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Record Group/Collection:	George H.W. Bush Presidential Records
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Series:	Sununu, John, Files
Subseries:	Issues Files

OA/ID Number:	29137
Folder ID Number:	29137-002

Folder Title:
Budget [1990] (1 of 2) [6]

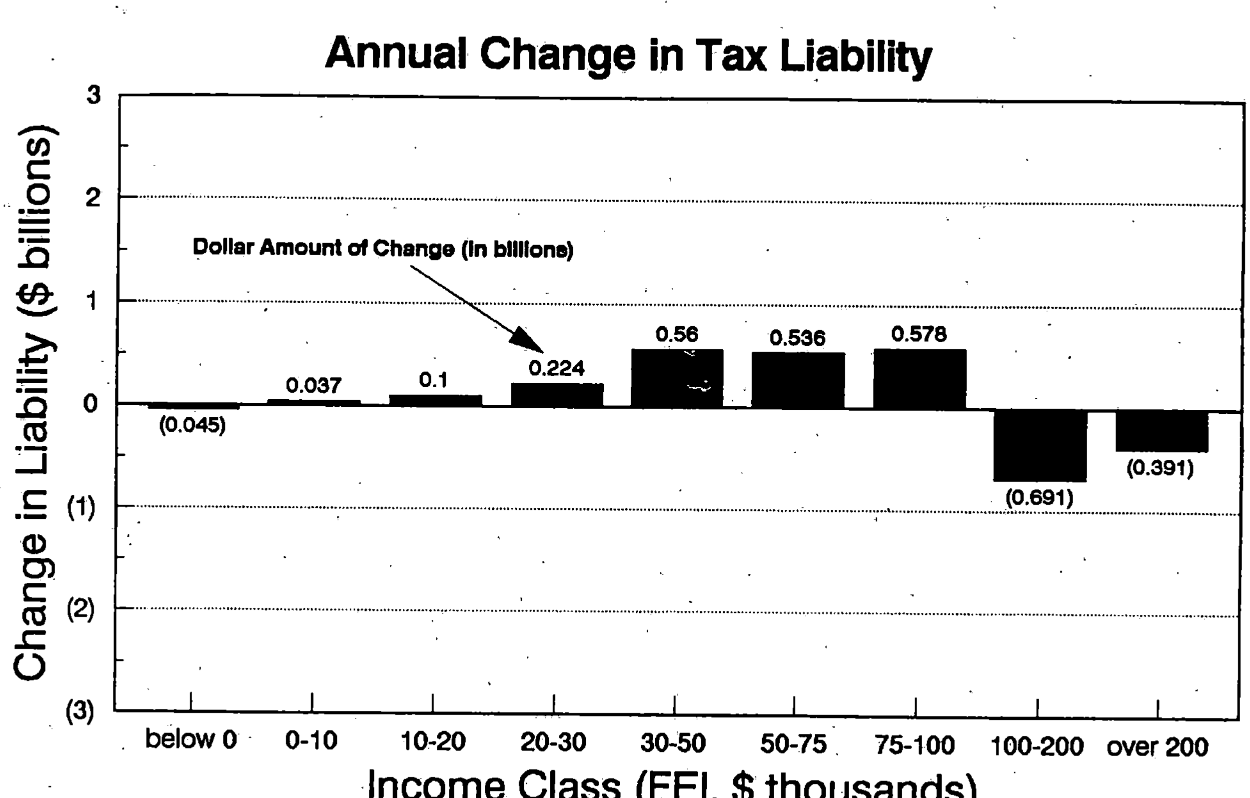
Stack:	Row:	Section:	Shelf:	Position:
G	15	24	6	3

COMBINATION I

Fiscal Years
($ billions)

	1991		1995		1991–1995	
	JCT	OTA	JCT	OTA	JCT	OTA
I. Tax Cuts						
1. Eliminate bubble: 2 brackets, 15% and 28%	–4.8	–4.9	–12.6	–11.1	–48.2	–44.6
2. President's capital gains proposal	3.6	4.9	–3.1	1.4	–11.5	12.0
II. Revenue Offsets						
3. $10,000 ceiling on deductions for state and local income taxes	1.0	1.9	8.3	7.0	30.1	27.9
4. 0.15% securities transfer excise tax (STET)	2.1	3.7	3.6	6.5	15.3	27.5
5. Additional high–end revenue offset needed to break even (on JCT estimate)	0.0		3.8		14.3	
Total (not including interactions with capital gains)	1.9	4.9	0.0	2.9	0.0	19.0

III. Progressivity Tilt



J total stet

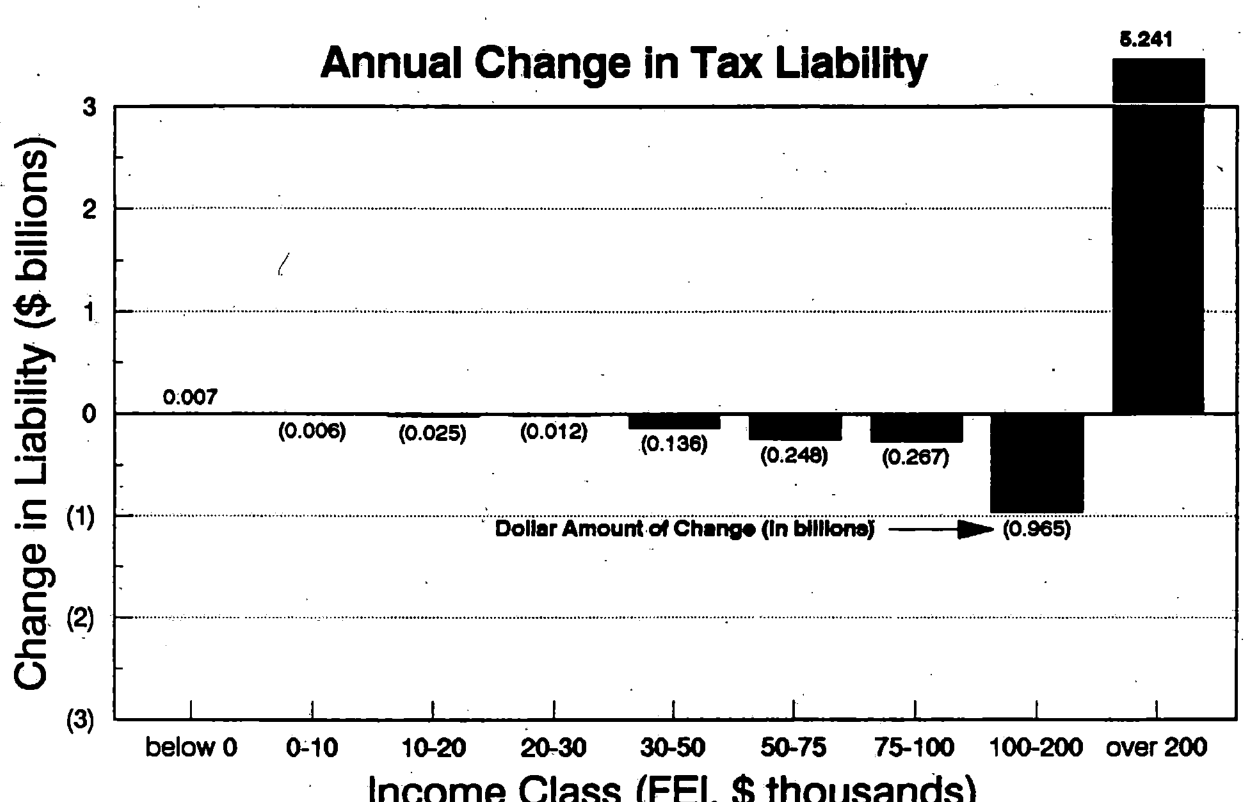
COMBINATION III

Fiscal Years
($ billions)

	1991		1995		1991–1995	
	JCT	OTA	JCT	OTA	JCT	OTA
<u>I. Tax Cuts</u>						
1. Create 3 bracket system: 15%, 28%, and 31% – people within bubble reduced from 33% to 31%, people beyond bubble increased to 31%	0.5	1.4	2.0	2.5	6.9	11.5
2. President's capital gains proposal	3.6	4.9	–3.1	1.4	–11.5	12.0
<u>II. Revenue Offsets</u>						
3. $15,000 ceiling on deductions for state and local income taxes	0.8	1.5	6.8	5.4	24.8	21.5
Total (not including interactions with capital gains)	4.9	7.7	5.7	9.2	20.2	44.5

This combination is a significant revenue raiser based on both OTA and JCT estimates.

<u>III. Progressivity Tilt</u>



N

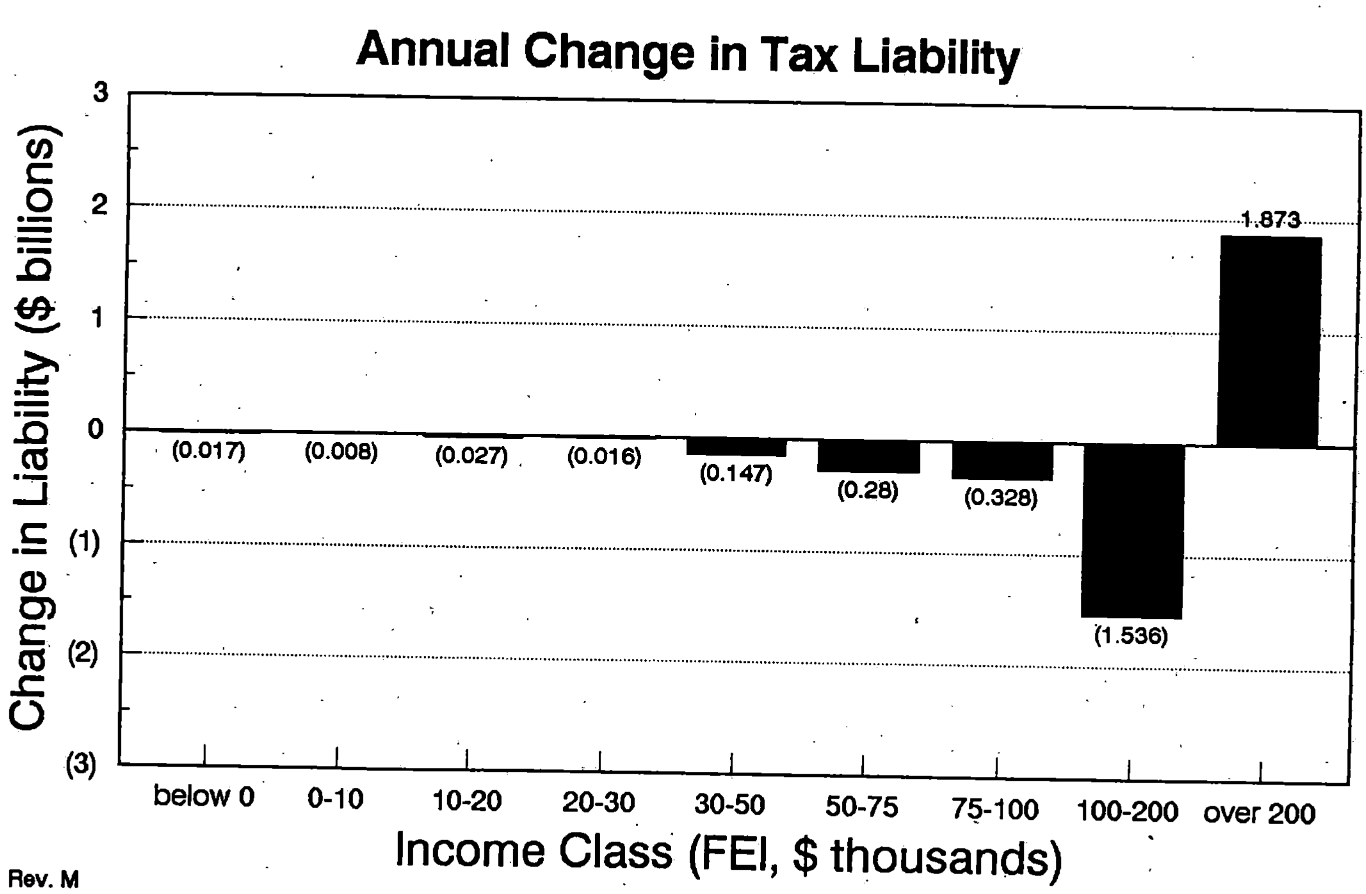
COMBINATION II

Fiscal Years
($ billions)

	1991		1995		1991–1995	
	JCT	OTA	JCT	OTA	JCT	OTA
I. Tax Cuts						
1. Create 3 bracket system: 15%, 28%, and 29.9% – people within bubble reduced from 33% to 29.9%, people beyond bubble increased to 29.9%	[–2.0]*	–0.9	[–4.0]*	–2.5	[–14.0]*	–9.0
2. President's capital gains proposal	3.6	4.9	–3.1	1.4	–11.5	12.0
II. Revenue Offsets						
3. $15,000 ceiling on deductions for state and local income taxes	0.8	1.5	6.8	5.4	24.8	21.5
Total (not including interactions with capital gains)	[2.4]*	5.3	[–0.3]*	4.0	[–0.7]*	23.2

*The JCT has not estimated this proposal. The numbers in brackets are guesses based on JCT's other rate estimates.

III. Progressivity Tilt



Rev. M

-Preliminary-

Four Options for Eliminating the Bubble By Creating a Permanent Top Rate Where Current Law Phaseout of 15% Bracket Begins

	Fiscal Years, $ Billions					
	1991	1992	1993	1994	1995	1991-95
A) 31% Top Rate --28% cap on long-term gains	0.1	0.4	0.2	*	*	0.7
B) 31% Top Rate --no cap on long-term gains	-0.1	-1.3	-1.4	-1.4	-1.5	-5.7
C) 31% Top Rate --28% cap on long-term gains -- Use 1990 33% bracket starting point in 1991 as starting point of new 31% rate. (Index thereafter)	0.4	0.9	0.6	0.5	0.5	2.9
D) 29.9% Top Rate --28% cap on long-term gains	-1.5	-2.5	-3.0	-3.3	-3.6	-13.9

Notes:
Effective date is 1/1/91.
* indicates less than + or - 50 million dollars.

	Option A	Option C	Option D
	(millions)		
Returns with tax increase 1/			
- rate change effect	0.3	1.1	0.2
- gains behavioral effect	0.8	0.9	0.7
Total returns with increase	1.1	2.0	0.9
Returns with tax decrease	3.4	2.9	3.6
Total Returns with Change	4.5	4.9	4.5

1/ Note that some returns with a tax increase listed above, are in that category because of voluntary increases in capital gains realizations in response to the 28% rate on capital gains.

Preliminary

Proposal	04/30/90 01:42 PM	1990	1991	Fiscal years 1992	1993	1994	1995	1990-95
		($ billions)						
1. INDEXATION OF INDIVIDUAL TAX PARAMETERS (EXCEPT EITC)								
a. Permanent elimination		0.0	6.8	18.1	30.4	42.3	55.0	152.6
b. Permanent CPI-1		0.0	1.1	4.2	8.0	9.7	12.7	35.7
c. Permanent CPI-2		0.0	3.5	9.0	15.0	20.4	28.0	75.9
d. One-year elimination		0.0	6.8	10.9	11.2	10.2	10.5	49.6
e. One-year CPI-1		0.0	1.1	3.0	3.8	2.7	1.9	12.5
f. One-year CPI-2		0.0	3.5	5.5	5.5	6.0	6.0	26.5
2. INDIVIDUAL TAX BRACKETS								
a. Creation of permanent 31% tax bracket (28% cap on capital gains tax rate)		0.0	0.1	0.4	0.2	0.0	0.0	0.7
b. Creation of permanent 32% tax bracket (28% cap on capital gains tax rate)		0.0	1.6	3.2	3.1	3.2	3.3	14.4
c. Eliminate bubble (28% cap on capital gains tax rate)		0.0	3.2	5.9	6.0	6.2	6.5	27.8
d. Eliminate bubble (no cap on capital gains tax rate)		0.0	2.7	3.0	3.3	3.7	4.0	16.7
3. INDIVIDUAL TAX DEDUCTIONS								
A. Phase-out All Deductions, Itemized and Standard								
a. Include Medical and Casualty in proposal		0.0	1.7	4.6	4.4	4.6	4.7	20.0
b. Exclude Medical and Casualty from proposal		0.0	1.7	4.6	4.4	4.6	4.7	20.0
B. Phase-out Itemized Deductions in Excess of Standard Deduction								
a. Include Medical and Casualty in proposal		0.0	1.6	4.4	4.2	4.4	4.5	19.1
b. Exclude Medical and Casualty from proposal		0.0	1.6	4.4	4.2	4.4	4.5	19.1
C. Phase-out Standard Deduction Amount								
a. Include Medical and Casualty in proposal		0.0	0.4	1.0	1.0	1.1	1.2	4.7
b. Exclude Medical and Casualty from proposal		0.0	0.4	1.0	1.0	1.1	1.2	4.7
D. Allow Deductions for State and Local Tax, Only to the Extent that Tax Exceeds 2% of AGI (would apply to all itemizers)		0.0	4.3	11.1	11.9	12.6	13.2	53.1
E. Allow Deductions for State and Local Tax, Only to the Extent that Tax Exceeds 1% of AGI (would apply to all itemizer		0.0	2.3	5.8	6.2	6.6	6.9	27.8

The effective date for income tax proposals is 1/1/91.

Note: The estimates are measured independently from current law.
An interaction effect may occur if provisions are enacted together.

Returns by Marginal Tax Rate
Projected for 1991
(Returns in millions, dollars in billions)

Marginal Rates 1/	Number of Returns with Taxable Income				Total Taxable Income For Returns Within Each Bracket
	Total	Joint 2/	Single	Head of Household	
15%	59.6	25.3	26.8	7.4	700
First 28%	25.7	16.3	8.0	1.3	1100
33%	3.8	2.7	0.9	0.1	380
Second 28%	0.7	0.5	0.2	0.0	340
Total	89.8	44.8	35.9	8.8	2520

1991 Rate Schedule (January Budget Inflation Assumptions)

	Joint	Single	Head
15% Bracket Endpoint	$33,700	$20,200	$27,100
28% Bracket Endpoint	$81,500	$48,900	$69,900
33% Bracket Endpoint **	$169,120	$101,420	$140,360

** This is the end point for the phase-out of the 15% bracket.
The end point is extended by $12,040 for each personal exemption claimed.

1/ These are the marginal rates which apply to taxable income for purposes of calculating income tax before credit. Interactions and phaseouts may result in different effective marginal rates.

2/ Includes married filing separate returns.

THE WHITE HOUSE
WASHINGTON

5/4

TO: John Sununu

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

☒ FYI

☐ Comment

☐ Action

The minority budget committee staff prepared the attached summary of the Senate Budget Committee's budget resolution

Summary of
Senate-Reported Budget Resolution
Fiscal Year 1991

May 3, 1990

Prepared by the Minority Staff
of the U.S. Senate Budget Committee

SUMMARY OF COMMITTEE-REPORTED BUDGET RESOLUTION FOR 1991

"It is much easier to be critical than to be correct."

Benjamin Disraeli
January 24, 1860

On the release of President Bush's 1991 Budget, the Democratic majority of the Senate Budget Committee stated on January 29, "it postures for public advantage in what may be another prolonged and paralyzing budgetary debate...finally, this budget replaces the small gimmicks with larger gimmicks."

The Senate Budget Committee ordered reported its budget resolution for 1991 on May 2. The committee-reported budget resolution postures for public advantage, assumes all the "larger gimmicks" of the President's budget and even more in its "Fair Share" initiative, and includes its own black box of unspecified domestic discretionary cuts.

The committee-reported resolution <u>does not</u> move the Congress and the Administration toward resolving fiscal gridlock. Rather the legislative calendar tells us that time is shorter by five months for resolving the 1991 budget compared to when the President submitted his budget plan.

SUMMARY OF RESOLUTION

On April 24, the Senate Budget Committee began markup of a budget resolution for Fiscal Year 1991. Following rejection by the committee of deficit reduction packages for Fiscal Year totalling $56 billion, $52 billion, $50 billion and $43 billion, Chairman Sasser on May 2 proposed a Chairman's Mark which was adopted by the Committee on a 14-9 vote.

The committee-reported resolution claims to reduce the deficit by $54.4 billion, compared to the CBO baseline. Included in the resolution are $11.1 billion of collections for unpaid taxes. These assumed collections of unpaid taxes are not reconciled against any committee, and by all expert testimony, highly unlikely to be achieved.

Like the House-passed resolution, the committee-reported resolution covers five budget years, including reconciliation instructions to 10 Senate committees (the Agriculture Committee is notably absent from the list of reconciled committees).

The resolution claims to meet the Gramm-Rudman deficit targets by assuming the Administration's January 1990 economic and technical assumptions, which are, by the Administration's own testimony, outdated. <u>The committee-reported resolution claims a 1991 deficit of $47.5 billion, $16.5 billion lower than the statutory Gramm-Rudman target of $64 billion.</u>

During consideration of the reported resolution, Chairman Sasser remarked that there are no specific policy assumptions behind the numbers in the resolution. The implementation of the resolution would be left to the appropriate committees of jurisdiction. Indeed the resolution calls on the President himself to propose specific revenue sources that would raise $4.7 billion in 1991.

Nonetheless, based on the functional numbers and reconciliation instructions in the committee-reported resolution, when compared to the President's request, analysts can determine the probable programmatic assumptions underlying the resolution.

The tables following this section summarize the major components of the committee-reported resolution. The resolution reduces the 1991 deficit by $54.1 billion, $451.6 billion over the next five years. Almost one-half of the five-year deficit reduction ($214 billion) is achieved through constraints on the defense budget. Thirty-six percent of the deficit reduction ($164 billion) is achieved from increased revenues or receipts that the tax committees are directed to raise.

Implementing the Resolution

The committee-reported resolution can only be considered as a negotiating document, not as an implementable budget. Without the agreement of the President and the joint leadership of Congress, individual elements of this resolution stand no chance of enactment. For example:

- The resolution reconciles the Finance Committee with $13.9 billion in revenues and $5.8 billion in additional unspecified receipts. Further, the resolution assumes $11.1 billion in higher tax collections for a total of $31 billion in new revenues in 1991.

- The resolution assumes that over $164 billion in revenues and receipts will be raised over the next five years, compared to the President's request of $43.5 billion over the same time period.

- Defense outlays would be cut by $13 billion from the CBO baseline (this is $10 billion more than proposed by the President). Budget authority for defense would be cut by over $30 billion from the baseline, a 10 percent reduction.

- Domestic discretionary spending is cut by $3.6 billion from the baseline, a significant reduction from the $0.2 billion cut in the President's budget. The committee-reported resolution does not suggest how to reach these savings. Such cuts could never be enacted without seriously jeopardizing Administration initiatives for science, education, environment and justice assistance programs.

- Indeed, over $5 billion of the domestic discretionary reductions are not even allocated among the budget functions. Instead, they are hidden in a black box as unspecified offsetting receipts.

- The resolution does not prevent the Appropriations Committee from cutting the defense budget even further to lessen the size of the domestic discretionary cuts.

- The resolution includes minimal assumptions on reducing entitlement spending program growth -- $5.7 billion in 1991. Medicare savings for 1991 do not exceed what would occur if a sequester were required under the Gramm-Rudman law this fall. United States agriculture spending is exempt from any budgetary constraint, at a time when central government subsidies world-wide are being reduced to promote fair and improved agricultural trade.

- The President's budget proposed 5-year <u>reconciled</u> entitlement spending constraint at over $96 billion more than the committee-reported resolution.

COMPARISON OF BUDGET PROPOSALS

	FY 1991			FY 1991–95		
	President	Chairman's Mark	House Passed	President	Chairman's Mark	House Passed
CBO ALTERNATIVE BASELINE DEFICIT.....	–160.1	–160.1	–160.1	–645.3	–645.3	–645.3
SPENDING: DEFENSE..................	–3.2	–13.0	–11.5	–88.9	–214.2	–250.7
NONDEFENSE DISCRETIONARY........	–0.2	–3.6	3.7	–21.3	43.4	71.8
ENTITLEMENT AND MANDATORY 1/..........	–12.0	–4.3	–0.4	–100.1	–44.3	–0.4
USER FEES................	–3.2	–6.2	–2.5	–18.8	–31.0	–8.0
ASSET SALES 2/..........	–0.3	----	–5.3	–7.9	---	–8.5
TOTAL SPENDING........	–18.9	–27.1	–16.0	–237.2	–246.1	–195.8
REVENUES..................	–9.4	–15.3	–19.3	–16.8	–96.8	–98.2
NET INTEREST.............	–1.1	–2.0	–1.4	–40.0	–71.4	–53.9
SUBTOTAL DEFICIT REDUCTION...............	–29.4	–44.4	–36.7	–294.0	–414.5	–347.9
"FAIR SHARE" REVENUES.................	----	–10.0	----	----	–38.0	---
PLAN DEFICIT.............	–130.7	–105.7	–123.4	–351.3	–192.8	–297.4

NOTE: DOLLARS IN BILLIONS. BASED ON CBO ESTIMATES. DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

1/ INCLUDES OFFSETS.
2/ INCLUDES "OTHER SAVINGS & ADJUSTMENTS" FOR HOUSE BUDGET. ADJUSTMENT FOR IRS REVENUES INCLUDED IN "REVENUES" BELOW.

PREPARED BY SBC MINORITY STAFF, MAY–2–1990, 12 noon.

FUNCTION 050 -- NATIONAL DEFENSE

Relative to the CBO baseline, the committee-reported resolution would reduce defense BA by $30 billion and outlays by $13 billion in 1991. This would cut defense by $21 billion in BA and $10 billion in outlays from the President's request. In the outyears, defense BA would be frozen at the 1991 level of $285 billion. Over the 1991-95 period, compared to the baseline, this freeze would reduce BA by $283 billion and outlays by $214 billion. This represents a cut of $157 billion in BA and $125 billion in outlays from the President's request.

The committee-reported resolution would reduce defense spending from its current 5.2 percent of GNP to 3.8 percent by 1995, the lowest level since 1948. The President, on the other hand, would reduce defense spending to 4.2 percent of GNP by 1995.

Under the committee-reported resolution military personnel reductions in 1991 could total 140,000 -- 100,000 more than the President's request. Force structure reductions for 1991 could include 3 active divisions (one more than the President), 4 tactical fighter wings, and 22 ships -- including one carrier battle group (17 ships and one carrier battle group more than the President). This rate of reduction could

ESTIMATED DISTRIBUTION OF 1991 DEFENSE REDUCTIONS IN SBC-RPTED RES.
($ billions)

	SBC-RPTED		SBC-RPTED COMPARED TO CBO		SBC-RPTED COMPARED TO PRESIDENT	
	BA	OT	BA	OT	BA	OT
DEPARTMENT OF DEFENSE:						
Military personnel..........	78.7	77.9	-3.0	-3.4	-0.4	-0.9
Operations and maintenance..	85.0	84.2	-6.1	-5.1	-5.1	-4.1
Procurement.................	69.5	78.6	-16.3	-2.1	-8.3	-1.2
RDT&E.......................	33.6	34.9	-4.7	-2.4	-4.3	-2.1
Military construction.......	4.2	5.1	-1.3	-0.3	-1.4	-0.4
Family housing..............	3.3	3.3	-0.1	-0.1	-0.2	-0.1
Revolving funds, allowances and trust funds...........	0.9	-0.3	1.5	0.6	-0.2	0.1
ATOMIC ENERGY DEFENSE ACTIVITIES..................	9.8	9.6	-0.3	-0.2	-1.2	-0.8
DEFENSE-RELATED ACTIVITIES....	0.6	0.6	0.0	0.0	-0.2	-0.1
FUNCTION 050 TOTAL............	285.6	293.9	-30.2	-13.0	-21.3	- 9.8

result in a 1995 force structure of 1.5 million, a 30 percent reduction from current levels. Such a force structure could mean the elimination of 8 active and 3 reserve divisions, 10 active and 5 reserve fighter wings, and 100 ships, including 4 carrier battle groups.

