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Series:	Sununu, John, Files
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OA/ID Number:	29137
Folder ID Number:	29137-005

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

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

MICKEY EDWARDS
FIFTH DISTRICT, OKLAHOMA

APPROPRIATIONS COMMITTEE

SUBCOMMITTEES:
FOREIGN OPERATIONS (VICE CHAIRMAN)
MILITARY CONSTRUCTION

CHAIRMAN
REPUBLICAN POLICY COMMITTEE

VICKI LOVE MARTYAK
CHIEF OF STAFF

SUSAN CLOUD
ADMINISTRATIVE ASSISTANT

Congress of the United States
House of Representatives
Washington, DC 20515

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900 NW 63RD, SUITE 105
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102 SOUTH 5TH STREET
PONCA CITY, OK 74601
(405) 762-8121

August 15, 1990

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

While the country confronts a developing crisis in the Middle East, we face an equally serious crisis at home: our desperate need to balance the federal budget.

More than four months ago, you called for high level negotiations between Congress and the White House. You have recently acknowledged that since that time the Democrat negotiators have contributed nothing to the process of deficit reduction.

Now, Mr. President, I urge you to insist that deficit reduction be based on lower spending instead of higher taxes. The fact that the appropriations bills passed so far by the Democrat-controlled House already exceed last year's levels by approximately $40 billion demonstrates that the Democrats are far more serious about taxing and spending than they are about reducing the deficit.

Effective deficit reduction will only come about when we cut spending, enhance revenues through efforts like by bill, H.R. 5364, to cut the tax on capital gains, and reform entitlement programs.

I urge you to take taxes off the table and insist on balancing the budget by lowering spending. Furthermore, I pledge to you that I will vote to sustain any and all vetoes you many hand down on appropriations bills that exceed levels compatible to serious deficit reduction.

With best regards

Mickey Edwards

Mickey Edwards
Chairman

167499

Guidance

MICKEY EDWARDS
FIFTH DISTRICT, OKLAHOMA

APPROPRIATIONS COMMITTEE

SUBCOMMITTEES:
FOREIGN OPERATIONS (VICE CHAIRMAN)
MILITARY CONSTRUCTION

CHAIRMAN
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(405) 762-8121

August 16, 1990

bdj

THE CHIEF of STAFF
has seen

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

Dear John:

I wanted to share with you and the other Republican budget negotiators a copy of a letter I sent to the President today.

Sincerely,

Mickey Edwards
Member of Congress

Budget file

CODE OF CONDUCT

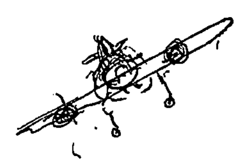
** The summit negotiators will designate one representative from each party and the Administration to serve as official spokesmen for the budget summit.

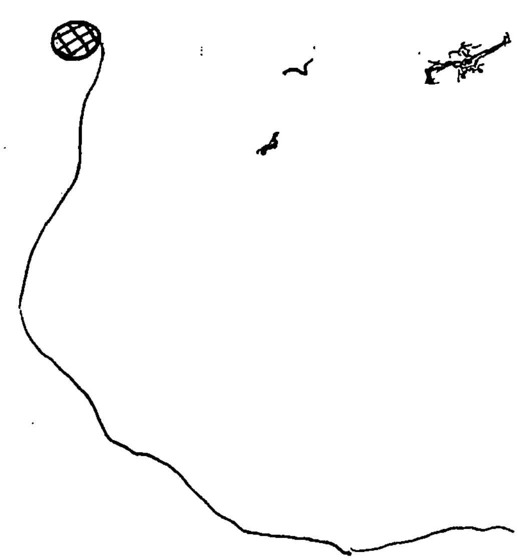
** All other summit negotiators and Administration officials will refrain from speaking to media representatives about the negotiations.

** All summit negotiators will instruct their staff to refrain from speaking to media representatives about the negotiations.

** The summit negotiators will encourage all organizations within their respective party caucuses and all Administration officials to refrain from issuing official statements which will prejudice the negotiations. All summit negotiators will refrain from associating themselves with any statements issued.

** The summit negotiators will encourage the Democratic National Committee, the Republican National Committee, the Democratic Congressional Campaign Committee, the Republican Congressional Campaign Committee, the Democratic Senatorial Campaign Committee and the Republican Senatorial Campaign Committee to refrain from issuing statements which will prejudice the negotiations. All summit negotiators will refrain from associating themselves with any statements issued.





Budget

CRAIG T. JAMES
4TH DISTRICT, FLORIDA
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEES:
ADMINISTRATIVE LAW AND
GOVERNMENTAL RELATIONS
VICE CHAIRMAN
CIVIL AND CONSTITUTIONAL RIGHTS
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE:
OVERSIGHT AND INVESTIGATIONS
SELECT COMMITTEE ON AGING

Congress of the United States
House of Representatives
Washington, DC 20515

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DELAND, FL 32720
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☐ ONE SAN JOSE PLACE
SUITE 28
JACKSONVILLE, FL 32257
(904) 268-2038

July 13, 1990

The Honorable George H. Bush
President
United States of America
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President:

We are deeply concerned over the possibility of deficit reduction proposals which include a freeze in the Social Security cost-of-living-adjustments. It is inconceivable that Congress should attempt to balance the budget on the backs of this nation's senior citizens when there are so many other options available to us, such as reforming the budgetary process and eliminating unnecessary spending.

We believe that a temporary elimination of Social Security COLA's would fail to accomplish any of these goals. It would only serve as a short-term solution to the age-old spending problem that has been spinning wildly out of control far too long.

Your leadership in the ongoing budget negotiations has presented us with an opportunity to correct the reckless spending practices that have existed in the past. Let us not perpetuate the problem and break our promises to the elderly. Therefore, since we, the undersigned, would be unable to support <u>any</u> deficit reduction proposal that would include a freeze in Social Security COLA's, we urge you to oppose any attempts to reduce the deficit by cutting vital Social Security benefits.

Sincerely,

Craig James   Newt Gingrich

Vin Weber   Bill McCollum

Bob Smith N.H.

Dan Burton

Paul B. Henry

Robert K. Dornan

[illegible] Grandy

Bill Emerson

[illegible] Goss

[illegible]

Patricia Saiki

Hank Brown

[illegible]

Nancy L. Johnson

Duncan Hunter

Curt Weldon

Jim M. Inhofe

Howard Coble

Mel Hancock

Chris Cox

John J. Duncan Jr.

Cliff Stearns

Barbara F. Vucanovich

[illegible]

Matt Rinaldo

Tom Petri

Jim Sensenbrenner

Bob Walker

Floyd Spence

Stan Parris

Robert J. Lagomarsino

Don Young

Henry J. Hyde

[illegible]

Mike Bilirakis

[illegible]

Fred Upton

Craig Thomas

Susan Molinari

Chuck Douglas

Lynn Martin

Clyde C Holloway

Wally Herger

Howard C. Nielson

Dana Rohrabacher

Elton Gallegly

10

Ed Madigan

Ben Gilman

Arlan Stangeland

Joe McDade

Jim Courter

Elwin Smith

Don Young

signed twice

Don Ritter

Peter Smith

Larry Coughlin

Bill Dannemeyer

SN
precept

ID# 158680

FI004

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

INCOMING

DATE RECEIVED: JULY 17, 1990

NAME OF CORRESPONDENT: THE HONORABLE CRAIG T. JAMES

SUBJECT: EXPRESSES CONCERN OVER THE POSSIBILITY OF DEFICIT REDUCTION PROPOSALS WHICH INCLUDE A FREEZE IN THE SOCIAL SECURITY COST-OF-LIVING ADJUSTMENTS

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION: ACT CODE	ACTION: DATE YY/MM/DD	DISPOSITION: TYPE RESP	DISPOSITION: C D	DISPOSITION: COMPLETED YY/MM/DD
FREDERICK MCCLURE	ORG	90/07/17	FM	A	90/07/23
REFERRAL NOTE:					
CS Sunu	I	900724			/ /
REFERRAL NOTE:					
99 Trea	I	900725			/ /
REFERRAL NOTE:					
99 OMB	I	900725			/ /
REFERRAL NOTE:					
PD Port	I	900724			/ /
REFERRAL NOTE:					
99 CEA	I	900725			

COMMENTS: CONGRESSMAN DON YOUNG SIGNED TWICE

ADDITIONAL CORRESPONDENTS: 57 MEDIA:L INDIVIDUAL CODES: 1240

__ MAIL USER CODES: (A)______ (B)______ (C)______

*ACTION CODES:	*DISPOSITION	*OUTGOING CORRESPONDENCE:
*A-APPROPRIATE ACTION	*A-ANSWERED	*TYPE RESP=INITIALS OF SIGNER
*C-COMMENT/RECOM	*B-NON-SPEC-REFERRAL	* CODE = A
*D-DRAFT RESPONSE	*C-COMPLETED	*COMPLETED = DATE OF OUTGOING
*F-FURNISH FACT SHEET	*S-SUSPENDED	
*I-INFO COPY/NO ACT NEC		
*R-DIRECT REPLY W/COPY		
*S-FOR-SIGNATURE		
*X-INTERIM REPLY		

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE (ROOM 75,OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS MANAGEMENT.

July 23, 1990

Dear Craig:

Thank you for your recent letter to the President, cosigned by 57 of your colleagues, regarding the negotiations between the Administration and the bipartisan leadership of Congress on deficit reduction.

We appreciate being apprised of your opposition to any deficit reduction proposal that would include a freeze in Social Security cost-of-living adjustments (COLAs). In addition to providing the President with your views, I have shared your remarks with his budget advisors so that they, too, are aware of your views on this matter.

Thank you again for your interest in writing.

With best regards,

Sincerely,

Frederick D. McClure
Assistant to the President
for Legislative Affairs

The Honorable Craig T. James
House of Representatives
Washington, D.C. 20515

FDM:SLM:jfc (7FDMG)
Deficit.Hpf

bcc: w/copy of inc to Governor Sununu - FYI
bcc: w/copy of inc to Secretary Brady - FYI
bcc: w/copy of inc to Dick Darman, OMB - FYI
bcc: w/copy of inc to Roger Porter, OEDP - FYI
bcc: w/copy of inc to Michael Boskin, CEA - FYI

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE REPUBLICAN LEADER
WASHINGTON, DC 20510-7020

July 25, 1990

The Honorable George J. Mitchell
United States Senate
Washington, D.C. 20510

Dear George:

This letter is a follow-up to my previous letter to you, dated July 6, 1990, in which I responded to your 5-point campaign finance reform proposal.

As promised, I have attached for your review a Republican counter-proposal. In a nutshell, the counter-proposal incorporates the "flexible" approach endorsed by the Bipartisan Campaign Finance Reform Panel, which we established jointly last February.

As you know, the Bipartisan Panel distinguished between "potentially corrupting" sources of campaign financing (PACs and out-of-state contributors) and "desirable sources," such as a candidate's own individual constituents. The Republican counter-proposal reflects this distinction by adopting the following three key principles:

1. A Ban on Political Action Committee (PAC) Contributions.

2. "Flexible" Fundraising Targets establishing aggregate limits on personal funds, contributions from out-of-state individuals in excess of $250, and contributions from PACs (if the PAC-ban is declared unconstitutional).

3. A Reduction in the Out-of-State Individual Contribution Limit from $1,000 to $500.

Like the Bipartisan Panel, the Republican counter-proposal also recognizes the importance of expanding the role of the national and state political parties and the need to reduce the cost of campaigns by making television advertising more affordable.

George, I look forward to hearing your thoughts on the Republican counter-proposal at your earliest convenience. It is my sincere hope that the counter-proposal can serve as the basis for a comprehensive and bipartisan compromise on this very important issue for all Americans.

Sincerely,

Bob Dole

BOB DOLE

BD/ds

July 25, 1990

CAMPAIGN FINANCE REFORM COUNTER-PROPOSAL

1. **"Flexible" Fundraising Targets.** Adopt "flexible" approach advocated by Bipartisan Panel. Establish aggregate state-by-state fundraising targets based on voting age population. Fundraising targets would cap contributions from political action committees (if PAC-ban is declared unconstitutional), personal funds, and contributions from out-of-state individuals in excess of $250.

> Flexible Component. Exempt donations from in-state individuals. Exempt donations of $250 or less from out-of-state individuals.
>
> Conditions. "Flexible" fundraising targets must be a) "reasonably high," b) conditioned on "a significantly expanded role for the parties," and c) subject to automatic cost-of-living adjustments (See Panel Report, pages 6-7).
>
> Voluntary. Acceptance of "flexible" fundraising target would be voluntary. Participating candidates would be entitled to 1) reduced broadcast rates (discussed below) and 2) reduced postal rates.

2. **Political Action Committees.** Prohibit all PACs from participating in the federal election process.

> Fall-back: If PAC-ban is declared unconstitutional, reduce the maximum allowable PAC contribution from $5,000 to $1,000. Limit aggregate PAC contributions to 20% of fundraising target.

3. **Out-of-State Contributions.** Reduce from $1,000 to $500 the contribution limit for individuals residing outside of a candidate's home state.

4. **Political Parties.** Exempt certain organizational activities (e.g., research, get-out-the-vote, voter registration) from the coordinated expenditure limitations.

5. **Broadcast Rates.** Lowest Unit Rate. Require broadcasters to offer Congressional candidates non-preemptible lowest unit rate 45 days before the primary and 60 days before the general election. Mandate candidate access to non-preemptible, lowest unit rate time slots.

6. **Challenger "Seed Money."** Allow political parties to match early, in-state contributions to challengers. Party committee matching funds would be permitted to a maximum of $100,000 for House and Senate candidates.

7. **Tax-Exempt Organizations.** Prohibit all tax-exempt 501(c) organizations from engaging in any activity which attempts to influence a federal election on behalf of a specific candidate. Prohibit tax-exempt 501(c) organizations from engaging in voter registration or get-out-the-vote activities if a Member of Congress solicits donations for the organization.

8. **Franked Communications.** Prohibit franked "mass mailings" during the election year of a Member of Congress.

9. **"Soft Money."** Codify Supreme Court's Beck decision. Prohibit corporations, unions, and trade associations from financing the administrative expenses of their connected PACs. Prohibit corporations, unions, and trade associations from engaging in voter registration and get-out-the-vote activities in connection with a federal election.

10. **Bipartisan Commission.** Establish a Bipartisan Commission to review effects of legislation on campaign spending and the cost of campaigns during the 2 general elections following enactment. Require Bipartisan Commission to submit a report to the Senate Majority and Minority Leaders and to the House Majority and Minority Leaders outlining its findings 5 years after enactment.

11. **Sunset Provision.** Establish a sunset provision after 3 general elections (i.e. 6 years). At that time, legislation would expire unless reenacted Congress and signed by the President.

ALL OTHER ISSUES TO BE NEGOTIATED.

NATIONAL GOVERNORS' ASSOCIATION

Terry E. Branstad
Governor of Iowa
Chairman

Booth Gardner
Governor of Washington
Vice Chairman

Raymond C. Scheppach
Executive Director

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1572
Telephone (202) 624-5300

cc

budget

file

THE CHIEF of STAFF
has seen

July 26, 1990

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

The nation's Governors commend you and the Congress for taking the initiative to develop a balanced deficit reduction package. Reducing the deficit by $50 - $60 billion for Fiscal Year 1991 and $450 - $600 billion over five years should enhance long-run economic growth and protect future generations from increased public debt. As you develop your package, it is important, however, that you recognize the special concerns of the states. State governments have been severely impacted by reductions in discretionary grants over the last decade and the current fiscal situation of many states is precarious. Therefore, we are particularly concerned over several proposals that have recently been discussed during the summit negotiations.

Governors are concerned about the impact of federal actions on state and local tax policies:

- First, they are opposed to any restrictions on the deductibility of state and local taxes as unacceptable encroachment on state systems of taxation; and

- Second, they are opposed to increasing fuel taxes for deficit reduction. It is critical that fuel taxes continue to be dedicated to the trust fund for federal transportation spending.

With respect to low-income entitlement programs we are opposed to the following proposals:

- Eliminating enhanced matches and capping the administrative costs for the AFDC, food stamps and Medicaid programs.

