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10/18/90 Number 149

THE CONGRESSIONAL BUDGET PROCESS: THE REAL CULPRIT IN WASHINGTON'S FISCAL CRISIS

(Updating Gordon S. Jones and John Marini, eds., *The Imperial Congress: Crisis in the Separation of Powers* [New York: Pharos Books, 1989].)

Washington's latest fiscal crisis is one in a series of budget nightmares that have plagued the capital for nearly two decades. They are the result of a Congress-dominated budget process that is out of control and in desperate need of wide-scale reform. As noted in the 1989 book *The Imperial Congress*:

> ... the current budget process has evolved into a procedure which promotes confrontation rather than negotiation between the executive and legislative branches. The Congress largely dominates budget decisions, leading to higher spending and larger deficits that in the period preceding the enactment of the Congressional Budget Act.[1]

The current federal budget process was established by the 1974 Congressional Budget and Impoundment Control Act. Passed by an assertive Congress in the wake of the Watergate scandal, the Act expanded congressional control over the budget process while limiting the President's ability to curb congressional spending and otherwise set national budget policy. As the sponsors of the Act explained at the time, its purpose was to "assure congressional budget control; provide for congressional determination of the appropriate level of federal revenues and expenditures...[and]...establish national budget priorities."

Everyone to Blame. Although the Act achieved its goal of increasing Congress's control over spending, it created an unwieldy budget process in which 535 Congressmen and Congresswomen each can secure funding for pet projects while avoiding responsibility for the resulting deficits. By curtailing the President's power to check congressional spending, the Act obliterated political accountability for the bottom line. Thus, while 535 politicians in Washington are empowered under the Budget Act to spend money, no one is responsible for cutting spending. The result has been spiraling federal deficits accompanied by higher taxes and partisan finger-pointing. The tragedy of the system is that because everyone is to blame, no one is to blame.

1 Gordon S. Jones and John Marini, eds., *The Imperial Congress: Crisis in the Separation of Powers* (New York: Pharos Books and The Heritage Foundation, 1989), p. 181.

Lack of Discipline. As a body of legislators, each representing separate and diverse constituencies, Congress inherently lacks the fiscal discipline needed to balance the budget. This was demonstrated during fiscal year 1976, the first year of budgeting under the new Act. Then Congress produced a budget with a deficit $22 billion higher than that proposed by President Gerald Ford. Since then, federal spending has increased at a pace double the rate of inflation, and federal revenues have nearly doubled. In inflation adjusted dollars, federal spending has grown by more than one-half trillion dollars in the fifteen years of budgeting under the Act, compared to an increase of $220 billion during the fifteen years of Great Society spending prior to passage of the Budget Act. Even during the Reagan years, when federal revenues grew by a record $474 billion, spending increased by $606 billion, including a 60 percent increase in domestic spending. And to feed its spending addiction, Congress since 1982 has passed fourteen separate tax increases.

Congress's lack of fiscal discipline also is demonstrated by its consistent failure to abide by the provisions of its own budget law. Lawmakers routinely have ignored the budget deadlines set forth in the Act. For thirteen of the sixteen years under the Act, Congress has failed to pass its First Budget Resolution on time, and for seven of the last eight years it has failed to complete its budget before the start of the new fiscal year. Instead, Congress stalls, avoiding spending cuts that may alienate constituents until a "budget crisis" ensues that will create a political environment more conducive to raising taxes. In recent years, such congressional inaction has resulted in the need for frequent emergency stop-gap spending measures passed in lieu of a budget. Often the President is faced with a choice of signing such emergency spending measures or shutting down the federal government. Since 1975, Congress has passed 46 emergency stop-gap spending bills, and in six of the last ten years the federal government has run out of funds.[2]

Ignoring Promises. When Congress does reach a budget agreement it routinely ignores its promises to cut spending. Perhaps the most troubling case of congressional budget chicanery occurred after the 1982 "budget summit agreement" between Congress and Ronald Reagan. In exchange for a record $98 billion tax increase, Congress pledged to cut $3 in spending for every $1 raised in new taxes. Instead, Congress spent an additional $200 billion. In fact, Congress has reneged on each of the five "budget summit agreements" reached between 1982 and 1989, failing to reduce spending to agreed-upon levels, even though tax increases were included in four of the agreements.[3] The failed 1990 budget agreement and the proposed alternative are no different. In each case Congress will receive higher revenues in exchange for future unspecified cuts to be determined by congressional committees. Yet as previous budget agreements have shown, these committees are incapable of cutting spending.

In recognition of its inability to enforce its own budget laws, Congress in 1985 passed the Gramm-Rudman-Hollings (GRH) Balanced Budget and Emergency Deficit Control Act. Its purpose was to ensure automatic across the board spending cuts if Congress failed to cut on its own. Yet as with the Budget Act itself, Congress simply ignores or modifies the GRH law to avoid spending cuts. One way it does this is by waiving the law's provision that spending increases must be accompanied by offsetting cuts elsewhere. Since 1985 Congress has voted sixteen times to waive the law, and thus increase spending freely. Congress also sidesteps the law by underestimating the deficit and thus, the

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2 *Congressional Quarterly Almanacs*, 1975 - 1989.