The committee budget would cut DOE's defense activities by $1.2 billion, or 12 percent, seriously jeopardizing the Administration's efforts to clean up defense nuclear facilities.

The Black Box

The committee-reported resolution purports to offer significant increases in non-defense discretionary programs such as education, transportation, and housing. At the same time, the resolution cuts overall spending for nondefense discretionary by $3.6 billion from the CBO baseline.

The reported resolution does not spell out how to achieve any reductions. Instead, it categorizes $5.5 billion in nondefense discretionary savings as undistributed offsetting receipts. This is bait and switch budgeting with only the good news detailed and the cuts left unaddressed.

In fact, if the $5.5 billion in unallocated cuts were made across-the-board on nondefense discretionary programs, the effect would reduce every program by 5.0 percent.

The President's budget, by comparison, only reduces nondefense discretionary spending by $0.2 billion. Further, the President detailed all of his proposed cuts in addition to his initiatives.

FUNCTION 150 -- INTERNATIONAL AFFAIRS

The committee-reported resolution includes a full adjustment for inflation for all discretionary international programs. Within the overall total, a technical change in the assumption for the Export-Import Bank takes into account recent action to activate an interest-rate subsidy program.

Compared with the President's original request for 1991, the committee-reported budget is lower by $1.2 billion in BA and $0.9 billion in outlays. Subsequent budget amendments and supplemental requests for Panama and Nicaragua have added another $0.2 billion in BA and $0.3 billion in outlays to the President's budget.

Among the Administration initiatives that could be precluded under the Committee-reported budget are construction of a new embassy chancery in Moscow, and payment of more than $0.4 billion in United Nations and OAS arrears. The Committee specifically anticipates full funding of the President's request for Israel and Egypt.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 250 -- GENERAL SCIENCE, SPACE AND TECHNOLOGY

Science and space programs would be cut $1.3 billion in BA and $0.7 billion in outlays from the President's budget in 1991. Funding would still increase over the CBO baseline of $1.4 billion in BA (9 percent) and $0.8 billion in outlays.

To reach the resolution totals, there would likely be cuts across-the-board on Function 250 programs. Real growth in the National Science Foundation budget would be limited to about 5 percent -- a $100 million cut from the 10 percent real growth in the President's budget. The Superconducting Super Collider (SSC) would either be cancelled (saving $0.2 billion in BA) or frozen to allow further R&D.

For NASA programs, this budget would require a sharp cutback in the $0.7 billion increase earmarked for the space station. The budget would also likely force the cancellation of the moon/Mars human exploration initiative (saving $0.2 billion in BA) and a space science start (saving $0.2 billion in BA).

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 270 -- ENERGY

The committee-reported resolution would cut energy programs by $300 million in BA and $400 million in outlays in 1991. While specifics are unavailable, past Democratic plans have proposed to reduce funding for the clean coal program, the strategic petroleum reserve, and to increase Nuclear Regulatory Commission (NRC) fees.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 300 -- NATURAL RESOURCES AND ENVIRONMENT

The committee-reported resolution reduces BA by $0.3 billion and outlays by $0.2 billion as compared to the 1991 baseline.

While the resolution increases BA by $0.1 billion when compared to the President's budget proposals, it reduces outlays by $0.2 billion. The President's budget has been severely criticized for providing inadequate funds for the environment and for the protection of public lands. However, the reported resolution provides even less funding for these programs, such as the Environmental Protection Agency's (EPA) budget and global climate change research, than the President proposed for 1991.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 350 -- AGRICULTURE

The committee-reported resolution rejects the President's proposals for agriculture and related programs. Agriculture outlays under the resolution would be $2.1 billion greater than that proposed by the President for 1991, while the plan provides for $27.3 billion in outlays above the President's request for the years 1991 through 1995. There is little change relative to the CBO baseline.

The committee-reported resolution would <u>not</u> reconcile spending for programs within the jurisdiction of the Agriculture Committees; thus, no changes to agricultural programs are assumed.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 370 -- COMMERCE AND HOUSING CREDIT

The committee-reported budget resolution assumes cuts of $200 million in BA and $600 million in outlays below the CBO alternative baseline for 1991. The committee-reported plan assumes increases above the President's budget of $1.1 billion in BA and $700 million in outlays for 1991.

The reduction in outlays may partially be explained by a $112 million cut in the Postal Service's revenue forgone appropriation, $352 million from FHA reforms, $50 million in SBA fee increases, and $15 million in Commerce Department fees.

These Presidential proposals total $529 million in 1991 which can partially explain the $600 million in outlay savings assumed in the committee-reported budget resolution.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 4.4 percent sequester if applied across-the-board to discretionary programs in this function.

FUNCTION 400 -- TRANSPORTATION

For transportation programs, the committee-reported resolution would add to the President's budget $2.0 billion in BA and $1.7 billion in outlays. This represents an increase above the baseline of $1.0 billion in BA and $0.6 billion in outlays.

Most of the $2.0 billion BA increase is due to the restoration of two programs terminated in the President's budget: $0.6 billion for AMTRAK and $0.5 billion for transit operating assistance to large cities. This resolution could also provide some additional highway and transit capital funds which were assumed to be reduced in the President's budget. Both this resolution and the President's budget provide increases above the baseline for aviation and Coast Guard programs. The committee-reported budget also provides additional funds for the oil spill legislation currently in conference. Commerce-Science-Transportation Committee reconciliation probably assumes at least $100 million in Coast Guard user fees.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board to discretionary programs in this function.

FUNCTION 450 -- COMMUNITY AND REGIONAL DEVELOPMENT

The committee-reported budget resolution assumes a $400 million increase in BA and a $100 decrease in outlays compared to the CBO alternative baseline for 1991. The committee-reported plan assumes increases above the President's budget of $1.4 billion in BA and $200 million in outlays for 1991.

The reduction in outlays may partially be explained by a $43 million increase in premium income from the National Flood Insurance program.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

Function 500 -- Education, Training, Employment and Social Services

The committee-reported resolution calls for $47.5 billion in BA and $42.4 billion in outlays in 1991 for this function. This is above the CBO baseline by $4.7 billion in BA and $1.2 billion in outlays and above the President's request by $4.6 billion in BA and $1.5 billion in outlays. Over five years, Function 500 outlays grow by $20.3 billion above the CBO baseline and by $20.9 billion over the President's request.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs, including any initiatives, in this function.

Function 550 -- Health

Savings from baseline ($0.5 billion in outlays) appear to result primarily from increased contributions from the Postal Service to the Federal Employees Health Benefits program. The President proposed $730 million (BA and outlays) in such savings, but lesser amounts are also possible. Modest savings may also be assumed for FDA user fees. The committee-reported resolution includes nothing for Medicaid specifically.

Under the above assumptions, discretionary spending is funded just above baseline, which could require accepting some of the President's proposed reductions (e.g., nearly eliminating health professions subsidies) to fund initiatives such as minority health, or increases for HIV/AIDS, FDA expenses, and drug abuse treatment.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

Function 570 -- Medicare

The committee-reported resolution reduces spending growth in Medicare by $2.0 billion in 1991. Estimated savings from a sequester also would be $2.0 billion in 1991. The committee-reported resolution includes five year savings of $26.3 billion. These savings are reconciled.

About $1 billion in Medicare savings may be achieved by extending current law provisions that expire at the end of 1990. Added savings could be achieved by reducing inflation updates to providers, or otherwise reducing payments to providers.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

Function 600 -- Income Security

The committee-reported resolution reduces 1991 outlays $1.2 billion below the CBO baseline, while it increases 1991 BA $3.2 billion. Over five years, this resolution proposes changes which would add $4.1 billion in outlays and $17.6 billion in BA. It rejects the Administration's COLA freeze for Federal civilian and military retirees.

The following would be consistent with this plan: (1) The extension of the lump-sum provision, which produces the bulk of 1991 outlay reduction, and (2) the provision of additional funding for low-income housing assistance, which accounts for the large increase in BA in 1991 and significant outlay increases in the outyears.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

Function 650 -- Social Security

The committee-reported resolution does not provide an increase for Social Security administrative expenses.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

Function 700 -- Veterans Benefits and Services

The committee-reported resolution provides $32.1 billion in BA and $31.4 billion in outlays in 1991 for this function. This is above the CBO baseline by $0.2 billion in BA but below the baseline by $0.1 billion in outlays. This is also above the President's request by $0.3 billion in BA for 1991 and $0.1 billion in outlays. The committee-reported resolution is also above a discretionary freeze by $0.4 billion in budget authority but there is virtually no change in outlays. (Over five years, this function is cut by $0.5 billion in budget authority and outlays from the CBO baseline.)

While most discretionary programs within this function would be frozen at the 1990 levels, the resolution could maintain VA medical care and construction activities at the 1991 baseline levels and increase them by the amounts recommended in the President's budget.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 750 -- ADMINISTRATION OF JUSTICE

Compared to the President's budget, administration of justice programs would increase by $0.5 billion in both BA and outlays. Compared to the baseline, the resolution would reduce this function by $0.5 billion in BA but increase outlays by $0.4 billion. The $0.5 billion BA reduction is due to an over $1.0 billion reduction in prison construction, reflecting the one-time nature of the 1990 funding level of $1.4 billion.

When the committee-reported resolution is adjusted to reflect a change from the President's budget in a mandatory customs user fee account, <u>the resolution is below</u> ($0.1 to $0.2 billion) <u>the President's budget in both BA and outlays</u>. These small reductions would likely be spread among law enforcement, litigative, judicial, and correctional activities. Compared to the baseline, these activities would still generally receive increases over baseline levels.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board cut to discretionary programs in this function.

FUNCTION 800 -- GENERAL GOVERNMENT

The committee-reported resolution appears to be based on two assumptions in this function: 1) freeze on all discretionary programs at the 1990 level; and 2) inclusion of President's GSA budget amendment ($1.4 billion in BA and less than $50 million in outlays), which would fund construction of 22 Federal buildings. The outyear numbers are simply inflated from the 1991 base. Implicit in the resolution is the expectation that approximately 25 new Federal buildings would be constructed every year for the next five years. This proposal rejects funding the President's IRS initiative and the Legislative Branch increase.

In addition, the committee-reported resolution includes at least $5.5 billion in unallocated nondefense discretionary cuts, which would equal a 5.0 percent across-the-board to discretionary programs in this function.

FUNCTION 920 -- ALLOWANCES

The committee-reported resolution assumes the President's proposal to reduce government mail costs by $0.2 billion in BA and outlays every year.

FUNCTION 950 -- UNDISTRIBUTED OFFSETTING RECEIPTS

The committee-reported resolution includes a net of $9.9 billion in deficit reduction in 1991 in this function. This amount appears to be composed of $5.8 billion in unspecified user fees reconciled to the Finance Committee and $5.5 billion in unspecified spending reductions which would have to be crosswalked to the Appropriations Committee. The user fees reconciled to the Finance Committee are the same amount that the President included in his budget. However, since many of the President's user fee proposals were included in other functions, this amount does not necessarily assume the President's policies. In addition, $1.4 billion in pay offsets, which are reductions in intergovernmental receipts, are included in this function.

REVENUES

The committee reported resolution increases revenues by $15.3 billion in 1991, $18.9 billion in 1992, $20.5 billion in 1993, $20.8 billion in 1994, and $21.3 billion in 1995 above the CBO baseline. Of this amount, the Finance Committee in the Senate and the Ways and Means Committee in the House are instructed to increase revenues by $13.9 billion in each year 1991-1995. Small amounts of revenue increases are also reconciled to the Labor and Human Resources and Banking Committees in both the Senate and the House. The revenue totals in the committee reported resolution assume the compliance portion of Senator Conrad's "Fair Share" proposal.

Senator Sasser justified the level of revenue increase by saying that it exactly matches the level recommended in the President's budget. <u>In fact, the committee reported resolution recommends $1.4 billion more revenues in 1991 and $55.1 more revenues over the period 1991-1995 than the President's budget</u>. Moreover, if one were to reconcile the President's proposed $13.9 billion in revenues, $10.7 would go to the Finance Committee and $3.2 billion would go to other committees.

Revenues in Committee Reported Resolution
(Fiscal years, $ billions)

	1991	1992	1993	1994	1995
CBO Alternative Baseline	1137.0	1203.8	1276.6	1354.4	1437.5
Revenues					
Recon. to Finance Cmte.	13.9	13.9	13.9	13.9	13.9
Recon. to other cmtes.	0.2	0.3	0.4	0.4	0.5
IRS Compliance	1.1	4.7	6.2	6.5	6.9
Total change	15.3	18.9	20.5	20.8	21.3
Cmte. reported revenues	1152.3	1222.7	1297.1	1375.2	1458.8
Fair Share Amnesty	10.0	7.0	7.0	7.0	7.0
Total new revenues	25.3	25.9	27.5	27.8	28.3
Fees (contributions)	5.8	5.8	5.8	5.8	5.8
Total new receipts	31.1	31.7	33.3	33.6	34.1

FAIR SHARE

The Fair Share proposal, first offered by Senator Conrad and rejected by the Committee during markup, will be included in the report to accompany the committee reported resolution. The Fair Share proposal equals $11.1 billion in "soft" savings. It is made up of two components: compliance revenues, which amount to $1.1 billion in 1991, and revenues resulting from a tax amnesty program, which amount to $10.0 billion in 1991.

The Congressional Budget Office has stated that it will not score savings associated with any compliance effort until and unless the Appropriations Committee takes action to add funds to the IRS. The committee-reported resolution does not assume any increased funding for this purpose. Treasury, CBO and GAO agree that recent compliance programs have actually lost revenue in the first few years. It is not until the third year that a positive revenue stream is realized, and that is very small. The probability that an additional $1.1 billion in revenues can be realized in 1991 through new compliance efforts is very, very small.

The second part of the Fair Share proposal is a 6-month amnesty program which would exempt tax evaders from all criminal and civil penalties and forgive one-half of interest penalties. The $10 billion figure is based on one study which extrapolates state data from successful amnesty programs to the federal level. Many have criticized the study as weak -- state experience is neither uniformly positive nor a good predictor of success at the federal level. CBO has steered clear of trying to give a revenue estimate to this amnesty program.

The revenues from the Fair Share proposal are not reconciled and cannot be counted on to produce any "real" deficit reduction.

FEES AND CONTRIBUTIONS

The Finance and Ways and Means Committees, in addition to being reconciled for $13.9 billion in new revenues in 1991, are also reconciled for $5.8 billion in "contributions." This means that the Finance Committee will be responsible for increasing receipts to the federal government by $19.7 billion in 1991 and by $98.5 billion over 1991-1995. Note that this total does not include fees or contributions which may be reconciled to committees other than Finance or Ways and Means.

Senator Sasser justifies the number for new user fees by comparing it with the President's proposal. However, if reconciled, less than 20 percent of the President's new fees would go to the Finance Committee; the rest go to other committees.

TOTAL NEW RECEIPTS

All told, this resolution would increase taxes by $31.1 billion in 1991 -- and by 163.8 billion in new taxes over the period 1991-1995.

RECONCILIATION IN THE SENATE

The committee-reported resolution reconciles $25.5 billion of the $43 billion of savings that are claimed to be hard, scorable savings.

While this total amount of 1991 reconciled savings is equivalent to what the President proposed in his budget, the mix is much different. The President proposes that only $9.2 billion of this total, or 36 percent, consist of revenues. The committee-reported resolution relies on $19.9 billion, or 78 percent, to come from revenues and user fees that are reconciled to the Finance Committee. The House only reconciles $19.1 billion of its claimed deficit reduction savings, $13.9 billion of which is revenues.

SENATE-REPORTED BUDGET COMPARED TO PRESIDENT'S BUDGET RECONCILIATION ASSUMPTION

(Deficit reduction in $ billions)

	SENATE		PRESIDENT		SENATE VS. PRES.	
SENATE COMMITTEE	1991	Total 1991–95	1991	Total 1991–95	1991	Total 1991–95
SPENDING:						
Agriculture	---	---	-3.0	-34.1	+3.0	+34.1
Armed Services	-0.2	-1.6	-1.6	-6.9	+1.4	+5.4
Banking	-0.6	-4.0	-0.5	-5.1	-0.1	+1.1
Commerce	-0.3	-1.7	-0.6	-2.1	+0.3	+0.4
Energy	-0.2	-1.1	-(*)	-5.9	-0.2	+4.8
Environment	-0.2	-1.2	-0.3	-1.9	+0.1	+0.7
Finance	-2.0	-26.3	-5.7	-51.6	+3.7	+25.3
Foreign Relations	---	---	-(*)	-0.1	+(*)	+0.1
Governmental Affairs	-1.7	-6.0	-3.7	-26.5	+2.0	+20.5
Judiciary	---	---	-0.2	-1.1	+0.2	+1.1
Labor and Human Resources	-0.1	-0.4	-0.2	-1.9	+0.1	+1.5
Small Business	-0.1	-0.3	-0.1	-0.5	+0.1	+0.3
Veterans Affairs	-0.4	-2.3	-0.5	-2.9	+0.1	+0.6
TOTAL SPENDING	-5.7	-44.8	-16.3	-141.0	+10.6	+96.2
FEES:						
Finance	-5.8	-28.8	---	---	-5.8	-28.8
REVENUES:						
Agriculture	---	---	-(*)	-0.2	+(*)	+0.2
Banking	-0.1	-0.5	-0.1	-0.4	-(*)	-0.1
Energy	---	---	---	-0.7	---	+0.7
Environment	---	---	-(*)	-0.1	+(*)	+0.1
Finance	-13.9	-69.5	-8.9	-10.7	-5.0	-58.8
Governmental Affairs	---	---	-(*)	-0.2	+(*)	+0.2
Labor and Human Resources	-0.1	-1.3	---	---	-0.1	-1.3
TOTAL REVENUES	-14.1	-71.3	-9.2	-13.5	-4.9	-57.8
TOTAL RECONCILIATION	-25.5	-144.9	-25.5	-154.5	-0.1	9.5

NOTE: In the comparison column, a minus sign (-) indicates that the Senate-reported resolution has greater reconciliation; a plus sign (+) indicates that the President would have greater savings.

A description of the individual reconciliation instructions to Senate committees follows.

AGRICULTURE, NUTRITION AND FORESTRY

The committee-reported budget resolution does not reconcile the Senate Agriculture Committee. The President's budget proposed $3.1 billion in 1991 savings and a total of $34.4 billion for 1991-1995. The House budget resolution reconciled the Agriculture Committee for $920 million in 1991 and a total of $8.8 billion for 1991-1995. Although the committee-reported budget resolution does not require agriculture to contribute to deficit reduction, if Gramm-Rudman-Hollings targets are not met, these programs automatically would be cut by at least $0.7 billion in 1991.

ARMED SERVICES

The committee-reported budget resolution would reconcile the Armed Services Committee for $220 million in 1991 and a total of $1.6 billion over the five year period. The President's budget would reconcile this committee for $1.0 billion from leasing of the Naval Petroleum Reserve and $0.6 billion from a freeze on military retirees. The House budget resolution does not reconcile this committee.

BANKING, HOUSING AND URBAN AFFAIRS

As reported to the Senate, the budget resolution would reconcile the Banking Committee for $660 million in 1991 and a total of $4.5 billion over the five year period, a portion of which are revenues. The savings may partially be achieved by $352 million in Federal Housing Administration (FHA) reforms, $100 million in revenue from increasing the Securities Exchange Commission (SEC) stock transaction fees, and $50 million from counting premium income from the National Flood Insurance program.

The President's budget would reconcile this committee for $538 million in 1991, while the House calls for $205 million from the Banking Committee.

COMMERCE, SCIENCE AND TRANSPORTATION

The committee-reported budget resolution would reconcile this committee for $300 million in outlay savings in 1991 and a total of $1.7 billion over the five year period. The Committee could achieve these savings by increasing fees to the Coast Guard, Commerce Department, and from railroad safety inspections. Another option would be to allow the Federal Communication Commission to award non-broadcasting licenses through an auction.

The President's budget would reconcile this committee for $607 million in 1991, while the House-passed budget resolution calls for $200 million from the Senate Commerce Committee.

ENERGY AND NATURAL RESOURCES

The Energy Committee would be instructed to come up with $160 million in 1991 savings. In its deficit reduction options publication, CBO identifies the following proposals in the Energy Committee's jurisdiction: increasing grazing fees ($20 million), increasing federal water prices ($15 million), cutting the states' share of mineral and timber receipts ($180 million), or increasing recreation user fees ($150 million).

The President's budget would require this Committee to produce $8 million in 1991 savings. The House instructions to this committee assume $28 million is derived from repeal of the Tongass permanent appropriation.

ENVIRONMENT AND PUBLIC WORKS

The committee-reported resolution would reconcile this committee for $220 million in 1991 savings. This is probably assumed to be an increase in Nuclear Regulatory Commission (NRC) fees, a proposal the Senate has consistently opposed. The President's budget would reconcile this committee for $356 million and the House-passed assumes $299 million in its reconciliation instruction to this committee.

FINANCE

The committee-reported resolution would reconcile the Finance committee for a total of $21.7 billion in deficit reduction -- 85 percent of the total reconciled savings in 1991. Of this amount, $2.0 billion is outlays -- presumably Medicare savings, $13.9 billion is taxes, and $5.8 billion consists of alleged user fees that are reconciled as "contributions". Over the 5 year period, the Finance Committee would be reconciled for $26.3 billion in outlay savings (Medicare) and $98.8 billion in receipts (taxes and user fees) over the five year period.

About $1 billion in Medicare savings may be achieved by extending current law provisions that expire at the end of 1990. Added savings could be achieved by reducing inflation updates to providers, or otherwise reducing payments to providers.

The President's budget would reduce Medicare by $5.2 billion, the House would reconcile a $1.7 billion cut, and a sequester would cut Medicare by $2 billion.

The President's budget would reconcile Finance to raise $8.9 billion in revenues in 1991, and the House reconciles Ways and Means to raise $13.9 billion in revenues in 1991.

GOVERNMENTAL AFFAIRS

This committee receives the second largest reconciliation instruction, amounting to $1.7 billion in 1991. These savings probably could be achieved through a combination of the following: (1) extension of the current law provision for lump-sum retirement distributions or a possible elimination of this provision, (2) increased Postal Service contributions for retirement COLA and health benefits, and (3) reforms in the federal employee health benefits program (FEHB). The President would require this committee to produce $3.7 billion in savings and the House assumes $1 billion in retirement reform savings in its reconciliation instruction to this committee.

LABOR AND HUMAN RESOURCES

The committee-reported resolution would reconcile this committee for $180 million in 1991 and $1.7 billion over 5 years, a portion of which are revenues. These savings could be achieved by implementing penalties under OSHA, MSHA, and/or ERISA, or through FDA fees. The House does not reconcile this committee and the President's budget would require $204 million in 1991 savings.

SMALL BUSINESS

The committee-reported budget resolution reconciles the Small Business Committee for $50 million in 1991, probably assumed to be SBA fee increases. The President's budget proposed a $101 million in SBA fees and the House does not reconcile this committee.

VETERANS AFFAIRS

The committee-reported resolution assumes reconciled savings of $380 million in both BA and outlays for this committee. The President's budget would reconcile this committee for $467 million in outlays.

The President's proposals include limiting compensation payments made to veterans with no dependents ($150 million in BA and $138 million in outlay savings), authorizing the recovery of cost of medical care from third party insurers for the treatment of non-service-connected disabilities of insured service-connected-disabled veterans ($88 million in BA and outlay savings), and revisions to current DVA housing "no-bid" formula used to calculate the cost of acquiring foreclosed properties ($112 million in BA and outlays savings).

The House budget resolution would reconcile the Veterans Committee for $220 million in BA and outlays.

Miscellaneous Provisions

Section 5 of the committee-reported resolution displays the budget according to the categories in Senator Sanford's budget process reform legislation, S. 101, even though the Budget Committee, the Governmental Affairs Committee and the full Senate have not yet considered or approved this legislation.

Section 9 of the committee-reported resolution provides a reserve fund that would allow the Finance Committee to increase any and all entitlement spending without limit, as long as it is offset with tax increases. This section undermines the primary purposes of a budget resolution, that is to set fiscal policy through overall spending and revenue levels. In the past, reserve funds have been narrowly drawn for specific programs.

Section 10 of the committee-reported resolution states that CBO reduced the Administration's estimate of new revenue proposals in the President's budget by $4.7 billion (the actual difference is $4.5 billion). The language calls for the President to propose an additional $4.7 billion in revenues to make up this difference. If the President proposes an additional $4.7 billion in revenues, the tax-writing committees' reconciliation instructions would increase by that amount. The language confirms that revenue increases can only be implemented if endorsed by the President.

SENATE–REPORTED BUDGET RESOLUTION FOR 1991
($ Billions)

FUNCTION	1991 BA	1991 OT	1992 BA	1992 OT	1993 BA	1993 OT	1994 BA	1994 OT	1995 BA	1995 OT
050 Defense	285.6	293.9	285.4	289.9	285.4	285.1	285.5	287.0	285.5	282.9
150 International	19.1	16.9	19.8	18.0	20.6	18.5	21.3	18.6	22.6	19.6
250 Science & Space	16.6	16.0	17.3	17.0	18.0	17.6	18.7	18.4	19.5	19.1
270 Energy	6.0	4.1	5.3	4.0	6.0	4.8	6.4	5.2	6.8	4.8
300 Natural Resources	18.0	18.6	19.1	19.2	19.8	19.8	20.5	20.2	21.3	20.7
350 Agriculture	20.2	16.4	23.0	17.6	20.6	16.3	18.8	15.9	19.8	15.2
370 Commerce & Housing	44.7	44.9	14.6	4.4	26.7	14.6	15.1	2.0	16.6	4.1
400 Transportation	32.3	31.2	34.0	33.5	35.4	35.4	36.3	37.1	37.8	38.7
450 Community Development	8.3	7.9	8.1	7.4	8.2	7.5	8.7	7.8	8.8	8.1
500 Education	47.5	42.4	48.4	47.2	49.5	48.8	51.6	50.3	53.7	52.1
550 Health	65.7	64.5	73.2	72.6	80.6	80.2	88.8	88.2	97.8	96.8
570 Medicare	123.6	103.0	134.6	116.5	147.3	129.9	161.0	144.5	175.4	160.0
600 Income Security	202.1	155.7	209.8	164.1	217.4	175.0	228.0	186.1	236.9	194.4
650 Social Security	340.2	265.8	368.0	282.7	398.3	300.5	431.0	318.7	465.5	337.7
700 Veterans Benefits	32.1	31.4	32.9	32.4	33.8	33.6	34.8	36.0	35.7	35.7
750 Justice	13.1	13.0	13.8	14.1	14.4	14.3	15.0	14.8	15.6	15.5
800 General Government	12.2	10.8	13.0	11.7	13.5	12.3	13.9	12.8	14.4	13.6
900 Net Interest	182.0	182.0	183.2	183.2	185.0	185.0	183.4	183.4	178.6	178.6
920 Allowances	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2	–0.3	–0.3
950 Offsetting Receipts	–48.7	–48.7	–50.3	–50.3	–51.4	–51.4	–53.4	–53.4	–55.3	–55.3
		(–90.2)		(–71.4)		(–97.8)		(–110.6)		(–125.9)
SPENDING	1,420.4	1,269.6	1,453.0	1,285.0	1,528.9	1,347.6	1,585.2	1,393.4	1,656.7	1,442.0
		(1,228.1)		(1,263.9)		(1,301.2)		(1,336.2)		(1,371.4)
% OF GNP		21.9%		20.8%		20.5%		19.9%		19.3%
REVENUES		1,162.3		1,229.7		1,304.1		1,382.2		1,465.8
		(1,179.5)		(1,254.6)		(1,342.5)		(1,421.2)		(1,500.0)
% OF GNP		20.0%		19.9%		19.8%		19.7%		19.6%
DEFICIT/SURPLUS		–107.3		–55.3		–43.5		–11.2		+23.8
		(–48.6)		(–9.3)		(+41.3)		(+85.0)		(+128.6)
% OF GNP		–1.8%		–0.9%		–0.7%		–0.2%		0.3%

NOTE: TOTALS INCLUDING ADJUSTMENTS FOR OMB ECONOMICS AND TECHNICALS SHOWN IN PARENTHESES ().

