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THE WHITE HOUSE

WASHINGTON

May 9, 1990

MEMORANDUM FOR MARLIN FITZWATER/ALIXE GLEN

FROM: JOHN UNDELAND

RE: COMMENT ON BUDGET NEGOTIATIONS

Since Sunday's opening budget talks there has been voluminous comment on the budget/taxes and what is meant by "no preconditions." To help you get a handle on who said what when I've compiled the following digest of comment.

REPUBLICANS

OMB DIRECTOR DARMAN

Richard Darman, in a CNN interview Wednesday, said "an excessive tax increase or the wrong kind of tax measures could adversely affect economic growth" and Bush would oppose them. "We would be very adverse to anything that would threaten continuing economic growth," Darman said before apologizing for negotiating through the media, which summit participants had promised to avoid. (UPI, 5/9)

SECRETARY BRADY

Secretary Brady refused to say [on Nightline Tuesday] whether Bush was considering a tax hike of some kind. But he did say, "What we've got here is an election in the fall.... Everybody knows something is going to have to be done and he wanted to start early." (USA Today, 5/9)

REP. MICHEL

Rep. Michel...said [after the Sunday meeting] tax increases almost have to be part of any package. "I don't know how you make these figures match without doing something on revenues," he told reporters. (Boston Globe, 5/8)

Wednesday Michel urged GOP lawmakers to "hold their fire" and stop criticizing the budget efforts by the White House and congressional leaders. "Nobody wants to make a tough choice," Michel said after meeting with House Republicans Wednesday morning. (AP, 5/9)

SEN. DOLE

"I don't know if you can have discussions [unless everything is on the table]," Dole said [Sunday]. Asked specifically whether that meant taxes were on the table, he said: "Everything, everything." (Chicago Tribune, 5/7)

-more-

SEN. DOLE continued

[On Monday] Sen. Dole said it is time for a summit on the budget. "The American people should be pushing us to sit down and make tough decisions about the deficit. We cannot continue to spend more money and more money and more money and run up the deficit." (Washington Times, 5/8)

"No preconditions," Sen. Dole said, when asked after a party caucus [Tuesday]...if income tax increases should be dismissed. (Washington Times, 5/9)

Sen. Dole Wednesday urged Republicans...to be more flexible. "Let's not lock ourselves in," Dole said. "Let's give the president a chance, if you're a Republican, and, if you're a Democrat, give the Democratic leadership a chance." (UPI, 5/9)

REP. GINGRICH

Rep. Gingrich said Monday Republicans would not agree to any plan that would hurt them in an election year. "I'm not going to vote for anything which causes us to lose politically...and we're not going to agree to stupid deals," Gingrich said. Asked what kind of taxes might be raised, Gingrich said: "I don't know. We'll have to wait and see what the Democrats want to discuss." (AP, 5/8)

"I would be very surprised if income or corporate tax rates were on the table," said Rep. Gingrich. (USA Today, 5/8)

SEN. SIMPSON

"No one is going to come out here and say that we're going to do anything at all with income tax or income tax rates. Now that's what people generally think of when they think of taxes," Sen. Simpson said. (Washington Times, 5/9)

"Nobody's talking about raising income tax rates.... George Bush is probably the oldest pro in the village as a political man, and no one is going to come out here and say that we're going to do anything at all with income taxes or income tax rates," he said. (Philadelphia Inquirer, 5/9)

Explaining Bush's change of heart, Sen. Simpson said: "The president is fully aware that he's got a country to run, and he's got to do that in a responsible way because lots of figures have changed." Simpson...also tested a possible campaign argument -- telling reporters Bush had no intention of raising taxes, just "revenues." "The President is not talking about new taxes," he insisted and observed there were plenty of other ways to raise money.... Asked if those sort of levies weren't taxes, he replied: "I believe Franklin Roosevelt called them 'revenues,' and if it's good enough for Franklin, it's good enough for me." (AP, 5/9)

SEN. DOMENICI

Sen. Domenici...said a possible summit is "most welcome news" and said "everything should be on the table," including taxes. (UPI, 5/7)

SEN. DOMENICI continued

"It could be a sea change if the leadership of the Congress goes to the table understanding that **everything** is on the table," said Sen. Domineici. (Wall Street Journal, 5/8)

Sen. Domenici said tax talk would not hurt either party. "If the right agenda is prepared, and it's broad enough to accomplish real deficit reduction....we'll be able to tell the American people the deficit is fixed and we're not going to get back in the same muddle....and I believe that is good policy." (Washington Times, 5/9)

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Sen. Chafee...complained that the media were getting the emphasis wrong. "Bush thinks news people are making a great mistake to center it around taxes," he said. (AP, 5/8)

SEN. COCHRAN

"We're going to see the economic jitters set in unless somebody assumes some responsibility for the budget," said Sen. Cochran. "The president is trying to do this. And I applaud him for it." (AP, 5/8)

REP. FRENZEL

"I think that taxes are not a good economic way to reduce the deficit," said Rep. Frenzel. "On the other hand, I think it's pretty clear that the Congress is not willing to make the spending cuts that are necessary without some kind of a tax component. That being the case, we'll have to consider it." As for Bush's position Frenzel said, "All we know is that he says he is willing to consider any of the changes." (Minneapolis Star-Tribune, 5/8)

"[Having no preconditions] is the only way [the President] can do the job," said Rep. Frenzel. "There isn't a president who hasn't tried to make good on his promises. There's no president who hasn't lived through times that change, and maybe outdate some promises," he said. (Fort Worth Star-Telegram, 5/8)

Anticipating maneuvers by Republicans and Democrats to escape blame for raising taxes, Rep. Frenzel said, "Everyone devoutly wishes for an Immaculate Conception scenario. (But) it really can't happen." ...Frenzel said the odds were less than 50-50 that a budget summit would produce an agreement for substantial deficit reduction, but he added: "There's more interest and more excitement about making a long-term budget agreement than ever before." (Cleveland Plain Dealer, 5/9)

REP. WEBER

"If the Republicans are dumb enough to give up the tax issue," said Rep. Weber, "you can bet it's going to hurt us at the polls." (Wall Street Journal, 5/9)

Rep. Weber...described the mood of House Republicans as "very uneasy -- tempered with anger." (Washington Post, 5/9)

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"We should be real quiet about taxes," said Weber. "We shouldn't be making it appear Republicans are leading the way on taxes."

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Rep. Archer...said Wednesday "taxes are the last thing we need to consider."

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REP. MARTIN

Rep. Martin said yesterday that she isn't concerned that Mr. Bush will somehow undercut her chances [to defeat Sen. Simon] by agreeing to tax increases in a summit. But she drew a much harder line on taxes than the administration has, ruling out increases in personal taxes, corporate taxes and "consumer taxes."

(Wall Street Journal, 5/9)

Rep. Martin, running for the Senate on a "no-tax-increase" platform, said she would advise Bush against raising taxes and pointed out that the president had not actually said that he would increase taxes. "Some of his friends are saying since he's got to listen to Democrats who are saying, 'Raise taxes,' he's got to listen to Republicans who say, 'Reading your lips was a good idea,'" she said.

(Chicago Tribune, 5/9)

REP. WALKER

"All the president has said is that everything is open to discussion," he said. "I think it's clear we cannot get anything done on the budget without sitting down and talking with the Democrats." But Walker said that while he believes Bush will keep to his campaign pledge in any future negotiations with the Democrats, he thinks "the president should make clear that he is not going to put taxes on the table. We'll let the Democrats do that."

(Washington Times, 5/9)

REP. KYL

"The president feels about taxes the way he feels about broccoli -- you can put it on the table in front of him but he's not going to eat it," Rep. Kyl said on the House floor Wednesday. "If somebody is going to propose new taxes, it's got to be somebody other than George Bush."

(UPI, 5/9)

REP. SCHUETTE

"I'm opposed to having taxes be on the table, period," said Rep. Schuette, who is challenging incumbent Sen. Levin.

(Wall Street Journal, 5/9)

GOV. BRANSTAD, CHAIRMAN OF THE NATIONAL GOVERNORS ASSOCIATION

Iowa Gov. Branstad...warned Bush to expect an uprising from the states over proposals for a national sales tax. "States are going to dig in very strongly against a national sales tax," Branstad said. "I think that would be a big mistake."

(AP, 5/9)

ED ROLLINS, NRCC

"The biggest difference between Republicans and Democrats in the public perception is that Republicans don't want to raise taxes," said Ed Rollins. "Obviously, this makes that go right out the door. Politically, I think it is a disaster."

(Washington Post, 5/8)

Ed Rollins, head of the House GOP campaign committee, has been telling House Republicans that the party could lose as many as 10 House seats this fall if budget talks between Bush and Congress result in a tax increase.

(Washington Post, 5/9)

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DEMOCRATS

REP. FOLEY

"The assumption is that everything would be on the table, that we would not enter any talks with preconditions," said Speaker Foley [after the Sunday meeting].

(Boston Globe, 5/7)

"We're willing to go forward and hear what he wants to recommend in terms of revising the budget," Foley said as he left a meeting of House Democrats Tuesday. "We are waiting to hear what the president recommends."

(Washington Post, 5/9)

"I am not presuming there is going to be a tax increase. We haven't decided anything in these meetings except we go forward," Speaker Foley told reporters after a White House meeting Wednesday.

(Reuter, 5/9)

"The leadership in the House and Senate...has accepted the president's invitation" to a budget summit with no preconditions, declared Speaker Foley.... "I trust the White House until I have reason not to. And I have no reason not to."

(AP, 5/9)

SEN. MITCHELL

"There was no discussion of specifics. There was a general agreement that any discussions will be without preconditions, if and when they occur," Mitchell said after Sunday's meeting.... [Earlier Sunday], Mitchell said he would be reluctant to enter negotiations if Bush ruled anything off the table.

(Boston Globe, 5/7)

Sen. Mitchell Wednesday said he hoped for "some real significant progress" before Congress' Fourth of July recess. "No decisions have been made other than to begin discussions next week in what we hope will be a good faith effort to deal with a very serious national problem," he said.

(Reuter, 5/9)

Sen. Mitchell said Wednesday Bush's invitation was accepted "without preconditions of any kind."

(UPI, 5/9)

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REP. ROSTENKOWSKI

Rep. Rostenkowski...said he was delighted that the President had initiated the [Sunday] meeting, and hinted that a discussion of "process was merely the prelude to a more serious agenda that would ultimately include taxes.... I've told the President a big revenue increase won't hurt him politically, and I'd be most enthusiastic if we were talking about a big deal, not a small one," Rostenkowski said. (New York Times, 5/4)

Rep. Rostenkowski...suggested that any budget discussion would likely include another strong push by Bush for a reduction in the tax on capital gains.... "I'm a realist," Rostenkowski said. "If the president is going to talk about increasing revenues, I'm sure he could not walk away from a negotiation without a capital gains [tax reduction]." (Chicago Tribune, 5/8)

SEN. BENTSEN

Sen. Bentsen said he was willing to consider new levies, including excise taxes and raising the income tax rate for top-income taxpayers, particularly if Bush continues to seek a cut in the capital gains tax. "If he's talking about reducing capital gains then I think obviously one of the places you look at is" the tax rate, Bentsen said in an interview. (Boston Herald, 5/8)

Sen. Bentsen said Democrats would not require Bush to endorse a specific tax increase as a precondition to agreement. "I think that it's a question of walking that plank together," he said. (Minneapolis Star-Tribune, 5/8)

REP. PANETTA

"It can't just be gasoline taxes," said Rep. Panetta. "It demands that Democrats be for equity, and that means 'the bubble' [Capitol Hill jargon for raising the marginal tax rate on the richest taxpayers above the current 28%] or Moynihan." ...Democrats don't want to be trapped. "They don't want to be blamed for the result," said Panetta. "It will take a lot of good faith," he added. "It's very tough to find good faith in an election year." ... "Sunday evening, it was no preconditions, everything was on the table," said Panetta. "That has a lot of members concerned that we're not getting a clear message here." (Wall Street Journal, 5/9)

"We need to hear from the White House [why the deficit is expected to higher than previously forecasted]. "The sense was we need to have a better explanation of what happened in the economy," Panetta said after meeting with Democratic colleagues Tuesday. (Baltimore Sun, 5/9)

Emerging from a 90-minute caucus [Tuesday], Rep. Panetta said, "We simply will not have a successful summit if we start setting a lot of preconditions...." Panetta also said that Bush would have to make the case for budget negotiations clear to the public if the talks were to succeed, because a major deficit-cutting plan would probably entail controversial spending cuts and tax increases. (Philadelphia Inquirer, 5/9)

SEN. SASSER

"If revenues are used to solve this problem," the president will say, "the Democrats made me do it." When talks begin, Sen. Sasser vowed, "The first question I'm going to ask [Mr. Bush] is, 'What is your proposal?'" (Wall Street Journal, 5/9)

SEN. DECONCINI

"I don't think the Democrats are going to talk taxes until the president talks taxes," Sen. DeConcini said after Senate Democrats caucused over lunch [Tuesday].... DeConcini reported "high anxiety and anguish" among colleagues, many of whom suspect that the president is trying to saddle them with a problem he failed to address adequately in the budget proposal he submitted to Congress in January. (Baltimore Sun, 5/9)

SEN. SIMON

"Clearly there is an attempt being made to appoint the Democrats as the ones who are forcing his [the president's] hands on taxes," said Sen. Simon. "This isn't a game of win or lose or how to diddle the Democrats. It's called running the country." (Washington Times, 5/9)

SEN. BOREN

"It's critical for the country that we get a budget agreement," Sen. Boren said. "And I hope it won't be about Band-Aids.... I hope it will be a really big, dramatic package and not just a papering around the edges." (Washington Times, 5/9)

SEN. BREAUX

Sen. Breaux [chairman of the Democratic Senatorial Campaign Committee] warned about any package that would freeze [Social Security COLAs]. "Not in an election year," Breaux told reporters. "I can't believe there would be an attack on Social Security benefits this close to November. I would not lead the charge or recommend it to any of our candidates." (Washington Post, 5/8)

Sen. Breaux asserted that Bush knows that tax increases of some sort are necessary. "Reality has now set in, as opposed to politics," he said. "He would like...aggressive efforts on the part of the Democrats insisting on it, which I don't think is going to happen." Breaux said he would prefer a \$5-a-barrel oil-import fee to raising individual income taxes. (Wall Street Journal, 5/8)

Sen. Breaux...told reporters he was confident Democrats were not going to be trapped into passing a tax bill and then be accused by Republicans again of being "taxers and spenders." Breaux said Sen. Mitchell would make certain that Bush was brought along "every step of the way." (Boston Globe, 5/8)

REP. HAMILTON

"We cannot continue to deceive ourselves by meeting deficit reduction targets on paper while the deficit gnaws away at our economic future," declared Rep. Hamilton. "We need budget numbers that command respect, and we need a substantive solution to the long-term deficit problems." (Atlanta Constitution, 5/9)

REP. SCHUMER

"The feeling in our caucus is that if there are going to be higher taxes, the Republicans should initiate them," said Rep. Schumer.... He suggested Bush is now willing to consider tax hikes "because their polls show what our polls show" -- if there's a recession, the president's popularity could slide fast. (New York Post, 5/9)

REP. DURBIN

"We don't want to walk into a blind alley and be branded again as the party of tax increases," said Rep. Durbin, a member of the House Budget Committee. "We should hear it straight from the president where he stands on taxes." (Washington Post, 5/9)

"We've been sucker-punched so many times on this, I don't want it to happen again," said Rep. Durbin. "I think this is a rope-a-dope: As soon as we walk into a room and the tax issue is raised, Ed Rollins and Newt Gingrich will say, 'There they go -- tax-and-spend Democrats.'" (Baltimore Sun, 5/9)

REP. TRAFICANT

"Two years ago, President Bush said: 'Read my lips: No new taxes' Now he says, 'I meant no new income taxes.' Tricky, tricky, tricky," said Rep. Traficant. "This is a joke. A tax is a tax is a tax." (Philadelphia Inquirer, 5/9)

REP. WYDEN

"They have just one goal: To put the tax noose around our neck." said Rep. Wyden. (Wall Street Journal, 5/9)

GOV. DUKAKIS

"The no-new-taxes pledge during the campaign was as big a fraud as the Boston Harbor routine. And it's kind of sad, frankly," Dukakis said.... "I know it was effective and the election is over," Dukakis said. "But to make that kind of commitment given the size of the federal deficit, this (S&L) disaster...was irresponsible." (Boston Globe, 5/9)

THE WHITE HOUSE
WASHINGTON

Date: 5/10/90

TO: THE CHIEF OF STAFF

FROM: JAMES W. CICCONI
Assistant to the President and
Deputy to the Chief of Staff

The attached has been forwarded
to the President.

THE WHITE HOUSE

WASHINGTON

1990 MAY 10 PM 6:38

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MEMORANDUM FOR THE PRESIDENT

FROM: JOHN UNDELAND *JU* / NEWS SUMMARY THROUGH MARLIN FITZWATER *M*

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REPUBLICANS

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"It's extremely important there be budget process reform," said Richard Darman.... "We've got to change the basic process itself." (Reuter, 5/10)

Richard Darman tried to put the best face on the administration's gloomier economic analysis. "It's not that the economy itself is weakening," he said in an interview on MacNeil-Lehrer News Hour. "It's that it's not as strong as it should be." ...In the interview, Darman stuck to the administration's general refusal to predict the outcome of the budget negotiations, but he said that in principle, the White House was opposed to raising the income tax rate. "Any solution to this problem has to be one which has a chance of increasing economic growth, not decreasing economic growth," he said. "We do not believe that increasing marginal income tax rates is good for economic growth."

(New York Times, 5/10)

"They have to be willing to consider things of ours they might not have liked. We have to be willing to consider things of theirs," Richard Darman said Wednesday.... "That's what a negotiation is all about, but as we enter the negotiations, we certainly haven't changed our basic positions." (Detroit News, 5/10)

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SECRETARY BRADY

Secretary Brady refused to say [on Nightline Tuesday] whether Bush was considering a tax hike of some kind. But he did say, "What we've got here is an election in the fall.... Everybody knows something is going to have to be done and he wanted to start early."
(USA Today, 5/9)

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"I don't know if you can have discussions [unless everything is on the table]," Dole said [Sunday]. Asked specifically whether that meant taxes were on the table, he said: "Everything, everything."
(Chicago Tribune, 5/7)

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"No preconditions," Sen. Dole said, when asked after a party caucus [Tuesday]...if income tax increases should be dismissed.
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Sen. Dole Wednesday urged Republicans...to be more flexible. "Let's not lock ourselves in," Dole said. "Let's give the president a chance, if you're a Republican, and, if you're a Democrat, give the Democratic leadership a chance." (UPI, 5/9)

"We're prepared to begin. We may not succeed. It's like putting Humpty-Dumpty back together again. If not impossible -- almost," said Sen. Dole Wednesday.
(Washington Times, 5/10)

REP. GINGRICH

Rep. Gingrich said Monday Republicans would not agree to any plan that would hurt them in an election year. "I'm not going to vote for anything which causes us to lose politically...and we're not going to agree to stupid deals," Gingrich said. Asked what kind of taxes might be raised, Gingrich said: "I don't know. We'll have to wait and see what the Democrats want to discuss."
(AP, 5/8)

"I would be very surprised if income or corporate tax rates were on the table," said Rep. Gingrich. (USA Today, 5/8)

"We're going to a budget summit, not a tax summit," said Rep. Gingrich Thursday. -more- (AP, 5/10)

REP. ARCHER

Rep. Archer...said Wednesday "taxes are the last thing we need to consider. (UPI, 5/9)

"We have not discussed revenues, and we will not discuss revenues," said Rep. Archer. "The president's not discussing revenues. We understand that the Democrats control Congress...and when we sit down and talk, we expect them to put higher taxes as the linchpin of a deficit-reduction program." (Washington Post, 5/10)

Rep. Archer suggested the key change [needed in the budget process] should be softening the Gramm-Rudman targets. "We're going to have to extend the Gramm-Rudman targets, probably through the end of the century," he said. (Reuter, 5/10)

REP. CONTE

Rep. Conte said...the process may take months and that nothing may be decided until after the election. He said it is "hogwash" to assume that if that happens, voters will be upset. (Scripps Howard, 5/10)

Rep. Conte said tax increase talk shouldn't cost any congressmen their seats. "If they're saying they're going to lose their seats because of what Bush said, they were in trouble before this happened," he said. (Washington Times, 5/10)

REP. FRENZEL

"I think that taxes are not a good economic way to reduce the deficit," said Rep. Frenzel. "On the other hand, I think it's pretty clear that the Congress is not willing to make the spending cuts that are necessary without some kind of a tax component. That being the case, we'll have to consider it." As for Bush's position Frenzel said, "All we know is that he says he is willing to consider any of the changes." (Minneapolis Star-Tribune, 5/8)

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SEN. MACK (& 19 RENEGADE GOP SENATORS)

...A major crack in the bipartisan budget effort appeared as 20 GOP senators told President Bush they "unequivocally oppose new taxes." ...The breakaway group, led by Sen. Mack, said that taxes should not be on the negotiating table because the budget can be cut in many areas. But Mack, asked whether he would support cuts in important programs like Social Security, refused to name a single program he wants to cut.... Mack said "no preconditions means that no conclusion has been drawn that taxes are part of the proposal."
(Boston Globe, 5/10)

SEN. MACK

"If there is a package in which there are new taxes included in it, I will be out opposed to that plan." (CBS, 5/9)

SEN. DOMENICI

Sen. Domenici...said a possible summit is "most welcome news" and said "everything should be on the table," including taxes.
(UPI, 5/7)

"It could be a sea change if the leadership of the Congress goes to the table understanding that **everything** is on the table," said Sen. Domineici.
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Rep. Weber...described the mood of House Republicans as "very uneasy -- tempered with anger."
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"We should be real quiet about taxes," said Weber. "We shouldn't be making it appear Republicans are leading the way on taxes."
(USA Today, 5/9)

"House Republicans remain the center of opposition to new taxes," declared Rep. Weber. "Somebody's got to convince us that raising taxes -- any kind of taxes -- will be good for the economy.... We're not ready to give up on the basic premises of the Reagan revolution's economic policies." Weber said he believed Bush would not give that up, either. "We're nervous about it, but we trust him," he said.
(Washington Post, 5/10)

REP. VANDER JAGT

"The Democrats are tax addicts. They are not comfortable unless there are taxes around. They won't even negotiate unless there are taxes around. So in an effort to get them to the table, there are no preconditions to the budget negotiations."
(Washington Times, 5/10)

REP. MARTIN

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-more- (Washington Times, 5/9)

REP. KYL

"The president feels about taxes the way he feels about broccoli -- you can put it on the table in front of him but he's not going to eat it," Rep. Kyl said on the House floor Wednesday. "If somebody is going to propose new taxes, it's got to be somebody other than George Bush." (UPI, 5/9)

REP. SCHUETTE

"I'm opposed to having taxes be on the table, period," said Rep. Schuette, who is challenging incumbent Sen. Levin.