- Reducing the federal share of state administrative costs for child support enforcement.

- Reducing the floor on AFDC and Medicaid matching rates.

These proposals are particularly troublesome in light of proposals to increase the deductibles, coinsurance and Part B premiums of Medicare. Given that many individuals are both Medicaid- and Medicare-eligible, such proposals will increase the cost to state government significantly over the next five years.

With respect to productivity investment, it is important that expenditures for infrastructure be protected. We are particularly concerned that sufficient spending be available in the final agreement to spend down the balances in the transportation trust funds. Such investments are critical to maintaining our overall competitiveness as well as to maintain the trust of the American people.

The nation's Governors support your efforts to develop a balanced package and state government is willing to contribute its share. However, we hope that you will keep our concerns in mind as you finalize the deficit reduction package.

Sincerely,

Terry E. Branstad

Governor Terry E. Branstad
Chairman

Booth Gardner

Governor Booth Gardner
Vice Chairman

cc: All Governors
Members of the Budget Summit

Budget

U.S. Chamber of Commerce

1615 H Street, N.W.
Washington, D.C. 20062
202/463-5620

Richard W. Rahn
Vice President, Chief Economist

April 22, 1989

TO: Governor John Sununu

From: Richard W. Rahn

RE: Your Question Regarding the History of Corporate Tax Rates

From 1909 to 1913 a 1 percent "excise" tax was imposed on corporate net income. Following adoption of the Sixteenth Amendment to the Constitution in 1913, the Congress passed an income tax that applied a 1 percent levy on corporate net income. Rates rose steadily from this initial 1 percent to a top rate of 52 percent by the Korean War.

Attached is a more detailed history of corporate income tax rates, and a rate chart for your information.

Federal Taxation of Corporate Income

From 1909 to 1913 a 1 percent "excise" tax was imposed on corporate net income. The 1909 tax provided for the exemption of the first $5,000 of net income. Intercorporate dividends were excluded from the tax. Depreciation allowances were provided, and interest expenses were deductible.

Following adoption of the Sixteenth Amendment to the Constitution in 1913, the Congress passed an income tax that applied a 1 percent levy on corporate net income. The 1 percent levy applied to corporate capital gains as well as ordinary income.

Corporate tax rates were increased to finance World War I. The war also brought the imposition of both a capital stock tax and an excess profits tax on corporations. The capital stock tax was essentially a national property tax on corporations. This tax was imposed from 1916 to 1945 (though it was not assessed from July 1, 1926 to June 3, 1932). The excess profits tax was imposed during both World Wars and the Korean War (the National Industrial Recovery Act of 1933 imposed an excess profits tax based on net income and declared value of capital stock).

The 1936 Revenue Act included a surtax on undistributed corporate profits. Rates on undistributed profits ranged from 7 percent to 27 percent. This tax was curtailed in 1938, and totally eliminated in 1939.

Regular corporate income tax rates ranged from 10 percent to 20 percent of net income in the 1920s and 1930s. Rates rose in the 1940s to a top corporate income rate of 40 percent from 1942 to 1945. This was on net income above $50,000. After the war the rate went down to 38 percent. During the Korean War the top rate rose to 52 percent. This rate remained in effect through 1963. The Revenue Act of 1964 reduced the top rate to 50 percent in 1964 and 48 percent in 1965. A 10 percent Vietnam War surcharge was applied to income tax rates in 1968 and 1969. The surcharge was 2.5 percent in 1970.

Intercorporate dividends were taxed from 1913 to 1918. The 1918 Revenue Act provided that intercorporate dividends would be excluded from taxation. The exclusion remained in place until 1935. The 100 percent exclusion was reduced to 90 percent in 1935, and to 85 percent in 1936. The Tax Reform Act of 1986 and the Revenue Act of 1987 reduced the exclusion first to 80 percent and then to the present 70 percent for minority shareholders.

Prior to 1936, dividends received by individuals were excluded from regular individual income taxes (not from the surtax rates applied to higher income taxpayers).

Prior to 1932, capital gains earned by corporations were taxed at full corporate rates, and capital losses were fully deductible. From 1932 to 1942, restrictions were placed on the amount of capital losses deductible in a given year. In 1942 a reduced rate was first provided for the tax on corporate long-term capital gains (the regular rate in 1942 was 40 percent, and the capital gains rate was 25 percent).

FEDERAL CORPORATION INCOME TAX EXEMPTIONS & RATES
1909-1989

Year	Exemption & Brackets	Rate[c] (percent)
1909-1913	$5,000 exemption	1
1913-1915	None after March 1, 1913	1
1916	None	2
1917	None	6
1918	$2,000 exemption	12
1919-1921	$2,000 exemption	10
1922-1924	$2,000 exemption	12.50
1925	$2,000 exemption	13
1926-1927	$2,000 exemption	13.50
1928	$3,000 exemption	12
1929	$3,000 exemption	11
1930-1931	$3,000 exemption	12
1932-1935	None	13.75
1936-1937	Range of graduated normal tax	
	First $2,000	8
	Over $40,000	15
	Range of graduated surtax on undistributed profits	7-27
1938-1939	First $25,000	12.5-16
	Over $25,000	19[a]
1940	First $25,000	14.85-18.7
	$25,000 to $31,964.30	38.3
	$31,964.30 to $38,565.89	36.9
	Over $38,565.89	24
1941	First $25,000	21-25
	$25,000 to $38,461.54	44
	Over $38,461.5	31
1942-1945	First $25,000	25-29
	$25,000 to $50,000	53
	Over $50,000	40
1946-1949	First $25,000	21-25
	$25,000 to $50,000	53
	Over $50,000	38
1950	First $25,000	23
	Over $25,000	42
1951	First $25,000	28.75
	Over $25,000	50.75
1952-1963	First $25,000	30
	Over $25,000	52
1964	First $25,000	22
	Over $25,000	50

Year	Exemption & Brackets	Rate[c] (percent)
1965-1967	First $25,000	22
	Over $25,000	48
1968-1969[b]	First $25,000	24.2
	Over $25,000	52.8
1970[b]	First $25,000	22.55
	Over $25,000	49.2
1971-1974	First $25,000	22
	Over $25,000	48
1975-1978	First $25,000	20
	Next $25,000	22
	Over $50,000	48
1979-1981	First $25,000	17
	Next $25,000	20
	Next $25,000	30
	Next $25,000	40
	Over $100,000	46
1982	First $25,000	16
	Next $25,000	19
	Next $25,000	30
	Next $25,000	40
	Over $100,000	46
1983-1986	First $25,000	15
	Next $25,000	18
	Next $25,000	30
	Next $25,000	40
	Over $100,000	46
1987-1989	First $50,000	15
	Next $25,000	25
	Over $75,000	34

SOURCE: Facts and Figures on Government Finance, Tax Foundation, Johns Hopkins Press p. 136 (1988).

a. Less adjustments: 14.025 percent of dividends received and 2.5 percent of dividends paid.

b. Includes surcharge of 10 percent in 1968 and 2.5 percent in 1970.

c. In addition to the rates shown, certain types of "excess profits" levies were in effect from 1917-1921, 1933-1945, and 1950-1953.

Bud

A serious, fair, credible, multi-year proposal to balance the non-social security budget and raise net national savings to 8% of national income by FY 95

With an accommodating monetary policy, if Congress and the President enact and continue a change in fiscal policy on this order of magnitude, the following real benefits should follow:

- Real interest rates on 90-Day T-Bonds should go down to about 1% -- if inflation stays about 4% that could mean a return to 5% T-Bonds; as a result of financing a much smaller debt at substantially lower rates of interest, by FY 95 the government could save $100 billion per year in interest costs alone;
- Interest rates on AAA rated corporate bonds drop 3%;
- Investment, productivity and economic growth go up;
- Gross national product would increase, and we would keep literally tens of additional billions of that greater wealth at home, because we would be financing a much smaller foreign-held debt; and
- The U.S. trade deficit could be eliminated; and
- The United States would be more competitive, we would be better able to meet new needs and new priorities as we move toward the twenty-first century.

The burden of budget balance must be spread as broadly as possible across the budget and the economy, demographically and geographically across the country.

- This package would cut defense and farm price supports 25% below current levels over five years. The defense cuts would require reductions in civilian employment and uniformed military personnel, base closings, cancelling procurement contracts, and/or burden sharing. Small family farmers could be protected and still achieve farm price support savings on this order of magnitude.
- The largest entitlement cut in the package is a net reduction in social security and railroad retirement benefits due to changes in the tax treatment of those benefits. That change would make the tax treatment of those benefits as nearly as possible like the tax treatment of other contributory retirement benefits. (The savings could be used to offset part of the general fund contribution to Part B of Medicare.) The Medicare cuts in the package could be achieved by taxing a portion of the subsidy value of benefits, rebasing the PPS system, reducing physician reimbursements, and/or increasing premiums and/or deductibles for Part B. The package would require either a one year freeze in non-defense discretionary spending, or cutting/eliminating some low priority programs.
- The package contains a modest spending increase, to offset the impact of higher energy prices for recipients of means-tested grants which are not indexed under current law.

- On the revenue side, the package relies principally on increased energy taxes, which would encourage energy conservation and help improve the environment as well as help to balance the budget. It would raise other excise taxes, increase the top marginal corporate tax rate 1%, reduce deductions for business meals and entertainment, and impose new/increased user fees.

- Expanding the Earned Income Tax Credit would offset the regressive impact of higher energy taxes for the working poor; and an allowance for middle-income tax relief (lower FICA taxes, IRAs, etc.) would offset the burden of higher energy taxes on the middle class.

- Eliminating the "bubble" and limiting mortgage interest deductions would increase taxes on the highest income taxpayers, but a capital gains tax differential would benefit high income taxpayers who choose to save and invest for the future. The package would suspend indexing in the tax code for one year (corresponding to a freeze on the spending side of the budget) and it would expand social security and medicare coverage for State and local government employees.

- The package allows for extension of a number of tax expenditures which are due to expire this year.

- The package includes two options to increase energy taxes: a broad based consumption tax, and a combination of higher motor fuels taxes and an oil import fee. Either option, plus the balance of the package, would reduce the deficit more than necessary to achieve the stated goals. Congress and the Administration could reject and/or modify some proposals, and/or provide additional funding for high priority initiatives, and still achieve the balanced budget and national savings goals outlined on the first page of this summary.

In addition to the spending cuts and revenue increases necessary to balance the budget and increase national savings, any serious deficit reduction proposal must contain budget process reforms to ensure the whole package is enacted and enforced.

- If we would ensure that any new revenues raised to reduce the deficit are devoted exclusively to that purpose, we must control government spending.

- We are, therefore attaching a draft budget process reform proposal designed to set and enforce real spending limits.

There are other issues and options the budget summit should address: asset sales, debt collections, better collection of revenues already owed the government (but uncollected), tax amnesty, etc. But the summit should focus on changes in fiscal policy. Savings which may be achieved as a result of better government management practices and/or asset sales should not be counted toward any short to medium term deficit reduction objectives.

The cost of the savings and loan bailout should be reflected in the budget, but the working capital cost (or income) should not be counted toward any short to medium term deficit reduction objectives.

SPENDING

	($ in billions)				
	FY 91	FY 92	FY 93	FY 94	FY 95
Defense	- 10.0	- 25.0	- 40.0	- 55.0	- 70.0
COLA Freeze all non-means-tested entitlements except social security and railroad retirement	- 2.0	- 2.8	- 2.8	- 3.0	- 3.1
Tax 85% of Social Security & RR Retirement immediately, and phase out thresholds 20% per year	- 3.3	- 10.3	- 14.5	- 19.0	- 24.0
Eliminate COLAS for non-disabled early retirees	NA	- 0.5	- 1.1	- 1.8	- 2.6
Cut Farm Price supports 12 1/2% next year and 25% below the baseline by FY 95	- 2.2	- 3.1	- 3.2	- 3.3	- 4.1
Medicare*	- 3.6	- 5.4	- 7.2	- 9.0	- 10.8
Other Entitlements	- 1.0	- 1.5	- 2.0	- 2.5	- 3.0
Freeze Non-Defense Discretionary or eliminate old low priority programs	- 3.0	- 4.9	- 5.7	- 6.2	- 6.6
Increases in means-tested programs	+ 1.5	+ 1.6	+ 1.8	+ 1.9	+ 2.0
Total Spending Reductions (Policy)	- 23.6	- 51.9	- 74.7	- 97.9	-122.2

* Major structural reform of the health system (public and private) is a very important public policy issue which must be addressed, but the budget summit cannot reasonably be expected to deal with that issue. System-wide reforms should yield medicare savings substantially greater than contained in this proposal. The savings contained in this proposal can be achieved within the current system, and that is all we believe can be expected of a budget summit agreement.

REVENUES

	($ in billions)				
	FY 91	FY 92	FY 93	FY 94	FY 95
Broad Based Tax on Energy Consumption (5% FY 91 increasing to 10% in FY 95)	+ 14.2	+ 19.7	+ 25.2	+ 30.7	+ 36.2
or					
Increase Motor Fuels Taxes 25 cents in FY 91 increasing to 50 cents by FY 95	+ 25.2	+ 31.1	+ 37.0	+ 42.9	+ 48.8
			and		
Impose Oil Import Fee	+ 8.5	+ 8.8	+ 9.2	+ 9.8	+ 10.5
subtotal	+ 33.7	+ 39.9	+ 46.2	+ 52.7	+ 59.3
Eliminate the Bubble	+ 4.2	+ 8.2	+ 9.3	+ 10.6	+ 12.0
Increase Top Marginal Tax Rate for Corporations 1%	+ 1.4	+ 2.5	+ 2.7	+ 2.8	+ 3.0
Limit Mortgage Interest Deduction	+ 0.6	+ 1.6	+ 1.8	+ 2.0	+ 2.2
Increase Excise Taxes Beer, Wine Distilled Spirits & Cigarettes	+ 10.0	+ 10.1	+ 10.2	+ 10.3	+ 10.3
User Fees (government-wide for commercial-type services/fees sufficient to recoup costs and/or raise prices to commercial rates)	+ 2.1	+ 2.6	+ 3.1	+ 3.6	+ 4.1
Reduce Deductions for Business Meals & Entertainment to 50%	+ 2.0	+ 3.4	+ 3.6	+ 3.9	+ 4.1
Suspend Indexing in the Tax Code for one year (except EITC)	+ 5.4	+ 10.2	+ 10.8	+ 11.4	+ 12.0
Expand EITC or other Low Income Offset for Regressivity	- 3.0	- 3.5	- 4.0	- 4.5	- 5.0
Middle Income Offset (Reduce FICA, Expand IRAs, or other)	- 7.1	- 9.9	- 12.6	- 15.4	- 18.1

($ in billions)	FY 91	FY 92	FY 93	FY 94	FY 95
Administration Proposals/CBO Estimates					
Capital Gains	+ 3.2	- 1.3	- 3.6	- 4.3	- 3.1
Family Savings	- 0.3	- 0.6	- 1.0	- 1.3	- 1.8
IRA/1st Homebuyers	- 0.2	- 0.2	- 0.2	- 0.1	- 0.1
Social Security & Medicare Coverage	+ 0.5	+ 1.6	+ 2.6	+ 3.6	+ 4.6
R & E*	- 0.9	- 1.2	- 1.4	- 1.6	- 1.8
R & E Allocation*	- 0.4	- 0.7	- 0.8	- 0.8	- 0.9
Health Ins. Self Employed*	- 0.4	- 0.5	- 0.5	- 0.6	- 0.7
Low Income Housing*	- 0.1	- 0.3	- 0.4	- 0.4	- 0.4

* Extenders

	FY 91	FY 92	FY 93	FY 94	FY 95
Range of Revenue Increases (Total)	+ 31.2	+ 41.7	+ 44.8	+ 49.9	+ 56.6
			to		
	+ 50.7	+ 61.9	+ 65.8	+ 71.9	+ 79.7

TOTALS

($ in billions)	FY 91		FY 95
Range of Deficit Reduction Due to Policy Change	- 54.8	to	-178.8
	- 74.3		-201.9
Interest Savings	- 3.0	to	- 90.0
	- 3.5		-100.0
Grand Totals	- 57.8	to	-268.8
	- 77.8		-301.9

This range of deficit reduction options provides sufficient room to add $2-$5 billion in FY 91 and $15-$30 billion per year by FY 95 for new/additional spending for high priority initiatives from nuclear waste clean up to AIDS research, from Headstart and health care for the poor to other Education programs and the War on Drugs.