SENATE-REPORTED BUDGET RESOLUTION COMPARED TO CBO ALTERNATIVE BASELINE
($ Billions)

FUNCTION	1991 BA	1991 OT	1992 BA	1992 OT	1993 BA	1993 OT	1994 BA	1994 OT	1995 BA	1995 OT	1991-95 BA	1991-95 OT
050 Defense	-30.2	-13.0	-43.0	-27.7	-56.1	-43.2	-70.0	-57.8	-84.2	-72.5	-283.5	-214.2
150 International	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
250 Science & Space	1.4	0.8	1.4	1.3	1.5	1.5	1.5	1.6	1.7	1.6	7.5	6.8
270 Energy	-0.3	-0.4	-0.3	-0.4	-0.4	-0.4	-0.6	-0.4	-0.6	-0.5	-2.2	-2.1
300 Natural Resources	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-1.0
350 Agriculture	0.1	0.1	0.2	0.2	0.4	0.3	0.4	0.4	0.5	0.5	1.6	1.5
370 Commerce & Housing	-0.2	-0.6	-0.3	-0.6	-0.3	-0.6	-0.4	-0.7	-0.5	-0.7	-1.7	-3.2
400 Transportation	1.0	0.6	1.6	1.8	1.8	2.7	1.6	3.3	1.7	3.7	7.7	12.1
450 Community Development	0.4	-0.1	0.4	-0.2	0.4	0.1	0.5	0.1	0.5	0.2	2.2	0.1
500 Education	4.7	1.2	4.8	4.3	5.1	4.8	5.2	4.9	5.5	5.1	25.3	20.3
550 Health	0.0	-0.5	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
570 Medicare	-1.1	-1.9	-2.2	-3.5	-3.7	-5.1	-5.1	-6.9	-6.8	-8.8	-18.9	-26.2
600 Income Security	3.2	-1.2	3.4	-0.5	3.5	1.4	3.7	2.0	3.8	2.4	17.6	4.1
650 Social Security	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.3
700 Veterans Benefits	0.2	-0.1	0.0	0.0	-0.1	0.0	-0.2	-0.1	-0.4	-0.3	-0.5	-0.5
750 Justice	-0.5	0.4	-0.4	0.2	-0.4	-0.3	-0.4	-0.4	-0.4	-0.3	-2.1	-0.4
800 General Government	1.0	-0.4	1.3	0.1	1.4	0.7	1.5	0.9	1.5	1.3	6.7	2.6
900 Net Interest	-2.0	-2.0	-6.8	-6.8	-13.0	-13.0	-20.4	-20.4	-29.2	-29.2	-71.4	-71.4
920 Allowances	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-1.1	-1.1
950 Offsetting Receipts	-9.9	-9.9	-9.4	-9.4	-8.7	-8.7	-8.2	-8.2	-7.7	-7.7	-43.9	-43.9
SPENDING	-32.9	-27.6	-49.8	-41.7	-68.9	-60.0	-91.4	-82.2	-115.5	-106.1	-358.5	-317.6
REVENUES		25.3		25.9		27.5		27.8		28.3		134.8
DEFICIT		52.8		67.7		87.4		109.7		134.0		451.6

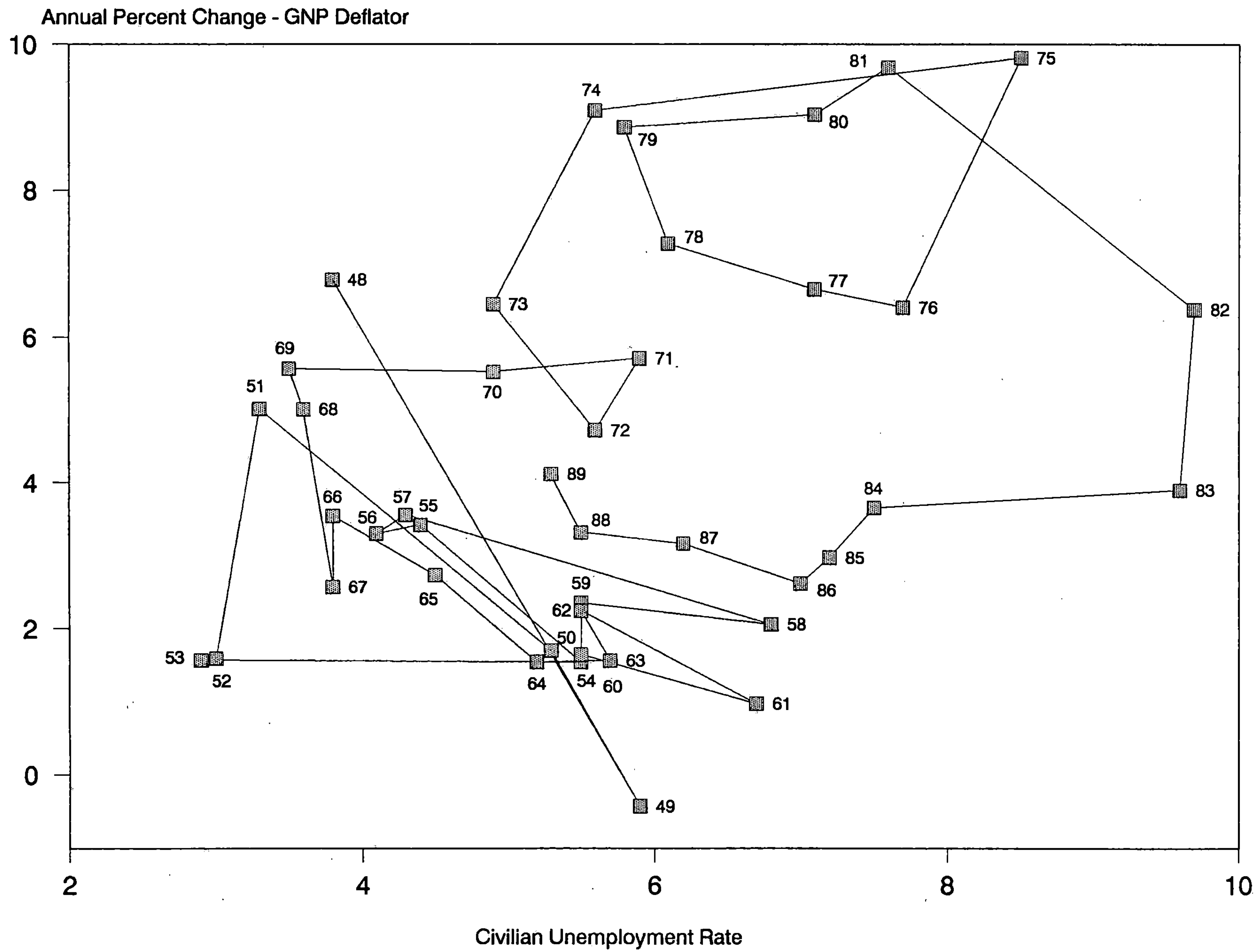
SENATE-REPORTED BUDGET RESOLUTION COMPARED TO PRESIDENT (AS REESTIMATED BY CBO)
($ Billions)

FUNCTION	1991 BA	1991 OT	1992 BA	1992 OT	1993 BA	1993 OT	1994 BA	1994 OT	1995 BA	1995 OT	1991-95 BA	1991-95 OT
050 Defense	-21.3	-9.8	-27.1	-19.3	-32.1	-27.2	-36.1	-32.1	-40.2	-37.0	-156.8	-125.4
150 International	-1.2	-0.9	0.1	-0.2	0.4	0.1	0.6	0.1	1.1	0.4	1.0	-0.5
250 Science & Space	-1.3	-0.7	-3.5	-2.3	-4.7	-3.8	-5.4	-4.8	-5.5	-5.3	-20.4	-16.9
270 Energy	2.0	0.2	1.0	0.9	1.1	1.2	1.7	1.6	2.3	2.2	8.1	6.1
300 Natural Resources	0.1	-0.2	0.8	0.1	1.8	0.8	2.9	1.5	4.5	2.7	10.1	4.9
350 Agriculture	2.3	2.1	4.6	4.6	5.7	6.2	6.4	6.7	7.6	7.7	26.6	27.3
370 Commerce & Housing	1.1	0.7	1.1	1.1	1.3	1.5	1.5	1.8	1.7	2.1	6.7	7.2
400 Transportation	2.0	1.7	2.7	3.5	3.7	4.7	4.6	5.7	5.4	6.7	18.4	22.3
450 Community Development	1.4	0.2	1.8	0.8	2.1	1.5	2.4	1.9	2.7	2.3	10.4	6.7
500 Education	4.6	1.5	4.4	3.1	5.1	4.6	6.2	5.3	7.6	6.4	27.9	20.9
550 Health	0.8	0.3	1.3	0.9	1.7	1.5	2.1	1.9	2.5	2.3	8.4	6.9
570 Medicare	-1.0	3.2	-0.9	3.9	-0.6	4.3	-0.8	4.8	-0.8	5.4	-4.1	21.6
600 Income Security	4.0	2.6	7.3	5.2	7.0	8.0	7.4	9.5	8.5	10.4	34.2	35.7
650 Social Security	-2.7	0.0	-3.6	0.1	-1.8	0.2	-3.5	0.3	-4.0	0.3	-15.6	0.9
700 Veterans Benefits	0.3	0.1	0.0	0.2	0.1	0.3	0.1	0.3	0.1	0.3	0.6	1.2
750 Justice	0.5	0.5	0.5	0.4	0.1	0.0	0.4	0.3	0.5	0.6	2.0	1.8
800 General Government	0.8	-0.7	1.4	-0.4	1.9	0.5	2.2	1.0	2.4	1.6	8.7	2.0
900 Net Interest	-0.9	-0.9	-3.3	-3.3	-6.3	-6.3	-9.4	-9.4	-12.6	-12.6	-32.5	-32.5
920 Allowances	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	4.8	4.8
950 Offsetting Receipts	-8.3	-8.3	-7.1	-7.1	-6.3	-6.3	-7.6	-7.6	-6.5	-6.5	-35.8	-35.8
SPENDING	-15.8	-7.6	-17.5	-6.6	-18.8	-7.3	-23.3	-10.2	-21.4	-9.2	-96.8	-40.9
REVENUES		15.9		21.9		27.8		26.0		25.8		117.4
DEFICIT		23.5		28.5		35.1		36.2		35.0		158.3

SENATE-REPORTED BUDGET RESOLUTION COMPARED TO HOUSE-PASSED BUDGET RESOLUTION
($ Billions)

FUNCTION	1991		1992		1993		1994		1995		1991-95	
	BA	OT	BA	OT	BA	OT	BA	OT	BA	OT	BA	OT
050 Defense	2.6	-1.5	4.9	2.5	10.0	7.3	15.1	11.9	19.9	16.3	52.5	36.5
150 International	-1.2	-0.7	-0.6	-0.6	-0.1	-0.5	-0.1	-0.6	0.3	-0.5	-1.7	-2.9
250 Science & Space	0.0	0.0	-2.4	-1.6	-3.2	-2.6	-3.5	-3.2	-3.6	-3.5	-12.7	-10.9
270 Energy	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.2	0.0	-0.3	-0.2	-0.7	-0.5
300 Natural Resources	-0.8	-0.4	-0.7	-0.6	-0.8	-0.7	-0.7	-0.8	-0.7	-0.7	-3.7	-3.2
350 Agriculture	0.8	0.8	1.6	1.7	2.2	2.1	2.2	2.1	2.3	2.3	9.1	9.0
370 Commerce & Housing	-0.1	-0.5	-0.5	-0.7	-0.5	-0.8	-0.5	-0.8	-0.6	-0.9	-2.2	-3.7
400 Transportation	0.5	0.6	0.5	1.1	0.2	1.0	-0.5	0.3	-0.4	-0.7	0.3	2.3
450 Community Development	0.0	0.1	-0.1	-0.4	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3	-0.4	-1.2
500 Education	-1.2	-0.8	-5.0	-4.4	-5.7	-5.4	-6.4	-6.3	-7.1	-7.1	-25.4	-24.0
550 Health	-2.1	-1.6	-3.2	-3.0	-3.6	-3.4	-4.0	-3.9	-4.4	-4.4	-17.3	-16.3
570 Medicare	-1.2	-0.3	-2.2	-1.3	-3.7	-2.7	-5.2	-4.3	-6.8	-6.0	-19.1	-14.6
600 Income Security	-0.1	-0.8	-1.0	-1.2	-1.6	-1.0	-2.3	-1.3	-2.9	-2.0	-7.9	-6.3
650 Social Security	0.0	0.0	-0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	-0.1	0.2
700 Veterans Benefits	0.1	-0.2	-0.2	0.0	-0.2	0.0	-0.3	-0.2	-0.3	-0.3	-0.9	-0.7
750 Justice	0.3	0.4	0.4	0.3	-0.2	-0.3	0.0	0.0	0.0	0.1	0.5	0.5
800 General Government	-0.7	-0.6	0.2	-0.7	0.5	-0.5	0.8	-0.2	0.8	0.2	1.6	-1.8
900 Net Interest	-0.6	-0.6	-1.9	-1.9	-3.6	-3.6	-5.2	-5.2	-6.6	-6.6	-17.9	-17.9
920 Allowances	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-1.1	-1.1
950 Offsetting Receipts	-4.0	-3.7	-3.1	-3.1	-2.1	-2.1	-1.3	-1.3	-0.5	-0.5	-11.0	-10.7
SPENDING	-8.0	-10.1	-13.6	-14.2	-12.8	-13.7	-12.4	-14.2	-11.3	-15.1	-58.1	-67.3
REVENUES		6.0		1.5		7.1		2.4		0.9		17.9
DEFICIT		16.1		15.7		20.8		16.6		16.0		85.2

Postwar Unemployment and Inflation



Budget

THE CHIEF of STAFF
has seen

98TH CONGRESS

H. Con. Res. 91 - Jones- First Con. Resolution on the budget, Fiscal Year 1984

3/23/83 Agreeing to resolution 229-196
(D:225-35; R:4-161)

H. Con. Res. 280 - Jones - Budget Resolution for Fiscal Year 1985

4/5/84 Rejected amendment by Dixon
(Black Caucus) 76-333
(D:76-172; R:0-161)

Democrats voting for:

--------------------Among 76 Members Who Voted 'YES'--------------------

Democrats(76):

ACKERMAN (D-NY)
ADDABBO (D-NY)
AKAKA (D-HI)
ANDERSON (D-CA)
BATES (D-CA)
BEILENSON (D-CA)
BERMAN (D-CA)
BIAGGI (D-NY)
BOGGS (D-LA)
BONIOR (D-MI)
BOXER (D-CA)
BROWN, GEORGE (D-CA)
BURTON, SALA (D-CA)
CLAY (D-MO)
COLLINS, CARDISS (D-IL)
CONYERS (D-MI)
COOPER (D-TN)
COYNE, WILLIAM (D-PA)
CROCKETT (D-MI)
DELLUMS (D-CA)
DIXON, JULIAN (D-CA)
DOWNEY (D-NY)
DYMALLY (D-CA)
EARLY (D-MA)
EDGAR (D-PA)
EDWARDS, DON (D-CA)
FERRARO (D-NY)
FLORIO (D-NJ)
FOGLIETTA (D-PA)
FORD, HAROLD (D-TN)
FOWLER (D-GA)
FRANK (D-MA)
GARCIA (D-NY)
GONZALEZ (D-TX)
GRAY (D-PA)
HALL, KATIE (D-IN)
HAYES, CHARLES (D-IL)
HOWARD (D-NJ)
JACOBS (D-IN)
KASTENMEIER (D-WI)
KILDEE (D-MI)
KOSTMAYER (D-PA)
LELAND (D-TX)
LOWRY (D-WA)
MARKEY (D-MA)
MARTINEZ (D-CA)
MILLER, GEORGE (D-CA)
MINISH (D-NJ)
MITCHELL, PARREN (D-MD)
MOAKLEY (D-MA)
OAKAR (D-OH)
OBERSTAR (D-MN)
OBEY (D-WI)
OTTINGER (D-NY)
OWENS (D-NY)
RAHALL (D-WV)
RODINO (D-NJ)
ROYBAL (D-CA)
SABO (D-MN)
SAVAGE (D-IL)
SCHEUER (D-NY)
SCHROEDER (D-CO)
SCHUMER (D-NY)
SEIBERLING (D-OH)
SHANNON (D-MA)
STARK (D-CA)
STOKES (D-OH)
STUDDS (D-MA)
TOWNS (D-NY)
VENTO (D-MN)
WAXMAN (D-CA)
WEAVER (D-OR)
WEISS (D-NY)
WHEAT (D-MO)
WIRTH (D-CO)
YATES (D-IL)

4/5/84 Rejected Amendment by Latta (Administration) 107-311
(D:2-225; R:105-56)

Democrats voting for:

Cooper (Tn.) Patman (Tex.)

4/5/84 Passage of Resolution 250-168
(D:229-28; R:21-140)

Democrats voting against:

--------------------Among 168 Members Who Voted 'NO'------------------------

Democrats(28):

APPLEGATE (D-OH)
AUCOIN (D-OR)
BARNARD (D-GA)
LLOYD (D-TN)
BREAUX (D-LA)
BYRON (D-MD)
CARR (D-MI)
CROCKETT (D-MI)
DANIEL, DAN (D-VA)
DARDEN (D-GA)
DORGAN (D-ND)
ECKART (D-OH)
ENGLISH (D-OK)
FEIGHAN (D-OH)
GAYDOS (D-PA)
GONZALEZ (D-TX)
HALL, RALPH (D-TX)
HARKIN (D-IA)
LEATH (D-TX)
LEVITAS (D-GA)
MURPHY (D-PA)
PATMAN (D-TX)
ROEMER (D-LA)
SHELBY (D-AL)
SLATTERY (D-KS)
SMITH, NEAL (D-IA)
TAUZIN (D-LA)
VANDERGRIFF (D-TX)

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H. Con. Res. 152 - Gray - Budget Resolution for Fiscal Year 1986

5/22/85 Rejected Dannemeyer Amendment 39-382
(D:0-247; R:38-135)

5/22/85 Rejected Leland Amendment (Black Caucus) 54-361
(D:53-180; R:1-171)

Democrats voting for:

--------------------Among 54 Members Who Voted 'YES'------------------------

Democrats(53):

ACKERMAN (D-NY)
ADDABBO (D-NY)
AKAKA (D-HI)
ALEXANDER (D-AR)
BATES (D-CA)
BEILENSON (D-CA)
BERMAN (D-CA)
BONIOR (D-MI)
BOXER (D-CA)
BURTON, SALA (D-CA)
CLAY (D-MO)
COLLINS, CARDISS (D-IL)
CONYERS (D-MI)
COYNE, WILLIAM (D-PA)
DELLUMS (D-CA)
DIXON, JULIAN (D-CA)
DYMALLY (D-CA)
EARLY (D-MA)
EDWARDS, DON (D-CA)
FORD, HAROLD (D-TN)
FROST (D-TX)
GARCIA (D-NY)
GONZALEZ (D-TX)
HAWKINS, AUGUSTUS (D-CA)
HAYES (D-IL)
HOYER (D-MD)
KASTENMEIER (D-WI)
KILDEE (D-MI)
LELAND (D-TX)
LOWRY (D-WA)
MARKEY (D-MA)
MINETA (D-CA)
MITCHELL, PARREN (D-MD)
MOODY (D-WI)
NATCHER (D-KY)
OAKAR (D-OH)
OBERSTAR (D-MN)
OWENS (D-NY)
PERKINS (D-KY)
RAHALL (D-WV)
RANGEL (D-NY)
RICHARDSON (D-NM)
ROYBAL (D-CA)
SAVAGE (D-IL)
SCHROEDER (D-CO)
SEIBERLING (D-OH)
STARK (D-CA)
STOKES (D-OH)
TOWNS (D-NY)
WEAVER (D-OR)
WEISS (D-NY)
WHEAT (D-MO)
YATES (D-IL)

5/23/85 Rejected Latta Amendment (Administration) 102-329
(D:1-250; R:101-79)

Democrat voting for: Hutto (Fla.)

5/23/85 Passage of Resolution 258-170
(D:234-15; R:24-155)

Democrats voting against:

Applegate (Oh.)	Hall (Tex.)
Carr (Mi.)	Kanjorski (Pa.)
Conyers (Mich.)	Kolter (Pa.)
Daniel (Va.)	Nelson (Fla.)
English (Ok.)	Penny (Mn.)
Gaydos (Pa.)	Roemer (La.)
Gonzales (Tex.)	Ray (Ga.)
	Yatron (Pa.)

<u>H. Con. Res. 296</u> - Gray - Budget Resolution for Fiscal Year 1987

3/13/86 Failed passage 12-312
(D:0-238; R:12-74)

<u>H. Con. Res. 337</u> - Gray - Budget Resolution for FY 1987

5/15/86 Rejected Dannemeyer Amendment 73-338
(D:3-235; R:70-103)

Democrats voting for:

Anderson (Ca.) Daniel (Va.) Stratton (N.Y.)

5/15/86 Rejected Leland Amendment (Black Caucus) 61-359
(D:61-183; R:0-176)

Democrats voting for:

--------------------Among 61 Members Who Voted 'YES'--------------------

Democrats(61):

ACKERMAN (D-NY)
AKAKA (D-HI)
ALEXANDER (D-AR)
BARNES (D-MD)
BEDELL (D-IA)
BEILENSON (D-CA)
BERMAN (D-CA)
BOGGS (D-LA)
BONIOR (D-MI)
BOXER (D-CA)
BROWN, GEORGE (D-CA)
BURTON, SALA (D-CA)
CLAY (D-MO)
COLLINS, CARDISS (D-IL)
CONYERS (D-MI)
COYNE, WILLIAM (D-PA)
CROCKETT (D-MI)
DELLUMS (D-CA)
DIXON, JULIAN (D-CA)
DYMALLY (D-CA)
EDWARDS, DON (D-CA)
EVANS, LANE (D-IL)
FOGLIETTA (D-PA)
FORD, HAROLD (D-TN)
FRANK (D-MA)
GARCIA (D-NY)
GONZALEZ (D-TX)
HAWKINS, AUGUSTUS (D-CA)
HAYES (D-IL)
HOYER (D-MD)
JACOBS (D-IN)
KASTENMEIER (D-WI)
KILDEE (D-MI)
LEHMAN, WILLIAM (D-FL)
LELAND (D-TX)
LOWRY (D-WA)
MARKEY (D-MA)
MARTINEZ (D-CA)
MIKULSKI (D-MD)
MILLER, GEORGE (D-CA)
MINETA (D-CA)
MITCHELL, PARREN (D-MD)
MOODY (D-WI)
OAKAR (D-OH)
OWENS (D-NY)
PERKINS (D-KY)
RANGEL (D-NY)
RODINO (D-NJ)
ROYBAL (D-CA)
SAVAGE (D-IL)
SCHROEDER (D-CO)
STARK (D-CA)
STOKES (D-OH)
TORRES (D-CA)
TOWNS (D-NY)
TRAFICANT (D-OH)
VISCLOSKY (D-IN)
WAXMAN (D-CA)
WEISS (D-NY)
WHEAT (D-MO)
YATES (D-IL)

5/15/86 Rejected Latta Amendment (Administration) 145-280
(D:0-248; R:145-32)

5/15/86 Passage of Resolution 245-179
(D:228-19; R:17-160)

Democrats voting against:

Bennett (FL)
Boner (TN)
Byron (MD)
Carr (MI)
Coleman (TX)
Dyson (MD)
English (OK)
Hall (TX)
Hutto (FL)
Lloyd (TN)
McCloskey (IN)
McCurdy (OK)
Mrazek (NY)
Reid (NV)
Solarz (NY)
Stallings (ID)
Stark (CA)
Wirth (CO)
Yates (IL)

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H. Con. Res. 93 - Gray - Budget Resolution for Fiscal Year 1988

4/19/87 Agreed to Gray Amendment 230-192
(D:230-19; R:0-173)

Democrats voting against:

--------------------Among 192 Members Who Voted 'NO'--------------------

Democrats(19):

APPLEGATE (D-OH)
AUCOIN (D-OR)
BATES (D-CA)
BENNETT (D-FL)
CAMPBELL (D-CO)
CARR (D-MI)
ENGLISH (D-OK)
HARRIS (D-AL)
HAYES, JAMES A. (D-LA)
HUTTO (D-FL)
JACOBS (D-IN)
KOLTER (D-PA)
MCCLOSKEY (D-IN)
NELSON, BILL (D-FL)
NICHOLS, WILLIAM (D-AL)
OWENS, WAYNE (D-UT)
PATTERSON (D-SC)
ROEMER (D-LA)
STALLINGS (D-ID)

H. Con. Res. 268 - Gray - Budget Resolution for Fiscal Year 1989

3/23/88 Rejected Dannemeyer Amendment 75-347
(D:2-248; R:73-99)

Democrats voting for: Stenholm (Tex.) Tauzin (La.)

3/23/88 Rejected Penny Amendment to hold discretionary outlays midway between a fiscal year 1988 outlay freeze and levels established by domestic budget summit. 27-394
(D:11-240; R:16-154)

3/23/88 Agreed to Budget Resolution 319-102
(D:227-24; R:92-78)

Democrats voting against:

--------------------Among 102 Members Who Voted 'NO'--------------------

Democrats(24):

APPLEGATE (D-OH)
BEILENSON (D-CA)
CARPER (D-DE)
CARR (D-MI)
DORGAN, BYRON (D-ND)
ENGLISH (D-OK)
FLORIO (D-NJ)
GONZALEZ (D-TX)
HALL, RALPH (D-TX)
HAMILTON (D-IN)
HAYES, JAMES A. (D-LA)
HUGHES (D-NJ)
JACOBS (D-IN)
LAFALCE (D-NY)
MCHUGH (D-NY)
OLIN (D-VA)
PEASE (D-OH)
ROBINSON (D-AR)
SMITH, NEAL (D-IA)
STUDDS (D-MA)
TRAXLER (D-MI)
VISCLOSKY (D-IN)
WATKINS (D-OK)
YATES (D-IL)

101ST CONGRESS

H. Con. Res. 106 - Panetta - Budget Resolution for Fiscal Year 1990

5/4/89 Rejected Dannemeyer Amendment 72-350
(D:5-247; R:67-103)

Democrats voting for:

Bates (Ca.)	Hall (Tex.)	Tauzin (La.)
Early (Mass.)	Stenholm (Tex.)	

5/4/89 Rejected Dellums Amendment (Black Caucus) 81-343
(D:81-170; R:0-173)

--------------------Among 81 Members Who Voted 'YES'--------------------------

Democrats(81):

ACKERMAN (D-NY)
AKAKA (D-HI)
ALEXANDER (D-AR)
BATES (D-CA)
BEILENSON (D-CA)
BERMAN (D-CA)
BOGGS (D-LA)
BONIOR (D-MI)
BOXER (D-CA)
BROWN, GEORGE (D-CA)
CARDIN (D-MD)
CLAY (D-MO)
COELHO (D-CA)
COLLINS (D-IL)
CONYERS (D-MI)
COYNE, WILLIAM (D-PA)
CROCKETT (D-MI)
DE FAZIO (D-OR)
DELLUMS (D-CA)
DIXON, JULIAN (D-CA)
DURBIN (D-IL)
DYMALLY, MERVYN (D-CA)
EARLY (D-MA)
EDWARDS, DON (D-CA)
EVANS, LANE (D-IL)
FLAKE (D-NY)
FOGLIETTA (D-PA)
FORD, HAROLD (D-TN)
FORD, WILLIAM (D-MI)
FRANK (D-MA)
GARCIA (D-NY)
GEPHARDT (D-MO)
GONZALEZ (D-TX)
GRAY, WILLIAM (D-PA)
HAWKINS, AUGUSTUS (D-CA)
HAYES, CHARLES A. (D-IL)
HOYER (D-MD)
KASTENMEIER (D-WI)
KENNEDY, JOSEPH (D-MA)
KILDEE (D-MI)
KOSTMAYER (D-PA)
LEHMAN, WILLIAM (D-FL)
LELAND (D-TX)
LEWIS, JOHN (D-GA)
MARKEY (D-MA)
MATSUI (D-CA)
MCDERMOTT (D-WA)
MFUME (D-MD)
MILLER, GEORGE (D-CA)
MINETA (D-CA)
MOAKLEY (D-MA)
MOODY (D-WI)
NEAL, RICHARD (D-MA)
NOWAK (D-NY)
OAKAR (D-OH)
OBERSTAR (D-MN)
OBEY (D-WI)
OWENS, MAJOR (D-NY)
PAYNE, DONALD (D-NJ)
PELOSI(D-CA)
PERKINS (D-KY)
POSHARD (D-IL)
RAHALL (D-WV)
RANGEL, CHARLES (D-NY)
SABO (D-MN)
SAVAGE (D-IL)
SCHEUER (D-NY)
SCHROEDER (D-CO)
SCHUMER (D-NY)
SOLARZ (D-NY)
STARK (D-CA)
STOKES (D-OH)
STUDDS (D-MA)
TORRES (D-CA)
TOWNS (D-NY)
UDALL (D-AZ)
UNSOELD (D-WA)
VENTO (D-MN)
WEISS (D-NY)
WHEAT (D-MO)
YATES (D-IL)

5/4/89 Rejected Kasich Amendment to provide for a further $8.6 billion in deficit reduction by freezing discretionary spending at the FY 1989 levels. 30-393
(D:2-250; R:28-143)

Democrats voting for: Bates (Ca.) Stenholm (Tex.)