(Wall Street Journal, 5/9)

GOV. BRANSTAD, CHAIRMAN OF THE NATIONAL GOVERNORS ASSOCIATION

Iowa Gov. Branstad...warned Bush to expect an uprising from the states over proposals for a national sales tax. "States are going to dig in very strongly against a national sales tax," Branstad said. "I think that would be a big mistake." (AP, 5/9)

ED ROLLINS, NRCC

"The biggest difference between Republicans and Democrats in the public perception is that Republicans don't want to raise taxes," said Ed Rollins. "Obviously, this makes that go right out the door. Politically, I think it is a disaster."

(Washington Post, 5/8)

Ed Rollins, head of the House GOP campaign committee, has been telling House Republicans that the party could lose as many as 10 House seats this fall if budget talks between Bush and Congress result in a tax increase.

(Washington Post, 5/9)

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DEMOCRATS

REP. FOLEY

"The assumption is that everything would be on the table, that we would not enter any talks with preconditions," said Speaker Foley [after the Sunday meeting].

(Boston Globe, 5/7)

"We're willing to go forward and hear what he wants to recommend in terms of revising the budget," Foley said as he left a meeting of House Democrats Tuesday. "We are waiting to hear what the president recommends."

(Washington Post, 5/9)

"I am not presuming there is going to be a tax increase. We haven't decided anything in these meetings except we go forward," Speaker Foley told reporters after a White House meeting Wednesday.

(Reuter, 5/9)

"The leadership in the House and Senate...has accepted the president's invitation" to a budget summit with no preconditions, declared Speaker Foley.... "I trust the White House until I have reason not to. And I have no reason not to."

(AP, 5/9)

-more-

REP. FOLEY (continued)

"I think the understanding of everyone present is that we should have a good-faith negotiation here without political posturing," said Speaker Foley. (New York Times, 5/10)

"It would be extremely difficult, obviously, to come up with that number [the \$100 billion that OMB Director Darman told GOP senators may have to be cut]," said Speaker Foley [after meeting with the president Wednesday]. (Washington Times, 5/10)

Rep. Foley's press secretary, Jeff Biggs, said that during the speaker's phone conversation Thursday with Bush, Foley "expressed his concern about the article in the paper [quoting a senior administration official aboard Mrs. Bush's plane rejecting a tax increase] but I think he came away from the conversation (feeling) that the president still meant what he said -- no preconditions." (UPI, 5/10)

SEN. MITCHELL

"There was no discussion of specifics. There was a general agreement that any discussions will be without preconditions, if and when they occur," Mitchell said after Sunday's meeting.... [Earlier Sunday], Mitchell said he would be reluctant to enter negotiations if Bush ruled anything off the table. (Boston Globe, 5/7)

Sen. Mitchell Wednesday said he hoped for "some real significant progress" before Congress' Fourth of July recess. "No decisions have been made other than to begin discussions next week in what we hope will be a good faith effort to deal with a very serious national problem," he said. (Reuter, 5/9)

Sen. Mitchell said Wednesday Bush's invitation was accepted "without preconditions of any kind." (UPI, 5/9)

Sen. Mitchell called on the White House to confirm the accuracy of the statements and to identify the speaker [aboard Mrs. Bush plane who rejected discussing tax hikes]. "Obviously the statements are a matter of concern," Mitchell said at a luncheon with reporters. "Whoever said them, they were very ill timed." (AP, 5/10)

REP. GEPHARDT

Gephardt on Wednesday spoke modestly of his perceived role as chief Democratic critic and chief peacemaker in what could be testy talks. "I don't know I qualify for either role," he said. If the budget summit... "is just a political high-ground exercise, then it won't go anywhere," he added. "The test is: can anything be done for the country in this area." (AP, 5/10)

[Talk from Republicans that Democrats will push a tax increase] led Rep. Gephardt...to complain: "If people simply see it as a political high-ground exercise, then it won't go anywhere." (Wall Street Journal, 5/10)

REP. ROSTENKOWSKI

Rep. Rostenkowski...said he was delighted that the President had initiated the [Sunday] meeting, and hinted that a discussion of "process was merely the prelude to a more serious agenda that would ultimately include taxes.... I've told the President a big revenue increase won't hurt him politically, and I'd be most enthusiastic if we were talking about a big deal, not a small one," Rostenkowski said. (New York Times, 5/4)

Rep. Rostenkowski...suggested that any budget discussion would likely include another strong push by Bush for a reduction in the tax on capital gains.... "I'm a realist," Rostenkowski said. "If the president is going to talk about increasing revenues, I'm sure he could not walk away from a negotiation without a capital gains [tax reduction]." (Chicago Tribune, 5/8)

...Talk on Capitol Hill Wednesday continued to center on taxes. Referring to Bush's "No New Taxes" pledge, Rep. Rostenkowski said that "we won't have to worry about lips anymore" but instead can "start digging into our pockets." (Wall Street Journal, 5/10)

Rep. Rostenkowski said political spats may foil the negotiators: "I don't think we're going to be able to come up with anything out this group." He cited comments made by Rep. Gingrich blaming Democrats for any tax boost. (USA Today, 5/10)

Rep. Rostenkowski shrugged off the remarks [by a senior administration official aboard Mrs. Bush's plane on taxes] and said he assumes higher taxes will be part of the negotiations "unless George Bush says again 'no new taxes.'" Speaking at the National Press Club, Rostenkowski said it was Bush -- not Sununu -- who invited congressional leaders to negotiate, "and that's encouraging." Still, Rostenkowski said, "I have no intention of moving on taxes until the president does. I will not repeat the partisan warfare that marked last year's budget debate [referring to capital gains]." (AP, 5/10)

SEN. BENTSEN

Sen. Bentsen said he was willing to consider new levies, including excise taxes and raising the income tax rate for top-income taxpayers, particularly if Bush continues to seek a cut in the capital gains tax. "If he's talking about reducing capital gains then I think obviously one of the places you look at is" the tax rate, Bentsen said in an interview. (Boston Herald, 5/8)

Sen. Bentsen said Democrats would not require Bush to endorse a specific tax increase as a precondition to agreement. "I think that it's a question of walking that plank together," he said. (Minneapolis Star-Tribune, 5/8)

REP. PANETTA

"It can't just be gasoline taxes," said Rep. Panetta. "It demands that Democrats be for equity, and that means 'the bubble' [Capitol Hill jargon for raising the marginal tax rate on the richest taxpayers above the current 28%] or Moynihan." ... Democrats don't want to be trapped. "They don't want to be blamed for the result," said Panetta. "It will take a lot of good faith," he added. "It's very tough to find good faith in an election year." ... "Sunday evening, it was no preconditions, everything was on the table," said Panetta. "That has a lot of members concerned that we're not getting a clear message here." (Wall Street Journal, 5/9)

"We need to hear from the White House [why the deficit is expected to higher than previously forecasted]. "The sense was we need to have a better explanation of what happened in the economy," Panetta said after meeting with Democratic colleagues Tuesday. (Baltimore Sun, 5/9)

"If this summit is going to come up with very strong proposals on deficit reduction, we're going to have to lay some groundwork with the country why it's necessary," said Rep. Panetta. He suggested major deficit-cutting action would "face a very tough time in the House and Senate on both sides of the aisle" in this election year. (Boston Herald, 5/9)

Emerging from a 90-minute caucus [Tuesday], Rep. Panetta said, "We simply will not have a successful summit if we start setting a lot of preconditions...." (Philadelphia Inquirer, 5/9)

The assertion [rejecting a tax increase which came from a senior administration official aboard Mrs. Bush's plane] "raises the potential it's all a political trap," said Rep. Panetta.... Panetta...said Bush himself has to clearly state what the conditions for the talks are. "The time has come to hear from the president," Panetta said. (AP, 5/10)

SEN. SASSER

"If revenues are used to solve this problem," the president will say, "the Democrats made me do it." When talks begin, Sen. Sasser vowed, "The first question I'm going to ask [Mr. Bush] is, 'What is your proposal?'" (Wall Street Journal, 5/9)

SEN. MOYNIHAN

...Sen. Moynihan accused the GOP of "character assassination of the Democratic Party" by trying to paint the Democrats as tax-happy.... Moynihan -- who said Rep. Gingrich was trying to "stigmatize the Democrats as the authors of...a tax increase" -- warned that the budget talks could turn into a political trap. "Will we come together on these matters or will they be used as a setting for the character assassination of the Democratic Party?" he fumed on the Senate floor. (New York Post, 5/10)

SEN. DECONCINI

"I don't think the Democrats are going to talk taxes until the president talks taxes," Sen. DeConcini said after Senate Democrats caucused over lunch [Tuesday].... DeConcini reported "high anxiety and anguish" among colleagues, many of whom suspect that the president is trying to saddle them with a problem he failed to address adequately in the budget proposal he submitted to Congress in January. (Baltimore Sun, 5/9)

SEN. SIMON

"Clearly there is an attempt being made to appoint the Democrats as the ones who are forcing his [the president's] hands on taxes," said Sen. Simon. "This isn't a game of win or lose or how to diddle the Democrats. It's called running the country." (Washington Times, 5/9)

SEN. CRANSTON

Sen. Cranstron demanded Bush spell out what he means by his "read my lips -- now new taxes" policy before the budget talks begin so "we can have a meeting where the cards are plainly on the table." (New York Post, 5/10)

SEN. BOREN

"It's critical for the country that we get a budget agreement," Sen. Boren said. "And I hope it won't be about Band-Aids.... I hope it will be a really big, dramatic package and not just a papering around the edges." (Washington Times, 5/9)

SEN. BREAUX

Sen. Breaux [chairman of the Democratic Senatorial Campaign Committee] warned about any package that would freeze [Social Security COLAs]. "Not in an election year," Breaux told reporters. "I can't believe there would be an attack on Social Security benefits this close to November. I would not lead the charge or recommend it to any of our candidates." (Washington Post, 5/8)

Sen. Breaux asserted that Bush knows that tax increases of some sort are necessary. "Reality has now set in, as opposed to politics," he said. "He would like...aggressive efforts on the part of the Democrats insisting on it, which I don't think is going to happen." Breaux said he would prefer a \$5-a-barrel oil-import fee to raising individual income taxes.

(Wall Street Journal, 5/8)

Sen. Breaux...told reporters he was confident Democrats were not going to be trapped into passing a tax bill and then be accused by Republicans again of being "taxers and spenders." Breaux said Sen. Mitchell would make certain that Bush was brought along "every step of the way." (Boston Globe, 5/8)

REP. HAMILTON

"We cannot continue to deceive ourselves by meeting deficit reduction targets on paper while the deficit gnaws away at our economic future," declared Rep. Hamilton. "We need budget numbers that command respect, and we need a substantive solution to the long-term deficit problems." (Atlanta Constitution, 5/9)

REP. TORRICELLI

Rep. Torricelli accused Bush of "intellectual dishonesty" [in a speech on the House floor Wednesday]. (New York Times, 5/10)

"It is time for the president to speak," said Rep. Torricelli. "What is it that he would bring forward? The president waits, but the nation deserves to hear." (AP, 5/10)

REP. SCHUMER

"The feeling in our caucus is that if there are going to be higher taxes, the Republicans should initiate them," said Rep. Schumer.... He suggested Bush is now willing to consider tax hikes "because their polls show what our polls show" -- if there's a recession, the president's popularity could slide fast. (New York Post, 5/9)

"Read our lips. Democrats will not initiate any new taxes." (CBS, 5/9)

"Whether that was Chief of Staff John Sununu or someone else [identified as a senior administration official aboard Mrs. Bush's plane rejecting increased taxes], we have a message to the whole White House," said Rep. Schumer Thursday. "Don't worry -- Democrats will not put taxes on the table. After all, it was the White House that called the summit, the president that called the summit. It's up to the president to tell us, one, what the crisis is, and number two, what he intends to do about it," (AP, 5/10)

REP. DURBIN

"We don't want to walk into a blind alley and be branded again as the party of tax increases," said Rep. Durbin, a member of the House Budget Committee. "We should hear it straight from the president where he stands on taxes." (Washington Post, 5/9)

"We've been sucker-punched so many times on this, I don't want it to happen again," said Rep. Durbin. "I think this is a rope-a-dope: As soon as we walk into a room and the tax issue is raised, Ed Rollins and Newt Gingrich will say, 'There they go -- tax-and-spend Democrats.'" (Baltimore Sun, 5/9)

REP. STARK

Rep. Stark...says he thinks the budget summit is a good time to consider environmental taxes. "Environmental taxes can raise billions of dollars, they punish the polluters, change consumption patterns, and benefit the environment and the economy," Stark says. (Christian Science Monitor, 5/10)

REP. MOODY

After the [Tuesday Democratic caucus] Rep. Moody said Democrats were wary of the White House. "We've been snookered before," says Moody, who advises Bush to "be upfront with us and the American people." Moody says the Democrats want to know why everything has changed [regarding the deficit prediction].

(Christian Science Monitor, 5/10)

REP. LEVIN

"It's really confusing. The president calls for a summit saying that all is on the table, and then some of my Republican colleagues come here on the floor and say it isn't so,"

(CBS, 5/10)

REP. SLATTERY

"This year, nobody is going to be talking about freezing COLAs absent some sort of a major economic downturn," said Rep. Slattery.

(Philadelphia Inquirer, 5/10)

REP. TRAFICANT

"Two years ago, President Bush said: 'Read my lips: No new taxes' Now he says, 'I meant no new income taxes.' Tricky, tricky, tricky," said Rep. Traficant. "This is a joke. A tax is a tax is a tax."

(Philadelphia Inquirer, 5/9)

REP. WYDEN

"They have just one goal: To put the tax noose around our neck." said Rep. Wyden.

(Wall Street Journal, 5/9)

GOV. DUKAKIS

"The no-new-taxes pledge during the campaign was as big a fraud as the Boston Harbor routine. And it's kind of sad, frankly," Dukakis said.... "I know it was effective and the election is over," Dukakis said. "But to make that kind of commitment given the size of the federal deficit, this (S&L) disaster...was irresponsible.

(Boston Globe, 5/9)

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DRAFT

The highlights of President Bush's domestic agenda for 1990, as outlined in his budget released January 29, include:

29 JAN 29 PM 7:19

1. Economy

* The President's plan calls for a balanced federal budget by the year 1993, and includes a proposal to begin paying off the national debt.

* He'll push to maintain our economic strength by encouraging increased investment and productivity, and reduce the deficit with no new taxes.

* The President will work to reduce tax rates for capital gains and create a new tax exempt Family Savings Account to encourage individual savings.

2. Social Security

* The President has pledged he will not jeopardize the integrity of the Social Security system.

3. Education

* The budget request for education is the highest ever proposed, including a half billion dollar increase for the Head Start program.

* Agreement was reached at the President's historic education summit with the nation's governor's to establish unified goals for education, which the President will announce in his State of the Union speech.

* Enacting the provisions of the President's Educational Excellence Act is a top priority.

4. Child Care

* The President seeks to enhance parental choice in child care, by offering tax credits designed to let low and moderate income parents - not the federal government - decide what sort of child care best suits their needs.

5. Drugs

* The President's \$10.5 billion dollar national drug strategy is aimed at ending the scourge of drugs through a comprehensive program of drug treatment and prevention, interdiction and law enforcement.

* The second phase of his drug strategy calls for tougher laws and the death penalty for drug kingpins. The President has also singled out five areas as designated high intensity drug zones.

6. Environment

- * Enacting tough new Clean Air requirements to reduce acid rain, urban smog and air pollution are among the President's chief priorities. He wants to elevate the Environmental Protection Agency to Cabinet level status.
- * His "America the Beautiful" initiative expands federal parkland, creates additional wildlife refuges, and establishes a new reforestation program that calls for the planting of more than a billion new trees.

7. Housing

- * The President has proposed a special homeless initiative which is designed to develop innovative approaches to providing housing for homeless individuals and families. Additionally, his new "Shelter Plus" program would help the homeless who are mentally ill or drug or alcohol abusers.
- * The President's HOPE project sets out a comprehensive new housing and urban development agenda. It will help low income families become homeowners and increase housing opportunities for other low income families. Enterprise zones will help revitalize distressed low income communities.

8. Competitiveness

- * Tort Reform, an expanded budget for Space exploration, record high budget proposals for research and development, and a permanent tax credit for research and experimentation are all part of the President's plan to make sure America is competitive in the world.

9. National Defense

- * In the wake of the dramatic changes that are taking place abroad, the President has proposed a defense budget that begins the transition to a restructured military.
- * To help preserve our national security and advance America's interest abroad, the President will move ahead with programs such as the Strategic Defense Initiative and the Stealth Bomber.

10. Thousand Points of Light

- * Through his Thousand Points of Light campaign, the President has promoted community service in America and encouraged Americans to give of their time and effort to help others in need.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

1990 JAN 30 PM 8:04

January 30, 1990

MEMORANDUM FOR THE PRESIDENT

FROM: MICHAEL J. BOSKIN *MJB*

RE: Accuracy of the Economic Assumptions for the Budget

As you undoubtedly have noted, we are being accused of using overly optimistic economic assumptions. This accusation is much less true today than in the past. Although our Mid-Session forecast was viewed as more realistic than the forecast we inherited, our forecast was also criticized as being "too optimistic" when it was released. As it turns out the economy behaved almost exactly as we expected:

- o Real GNP growth between 1988 and 1989 was 2.9 percent in 1989, exactly what we forecast. We were also exactly on the button for the unemployment rate and long-term interest rates. We were off by only 0.1 percentage point for short term interest rates. And despite earlier criticism, we turned out to be too pessimistic on inflation; overestimating consumer price inflation by 0.2 percentage point (Table 1).
- o The Administration forecast was more accurate than all 52 forecasters that are regularly surveyed by the Blue Chip Economic Indicators (Table 2 and Figure 1).
- o This was the most accurate current year forecast in the history of the Mid-Session Review of the Budget dating back to the late 1970's.
- o Our forecast for real GNP growth of 2.6 percent for fourth quarter over fourth quarter of 1990 is only 4/5 of the average rate of growth the United States has experienced over the last 40 years, a period that includes seven recessions.

Economic forecasting is an inexact science, and undoubtedly there was a certain amount of luck as well as good judgement involved in the Administration's very accurate 1989 forecast. But these results should suggest that we are taking the economic outlook and forecasting very seriously.

Table 1

COUNCIL OF ECONOMIC ADVISERS

Administration Forecast Accuracy For 1989¹

	<u>Forecast²</u>	<u>Actual</u>
Real GNP	2.9	2.9
Unemployment Rate	5.2	5.2
10-Year Treasury Notes	8.5	8.5
3-Month Treasury Bills	8.0	8.1
Consumer Price Index	5.0	4.8
GNP Deflator	4.5	4.1

- 1 Administration forecast prepared for the July 1989 Mid-session Review.
- 2 Data for real GNP and prices are percent change year-over-year. Data for interest and total unemployment rates are annual averages.

Table 2

Comparison of 52 Private "Blue Chip" Forecasts Made in
July With Administration Mid-Session Forecast for 1989

Number of Private Forecasts which were
_____ than Administration Forecast:

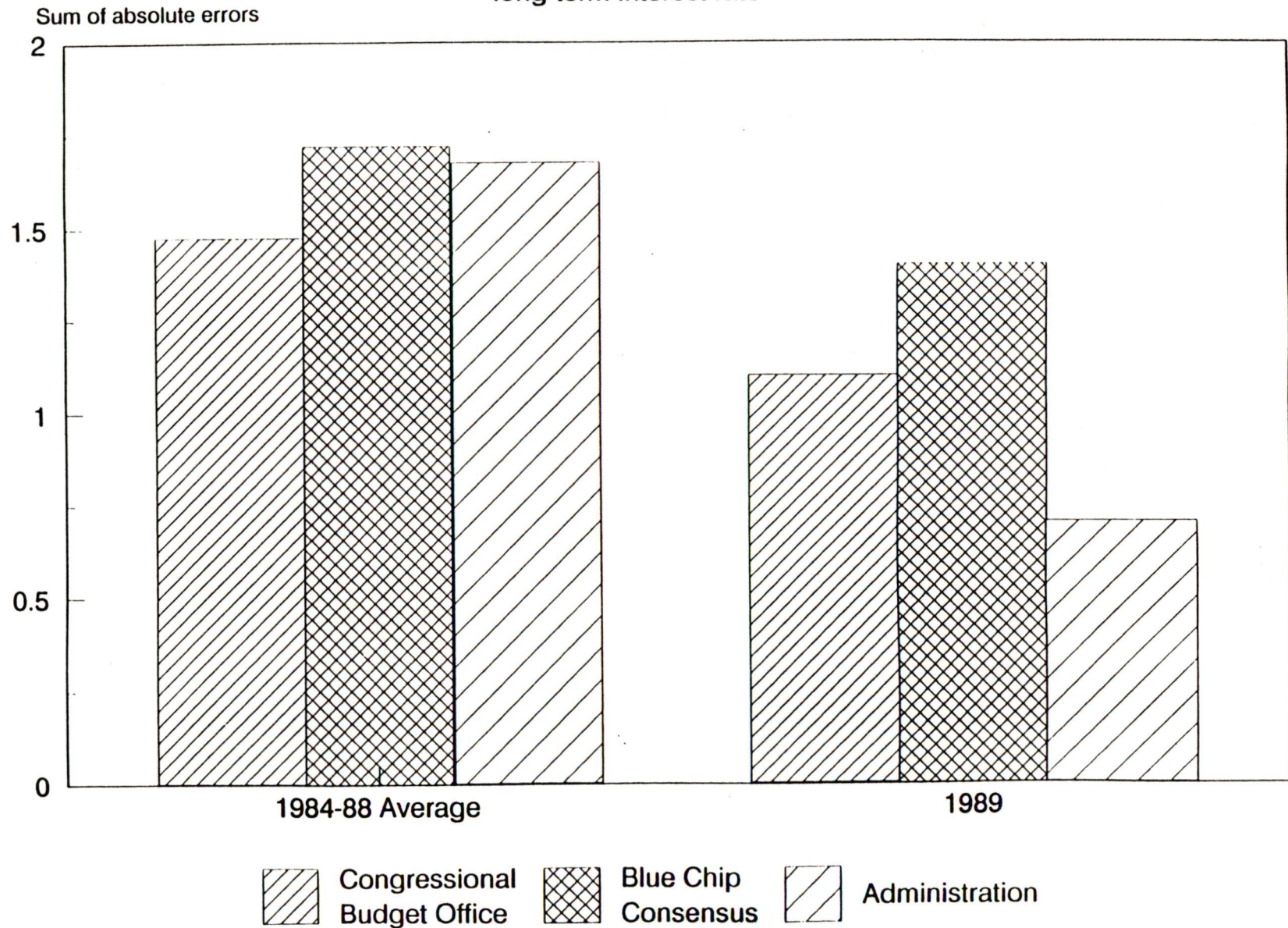
	<u>More</u> <u>Accurate</u>	<u>As</u> <u>Accurate</u>	<u>Less</u> <u>Accurate</u>
Real GNP	0	5	47
Unemployment Rate	0	15	37
Long-term Interest Rate	0	11	35
3-Month Treasury Bills	6	18	25
Consumer Price Index	6	7	39
GNP Deflator	8	7	37
Combination	0	0	52

Accuracy is defined as the smallest absolute deviation from the actual figures for 1989. The combination category is the sum of the absolute deviations on all six categories. Data are for real GNP growth (Yr/Yr), the change in the GNP deflator (Yr/Yr), the change in the CPI (Yr/Yr), the unemployment rate, the 3-month T-bill interest rate, and a long-term interest rate.