We would recommend funding for any additional high priority initiatives above the levels described above be dealt with on a "pay as you go" basis.

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The Heritage Foundation

FEDERAL BUDGET REPORTER

Analyzing the Process of Government Spending

#5 May 31, 1990

WASHINGTON WATCH

Read Bush's Quivering Lips. "My opponent won't rule out raising taxes. But I will. The Congress will push me to raise taxes, and I'll say no, and they'll push, and I'll say no, and they'll push again, and I'll say to them, 'Read my lips: no new taxes.'" So went then-Vice President George Bush's famous campaign pledge at the Republican National Convention in 1988. But now, as Congress pushes him to raise taxes, Bush's lips are quivering. In negotiations with congressional leaders on budget deficit reduction, the President refuses to rule out a tax hike.

Yet the budget deficit is not caused by a shortfall in revenue. The federal government is expected to collect a record $1.073 trillion this year, which is $82.8 billion more than last year and an 8.4 percent annual increase. The tax burden on Americans, moreover, is heavier than ever. The average taxpayer must work two hours and forty-five minutes of each eight-hour day just to pay taxes.

What is worse, a tax increase would not reduce the budget deficit. The Gramm-Rudman law sets the budget deficit this year at no higher than $74 billion. Additional revenues only would allow Congress to meet this target at a higher rate of spending.

Just How Committed Is Congress to Reducing the Deficit? While Bush has assured Congress that "no preconditions" exist – meaning tax hikes for the fiscal 1991 budget are on the bargaining table – Congress has assured no one of its commitment to cut spending. Just how concerned over the deficit is Congress? The *Washington Post* reports that the Senate Budget Committee's spending proposal for fiscal 1991 would add at least $3.5 billion in new outlays for highway construction, air traffic control systems, child care, anti-drug programs, environmental initiatives, and veterans' health care.

The House Budget Resolution is worse. Most so-called "cuts" are nothing more than reductions from initially proposed spending increases. For example, spending for Medicare is to be "cut" by $1.7 billion. This only means that outlays are $1.7 billion less than the proposed increase in the previous budget baseline. Expenditures for Medicare will actually rise by at least $8 billion over last year. (Available from Citizens for a Sound Economy, *Capitol Comment*, April 25, 1990, 202/488-8200.)

The Inappropriate Appropriations Bill. This spring's supplemental Appropriations Bill, which gives new government funds to programs deemed "emergencies," indicates the lack of seriousness that many legislators bring to the budget problem. Examples of "emergency" spending, which total more than $100 million, include: $1.9 million for a fish farm in Arkansas; $900,000 for cotton ginning research in Michigan, New Mexico, and Texas; $1.3 million to research fruit flies in Hawaii; $285,000 to study the effect of advertising on milk consumption; $1.3 million to research uses for fish oil; and $185 million for an FBI finger-printing center in West Virginia. To garner votes on Election Day, Members of Congress purchase these generous gifts for their constituents using the taxpayers' hard-earned dollars. And now they want to raise taxes even higher.

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Wide Bipartisan Support for a Line-Item Veto. Some observers speculate that President Bush may accept a tax hike in exchange for budget reform. The Administration is justifiably eager to restore the President's prerogative to reject specific spending items appropriated by Congress. However, raising taxes to obtain it clearly is not the solution. There are more than seven separate line-item veto proposals, including one to amend the Constitution sponsored by Illinois Democrat Senators Paul Simon and Alan Dixon. Both were reported out of the powerful Senate Judiciary Committee in April by an 8 to 6 vote.

One bill that has generated substantial bipartisan support and would not require a constitutional amendment, is the "enhanced rescission" or "legislative" line-item veto reintroduced from last year by Republican Senators Dan Coats of Indiana and John McCain of Arizona. The legislation, S. 1553, would give the President the power to rescind spending items appropriated by Congress.

Even liberal Democrat Senator Paul Simon says: "The reality is that we have demonstrated year after year after year that Congress simply doesn't have the discipline [to control spending on its own]."

STATE WATCH

Bush Should Read the Taxpayers' Lips. Americans clearly do not approve of any tax increases. This overly poll-conscious Administration should look at the latest numbers. According to a recent *USA Today* poll, six out of ten respondents said they are opposed to new taxes. Similarly, a poll conducted by the Wirthlin Group found that 89 percent of the respondents favored cutting spending over raising taxes to reduce the deficit. Only 6 percent preferred higher taxes.

If Bush is still not convinced of public disapproval, he should hear what the taxpayers are saying to their state legislators. In response to growing taxpayer revolts against spendthrift fiscal policies, voters in more than a dozen states will have the opportunity to vote for tax reform initiatives on ballots this fall. Most initiatives would limit tax increases by requiring either statewide voter approval or a legislative super majority vote in order to raise taxes. A Massachusetts initiative, for example, would give taxpayers a direct role in the budgetary process by allowing voters to reject the Legislature-approved tax hikes for fiscal 1989-90.

A pathbreaking initiative in Illinois would mandate that any proposals to raise taxes be approved by a special legislative committee, as well as 60 percent of the state legislature. The brainchild of the National Taxpayers United of Illinois, the initiative is backed by 470,292 signatures, including those of gubernatorial candidates Republican Jim Edgar (who campaigned for tax increases in his campaign for the Republican nomination against fiscal conservative Steve Baer) and Democrat Neil Hartigan. (See Patrick B. McGuigan, "Grassroots to Bush: 'No More Taxes,'" *Wall Street Journal*, May 9, 1990. Also contact David Keating, Executive Vice President, National Taxpayers Union, (202) 543-1300.)

D R A F T

May 10, 1990

A Truth In Budgeting Proposal

What are the budget process issues which must/should be addressed as part of any serious package to solve the budget deficit problem?

1. What should be the goal?

2. What should be the term and scope of the agreement?

3. What to do about contingent liabilities?

4. What to do about the social security and other trust funds?

5 How should REFCOR be treated in the budget?

6. What to do (if anything) to enhance the President's veto, impoundment, rescission and/or deferral powers?

7. What if any new initiatives and/or tax incentives for savings, investment, etc., should be accommodated in the agreement?

8. How to enforce the agreement?

   Specifically, how to ensure that any new revenues raised to reduce the deficit are devoted to that purpose?

We believe that Congress and the Executive may accept more sweeping and effective budget process reforms inside a package to balance the budget than either is likely to accept in any other context. Initially, such reforms probably would be written into law on a temporary basis, for the term of the agreement; but if they work, they likely would continue in use beyond long after the agreement has expired.

Therefore, we see this as an opportunity to test some budget process concepts which have gained wide currency, and to impose a level of discipline in the budget process which otherwise almost certainly would be rejected out of hand.

The bottom line is credibility. It is easy to put down on paper numbers and policies which promise budget balance. It is far harder to ensure that the policies will be enacted and that Congress and the President will abide by the priorities and limits represented by the numbers.

Nobody wants to balance the budget for the sake of a goose egg on the bottom line. Everybody wants to free up the resources needed to meet the challenges the future holds in a rapidly changing world. Everybody wants lower interest rates and higher savings, investment and productivity. To achieve these ends, and to muster support among the electorate, any serious initiative must be credible. That is why we call this the Truth in Budgeting Proposal.

The Goal

The short-term goal should be a balanced unified budget, as G-R-H requires by fiscal year 1993.

The medium-term goal should be a budget in balance over the business cycle, not counting the social security trust fund reserves.

These goals can be achieved in about five years, if the economy continues to grow, by reducing the deficit by a specified amount each year. Federal outlays total more than $1 trillion per year. It probably is impossible to reduce the deficit by 20% of that amount in one year. Cutting 10% in one year would be extremely difficult. Cutting the deficit by an amount equal to 5% at the margin, however, does not strike us as an heroic goal; and 5% would be about $50 billion per year.

Term and Scope

The agreement should cover five years.

Initial implementation should be through a budget containing three year caps and five-year targets, five-year reconciliation and biennial appropriations.

Everything should be on the table. Everything should be on-budget. (The REFCOR working capital should be exempted from the sequester calculations and Congress and the President may decide on special accounting rules for social security. See separate sections below). Putting everything on-budget will force Congress and the President to confront directly any arguments which may be made for special treatment for specific programs, activities or functions.

What to do about Contingent Liabilities?

Contingent liabilities of the government arise almost exclusively from credit activities and insurance programs.

Credit reform must be part of the agreement. Congress and the Administration must recognize on-budget the potential cost and exposure associated with credit activities of the government, and make specific allowance in the budget for those costs, before rather than after the fact.

Similarly, we should budget for the likely cost of insurance activities, e.g., deposit insurance, home loan insurance, etc.

What do to about the Social Security and other Trust Funds?

First, Congress and the President should consider the basic premise underlying the creation of highway and airport trust funds, for example. Should some or all of the federal gas/aviation tax be earmarked for these specific purposes? Perhaps those expenditures should compete with other federal priorities. Perhaps there is a better approach to federal policies directed toward improving the nation's infrastructure.

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May 10, 1990

In today's environment, Congress and the President well may opt for special treatment of the social security trust fund. They should bear in mind, however, that taking social security off-budget is not the same as taking it off-government.

The federal retirement trust funds are different from either the social security, the highway or the airport trust funds. In short, there is no general rule which logically ought to be applied to everything we call "trust funds" in the federal budget.

REFCOR (The Savings and Loan Bailout)

Current accounting for this initiative is bizarre. It defies logic and runs counter to any generally accepted accounting rules. The borrowing is "off-budget" and the working capital is "on budget". Ideally, we would anticipate the net costs of the bail-out and reflect those costs in the budget in much the same manner as credit reform would treat other contingent liabilities. Working capital expenditures, however, have the potential to create such wide and unpredictable swings in expenditures and deficits that this probably is the exception which proves the rule. We would recommend accounting for those costs on-budget; but they should not be counted against the expenditure caps we hope Congress and the President will agree to set; nor should they be counted for budget enforcement (e.g., sequestration).

Line Item Veto/Enhanced Rescission

Enhanced Presidential rescission power is a viable statutory alternative to line item veto. A modest shift toward more Presidential power to force Congress to consider separately spending which the President believes to be unnecessary or wasteful seems appropriate in this context.

New Initiatives/Tax Incentives

If the agreement is to reposition the U.S. better to meet tomorrow's needs, it almost certainly must accommodate some new/expanded high priority spending and/or tax incentives. Ideally such initiatives/incentives should be specifically identified in the agreement, and/or the agreement could contain some allowance for initiatives/incentives not specifically identified.

In addition, if the President and both Houses of Congress should agree at any time during the term of the agreement to provide for any new/expanded initiative/incentive on a "pay as you go basis", nothing in the agreement can or ought to preclude such an agreement. They only would have to agree to cut other programs or raise other revenues to pay for the new initiative/incentive.

Enforcement

We propose to enforce the agreement based on actual expenditure levels, rather than on projected deficits as under current law. Further, we propose to modify sequestration so that only programs in the jurisdiction(s) of Committees/subcommittees which are over their budget allocations would be effected. There is attached a more detailed discussion of our expenditure control proposal.

D R A F T

May 10, 1990

Real Expenditure Control = Real Truth in Budgeting

Policy and process cannot be separated politically. Process change will not be considered without regard to policy outcome. Policy proposals are not likely to be agreed to unless the participants in a budget summit are satisfied that a reformed budget process can and will ensure full implementation and enforcement of all their substantive agreements. To be effective, sanctions must create a political/public relations disaster for offenders.

The key is a comprehensive agreement between the leadership of both Houses of Congress and the Administration.

That agreement must set priorities. Our proposal expresses those priorities as caps for major spending categories: defense, international, non-defense discretionary, entitlements and other mandatory spending.

Once the President and both Houses of Congress agree on priorities, no party to the agreement (certainly no Executive Branch Agency, Congressional Committee/subcommittee, no individual) should be able to alter those priorities without the constructive consent of all three parties to the agreement. In order to guard against ad hoc changes, our proposal would have the President and Congress agree to an allocation of spending within the caps among Congressional Committees/subcommittees, then hold each Committee/subcommittee accountable for spending within its jurisdiction.

Problem: The Current Budget Process Bases Enforcement Exclusively on the OMB projection of next year's deficit.

The projections can be wrong. (Since 1985, when the law first was enacted, the actual budget deficit never has been cut to the legal limit under Gramm-Rudman-Hollings.)

Under current law, if OMB projects in early October that the deficit in the upcoming fiscal year will exceed the legal limit, The President must implement semi-across-the-board cuts called sequestration on October 15.

Supplemental appropriations and/or new entitlements can be enacted anytime after October 15. The sequester deadline having passed, nothing happens.

Nobody is held accountable for past sins. So what if we never have cut the deficit to G-R-H limit? We simply pretend that we shall do so next year. But somehow next year never comes.

The deficit is the wrong target for enforcement. If we would ensure that any new revenues raised to reduce the deficit are devoted to that purpose, we must control spending.

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Solution: Base budget enforcement on last year's actual spending levels.

Last year's actual spending levels are real numbers.

If last year's actual spending exceeded the limits in the budget agreement by more than 1% (for any major category or at the aggregates), and unless Congress passed and the President signed legislation to eliminate the overage within thirty days, sequestration would be triggered.

Sequestration would cut the difference between last year's actuals and the targets for every major category and would reduce total federal outlays to amounts contained in the aggregate budget targets.

Problem: Timing

There are excellent reasons to base budget enforcement on actual expenditures for a full fiscal year. Expenditures for many Federal programs vary from month to month and quarter to quarter, due to economics and seasonal conditions.

Nonetheless, we understand that the time table outlined in the proposal above is awful. In even numbered years, the President and Members of the House and Senate could be running for re-election at the same time they were supposed to be considering legislation to correct budget overages. Even in odd numbered years, the President and Members of Congress would be asked to devote their attention to budget legislation instead of Thanksgiving.

The fiscal year ends September 30. The final Treasury statements are available the middle of October. How could we modify the timetable outlined above, base budget enforcement on actual expenditure levels in the previous fiscal year, and avoid these timing problems?

Solution: Change the Fiscal Year and/or require that legislation to eliminate any overage be enacted by January 31 (of calendar year following the end of the fiscal year). Failure to enact legislation to eliminate any overage would trigger sequestration on February 1.

It would make a lot of sense to change the fiscal year so it is concurrent with the calendar year. The holiday season would be a real deadline for passing final budget legislation; and necessary remedial budget legislation/sequestration would be concurrent with submission of the President's budget.

Alternatively, the law could require passage of legislation to eliminate any overage in the preceeding fiscal year by January 31 of the following calendar year.

In either case, the President's new budget could take into account any overage in the preceeding fiscal year.

The President could propose remedial action as part of the regular budget process. Sequestration could be designed to eliminate the overage in the previous fiscal year, and any overage projected in the current fiscal year, if Congress and the President failed to reach agreement om legislation to eliminate the overage(s).

Problem: G-R-H punishes the good guys as well as the bad guys, and the good guys suffer more.

Under G-R-H every appropriations subcommittee but one could keep spending within their budget allocations, but if the deficit projection for the upcoming year is too high sequestration is triggered. Every single eligible program in every single appropriations bill gets cut; but the programs in the jurisdiction of the one subcommittee which went over its budget allocation get cut from a higher base than all the others.

For that matter, all appropriations could be consistent with the budget, and if entitlement and mandatory spending were too high, if sequestration were triggered, all the appropriations would be cut.

Solution: Make sequestration Committee/subcommittee specific.

Sequestration should be triggered anytime aggregate spending, or spending for any major category contained in the budget agreement, exceeds the caps contained in the agreement by 1% or more.

If Congress and the President fail to pass legislation to redress the overage, all programs in offending Committee/subcommittee jurisdictions should be sequestered; but programs in the jurisdiction of Committees/subcommittees which stayed within their budget allocations should not be affected.