5/4/89 Agreed to resolution 263-157
(D:157-96; R:106-61)

Democrats voting against:

--------------------Among 157 Members Who Voted 'NO'--------------------

Democrats(96):

ALEXANDER (D-AR)
APPLEGATE (D-OH)
BATES (D-CA)
BEILENSON (D-CA)
CAMPBELL, BEN (D-CO)
CARDIN (D-MD)
CARPER (D-DE)
CARR (D-MI)
CLAY (D-MO)
COLEMAN, RONALD (D-TX)
COLLINS (D-IL)
COSTELLO (D-IL)
DE FAZIO (D-OR)
DELLUMS (D-CA)
DERRICK (D-SC)
DORGAN, BYRON (D-ND)
DWYER (D-NJ)
DYMALLY, MERVYN (D-CA)
EARLY (D-MA)
ENGLISH (D-OK)
FRANK (D-MA)
GARCIA (D-NY)
HALL, RALPH (D-TX)
HAMILTON (D-IN)
HAYES, CHARLES A. (D-IL)
HOAGLAND (D-NE)
HUGHES (D-NJ)
JACOBS (D-IN)
JOHNSON, TIMOTHY P. (D-SD)
JONES, BEN (D-GA)
JONTZ (D-IN)
KANJORSKI (D-PA)
KASTENMEIER (D-WI)
KENNEDY, JOSEPH (D-MA)
KOLTER (D-PA)
LAFALCE (D-NY)
LANCASTER (D-NC)
LEATH, MARVIN (D-TX)
LEHMAN, WILLIAM (D-FL)
LEVINE, MEL (D-CA)
LEWIS, JOHN (D-GA)
LONG (D-IN)
LOWEY, NITA (D-NY)
MARKEY (D-MA)
MCHUGH (D-NY)
MFUME (D-MD)
MOODY (D-WI)
MORRISON, BRUCE (D-CT)
MRAZEK (D-NY)
MURPHY (D-PA)
NAGLE (D-IA)
NEAL, RICHARD (D-MA)
NELSON, BILL (D-FL)
NOWAK (D-NY)
OBEY (D-WI)
OLIN (D-VA)
OWENS, MAJOR (D-NY)
OWENS, WAYNE (D-UT)
PALLONE (D-NJ)
PATTERSON (D-SC)
PAYNE, DONALD (D-NJ)
PEASE (D-OH)
PENNY (D-MN)
PERKINS (D-KY)
POSHARD (D-IL)
RAY (D-GA)
ROBINSON (D-AR)
SABO (D-MN)
SARPALIUS (D-TX)
SAVAGE (D-IL)
SCHEUER (D-NY)
SCHROEDER (D-CO)
SHARP (D-IN)
SIKORSKI (D-MN)
SKAGGS (D-CO)
SMITH, NEAL (D-IA)
SPRATT (D-SC)
STAGGERS (D-WV)
STARK (D-CA)
STENHOLM (D-TX)
STUDDS (D-MA)
SYNAR (D-OK)
TALLON (D-SC)
TAUZIN (D-LA)
THOMAS, ROBERT (D-GA)
TORRICELLI (D-NJ)
TOWNS (D-NY)
TRAXLER (D-MI)
VISCLOSKY (D-IN)
WALGREN (D-PA)
WATKINS (D-OK)
WEISS (D-NY)
WHEAT (D-MO)
WILLIAMS, PAT (D-MT)
WILSON, CHARLES (D-TX)
YATES (D-IL)

A

~~12-Mar-90~~

COMPARISON OF PRESIDENT'S BUDGET WITH ROSTENKOWSKI PLAN

(Deficit reduction in $ billions)

	President		Rostenkowski	
	1991	1991-95	1991	1991-95
BASELINE DEFICIT......	161.0	648.0	161.0	648.0
DEFICIT REDUCTION COMPONENTS:				
Defense...............	-3.2	-96.0	-10.0	-150.0
International.........	+0.9	+0.7	-0.3	-2.6
Domestic discretionary 1/....	-1.3	-13.5	-2.7	-23.8
Entitlements:				
Medicare............	-5.2	-48.0	-2.4	-19.4
Agriculture.........	-1.5	-21.7	---	---
COLAs...............	-2.7	-24.2	-9.0	-58.7
Other...............	-3.3	-17.4	---	---
Subtotal..........	-12.7	-111.3	-11.4	-78.1
User fees and other receipts...........	-3.6	-20.3	---	---
Asset sales 2/........	-0.3	-7.9	---	---
Total spending........	-20.2	-248.3	-24.4	-254.5
Revenues..............	-9.4	-16.8	-29.0	-195.2
Debt service..........	-1.1	-40.0	-1.6	-61.9
TOTAL DEFICIT REDUCTION...........	-31.0	-305.1	-55.0	-511.6
PLAN DEFICIT..........	130.0	342.9	106.0	136.4

NOTE: Based on Congressional Budget Office estimates.

1/ Excludes user fee proposals requiring substantive legislation. The CBO re-estimate of the President's Budget [redacted] classified such fees in the discretionary category. All user fees are shown under the "User fees and other receipts" line on this table.

2/ Includes CBO estimates of the following asset sales: Helium fund, power marketing administration, college housing loans, and unspecified.

CONNIE MACK
FLORIDA

cc

United States Senate
WASHINGTON, DC 20510

July 23, 1990

The Honorable George Bush
The Honorable John Sununu
The Honorable Nicholas Brady
The Honorable Richard Darman

The Honorable Lloyd Bentsen
The Honorable Dick Gephardt
The Honorable Tom Foley
The Honorable Wyche Fowler
The Honorable George Mitchell
The Honorable Leon Panetta
The Honorable Jim Sasser
The Honorable Dan Rostenkowski

The Honorable Bill Archer
The Honorable Bob Dole
The Honorable Pete Domenici
The Honorable Bill Frenzel
The Honorable Newt Gingrich
The Honorable Phil Gramm
The Honorable Bob Michel
The Honorable Bob Packwood

Dear Negotiators:

We think it is important for you to have the latest empirical evidence concerning the benefits of a capital gains tax reduction.

Enclosed is a summary of an important study done by the National Center for Policy Analysis that demonstrates the benefits of a capital gains tax cut to the elderly. Note that among taxpayers with an annual income of $25,000 to $40,000, almost half of the elderly had a capital gain compared with only 10 percent for taxpayers as a whole. The average size of the capital gain for these elderly taxpayers was more than four times that for young taxpayers in the same income range. The penalty for holding assets for a long period of time also falls more heavily upon the elderly because the current capital gains tax includes the phantom gains caused by inflation. The elderly are more likely to have held assets for many years as a result of saving for the years of retirement. Indexing for inflation would go a long way towards relieving this burden.

Also enclosed is a summary of a recent study by Dr. Allen Sinai of the Boston Company Economic Advisors. Dr. Sinai's economic research shows that a reduction in capital gains tax rates to 15 percent would have positive effects on the overall economy. His macro-model of the U.S. economy shows how a capital gains rate cut to 15% will raise net revenues to the federal government by $30-40 billion over the 1990-1995 period.

A cut in the capital gains rate will stimulate the economy and increase revenues to the federal government while also benefiting our nation's elderly. Clearly any budget package should include a major capital gains tax cut.

Sincerely,

Connie Mack   Richard Shelby   Bob Kasten

ACCF

AMERICAN COUNCIL FOR CAPITAL FORMATION

The Macroeconomic and Revenue Effects of a Capital Gains Tax Reduction

New research by Dr. Allen Sinai of The Boston Company Economic Advisors, Inc., shows that when macroeconomic "feedback" effects as well as unlocking of unrealized capital gains are estimated, a substantial reduction in capital gains taxes results in stronger economic growth, increased capital formation, and federal tax revenues that are larger than under current law.

Preliminary Results

Dr. Sinai's economic research shows that a reduction in capital gains tax rates would have positive macroeconomic effects on the overall economy. Lower capital gains taxes raise real and nominal GNP, increase capital spending and capital formation, positively affect the stock market, increase household net worth (household wealth), lower the cost of capital for business and increase business profits, increase employment and lower the unemployment rate, shift the financing of business activity away from debt to equity, and induce portfolio allocations by households toward equity to take account of changes in expected after-tax returns on stocks and bonds.

According to Dr. Sinai's estimates, a reduction in capital gains tax rates to 15 percent for all taxpayers (individual and corporate) would, by 1995, increase real GNP by 2.8 percent, or about 0.4 percent per year compared to a Baseline (see Table 1).

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Lower capital gains rates would also raise business investment by 1.3 percent per year and reduce the after-tax cost of capital by more than 4 percent per year. A further plus is the creation of an additional 2.5 million jobs over the 1990-1995 period. (Dr. Sinai notes that the estimate of new jobs created may be biased upward by the experience of the 1980s and may not be repeated in the 1990s due to slower growth of the labor force.)

Because of higher personal disposable income, increased household net worth and business cash flow, "multiplier" effects operate through economic and financial markets to generate additional tax revenues which, along with the unlocking of unrealized capital gains, result in higher revenues than would have occurred in the absence of a capital gains tax cut. As a result of the feedback effects from a stronger economy, significant additional personal income tax and other receipts would be realized, offsetting a large portion of the ex-ante cost of the tax cut. State and local government tax receipts would also be greater, and revenues from social security taxes and excise taxes would go up.

A capital gains tax reduction has special power in this regard, operating to raise the stock market, increase net worth, lower the cost of capital, and enhance consumption and investment to bring in additional tax revenues. With unlocking, as estimated by the Joint Committee on Taxation (JCT) or the Treasury Department's Office of Tax Analysis (OTA), the net tax effect lies in the range of $30 billion to $40 billion when cumulated over the 1990-1995 period.

The Sinai Model

Dr. Sinai's analysis is based on simulations using the 1989 version of the Sinai-Boston Econometric Model of the U.S. Economy, a 425-plus equation model that explicitly takes account of aggregate demand, financing through sectoral flows-of-funds, balance sheet effects, corporate and personal finance, and forward-looking expectations as they affect U.S. financial markets and, in turn, the economy. The model estimates the macroeconomic feedback effects of a capital gains tax reduction on the economy, inflation, financial markets, the cost of capital, employment and unemployment, tax receipts, and other variables.

The model provides a number of channels by which tax policy affects the economy and financial markets--through interest rates, capital and user costs, the equity market and the dollar--with more "multiplier" effects than in traditional macroeconomic models.

The simulation results from various capital gains tax reductions point up the necessity of taking account of all tax effects from any change in policy in estimating the total effect on federal tax revenues.

Conclusion

Dr. Sinai's simulations are very relevant to the debate over the revenue impact of a cut in the capital gains tax rate. Macroeconomic feedback effects are not considered in the static revenue estimates made by the JCT and the OTA. Dr. Sinai's macrosimulations, coupled with the short-run "unlocking" effects that both the JCT and the OTA would accept, indicate that <u>a reduction in the capital gains tax rate to 15 percent for individuals and corporations would result in a net increase in federal revenues over the 1990-1995 period.</u>

Table 1: Macroeconomic Effects of a Capital Gains Tax Reduction for All Taxpayers*

	FY 1990-1995
Real GNP (Total change)	2.8%
Employment (Total change-millions)	2.5
Business Capital Spending	
Total-(average annual change)	1.3%
Equipment	1.3%
Structures	1.4%
Cost of Capital After-tax cost of debt & equity (average annual change)	-4.1%
S&P 500 Stock Index (average annual change)	16.3%
Total Federal Tax Revenues 1/ (billions)	$30-$40

*Preliminary results of a simulation of a 28% to 15% reduction in individual capital gains tax and 34% to 15% for corporate capital gains tax effective April 1, 1990. Prepared by Dr. Allen Sinai using the Sinai-Boston Model of the U.S. Economy. No holding period requirements are assumed.

1/Revenue impact varies according to whether the Joint Committee estimate or the Treasury Department estimate of unlocking of unrealized capital gains is used.

July 12, 1990

PRE-RELEASE COPY

ELDERLY TAXPAYERS AND THE CAPITAL GAINS TAX DEBATE

by

John Goodman

Aldona Robbins

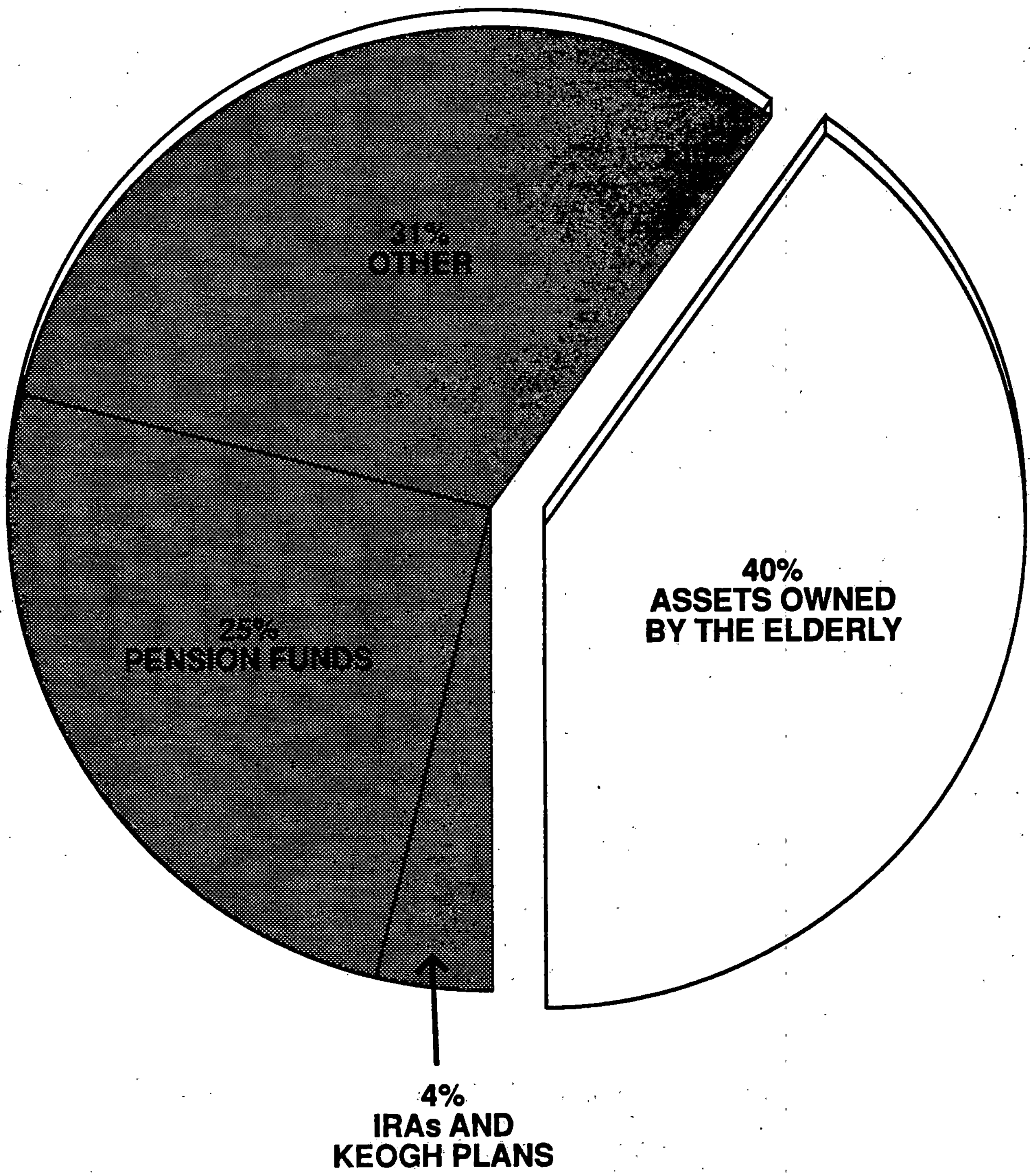
Gary Robbins

NCPA Policy Report No. 153

July 1990

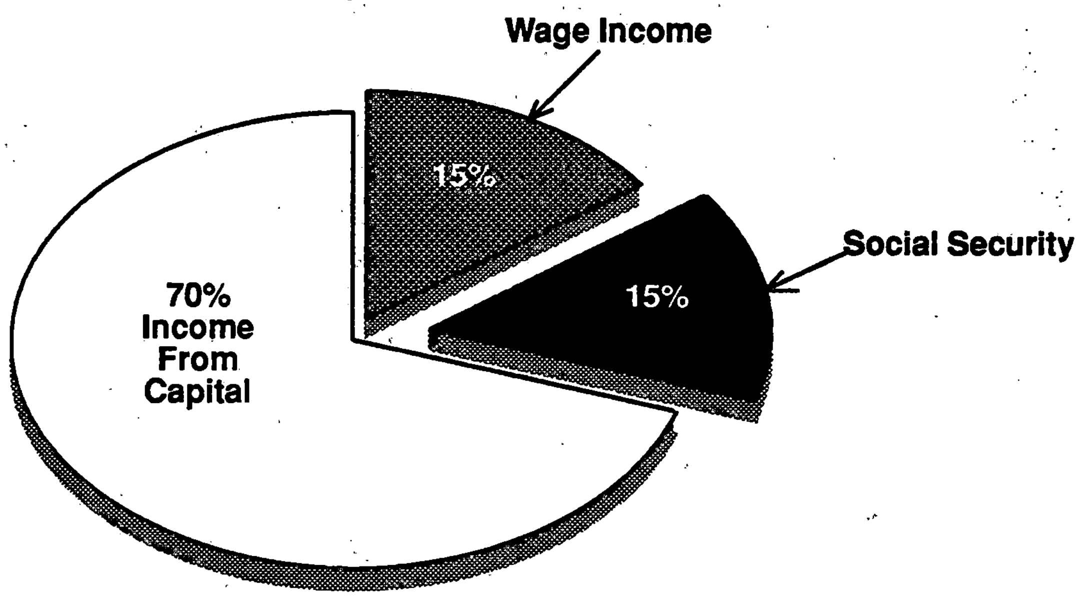
National Center for Policy Analysis
12655 N. Central Expy., Suite 720
Dallas, Texas 75243
(214) 386-6272

OWNERSHIP OF U.S. CAPITAL ASSETS

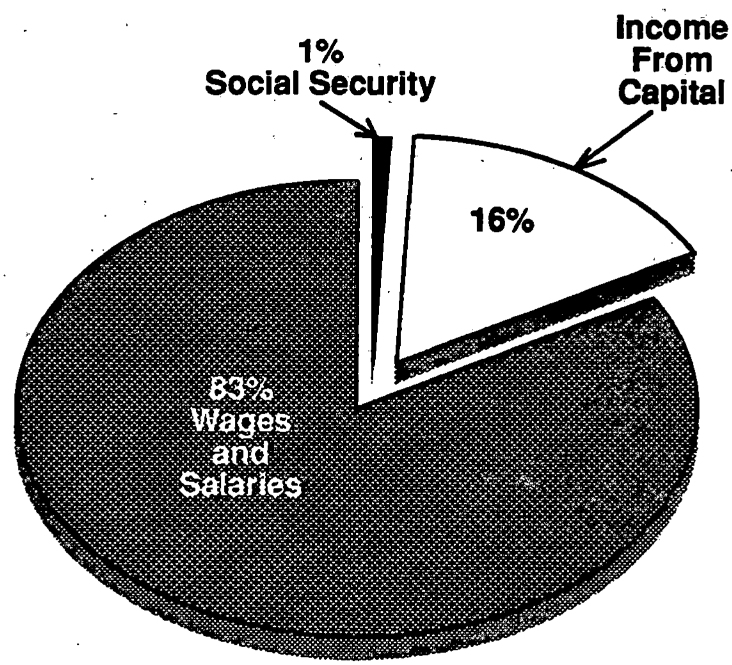


DISTRIBUTION OF TAXPAYER INCOME

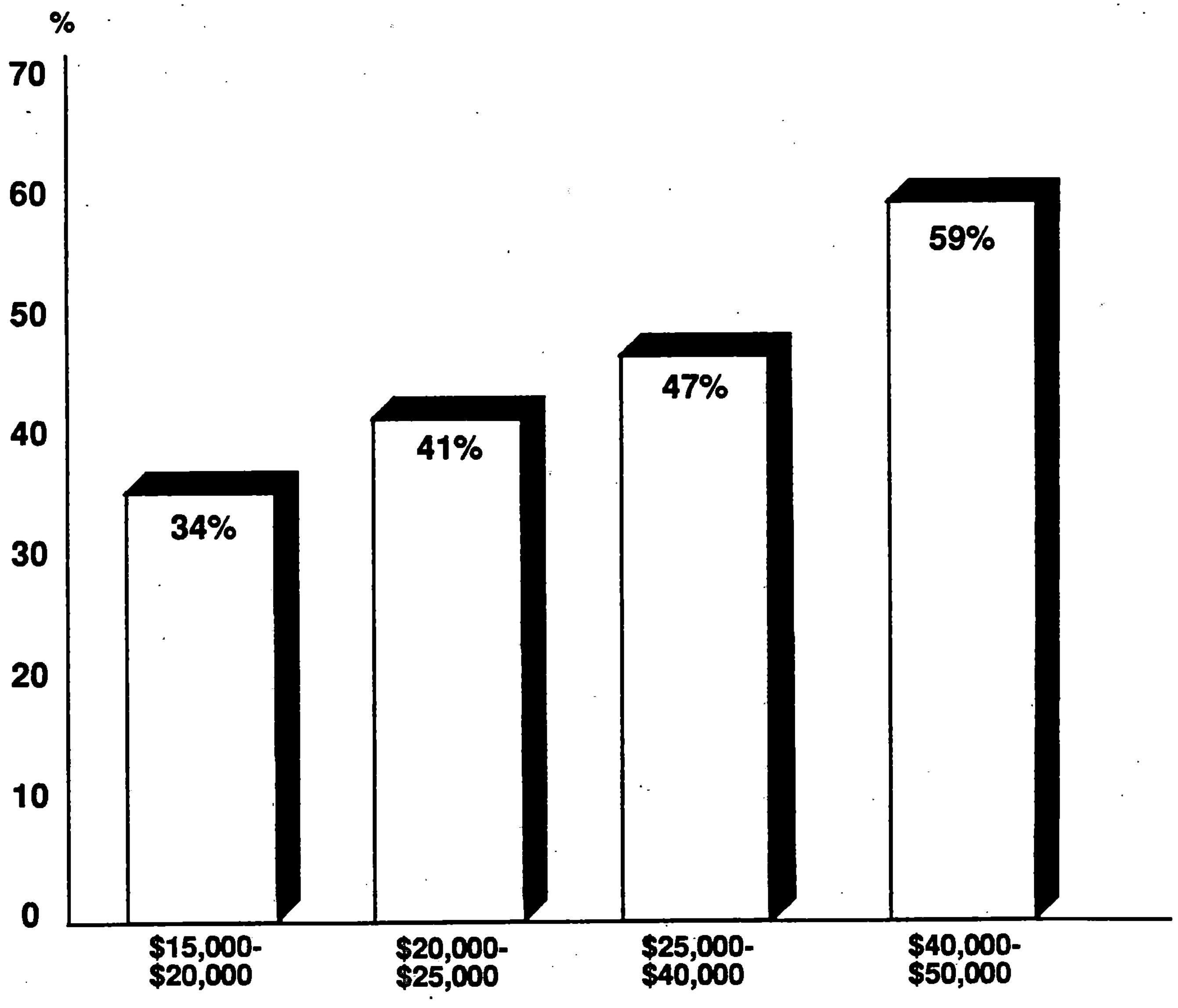
ELDERLY



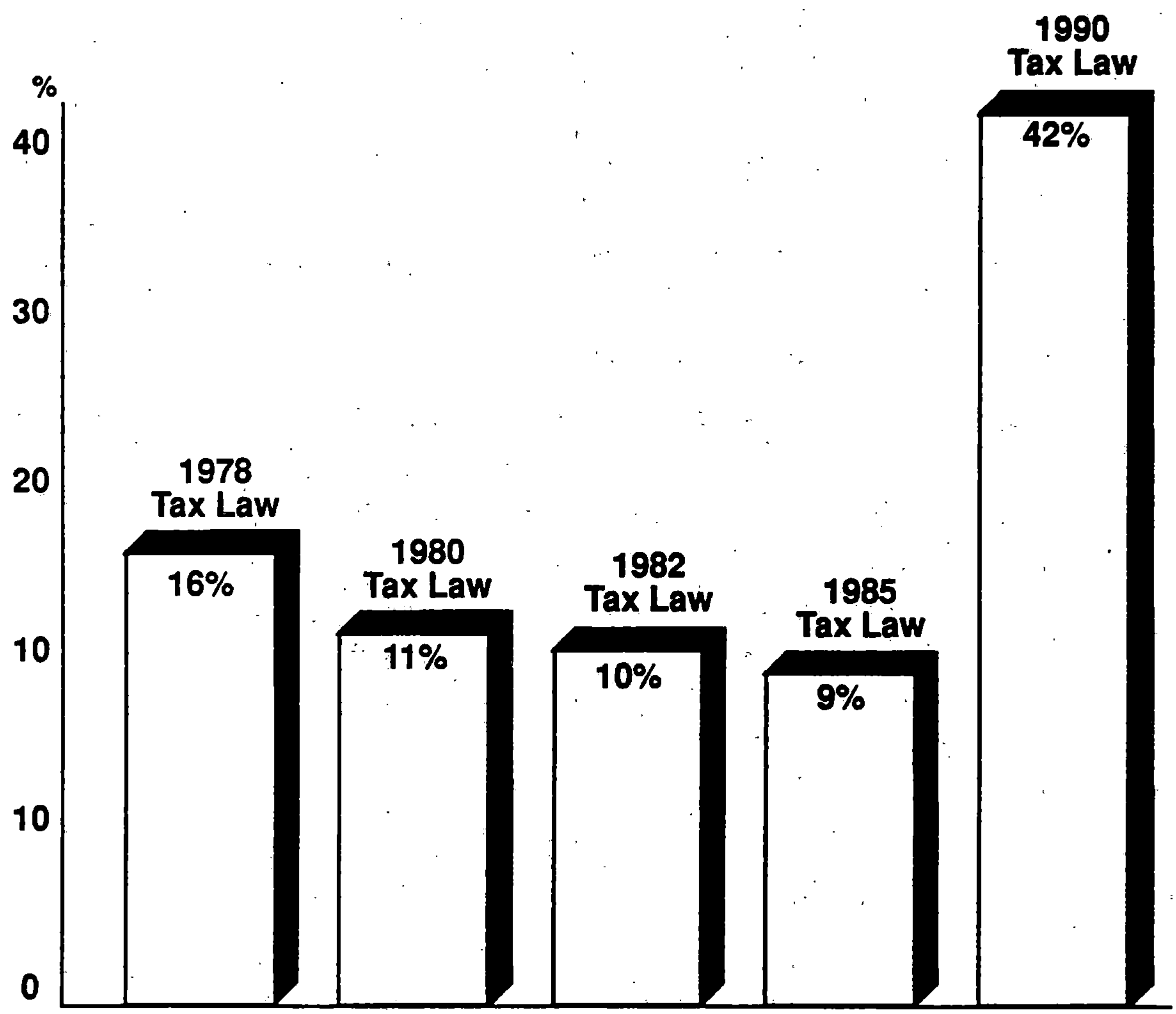
NONELDERLY



PERCENT OF MIDDLE-INCOME ELDERLY TAXPAYERS
WHO HAVE A CAPITAL GAIN EACH YEAR



MARGINAL CAPITAL GAINS TAX RATE ON A MIDDLE-INCOME ELDERLY COUPLE



Note: Assumes each prior tax law is still in effect in 1990. Couple has a capital gain of $20,000. Social Security benefits equal $13,000. Other income equals $17,500.