Figure 1

COMPARISON OF FORECAST ACCURACY: ADMINISTRATION, BLUE CHIP CONSENSUS, AND CBO

Sum of absolute errors for real GNP growth (Yr/Yr), the change in the GNP deflator (Yr/Yr), the change in the CPI (Yr/Yr), the unemployment rate, the 3-month T-bill interest rate, and a long-term interest rate



Note: Long-term interest rate for Blue Chip is the corporate AAA bond; for the Administration, it is the 10-year bond rate; for CBO, it is the corporate AAA in 1984-85, and the 10-year bond rate in 1986-89.

COUNCIL OF ECONOMIC ADVISERS

1/29/90

Administration Forecast Accuracy For 1989¹

	<u>Forecast²</u>	<u>Actual</u>
Real GNP	2.9	2.9
Unemployment Rate	5.2	5.2
10-Year Treasury Notes	8.5	8.5
3-Month Treasury Bills	8.0	8.1
Consumer Price Index	5.0	4.8
GNP Deflator	4.5	4.1

- 1 Administration forecast prepared for the July 1989 Mid-session Review.
- 2 Data for real GNP and prices are percent change year-over-year. Data for interest and total unemployment rates are annual averages.

COUNCIL OF ECONOMIC ADVISERS

Administration Near-Term Outlook
January 29, 1990

(Calendar Years)

	Actual <u>1989</u>	<u>1990</u>	<u>1991</u>
(Percent Change, 4th Quarter to 4th Quarter)			
Real GNP	2.4	2.6	3.3
Ex-Drought*	1.9		
GNP Implicit Price Deflator	3.8	4.2	4.1
Consumer Price Index (CPI-W)	4.5	4.1	4.0
(Annual Average)			
Unemployment Rate (Total)	5.2	5.4	5.3
3-Month Treasury Bill Rate	8.1	6.7	5.4
10-Year Treasury Note Rate	8.5	7.7	6.8

* Excludes the one-time rebound in real GNP in 1989 from the effects of the previous year's drought. The recovery of farm output to more normal levels raised growth in 1989 by approximately 1/2 percentage point.

COUNCIL OF ECONOMIC ADVISERS
1/29/90

Comparison of Administration, CBO, and Blue Chip Forecasts*

	<u>1990</u>	<u>1991</u>
	(Percent Change, 4th Quarter to 4th Quarter)	
Real GNP		
Administration	2.6	3.3
CBO	1.8	2.5
Blue Chip	1.8	2.4
GNP Implicit Price Deflator		
Administration	4.2	4.1
CBO	4.1	4.0
Blue Chip	4.0	4.0
Consumer Price Index (CPI-U)		
Administration	4.1	4.0
CBO	4.1	4.4
Blue Chip	4.2	4.2
	(Annual Averages)	
Civilian Unemployment Rate		
Administration	5.5	5.3
CBO	5.6	5.5
Blue Chip	5.6	5.6
3-Month Treasury Bill Rate		
Administration	6.7	5.4
CBO	6.9	7.2
Blue Chip	7.1	7.2
10-Year Treasury Note Rate		
Administration	7.7	6.8
CBO	7.8	7.7
Blue Chip	N.A.	N.A.

* Published January 1990.

COUNCIL OF ECONOMIC ADVISERS

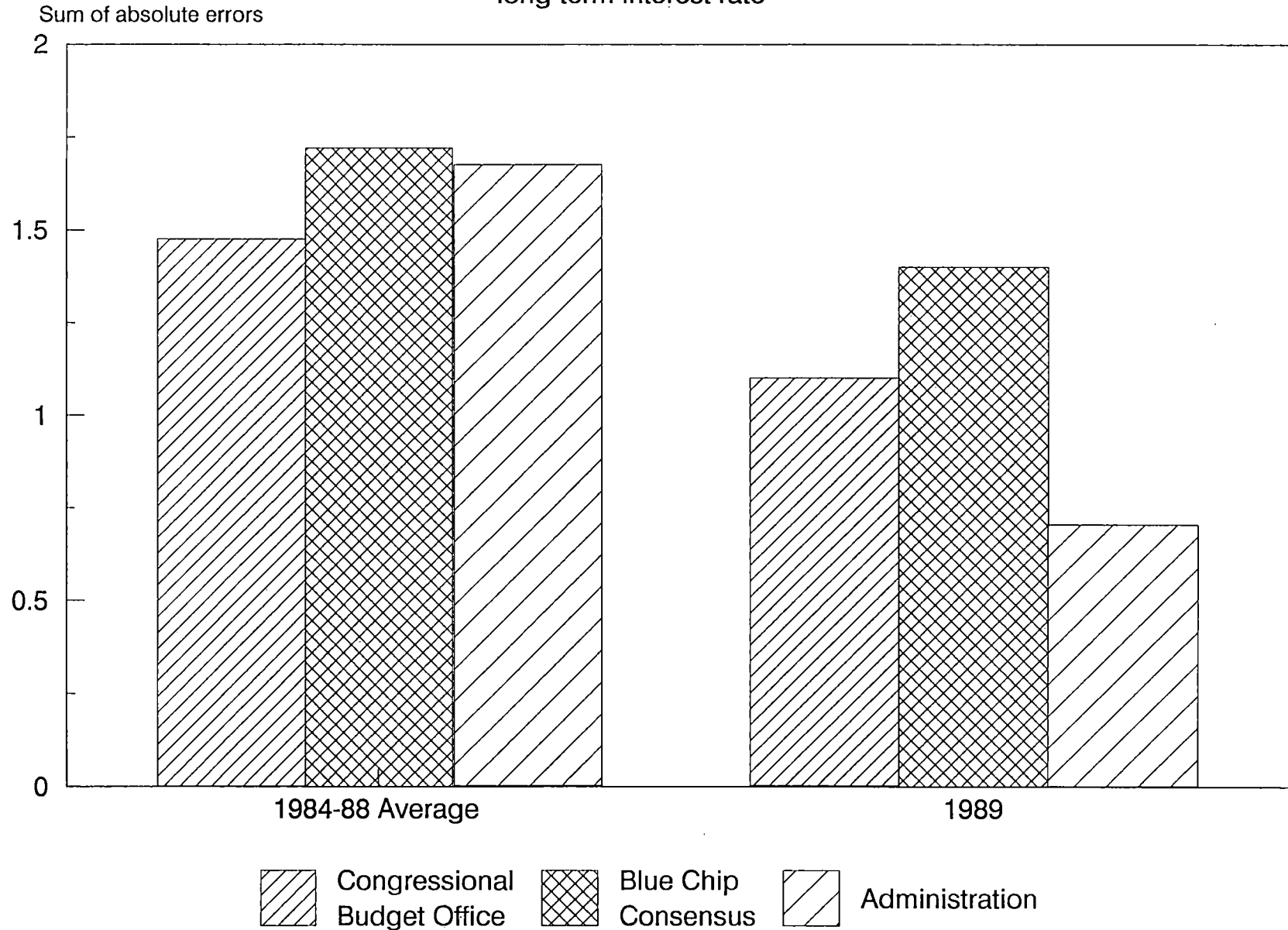
Administration Economic Projections
 January 29, 1990
 (Calendar Years)

	Actual						
	1989	1990	1991	1992	1993	1994	1995
(Percent Change, 4th Quarter to 4th Quarter)							
Real GNP	2.4	2.6	3.3	3.2	3.1	3.0	3.0
Ex-Drought*	1.9						
GNP Implicit Price Deflator	3.8	4.2	4.1	3.8	3.5	3.2	2.9
Consumer Price Index (CPI-W)	4.5	4.1	4.0	3.8	3.5	3.2	2.9
(Annual Average)							
Unemployment Rate (Total)	5.2	5.4	5.3	5.2	5.1	5.0	5.0
3-Month Treasury Bill Rate	8.1	6.7	5.4	5.3	5.0	4.7	4.4
10-Year Treasury Note Rate	8.5	7.7	6.8	6.3	6.0	5.7	5.4

* Excludes the one-time rebound in real GNP in 1989 from the effects of the previous year's drought. The recovery of farm output to more normal levels raised growth in 1989 by approximately 1/2 percentage point.

COMPARISON OF FORECAST ACCURACY: ADMINISTRATION, BLUE CHIP CONSENSUS, AND CBO

Sum of absolute errors for real GNP growth (Yr/Yr), the change in the GNP deflator (Yr/Yr), the change in the CPI (Yr/Yr), the unemployment rate, the 3-month T-bill interest rate, and a long-term interest rate



Note: Long-term interest rate for Blue Chip is the corporate AAA bond; for the Administration, it is the 10-year bond rate; for CBO, it is the corporate AAA in 1984-85, and the 10-year bond rate in 1986-89.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 29, 1990

PRESIDENT BUSH'S 1991 BUDGET

FACT SHEET

The President submitted the *Budget of the United States Government, Fiscal Year 1991* to Congress today. The following is a summary of selected highlights. Parenthetical notes refer to pages in the *Budget* at which further discussion and detail are provided.

The President's budget meets the legally required G-R-H deficit targets of \$64 billion for fiscal year 1991 and zero for fiscal year 1993.

The FY 1991 budget is presented in relation to five themes:

- I. Investing in the Future
- II. Advancing States as Laboratories
- III. Reforming Mandatory Programs
- IV. Acknowledging Inherited Claims
- V. Managing for Integrity and Efficiency

I. INVESTING IN THE FUTURE (page 23)

A. INCREASING SAVING, INVESTMENT, AND PRODUCTIVITY (page 25)

1. *Balance the Federal budget by 1993*, as required by the G-R-H law. This should increase saving and investment and reduce the need for U.S. foreign borrowing. (pages 3, 46)
2. *Protect Social Security integrity and reduce the national debt after 1993*. The Administration is proposing legislation to assure that the intended build-up in Social Security reserves is *not* used to mask the non-Social Security deficit. This would have several favorable effects: national saving and investment should rise; real interest rates should be lower; and U.S. competitiveness should be strengthened. (pages 10, 46, 267)
3. *Reduce tax rates on capital gains* for long-term investments by providing a permanent, sliding scale exclusion. This proposal promotes long-term investment to increase economic growth; helps U.S. business compete in an increasingly competitive global environment; produces increased receipts for the Treasury; and, most importantly, increases jobs and the quality of life for all Americans. (pages 17, 47, A-51)
4. *Create Family Savings Accounts and Modify IRAs*. The Family Savings Account (FSA) is proposed by the Administration to give individuals and families an

extra incentive to save for the future. The proposal would exempt from income tax the interest income on certain nondeductible contributions to FSAs that are held for seven years. In addition, the Administration proposes to modify current individual retirement account rules to allow a waiver of the 10 percent excise tax penalty for early withdrawals of up to \$10,000 if the withdrawn funds are used for first-time home purchases. (pages 17, 47, A-51)

B. EXPANDING THE HUMAN FRONTIER—SPACE AND BIOTECHNOLOGY, AND THE SUPERCONDUCTING SUPER COLLIDER (page 49)

SPACE

The 1991 budget proposes to allocate a record \$15.8 billion in budget authority for space activities, including \$15.2 billion for NASA. The NASA budget will increase by \$2.9 billion, or 24 percent. (page 49)

1. *Building Space Transportation Infrastructure:* The budget proposes funding for Space Shuttle production and operations of \$4.2 billion, an increase of \$752 million, or 22 percent, over 1990. This will support the 10 shuttle flights planned for 1991, one more than planned for 1990, plus the continued acquisition of long-lead time spare parts, support for shuttle payloads and shuttle improvements such as the advanced solid rocket motor. (page 52)
2. *Expanding the Space Frontier through Manned Exploration:* (page 53)
 - *Space Station Freedom:* For 1991, the budget proposes a total of \$2.6 billion in budget authority for the continued development of Space Station Freedom. This is an increase of \$699 million or 36 percent above 1990. It will provide for the critical transition from design to actual fabrication of the first long-lead time hardware elements.
 - *The mission back to the Moon and to Mars:* The President has lifted the sights of the space program with his call for the establishment of a manned presence on the moon and a manned mission to Mars. The budget reflects the Administration's commitment to this mission by proposing \$1.27 billion in budget authority, an increase of \$408 million, or 47 percent above 1990 levels, for space exploration activities.
3. *Using Space to Increase Scientific Understanding:* The budget proposes to increase funding for space science missions for planetary exploration, astronomy and Earth observations over the next decade by \$593 million in budget authority or 22 percent, over 1990 levels. The budget will also allow for the continuation of the development of important projects such as the Advanced X-ray Astrophysics Facility, planned for launch in 1995, and the Comet Rendezvous/Asteroid Flyby and Cassini mission to Saturn. The budget will provide support for thousands of researchers and students to acquire and analyze data from previously launched missions. (page 56)
 - *Understanding and observing global change:* The budget proposes over \$1 billion in budget authority to extend U.S. leadership in understanding global environmental change. This represents a 57 percent increase over 1990. NASA is a major participant in the U.S. Global Change Research Program (USGCRP) through its Mission to Planet Earth. NASA will develop and launch

a number of satellites and instruments, including TOPEX (to analyze surface ocean circulation) and the Upper Atmosphere Research Satellite (UARS) (to analyze the chemistry of the upper atmosphere.) The 1991 budget proposes a major new program, the Earth Observing System (EOS) which is a series of space-based instruments and platforms, developed by the U.S., the Europeans and the Japanese.

4. *Developing the Commercial Potential of Space:* The 1991 budget will continue the Administration's strong support for the commercialization of space. NASA will allocate \$229 million in budget authority to continue to procure all of its expendable launch vehicle services from private launch service providers. In addition, the budget will provide \$101 million for NASA's Office of Commercial Programs, including new funding for a special initiative through its Centers for the Commercial Development of Space (CCDS) to provide flight opportunities for innovative experiments in microgravity. (page 58)
5. *Other Space Activities:* The 1991 budget proposes \$258 million in budget authority for the Department of Commerce space satellite programs. This includes \$174 million for the development and launch of replacement satellites for the polar-orbiting and geostationary weather satellite systems and \$47 million to operate those systems; and \$37 million for the launch of Landsat 6. (page 58)

BIOTECHNOLOGY (page 59)

Advances in biotechnology can help improve the availability and quality of the food supply; prevent, identify, and cure disease; and reduce the hazards of industrial waste.

The budget proposes \$3.6 billion in budget authority, an increase of \$213 million over 1990, for biotechnology research and development.

To spur biotechnology R&D, the budget supports *speeding up regulatory review* where appropriate. The Food and Drug Administration would establish a system of user fees for the review of drugs and medical devices, including products that use techniques developed through biotechnology. By substantially increasing the resources available to the FDA, user fees will enable that agency to speed its review of biotechnology products and, in turn, allow firms to bring their products to the marketplace sooner.

SUPERCONDUCTING SUPER COLLIDER (page 64)

The Superconducting Super Collider will help scientists explore aspects of matter that are unreachable using any existing facility, and it holds the potential for new breakthroughs in science, technology and education.

The 1991 budget provides \$318 million in budget authority for the SSC, an increase of \$100 million over the 1990 level. The budget supports work to complete the design, development, and testing of the magnets that will propel proton beams around the tunnel. R&D on other SSC technical systems will continue.

C. ENHANCING RESEARCH AND DEVELOPMENT (page 67)

The budget proposes to allocate almost \$71 billion in budget authority for research and development in 1991. This is an increase of \$4.5 billion, or 7 percent, over 1990 enacted levels. Civilian R&D will increase by 12 percent while Defense-related R&D will increase by 4 percent. Within this total, \$12 billion will be allocated for basic research, an increase of \$1 billion, or about 8 percent over FY 1990.

1. *Doubling of the National Science Foundation*: A 14 percent increase will continue progress toward doubling the NSF budget by 1993. (page 74)
2. *Global Change*: An increase of 57 percent for the U.S. Global Change Research Program (USGCRP), to a total of over \$1 billion. This program continues the U.S. world leadership role in climate change research. (page 75)
3. *Agricultural Research Initiative*: The budget proposes \$100 million in budget authority as the first step of a new agricultural research program, designed to enhance production efficiency, food safety, and environmental quality. (page 77)
4. *Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome*: An overall increase of 18 percent in all aspects of the Federal response to HIV/AIDS: research, prevention, treatment, and income support. (page 78)
5. *R&D for Advanced Technology*: \$192 million in budget authority, an increase of 28 percent for robotics R&D, and continued support for R&D on high performance computing, semiconductors, superconductivity and advanced imaging. (page 84)
6. *Magnetic Levitation Transportation*: An increase of nearly 400 percent to \$10 million in budget authority to explore this potentially important transportation technology. (page 84)
7. *Science and Engineering Education*: The budget proposes over \$1 billion in budget authority, an increase of 26 percent above 1990 in direct spending, for science and engineering education activities in five agencies. In addition, the budget provides research grants to universities in direct support fellowships and other forms of education support. (page 87)
8. *R&E Tax Credit*: The budget proposes to make the Research and Experimentation Tax Credit permanent. (page 91)
9. *R&D by Transnational Companies*: The budget proposes to make permanent the rules for allocation of R&D expenditures by transnational companies. (page 91)

D. INVESTING IN HUMAN CAPITAL (page 93)

EDUCATION (page 93)

The total 1991 budget requests for the Department of Education are the highest ever: \$24.6 billion in budget authority. Included is \$19.7 billion in budget authority for discretionary programs, \$1.2 billion more than Congress provided in 1990.

1. *Preparing Children to Learn:* (page 99)

- a. *Head Start:* increase by \$500 million in budget authority, to a record high total of \$1.9 billion. This 36 percent increase over the 1990 level would enable Head Start to enroll up to 70 percent of the eligible poor four year olds. (page 100)
- b. *Even Start:* double funds to \$48 million in budget authority, allowing significantly increased participation in this program designed to provide basic education services in low-income areas to parents together with their children, aged one through seven. (page 101)
- c. *Handicapped Infants:* \$83 million for the Education Department to develop and expand systems to find, and coordinate services for handicapped infants and their families. (page 101)
- d. *Handicapped Children:* \$258 million in budget authority under the Preschool State Grant program to pay for part of the excess cost of education and related services for handicapped children aged three to five. (page 102)

2. *Targeting Resources for Those Most in Need:* (page 102)

- a. *Elementary and Secondary Education:* increase the largest program for remedial education services for the disadvantaged—Chapter 1 Local Education Agency and Concentration Grants—to its highest level ever: \$4.96 billion in budget authority, an increase of \$366 million, 8 percent over 1990. (page 102)
- b. *Educational Excellence Act:* \$401 million in budget authority. This proposed legislation would give incentives to schools to improve educational achievement, expand the use of magnet schools, reward excellent teachers and students, promote the hiring of persons with proven subject matter knowledge and management abilities to be teachers and principals, increase the endowment funds of Historically Black Colleges and Universities, and provide special funding for the school districts with the worst drug abuse problems. (page 103)
- c. *Math and Science:* \$230 million in budget authority for the Dwight D. Eisenhower Mathematics and Science Education programs, a 70 percent increase over what Congress provided in 1990. These programs provide funds to States to improve the knowledge and teaching abilities of mathematics and science teachers. (page 104)
- d. *Literacy:* \$239 million in budget authority for the Adult Education programs of the Department of Education, an increase of more than 25 percent over what Congress provided in 1990. These programs include an Adult Literacy

Clearinghouse at the Department of Education. (In addition, funding is proposed to be doubled from \$3 million to \$6 million in 1991 for the VISTA—Volunteer in Service to America—Literary Corps of the ACTION agency.) (page 104)

- e. *Historically Black Colleges and Universities*: \$95 million in budget authority to support the operations of historically black colleges and universities and graduate institutions. An additional \$15 million is provided for matching endowment grants for these institutions, triple the amount provided in 1990. (page 104)
3. *Education Research and Statistics*: The budget provides for an increase of \$34.5 million in budget authority for primary research and statistics activities of the Education Department. This includes a 50 percent increase for statistics, from \$40 million in 1990 to \$60 million in 1991. Among the most important new research investments proposed are: (page 98)
 - a. \$5 million for new research on dropout prevention. (page 99)
 - b. \$22 million for support for a network of national research and development centers conducting research on educational technology, reading, effective teaching for the disadvantaged, school leadership, and other subjects. (page 99)
 - c. \$7 million for the Educational Resources Information Center. (page 99)
 - d. \$20 million for the regional education laboratories to support local school improvements efforts. (page 99)

JOB TRAINING

4. *Improving Job Training Opportunities*: (page 104)
 - a. *The Job Training Partnership Act*: The budget seeks to refine the Federal Government's role in the Job Training Partnership Act (JTPA) by: revising eligibility criteria to ensure that the most disadvantaged receive services; providing more intensive and comprehensive services to participants; and improving coordination among Federal, State and local human resource programs. (page 106)
 - b. *Youth Opportunities Unlimited*: The Administration has proposed a new, multi-year challenge grant program entitled Youth Opportunities Unlimited (YOU). Targeting high poverty inner cities and rural areas, this program is designed to have community-wide impact, serving as a model in developing a local coordinated human resource policy for at-risk youth. (page 108)
 - c. *Job Opportunities and Basic Skills*: This program was enacted as part of the Family Support Act of 1988. The 1991 budget includes \$1 billion for this program. (page 108)

ENHANCING PARENTAL CHOICE IN CHILD CARE (page 194)

Respecting the many ways that American families care for their children, the President has based his child care policy upon parental choice. The budget repropose the two tax credit initiatives for child care that were advanced last year: (1) a new refundable Child

Tax Credit for low-income working families of up to \$1,000 for each child younger than age four, and (2) refundability of the current Child and Dependent Care Tax Credit.

E. ENDING THE SCOURGE OF DRUGS (page 111)

The 1991 Federal drug control budget totals \$10.6 billion in budget authority. This budget will provide \$9.7 billion in outlays, \$2.8 billion more in outlays than last year—a 41 percent increase.

1. *Attacking the Drug Market at the Source and on the Street:* (page 112)

a. *At the source:* (page 112)

- an increase of \$175 million in budget authority in economic assistance for the Andean nations to complement military and law enforcement programs begun in 1990. If the Andean nations show demonstrable progress in 1990, the total assistance package will reach \$440 million in 1991.
- A \$15 million in budget authority increase is proposed for drug control programs in countries that now produce marijuana and heroin, or serve as trans-shipment points for those substances.
- \$35 million in budget authority is requested for domestic marijuana eradication.
- \$2.4 billion in budget authority proposed for air, land, and maritime interdiction operations would provide obstacles to drug smugglers, including seizure of illegal shipments, and can ultimately reduce the availability of drugs in the U.S.

b. *On the street:* (page 113)

- \$330 million in budget authority for the 13 regional Organized Crime Drug Enforcement Task Forces. This represents a 54 percent increase over 1990.
- \$50 million in budget authority, a \$25 million increase over 1990, proposed to be targeted on high intensity drug trafficking areas.
- An estimated \$238 million in budget authority from seizures will be shared with State and local law enforcement agencies—their fair share of Federal seizures of drug dealers' assets.
- \$700 million in budget authority for the Drug Enforcement Administration (DEA). The \$151 million increase over 1990 represents one of the largest annual increases in the history of the agency.
- Within the DEA budget request is a 30 percent increase for State and local task forces to \$42 million in budget authority in 1991.
- \$172 million in budget authority, a \$32 million increase over 1990, is requested for the FBI's anti-drug abuse activities.
- \$182 million in budget authority for the U.S. Attorneys to prosecute drug dealers and users, a \$45 million increase over 1990. A 30 percent increase, a total request of \$201 million, for the U.S. Marshals is also proposed.