3 Paul G. Merski, "A Decade of Budget Summitry," Tax Foundation *Issue Brief*, June 1990.

level of spending cuts necessary to meet GRH deficit reduction targets. The result: Congress has failed to meet GRH deficit ceilings every year since the law was enacted, exceeding the deficit limits by an average of $25 billion per year.[4]

Congress's lack of budget discipline is fueled by a pro-spending bias that inevitably dominates the congressional budget process. Driven by special interest demands for increased funding and an overriding hunger for reelection, Congressmen simply cannot say "no" to more federal spending. Nowhere is this more clearly illustrated than in Congress's spending record so far this year. While Congress on one hand was negotiating with the White House over a deficit reduction package, on the other hand it was passing record spending increases. Appropriation bills passed by the House amid budget negotiations this year call for increasing federal spending by $59 billion next year, or 17 percent more than last year. Even the bipartisan 1990 budget agreement rejected by the House on October 4 called for increasing spending by $222 billion over five years.

Return to Discipline. No deficit solution is possible without reforms that return discipline to the federal budget process. And such discipline will exist only when it becomes possible to hold policy makers accountable to the bottom line: the deficit. Yet no Congressman alone can be held accountable for the deficit. Rather, Congressmen primarily are accountable to their own state or district interests, which generally demand a greater return of their federal tax dollars – or more spending. Only the President represents a national constituency and the national interest that primarily is served by saying "no" to more spending. Yet the 1974 Budget Act stripped from the President that power.

Prior to the 1974 Budget Act, Presidents had the authority to refuse to spend funds appropriated by Congress. Examples: Thomas Jefferson in 1801 refused to spend funds Congress had appropriated for gunboats. Franklin Roosevelt in 1941 refused to spend funds for flood control projects that Congress had included in the War Department appropriations bill. And Lyndon Johnson, the father of the Great Society, refused to spend large amounts of funds appropriated by Congress for domestic programs, including public housing and highway construction. In 1967 Johnson impounded $10.6 billion, or 6.7 percent of the federal budget.[5] Yet under the 1974 Budget Act, a President's decision to rescind appropriated funds has no effect unless Congress votes to accept the rescission. Since passage of the Act, Presidents have requested from Congress 894 spending rescissions, yet Congress has approved only 315. All told, Congress has rejected $37.4 billion in rescissions requested by Presidents since the Budget Act was passed.[6]

Line-Item Veto. One way to check congressional spending and restore accountability to the budget process is to grant to the President line-item veto authority that currently is enjoyed by governors in 43 states.*[7] This reform will restore to the budget process a practice available to every President from George Washington until 1974: the power to rescind particular items of congressional spending that the President deems incompatible with the national interest.

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4 Stephen Moore, "Congress vs. America: How Congress Raises Its Own Pay," Heritage Foundation *Backgrounder* No. 744, December 14, 1989.

5 Jones and Marini, *op. cit.*, pp. 155-156.

6 General Accounting Office report, March 6, 1989.

7 Daniel J. Mitchell, "Eleven Conditions for a Budget Summit," Heritage Foundation *Backgrounder* No. 779, July 23, 1990.

False Spending Cuts. Another necessary budget reform is eliminating Congress's "baseline" approach to federal budgeting. Under the 1974 Budget Act, a "current services" budget must be established. This budget projects to future years the level of increased spending necessary to continue existing government policies by factoring in such considerations as changing demographics, program growth in previous congressional budgets, and inflation. Once established, this baseline locks in higher federal spending and treats as budget "cuts" any reduction in the planned increases in spending. This is how Congress routinely can decry massive spending cuts that in fact are not actual reductions in federal spending, but reductions in the rate of increase of federal spending. It allows Congress to increase spending while claiming that spending is cut.

Congress and the press, for example, have claimed with much success that Ronald Reagan cut domestic spending to the bone. In fact, however, Reagan only reduced the rate of spending growth, as domestic spending increased every year of his administration for a total increase of $240 billion. So too is the case with the 1990 budget resolution currently moving through Congress. Although described as "painful" budget cuts, the deficit reduction plan, passed by the House October 16 and currently before the Senate, does not actually cut spending from previous year levels. Instead, it would increase domestic spending by $245 billion, which excludes costs of the Savings and Loan bailout and interest payments on the national debt.[8] If Congress did not use the deceiving "baseline" approach to budgeting, it could not count such spending hikes as spending cuts.

Real Reform Proposal. Representative Christopher Cox, the California Republican, has introduced a comprehensive package of budget reforms that would amend the 1974 Budget Act to inject discipline into the congressional budget process and empower the President to enforce federal spending limits. The Cox bill would require Congress to pass a binding budget law each year, rather than the current nonbinding budget resolution. The budget law would establish legal ceilings on spending rather than the unenforceable "targets" under the Budget Act. If Congress fails to pass a budget, the President may rescind any spending Congress passes that exceeds previous year levels. Once Congress passes its budget law, it cannot exceed the law's spending ceilings without two-thirds approval from each house and the President's agreement. Should Congress exceed the ceilings in an appropriations bill, the President may sign the bill and rescind any spending above the ceilings. And in a reversal of the current practice under the 1974 Budget Act, the President's rescissions would stand unless Congress voted to restore the funding, subject to a presidential veto. Finally, the Cox plan would eliminate the need for emergency spending bills by providing for automatic funding of government at previous year levels should Congress and the President fail to reach a budget agreement.

