Originally Processed With FOIA(s): 1998-0004-F[1]; 1998-0251-F

FOIA Number: S

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.

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

OA/ID Number:	29137
Folder ID Number:	29137-001

Folder Title:
Budget [1990] (1 of 2) [5]

Stack:	Row:	Section:	Shelf:	Position:
G	15	24	6	3

ſ

THE CHIEF of STAFF
has seen

SUBJECT: PARTICIPATION IN BUDGET SUMMIT MEETINGS

The White House announced the members of its internal Budget Summit Coordinating Group. That group will be comprised of The President; The Chief of Staff; the Secretary of the Treasury; the Director of OMB; the Secretary of Defense; the Chairman of CEA; the National Security Adviser; and the Assistant to the President for Economic and Domestic Policy.

The negotiating team for the Administration who will meet with the Legislative Bipartisan Budget Group will consist of the President; the Secretary of the Treasury; the Chief of Staff; and the Director of the Office of Management and Budget. This basic negotiating group will be complemented by several formal and informal sub-groups. When such groups deal with tax and economic policy, the Chairman of the Council of Economic Advisers will join the negotiators; with defense policy, the Secretary of Defense and National Security Adviser will join; and with domestic spending programs, the Assistant to the President for Economic and Domestic Policy will join.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Memo	From Ed Rogers to John Sununu Re: Senator Jim Sasser (1 pp.)	5/9/90	(b)(6)	

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) [5]

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
FOIA/SYS Case #: 1998-0004-F[1] **Re-review Case #:** 2005-0426-S **P-2/P-5 Review Case #:**	**Appeal Case #:** **Appeal Disposition:** **Disposition Date:**
AR Case #: **AR Disposition:** **AR Disposition Date:**	**MR Case #:** **MR Disposition:** **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

Sasser claims tactical victory in deficit talks

By James W. Brosnan
The Commercial Appeal
Washington Bureau

WASHINGTON — Senate Budget Committee chairman Jim Sasser (D-Tenn.) will take credit for today's White House budget meeting, but he's wary of the outcome.

President Bush and Budget Director Richard Darman will meet this afternoon with House Speaker Thomas Foley (D-Wash.) and Senate Majority Leader George Mitchell (D-Maine) to discuss the "process" that could lead to negotiations aimed at solving the government's fiscal woes.

But Sasser said Friday that he would be reluctant to enter negotiations unless Bush had a three- to four-year plan and the "benchmark" was the $43 billion deficit-cutting plan his committee approved Wednesday.

Sasser said that fiscal 1991 plan prompted today's talks and its committee approval, 14-9, was a "very satisfying" personal and political triumph.

"It was a budget resolution that reduces the deficit by more than any resolution that's been produced in 10 or 11 years," he said.

But Sen. Pete Domenici (R-N.M.), the senior Republican on the Budget Committee, said it's [illegible] to believe"

Jim Sasser

Congress will approve Sasser's plan.

Budget resolutions are only a target set by Congress. The tax-writing, authorizing and appropriations committees and the full House and Senate each have to agree to make the changes to fit the plan. Domenici says that will happen only if Bush and Democratic leaders hammer out a binding agreement.

But Sasser already feels that he's one up on the White House.

"Darman was saying we couldn't produce a budget resolution over here" and was putting "considerable pressure" on the committee's 10 Republican members to oppose any resolution, Sasser said.

"Their strategy was to have the Budget Committee melt down — not be able to produce a resolution — and then the White House and Darman would enter the picture in two or three weeks and then dictate the terms of the budget to the Congress," the Tennessee senator said.

The Republican strategy appeared to make sense, given the division among the committee's

13 Democratic senators.

Sens. Ernest 'Fritz' Hollings (D-S.C.), Charles Robb (D-Va.) and Kent Conrad (D-N.D.) wanted deficit cuts far exceeding the $37 billion required to meet this year's target under the Gramm-Rudman-Hollings law. That would take major defense cuts or tax increases.

Sens. Jim Exon (D-Neb.) and Bennett Johnston (D-La.) agreed with Senate Armed Services Committee chairman Sam Nunn (D-Ga.), who advocates cutting defense spending no more than $10 billion.

But Sasser wanted $15 billion chopped from defense, and some lawmakers, such as Sen. Paul Simon (D-Ill.), sought cuts as deep as $30 billion.

Sasser watched the other Democrats' plans go down in defeat last week. Then he compromised with Hollings, Robb and Conrad on a $43 billion overall deficit cut, and with Exon and Johnston on $13 billion in defense cuts.

The $43 billion deficit-reduction plan cuts $14 billion more than Bush proposed and $7 billion more than a House version approved Tuesday.

Overall, Sasser's plan says it will produce a deficit of $58.6 billion next year. The Gramm-Rudman-Hollings law requires a shortfall of no more than $64 billion.

For Simon and other farm-state senators from big farming states, Sasser agreed to not cut agriculture subsidies. And unlike previous Budget Committee debates, Sasser didn't permit amendments on various tax and spending plans — "oral therapy," he called it — that aren't binding on the tax-writing and spending committees, anyway.

By last Tuesday, Sasser said the Republicans knew he had the votes to pass his plan. And, on [illegible]nday morning, [illegible]

invited Foley to today's meeting.

Sasser said he and Mitchell, unlike Foley and House Budget Committee chairman Leon Panetta (D-Calif.), are reluctant to negotiate with the White House because the administration was

MEMPHIS, SUNDAY, MAY 6, 1990

"not really forthright" in last year's talks. Sasser thought Darman last year made an agreement not to press for a capital gains tax cut.

But, Sasser said, if Bush presented a plan that balanced the budget, then "he'd certainly have me there in a hurry."

And with continuing defense cuts, Sasser said he doesn't believe a balanced budget would require "draconian" cuts or "harsh" tax increases.

FY '87 Budget Resolution vote - May '86

JHS — 5/9
Per your request.
fm

THE CHIEF of STAFF has seen

19

T
ment
feder
fiscal
est a
(1985
T
billio
Presi
highe
1986
p. 42
I
$230.
Cong
were
had b

spending for interest on the public debt, agriculture and other federal programs.

Treasury's final figures for revenues, outlays and deficits for fiscal years 1985 and 1986 *(in billions of dollars)*:

	Actual FY 1985	Budget FY 1986	Actual FY 1986
Outlays	$946.0	$973.7	$989.8
Receipts	734.1	793.7	769.1
Deficit	$211.9	$180.0	$220.7

SOURCES: Treasury Department, OMB

"present." *(Vote 48, p. 16-H)*

As soon as the Senate voted on its budget, however, the House Budget Committee got busy. Trying to outdo the Senate in deficit reduction, it approved a budget resolution May 8 (H Con Res 337 — H Rept 99-598) that would have produced a fiscal 1987 deficit of $137 billion — $7 billion less than the Senate's measure.

Within an overall limit of $1.086 trillion in budget authority, Democrats on the committee voted to spend $285 billion on defense, $35 billion less than the president's request, $16 billion below the Senate total and $1.8 billion less than the fiscal 1986 level. Like the Senate, the committee voted to increase tax revenues by $10.7 billion. But the House budget earmarked the extra $4.7 billion over the president's request for deficit reduction.

The budget would have cut most domestic programs below their fiscal 1986 level, although programs for children and low-income persons were exempted.

Looking for a Fight

Committee Vote

Working from a draft proposal offered by Gray, the committee made a few changes, then approved the budget on a mostly party-line vote of 21-11, in sharp contrast to the Senate. Vin Weber, R-Minn., was the lone Republican to vote for it. W. Henson Moore, R-La., who bucked his party to vote for the budget resolution in the committee in 1985, voted "present."

Latta, the committee's ranking Republican, vowed to fight the tax increase on the House floor.

Defense Secretary Caspar W. Weinberger said the House budget "would destroy the recent and impressive momentum we have made in rearming America." And Domenici complained, "I thought they were going to be responsible and realistic, and they're neither."

"Many think the Senate went too far when it reduced defense spending budget authority to $301 billion, but the House's $285 billion level is irresponsible and totally unrealistic," said Dole.

Dole promised White House officials that he would break up the conference rather than agree to defense numbers the administration could not accept, staff aides said. Replied Gray: "It disturbs me to see the leader of the Senate announcing that he is prepared to break up the budget process because he expects the House to totally move to the Senate figure."

Administration budget director Miller said the House proposal "adds insult to the injury already occurring in the budget process." He criticized the defense cuts, revenue increases, and level of domestic spending.

Weber's vote for the budget led Gray to proclaim a bipartisan victory, but committee Republicans complained they had been frozen out of the process.

Weber, a member of the Conservative Opportunity Society, said he had broken ranks with his party colleagues because "this is a budget I can live with. It's not my first choice, however, and I may support an alternative on the floor."

Republicans were not shown the proposals until the night before the markup, and they did not get to see the complete set of papers until after they were given to reporters at the beginning of the markup.

Even at that late hour, there was still some hope for a compromise — based on higher defense spending — that would produce a bipartisan resolution. But after opening discussions and a lunch break, it was clear that Republicans were not being offered a package they could accept.

"We know you have the votes and you can do whatever you want," Latta lamented.

Skittish About Taxes

The markup took only a single day, but it culminated weeks of closed-door meetings among committee Democrats and delicate negotiations with the party leadership focusing on the politically sensitive issue of taxes.

House Speaker Thomas P. O'Neill Jr., D-Mass., had repeatedly vowed that Democrats would not consider tax revenues over the $5.9 billion in the president's budget unless he was sure they would not become a partisan issue.

For months O'Neill had said the House would not include new revenues unless Reagan promised to support them, but in recent weeks he softened, saying it would be enough to get the support of House Minority Leader Robert H. Michel, R-Ill., Dole, and a majority of Senate Republicans.

Though the House revenue figures were identical to those in the Senate budget, leaders hoped the hedge of the special deficit-reduction account would protect them from being accused of voting for higher taxes to preserve federal spending.

Outlays Under $1 Trillion

The hallmark of the budget was that it would have brought the deficit down to $141.8 billion without using more revenues than called for in the president's budget. With another $4.7 billion in revenue, the deficit would have

ALTHOUGH CONGRESSSMAN WEBER IS QUOTED IN THE C.Q. ARTICLE AS SAYING HE WOULD "SUPPORT AN ALTERNATIVE ON THE FLOOR" (WHICH HE DID IN VOTES ON AMENDMENTS), HE WAS ONE OF ONLY 17 REPUBLICANS TO VOTE FOR FINAL PASSAGE OF H. CON. RES. 337 (THE BUDGET RESOLUTION), AGAINST THE POSITION OF PRESIDENT REAGAN (MAY 15, 1986).

IN ADDITION, HE WAS ONE OF ONLY 15 REPUBLICANS TO VOTE AGAINST H. J. RES. 672, THE SEQUESTRATION ORDER, AGAINST THE POSITION OF PRESIDENT REAGAN (JULY 17, 1986).

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Outline	Budget Material for Discussion 9/12/89 (6 pp.)	9/12/89	P5	

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) [5]

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

Date Closed:	12/16/2004	**OA/ID Number:**	29137-001
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

1991 budget

FOR DISCUSSION 9/12/89

(A) FY'90 SEQUESTER

-- Current law would require a $16.2 billion outlay sequester (as in the August 25 Report).

-- The current Congressional path (assuming favorable action on reconciliation and no adverse effects from drugs or catastrophic) would result in a deficit estimate $3.1 billion above the trigger.

-- To avoid sequester the following are required:

o implement everything that is pending at least as well as on attachment 1;

o save an additional $2.9 billion with the DOD pay shift (avoid Congressional prohibition);

o find acceptable appropriations scoring measures to "save" an additional $200 million (e.g., waiver authority for VA equipment obligations delay);

o avoid these principal threats:

-- REA loan financing that spends prepayments ($6-9 billion hit is at issue);
-- drug funding that is not offset;
-- catastrophic health insurance changes that are not fully financed. (NOTE: The extreme form of repeal would cost $6.4 billion.)

(B) CATASTROPHIC HEALTH INSURANCE ("CHI")

-- Current "CHI" law contributes to estimated deficit reduction in these amounts: $4.7 billion for FY'90 and $2.4 billion for FY'91. Then it turns the other way. CHI makes the deficit worse for FY'92 and beyond. (NOTE: The adverse out-year effects are probably understated by about $4 billion.) !!

-- Clearly the financing is flawed -- not only politically, but from an out-year budgetary standpoint. The program is unstable both politically and financially.

-- The practical dilemma is:

o "Repeal" options adversely affect the FY'90 budget by $4.7-6.4 billion. (The higher number comes from repealing the CHI premiums and all the

CHI benefits except the CHI Medicare hospitalization benefit.) NOTE: The political system is already sensitive to the political undesirability of the premiums; it is becoming sensitive to the political undesirability of repealing the benefits.

o Compromise options -- which avoid the short-term budgetary hit and preserve a scaled-back version of the program -- are (at the moment) too complex for the super-heated political environment.

-- Both Ways and Means and Senate Finance have developed compromise CHI options. Both try to be budget-neutral. Both cut back benefits and financing. (Senate Finance cuts back benefits more than Ways and Means.) HHS and OMB have worked with the Committees on these compromise options -- stating we understand the program has to be changed; but that changes should be budget-neutral in their FY'90 effect. The Committees share this point of view.

-- However, it is not clear that compromise options can withstand floor attack in either house. The restraints on outright repeal are:

o the political sensitivity (in some quarters) to the need to preserve some of the CHI benefits; and

o the sequester effect (unless G-R-H is amended to exclude CHI).

NOTE: If amendment of G-R-H were legitimized, it might lead to: similar exemption for the war on drugs, and other programs to follow; and a CHI "solution" that gets rid of the unpopular premium, but preserves many of the CHI benefits -- the worst of worlds fiscally.

(C) CAPITAL GAINS

[late-breaking events -- to be presented orally]

(D) DRUG FUNDING

[late-breaking events -- to be presented orally]

(E) FY'91 BUDGET

(1) FY'91 Budget Process

-- By law, the FY'91 Budget is due to the Congress on January 8, 1990.

-- To meet that legal deadline, final Presidential decisions (on appeals) must be made by the end of the first week of December (1989). December 8th.

-- Assuming "no new taxes," the budget preparation task will be probably the most difficult ever. Given the extraordinary -- unprecedented -- magnitude of the task, the process will simply not meet the deadline if it is conducted in the usual bottom-up way. (The gap between agency requests and OMB marks would be so wide that virtually everything would be appealed at the end.) There needs to be modification of prior Administrations' approaches as follows:

o greater Presidential involvement early in the process -- making strategic and conceptual choices in a manner that can guide the OMB review process; and

o some participation of the Cabinet in reviewing strategic choices prior to Presidential guidance on strategy.

NOTE: Neither of these changes will eliminate an appeals process; but both are necessary to get the appeals process within manageable bounds. Please see attachment 2 for a summary of a suggested process/timetable.

(2) FY'91 Budget Gap (preliminary) -- and Broad Options for Closing It (preliminary)

(a) The G-R-H Deficit Gap

-- The G-R-H deficit target for FY'91 (set by law) is $64 billion. If we assume current Administration economics, continuation of the present defense policy, and Congressional action for FY'90 that just barely avoids sequester, then the "current services baseline" deficit for FY'91 would be $104 billion. That means a gap to be closed that is $40 billion. (NOTE: If there are FY'90 spending supplementals after October 15, 1989, the FY'91 gap will be even larger.) FURTHER NOTE: With CBO economics, the gap to be closed is double -- $80 billion.

-- Agency budget submissions for FY'91 have now been received (with 2 exceptions). In accord with OMB's request, the agency submissions are for three different levels: "Agency request;" "Non-defense discretionary BA Freeze;" and "Non-defense discretionary BA 5% Cut." These three approaches (two of which the agencies oppose), and the "current services" approach would produce the following:

FY'91 Approach	Deficit (billion $)	Remaining GRH Cap (billion $)
o "Current Services"	104	40
o Agency Request (incl. cuts in mandatories)	107	43
o Ndd BA Freeze		
-- w. mandatory at current law	96	32
-- w. mandatory at agency request	87	23
o Ndd 5% BA Cut		
-- w. mandatory at current law	91	27
-- w. mandatory at agency request	82	18

-- To close the $40 billion "current services" gap (as required by law), one might (illustratively):

(a) Take the 5% BA cut option (last of the above) plus these additional "savings":

-- $10 billion in economic assumptions; and
-- $8 billion from the inclusion of all federal benefits (above current Social Security threshholds) in taxable income.

NOTE: To the extent that some programs (e.g., internatinal, drug, space, environment, nuclear clean-up) were exempted from the 5% BA cut, others would have to be cut more deeply and/or defense would have to be cut.

OR (b) Freeze all '91 outlays (not BA) except Social Security, Defense, and net interest. NOTE: If this were applied to means-tested entitlements and Medicare it would mean substantial real cuts for them, and it would necessitate a 20% BA cut in all non-defense discretionary programs. If means-tested programs were exempted (kinder/gentler), and if some discretionary programs were increased, this would require substantially deeper than 20% BA cuts in remaining programs.

OR (c) Repropose all "mandatory"/entitlement savings not legislated in FY'90 (saving $12 billion) and close the additional $28 billion gap with some of the following:

-- $10 billion in economic assumption changes;
-- $8 billion from inclusion of federal benefits in income (as above);
-- $10 billion in a massive grant consolidation and cut proposal (federalism! -- to be developed); and/or
-- defense "cuts" (below the February 9 FY'91 level of 311 BA/298.8 BO -- compared with roughly 296/290 likely for FY'90). NOTE: A freeze at '90 outlay levels would save about $8 billion; this would require a BA "cut" (relative to current plans) of almost $20 billion. A 1% real BA increase (relative to '90 actual) would save only $0.9 billion (relative to current plans).

NOTE: To the extent discretionary increases above "current services" are to be funded (drugs, space, international, etc.), it would be necessary to adopt more than $28 billion worth from the above list.

There is no need for decision on these alternative approaches right now. They serve to illustrate:

- o the difficulty of the challenge; and

- o the need for something other than the conventional approach to budgeting.

* * *

Attachments:

-- (1) FY'90 "Sequester Status Report"
-- (2) FY'91 "Calendar of Events"

NOTE: There is no date identified for enactment of the '91 budget!

Sequester Status Report

(in billions of dollars)

11-Sep-89
12:43 PM
BPB:DO

		FY 1990
Mid-Session Review G-R-H Baseline Deficit		128.1
FIRREA 1/		-12.8
Drought Assistance 2/		0.9
Other (net, including debt service)		-*
August 25 baseline deficit		116.2
Appropriations:		
Defense	4.2	
Non-defense discretionary:		
Assuming BBA levels	1.7	
Best guess increase over BBA levels	1.2	
IRS compliance	-0.5	
Retirement contrib./delay of pay increase	0.2	
Final regulations expected before October 15, 1989:		
Skilled nursing facility (HI) regulation	*	
ASC facility rates (SMI) regulation	-0.1	
Direct medical education (HI) regulation	-0.5	
Medicare Prosp. Pay. Sys. Hospital Update	-0.1	
ADP Equipment and Services; conditions for Federal financial participation	0.1	
		6.2
Subtotal, after FIRREA, Appropriations, and Regulations		122.4
Best guess reconciliation	-12.3	
Best guess non-reconciled items	1.7	
		-10.7
Subtotal, resolution assumptions		111.7
Legislative Threats:		
Delay in catastrophic payments	1.4	
Catastrophic repeal 3/	?	
Drug initiative 3/	?	
REA loan refinancing 3/	?	
		1.4
Subtotal, after threats		113.2
Debt Service		-*
Potential October G-R-H Baseline Deficit		113.1
Sequester trigger		110.0
G-R-H deficit vs. trigger		3.1
Potential sequester		13.1

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

* Denotes less than $50 million

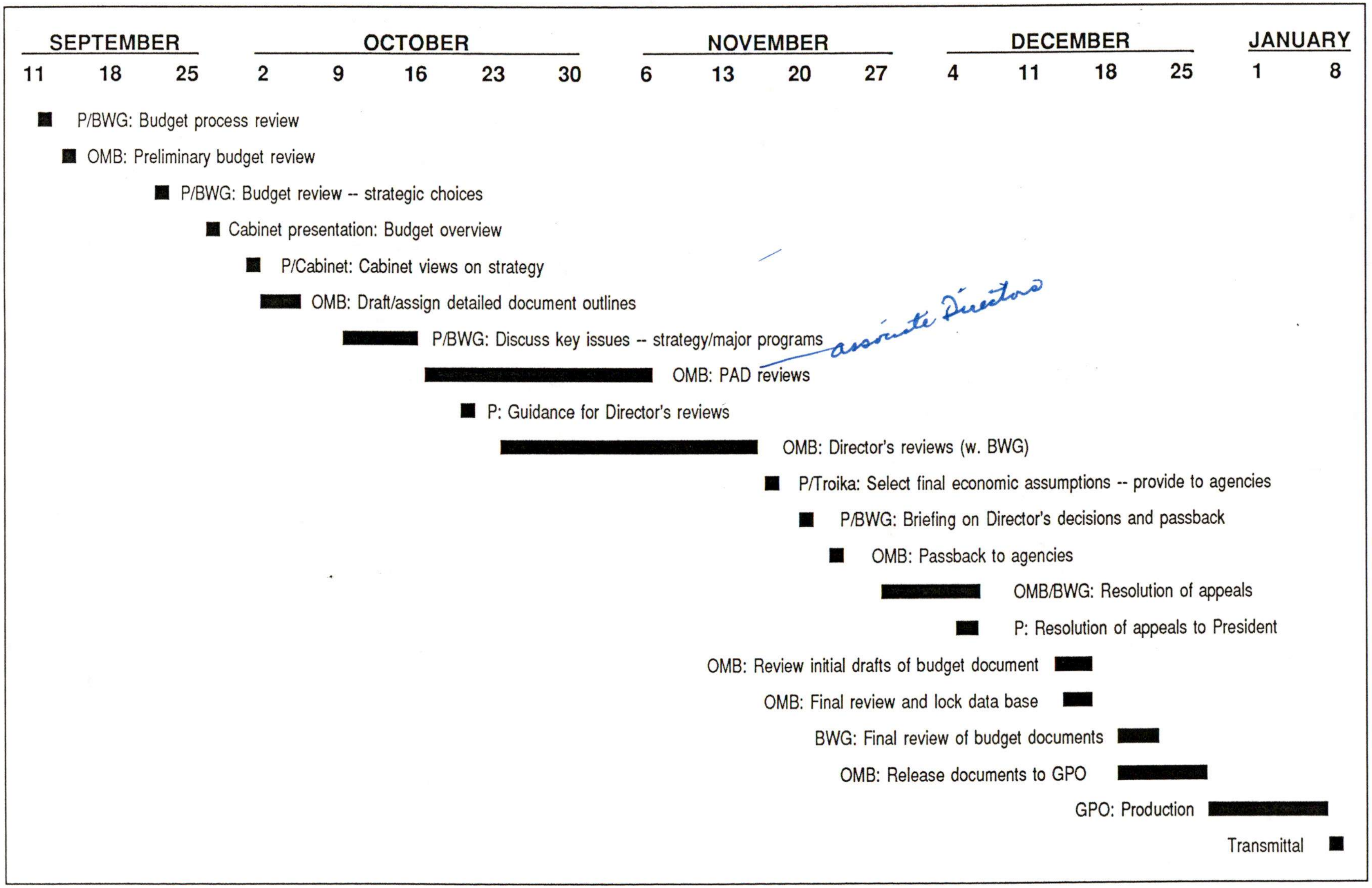
1/ Includes revenue impact of early repeal of tax rules for assisting troubled banks and S&Ls.

