0.8 | 4.8 | 2.7 | 0.5 | 0.7 | 0.6 | 10.1 |

Last year's proposal assumes effective date of 7/1/90; new proposal assumes effective date of 3/15/90.

1/ Exclusion of 30% for asset held 1 year during 1990 and 1991; exclusion of 30% for assets held 2 years and 20% for assets held 1 year during 1992; and exclusion of 30% for assets held 3 years, 20% for assets held 2 years and 10% for assets held 1 year during 1993 and following years.

Office of Tax Analysis
December 1, 1989

## Reduction in Corporate Capital Gains Tax Rate

Under current law, corporate capital gains are included as ordinary income on a corporation's tax return.

Under the proposal, corporate capital gains from sales of capital assets held for more than 5 years would be taxed at a maximum rate of 29 percent. (The maximum corporate tax rate on ordinary income is 34 percent.) The proposal would apply to both existing and newly-purchased capital assets.

The entire amount of depreciation deductions taken on sold capital assets would be recaptured as ordinary income. No capital gain exclusion would be allowed in computing the alternative minimum tax.

Revenue Estimate:

(fiscal year)

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1990-1995 |
|---|---|---|---|---|---|---|
| ($ billions) | | | | | | |
| -0.1 | -0.2 | -0.2 | -0.4 | -0.7 | -0.9 | -2.5 |

Assumes effective date of 3/15/90.

Office of Tax Analysis
November 27, 1989

## Waiver of Excise Tax for Certain Early Withdrawals from Individual Retirement Accounts (IRAs)

Under current law, early withdrawals from a fully-deductible IRA are (1) subject to a 10-percent excise tax (penalty), and (2) included as ordinary income on an individual's tax return. The Economic Policy Council may propose variations from the proposal described below; however, any such modifications will not require any additional revenue loss.

Under the proposal, the 10-percent excise tax would be waived for early withdrawals if the money was used for any of the following purposes:

(1) college expenses,
(2) catastrophic medical expenses,
(3) first-time home purchases.

The proposal would have the benefit of making IRAs more attractive to families by making them available for long-term savings objectives in addition to retirement without substantial revenue cost.

The proposal would allow parents to make early withdrawal without penalty to pay college expenses of children. Early withdrawal without penalty would apply for catastrophic medical expenses involving any dependent. The penalty would be waived for a first-time home purchase by the taxpayer if the home costs no more than 110 percent of the median price of homes. The maximum amount that could be withdrawn without penalty for first-time home purchases would be $10,000.

The proposal would be restricted to withdrawals from IRAs held by taxpayers who are not dependents of another taxpayer.

Revenue Estimate:

(fiscal years)
($ billions)

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1990-1995 |
|---|---|---|---|---|---|---|
| * | -0.2 | -0.3 | -0.3 | -0.3 | -0.2 | -1.3 |

* less than $50 million
Assumes effective date of 1/1/90.

Office of Tax Analysis
December 1, 1989

Effect on Governmental Receipts of Additional Potential Governmental Receipt Measures
(in billions of dollars)

| | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|
| Tax large credit unions as thrift. | 0.500 | 0.600 | 0.600 | 0.700 |
| Tax corporate-owned life insurance | 0.100 | 0.200 | 0.400 | 0.600 |
| Include salvage values in calculation of loss deductions by insurance companies............. | 0.200 | 0.200 | 0.200 | 0.100 |
| Speedup payroll tax collections... | 0.900 | 2.200 | -3.100 | --- |
| Initiate fee on virgin materials to promote recycling 1/.......... | 0.158 | .210 | .210 | .210 |
| Net receipt increase/decrease | 1.858 | 3.410 | -1.690 | 1.610 |

1/ Net of income tax offsets.

## Additional Potential Governmental Receipt Measures

<u>Tax large credit unions as thrifts</u>.--Currently, all credit unions are exempt from corporate tax. Larger credit unions (<u>i.e.</u>, with more than $10 million in assets) might be treated and taxed the same as thrift institutions.

<u>Tax corporate-owned life insurance (COLI)</u>.--Currently, corporations can use tax arbitrage to shelter income from tax by using COLIs. Corporations can deduct the interest paid on loans against a COLI's cash value, while the cash value builds up tax-free. The proposal would deny the interest deduction paid on loans against a COLI's cash value for all contracts, regardless of when purchased.

<u>Included salvage values in calculation of loss deductions by insurance companies</u>.--Currently, a property and casualty insurance company need not include salvage values of losses in its calculation of deductions for losses paid during a year. The salvage values need not be included if a state does not allow the company to claim the salvage values as assets for statutory purposes. The proposal would require insurance companies to include salvage values in their calculations, regardless of how states treat salvage values.

<u>Speedup payroll tax collections</u>.--Currently, employers that have accumulated $100,000 or more of withheld employee taxes must deposit these taxes within a specified number of days. In 1990, 1993, and 1994, the employer must make the deposit by the close of the next working day. In 1991, however, the employer must make the deposit within 2 days, and in 1992 the employer must make the deposit within 3 days. The proposal would require the deposit to be made by the close of the next working day in all years.

<u>Initiate fee on virgin materials to promote recylcing</u>.--Fees would be imposed on virgin newsprint and certain packaging materials (including plastic bottles and aluminum cans) to internalize the cost of disposal in the product price and to make recycling more attractive.

**User Fee and Offsetting Collection Proposals to be Reviewed in the Appeals Process**

Meat, poultry, and processed food inspections.--Establish user fees for meat, poultry, and processed food inspections conducted by the Department of Agriculture.

Food and Drug Administration (FDA) application processing and inspections.--Establish fees on FDA inspection and review activities. The portion of the fees to be used for expanded FDA activities will be determined during the appeals process. This fee proposal, which includes approval and inspection of generic drugs, is a slightly expanded version of the one in the February 9, 1989, Budget.

FDA voluntary seafood inspections.--Expand voluntary, user-fee financed seafood inspections conducted by the FDA.

User Fee and Offsetting Collection Proposals
to be Reviewed in the Appeals Process
(In billions of dollars)

| | 1991 | 1992 | 1993 | 1994 | |
|---|---|---|---|---|---|
| Meat and poultry inspections | 0.413 | 0.413 | 0.413 | 0.413 | Agricultural |
| FDA application processing and inspections: | | | | | |
| Fee 1/ | 0.044 | 0.046 | 0.047 | 0.049 | |
| Increased outlays for program expansion 2/ | n.a. | n.a. | n.a. | n.a. | |
| Subtotal, net outlay reduction | 0.044 | 0.046 | 0.047 | 0.049 | |
| FDA seafood inspections: | | | | | |
| Fee | 0.005 | 0.005 | 0.005 | 0.005 | |
| Increased outlays for program expansion | 0.005 | 0.005 | 0.005 | 0.005 | |
| Subtotal, net outlay reduction | 0.000 | 0.000 | 0.000 | 0.000 | |
| Total, net outlay reduction | 0.457 | 0.459 | 0.460 | 0.462 | |

1/ Estimates reflect additional savings associated with the competitive pool item compared to the reproposal.

2/ The portion of the proposed user fees that will be used to expand FDA activities will be determined during the appeals process.

n.a. -- not available

Thanksgiving 1989

budget file

1

THE PRESIDENT HAS SEEN

Mr President:

I.) The recent meetings on The DOD budget have brought home the inter-relationship between DOD budget and other priorities that you face.