EXECUTIVE SUMMARY

Income from the sale of assets is a more important source of income for people age 65 and over than for any other group of U.S. taxpayers.

- In any given year, almost one-third of elderly taxpayers have a capital gain.
- On the average, capital gains for elderly taxpayers are almost three times as large as for nonelderly taxpayers with the same total income.

These differences between elderly and nonelderly taxpayers do not arise because of the behavior of the wealthy. Instead, the most striking differences occur among middle-income families.

- Among people with an annual income between $25,000 and $40,000, almost half of elderly families have a capital gain each year compared with less than 10 percent of younger families.
- Among these middle-income groups, the capital gains income of the elderly is four to five times as great as it is for nonelderly families.

The importance of capital gains to the elderly reflects the fact that they are far more dependent than the nonelderly on income from investments. Overall:

- The elderly today hold 40 percent of all the capital assets in the United States.
- They receive about 53 percent of all interest income, 52 percent of all dividend income and more than 30 percent of all income from the sale of assets.
- Among elderly taxpayers, 70 percent of income is derived from investments (including private pensions), and only 15 percent is from wages.

Despite the fact that income from capital is so important to the economic well-being of the elderly, current federal policy discriminates against the elderly in two important ways:

- Because of the Social Security benefit tax, middle-income elderly families now face a tax rate on investment income that can reach as high as 42 percent, although younger taxpayers face a maximum rate of 28 percent.
- Although the federal tax code is indexed for inflation to protect wage income (the primary source of income for the young), there is no inflation protection for capital gains or other investments.

In order to correct the unfairness in the present tax code and encourage a higher national saving rate, we should index capital gains and other investment income for the effects of inflation, exempt capital gains and other investment income from the Social Security benefit tax, and lower the tax rate for capital gains on the sale of income-producing assets.

INTRODUCTION

Federal income tax treatment of income from capital should be of interest to all Americans. But the issue is especially important to elderly taxpayers.

- Although the elderly constitute only 12 percent of the population, they hold about 40 percent of all the capital assets in the United States.[1]

- As Table I shows, the elderly receive about 53 percent of all interest income, 52 percent of all dividend income, 30 percent of all capital gains income, and 32 percent of the income from all other sales of assets.[2]

In addition to the capital accumulation of the elderly, much capital accumulation by young people takes place for the express *purpose* of generating income during the years of retirement. For example:

- About 25 percent of the nation's capital is held in pension funds,[3] and another 4 percent in Individual Retirement Accounts (IRAs) and Keogh plans.[4]

- As a result, about 69 percent of our capital stock is either owned by the elderly or is being held for the specific benefit of future retirees.

Saving for retirement, and the resultant accumulation of capital, is important for two reasons. First, the driving force behind the American economy is its ability to combine labor with larger and larger amounts of capital. More capital per worker leads to more output per worker. These productivity gains result in higher wages and a higher standard of living for all Americans. Second, the willingness of Americans to save for retirement means that elderly retirees are much less dependent on the younger population than they otherwise would be. As Tables II and III show:

- Among elderly taxpayers, only 15 percent of income is in the form of Social Security benefits.[5]

- Fully 70 percent of the income of the elderly is from investments (including private pensions).

The ability of the U.S. to stimulate personal saving, however, depends crucially on the ability of retired people to reap the rewards of having saved. To the degree that government confiscates income from savings, the incentive to save is reduced for everyone — old and young.

---

[1]See Aldona Robbins and Gary Robbins, "Taxing the Savings of Elderly Americans," National Center for Policy Analysis, NCPA Policy Report No. 141, September 1989, Appendix B.

[2]Refers to the sale of assets held for less than one year.

[3]Employee Benefit Research Institute, *Employee Benefit Notes*, Vol. 10, No. 4, July 1989, p. 5.

[4]Employee Benefit Research Institute, *Employee Benefit Notes*, Vol. 10, No. 7, July 1989, p. 5.

[5]About 58 percent of the elderly file income tax returns. Moreover, the amount of Social Security income shown in Tables II and III may be understated because many low-income taxpayers do not report Social Security benefits on their income tax returns. For middle- and higher-income families, Social Security benefits are now taxable.

TABLE I

SHARE OF INVESTMENT INCOME GOING TO ELDERLY TAXPAYERS[1]

Type of Income	Share Received by the Elderly[2]
Interest	52.7%
Dividends	52.0%
Capital Gains	29.9%
Other gains	31.8%

[1]Refers only to people filing tax returns. Figures are for 1985.

[2]At least one person on the tax return is age 65 or older.

Source: See Aldona Robbins and Gary Robbins, "Taxing the Savings of Elderly Americans," National Center for Policy Analysis, NCPA Policy Report No. 141, September 1989, Appendix B.

TABLE II

AVERAGE INCOME OF TAXPAYERS[1]

Source of Income	Elderly[2]	Nonelderly
Wages and Salaries	$4,727	$21,864
Social Security Benefits[3]	4,622	122[4]
Pensions	4,694	521
Interest	6,952	861
Dividends	2,317	351
Capital Gains[5]	7,266	2,459
Other Capital Income	1,287	21
Total[6]	$31,865	$26,199

[1]Refers only to people filing tax returns for 1986, the latest year for which statistics at this level of detail are available. Note: About 38 percent of elderly families and 5 percent of nonelderly families do not file tax returns. See U.S. Department of the Treasury, *Financing Health and Long-Term Care: Report to the President and Congress*, Washington, DC, March 1990, Table 4.1.

[2]At least one person on the tax return is age 65 or older.

[3]All Social Security benefits reported, including untaxed benefits. Note: The reported figure is below the actual number because most low-income taxpayers do not report this item.

[4]Includes early retirees, ages 62 to 64.

[5]Includes the portion of capital gains income excluded on 1986 tax returns.

[6]May not add exactly due to rounding. Totals show income prior to adjustments. The average adjustment is -$8,425 on elderly tax returns and -$2,024 on nonelderly returns.

Source: Estimates based upon tax return data. See Internal Revenue Service, *Statistics of Income — 1986*, *Individual Income Tax Returns*, Washington, DC, U.S. Government Printing Office, 1988, Table 2.5.

TABLE III

DISTRIBUTION OF AVERAGE INCOME OF TAXPAYERS

Source of Income:	Elderly	Nonelderly
Wages and Salaries	15%	83%
Social Security Benefits	15%	1%
Pensions	15%	2%
Interest	22%	3%
Dividends	7%	1%
Capital Gains	23%	9%
Other Capital Income	4%	0%
Total[1]	100%	100%

[1]May not add exactly due to rounding.

Source: Table II.

WHY THE CURRENT CAPITAL GAINS TAX IS UNFAIR

A capital gain is the difference between the sale price and the original purchase price of an asset. Under current law,[6] capital gains are taxed at the same rate as ordinary income.[7] This tax applies not only to the sale of stocks, bonds and real estate. It also applies to the sale of coin and stamp collections, paintings and antiques — objects which may have risen in value over time solely because of the effects of inflation.

Almost everyone who has thought seriously about the taxation of capital gains agrees that there is a problem with the current system. Calls for reform run the gamut — from the *Wall Street Journal* to the *New York Times*, from conservative economist Milton Friedman to liberal economist Alan Blinder. The only differences among serious students of the economics of taxation are differences over which method of reform should be adopted. And these are often differences over what is thought to be politically possible.

[6]Current capital gains tax rates were established by the Tax Reform Act of 1986.

[7]The law limits the maximum tax rate on capital gains to 28 percent, even though some taxpayers pay an effective marginal rate of 33 percent on ordinary income. See *Internal Revenue Code* Sec. 1 (j).

Under the current system, any capital gain realized by an investor is taxed at the same rate — regardless of the type of asset, regardless of how long the asset has been held and regardless of the rate of inflation. To see why this method of taxation is troublesome, consider the effects of inflation:

- Since 1971, the price level in the United States has roughly tripled.
- Thus an asset purchased in 1971 for $1,000 and sold today for $3,000 would leave its owner no better or worse off in real terms.
- Yet under current law, an elderly investor could owe as much as $840 ($2,000 x 42%) in taxes, despite the fact there has been no *real* profit.

Because of inflation indexing, our tax code protects wage earners against being pushed into a higher tax bracket by the effects of inflation alone. But there is no similar protection from inflation-induced increases in the price of assets held for several years. As a result, our tax law discourages people from holding assets and thus discourages investment which is essential for economic growth.

An additional problem occurs with an income-producing asset, when the current value of the asset is determined by the future income it is expected to produce. Since the future income generated by the asset will eventually be realized and taxed, taxing the profit from the sale of the asset today is a form of double taxation. This problem will be considered in greater detail below.

TABLE IV

HOW INFLATION AFFECTS CAPITAL GAINS TAXES

	Historical Prices	Real Prices[1]
Asset Sale in 1990	**$3,000**	**$3,000**
Asset Purchase in 1971	**$1,000**	**$3,000**
Profit	**$2,000**	**0**
Taxable Gain Under Current Law	**$2,000**	

[1]Expressed in 1990 prices.

SPECIAL BURDEN FOR THE ELDERLY: HIGHER TAX RATES

Ronald Reagan's most important economic legacy was the lowering of marginal tax rates on income. In 1980 taxpayers faced a marginal tax rate as high as 70 percent. Today nonelderly taxpayers face a top marginal tax rate of 33 percent — a reduction of 37 percentage points. The picture is very different for elderly taxpayers, however.

The Social Security Benefit Tax. Under current law, one-half of Social Security benefits potentially are subject to federal income tax. The law applies only if one-half of Social Security income plus all non-Social Security income, including income from tax-exempt bonds, exceeds $25,000 for an individual or $32,000 for a couple. For taxpayers whose incomes exceed these thresholds, 50 cents of Social Security benefits is taxed for each dollar of additional income.[8] Although the Social Security benefit tax appears to be a tax on benefits, it is actually a tax on income:[9]

- Taxpayers who receive an additional $1 of income pay taxes on $1.50.
- This means that taxpayers in the 15 percent income tax bracket automatically face an effective income tax rate of 22.5 percent.
- Taxpayers in the 28 percent income tax bracket automatically face an effective income tax rate of 42 percent.

In 1986 at least 20 percent of elderly taxpayers had to pay taxes on an average of $3,373 of Social Security benefits,[10] and the percentage paying the tax will rise continuously in future years because the income thresholds beyond which Social Security benefits are taxable are not indexed. As inflation increases the nominal income of future retirees, more of them will pay the tax. For example, the Social Security Administration estimates that the Social Security benefit of an *average-wage* worker and spouse retiring in 2010 will be on the order of $36,000.[11]

The Effect of Bracket Shift. Because of the Social Security benefit tax, some elderly taxpayers are pushed from the 15 percent to the 28 percent tax bracket. Thus elderly workers who otherwise would pay 15 cents on an additional $1 of income must now pay 28 cents. Conceptually, and as a matter of tax law,[12] the resultant increase in taxes is fully attributable to the Social Security benefit tax. For those elderly who are pushed into the 28 percent tax bracket, the Social Security benefit tax increases their marginal tax rate by 27 percentage points.[13]

---

[8]The method used to calculate the Social Security benefit tax is illustrated in Appendix A.

[9]Applies to elderly families who exceed the $25,000 or $32,000 income limits but are not yet taxed on the maximum of one-half of Social Security benefits.

[10]See Aldona Robbins, *The ABCs of Social Security* (Washington, DC: Institute for Research on the Economics of Taxation, 1988), p. 16.

[11]Board of Trustees, Federal Old-Age and Survivors and Disability Insurance Trust Funds, *1990 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, April 1990, Washington, DC, Table F6.

[12]The allocation of the additional tax is important because proceeds from the Social Security benefit tax are deposited in the Social Security trust fund for accounting purposes.

[13]Provided that the taxpayer is being taxed on less than one-half of Social Security benefits. If the taxpayer is being fully taxed on one-half of Social Security benefits, the increase in the marginal tax rate is 13 percentage points (from 15 percent to 28 percent). Each of these cases is illustrated in Table VI.

Effects on State and Local Income Taxes. In many places, the Social Security benefit tax affects state and local income taxes in the same way it affects the federal income tax.[14] That is, the elderly who earn $1 of income pay state and local taxes on $1.50 because of the Social Security benefit tax. Under the conditions described above:

- Elderly taxpayers who face a state and local income tax rate of 4.0 percent must pay 6.0 percent.
- Elderly taxpayers who face a state and local income tax rate of 8.0 percent must pay an effective rate of 12 percent.

There is no relationship between Social Security benefits and the services provided by state and local governments. Yet because of the way federal tax law defines adjusted gross income, state and local governments tax Social Security benefits, Social Security cost-of-living adjustments (COLAs) and even tax-exempt income.[15]

Taxes on the Elderly Middle Class. Table VI shows marginal tax rates for elderly taxpayers on different levels of income. As the table shows, it's not the poor or the rich who pay these very high marginal tax rates. It is exclusively the middle-income elderly.

- Among single retirees, the highest marginal tax rate is imposed on individuals with $24,000 to $25,000 of non-Social Security income.
- Among retired couples, the highest marginal tax rate is imposed on those with an income of about $36,000.

Elderly couples pay the maximum tax when their incomes exceed about $40,000. For these families, the Social Security benefit tax functions as a lump sum tax. Although the families who pay the tax are worse off, their marginal tax rate is unaffected by the tax.

---

[14]Currently, twelve states tax Social Security benefits. The states are Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Rhode Island, Vermont, West Virginia and Wisconsin. See John R. Gist, "The Effects of State Income Tax Reform," American Association of Retired People (AARP), Public Policy Institute, Issue Paper No. 8801, April 1988.

[15]See Robbins and Robbins, "Taxing the Savings of Elderly Americans."

TABLE V

ADDITION TO MARGINAL TAX RATES DUE TO THE SOCIAL SECURITY BENEFIT TAX[1]

Federal Income Tax Bracket	Increase in Effective Marginal Tax Rates
15 Percent Bracket	+ 7.5%
28 Percent Bracket	+ 14.0%
Bracket Shift: From 15 Percent to 28 Percent[2]	+ 27.0%

[1]For taxpayers above the income thresholds of $25,000 (individual) or $32,000 (couple), but who include less than the maximum one-half Social Security benefits in income for tax purposes.

[2]Assumed to be caused by the tax on Social Security benefits. The inclusion of Social Security benefits in taxable income shifts the taxpayer from the 15 percent to the 28 percent income tax bracket. The Social Security benefit tax further increases the effective tax rate to 42 percent.

TABLE VI

MARGINAL TAX RATES FOR THE ELDERLY

SINGLE ELDERLY INDIVIDUAL[1]

Non-Social Security Income	Federal Income Tax	Social Security Benefit Tax	Total Tax Rate
$7,000	15%	0	15%
$23,000	15%	7.5%	23%
$24,000	15%	27.0%[4]	42%
$25,000	28%	14.0%	42%
$30,000	28%	0	28%

ELDERLY COUPLE[2]

Non-Social Security Income	Federal Income Tax	Social Security Benefit Tax	Total Tax Rate
$11,000	15%	0	15%
$30,000	15%	7.5%	23%
$36,000	15%	27.0%[4]	42%
$40,000[3]	15%	13.0%[3]	28%
$45,000	28%	0	28%

[1]Social Security benefits equal $7,600.

[2]Social Security benefits equal $11,400.

[3]The couple is paying the maximum Social Security benefit tax, and therefore, the tax does not directly affect the marginal tax rate. The inclusion of Social Security benefits in taxable income, however, shifts the couple from the 15 percent to the 28 percent tax bracket.

[4]Caused by bracket shift. The inclusion of Social Security benefits in taxable income causes a shift from the 15 percent to the 28 percent tax bracket, and the Social Security benefit tax causes a further increase in the effective tax rate to 42 percent.

Taxation of Capital Gains. In Table IV we illustrated a $2,000 capital gain produced by the effects of inflation alone. Table VII shows how that gain would be taxed for an elderly and a nonelderly taxpayer. In Case A, both taxpayers are in the 15 percent income tax bracket, and in Case B, both are in the 28 percent income tax bracket. In each case, the elderly taxpayer pays 50 percent more in capital gains taxes because of the effects of the Social Security benefit tax. In Case C, the Social Security benefit tax results in a shift from a 15 percent to a 28 percent tax bracket, causing the elderly taxpayer to pay a capital gains tax that is almost three times as high as that paid by a nonelderly person with the same income.

Note that very few elderly taxpayers actually face the circumstances in Case C. The case is important, however, because it illustrates the arbitrary nature of taxes imposed on elderly citizens. Furthermore, in the future more elderly taxpayers will fall into this category.

Why the Capital Gains Tax Rate Rose During the 1980s. Recognition of the fact that capital gains can be very different from ordinary income is not new. From 1922 to 1986, capital gains were treated separately from ordinary income in the tax code. This special treatment consisted of a lower tax rate for capital gains or exclusion of part of the gain for tax purposes (which resulted in a lower tax rate).[16] For example, from 1942 to 1978, taxes were levied on only one-half of capital gains income. The Revenue Act of 1978 lowered the taxable portion of the gain from 50 percent to 40 percent. Under the Tax Reform Act of 1986, however, 100 percent of capital gains income is taxed at the same rate as ordinary income.

Consider an elderly couple with a $20,000 capital gain in 1990. Table VIII shows how this gain would be taxed under various tax laws prevailing over the past decade.

- For an elderly couple with $30,500 of other income in 1990, the marginal tax rate on capital gains would be 16 percent under the tax law prevailing in 1978.
- As a result of more generous treatment of capital gains income[17] this couple's marginal tax rate would fall to 11 percent if the 1980 law prevailed today.
- The rate would fall to 9 percent if the 1983 law prevailed today.[18]
- Under the 1985 tax law, the couple benefits from (1981) rate reductions plus indexing, but this tax cut is offset by the imposition of the Social Security benefit tax (in 1983).
- The 1986 tax law eliminated the 60 percent exclusion for capital gains income, and established tax rates of 15 percent and 28 percent.
- Under the 1990 tax code, the loss of the exclusion pushes the couple from the 15 percent to the 28 percent income tax bracket, and the Social Security benefit tax further increases their marginal tax rate to 42 percent.

Table VIII also shows how other elderly couples, with different incomes, would fare if the old tax laws applied today. In all cases, the middle-income elderly have experienced soaring tax rates on capital gains income during the late 1980s.

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[16]A summary of the historical treatment of capital gains under U.S. tax law is contained in Gary Robbins, "Taxing Capital Gains," National Center for Policy Analysis, NCPA Policy Report No. 143, October 1989, Appendix A.

[17]Passed in 1978.

[18]Rate reductions occurred because of 1981 tax act.

TABLE VII

HOW TAXPAYERS WITH THE SAME INCOME FACE DIFFERENT CAPITAL GAINS TAX BURDENS[1]

Case A: 15% Bracket	Young Taxpayer	Elderly Taxpayer
Income Tax	$300	$300
Social Security Benefit Tax	0	150
Total Tax on Capital Gain	$300	$450

Case B: 28% Bracket	Young Taxpayer	Elderly Taxpayer
Income Tax	$560	$560
Social Security Benefit Tax	0	280
Total Tax on Capital Gain	$560	$840

Case C: 15% → 28% Bracket	Young Taxpayer	Elderly Taxpayer
Income Tax	$300	$300
Social Security Benefit Tax	0	540
Total Tax on Capital Gain	$300	$840

[1]Each of these cases shows the tax treatments of the $2,000 inflation-created capital gain illustrated in Table IV.

TABLE VIII-A

MARGINAL TAX RATE
ON A $20,000 CAPITAL GAIN FOR AN ELDERLY COUPLE
IF OLD TAX LAWS WERE STILL IN EFFECT TODAY

	Income Other Than Capital Gain[1]		
Prevailing Tax Law	$25,500	$30,500	$35,500
1978	14%	16%	18%
1980	10%	11%	13%
1982	9%	10%	12%
1983	8%	9%	10%
1985	6%	9%	15%
1990	23%	42%	28%

Note: The marginal tax rate is the rate paid on the last dollar of income.

[1] Assumes a 1990 Social Security benefit of $13,000.

TABLE VIII-B

AVERAGE TAX RATE
ON A $20,000 CAPITAL GAIN FOR AN ELDERLY COUPLE
IF OLD TAX LAWS WERE STILL IN EFFECT TODAY

	Income Other Than Capital Gain[1]		
Prevailing Tax Law	$25,500	$30,500	$35,500
1978	11%	13%	16%
1980	8%	9%	11%
1982	7%	9%	10%
1983	7%	8%	9%
1985	6%	7%	12%
1990	18%	20%	24%

Note: The average rate (total tax on the gain divided by the gain) differs from the marginal rate because part of the gain is taxed at a lower rate, while the remainder is taxed at a higher rate.

[1] Assumes a 1990 Social Security benefit of $13,000.

SPECIAL BURDEN FOR THE ELDERLY:
GREATER RELIANCE ON CAPITAL GAINS INCOME

As noted above, the 1986 change in the tax code departed from a 65-year tradition of granting special status to capital gains income. This departure has been especially unfair to the elderly for another reason: the elderly have more capital gains income than any other population group.

- On the average, an elderly taxpayer is more than three times as likely to have a capital gain as a nonelderly taxpayer.

- The average capital gain of the elderly is more than twice as large as the capital gain of the nonelderly.

These differences do not arise because of differences among wealthy taxpayers. In fact, among the wealthy the pattern of capital gains income for young and old is very similar. The greatest differences occur among taxpayers in the middle range of income, where the Social Security benefit tax boosts marginal tax rates if the taxpayer is unlucky enough to be old. As Tables X and XI show:

- Among taxpayers with an annual income of $25,000 to $40,000 almost half of the elderly had a capital gain compared with only 10 percent for taxpayers as a whole.

- The average size of the capital gain for these elderly taxpayers was more than four times that for young taxpayers in the same income range.

TABLE IX

MIDDLE-INCOME ELDERLY TAXPAYERS WHO HAVE A CAPITAL GAIN EACH YEAR[1]

Income[2]	Percent With Capital Gain
$15,000 - $20,000	34.0%
$20,000 - $25,000	41.1%
$25,000 - $30,000	47.0%
$30,000 - $40,000	47.7%
$40,000 - $50,000	58.8%
$50,000 - $75,000	70.5%

[1]Refers only to people filing tax returns for 1986, the latest year for which statistics are available at this level of detail. At least one person on the tax return is age 65 or older.

[2]Adjusted gross income.

Source: Figures derived from *Statistics of Income—1986*, Internal Revenue Service, *Individual Income Tax Returns*, Washington, DC, 1989.

TABLE X

PERCENT OF TAXPAYERS WHO HAVE A CAPITAL GAIN IN EACH YEAR[1]

Income[2]	All Taxpayers	Elderly Taxpayers[3]	Ratio of Elderly to All Taxpayers
$ 5,000 or less	4.8%	17.6%	3.65
$ 5,000 - $10,000	4.1%	15.7%	3.85
$ 10,000 - $15,000	5.1%	20.6%	4.01
$ 15,000 - $20,000	7.6%	34.0%	4.46
$ 20,000 - $25,000	8.1%	41.1%	5.09
$ 25,000 - $30,000	9.7%	47.0%	4.86
$ 30,000 - $40,000	11.2%	47.7%	4.24
$ 40,000 - $50,000	15.0%	58.8%	3.91
$ 50,000 - $75,000	24.8%	70.5%	2.85
$ 75,000 - $100,000	41.7%	83.0%	1.99
$100,000 - $200,000	56.6%	89.8%	1.59
$200,000 or more	75.8%	94.9%	1.25
All Taxpayers	9.8%	32.0%	3.27

[1]Refers only to people filing tax returns for 1986, the latest year for which statistics at this level of detail are available.

[2]Adjusted gross income.

[3]At least one person on the tax return is age 65 or older.

Source: Figures derived from *Statistics of Income—1986*, Internal Revenue Service, *Individual Income Tax Returns*, Washington, DC, 1989.

TABLE XI

AVERAGE CAPITAL GAIN[1]

Income[2]	All Taxpayers	Elderly Taxpayers[3]	Ratio of Elderly to All Taxpayers
$ 5,000 or less	$ 988	$ 1,334	1.35
$ 5,000 - $10,000	168	276	1.64
$ 10,000 - $15,000	266	405	1.52
$ 15,000 - $20,000	441	1,328	3.01
$ 20,000 - $25,000	553	2,393	4.32
$ 25,000 - $30,000	712	2,711	3.81
$ 30,000 - $40,000	1,046	5,066	4.84
$ 40,000 - $50,000	1,606	6,346	3.95
$ 50,000 - $75,000	3,791	14,626	3.86
$ 75,000 - $100,000	12,950	35,237	2.72
$100,000 - $200,000	38,102	82,554	2.17
$200,000 or more	443,994	510,796	1.15
All Taxpayers	3,063	7,266	2.37

[1]Refers to average capital gain before exclusion for all tax returns filed for 1986, the latest year for which statistics at this level of detail are available.

[2]Adjusted gross income.

[3]At least one person on the tax return is age 65 or older.

Source: Figures derived from *Statistics of Income—1986*, Internal Revenue Service, *Individual Income Tax Returns*, Washington, DC, 1989.

SPECIAL BURDEN FOR THE ELDERLY: LONGER HOLDING PERIODS AND MORE ADVERSE EFFECTS OF INFLATION

The longer an asset is held, the more likely the capital gain from its sale will reflect the effects of inflation. Since the current system taxes inflationary gains as though they were real gains, the system imposes special penalties on people who hold assets for long periods. Unfortunately, those most likely to have held assets for many years are the elderly — as a result of saving for the years of retirement.

For example, Table XII illustrates an initial investment of $1,000 in an asset that is held for 36 years. The asset is assumed to generate real growth of 2 percent per year, while inflation increases its price at 6 percent per year. At the time of sale, the asset will be worth $16,000 — resulting in a profit of $15,000. Only $1,000 of the amount is real profit, however. The remaining $14,000 simply reflects the effects of inflation.

Consider the different ways of taxing this gain. Under the current system, the capital gains tax for an elderly person could be $6,300 (assuming a 42 percent marginal tax rate). A much fairer method would be to index the asset for the effects of inflation and tax the investor only on the asset's real appreciation. As Table XII shows, inflation indexing would reduce the tax burden by more than 90 percent.

Table XII also shows two other methods of taxing the capital gain. Under the current proposal of the Bush Administration, a 30 percent exclusion would be allowed. The tax would apply to only 70 percent of the gain, but there would be no indexing for inflation. Another method would be to keep the current capital gains tax, but exempt capital gains income from the Social Security benefit tax — taxing the elderly at the same tax rates as younger people with the same income. With respect to these alternatives, the figures in Table XII are quite revealing.

- For assets held for long periods of time, inflation-indexing is clearly better than any other alternative.
- Inflation-indexing, in this example, would result in a tax burden one-tenth as great as that generated by a 30 percent exclusion.
- For elderly taxpayers in this example, eliminating the Social Security benefit tax on capital gains income also would be more beneficial than the 30 percent exclusion.