2/ Some funds may be spent in fiscal year 1989.

3/ See Attachment E for ranges.

PREPARATION OF THE 1991 BUDGET

Calendar of Events



A RESPONSIBLE PRO-GROWTH BUDGET PACKAGE

by the Caucus for Responsible
Spending and Tax Policy

July 25, 1990

TABLE OF CONTENTS

A RESPONSIBLE PRO-GROWTH BUDGET PACKAGE

I. INTRODUCTION

The economy is at a crossroads. Economic policy mistakes at this point in the recovery could have a devastating effect on the American people by causing a serious recession. Recent reports have made it clear the budget summit participants are considering very large, economically damaging tax increases that will slow economic growth and cost American jobs. We do not believe tax increases are necessary or desirable.

The Republican Study Committee Caucus for Responsible Spending and Tax Policy has developed a responsible pro-growth alternative to the economically damaging tax increases being promoted by certain members of the budget summit. Our budget would promote long term economic growth through responsible spending restraint, budget process reforms, pro-growth tax incentives and by avoiding anti-growth tax increases. This alternative is set forth below.

The budget summit participants have agreed that the fiscal year 1991 budget deficit should be reduced by roughly $55 billion. [1] Thus, $55 billion is the amount by which any alternative package should strive to reduce the deficit. Given the Office of Management and Budget Mid-Session review revised FY 1991 budget deficit estimate of $168.8, a budget summit agreement that results in $55 billion in deficit reduction has, in effect, agreed to revise the Gramm-Rudman deficit target from $64 billion to $114 billion (i.e., $169 billion minus $55 billion).

---

(1). Office of Management and Budget Director Darman said precisely this in his July 16, 1990 Mid-Session Review of the Budget, p. 16; it had been widely reported before this official acknowledgement.

(2). 1990 Mid-Session Review of the Budget, Table 10, P. 16

Our budget proposal starts with the President's budget, and the President's budget summit offer of June 20, as its core. The programmatic changes recommended by the President result in deficit reduction of about $52.9 billion, $19.8 billion (2) of which come from higher user fees and other revenues.

THE UPDATED PRESIDENT'S BUDGET IS THE STARTING POINT

Item	President's Budget (in billions)	June 20 Proposal (in billions)	Total (in bills.)
Spending savings	$21.9	$11.1	$33.0
Revenues	$19.2	$0.6	$19.8
Total Deficit Reduction	$41.1	$11.7	$52.9*

Note: *0.1 billion difference due to rounding; data source is Table 10 of the Mid-Session Review, p.15

In addition, the President's budget contains a number of major spending increases. Our budget would reduce the rate of increases in two of these programs for a savings of $2.4 billion as follows:

PRESIDENT'S BUDGET SPENDING INCREASES		PRO-GROWTH PROPOSAL		POSSIBLE SAVINGS	
Program	Amount (in bill.)	Percent Increase	Amount (in bill.)	Percent Increase	Amount (in bill.)
NASA	$2.9	24%	$0.6	5%	$2.3
Supercollider	$0.2	15%	$0.1	5%	$0.1
Total:	$3.1		$0.7		$2.4

Source: President's Fiscal 1991 Budget, page 49 et seq.

Thus, the updated President's Budget, and the President's June 20 proposal, combined with somewhat slower increases in two programs achieve $55.3 billion in deficit reduction, more than enough to meet the $55 billion budget summit deficit reduction target without any tax increases.

However, we realize that some members of the budget summit have difficulty accepting all of the President's proposals. We have developed, therefore, a series of over $29 billion in budget deficit reduction options. While we believe that these options are constructive, not all of these need to be enacted to meet the budget summit deficit reduction target of $55 billion.

However, to the extent that budget summit participants find the President's package unacceptable, some mix of these budget savings should be enacted. If, for example, the budget summit determines that $5 billion of the President's program is unacceptable, then $5 billion of the $29 billion of options that we have identified should be enacted. If $10 billion of the President's program are deemed unacceptable, than $10 billion of the $29 billion that we have identified should be enacted. Alternatively, a sequester of $5 or $10 billion would not be significantly larger or more disruptive than previous sequesters.

II. REVENUE MEASURES

We have accepted the revenues proposed in the President's January Budget and the June 20 proposal which total $19.8 billion. We do not believe that these revenues are new taxes.

REVENUES IN PRESIDENT'S JANUARY BUDGET

	1991 (in billions)
Enhance long term investments *	$4.9
Initiate IRS management reforms	$2.5
Extend OASDI coverage to State and Local employees not participating in a retirement program	$2.1
Extend HI coverage to State and Local employees	$1.7
Extend and modify collection of telephone excise tax	$1.6
Stabilize payroll tax deposit rules	$0.9
Increase IRS enforcement funding	$0.5
Increase airport and airway taxes	$0.5
Increase ad valorem fee on shippers	$0.3

Permit limited use of excess pension funds to pay retiree health benefits	$0.2
Include salvage values in calculation of loss deductions by insurance companies	$0.2
Increase and expand SEC fees	$0.1
Modify Federal Reserve reimbursement	$0.1
Extend IRS user fees	$0.1
Extend abandoned mine reclamation fees	**
Establish CFTC fees	**
Change collection point of liquor occupation taxes	**
Increase D.C. contribution to CSRS	**
Extend OASDHI coverage to D.C. government employees	**
Establish FEMA fees	**
Establish Corps of Engineers fees	**
Extend R&E credit	($0.5)
Extend R&E allocation rules	($0.4)
Enhance energy security	($0.3)
Enhance personal savings	($0.2)
Extend health insurance deduction for self-employed	($0.2)
Extend low-income housing credit	($0.1)
Establish enterprise zones	**
Waive excise tax for certain early withdrawals from IRA's	**
Delay the Federal employer pay raise for three months	**
Establish child care credit	**
Extend and expand railroad UI reimbursable status	**
Double and restore adoptions deduction	**
Other	($0.1)
Total Revenue in President's January Budget	**$13.9*****

* 15% capital gains tax rate reduction with maximum holding period of one year. Revenue estimates raise as much or more than the President's Capital Gains Proposal.
** $50 million or less
*** According to table 10 of the Mid-Session review, the President's January Budget revenue proposals have been re-estimated to raise only $13.7 billion rather than $13.9 billion. Our budget reflects the lower estimates.

USER FEES IN PRESIDENT'S JANUARY BUDGET

	(in millions)
FCC spectrum auction	$2,252
Naval petroleum reserve lease	$1,000
Subtotal	$3,252
Custom passenger and merchandise process	$806
Nuclear Regulatory Commission	$296
Medicare and Medicaid survey and certification	$226
Coast Guard	$200
Food and Drug Administration	$157

Animal and plant health inspection	$ 79
Hardrock mining claim holding fee	$ 78
FEMA flood insurance and student registration	$ 43
EPA permit, certification, and registration fees	$ 31
Veterans medical care copayments	$ 30
Coal royalties	$ 21
Railroad safety inspections	$ 20
Army Corps of Engineer recreational fee	$ 20
Agricultural Marketing Service	$ 11
Other	$ 27
Subtotal	$2,046
Loan guarantee and other credit fees	
Veterans' housing	$110
Small Business Administration	$101
Government-sponsored enterprises	$ 52
Rural Electrification Administration	$ 11
Other	$ 16
Subtotal	$290
Total User Fees in President's January Budget	**$5,588***

* According to table 10 of the Mid-Session review, the President's January Budget User Fee proposals have been re-estimated to raise only $5.5 billion rather than $5.6 billion. Our budget reflects the lower estimates.

We also accept the $600 million in new revenue in the June 20 budget proposal presented by the President in the budget summit.

We support the President's initiative to promote economic growth by reinstating a capital gains differential. However, in our judgment the most recent capital gains proposal by the President is inadequate. We require a different capital gains tax rate reduction. The capital gains tax rate should be reduced to 15% (as the President originally proposed) with a maximum holding period of one year and indexing capital basis for inflation. Only such a meaningful capital gains tax rate reduction will have a pronounced positive impact on venture capital formation, international competitiveness, job creation and economic growth. A capital gains rate reduction will increase revenues for three reasons: people will tend to realize capital gains more often as the tax cost of doing so declines, tax revenues grow as the economy grows and the capitalized value of assets sold will increase as the after-tax return to assets increases. The revenues from our capital gains tax rate reduction are estimated to equal or exceed the $4.9 billion from the capital gains tax rate reduction outlined in the President's January budget. Private estimates range between $5.0 and $6.0 billion.

We stress that higher taxes are not only unnecessary, but extremely unwise in light of the "soft economy." It is fact that today:

- Revenues in nominal terms are higher than they have ever been.
- Revenues in inflation-adjusted dollars are higher than they have ever been.
- Even more disturbing, revenues as a percent of GNP are now 19.6%. Under the President's budget we reach 19.9%. Only 2 times since WWII have revenues reached the 20% of GNP threshold. In both cases a recession followed the next year.

The table below shows how dramatically taxes and spending have increased over the past decade. In current dollar terms, taxes have increased 95.3 percent and spending by 81.8 percent. In real 1982 dollar terms, taxes have increase 33.1 percent during the past decade and spending fully has increased 24.0 percent.

A DECADE OF MAJOR TAX AND SPENDING INCREASES

REVENUES:

	Current Dollars	Real 1982 Dollars
FY 1981	$599.3	$642.0
FY 1991	$1170.2	$854.7
Percent Change	95.3%	33.1%

SPENDING:

	Current Dollars	Real 1982 Dollars
FY 1981	$678.2	$726.5
FY 1991	$1233.3	$900.8
Percent Change	81.8%	24.0%

III. BUDGET PROCESS REFORM

We remain troubled that serious budget process reform has seemingly been given short shrift during the budget summit negotiations to date. We believe that any credible package should contain meaningful budget process reforms and have incorporated a series of seven process reform proposals that will result in very significant savings in future years.

Of the seven budget reform proposals outlined below, the Gramm-Rudman Second Sequester, abolishing Current Services Budgeting, Common Sense Sequester and an Enhanced Rescission/Line-Item Veto are reform measures that must be included in a budget summit agreement.

If despite the economically justifiable reasons not to raise taxes, the summiteers still insist that tax increases are acceptable, we require that a tax dedication deficit provision also be included as a budget process reform measure. This provision requires that each dollar increase in tax revenues be matched by a dollar-for-dollar decrease in the Gramm-Rudman deficit target.

Gramm-Rudman Second Sequester (H.R. 3289 - Buechner)

The current GRH sequestration mechanism is flawed due to the timing the snapshot is taken. Any additional spending which occurs after the snapshot is not counted for in the actual deficit reduction numbers. Therefore, a second target is needed to allow for this additional spending to be added to the actual baseline numbers.

- A second OMB snapshot is taken on March 15. The snapshot incorporates actual economic data when it is available.
- A second sequester would occur on April 1st
- A "look back" provision requiring that the GRH sequestration amount be adjusted to reflect changes in economic and technical assumptions from the October 15 snapshot.

Abolish Current Services Budgeting

Every year since 1983, the CBO baseline has included an average spending growth of 6.2% with anything less labeled as a "cut." The budget baseline continues current programs and increases funding levels for changes in inflation and demographics. It never subtracts an offsetting amount of reductions or terminations from changing demographics, lower poverty rates, and higher employment levels. Therefore, eliminating the current services baseline would accurately reflect spending increases versus increases that are due to inflation and demographic changes.

Enhanced Rescission/Line Item Veto (H.R. 3271/S. 1553 - Craig/Tauke - McCain/Coats)

Under a Line Item Veto/Enhanced Rescission, the President would send up rescissions with his annual budget submission, and the Congress would have twenty days to react. If Congress does not pass a disapproval resolution, the rescissions would go into effect. The line-item veto provision would give the President the power to veto line items from appropriated funds within 20 days of signing a spending bill.

Implement an Common Sense Sequester

Whenever sequestration is triggered at the onset of a new fiscal year, the top officials of each cabinet department and independent agency would be able to submit an alternative spending plan which accommodates the total spending reductions required in a manner different than simply cutting across-the-board.

Tax Deficit Dedication Provision (HR 449 - Congressman Buechner)

This provision would provide that each dollar in increased tax revenues would be matched by a dollar-for-dollar decrease in the Gramm-Rudman deficit targets. This amendment would slow the growth of Federal spending, and commit the Federal government to meaningful deficit reduction.

Credit Reform Package

The risk exposure to the federal government for direct and indirect credit subsidies is becoming increasingly greater. The S&L problem is not the only unfunded liability that will come due in the near future. Therefore, it is important that the federal government address the issue of credit reform. The proposed credit reform package would require top officials of the FDIC to supply Congress, other budget makers, and communications media with regular updates of their best estimate of annual changes in the net reserve position of their insurance fund.

Efficient Government Operations Commission

Establish a commission to study, review and evaluate recommendations designed to reduce and eliminate waste and inefficiency in the federal government and to assure the most efficient expenditure of tax dollars.

IV. BUDGET SAVINGS OPTIONS

As stated above we have outlined over $29 billion in budget savings through program terminations, reductions and policy changes. Should summiteers reject measures from the President's previous budget proposals, the amount of deficit reduction required to meet the $55 billion target can be chosen from the following list of program terminations, reductions, and policy changes. We strongly suggest that any budget summit agreement deeming to garner support from a majority of fiscal conservatives include at least 6 program terminations.

A. Program Terminations

The following section on Budget Savings outlines 19 program terminations which total over $9 billion according to FY 1990 budget outlays taken from the President's January budget. The data was compiled by the House Budget Committee. These savings have not been scored by CBO.

Budget Savings through program terminations	FY 1990 Outlays (in millions)
National Endowment for the Arts	$ 167.00
Legal Services Corporation	$ 316.00
Community Development Block Grant	$2,945.00
Rural Electrification Administration	$ 202.00
National Endowment for the Humanities	$ 159.00
Small Business Administration	$ 336.00
Appalachian Regional Commission	$ 50.00
Interstate Commerce Commission	$ 44.00
Job Corps	$ 767.00

Federal Crop Insurance	$ 371.00
Office of Bilingual Education	$ 195.00
Davis-Bacon	$ 310.00
Export/Import Bank	$ 364.00
Power Marketing Administration (Privatize)	$ 123.00* sell assets $13 bill per CBO
Tennessee Valley Authority (Privatize)	$ 93.00
Clean Coal Technology Program	$ 151.00
Eliminate federal support for Agricultural Research and Extension	$1,300.00
Eliminate the successorship provision in the Service Contract Act	$ 130.00
Naval Petroleum Reserves	$1,600.00* sell assets
Total savings through program eliminations	$9,623.00.

B. Program Reductions

This section on Budget Savings outlines programs from which savings can be realized through reductions or policy changes. Any amount marked with an asterisk is a percentage reduction based on estimated FY 1990 budget outlays. Below are 18 options which bring in more than $12 billion.

Budget Savings through program reductions	CBO Savings (in millions)
Ten percent reduction in direct foreign aid	$1,485.00*
25% reduction in Corp. for Public Broadcasting	$ 57.00*
20% reduction in Community Services Block Grants	$ 78.00*
Increase borrowers' payments to 28% of income for mortgages provided by the FmHA	$ 60.00*
10% reduction in Federal Housing Administration	$ 234.00
40% reduction in Minority Business Development Agency	$ 16.00
Require producer contributions for Dairy Price Supports	$ 320.00
Require a two-week waiting period for Unemployment Insurance	$1,100.00
End Disability and Death Compensation Awards in future cases when a disability is unrelated to military services	$ 20.00

Charge an insurance premium for the income protection offered by target prices	$ 660.00
Adopt the Production Entitlement Guarantee option	$1,000.00
Privatize Howard University (reduce funding by 50%)	$ 100.00
Cut U.S. contributions to the United Nations	$ 190.00
Reduce postal subsidies for non-profits by 50%	$ 175 00
Reimpose the 20 percent Coinsurance on Clinical Laboratory Services under Medicare	$ 470.00
Subtotal	**$5,965.00**
Deficit reduction not scored for GRH purposes	
Sell the Uranium Enrichment Enterprise	**$1,800.00**
Sell land owned by the Federal Government	**$3,000.00**
Sell the Federally-owned coal in the Powder River Basin	$2,000.00
Subtotal	$6,800.00
Total savings through program reductions and policy changes	$12,765.00
TOTAL BUDGET SAVINGS	
Program Terminations	$ 9,623.00
Reductions and Policy Changes	$12,765.00
Defense reduction In addition of Janaury President's Budget	$ 6,800.00
TOTAL	**$29,188.00**

To reiterate, the above $29 billion is a menu of options avialable to the summitteers should portions of the President's package be deemed unacceptable. Every attempt has been made to avoid overlapping with the President's Janaury Budget and the June 20 proposal.

V. CONCLUSION

Tax increases, especially of the magnitude that are being considered by the budget summiteers, are manifestly unwarranted. Spending restraint of a relatively modest nature and largely already laid out by the President is all that is required. Under our present budget, federal spending will be $1,298.1 billion, fully $35.6 billion or three percent more than the prior fiscal year. **Budget process reform is mandatory. The present budget process is out of control and results in few if any meaningful restraints on spending increases. The economy and the American public cannot afford tax increases. What is needed is the exercise of modest restraint in Washington.**

Members Briefing Book on Program Terminations and Spending Reduction Options

by the Caucus for Responsible Spending and Tax Policy

July 24, 1990

Program Terminations : Explantion

The following section provides a brief explanation/rationale for the program termination options on the list.

• **Eliminate Federal Support for Agricultural Research and Extension Activities.** CBO recommends reducing funding for the USDA's three agencies which "conduct and support agricultural research and education." Several reasons exist for eliminating these agencies (The Agricultural Research Service [ARS], the Cooperative State Research Service [CSRS], and the Extension Service [ES]). Money spent on research aimed at increasing agricultural productivity flies in the face of reason when we are currently paying farmers not to produce. There is no evidence that such research needs to be financed by the federal government. There is no reason why a new construction program is needed in agriculture.

One-Year Savings: $1.3 billion

Eliminate the sucessorship provision in the Service Contract Act. The McNamara-O'Hara Service Contract Act of 1965 sets labor standards for government employee contracts for those who mainly provide what can be classified as "labor services. These wages and fringe benefits at least equal prevailing area wages and frequently mirror the elements of collective bargaining agreements of prior contractors. Cost of services could fall substantially if the sucessorship provision of this legislation is repealed. . This option would still hold successor contractors to the prevailing wages and fringe benefits rules.

One-Year Savings: $130 million
Five-Year Savings: $2.3 billion

SPENDING REDUCTION OPTIONS: AN EXPLANATION

The following section provides a brief explanation/rationale for the spending reduction options on the list. Note that all percentage reductions are made off of FY1990 levels. Totals may not match due to rounding.

- **Reduce the subsidy in child nutrition programs for children from higher-income families.** This proposal eliminates the cash reimbursement for all meals served in schools and child care centers to children from households with incomes above 185 percent (about $22,499 per year for a family of four) of the poverty line. While most of the benefits are targeted to children from low-income families, some of the aid does benefit middle- and upper-income children.

  The National School Lunch Program serves as a good example of this practice. In this case, most schools receive $1.53 in cash reimbursement for each meal served to children from families with incomes at or below 130% of the poverty line. Schools then get a subsidy of $1.13 for each meal served to children from families with incomes between 130% and 185% of poverty. Schools also get a subsidy of 15 cents per meal for children from families with incomes above 185% of poverty. Finally, schools receive about 13 cents in aid for each lunch served, regardless of the household income.

  One-Year Savings: $360 million
  Five-Year Savings: $2.3 billion

- **Equalize treatment of AFDC families.** The Child Support Enforcement program collects child support payments from absent parents on behalf of families receiving AFDC. These payments are supposed to be used to offset federal and state costs for AFDC. However, amounts up to the first $50 in monthly child support collected are paid to the AFDC family with no effect on the level of AFDC benefits. This is the equivalent of not counting the first $50 of child support as income when calculating AFDC benefits -- thereby discriminating against AFDC families for whom child support is not an issue.

  One-Year Savings: $120 million
  Five-Year Savings: $680 million

- **10% Reduction in direct foreign aid.** Foreign aid has always ranked as one of the government programs with the lowest level of support from voters. Furthermore, little evidence exists that foreign aid has helped the countries receiving the money. Indeed, many studies show that foreign aid props up socialist and centrally planned economies and allows leaders of those countries to delay long overdue market-oriented reforms. A ten percent reduction from FY

1990 levels would still leave the foreign aid lobby with about $10 billion for direct aid.

One-Year Savings: $1.5 billion

- **25% Reduction in funding from 1990 level for Corporation for Public Broadcasting.** Government support for public broadcasting subsidizes entertainment that is largely targeyed to upper class viewers. Prior to cable TV, many argued that public provided programs that would otherwise be unavailable. With the widespread use use of cable, however, even this specious argument has no credibility.

  One-Year Savings: $57 million

- **Reduce Funding for Community Services Block Grants by 20%:** Basically, the state and local governments are running surpluses, while the federal government is in its present situation.

  One-Year Savings: $78 million

- **Scale Back the Rural Housing Loan Program.** The Farmers Home Administration (FmHA) provides mortgages to rural low-income borrowers. In this program, eligible borrowers can purchase homes (generally) by spending 20 percent of their income on mortgage payments, property taxes, and insurance throughout the full mortgage term. A comparable program sponsored by HUD requires urban borrowers to pay 28 percent of their income for housing costs.

  Increase Borrowers' Payments to 28 percent of income

  One-Year Savings: $60 million
  Five-Year Savings: $1.2 billion

- **10% Reduction in Federal Housing Administration.** During the Senate debate on the Housing bill this year, the problems with FHA were more than evident. Virtually every complaint made, from subsidizing "yuppie loans" ($125,000) to "another S&L in the making," is valid.