For instance to the extent that DOD is above \$280B (not \$290B) we will come in above \$64 B deficit, the GRH Goal for 1991. To be sure there are other adjustments that could fund a higher than \$280 B DoD level. They are:

1) Lower Drug program
2) Lower Education program
3) Lower Environments program
4) Lower Housing etc

OR

Raise Taxes

OR

Cut entitlement (Social Security)

OR

Push Economic assumptions beyond any semblance of reality.

II.) Our defense is strong because our economy is strong. The USSR defense budget is headed down because they are BROKE.

No one is smart enough to tell you when the U.S has run out of rope but we have borrowed in every phase of our lives.

1) Consumer debt is out of sight

2) We just raised the debt limit to over 3 trillion

3) We are running a huge trade deficit

4) Our Domestic Corporations due to the LBO fad are over leveraged.

So what does this have to do with DOD? It matters and DOD should be careful about the flat statement that the DOD budget should not be "Budget Driven". Of course, not. But if DOD is an island unto itself we are going to make BIG mistakes elsewhere in the Balancing you must decide on.

III) I have only been a fly on the wall in the DOD world. But I have studied hard as a member of the Armed Services Committee; the MX Commission; The Kissinger Commission; The State Dept Committee on FMS etc; and The Packard Commission.

My strong conclusion from this work is that a $290 B budget for DOD is not only achievable without material effect on our country's defense posture but it might (in the hands of top hands like Dick Cheney and Colin Powell) actually be leaner and tougher when they got through.

We have all had to do with less at various times and it seems impossible and truly risky. Most of the time I have found it is neither. It will not prove to be in this case.

IV) Perhaps on a more parochial issue it is important for our up coming battle with Congress over the '91 budget that we have a coherent story to put forward. Dick Darman is within reach of coming up with a second miracle which will give you a winning chance to not raise taxes or at the very least to start the battle with the best bargaining position. We need DOD at $290 b at the most to be in this position.

V) The point about Reality is important. DOD is going to get shoved to this point for sure. If my guess as to what Gorbachev is going to offer you before summer's end is even nearly right the cry for DOD cuts is going to be irresistible. From the point of view of Bush Presidency leadership I think we ought to be assuming this and acting on it.

No mackerel; in fact, 0 so far.

WFB

[redacted]

THE WHITE HOUSE
WASHINGTON

**DATE:** 11-24-89

**FROM THE PRESIDENT**

**TO:** Joe Hagin

The atatched handed ot me
in Memphis by Mr. Mowery.

Mowery invokes the name of my close
friend Bayard Boyle in the end of
this.

I do not believe a meeting is
needed, but in case you hear more
I wanted you to have the attached.

he did NOT request a meeting.

gb

[redacted]

# Youth Service USA

THE PRESIDENT HAS SEEN

314 S. Goodlett • Memphis, TN 38117 • 901-454-4900



## A YOUTH SERVICE USA CONCEPT
## FOR A NATIONAL PROGRAM
## REHABILITATING JUVENILE DRUG OFFENDERS
## USING MILITARY FACILITIES

Presented to
The Honorable George Bush

- This paper outlines concept, presents rationale for design, and proposes the next step.
- Concept originated with two Memphis-based organizations.
  - Youth Service USA, Inc., is national, private, non-profit.
    - Since 1968, pre-eminent agency working with military organizing programs for disadvantaged youth and young adults.
    - President Bush was briefed on programs in 1983 at suggestion of Episcopal Bishop John Allin.
    - On non-interference basis, started youth programs on more than 100 military installations, job training programs in 15 cities.
    - Received Medal for Outstanding Public Service from Secretary of Defense.
  - Aragorn, Inc., is clinical management consulting firm.
    - Company principals ran 11 psychiatric and drug treatment centers last 20 years.
    - Developed treatment regimen styled after military boot-camp methods and based on proven learning theory.
    - Independent evaluation over six years revealed 86% success rate--success defined as clients not returning to psychiatric or juvenile judicial systems.

Partially funded by
PRIVATE INDUSTRY COUNCIL

- Proposed program would use unused facilities on active or de-activated military bases.

  -- Juvenile drug offenders would be sent to 90-120 day residential program.

    --- Treatment uses regimentation, strong discipline, peer hierarchy, strenuous exercise, expert-led counseling to bring about change.

  -- Juveniles would graduate to 8-12 month aftercare program.

    --- Treatment would continue anti-drug counseling, facilitate adoption of constructive life-style, education, job training, etc.

  -- Key benefits of program are lower cost through use of military facilities, lower recidivism by combining tough discipline with clinical methods.

- Program was designed to meet urgent need in Memphis for juvenile treatment programs and to fit following criteria.

  -- Cost approximately $10,000 per participant per year.

  -- Be operated by experienced mental health professionals.

  -- Be capable of expansion locally and replication nationally.

  -- Improve on success of military-style boot-camp programs.

- Program is endorsed by Senators, Representatives, Governor, City and County Mayors, local business people.

  -- Foundation has given initial $100,000 to begin program.

  -- Military and private sector are key partners in concept.

- Federal discretionary funds are sought to organize model in Memphis--then to replicate program nationally.

  -- Meeting with President Bush is requested to present a concept to help him in his battle against drugs.

    --- Attending would be Memphis businessman, Mr. Bayard Boyle, Sr., and The Rev. Donald Mowery, President and Founder of Youth Service USA.

The Rev. Donald E. Mowery
Youth Service USA, Inc.
314 South Goodlett
Memphis, Tennessee 38117
(901) 454-4900