As this example shows, the interests of many elderly taxpayers are different from the interests of many young people. Inflation-indexing and an exemption from the Social Security benefit tax should be high-priority objectives, and both are warranted on grounds of equity. As the Figure I shows, indexing would cut the tax burden by almost two-thirds. Indexing combined with an exemption from the Social Security benefit tax would reduce the tax burden by more than 95 percent.

TABLE XII

FOUR DIFFERENT WAYS OF TAXING CAPITAL GAINS INCOME
($1,000 Initial Investment)

	Current Law	Indexing	30 Percent Exclusion	No Social Security Benefit Tax
Initial Investment	$1,000	$1,000	$1,000	$1,000
Value of Investment After 36 Years (2% real growth; 6% inflation)	16,000	16,000	16,000	16,000
Capital Gain	15,000	15,000	15,000	15,000
Inflation Adjustment	0	-14,000	0	0
Exclusion	0	0	-4,500	0
Taxable Gain	15,000	1,000	10,500	15,000
Amount of Tax	6,300[1]	420[1]	4,410[1]	4,200[2]

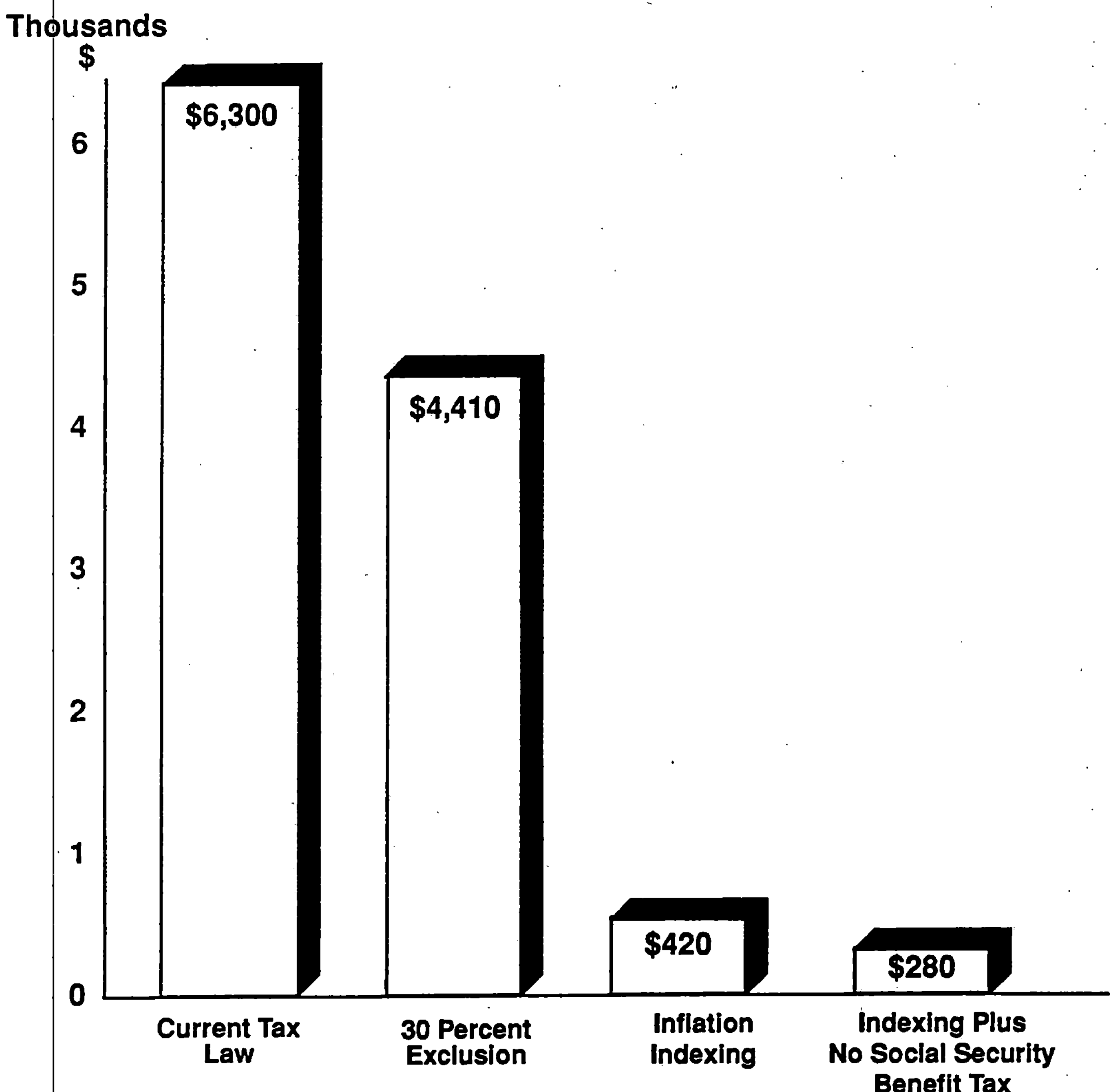
[1]Assumes a marginal tax rate of 42 percent.

[2]Assumes 28 percent federal income tax rate.

FIGURE I

CAPITAL GAINS TAX ON A $1,000 INVESTMENT AFTER 36 YEARS

(Real Return = 2%; Inflation = 6%)



WHY TAX CAPITAL GAINS AT ALL?[19]

A major obstacle to a capital gains policy that encourages investment and capital accumulation is the view that a lower capital gains tax rate is fundamentally unfair. Advocates of a high capital gains tax often argue that, in the absence of such a tax, investors would realize untaxed income. It follows that if the capital gains tax rate were lower than the tax rate applied to ordinary income, recipients of capital gains would be receiving preferential treatment under the tax code. In most cases, however, these arguments are wrong.

Most assets have value only because of the future income they are expected to produce. As a result, the value of the asset today is totally determined by the income stream it will generate. Any change in expected future earnings changes the value of the asset today. With respect to these assets, the following propositions hold:[20]

Proposition 1: **When there is an income tax, holders of assets pay the income tax indirectly through a lower sales price for those assets.**

Proposition 2: **When income tax rates change, asset prices immediately change to reflect the change in future taxes on income.**

Proposition 3: **A tax on capital gains is double taxation, even in the absence of a corporate income tax.**

These propositions are illustrated by the hypothetical investment in Table XIII. Without an income tax the asset produces an annual income (net of production costs) of $100,000 per year. At a 10 percent rate of interest, this asset has a present value (and, therefore, a current sale price) of $1 million. Note that the value of the asset is totally determined by the expected future income and the discount rate.[21]

Introducing a 28 percent income tax immediately reduces annual aftertax income to $72,000. As a result, the present value (sale price) of the asset is reduced to $720,000. Note that a 28 percent income tax reduces the value of the asset by 28 percent. If the income tax rate had been 33 percent, the value of the asset would be 33 percent lower. The holders of assets, then, do not escape taxation. They pay the income tax indirectly through the reduction in the value of the assets they hold.

Assume the asset is a patent and that there are no deductible costs associated with it. In this case, the sale price of the asset is exactly equal to the owner's capital gain. The existence of a 28 percent income tax, as we have seen, costs the owner $280,000 in terms of a lower sale price. His capital gain, therefore, is $720,000. If this capital gain also is taxed at a rate of 28 percent, the capital gains tax will equal $202,000, leaving the seller with $518,400.

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[19]A more technical presentation of the propositions discussed in this section is presented in Gary Robbins, "Taxing Capital Gains," Appendix B.

[20]Exceptions to these propositions are assets that produce untaxed income. For example the "income" (enjoyment) from collectibles (paintings, coins, etc.) is not taxed. Similarly, the "income" from an owner-occupied house also is untaxed.

[21]The discount rate will reflect risk associated with the income stream as well as the expected rate of inflation.

In this example the effective tax rate on income from capital is 48.2 percent. Of this amount, 28 percentage points are the result of the income tax, and 20.2 percentage points are the result of the capital gains tax. Far from creating equity in taxation, the capital gains tax causes the asset holder to pay an effective tax rate that is 72 percent higher than the tax rate on ordinary income. A capital gains tax plus an income tax, therefore, constitutes double taxation. *Adding a corporate income tax results in triple taxation.*

In general, asset values change every time expectations about future income change. These gains and losses should not be confused with the production of real income, however, nor should the taxation of capital gains (which is really the taxation of changes in expectations) be confused with the taxation of real income.

TABLE XIII

HOW THE INCOME TAX AFFECTS THE VALUE OF CAPITAL ASSETS

Future Earnings from an Investment

	Without an Income Tax	With an Income Tax
Annual Income[1]	$100,000	$100,000
Annual Taxes	0	$28,000
Income Net of Taxes	$100,000	$72,000

Present Value of the Investment (Current Sales Price)

	Without an Income Tax	With an Income Tax
Present Value of Income[2]	$1,000,000	$1,000,000
Present Value of Taxes	0	$280,000
Present Value of the Asset	$1,000,000	$720,000

[1]Net of production costs.

[2]Discounted at a 10 percent rate of interest.

EFFECTS ON THE FEDERAL DEFICIT

Another objection to a lower tax rate on capital gains income is that a lower tax rate would reduce federal revenue and increase the size of the federal deficit. This obligation flies in the face of almost all scholarly studies and all historical experience. A lower capital gains tax rate encourages people to sell assets, thus increasing the tax base. At the lower rate, the federal government will collect more total revenue. A capital gains tax cut is a win-win proposition. Everyone gains, including the federal government.

Revenue Effects of the Bush Administration Proposal. As an example of how a capital gains tax cut leads to a lower deficit and benefits both government and taxpayers, consider the effects of the administration's proposal:[22]

- The Bush proposal will cause the nation's output of goods and services to increase by $623 billion over the next ten years.
- Aftertax personal income will be $182 billion higher by the year 2000, increasing about $15 billion per year.
- Increased federal revenue will grow to $65 billion by 1995 and $185 billion by the year 2000.
- State and local governments will collect $106 billion in new taxes over the decade.

Other Scholarly Studies. Harvard economist Lawrence Lindsey recently reviewed the academic literature on the effects of the increase in the capital gains tax rate as a result of the Tax Reform Act of 1986.[23] Lindsey found that with only one exception, every study predicted that the recent increase in the capital gains tax rate would *reduce* long-term government revenue.[24] Lindsey's own estimate is that federal revenue would be maximized by a capital gains tax rate of about 15 percent. These findings also are consistent with the findings of the economists at the U.S. Department of the Treasury, whose studies in 1985[25] and 1988[26] and two very recent additional studies[27] all conclude that government revenue will go up when capital gains tax rates go down.

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[22]See Aldona Robbins and Gary Robbins, "The Bush Savings Plan," National Center for Policy Analysis, NCPA Policy Report No. 152, June 1990.

[23]The Tax Reform Act of 1986 increased the maximum capital gains tax rate from 20 percent to 33 percent.

[24]Predicted revenue losses for the federal government for the period 1987 through 1991 ranged from $27 billion to $105 billion as a result of the increase in capital gains tax rates. See Lawrence B. Lindsey, "Capital Gains Taxes Under the Tax Reform Act of 1986: Revenue Estimates under Various Assumptions," *National Tax Journal*, Vol. 40, No. 3, September 1987.

[25]"Report to Congress on the Capital Gains Tax Rate Reductions of 1978," U.S. Department of the Treasury, September 1985.

[26]Michael R. Darby, Robert Gillingham and John S. Greenlees, "The Direct Revenue Effects of Capital Gains Taxation: A Reconsideration of the Time Series Evidence," *Treasury Bulletin*, June 1988.

[27]Robert Gillingham, John S. Greenlees and Kimberly D. Zieschang, *New Estimates of Capital Gains Realization Behavior: Evidence From Pooled Cross-Section Data*, May 1989, U.S. Department of the Treasury, Office of Tax Analysis, OTA Paper 66; and Gerald E. Auten, Leonard E. Burman and William C. Randolph, *Estimation and Interpretation of Capital Gains Realization Behavior: Evidence from Panel Data*, May 1989, U.S. Department of the Treasury, Office of Tax Analysis, OTA Paper 67.

Historical Experience. Even a casual examination of the evidence shows a clear, unmistakable, *inverse* relationship between capital gains tax revenue and the capital gains tax rate:[28]

- From 1968 through 1978, a steady rise in the maximum tax rate on capital gains occurred because of the effects of bracket creep. Yet the amount of revenue the federal government collected from the tax was almost one-half its 1968 level by 1970 and did not regain the 1968 level until 1976.

- Following a 1978 reduction in the maximum capital gains tax rate, federal capital gains revenues rose steadily from $9.1 billion in 1978 to $12.5 billion in 1980.

- Following the 1981 cut in the maximum capital gains tax rate from 26.67 percent to 20 percent, capital gains tax revenue almost doubled in four years — rising from $12.7 billion in 1981 to $24.5 billion in 1985.

Contrary Predictions by Government Agencies. In spite of the overwhelming evidence that a reduction in capital gains tax rates will lead to an increase in federal revenues, forecasts by government agencies often point in the opposite direction. These include forecasts by the Congressional Budget Office,[29] the U.S. Department of the Treasury[30] and the widely reported forecasts of the Congressional Joint Committee on Taxation. These forecasts ignore the effect of new investment and greater economic growth. In doing so, they also ignore the primary reason why a capital gains tax cut is being proposed.

RECENT LEGISLATIVE PROPOSALS

Within the past two years, a number of proposals relating to the issues of savings and capital accumulation have been made. The following is a brief summary.

Jenkins/Archer Proposal. Sponsored by Representative Ed Jenkins (D-GA) and Representative Bill Archer (R-TX), this proposal passed the House of Representatives last year. The bill would have created a 30 percent exclusion for capital gains income for two years. After that, capital gains would be taxed at ordinary income tax rates, but asset values would be inflation-indexed.

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[28]Based on U.S. Department of the Treasury data reprinted in Ronald Utt, "Capital Gains Taxation: The Evidence Calls for a Reduction in Rates," *Heritage Foundation Backgrounder*, No. 704, May 2, 1989, Table 3, p. 10.

[29]"How Capital Gains Rates Affect Revenues: The Historical Evidence," Congressional Budget Office, March 1988.

[30]Testimony of Acting Assistant Secretary (Tax Policy) Dennis E. Ross before the Senate Finance Committee, March 14, 1989.

Bush Administration Proposal. The administration's new proposal calls for an immediate 30 percent exclusion in the first year. After a three-year phase-in period, the amount of the exclusion is determined by the length of the holding period. Only assets held for at least three years would qualify for the full 30 percent exclusion. There is no inflation indexing.[31]

Kasten/Mack/Shelby Proposal. A new Senate bill sponsored by Senators Robert Kasten (R-WI), Connie Mack (R-FL) and Richard Shelby (D-AL) is more generous than the Bush Administration plan. This proposal would establish a maximum rate of 15 percent (the original Bush Administration goal) and would also include inflation indexing. Unlike the other proposals, the Kasten/Mack plan also would apply to corporations.

The Bush Family Savings Account (FSA). Following up on another campaign pledge, the administration has proposed to allow contributions of up to $2,500 per person to FSAs. Contributions would be made with after-tax dollars, but withdrawals after seven years would be tax free. The FSA option would not be available to individuals with incomes above $60,000 ($120,000 for couples filing joint returns).[32]

The Roth Reverse IRA. Last year Senator William Roth (R-DE) made a proposal similar in concept but more generous than the Bush FSA plan. Under the Roth proposal, people would be allowed to make after-tax contributions to IRA accounts and withdrawals would be tax free.

TAXES ON OTHER INVESTMENT INCOME

This report has focused primarily on the taxation of income from capital gains. It is important to note, however, that the tax code also fails to properly index other types of investment income for the effects of inflation.

Consider, for example, a $10,000 investment made in 1971. In the first instance, assume that an asset is purchased and that it grows in value at a rate equal to the rate of inflation — 5.65 percent. By 1991, the asset will be worth $30,000 and its sale will generate a $20,000 capital gain. At a 28 percent tax rate, the total tax will be $5,600, even though there is no real profit in this example because the gain was totally created by the effects of inflation.

Now consider investing the original $10,000 in an asset that pays a fixed rate of interest of 5.65 percent. At the end of each year the taxpayer will have to pay taxes on the interest income, even though there is no real return because the rate of interest is exactly equal to the rate of inflation. (The remaining aftertax income is reinvested.)[33] Table XIV shows that in both cases the taxpayer will be left with much less capital (in real terms) because of the failure of the tax code to index properly for the effects of inflation. As the table shows, the taxation of interest income can be more unfair as the taxation of capital gains.

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[31]For an analysis of the Bush proposal, see Robbins and Robbins, "The Bush Savings Plan."

[32]For an analysis of Family Savings Accounts, see Robbins and Robbins, "The Bush Savings Plan."

[33]The aftertax rate of interest in this case is 4.07 percent (5.65 x 72%), assuming a taxpayer is in the 28 percent bracket.

In most cases, economists expect interest rates to rise in the presence of inflation by the amount of the rate of inflation. In other words the market rate of interest tends to equal the real rate of interest *plus* the rate of inflation. This is very different from the way in which inflation affects wages. For example, assume the rate of inflation rises from 0 to 10 percent. Wages will tend to rise by 10 percent. Interest rates, on the other hand, will rise by 10 *percentage points*. Indexing of the tax bracket keeps the tax rate on real wages constant (regardless of the rate of inflation), while inflation can cause the tax rate on real investment income to soar.

Table XV, for example, illustrates the return on government securities, which historically pay a real rate of return of about 2 percent. As the table shows, for any rate of inflation the market rate on these securities will equal 2 percent *plus* the rate of inflation.

Table XV also shows how the rate of inflation affects the tax rate on real income from the investment. In the absence of inflation, we have assumed that the tax rate is 28 percent — the highest marginal tax rate imposed on elderly investors. As the table shows:

- If the rate of inflation rises from 0 to 2 percent, the tax rate on real interest income doubles — rising from 28 percent to 56 percent.
- If the rate of inflation rises to 4 percent, the tax rate on real interest income rises to 84 percent.
- At a 10 percent rate of inflation, the tax rate is 168 percent.

In other words, at only modest rates of inflation taxes become totally confiscatory — taking all of the investor's real income and part of the principal as well.

TABLE XIV

AFTERTAX RETURN ON A $10,000 INVESTMENT[1]

	Capital Gain[2]	Fixed Interest Investment[3]
Initial Investment	$10,000	$10,000
Interest (Growth) Rate	5.65%	5.65%
Rate of Inflation	5.65%	5.65%
Amount Left after Taxes at End of 20 Years	$24,400	$22,200

[1]Taxpayer is assumed to be in a 28 percent tax bracket.

[2]Asset purchased and sold after 20 years.

[3]Amount invested in a fixed-interest asset. Taxes are paid annually, and the remainder is reinvested.

TABLE XV

HOW INFLATION AFFECTS TAXES ON INTEREST INCOME

Market Rate of Interest	Rate of Inflation	Real Rate of Interest	Tax Rate on Nominal Income	Tax Rate on Real Income[1]
2%	0	2%	28%	28%
4%	2%	2%	28%	56%
6%	4%	2%	28%	84%
8%	6%	2%	28%	112%
10%	8%	2%	28%	140%
12%	10%	2%	28%	168%

[1]Tax on real interest income.

CONCLUSION: A TAX AGENDA FOR AMERICANS OF ALL AGES

Capital gains taxation and the Social Security benefit tax are not merely elderly issues. These harmful taxes affect all Americans, regardless of age. The following proposals for reform would: 1) cause an increase in federal revenue and lower the federal deficit, 2) create greater equity in taxation and 3) promote savings, investment and economic growth.

Adopt Inflation Indexing for Capital Assets. Just as we have done in the case of wage income, we should index asset prices so that no one pays taxes on inflation-created profit. Inflation indexing should apply to all assets, including coin collections, stamp collections and art objects. Quite apart from the effects on economic activity, inflation indexing is required for reasons of fundamental fairness.

Adopt Inflation Indexing for Interest Income. Just as taxpayers are taxed on inflation-created profit from the sale of capital assets, so they are taxed on inflation-created interest income under the tax code. The failure to index interest payments may be even more costly to the taxpayer than the failure to index asset prices. If the tax code were properly indexed, as it is for people with wage income, taxpayers would pay taxes only on real income, not inflation-created income.

Exempt All Investment Income from the Social Security Benefit Tax. The Social Security benefit tax is a misnomer. The tax is not really a tax on Social Security benefits. Instead it is a tax on income. Currently, the tax applies to investment income, capital gains and even tax-exempt income — sources of income that have no relationship whatever to Social Security.[34]

Currently, the Social Security benefit tax applies only to a narrow range of taxable income — a range of about $4,000 to $5,000. Yet when today's young workers retire, the tax will hit middle-income taxpayers over a range of about $35,000 of income. Thus, to an important degree, the tax affects young people saving for retirement even more than it affects today's retirees.

Adopt a Lower Tax Rate for Gains on Income-Producing Assets. Quite apart from inflation indexing, taxing the profit made on the sale of income-producing assets is double taxation. The market price of these assets is already lower because of the tax on ordinary income. Current proposals for an exclusion of part of capital gains income ignore the fact that middle-income elderly taxpayers face higher marginal rates than wealthy younger taxpayers. A better idea is to set a maximum rate on capital gains for income-producing assets. A rate of, say, 15 percent, would almost certainly produce more revenue than the current system.

Reverse the Timing of Taxation on Tax-deferred Income. Congress has created a number of vehicles for tax-deferred savings. These include IRAs, 401(k) plans, Keogh plans, SEPs and employer-provided pensions. The theory behind all tax-deferral plans is that people will be in a lower tax bracket during their retirement years than during their working years. At the time these plans were sanctioned by the tax code, the theory was valid. Today it is not. The average U.S. worker will be in a higher tax bracket after retirement.

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[34]Exempting capital gains income from the Social Security benefit tax would almost certainly increase federal revenue and reduce the federal deficit. Complete abolition of the tax would cost the federal government about $4 billion the first year. Yet ultimately, this act would add about $84 billion to our annual gross national product. By the year 2000, the annual federal deficit would be lowered by $10 billion. See Robbins and Robbins, "Taxing the Savings of Elderly Americans."

In recognition of this change in tax rates, we should change the way in which people can take advantage of tax-deferred savings. People should have the option to pay taxes now in order to avoid higher tax rates during their retirement years. Accordingly, we should allow taxpayers to make after-tax contributions during their working years and make tax-free withdrawals at the time of retirement.

Apply the Special Tax Treatment of Capital Gains to Tax-deferred Savings. Most proposals to reform capital gains taxation ignore the accumulation of capital gains through tax-deferred savings. Yet the principles that apply to capital gains generally also apply to gains realized through IRA accounts, employer-sponsored pensions and other tax-deferred savings devices. In recognition of this fact, withdrawals from tax-deferred saving accounts should be taxed at a lower rate.

ABOUT THE AUTHORS

John C. Goodman is president of the National Center for Policy Analysis. Dr. Goodman earned his Ph.D. in economics at Columbia University and has engaged in teaching and research at six colleges and universities, including Columbia University, Stanford University, Dartmouth College, Sarah Lawrence College and Southern Methodist University. Dr. Goodman has written widely on health care, Social Security, privatization, the welfare state and other public policy issues. He is author of six books and numerous scholarly articles. His published works include *National Health Care in Great Britain, Regulation of Medical Care: Is the Price Too High?, Economics of Public Policy* and *Social Security in the United Kingdom.*

Aldona Robbins, Vice President of Fiscal Associates and Senior Fellow of the NCPA, has extensive experience with public and private retirement programs. As senior economist in the Office of Economic Policy, U.S. Department of the Treasury from 1979 to 1985, Dr. Robbins performed staff work for the Secretary in his capacity as Managing Trustee of the Social Security trust fund. Her research efforts have resulted in a model to project Social Security benefits and tax revenue.

Recent publications include *The ABCs of Social Security; Institute for Research on the Economics of Taxation (IRET) Economic Reports* entitled "Effects of the 1988 and 1990 Social Security Tax Increases" and "Facts About Catastrophic Coverage" (both with Gary Robbins); *IRET Economic Policy Bulletins* entitled "Social Security Build-Up or Shake-Down?" and "Catastrophic Health Insurance is Bad Medicine" (with Dr. William Hurwitz); "The Economic Status of the Aged: Implications for Energy Policy" (with Paul Craig Roberts) in *Proceedings of A Symposium on Energy Costs and the Elderly: The Next Twenty Years* sponsored by the U.S. Department of Health and Human Services; and articles on "End IRA Deductions, but Make Withdrawals Tax-Free" (with Gary Robbins) and "At the Heart of Medicare's Woes" (with Paul Craig Roberts) in the *Wall Street Journal.*

Gary Robbins is President of Fiscal Associates and Senior Fellow of the NCPA. Mr. Robbins has developed a general equilibrium model of the U.S. economy that specifically incorporates the effects of taxes and government spending. Before joining the private sector, he was Chief of the Applied Econometrics Staff at the U.S. Treasury Department from 1982 to 1985, Assistant to the Under Secretary for Tax and Economic Affairs from 1981 to 1982, and Assistant to the Director of the Office of Tax Analysis from 1976 to 1981.

Recent publications include an article entitled "Encouraging Private Provision for Long-Term Care" (with Aldona Robbins) in *Compensation and Benefits Management;* an *IRET Economic Policy Bulletin* entitled "Mandating Health Insurance" (with Aldona Robbins and John Goodman); an *IRET Op-Ed* entitled "Tax Catastrophes of Medicare Legislation" with Aldona Robbins and Norman Ture); and two papers prepared for the Congressional Task Force on Long-Term Health Care Policies entitled "Promoting Long-Term Care Insurance through Existing Retirement Programs" and "Tax Policies to Promote Long-Term Care" (both with Aldona Robbins). Articles entitled "Why the Tax-Reform Numbers Don't Add Up" (with David Brazell); "End IRA Deduction, but Make Withdrawals Tax-Free" (with Aldona Robbins; and "Tax Reform Aims at Very Industries Up for Protection" (with Paul Craig Roberts) have appeared in the *Wall Street Journal.*

APPENDIX A

TABLE A-I

CALCULATING THE SOCIAL SECURITY BENEFIT TAX FOR AN INDIVIDUAL

Combine:	**WAGES**
	+
	INVESTMENT INCOME
	+
	TAX EXEMPT INCOME
	=
	NON-SOCIAL SECURITY INCOME
	+
Add:	**1/2 SOCIAL SECURITY BENEFITS**
	-
Subtract:[1]	**$25,000**
	÷
Divide:	**2**
Taxable Benefits:[2]	**TOTAL**

[1]No tax is payable unless the total exceeds $25,000.

[2]Treated as taxable income subject to ordinary income tax rates. Maximum taxable benefits are equal to one-half of Social Security benefits.

TABLE A-II

CALCULATING THE SOCIAL SECURITY BENEFIT TAX FOR AN ELDERLY COUPLE

Combine:	**WAGES**
	+
	INVESTMENT INCOME
	+
	TAX EXEMPT INCOME
	=
	NON-SOCIAL SECURITY INCOME
	+
Add:	**1/2 SOCIAL SECURITY BENEFITS**
	-
Subtract:[1]	**$32,000**
	÷
Divide:	**2**
Taxable Benefits:[2]	**TOTAL**

[1]No tax is payable unless the total exceeds $32,000.