Problem: The effect of economic conditions on the federal budget.

Budget projections, and therefore spending caps and Committee/subcommittee allocations must be based on economic assumptions and technical estimates (number of eligible beneficiaries, spend-out rates, etc.) Economic conditions change.

Solution: Annual adjustments for changes in economics.

Caps for entitlements and other mandatory spending would have to be adjusted annually for changes in economic conditions, caseloads, etc. The timing and basis for such adjustments should be spelled out very carefully in the budget agreement.

Some may argue that discretionary caps should be adjusted automatically for changes in inflation estimates. We disagree.

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May 10, 1990

The spending side of the budget is much less sensitive than the revenue side to changes in economics. There is no need to adjust the revenue floor, as we propose to control based on spending rather than deficits.

Problem: What if The President and Congress agree on some new spending initiative (and revenues to pay for it) during the term of the agreement.

Solution: The caps should be adjusted to accommodate any legislation enacted on a "pay as you go" basis.

The rules should require, however, that such legislation be enacted "freestanding", not inside some omnibus legislation.

Problem: What to do about supplementals, truly unanticipated needs, and/or emergencies?

Solution: Establish a real contingency reserve, and a mechanism to limit spending from the reserve.

Some small part of the discretionary caps (1% - 5%) should be set aside for contingencies. Those funds would not be allocated to any Committee/subcommittee.

Contingency reserves could be appropriated only for those purposes for which the President makes a formal request. If the President requests a $50 million appropriation from contingency reserves for emergency firefighting, for example, Congress could appropriate more or less than the President requested for that purpose from the contingency reserve; but Congress could not, to use another example, appropriate money from the contingency reserve for emergency drought relief, unless the President specifically asked for an appropriation from contingency reserves for that purpose.

Appropriations within the caps and Committee/subcommittee allocations we propose would not be subject to this special rule. Congress could pass appropriations for any purpose -- without respect or deference to Presidetial proposals -- so long as those appropriations could be accommodated within the caps and Committee/subcommittee allocations which we envision being written into law as part of the agreement.

Problem: Many popular programs are exempt wholly or in part from sequestration under current law.

As a result, sequestration never has been the real threat its drafters envisioned.

Solution: Only interest should be exempt from sequestration.

Put all programs at risk, and increase the incentives for the Executive branch agencies and Congressional Committees/ subcommittees to live within their budget allocations.

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Problem: Congress must pass legislation to redress any overage and escape sequestration. How is the President equally accountable?

What if the Executive branch initiated or concurred with underestimates of programatic costs?

Solution: The President must propose specific legislative remedies.

If the Administration proposes legislation, and/or Congress enacts legislative proposals based on Administration cost estimates, and if actual program costs exceed the Administration's estimates, the President must propose specific changes in legislation to eliminate that overage -- retrospectively, for the fiscal current year, and prospectively.

The President may agree to sign spending legislation, but take exception to Congressionally generated cost projections. If he does so, and if actual program costs exceed the Congressionally generated projections to which the President took exception, the President need not propose legislation to eliminate any resulting budgetary overage.

If the President does not take issue with the estimates when he signs spending legislation, and if there is an overage, the President must make specific legislative proposals to eliminate the overage.

Problem: How to limit new "spending programs" on the revenue side of the budget?

Expenditure control is the key to sound budget enforcement; but if we manage to impose real, meaningful, workable spending limits (including limits on credit activity, borrowing authority, federal guarantees, etc.) -- and if we do not find a way to limit new "spending programs" thinly disguised as tax expenditures -- there will be a proliferation of new spending initiatives masquerading as changes in tax law.

We do not want to undermine the economic stabilization effects of federal fiscal policy. Therefore, we do not want to police the revenue floor in the same fashion as we would limit spending.

How then to distinguish between spending programs on the revenue side of the budget and other changes in tax law; and how to limit new programmatic tax expenditures?

Solution: We do not have a concrete proposal to address this problem.

However, the solution must address two concerns.

1. Definition. How to identify and clearly define spending programs on the revenue side of the budget, and how to distinguish those programs from other revenue legislation?

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2. Enforcement. We have a fair bit of experience with sequestration. We have chosen to attempt to perfect the process we know to achieve better expenditure control, because we think we understand how it works -- its strengths and its weaknesses.

   We have no similar experience with enforcement of the revenue side of the budget. Should enforcement be specific to an individual program, to the whole category of programs, or to what? Would enforcment trigger a general revenue increase, a repeal or partial repeal of offending programs? We honestly don't know.

Problem: How to keep the same programs from triggering sequestration year after year?

Solution: Congress should pass and the President should sign legislation to redress the overage, retrospectively, and for the current fiscal year and in the future.

It may be possible to insist on that ideal, in the event that Congress passes legislation to eliminate the overage.

Sequestration is an imperfect tool at best. Even sequestration based on previous year's actual spending would not necessarily correct problems prospectivey. We have suggested that sequestration effective February first might eliminate the previous year's overage -- and any overage projected for the upcoming fiscal year. We concede, however, even that would not necessarily correct the underlying problem for all time.

Conceivably, the same Committees/subcommittees could see their programs sequestered, year after year, due to the same overages in the same old programs. Spending would be cut to the limits in the agreement, albeit in a most unsatisfactory fashion.

We believe, however, that creating a visible, accountable process will discourage that kind of behavior. We think the political/ public relations price would be too high.

Problem: All the "keepers of the Numbers" work either for the Administration or Congress.

There is no authorative, unbiased source of official advice on the accuracy and/or reasonableness of economic projections and budget estimates.

Solution: Establish an Advisory Board to fill that void.

We propose that the President and House and Senate Leaders each name leading economists or budget experts to serve on the new advisory board.

Qualification for appointment to the Advisory Board should be spelled out very carefully in the agreement and implementing legislation.

Members of the Advisory Board should meet periodically. This should not be a full time job for any member of the Board.

The Advisory Board should have a small staff. They should not generate economic forecasts or budget estimates.

Their function should be to comment on the assumptions and estimates underlying budgets and budgetary proposals.

The Board could include the OMB Director, the CBO Director, the Chairman of the Board of Governors of the Federal Reserve Sytem and/or the Comptroller General. It also should include people who do not work for the government. It should be balanced, in terms of Presidential and Congressional, Democratic and Republican appointees. Its membership should be comprised of highly respected professionals. Its role should be like that of FASBE.

Summary: Everything in this proposal presupposes that the President and Congressional Leaders of both political parties reach agreement on a serious, substantial, multi-year agreement truly to solve the budget deficit and debt problems.

Once they reach agreement, that agreement must be written into law. We recommend that the implementing legislation spell out priorities to which the negotiators have agreed. Those priorities should be expressed as caps for major categories of spending; and spending within the caps should be allocated among Congressional Committees/subcommittees. The caps and allocations should be written into law. The enforcement mechanisms we propose would be based on those legislated caps and allocations.

The bottom line is: once the President, the House and the Senate agree on budget priorities it should require the constructive agreement of all three parties to change those priorities. In this instance, the President and Congress could revise priorities any time; but they would have to amend the caps and allocations; and that would require a change in the law. By definition, changing the law would require the consent of all three parties to the agreement (or both Houses of Congress would have to override a Presidential veto to accomplish that objective).

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

Washington, DC 20515

June 27, 1990

The Honorable George Bush
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

For nearly 18 months you have led a remarkably successful administration. As your allies we have all gained from your popularity and we have enjoyed considerable success in building an executive legislative team that can govern with your leadership.

Inevitably we are going to face difficult problems and the budget summit is one of them. Working together we can continue to succeed but sometimes it will take extraordinary efforts. Even then, with your leadership we can work our way to a successful conclusion.

Unfortunately we will sometimes hit rough spots. Yesterday was one of them.

Yesterday's announcement on "increased tax revenues" and its exploitation by the Democrats and the news media were destructive to our party and our goals.

The Democrats are now emboldened to assert even more aggressively their tax increase demands and their refusal to cut domestic spending, accept budget reforms or cut entitlements. Based on private conversations I am convinced they believe the Administration will ultimately concede to their demands as in their opinion it did on "tax increases."

The press will now exploit Republican disarray, ask which taxes need to be raised and lead the charge for raising the top income tax rate. Eliminating the bubble will become the elite media's test of "fairness." No attention will be paid to the Democrats' responsibilities after 36 years in control of the House. If the media has its way the economic growth budget summit will have decayed into a tax summit and a test of how much Democrats can force the Republicans to break their word to the American people.

Finally, as a supporter who believed I was on the same team with your appointees to the summit I am very deeply shaken by the process of the last week. It is vital that we resume the process of working as a team that makes collective decisions to find an agreement we can all support.

There is a real danger the summit will proceed on assumptions antithetical to our values. This might lead to a temporary agreement with liberal Democrats but it would permanently weaken our party and your Presidency.

Since conservative Republicans would be compelled to openly, vigorously and aggressively oppose any inadequate summit agreement it is vital we as a team resolve to take the steps necessary to insist on a budget summit agreement which conservative Republican could vote for. No other approach will get majority support from House Republicans.

Yesterday made our job harder but if we roll up our sleeves and plunge back in as a unified team we can insist on a positive summit agreement worth supporting.

I write this with the deepest sadness because yesterday was a terribly destructive day for a generally tremendous team. I deeply hope it was an aberration and not the beginning of a trend.

Sincerely your friend and supporter,

Newt

Newt Gingrich

cc: The Honorable Nicholas F. Brady
The Honorable Richard G. Darman
The Honorable John H. Sununu
The Honorable Robert H. Michel
The Honorable Bill Frenzel

John
you have reacted well over the last 24 hours but yesterday hurt our candidates.
Just for the record do not assume my vote for an inadequate summit but I will fight for a good agreement
your friend
Newt

DRAFT

6/28/90 271

BUSH'S FLIP-FLOP ON TAXES

If George Bush had pardoned Willie Horton, or burned Old Glory on the lawn of the White House, it would hardly have rivalled the flip-flop he has committed on taxes. Few political figures have identified themselves in an election with a particular principle or position to the degree that George Bush pledged himself to protect the American voter from higher taxes.

Even the President's rationale for breaking his pledge does not stand up to scrutiny. Notwithstanding Bush's statement that, "...the size of the deficit problem and the need for a package that can be enacted require...tax revenue increases...", there is no need for higher taxes. While the deficit is a problem, it is not a crisis, and it should be addressed through budget cuts. Moreover, there is little doubt that the big spenders in Congress have been fanning deficit hysteria as a ruse to push through a tax increase with the aim of spending the money on new programs, not to reduce the red ink.

Both the Congressional Budget Office and the Office of Management and Budget estimate that the 1991 budget deficit will total about $160 billion if current spending trends continue unabated. Such a deficit would equal approximately 2.7 percent of Gross National Product (GNP), the lowest level since 1981. If the deficit truly is about to cause the economy to collapse, as some in the Administration and Congress would like Americans to believe, it seems curious that the economy did not fall apart in 1985, when the deficit was 5.4 percent of GNP. If a deficit of 2.7 percent of GNP is a crisis, why did the economy grow in 1987, when the deficit equalled 3.4 percent of GNP?

Deficits are not the issue; the real problem is excessive government spending. By allowing its attention to focus on the deficit, the Administration is treating the symptom and not the disease. Unfortunately, it appears that an unwillingness to offend special interest groups, or risk reducing the President's high popularity ratings, has precluded any serious effort to control the growth rate of government spending.

The battle over taxes, however, is not one that can be decided simply by "splitting the difference" between the two sides. It is a fundamental conflict between two visions for America's future. On one side is the bureaucracy, the Washington establishment, and the special interests who feed at the public trough. For these groups, taxes are the lifeblood upon which their health depends. Because the Gramm-Rudman Deficit Reduction Act has as least partially restricted how much money politicians can spend, the big spenders desperately need more tax revenue if they are to increase spending. On the other side are the workers, consumers, and businesses of America who produce the country's wealth. These are the people who elected George Bush to the Presidency, and expected George Bush to protect them from higher taxes.

Some Administration figures claim that circumstances have changed since the President promised "No new taxes." Yet they fail to identify any convincing reason why taxes should be increased. At least no Administration official has been foolish enough to argue publicly that taxes should be increased to boost the economy, since both economic theory and real-world evidence suggest just the opposite. As the 1980s richly demonstrate, lower taxes increase incentives and promote economic growth by raising the rewards of savings, working, investing, and producing. The 1970s showed just the opposite: higher taxes result in economic stagnation. And the argument that Congress will use new tax revenue to cut deficits, not increase spending? That demonstrates a remarkable naivete about the facts of life in Washington.

Tax collections, in any case, are climbing back to the levels of the late 1970s. Federal tax collections this year are expected to consume 19.6 percent of GNP, the fourth-highest level in peacetime history and within range of the all-time peacetime record of 20.1 percent, reached in 1969 and 1981. But surging revenues are a cause for alarm – and hardly indicate a need to boost taxes. The record-high tax years of 1969 and 1981 were followed not by good economic times, but by deep recessions.

George Bush said, "There's no quicker way to kill prosperity than to raise taxes.[1]" He was right. He said, "I've been in government a long time, and I've seen what happens when the government raises a dollar in revenues – Congress spends a dollar fifty.[2]" He was right. He said, "The surest way to kill the recovery is to raise taxes. That will stifle everything from investment and personal savings to consumer spending. It will clamp down on growth. It will invite a recession.[3]" He was right.

Thus the battle over taxes is a battle not only for the economy; it is a battle for the integrity and character of the Bush Presidency.

Daniel J. Mitchell
John M. Olin Fellow

1 Boston, MA, April 15, 1987.
2 Pittsburgh, PA, April 29, 1988.
3 Chicago, IL, September 13, 1988.

THE WHITE HOUSE
WASHINGTON

bud?

THE CHIEF of STAFF
has seen

Date: 7-5-90

FOR: Gov. Sununu

FROM: ANDREW H. CARD, Jr. Andy

- [ ] Action
- [ ] Your Comment
- [ ] Let's Talk
- [x] FYI

The attached was written by Bob Gleason who used to be in WH Intergovernmental Affairs with me during the Reagan years. Bob was also with ACIR.

Andy --

Enclosed, and delivered in a "plain brown wrapper," is a retrofitted memo on eliminating the deductibility of state income taxes.

You will recall that back during the campaign you said it was "too risky." It's still risky.

But as I replied during the campaign, the first memo was written as a contingency -- like if we got to mid-October and were still ten points behind. Similarly, this proposal is only useful if you all feel that the President needs to re-shuffle the negotiations deck and get a new deal. From this distance, I have no idea whether or not that is the situation. (For what it's worth, however, this proposal is good public policy.)

Best personal regards,

Bob Gleason
245-1856

PROPOSAL:

That the President take the lead in proposing a specific tax revenue increase (assuming there is to be one), and that it be eliminating the deductibility of state and local income taxes from federal income taxes. This "tax expenditure" amounts to $21.9 billion for FY 1991.*

PURPOSE:

1. To seize the initiative on the question of how to increase revenues, and to promote the President as taking charge of the bipartisan negotiations.

2. To create a vehicle for a tax increase which even many conservatives will like (and liberals with loath). Although conservatives oppose higher taxes in principle, the deductibility of state and local taxes from federal income taxes is objectionable to many, because it is a subsidy rewarding high state and local taxation.

3. To neutralize -- perhaps turnabout -- the Democrats' charge that the President's proposal to reduce the capital gains rate is a sop to the rich. It is likewise the high income, itemizing taxpayers who most <u>directly</u> benefit from the deductibility of state and local taxes.

4. To short-circuit Moynihan's pseudo-populism in proposing that Social Security taxes be cut for "working people," while advocating that income tax <u>rates</u> be raised for the rich. New York will be the most adversely affected state by this proposal, and Moynihan will surely join Cuomo in leading the fight against it. The state has a big problem with wealthy taxpayers "voting with their feet."

5. To avoid anti-populist excise tax hikes. Raise the tax on beer, and in every blue collar bar the tax (along with the extra that the bar owner tacks on while he at it) becomes known as "Bush's Tax." Raise the tax on gasoline, and it gets advertised on every sign at every gas station in America.