Corrected

Errors in Budget Year Caseload Projections in Special Analysis A

| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|
| **Current Year Caseload (thousands of persons)** | | | | | | |
| OASDI | 36,150 | 36,649 | 37,396 | 37,877 | 38,470 | 38,839 |
| Railroad Retirement | 968 | 960 | 940 | 935 | 920 | 906 |
| Federal Civil Service Retirement | 1,980 | 1,957 | 2,018 | 2,054 | 2,032 | 2,148 |
| Military Retirement | 1,433 | 1,462 | 1,496 | 1,526 | 1,557 | 1,599 |
| Veterans Compensation | 2,605 | 2,582 | 2,564 | 2,546 | 2,525 | 2,531 |
| Veterans Pension | 1,623 | 1,486 | 1,365 | 1,304 | 1,229 | 1,172 |
| Comp and Pensions | 4,228 | 4,068 | 3,929 | 3,850 | 3,754 | 3,703 |
| Disabled Coal Miners | 420 | 399 | 380 | 357 | 339 | 369 |
| SSI | 3,660 | 3,708 | 4,135 | 4,280 | 4,415 | 4,108 |
| AFDC | 10,437 | 10,753 | 10,790 | 11,010 | 11,002 | 10,901 |
| Food Stamps | 20,540 | 20,240 | 19,720 | 19,447 | 18,823 | 18,308 |
| HUD | 3,827 | 3,978 | 4,070 | 4,196 | 4,255 | 4,312 |
| Medicaid | 22,700 | 22,137 | 22,894 | 23,346 | 24,178 | 25,069 |
| Medicare HI | 29,663 | 30,200 | 30,773 | 31,400 | 31,280 | 32,576 |
| Medicare SMI | 29,201 | 29,900 | 30,566 | 31,041 | 31,576 | 32,126 |
| **Caseload Difference from Previous Year's Projection (thousands of persons)** | | | | | | |
| OASDI | 294 | 247 | (63) | 187 | 26 | 208 |
| Railroad Retirement | 8 | (9) | 2 | (9) | 2 | (3) |
| Federal Civil Service Retirement | 0 | 75 | (14) | 11 | 69 | (47) |
| Military Retirement | | 0 | (3) | (1) | 0 | (10) |
| Veterans Compensation | 7 | 16 | (2) | (3) | 0 | (23) |
| Veterans Pension | 37 | 64 | 22 | (35) | 6 | (12) |
| Comp and Pensions | 44 | 80 | 20 | (38) | 6 | (35) |
| Disabled Coal Miners | (7) | (1) | (3) | 4 | (2) | (49) |
| SSI | | 8 | | (69) | (27) | 432 |
| AFDC | 468 | (399) | 7 | (188) | 10 | 178 |
| Food Stamps | 1,000 | (210) | 400 | 63 | 478 | 463 |
| HUD | 96 | 40 | 94 | (88) | 121 | 93 |
| Medicaid | (116) | 763 | (377) | 253 | (391) | (73) |
| Medicare HI | 19 | 13 | 27 | 1 | 718 | (148) |
| Medicare SMI | 64 | (111) | (66) | 194 | 41 | 57 |
| **Percentage Difference** | | | | | | |
| OASDI | 0.81% | 0.67% | -0.17% | 0.49% | 0.07% | 0.54% |
| Railroad Retirement | 0.83% | -0.94% | 0.21% | -0.96% | 0.22% | -0.33% |
| Federal Civil Service Retirement | | 3.83% | -0.69% | 0.54% | 3.40% | -2.19% |
| Military Retirement | 1.47% | 0.00% | -0.20% | -0.07% | 0.00% | -0.63% |
| Veterans Compensation | 0.27% | 0.62% | -0.08% | -0.12% | 0.00% | -0.91% |
| Veterans Pension | 2.28% | 4.31% | 1.61% | -2.68% | 0.49% | -1.02% |
| Comp and Pensions | 1.04% | 1.97% | 0.51% | -0.99% | 0.16% | -0.95% |
| Disabled Coal Miners | -1.67% | -0.25% | -0.79% | 1.12% | -0.59% | -13.28% |
| SSI | | 0.22% | | -1.61% | -0.61% | 10.52% |
| AFDC | 4.48% | -3.71% | 0.06% | -1.71% | 0.09% | 1.63% |
| Food Stamps | 4.87% | -1.04% | 2.03% | 0.32% | 2.54% | 2.53% |
| HUD | 2.51% | 1.01% | 2.31% | -2.10% | 2.84% | 2.16% |
| Medicaid | -0.51% | 3.45% | -1.65% | 1.08% | -1.62% | -0.29% |
| Medicare HI | 0.06% | 0.04% | 0.09% | 0.00% | 2.30% | -0.45% |
| Medicare SMI | 0.22% | -0.37% | -0.22% | 0.62% | 0.13% | 0.18% |

file

1991 BASELINE ALTERNATIVES
(in billions of dollars)



Assuming 1990 Action on:

| | Reconciliation Only | | | | Sequester Only | | Best H/S Recon. Dec. 1 Seq. Repeal McCain & Sec. 89 | |
|---|---|---|---|---|---|---|---|---|
| | House | | Senate | | | | | |
| | 1990 | 1991 | 1990 | 1991 | 1990 | 1991 | 1990 | 1991 |
| Defense: | | | | | | | | |
| DoD-Military: | | | | | | | | |
| Budget authority................ | 293.9 | 305.8 | 293.9 | 305.8 | 287.8 | 299.4 | 292.9 | 302.0 |
| Outlays......................... | 282.3 | 294.4 | 282.3 | 294.4 | 277.7 | 289.1 | 281.5 | 290.0 |
| Other defense: | | | | | | | | |
| Budget authority................ | 10.2 | 10.4 | 10.2 | 10.4 | 9.8 | 10.3 | 10.1 | 10.5 |
| Outlays......................... | 9.5 | 10.3 | 9.5 | 10.3 | 9.4 | 9.9 | 9.5 | 10.3 |
| Nondefense discretionary: | | | | | | | | |
| Budget authority................. | 180.1 | 187.8 | 180.1 | 187.8 | 173.3 | 180.8 | 178.9 | 186.7 |
| Outlays.......................... | 201.3 | 211.4 | 201.3 | 211.4 | 197.6 | 205.5 | 200.7 | 210.5 |
| Mandatory......................... | 557.4 | 595.9 | 554.6 | 593.4 | 560.4 | 602.7 | 553.6 | 590.9 |
| Net interest...................... | 178.4 | 176.8 | 178.4 | 176.9 | 178.1 | 176.1 | 178.1 | 176.1 |
| Undistributed offsetting receipts... | -36.6 | -38.3 | -36.6 | -38.3 | -36.6 | -38.3 | -36.6 | -38.3 |
| Total, outlays.................... | 1192.3 | 1250.5 | 1189.5 | 1248.1 | 1186.5 | 1245.0 | 1186.8 | 1239.4 |
| Revenues.......................... | 1075.2 | 1148.1 | 1073.0 | 1140.2 | 1075.3 | 1143.5 | 1074.7 | 1143.5 |
| Deficit........................... | 117.1 | 102.4 | 116.5 | 107.9 | 111.2 | 101.4 | 112.1 | 96.0 |
| Adjust for: | | | | | | | | |
| McCain catastrophic & Sec 89... | -0.8 | 0.4 | 0.0 | 0.0 | 6.6 | 0.2 | 0.0 | 0.0 |
| Reproposing mandatory savings.. | 0.0 | -14.3 | 0.0 | -15.6 | 0.0 | -17.7 | 0.0 | -13.4 |
| Reproposing receipt initiatives | 0.0 | -2.7 | 0.0 | -7.8 | 0.0 | -7.8 | 0.0 | -6.2 |
| Reproposing child care init.... | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 |
| Deficit assuming catastrophic repeal and reproposals........... | 116.3 | 85.8 | 116.5 | 84.7 | 117.8 | 76.3 | 112.1 | 76.5 |
| Adjust for: | | | | | | | | |
| Postal Service off-budget...... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.9 | 0.0 | 0.0 |
| Other mandatories in reconciliation, not proposed by Administration | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.6 | 0.0 | 0.0 |
| Senate bill revenues in 1991... | 0.0 | -0.2 | 0.0 | 0.0 | 0.0 | -4.1 | 0.0 | 0.0 |
| Census baseline anomaly........ | 0.0 | -0.8 | 0.0 | -0.8 | 0.0 | -0.7 | 0.0 | -0.7 |
| Mark 1991 to post-seq. level... | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -3.3 |
| Deficit assuming catastrophic reproposals, & other adjustments. | 116.3 | 84.9 | 116.5 | 83.9 | 117.8 | 69.9 | 112.1 | 72.5 |

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 06. Outline | Defense Budget for Discussion 11/7/89 (5 pp.) | 11/7/89 | ~~P-5~~ | |

**Collection:**

**Record Group:** Bush Presidential Records
**Office:** Chief of Staff, White House Office of
**Series:** Sununu, John, Files
**Subseries:** Issues Files
**WHORM Cat.:**
**File Location:** Budget [1990] (1 of 2) [4]

Open on Expiration of PRA
(Document Follows)
By JF (NLGB) on 10/28/05

| | | | |
|---|---|---|---|
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C. Closed in accordance with restrictions contained in donor's deed of gift.

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*file*

## DEFENSE BUDGET
## FOR DISCUSSION 11/7/89

# I. FY 1990 DEFENSE BUDGET LEVELS AND FY 1991 ALTERNATIVES

## (A) FY 1990

-- Congress has just agreed on the Defense authorization bill and is seeking agreement on an appropriations bill by November 15th. Overall Defense funding will be about $1.7 billion less in budget authority (BA) than the Bipartisan Budget Agreement (BBA), mainly because of Byrd amendment cuts to fund drug programs. Full year sequestration would result in an additional cut of $6 billion in BA and $4 billion in outlays (BO). The sequester BA level of $288 billion would be 0.8 percent less than 1989 in nominal terms and 4.6 percent less in real terms.