The 1990 budget debacle should persuade Congress and the President to scrap the 1974 Budget Act and adopt reforms that will distribute more evenly between the President and Congress responsibility and accountability for the federal budget. Immediately upon completion of this year's budget, George Bush should begin drafting a comprehensive reform plan to be submitted to the next Congress. The plan should include a line-item veto, an end to baseline budgeting, and elements of the Cox reform package. Bush should make budget reform his top domestic priority for the remainder of his term.

Mark. B. Liedl
Director, U.S. Congress Assessment Project

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8 Scott A. Hodge, "The 'New' Budget Agreement: Part II, Back to Carternomics," Heritage Foundation *Backgrounder Update* No. 147, October 12, 1990.

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THE "NEW" BUDGET AGREEMENT: PART III THE FAIRNESS ISSUE – TROJAN HORSE FOR TAXING THE MIDDLE CLASS

(Updating *Backgrounder Update* No. 147, "The 'New' Budget Agreement: Part II, Back to Carter-nomics," October 12, 1990, and *Executive Memorandum* No. 289, "The 'New' Budget Agreement: Part I, From Bad to Worse," October 9, 1990.)

An outcry from the American people led to the defeat in the House of Representatives several weeks ago of the President's budget summit package that would have raised taxes by $134 billion over five years. But rather than develop a new package that reduces the deficit by restraining the growth of federal spending, congressional leaders put together an even larger tax increase. They hope to pass this record tax hike by stirring up class hatred. Since almost no American wants to send more of his paycheck to Washington, and since very few people consider themselves wealthy, lawmakers assume that calls to "tax the rich" will appeal to most Americans.

This shrill rhetoric of class warfare masks the truth. With the new package, it is ordinary workers and consumers who will be the ultimate victims of higher taxes. The reason: as Famous Thief Willie Sutton responded when asked why he robbed banks, "that is where the money is." Most income in America is earned by the middle class and any tax increase designed to raise significant revenues inevitably must tax the middle class and add to the average family's tax burden. Advocates of higher taxes assert, incorrectly, that the 1980s saw the rich get richer and the poor get poorer. They also say, again incorrectly, that the deficit exists because revenues from higher taxes on lower- and middle-income workers were offset by huge tax breaks for the rich. In reality, economic growth in the 1980s produced significant income gains for all Americans. Moreover, wealthy Americans today are paying a greater percentage of the total tax burden than ever before. Indeed, the clamor to tax the rich is based on a series of myths, and these myths are used to justify what lawmakers really want – not fairness, but a return to the tax-and-spend policies of the 1970s.

Myth #1: The economic situation of most American families declined during the 1980s.

Fact: The well-being of the average American family, as measured by either family income or household income, illustrates that the 1980s were good years. After declining sharply from 1979 to 1982, median family income and median household income started growing and both now are at all-time highs. Table 1 shows the dramatic turnaround in income trends once the high-tax economic policies of the 1970s were replaced with pro-growth policies in the 1980s.

Table 1 Trends in Family and Household Income (constant 1989 dollars)				
Year	Family Income	Yearly Change	Household Income	Yearly Change
1976	31,225	955	26,483	447
1977	31,410	185	26,629	146
1978	32,405	995	27,673	1044
1979	32,821	416	27,583	-90
1980	31,675	-1146	26,683	-900
1981	31,811	-864	26,251	-432
1982	30,394	-417	26,163	-88
1983	30,719	325	26,167	4
1984	31,547	828	26,751	584
1985	31,962	415	27,218	467
1986	33,328	1366	28,168	950
1987	33,805	477	28,447	279
1988	33,742	-63	28,537	90
1989	34,213	471	28,906	369

Source: Census Bureau.
CPI-U-XI used for inflation adjustment.

Table 2 Percent Change in Income by Class (constant 1989 dollars)					
Years	Bottom Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Highest Fifth
1973-1980	-5.1	-2.3	0.7	2.2	2
1979-1980	-5.3	-3.6	-3.3	-2.5	-3.7
1981-1989	5.9	9.3	10.6	13.4	24.5
1982-1989	11.9	11	12.6	14.2	22.1

Source: United States Senate Staff Report.

Myth #2: The rich have grown richer at the expense of the poor.

Fact: Confronted by the facts from Table 1, those who would raise taxes go on to argue that the numbers are distorted because large income gains for the wealthy mask the declining income levels among lower- and middle-income Americans. They are half right. The top 20 percent of income-earners did indeed see their inflation-adjusted incomes rise by more than 22 percent between 1982 and 1989. But the bottom 20 percent of income-earners also benefited from Reaganomics, with their inflation-adjusted incomes rising by 11.9 percent between 1982 and 1989. By contrast, between 1973 and 1980, the average incomes for the lowest 20 percent declined by 5.1 percent. Table 2 reveals the percentage change in inflation-adjusted incomes by each income quintile. The figures demonstrate conclusively that poor Americans suffered throughout the 1970s and all Americans suffered during the late 1970s, while all classes of Americans saw their incomes increase during the 1980s.

Myth #3: The budget deficit exists because the rich received huge tax cuts during the 1980s.