  One-Year Savings: $234 million

- **40% Reduction in Minority Business Development Agency.** As with the Small Business Administration, this agency's mission is to fund businesses that have proven they are not creditworthy. They also share the Small Business Administration's reputation for making loans that go bad in large numbers. Simply put, private credit markets in this country make loans to businesses, large and small. Government loans, whether direct or guaranteed, simply take money which the credit markets would provide to good risks on the basis of merit and allocate it instead to bad risks with good political connections.

  One-Year Savings: $16 million

- **Require Producer Contributions for Dairy Price Supports.** Dairy producers have their incomes protected and increased in three ways: through the dairy price support program, through marketing orders that set price floors for milk going to various uses, and through quotas placed on imported dairy products. We could reduce dairy program costs by assessing dairy farmers according to their production. If assessments were set at the 20 cent per hundredweight level, the industry would be paying for about half the federal price support program cost.

  One-Year Savings: $320 million
  Five-Year Savings: $1.7 billion

- **Require a two-week Waiting Period for Unemployment Insurance Benefits.** Current federal law imposes no mandatory waiting period before jobless workers can receive Unemployment Insurance benefit payments. About three-quarters of the states now require a one-week waiting period for regular UI benefits. Imposing this waiting period would reduce outlays substantially over five years and beneficiaries in all states would be treated uniformly.

  One-Year Savings: $1.1 billion
  Five-Year Savings: approx. $5.7 billion

- **Require Postsecondary Institutions to Share the Financial Risk of Defaults on Stafford Loans.** The direct beneficiaries of Stafford Loans are students, postsecondary institutions, lenders, and guarantee agencies. Currently, however, only students and guarantee agencies share the risk of loan defaults. Postsecondary institutions bear almost no direct financial risk for loan defaults, although starting in 1991 the Secretary of Education does have discretion to sanction schools with high default rates.

  Another way to approach the problem of high defaults is to require postsecondary schools pay the same charge their students must pay -- a 5 percent coorigination fee on the amount of every loan taken out by their students.

  One-Year Savings: $240 million
  Five-Year Savings: $2.2 billion

- **End Disability And Death Compensation Awards in Future Cases when a Disability is unrelated to Military Duties.** This change would make disability compensation of military personnel comparable with disability compensation of federal civilian employees under workers' compensation arrangements.

  One-Year Savings: $20 million
  Five-Year Savings: $770 million

- **Charge an insurance Premium for the Income Protection Offered by Target Prices.** The deficiency payment to farmers is the determined by taking the difference between a crop's target price and either the market price or the loan rate -- whichever is greater --

multiplied by the program yield (a historically-based farm yield). One function of the deficiency payment is to provide a form of insurance protection for farm income; payments increase when prices are low and decrease when prices are high. This option proposes farmers be charged a direct monetary fee for the insurance protection. Farmers pay directly for a benefit they receive.

One-Year Savings: $660 million
Five-Year Savings: $7.4 billion

- **Restrict Eligibility for Benefits from Price Support Programs and Reduce the Payment Ceiling.** Current law governing eligibility for benefits in price support programs allows participants to receive as much as $100,000 per year in deficiency payment benefits from the Commodity Credit Corporation. **This maximum is reached in the following way:** $50,000 for an individual, plus $25,000 as a shareholder in a maximum of two corporate farms. (This is where we've heard stories of farmers splitting up their entire family and having each -- even children -- be shareholders in corporate farms.) Substantial savings could be realized by removing the shareholder option and restricting the maximum direct payment from $50,000 to $40,000.

  One-Year Savings: $530 million
  Five-Year Savings: $2.5 billion

- **Adopt the Production Entitlement Guarantee (PEG) Option to Reduce the Portion of Each Farmer's Production that is Eligible for Government Payments.** Current commodity price and income support programs base their support largely on acreage under cultivation. PEG would base support on a set volume of production. This volume level would be set at a level less than market demand. Theoretically, this would make the production decisions of farmers more market-oriented. The level of support provided could be based on some targeted level of "income protection" and farmers would have to produce a certain quantity of crops to get the support. If the PEG was set at 50 percent of base acreage times the program yield, substantial one and five year savings would occur.

  One-Year Savings: $1 billion
  Five-Year Savings: $6.2 billion

- **Move toward privatization of Howard University by reducing funding by 50 Percent.** Howard University is a private institution that receives nearly $200 million each year in federal support.

  One-Year Savings: $100 million

- **Cut U.S. Contributions to the United Nations.** We should cut funding for U.N. programs which openly conflict with U.S. interests such as U.N. Food and Agriculture Organization, U.N. Industrial Development Organization, World Intellectual Property Organization, World Health Organization, World Heritage Fund, U.N. Relief and Works Agency, U.N. Education and Training Program for Southern Africa and the U.N. Trust Fund for South Africa, and the U.N. Development Program.

One-Year Savings: $190 million

- **Reduce Postal Subsidies for Not-For-Profit Organizations by 50%.** Certain bulk mailers (religious, educational, political, etc.), receive subsidized postage rates. President Reagan often proposed the virtual elimination of these reduced rates. Not-for-profit organizations already receive approximately $4 billion in federal grants per year, so it seems a bit much to also give them subsidized mailings.

  One-Year Savings: $175 million

- **Reimpose the 20 Percent Coinsurance on Clinical Laboratory Services under Medicare.** Medicare beneficiaries currently pay coinsurance of 20 percent for most services other than clinical laboratory services. Indeed, prior to implementation of a fee schedule in 1984, they paid the 20 percent coinsurance on laboratory services, as well. Part of the savings of this measure would result from more prudent use of laboratory services,

  One-Year Savings: $470 million
  Five-Year Savings: $4.6 billion

- **Increase Medicare's Deductible for Physicians' Services.** Substantial savings can be realized if we increase the deductible that enrollees must pay by $25 in Medicare's Supplementary Medical Insurance program (it is currently $75). The deductible has been increased only <u>twice</u> since Medicare began in 1966, when it was set at $50. According to CBO, the deductible has fallen relative to average annual per capita benefits from <u>70 percent in 1967 to less than 7 percent for 1989.</u>

  One-Year Savings: $360 million
  Five-Year Savings: $2.9 billion

SAVINGS NOT SCORED AS DEFICIT REDUCTION FOR GRH PURPOSES:

- **Sell the Uranium Enrichment Enterprise.** We can sell the U.S. uranium enrichment facilities to the private sector. There are 108 commercial nuclear power plants in the U.S.

  One-Year Savings: $1.8 billion (Heritage Foundation)

- **Sell Land Owned by the Federal Goverment.** We could sell the most marketable portions of the 300+ million acres of Western land woned by the Bureau of Land Management and transfer ownership of the remaining land to the respective states. These are lands not transferred to the private sector under the Homestead Act, state land grants, and similar means in the 19th and early 20th centuries.

  One-Year Savings: $3 billion (Heritage Foundation)

- **Sell the Federally-Owned Coal in the Powder River Basin.** There is a significant amount of federally-owned coal under the privately-owned surface land in the Wyoming Powder River Basin. We could sell it through competitive auctions, or through the public sale of stock in a newly created coal managment corporation.

  One-Year Savings: $2 billion (Heritage Foundation)

IF Taxable Income PLUS
Personal Exemptions ARE: THEN, Taxes are:

Over	But Not over	Amount	PLUS This %	Of Excess Over
0	8,200	0.00	0	0
8,200	10,000	0.00	11	8,200
10,000	12,000	270.00	11.5	10,000
12,000	14,000	570.00	12	12,000
14,000	16,000	870.00	12.5	14,000
16,000	18,000	1,170.00	13	16,000
18,000	20,000	1,470.00	13.5	18,000
20,000	22,000	1,770.00	14	20,000
22,000	24,000	2,070.00	14.5	22,000
24,000	26,000	2,370.00	15	24,000
26,000	28,000	2,670.00	15.5	26,000
28,000	30,000	2,970.00	16	28,000
.....	.....	.....	.....	.....
80,000	85,000	15,885.50	25	80,000
85,000	90,000	17,285.50	25.6	85,000
90,000	95,000	18,855.50	26.2	90,000
95,000	100,000	20,505.50	26.8	95,000
100,000	105,000	22,155.50		100,000
105,000	110,000	23,805.50		105,000
110,000	115,000	25,455.50		110,000
115,000	120,000	27,105.50		115,000
120,000	125,000	28,755.50		120,000
125,000	130,000	30,405.50		125,000
130,000	135,000	32,055.50		130,000
135,000	140,000	33,705.50		135,000
140,000	145,000	35,355.50		140,000
145,000	150,000	37,005.50		145,000
150,000	155,000	38,655.50		150,000
155,000	160,000	40,305.50		155,000
160,000	165,000	41,955.50		160,000
165,000	170,000	43,605.50		165,000
170,000	175,000	45,255.50		170,000
175,000	180,000	47,142.98		175,000
180,000	185,000	49,087.63		180,000
185,000	190,000	51,032.27		185,000
190,000	195,000	52,976.91		190,000
195,000	200,000	54,921.55		195,000
200,000	205,000	56,866.20		200,000
205,000	210,000	58,810.84		205,000
210,000	215,000	60,751.50		210,000
215,000	216,820	62,401.50		215,000
216,820	and over	63,002.10	28	216,820

TAX TABLE

The attached table is illustrative of the type that will be needed. Note, however, that the required range of income the table would have to cover can be quite high. For a family of four, incomes up to $208,690, while if 9 exemptions are claimed by a married couple filing jointly, the income must range up to $266,090.

1977 Tax Table B—MARRIED FILING JOINTLY (BOX 2) *(Continued)*

If line 10, Form 1040A is— Over	But not over	And the total number of exemptions claimed on line 6 is— 2	3	4	5	6	7	8	9
		Your tax is—							
11,600	11,650	1,037	910	751	573	397	235	78	0
11,650	11,700	1,046	918	760	583	406	243	86	0
11,700	11,750	1,054	927	770	592	415	252	94	0
11,750	11,800	1,063	935	779	602	424	260	102	0
11,800	11,850	1,071	944	789	611	434	269	110	0
11,850	11,900	1,080	952	798	621	443	277	118	0
11,900	11,950	1,088	961	808	630	453	286	126	0
11,950	12,000	1,097	969	817	640	462	294	134	0
12,000	12,050	1,105	978	827	649	472	303	142	0
12,050	12,100	1,114	986	836	659	481	311	150	0
12,100	12,150	1,122	995	846	668	491	320	158	3
12,150	12,200	1,131	1,003	855	678	500	328	166	11
12,200	12,250	1,139	1,012	865	687	510	337	174	19
12,250	12,300	1,148	1,020	874	697	519	345	183	27
12,300	12,350	1,156	1,029	884	706	529	354	191	35
12,350	12,400	1,165	1,037	893	716	538	362	200	43
12,400	12,450	1,173	1,046	903	725	548	371	208	51
12,450	12,500	1,182	1,054	912	735	557	380	217	59
12,500	12,550	1,190	1,063	922	744	567	389	225	67
12,550	12,600	1,199	1,071	931	754	576	399	234	75
12,600	12,650	1,207	1,080	941	763	586	408	242	83
12,650	12,700	1,216	1,088	950	773	595	418	251	91
12,700	12,750	1,225	1,097	960	782	605	427	259	99
12,750	12,800	1,235	1,105	969	792	614	437	268	107
12,800	12,850	1,245	1,114	979	801	624	446	276	115
12,850	12,900	1,255	1,122	988	811	633	456	285	123
12,900	12,950	1,265	1,131	998	820	643	465	293	131
12,950	13,000	1,275	1,139	1,007	830	652	475	302	139
13,000	13,050	1,285	1,148	1,017	839	662	484	310	148
13,050	13,100	1,295	1,156	1,026	849	671	494	319	156
13,100	13,150	1,305	1,165	1,036	858	681	503	327	165
13,150	13,200	1,315	1,173	1,045	868	690	513	336	173
13,200	13,250	1,325	1,182	1,054	877	700	522	345	182
13,250	13,300	1,335	1,190	1,063	887	709	532	354	190
13,300	13,350	1,345	1,199	1,071	896	719	541	364	199
13,350	13,400	1,355	1,207	1,080	906	728	551	373	207
13,400	13,450	1,365	1,216	1,088	915	738	560	383	216
13,450	13,500	1,375	1,225	1,097	925	747	570	392	224
13,500	13,550	1,385	1,235	1,105	934	757	579	402	233
13,550	13,600	1,395	1,245	1,114	944	766	589	411	241
13,600	13,650	1,405	1,255	1,122	953	776	598	421	250
13,650	13,700	1,415	1,265	1,131	963	785	608	430	258
13,700	13,750	1,426	1,275	1,139	972	795	617	440	267
13,750	13,800	1,437	1,285	1,148	982	804	627	449	275
13,800	13,850	1,448	1,295	1,156	991	814	636	459	284
13,850	13,900	1,459	1,305	1,165	1,001	823	646	468	292
13,900	13,950	1,470	1,315	1,173	1,010	833	655	478	301
13,950	14,000	1,481	1,325	1,182	1,020	842	665	487	310
14,000	14,050	1,492	1,335	1,190	1,029	852	674	497	319
14,050	14,100	1,503	1,345	1,199	1,039	861	684	506	329
14,100	14,150	1,514	1,355	1,207	1,048	871	693	516	338
14,150	14,200	1,525	1,365	1,216	1,058	880	703	525	348
14,200	14,250	1,536	1,375	1,225	1,067	890	712	535	357
14,250	14,300	1,547	1,385	1,235	1,077	899	722	544	367
14,300	14,350	1,558	1,395	1,245	1,086	909	731	554	376
14,350	14,400	1,569	1,405	1,255	1,096	918	741	563	386
14,400	14,450	1,580	1,415	1,265	1,105	928	750	573	395
14,450	14,500	1,591	1,426	1,275	1,115	937	760	582	405
14,500	14,550	1,602	1,437	1,285	1,124	947	769	592	414
14,550	14,600	1,613	1,448	1,295	1,134	956	779	601	424
14,600	14,650	1,624	1,459	1,305	1,143	966	788	611	433
14,650	14,700	1,635	1,470	1,315	1,153	975	798	620	443
14,700	14,750	1,646	1,481	1,325	1,162	985	807	630	452
14,750	14,800	1,657	1,492	1,335	1,172	994	817	639	462
14,800	14,850	1,668	1,503	1,345	1,181	1,004	826	649	471
14,850	14,900	1,679	1,514	1,355	1,191	1,013	836	658	481
14,900	14,950	1,690	1,525	1,365	1,200	1,023	845	668	490
14,950	15,000	1,701	1,536	1,375	1,211	1,032	855	677	500
15,000	15,050	1,712	1,547	1,385	1,222	1,042	864	687	509
15,050	15,100	1,723	1,558	1,395	1,233	1,051	874	696	519
15,100	15,150	1,734	1,569	1,405	1,244	1,061	883	706	528
15,150	15,200	1,745	1,580	1,415	1,255	1,070	893	715	538

Continued next column

If line 10, Form 1040A is— Over	But not over	And the total number of exemptions claimed on line 6 is— 2	3	4	5	6	7	8	9
		Your tax is—							
15,200	15,250	1,756	1,591	1,426	1,266	1,080	902	725	547
15,250	15,300	1,767	1,602	1,437	1,277	1,089	912	734	557
15,300	15,350	1,778	1,613	1,448	1,288	1,099	921	744	566
15,350	15,400	1,789	1,624	1,459	1,299	1,108	931	753	576
15,400	15,450	1,800	1,635	1,470	1,310	1,118	940	763	585
15,450	15,500	1,811	1,646	1,481	1,321	1,127	950	772	595
15,500	15,550	1,822	1,657	1,492	1,332	1,137	959	782	604
15,550	15,600	1,833	1,668	1,503	1,343	1,146	969	791	614
15,600	15,650	1,844	1,679	1,514	1,354	1,156	978	801	623
15,650	15,700	1,855	1,690	1,525	1,365	1,165	988	810	633
15,700	15,750	1,866	1,701	1,536	1,375	1,176	997	820	642
15,750	15,800	1,877	1,712	1,547	1,385	1,187	1,007	829	652
15,800	15,850	1,888	1,723	1,558	1,395	1,198	1,016	839	661
15,850	15,900	1,899	1,734	1,569	1,405	1,209	1,026	848	671
15,900	15,950	1,910	1,745	1,580	1,415	1,220	1,035	858	680
15,950	16,000	1,921	1,756	1,591	1,426	1,231	1,045	867	690
16,000	16,050	1,932	1,767	1,602	1,437	1,242	1,054	877	699
16,050	16,100	1,943	1,778	1,613	1,448	1,253	1,064	886	709
16,100	16,150	1,954	1,789	1,624	1,459	1,264	1,073	896	718
16,150	16,200	1,965	1,800	1,635	1,470	1,275	1,083	905	728
16,200	16,250	1,976	1,811	1,646	1,481	1,286	1,092	915	737
16,250	16,300	1,987	1,822	1,657	1,492	1,297	1,102	924	747
16,300	16,350	1,998	1,833	1,668	1,503	1,308	1,111	934	756
16,350	16,400	2,009	1,844	1,679	1,514	1,319	1,121	943	766
16,400	16,450	2,020	1,855	1,690	1,525	1,330	1,130	953	775
16,450	16,500	2,031	1,866	1,701	1,536	1,341	1,141	962	785
16,500	16,550	2,042	1,877	1,712	1,547	1,352	1,152	972	794
16,550	16,600	2,053	1,888	1,723	1,558	1,363	1,163	981	804
16,600	16,650	2,064	1,899	1,734	1,569	1,374	1,174	991	813
16,650	16,700	2,075	1,910	1,745	1,580	1,385	1,185	1,000	823
16,700	16,750	2,086	1,921	1,756	1,591	1,396	1,196	1,010	832
16,750	16,800	2,099	1,932	1,767	1,602	1,407	1,207	1,019	842
16,800	16,850	2,111	1,943	1,778	1,613	1,418	1,218	1,029	851
16,850	16,900	2,124	1,954	1,789	1,624	1,429	1,229	1,038	861
16,900	16,950	2,136	1,965	1,800	1,635	1,440	1,240	1,048	870
16,950	17,000	2,149	1,976	1,811	1,646	1,451	1,251	1,057	880
17,000	17,050	2,161	1,987	1,822	1,657	1,462	1,262	1,067	889
17,050	17,100	2,174	1,998	1,833	1,668	1,473	1,273	1,076	899
17,100	17,150	2,186	2,009	1,844	1,679	1,484	1,284	1,086	908
17,150	17,200	2,199	2,020	1,855	1,690	1,495	1,295	1,095	918
17,200	17,250	2,211	2,031	1,866	1,701	1,506	1,306	1,106	927
17,250	17,300	2,224	2,042	1,877	1,712	1,517	1,317	1,117	937
17,300	17,350	2,236	2,053	1,888	1,723	1,528	1,328	1,128	946
17,350	17,400	2,249	2,064	1,899	1,734	1,539	1,339	1,139	956
17,400	17,450	2,261	2,075	1,910	1,745	1,550	1,350	1,150	965
17,450	17,500	2,274	2,086	1,921	1,756	1,561	1,361	1,161	975
17,500	17,550	2,286	2,099	1,932	1,767	1,572	1,372	1,172	984
17,550	17,600	2,299	2,111	1,943	1,778	1,583	1,383	1,183	994
17,600	17,650	2,311	2,124	1,954	1,789	1,594	1,394	1,194	1,003
17,650	17,700	2,324	2,136	1,965	1,800	1,605	1,405	1,205	1,013
17,700	17,750	2,336	2,149	1,976	1,811	1,616	1,416	1,216	1,022
17,750	17,800	2,349	2,161	1,987	1,822	1,627	1,427	1,227	1,032
17,800	17,850	2,361	2,174	1,998	1,833	1,638	1,438	1,238	1,041
17,850	17,900	2,374	2,186	2,009	1,844	1,649	1,449	1,249	1,051
17,900	17,950	2,386	2,199	2,020	1,855	1,660	1,460	1,260	1,060
17,950	18,000	2,399	2,211	2,031	1,866	1,671	1,471	1,271	1,071
18,000	18,050	2,411	2,224	2,042	1,877	1,682	1,482	1,282	1,082
18,050	18,100	2,424	2,236	2,053	1,888	1,693	1,493	1,293	1,093
18,100	18,150	2,436	2,249	2,064	1,899	1,704	1,504	1,304	1,104
18,150	18,200	2,449	2,261	2,075	1,910	1,715	1,515	1,315	1,115
18,200	18,250	2,461	2,274	2,086	1,921	1,726	1,526	1,326	1,126
18,250	18,300	2,474	2,286	2,099	1,932	1,737	1,537	1,337	1,137
18,300	18,350	2,486	2,299	2,111	1,943	1,748	1,548	1,348	1,148
18,350	18,400	2,499	2,311	2,124	1,954	1,759	1,559	1,359	1,159
18,400	18,450	2,511	2,324	2,136	1,965	1,770	1,570	1,370	1,170
18,450	18,500	2,524	2,336	2,149	1,976	1,781	1,581	1,381	1,181
18,500	18,550	2,536	2,349	2,161	1,987	1,792	1,592	1,392	1,192
18,550	18,600	2,549	2,361	2,174	1,998	1,803	1,603	1,403	1,203
18,600	18,650	2,561	2,374	2,186	2,009	1,814	1,614	1,414	1,214
18,650	18,700	2,574	2,386	2,199	2,020	1,825	1,625	1,425	1,225
18,700	18,750	2,586	2,399	2,211	2,031	1,836	1,636	1,436	1,236
18,750	18,800	2,599	2,411	2,224	2,042	1,847	1,647	1,447	1,247

Continued on next page

Taxable years beginning in 1964

Section 3(a) of the code, as amended by this section of the bill, is applicable to taxable years beginning on or after January 1, 1964, and before January 1, 1965. It retains the substantive rules contained in the existing section 3 but substitutes for the table in the existing section 3 the following tables:

Table I—Single person, NOT head of household.

Table II—Head of household.

Table III—Married persons filing JOINT returns.

Table IV—Married persons filing SEPARATE returns, 10 PERCENT STANDARD DEDUCTION.

Table V—Married persons filing SEPARATE returns, MINIMUM STANDARD DEDUCTION.

Taxable years beginning after December 31, 1964

Section 3(b) as amended is applicable to taxable years beginning after December 31, 1964. Like the amended section 3(a), the amended section 3(b) retains the substantive rules of the existing section 3 but substitutes for the table in the existing section 3 tables with captions identical to the captions of the tables in the amended section 3(a).—House Committee Report.