[2]Treated as taxable income subject to ordinary income tax rates. Maximum taxable benefits are equal to one-half of Social Security benefits.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Report	Evaluation of Several Proposed Energy taxes (19 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) [6]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-002
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:**

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(b)(1) National security classified information [(b)(1) of the FOIA]
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(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

CONTENTS

EXECUTIVE SUMMARY

EVALUATIVE CRITERIA FOR THE IMPOSITION OF NEW ENERGY TAXES

- o PURPOSE SHOULD BE TO RAISE REVENUE
- o PURPOSE SHOULD NOT BE TO ESTABLISH ENVIRONMENTAL OR ENERGY POLICY, NOR TO PREJUDICE THE NATIONAL ENERGY STRATEGY
- o PROPOSAL SHOULD MINIMIZE NEGATIVE ECONOMIC IMPACTS AND BE DESIGNED FOR EASE OF ADMINISTRATION
- o PROPOSAL SHOULD NOT CHANGE ENERGY MARKET SHARES OR CAUSE DISLOCATIONS IN ENERGY INDUSTRIES - THE TAX SHOULD NOT PICK ENERGY "WINNERS" OR "LOSERS"
- o PROPOSALS SHOULD NOT DIFFERENTIALLY AFFECT GEOGRAPHIC REGIONS

DOE RECOMMENDED TAX PROPOSAL

- o A PROPORTIONALLY APPLIED BTU TAX ON ALL FUELS AT THE WHOLESALE LEVEL
  - MEETS ALL EVALUATIVE CRITERIA
  - ESTIMATED TO RAISE BETWEEN $13.7 BILLION AND $23.3 BILLION IF RATES BETWEEN 3 AND 5 PERCENT ARE CHOSEN
  - CANNOT BE CONSTRUED AS A GLOBAL WARMING TAX
  - SMALL DECREASE IN GNP EXPECTED
  - DOES NOT DISCRIMINATE AMONG FUELS
  - DOES NOT FAVOR ONE REGION OR INDUSTRY OVER ANOTHER
- o A PORTION OF THE REVENUES RAISED SHOULD BE REINVESTED IN THE ENERGY INDUSTRY TO STIMULATE DOMESTIC PRODUCTION ($574 MILLION - SEE TAB D)

SUMMARY OF OTHER TAX PROPOSALS ANALYZED

- o $0.18 PER MMBTU FLAT TAX ON FOSSIL FUELS
  - DISPROPORTIONATELY TAXES COAL; SIMILAR TO CARBON TAX
  - COULD BE SEEN AS GLOBAL WARMING MITIGATION POLICY
- o CARBON TAX
  - WOULD BE SEEN AS MAJOR ENVIRONMENTAL POLICY SHIFT
  - PENALIZES FOSSIL FUELS
- o MOTOR FUEL TAX
  - TARGETS ONE PETROLEUM PRODUCT
  - AFFECTS REGIONS DIFFERENTLY
  - REGRESSIVE
- o OIL IMPORT FEES
  - TARGETS ONE FUEL
  - AFFECTS REGIONS DIFFERENTLY
  - VIOLATES GATT
  - DIFFICULT TO IMPLEMENT GIVEN INTERNATIONAL (MEXICO AND CANADA) AND DOMESTIC (FARMERS) PRESSURE FOR EXEMPTIONS

PROPORTIONAL BTU TAX

DESCRIPTION: ALL FUELS ARE TAXED AT THE SAME PERCENTAGE OF THE PRICE PER MILLION BTU. WHOLESALE TAX APPLIED AT THE REFINERY-GATE OR CITY-GATE OF UTILITY.

ESTIMATED REVENUES: A 4 PERCENT RATE YIELDS $15.7 BILLION IN 1992 - $9.8 BILLION FROM OIL, $3.9 BILLION FROM GAS, $1.5 BILLION FROM COAL, $0.2 BILLION FROM NUCLEAR AND $0.3 BILLION FROM HYDRO. A 3 PERCENT TAX YIELDS $11.6 BILLION AND A 5 PERCENT TAX YIELDS $19.8 BILLION.

ADVANTAGES:

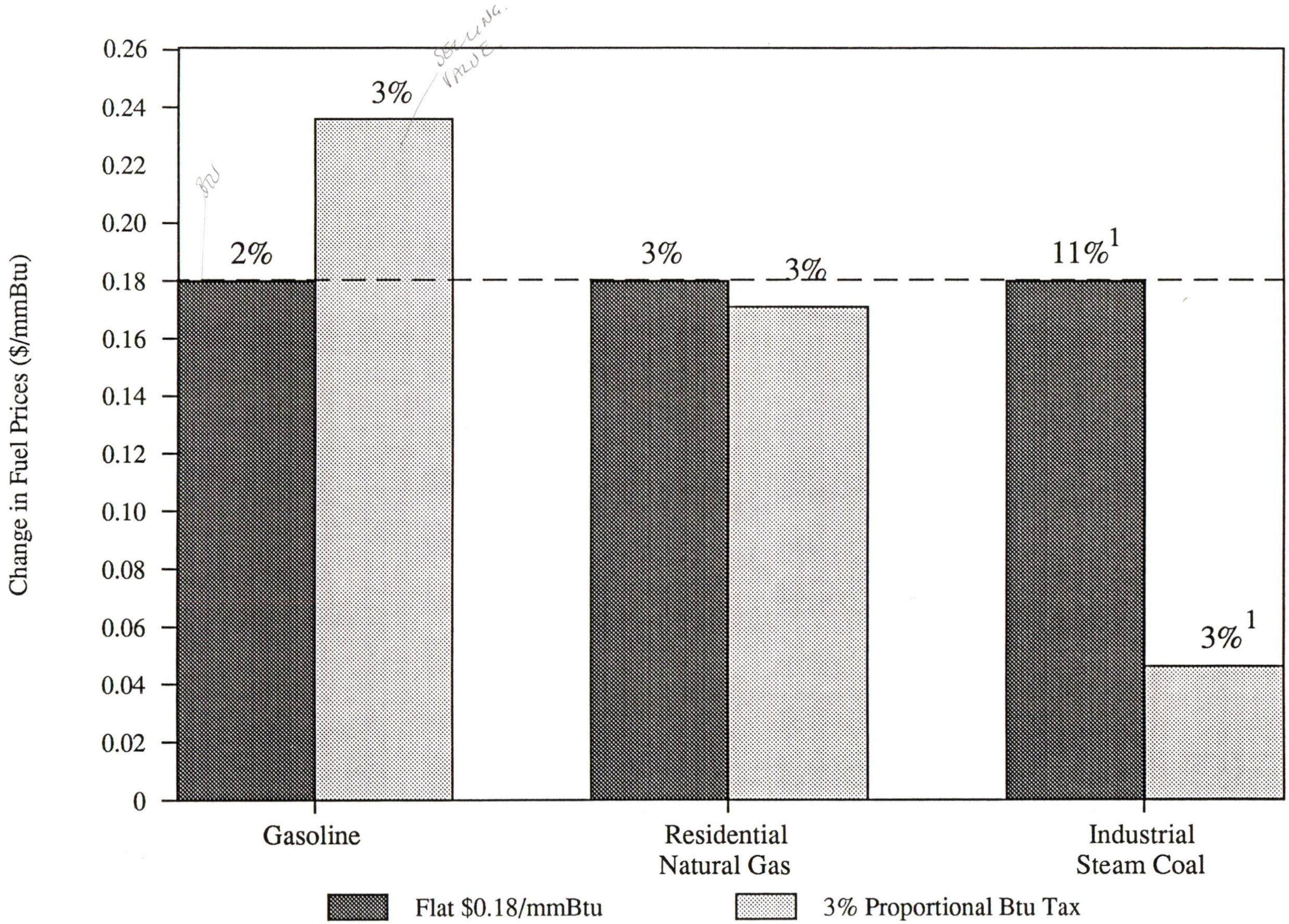
- ALL FUELS ARE SUBJECT TO THE TAX - NO FUELS ARE SINGLED OUT
- DOES NOT SIGNIFICANTLY AFFECT MARKET SHARES
- DOES NOT CONFUSE REVENUE RAISING AND ENVIRONMENTAL POLICY OBJECTIVES
- DECREASES ENERGY CONSUMPTION SLIGHTLY
- REDUCES IMPORTS SLIGHTLY
- DOES NOT FAVOR ONE REGION OR INDUSTRY OVER ANOTHER
- DOES NOT PREJUDICE NATIONAL ENERGY STRATEGY BECAUSE IT IS FUEL NEUTRAL

DISADVANTAGES:

- MORE DIFFICULT TO ADMINISTER THAN A FLAT TAX - ANNUAL ADJUSTMENT OF PERCENT EQUIVALENT FLAT RATES WOULD BE DESIRABLE TO TRACK CHANGES IN FUEL PRICES (e.g., at 4 percent oil would be charged $0.31 per mmBTU, gas would be charged $0.20 per mmBTU, and coal would be charged $0.08 per mmBTU)
- BY 1995 DECREASES GNP BY 0.26 PERCENT AT THE 4 PERCENT TAX, 0.19 PERCENT AT THE 3 PERCENT TAX AND 0.32 PERCENT AT THE 5 PERCENT TAX

NOTE: A PROPORTIONAL BTU TAX IS EQUIVALENT TO AN AD VALOREM TAX BASED ON PRICE PER PHYSICAL UNIT - SEE APPENDIX FOR EXAMPLE

A Flat Tax Means a Higher Relative Tax Rate on Coal



[1]excludes the increase in coal prices due to Clean Air Act amendments estimated estimated at $0.02/mmBtu in 1995 and $0.09/mmBtu in 2000.

REPRESENTATIVE IMPACTS
Flat Tax vs. Proportional Tax

Fuel	Representative Fuel	$/physical unit	MMBTU content/physical unit	$/MMBTU
Oil	Gasoline	$41.29/BBL	5.253/BBL	7.86
Gas	Residential Natural Gas	$ 5.87/mcf	1.029/mcf	5.70
Coal	Industrial Steam Coal	$32.81/ton	20.90/ton	1.57

$0.18/MMBTU Flat Tax;

	$Tax/MMBTU		$/MMBTU		Tax rate
Oil:	0.18	/	7.86	=	0.023
Gas:	0.18	/	5.70	=	0.032
Coal:	0.18	/	1.57	=	0.115

3%/MMBTU Tax;

	Tax rate		$/MMBTU		$Tax/MMBTU
Oil:	.03	x	7.86	=	.24
Gas:	.03	x	5.70	=	.17
Coal:	.03	x	1.57	=	.05

SUMMARY

	Flat tax $/MMBTU;effective tax rate	Proportional tax $/MMBTU;effective tax rate
Oil:	$0.18; 2.3%	$0.24; 3%
Gas:	$0.18; 3.2%	$0.17; 3%
Coal:	$0.18;11.5%	$0.05; 3%

$0.18 PER MMBTU FLAT TAX

DESCRIPTION: ALL FOSSIL FUELS ARE CONVERTED TO THEIR MILLION BTU EQUIVALENT AND TAXED AT THE RATE OF $0.18 PER MILLION BTU. WHOLESALE TAX APPLIED AT REFINERY-GATE OR AT CITYGATE OF UTILITY. TAX IS NOT APPLIED TO NUCLEAR AND RENEWABLES.

ESTIMATED REVENUE: $14.5 BILLION IN 1992 - $6.8 BILLION FROM OIL, $3.8 BILLION FROM GAS, $3.9 BILLION FROM COAL

ADVANTAGES:

- DECREASES ENERGY CONSUMPTION SLIGHTLY
- REDUCES IMPORTS SLIGHTLY
- EASIER TO ADMINISTER THAN A PROPORTIONAL BTU TAX
- SLIGHTLY BENEFITS NON-FOSSIL ENERGY

DISADVANTAGES:

- DISPROPORTIONATELY TAXES COAL RESULTING IN SOME FUEL SWITCHING FROM COAL TO OIL AND GAS; SAME EFFECT AS A CARBON TAX ON COAL WITHOUT THE BENEFITS FOR GAS
- COULD BE SEEN AS A SIGNAL THAT THE ADMINISTRATION IS COMMITTED TO REDUCING CO_2 EMISSIONS; THIS WOULD REPRESENT A MAJOR POLICY SHIFT
- DECREASES GNP BY 0.21 PERCENT BY 1995
- DISPROPORTIONATELY INCREASES COSTS IN COAL CONSUMING REGIONS (MIDWEST) AND FAVORS REGIONS NOT DEPENDENT ON FOSSIL FUELS (PACIFIC NORTHWEST)

CARBON TAX

DESCRIPTION: TAX RATES ARE PROPORTIONAL TO THE CARBON CONTENT PER BTU OF EACH FUEL. A CARBON TAX IS EXPRESSED IN TERMS OF $/TON OF CARBON. THE TAX CONSIDERED HERE IS $9/TON; THE EQUIVALENT RATES ON GAS, OIL AND COAL ARE $0.13/MMBTU, $0.18/MMBTU AND $0.21/MMBTU.

EXPECTED REVENUES: THE ESTIMATED REVENUES ARE $14.5 BILLION IN 1992 - $6.7 BILLION FROM OIL, $2.8 BILLION FROM GAS AND $5.0 BILLION FROM COAL

ADVANTAGES:

- DECREASES ENERGY CONSUMPTION SLIGHTLY
- REDUCES OIL IMPORTS SLIGHTLY
- REDUCES CARBON EMISSIONS SLIGHTLY (LESS THAN 1 PERCENT).

DISADVANTAGES:

- WOULD BE SEEN AS A SIGNAL THAT THE ADMINISTRATION IS COMMITTED TO REDUCING CO_2 EMISSIONS; THIS WOULD REPRESENT A MAJOR POLICY SHIFT
- PENALIZES FOSSIL FUELS; COULD BE PERCEIVED AS A DOUBLE PENALTY ON COAL WHEN TAKEN WITH CLEAN AIR ACT AMENDMENTS
- DISPROPORTIONATELY HURTS THE DOMESTIC COAL INDUSTRY RELATIVE TO OIL AND GAS
- REDUCES GNP BY 0.20 PERCENT BY 1995
- DISPROPORTIONATELY INCREASES ENERGY EXPENDITURES IN THE MIDWEST

MOTOR FUEL TAX

DESCRIPTION: A MOTOR FUEL TAX OF $0.25 PER GALLON APPLIED ON TOP OF THE CURRENT $0.091 A GALLON OF GASOLINE FEDERAL HIGHWAY TRUST FUND TAX AND THE $0.151 A GALLON OF DIESEL FUEL TAX

ESTIMATED REVENUES: EIA ESTIMATES THAT $20 BILLION ANNUALLY WOULD BE GENERATED

ADVANTAGES:

- WOULD REDUCE CONSUMPTION OF GASOLINE AND DIESEL FUEL - ENCOURAGES SOMEWHAT LESS DRIVING AND PURCHASE OF MORE FUEL EFFICIENT VEHICLES
- DOES NOT AFFECT INTERNATIONAL COMPETITIVENESS AS MUCH AS SOME OTHER ENERGY TAXES BECAUSE IMPACT IS MINIMAL ON INDUSTRIAL SECTOR
- SOME DECREASE IN IMPORTS AND ASSOCIATED TRADE IMBALANCE ESTIMATED BY EIA AT $8 BILLION

DISADVANTAGES:

- SINGLES OUT ONE ENERGY SOURCE FOR TAXATION
- UNFAIR BURDEN ON TRUCKING INDUSTRY AND PEOPLE WHO COMMUTE LONG DISTANCES
- RAISES COSTS IN SOME REGIONS MORE THAN IN OTHERS (e.g., NORTHEAST)
- TAX EVASION WITH REGARD TO DIESEL FUEL IS LIKELY
- LOSS IN GNP ESTIMATED AT 0.64 PERCENT
- MOTOR FUEL TAX IS REGRESSIVE

OIL IMPORT FEES

DESCRIPTION: A FEE OF BETWEEN $5 AND $10 PER BARREL OF PETROLEUM PRODUCTS APPLIED ONLY TO IMPORTS

EXPECTED REVENUES: BASED ON EXPECTED IMPORT FIGURES IN 1995, BETWEEN $18.5 BILLION AND $36.9 BILLION GROSS MAY BE GENERATED IN 1995. HOWEVER, DUE TO DECREASED DEMAND AND INCREASED DOMESTIC PRODUCTION, THESE FIGURES WILL MOST LIKELY BE LESS. CBO ESTIMATES THAT A $5 PER BARREL IMPORT FEE WILL ADD $10.5 BILLION IN 1995. APPLYING THE SAME LOSS RATE AT A $10 FEE YIELDS $20.9 BILLION.

ADVANTAGES:

- INCREASES DOMESTIC OIL PRICES LEADING TO ADDITIONAL DOMESTIC PRODUCTION
- INCREASED PRICES DECREASES DEMAND FOR OIL PRODUCTS
- BOTH IMPACTS REDUCE RELIANCE ON FOREIGN SOURCES OF OIL
- WILL HELP TRADE BALANCE BY REDUCING OIL BILL PORTION
- BENEFITS OIL PRODUCING REGIONS BY STIMULATING PRODUCTION AND OTHER OIL RELATED ACTIVITIES

DISADVANTAGES:

- RAISES COSTS TO CONSUMERS
- U.S. TRADING PARTNERS MAY OBJECT AND ASK FOR EXEMPTIONS REDUCING POTENTIAL REVENUE GAIN
- RAISES ENERGY COSTS IN OIL CONSUMING REGIONS, ESPECIALLY THE NORTHEAST
- ACCORDING TO <u>ENERGY SECURITY REPORT</u> (1987) $5 FEE WILL CAUSE 0.38% DECREASE IN GNP AND A $10 FEE WILL CAUSE A 0.81% DECREASE
- ONLY TAXES ONE ENERGY SOURCE AND WILL CAUSE SOME FUEL SWITCHING TO GAS AND COAL
- MOST LIKELY GATT VIOLATIVE

ESTIMATED IMPACTS OF PROPOSED TAX INCENTIVES FOR OIL

* = PRESIDENT'S PACKAGE

Description	Cost per BOE (1990 $)	1995 Production Impact (Bbl/day)	(1990 $) Revenue Loss Annual Average ($ million)	Incremental Reserves (million Bbl)
10% EOR Investment Tax Credit* close to P	$ 0.12	102,000	12	500 *
27.5% Depletion Allowance for EOR	$ 0.80	94,000	112	700
Increase Net Income Limitation*	$ 4.00	7,500	25**	3.7 - 7.5
Reduce AMT Liability by Adjusting IDC Preference*	$ 5.00	35,250	100**	69 - 89
Tax Credits-Exploratory IDCs*	$ 7.50	65,000	300**	129 - 167
Repeal the Transfer Rule*	$ 8.00	4,500	25**	3.3
TOTAL°	$ 5.10	308,250	574	1405 - 1466.8

* These five proposals are the President's budget package and were originally calculated for four years of credit. The 10% EOR Investment Tax Credit is a slightly expanded version of the President's proposal. The proposals have been scaled up to five years.

** Revenue estimates are provided by the Department of the Treasury.

o REPRESENTS 6% OF REVENUES RAISED ON OIL FOR THE 4% PROPORTIONAL BTU TAX
REPRESENTS 9% OF REVENUES RAISED ON OIL FOR THE $0.18 FLAT BTU TAX

KEY ASSUMPTIONS

- ECONOMIC GROWTH RATE AVERAGING 3.0 PERCENT PER YEAR THROUGH 1995 - CONSISTENT WITH 1990 ECONOMIC REPORT TO THE PRESIDENT
- WORLD OIL PRICE GROWTH RATE OF 4.0 PERCENT PER YEAR THROUGH 1995 - CONSISTENT WITH SPR SIZING STUDY
- ENERGY CONSUMPTION, PRODUCTION AND PRICE ASSUMPTIONS CONSISTENT WITH DOE NATIONAL ENERGY STRATEGY REFERENCE CASE
- EFFECTS OF CLEAN AIR ACT AMENDMENTS ON ELECTRICITY GENERATION INDUSTRY INCLUDED BUT ARE NOT SIGNIFICANT BEFORE 2000
- ONLY IMPACTS THROUGH 1995 ARE REPORTED

CLEAN AIR ACT AMENDMENTS ASSUMPTIONS

THE CLEAN AIR ACT AMENDMENTS IN H.R. 3030 HAVE BEEN REPRESENTED IN THIS ANALYSIS. THE KEY ASSUMPTIONS, BASED ON PRELIMINARY WORK, ARE:

- SO_x EMISSIONS FROM COAL PLANTS MUST NOT EXCEED 2.5 LBS/MMBTU IN 1995.
- TOTAL ELECTRICITY SO_x EMISSIONS MUST NOT EXCEED 8.9 MILLION TONS/YEAR IN 2000.
- TOTAL ELECTRICITY NO_x EMISSIONS MUST DECLINE BY 2.5 MILLION TONS/YEAR IN 2000.

ONLY LIMITED AMOUNTS OF SWITCHING FROM HIGH-SULFUR TO LOW-SULFUR COAL ARE REQUIRED TO MEET THE 1995 PLANT-SPECIFIC TARGET. FUEL SHARES THEREFORE DO NOT MEASURABLY CHANGE FOR ELECTRICITY GENERATION IN 1995. HOWEVER, THE MORE STRINGENT 2000 SO_x AND NO_x LIMITS BEGIN TO IMPACT DECISIONS ON CAPACITY EXPANSION AFTER 2000. THE SPECIFIC POST-2000 IMPACTS INCLUDE:

- AVERAGE UTILITY COAL PRICES RISE $0.85/MMBTU DUE TO THE RELATIVE SHIFT TO MORE EXPENSIVE LOW-SULFUR COAL;
- MOST LIFE-EXTENDED COAL PLANTS ARE RETROFITTED WITH POLLUTION CONTROL EQUIPMENT;
- EXISTING SO_x SCRUBBERS ARE OPERATED AT HIGHER EFFICIENCIES AT HIGHER COSTS.

SIGNIFICANT CHANGES IN FUEL SHARES (E.G. FROM COAL TO GAS) THEREFORE DO NOT APPEAR UNTIL AFTER 2000. CONSEQUENTLY, THEY DO NOT APPEAR IN THE CHARTS IN THIS BRIEFING BOOK.

PROPORTIONAL BTU TAX - AD VALOREM TAX EQUIVALENCE

THE FOLLOWING EXAMPLE DEMONSTRATES THAT THE DOE PROPOSED PROPORTIONAL BTU TAX IS EQUIVALENT TO AN AD VALOREM TAX APPLIED ON FUEL-PHYSICAL UNITS DIRECTLY. THE SAME PERCENTAGE APPLIES.

Oil: $41.29 per barrel of gasoline

Apply 5% ad valorum tax: .05(41.29) = $2.06/BBL.

Each barrel contains 5.253 MMBTU.

This tax is equivalent to $0.392 per MMBTU (2.06/5.253).

The $/MMBTU value of a barrel of gasoline is $7.86.

5% portional tax is $0.392 (7.86 X .05).

These taxes are equivalent.

UPDATE OF BASELINE DEFICIT ESTIMATES
(in billions of dollars)

	1990	1991	1992	1993	1994	1995
January estimated baseline deficit................	122.0	100.5	72.9	39.2	13.1	–13.4
Exclude RTC..	–2.4	–7.9	–0.9	–0.9	–0.9	–0.9
January deficit excluding RTC......................	119.6	92.6	72.0	38.3	12.2	–14.3
Adjustments:						
Economic assumptions:						
Receipts:						
Corporate income taxes...........................	8.7	16.1	17.7	17.7	17.4	15.4
Individual income taxes...........................	–2.6	–2.0	–1.0	–1.2	–4.2	–4.4
Federal Reserve deposits.........................	–0.4	–2.2	–1.9	–1.0	–0.6	–0.4
Other..	–1.3	–0.5	–0.3	–0.9	–2.7	–3.7
Subtotal, receipts........................	4.4	11.4	14.5	14.6	9.9	6.9
Outlays:						
Interest rates..	1.9	11.3	12.1	8.7	6.3	4.6
COLAs:						
Food stamps..	0.0	0.7	0.7	0.7	0.8	0.9
Other..	0.0	2.0	3.4	3.9	4.0	4.4
Unemployment rate.................................	–0.5	1.6	1.4	1.5	1.5	1.0
Debt service..	0.3	1.9	4.4	6.4	8.0	9.2
Subtotal, outlays.........................	1.7	17.5	22.0	21.2	20.6	20.1
	----	----	----	----	----	----
Total, economic assumptions......................	6.1	28.9	36.5	35.8	30.5	27.0

UPDATE OF BASELINE DEFICIT ESTIMATES (Continued)
(in billions of dollars)

	1990	1991	1992	1993	1994	1995
Expected supplemental appropriations bill	1.6	0.3	–0.2	–0.5	–0.7	–0.9
Technical reestimates:						
Receipts	19.5	0.0	0.0	0.0	0.0	0.0
AFDC	0.1	0.1	0.1	0.1	0.1	0.1
Bank insurance fund	1.9	5.4	5.6	2.5	2.7	3.1
Farm price supports	–1.0	–2.0	0.0	0.0	0.0	0.0
FSLIC resolution fund	0.1	1.2	1.2	1.2	1.2	1.2
Defense	3.0	0.0	0.0	0.0	0.0	0.0
Foreign military sales	0.6	–0.2	–0.2	–0.1	–0.1	–0.1
Food stamps	0.0	0.6	0.7	0.7	0.8	0.8
Interest	0.9	1.2	0.9	0.8	0.7	0.8
Medicaid	0.6	1.0	1.1	1.1	1.2	1.2
Medicare	0.8	2.0	2.1	2.2	2.3	2.4
SSI	0.0	2.0	2.2	1.0	1.0	1.0
Unemployment compensation	0.5	0.7	0.6	0.8	0.8	1.0
VA entitlements	0.0	0.6	0.8	0.8	0.9	1.2
Other	–0.4	0.3	0.7	0.7	0.5	0.2
Total, technical reestimates	26.6	13.0	16.0	11.7	12.2	12.8
Debt service from noneconomic adjustments	1.1	3.2	4.4	5.4	6.3	6.9
Total, adjustments	35.4	45.3	56.7	52.4	48.3	45.9
May estimated baseline deficit excluding RTC	155.0	137.9	128.7	90.7	60.5	31.6

UPDATE OF BASELINE DEFICIT ESTIMATES (Continued)
(in billions of dollars)

	1990		1991		1992		1993		1994		1995	
	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
RTC*												
Losses	3.4	17.6	19.1	38.0	20.7	33.0	18.1	14.9	1.7	0.0	0.0	0.0
Working Capital												
Asset acquisition	32.4	40.4	44.7	59.4	42.6	57.9	43.3	37.8	4.0	0.0	0.0	0.0
Asset sale	-11.5	-13.0	-30.0	-40.6	-37.0	-53.5	-43.4	-61.0	-39.6	-39.2	-20.7	-11.4
Administrative Expenses	0.8	1.0	3.2	4.0	4.3	5.4	5.0	5.3	3.5	2.1	1.3	0.5
Debt Service	0.9	1.7	4.1	7.1	6.8	11.3	8.6	13.0	8.7	12.0	7.5	10.9
Total	26.0	47.7	41.1	67.9	37.4	54.1	31.6	10.0	-21.7	-25.1	-11.9	0.0
May estimated baseline deficit with RTC*	181.0	202.7	179.0	205.8	166.1	182.8	122.3	100.7	38.8	35.4	19.7	31.6

*NOTE: RTC ranges could be wider than displayed if, for example, high asset sale rates were combined with low case resolution (asset acquisition) rates -- or vice versa. The three principal variables of interest are: rate of case resolution, rate of asset sale, and loss (or "discount") rate. Ranges here assume case resolutions vary from $25 billion to $40 billion of assets per quarter, and "discount" rates vary from 16% to 22%. Wider ranges are possible. There are, in addition, legislative uncertainties: these numbers require new legislation.