FY 90: DOD (Function 151)
($ in billions)

| | Budget Authority | Outlays |
|---|---|---|
| BBA | 295.6 | 286.9 |
| Likely Appropriations (before sequester) | 293.9 | 282.3 |
| Sequester (full year) | 287.8 | 277.7 |

-- After a build-up in real terms of over 50 percent from FY 1980 to 1985, the Defense budget has declined in real terms since then: -4.5% in 86, -3.9% in 87; -2.2% in 88; -1.4% in 89; and with sequester -4.6% in 90. In nominal terms, Defense has <u>in</u>creased from $143 billion in FY '80 to $287 billion in '85 to $288 billion (with sequester) in FY '90.

-- Notwithstanding Administration efforts, the political base of support for Defense has weakened considerably in the past half-decade. It is weakening further in the face of perceived change in the Soviet Bloc. And in the absence of a tax increase, DOD has become a "bank" for the funding of non-DOD programs.

(B) FY 1991 ALTERNATIVES

-- The following are options for FY '91. Outlays are estimated assuming a '90 full-year sequester.

| | | ($ in billions) | | | |
|---|---|---|---|---|---|
| | | BA ($) | % Nominal Growth Over 1990 Sequester | BO ($) | % Nominal Growth Over 1990 Sequester |
| Option 1: | Outlay Freeze at 1990 Sequester | 271 | -5.9% | 278 | 0.0% |
| Option 2: | Nominal BA Freeze at 1990 Sequester | 288 | 0.0% | 284 | 2.4% |
| Option 3: | Real BA Freeze (1990 Sequester Plus Inflation) | 299 | 4.0% | 289 | 4.1% |
| Option 4: | BA Real Growth of 1% over 1990 Sequester | 302 | 5.1% | 290 | 4.5% |
| Option 5: | BA Real Growth of 1% over likely 1990 Appropriation | 309 | 7.3% | 293 | 5.5% |
| Option 6: | BA as in February 9th Budget | 311 | 8.1% | 294 | 5.8% |

II. FY 1991 DEFENSE PLANNING LEVELS AND ISSUES

(A) PLANNING LEVELS

o The cost of the current Defense program exceeds FY '91-'94 DOD planning levels by about $70 billion and likely Congressional appropriations by about $165 billion.

-- Current DOD planning assumes February 9th budget levels (with outlays adjusted for the BBA). These levels provide real increases in BA of 3.9 percent in '91 over the post-sequester level, and about 0 percent real growth in '92 and one percent in '93 and '94.

-- A "probable" Congressional result in FY '91 is a three percent real decline from FY '90 (assuming only a three month sequester), followed by one percent real declines thereafter (due to both the pressures of the fiscal deficit and the increasing perception of a diminished Soviet threat). The table below compares current DOD planning with the "probable" Congressional outcome. It also shows adjustments for FY '91-'94 underfunding of current planning: $39 billion for an increase in assumed inflation since February; $21 billion for unspecified "savings" in the Defense plan; and an $11 billion reestimate of the cost of DOD drug programs, environmental restoration of DOD facilities, and base closure savings.

FY '91-'94 DOD Levels

($ in billions)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1991-94 |
|---|---|---|---|---|---|---|
| Current DOD Planning | | | | | | |
| BA | 296 | 311 | 322 | 336 | 350 | 1,319 |
| BO | 287 | 298 | 307 | 317 | 330 | 1,252 |
| LESS Probable Outcome | | | | | | |
| BA | 292 | 295 | 303 | 310 | 316 | 1,224 |
| BO | 281 | 289 | 296 | 302 | 306 | 1,193 |
| The Difference | | | | | | |
| BA | | 16 | 19 | 26 | 34 | 95 |
| BO | | 9 | 11 | 15 | 24 | 59 |
| PLUS Underfunding Adjustment | | | | | | |
| BA | | 7 | 18 | 21 | 25 | 71 |
| BO | | 5 | 9 | 14 | 21 | 49 |
| THE REAL GAP | | | | | | |
| BA | | 23 | 37 | 47 | 59 | 166 |
| BO | | 14 | 20 | 29 | 45 | 108 |

(B) BASIC ISSUES IN THINKING ABOUT THE LONGER TERM BUDGET PLAN

(1) Costs and Benefits of Realism in Presenting a Budget

-- Politically:

- o The costs are: decreased leverage (arguably) in CFE and START negotiations; possible undermining of the resolve of our NATO Allies to maintain their Defense commitments; and possible increased risk that the Congress will pocket the difference and reduce further.

- o The benefits are: credit for acknowledging reality and meeting it head on; capacity to produce a half-way credible budget; and, perhaps, credit for initiative if the inevitable reductions are used preemptively for PR advantage vis-a-vis the Soviets.

-- Managerially:

- o The costs are: possible DOD morale problems.

- o The benefits are: stable long-term planning for changed circumstances (as opposed to the annual ratcheting and stretch-outs that are cost-inefficient and could lead once again to the "hollow" force of the late Seventies); adjustments that may permit orderly development of capabilities for the Nineties and beyond; and a real imperative to force management improvements.

(2) U.S. - Soviet Prospects

-- Much appears to have changed in the Eastern Bloc since February budget estimates were established. If these changes, and also progress in CFE and START, reduce the Soviet threat, particularly in Europe, then it is important to decide what the consequences are for the budget. Obviously, significant uncertainties remain. Do we wait for all these uncertainties to be resolved, which may take years? Or do we take them into account as we plan?

-- The issues are:

- o Is the probability of a favorable evolution of U.S.-Soviet relations high enough to justify assuming it in DOD plans? What are the risks of error -- and how quickly might error be reversed?

- o If the Congress is going to assume a favorable evolution anyhow, how much should the Administration use the "inevitable" to advance initiatives vs. struggle against the Congressional presumption?

3. <u>Basic Policy Approaches to Likely Budget Constraints</u>

-- Whether the publicly presented budget is realistic or not, there is a need for realism in internal planning. At an abstract level, there are several choices that would seem to demand attention:

- o <u>Europe vs. other</u>: The U.S. could continue its emphasis on major near-term conflict in Europe, <u>or</u> shift at the margin toward coping more with regional threats.

- o <u>Near-term sustainability vs. modernization</u>: The U.S. could continue its emphasis on sustainability in the event of near-term major conflict, <u>or</u> shift more toward (i) RDT&E to prepare for the threats of the longer-term future and (ii) modernization of smaller, but very ready and highly deployable, forces for the near- and mid-term.

- o <u>Modest vs. accelerated management reform</u>: The U.S. could continue its modest progress toward management reform, <u>or</u> use the resource crunch to force accelerated management reform and a significantly reduced overhead structure through the recommendations in the Defense Management Report (projected by Secretary Cheney to yield $7.5 billion in annual savings by 1993).

The approach to out-year budgeting depends, in important part, upon the resolution of such choices.

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 07. Outline | General Characteristics of a Meaningful Bipartisan Budget Agreement for Discussion 5/9/90 (1 pp.) | 5/9/90 | ~~P/5~~ | |

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Budget

THE CHIEF of STAFF
has seen

FOR DISCUSSION 5/9/90

# GENERAL CHARACTERISTICS OF A MEANINGFUL BIPARTISAN BUDGET AGREEMENT

## (1) PROCESS REFORM: IT MUST REFORM THE BUDGET PROCESS -- TO FIX THE PROBLEM FOR GOOD

(a) "Hidden liabilities" must be subjected to strengthened budget discipline [as, e.g., through credit reform, enforceable credit and insurance caps, and improved accounting for trust funds and other liabilities].