.10 Committee Reports on 1954 Code Sec. 3 as originally enacted were reproduced at 561 CCH ¶ 442.10.

[¶ 443] OPTIONAL TAX TABLES FOR INDIVIDUALS

Effective for taxable years after 1969. For taxable years prior to 1970, see ¶ 442.

'54 Code

1970 code

Sec. 3 [1954 Code]. In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year beginning after December 31, 1969, on the taxable income of every individual whose adjusted gross income for such year is less than $10,000 and who has elected for such year to pay the tax imposed by this section, a tax determined under tables, applicable to such taxable year, which shall be prescribed by the Secretary or his delegate. In the tables so prescribed, the amounts of tax shall be computed on the basis of the taxable income computed by taking the standard deduction and on the basis of the rates prescribed by section 1. [Tables for calendar year 1970 are reproduced at ¶ 114.—CCH.]

.01 Amended by P. L. 91-172. For details, see the Code Volume. For years prior to 1970, see Code Sec. 3 at ¶ 442.

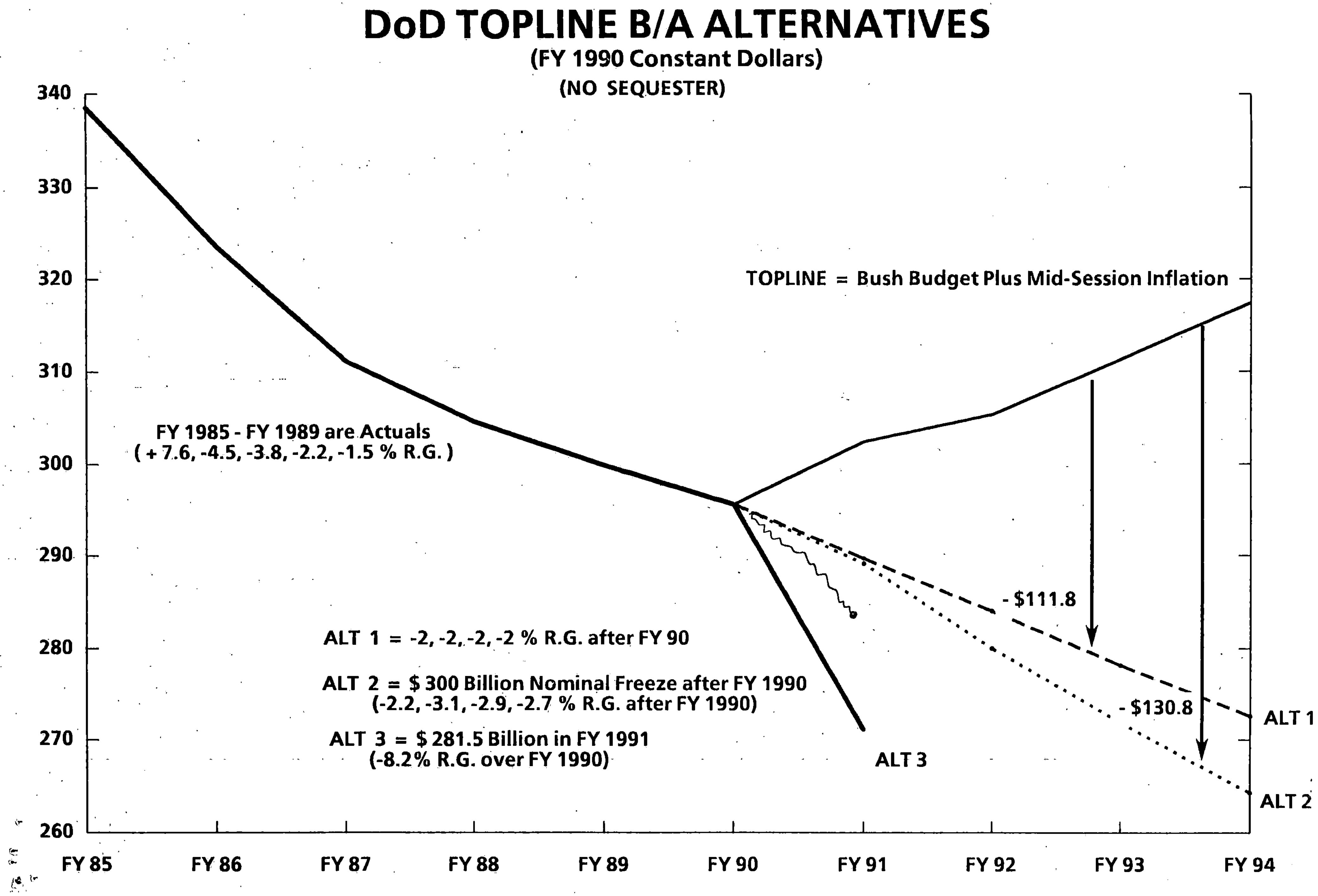
Caution: Reg. § 1.3-1 does not reflect the amendments of Code Sec. 3 by P. L. 88-272. See ¶ 443.03.

• ***Regulations***

[¶ 444] § 1.3-1 **Application of optional tax.**—(a) *General rules.* (1) An individual whose adjusted gross income is less than $5,000 (or a husband and wife filing a joint return whose combined adjusted gross income is less than $5,000) may elect to pay the tax imposed by section 3 in place of the tax imposed by section 1 (a) or (b). See § 1.4-2 for the manner of making such election. A taxpayer may make such election regardless of the sources from which his income is derived and regardless of whether his income is computed by the cash method or the accrual method. See section 62 and the regulations thereunder for the determination of adjusted gross income. For the purpose of determining whether a taxpayer may elect to pay the tax under section 3, the amount of the adjusted gross income is controlling, without reference to the number of exemptions to which the taxpayer may be entitled. See section 4 and the regulations thereunder for additional rules applicable to section 3.

(2) The following examples illustrate the rule that section 3 applies only if the adjusted gross income is less than $5,000:

Example (1). A is employed at a salary of $4,600 for the calendar year 1954. In the course of such employment, he incurred travel expenses of $750 for which he was reimbursed during the year. Such items constitute his sole income for 1954. In such case the gross income is $5,350 but the amount of $750 is deducted from gross income in the determination of adjusted gross income and thus A's adjusted gross income for 1954 is $4,600. Hence, the adjusted gross income being less than $5,000, he may elect to pay his tax for 1954 under section 3. Similarly, in the case of an individual engaged in trade or business (excluding from the term "engaged in trade or business" the


DoD TOPLINE B/A ALTERNATIVES
(FY 1990 Constant Dollars)
(NO SEQUESTER)
340
330
320
310
300
290
280
270
260
TOPLINE = Bush Budget Plus Mid-Session Inflation
FY 1985 - FY 1989 are Actuals
(+ 7.6, -4.5, -3.8, -2.2, -1.5 % R.G.)
- $111.8
ALT 1 = -2, -2, -2, -2 % R.G. after FY 90
ALT 2 = $ 300 Billion Nominal Freeze after FY 1990
(-2.2, -3.1, -2.9, -2.7 % R.G. after FY 1990)
- $130.8
ALT 1
ALT 3 = $ 281.5 Billion in FY 1991
(-8.2% R.G. over FY 1990)
ALT 3
ALT 2
FY 85
FY 86
FY 87
FY 88
FY 89
FY 90
FY 91
FY 92
FY 93
FY 94

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
03. Outline	Budget Material for Discussion 11/15/89 (2 pp.)	11/15/89	~~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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

FOR DISCUSSION 11/15/89

I. <u>THE FY'91 OUTLAY LEVEL</u> (to be decided this week)

(A) <u>Arguments for</u> a DOD FY'91 outlay level of <u>$290 billion</u> include the following:

(1) <u>Proportion</u> --

(a) 290 is $7.6 billion <u>more than</u> the FY'90 appropriation (282.4). It is $12.3 billion <u>more than</u> the FY'90 sequester level. (It is the equivalent of a sequester plus 4% inflation plus one percent real growth in BA.)

281.8

(b) It is approximately 98% of the outlay level that would be associated with a return to the February 9th BA level.

(2) <u>Reality</u> --

(a) 290 is above the level that is likely to be available in next year's legislative crunch.

(b) It tends to <u>accelerate the inevitable and necessary adjustment of DOD plans</u> -- to accommodate both domestic economic dictates and the radically changing nature of external threats.

(3) <u>Opportunity</u> --

Adjusting to the reality <u>now</u> allows necessity to be converted into foreign policy opportunity.

(4) <u>Budgetary Necessity</u> (if the rest of the President's budget is to have any room for <u>initiative</u> and/or any chance of overall <u>credibility</u>) --

(a) To hit 64 billion, it will be necessary to: (i) press economic and revenue estimates to the limit; (ii) offer highly unpopular proposals in Medicare, Veterans, agriculture, non-Social Security retirement programs, etc; (iii) increase user fees and non-duck revenue measures; and (iv) repropose all of this year's non-winners.

(b) With DOD at 290, and a partial sequester, there would be at most $4 billion for all initiatives (space, HOPE, education, drugs, Head Start, nuclear weapons production and clean-up, etc.). Unless additional non-credible proposals are used to "finance" initiatives, every $1 billion above 290 would be 0.3% more for DOD, but 25% less for all other initiatives.

(B) <u>Arguments against the 290 level</u>:

[to be presented by the Secretary of Defense]

II. <u>WHETHER TO STAY IN SEQUESTER OR NOT</u> (to be decided prior to Congress' departure)

NOTE: 34 Republican Senators have signed a letter promising to support sequester and a veto if reconciliation is unsatisfactory.

(A) Arguments for sequester (if reconciliation is unsatisfactory) include:

(1) Economics: Sequester would be fiscally responsible -- and would signal a degree of seriousness to financial markets.

(2) Politics: It shows "strength" to the general public; and provides some leverage for Congressional negotiations next year.

(3) Budget: It provides greater room for credibility and/or initiative in '91. It makes DOD-at-290-in-'91 "easier" (with associated benefits noted above).

(B) Arguments against sequester include:

(1) Arbitrariness: It does not make rational discriminations (although it is not clear what does!).

(2) Perverse Program Effects: FAA air controllers are a case in point. DOD personnel cuts might be another (depending upon use of flexibility and upon one's view of personnel reductions).

(3) Politics: Over time, (1) and (2) could cause political costs to outweigh political benefits noted above.

III. OUTYEAR BUDGET LEVELS AND STRATEGY (levels to be decided this week -- strategy to be settled and refined over time)

See discussion papers of 11/7 and 11/14. See, also, further presentation(s) by DOD.

NOTE: The key is to assure coherence among: foreign policy assumptions; threat assumptions; DOD program plans; and likely available resources.

FY '91 Budget Track
($ in Billions)

	BA	Outlays	
Bush Budget April 1989	311.0	297.9	
Outlay Adjustment Program Mix Change	--	+1.5	
Outlay Rate Reestimate	____	+1.8	
Revised Level	311.0	301.2	
Inflation Increase (Incl. FY '90 Civilian Pay Raise)	+6.2	+3.5	
Revised Base	317.2	304.7	
DOD Budget Scrub Reduction*	-17.2	-7.1	(41% purchases rate)
DOD Baseline	300.0	297.6	
Possible Further Adjustments			
Effect on FY '91 Outlays of 1990 Congressional BA Adjustment	--	-.4	
Effect of FY '90 Military Personnel Cut of 21,000	-.5	-.5	
Effect of 4-month FY '90 Sequester	--	-.2	
Use Current Outlay Rates	--	-1.8	
Additional Civilian Personnel cut of 27,000 (to reach total cut of 50,000 by end FY '91 with 15,000 by end FY '90)	-.7	-.5	
Additional Military Personnel cut of 19,000 (to reach total cut of 40,000 by end FY '91 with 21,000 by end FY '90)	-.5	-.5	
O&M Real Freeze	-4.3	-3.2	
R&D Real Freeze	-1.0	-.5	
Revised Level	293.0	290.0	

* Includes end-strength cut of 13,000 military and 23,000 civilians in FY '91.

BUDGET AUTHORITY ADJUSTMENT

($ in Billions)

1991

TITLE	1990	BUSH AMENDMENT	DoD REVISION	Alt	DoD DIFFERENCE	Alt
MILITARY PERSONNEL	78.8	81.3	79.3	79.3	-2.0	-2.0
OPERATION & MAINTENANCE	85.1	95.9	91.9	88.4	-4.0	-7.5
PROCUREMENT	83.9	84.7	66.2	78.5	-18.5	-6.2
RDT&E	37.0	40.2	36.7	38.5	-3.5	-1.7
MIL CON/FH/OTHER	8.6	9.1	7.4	8.3	-1.7	-.8
TOTAL B/A	293.4	311.2	BA 281.5	293.0	-29.7	-18.[illegible]
Outlays	282.4	297.9	290.0	290.0		

- CUT 40,000 MILITARY PERSONNEL END STRENGTH

- CUT 50,000 CIVILIANS, REDUCE BASE OPERATIONS BY $1.0 BILLION, AND REDUCE DEPOT AND REAL PROPERTY MAINTENANCE AND FLYING AND STEAMING HOURS

- SIGNIFICANT CUTS TO MAJOR PROCUREMENT: APAF $-3.8B; SHIPBUILDING $-2.4B; AIR FORCE MISSILES $-2.2B; NAVY AIRCRAFT - $-2.0B. PRODUCTION CUT BACKS IN B-2, C-17, DESTROYER AND SUBMARINE PROGRAMS, F-18, SATELLITES AND MISSILE PROGRAMS

Alt. wou[illegible] avoid th[illegible] cuts

Budget file

Jim:

I understand from
Darman's ofc
the President
needs the attached
by 2

just received
1:50 p.m.

Patty

[redacted]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 9/12

TO: Dick

FROM: **BUDGET ADVISOR TO THE DIRECTOR**

[redacted]

In response to your question on revising "Option 1", domestic discretionary BA would have to be reduced by ~~$41B~~ 25% (or $41B, from $163.7B to $122.7B), to produce sufficient outlay savings ($24.4B) to reduce the deficit to the GRH target for '91

FY 1991 REVISED OPTION 1
(In billions of dollars)

09/12/89

	Post-action baseline			
	1989	1990	1991	Revised Opt 1
National defense:				
Budget authority...	298.8	305.5	317.9	322.0
Outlays............	301.2	295.1	308.2	308.4
Social Security......	230.0	247.0	263.9	263.9
International discretionary:				
Budget authority...	18.4	19.0	19.8	19.8
Outlays............	16.4	17.1	17.2	17.2
Domestic discretionary:				
Budget authority...	143.6	157.3	163.7	163.7
Outlays............	170.4	181.9	193.0	193.0
Other mandatory......	276.0	270.8	297.3	283.7
Net interest.........	169.3	178.0	176.0	175.6
Total, outlays.......	1163.2	1190.0	1255.7	1241.7
Revenues.............	995.4	1080.1	1151.8	1151.8
Deficit..............	167.8	109.9	103.8	89.9
MEMORANDUM:				
GRH targets..........	NA	NA	64.0	64.0
GRH gap to be closed.	NA	NA	39.8	25.9

Revised Option 1 is the Post-action Baseline except that defense returns to the February proposed level, the Administration's February proposals for mandatory programs that were not achieved in the 1990 BBA are reproposed and means-tested entitlements receive only caseload growth.

In order to reduce the revised Option 1 deficit to $64 billion, a domestic discretionary BA reduction of 25 percent relative to the baseline is necessary.

Take
"Option 1"

and then

(1) allow means-tested entitlements to grow w. population (not inflation)

(2) Medicare at President's proposals

(3) Question what % cut in non-def. discret. necessary to hit 64 B.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
04. Memo	From Frank Hodsoll to John Sununu Re: OIRA Reauthorization: House Mark-up March 13 (1 pp.)	3/14/90	P5	

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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

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

THE CHIEF of STAFF
has seen

March 14, 1990

MEMORANDUM FOR: GOVERNOR SUNUNU

FROM: Frank Hodsoll Frank (H)

SUBJECT: OIRA Reauthorization: House Mark-up March 13

We got word to John Conyers to call you yesterday morning. He said he would after mark-up.

The Government Operations Committee accepted the Horton-Conyers agreed bill as a substitute to the original OIRA bill drafted by the Chairman. At Conyers urging, the Committee rejected two statutory amendments (worse than anything in the current Side Bar).

(1) An amendment by Ted Weiss requiring an administrative record of all oral communications between OMB and other Executive Branch agencies.

(2) An amendment by Major Owens (withdrawn) requiring outside review of agency decisions to discontinue information dissemination.

Chairman Conyers opposed both amendments, not on substantive grounds, but, as he stated, because of his commitment to the compromise he believes he reached with the Administration. It is very possible Conyers will encounter similar amendments during the bill's consideration in the House. Both Conyers and Horton plan to proceed to the Rules Committee seeking to place H.R. 3695 on the suspension calendar.

Frank Horton called me yesterday to inform me of the above. Horton thought it was fine for you to try to work out something better with Conyers, but hoped we would not "blow the deal."

cc: Dick Darman
Boyden Gray
Fred McClure

AGENDA -- FOR DISCUSSION 5/6/90

(1) THE PROBLEM

(a) Sequester outlook (see attached)

(b) Public dissatisfaction with Federal budgeting

(c) The costs of stalemate

(2) GENERAL CHARACTERISTICS OF A MEANINGFUL BIPARTISAN BUDGET AGREEMENT

-- See attached

(3) ISSUES RE: SPECIAL PROCEDURES TO ACCELERATE AND FACILITATE AGREEMENT ON SOLUTIONS TO THE PROBLEM

(a) Composition of possible "steering committee," "coordinating group," or some such

(b) Composition and use of sub-groups and supplementary groups

(c) Possible timetable/deadlines

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
05. Outline	Required General Characteristics of a Meaningful Bipartisan Budget Agreement for Discussion 5/6/90 (1 pp.)	5/6/90	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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

FOR DISCUSSION 5/6/90

REQUIRED GENERAL CHARACTERISTICS
OF A MEANINGFUL BIPARTISAN BUDGET AGREEMENT

(1) **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.]

(2) **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.]

(3) **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].

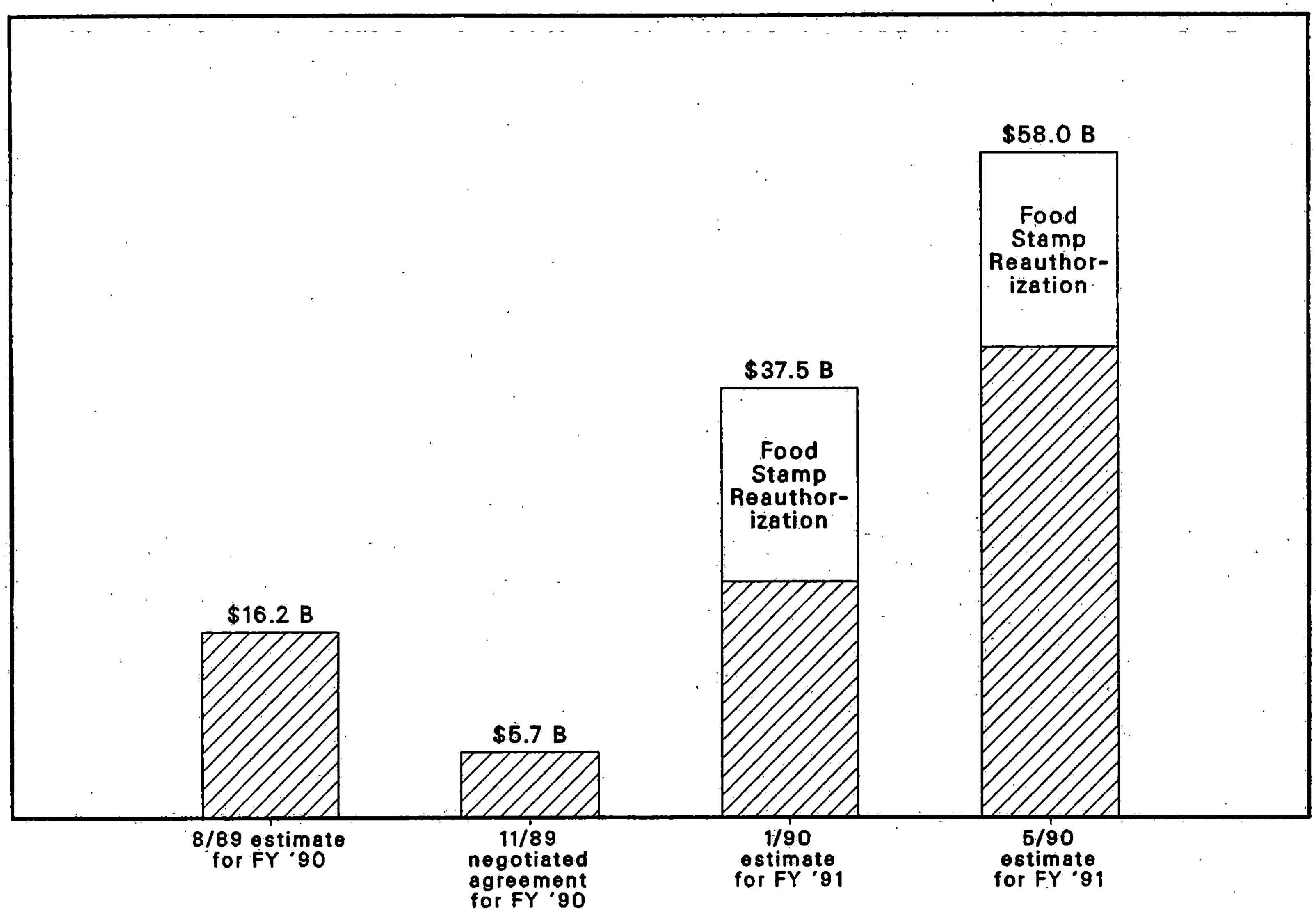
(b) Defense should be reduced on a basis that is orderly, predictable, reliable -- and consistent with national security interests in a changing world.

(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.]