Fact: Tax revenues more than doubled during the 1980s, climbing from $517 billion in 1980 to an estimated $1.044 trillion in 1990. Federal taxes rose from an average of 18.3 percent of gross national product in the 1970s to more than 19 percent in the 1980s. The budget deficit exists because federal spending climbed by an even greater amount. If federal spending had "only" grown by the rate of inflation during the 1980s, the nation today would enjoy a budget surplus of more than $125 billion.

In any case, higher taxes on the rich would barely dent the budget deficit. Even if lawmakers confiscated every dollar of individual taxable income above $1 million, they could only run the government for a little more than twelve days.

Myth #4: The rich are not paying their fair share of taxes.

Fact: The share of the income tax burden paid by the top one percent of income-earners has climbed from 18 percent in 1981 to 25 percent in 1987, the latest year for which official figures are available. The Congressional Budget Office estimates that the wealthiest five percent have seen their share of the income tax burden climb from 36 percent in 1980 to 44 percent in 1990. The rise in income tax payments by the wealthy is, in part, a result of higher incomes and confirms the supply-side hypothesis that lower income tax rates encourage individuals to remove money from tax shelters and report it as taxable income.

Taxing the Poor

One element of the unfairness issue is true: higher Social Security taxes have disproportionately hurt poor and middle-income Americans. Social Security payroll taxes have risen considerably in the last ten years, largely thanks to legislation enacted in the 1970s. Many lower-income Americans pay no income taxes, mostly due to the 1986 Tax Reform Act. Payroll taxes, by contrast, are levied against the first dollar of income, so they fall particularly hard on those with lower incomes. The question of fairness thus requires reducing the excessive burden of payroll taxes on lower- and middle-income citizens. Senators Robert Kasten, the Wisconsin Republican, and Daniel Patrick Moynihan, the New York Democrat, have introduced legislation to reduce the payroll tax and prevent politicians from spending surplus Social Security tax revenues on other government programs. Lower payroll taxes would spur job creation and increase after-tax income for tens of millions of Americans. The alternative, raising taxes on middle- and upper- income taxpayers to "balance" high payroll taxes on lower income taxpayers, simply means all taxpayers lose.

The point that higher taxes ultimately hurt poor blacks, Hispanics, and other minorities was made this week by the U.S. Civil Rights Commission. The Commission noted that in bad economic times, black and Hispanic unemployment rates rise the fastest. In good times, a tight labor market encourages employers to cast a wider net when hiring, thus breaking barriers that have prevented minorities, women, and persons with disabilities from gaining better-paying jobs. Civil rights laws can do little to expand opportunities for members of historically disadvantaged groups when opportunities for all Americans shrink.

Commissioner Russell G. Redenbaugh warns that "It's becoming increasingly clear that the U.S. is now in an economic recession." Therefore he concludes that "To raise taxes when an economy is already weak and in a recession is like throwing a drowning man a rock." Redenbaugh adds that "A zero capital gains tax rate would be a magnet to draw and hold the wealth that is produced in" the inner cities. Commissioner Carl A. Anderson adds that "To me, this is quite a strong statement on implementation of civil rights policy and the need for a strong growth economy." These commissioners understand that a high-tax policy which transfers money from the productive sector of the economy to the government will stifle economic growth and thus harm minorities all Americans.

The 1970s and 1980s proved that low taxes trigger strong economic growth and thus higher income levels and living standards for all Americans. More than other citizens, it is the poor who most depend on a healthy economy. The high-tax decade of the 1970s culminated in prolonged economic stagnation. Inflation-adjusted gross national product was smaller in 1982 than it was in 1979, and it was the poor who suffered most during this period. Once the economic policy changes of the early 1980s took effect, however, Americans saw their incomes and living standards rise. The question policy makers face today is whether to retreat to the policy mistakes of the 1970s by raising taxes or to continue America's longest-ever period of peacetime economic growth by limiting the size of government.

A tax hike based on the politics of envy is little more than a Trojan Horse. Once the tax-increasers breach the taxpayers' defenses, economic policy will degenerate to the failed tax-and-spend policies of the 1970s. Today it is tax hike for the "rich": tomorrow it will be pink slips for the poor.

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THE FOUR BIG LIES OF THE "NEW" BUDGET AGREEMENT

(Updating *Backgrounder Update* No. 148, "The 'New' Budget Agreement: Part III, The Fairness Issue - Trojan Horse for Taxing the Middle Class, October 18, 1990; *Backgrounder Update* No. 147, "The 'New' Budget Agreement: Part II, Back to Carternomics," October 12, 1990; and *Executive Memorandum* No. 289, "The 'New' Budget Agreement: Part I, From Bad to Worse," October 9, 1990.)

The House of Representatives enacted the largest tax increase in America's history October 16, raising taxes by at least $170 billion over five years. The Senate is poised to follow suit today with a tax hike of equivalent proportions. Neither bill cuts one cent of spending except for defense. The two bills will then go to a House-Senate conference committee to iron out differences. If the conference commettee's changes are approved by each chamber, the legislation goes to the White House for the President's signature or veto.

While the House and Senate bills differ to some degree, both are based on lies repeated apparently unashamedly by the White House and top Republican and Democratic congressional leaders. Both bills return to the tax-and-spend policies of the 1970s. Higher taxes would be used to finance more than $245 billion of additional federal spending. If either bill, or any possible combination of the two, is signed into law by the President, the economy almost certainly will fall into a recession.