UPDATE OF BASELINE DEFICIT ESTIMATES (Continued)
(in billions of dollars)

	1990	1991	1992	1993	1994	1995
MEMORANDUM:						
Social Security cash surplus	47.6	56.3	61.8	73.0	83.1	90.0
Social Security interest	15.7	20.5	25.3	30.5	36.4	42.6
Total	63.3	76.8	87.1	103.5	119.5	132.6
Other trust funds:						
Cash surplus	16.4	12.0	9.2	8.9	5.8	1.4
Interest	45.1	48.7	52.4	55.9	59.0	61.6
Total	61.5	60.7	61.5	64.8	64.8	63.1

COMPARISON OF ECONOMIC ASSUMPTIONS

5/24/90

Calendar Years	OMB January	CBO January	OMB May	CBO May
Interest Rates, 91-Day T-Bills (%)				
1989	8.1	8.1	8.1*	
1990	6.7	6.9	7.7	
1991	5.4	7.2	6.8	
1992	5.3	6.9	5.8	
1993	5.0	6.5	5.1	
1994	4.7	6.1	4.8	
1995	4.4	5.8	4.4	
Interest Rates, 10-Year T-Note (%)				
1989	8.5	8.5	8.5*	
1990	7.7	7.8	8.6	
1991	6.8	7.7	8.0	
1992	6.3	7.6	7.0	
1993	6.0	7.5	6.1	
1994	5.7	7.4	5.8	
1995	5.4	7.3	5.4	
Corporate Profits Before Tax ($B.)				
1989	303.0	293.7	290.5*	
1990	360.4	320.3	321.4	
1991	420.7	356.0	359.4	
1992	472.0	371.3	414.6	
1993	514.6	386.4	452.4	
1994	547.8	414.3	489.8	
1995	578.8	438.0	527.8	

COMPARISON OF ECONOMIC ASSUMPTIONS (Continued)

5/24/90

Calendar Years	OMB January	CBO January	OMB May	CBO May
Real GNP				
(Percent change, 4th over 4th)				
1989	2.7	2.5	2.6*	
1990	2.6	1.8	2.4	
1991	3.3	2.5	2.9	
1992	3.2	2.5	3.3	
1993	3.1	2.5	3.2	
1994	3.0	2.4	3.1	
1995	3.0	2.4	3.0	
GNP Deflator				
(Percent change, 4th over 4th)				
1989	4.0	3.9	3.8*	
1990	4.2	4.1	4.5	
1991	4.1	4.0	4.2	
1992	3.8	4.0	3.9	
1993	3.5	4.0	3.6	
1994	3.2	4.0	3.3	
1995	2.9	4.0	2.9	
CPI				
(Percent change, 4th over 4th)				
1989	4.4	4.5	4.5*	
1990	4.1	4.2	4.8	
1991	4.0	4.3	4.2	
1992	3.8	4.3	3.9	
1993	3.5	4.3	3.6	
1994	3.2	4.3	3.3	
1995	2.9	4.3	2.9	

*Actuals

SUGGESTED AGENDA -- 7/24/90

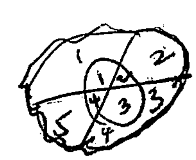
(1) "Cease Fire" rules of conduct
(re public statements)

(2) "Forcing Mechanism(s)" -- to get agreement enacted before August recess

(3) "Parameters for a Possible Agreement" (handout) -- to frame further presentation of offers

(4) Tough substantive issues -- preliminary discussion

(5) Guidance for press



July 27, 1990

To: Republican Budget Summiteers

From: Newt Gingrich

Re: Assessment of current summit situation

Woodrow Wilson once commented "you should never kill someone who is in the process of committing suicide." Maybe that explains the current Democratic budget negotiating strategy. Why do anything if the Republicans are willing to kill themselves?

Consider the following events:

1. The President calls a White House meeting to call for budget talks focused on economic growth. The news media focuses on taxes.

   The Democrats do nothing.

2. The Republicans ask the Democrats to postpone appropriations bills as an act of good faith. The Democrats refuse and promptly start passing appropriations bills far higher than any summit can accept.

3. The President's staff submit a second budget focused on spending cuts.

   The Democrats do nothing in the summit while continuing big spending legislation as usual in Congress.

4. The Democrats stall until the President calls a White House photo opportunity for Foley, Mitchell and Gephardt (Dole and Michel also attend) at which the President announces that tax revenue increases will be part of any agreement. The news media proclaims he is breaking his pledge on no new taxes.

   The Democrats revert to doing nothing in the summit, defeat the balanced budget amendment quietly (with no active Presidential publicity for the amendment or against the big spending liberal Democrats who voted no) and continue to pass appropriations bills.

5. The Democrats stall and in desperation the President begins giving Foley, Mitchell and Gephardt daily photo opportunities thus elevating them in stature and respectability.

   The Democrats do nothing but pass more spending bills.

6. The President praises Democratic leaders at a Republican fundraiser.

   The Democrats do nothing but pass more spending bills.

7. The Republicans begin negotiating with themselves.

   Thursday morning NBC News leads with Republican efforts to freeze COLAs and cut medicare.

   Friday morning page one of the <u>Washington Post</u> has Republicans trying to raise the beer tax while page one of the <u>New York Times</u> has Republicans trying to raise taxes on New York residents by limiting the state and local income tax reduction.

   The Democrats have made no offer and continue to pass more spending bills, including a $5 billion entitlement expansion, pushed by the chairman of the House Budget Committee, contained in the Farm Bill.

8. Originally the budget summit was to succeed by the July 4 recess. It failed.

   Then the budget summit was to succeed by the August 4 recess. It is now failing.

   The Democrats will do nothing but pass more spending bills and insist on a debt ceiling that maximizes pressure on Republicans by expiring on October 15.

Question: Is it time for Republicans to stop committing slow suicide and start putting pressure on the Democrats while telling the country the truth about Capitol Hill?

Washington Talk

Bush the Compromiser Finds the Stump Tricky

By MAUREEN DOWD

Special to The New York Times

WASHINGTON, July 26 — The difference between the two parties may have come down to this: a can of Mace.

Although President Bush likes to say that the difference between the parties is as big as the Great Divide, the man who specialized in "red meat lines" in 1988 seems fresh out in 1990.

As he races across the country campaigning for Republican candidates, he can't, after all, talk about the Communist threat — not now that on Air Force One he proudly displays a picture of his new friend, Mikhail S. Gorbachev, playing horseshoes at Camp David.

It's hard to brag about keeping the military strong when the Defense Secretary is back in Washington working on cuts, and it's hard to bash the Democratic Congressional leaders who are at the White House hammering out a bipartisan budget deal and civil rights bill.

Without his pledge against new taxes, the President has lost his best applause line.

The other night in New York, at a Republican fund-raising event at the Waldorf-Astoria, Mr. Bush displayed true desperation. With the same partisan bluster that once made Willie Horton a household name, Mr. Bush sneered, "Republicans want to allow the women of this state to be able to defend themselves with Mace, and liberal Democrats don't" — a reference to a Republican bill killed in New York's Democratic-controlled assembly that would have allowed "Mace-type devices" to be used for protection.

• • •

"The President's speeches have a schizophrenic feel," said Michael McCurry, the spokesman for the Democratic National Committee. "This guy is clearly itching to get back to the fiery stump rhetoric of '88, but he can't because he has to be kinder and gentler in all the bipartisan negotiations that consume the Bush Administration."

So on the stump, the President awkwardly offers a rehash of the Republican oratory that worked two years ago. At a fund-raising dinner last week in Boise, Idaho, for a Senate candidate, Larry Craig, Mr. Bush warned against "the liberal path of military weakness" and charged that "some liberal Democrats would take America back to the days of big spending, malaise, self-doubt and drift."

At a breakfast the next morning for a Senate candidate, Allen Kolstad, in Billings, Mont., Mr. Bush huffed that the Democrats are "the party of red tape."

By the time he arrived in New York on Tuesday night, he seemed truly confused about how to proceed. At one moment, he was blaming "the liberal mindset" for "bad schools, dangerous streets and big deficits."

In the next breath, he was saluting the House majority leader, Richard A. Gephardt, the Missouri Democrat who earlier this year was the target of an orchestrated White House campaign of dismissive derision, for "trying hard" on the budget negotiations.

• • •

"The spotlight is on both sides to place progress over partisanship and the national interest over special interest," Mr. Bush told a Republican audience that was clearly hoping for a dose of partisanship. "We all know that the Democrats have a long track record on spending, but if the Berlin Wall could come down in the same year that America goes nuts over the Teen-Age Mutant Ninja Turtles, who knows what could happen next?"

Good words for Democrats? Sometimes, Bush finds it necessary.

The next moment, however, the ghost of George the Ripper was back: "As long as the liberal mindset dominates, we will be forced to measure our successes in catastrophes averted and calamities mitigated."

As he left the budget meeting at the White House on Wednesday, Mr. Gephardt was asked by reporters if the Democrats were upset with Mr. Bush's jibes. Mr. Gephardt conceded that the subject had been raised with the President.

"I guess the President's concern is that everything he says winds up in the media," Mr. Gephardt explained. In other words, when the President is with Republicans, he bashes Democrats; when he is with Democrats, he bashes reporters.

Republican strategists are concerned about how Mr. Bush can effectively campaign for candidates, many of whom are trying to distance themselves anyway because of Mr. Bush's softened tax stance, without a strong, coherent message of doom for the Democrats.

"I guess," one Presidential counselor said, "George Bush is finally learning that you can't have it all ways."

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Outline	Options for Administration's Schedule for Budget Negotiations (2 copies) (2 pp.)	n.d.	~~P-5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Budget [1990] (1 of 2) [6]

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

Date Closed: 12/16/2004	**OA/ID Number:** 29137-002
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:**

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

P-1 National Security Classified Information [(a)(1) of the PRA]
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P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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

(b)(1) National security classified information [(b)(1) of the FOIA]
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(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

	OPTION A "Stay 'Til Done" (Agreement and Enactment Prior to August Recess)	OPTION B Stay 'Til Agree -- Legislate By September 15	OPTION C Keep Working and Drafting/ Announce Firm Schedule for September Enactment
Forcing Mechanism(s)	o Recess o Debt Limit (August 13)	o Recess (for agreement) o Long term Debt Limit (for enactment)	o Announced schedule o Debt Limit (Oct. 1) o Sequester (Oct. 1) o CR (Oct. 1)
Treatment of Debt Limit	o No short-term o Long-term after agreement (by August 13)	o Clean short-term: to September 15 o Long-term: from Sept. 15 on	o Clean short-term: to October 1 o Long-term: from October 1 on
End-Stage Negotiation	July 27(F) - July 31(Tu)	July 27(F) - August??	Aug. 31(F) - Sept. 7 [plus Sept. 8-9 week end?]
Conf. Report/ Resolution	Aug. 1-2; vote by 8th	Aug. ??-??// then leave	Sept. 10-11; vote 13-14
Reconciliation Drafting/Selling	August 1(W) - August 7(Tu)	August ?? - Sept. 10	Sept. 10 - Sept. 20
Reconciliation Enactment (House 2 days plus Senate??)	o House Rules: August 8 o House Floor: August 9 o Senate: August 10-13 (debt limit)	o House Rules: Sept. 10 (M) o House Floor: Sept. 11 (Tu) o Senate: Sept. 9-14 o Conf.: Sept. 15 (debt limit)	o House Rules: Sept. 20 o House Floor: Sept. 21 o Senate: by Sept. 24th o Conf.: 26 th

Key is to get Congress into last 2 minutes mode —

	OPTION A "Stay 'Til Done" (Agreement and Enactment Prior to August Recess)	OPTION B Stay 'Til Agree -- Legislate By September 15	OPTION C Keep Working and Drafting/ Announce Firm Schedule for September Enactment
Forcing Mechanism(s)	• Recess • Debt Limit (August 13)	• Recess (for agreement) • Long term Debt Limit (for enactment)	• Announced schedule • Debt Limit (Oct. 1) • Sequester (Oct. 1) • CR (Oct. 1)
Treatment of Debt Limit	• No short-term • Long-term after agreement (by August 13)	• Clean short-term: to September 15 • Long-term: from Sept. 15 on	• Clean short-term: to October 1 • Long-term: from October 1 on LABOR DAY WEEKEND -
End-Stage Negotiation	July 27(F) - July 31(Tu)	July 27(F) - August??	Aug. 31(F) - Sept. 7 [plus Sept. 8-9 week end?]
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To: John S.

2:30 P.M. NEWS UPDATE

DISABILITIES ACT (Janet Bass, UPI) -- The nation's 43 million disabled "can now pass through once closed doors into a bright new era of equality," President Bush said Thursday as he signed landmark legislation for the handicapped. The South Lawn signing ceremony had a festive atmosphere, as 2,000 people representing major disability groups witnessed the end of their long battle to prohibit discrimination against those with physical and mental disabilities. "Three weeks ago we celebrated our nation's Independence Day, and today we are here to rejoice in and celebrate another independence day, one that is long overdue," Bush said. "With today's signing of the landmark legislation, Americans with Disabilities Act, every man, woman and child with a disability can now pass through once closed doors into a bright new era of equality, independence and freedom."

BUDGET TALKS (AP) -- ...Rep. Gephardt, speaking with reporters after Thursday's White House session said major disagreement remains with the administration over taxes, "the composition of the package, who pays and how much."... We feel the tax code has become unprogressive," Gephardt said. However, ideas for eliminating the bubble by increasing taxes on the wealthy to 33 percent have not been well received by Republicans, participants in budget talks have suggested. There remain "large and tough and difficult disagreements to bridge," Gephardt said. But Sen. Dole said: "We're making some progress. It may be hard to tell from the outside. But from the inside, I think we're making progress. We're at the hard stage now, trying to decide whether to stay here in August and get it done," he added.

Is this a violation of agreement

(UPI) -- Three days of intervention by President Bush, designed to catalyze budget negotiations between the administration and Congress, still had the two sides far apart Thursday on a plan to cut the federal deficit.... Rep. Gephardt said Republicans and Democrats could have separate budget plans drafted for comparison by Friday. "It's possible," he said. "I can't guarantee you that, but we've worked very hard this week to put a package together."... Though still at odds over taxes, benefit cuts, defense and budget reform, he said that "bringing everybody to a certain level of understanding of what those disagreements are, I think, sets the stage for the final negotiation." While there remain "large and tough and difficult differences to bridge," Gephardt told reporters, "we've made some progress and we're now down to a point where real, substantive negotiation is about to really take form."

SOUTER (AP) -- David Souter met Thursday with the chairman of the Senate Judiciary Committee that will consider his Supreme Court nomination and refused to answer reporters' questions about abortion and affirmative action. Souter spent about an hour in private discussions with committee chairman Biden. [Souter] continued to dodge questions by reporters.... Asked if there was any way to get him to talk about his views on abortion, he responded: "In a word, no." How about affirmative action? "Same word," he said. "I like that word." But he kidded a reporters to "keep it up." After his meeting with Biden, Souter said, "I look forward to making my positions clear to the extent it is constitutionally appropriate" when the hearings begin. Biden declined to reveal the contents of their discussion. -more-

FEDERAL TAX DEDUCTIONS FOR STATE TAXES
(Proposed by Governor George A. Sinner, North Dakota)

General Principles

The states have the right to choose, within constitutional limits, the method of taxation they impose on their citizens. U.S. tax policy should be neutral to taxpayers subject to the many different methods that states may constitutionally impose taxes and collect revenues. Federal laws and regulations should recognize that states may only tax income properly attributable to activities in the state and should permit a deduction from U.S. source income for all state taxes.

Internal Revenue Service Position

The Internal Revenue Service in December 1988 issued temporary and proposed regulations under Section 861 of the Internal Revenue Code requiring United States multinational corporations to allocate a portion of their state taxes to foreign source income.

Regulations Make Incorrect Assumption. *The Internal Revenue Service's position assumes that state income taxes are imposed upon foreign source income which is inconsistent with Supreme Court rulings such as Container Corporation of America v. Franchise Tax Board, 463 U.S. 159 (1983), that have held that a state may only tax income attributable to in-state activities.*

Regulations Result in Discrimination. *The Internal Revenue Service regulations discriminate against some states and taxpayers depending on how an individual state has chosen to impose taxes. The Internal Revenue Service regulations also discriminate against U.S. multinationals by effectively disallowing part of their state income tax deduction for federal purposes while allowing a full deduction of state income tax for federal purposes to U.S. subsidiaries of foreign corporations.*

Proposed Federal Legislation

Legislation to prohibit the Internal Revenue Service from allocating state taxes to foreign source income has been introduced in the U.S. House of Representatives and Senate.

Legislation Respects State Laws. *This federal legislation would result in a consistent federal policy being applied regardless of the method of taxation chosen by various states.*

Legislation Ends Discrimination. *This federal legislation would result in all state taxes paid by multinational taxpayers being treated in the same fashion, so that the federal government would not cause the tax climate of individual states to be more or less favorable.*

Legislation Has Broad Support. *The Federation of Tax Administrators representing all states, the Multistate Tax Commission, and the Western Governors' Association, along with many national business organizations, have endorsed this legislation.*

Promoting Federal Legislation. *The National Governors' Association urges Congress and the federal government to respect established case law that recognizes states may only tax income properly attributable to activities in the state by enacting legislation which provides that the deduction for state and local income and franchise taxes should not be allocated to foreign source income.*

FEDERATION OF TAX ADMINISTRATORS

444 North Capitol St., NW, Washington, D.C. 20001 • (202) 624-5890 • FAX (202) 624-7888

Resolution Seventeen

WHEREAS, the ability of American businesses to compete with their foreign counterparts is the greatest challenge facing them today in the world marketplace, and

WHEREAS, the Internal Revenue Service in December 1988 issued temporary and proposed regulations requiring United States multinational corporations to allocate a portion of their deduction for State taxes to foreign source income, and

WHEREAS, these regulations are inconsistent with prior pronouncements of the Internal Revenue Service on the subject, including a 1979 revenue ruling which held a franchise tax measured by income should not be allocated to foreign source income, and

WHEREAS, the position taken in the regulations adversely impacts the competitiveness of United States multinational corporations in world markets by burdening them with an additional cost of doing business not placed upon their foreign competitors, and

WHEREAS, the position taken in the regulations subjects United States multinational corporations to inconsistent taxing regimes because the United States Supreme Court has ruled states may only tax income attributable to in-state activities but the regulations require a portion of those same state taxers to be allocated on the ground that the tax is on foreign source income, and

WHEREAS, legislation has been introduced in both the U.S. House of Representatives and the U.S. Senate to require that no state or local income or franchise tax is to be allocated to foreign source income, now, therefore, be it

Resolved, that the Federation of Tax Administrators supports pending federal legislation to provide that the deduction for state and local income and franchise taxes shall not be allocated to foreign source income, and urges the Internal Revenue Service to withdraw the temporary and proposed regulations.

Adopted by a unanimous vote of the membership at the Annual Business Meeting of the Federation of Tax Administrators, Charleston, SC, June 13, 1990

June 7, 1990

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
2111 Rayburn House Office Building
Washington D.C. 20515-1308

Dear Representative Rostenkowski:

The undersigned organizations are writing you to express our support for H.R. 4512 introduced by Congressman Thomas and cosponsored by Representitives Collins, Lagomarsino, Matsui, N. Johnson, Archer, Dorgan, Vander Jagt, and McGrath. This legislation provides that U.S. corporations can allocate deductions for state and local income and franchise taxes to U.S. source income.

We support this bill because it clarifies the treatment of state and local taxes for federal tax purposes. Taxpayers are currently caught in the middle of conflicting approaches between the states and the IRS. States, which are constitutionally prohibited from taxing income earned outside their borders, believe that their various methods of taxation are proper methods of determining a company's income within that state. The IRS, on the other hand, has concluded that some portion of state taxes is attributable to foreign source income and consequently cannot be deducted from U.S. source income. Since a taxpayer would incur no state tax expense if it were not operating in a particular state, all of the expense of the state tax should be allocated to operations in the state. Whether a state's income tax base is broader or calculated in a different manner than the federal income tax base should not affect the federal income tax consequences of paying the tax. This legislation would solve the problem by allowing state income taxes to be deducted against U.S. source income.

The IRS position adversely affects the competitiveness of U.S. multinationals in world markets. U.S. corporations competing with foreign corporations have an "additional cost" of doing business when they are, in effect, unable to fully deduct their state income taxes. Their foreign competitors operating in the United States, however, are generally able to obtain the full benefit of deductions for state taxes.

We strongly support H.R. 4512 and encourage you to support the legislation as well.

Sincerely,

Committee on State Taxation, of the
Council of State Chambers of Commerce
Multistate Tax Commission
National Association of Manufacturers
National Foreign Trade Council
Petroleum Equipment Suppliers Association
Pharmaceutical Manufacturers Association
U.S. Chamber of Commerce

June 7, 1990

The Honorable Lloyd Bentsen
Chairman
Senate Finance Committee
United States Senate
SH-703 Hart Senate Office Building
Washington D.C. 20510-4301

Dear Senator Bentsen:

The undersigned organizations are writing you to express our support for S. 2584 introduced by Senators Boren, Symms, Pryor, Baucus, Chafee, and Wallop. This legislation provides that U.S. corporations can allocate deductions for state and local income and franchise taxes to U.S. source income.

We support this bill because it clarifies the treatment of state and local taxes for federal tax purposes. Taxpayers are currently caught in the middle of conflicting approaches between the states and the IRS. States, which are constitutionally prohibited from taxing income earned outside their borders, believe that their various methods of taxation are proper methods of determining a company's income within that state. The IRS, on the other hand, has concluded that some portion of state taxes is attributable to foreign source income and consequently cannot be deducted from U.S. source income. Since a taxpayer would incur no state tax expense if it were not operating in a particular state, all of the expense of the state tax should be allocated to operations in the state. Whether a state's income tax base is broader or calculated in a different manner than the federal income tax base should not affect the federal income tax consequences of paying the tax. This legislation would solve the problem by allowing state income taxes to be deducted against U.S. source income.

The IRS position adversely affects the competitiveness of U.S. multinationals in world markets. U.S. corporations competing with foreign corporations have an "additional cost" of doing business when they are, in effect, unable to fully deduct their state income taxes. Their foreign competitors operating in the United States, however, are generally able to obtain the full benefit of deductions for state taxes.

We strongly support S. 2584 and encourage you to support the legislation as well.

Sincerely,

Committee on State Taxation, of the
Council of State Chambers of Commerce
Multistate Tax Commission
National Association of Manufacturers
National Foreign Trade Council
Petroleum Equipment Suppliers Association
Pharmaceutical Manufacturers Association
U.S. Chamber of Commerce

(1) The Congress will soon be leaving for its August recess. It is clear that they will leave without having done the job that needs to be done to reduce America's growing debt and deficit. They are marking up bills that would <u>in</u>crease the deficit rather than reduce it. They have passed no budget. They have offered no plan to meet their obligation to produce a responsible budget.

(2) If we continue on the current Congressional path, we will have to impose automatic across-the-board program cuts of $100 billion -- so-called "sequester" -- starting October 1. That is a fail-safe mechanism built into the law. It is clumsy. But is is the only discipline we have left if Congress fails to do its job.

(3) A $100 billion sequester should not be anyone's first choice. It would mean cuts in virtually everything the government touches -- from air traffic control to drug abuse prevention; from military readiness to the prevention of contagious disease. Congressional enactment of a more responsible, five-year deficit reduction program is certainly to be preferred.

(4) That is why I convened a budget summit. That is why I offered to the summit negotiators what remains the only detailed deficit reduction plan yet put on the table. That is why I agreed to offer a further deficit-reduction plan if the Democratic negotiatiors would offer just <u>one</u> plan -- and exchange it with us.

(5) Our revised plan is ready. We are ready to exchange it with the Democrats in the context of the summit negotiations -- as the Democratic leaders suggested.

(6) But though our revised plan is ready, we have waited in vain for a Democratic proposal. Their plan seems to be: <u>to leave town for vacation</u>.

(7) But, as I have warned before: Economic growth is not as secure as it should be. Financial markets reflect some nervousness. The disruptive effects of deep cross-the-board cuts lie ahead -- if the Congress does not act responsibly. This is no time for business as usual.

(8) If the Democratically-controlled Congress really does care about preserving economic growth and essential public services, the Democratic negotiators ought at least to offer <u>one</u> deficit reduction plan before leaving for vacation. [If they refuse to take even this small step, they will have to bear the brunt of responsibility for whatever unattractive consequences may follow.]

THE WHITE HOUSE

WASHINGTON

July 24, 1990

MEMORANDUM FOR JOHN H. SUNUNU

FROM: FRED McCLURE FM

SUBJECT: Updated Pre-August Recess Congressional Schedule

Attached is an update of the "road map" I provided you with last week.

Attachments: Senate Schedule
House Schedule
Major House-Senate Conferences

SENATE

ISSUE	STATUS
Farm Bill	On Senate floor this week.
DoD Authorization Bill	Armed Services Committee mark up completed. May be taken up later this week, after Farm Bill.
Debt limit extension	Must be considered before recess. Expected to be on the floor the week of July 30.
Appropriations	Possible bills on floor the week of July 23 (in likely order of consideration): H.R. 5019 – Energy and Water Development; H.R. 5311 – Military Construction H.R. 5241 – Treasury, Postal Serv and Genrl Govt H.R. 5229 – Transportation. H.R. 5114 – Foreign Operations; H.R. 5021 – Commerce, State, Justice; H.R. 5158 – HUD, VA & Independent Agencies; H.R. 5313 – D.C.
Campaign Finance Reform	Senator Mitchell intends to take up before recess.
China MFN	Nothing scheduled, but Mitchell bill introduced and could be added to DoD Authorization or other legislation.

Other significant items which may be on the Senate floor before the recess:

Ethics Committee Resolution re: Senator Durenberger – S. Res. 311

Export Administration Act – H.R. 4653

Commodity Futures Trading Commission Commission – H.R. 2869

HOUSE

ISSUE	STATUS
Omnibus Housing Bill	POSTPONED: Probably until after August recess.
Farm Bill	On the floor this week. 157 amendments made in order.
Parental Leave	Veto override vote on Wednesday, July 25.
DoD Authorization	Subcommittee mark up Thursday, July 26. Full Committee mark up Tuesday, July 31. Probably on the floor the week of July 30.
Crime Bill	Favorably reported out of Judiciary Committee on July 23 by a vote of 19–17. May be on the floor before recess.
China MFN	Pease version favorably reported out of Committee on July 23; may be on the floor before recess.
Appropriations	H.R. ___ – D.C. (abortion language unacceptable) (expected on the floor July 26); H.R. ___ – Military Construction (expected on floor July 27); H.R. ___ – Legislative (expected on floor as soon as July 30). (only DOD and Interior will be left).
Textile Bill	Ways and Means Committee mark up July 25; floor consideration scheduled for August 1.
Civil Rights	Judiciary Committee mark up expected July 25; not likely to be on the floor before August recess.
Campaign Finance Reform	Michel pushing it; Foley thinks it may not come up pre–recess.
Debt limit extension	Ways and Means Committee mark up Wednesday, July 25

MAJOR HOUSE – SENATE CONFERENCES

Clean Air
Child Care
Oil spill liability
Mini–trade bill

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
03. Report	Administration's Budget Strategy "Where We Are" (1 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) [6]

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

Date Closed:	12/16/2004	**OA/ID Number:**	29137-002
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

WHERE WE ARE

1) We should remember why we started on this strategy. We were convinced a budget agreement was essential to the continuance of a growth economy or contrariwise that the absence of an agreement could easily lead to a recession. Our problem has always been that the public does not see this risk or threat to their well being and therefore is not putting any back pressure on the Congress.

2) We have the ability to make our mind up because when the President decides, that's it. This is not true of the Congress where the majority rules. This means we can move faster and make it stick.

3) At the moment, the burden of producing a solution, in the public mind, is being carried by the President. This is doubly so because the President called the Summit into being and made the statement on "Tax Revenue Increases." Somehow we lost the momentum from these two events. The force of these leadership actions should have been to get the pressure on the Democrats to come up with spending cuts, etc. and instead it has become a debate over taxes.

4) The Democrats, now that they have the President perceived as putting taxes on the table, have no incentive to complete the agreement. By agreeing to a budget agreement, they would actually have to vote for taxes and the blame would be equally shared. We have given up something and gotten nothing for it.

5) In addition, should the negotiations break down it could increasingly be perceived to be a Presidential failure to lead and should it continue past the August recess and worst of all worlds past sequester, the Democrats will be able to campaign on a lack of Presidential leadership. At the same time, they will have shifted the "No New Taxes" political advantage to themselves.

6) So now we have to find a way to get the public and the press to put the pressure on the Democrats to produce and shift the debate to Congressional inaction on cutting the deficit.

7) Therefore, we should insist Congress stay in Washington, D.C. until a package is agreed upon, thereby shifting the failure burden to Congress, Mitchell, Foley et al. If this does not produce a budget agreement, it will be clear that it was Congress that failed.