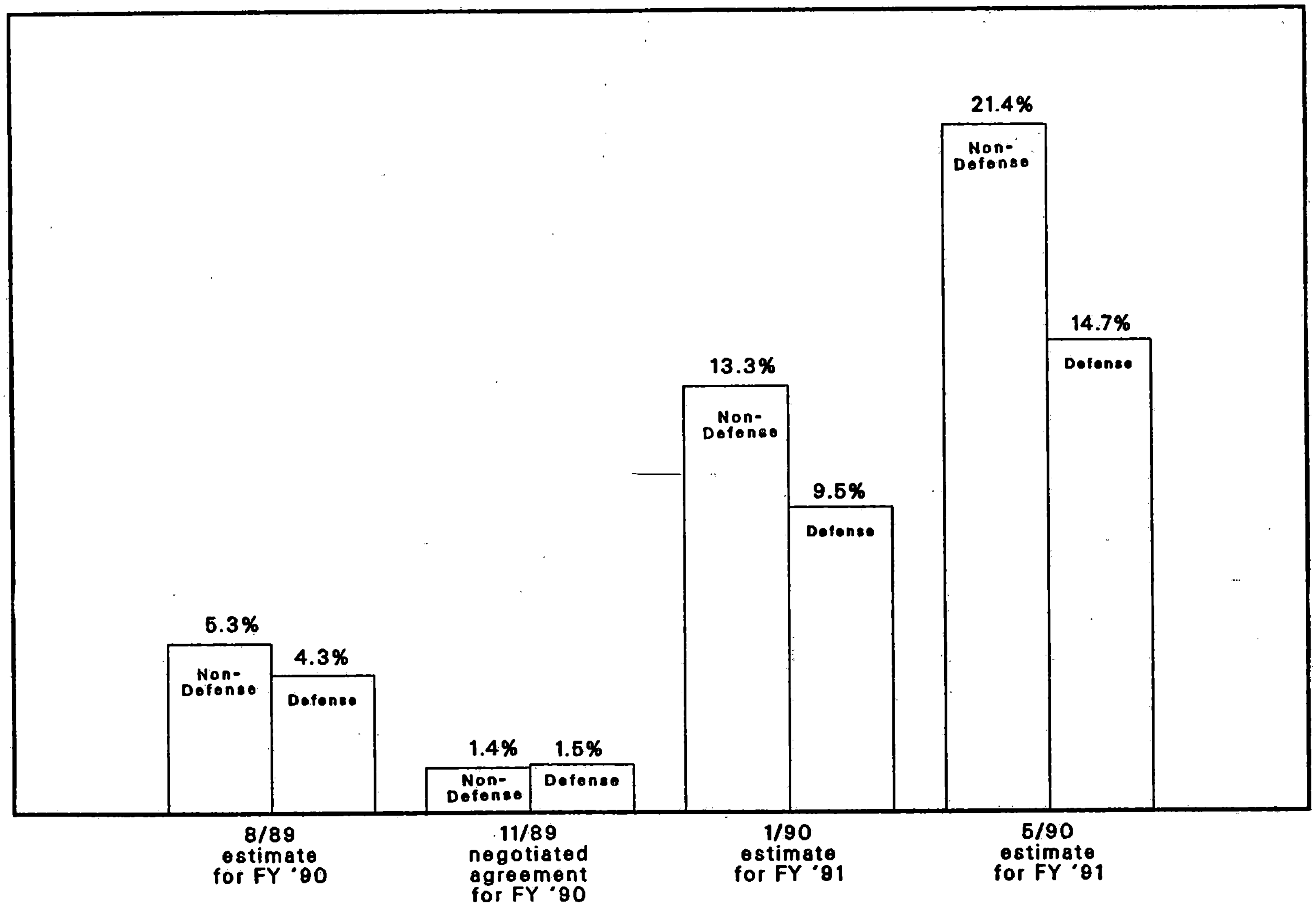
<u>NOTE RE LEGISLATIVE IMPLEMENTATION</u>: Because any such agreement would be a "package deal," Congressional procedures would have to be structured to assure that all elements of the package would be presented <u>simultaneously</u> to the President for signature.

CHANGING PICTURES OF SEQUESTER
(billions of dollars)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

CHANGING PICTURES OF SEQUESTER
(required percentage cut in BA)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

☆

LEGISLATION TO ELIMINATE TAXING THE SALE OF A PRINCIPLE RESIDENCE

Budg

By the Honorable Richard T. Schulze (R-PA)

Legislation I have introduced, H.R. 1287, would exclude 100% of the gain on the sale of principle residence from taxation. At a cost of only $100 million in 1990 to the Treasury, the bill would greatly simplify the tax code and citizen record-keeping, eliminate distortions and inequities arising from the current tax treatment of home sales, and, if added to the President's proposal, make capital gains reduction more attractive to American families.

Under current law, two tax provisions generally impact most home sales. Citizens over 55 years of age may exclude up to $125,000 of gain on a home sale; and, taxpayers may use 100% of the proceeds from a home sale and reinvest in a more expensive home tax free. I raised the $125,000 exclusion to its current level, but in reality, it does not go far enough. These two provisions distort the housing market and cause inequities to arise.

For instance, why does it seem that the only single-family homes under construction these days are the 3000 square foot "Colonial Estates" priced at an unaffordable $250 to $500 thousand?

The answer is quite simple. An unintended effect of the rollover of the gain on the sale of principle residence is the continued "trading-up" for more expensive housing, thus the building of larger and more expensive homes to accommodate the market. This effect is especially noticeable when one moves from an expensive urban area to rural America. In fact, homeowners practically have to build mansions -- and do -- to avoid being hit with a stiff tax on the gain of the sale of their home.

If passed, H.R. 1287 would:

* Eliminate all record keeping for homeowners regarding the basis of their homes for resale gain determination;
* Eliminate heavy tax burdens for those who are forced to sell their homes due to divorce, illness or age;
* Result in more affordable housing being built because the "trading-up" market distortion will be eliminated;
* Increase market fluidity by allowing homeowners to move up faster from starter homes and open up more housing opportunities for lower-income Americans; and
* Eliminate the prohibitive tax on the sale of a principle residence where hard work, home improvements and years of investment are robbed by inflation.

With over 35 cosponsors, H.R. 1287 is gaining support around the nation. Most would agree that the tax code should encourage home ownership and stimulate investment in housing for occupancy. The current treatment of the sale of a home actually discriminates against the less-fortunate and robs citizens of their hard work and investment in their residence. H.R. 1287 must be a integral part of any capital gains package considered by Congress.

PRELIMINARY

- HONORABLE RICHARD T. SCHULZE -

REVENUE EFFECTS OF VARIOUS PROPOSALS

Fiscal Years 1990-1994

[Millions of Dollars]

Item	1990	1991	1992	1993	1994	1990-94
H.R. 2336: To increase benefits of the special estate tax valuation of farmland where land continues to be farmed for an extended period of time..	-6	-52	-67	-83	-114	-322
H.R. 1287: To exclude 100% of the gain on the sale of a principle residence from income [Assumed effective date (date of enactment) October 1, 1989] (1)................................	-100	-300	-400	-500	-500	-1,800
H.R. 1317: To amend section 468(a) of the Tax Code to reduce the tax rate on qualified nuclear decommissioning trust funds....	-35	-31	-37	-43	-49	-196

Joint Committee on Taxation
June 28, 1989

----

(1) Estimate rounded to nearest $100 million.

I

101ST CONGRESS
1ST SESSION

H. R. 1287

To amend the Internal Revenue Code of 1986 to repeal the age and dollar limitations on the one-time exclusion of gain on the sale of a principal residence.

IN THE HOUSE OF REPRESENTATIVES

MARCH 7, 1989

Mr. SCHULZE (for himself, Mr. FLIPPO, Mr. DUNCAN, Mr. STENHOLM, Mr. MCEWEN, Mr. KOLTER, Mr. ROWLAND of Connecticut, Mr. LIPINSKI, Mr. DONALD E. LUKENS, Mr. DANNEMEYER, and Mr. DE LUGO) introduced the following bill; which was referred to the Committee on Ways and Means

Also:
Archer,
Crane,
Shaw, &
Sundquist.

A BILL

To amend the Internal Revenue Code of 1986 to repeal the age and dollar limitations on the one-time exclusion of gain on the sale of a principal residence.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. REPEAL OF CERTAIN LIMITATIONS ON ONE-TIME EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE.

(a) REPEAL OF AGE REQUIREMENT.—

(1) IN GENERAL.—Subsection (a) of section 121 of the Internal Revenue Code of 1986 (relating to one-time exclusion of gain from sale of principal residence

by individual who has attained age 55) is amended to read as follows:

"(a) GENERAL RULE.—At the election of the taxpayer, gross income does not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as his principal residence for periods aggregating 3 years or more."

(2) TECHNICAL AMENDMENTS.—

(A) Paragraph (1) of section 121(d) of such Code is amended by striking "age, holding, and use" and inserting "holding and use".

(B) Paragraphs (2) and (3) of section 121(d) of such Code are each amended by striking "subsection (a)(2)" and inserting "subsection (a)".

(C) The section heading of section 121 of such Code is amended by striking "**WHO HAS ATTAINED AGE 55**".

(D) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking "who has attained age 55" in the item relating to section 121.

(E) Sections 1033(h)(3), 1034(l), 1038(e)(1)(A), 1250(d)(7)(B), and 6012(c) of such

Code are each amended by striking "who has attained age 55".

(b) REPEAL OF DOLLAR LIMITATION.—Subsection (b) of section 121 of such Code is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and exchanges after the date of the enactment of this Act, in taxable years ending after such date.

○

DICK SCHULZE

5th District, Pennsylvania
• COMMITTEE ON WAYS AND MEANS
2369 RAYBURN HOB, WASHINGTON, D.C. 20515 • (202) 225-5761

FOR IMMEDIATE RELEASE

MARCH 8, 1989

Contact: Rob Hartwell
202-225-5761

SCHULZE CALLS FOR ELIMINATING TAXING HOME SALES

Congressman Dick Schulze (R-PA) introduced bipartisan legislation today with Alabama Democrat, Ronnie Flippo and others, which would eliminate taxing the sale of principle residence. Schulze called for "protecting the investment millions of American's make in their homes from the ravages of inflation and taxation."

"Housing affordability and availability are key problems facing Americans of all ages. Current tax policy discriminates against various homeowners based on income, age or physical well-being," Schulze said. Congressman Schulze used the following examples to show how uneven current tax policy is toward the sale of a persons home:

* A construction worker loses his job, cannot afford home payments, and must pay full tax on the gain from the sale of his home -- a two-income couple selling their home to buy a more expensive $300,000 home, pay no tax;

* A single mother struck-down by a disability must sell her home, buy a town house of less value, and pay full tax on the gain not reinvested -- a senior citizen age 56 sells his $300,000 home for a gain of $125,000 and pays no tax;

* A millionaire sells his mansion for a more expensive home without incurring any tax -- a couple living on a pension and Social Security must sell their life's savings, their home, buy a smaller home, and pay tax on a smaller home on the unreinvested gain above $125,000;

In a speech on the Floor of the House of Representatives, Schulze stated that "one voice must not be forgotten -- the voice of the American homeowner. The saying that a person's home is his castle is true in our nation today. Tax policy, however, does not fully recognize the sacrifices families make to maintain that castle. Hard work, many repairs and home improvements are typical investments Americans make in their property. Investments in stability, savings and, yes, retirement. In many cases, though, when we sell our homes, inflation and taxes take much of this work and investment away."

As the Co-Chairman of the Republican Research Task Force on Housing and as a Member of the Committee on Ways and Means, Schulze will play a key role in developing housing tax policy in Congress.

Budget

THE WHITE HOUSE
WASHINGTON

4/23

THE CHIEF of STAFF has seen

TO: JOHN SUNUNU

FROM: FRED McCLURE FM
Assistant to the President
for Legislative Affairs

☒ FYI

☐ Comment

☐ Action

Attached is the language Sasman mentioned this morning re: the House FCBR. Interesting, to say the least, since the President doesn't have to sign Budget Resolutions.

f/ Budget Talks

THE CHIEF of STAFF
has seen

May 10, 1990

Statement by the Democratic Leadership Group

We reject the statements made yesterday by the President's Chief of Staff. They were untrue, unfair and ill-timed.

In our meetings with the President, he repeatedly stated that there would be no preconditions to budget negotiations. The statement issued by the White House yesterday announcing the establishment of the negotiating group says:

> "The President and the Bipartisan Congressional leadership agreed that the special budget group would function best if there were no preconditions for negotiation, and if there were no negotiation through the media."

Governor Sununu's remarks directly contradict the President's assurances to us and the statement issued yesterday by the White House.

This is not solely a question of the budget deficit, and how best to reduce it. It is a question of trust, of whether or not agreements are to be honored, of whether or not the Administration is prepared to negotiate in good faith on this important matter.

If these negotiations are to be successful the terms for their conduct must be observed by all participants.

Thomas S. Foley
Richard A. Gephardt
William H. Gray, III
Jamie L. Whitten
Dan Rostenkowski
Leon E. Panetta

George J. Mitchell
Robert C. Byrd
Lloyd Bentsen
Jim Sasser
Wyche Fowler, Jr.

SEC. ________ Conditional Reconciliation of Revenues.

The President and the bipartisan Congressional leadership should ultimately agree on a substantial, multi-year deficit reduction package and the reconciliation of revenues mandated by this resolution will not be advanced legislatively unless and until such time as there is bipartisan agreement with the President of the United States on specific legislation to meet or exceed such reconciliation requirements.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
06. Outline	The '91 Budget for Discussion 8/15/89 (9 pp.)	8/15/89	P5	

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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

f Darman

THE CHIEF of STAFF
has seen

THE '91 BUDGET
FOR DISCUSSION 8/15/89

I. HOW FAR WE'VE COME

We started the FY'90 budget process with private meetings at the Vice President/President-elect's home. The problem looked almost impossible then. We had to advance campaign commitments credibly, while meeting the Gramm-Rudman targets, while also addressing problems from the past (S&Ls, nuclear production and clean-up, etc.) -- without agreeing to new taxes, or falling into political stalemate and sequester, or precipitating a major market decline.

It now appears that if we manage the rest of the FY'90 reconciliation process correctly in September, we will have an FY'90 budget -- in law -- that does do the "impossible." It would:

-- fund the S&L bailout and a credible approach to nuclear production and clean-up;

-- advance campaign commitments;

-- use technical and economic assumptions that (although optimistic) are in the respectable range;

-- avoid political stalemate and associated market risks;

-- hit defense less than in the four previous years;

-- avoid sequester; and

-- meet the "no new taxes" test -- while also, perhaps, getting something favorable on capital gains.

Further: While there has been carping about the failure to face the tough funding issues squarely, the President's economic team has been (generally) treated with respect in the press, Congress, and markets; financial markets, indeed, have behaved reasonably well; and the President has gained widespread approval and popularity.

II. WHY THE FY'90 APPROACH IS NOT SUSTAINABLE FOR FY'91

While everything on the first page is nice and rosy, the trouble is: the string has just about run out. It may be useful to look at the practical problem in three separate parts: presenting an FY'91 budget; enacting an FY'91 budget; and avoiding adverse market reactions that could hurt the economy.

(1) Presenting an FY'91 budget

The task for '91 will be more "impossible" than for '90.

(a) Constraints: We are still operating under a set of major constraints: "no new taxes"; grow defense at inflation plus 1%-1%-2%; don't touch Social Security; and meet the G-R-H targets. But for FY'91 the G-R-H deficit target is much lower ($64 billion). Many of the one-time savings used in '90 are no longer available. And the economic outlook, while still optimistic, is not quite so rosy.

(b) Deficit gap: With these constraints, assuming likely Congressional action to avoid sequester in FY'90, and using our (revised-but-still-optimistic) economic assumptions, the gap to be closed in order to meet the $64 billion FY'91 deficit target would be: $42.5 billion. (If one used CBO economics, the gap would be $79.1 billion.)

(c) Perspective -- How Big This Is: To get a sense of how big this gap is, one might consider these facts:

-- The gap for FY'90 was only $28 billion (of which the political system may close a net of about half).

-- If the tougher proposals that we put forward for mandatory programs in FY'90 -- but that the Congress rejected -- were actually enacted in FY'91, the remaining gap would still be $28 billion ($63 billion, under CBO economic assumptions).

-- If non-defense discretionary budget authority were cut 5% below FY'90, and if all non-Social Security COLAs and Medicare updates were frozen, the remaining gap would still be $23.8 billion ($57.2 billion, under CBO).

-- In order to close the gap fully (given the above constraints), it would be necessary to freeze all non-defense, non-Social Security outlays. This would mean a cut in real benefits for the poor and the aged. And it would mean a cut in domestic discretionary budget authority of about 20%.

(d) Unfunded Claims: Arguably, the deficit gap noted above understates the size of the problem. It fails to address the issue of unfunded liabilities (as in various trust fund accounts). And far from seeking a 20% cut in budget authority, most agencies are seeking major increases for the likes of: environmental protection, space exploration, transportation infrastructure improvement, etc.

(e) Credibility: To some degree, the President and his team have been given the benefit of the doubt by both politicians and markets. The latent presumption has been that binding constraints would be relaxed after the first year. If constraints are relaxed, there will be a credibility cost of one kind. But if they are not relaxed, there will be a credibility cost of another kind. One should expect to hear: With respect to the economy, "Does the Administration really know what it is doing in fiscal policy?" With respect to politics, "The President can't get away with proposing everything and funding nothing." And with respect to Investment in the Future and Kinder-Gentler: "Forget it!"

(f) Gimmicks: We're just about out of accounting gimmicks. If an FY'91 budget is to be presented without relaxing the key constraints, it will have to be a genuinely radical budget.

(2) Enacting an FY'91 Budget

If the constraints noted above are not relaxed, the budget that the President presents in January will be dead on arrival. The ball would then be in the Congress' court. Politically, that would not be all bad.

But the Congress will not want to go first with respect to taxes or entitlements. So there would likely be no budget resolution. The system would drift toward sequester (October 15, 1990) -- in a partisan environment of stalemate. With Congressional elections in November, there would probably not be a negotiated settlement until after the election. But with a budget crisis occurring in the midst of the campaign, the parties would likely harden their positions on entitlements and taxes -- making a post-election, post-sequester agreement the more difficult to achieve.

(3) Avoiding Adverse Market Reactions

If a DoA budget were presented, and the scenario develops as in (2) above, a crucial question is: How long can that scenario proceed without precipitating:

(a) a Fed-sponsored rise in interest rates; and/or

(b) a market crisis; and/or

(c) an associated economic decline?

The answer to that key question is not reliably predictable.

III. SO, WHAT ARE THE OPTIONS

Substantively, there are three basic options:

(1) Stick with all the constraints, and present a radical budget in January.

-- This could take the form of a very tough freeze (with limited exceptions) or a more radical de-construction/re-construction of the budget.

-- However well designed, this would likely result in the scenario sketched at II(2) above.

(2) Stick with all constraints -- except the G-R-H targets.

-- This would require a change of the G-R-H law, which the Democratically-controlled Congress might not provide until or unless it has first forced the President to produce a budget that meets the targets (as the law requires).

-- This would risk both a loss of fiscal discipline and associated adverse market/ economic effects -- for all the reasons noted and argued publicly by the Administration up to this point.

(3) Go for the big fix.

-- This would have all the virtues and vices noted in our previous discussions of this approach (except, perhaps, that the political cost may have been diminished somewhat by the successful management of the FY'90 exercise).

-- NOTE: The elements of a possible "big fix" are outlined at Attachment A.

If one were inclined to go for the big fix, there is nonetheless a difficult procedural/ stylistic question as to how best to get from here to there. A simplified version of the menu is as follows:

o COLUMN(A) -- "THE BI-PARTISAN"

-- This would have to be the product of summit negotiations. The principal virtues of this approach are: (substantively) it can be enacted; and (politically) it avoids the necessity of the President going first unilaterally -- if it is done before January.

-- Given the lateness in the year, negotiations would have to be precipitated by:

oo either tipping ourselves into FY'90 sequester and then adding '91 to the post-sequester negotiations; or, better,

oo immediately after signing the FY'90 reconciliation bill (thus punctuating the '90 success), inviting the Summit Group to Camp David (say) -- for the initiation of a crash negotiating process re '91.

o **COLUMN(B) -- "THE FUDGE"**

-- This would neither precipitate negotiations this Fall nor proceed unilaterally in January. Rather it would nudge with a fudge: presenting a range of options in January, and proposing to negotiate a solution thereafter.

o **COLUMN (C) -- "THE TED WILLIAMS"**

-- As Williams has privately recommended, this approach would have the President "step out on the front porch and tell the people just how it is" -- explaining what the needs really are, proposing to cut the debt, and trusting that people will respect frankness and will understand. This approach could be used in either January with a unilateral presentation of a big fix budget, or in October with a call for Camp David negotiations.

o **COLUMN(D) -- "THE COMBINATION PLATTER"** (one from column(A), a little from column(B), one from column(C))

-- This approach would use the Ted Williams frankness to outline the problem and describe the need for entitlement reform, debt reduction, investment in the future, and taxes. It would call for Camp David negotiations immediately after the FY'90 reconciliation is enacted. It would make any tax increase conditional upon getting:

- o a specified amount of net non-defense spending reduction;
- o a specified set of "investments in the future";
- o a specified set of budget process reforms;
- o a specified debt-buy-down fund; and
- o a form of taxation that is not harmful to the economy.

But it would fudge in that it would not be specific about the exact nature of either the taxes or the entitlement reforms -- leaving the details of these to negotiations.

Attachments:
(A) The "Big Fix"
(B) "Freeze Options"

ATTACHMENT (A): THE "BIG FIX"

Elements of a "big fix" might include:

(1) Budget Process Reforms

- -- enhanced recission;
- -- joint, 2-year budget resolution;
- -- tightened limits on supplementals (with automatic offsets unless super-majority votes an alternative);
- -- closing of G-R-H loopholes;
- -- credit reform

(2) Entitlement Reforms

- -- all non-enacted February 9th proposals; or
- -- "Option 4" 2% freeze (see attachment); or
- -- 2% freeze including Social Security; and/or
- -- imputed benefits income reporting for all transfer payment beneficiaries above current social security threshholds ($25,000, single; $32,000, joint)

(3) Investments in the Future

- -- space and other R&D
- -- environment
- -- education
- -- transportation infrastructure

(4) Stable Defense Funding (multi-year)
(with growth at, say, the inflation rate)

(5) A Debt-Buy-Down [and Social Security Protection] Fund
(to be funded in the exact amounts of the projected Social Security annual operating surpluses starting in '93, when the G-R-H deficit target reaches zero)

(6) Taxes that Would Not Hurt the Economy

- -- gasoline (25 cents/gallon)
- -- sin (allocated to drug-fighting)

(7) Interest Payments Declining as a Percent of the Budget
(This is derivative -- but politically and substantively attractive.)