Administration officials consistently have claimed that the President must capitulate since failure to sign a tax bill results in a stalemate with Congress. The deficit, this argument goes, then would remain unacceptably large, and the Federal Reserve Board would not adopt an easy money policy to lower interest rates. The White House, led by Office of Management and Budget Director Richard Darman, is deliberately misleading America when it puts the choices this way. George Bush need not choose between higher taxes and higher deficits. The President instead can achieve the largest deficit reduction in history without one penny of new taxes by using the automatic Gramm-Rudman-Hollings spending restraint mechanism known as sequestration.

The first step is a veto of the tax increase being prepared by Congress. The President should then demand, and responsible lawmakers should then produce, a full year spending bill, or Continuing Resolution, that funds the government at a level consistent with a partial $40.1 billion sequester. While politicians in Congress would not be inclined to support this request, their other alternatives

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This is Part 4 in a series of Heritage Foundation studies on the "new" budget agreement. Parts I, II, and II are listed at the beginning of this study.

would be either to shut the government by failing to pass any spending bill or to allow a current law sequestration to go into effect, automatically reducing fiscal year 1991 spending – and the deficit – by an estimated $85.3 billion.

The choice is therefore not between higher taxes and higher deficits, each of which drains resources out of the economy's productive sector. The honest choice is between the record-high tax increases proposed in Congress, all the revenues from which are used to fund higher spending, and a partial sequester, which reduces the deficit by addressing the true problem – excessive federal spending.

Many politicians would characterize a $40.1 billion partial sequester as an excessive "cut" in government spending, even though total federal spending in 1991 after sequestration would still be more than $30 billion higher than 1990 spending, even if the costs of the Deposit Insurance Bailout are not counted. An attempt to repeal, waive, or suspend Gramm-Rudman-Hollings would certainly be forthcoming if the White House adopted a pro-growth partial sequester strategy. The President, however, can veto any legislation attempting to gut the deficit reduction law. Congress would have trouble overriding this veto. An amendment to fund a temporary spending bill at a level consistent with a $40.1 billion sequester received 186 votes in the House of Representatives, well beyond the 145 votes needed to sustain a veto.

With the economy facing a possible recession, one of the major advantages of a sequester is that taxes are not raised. Instead of taking money out of the hands of consumers, workers, investors, savers, farmers, the elderly, the poor, and others who would see their tax burdens increase, a sequester makes across-the-board cuts in projected spending levels for affected programs. An equally important benefit of sequestration is deficit reduction. As the following table demonstrates, not only does a sequester produce real savings in the first year, it also generates considerable savings over five years. And unlike the supposed $500 billion of deficit reduction in the tax bills before Congress, the sequester savings are real. With a sequester, there are no budget gimmicks, no "user fees" masquerading as spending cuts, and no phantom savings that never materialize.

FIVE-YEAR SAVINGS FROM $40.1 BILLION SEQUESTER
($ billions)

Year	1991	1992	1993	1994	1995
Savings	$40.1	$58	$70	$79	$88

Source: Congressional Budget Office.

Administration advisors continuously have rejected a sequester strategy without ever explaining why it would not work. Along with most of the leadership in Congress, the Bush White House and Treasury continue to lie to the nation. They know the truth, yet they continue to insist that: 1) a budget agreement will lower the deficit; 2) the pending budget agreement includes substantial cuts in spending on federal programs; 3) no agreement means the deficit will not be reduced; and 4) the Federal Reserve Board can reduce interest rates and will only do so if taxes are raised. These are all lies that would embarrass even a big-city machine ward-heeler.

LIE # 1: A budget deal with Congress will reduce the deficit.

TRUTH: Bipartisan budget agreements containing significant tax increases were enacted in 1982, 1984, 1987, and 1989. In each case, promises were made to restrain spending growth and assurances were given that the new revenues would be used to reduce the deficit. In every single case, Congress simply spent the additional money and the deficit was higher the following year. There is no eveidence that this year would be any different. Based on how many of the spending "cuts" in the original agreement have already disappeared or been exposed as budget gimmicks, it is almost certain that the deficit will rise next year if any of the packages under consideration become law.

LIE # 2: A budget deal balances tax increases with courageous spending cuts.

TRUTH: Politicians from both Congress and the White House are telling the American public that the budget agreement cuts spending by more than $300 billion. In reality, however, spending will rise by a minimum of $245 billion over the next five years. The only part of the budget which

1991 Budget Proposed Spending Levels Compared to 1990 Levels

	Fiscal 1990	Fiscal 1991	Change (billions)	1990-1991
(050) National Defense	$299.9	$297.0	- $2.9	-0.96%
(150) International Affairs	$15.5	$17.4	$1.9	12.3%
(250) General Science, Space and Technology	$14.2	$15.2	$1.0	7.0%
(270) Energy	$3.3	$4.0	$0.7	21.2%
(300) Natural Resources and Environment	$17.8	$18.9	$1.1	6.2%
(350) Agriculture	$12.5	$14.1	$1.6	12.8%
(370) Commerce and Housing Credit	$75.7	$87.0	$11.3	15.0%
(400) Transportation	$29.5	$30.7	$1.2	4.1%
(450) Community and Regional Development	$8.3	$8.6	$0.3	3.6%
(500) Education	$38.3	$41.8	$3.5	9.1%
(550) Health	$58.2	$65.5	$7.3	12.5%
(570) Medicare	$96.9	$104.9	$8.0	8.3%
(600) Income Security	$148.5	$160.5	$12.0	8.1%
(650) Social Security	$248.7	$266.3	$17.6	7.1%
(700) Veterans Benefits and Services	$29.4	$31.7	$2.3	7.8%
(750) Administration of Justice	$10.5	$12.3	$1.8	17.1%
(800) General Government	$10.6	$11.7	$1.1	10.4%