(b) Appropriations discipline must be strengthened. [Measures might include, e.g., enhanced recission, automatic offsets for supplementals.]

(c) Fail-safe budget discipline (such as sequester) must be strengthened, not weakened. [Measures to strengthen might include closing the current post-October 15th loophole.]

## (2) DEFICIT REDUCTION: IT MUST REDUCE THE DEFICIT SUBSTANTIALLY -- ON A MULTI-YEAR BASIS, WITHOUT "SMOKE"

(a) The overall package should reduce the FY'91 baseline deficit by $45-50 billion (without "smoke") and should balance the consolidated budget by [FY'93].

(b) Defense should be reduced on a basis that is orderly, predictable, reliable -- and consistent with national security interests in a changing world.

(c) The growth of "mandatory" programs (now half the budget) should be slowed with significant, multi-year program reforms.

(d) New revenue initiatives should be weighted to the maximum possible extent toward measures that would not adversely affect growth. [This would suggest an emphasis on, e.g., charging appropriate user fees to those not fully paying for benefits or those willing to pay for greater benefits.]

## (3) GROWTH: IT MUST PROMOTE ECONOMIC GROWTH

(a) The overall package must be designed to increase economic growth by reducing long-term real interest rates, and increasing investment and productivity.

(b) In addition to the character of the overall package, there should be particular measures to increase investment and productivity. [Such measures might be, e.g.: improved tax incentives for R&D and long-term investment; increased expenditures for R&D, infrastructure, space, math-science education, drug abuse prevention, and Head Start.]

NOTE RE LEGISLATIVE IMPLEMENTATION: Because any such agreement would be a "package deal," Congressional procedures would have to be structured to assure that all elements of the package would be presented simultaneously to the President for signature.

THE WHITE HOUSE

WASHINGTON

August 30, 1990

MEMORANDUM FOR ASSISTANTS TO THE PRESIDENT

FROM: J. BONNIE NEWMAN Bonnie
ASSISTANT TO THE PRESIDENT FOR
MANAGEMENT AND ADMINISTRATION

SUBJECT: <u>Furlough Proposal Notice</u>

Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, (commonly known as the Gramm-Rudman-Hollings Act), the President issued an initial sequester notice on August 25, 1990.

As a result of this sequester the White House Office will undertake many actions to curtail spending and must prepare to furlough employees in order to avoid an expenditure of funds in excess of the WHO's anticipated funding level.

In the event we must resort to this action, this is to advise you that the attached Furlough Proposal Notice has been sent to White House Office employees.

Budget negotiations are set to resume on September 6, 1990. The results of these negotiations will directly affect our eventual funding levels for fiscal year 1991. A final decision will be contingent upon the outcome of these negotiations.

We will do everything possible to minimize the effects of a sequester on the White House Staff, and we will provide further specific information, if this furlough should become necessary.

Attachment

THE WHITE HOUSE

WASHINGTON

August 30, 1990

MEMORANDUM FOR:

FROM: J. BONNIE NEWMAN J Bonnie Newman
Assistant to The President for
Management and Administration

SUBJECT: Furlough Proposal Notice

Because the White House Office is under a sequestration order pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) (commonly known as the Gramm-Rudman-Hollings Act), as amended, this is to notify you that the White House Office proposes to furlough you no earlier than 30 days from receipt of this letter.

The President's initial sequester order of August 25, 1990, results in a level of funding for FY 1991 which is significantly less than the current level. A final sequester order on October 15 or an appropriation may result in funding reductions beyond October 15.

Accordingly, maintaining the present rate of spending will result in an expenditure of funds in excess of the White House Office's authorized budget. Although many actions are being taken to curtail spending, this furlough is necessary in order to avoid a deficit of funds in FY 1991.

We plan to apply the following procedures and conditions related to the furlough:

(1) All employees may be subject to a furlough. To the extent possible, everyone will be furloughed for the same number of hours or days.

(2) The furlough will be on intermittent days, beginning on October 1, 1990, through approximately December 28, 1990. Full-time employees will be furloughed for no more than 22 workdays or 176 hours. Part-time and intermittent employees will have their furlough time prorated, based on their work schedules.

(3) Due to the uncertain and potential fluctuating amount of funding which may be available to the White House Office, the number of hours per pay period required for the furlough may vary. You will be advised in advance of each pay period of the number of furlough hours required in order for this agency to meet its financial obligations. In any case, however, you will not be

furloughed for more than 22 days between October 1 and December 28, 1990.

(4) A furlough schedule will be developed in cooperation with your supervisor. Any request for a specific furlough schedule is subject to your supervisor's approval and will be based on mission and workload considerations.

(5) Annual, sick or court leave, which has been approved for a day designated as a furlough day will be cancelled. However, when you receive notice of your furlough dates, you may request that the furlough time be rescheduled if you wish to use leave as approved.

(6) Subject to management approval, you may request leave without pay (LWOP) as a substitute for scheduled furlough. This provision will allow you to take all nonpay days in a LWOP status subject to the following restrictions:

   (a) you must schedule and use LWOP during each pay period equal to the maximum number of hours you would otherwise have been furloughed;

   (b) if you withdraw your request for LWOP, you may immediately be furloughed for the number of hours you would otherwise have been furloughed.

(7) On your furlough day, you are not permitted to come to work.

At this time, we do not anticipate the need to furlough beyond a total of 22 work days. Should additional furlough days be necessary, however, you will be given another notice.

The attached Furlough Proposal Notice requires your signature. Please sign it and submit it to the administrative contact in your office.

We recognize the difficult personal financial implications of any furlough, no matter how limited its length. We will make every effort to keep you informed as additional information becomes available. If you have any questions, please contact White House Personnel on ext. 2260.

WHITE HOUSE OFFICE
FY 1991
FURLOUGH PROPOSAL NOTICE

I acknowledge receipt of this Furlough Proposal Notice.

______________________________________ ____________________
Typed Name and Signature of Employee Date

NEWT GINGRICH
6TH DISTRICT, GEORGIA

REPUBLICAN WHIP

[illegible] Longworth Building
Washington, DC 20515
202-225-0197

# Congress of the United States
## House of Representatives
OFFICE OF THE REPUBLICAN WHIP

Washington, DC 20515

August 20, 1990

Dear Republican Colleague:

The Wall Street Journal article of August 13, makes clear that Washington economic analysts are traditionally slow to recognize recession. Out in the country, however, the story is quite different. I commend the Atlanta Constitution articles to you for your review.

When Congress reconvenes in September, I believe our primary focus should be avoiding a recession by advancing legislative initiatives designed to spur economic growth.

Sincerely,

Newt

Newt Gingrich
Republican Whip

## The Outlook

### *If a Recession Comes, Trends to Expect*

Wall Street Journal, Monday, August 13, 1990

*NEW YORK*

Economists remain divided over whether the economy is entering a recession. Forecasters who believe a recession is at hand have increased sharply since Iraq invaded Kuwait. However, most analysts still look for recession-free but very sluggish growth in coming months. Forty-nine economists polled late last week by Blue Chip Economic Indicators, a newsletter, on average expect the economy to expand at annual rates of 1.4% this quarter and 0.9% next quarter, with brisker, accelerating gains in 1991.