ATTACHMENT B

FY1991 "FREEZE" OPTIONS

(In billions of dollars)

	Post-action Baseline				1991							
	1989	1990	1991		Option 1		Option 2		Option 3		Option 4	
			OMB Econ.	CBO Econ.	OMB Econ.	CBO Econ.	OMB Econ.	CBO Econ.	OMB Econ.	CBO Econ.	OMB Econ.	CBO Econ.
National defense:												
Budget authority	298.8	305.5	318.3	321.3	322.0	322.0	322.0	322.0	322.0	322.0	322.0	322.0
Outlays	301.2	296.3	309.9	311.1	308.4	308.4	308.4	308.4	308.4	308.4	308.4	308.4
Social Security	230.0	247.2	263.9	265.6	263.9	265.6	263.9	265.6	263.9	265.6	263.9	265.6
International discretionary:												
Budget authority	18.4	19.0	19.8	19.8	19.8	19.8	20.3	20.3	18.0	18.0	19.0	19.0
Outlays	16.4	17.1	17.2	17.2	17.2	17.2	17.1	17.1	16.4	16.4	16.9	16.9
Domestic discretionary:												
Budget authority	143.6	158.0	164.5	165.7	164.5	165.7	129.4	129.4	150.1	150.1	158.0	158.0
Outlays	170.4	182.6	193.7	194.3	193.7	194.3	182.6	182.6	184.9	184.9	189.7	189.7
Other mandatory	276.0	270.7	297.3	300.0	285.2	286.6	270.7	271.0	290.3	291.7	293.6	295.0
Net interest	169.3	178.1	176.3	186.2	175.9	185.7	175.0	184.7	175.7	185.5	176.0	185.7
Total, outlays	1,163.2	1,192.1	1,258.3	1,274.4	1,244.3	1,257.8	1,217.7	1,229.4	1,239.6	1,252.5	1,248.5	1,261.4
Revenues	995.4	1,080.1	1,151.8	1,131.2	1,151.8	1,131.2	1,151.8	1,131.2	1,151.8	1,131.2	1,151.8	1,131.2
Deficit	167.8	111.9	106.5	143.1	92.4	126.6	65.9	98.2	87.8	121.2	96.7	130.1
MEMORANDUM												
GRH targets	NA	100.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0
GRH gap to be closed	NA	11.9	42.5	79.1	28.4	62.6	1.9	34.2	23.8	57.2	32.7	66.1

August 14, 1989

All options assume:

- —Latest estimates of enactment of the BBA in 1990;
- —Defense returns to February proposed level for 1991;
- —Social Security at current services levels for 1991;
- —Revenues at Mid-Session policy levels; and
- —Net interest consistent with relevant deficit estimates.

Option 1 is the Post-action Baseline except that the Administration's February proposals for ***mandatory*** programs that were ***not achieved*** in the 1990 BBA are reproposed and assumed.

Option 2 freezes 1991 ***outlays*** at 1990 levels for all spending except Social Security, Defense, and net interest. Defense returns to February proposed level for 1991. Means-tested entitlements would be cut in real terms, as would Medicare. Domestic discretionary ***budget authority*** would be cut by about 20%.

Option 3 provides 1991 budget authority for nondefense discretionary accounts at levels ***5% below*** the assumed 1990 levels. In addition, ***all*** non-Social Security COLAs and Medicare updates are frozen. Defense returns to February proposed level for 1991.

Option 4 freezes 1991 ***budget authority*** at 1990 levels for all nondefense discretionary accounts, and it ***caps*** non-Social Security COLAs and Medicare price updates for hospitals and physicians at 2%. Defense returns to February proposed level for 1991.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
07. Outline	Funding Issues for Selected Foreign Policy Initiatives (8 pp.)	3/9/90	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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

8

3/9/90

THE CHIEF of STAFF has seen

FUNDING ISSUES FOR SELECTED FOREIGN POLICY INITIATIVES

(1) "Section 614" repeal -- to free up $363 million (BA, per CBO) for State Department administrative operations and U.N. peacekeeping payments. Senate probably will not let this move without tieing it to resolution of DOD deferrals.

(2) "Panama Supplemental" ($570 million, BA) -- Senate probably will not let this move without resolution of DOD deferrals -- and, now, a domestic add-on price (from both House and Senate). Includes Refugees - $400-

(3) "Nicaragua Supplemental" (amount and offsets TBD) -- Senate probably will not let this move without resolution of DOD deferrals and a domestic add-on price (from both House and Senate).

(4) Domestic add-ons and effective repeal of sequester (see third attachment). House and Senate will use Administration's desire for Panama/Nicaragua aid to get some "U.S. aid." They may propose to use the sequester as their offset. Alternatively, they may favor no offsets for domestic adds.

(5) The net fiscal effect: Panama/Nicaragua may cost $2 (or more) for every $1 actually delivered. The appearance of fiscal responsibility will be further eroded. If this contributes to higher interest rates, or slower growth, the resources available for initiative in FY '91 and thereafter will be substantially lower than they would otherwise be.

(6) Possible Next Steps:

(a) Darman send letter to Smith clarifying nature of offset exception for 614. (Do this today unless we want to trade for something else with Smith.)

(b) DOD-OMB work with Appropriations to resolve deferral problem by compromising on an acceptable set of transfers and/or recissions (not deferrals) as offsets. Offsets should cover Panama and Nicaragua.

(c) President decide on Nicaragua package ASAP.

(d) President announce Nicaragua package [next week] stating:

-- what it is and why it and Panama are essential;

-- that he must have supplemental enacted by [April 15?];

-- that he has proposed offsets from DOD;

-- that Cheney-Darman are prepared to work with Congress on a reasonable compromise package of offsets;

-- that if a compromise cannot be agreed by March 31, the President requests legal authority for <u>him</u> to select offsets from DOD to pay for Panama-Nicaragua;

-- that no domestic add-ons should be attached to this supplemental -- they aren't needed, and would unacceptably slow the process down;

part of an emergency

-- that the fights for freedom and democracy in Panama and Nicaragua should not be jeopardized by a lack of prompt Congressional action.

Call Big 4 + Appropriators

Mon / Tue

Cheney Treas.

<u>Attachments</u>:

- Funding for Panama/Refugees (as submitted)
- Possible DOD Offsets for Nicaragua (for discussion)
- Possible 1990 Supplementals (above and beyond Administration requests)

-FUNDING SUMMARY-
SUPPLEMENTALS FOR
AID TO PANAMA AND REFUGEE ASSISTANCE
(in millions of dollars)

	FY 1990 BA	FY 1990 OL
SUPPLEMENTAL:		
Aid to Panama	500.0	300.0
Refugee Assistance	70.0	37.5
Total	570.0	337.5
Offsets:		
Transfers:		
National Defense Stockpile Transaction Fund	-286.8	—
Family Housing Construction, Air Force	-25.8	-3.1
Military Construction, Defense Agencies	-21.0	-3.2
Missile Procurement, Air Force	-49.8	-11.3
Research, Development, Test, and Evaluation, Army	-10.0	-5.1
Defense Production Act Purchases	-13.0	---
Research, Development, Test, and Evaluation, Defense Agencies	-44.5	-22.5
Research, Development, Test, and Evaluation, Navy	-19.6	-11.0
Research, Development, Test, and Evaluation, Air Force	-19.9	-10.2
Other Procurement, Army	-22.5	-6.8
Other Procurement, Navy	-16.5	-3.1
Weapons Procurement, Navy	-40.6	-3.6
Total, Transfers	-570.0	-79.8*
Deferrals:		
Aircraft Procurement, Army	(16.0)	-2.1
Procurement of Ammunition, Army	(310.0)	-103.4
Procurement of Ammunition, Army	(90.0)	-30.6
Other Procurement, Army	(11.0)	-1.1
Aircraft Procurement, Navy	(200.0)	-66.0
Weapons Procurement, Navy	(13.9)	-1.2
Shipbuilding and Conversion, Navy	(592.4)	-23.7
Shipbuilding and Conversion, Navy	(324.8)	-13.0
Aircraft Procurement, Air Force	(181.7)	-10.7
Missile Procurement, Air Force	(131.0)	-6.6
Other Procurement, Air Force	(70.0)	-10.2
National Guard and Reserve Equipment, Defense	(40.9)	-4.4
Research, Development, Test and Evaluation, Air Force	(100.0)	-51.2
Research, Development, Test and Evaluation, Defense Agencies	(21.0)	-10.6
Military Construction, Army	(3.2)	-1.0
Military Construction, Navy	(16.2)	-2.7
Military Construction, Army National Guard	(18.3)	-1.3
Military Construction, Air National Guard	(36.8)	-2.9
Military Construction, Army Reserve	(16.7)	-2.2
Total, Deferrals	(2,193.8)	-344.9

* Does not add due to rounding.
Brackets indicate budget authority is neither added nor reduced by deferral.

3/8/90

POSSIBLE DOD OFFSETS FOR NICARAGUA

	$ in millions		
		Outlays	
	FY '90 BA	FY '90	FY '91
Reduce O&M as a result of hiring freeze on civilian personnel.	400	309	70
Cut funding for unspecified improvements at Army ammunition plants (Congressional add). A plan for using funds has not been prepared.	120	41	17
Reduce unobligated balances of procurement and RDT&E funds that will expire, if not obligated, at end of FY '90. Based on FY '87-89 experience, up to $1 billion could be available.	200	30	52
Cut remaining funds for U.S.S. Iowa repair. It has been decided to deactivate this ship.	11	8	2
Do not fund military construction projects at bases being studied for closure.	90	19	36
Reduce base operations and real property maintenance (RPM) reflecting FY '90 military end-strength cut and planned base closures.	100	77	18
	921	484	195

POSSIBLE 1990 SUPPLEMENTALS

CONGRESSIONAL PROPOSALS	PROGRAM	NEW SPENDING (in millions)	OFFSETS
1. Rep. Conte/Sen. Mitchell	Low-Income Energy Assistance	$ 300.0	- - -
2. Sen. Cranston & 51 others	Veterans Medical Care	$ 252.0	- - -
3. Sens. Mack/Graham	Florida citrus crop freeze damage	Unspecified	- - -
4. Hill	Addl. Hugo & earthquake relief	$ 200.0	- - -
5. Hill	Drugs - considerable Democrat desire to fund more heavily	Unspecified	- - -
6. Hill	Child Care State Grants (pending authorization)	$1,200.0	- - -
7. Rep. Foley & Wash. delegation	Flood relief	Unspecified	- - -
8. Hill	BLM, Park Service for Redoubt Volcano in Alaska	Unspecified	- - -
9. Hill	Community Service Employment for Older Americans	$ 20.0	- - -
10. Sen. Mack/Rep. Lehman	INS, aid to Florida for emergency immigration needs	Unspecified	- - -
11. Senator Leahy	Loan guarantees to house Soviet immigrants in Israel	$ (400.0)	- - -
12. Rep. Whitten	Flood relief for Mississippi, Alabama	$ 73.0	- - -
13. California Delegation	VA construction (Palo Alto)	$ 250.0	- - -
TOTALS		$2,295.0	- - -

AGENCY PROPOSALS (NOT SUBMITTED TO CONGRESS)			NEW SPENDING	OFFSETS
1.	Census Bureau	For 1990 Census	$ 60.0	- - -
2.	IRS	For 1990 staffing	$ 200.0	- - -
3.	Labor	Unemployment Insurance implementation	$ 154.5	- - -
4.	Commodity Futures Trading Commission	Increased staff Chicago investigation	$ 3.0	- - -
5.	Transportation	Coast Guard ship repair	$ 18.0	- - -
		Increase limitation on working capitol for computer center upgrade	$ (10.0)	- - -
		Increase NHTSA limitation for alcohol program	$ (5.0)	- - -
6.	Dept. of Justice	INS - process Soviet immigrants	$ 11.0	- - -
7.	Dept. of Justice/FTC	Anti-trust enforcement	$ 5.0	- - -
8.	Dept. of Justice	General Legal Activities Exxon/Valdez	$ 5.1	- - -
		Fair housing enforcement	$ 2.7	- - -
9.	Dept. of Education	Pell Grant shortfall-new funding	$ 371.0	- - -
10.	USDA	Federal Crop Insurance	$ 130.0	- - -
11.	Dept. of Energy	Defense production	$ 300.0	- - -
		Fernald court settlement	$ 78.0	- - -
12.	NASA	Additional transfers to Gen. Admn.	$ (30.0)	- - -
13.	Interior	Firefighting cost repayment	$ 66.0	- - -
		Alaska oil spill costs (NPS)	5.0	- - -
14.	Peace Corps	Peace Corps	$ 4.0	- - -
15.	USIA	VOA language service transfer	$ 3.0	- - -
TOTALS			$1,416.3	- - -

PRESIDENT'S REQUESTS	PROGRAM	NEW SPENDING (in millions)	OFFSETS
1. State Department	Economic Support Fund aid to Panama	$ 500.0*	$500.0*
2. State Department	Migration and Refugee Assistance	$ 70.0*	$ 70.0*
3. State Department	Administration of Foreign Affairs transfer for emergencies in the Diplomatic and Cousular Service	(3.0)	- - -
4. State/USIA	Section 614 obligation limitation repeal	$ 188.2	- - -****
5. Treasury Department	International Bank for Reconstruction callable capitol	$(1,609.7)	- - -
6. The Judiciary	Court of Appeals shortfall	$ 23.0**	- - -
7. The Judiciary	Pay supplemental	$ 5.3**	- - -
8. Education	Pell Grant shortfall-by transfer from 1990 funds	$ (265.0)	- - -
9. Education	Historically Black college earmark	$ (5.0)	- - -
10. HHS	FDA fees for enhanced review of generic drugs	$ (13.9)	- - -
11. HUD	UDAG transfer to Urban Homesteading	$ (11.5)	- - -
12. NASA	Pay supplemental transfer	$ (33.0)	- - -
13. Justice	General Legal Activities earmark for Vaccine Compenation Trust Fund	$ (.5)	- - -
14. U. S. Sentencing Commission	Salaries and Expenses	$ .7**	- - -
15. Agriculture	Food Stamps (requesting such sums)	language	- - -
16. HHS	HCFA clinical lab inspection fees	language	- - -

17. Justice	Federal Prison System - permits transfer of excess Assets Forfeiture Funds to prison construction	language	- - -
18. Justice	Federal debt collection pilot extended	language	- - -
19. Justice/FTC	Extends availability of certain fees	language	- - -
20. State	Aid to Nicaragua	$ 300.0***	$ 300.0***
TOTAL........		$1,087.2	$ 870.0

MANDATORY PROGRAMS

1. Agriculture	Food Stamps	$500.0	- - -
2. VA	Compensation and Pension	125.0	- - -
TOTAL........		$625.0	- - -

BA in Millions

	New spending	Offsets	After Offset
Congressional Proposals........	$2,295.0	- - -	$2,295.0
Agency Proposals (Not submitted)........	1,416.3	- - -	1,416.3
President's Request........	1,087.2	870.0	217.2
Estimate of unspecified amounts........	500.0	- - -	500.0
Mandatory........	625.0	- - -	625.0
TOTAL........	$5,923.5	870.0	$5,053.5
Discretionary	(5,298.5)	(870.0)	(4,428.5)
Mandatory	(625.0)	(- - -)	(625.0)

* offset from Department of Defense

** Judicial Branch and U. S. Sentencing Commission requests are, by law, transmitted to the Congress without change.

*** The Nicaragua supplemental has not yet been submitted to Congress. The precise amount of the supplemental request and the source of offsets have not been determined.

**** The Administration informally proposed a $475 million offset from the SBA Disaster loan fund.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
08. Outline	"Bubba": For Discussion 4/29/90 (3 pp.)	4/28/90	P5	

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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

Meetings
Pres/Cheney + =

Pres/Dole/Michel &
Pres/Foley
Pres/Mitchell

2:30 PM Fri/Sat

"BUBBA":
FOR DISCUSSION 4/29/90

(A) CONTEXT

(1) BUDGET RESOLUTION

-- The House will probably pass the Panetta resolution on Tuesday. It is widely viewed as inadequate. Republicans will almost unanimously oppose it. Its margin of victory will be unimpressive. (That's good for us.)

-- The Senate Budget Committee is temporarily stalemated. (That's also good for us.) It is possible the stalemate may be broken this coming week. It is, however, unlikely that any resolution will be able to command a wide base of support -- unless there is a BUdget Big Bipartisan Agreement ("BUBBA"). (It would be better for us if no budget resolution moves through the Senate until BUBBA.)

-- The one thing that all budget resolutions now capable of commanding a majority have in common is: a very much deeper defense cut than the Administration has proposed.

(2) SEQUESTER OUTLOOK

-- Without BUBBA, the sequester will likely have to be over $50 billion to meet the target. That size sequester would not prove sustainable politically (although we must exhibit a willingness to take it).

-- A danger is that wihout BUBBA, all would be postponed until a lame duck session; and that a lame duck session would produce a lame duck.

(3) INTEREST RATE OUTLOOK

-- Long bonds are inching up. With Japanese and European capital less available, and with big RTC- and deficit-related borrowing, pressure on capital markets may keep inching rates up -- unless there is either an economic downturn or BUBBA.

(4) CONCLUSION

-- It's time to start the process moving seriously toward BUBBA. Delay would not be good in terms of political risks, economic risks, or opportunity costs.

(B) POSSIBLE SCENARIO

(1) This coming week: The President (plus NB, JS, DD) would convene a meeting with Mitchell/Dole/Foley/Michel. (It might be better if this were secret. If not, it should be said to be "about next steps in the budget process.")

-- The <u>purposes</u> would be:

   o to outline the reasons for a special effort (interest rates; sequester outlook; the fact that the current deficit-reduction resolutions are too small and can't be implemented anyhow);

   o to try to gain agreement on some "general characteristics that a meaningful budget agreement must have" (<u>See</u> attached);

   o to open the door to (2) (here below).

(2) ASAP thereafter: The President would convene a <u>G-24 Meeting</u> for a one-day <u>Camp David retreat</u>. (Leaders -- Mitchell/Foley/Dole/Michel; Budgeteers -- Sasser/Domenici/Panetta/Frenzel; Financeers -- Bentsen/Packwood/Rosty/Archer; Appropriators -- Byrd/Hatfield/Whitten/Conte; plus 4 leadership selections -- e.g., Gingrich/Gramm for Republicans).

-- The <u>purpose</u> would be to agree on "general characteristics that a meaningful budget agreement must have" (<u>See</u> attached); and to agree on a process for producing BUBBA.

-- If the "required general characteristics" were agreed, the group should then designate sub-groups to meet subsequently to produce substantive options that would satisfy the "required characteristics." These substantive options would be for review at another CD retreat.

-- A target date for the second retreat should be set at the first retreat (e.g., 30 days later).

(3) If substantive agreement were reached at a second CD retreat, it could be immediately translated into a budget resolution and reconcilition instruction. It could be introduced with bipartisan fanfare for prompt Senate action (if the Senate had not yet acted). The House could then recede to the Senate in Conference. The implementing legislation could then move with the debt limit.

(4) If this process failed to produce a satisfactory agreement, the result would be a large sequester. But it would not be for the Administration's lack of trying to forge a responsible compromise.

<u>NOTE</u>: It would have to be agreed by all participants that while good faith efforts were under way as above, there would be no public discussion of the substance of such efforts -- until either agreement were reached and announced, or a conclusion were reached that agreement was not possible.

Rev. 4/28/90

REQUIRED GENERAL CHARACTERISTICS OF A MEANINGFUL BIPARTISAN BUDGET AGREEMENT

(1) 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) Particular measures to increase investment and productivity should include, 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.

(2) PROCESS REFORM "Fix the System"

(a) Appropriations discipline must be strengthened (as, e.g., through enhanced recission measures and automatic offsets for supplementals). Appropriators will oppose –

(b) "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). they like "Hidden Liabilities"

(c) Fail-safe budget discipline (sequester) must be strengthened (as, e.g., through closing the current post-October 15th loophole).

(3) DEFICIT REDUCTION

(a) The overall package should reduce the projected FY'91 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 collect from those who already owe; charge appropriate user fees to those not fully paying for benefits or those willing to pay for greater benefits; and be consistent with the objective of greater growth.

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.

Dole 9^{00}

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
09. Outline	For Discussion 4/16/90 (10 pp.)	4/16/90	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) [5]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-001
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

PULL "NEW HOUSING" OUT OF COLA
+ FREEZE COLA WITH ~~FREEZE~~ INDEX.

FOR DISCUSSION 4/16/90

(1) <u>When</u> to precipitate negotiations

<u>NOTE</u>: If they do not start soon, the system will be adrift heading toward a debt-limit fiasco in July-August. If they do start soon, the debt limit could become the enacting mechanism for a complete package deal -- and the outcome will be more controllable.

(2) <u>Sequence of meetings</u> to lay groundwork for, and then commence, negotiations

<u>NOTE</u> -- one possible sequence:

(a) <u>without the President</u> (ASAP)

(i) Dole, Domenici, Hatfield, Packwood, Gramm (ASAP)

(ii) Gingrich, Frenzel (ASAP)

(iii) Michel, Gingrich, Frenzel, Archer, Conte

(iv) individually: Bentsen, Rosty, Mitchell, Foley, Sasser, Panetta

(b) <u>with the President</u> (late April/first week of May)

(i) Dole, Michel, Mitchell, Foley (informal discussion of problem and process -- late April)

(ii) Camp David Retreat (one day, no overnight) to agree on "<u>Ten Characteristics</u>" and on "<u>Timetable for Possible Package</u>" -- Mitchell/Foley, Dole/Michel, Sasser/Domenici, Panetta/Frenzel, Bentsen/Packwood, Rosty/Archer, Byrd/Hatfield, Whitten/Conte, plus 4 leadership selections (total 20 Congressionals) -- 1st week of May

(c) <u>with negotiating subgroups</u> [TBD in light of "Ten Characteristics"] -- May

(d) <u>with the President</u>: 2nd Camp David meeting to close the deal -- target date: 30 days from first meeting

(3) <u>Substance</u> of Possible Package (See attachment (C)-(D))

Attachments: (A) "Five Reasons . . ." -- Revised 4/16/90

(B) "Ten Required Characteristics . . ." -- Revised 4/16/90

(C)-(D) "Possible Savings . . ." -- from 3/90

Rev. 4/16/90

(A) **FIVE REASONS FOR A SERIOUS PACKAGE**
(four positive, one negative)

TO:

(1) **accelerate economic growth** (and the many benefits therefrom);

(2) reduce the growing burden of **debt** and **hidden future liabilities**;

(3) provide greater **room for initiatives** (capital gains, R&D, science & math education, Fund for Democracy, etc.) that would:

- (a) keep **America number one**;
- (b) allow America to secure a more favorable **new world order**;

(4) achieve desired **reforms** -- both programmatic ("mandatories") and procedural ("budget process") -- which could only be enacted as part of a larger package; and

(5) **avoid potential adverse consequences** -- budgetary, economic, and political -- from a failure to act in a timely fashion.