Note: Numbers are known as budget subfunction numbers and indicate the order in which programs appear in the President's budget.

will have less money to spend in future years than today is defense. Pentagon spending will decline from $300 billion in 1990 to $291 billion in 1993, a reduction of $9 billion. Domestic discretionary spending, by contrast, will rise by at least $36 billion in the next three years, and domestic entitlement spending will jump by nearly $200 billion by 1995.

Politicians are able to mislead the American people on the issue of spending cuts because they have redefined the meaning of the word "cut." In the real world, a spending cut means spending less next year than this year. In Washington, however, the process has been rigged to ensure more spending. A spending cut in the Washington vernacular, therefore, occurs when spending does not increase as fast as politicians had previously planned. When OMB Director Darman says the budget agreement contains genuine spending cuts, he is not telling the truth. When Senate Majority Leader George Mitchell say the budget package makes significant budget cuts, he is not telling the truth. The chart on the preceding page demonstrates this.

LIE # 3: Failure to enact a bipartisan agreement will leave the deficit at unbearable levels.

TRUTH: Proponents of the budget agreement privately admit that neither the House nor Senate bills will reduce the deficit nearly as much as is publicly claimed. They say, however, that this approach is the only alternative to no deficit reduction at all. They ignore the obvious fact that the Gramm-Rudman-Hollings Deficit Reduction Act is still the law of the land. As such, failure to approve a budget agreement will trigger a sequester that cuts the deficit more than twice as much as does the budget agreement. Defeat of tax increase legislation puts the President in an enviable position. He can demand that Congress either enact a full year spending bill containing a $40.1 billion sequester or let lawmakers endure the political fallout of the $85.3 billion sequester which would automatically occur.

The choice thus is not between accepting taxes or doing nothing about the budget deficit. The honest choice is between a record tax increase which will not reduce the deficit and could trigger a recession or a sequester that unambiguously extinguishes government spending authority and permanently lowers the trend line of future outlays.

LIE # 4: The Federal Reserve Board will not lower interest rates in the absence of an agreement.

TRUTH: The Administration's argument for higher taxes quickly boils down to the belief that the nation's central bank will respond by engineering a drop in interest rates which will head off a recession. This argument assumes that the Fed controls credit markets sufficiently to lower interest rates significantly. The Fed's primary tool for lowering interest rates is injecting money into the banking system, thus creating the illusion of more savings. Financial markets, however, have become increasingly sensitive to Fed policies that put upward pressure on prices. At best, an inflationary monetary policy can lead to a temporary drop in short-term interest rates. The more enduring effect of an easy money policy would be higher interest rates since investors would demand a greater "inflation premium" because of rising prices, much as occurred in the late 1970s following the Carter Administration's easy money policy. Advocates of higher taxes portray Federal Reserve Board Chairman Alan Greenspan's tepid endorsement of the budget agreement as "proof" that higher taxes will lower interest rates. Not only does this assertion misinterpret the Chairman's comments, it also overlooks Greenspan's endorsement of sequestration over higher taxes when he testified before the Senate Budget Committee last year.

Senate and House Tax Bills: Two Sides of the Same Coin.

Much attention has been given to the minor differences between the two tax bills in Congress, leading some to assert that the Senate legislation is somehow preferable to the House version. The House bill does contain several provisions which will depress economic growth and reduce incentives to work, save, and invest. Income tax rates are explicitly raised, violating the promise of the 1986 Tax Reform Act. As bad, the House bill also raises income taxes on low - and middle-income individuals by suspending the indexing provision which protects taxpayers from "bracket creep." This allows a return to the 1970s policy of hidden tax hikes every year as inflation pushes taxpayers into higher tax brackets even though they experience no increase in their inflation-adjusted income.

The Senate bill is no better. Instead of raising income tax rates openly, it boosts them by reducing the value of deductions. The Senate bill also doubles the gas tax, adding a special burden to America's working men and women and legislating an across-the-board increase in the cost of all products and services that require energy to produce and transport.

Tax theorists can debate which bill, the House or Senate version, damages the economy the most. Either bill, however, or any combination of the two that might emerge from a conference committee, will take America in the wrong direction. Sucking $170 billion out of the economy while growth is faltering is irresponsible. Choosing between two record tax hikes guarantees economic decline. The only responsible alternative at this point is a sequester.

♦♦♦

George Bush has an opportunity to rescue the economy from the tax increase juggernaut moving through Congress. It is completely within his power to stop recession-inducing tax hikes and instead to choose the honest deficit reduction which is generated by a partial sequester. The President has to choose which is more important, the federal budget or the family budget.