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*Property taxes amount to another $12.4 billion in "tax expenditures," but for reasons that should be the subject of a different memo, eliminating this deduction is not proposed.

6. To demonstrate an intellectual integrity in the President's philosophy about taxes. Adoption of this proposal would correct a gross inequity in the 1986 tax reform package -- i.e., eliminating the deductibility of state-local sales taxes, while retaining the deductibility of income taxes.

7. To stress economic growth. Deductibility of state and local income taxes is a public sector subsidy which cannot contribute to a growing economy -- in contrast to, e.g., lowering the capital gains rate.

TALKING POINTS

-- Eliminating the deductibility of state income taxes would most directly impact high-income, itemizing taxpayers in high-tax states (which reads like a list of those states Dukakis carried). Are Democratic opponents of this proposal protecting the rich in order to raise excises on the poor and working class?

-- Democrats who would oppose this proposal by the President are defending a cartel for preserving high state taxes.

-- We know many will say that -- because of interstate tax competition -- elimination of deductibility will hinder a state's ability to raise taxes to provide services. They're probably right. But what they are really saying is that they want cover so they can spend more. Interstate tax competition forces fiscal responsibility.

-- States should not be able to use deductibility to export their taxes to other states. Every time a state raises its income tax, citizens of the other states end up paying a larger portion of total federal tax collections. This is part and parcel of an overall tax fairness theme inherent in this proposal.

-- The majority of taxpayers do not itemize, so deductibility benefits only itemizing taxpayers who, almost by definition, are upper-income. To have to raise other taxes on middle and lower income taxpayers in order to retain state-local income tax deductibility is to sacrifice the living standards of the vast majority of a state's citizens to pander to that state's bureaucracy.

-- Eliminating the deductibility of sales taxes but not income taxes in the 1986 tax reform bill impacted unfairly on many states, but particularly those which have a sales tax, but no income tax. (Note: Most of the unfairly impacted states are either GOP strongholds or critical electoral battlegrounds -- with a few very troublesome exceptions.)

-- Other than the fact that it is extremely difficult for taxpayers to document how much sales tax they actually paid -- but easy to document the payment of state income taxes -- there is no justification for allowing the deduction of one and not the other. In addition, sales taxes are rather uniform throughout the country while income taxes are not. Thus, deductibility has now evolved into a subsidy for high-income itemizing taxpayers in high-tax states.

-- Furthermore, state and local excise taxes for items like gasoline are not deductible.

-- The President has found a way to avoid raising federal income tax <u>rates</u> which would retard economic growth.

-- If the Democrats reject this deal, the sequester is their fault. The President has negotiated in good faith.

STATE-BY-STATE

While the President must keep the debate on "first principles" of tax fairness and economic efficiency, obviously this proposal would have disparate reactions from various states. This must be the subject of a comprehensive political analysis before the President could go forward. Among the downside states are some that are holding very important 1990 elections, and/or are electoral college battlegrounds -- e.g., California, Michigan, and Ohio. Conversely, other important states have either relatively low income taxes or none at all -- e.g., Florida, Texas, and Illinois.

The proposal could also produce some very interesting political mixes. A few examples:

- It has already been noted that Moynihan would be thrown on the defensive because this proposal would most adversely affect the rich. The same quandary would confront many others, like Dukakis and Florio -- and some Republicans, by the by, like D'Amato.

- It could split Foley (from no income tax Washington state), and Mitchell (from relatively high income tax Maine).

- Bentsen (from no income tax Texas) would have a hard time opposing this proposal.

- When Dick Thornburgh was Governor of Pennsylvania he was a strong supporter of President Reagan's proposal to eliminate the deductibility of all state and local taxes in exchange for lower rates. Thornburgh might be able to mollify Bob Walker. (As a percentage of personal income, Pennsylvania has moderate income taxes, relative to adjoining states.)

- Republicans in states that are raising income taxes (e.g., Massachusetts, New Jersey) might even welcome the loss of this deduction as a way of heightening the revolt against higher taxes.

The following is the rank of each state in per capita income tax collections, along with the percentage the President received in the 1988 election. [NOTE: Rank is out of 44, because seven states have no individual income tax.]

Alabama -- 36th; 60%

Alaska -- 44th; 56%
No income tax; no sales tax.

Arizona -- 33rd; 59%
Arizona relies heavily on the sales tax, ranking 4th per capita nationally.

Arkansas -- 32nd; 56%

California -- 9th; 52%
One mitigating circumstance is that lowering the capital gains rate (if part of the package) would have strong appeal in this rich state, with much existing individual wealth in exorbitantly expensive houses. California also relies heavily on the sales tax, ranking 9th per capita nationally.

Colorado -- 19th; 53%

Connecticut -- 40th; 52%
No taxes on earned income. Only very high income people pay on interest, dividends, and capital gains. In particular, many of these taxpayers would gladly trade-in deductibility of state income taxes for lower federal capital gains rates. The state ranks fifth in per capita sales taxes.

Delaware -- 2nd; 57%
Delaware has no sales tax, and relies on the income tax.

Florida -- 44th; 61%
Florida has no individual income tax, and relies on the sales tax.

Georgia -- 15th; 59%

Hawaii -- 8th; 45%
High in income taxes, but even higher sales taxes, ranking 2nd per capita in the nation (but a lot of that is tourism).

Idaho -- 26th; 66%

Illinois -- 30th; 51%
The lowest income taxes per capita of the northern industrial states.

Indiana -- 25th; 61%

Iowa -- 16th; 45%

Kansas -- 29th; 56%

Kentucky -- 21st; 56%

Louisiana -- 39th; 55%
One of the lowest income taxes per capita of all of the states which have an income tax.

Maine -- 20th; 56%

Maryland -- 3rd; 51%

Massachusetts -- 4th; 46%

Michigan -- 10th; 56%

Minnesota -- 6th; 45%

Mississippi -- 38th; 61%

Montana -- 34th; 53%

Missouri -- 27th; 51%

Nebraska -- 31st; 60%

Nevada -- 44th; 61%
No income tax.

New Hampshire -- 41st; 64%
No taxes on earned income, taxes on interest and dividends over $11,200 only (as of 1986). No general sales tax either. The New Hampshire Miracle.

New Jersey -- 23rd; 57%

New Mexico -- 41st; 53%
The lowest per capita income taxes of all the states which have a broad-based income tax.

New York -- 1st; 48%
Alas, New York. In income taxation it has no "competition." Per capita collections are close to one-fifth higher than second place Delaware (which, unlike New York, has no sales tax).

North Carolina -- 14th; 58%

North Dakota -- 37th; 56%

Ohio -- 11th; 55%

Oklahoma -- 35th; 58%

Oregon -- 7th; 48%
This state has no sales tax, and relies on the income tax. (Any wonder that Finance Chairman Packwood agreed to the elimination of the deductibility of sales taxes, but not income taxes?)

Pennsylvania -- 13th; 51%

Rhode Island -- 18th; 44%

South Carolina -- 24th; 62%

South Dakota -- 44th; 53%
No individual income tax.

Tennessee -- 43rd; 59%
Income tax on interest and dividends only.

Texas -- 44th; 57%
No income tax; state relies on sales tax.

Utah -- 22nd; 66%

Vermont -- 17th; 52%

Virginia -- 12th; 60%

Washington -- 44th; 49%
Eliminating the deductibility of sales taxes but not income taxes was the hardest to take in this state. Washington has no income tax, but the highest per capita sales taxes in the nation. Furthermore, neighboring Oregon has an income tax, but no sales tax.

West Virginia -- 28th; 47%

Wisconsin -- 5th; 47%

Wyoming -- 44th; 63%
No income tax.

Council on Competitiveness

MEMORANDUM

TO: Key Administration Appointees

FROM: Kent Hughes

SUBJECT: Competitiveness Assessment of President Bush's FY 1991 Budget

DATE: April 24, 1990

In the enclosed document, A Competitiveness Assessment of the President's FY 1991 Budget, the Council on Competitiveness offers its analysis of the President's entire budget in light of its impact on this nations's ability to compete in global markets.

The Congress is about to start the formal debate over the President's budget and set its own priorities in the Congressional Budget Resolution. We hope the Council's competitiveness assessment will contribute to the debate by highlighting the importance of certain critical investments as well as budget deficit reduction.

900 17TH Street NW • Suite 1050 • Washington, DC 20006
(202) 785-3990 • FAX (202) 785-3998

Council
on
Competitiveness

A Competitiveness Assessment of the President's FY 1991 Budget

INTRODUCTION

President Bush's FY 1991 budget is the first full fiscal statement of his presidency. The President's budget illuminates the Administration's fiscal policy, priorities, and goals for the economy. Like all federal budgets, it will have a major impact on America's long-term economic competitiveness.

The federal budget sets the macroeconomic framework for the nation and makes a series of investments that affect America's ability to educate and train its work force, sustain a strong technology base, upgrade physical infrastructure, and improve export performance. Unfortunately, federal budget deficits during the 1980s undermined these investments by sharply reducing the nation's saving rate. Coupled with relatively restrictive monetary policy, federal deficits also contributed to higher interest rates and record trade deficits.

Analyses of the budget are usually built around long-established categories or the spending of individual departments. The Council on Competitiveness assesses the budget deficit and critical public investment in terms of their impact on America's long-term competitiveness.

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THE MACROECONOMIC EFFECTS OF THE FY 1991 BUDGET

A decade of large budget deficits has impaired the achievement of a number of America's economic goals. Although they have not proven calamitous in the short term, federal deficits have created economic inefficiencies that will become more pronounced over time. Specifically, the deficit has reduced national saving, contributed to the trade deficit, and acted as a drag on investment.

- **Federal deficits have created economic inefficiencies that will become more pronounced over time.**
- **Record federal budget deficits have been a major cause of the nation's saving shortfall.**
- **Higher domestic saving would lower interest rates and decrease our dependence on foreign capital.**
- **President Bush proposes to boost saving by cutting the deficit to $63.1 billion, its lowest level in 12 years, and by creating new saving incentives for individuals.**

The Council is convinced that deficit reduction is the single surest way to boost the nation's saving rate.

The Budget Deficit and National Saving

Throughout the post-war era, the United States has been a low-saving country compared with our major economic competitors. The overall level of national saving has fallen to an even lower level during the 1980s. Record federal budget deficits were a major cause of this decline.

Federal deficits, or dissaving, averaged 4 percent of the Gross National Product (GNP) from 1980 to 1989. In addition, personal saving dropped from more than 7 percent of disposable personal income in 1980 to 3.2 percent in 1987. Although personal saving has shown a modest recovery in the last two years, it remains woefully below its historic average.

Gross investment has averaged approximately 17 to 20 percent of GNP during the post-war era. By borrowing from abroad, the United States has managed to maintain gross investment at about the same level, but it still falls below that of many of our economic competitors.

Higher domestic saving would lower interest rates and decrease America's dependence on foreign capital. The result would be greater investment, faster productivity growth, and sustained increases in the standard of living.

President Bush takes two steps in his FY 1991 budget to boost domestic saving. First, he lowers the budget deficit to $63.1 billion, just below the $64 billion target mandated by the Gramm-Rudman deficit law. This represents the smallest deficit in 12 years and consequently, the smallest drain on national saving. Second, the President proposes to boost personal saving by liberalizing the existing Individual Retirement Account program and introducing a new Family Savings Account plan. There is little evidence, however, that such incentives actually cause a net increase in saving. The families and individuals most likely to take advantage of the President's incentives are those that already save. They will simply change their form of saving to take advantage of the new incentives.

Measuring the Deficit

The Council is convinced that deficit reduction is the single surest way to boost the nation's saving rate. As shown in Table 1, the President's projected deficit is $63.1 billion for FY 1991 and is projected by the Administration to balance by FY 1993. The FY 1991 deficit is slightly more than 1 percent of GNP, far lower than the 6.3 percent level recorded in 1983.

Table 1

The President's Budget
(Billions of dollars)

	1989	1990	1991	1992	1993
Receipts	990.7	1093.5	1170.2	1246.4	1327.6
Outlays	1142.6	1197.2	1233.3	1271.4	1321.8
Surplus or Deficit	-152.0	-123.8	-63.1	-25.1	5.7
Gramm-Rudman Targets	-136.0	-100.0	-64.0	-28.0	0.0

Source: Budget of the U.S. Government FY 1991.

Deficit reduction in the FY 1991 budget is achieved by eliminating certain items from deficit calculations and adopting somewhat optimistic economic assumptions. In addition, the budget deficit reflects a growing surplus in the Social Security Trust Fund, which offsets government spending.

The recent savings and loan crisis has necessitated massive federal economic involvement in the bailout. A significant portion of the billions needed to meet the federal obligation to insured depositors is not reflected in the President's budget. In addition, the Administration is expected to seek additional billions for the working capital needs of the Resolution Trust Corporation, which acquires and disposes of bankrupt institution's assets. The Administration is likely to keep the working capital outside the budget calculations. As a result, the actual FY 1991 budget deficit is understated by $10.3 billion dollars for funding the bailout and possibly as much as $50 billion for working capital requirements.

Further complicating deficit calculations is the Administration's adoption of optimistic economic forecasts. As shown in Table 2, the FY 1991 budget assumes real growth of 2.6 percent in 1990 and 3.3 percent in 1991. Both are within the range of reasonable forecasts, but decidedly on the optimistic side. The Blue Chip consensus (an average of some forty major economic forecasters) and the Congressional Budget Office (CBO), a non-partisan arm of Congress, project a 1.8 percent growth rate in 1990 and a 2.5 percent growth rate in 1991. There are similar inconsistencies with interest rates. By forecasting short-term rates of 5.4 percent for 1991, the Administration is again on the optimistic side. The Blue Chip consensus and CBO put the rates almost two full percentage points higher at 7.2 percent. Using the Blue Chip or CBO assumptions boosts the deficit to the $100 billion dollar range.

Table 2

Administration, CBO, and Blue Chip Forecasts
(percent)

	1989		1990	1991
	Actual	Forecast		
REAL GNP (4th quarter/4th quarter):				
Administration	2.4	3.5	2.6	3.3
CBO		2.9	1.8	2.5
Blue Chip Consensus			1.8	2.4
CONSUMER PRICE INDEX				
Administration	4.8	3.8	3.9	4.0
CBO		4.9	4.0	4.3
Blue Chip Consensus			4.2	4.2
3-MONTH TREASURY BILL RATE				
Administration	8.1	7.4	6.7	5.4
CBO		7.9	6.9	7.2
Blue Chip Consensus			7.1	7.2

Source: Budget of the U.S. Government FY 1991 and The Economic and Budget Outlook: FY 1991-1995 (CBO).

For several years, the federal government has collected more in Social Security revenues than it has paid out to recipients. In FY 1991, this surplus will top $58 billion. The Social Security system operated on a pay-as-you-go basis prior to 1983 and such surpluses were not accumulated. Faced with the prospect of the baby-boom retirement early in the next century, however, the President and Congress agreed to allow a surplus to accumulate to assure that sufficient revenue would exist to fund this massive retirement.

In earlier reports, the Council has urged the President and Congress to use the Social Security surplus for its intended purpose rather than allowing it to offset spending on federal activities. In effect, the Council has applied Ben Franklin's old saying to a modern economy -- a penny saved today can mean a dollar earned tomorrow.

The Budget and Trade Deficits

Throughout the 1980s, the United States has recorded one large trade deficit after another. Through a combination of dollar depreciation and a pick-up in growth overseas, however, the 1989 trade deficit dropped to $108.6 billion from the record $152.1 billion reached in 1987. But because the dollar has gained about 10 percent in value relative to the yen, the German mark, and several other European currencies, most forecasters expect the trade deficit to worsen in 1990.

In effect, we have financed our trade deficit by borrowing from abroad and selling domestic assets. This has enabled the United States to partially offset the impact of the federal deficit and declining personal saving. Borrowing from abroad has economic costs different from those associated with domestic borrowing. For instance, the payment of interest on international loans requires the transfer of domestic resources abroad. Today's trade deficit essentially represents a claim by foreign lenders on America's future domestic production.