It is too early to know whether the Blue Chip consensus is right. Much will depend on events in the Middle East and their impact on oil prices. It is not too soon, however, to try to gauge economic developments if the consensus is wrong and a recession takes hold.

If a new recession is arriving, these developments very likely will be full-blown by

In the 1981-82 recession, which began in July 1981, the money supply—broadly defined to include most savings and adjusted for inflation—started to expand at the very start of the recession and continued to do so. Yet, the slump persisted for 16 months and brought the highest joblessness of the post-World War II era. Moreover, most interest rates fell throughout the 1981-82 recession. Over its course, the average prime rate of banks dropped from nearly 21% to less than 12% and the average yield on new issues of high-grade corporate bonds fell from nearly 17% to about 12%. There were similar trends in earlier recessions.

If a recession sets in, the federal budget deficit, already huge and growing, will probably increase sharply, whatever happens in the Middle East. This invariably has occurred in recent recessions. It reflects two recessionary patterns: rising relief spending as unemployment spreads and declining tax revenues as incomes erode.

As the 1981-82 recession began, the budget deficit was running at an annual rate of about $50 billion and when the recession

Not surprisingly, share prices also declined, but only in the first year of the recession. With the approach of economic recovery, the stock market turned up and in fact was generally higher at the end of the recession than at its start. The stock market, it should be added, is among the key leading indicators that forecasters monitor to anticipate turning points in the business cycle.

Recessions vary greatly in length and severity. There have been eight since World War II. The average length comes to 11 months, but the range runs from 16 months down to six. At the end of the 10-month recession of 1953-54, the unemployment rate was as low as 5.9%, compared to 10.8% at the end of the far longer 1981-82 slump.

There appears to be no clear relationship between the magnitude of each period of economic expansion and the subsequent recession. The 1981-82 recession followed a feeble expansion that lasted only 12 months, the shortest in 60 years. The recession of 1969-70 lasted 11 months and the unemployment rate was only 5.9% when the slump hit bottom. Yet, the preceding expansion endured 106 velopments very likely will be full-blown by the time the recession is plainly evident. The 1973-75 recession began in November 1973, but as late as August 1974 Arthur F. Burns, the Federal Reserve chairman, was assuring Congress that the economy was expanding.

The National Bureau of Economic Research, the official arbiter of when recessions start and end, bases its calls on dozens of statistics, many of which appear months after the fact and then are revised and revised. The economy can be in a recession a year or more by the time the nonprofit group announces the fact.

While recessions are hard to spot, they also can be hard to stop. There is a widespread assumption that a prompt easing of the monetary reins by the Federal Reserve will prevent or mitigate an incipient recession. But monetary policy is a blunt, slow-acting tool.

of about $[illegible] billion and when the recession ended the deficit rate topped $200 billion. When the 1973-75 recession started, the deficit rate was under $2 billion and when it ended the rate exceeded $8 billion. A fourfold increase in the current budget deficit would push the level of red ink up close to $800 billion, a daunting amount.

The civilian unemployment rate climbed to 5.5% last month from 5.2% in June. Though the rise was considerable, far sharper increases are probable if a recession sets in. The jobless rate rose from about 7% to nearly 11% over the course of the 1981-82 recession and from less than 5% to about 9% during the 1973-75 slump.

While unemployment invariably rises over the course of a recession, corporate profits typically decline sharply. In the 1981-82 recession, after-tax profits fell nearly 30% to an annual rate of $104 billion.

the preceding expansion endured 106 months, longer than any other upturn in the business cycle's 136-year history.

Economists disagree over how severe a new recession would be, if one materializes. The Middle East remains a huge imponderable, but other considerations can be weighed. Forecasters who anticipate at worst a modest slump tend to discount the depressing effect of debt levels and voice confidence in the Fed's ability to induce recovery promptly. Analysts who foresee a severe downturn generally worry more about debt and place less faith in the Fed's efficacy.

The record, on balance, seems to support the more pessimistic view. So let us hope —but by no means assume—that the recession-free consensus of the Blue Chip forecasters is correct.

—Alfred L. Malabre Jr.

Atlanta Constitution, Friday, August 17, 1990

# Mild recession gripping Georgia, Ratajczak says

By Chris Burritt
Staff writer

Welcome to the Recession of 1990.

Georgia State University economist Donald Ratajczak declared Thursday that Georgia is mired in a mild recession that will cost an estimated 30,000 Georgians their jobs before the economy perks up.

The U.S. scene is similarly bleak, with a national recession expected to wipe out an estimated 500,000 jobs, Dr. Ratajczak said.

It could get worse, if the Middle East crisis worsens and oil prices ratchet up even more, he said.

Government reports Thursday offered more bad news.

The Labor Department said consumer prices rose 0.4 percent in July — and that was before oil prices began rising in August.

U.S. housing starts fell in July for the sixth straight month. In metro Atlanta, building permits plunged.

On a bright note, Dr. Ratajczak said metro Atlanta, typically stronger than the rest of the state, has a slight chance of escaping.

He expects Georgia's recession to end by early next year.

The national recession, he predicted, will be over by next summer.

"There is light at the end of the tunnel, but we're just entering the tunnel," he said.

# State has slipped into a recession, Ratajczak says

## National data show weakness all around

By Chris Burritt
Staff writer

The state's faltering economy has slipped into a "mild recession" that will throw an estimated 30,000 Georgians out of work by the end of the year, Georgia State University economist Donald Ratajczak said Thursday.

The widely respected economist also said the nation likely entered a recession in July and that it will end next summer — if the Middle East oil crisis is resolved.

He estimated in his quarterly economic forecast that 500,000 Americans will lose their jobs by year's end because of the recession.

Dr. Ratajczak said it's possible that metro Atlanta may avoid the statewide recession because of its concentration of service jobs.

But, he cautioned, Atlanta's economy is fragile, with even the service sector showing weakness. He said the state's economy fell into a recession in the spring.

Most economists have stopped short of saying that the sagging economy has entered a recession. Georgia hadn't suffered a recession since 1974.

But Dr. Ratajczak, director of the university's Economic Forecasting Center, said Thursday: "'Recession' is now the right word to describe prevailing economic conditions."

The gross state product, or the value of Georgia-produced goods and services, rose 0.5 percent over the past 12 months, compared with a 1.2 percent gross national product, he said.

Construction held up fairly well during the mild winter, but the glut of homes and commercial buildings became clear in the spring, Dr. Ratajczak said. Banks, under scrutiny by federal regulators, tightened lending requirements, creating what he called a "credit squeeze" for businesses.

He also said the Federal Reserve Board kept interest rates high in the spring to hold down inflation... er, which reduces business for car dealers, clothing stores and other retailers. That, in turn, reduces orders to fabric, apparel, carpet and other manufacturers important to Georgia, he said.

He added that the business slowdown has cut into Georgia's tax collections. "We have budget problems, and it is significant," he said.

Several reports Thursday confirmed the worsening national economy.

The Labor Department said the Consumer Price Index rose 0.4 percent in July, more than economists had expected.

Further, economists think the July report will be the last moderate inflation report for months, because rising oil prices are expected to boost consumer prices.

Housing starts also skidded in July, falling 2.6 percent to their lowest level since the last recession, the Commerce Department reported. It was their sixth straight monthly decline.

Residential building permits, a barometer of future housing activity, plunged in metro Atlanta by 40.4 percent in July, compared with July a year ago.

The stock market reacted to the gloomy government reports, with the Dow Jones industrial average falling 66.83 to 2,681.44.

gross national product, he said. Seasonally adjusted employment in Georgia also has declined

And things may get worse.