- \$79 million in budget authority increase for the Judiciary branch, for a total of \$403 million, to try accused drug offenders.
- \$492 million in budget authority is requested for State and local law enforcement grants, a 10 percent increase over 1990.
- The Administration has proposed legislation to require States to adopt drug-testing programs throughout their criminal justice systems as a condition for receipt of Federal criminal justice funds.

2. *Treating the Drug User:* (page 114)

For 1991, the Administration requests nearly \$1.7 billion in budget authority for drug treatment activities, a 12 percent increase over 1990. This includes:

- \$760 million for Alcohol, Drug Abuse and Mental Health Administration (ADAMHA) drug treatment grants and technical assistance for the States, an increase of 11 percent over 1990. (page 116)
- \$300 million for the Department of Veterans Affairs to provide drug treatment services. (page 116)
- Tripling the assistance for the smallest victims of the drug problem, "crack babies." (page 116)
- An increase of \$30 million for treatment research and data collection by HHS. (page 116)

3. *Preventing Drug Abuse: School, Workplace, and Community Prevention:* (page 116)

The 1991 budget requests an increase of 12 percent over 1990, or a total of \$1.4 billion in budget authority for drug prevention and education activities. This includes:

- \$496 million for drug prevention programs in the Department of Health and Human Services: Many of these programs fund prevention demonstration projects and research for high-risk youth populations. Drug prevention efforts for pregnant women remain a priority. (page 118)
- \$593 million for the Education Department's Drug-Free Schools and Communities Program: This represents a \$54 million increase over 1990. (page 118)
- \$150 million for drug programs for the Department of Housing and Urban Development, of which approximately half will be directed at preventing drug abuse in and around housing projects. (page 118)

Federal efforts will continue to support a drug-free Federal workplace. The Administration also will propose to strengthen drug-free workplace requirements for Federal contractors and grantees. (page 118)

F. PROTECTING THE ENVIRONMENT (page 119)

The budget provides over \$2 billion in new budget authority for initiatives to protect the environment.

1. Exercising Responsible Stewardship of America's Natural Resources: (page 120)

a. *America the Beautiful*: The budget proposes to establish a new "America the Beautiful" initiative comprised of the following: (page 120)

- *Land Acquisition*: The budget proposes to expand acquisition of high priority national parks, refuges, forests, and other public lands. The budget requests \$250 million in budget authority in 1991 for these purposes.
- *Reforestation*: The budget proposes \$175 million in budget authority for the first year of a multi-year initiative with these objectives: planting a billion trees on private land across America; and launching a community trees program, designed to plant another 30 million trees in towns and cities across America.
- *Enhancing recreation and restoring natural resources: Legacy '99*: The budget includes \$205 million in budget authority, 40 percent above 1990, for improved resource protection and restoration (including wetlands conservation and endangered species activities) and enhanced recreational opportunities in national parks, wildlife refuges, and other public lands.

b. *Protecting America's Wetlands*: The budget proposes an increase of \$88 million in budget authority, 24 percent above 1990, for wetlands research, protection, preservation, and enhancement. (page 123)

c. *Mitigating the Environmental Effects of Water Resource Development*: (page 124)

- The budget proposes \$16 million in budget authority for the Army Corps of Engineers to construct juvenile fish passage facilities on the Columbia and Snake Rivers in Washington, Oregon, and Idaho.
- The budget provides \$20 million in budget authority to begin the acquisition of 88,000 acres needed to mitigate environmental losses caused by the construction of the Tennessee-Tombigbee Waterway project in Alabama and Mississippi.

d. *Managing America's National Forests*: The budget proposes to end "below-cost" timber sales, on nine test forests where recreation and other uses have been increasing. "Above cost" sales on these forests will be allowed. (page 123)

2. *Providing Tools for Effective Pollution Control*: (page 126)

a. *Increase EPA's Operating Budget*: \$230 million in budget authority, a 12 percent increase above 1990, for EPA's operating budget. The increase would bring staffing growth since the beginning of the Administration to 1,630—an 11 percent increase. (page 126)

b. *Implementing Clean Air Changes*: An increase of over \$80 million in budget authority is requested to enable the agency to implement the ambitious new

proposals for revising the Clean Air Act proposed by the President last year. (page 126)

- c. *Enforcing Environmental Laws:* The budget calls for a 36 percent increase in EPA's enforcement budget. This will enable EPA to redouble its efforts to ensure that responsible parties pay for cleaning up the pollution they create. (page 126)
 - d. *Protecting Critical Habitats:* The budget provides \$95 million in budget authority, an increase of 32 percent, for EPA's critical habitat programs, which seek to address pollution problems in the Nation's wetlands, estuaries, and near coastal waters. (page 127)
 - e. *Revitalizing the Council on Environmental Quality:* The budget for CEQ will nearly double. (page 127)
 - f. *Promoting Environmental Education:* In 1991, the President will present a cash award of \$5,000 to the 100 teachers—two in each State—who design and implement the most innovative and effective programs to teach students about the environment. (page 128)
 - g. *Maintaining Environmental Infrastructure:* The budget proposes a \$91 million in budget authority expansion of the maintenance and rehabilitation efforts by the Department of the Interior that preserve the basic infrastructure of America's national parks, wildlife refuges, and other public lands. This is a 19 percent increase above 1990. (page 128)
3. *Cleaning Up Hazardous Wastes:* (page 129)
- a. *Accelerating the Pace of Superfund Cleanups:* The President has requested an increase of over \$200 million, which will be targeted toward cleanups. (page 129)
 - b. *Cleaning up Federal Facilities:* The budget proposes an increase of nearly \$800 million in budget authority, or 21 percent above 1990 levels, for Federal facility cleanup efforts. (page 129)
4. *Laying the Groundwork for a Cleaner, Safer Future:* (page 129)
- a. *Global Climate Change Research:* The budget contains over \$1 billion in budget authority, an increase of 57 percent over the 1990 levels, for the U.S. Global Change Research Program, an interagency research effort designed to improve scientific understanding and predictive capability on global change issues. (page 129)
 - b. *Encouraging the Development of Solar and Renewable Energy Sources:* The budget requests about \$360 million in budget authority for these activities, a substantial increase over the \$208 million requested in 1990. The budget will also request \$182 million for energy conservation R&D, almost double the 1990 request. (page 131)

G. IMPROVING THE NATION'S TRANSPORTATION INFRASTRUCTURE (page 133)

AVIATION

The President is proposing a total of \$8.6 billion in budget authority, a 16 percent increase, for aviation programs in 1991. This is the first year of a 5-year aviation reauthorization program to provide the necessary funding to modernize and expand the aviation infrastructure. (page 134)

1. *Keeping the Skies Safe and Secure*: The Administration is requesting \$4.1 billion, a \$264 million or 7 percent increase over 1990, for Federal Aviation Administration (FAA) operations. The budget also includes a \$20 million or 12 percent increase over 1990, for aviation research and development. (page 135)
2. *Modernizing Airspace System Equipment*: The budget proposes \$2.5 billion in budget authority, an increase of \$779 million, or 45 percent. (page 135)
3. *Expanding Airport Capacity*: (page 136)
 - a. *Increasing Federal funding for capacity projects*: The President's budget provides \$1.5 billion in new 1991 spending for Federal airport grants, a \$75 million increase over 1990. (page 137)
 - b. *Removing Federal restrictions*: The Administration proposes to remove existing statutory restrictions that prevent airports from raising certain revenue—namely by allowing airports to levy passenger facility charges (PFCs). Some estimates show PFCs could generate about \$1 billion per year for U.S. airports. (page 137)
4. *Financing the Aviation System*: The Administration proposes to increase aviation user fees to finance these significant increases in aviation spending. The passenger ticket fee would be raised from 8 to 10 percent and other aviation fees would be raised similarly. (page 137)

HIGHWAYS

For 1991, the budget provides Federal-aid highway funding to cover the Federal share of the cost to maintain the physical condition of bridges and highways of national importance and to continue completion of the Interstate System. The Federal-aid highway program is authorized through 1991. During this year, the Federal Government will work with its partners—States, local governments and the private sector—to address the projected needs for highways. The Administration will present its proposals in the context of the highway reauthorization for 1992 and beyond. (page 138)

H. BRINGING HOPE TO DISTRESSED COMMUNITIES (page 141)

1. *Expanding Tenant Management and Homeownership Opportunities*: (page 141)
 - a. *HOPE Grants*: To help low-income families become homeowners with a stake in their communities, the Administration proposes a new HOPE Grant Program. These grants will provide funds for resident management and homeownership in public housing, government-held vacant and foreclosed properties, and financially "distressed" properties. HOPE Grants will provide \$2.15 billion over 3 years with States, localities, or non-profit organizations

required to provide \$1 for every \$2 in Federal HOPE Grant funds. A total of \$250 million will be set aside to provide replacement housing for public housing developments that convert to low-income homeownership. (page 144)

- b. *Urban Homesteading*: The budget almost quadruples funding for this program for a total of \$50 million in 1991. (page 145)
- c. *Prepayment Strategy*: The HOPE initiative proposes a three-pronged approach to protect tenants who would be adversely affected by much higher and unaffordable rents in housing projects where owners will become eligible to prepay their mortgages. (page 145)
- d. *IRAs for Homebuyers*: To expand homeownership for young families and first-time homebuyers, the Administration proposes the use of Individual Retirement Accounts (IRAs) for buying a home. (page 146)

2. *Reducing or Eliminating Barriers to Low-Cost Housing*: (page 146)

- a. *Housing Opportunity Zones*: The budget proposes a Federal-local partnership to remove barriers to, and create incentives for, more affordable housing for low and moderate income families in distressed areas through designation of 50 housing opportunity zones, chosen through a competitive process. (page 146)
- b. *Low-income Tax Credit*: The budget proposes to extend the low-income housing tax credit through December 1991 to encourage the new construction or rehabilitation of affordable rental housing in areas with rental housing shortages. (page 146)

3. *Helping Poor Families and Elderly Become Self-Sufficient*: (page 147)

- a. *Operation Bootstrap*: Starting in 1991, all housing vouchers provided to welfare families and others with very low incomes must be combined with a local program to help them escape from dependency. (page 147)
- b. *Frail Elderly Housing Services Voucher*: The 1991 budget proposes a Service-Supported Housing Voucher Demonstration for the frail elderly—those persons of at least 62 years of age who need assistance with three or more simple activities of daily living—funded at \$44 million. \$34 million of housing vouchers will be linked with \$10 million for in-home services. (page 147)

4. *Helping the Homeless*: (page 147)

- a. The budget includes \$819 million for the *McKinney Act* programs, more than the \$727 million needed to “fully fund” the Act. (page 147)
- b. *Special Homeless Initiatives*: (page 147)
 - *AFDC Families in Welfare Hotels*: The budget proposes a total of \$143 million for the McKinney Act Transitional Housing Demonstration program. This program is designed to develop innovative approaches to providing houses and supportive services to homeless individuals and families who can make the transition to independent living within 2 years.

- A new "Shelter Plus" Program to help the homeless mentally ill or recovering substance abuser. HUD would provide \$247 million in housing assistance for over 8,900 homeless mentally ill or recovering substance abusers.

5. *Creating Jobs and Economic Growth in Distressed Areas:* (page 148)

a. *Enterprise Zones:* Three tax incentives are included in the President's budget to encourage job creation and entrepreneurship in distressed areas: (page 148)

- A 5 percent refundable tax credit for the first \$10,500 of wages, up to \$525 per worker, to qualified employees for wages earned in an enterprise zone business.
- Expensing of investor purchases of newly issued corporate stock of businesses located in enterprise zones. This is an up-front deduction for up to \$50,000 per year of new equity investment, with a \$250,000 lifetime limit.
- A zero capital gains rate for gains on investment in tangible property used in an enterprise zone business and located within an enterprise zone at least two years.

I. PRESERVING NATIONAL SECURITY AND ADVANCING AMERICA'S INTERESTS ABROAD (page 151)

NATIONAL DEFENSE

The budget request for national defense is significantly less (\$14.3 billion in budget authority and \$5.5 billion in outlays) than the amounts included in the President's February 1989 budget for 1991. Budget savings in the 1991-93 period (relative to the previously-published levels) are \$63.6 billion in budget authority and \$29.7 billion in outlays. The actual savings relative to the full cost of the previously approved defense program are considerably higher—almost \$170 billion over 5 years. (page 151)

1. *Department of Defense—military:* The budget requests \$295.1 billion in budget authority and \$292.1 billion in outlays for the military functions of the DOD: (page 153)

a. *Operations:* Active duty end-strength will decline by the end of 1991 to a level of 2,038,800—91,429 below the actual FY 1989 level—with savings of \$1.7 billion. At the same time, to continue to assure force quality, readiness and training, the budget provides for a 3.5 percent pay raise, improved benefits, enlistment and re-enlistment bonuses, special pay for critical skills, and continuation of current training levels. (page 154)

- *Strategic forces:* Deployed forces will continue to include the Triad of land, air, and sea based systems, as well as air defense interceptors.
- *General purpose forces:* Land forces at the end of 1991 will include 19 active and 11 reserve Army and Marine divisions, two active divisions less than at the end of 1990. Naval forces will include 14 aircraft carrier battle groups and 15 tactical airwings (the same as in 1990), but two of the four U.S. battleships will be deactivated and the number of nuclear attack submarines will decrease by 5 in 1991. Air forces will include 24 active and 12 reserve Air Force fighter wing equivalents, 2 squadrons of B-52's dedicated to the

delivery of conventional weapons, and 25 strategic airlift squadrons. One Air Force fighter wing equivalent and one conventional B-52 squadron will be deactivated in 1990.

- *Special operations forces:* Through 1991, Army special forces battalions will increase from 13 to 15, and Air Force special operations units will gain 7 additional aircraft.

b. *Investment:*

- *Strategic systems:* To modernize all three components of the strategic Triad, procurement for 1991 includes the eighteenth Trident submarine and 52 Trident II missiles, 12 Peacekeeper missiles for operational testing and special railroad trains to provide mobility for Peacekeeper missiles. The budget requests funds for continued development of the small intercontinental ballistic missile. It also requests an increase for the Strategic Defense Initiative to a level of \$4.5 billion. This is \$0.9 billion more than in 1990, but \$1.0 billion less than previously planned.
- *Conventional systems:* To maintain well-equipped forces, the budget provides for procurement in 1991 of 225 M-1 Abrams tanks, 600 Bradley Fighting Vehicles, 72 Blackhawk utility helicopters, 14 new ships, 186 Air Force fighters, and six C-17 transport aircraft. Development will continue on the Army's experimental light helicopter (LHX) and improved ground force systems, the Advanced Air-to-Air Missile System, P-7 anti-submarine warfare aircraft, and next generation tactical aircraft. Fifteen systems will be terminated with associated savings of \$3 billion. These are in addition to the five systems terminated in the FY 1990 budget.
- *Research and Technology:* The budget requests \$38.0 billion in budget authority and \$37.0 billion in outlays for research, development, testing and evaluation—\$1.2 billion and \$0.4 billion, respectively, more than 1990 levels. The request includes \$3.4 billion to develop technology options for future U.S. weapon systems and to guard against technological surprise by our adversaries.

c. *Base Closures:* The budget requests \$916 million for continued implementation of the Base Closure and Realignment Act approved by Congress in 1989. \$500 million was provided in the 1990 budget for this purpose. Additional domestic base closures will be studied this year and units will be withdrawn from some overseas bases. (page 156)

d. *Drug Interdiction:* The budget requests \$1.2 billion for an aggressive Defense counternarcotics program, \$0.3 billion more than 1990. (page 156)

2. *Atomic Energy Activities:* The budget proposes budget authority of \$11 billion and outlays of \$10.4 billion, compared to \$9.7 billion and \$8.9 billion, respectively, for 1990. (page 156)

The budget includes \$2.8 billion in budget authority for waste cleanup at various Department of Energy facilities. This represents an increase of \$601 million, or 27 percent above 1990. The budget also includes an increase of \$178 million in budget authority for Federal facility cleanup activities in other agencies.

Governmentwide, the increase above 1990 for Federal facility cleanup is 21 percent. (page 257)

3. *Defense-Related Activities:* These activities include civil defense and emergency preparedness activities of the Federal Emergency Management Agency, the efforts of the Selective Service System, and the Maritime Administration's Ready Reserve Force. The budget requests \$760 million in budget authority and \$705 million in outlays for these purposes, as compared with \$609 million and \$648 million, respectively, in 1990. (page 157)

INTERNATIONAL AFFAIRS

The budget requests budget authority of \$20 billion and outlays of \$18.2 billion for international affairs activities, \$1.4 billion and \$3.6 billion more, respectively, than in 1990. The high growth in outlays reflect in part the cessation in 1991 of certain large receipts. (page 158)

1. *Foreign Aid:* The budget requests \$14.9 billion in budget authority and \$14.2 billion in outlays for foreign aid, \$1 billion and \$3 billion, respectively, more than in 1990. Much of the increase in outlays in 1991 is due to the prepayment in 1990 of past loans for military goods and services. The budget reflects an emphasis on Eastern Europe, counter-narcotics, and the U.S. role in the multilateral development banks (MDBs). (page 159)
 - a. *Security Assistance:* The budget requests \$8.8 billion in both budget authority and outlays for international security assistance, \$0.4 billion and \$2.5 billion, respectively, more than in 1990. The largest component of security assistance requested—\$5.1 billion, or 61 percent—provides military and economic support to Israel and Egypt. Furthering their efforts to achieve a lasting peace in the Middle East remains a high priority of U.S. foreign policy. (page 160)
 - *Narcotics control:* The budget requests \$528 million in budget authority and \$270 million in outlays for international narcotics control. The requested funding will finance the second year of the plan to reduce the flow of cocaine from the Andean countries of Colombia, Peru, and Bolivia. The major increment in this program will be \$175 million of new aid for the economies of those countries that evidence a determination to attack seriously the narcotics problem.
 - b. *Development and Humanitarian Assistance:* The budget proposes \$6.1 billion in budget authority and \$5.4 billion in outlays for development and humanitarian assistance, \$0.6 billion and \$0.5 billion, respectively, more than in 1990. This funding is to encourage market-oriented economies through budgetary support, capital projects and technical assistance; to provide relief from major disasters; and to provide humanitarian assistance such as refugee care. The request includes \$1.9 billion in budget authority for bilateral economic assistance programs administered by AID and \$1.7 billion in budget authority for U.S. contributions to multilateral development banks such as the World Bank. (page 161)
 - *Special assistance for Eastern Europe and the Philippines:* The major emphasis of the increases in foreign aid in 1991 is support of democracy abroad. The budget requests \$300 million for a special assistance initiative for those

countries in Eastern Europe that are moving toward democracy and attempting to develop free-market economies. The budget also requests \$200 million for special assistance to the Philippines.

- *Refugees*: The budget requests \$451 million in budget authority and \$435 million in outlays for refugee programs, \$82 million and \$49 million, respectively, more than in 1990.
 - *Multilateral development assistance*: The budget requests \$3.2 billion in contributions over the next 3 years to the International Development Association (IDA), an agency of the World Bank. This proposed funding, when matched by funding from other countries, will permit IDA to provide an average of \$5.5 billion in annual long-term lending to the poorer developing countries.
2. *Diplomacy*: The budget requests budget authority of \$5.3 billion and outlays of \$4.5 billion, \$1 billion and \$0.4 billion, respectively, more than in 1990. (page 161)
- a. *The conduct of foreign affairs*: Funds sought for the basic salaries and expenses of the State Department are \$1.9 billion in budget authority and \$1.8 billion in outlays. (page 162)
- *Payments to international institutions*: The budget requests \$1.4 billion in budget authority and \$0.9 billion in outlays for international organizations that are important to U.S. interests, an increase of \$712 million and \$187 million, respectively, over 1990 levels. The request includes \$794 million for regularly scheduled payments and \$620 million to eliminate arrearages in U.S. mandatory contributions to the United Nations and related agencies.
 - *Reconstruction of the Moscow Embassy*: The budget requests \$270 million in budget authority and \$10 million in outlays to construct, under extraordinary technical standards, a more secure building for diplomatic representation and negotiations.
- b. *Public Diplomacy*: Among the various programs in this area, the budget requests \$154 million for exchange programs and \$125 million for USIA's Voice of America to continue its major modernization of radio broadcasting capacity. (page 162)
3. *International Financial Programs*: For 1991, the Export-Import Bank will provide \$500 million in loans and \$10.6 billion in guarantees and insurance to support U.S. export sales. (page 163)

J. PRESERVING AMERICA'S HERITAGE (page 165)

The budget proposes \$757 million in direct funding of activities that preserve, pass on and contribute to the American heritage, 9 percent more than enacted in 1990.

1. *National Endowment for the Arts*: The budget requests \$175 million in budget authority for the National Endowment for the Arts, \$4 million more than enacted in 1990. (page 166)

2. *National Endowment for the Humanities*: \$165 million in budget authority for the National Endowment for the Humanities, \$8 million more than enacted in 1990. (page 166)
3. *Institute for Museum Services*: \$24 million in budget authority for the Institute of Museum Services, \$1 million more than enacted in 1990. (page 166)
4. *Smithsonian Institution*: \$308 million in budget authority for the Smithsonian Institution, roughly \$41 million more than enacted in 1990. The budget includes \$19.4 million toward establishment of a new National Museum for the American Indian. (page 167)
5. *National Gallery of Art*: \$49 million in budget authority for the National Gallery of Art, \$7 million more than enacted in 1990. (page 167)
6. *Historic Preservation Fund Program*: \$34 million in budget authority for the Historic Preservation Fund Program of the National Park Service, \$1.4 million more than enacted in 1990. (page 167)

II. ADVANCING STATES AS LABORATORIES (page 169)

The President's budget highlights and expands the effort of the Federal government to foster and finance innovation in the States. In the areas of education and low-income programs in particular, the President's program supports important innovations and experiments, including steps to reduce Federal controls and regulations in order to give State Governors and legislators greater latitude to try new methods.

III. REFORMING MANDATORY PROGRAMS (page 181)

Mandatory spending encompasses entitlements and a wide variety of other benefits, services, and subsidies ranging from social services to electric power distribution subsidies. The element common to all mandatory spending is that it tends to be "automatic" in the sense that it is not normally controlled through the annual congressional appropriations process in the way other spending, termed "discretionary" is. Mandatory spending is now almost half of total Federal spending and will exceed 50 percent by 1994.

The sheer size of the mandatory program universe dictates careful attention to spending, which if allowed to grow unexamined can limit the Nation's future in several ways. Reforms are proposed in a number of mandatory programs, though most mandatory programs will still have higher outlays in 1991 than 1990.