Two competing views exist as to what life would have been like during the 1980s without this foreign borrowing. Some argue that given the low level of national saving, the United States would have had much higher interest rates and even lower net investment. Other analysts assert that the pressures of high interest rates on housing, autos, appliances and corporate capital spending plans would have forced more rapid and more definitive action on the deficit itself.

In strictly macroeconomic terms, part of the long-term costs of borrowing depend on how the borrowed funds are used. In the 19th century, the United States used foreign capital to settle the West, build infrastructure, and expand industry. These investments generated enough earnings to pay interest, principle, and still leave some in American pockets. The 1980s have been different. We have borrowed extensively, but gross investment has remained flat.

Persistent trade deficits and growing external debt can have other adverse effects on the nation's economy. In the first half of the 1980s, the flow of foreign investment helped create a badly overvalued dollar which put even the most competitive American firms under significant pressure. As the external debt has grown and budget deficits have persisted, America has become even more dependent on overseas investors. When they are not buying, foreign investors introduce considerable uncertainty in domestic financial markets. Their impact does not stop there. Rising external debt reduces America's leverage in international negotiations and diminishes the scope of America's international leadership.

PUBLIC INVESTMENT AND COMPETITIVENESS

The federal budget influences competitiveness both through its effect on national saving, interest rates, and aggregate economic growth and through the allocation of resources.

Federal spending in three areas is particularly relevant to American competitiveness. These areas are human resources, research and development, and infrastructure. In addition, spending on a number of trade-related programs can enhance competitiveness through increased export activity. The following sections highlight key changes in these areas as proposed in the Administrations's FY 1991 budget.

Human Resources

- **Federal spending on human resources -- education and training -- increases 6 percent in the Bush budget. After adjusting for inflation, this represents a 2 percent spending increase.**
- **Significant spending increases are slated for Head Start, the Dwight D. Eisenhower Mathematics and Science Education Program, education statistics programs, and Youth Job Training Grants.**
- **Spending in a number of important areas decreases or fails to keep pace with inflation. They include: the total funding of the Department of Education; Adult Job Training Grants; programs under the Job Training Partnership Act; and the Job Corps.**

The Council on Competitiveness commends the Bush Administration for recognizing investment in human resources as a critical priority. However, insufficient spending for a number of competitiveness-enhancing programs is of concern.

Although the Council supports the Administration's prioritizing of job training, it questions the adequacy of spending increases that fail to keep pace with inflation.

Education

America's competitiveness and future productivity growth depend on investment in human capital. The greater our investment and the stronger our educational system, the higher the quality of the emerging workforce, and ultimately, the stronger our nation's competitiveness.

The United States faces an impending shortage of skilled labor as it enters the 1990s. The demand for educated employees will far exceed the supply available. Little evidence suggests that the American educational systems as it stands now is capable of correcting this impending imbalance.

An insufficient number of students are being trained in essential technical disciplines; academic standards are not particularly rigorous; disadvantaged students do not generally have access to stimulating educational environments; and too many students drop out of school or are allowed to graduate without basic reading and writing skills. These facts point to deep, systemic problems in the nation's schools. They must be corrected if the United States is to maintain and improve its standing in the global economy.

Unlike most other countries, the primary responsibility for education in the United States rests with state and local governments. Nonetheless, the federal government provides support for a variety of programs, including aid for the disadvantaged and the handicapped; educational research and statistics programs; programs such as Head Start for pre-school age children; compensatory aid to states at the secondary level; and grants, subsidized loans, and work-study/job assistance programs for those seeking higher education.

During the early 1980s, federal funding of education programs -- when adjusted for inflation -- declined. The decline occurred at the same time that the number of minorities and disadvantaged students, the target populations for many of the federal education programs, was dramatically increasing. Reductions in federal funding of education programs created an environment which forced many state and local governments to try to supplement federal programs. The federal government should intensify its efforts to lead the training and education of our children if America is to maintain its competitive edge in the global economy.

The FY 1991 budget proposes to increase overall federal spending on education. Specific emphasis is given to programs for research, statistics, pre-school programs, and support for the disadvantaged. The question remains whether this is enough, especially in light of the fact that less than half of the targeted student populations for many of these programs are currently enrolled. Funds specifically for the Department of Education would increase 2 percent to $24.6 billion. This represents an actual 2 percent funding decrease after adjusting for inflation. The discretionary portion of the education budget remains below the pre-1981 level after adjusting for inflation. Some higher education loan program funding would be trimmed back and qualification requirements would be tightened.

The Council commends the Administration for making education a top priority, and specifically for devoting increased funds to science and math education. However, continued shortfalls in Head Start service to all eligible children remain of concern, as do decreases in the guaranteed student loan program for those seeking higher education.

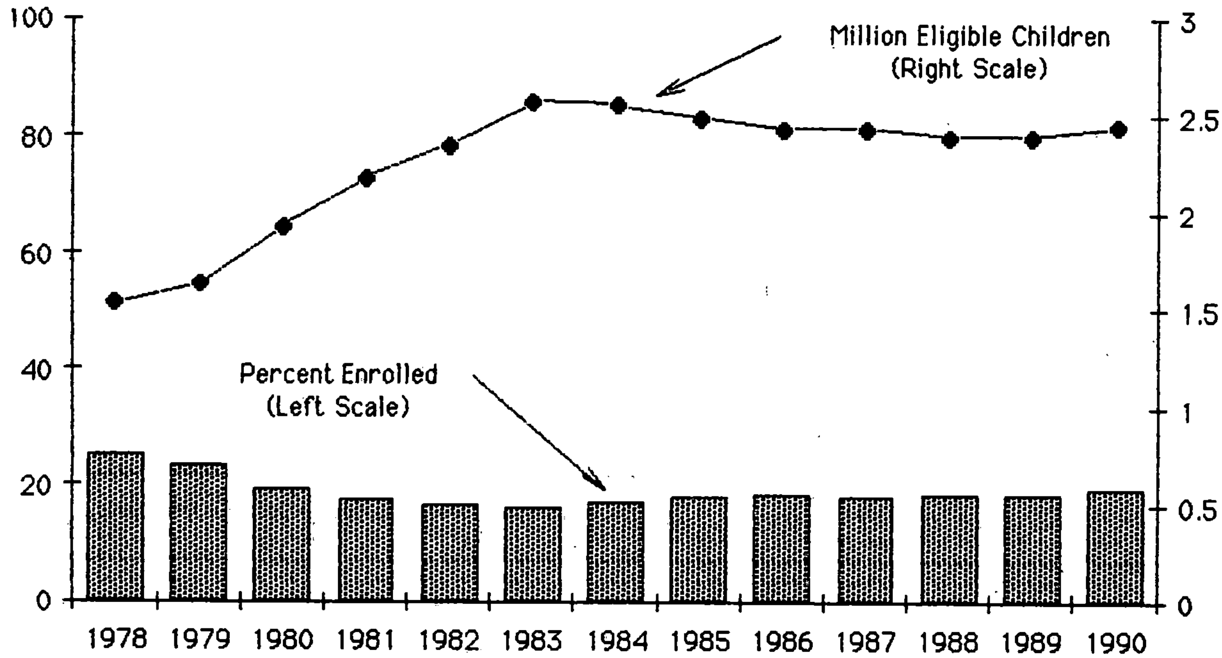
Specific Programs

- **Research and Statistics**. The FY 1991 budget allocates $3.9 billion for the gathering of educational statistics, research, and educational improvement activities. The National Assessment of Educational Progress, one of the most important educational monitoring programs, receives a significant funding increase over the 1990 allotment.

- **Head Start**. The FY 1991 budget proposes to increase Head Start funding 36 percent to $1.9 billion. Head Start is the largest and most effective federal program preparing disadvantaged pre-schoolers for school through education, social, medical, and nutritional programs. The proposed funding increase would allow enrollment to expand 40 percent over FY 1989. But as Chart 1 illustrates, the program would still serve only 20 percent of all eligible children. The budget also proposes to terminate Community Services Block Grants, which provide grants to community action agencies that run 35 percent of all Head Start programs.

Chart 1

Head Start Program
3, 4 & 5-year olds



- **Elementary and Secondary Education.** Primary responsibility for elementary and secondary education rests with state and local governments. Most federal funding in this category is aimed toward economically and physically disadvantaged children. FY 1991 budget authority for this group is $10 billion, an eight percent increase over 1990 levels.

- **Compensatory Aid.** The largest federal elementary and secondary education program, compensatory aid provides remedial education services to disadvantaged children. In FY 1991, $5.8 billion is requested, an 8.1 percent increase. Chapter 1 Aid, Local Education Agency and Concentration Grants, receives the largest portion -- $4.96 billion, an eight percent increase from 1990.

- **Math and Science Education.** The Bush budget emphasizes the importance of math and science education to the nation's development of a world class work force. The Dwight D. Eisenhower Mathematics and Science Education programs, which fund state efforts to improve training for math and science teachers and raise student achievement levels, would receive $230 million in FY 1991, 70 percent over the FY 1990 level. States are required to spend 75 percent of the grants for elementary and secondary school programs and the remainder for higher education programs. The National Science Foundation, which oversees education programs in math, science, and engineering would receive $460 million for education, an increase of 28 percent over 1990.

- **Higher Education.** The FY 1991 budget proposes $18 billion in higher education aid to help nearly six million students finance advanced studies through grants, subsidized loans, and job assistance. This allotment targets support services and academic counseling for disadvantaged and minority students, vocational training, and grants to developing institutions, including historically black colleges and universities.

- **Guaranteed Student Loans.** Known formally as Stafford Student Loans, the volume of the guaranteed student loan program is projected to increase $54 million in 1991, assuming interest rates fall, reducing the government's interest rate subsidy. Total program budget authority, however, actually drops $500 million to $3.3 billion.

- **Pell Grants.** The FY 1991 budget request for Pell Grants totals $4.8 billion. If the Administration's interest rate forecast holds true, the number of Pell Grant recipients should increase from 3.2 million in 1990 to 3.4 million in 1991. The budget would terminate Student State Incentive Grants and capital contributions to the Perkins Loans.

Training

The workforce growth rate is expected to slow to 1 percent annually during the 1990s, about one-third the rate of the 1970s. Simultaneously, the workforce will become less adaptable, due to the growing need for specialized job training. Less than one-fourth of all occupations currently require a college education. Over half of all new jobs created in the 1990s will require some form of advanced education.

Primary responsibility for job training rests with the private sector. American industry spends approximately $30 billion annually on worker education programs. Federal funds comprise only 10 percent of aggregate job training expenditures and are targeted to disadvantaged and less-skilled workers.

Faced with the impending labor shortages of the 1990s, the Administration has made job training a priority. The budget allots a total of $5.3 billion in FY 1991 to employment and training, a 3.8 percent increase over FY 1990.

Although the Council supports the Administration's prioritizing of job training, it questions the adequacy of spending increases that fail to keep pace with inflation.

Specific Programs

- **Job Training Partnership Act (JTPA).** FY 1991 budget authority for job training programs is $4.2 billion, a 7.1 percent increase over 1990. JTPA is the major federal job training program, which trains economically and educationally disadvantaged youth and adults, as well as other individuals who face employment barriers, such as American Indians, veterans, and migrant or seasonal farm workers. Funding for JTPA decreases 12 percent in the Bush budget.

- **Youth Programs.** Youth Job Training Grants would receive $1.7 billion in the President's budget, an 11.8 percent rise over 1990. National Job Corps Centers service economically and educationally disadvantaged children aged 14 to 21, providing literacy, arithmetic, and vocational training. Spending for the Job Corps fails to keep pace with inflation, increasing only 1.9 percent to $818 million. The budget also includes $50 million for a new program entitled Youth Opportunities Unlimited (YOU), whose services would be targeted to youth living in high poverty zones.

- **Adult Programs.** Adult Job Training Grants receive $965.5 million in the President's budget, the same as the 1990 levels. Programs for Indians, veterans, and migrant and seasonal farm workers receive a combined total of $149.5 million, also the same as 1990. Under the Administration's proposal, dislocated workers would no longer be served by the Trade Adjustment Assistance program. They would receive assistance through newly-created worker readjustment appropriations, which have a budget authority of $440.5 million for FY 1991, in addition to training under the JTPA. Community Service Employment for Older Americans drops 4 percent from 1990 levels to $342.8 million.

Research and Development

- **Funding for the conduct of R&D increases 7 percent in the Bush budget. This represents a 12 percent increase for civilian R&D and a 4 percent increase for defense R&D.**

- **Significant spending increases are slated for the National Science Foundation, science and engineering education programs, and the National Institute of Standards and Technology.**

- **Increased funding for such "big" science projects as the Superconducting Super Collider and SDI continue to threaten funding for programs that more directly enhance the nation's competitiveness.**

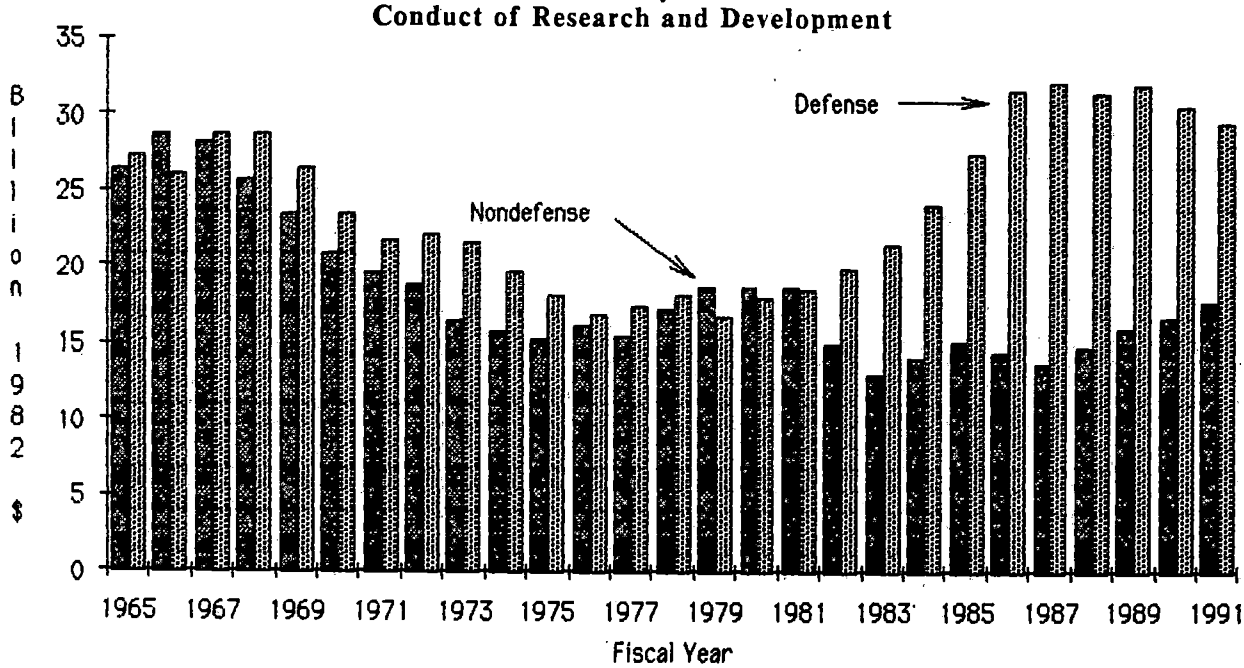
The Council on Competitiveness supports the Bush Administration's stated goal of promoting American competitiveness through adequate funding for critical science and technology programs. Spending increases for civilian R&D programs, in particular, will greatly enhance America's industrial competitiveness.

The development and commercialization of technology is central to America's long-term economic competitiveness. Technology is advanced through both research and development (R&D) and market-driven incremental improvements to existing products. The federal government's role in both processes is critical. The government directly funds nearly half of the nation's R&D and creates incentives for private sector innovation through a variety of tax and regulatory policies.

Science and technology fare well in the FY 1991 budget, and promoting competitiveness is a stated goal. The budget increases federal funding for defense R&D by 4 percent and civilian R&D by 12 percent. As shown in Chart 2, however, non-defense R&D remains well below the funding level of the 1960s when adjusted for inflation. Within the defense category, 8 percent growth is scheduled for basic research and 4 percent for applied R&D. The Council supports these spending increases. Higher federal R&D funding would expand the nation's technology base and promote a wider pool of new ideas and technical talent. Increased civilian R&D expenditures would greatly contribute to industrial competitiveness. Moreover, the shift toward basic research within defense R&D could increase the number of potential applications to civilian technology.