The economic wildcard is oil prices, which could rise even further if the Middle East crisis lingers, Dr. Ratajczak said. For every $6-per-barrel increase in the price of oil, the Consumer Price Index will increase by an additional 1 percent and economic growth will fall by a 0.5 percentage point.

"We are in an inflationary recession," he said. Rising inflation caused by higher oil prices erodes consumers' buying power high in the spring to hold down inflation.

Dr. Ratajczak said his prediction that the recession will be relatively mild is based on the assumption that oil prices will stabilize.

He said interest rates will fall during the recession as corporate America borrows less. The Federal Reserve also likely would push rates down.

Further, nervous manufacturers that are holding back production will be forced to pick up production. "Eventually, their warehouses are going to get empty," he said.

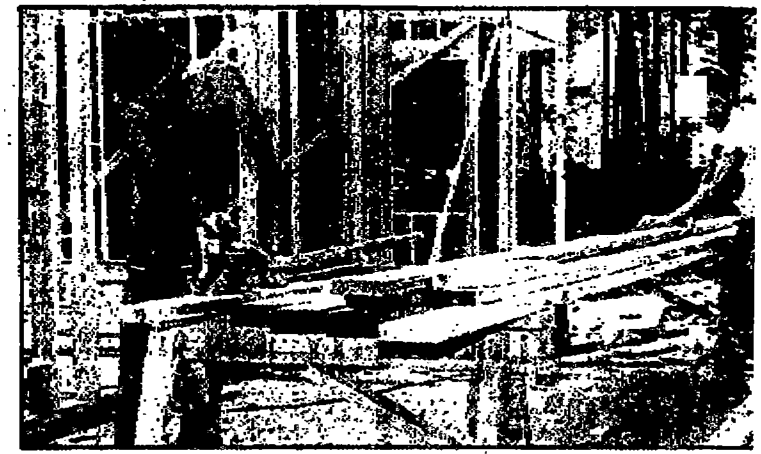
Atlanta Constitution,

Friday, August 17, 1990

## More economic woes: inflation up, home-building plans d

Even before Iraq's invasion, and resultant energy price shocks, July's Consumer Price Index moved up another notch. The overall inflation index was up 0.4 percent. How various components' prices changed from June:

| | |
|---|---|
| All energy | -0.7% |
| Gasoline | -0.3% |
| Food, beverages | +0.4% |
| New cars | -0.3% |
| Used cars | +0.7% |
| Medical care | +0.9% |
| Shelter | +0.9% |



National housing starts, reflecting tough credit conditions nervous consumers, dropped 2.6 percent in July. And buil permits, indicating future plans, are down from last year.

Percent change from July of last year to July 1990:

| | |
|---|---|
| National building permits | -11.8% |
| Metro Atlanta building permits | 4( |

Source: U.S. Commerce Dept.,Greater Atlanta Home Builders Association

# Atlanta housing starts fall into nation's base

By Maria Saporta
Staff writer

Atlanta's housing construction market was off 16.9 percent for the year and 40.4 percent for July, compared with the same periods in 1989.

The metro area's decline in new building permits issued in January through July was nearly twice as great as the national drop: 8.8 percent.

The local-national contrast was even sharper in the figures for the month. Atlanta's 40.4 percent decline outpaced the nation's drop-off of 11.8 percent, when comparing July 1990 and July 1989.

"The home-building industry is a great indicator of what's happening with the growth of Atlanta, and it's just not there," said Michael E. Sweeney, spokesman for the Greater Atlanta Home Builders Association.

The association provided local figures after Thursday's release of national housing construction data.

The U.S. Commerce Department reported the sixth straight monthly decline in housing starts, which showed that building activity was at its lowest level since the last recession in the early 1980s.

The national drop in housing starts — 2.6 percent from June to July — came as a surprise because economists had forecast a slight gain.

The housing starts were a whopping 19.4 percent lower than in July 1989. Analysts blamed the decline on tight credit for builders, 30-year mortgage interest rates above 10 percent and consumer uncertainty about the economy.

While construction of single-family homes was down, the biggest drop was in multifamily homes. "There's no question that there's a deep recession in the multifamily market due to prior overbuilding," said David F. Seiders, chief economist for the National Associ Builders in Wash

"We do exp clines," Mr. Sei current forecast ket bottoming c quarter of next y

In Atlanta, th try is particular of an oversupply market and a s metro area's gro

The metro 2,100 builders, i proportion of c only build a fe Those are the particular trou Sweeney said.

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# An angry Newt Gingrich decides to go his own way

ATLANTA CONSTITUTION
(AUTHOR UNKNOWN)
(sent by Newt to Leg Affrs).

Uneasy lies the crown of leadership on one Newt Gingrich. The House Republican whip is home for the August recess, restive and almost angry.

This year, his discontent stems not from his coming campaign against David Worley, but from the Washington to which he must return this month.

Mr. Gingrich, usually fairly certain of his stances, is using the recess to sample opinion and to try out ideas.

These are things a House leader — caught between Democrats, the White House and his colleagues — can't do in Washington.

For more than a month now, Mr. Gingrich has been between a rock and a hard place. He must serve both wings of the GOP and a White House preoccupied with foreign affairs.

A bland Gingrich statement on "new tax revenues," for instance, was translated into support for higher taxes, forcing a statement of clarification.

A Gingrich appearance on a national television broadcast became a defensive one, with the congressman saying repeatedly that the budget summit meetings have not produced a Republican tax-increase plan.

Even before President Bush went to work full-time on the Middle East, he had abandoned domestic policy to the Democratic majority on Capitol Hill. Republicans have been left to bob and weave as the president rolled back his no-new-tax pledge and settled into a veto strategy.

Mr. Gingrich and others were left to fight huge spending bills, "progressive" legislation with untold price tags and the hypocrisy of a Congress that offers moral support to members in disgrace such as Sen. David Durenberger, a Republican, and the Democrat Rep. Barney Frank.

Listening to Mr. Gingrich on several occasions, one might also conclude that a couple of headlines helped focus his discontent. On several occasions last week, the congressman talked of 5-year-old children in New York City who are afraid to look out their front doors for fear of being shot. He is as angry as some of us are numb.

Now comes the congressman taking a risk. He plans to change the House Republican strategy of "going along to get along" into a force for conservative change.

When the No. 2 Republican in the House decides to go his own way, he is taking several risks. The chief one is that few might follow.

Another is that a separate course of action might be seen by a Republican White House as a revolt. With American troops mobilized in Saudi Arabia and the Persian Gulf, presidents don't need distractions.

But for Mr. Gingrich, time's a-wasting. Congressional elections are less than three months away.

This week the congressman sent a letter to constituents outlining his worries. He will follow that with a lecture Aug. 22 at the Heritage Foundation, a bellwether for change in the capital.

In short, Mr. Gingrich wants to focus on five goals. Government integrity comes first, followed by public safety and national security; tax cuts to create jobs, savings and investment; further dismantling of the bureaucracy and the welfare state and government budget shifts that strengthen families.

By reminding the president of the forces that elected him and Ronald Reagan, Mr. Gingrich might perform a useful service. If the Georgian can give voice to the House minority, he provides the president with emotional and political support.

When the congressman delivers his lecture next month, he will have to offer specifics. Some may be seen as obstructionist and may anger the president's key aides.

An angry Newt Gingrich, now a House leader, insists that's a risk worth taking.