The consequences are enormous. Higher taxes would bring back the economic stagnation and declining living standards of the 1970s. And whenever the economy weakens, the most vulnerable in society are the first ones to suffer. As the U.S. Civil Rights Commission stated October 16, "In bad economic times, black and Hispanic unemployment rates rise the fastest. In good times, a tight labor market encourages employers to cast a wider net when hiring, thus breaking barriers that have traditionally prevented minorities, women, and persons with disabilities from gaining better paying jobs.... We therefore call on the President and Congress to adopt only those deficit-reducing proposals consistent with economic growth. Specifically, we recommend freezing real total government expenditure at the fiscal 1990 level."

The President and other policy makers should heed those words. The White House and Senate and House leaders should stop lying to the nation. What America needs is a budget that really cuts spending and that measures its effect in terms of jobs preserved and created, the businesses that do not fail, and the families that do not suffer.

Daniel J. Mitchell
John M. Olin Fellow in Political Economy

N · A · W

Dirk Van Dongen
President

NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS
1725 K Street, N.W. • Suite 710 • Washington, D.C. 20006 • 202/872-0885 • FAX: 202/785-0586

cc

N · A · W

October 24, 1990

The President
The White House
Washington, DC 20500

Dear Mr. President:

The National Association of Wholesaler-Distributors (NAW) was pleased to stand at your side and work closely with your staff to try to secure passage in the House of the budget resolution which resulted directly from the Andrews Summit.

In the main, we supported that resolution for exactly the reasons you aptly stated when you met with us and other members of the business community -- it did not touch the income tax rates in the 1986 Tax Reform Act -- and it was the best package that could be assembled, because its defeat would cause consideration of a package far worse than the one pending at that time.

Unfortunately, very unfortunately, that first budget resolution was defeated and it is now clear that the forthcoming reconciliation bill will almost certainly raise income tax rates and do severe damage in several other areas to our fragile economy.

If a package emerges from conference anywhere near the one being discussed widely in the media, NAW will strongly oppose it.

We believe it is time to get back to basics -- time to reduce the deficit through real spending cuts.

Since there appears to be an impasse for all of us in the current situation, perhaps the 102nd Congress can do better. In the interim, we respectfully urge you to accept a continuing resolution until April 1, 1991, which allows a sequester of $20 billion, six months worth of the $40 billion of annual deficit reduction for fiscal year 1991 embodied in the original budget summit agreement.

We would, of course, be willing once again to work with you and with, we believe, a large portion of the business community to secure favorable action by Congress on such a continuing resolution.

Sincerely,

Dirk Van Dongen
President

NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS
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American Enterprise Institute for Public Policy Research

On the Issues

Hoover, Nixon, Carter . . . Bush?

By Irving Kristol

When Ronald Reagan left office after two terms, he was an even more popular president than when first elected. It is amusing to read contemporary American historians, liberal Democrats for the most part, as they try to account for this fact. Since they perceive "the Reagan years" as a decade in which the wealthy flourished while the needs of the average American household were neglected, they have a problem. Why on earth did he remain as popular? The usual—by now standard—explanation is that Ronald Reagan was a genius at manipulating and hoodwinking public opinion.

Never mind that such an interpretation is an indictment of the American people as being incapable of sensible self-government. Though that indictment is only implied and never stated outright, it is perfectly compatible with the prevailing opinion among our academic and media elites that we would all be better off if the government were simply turned over to Harvard's Kennedy School. What is more interesting is the shocking indifference it reveals toward the American people—their passions, sentiments, and convictions—and the ignorance of the basic working principles of our American democracy.

Success or Failure

Unfortunately, indifference and ignorance tend to be almost as widespread among Republicans as among Democrats, among conservatives as well as liberals. It really does seem to be the case that neither Democrats nor Republicans have a clear idea as to why Democratic or Republican administrations succeed or fail.

American presidents can roughly be divided into two groups. To borrow Isaiah Berlin's dichotomy, there are the "hedgehogs" who know one or two big things, and act on them, and there are the "foxes" who know many little things, and bury themselves with them. It is the difference between an Abraham Lincoln and a Herbert Hoover, or a Franklin D. Roosevelt and a Jimmy Carter. And in general, it is the hedgehogs who are far more likely to create a successful presidency.

Ronald Reagan was a quintessential hedgehog. He knew only two things, both of them deeply embedded in the American grain. First, that the American people are nationalist when it comes to foreign policy, and that ever since World War II they have wanted the United States to be a great power in the world—preferably the greatest power. Second, that the American people are much more interested in economic growth, and in the individual economic opportunities it creates, than in a coercive redistribution of income or a legislated equality of condition.

These are, or should be, the rock-bottom axioms of the Republican party. But it takes a great deal of intellectual forti-

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tude to cling to them, in the face of the fact that the American media overwhelmingly disbelieves them, as well as the fact that so many special interests, with either financial or electoral influence on the Republican agenda, think they are archaic, out-of-date, even "reactionary." Ronald Reagan's saving grace was that, being quite unsophisticated, he was largely immune to such disbelief and such influence.

It is the Democratic party's prime disability that it is uncomfortable with the first axiom while adamantly rejecting the second. The left wing of the party, dominant since 1972, is committed to the traditional social democratic view that expenditures on domestic social programs should always have priority over the military budget. A corollary of this view is that American foreign policy should be as risk-adverse as possible, and therefore should always be subordinated to multilateral diplomacy, at the United Nations, for instance.