Chart 2

Federal Outlays for the Conduct of Research and Development



The budget also contains certain non-funding provisions to encourage private sector R&D. They include making the research and experimentation tax credit permanent, improving and making permanent the rules for R&D expenditure allocation by transnational companies, changing product liability laws to alleviate uncertainties, and promoting better intellectual property protection through the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). *The Council supports these measures.*

Although the Administration's priorities reflect pro-competitive thinking, spending for specific programs that provide the actual knowledge, infrastructure, and incentives for technology commercialization remain small in scale. At the same time, such "big science" programs as the Superconducting Super Collider and the Strategic Defense Initiative realize dramatic funding increases. *The Council believes that large projects should not be allowed to squeeze out funding for many smaller programs that would provide greater benefits to America's long-term economic competitiveness. The following is a description of how programs supported by the Council fare in the President's budget.*

Specific Programs

- **National Science Foundation (NSF).** The budget requests a total increase of 14 percent for NSF to $2.4 billion. This is part of an effort begun in 1987 to double NSF's budget by 1993. The increase supports competitiveness by strengthening the broad science and technology infrastructure of the nation.

- **National Institute of Standards and Technology (NIST).** Outlays for NIST increase nearly 7 percent to $184 million. These include $10 million for the Advanced Technology Program to support generic research of promising technologies and $5 million for grants to Regional Manufacturing Technology Centers, which transfer manufacturing technologies to medium and small businesses. The budget does not request funding for state technology programs.

- **Science and Engineering Education.** The budget includes a 26 percent increase, to $1.06 billion, for science and engineering education funding. This includes funding to support teacher training and curriculum development and to provide direct assistance to students.

- **R&D Facilities.** The budget includes only a 1 percent increase to $3.1 billion for the construction, repair, and modernization of R&D facilities by all federal agencies. This increase is less than half the rate of inflation and inadequate to ensure the continued excellence of America's R&D facilities.

- **Advanced Technologies R&D.** Robotics R&D funding is slated to increase 28 percent to $192 million. Because over two-thirds of this goes to robotics for the space station, however, the increase will not contribute significantly to manufacturing technology. A 5 percent increase is slated for high performance computing and semiconductor R&D would increase 2 percent. Advanced imaging technology R&D funding is held constant at $118 million, with $12 million for High Definition Display Technology. Funding for superconductivity R&D is to decline 6 percent, due to the completion of development work for the superconducting magnets for the Superconducting Super Collider.

- **SEMATECH.** The semiconductor industry consortia, SEMATECH, receives $100 million in the Bush budget, the same as in the past two years.

- **National Security R&D.** Defense R&D, which accounts for 61 percent of total federal R&D, is a key part of America's technological base. The budget requests a 4 percent increase for defense R&D, which represents virtually no real growth. Defense basic research funding would increase 6 percent to $978 million. A major increase is planned for the Strategic Defense Initiative, which would grow by $0.9 billion to $4.5 billion.

Table 3

Funding of Research and Development by Departments and Agencies
(Dollar amounts in millions)[1]

Department or Agency	Budget Authority 1990 Enacted	1991 Proposed	Percent Change
Conduct of R&D			
Defense-military	37,226	38,714	4
Health and Human Services	8,506	8,933	5
Energy	6,023	6,058	1
National Aeronautics and Space Administration	6,382	8,414	32
National Science Foundation	1,766	1,983	12
Agriculture	1,108	1,184	7
Interior	503	493	-2
Environmental Protection Agency	431	460	7
Commerce	425	443	4
Transportation	336	422	26
Agency for International Development	230	214	-7
Veterans Affairs	215	201	-6
Other Agencies[2]	561	621	11
Subtotal, Conduct of R&D	63,711	68,140	7
R&D facilities	3,023	3,059	1
TOTAL	66,734	71,199	7

[1] Components may not add to totals because of rounding.

[2] Includes the Departments of Education, Justice, Housing and Urban Development, Labor, the Treasury, the Nuclear Regulatory Commission, Tennessee Valley Authority, Smithsonian Institution, and the Corps of Engineers.

Source: Budget of the U.S. Government FY 1991.

Transportation Infrastructure

- **Transportation infrastructure spending in the Bush budget includes increases for the Federal Aviation Administration (FAA) and decreases for federal highways and mass transit systems.**

- **Spending on infrastructure increases its dependence on user fees. The air passenger ticket tax and the aviation fuel tax are raised to help fund the FAA.**

The Council on Competitiveness questions the Administration's cutting of funds for federal highways and mass transit. As the transporters of goods and workers, they are central to America's competitiveness. Futhermore, the Transportation Department's Trust Funds should be used for their intended purpose, rather than to offset the federal budget deficit.

Investment in America's transportation infrastructure is among the most important ways the government can influence industrial competitiveness. Bridges, roads, dams, airports, and waterways underpin the nation's economy and are essential for economic growth. Historically, the federal government has played an important role in conjunction with state and local governments in providing funding for America's infrastructure in three key areas: transportation, including airports and the air traffic control system; public transit repair and modernization; and federal highway construction and maintenance.

President Bush's FY 1991 budget includes several user fee hikes to help fund new spending on infrastructure. *When user fees are segregated into special purpose trust funds such as those for highways and airports, the Council believes they should be used for their intended purpose and not to offset the federal deficit.*

The choice of a general versus a user tax is significant to America's competitiveness only if the American system differs from that of our international competitors. Differences can stem both from services needed or provided solely in the United States and from differences in the funding mechanism. For those services solely needed in the United States or required more intensively, such as air traffic control, broad-based taxes have the least harmful effect on competitiveness. For services provided both here and abroad, American firms benefit from broad-based taxes only if other countries employ user fees. In general, a broader tax base will have smaller price effects and fewer implications for the nation's competitiveness.

The President's FY 1991 budget relies heavily on user fees:

- Through the Highway and Airport and Airway Trust Funds, 77 percent of the Department of Transportation budget would be financed through user taxes.

- The air passenger ticket tax and the aviation fuel tax would be raised to help fund increased expenditures for the Federal Aviation Administration.

- To help local areas raise more funds for airport renovations and construction, the Administration proposes to remove existing statutory restrictions prohibiting airports from collecting head taxes on departing passengers.

Overall, the President's budget request increases spending for the Federal Aviation Administration and Coast Guard programs and decreases spending for mass transit, highways, and railroads. *The Council recognizes the difficulty associated with targeting areas to cut, but questions whether the proper place is in highway and mass transit infrastructure.* American highway and mass transit systems are a primary means of moving goods to market and workers to jobs. As transportation costs increase through lost efficiency and longer shipping and commuting times, the nation's competitiveness will suffer.

Specific Programs

- **Federal Aviation Administration (FAA).** The President's budget proposes a 16 percent increase in budget authority to $8.6 billion for aviation programs to maintain safety and efficiency. A 7 percent increase to $4.1 billion is proposed to hire additional controllers, inspectors, and safety personnel. To modernize the air traffic control system, a 39 percent increase is proposed to $2.5 billion. Also, grants to states for airport security and capacity improvements would increase 5 percent to $1.5 billion.

- **Federal Highways.** Spending obligations for federal highways in the FY 1991 budget decline 1.6 percent to $12 billion. Overall, federal highway program levels fall from $14.4 billion in FY 1990 to $13.3 billion in FY 1991.

- **Mass Transit.** Budget authority requests for mass transit programs in the FY 1991 budget are down 20 percent from FY 1990 to $2.6 billion. Operating subsidies for large cities would be terminated; no funds are allotted to the interstate transfer grants; and funding for the Washington, D.C. metrorail system drops 55 percent.

- **Trust Funds.** The Highway Trust Fund in the FY 1991 budget would continue to accumulate funds somewhat more rapidly than it spends them, helping to trim the total budget deficit. As seen in Table 4, on a cash flow basis, the fund's increase in cash is less than the interest earned on the carried-over balances. The future commitments of the Highway Trust Fund, however, more than exhaust the projected accumulated surplus. The Airport and Airway Trust Fund uncommitted balance, despite the increase in user fees, would begin to decline in FY 1991, although its cash balance will still continue to increase.

Table 4

Infrastructure Trust Fund Status
(Billions of Dollars)[1]

	1989	1990	1991
HIGHWAY TRUST FUND			
Unexpended balance (start of year)	13.4	16.0	17.9
Income			
Taxes and Fees	15.7	14.8	15.1
Interest	1.2	1.5	1.5
Total	16.9	16.3	16.6
Outlays	14.5	15.0	15.1
Unexpended balance (end of year)	16.0	17.9	19.4
Commitments against unexpended balance	(35.8)	(37.4)	(38.0)
Uncommitted balance (end of year)	(19.2)	(19.5)	(18.6)
AIRPORT AND AIRWAY TRUST FUND			
Unexpended balance (start of year)	11.1	12.9	14.6
Income			
Taxes	3.7	3.9	4.8
Interest	1.0	1.2	1.3
Total	4.7	5.1	6.1
Outlays	2.9	3.5	6.0
Unexpended balance (end of year)	12.9	14.6	14.7
Commitments against unexpended balance	6.1	7.0	6.0
Uncommitted balance (end of year)	6.9	7.6	6.4

[1] Detail may not add to total due to rounding.

Source: Budget of the U.S. Government FY 1991.

Export Promotion Activities

- **Funding for export promotion activities in the Bush budget follows the general patterns set forth during the 1980s.**
- **Increases are slated for general programs that indirectly enhance export activities by influencing the environment for trade, such as the Office of the United States Trade Representative and the United States and Foreign Commercial Service.**
- **Decreases are slated for programs that support specific export opportunities, such as the Export-Import Bank's direct credit program.**

Attention to competitiveness during the 1980s was prompted by the emergence of record trade deficits. In fact, many equated the nation's competitiveness problems with its trade problems. As the issue was studied more comprehensively, it became apparent that other factors affecting competitiveness -- fiscal policy, science and technology, and the pool of skilled labor -- were equally important.

Nonetheless, trade policy remains an important facet of the nation's overall competitiveness. Reversing America's trade deficit would significantly enhance efforts to maintain strong, non-inflationary growth at home and advance America's economic and national security agendas abroad.

The federal government's role in promoting American export activities is two-fold. First, by creating a healthy economic environment for American industry, the government indirectly enhances export activity. Second, the federal government operates several programs aimed at directly supporting American exporters. In the last decade, the federal government has concentrated its efforts on the first method, working to develop an open and free environment for all trade. This trend is continued in the Bush Administration's FY 1991 budget. Notably, the Administration proposes a 6.1 percent funding increase for the Office of the United States Trade Representative, which oversees all federal trade policy.

Federal programs aimed at directly supporting specific export activities fare less well in the Bush budget. Funding levels for the Commerce Department's International Trade Administration and the Export-Import Bank just keep pace with inflation. Funding for the Trade and Development program, which targets export opportunities in developing countries, decreases under the Administration's proposal.

Specific Programs

- **Office of the United States Trade Representative (USTR).** The Administration has proposed a 6.1 percent increase for USTR to $18.9 million. USTR is responsible for developing and coordinating American trade policy. Its major focus during much of the fiscal year will involve concluding the Uruguay Round of Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade (GATT).

- **International Trade Administration (ITA) of the Department of Commerce.** ITA's mission is to promote American exports and a strong trade posture for American industry. Funding for ITA would increase 4.2 percent under the Bush budget to $165 million.[1] Within ITA, the United States and Foreign Commercial Service realizes a 10.4 percent increase over FY 1990, to $110 million. The U.S. and Foreign Commercial Service operates offices throughout the nation and in 65 foreign countries to encourage exporting by American companies and increase the number of foreign countries which receive American exports.

- **Trade and Development Program.** Funding for the Trade and Development Program decreases 4.7 percent in the President's budget proposal. Funding would drop from $31.5 million in FY 1990 to $30 million in FY 1991. The Trade and Development Program targets opportunities for American exporters in developing countries.

- **Export-Import Bank.** Funding for the Export-Import Bank increases 4 percent in the FY 1991 budget. The Export-Import Bank promotes American exports by assuming commercial risks that exporters or private institutions are unwilling or unable to take. The Bank provides assistance to American exporters through direct credit (loans) and guarantees and insurance.

  The Administration's budget proposal reinforces the decade-long evolution of the Bank from an "entitlement program" for American exports to a program where financing is used only to neutralize foreign subsidized financing, thus ensuring that American exporters are not at a competitive disadvantage. Funds for direct credit authority decline 18.4 percent in the President's budget, down from $612 million in FY 1990 to $500 million in FY 1991. Funding for guarantees and insurances increases 3.9 percent to $10.6 billion in FY 1991, remaining essentially flat after adjusting for inflation.

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[1]The mission of various departments within ITA is the promotion of American exports, with the exception of Import Administration. Consequently, the budget figures used in this report exclude funding levels for Import Administration programs.

ACKNOWLEDGEMENTS

This assessment is one of a series of periodic reports issued by the Council on Competitiveness. The positions in the report reflect the consensus of the Executive Committee, but individual members may not agree with all of the conclusions.

The analysis was prepared under the direction of Warren E. Farb. Individual sections were written by David Cheney, Melissa Miller, and Allison Tokheim. The authors are indebted to Jamille Turner for typing the drafts.

ABOUT THE COUNCIL

Founded in 1986, the Council on Competitiveness is a nonprofit, nonpartisan organization of chief executives from business, higher education, and organized labor who have joined together to pursue a single overriding goal: to improve the ability of American companies and workers to compete more effectively in world markets.

To build consensus within the public and private sectors on the actions needed to help American compete, the Council pursues a three-part agenda: increasing public awareness of the breadth and severity of America's economic problems; mobilizing the political will required to set the United States on a positive economic course; and assisting in the development of specific public policies and private sector initiatives. To that end, the Council focuses on issues in the areas of fiscal policy, science and technology, international economics and trade, and human resources.

The Council is governed by an executive committee and draws on the resources of its national affiliates -- more than two dozen trade associations, professional societies and research organizations -- to help analyze issues and develop consensus. The Council is privately supported through contributions from its members, foundations and other granting institutions.

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Collective Bargaining Forum
Committee for Economic Development
Council on Research and Technology
Health Industry Manufacturers Association
IC2 Institute
Industrial Research Institute, Inc.
Institute for Electrical and Electronic Engineers - U.S. Activities
Labor - Industry Coalition for International Trade
National Alliance of Business
National Association of Manufacturers
National Association of State Universities and Land - Grant Colleges
National Association of Wholesaler - Distributors
National Center for Manufacturing Sciences
The Association for Manufacturing Technology
The Brookings Institution
The Conference Board

Council on Competitiveness
1331 Pennsylvania Avenue, NW
Suite 900–North Lobby
Washington, DC 20004
(202) 662-8760

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Outline	Budget material-various topics (4 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] (2 of 2) [1]

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

Date Closed:	12/16/2004	**OA/ID Number:**	29137-005
FOIA/SYS Case #:	1998-0004-F[1]	**Appeal Case #:**	
Re-review Case #:	2005-0426-S	**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
AR Case #:		**MR Case #:**	
AR Disposition:		**MR Disposition:**	
AR Disposition Date:		**MR Disposition Date:**	

RESTRICTION CODES

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

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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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]
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SHORT LIST

(1) Process

Enhanced recission
Extension of GRH
Tightened sequester system
Credit reform budgeting
RTC accounting fix
Trust fund accounting fix

(2) Deficit reduction (50)

Defense (10)
Non-defense discretionary (3)
Mandatories (10)
Fees/offsetting collections (5)
Receipts (20)
Interest (2)

(3) Growth

(1) + (2)
Capital gains
IRA/FSA
R&D credit
Selected expenditures

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

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

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

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

(3) <u>Mandatory/Entitlement savings</u>:

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

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

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

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

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

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

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

(1) <u>SELECTED ITEMS FROM THE ADMINISTRATION'S BUDGET</u>

-- Growth set:

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

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

(c) R+E incentive [-0.9]

(d) airport [0.5]

(e) enterprise zones [-0.1]

(f) oil & gas incentives [-0.3]

-- Other:

(g) IRS management/enforcement [2]

(h) State and local HI [1.7]

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

(j) accelerate payroll deposit [0.9]

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

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

(m) miscellaneous [wash]

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

(2) <u>"HEALTH" OPTIONS</u>

(a) Rosty items:

(i) Double cigarette [2.8]

(ii) Double beer & wine [1.4]

(b) Alternatives:

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

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

(3) "ENVIRONMENT"/"ENERGY SECURITY" OPTIONS

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

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

(c) 5% energy retail value [14.2]

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

25% for 5.