IV. ACKNOWLEDGING INHERITED CLAIMS (page 213)

A. ACCOUNTING FOR DEBT AND UNFUNDED ANNUITIES

The Government owes \$2.2 trillion of principal to the people who have loaned it the money to pay for past deficits. This year it will pay an estimated \$176 billion of net interest. The present deficit is continuing to increase the amount of debt, although less rapidly than several years ago.

Annuity programs have also created large and growing obligations on future taxpayers. The Government spent \$382 billion in 1989 for social security, medicare, and Federal employee retirement programs, and the budget estimates it will spend \$433 billion in 1991. These programs are projected to become much larger relative to the economy in future decades than they are now.

A thorough discussion of possible future claims under this heading is at pages 215-228 of the *Budget*.

B. FEDERAL UNDERWRITING RISKS—CREDIT AND INSURANCE PROGRAMS

The Federal Government is the Nation's largest source of credit and underwriter of risk. Too little attention was paid in the past to the scope and scale of these commitments, and often the Government's potential exposure was understated or ignored. Events of the past few years, including insolvency of the Federal Savings and Loan Insurance Corporation and many insured thrifts, the bailout of the Farm Credit System, and mounting losses in mortgage insurance programs, provide hard evidence of the magnitude of the threat. This budget reexamines and begins to restructure Federal credit and insurance programs. Please see pages 229-255 for a more complete discussion of these issues than has been presented in previous budgets.

C. CLEANING UP FEDERAL FACILITIES

The President is committed to cleaning up environmental contamination from past practices at federally owned facilities across the country, and to ensuring that Federal agencies meet or exceed all environmental standards required by relevant laws and regulations. Agencies have the responsibility to operate within these laws, and citizens have the right to insist that Federal agencies be good neighbors.

The budget contains major increases in funding for several agencies that will result in significant progress toward the goal of bringing Federal facilities into compliance with environmental laws. (pages 257-262)

V. MANAGING FOR INTEGRITY AND EFFICIENCY (page 263)

A. REFORMING THE BUDGET PROCESS (page 265)

The congressional budget process does not work well. The budget suggests several reforms to improve the discipline and effectiveness of the Federal budgeting system:

1. Joint budget resolution (page 265)
2. Improved budget measuring and "scorekeeping" (page 265)
3. Biennial budgeting (page 265)
4. Enhanced rescission authority (page 266)

5. Restraining supplemental appropriations (page 266)
6. Closing loopholes in G-R-H (page 267)
7. Reinforcing sequester (page 267)
8. Protecting the social security trust fund (page 267)
9. Amending the Constitution (page 268)
 - Balanced budget amendment
 - Line item veto

B. RESTORING A BASIS FOR CONFIDENCE (page 271)

1. *Reducing Investment in Low Return Programs* (page 271)

Total budget authority for domestic discretionary programs, which are defined as those controlled through the annual appropriations process, is proposed to increase from \$160.5 billion in 1990 to \$167.4 billion in 1991. Outlays are estimated to increase from \$184.2 billion in 1990 to \$194.4 billion in 1991. These changes are the net result of many proposed increases and decreases. Previous sections have highlighted increases. This section of the budget details the principal decreases in domestic discretionary programs.

2. *Strengthening Management Oversight* (page 278)

American citizens have the right to expect that their Government will not tolerate recurrent scandals, such as in housing programs and procurement for national defense. They have the right to better assurance that Federal activities will not pollute the neighborhoods in which they operate or the ecosystem itself. They have the right to expect that their hard earned tax dollars will go to broad national purposes and not to those who can muscle legislators or officials for special breaks. Americans also have the right to first rate service delivery, systems to provide for Government efficiency and integrity, and a skilled and well-motivated Federal workforce. Better provision for these rights and expectations will improve the basis for confidence in democratic institutions.

The budget requests \$22.1 billion in budget authority and \$19.9 billion in outlays—\$2.9 billion and \$2.4 billion, respectively, more than in 1990—to improve Government management.

Initiatives to strengthen management oversight include:

- a. *Defense Management Reform*: The budget includes 1991 management savings in the Department of Defense's operations of \$2.3 billion. These savings will result from implementation of the recommendations in the Defense Management Report, which the President transmitted to Congress in July 1989. Personnel reductions of approximately 8,000 civilians and 8,000 military are expected in 1991 as a result of these reforms. In addition, the Department of Defense estimates these savings will increase to a total of \$39 billion by 1995. (page 283)
- b. *Enhanced Collection of Taxes and Tax Debt*: To slow the growth in tax debt (currently \$61 billion), the budget includes funding for the first phase of a 3-year tax collection initiative, the overall objective of which is to increase

collections by \$2.25 billion over the 1991-93 time period. The first phase will generate \$759 million in revenues over this interval from 1,050 additional collection personnel to be hired in 1991. The Internal Revenue Service also plans to reallocate existing resources so as to provide additional revenues of \$2.5 billion in 1991. (page 284)

- c. *Enhanced Collection of Non-Tax Debt:* The budget requests an additional \$55 million to accelerate non-tax collections, an investment which will improve management controls and realize a return of \$200 million in 1991. Additional staff positions are planned for account servicing in the Department of Agriculture's Farmers Home Administration and the Department of Veterans Affairs. Over 400 positions have been allocated to HUD field offices to improve portfolio management. (page 284)
- d. *Selected Improvements in Service Delivery:* To improve service delivery, the budget requests \$6.1 billion and over 120,000 staff in 1991 for the IRS, \$635 million more than in 1990; \$4.2 billion for operating the Social Security Administration, \$330 million more than in 1990; \$8.6 billion for the Federal Aviation Administration (FAA), \$1.2 billion more than in 1990; \$507 million for selected Federal economic statistics programs, \$52 million more than in 1990. (page 280)
- e. *Rebuilding the Public Trust:* The budget requests an increase of \$76 million, 10 percent more than 1990, and 670 additional staff who will assist in implementing the HUD Reform Act of 1989. The budget also requests an increase of \$32 million for HUD automated data systems, including financial management systems, 44 percent more than in 1990, and \$8 million for the HUD Inspector General to improve monitoring and review of HUD programs. (page 280)
- f. *Strengthening the Savings and Loan Industry:* The Administration proposed comprehensive reform, and Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 in August. The legislation imposes a number of new requirements on the industry and its regulators to assure the safety and soundness of nearly \$1 trillion of insured deposits; it also establishes a Resolution Trust Corporation (RTC) to handle the merger, sale or liquidation of 500-600 insolvent S&Ls. (page 280)
- g. *Cleaning up Hazardous Waste Dumps:* The Environmental Protection Agency will in 1990 increase enforcement and tighten oversight of the Superfund toxic waste response program. EPA will impose a 120-day deadline on negotiations with polluters and exercise its authority to order cleanup if settlement is not reached. Increased enforcement has already resulted in \$1 billion in polluter-financed clean-up activities for 1989, nearly double that in 1988. The budget provides for a \$210 million increase in 1991 to clean up additional hazardous waste sites. This investment builds on the actions of the Administration to provide 480 additional staff at the Department of Justice and EPA (a nearly 40 percent increase) to strengthen Superfund enforcement in 1990. (page 281)
- h. *Improving the Integrity of Student Aid Programs:* To reduce guaranteed student loan defaults and other losses from inadequate program management, the Department of Education is pursuing a three-pronged strategy of

strengthened regulations, administrative actions, and changes in law. (page 281)

- i. *Improving Pension Oversight:* The budget requests an increase of 133 investigative and legal support staff and an additional \$9.3 million in the Department of Labor to strengthen oversight of private pension plans through the Pension and Welfare Benefits Administration. The additional staff will enable the Department to increase reviews and investigations by more than 50 percent and reporting enforcement investigations by 80 percent. (page 281)
- j. *The Inspectors General:* Over the 2-year period 1990 to 1991, the budget specifically adds 67 staff and \$6.9 million for the Department of Energy to deal with procurement fraud, increase audits (including environmental audits), and increase investigations and analysis. It also includes resources for additional audit coverage of international program activities at the Department of Agriculture; increased audit and investigation coverage of the Pell Grant, education for the handicapped and student loan programs at the Department of Education; increased auditing and investigative work at the Department of the Interior; enhanced ADP capabilities at the Department of the Treasury; additional personnel to provide adequate coverage of the Superfund and underground storage tank programs at EPA; and additional audits of contractors at NASA. (page 281)
- k. *Internal Controls and Audit Follow-up:* The budget requests \$3 million and 41 staff to establish or augment offices better to coordinate and manage internal controls and audit follow-up at the Departments of Agriculture (Farmers Home Administration), Housing and Urban Development, Interior and Veterans Affairs, and at NASA. Working with the agencies, OMB has identified more than 100 high-risk areas; and a central tracking system has been established to monitor corrective actions. Deputy Secretaries and Deputy Administrators have been told that it is their personal responsibility to ensure that management integrity is maintained and strengthened and that their agencies' progress must be reported regularly. OMB is also revising its instructions to agencies to require budget information sufficient to ensure necessary resources to correct high risk weaknesses. (page 281)
- l. *Presidential Priority Systems:* The budget requests nearly \$2 billion to design, acquire, and operate program information systems which the Administration has established as Presidential Priority Systems, \$402 million more than in 1990. These systems include the Social Security Administration's Information Technology System, Patent and Trademark automation, the Department of the Treasury's tax system modernization, government-wide financial management systems, the General Services Administration's FTS 2000 system, systems under the Department of Transportation's National Airspace Plan, the Integrated Border Information System, the Department of Commerce's Advanced Weather System, and the Securities and Exchange Commission's EDGAR System. (page 282)
- m. *Management Support Systems:* The budget requests \$558 million for management support systems enhancement, \$54 million more than in 1990. These funds will permit continued improvement of financial systems throughout the government so as to provide more accurate and timely information to agency

managers and central agencies. The funds will also assist linking these systems electronically in a government-wide network. (page 282)

- n. *Credit Management Systems:* The budget requests \$860 million for credit management an increase of \$58 million over 1990. The Office of Management and Budget and the Department of the Treasury have also upgraded the effort to implement the comprehensive credit management and debt collection program known as the "Nine-Point Program." (page 282)
- o. *Pay Reform:* The budget allows agencies to use up to \$328 million to begin Federal pay reform. The Administration will seek legislation to authorize geographic differentials for all personnel of up to 8 percent in New York, Los Angeles and San Francisco; 5 percent increases in starting salaries nationwide at GS-5 and GS-7 levels for college entry-level occupations; the extension of current authority to hire at pay levels above the minimum step to all grades; and bonuses to recruit, retain of relocate critical skill workers. The budget will also continue pay demonstrations in the Defense Department, the Federal Aviation Administration and the National Institute of Standards and Technology to demonstrate the effects of pay on recruitment and retention. (page 283)

C. MANAGING BY OBJECTIVES

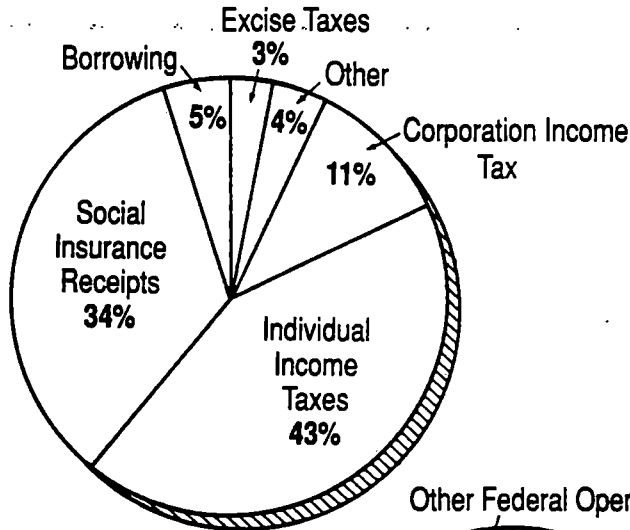
In *Building a Better America*, President Bush directed the establishment of a Presidential Management by Objectives (MBO) system. Its purpose is to track the implementation of selected major policy initiatives and priorities of the Administration from the time of their formulation and announcement to their ultimate outcomes.

The President approved specific objectives for each of the Cabinet departments and participating agencies, as well as Government-wide cross-cutting objectives, in July 1989. The departments and agencies have prepared strategies for achieving these objectives and have identified milestones for measuring their progress. The budget requests resources for the Presidentially approved objectives within overall spending constraints. The objectives themselves are listed at pages 289-300 of the *Budget*.

The Federal Government Dollar

Fiscal Year 1991 Estimate

Where It Comes From...



Where It Goes...

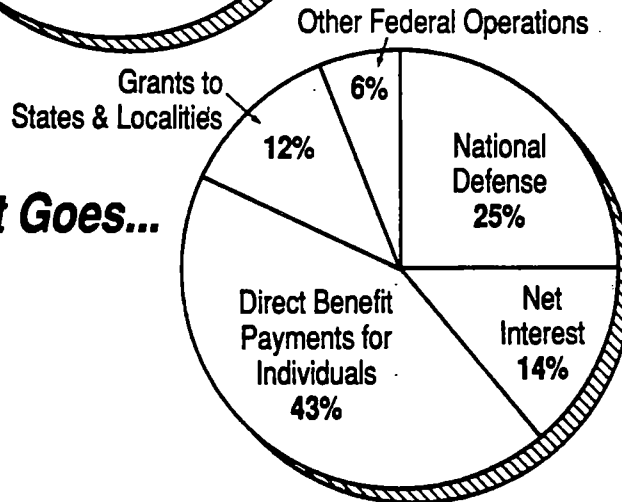


Table 1. RECEIPTS, OUTLAYS, DEFICIT/SURPLUS UNDER THE PRESIDENT'S PROPOSED POLICY

(In billions of dollars)

	1989	1990	1991	1992	1993	1994	1995
Receipts	990.7	1,073.5	1,170.2	1,246.4	1,327.6	1,408.6	1,486.3
Outlays	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9
Surplus or Deficit (+/-)	-152.0	-123.8	-63.1	-25.1	+5.7	+10.7	+9.4

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

Table 2. OUTLAYS BY FUNCTION: 1989-95

(In billions of dollars)

Function	1989 actual	Estimate					
		1990	1991	1992	1993	1994	1995
050 National defense.....	303.6	296.3	303.3	309.2	311.9	315.7	318.6
(Department of Defense—Military).....	(294.9)	(286.8)	(292.1)	(296.9)	(299.0)	(302.3)	(304.8)
(Other).....	(8.7)	(9.6)	(11.1)	(12.3)	(12.9)	(13.4)	(13.7)
150 International affairs.....	9.6	14.6	18.2	19.4	18.8	18.9	19.7
250 General science, space, and technology	12.8	14.1	16.6	19.4	21.4	22.9	24.0
270 Energy.....	3.7	3.2	3.0	3.1	3.2	3.0	2.6
300 Natural resources and environment.....	16.2	17.5	18.2	18.9	18.4	18.3	17.8
350 Agriculture.....	16.9	14.6	14.9	15.6	13.5	11.8	10.4
370 Commerce and housing credit.....	27.7	22.7	17.2	10.3	9.6	7.7	6.2
(On-budget).....	(28.0)	(20.3)	(15.5)	(9.6)	(9.5)	(7.8)	(6.6)
(Off-budget).....	(-0.3)	(2.4)	(1.7)	(0.7)	(0.1)	(-0.1)	(-0.4)
400 Transportation.....	27.6	29.2	29.8	30.2	30.7	31.3	31.3
450 Community and regional development..	5.4	8.8	7.8	6.5	6.1	5.9	6.2
500 Education, training, employment, and social services.....	36.7	37.7	41.0	42.9	43.5	44.1	44.9
550 Health.....	48.4	57.8	63.7	69.9	75.9	82.0	88.3
570 Medicare.....	85.0	96.6	98.6	110.1	121.9	135.0	149.1
600 Income security.....	136.0	146.6	153.7	159.6	166.3	174.6	181.4
650 Social security.....	232.5	248.5	264.8	280.9	297.7	314.6	331.4
(On-budget).....	(5.1)	(3.9)	(4.7)	(5.6)	(6.0)	(6.4)	(6.9)
(Off-budget).....	(227.5)	(244.6)	(260.1)	(275.3)	(291.7)	(308.2)	(324.6)
700 Veterans benefits and services.....	30.1	28.9	30.3	31.0	33.3	32.6	31.7
750 Administration of justice.....	9.4	10.5	12.6	13.9	14.2	14.3	14.6
800 General government.....	9.1	10.6	11.3	11.9	25.8	65.2	113.5
900 Net interest.....	169.1	175.6	173.0	163.5	157.0	147.8	136.1
(On-budget).....	(180.5)	(191.2)	(192.9)	(188.1)	(187.1)	(184.1)	(178.9)
(Off-budget).....	(-11.4)	(-15.6)	(-19.9)	(-24.6)	(-30.1)	(-36.3)	(-42.8)
920 Allowances:							
Employee health benefits reform.....			-0.8	-0.9	-1.0	-1.0	-1.1
Reduced Government mail rates.....			-0.2	-0.2	-0.2	-0.2	-0.2
Total allowances.....			-1.1	-1.1	-1.2	-1.2	-1.3
950 Undistributed offsetting receipts:							
Employer share, employee retirement:							
On-budget.....	-29.4	-28.3	-30.1	-30.8	-32.1	-33.9	-35.0
Off-budget.....	-4.9	-5.6	-6.0	-6.5	-7.1	-7.7	-8.3
Rents and royalties on the Outer Continen- tal Shelf.....	-2.9	-2.6	-3.0	-3.4	-3.1	-3.3	-3.3
Sale of major assets.....			-1.3	-1.6	-1.6	-1.6	-1.6
Other undistributed offsetting receipts.....			-3.3	-1.5	-2.3	-0.1	-1.3
Total undistributed offsetting receipts....	-37.2	-36.5	-43.6	-43.8	-46.2	-46.6	-49.5
(On-budget).....	(-32.4)	(-30.9)	(-37.6)	(-37.4)	(-39.1)	(-38.9)	(-41.2)
(Off-budget).....	(-4.9)	(-5.6)	(-6.0)	(-6.5)	(-7.1)	(-7.7)	(-8.3)
Total outlays.....	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9
(On-budget).....	(931.7)	(971.5)	(997.4)	(1,026.5)	(1,067.1)	(1,133.9)	(1,203.8)
(Off-budget).....	(210.9)	(225.8)	(236.0)	(244.9)	(254.7)	(264.1)	(273.1)

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

Table 3. BUDGET AUTHORITY BY FUNCTION: 1989-95

(In billions of dollars)

Function	1989 actual	Estimate					
		1990	1991	1992	1993	1994	1995
050 National defense.....	299.6	301.6	306.9	312.5	317.5	321.6	325.7
(Department of Defense—Military).....	(290.8)	(291.4)	(295.1)	(300.0)	(304.4)	(308.0)	(311.8)
(Other).....	(8.7)	(10.3)	(11.7)	(12.6)	(13.1)	(13.6)	(13.9)
150 International affairs.....	17.3	18.6	20.0	19.6	20.1	20.5	21.6
250 General science, space, and technology	12.9	14.6	17.9	20.8	22.7	24.1	25.0
270 Energy.....	4.1	5.6	3.3	4.1	4.6	4.4	4.2
300 Natural resources and environment.....	17.0	17.0	17.6	18.0	17.5	17.2	16.4
350 Agriculture.....	21.3	18.0	20.1	21.1	18.9	14.9	15.1
370 Commerce and housing credit.....	61.9	19.6	14.3	13.9	13.8	15.5	14.4
(On-budget).....	(60.3)	(15.5)	(11.3)	(11.7)	(12.1)	(13.9)	(13.0)
(Off-budget).....	(1.6)	(4.1)	(3.0)	(2.2)	(1.7)	(1.5)	(1.4)
400 Transportation.....	29.3	31.2	30.3	31.3	31.7	31.7	32.4
450 Community and regional development..	7.9	9.0	7.0	6.2	6.2	6.1	6.1
500 Education, training, employment, and social services.....	38.8	39.6	42.0	42.9	43.7	44.4	45.0
550 Health.....	51.7	60.3	64.8	70.9	76.8	83.0	89.6
570 Medicare.....	107.3	116.9	125.2	136.4	150.8	164.9	178.8
600 Income security.....	173.4	183.2	198.9	204.4	211.9	221.1	227.7
650 Social security.....	285.0	310.5	345.1	374.0	405.1	438.8	468.7
(On-budget).....	(5.1)	(3.9)	(4.7)	(5.6)	(6.0)	(6.4)	(6.9)
(Off-budget).....	(279.9)	(306.6)	(340.4)	(368.4)	(399.1)	(432.4)	(461.8)
700 Veterans benefits and services.....	30.0	30.0	31.0	31.5	32.1	32.8	33.6
750 Administration of justice.....	10.0	12.2	12.6	13.2	14.2	14.4	14.9
800 General government.....	10.6	10.5	11.4	11.6	25.7	65.3	113.7
900 Net interest.....	169.1	175.6	173.0	163.5	157.0	147.8	136.1
(On-budget).....	(180.5)	(191.2)	(192.9)	(188.1)	(187.1)	(184.1)	(178.9)
(Off-budget).....	(-11.4)	(-15.6)	(-19.9)	(-24.6)	(-30.1)	(-36.3)	(-42.8)
920 Allowances:							
Employee health benefits reform.....			-0.8	-0.9	-1.0	-1.0	-1.1
Reduced Government mail rates.....			-0.2	-0.2	-0.2	-0.2	-0.2
Total, 920 Allowances.....			-1.1	-1.1	-1.2	-1.2	-1.3
950 Undistributed offsetting receipts:							
Employer share, employee retirement:							
On-budget.....	-29.4	-28.3	-30.1	-30.8	-32.1	-33.9	-35.0
Off-budget.....	-4.9	-5.6	-6.0	-6.5	-7.1	-7.7	-8.3
Rents and royalties on the Outer Continen- tal Shelf.....	-2.9	-2.6	-3.0	-3.4	-3.1	-3.3	-3.3
Sale of major assets.....			-1.3	-1.6	-1.6	-1.6	-1.6
Other undistributed offsetting receipts.....			-3.3	-1.5	-2.3	-0.1	-1.3
Total, 950 Undistributed Offsetting Receipts.....	-37.2	-36.5	-43.6	-43.8	-46.2	-46.6	-49.5
(On-budget).....	(-32.4)	(-30.9)	(-37.6)	(-37.4)	(-39.1)	(-38.9)	(-41.2)
(Off-budget).....	(-4.9)	(-5.6)	(-6.0)	(-6.5)	(-7.1)	(-7.7)	(-8.3)
Total Budget Authority.....	1,309.9	1,337.6	1,396.5	1,451.1	1,522.7	1,620.9	1,718.1
(On-budget).....	(1,044.6)	(1,048.1)	(1,079.0)	(1,111.6)	(1,159.1)	(1,231.0)	(1,306.0)
(Off-budget).....	(265.3)	(289.5)	(317.5)	(339.6)	(363.7)	(389.9)	(412.1)

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

Table 4. BUDGET AUTHORITY BY AGENCY: 1989-1995

(In billions of dollars)

Department or other unit	1989 actual	Estimate					
		1990	1991	1992	1993	1994	1995
Legislative Branch.....	2.3	2.2	2.7	2.7	2.7	2.9	2.9
The Judiciary.....	1.5	1.7	2.1	2.3	2.3	2.4	2.5
Executive Office of the President.....	0.1	0.3	0.4	0.4	0.4	0.4	0.4
Funds Appropriated to the President.....	11.0	12.4	12.4	12.7	13.1	13.3	13.9
Agriculture.....	55.7	55.1	55.3	56.2	55.3	53.4	55.9
Commerce.....	2.8	3.6	2.5	2.4	2.5	2.4	2.2
Defense—Military.....	290.8	291.4	295.1	300.0	304.4	308.0	311.8
Defense—Civil.....	37.2	36.7	38.4	40.1	42.3	44.6	46.7
Education.....	23.0	24.1	24.6	24.2	24.4	24.5	24.7
Energy.....	11.7	14.3	14.8	16.9	17.6	17.8	18.0
Health and Human Services—except social security.....	196.6	212.3	232.4	249.3	270.7	293.5	314.3
Health and Human Services—social security	279.9	306.6	340.4	368.4	399.1	432.4	461.8
Housing and Urban Development.....	14.3	18.4	23.7	22.2	22.2	21.9	22.1
Interior.....	5.5	6.2	5.6	5.7	5.7	5.8	5.7
Justice.....	6.7	8.6	8.9	9.3	9.8	9.8	10.1
Labor.....	29.9	32.5	32.1	32.3	33.0	33.5	33.9
State.....	4.1	4.2	5.5	4.7	4.8	4.9	5.1
Transportation.....	28.5	30.2	29.3	30.3	30.7	30.7	31.3
Treasury.....	232.1	248.5	256.1	258.9	275.9	316.5	363.2
Veterans Affairs.....	29.9	29.9	30.9	31.4	32.0	32.7	33.5
Environmental Protection Agency.....	5.1	5.4	5.4	5.2	5.0	4.4	3.9
General Services Administration.....	0.2	0.1	*	0.1	0.1	0.1	0.1
National Aeronautics and Space Administra- tion.....	11.0	12.3	15.2	17.6	19.3	20.3	21.0
Office of Personnel Management.....	51.2	55.6	58.2	61.3	64.5	68.0	70.8
Small Business Administration.....	0.4	0.9	0.4	0.5	0.5	0.5	0.6
Other Independent Agencies.....	67.5	21.3	17.8	19.6	19.6	21.5	20.0
Allowances.....			-1.1	-1.1	-1.2	-1.2	-1.3
Undistributed offsetting receipts.....	-89.2	-97.3	-112.6	-122.5	-133.7	-144.0	-156.8
(On-budget).....	(-72.9)	(-76.1)	(-86.8)	(-91.4)	(-96.5)	(-100.0)	(-105.6)
(Off-budget).....	(-16.3)	(-21.2)	(-25.9)	(-31.1)	(-37.2)	(-44.0)	(-51.1)
Total budget authority.....	1,309.9	1,337.6	1,396.5	1,451.1	1,522.7	1,620.9	1,718.1

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

* \$50 million or less.