TAX BILLS OF THE '80s AND THE ECONOMY

| | Tax Measure | Date Enacted | Real GNP Growth (% Annual Rate) 4 Quarters following |
|---|---|---|---|
| 1) | ECONOMIC RECOVERY TAX ACT (Major Tax Cut) | Aug-31-81 | -3.4% |
| 2) | TEFRA (Major Tax Increase) | Sep-03-82 | 4.8% |
| 3) | HIGHWAY REVENUE ACT (Gas Tax Increase) | Jan-06-83 | 8.3% |
| 4) | SOCIAL SECURITY (Social Security Tax Increase) | Apr-20-83 | 7.4% |
| 5) | DEFRA (Tax Increase/Deficit Reduction) | Jul-18-84 | 3.3% |
| 6) | TAX REFORM (Tax Reform/Short-term Increase) | Oct-22-86 | 5.0% |
| 7) | BUDGET RECONCILIATION OF '87 (Tax Increase/Defict Reduction) | Dec-22-87 | 3.5% |

NOTE:

-- Real growth for 4 quarters after tax cut: -3.4% (negative)

-- Average real growth for 4 quarters after six different tax increases: +5.4% (all positive--average higher than long-term average)

PROOF:

-- Nothing--other than that simple-minded assertions about tax bills and economic performance in the '80s may be wrong.

TO THE SENATE OF THE UNITED STATES:

I am today returning without my approval S. 2104, the "Civil Rights Act of 1990." I deeply regret having to take this action with respect to a bill bearing such a title, especially since it contains certain provisions that I strongly endorse.

Discrimination, whether on the basis of race, national origin, sex, religion, or disability, is worse than wrong. It is a fundamental evil that tears at the fabric of our society, and one that all Americans should and must oppose. That requires rigorous enforcement of existing antidiscrimination laws. It also requires vigorously promoting new measures such as this year's Americans with Disabilities Act, which for the first time adequately protects persons with disabilities against invidious discrimination.

One step that the Congress can take to fight discrimination right now is to act promptly on the civil rights bill that I transmitted on October 20, 1990. This accomplishes the stated purpose of S. 2104 in strengthening our Nation's laws against employment discrimination. Indeed, this bill contains several important provisions that are similar to provisions in S. 2104:

- Both shift the burden of proof to the employer on the issue of "business necessity" in disparate impact cases.
- Both create expanded protections against on-the-job racial discrimination by extending 42 U.S.C. 1981 to the performance as well as the making of contracts.
- Both expand the right to challenge discriminatory seniority systems by providing that suit may be brought when they cause harm to plaintiffs.
- Both have provisions creating new monetary remedies for the victims of practices such as sexual harassment. (The Administration bill allows equitable awards up to $150,000.00 under this new monetary provision, in addition to existing remedies under Title VII.)
- Both have provisions ensuring that employers can be held liable if invidious discrimination was a motivating factor in an employment decision.

- Both provide for plaintiffs in civil rights cases to receive expert witness fees under the same standards that apply to attorneys fees.
- Both provide that the Federal Government, when it is a defendant under Title VII, will have the same obligation to pay interest to compensate for delay in payment as a nonpublic party. The filing period in such actions is also lengthened.
- Both contain a provision encouraging the use of alternative dispute resolution mechanisms.

The congressional majority and I are on common ground regarding these important provisions. Disputes about other controversial provisions in S. 2104 should not be allowed to impede the enactment of these proposals.

Along with the significant similarities between my Administration's bill and S. 2104, however, there are crucial differences. Despite the use of the term "civil rights" in the title of S. 2104, the bill actually employs a maze of highly legalistic language to introduce the destructive force of quotas into our Nation's employment system. Primarily through provisions governing cases in which employment practices are alleged to have <u>unintentionally</u> caused the disproportionate exclusion of members of certain groups, S. 2104 creates powerful incentives for employers to adopt hiring and promotion quotas. These incentives are created by the bill's new and very technical rules of litigation, which will make it difficult for employers to defend legitimate employment practices. In many cases, a defense against unfounded allegations will be impossible. Among other problems, the plaintiff often need not even show that any of the employer's practices caused a significant statistical disparity. In other cases, the employer's defense is confined to an unduly narrow definition of "business necessity" that is significantly more restrictive than that established by the Supreme Court in Griggs and in two decades of subsequent decisions. Thus, unable to defend legitimate practices in court, employers will be driven to adopt quotas in order to avoid liability. Proponents of S. 2104 assert that it is needed to overturn the Supreme Court's Wards Cove decision and restore the law that had existed since the Griggs case in 1971. S. 2104, however, does not in fact codify Griggs or the Court's subsequent decisions prior to Wards Cove. Instead, S. 2104 engages in a sweeping rewrite of two decades of Supreme Court jurisprudence, using language that appears in no decision of the Court and that is contrary to principles acknowledged even by Justice Stevens' dissent in Wards Cove: "The opinion in Griggs made it clear that a neutral practice that operates to exclude minorities is nevertheless lawful if it serves a valid business purpose."

I am aware of the dispute among lawyers about the proper interpretation of certain critical language used in this portion of S. 2104. The very fact of this dispute suggests that the bill is not codifying the law developed by the Supreme Court in Griggs and subsequent cases. This debate, moreover, is a sure sign that S. 2104 will lead to years -- perhaps decades -- of uncertainty and expensive litigation. It is neither fair nor sensible to give the employers of our country a difficult choice between using quotas and seeking a clarification of the law through costly and very risky litigation.

S. 2104 contains several other unacceptable provisions as well. One section unfairly closes the courts, in many instances, to individuals victimized by agreements, to which they were not a party, involving the use of quotas. Another section radically alters the remedial provisions in Title VII of the Civil Rights Act of 1964, replacing measures designed to foster conciliation and settlement with a new scheme modeled on a tort system widely acknowledged to be in a state of crisis. The bill also contains a number of provisions that will create unnecessary and inappropriate incentives for litigation. These include unfair retroactivity rules; attorneys fee provisions that will discourage settlements; unreasonable new statutes of limitation; and a "rule of construction" that will make it extremely difficult to know how courts can be expected to apply the law. In order to assist the Congress regarding legislation in this area, I enclose herewith a memorandum from the Attorney General explaining in detail the defects that make S. 2104 unacceptable.

Our goal and our promise has been equal opportunity and equal protection under the law. That is a bedrock principle from which we cannot retreat. The temptation to support a bill -- any bill -- simply because its title includes the words "civil rights" is very strong. This impulse is not entirely bad. Presumptions have too often run the other way, and our Nation's history on racial questions cautions against complacency. But when our efforts, however well intentioned, result in quotas, equal opportunity is not advanced but thwarted. The very commitment to justice and equality that is offered as the reason why this bill should be signed requires me to veto it.

Again, I urge the Congress to act on my legislation before adjournment. In order truly to enhance equal opportunity, however, the Congress must also take action in several related areas. The elimination of employment discrimination is a vital element in achieving the American dream, but it is not enough. The absence of discrimination will have little concrete meaning unless jobs are available and the members of all groups have the skills and education needed to qualify for those jobs. Nor can we expect that our young people will work hard to prepare for the future if they grow up in a climate of violence, drugs, and hopelessness.

In order to address these problems, attention must be given to measures that promote accountability and parental choice in the schools; that strengthen the fight against violent criminals and drug dealers in our inner cities; and that help to combat poverty and inadequate housing. We need initiatives that will empower individual Americans and enable them to reclaim control of their lives, thus helping to make our country's promise of opportunity a reality for all. Enactment of such initiatives, along with my Administration's civil rights bill, will achieve real advances for the cause of equal opportunity.

THE WHITE HOUSE,