$58

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

*

CARBON TAX AS COV. FOR IMPT.

X2 ON IMPT.

(4) "FAIRNESS" OPTIONS

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

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

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

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

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

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

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

NOTE: 5% on all short term gain yields only 0.5 B.

(f) 0.5% securities transfer fee [7.8]

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

THE WHITE HOUSE

WASHINGTON

MEETING WITH LEGISLATIVE BIPARTISAN BUDGET GROUP

DATE: May 15, 1990
LOCATION: Cabinet Room
TIME: 2:00 p.m. (1 hour, 30 minutes)

FROM: Frederick D. McClure

I. PURPOSE

To convene the first meeting of the Legislative Bipartisan Budget Group.

II. BACKGROUND

After your series of private meetings with the Congressional leadership, it was announced last Tuesday, May 8, that the White House would enter into bipartisan budget negotiations with Congress. Today's meeting is the first session of these negotiations, which negotiations will generally be conducted on Capitol Hill.

III. PARTICIPANTS

See Attachment A.

IV. PRESS PLAN

White House Press Pool.

V. SEQUENCE OF EVENTS

Members will be met in the West Lobby and escorted to the Cabinet Room for their meeting with you.

Attachment A: Participants List
Attachment B: Talking Points

Attachment A

PARTICIPANTS

The President

The Vice President

Administration Negotiators

Nicholas F. Brady, Secretary of the Treasury
Richard G. Darman, Director, Office of Management and Budget
John H. Sununu, Chief of Staff

Congressional Participants - Senate

George Mitchell (D-ME), Majority Leader
Bob Dole (R-KS), Republican Leader
Robert Byrd (D-WV), Chairman, Appropriations Committee
Mark Hatfield (R-OR), Ranking Member, Appropriations Committee
Jim Sasser (D-TN), Chairman, Budget Committee
Pete Domenici (R-NM), Ranking Member, Appropriations Committee
Lloyd Bentsen (D-TX), Chairman, Finance Committee
Bob Packwood (R-OR), Ranking Member, Finance Committee

Wyche Fowler (D-GA), Majority Leader's representative
Phil Gramm (R-TX), Republican Leader's representative

Congressional Participants - House

Thomas S. Foley (D-WA), Speaker of the House
Dick Gephardt (D-MO), Majority Leader
Bob Michel (R-IL), Republican Leader
Jamie Whitten (D-MS), Chairman, Appropriations Committee
Sil Conte (R-MA), Ranking Member, Appropriations Committee
Leon Panetta (D-CA), Chairman, Budget Committee
Bill Frenzel (R-MN), Ranking Member, Budget Committee
Dan Rostenkowski (D-IL), Chairman, Ways and Means Committee
Bill Archer (R-TX), Ranking Member, Ways and Means Committee

Bill Gray (D-PA), Speaker's representative
Newt Gingrich (R-GA), Republican Leader's representative

Others

Frederick D. McClure, Assistant to the President for Legislative Affairs

TALKING POINTS -- BUDGET SUMMIT: 5/15/90

-- Thank you all for agreeing to participate in this special budget negotiating group.

-- As you know, I've met with the Speaker, the Senate Majority Leader, and the two Republican Leaders. We agreed to establish this special group in order to:

"seek bipartisan agreement on a package of measures that would:

- "reduce the deficit substantially on a multi-year basis;
- "allow the economy to continue to grow;
- "strengthen the budget process; and

- o "avoid the adverse economic and programmatic effects of a stalemate that might otherwise ensue."

-- We agreed further that this group would function best if:

- o "there were no preconditions for negotiation;" and

- o "there were no negotiation through the media."

-- We agree that it is important that we reach agreement as soon as possible. To that end:

- o I will re-convene this group and the Leadership Group from time to time to try to help move the process forward toward agreement.

o I understand that the Speaker and the Senate Majority Leader have asked Dick Gephardt to coordinate meetings of this group on the Hill -- and that the Leaders themselves will participate in such meetings, as will our negotiators. It is my understanding that the Leaders may wish to have the first meeting on the Hill on Thursday.

-- Some have asked that I clarify <u>why</u> such meetings as these are important. The answer is <u>straightforward</u>:

- It is not that there is an immediate crisis. We're fortunate that the economy continues to grow. But it is important that we act now -- while the economy is still growing. For although the economy continues to grow, growth is not as strong or secure as it should be. And it would be more difficult to move toward deficit reduction if we were to wait until the economy is headed down.

- As it is, interest rates (and therefore interest expenditures) are higher than we forecast. Receipts are lower than forecast. And S&L-related borrowing is up. So, the estimated FY'91 deficit is going up.
- That means that the required sequester -- if we follow business-as-usual -- will be extremely high. I'll ask Dick Darman to say more about this in a little while.

-- The problem with business-as-usual is that it simply won't get the necessary deficit-reduction job done:

- o My own budget did not receive an overwhelming vote of support.

- o I think it fair to say that Chairman Panetta's budget -- which passed with a slim 218-208 margin -- is inadequate in relation to the standards he himself thinks appropriate.

- o Chairman Sasser's budget would take more out of defense than I believe many of his own Democratic colleagues would find acceptable.

- And as for the bigger deficit-reduction plans of, say, Senator Hollings or Chairman Rostenkowski: these have not exactly taken off politically.

-- The practical reality is simply this: No serious and responsible plan can take off and be implemented unless we -- those of us in this room -- come together in support of it. Indeed, even then, it will be tough to get the plan properly implemented.

-- There has been a lot of understandable worry about who's going to get <u>blamed</u>. I understand that -- and mean to be sensitive to that. But what I think should be foremost in our minds is: <u>How can we get this job done right</u>.

-- I think the American people are tired of seeing the budget process seem to fail year after year. They would welcome our doing the job right -- and our fixing the process at the same time. We will not do the job if we focus only on programs and numbers. We've got to add more common sense and control to the process itself.

15

-- There are more than enough ideas about how to solve the problem already <u>on the table</u>. Perhaps new and better ideas will be developed. But what we really need at this point is not talk about what's on or off the table. What we need is to sit down and <u>work out an agreement</u>.

16

-- For my part:

o I approach these negotiations in <u>good faith</u>, without preconditions, in hopes of reaching a responsible agreement soon.

o If we fail, it will mean some combination of <u>higher interest rates</u>, <u>lower growth</u>, and <u>deep across-the-board</u> cuts. Indeed, it could mean <u>all</u> of these.

17

o -- But that is exactly why we should do our very best to succeed. I personally intend to stay involved with this group and with smaller groups -- wherever I can be helpful -- to try to assure that we do succeed.

18

-- I'd like now to ask each of the Leaders to offer any introductory comments. Then, because several of you have asked, I'd like Dick Darman to review the numbers. And then, I suggest we open this up for general discussion.

[Foley

Mitchell

Michel

Dole]

* * *

TALKING POINTS FOR THE PRESIDENT
BUDGET SUMMIT: 5/15/90

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- o Interest rates (and therefore interest expenditures) are higher than we forecast. Receipts are lower than forecast. And S&L-related borrowing is up. As a result, the estimated FY'91 deficit is going up.

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- o But that is exactly why we should do our very best to succeed.

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[Foley
Mitchell
Michel
Dole]

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5/14/90

PRE-BRIEF FOR BUDGET SUMMIT

(1) State of Play

(2) Talking points for the President

(3) Darman data on revised estimates

(4) Sensitive questions that may be raised:

(a) Do you specifically and categorically disown the Sununu statements?

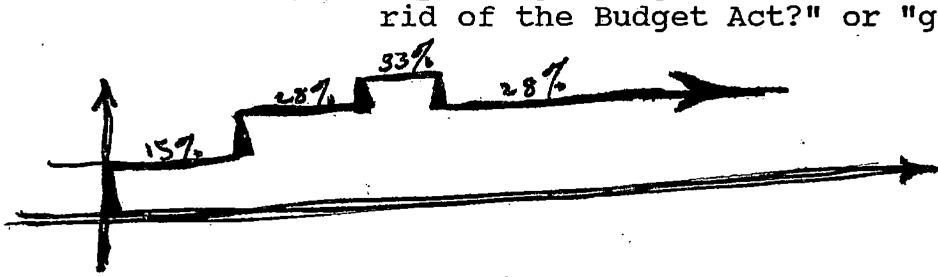
(b) Since you're redefining the problem, don't you have an obligation to tell us how you would recommend we deal with it?

(c) You've proposed $37 billion in savings that are really more like $30. If you won't raise taxes to make up the difference, will you propose additional specific spending reductions?

(d) You said, "Don't mess with Social Security." Is Social Security out of bounds?

(e) Senator Gramm has proposed a no-new-taxes budget with the Nunn defense figures. Is that the kind of approach we should look toward?

(f) Why not just "get rid of the G-R-H targets?" or "get rid of the Budget Act?" or "go back to the <u>old</u> taxes?"



GEPHARDT....

5/15/90

FY '91 SEQUESTER ESTIMATE:
A PRELIMINARY VIEW OF POSSIBLE REVISIONS

		$ billions
(1) January baseline deficit estimate (Admin.)		101
(2) Adjust economic assumptions for:		
(a) 1st two quarters of FY '90 only		7
-- Interest	(1)	
-- Receipts	(1)	
-- Inflation (COLAs)	(4)	
(b) Smooth return to Administration forecast		15
-- Interest	(7)	
-- Receipts	(7)	

Comment: Although the economy continues to grow, it is not growing as strongly as it should. In spite of continued growth, the deficit problem is aggravated by higher interest rates, higher inflation, and lower than estimated receipts. As a result, the savings necessary to meet the GRH target for FY '91 are probably in the $45-60 billion range -- after adjusting for FY '90 economic changes alone.

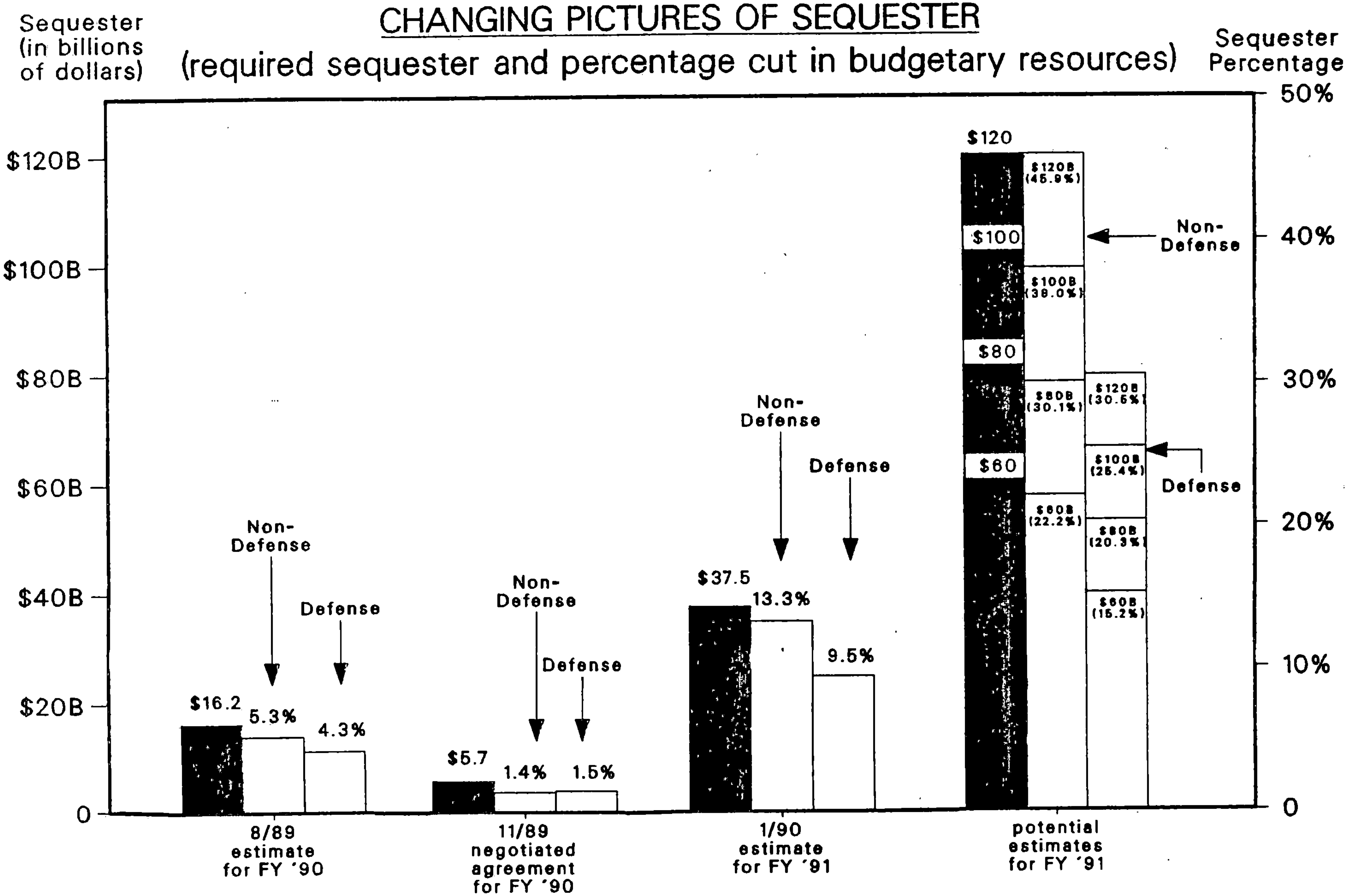
(3) Subtotals:	
(a) Baseline deficit adjusted for revised economics (1st 2 Q of FY'90)	108 - 123
(b) Associated sequester (with target of $64B)	44 - 59
-- Defense BA cut (from baseline)	11% - 15%
-- Nondefense BA cut (from baseline)	16% - 21%

Comment: In addition to economic estimates, technical estimates are changing. Among the likely adverse reestimates are the following:

	$ billions
(4) Adjust for selected technical reestimates of:	
-- Bank Insurance Fund (extrapolation of adverse '90 experience)	5
-- Old FSLIC resolutions (higher pricing of old deals)	1
-- Food Stamps (increased participation)	1
-- Medicaid (higher state spending)	1
-- Medicare (actuary's model change)	4
-- SSI/DI (Zebley court decision)	2
(5) Subtotals:	
(a) Baseline deficit adjusted for FY '90 economics and selected technicals	123 - 138
(b) Associated sequester	59 - 74
-- Defense BA cut (from baseline)	15% - 19%
-- Nondefense BA cut (from baseline)	21% - 27%
(6) Adjust for additional S&L costs (highly uncertain and dependent on RTC working capital treatment)	0 - 50
(7) Total including S&L adjustments:	
(a) Revised baseline deficit	123 - 188
(b) Associated sequester	59 - 124
-- Defense BA cut (from baseline)	15% - 31%
-- Nondefense BA cut (from baseline)	21% - 47%

CHANGING PICTURES OF SEQUESTER

(required sequester and percentage cut in budgetary resources)



Note: FY '91 estimates assume food stamp reauthorization ($16 billion) and assume military personnel are treated as sequestrable. RTC working capital estimates are excluded from the 1/90 estimate for FY '91. The potential estimates for FY '91 present different options for additional S & L bailout costs and assume adjustments for lower receipts, higher inflation, and higher interest rates in the first two quarters of FY '90 -- followed by an orderly return to the Administration forecast.

May 10, 1990

Statement by the Democratic Leadership Group

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

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

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

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

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

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

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

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