Table 5. OUTLAYS BY AGENCY: 1989-1995

(In billions of dollars)

Department or other unit	1989 actual	Estimate					
		1990	1991	1992	1993	1994	1995
Legislative Branch.....	2.1	2.3	2.7	2.8	2.7	2.8	2.8
The Judiciary.....	1.5	1.7	2.0	2.2	2.3	2.4	2.4
Executive Office of the President.....	0.1	0.2	0.3	0.4	0.4	0.4	0.4
Funds Appropriated to the President.....	4.3	9.2	12.2	13.2	12.5	12.5	13.3
Agriculture.....	48.3	48.2	48.7	50.3	48.7	47.8	47.4
Commerce.....	2.6	3.9	2.8	2.7	2.7	2.6	2.3
Defense—Military.....	294.9	286.8	292.1	296.9	299.0	302.3	304.8
Defense—Civil.....	23.5	24.8	25.5	26.6	27.7	28.8	29.9
Education.....	21.6	22.3	23.7	24.1	24.1	24.3	24.5
Energy.....	11.4	12.3	13.4	15.7	16.5	17.2	17.7
Health and Human Services—except social security.....	172.3	191.2	204.1	222.6	241.2	262.9	283.9
Health and Human Services—social security.....	227.5	244.6	260.1	275.3	291.7	308.2	324.6
Housing and Urban Development.....	19.7	22.8	23.0	23.9	24.3	25.0	26.1
Interior.....	5.2	5.8	5.7	5.7	5.8	5.8	5.7
Justice.....	6.2	6.9	9.0	10.1	9.9	9.7	9.9
Labor.....	22.7	24.9	26.3	27.0	27.8	28.7	29.8
State.....	3.7	3.8	4.1	4.3	4.4	4.5	4.6
Transportation.....	26.6	28.3	28.8	29.1	29.7	30.2	30.2
Treasury.....	230.6	247.2	254.9	257.7	274.5	315.1	361.9
Veterans Affairs.....	30.0	28.7	30.1	30.8	33.1	32.5	31.6
Environmental Protection Agency.....	4.9	5.5	5.8	5.7	5.6	5.4	5.2
General Services Administration.....	-0.5	0.3	*	0.3	0.3	0.2	0.1
National Aeronautics and Space Administration.....	11.0	12.0	14.1	16.4	18.1	19.4	20.1
Office of Personnel Management.....	29.1	33.2	33.6	34.8	37.4	39.8	42.3
Small Business Administration.....	0.1	1.1	0.3	0.1	0.2	0.3	0.4
Other Independent Agencies.....	32.5	26.6	23.5	16.4	16.0	14.4	13.3
Allowances.....			-1.1	-1.1	-1.2	-1.2	-1.3
Undistributed offsetting receipts.....	-89.2	-97.3	-112.6	-122.5	-133.7	-144.0	-156.8
(On-budget).....	(-72.9)	(-76.1)	(-86.8)	(-91.4)	(-96.5)	(-100.0)	(-105.6)
(Off-budget).....	(-16.3)	(-21.2)	(-25.9)	(-31.1)	(-37.2)	(-44.0)	(-51.1)
Total outlays.....	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9

Note: Details may not add to total due to rounding.

* \$50 million or less.

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Outline	Budget material for Discussion 1/29/90 (1 pp.)	1/29/90	P 5	

Collection:

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

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

Date Closed: 12/16/2004	OA/ID Number: 29137-006
FOIA/SYS Case #: 1998-0004-F[1]	Appeal Case #:
Re-review Case #: 2005-0426-S	Appeal Disposition:
P-2/P-5 Review Case #:	Disposition Date:
AR Case #:	MR Case #:
AR Disposition:	MR Disposition:
AR Disposition Date:	MR Disposition Date:

RESTRICTION CODES

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

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

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

PRM. Removed as a personal record misfile.

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

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

FOR DISCUSSION -- 1/29/90

- (1) Positives: There are many to emphasize. (See fact sheet.)
- (2) Areas in which we'll be attacked:
 - (a) Economics -- Response: the recent record.
 - (b) "Peace Dividend" -- Response:
 - (i) the merits;
 - (ii) base closings, etc.;
 - (iii) private lobbying to build blocking power and a floor for DOD;
 - (iv) growth dividend.
 - (c) RTC and "gimmicks" -- Response: the merits. ✓
 - (d) Lack of "boldness" (i.e., no new taxes) ///
- (3) Legislative Strategy:
 - (a) The possibility of no budget resolution;
 - (b) The possibility of legislating without the budget committees; ✓
 - * (c) * The importance of preserving sequester. *
- (4) Social Security
- (5) Other

COUNCIL OF ECONOMIC ADVISERS

1/29/90

Administration Forecast Accuracy For 1989¹

	<u>Forecast²</u>	<u>Actual</u>
Real GNP	2.9	2.9
Unemployment Rate	5.2	5.2
10-Year Treasury Notes	8.5	8.5
3-Month Treasury Bills	8.0	8.1
Consumer Price Index	5.0	4.8
GNP Deflator	4.5	4.1

- 1 Administration forecast prepared for the July 1989 Mid-session Review.
- 2 Data for real GNP and prices are percent change year-over-year. Data for interest and total unemployment rates are annual averages.

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Administration Near-Term Outlook
 January 29, 1990
 (Calendar Years)

	Actual <u>1989</u>	<u>1990</u>	<u>1991</u>
(Percent Change, 4th Quarter to 4th Quarter)			
Real GNP	2.4	2.6	3.3
Ex-Drought*	1.9		
GNP Implicit Price Deflator	3.8	4.2	4.1
Consumer Price Index (CPI-W)	4.5	4.1	4.0
(Annual Average)			
Unemployment Rate (Total)	5.2	5.4	5.3
3-Month Treasury Bill Rate	8.1	6.7	5.4
10-Year Treasury Note Rate	8.5	7.7	6.8

* Excludes the one-time rebound in real GNP in 1989 from the effects of the previous year's drought. The recovery of farm output to more normal levels raised growth in 1989 by approximately 1/2 percentage point.

COUNCIL OF ECONOMIC ADVISERS
1/29/90

Comparison of Administration, CBO, and Blue Chip Forecasts*

	<u>1990</u>	<u>1991</u>
	(Percent Change, 4th Quarter to 4th Quarter)	
<hr/>		
Real GNP		
Administration	2.6	3.3
CBO	1.8	2.5
Blue Chip	1.8	2.4
GNP Implicit Price Deflator		
Administration	4.2	4.1
CBO	4.1	4.0
Blue Chip	4.0	4.0
Consumer Price Index (CPI-U)		
Administration	4.1	4.0
CBO	4.1	4.4
Blue Chip	4.2	4.2
<hr/>		
	(Annual Averages)	
<hr/>		
Civilian Unemployment Rate		
Administration	5.5	5.3
CBO	5.6	5.5
Blue Chip	5.6	5.6
3-Month Treasury Bill Rate		
Administration	6.7	5.4
CBO	6.9	7.2
Blue Chip	7.1	7.2
10-Year Treasury Note Rate		
Administration	7.7	6.8
CBO	7.8	7.7
Blue Chip	N.A.	N.A.

* Published January 1990.

COUNCIL OF ECONOMIC ADVISERS

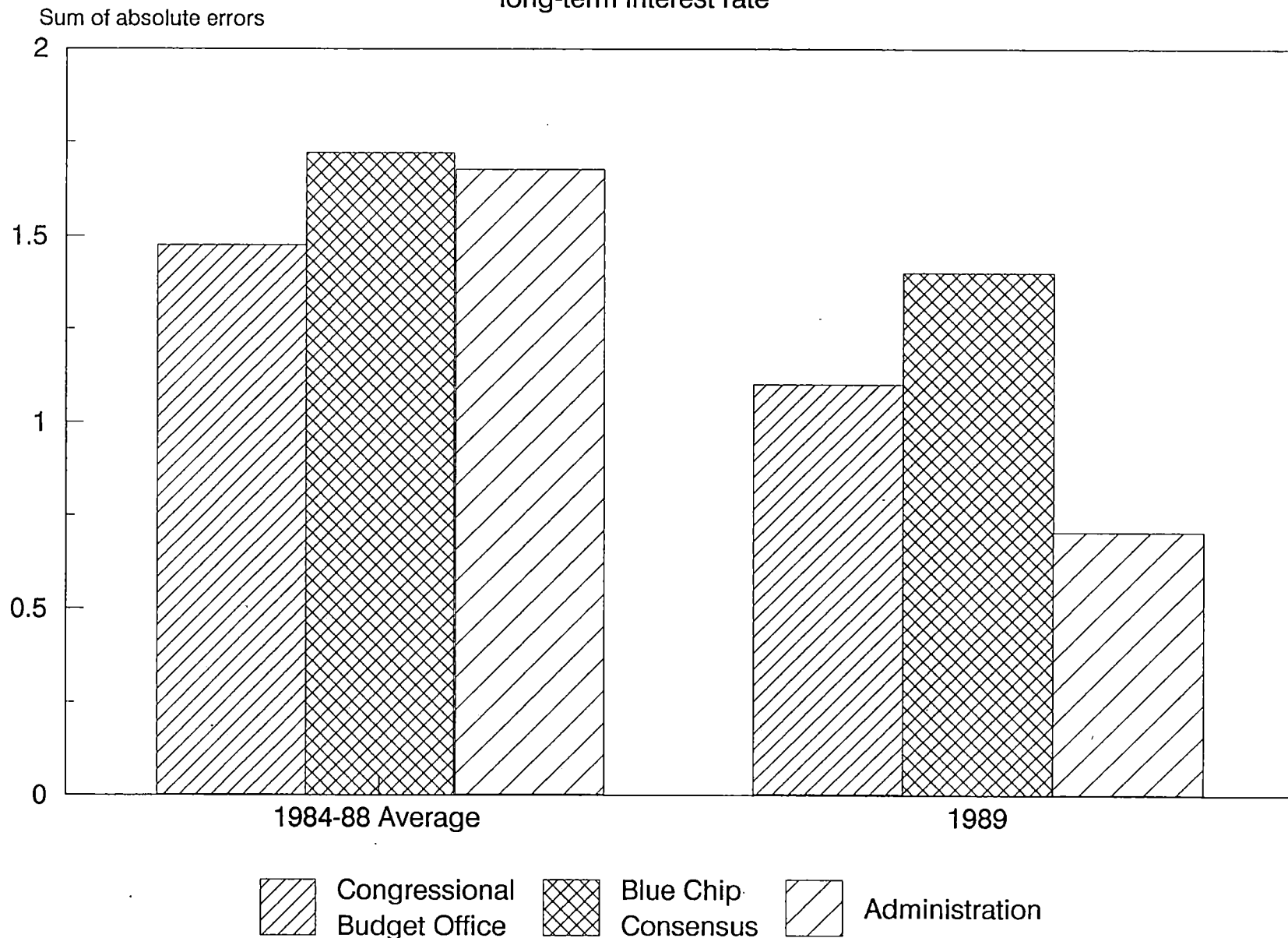
Administration Economic Projections
 January 29, 1990
 (Calendar Years)

	Actual						
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
(Percent Change, 4th Quarter to 4th Quarter)							
Real GNP	2.4	2.6	3.3	3.2	3.1	3.0	3.0
Ex-Drought*	1.9						
GNP Implicit Price Deflator	3.8	4.2	4.1	3.8	3.5	3.2	2.9
Consumer Price Index (CPI-W)	4.5	4.1	4.0	3.8	3.5	3.2	2.9
(Annual Average)							
Unemployment Rate (Total)	5.2	5.4	5.3	5.2	5.1	5.0	5.0
3-Month Treasury Bill Rate	8.1	6.7	5.4	5.3	5.0	4.7	4.4
10-Year Treasury Note Rate	8.5	7.7	6.8	6.3	6.0	5.7	5.4

* Excludes the one-time rebound in real GNP in 1989 from the effects of the previous year's drought. The recovery of farm output to more normal levels raised growth in 1989 by approximately 1/2 percentage point.

COMPARISON OF FORECAST ACCURACY: ADMINISTRATION, BLUE CHIP CONSENSUS, AND CBO

Sum of absolute errors for real GNP growth (Yr/Yr), the change in the GNP deflator (Yr/Yr), the change in the CPI (Yr/Yr), the unemployment rate, the 3-month T-bill interest rate, and a long-term interest rate



Note: Long-term interest rate for Blue Chip is the corporate AAA bond; for the Administration, it is the 10-year bond rate; for CBO, it is the corporate AAA in 1984-85, and the 10-year bond rate in 1986-89.

ASSOCIATION of BANK HOLDING COMPANIES

THOMAS LUDLOW ASHLEY
PRESIDENT

720 FIFTEENTH STREET, N.W., WASHINGTON, D.C. 20004
(202) 899-1166

April 25, 1990

To: President George H. W. Bush

From: Lud Ashley

1. As you may already know, most of the people most responsible for budget policy in the Congress, i.e., Pete Domenici, Leon Panetta, Bill Frenzel, are speaking publicly of their anticipation that a budget summit is all but a certainty, perhaps beginning as early as several weeks hence. My feeling, of course, is that there are some political risks involved but they are far outweighed by potential benefits, both economic and political. I do think the negotiations have to be properly structured and well managed. The interesting thing is that Congressional Democrats are beginning to see the necessity for wholly new initiatives on the budget, including process. Your 'read my lips' strategy may make the history books yet.

2. I hear you had a briefing from Bill Seidman on the thrift bailout and related matters. For whatever it's worth, I think he's doing a good job at a very tough post. My word to the wise would be that this potentially is a very sensitive area for both political branches of the Federal establishment because the public really doesn't yet have a clue as to how they got nailed for however much of the \$300-500 billion cost will fall on them. But they'd love to have a piece of the politicians whose dereliction or complicity was involved.

What makes the current situation dicey is that for all practical purposes FIRREA consigned much of the thrift industry to history, although it will take several years for this to become apparent. It did this by establishing tough capital requirements, stringent loan limits and very high insurance premiums, while limiting thrift lending largely to mortgage-related activities. FIRREA locks thrifts into this competitive straitjacket by requiring a five-year waiting period before they can convert to a commercial bank and by imposing high exit and entrance fees for shifting from the thrift insurance fund (with its high premium schedule) to the bank fund (which is much lower). The effect (and I think the intent) of structuring FIRREA in this way was twofold: one, the high premiums and exit/entrance fees would help finance the cost of the cleanup; and, two, in a country of 30,000 or so financial institutions, it would thin out a hitherto specialty sector whose usefulness in a changing financial services environment has long since been in question.

04. 25. 90 04. 25 1 11 1000 WASH DC 101

ASSOCIATION of BANK HOLDING COMPANIES

April 25, 1990

2.

I think Breeden and your Administration were basically right on both counts and I hope you hang tough. The thrifts will generate a lot of political heat in their efforts to ease their competitive situation but any success they achieve will simply produce a new set of problems which no one needs.

One thing to remember is that next year is the year that major legislation must be enacted to restructure the financial services industry in the U. S. so that it can compete with the mind-boggling changes that will become operational in the European Community in 1992. This will be a major item -- if not the major item -- on your domestic legislative agenda next year and if I were to offer a suggestion, it would be that there be very little tampering with FIRREA until after next year's legislation is adopted. The risk of reopening FIRREA is substantial while potential benefits to you, if any, are negligible.

*Subject
Notes*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 26, 1990

MEMORANDUM FOR GOV. JOHN H. SUNUNU

FROM: MICHAEL J. BOSKIN *mjb*

SUBJECT: Analysis of Ways and Means Progressivity Study

Attached is a critical analysis by CEA and OMB of a recent study by the Ways and Means Committee and the Congressional Budget Office. This study, which concluded that there has been a significant decrease in the progressivity of the U.S. tax system, has received much attention in recent weeks, as you will recall from our testimony together. CEA and OMB will be giving copies of this analysis to some Senators and Congressmen tomorrow. The CEA/OMB analysis concludes that the Ways and Means/CBO study is flawed in its methods and conclusions.

Attachment

cc: Roger Porter

PROGRESSIVITY:

**AN ANALYSIS OF THE WAYS AND MEANS/
CONGRESSIONAL BUDGET OFFICE STUDY**

Prepared by the staffs of the Council of Economic Advisers
and the Office of Management and Budget

February 1990

SUMMARY

The staff of the House Ways and Means Committee recently prepared a background paper, based on tables compiled by the Congressional Budget Office (CBO), arguing that the U.S. tax system has become significantly more regressive. A striking result of their study, however, is that high-income families are bearing an **increasing** share of the tax burden. Also, the study has numerous serious conceptual problems and methodological flaws.

- o An important method for analyzing fairness is to examine how much of the overall tax burden is carried by each income class, rather than tax rates. Even using the Ways and Means tables, despite their flaws, **the share of taxes paid by the highest income quintile of the population is projected to rise between 1980 and 1990 for every tax studied--social insurance taxes, individual income taxes, corporation income taxes, and excise taxes.**
 - The share paid by the highest income quintile of total Federal taxes is projected to rise from 55.7 percent to 58.1 percent, and of social insurance taxes from 38.9 percent to 41.4 percent.
 - For other taxpayers the share of taxes is projected to fall for nearly every other quintile and tax studied. The **sole** exception is the share of excise taxes paid by the lowest income quintile, which is projected to rise 0.3 percentage points, or roughly \$5.

The Ways and Means staff study is incomplete by its nature:

- o The study focuses only on taxes, ignoring Government transfer payments. This incomplete view overlooks the highly progressive nature of the Government's tax and transfer system as a whole. The bottom 40 percent of households receive far more in income transfers than they pay in taxes. The tax and transfer system increases the share of income going to the lowest quintile by 3.7 percentage points, and decreases the share of the highest quintile by 6.6 percentage points.
- o Increases in Social Security taxes are the primary source of the alleged decrease in progressivity. Yet, even if one were to accept the questionable Ways and Means assumption that workers pay the employer part of the payroll tax, the Social Security program is highly progressive. When taxes are netted against Social Security benefits, Social Security is highly progressive, whether measured for any year, across generations, or for any single generation of beneficiaries.

- o The United States relies far less on payroll and sales taxes than do other large industrial nations. If the United States were to collect taxes in the same manner as most of these other countries, the distribution of income would probably become less equal.

The methodological flaws in the Ways and Means study include:

- o The Ways and Means staff chose a poor base year--1980--for its comparison. Largely as a result of inflation-induced bracket creep, 1980 had unusually high effective income tax rates, particularly on middle and high income individuals. The tax rate reductions of the 1980s were partly a response to these unlegislated increases in tax rates.
- o The 1990 figures are estimates based on a projection. To arrive at this projection, CBO had to estimate the effects of the dramatic Tax Reform Act of 1986, since no data yet exist reflecting its full implementation. A more accurate comparison would not extend beyond the most recent year for which data are available (currently 1987).
- o The study computes **percent** changes in effective tax rates that are already expressed in percentage terms, a method that is well known to be flawed because it places undue significance on small changes. The Ways and Means study acknowledges this bias only when the movement is toward **increased** progressivity.
 - For example, the effective excise tax rate for the top 5 percent of the population is projected to have decreased 11.7 percent from 1980 to 1990, even though the rate is reported as 0.4 percent in both years. The estimated effective tax rate must have changed by only hundredths of a percentage point.
 - In the same table, the effective individual income tax rate for the lowest quintile is projected to fall from -0.4 to -1.5 percent. Using the same questionable methodology this is a decrease of 275 percent, yet the Ways and Means staff does not report it.

INTRODUCTION

Using tables prepared by the Congressional Budget Office (CBO), the staff of the House Ways and Means Committee has prepared a background paper arguing that the U.S. tax system became significantly more regressive during the 1980s. According to this study, the essential source of the reduced progressivity was increases in payroll taxes for social insurance.

The study has many shortcomings that lead one to doubt the basic conclusion. There are methodological flaws in the construction of the tables, and even more in the interpretation of the tables by the Committee staff. The study is too narrowly focused. It concentrates on changes in effective tax rates despite the fact that their own tables show that the share of taxes paid by higher income taxpayers rose in the 1980s while the share paid by lower income taxpayers fell. Most importantly, it fails to integrate Federal transfer payments with Federal taxes. A complete analysis of how the Government affects income distribution must consider the entire set of tax and transfer programs. Any such analysis reveals that the full set of Federal Government taxes and transfers is highly progressive and has remained so even as increased incomes for retired Americans have moved Social Security recipients higher on the income scale.