NOTE:

- (a) The FY '90 deficit is coming in very poorly. Interest is up. Receipts are off. RTC expenditures are going up. The consolidated deficit will turn out to have gone up not down.
- (b) The Fed will not allow growth to move outside the present range without serious deficit reduction. Catch-22: The deficit will not be satisfactorily reduced without greater growth.
- (c) Without a budget compromise, the likely sequester for FY '91 will be $50 billion in outlays (or more, if RTC financing is on-budget). This would mean defense cuts far deeper than any that Congress is considering, and domestic cuts that would not prove sustainable politically.

Rev. 4/16/90

(B) **TEN REQUIRED GENERAL CHARACTERISTICS OF A SERIOUS PACKAGE**

(1) It must be oriented toward **increased economic growth** -- both short-term and long-term. That is, it must contribute to a reduction in real, long-term interest rates and an increase in productivity growth.

(2) It must reduce the FY '91 consolidated budget deficit by a net **$45 -50 billion (without "smoke")**. Any less would not meet the test of seriousness; any more would not be optimal for the economy.

(3) It must be projected to meet the current GRH deficit target for **FY '93 -- zero** -- using the Administration's likely revised mid-session economic forecast. [NOTE: Points (2) and (3) suggest 5-year savings on the order of $350-400 billion.]

(4) It must include **incentive(s) for long-term investment**. These should include a capital gains differential, an improved savings incentive, a permanent R&D credit, enterprize zones, etc.

(5) It must include substantial [$12 billion for FY '91] **mandatory/entitlement program savings that automatically extend** into the future. This is necessary to help stabilize the non-sustainable pattern of mandatory program growth, and to provide some basis for confidence in financial markets.

(6) It must include **effective budget process reform** that **increases** fail-safe budget discipline. It should do so especially through a second sequester point and also, e.g., automatic offsets for discretionary supplementals, enhanced rescission authority and improved budget accounting/auditing/oversight systems. [The enhanced rescission authority could sunset when the budget is balanced.]

(7) It must include **credit reform measures** that decrease the government's likely risk from hidden liabilities. It should do so especially through full subsidy scoring, greater risk sharing, origination fees, and enforceable limits on total exposure.

(8) Its new revenue measures should be weighted first toward **growth-oriented investment and user fees**; and second (only as necessary), toward measures that **directly promote public goods** (e.g., energy conservation, environmental protection, or alcohol abuse reduction). The total of all such measures should not constitute more than [half] of the savings package. [Any such measures deemed to be "new taxes" could sunset when the budget is balanced.]

(9) It must be capable of earning the **Federal Reserve's respect and cooperation**. [That means monetary policy to accommodate greater growth.]

(10) It must be capable of commanding **bipartisan Congressional support** (from leadership and from a reasonable sample of "followership").

(C) SOME ELEMENTS OF A POSSIBLE SAVINGS PACKAGE [RELATIVE TO A "CURRENT SERVICE" -- i.e., INFLATED -- BASELINE]

In addition to whatever is done re process reform, accounting, and credit reform, the following are the main categories for FY'91 savings. [Possible settling points are in brackets.]

(1) Defense outlay savings: Sasser is at minus 15-20 B. Freeze (Rosty) is minus 10 B. Administration is at minus 3.1 B (for "050") of which minus 3.9 B is for DoD. Comment: Under no approach is the Administration likely to do better than minus 9 B. [10]

(2) Non-defense discretionary savings: Rosty BA freeze saves 3 B. Administration saves 0.4 B (net of all increases for international, environment, drugs, space, education, aviation, etc.). Comment: Many of the Administration's initiatives (and many Congressional initiatives) are in this pot. It would be tough to hold it to the Administration level, not to mention the Rosty level. On the other hand, this is the pot most threatened by sequester. [2]

(3) Mandatory/Entitlement savings:

(a) Medicare. Rosty reimbursement freeze saves 2.4 B. Administration saves 5.5 B. Comment: Without a big deal, savings here will be about 2 B. Even with a big deal, they would only reach 3.5 B. [3.5]

(b) COLAs. All options exempt means-tested programs. Rosty freeze saves 9 B. Administration freeze (Rosty minus Social Security) saves 2 B. NOTE: CPI - 2% saves 4.5 B; CPI - 1% saves 2.2 B. Comment: Without a big deal, savings here will be zero. This is political firewater -- but also a symbolic measure of "seriousness" in financial markets. [4.5]

(c) Other (farm, postal, federal employee benefits, PMAs, misc.) Rosty saves zero. Administration saves 8.4 B net. Comment: Without a big deal, savings here will be about 1.5 B. [4]

(4) Fees and Offsetting Collections: Rosty gains zero. Administration gains 5.6 B. Comment: Without a big deal, savings might be 0.5 B. [4]

(5) Receipts. Administration raises 13.9 B (net, including revenue losers and capital gains). Rosty raises 29 B (net). Comment: 20 B splits the difference in amount. The problem is composition. (See discussion below.) [20]

NOTE: Bracketed total savings = 48 B (almost 50 B with interest savings). Done in the way a big deal would be done, savings would probably total 350-400 B over 5 years.

(D) REVENUE ELEMENTS TO CONSIDER AS PART OF A BIG PACKAGE -- HOW TO GET TO 20 BILLION??

(1) SELECTED ITEMS FROM THE ADMINISTRATION'S BUDGET

-- Growth set:

(a) capital gains (as it may be modified) [3]

(b) savings incentive (as it may be modified) [-0.5]

(c) R+E incentive [-0.9]

(d) airport [0.5]

(e) enterprise zones [-0.1]

(f) oil & gas incentives [-0.3]

-- Other:

(g) IRS management/enforcement [2]

(h) State and local HI [1.7]

(i) telephone [1.6 -- likely used for child care]

(j) accelerate payroll deposit [0.9]

(k) extend HI deduction for self-employed [-0.2]

(l) extend low income housing credit [-0.1]

(m) miscellaneous [wash]

Comment: These would total [8.5 B] as part of a big deal. Most are doable. After capital gains, HI and oil are the most difficult politically. The principal item dropped is State and local OASDI (2.1 B).

(2) "HEALTH" OPTIONS

(a) Rosty items:

(i) Double cigarette [2.8]

(ii) Double beer & wine [1.4]

(b) Alternatives:

(i) 25 cents/ounce of alcohol [7.2]

Comment: Cigarette increase would violate a specific pledge and would trigger a filibuster. Option (a)(ii) would split the alcohol industry and have widespread interest group support. Option (b)(i) produces much more revenue, but unites the industry in opposition.

(3) <u>"ENVIRONMENT"/"ENERGY SECURITY" OPTIONS</u>

(a) Rosty gas tax @ 15 cents [12]

(b) $5/barrel oil import fee [8.5]

(c) 5% energy retail value [14.2]

(d) "CO2 stabilization" (carbon) fee [22.5]

<u>COMMENT</u>: Gas tax doesn't yield as much after likely Bentsen adjustments and allocation to highways. It also looks like a tax! Oil import fee bothers many economist (!), but has something to recommend it. Tax on all energy encourages conservation and doesn't discriminate against particular fuels; administered at the retail level, it minimizes the inflationary effect. But it, too, looks like a tax. "CO2 stabilization" is the equivalent of an additional $28/ton of carbon -- $3.50/barrel of oil; 45 cents per thousand cubic feet of natural gas; and $17 per ton of coal. With coal's current price at $24 per ton, this increase would be prohibitively high. Variations could, of course, be set at lower rates per unit of carbon.

(4) <u>"FAIRNESS" OPTIONS</u>

(a) Roll back January Social Security tax increase of 0.16% [-7]

(b) Skip one year of tax indexing (except EITC -- as per Rosty) [7]

(c) Increase portion of Social Security benefits treated as taxable income (from 50% over threshold to 85%) [1.1]

<u>NOTE</u>: If thresholds were eliminated this would yield 12 <u>B</u> -- but that's not doable.

(d) Eliminate the bubble by <u>lowering</u> the 33% rate to 31% for the 3.5 million taxpayers in the bubble and raising the rate from 28% to 31% for the 1 million taxpayers above the bubble -- i.e., establish a simple 3-rate system: 15-28-31. [0.2]

<u>NOTE</u>: Rosty's bubble burst -- raising the top rate to 33% -- increases revenue by 3.5 <u>B</u> the first year (and by 40-45 <u>B</u> over 5 years).

(e) excise fee for short term pension fund transactions at 10% of gain (30 days), 5% of gain (6 months), then 0% -- as per Dole-Kassebaum [0.2]

<u>NOTE</u>: 5% on <u>all</u> short term gain yields only 0.5 <u>B</u>.

(f) 0.5% securities transfer fee [7.8]

(g) "Foreign Tax Equity Act" -- as per Gephardt-Rosty today.

DEFICIT REDUCTION

(A) WHY DO SOMETHING SPECIAL

(1) The FY'91 sequester is growing -- to over $55 billion. (See attached charts.)

-- This is mainly because of lower corporate profits and higher interest rates than the Administration had forecast for the first two quarters of FY'90.

(2) Neither the House nor Senate budget resolutions will solve the problem.

-- Neither is likely to be over $37 billion on paper (at best -- including smoke).

-- It is not clear that either could be implemented. (The House resolution states that its revenue target is not to be legislated without Administration support, in detail).

(3) Since negotiations are inevitable sooner or later, it's better to start early -- and do a more responsible job substantively.

(B) WHAT TO DO (PROCEDURALLY)

(1) Convene 4 leaders and the President to discuss the general characteristics that a satisfactory bipartisan budget agreement would have to have.

(2) Then, convene a group of 20 key Congressional leaders with the President to try to agree on the same. If agreement were reached on the required general characteristics, the leaders should then commission sub-groups to narrow options for consideration by the 20 and the President -- 30 days later, say.

(C) KEY GENERAL CHARACTERISTICS OF AGREEMENT

(1) It must promote economic growth.

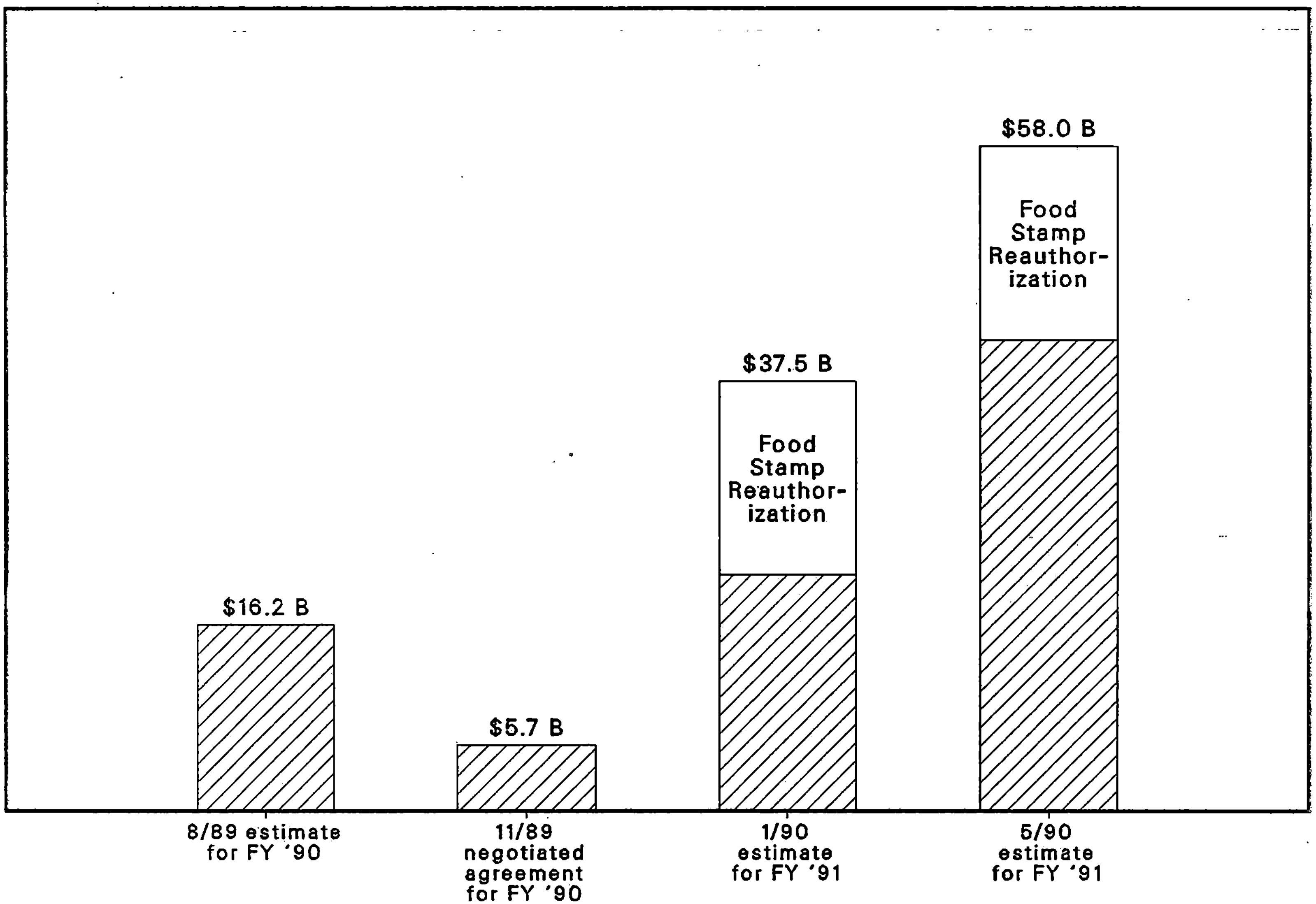
(2) It must reform the process to fix the problem for good.

(3) It must reduce the deficit by $45-50 billion for FY'91 (without "smoke") and more thereafter.

(4) It must be negotiated and implemented as a package.

CHANGING PICTURES OF SEQUESTER

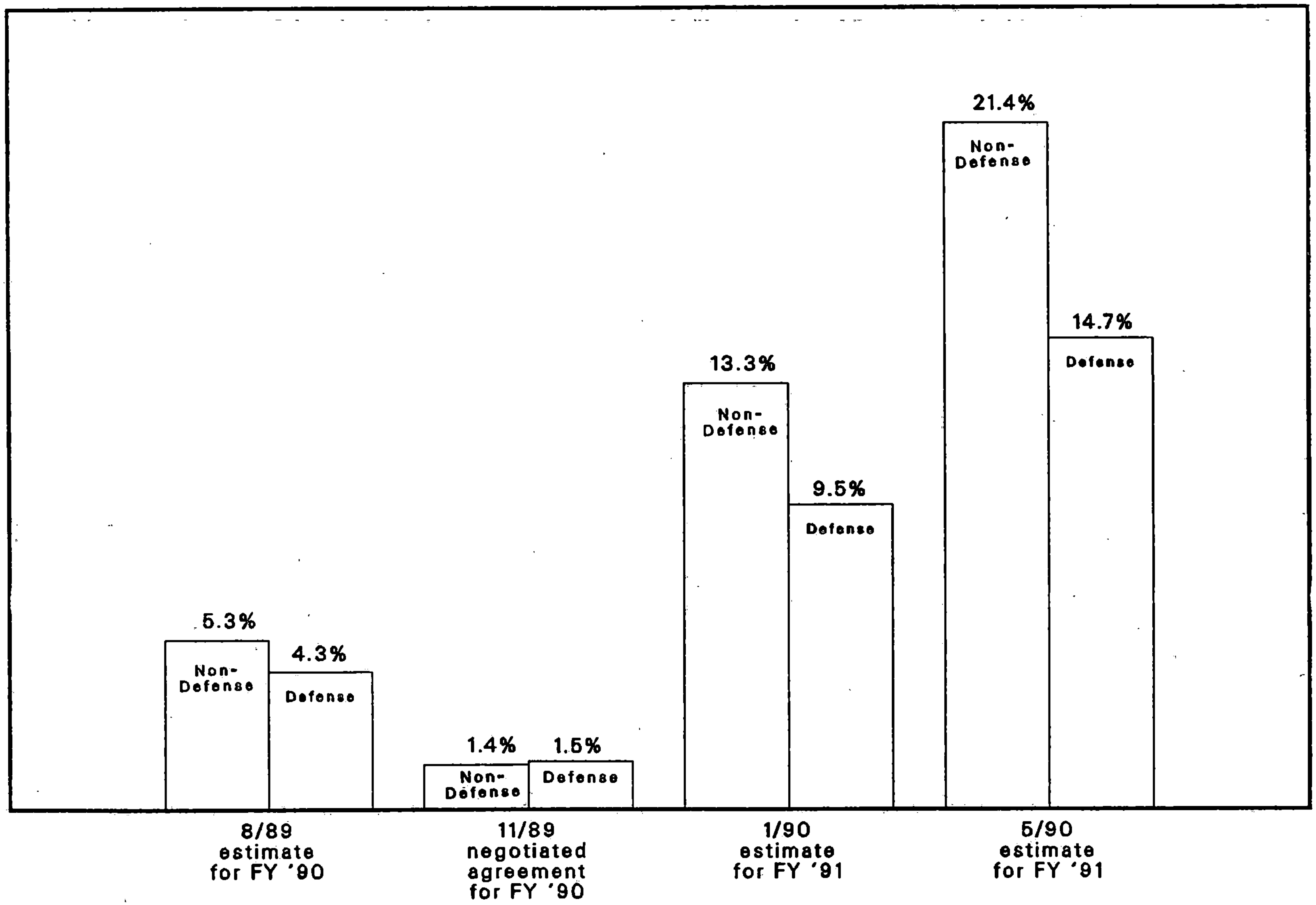
(billions of dollars)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

CHANGING PICTURES OF SEQUESTER

(required percentage cut in BA)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
10. Outline	Deficit Reduction (3 copies) (9 pp.)	n.d.	~~P5~~	

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) [5]

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

Date Closed:	12/16/2004	**OA/ID Number:**	29137-001
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

DEFICIT REDUCTION

(A) WHY DO SOMETHING SPECIAL

(1) The FY'91 sequester is growing -- to over $55 billion. (See attached charts.)

- -- This is mainly because of lower corporate profits and higher interest rates than the Administration had forecast for the first two quarters of FY'90.

(2) Neither the House nor Senate budget resolutions will solve the problem.

- -- Neither is likely to be over $37 billion on paper (at best -- including smoke).

- -- It is not clear that either could be implemented. (The House resolution states that its revenue target is not to be legislated without Administration support, in detail).

(3) Since negotiations are inevitable sooner or later, it's better to start early -- and do a more responsible job substantively.

(B) WHAT TO DO (PROCEDURALLY)

(1) Convene 4 leaders and the President to discuss the general characteristics that a satisfactory bipartisan budget agreement would have to have.

(2) Then, convene a group of 20 key Congressional leaders with the President to try to agree on the same. If agreement were reached on the required general characteristics, the leaders should then commission sub-groups to narrow options for consideration by the 20 and the President -- 30 days later, say.

(C) KEY GENERAL CHARACTERISTICS OF AGREEMENT

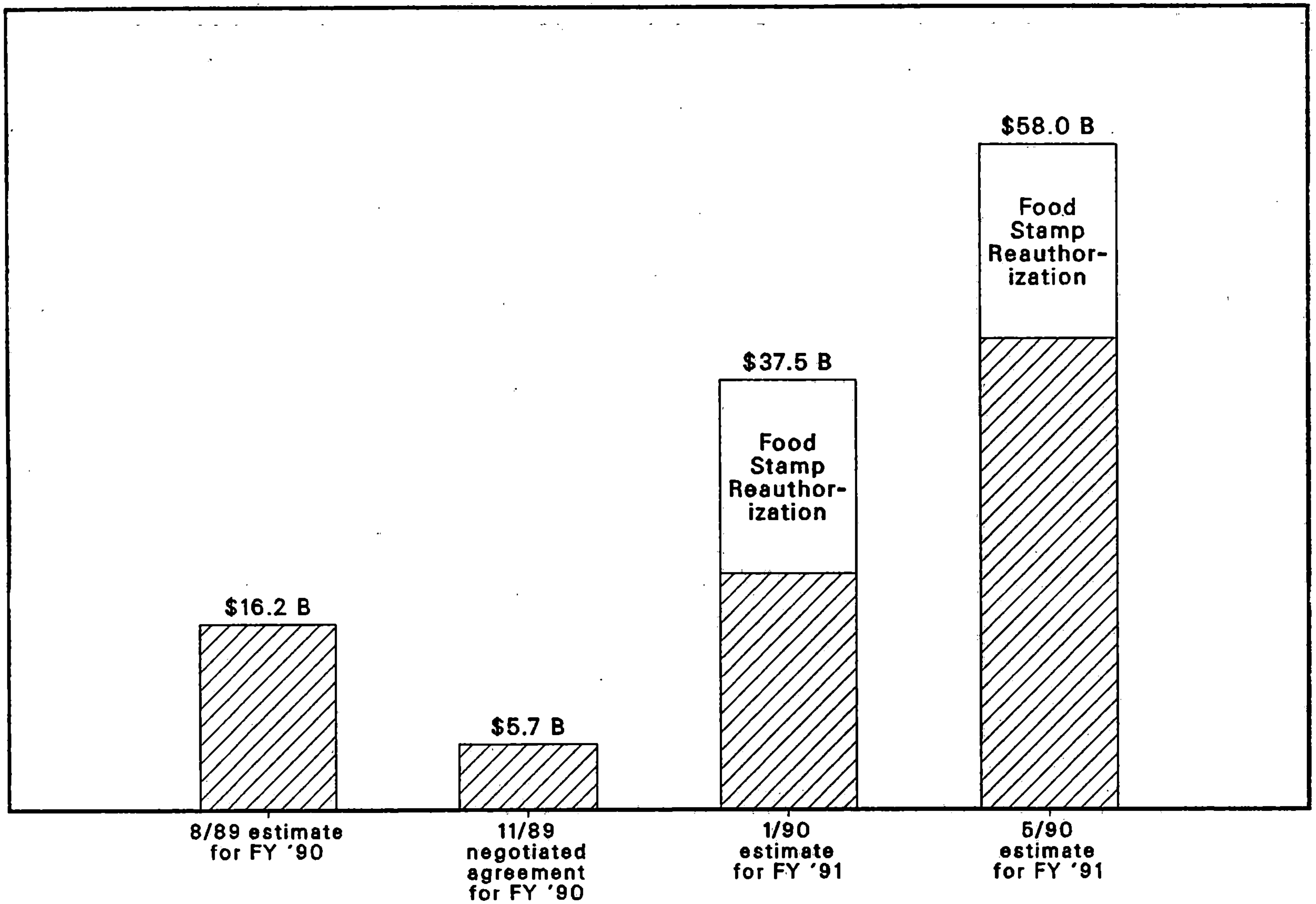
(1) It must promote economic growth.