METHODOLOGICAL PROBLEMS WITH THE WAYS AND MEANS STUDY

Base Year Choice

The first problem is that the base year chosen for comparison by the Ways and Means staff, 1980, is a poor choice. Largely as a result of inflation-induced bracket creep, 1980 had unusually high effective income tax rates, particularly on middle and high income individuals. During the late 1970s, high inflation overwhelmed the practice of legislating periodic inflation corrections to the tax code. The result was increased tax rates for most taxpayers. From 1977 to 1981, the average marginal tax rate faced by individuals rose from 28.1 percent to 32.5 percent (using shares of adjusted gross income as weights). Reflecting this bracket creep, average income taxes also rose. In fiscal year 1980, individual income taxes were 9.1 percent of GNP compared with 8.2 percent on average for fiscal years 1971 through 1979.

These increases in tax rates did not represent deliberate policy changes. Indeed, these factors were a major impetus for the tax reforms of the 1980s. Income tax rates were lowered in 1981 and inflation-indexed beginning in 1985 precisely to offset this bracket creep. In the 1986 Tax Reform Act, the standard deduction and personal exemption were increased and 4.3 million low income taxpayers were removed from the tax rolls.

Mixing Fact with Projection

A second problem with the study is the mix of actual data with projections concerning the future path of effective tax rates. The 1990 figures cited in the Ways and Means tables are based on a forecast. Like most economic forecasts, these are subject to uncertainty. This forecast, however, is especially problematic. To produce the forecast, CBO estimated the effects of the dramatic Tax Reform Act of 1986. There are, as yet, no data that reflect full implementation of tax reform, so the forecast reflects a judgment of how the reform will work out.

Correctly measuring the impact of the 1986 reform is particularly important for judging the progressivity of the tax system. The reform made the tax system more progressive by removing 4.3 million taxpayers from the tax rolls, expanding the alternative minimum tax, and increasing the corporate tax burden. The latter falls more heavily on upper income groups. The Ways and Means tables show a shift towards more progressivity between 1985 and 1990, but given the uncertainties, the shift could be larger or smaller than anticipated in the tables.

It would be far preferable simply to restrict the analysis to actual data. If it is desired to show how tax burdens have changed over a 10-year interval, it would be better to compare 1977 with 1987--the most recent year with complete data--than 1980 with projected 1990.

Importance of Endpoints

The tables in the Ways and Means study show how sensitive comparisons are to the choice of endpoints. Table 1 demonstrates that between 1977 and 1980, as also between 1985 and 1990, taxes became more progressive.

Quintile	Actual 1977-1980	Projected 1980-1990	Projected 1985-1990
Lowest	-1.1	1.3	-0.9
Second	0.1	1.0	0.6
Third	0.4	0.3	1.0
Fourth	1.1	-0.5	0.8
Highest	0.2	-1.5	1.8

Source: Ways and Means (1990)

Identifying the Rich

Another difficulty is that the highest income quintile is hardly "super rich"--it begins at a family income of just \$50,400. A finer breakdown of the upper

income category would be needed to identify the taxes paid by those who might be thought of as truly wealthy.

Quintile	1988 Family Income		
1st	0	to	\$10,370
2nd	\$10,370	to	\$20,530
3rd	\$20,530	to	\$32,580
4th	\$32,580	to	\$50,400
5th		above	\$50,400

Source: CBO (1987)

Incidence Assumptions

In order to measure income and taxes paid, CBO must make assumptions about the "incidence" of each tax and, in effect, allocate the taxes paid to families' incomes. The most important incidence assumption in the study is that all payroll taxes are paid by workers. This assumption is the root source of much of the alleged change in progressivity. It is controversial. The Social Security payroll tax is divided evenly between employees and employers, with each paying one-half of the tax. CBO assumes that the employer half is borne by employees in the form of lower wages. The employer component could instead be borne by the businesses paying the tax--or capital more generally--or passed on to consumers via higher prices. CBO itself estimates that for any reasonable change in the incidence assumption, the effective tax rate for higher income families would be raised. If the Social Security payroll

tax were more progressive than shown in the tables, then the increase in payroll taxes since 1977 would have contributed a much smaller reduction in the progressivity of the tax system.

A second incidence issue concerns the corporation income tax. The Ways and Means study allocates corporate income taxes equally to labor earnings and capital income. Although much-debated, there is no firm consensus on the incidence of the corporate income tax. Many people believe that the tax is almost exclusively borne by shareholders of corporations, or by owners of capital more generally. The use of this more standard assumption would lead to increased progressivity of the tax system.

Percents of Percents

Another set of methodological issues concerns the presentation of the results in the Ways and Means study. Computing percent changes in effective tax rates (that are already expressed in percentage terms) places undue significance on small changes. For example, the effective excise tax rate for the top 5 percent of the population is shown to have decreased 11.7 percent from 1980 to 1990, even though it was reported as 0.4 percent in both years. The reported 11.7 percent decrease is highly misleading. In fact, the effective tax rate must have changed by only hundredths of a percentage point.

In addition, these questionable methods are used selectively. In the same table, the effective individual income tax rate for the lowest quintile falls

from -0.4 to -1.5. Using the same questionable methodology, this is a decrease of 275 percent. Instead of reporting this number, the Ways and Means staff states, "since the denominator for this calculation is very close to zero, this figure is meaningless." They fail to note that the denominator for the calculated decline in the effective excise tax rate is just as close to zero.

A more conventional approach would simply compare percentage point changes in effective tax rates (as in Table 1 of this report).

A Flawed Income Measure

Flaws in the measure of income used by CBO likely lead to an understatement of the progressivity of the tax system each year (the effect on the estimated change in progressivity between two years is uncertain). First, the CBO measure does not include non-cash income, thus excluding such important government transfers as Medicare, Medicaid, Food Stamps, and public housing and employer-provided nonwage compensation such as health and life insurance. Non-cash government transfers are heavily progressive. Neglecting them leads to an understatement of low incomes, an overstatement of effective tax rates for lower incomes, and biases the results against progressivity.

In addition, the CBO measure of cash income excludes losses due to partnerships and rentals--ostensibly to eliminate tax-induced paper losses, but some real economic losses are excluded as well--leading to overstated higher

incomes where these losses are concentrated. Further, the cash income measure includes an imputed value for realized capital gains that suffers from two problems. First, although realized capital gains are part of the tax base, they bear little relation to the change in the value of assets, but rather reflect a change in the composition of assets. A better way to measure income for this purpose would be to allocate both corporate income taxes (as CBO does) and retained corporate profits to households directly. Further, CBO imputes realizations as a fixed share of national income, apparently to mitigate tax-induced bunching of realizations. For the years in the tables, however, realizations varied greatly as a share of national income without any changes in the tax treatment of capital gains from the previous year. In these ways, the CBO cash income likely overstates high incomes, understating the effective tax rate, and again biases down the measured progressivity.

ALTERNATIVE WAYS OF VIEWING PROGRESSIVITY

Effective tax rates are difficult to measure correctly and are not the only way or the best way to evaluate the fairness of the tax system. Indeed, one of the main goals of the 1981 tax changes was to lower inefficiently high marginal tax rates that were costing the Government revenue by encouraging high income taxpayers to shelter their incomes to avoid taxes.

Share of Taxes Paid

Another way to look at fairness is to examine how much of the overall tax burden is carried by the different income classes. **By this measure, the tax system has become more progressive.** Other tables in the Ways and Means study show that the share of taxes paid by the highest income quintile of the population is projected to rise between 1980 and 1990 for every tax studied: individual income taxes, corporation income taxes, social insurance taxes, and excise taxes. The share of total federal taxes paid by the highest income quintile rose by 2.4 percentage points, while their share of social insurance taxes rose by 2.5 percentage points (see Tables 2 and 3).

For other taxpayers, the share of taxes is projected to fall for nearly every other quintile and tax studied. The **sole** exception is the share of excise taxes paid by the lowest income quintile, which is projected to rise by a slight 0.3 percentage points, an increase of roughly \$5 in 1990.

International Comparisons

The attention devoted to payroll taxes in the U.S. tax structure may leave the impression that payroll taxes are unusually high in the United States. In fact, the United States relies far less on payroll and sales taxes to finance Government programs than do other large industrialized nations except Japan (see Table 4). If the United States were to collect taxes in the same manner

Table 2

Share of Taxes Paid by All Families
(in percent)

	Actual 1980	Projected 1990
Lowest 20 Percent	1.6	1.6
Second 20 Percent	7.0	6.6
Third 20 Percent	13.4	12.6
Fourth 20 Percent	22.2	21.0
Highest 20 Percent	55.7	58.1
Total	100.0	100.0

Table 3

Share of Social Insurance Taxes Paid by All Families
(in percent)

	Actual 1980	Projected 1990
Lowest 20 Percent	3.4	3.3
Second 20 Percent	11.5	10.8
Third 20 Percent	18.8	17.9
Fourth 20 Percent	27.2	26.5
Highest 20 Percent	38.9	41.4
Total	100.0	100.0

Source: Ways and Means (1990)

as most of these other countries, the distribution of income would probably become less equal.

Table 4

Share of Total Tax Revenue Raised
(in percent)

	<u>Personal, Corporate, and Property Taxes</u>	<u>Social Security Contributions, Sales, and Payroll Taxes</u>
Japan	58.2	41.5
U.S.	54.5	45.5
U.K.	50.9	49.5
Italy	39.4	60.7
W. Germany	37.2	62.7
France	22.6	74.2

Source: H. Aaron, Wall Street Journal, February 14, 1990.

LOOKING AT THE WHOLE PICTURE: TAXES AND TRANSFERS

The Ways and Means study not only has significant flaws in design and execution, it is by nature incomplete. Its myopic focus on the tax system ignores the highly progressive nature of the Government's tax and transfer system taken as a whole.

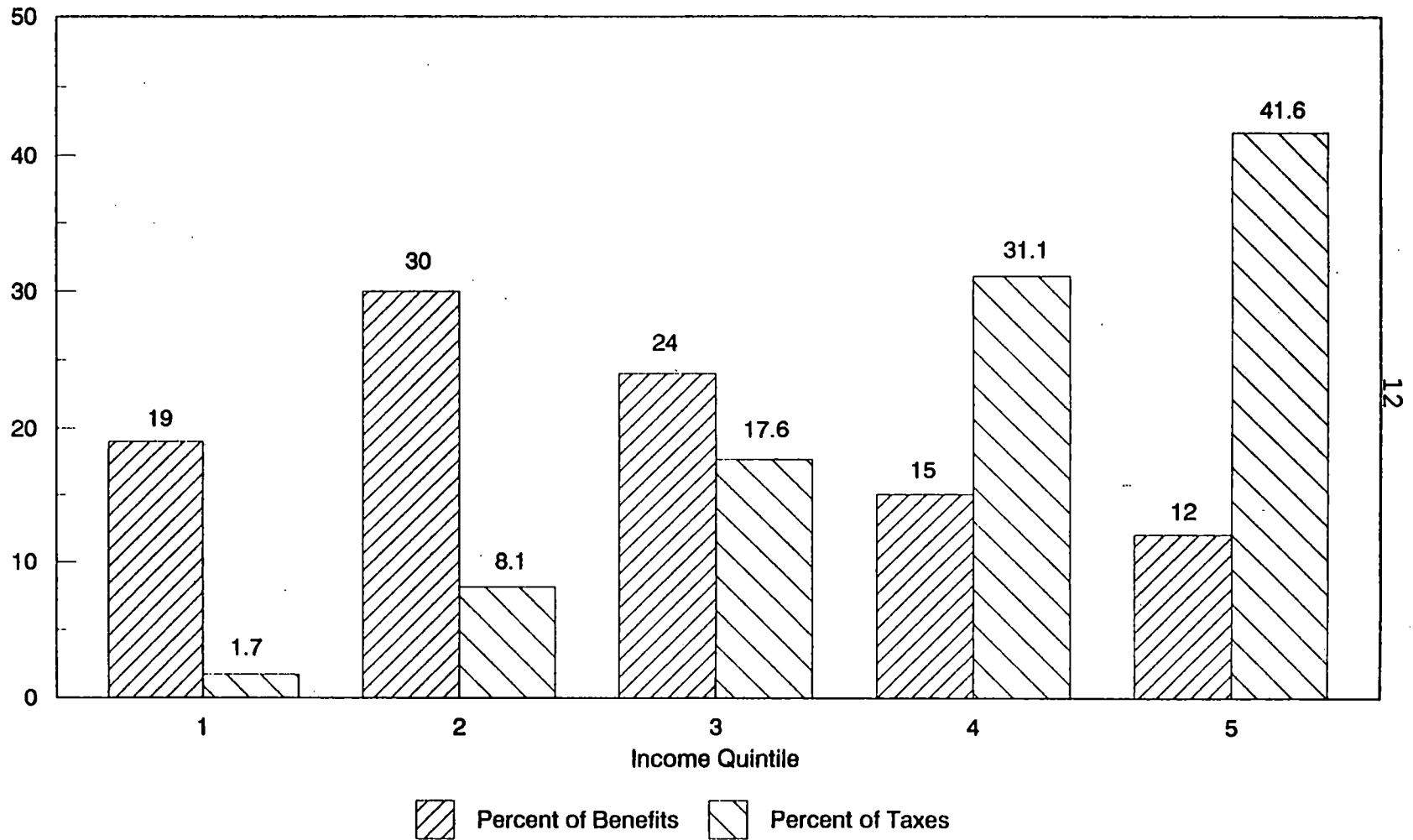
Progressivity of Social Security

When the overall structure of payroll taxes and benefits is examined, Social Security is found to be one of the most progressive of Government programs. Chart 1 shows the highly progressive nature of Social Security when payroll taxes are netted against Social Security benefits. (The chart shows taxes and benefits by income group, not taxes and benefits for individual

CHART 1

Share of Social Security Benefits Received and Taxes Paid by Income Quintile
1987

Percent of Total Benefits/Taxes



Source: Social Security Administration

- Notes: (1) Quintiles are based on Census money income and are not directly comparable to CBO quintiles .
(2) Benefits and taxes are shown for quintiles and do not necessarily represent payments and receipts for each family.

families.) At any point in time, lower income groups receive much more back in benefits than they pay out, while the reverse is true at the upper end of the spectrum.

For individuals, as opposed to income groups, Social Security is also progressive because low-income individuals receive proportionally more Social Security benefits relative to their contributions than do high-income beneficiaries. Also, historically Social Security has provided benefits that have permitted older generations to share in the growth of real incomes occurring after their retirement, producing a progressive impact across generations.

Growth of Government Transfers

The role of Government transfers extends far beyond Social Security. Substantial growth in the size of Government transfer payments continued during the 1980s, raising living standards of low-income families. As shown in Chart 2, the real value of Federal transfer payments--both total and means-tested--rose 28 percent between 1980 and 1989.

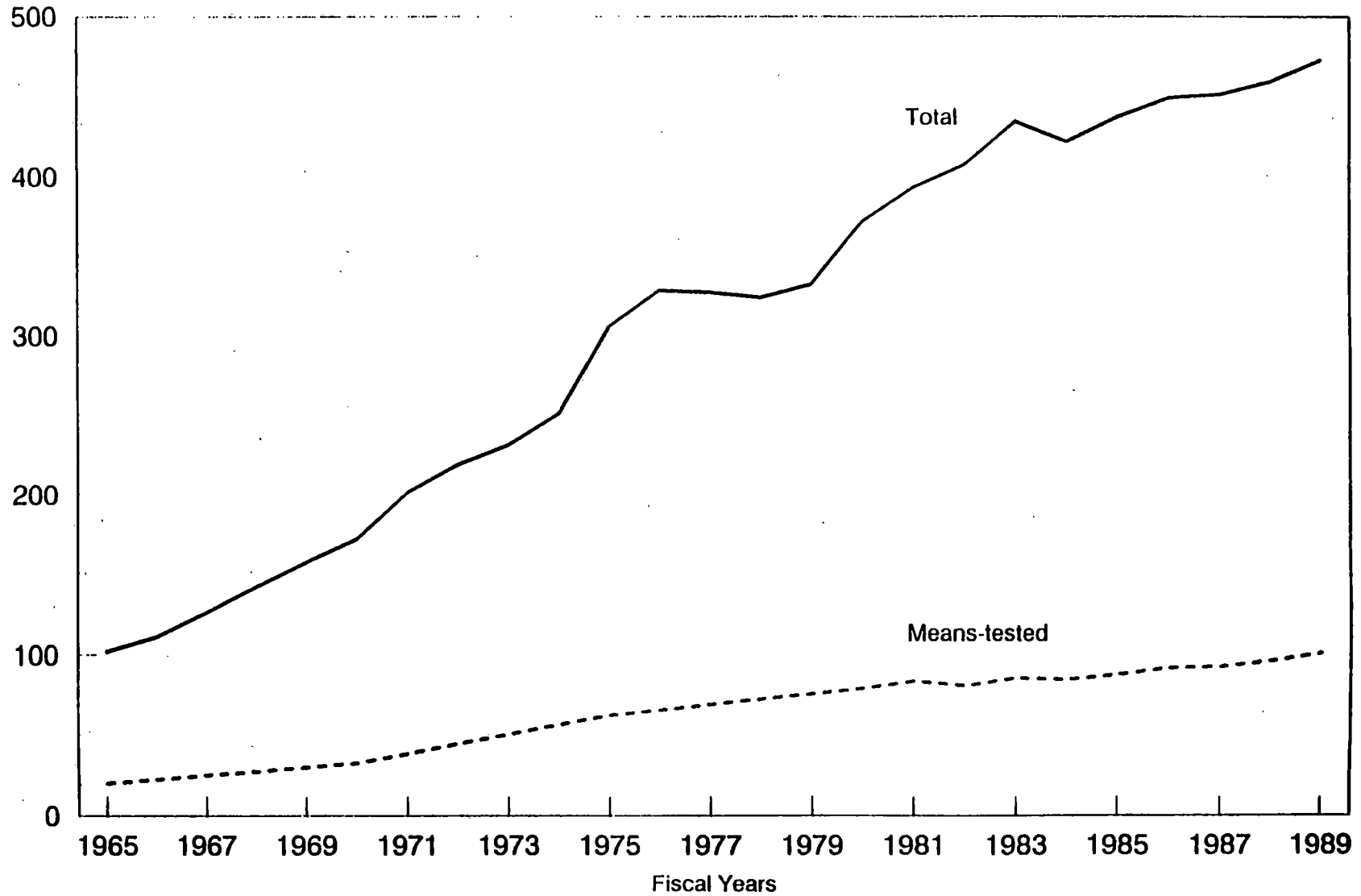
Overall Progressivity of Taxes and Transfers

The Federal tax and transfer system is highly progressive. The total effect of taxes and transfers in 1987 was to reduce overall income inequality substantially, as measured by the most commonly used index of income

CHART 2

Real Federal Transfer Payments.

Billions of 1989 dollars



Source: Office of Management and Budget.

concentration. For the lowest quintile, taxes and transfers increased their share of total cash and noncash income by 3.7 percentage points, from 1.0 percent to 4.7 percent (Table 5). For the top quintile, taxes and transfers reduced their income share by 6.6 percentage points. While income and payroll taxes reduce income inequality, Government transfers have produced the bulk of the reduction in income inequality, again measured using the most common index of income inequality.

While it would be useful to compare 1987 with earlier years to gauge how the tax and transfer system has affected the income distribution over time, data are not published in a comparable form for all noncash transfers in years prior to 1986. Even if it were possible to extend the comparisons, year-to-year variations in the measured progressivity of the tax and transfer system should be viewed with caution. These changes are not necessarily the result of changes in policy, but also reflect the influences of recessions, changing family structures, inflation, and other factors. In general, in recent years, changes in the distributional effect of the Federal Government tax and transfer system have been negligible compared with the large, progressive nature of the basic system itself.

Table 5
Income Distribution Before and After Taxes and Transfers
1987

Income Quintile ^a	(1) Income Excluding Transfers ^b	(2) Income After Taxes ^c	(3) After-Tax Income plus Transfers ^d	(4) Net Impact ^e
	----- percent -----			percentage points
1	1.0	1.2	4.7	3.7
2	7.6	8.5	10.6	3.0
3	15.2	15.8	16.1	0.9
4	24.3	24.8	23.2	-1.1
5	52.0	48.5	45.4	-6.6

^aQuintiles of households, defined using income definition in each column.

^bMoney income plus capital gains and health insurance, less government transfers.

^cIncome as in b, less Federal and state income taxes and employee social security payroll taxes.

^dIncome as in c, plus cash and non-cash government transfers.

^eNet impact of taxes and transfers on the share of after-tax income; column (3) minus column (1).

Source: Bureau of the Census (1989)

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H. Aaron, Wall Street Journal, February 14, 1990.

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 23, 1990

MEMORANDUM FOR GOV. JOHN H. SUNUNU
THE HONORABLE NICHOLAS BRADY
THE HONORABLE RICHARD DARMAN

FROM: MICHAEL J. BOSKIN *mjs*

RE: Real GNP Growth

John raised the question yesterday whether there were "runs" of years when real growth averaged less than 3 percent. The following information may be useful:

- 1) The average real growth rate from 1949 to 1989 was 3.4 percent. *40 years*
- 2) In that period, real growth was 3 percent or higher 23 times; 4 percent or higher 18 times; 5 percent or higher 12 times;
- 3) The decade averages are as follows: 1950's 3.9 percent; 1960's, 4.1 percent; 1970's, 2.8 percent; 1980's, 2.6 percent. The 1970's had very low productivity growth, but very rapid labor force growth (babyboomers plus greater female participation); The 1980's had slower labor force growth and were contaminated by the very deep 1982 recession.
- 4) Taking long periods, say 5 or 10 years, those that include either the 1975 recession or the 1982 recession (the two worst since WW II, each of which followed a disinflation from double-digit levels) will usually fall a little short of 3 percent.
- 5) In summary, 3 percent is quite reasonable even with slow labor force growth so long as we can achieve long-run historical (post WW II average) productivity growth and avoid a deep recession.

From Sensebrenner

Have Fish

Ranking &

Talking against (R) position

~~AA~~
Callio to Fish?

**"LINE 12" \$50 BILLION DEFICIT PACKAGE COMPARED TO
CBO REVISED BASELINE**

(\$ billions)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>5 yr. Total</u>
CBO February Baseline w/o RTC 1/	130	137	145	131	117	---
Exclude Social Security	74	85	98	112	128	497
Add OMB's RTC Guesstimate	59	51	3	-9	-10	94
CBO Baseline with RTC and w/o Social Security	263	273	246	234	235	---

"Line 12" \$50 Billion Package

Policy savings	-48	-59	-69	-82	-100	-358
Interest	-2	-6	-11	-18	-25	-62
Total savings	-50	-65	-80	-100	-125	-420
PLAN DEFICIT	213	208	166	134	110	---

**"LINE 12" \$50 BILLION DEFICIT PACKAGE COMPARED TO
OMB REVISED BASELINE**

(\$ billions)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>5 yr. Total</u>
OMB 5/20/90 Baseline w/o RTC 1/	138	130	92	61	32	---
Exclude Social Security	77	87	103	120	133	497
Add OMB's RTC Guesstimate	59	51	3	-9	-10	94
OMB Baseline with RTC and w/o Social Security	274	268	198	172	155	---

"Line 12" \$50 Billion Package

Policy savings	-48	-59	-69	-82	-100	-358
Interest	-2	-6	-11	-18	-25	-62
Total savings	-50	-65	-80	-100	-125	-420
PLAN DEFICIT	224	203	118	72	30	---

1/ Excludes RTC including all interest related costs.

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

	<u>\$ billions</u>
(1) January baseline deficit estimate excluding RTC (Admin.).....	93
(2) Adjust economic assumptions for:	
(a) 1st two quarters of FY '90 only.....	10
-- Interest.....	(1)
-- Receipts.....	(3)
-- Inflation (COLAs).....	(5)
(b) Smooth return to revised Administration forecast.....	22
-- Interest.....	(12)
-- Receipts.....	(10)
<div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>NOTE: 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 about \$60 billion -- after adjusting for FY '90 economic changes alone.</p> </div>	
(3) Subtotals:	
(a) Baseline deficit adjusted for revised economics (1st 2 Q of FY'90).....	125
(b) Associated sequester (with target of \$64B).....	61
-- Defense BA cut (from baseline).....	15%
-- Nondefense BA cut (from baseline).....	22%

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

	<u>\$ billions</u>
(4) Adjust for selected technical reestimates of:	
-- Receipts (primarily: downward revision of BEA wages/salaries).....	20
-- Bank Insurance Fund (extrapolation of adverse '90 experience).....	4
-- SSI/DI (Zebley court decision).....	2
-- Food Stamps (increased participation).....	1
-- Medicaid (higher state spending).....	1
-- Medicare (actuary's model change).....	1
-- Old FSLIC resolutions (higher pricing of old deals).....	1
-- Veterans Compensation/Loan Guarantees (increased participation and loan defaults).....	1
-- Unemployment benefits (increased participation).....	1
-- Farm price supports (lower subsidies due to higher farm prices).....	-2
-- Debt service.....	4
(5) Subtotals:	
(a) Baseline deficit adjusted for economic changes and selected technical changes.....	159
(b) Associated sequester.....	95
-- Defense BA cut (from baseline).....	24%
-- Nondefense BA cut (from baseline).....	37%

\$ billions

(6) Adjust for additional S&L costs..... 41 - 68

NOTE: This additional element is highly uncertain. It involves complex estimating problems with regard to both additional S&L losses and RTC working capital requirements. Under current law, additional RTC expenditures (net) would increase the required sequester amount.

(7) Total including S&L adjustments:

(a) Revised baseline deficit.....	200 - 227
(b) Associated sequester.....	136 - 163
-- Defense BA cut (from baseline).....	35% - 41%
-- Nondefense BA cut (from baseline).....	53% - 64%

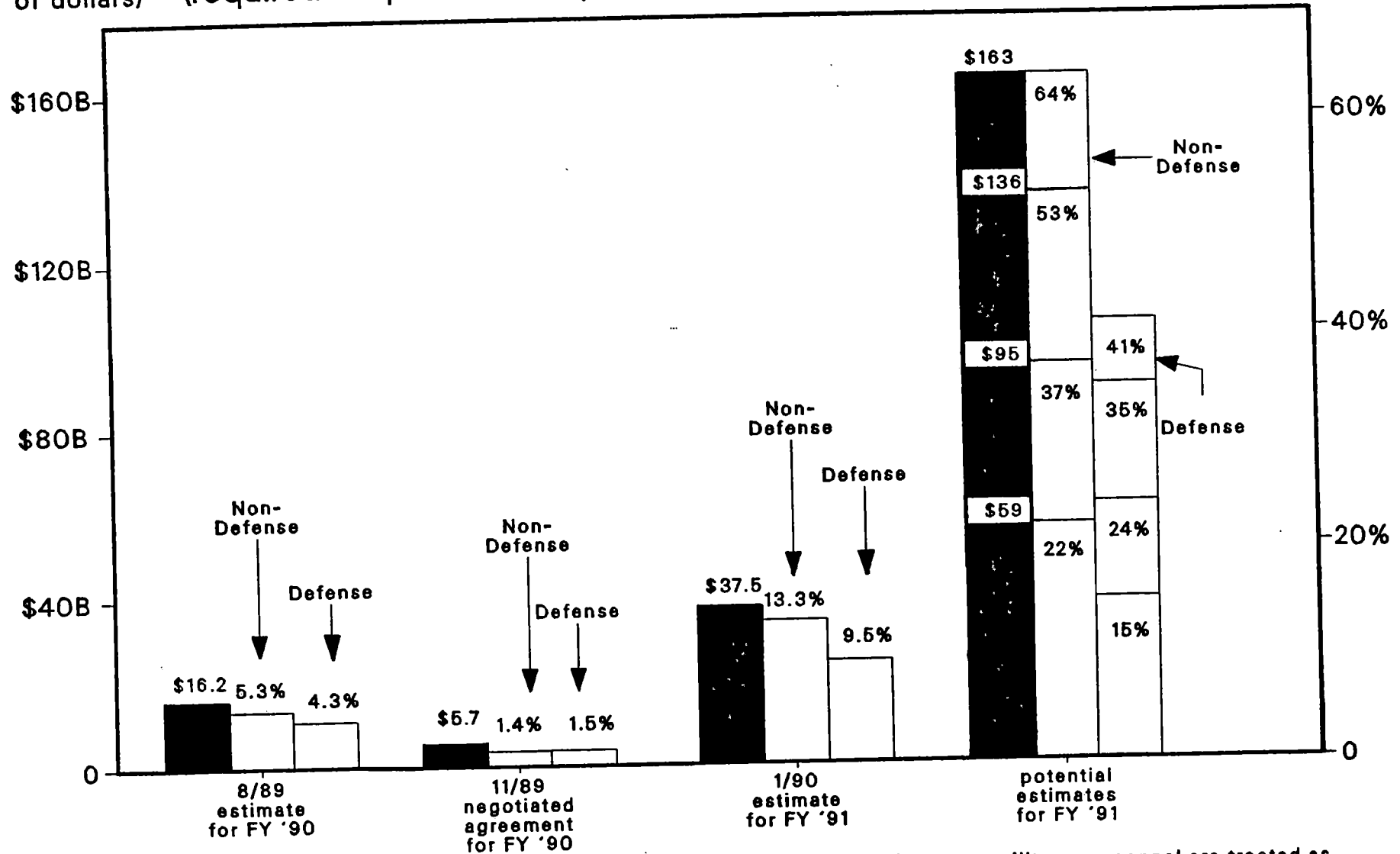
Note: Revised estimates are not due officially until July 15th. Further revisions should be expected as more data comes in and is analyzed.

CHANGING PICTURES OF SEQUESTER

Sequester
(in billions
of dollars)

(required sequester and percentage cut in budgetary resources)

Sequester
Percentage



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.

Senator Gramm

POSSIBLE \$50 BILLION DEFICIT REDUCTION PACKAGE
(outlays, in billions)

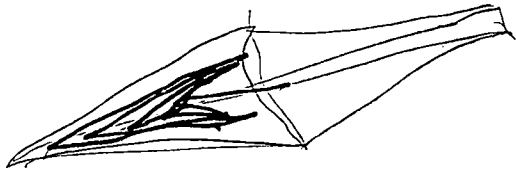
	Deficit Savings from CBO Baseline	Levels Compared to 1990
1) DEFENSE: Senator Nunn's Defense level.....	-\$9.4	+\$0.8
2) NON-DEFENSE DISCRETIONARY: Freeze 1991 outlays at aggregate FY 1990 level, and negotiate on mix among programs.....	-\$12.2	+\$0.0
3) ENTITLEMENT: Adopt President's aggregate entitle- ment savings level, and negotiate actual savings (includes offsetting receipts).....	-\$12.5	+\$31.7
4) USER FEES: Adopt President's aggregate user fees level, and negotiate type of user fees.....	-\$3.2	---
5) REVENUES: Adopt President's revenue levels, and negotiate type of receipts.....	-\$13.9	+\$84.0
SUBTOTAL.....	-\$51.2	
6) INTEREST SAVINGS.....	-\$2.0	+\$3.2
<u>TOTAL</u>	<u>-\$53.2</u>	

POSSIBLE COMPROMISE RELATIVE TO \$50 BILLION SEQUESTER

	SEQUESTER REDUCTION	COMPROMISE REDUCTION	COMPROMISE VS. SEQUESTER	1990 VS SEQUESTER	PERCENT REDUCTION FROM SEQUESTER RELATIVE TO 1990 LEVELS
DEFENSE	-\$25	-\$9.4	+\$15.6	-\$14.8	-5.0%
NON-DEFENSE DISCRETIONARY	-\$19	-\$12.2	+\$6.8	-\$5.4	-2.6%
ENTITLEMENTS	-\$5	-\$12.5	-\$6.5	+\$38.7	(+7.1%)
USER FEES	---	+\$3.2	+\$3.2	---	---
REVENUES	---	+\$13.9	+\$13.9	---	---
NET INTEREST	-\$2	-\$2.0	+\$0.0	---	---
TOTAL FEDERAL OUTLAYS					+1.7%

\$50 BILLION SEQUESTER VERSUS CURRENT FY 1990 SPENDING LEVELS

	SEQUESTER REDUCTION	1990 VERSUS SEQUESTER	PERCENT REDUCTION FROM SEQUESTER RELATIVE TO 1990 LEVEL
DEFENSE	-\$25	-\$14.8	-5.0%
NON-DEFENSE DISCRETIONARY	-\$19	-\$5.4	-2.6%
ENTITLEMENTS	-\$5	+\$38.7	(+7.1%)
USER FEES	---	---	---
NET INTEREST	-\$2	---	---
REVENUES	---	---	---
NET INTEREST	-\$2	---	---
TOTAL FED. OUTLAYS	-\$52	+\$20.6	+1.7%



SAVINGS FROM MODIFICATIONS TO COST-OF-LIVING-ADJUSTMENTS
(assumes CBO economics, in billions of dollars)

06/01/90	annual savings					5-year savings
	1991	1992	1993	1994	1995	
COLA Delays:						
3-month:						
Social Security 1/.....	2.3	2.6	2.6	2.6	2.6	12.7
Other Non-Means-Tested.....	<u>0.7</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>0.9</u>	<u>4.1</u>
Subtotal.....	3.1	3.4	3.4	3.4	3.5	16.8
Means-Tested.....	<u>0.6</u>	<u>0.4</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>2.4</u>
Total.....	3.7	3.8	3.8	3.9	4.0	19.2
6-month:						
Social Security 1/.....	4.7	5.2	5.1	5.2	5.2	25.4
Other Non-Means-Tested.....	<u>1.4</u>	<u>1.6</u>	<u>1.6</u>	<u>1.7</u>	<u>1.7</u>	<u>8.1</u>
Subtotal.....	6.1	6.8	6.8	6.9	6.9	33.5
Means-Tested.....	<u>1.1</u>	<u>0.8</u>	<u>0.9</u>	<u>0.9</u>	<u>1.0</u>	<u>4.7</u>
Total.....	7.2	7.6	7.7	7.8	7.9	38.2
9-month:						
Social Security 1/.....	7.1	7.8	7.7	7.8	7.8	38.2
Other Non-Means-Tested.....	<u>2.1</u>	<u>2.4</u>	<u>2.5</u>	<u>2.5</u>	<u>2.6</u>	<u>12.1</u>
Subtotal.....	9.2	10.2	10.2	10.3	10.4	50.4
Means-Tested.....	<u>1.6</u>	<u>1.1</u>	<u>1.3</u>	<u>1.3</u>	<u>1.4</u>	<u>6.7</u>
Total.....	10.8	11.3	11.5	11.7	11.8	57.1
6-month, 1991 and repeated in 1992:						
Social Security 1/.....	4.7	7.9	10.6	10.7	10.8	44.7
Other Non-Means-Tested.....	<u>1.5</u>	<u>2.3</u>	<u>3.3</u>	<u>3.4</u>	<u>3.5</u>	<u>14.1</u>
Subtotal.....	6.2	10.2	14.0	14.1	14.3	58.8
Means-Tested.....	<u>1.1</u>	<u>1.2</u>	<u>1.8</u>	<u>1.9</u>	<u>2.0</u>	<u>8.0</u>
Total.....	7.3	11.4	15.7	16.0	16.2	66.7
12-month, 1991 and repeated in 1992:						
Social Security 1/.....	7.1	10.2	18.7	21.6	21.7	79.3
Other Non-Means-Tested.....	<u>2.1</u>	<u>3.2</u>	<u>5.7</u>	<u>6.8</u>	<u>7.0</u>	<u>24.7</u>
Subtotal.....	9.2	13.4	24.4	28.4	28.7	104.0
Means-Tested.....	<u>2.0</u>	<u>1.5</u>	<u>2.9</u>	<u>3.7</u>	<u>3.8</u>	<u>14.0</u>
Total.....	11.1	14.9	27.3	32.1	32.5	118.0

SAVINGS FROM MODIFICATIONS TO COST-OF-LIVING-ADJUSTMENTS
(assumes CBO economics, in billions of dollars)

06/01/90

	annual savings					5-year savings
	1991	1992	1993	1994	1995	
COLA Freeze 1991 Only:						
Social Security 1/.....	7.1	9.7	9.8	9.9	10.0	46.5
Other Non-Means-Tested.....	<u>2.1</u>	<u>3.0</u>	<u>3.1</u>	<u>3.2</u>	<u>3.3</u>	<u>14.8</u>
Subtotal.....	9.2	12.7	13.0	13.1	13.3	61.2
Means-Tested.....	<u>2.1</u>	<u>2.5</u>	<u>2.6</u>	<u>2.8</u>	<u>2.8</u>	<u>12.8</u>
Total.....	11.2	15.2	15.6	15.9	16.1	74.0
COLA Cuts:						
CPI Minus 1%, 1991 Only:						
Social Security 1/.....	1.7	2.4	2.4	2.4	2.4	11.3
Other Non-Means-Tested.....	<u>0.5</u>	<u>0.7</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>3.6</u>
Subtotal.....	2.2	3.1	3.2	3.2	3.2	14.9
Means-Tested.....	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>	<u>0.5</u>	<u>2.0</u>
Total.....	2.5	3.5	3.5	3.6	3.6	16.8
CPI Minus 1%, 1991 and 1992:						
Social Security 1/.....	1.7	4.2	4.9	4.9	4.9	20.6
Other Non-Means-Tested.....	<u>0.5</u>	<u>1.3</u>	<u>1.6</u>	<u>1.6</u>	<u>1.6</u>	<u>6.5</u>
Subtotal.....	2.2	5.5	6.4	6.5	6.5	27.2
Means-Tested.....	<u>0.3</u>	<u>0.7</u>	<u>0.8</u>	<u>0.9</u>	<u>0.9</u>	<u>3.7</u>
Total.....	2.5	6.2	7.3	7.4	7.4	30.8
CPI Minus 1%, 1991-1995:						
Social Security 1/.....	1.7	4.2	6.8	9.6	12.5	34.9
Other Non-Means-Tested.....	<u>0.5</u>	<u>1.3</u>	<u>2.1</u>	<u>3.0</u>	<u>3.9</u>	<u>10.8</u>
Subtotal.....	2.2	5.5	9.0	12.6	16.4	45.7
Means-Tested.....	<u>0.3</u>	<u>0.7</u>	<u>1.1</u>	<u>1.7</u>	<u>2.2</u>	<u>6.0</u>
Total.....	2.5	6.2	10.1	14.3	18.6	51.8
CPI Minus 2%, 1991 Only:						
Social Security 1/.....	3.5	4.7	4.8	4.8	4.8	22.5
Other Non-Means-Tested.....	<u>1.0</u>	<u>1.5</u>	<u>1.5</u>	<u>1.6</u>	<u>1.6</u>	<u>7.2</u>
Subtotal.....	4.5	6.2	6.3	6.4	6.4	29.7
Means-Tested.....	<u>0.6</u>	<u>0.8</u>	<u>0.8</u>	<u>0.9</u>	<u>0.9</u>	<u>4.0</u>
Total.....	5.1	7.0	7.1	7.3	7.3	33.8

SAVINGS FROM MODIFICATIONS TO COST-OF-LIVING-ADJUSTMENTS
(assumes CBO economics, in billions of dollars)

06/01/90	annual savings					5-year savings
	1991	1992	1993	1994	1995	
CPI Minus 2%, 1991 and 1992:						
Social Security 1/.....	3.5	8.3	9.7	9.8	9.8	41.1
Other Non-Means-Tested.....	<u>1.0</u>	<u>2.6</u>	<u>3.1</u>	<u>3.1</u>	<u>3.2</u>	<u>13.0</u>
Subtotal.....	4.5	10.9	12.8	12.9	13.0	54.1
Means-Tested.....	<u>0.6</u>	<u>1.4</u>	<u>1.5</u>	<u>1.8</u>	<u>1.8</u>	<u>7.1</u>
Total.....	5.1	12.3	14.3	14.7	14.8	61.2
CPI Minus 2%, 1991-1995:						
Social Security 1/.....	3.5	8.3	13.5	19.0	24.6	68.9
Other Non-Means-Tested.....	<u>1.0</u>	<u>2.6</u>	<u>4.2</u>	<u>5.9</u>	<u>7.7</u>	<u>21.4</u>
Subtotal.....	4.5	10.9	17.7	24.9	32.3	90.3
Means-Tested.....	<u>0.6</u>	<u>1.4</u>	<u>2.3</u>	<u>3.4</u>	<u>4.3</u>	<u>11.9</u>
Total.....	5.1	12.3	20.0	28.2	36.6	102.2
COLA Guarantee at 2%:						
Social Security 1/.....	3.6	9.3	15.3	21.6	28.2	78.0
Other Non-Means-Tested.....	<u>1.1</u>	<u>2.8</u>	<u>4.7</u>	<u>6.7</u>	<u>8.8</u>	<u>24.2</u>
Subtotal.....	4.7	12.1	20.0	28.3	37.0	102.2
Means-Tested.....	<u>1.4</u>	<u>2.2</u>	<u>3.3</u>	<u>4.5</u>	<u>5.6</u>	<u>17.1</u>
Total.....	6.1	14.4	23.3	32.8	42.6	119.3
ADDENDA:						
COLA Percentages (effective Jan. 1):						
January Budget.....	3.9%	4.1%	3.8%	3.6%	3.3%	
CBO January.....	4.1%	4.4%	4.3%	4.3%	4.3%	

Rules of Thumb (first year effects):	Social Security	Other	Total
Impact of 1% COLA:	1.7	0.8	2.5
Impact of 6-Month Delay of 1% Higher COLA.....	-1.2	-0.6	-1.8

1. Net of interaction effects with other programs.

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SAVINGS FROM MODIFICATIONS TO INCOME TAX INDEXATION
 (assumes CBO economics, in billions of dollars)

06/01/90	annual savings					5-year savings
	1991	1992	1993	1994	1995	
Index to One-Half CPI:						
1991 and 1992.....	2.8	9.1	12.9	13.7	14.6	53.1
1991-1995.....	2.8	9.1	16.4	24.8	34.3	87.4
Freeze Indexation:						
1991 and 1992.....	5.7	18.3	26.0	27.8	29.6	107.3
1991-1995.....	5.7	18.3	33.4	51.0	71.4	179.6

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SUNUNU ON THE TAX QUESTION: 'THE TABLE IS CLEAN'

Scripps Howard News Service

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By ANN McFEATTERS

Scripps Howard News Service

WASHINGTON _ True or false: George Bush has buttoned his lips and is willing to consider new taxes as a way out of the budget mess.

Answer from his top aide, White House chief of staff John Sununu: Bush has agreed to "no pre-conditions" on the budget talks with Congress but anybody who wants to persuade him higher taxes are needed has a lot of work to do.

The implication to Democrats Thursday was that if new or higher taxes emerge from the budget negotiations, Bush will try to blame Democrats and wash his hands of the uproar. Bush's main slogan in the 1988 election campaign was: "Read my lips. No new taxes."

Thursday, the fifth day since Bush entered the 1990 budget fray with his Sunday "summit" with congressional leaders, Democrats on Capitol Hill were personally raging at Bush on the telephone. They were steamed because Sununu gave a not-for-attribution interview to reporters on Air Force One Wednesday that if Democrats want to put tax hikes on the negotiating table Bush would listen but would not be likely to be persuaded.

This flies in the face of what the White House was saying all week _ that the White House has an open mind on all aspects of the budget debate and agreed to "no pre-conditions" at the budget talks between the White House and 21 legislators. The talks start Tuesday.

A reporter who heard the remarks identified Sununu as the embarrassing source of the disavowal of a serious White House look at new taxes.

In an interview Thursday with seven news services, including Scripps Howard, Sununu said, "The statement (on the airplane) was designed to make sure that people did not interpret 'no preconditions' as retaining an obligation for a final structure of the package (including tax hikes) and an effort to emphasize that no pre-conditions is no pre-conditions."

He said, "I do think that as soon as the president and the leadership said 'no pre-conditions,' there was an immediate reaction outside that 'no pre-conditions' had the condition that there had to be taxes in the package."

He insisted, "The table is clean. People tried to assume there were certain things (such as a tax increase) that were stuck in the middle of the table."

Sununu did not directly answer whether Bush was upset with him. He said only that House Speaker Tom Foley, D-Wash., raised the issue of the airplane comments on the phone to Bush and Bush demanded to see a news account of the comments.

Sununu said that when Bush saw the story, he said the White House was to stress that the president intends that no pre-conditions means nothing has to be included and nothing has to be excluded.

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Sununu said "sure there are" some tax increases that the White House finds more palatable than others. The White House has a package of \$16 billion tax increases, often billed as user fees, in its budget.

He said the fact that the House last week approved the Democratic leadership budget by a vote of 218 to 208 - too narrow a margin to assure anything but defeat - means that the budget process is not working and that a summit is the only answer.

"The president has said all along he wants to move ahead on the failure in the Congress under the normal process to get a budget," Sununu said.

Sununu would not speculate which taxes might be in a final package. "We are not going to negotiate with ourselves in the press."

But an income tax hike, he said, would be "towards the bottom" of his list.

Sununu said there are a lot of economists in and out of the administration who believe strongly that raising taxes will not help the economy grow and could make the deficit worse. The likelihood is that they will continue to argue that to the president, he said.

"I cannot believe there is new data that would suggest to them their interpretation of the impact on the economy of certain taxes is going to change."

Sununu said that while he will be at the table with the negotiators, "I will take to the table the president's policies. And anyone who thinks the president is not going to know and be involved day to day with what's going on does not understand this president."

He said he has no idea how long the negotiations will take before there is a budget agreement but would hope it would be before the November elections.

"Things here seem to take longer than you expect," he said with a grin.

Sununu said the "flurry" over the past week is "one of the hazards of getting the process started and I suspect there will be slightly different kinds of flurries as we go through the process. But my feeling is that everybody involved thinks it is important enough that this alternative mechanism of getting a budget may be the only hope of getting a budget."

To be workable, Sununu said, an agreement has to be acceptable to the president and to a majority of the Democrats and Republicans in the House and Senate.

Although past summits have not been greeted as successful, Sununu held out hope this one will be because it has more members. That could mean more detailed knowledge of the issues, he said.

(Ann McFeatters covers the White House for Scripps Howard News Service.)

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