(2) It must reform the process to fix the problem for good.

(3) It must reduce the deficit by $45-50 billion for FY'91 (without "smoke") and more thereafter.

(4) It must be negotiated and implemented as a package.

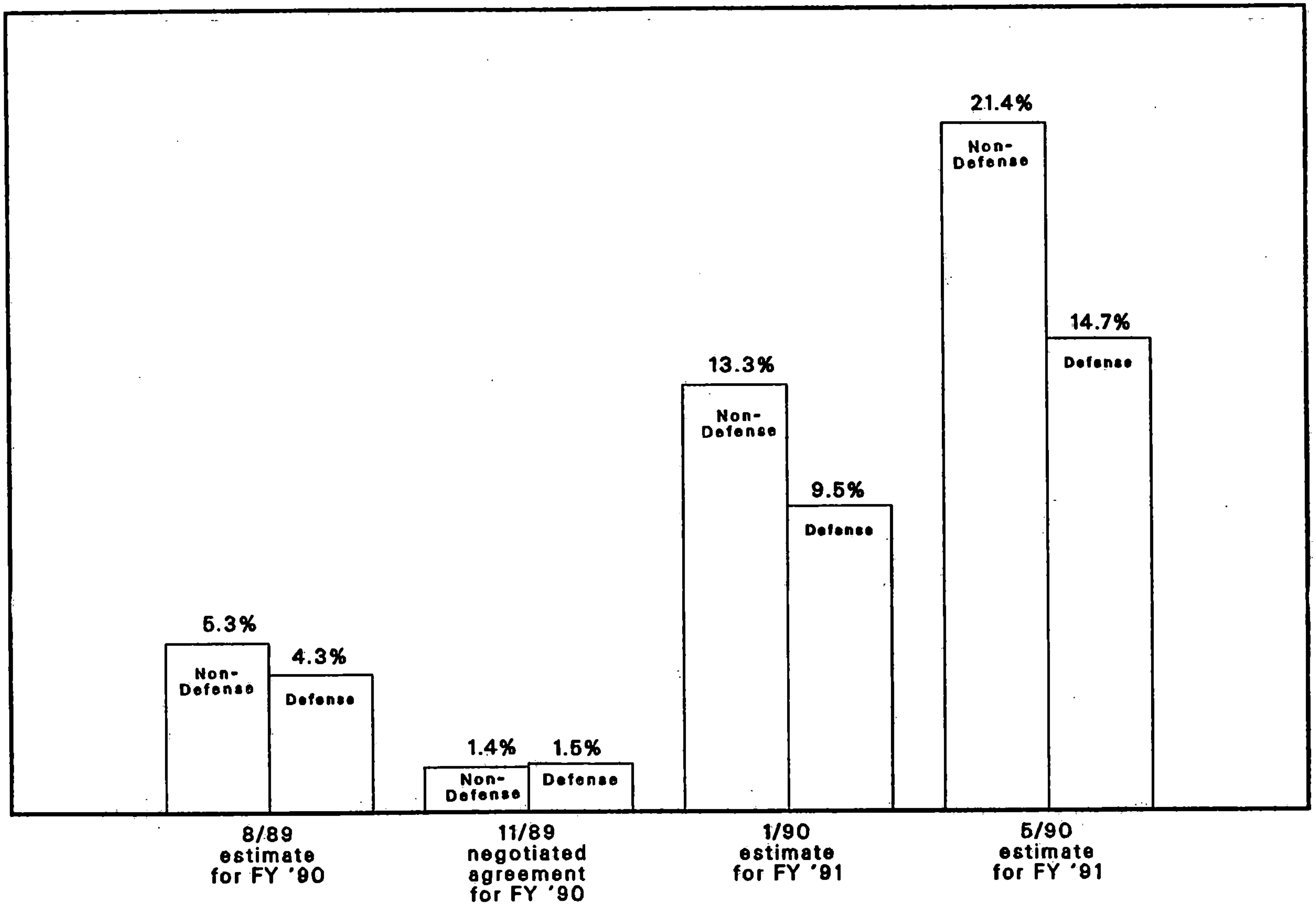
CHANGING PICTURES OF SEQUESTER
(billions of dollars)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

CHANGING PICTURES OF SEQUESTER

(required percentage cut in BA)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

DEFICIT REDUCTION

(A) WHY DO SOMETHING SPECIAL

(1) The FY'91 sequester is growing -- to over $55 billion. (See attached charts.)

-- This is mainly because of lower corporate profits and higher interest rates than the Administration had forecast for the first two quarters of FY'90.

(2) Neither the House nor Senate budget resolutions will solve the problem.

-- Neither is likely to be over $37 billion on paper (at best -- including smoke).

-- It is not clear that either could be implemented. (The House resolution states that its revenue target is not to be legislated without Administration support, in detail).

(3) Since negotiations are inevitable sooner or later, it's better to start early -- and do a more responsible job substantively.

(B) WHAT TO DO (PROCEDURALLY)

(1) Convene 4 leaders and the President to discuss the general characteristics that a satisfactory bipartisan budget agreement would have to have.

(2) Then, convene a group of 20 key Congressional leaders with the President to try to agree on the same. If agreement were reached on the required general characteristics, the leaders should then commission sub-groups to narrow options for consideration by the 20 and the President -- 30 days later, say.

(C) KEY GENERAL CHARACTERISTICS OF AGREEMENT

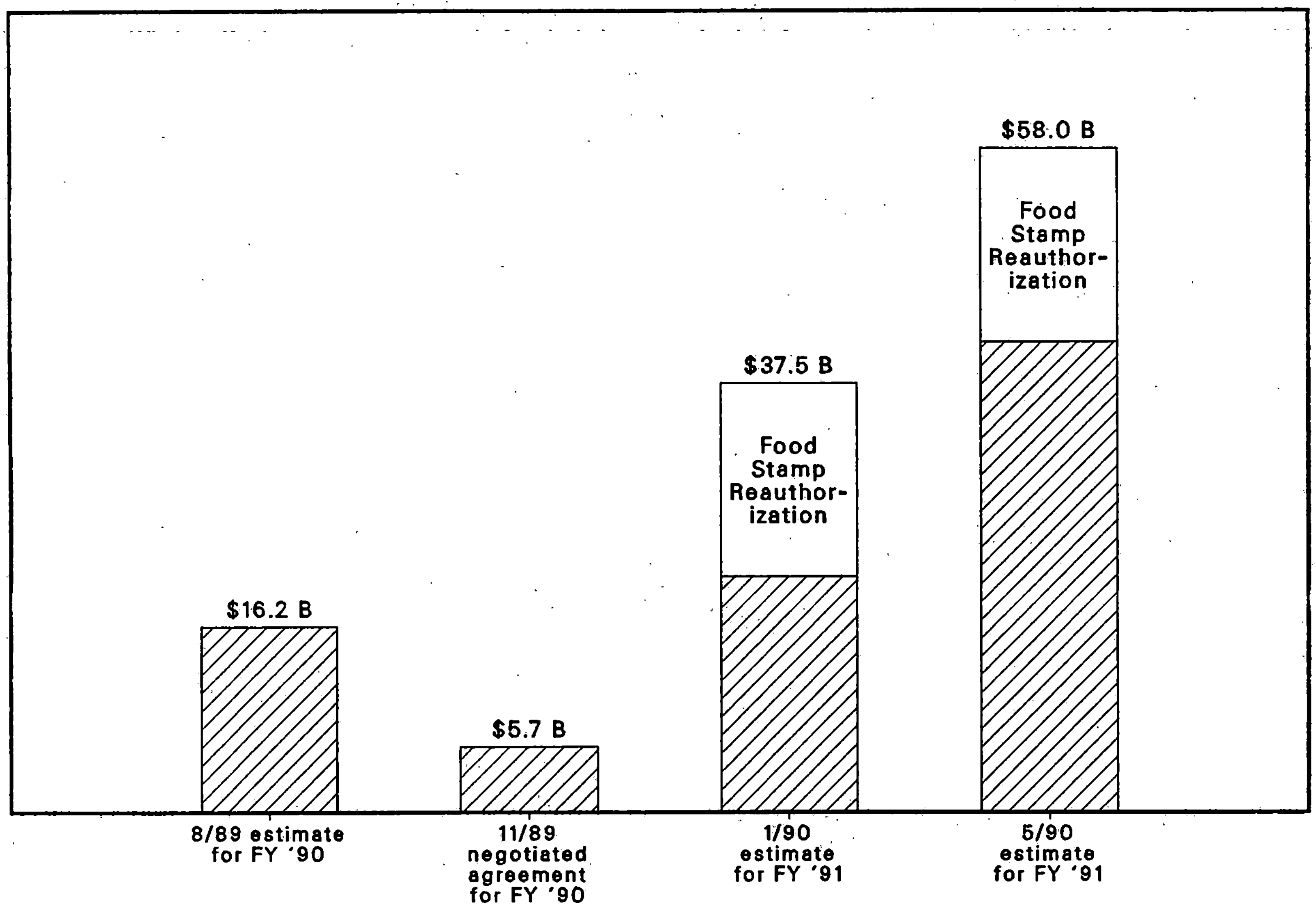
(1) It must promote economic growth.

(2) It must reform the process to fix the problem for good.

(3) It must reduce the deficit by $45-50 billion for FY'91 (without "smoke") and more thereafter.

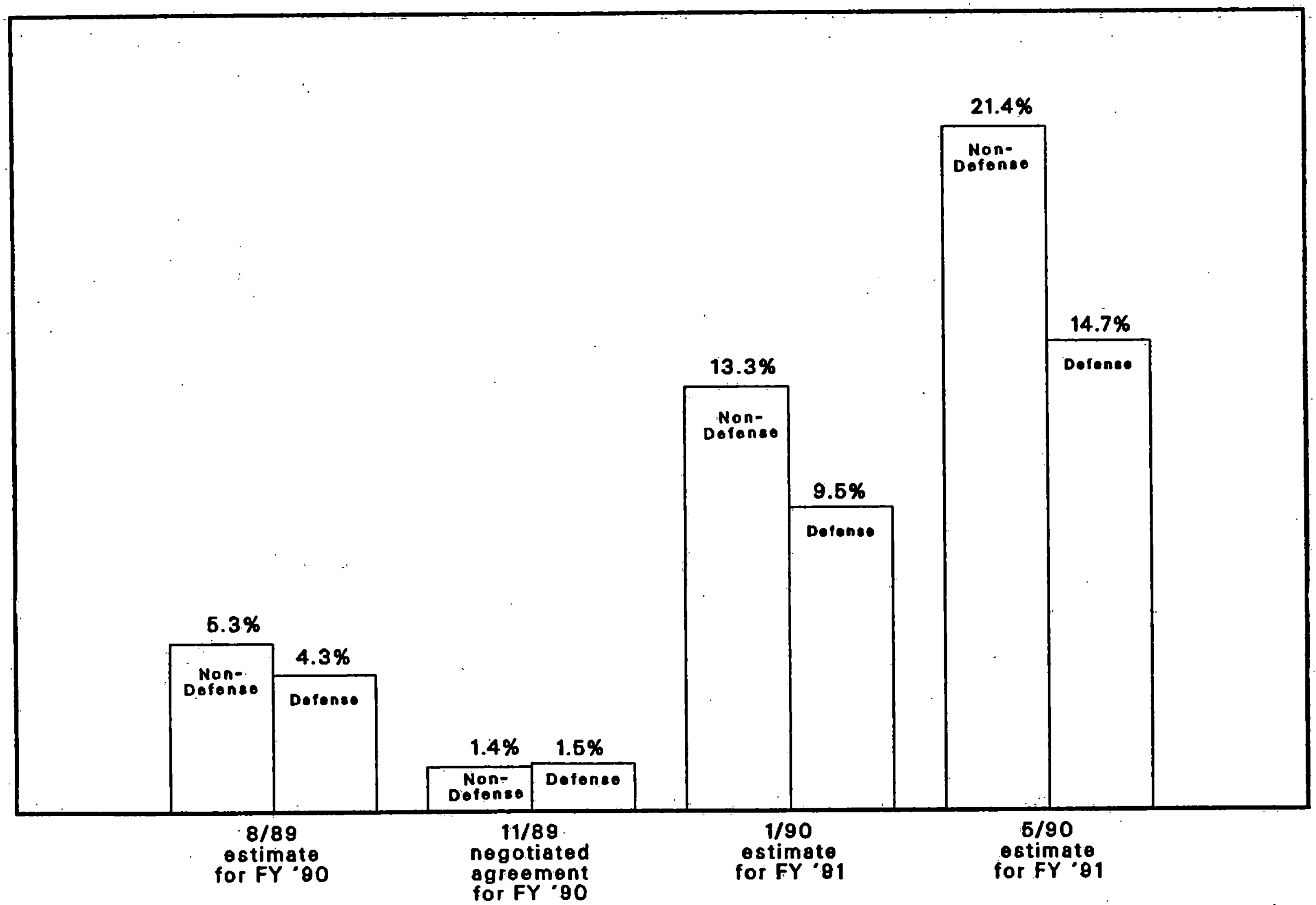
(4) It must be negotiated and implemented as a package.

CHANGING PICTURES OF SEQUESTER
(billions of dollars)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

CHANGING PICTURES OF SEQUESTER
(required percentage cut in BA)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

DEFICIT REDUCTION

(A) WHY DO SOMETHING SPECIAL

(1) The FY'91 sequester is growing -- to over $55 billion. (See attached charts.)

-- This is mainly because of lower corporate profits and higher interest rates than the Administration had forecast for the first two quarters of FY'90.

(2) Neither the House nor Senate budget resolutions will solve the problem.

-- Neither is likely to be over $37 billion on paper (at best -- including smoke).

-- It is not clear that either could be implemented. (The House resolution states that its revenue target is not to be legislated without Administration support, in detail).

(3) Since negotiations are inevitable sooner or later, it's better to start early -- and do a more responsible job substantively.

(B) WHAT TO DO (PROCEDURALLY)

(1) Convene 4 leaders and the President to discuss the general characteristics that a satisfactory bipartisan budget agreement would have to have.

(2) Then, convene a group of 20 key Congressional leaders with the President to try to agree on the same. If agreement were reached on the required general characteristics, the leaders should then commission sub-groups to narrow options for consideration by the 20 and the President -- 30 days later, say.

(C) KEY GENERAL CHARACTERISTICS OF AGREEMENT

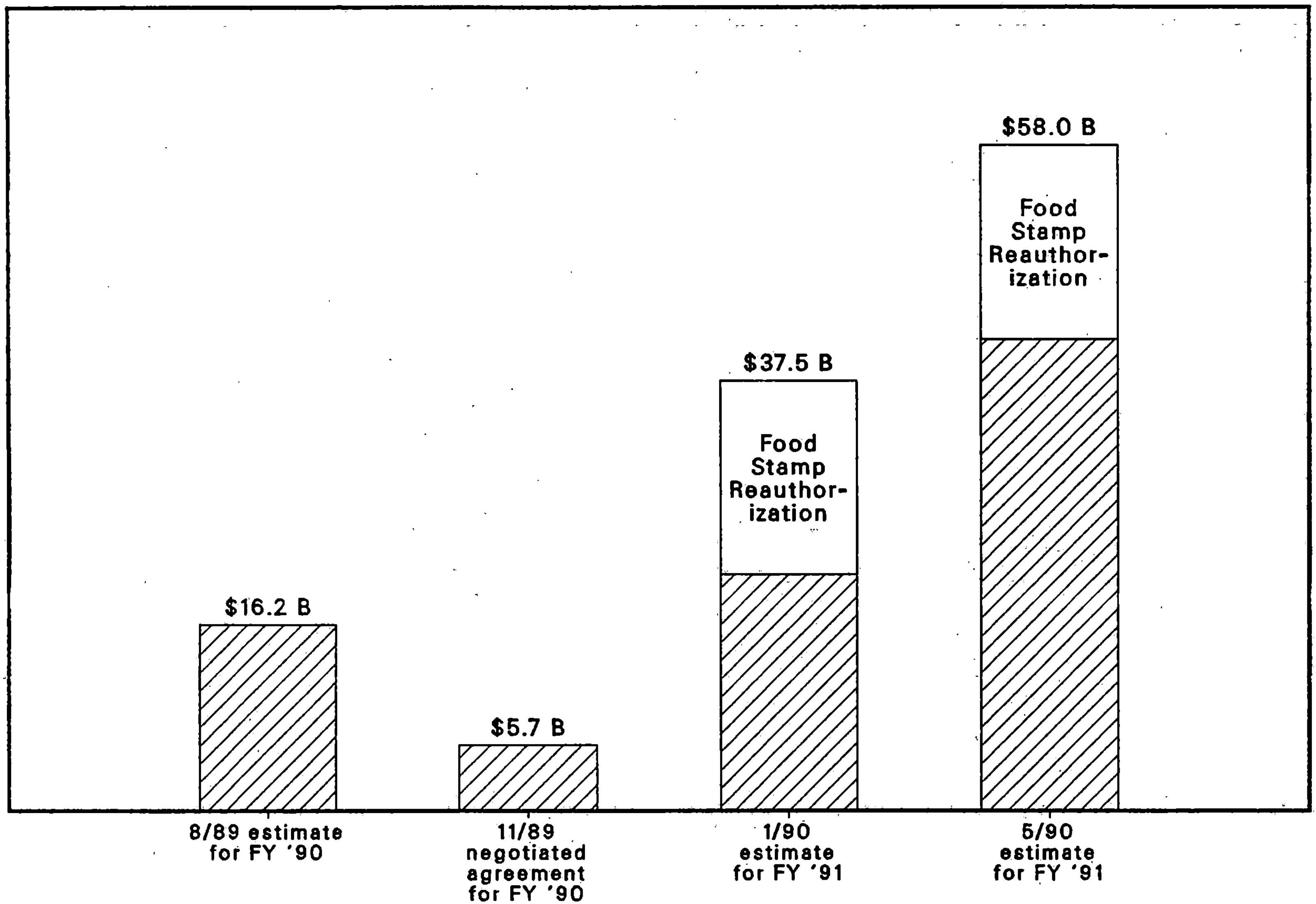
(1) It must promote economic growth.

(2) It must reform the process to fix the problem for good.

(3) It must reduce the deficit by $45-50 billion for FY'91 (without "smoke") and more thereafter.

(4) It must be negotiated and implemented as a package.

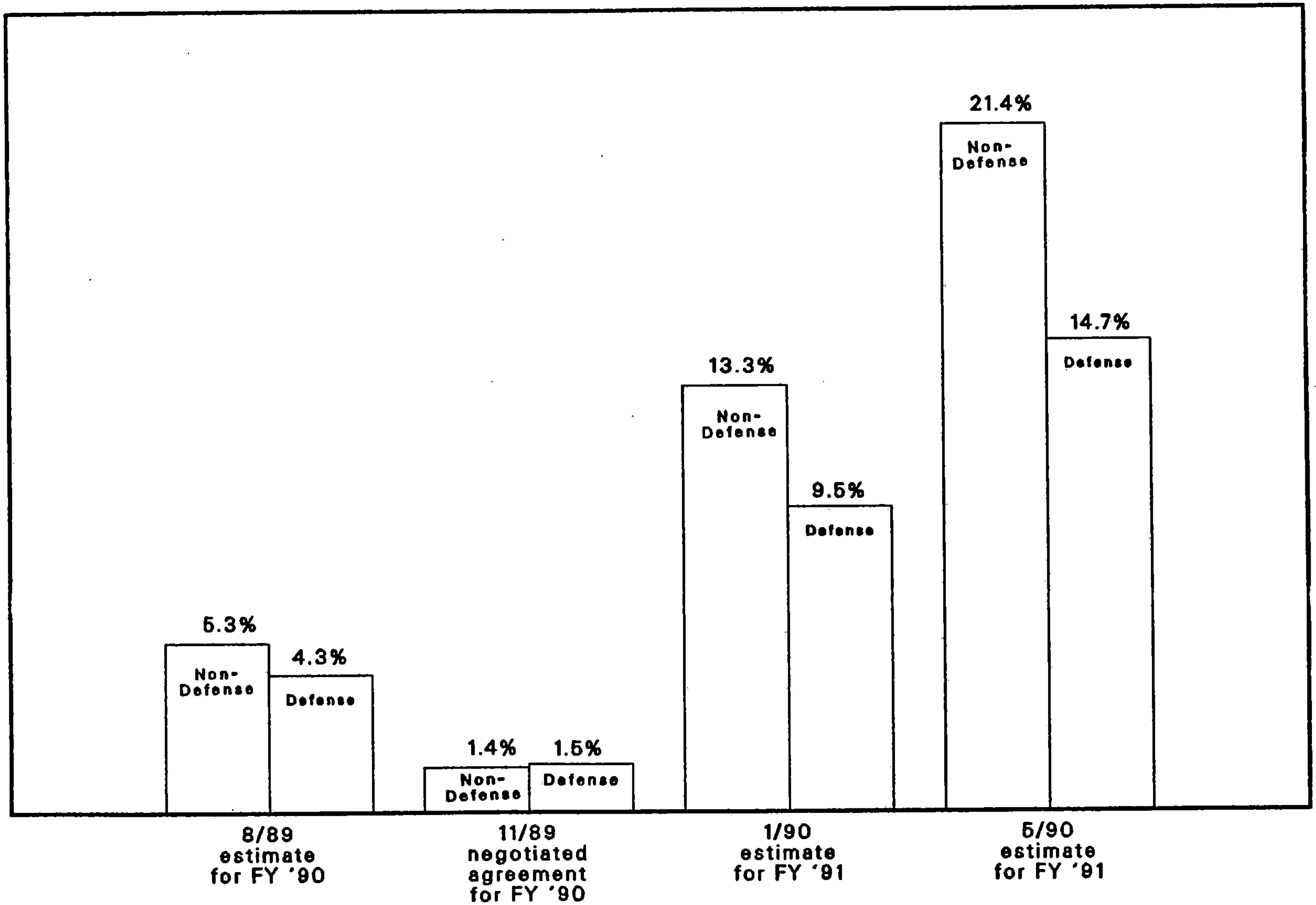
CHANGING PICTURES OF SEQUESTER
(billions of dollars)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.

CHANGING PICTURES OF SEQUESTER

(required percentage cut in BA)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are sequesterable. 5/90 estimate assumes adjustment for lower corporate profits and higher interest rates in first two quarters of FY '90 -- followed by orderly return to Administration forecast. RTC working capital estimates are excluded from the FY '91 estimates.