In truth, most Democratic spokesmen and leaders, in their heart of hearts, have very little respect, and even less enthusiasm, for the UN or the various multilateral treaties we have locked ourselves into—CENTO, SEATO, OAS, etc. But it is the only alternative they see to a vigorous, assertive, and expensive foreign policy that would distract the American people from a comprehensive set of vigorous, assertive, and expensive domestic programs. Such programs have the great advantage of creating and sustaining interest groups that are firmly attached to the party.

In domestic policy, the Democratic party is insistent on the role of the state in redistributing income and wealth. In part, this derives from a misinterpretation of what the New Deal was all about. FDR did indeed talk about "soaking the rich," and even made a few gestures in this direction, but his most popular and enduring social reforms—social security and unemployment insurance—were true "social insurance" schemes, with no redistributionist intention or consequences. Despite Kevin Phillips, Americans have never, on the whole, been particularly envious or resentful of the rich—which is why efforts to inflame "class" antagonisms have been so transient. The rich are not perceived as a "class" but rather as people just like us—only they have more money.

But if conservatives are right about the elemental truths of American politics while liberals are wrong, why isn't the Republican party the natural majority party in the United States? Well, the Republican party began the post–World War II period with the enormous handicap of its legacy of the 1930s, when it could not come up with a coherent economic policy to cope with the Great Depression, when it scornfully rejected not only FDR's ameliorative programs, but any programs that might alleviate a devastated society, and when it clung desperately to a simple-minded isolationism as the United States ineluctably moved to playing the kind of role in world affairs that was its manifest destiny.

After World War II, American conservatism was necessarily on the defensive, as it underwent recuperative therapy that lasted over two decades. During this therapeutic period, Republicans could only govern when Democrats had made a mess of things, and even then there was no distinctive Republican vision, just Democratic programs managed in a more orderly and economic way.

For its part, the Democratic party has always succeeded in obscuring its fatal flaws by, foxlike, improvising seemingly energetic government both abroad and at home. Though a good part of this energy was foolish and counterproductive, it is nevertheless true, in politics as at the track, that you can't beat a horse with no horse. And the Republicans had no horse, until Ronald Reagan rode in from the West, with his conservative version of affirmative government.

The question that Republicans and conservatives now face is: What is happening to the Reagan legacy? Is the Bush administration nourishing it or frittering it away? Is George Bush a hedgehog or a fox?

As of now, it is hard to say. He seems able to take on either identity with no signs of discomfort. If opinion polls are to be believed, the American people have a favorable opinion of such a hybrid performance—perhaps a natural reaction to the intensity of the Reagan administration. But polls are fickle, they come and go. It is its political agenda that defines a political party's standing with the American people. And the Bush agenda is only intermittently visible.

For instance, there can be little doubt that the president experienced a self-inflicted wound, and also wounded his party, when he publicly repudiated his no-new-taxes pledge before getting an equivalent quid pro quo from the Democratic leadership. He showed weakness when it was quite unnecessary. As a consequence, he lost control of the subsequent negotiations which moved steadily to his disadvantage. Unlike Ronald Reagan, Mr. Bush is not temperamentally averse to foxlike maneuvering. He just isn't very good at it, and ends up feeding his cubs to the hounds.

Fundamental Axiom

In foreign affairs, notably the confrontation with Iraq, the president has revealed the hedgehog side of his character by being tough-minded (though not rigidly inflexible). He successfully tapped the deepest sentiments of the American people with his bold initiative. With the passage of time, however, he has permitted the State Department to swaddle his action in a complex set of multilateral arrangements, under the aegis of the UN, that may yet render it ineffectual. It is, or ought to be, a fundamental Republican axiom: Never permit the State Department—with its Wilsonian fantasies about "international law" and its unworldly faith in the power of diplomacy—to guide us in world affairs. How the president is going to cope with the entanglements that have been imposed on our Middle East intervention remains to be seen.

Presidential hedgehogs act on the principle of hope, of actively shaping the future. It is a principle that is congenial to the American political outlook. Presidential foxes act on the principle that reactive and "responsive" management is what the American people will be content with. Well, sometimes they are—but not for long. President Bush, in the years ahead, will have plenty of opportunities to tilt one way or the other. It is not yet clear what his inclination is likely to be.

[from the *Wall Street Journal*, October 8, 1990]

Irving Kristol is the John M. Olin Distinguished Fellow at the American Enterprise Institute.

THE SECRETARY OF THE TREASURY
WASHINGTON

October 25, 1990

Memorandum to: Senator Packwood

I have reiterated to Bob Dole again this morning my continuing concern on the importance of flattening the bubble that is created by PEP. The architecture of the Rostenkowski PEP is an "elephant trap" for the Administration in 1991 and/or 1992 when it will be used as the reason to raise rates on the high end to 33%.

In order to avoid this, the PEP phase-out for joint returns and heads of households should be lowered to 1 percent per $2500 of income. In terms of marginal rate this means that a family of four subject to PEP will face a marginal rate of just under 1 percent. In contrast, under the Rostenkowski plans (2 percent/$2500 phase-out), the marginal rate will be almost 2 percent. This is far more likely to produce problems of perception than a lower rate.

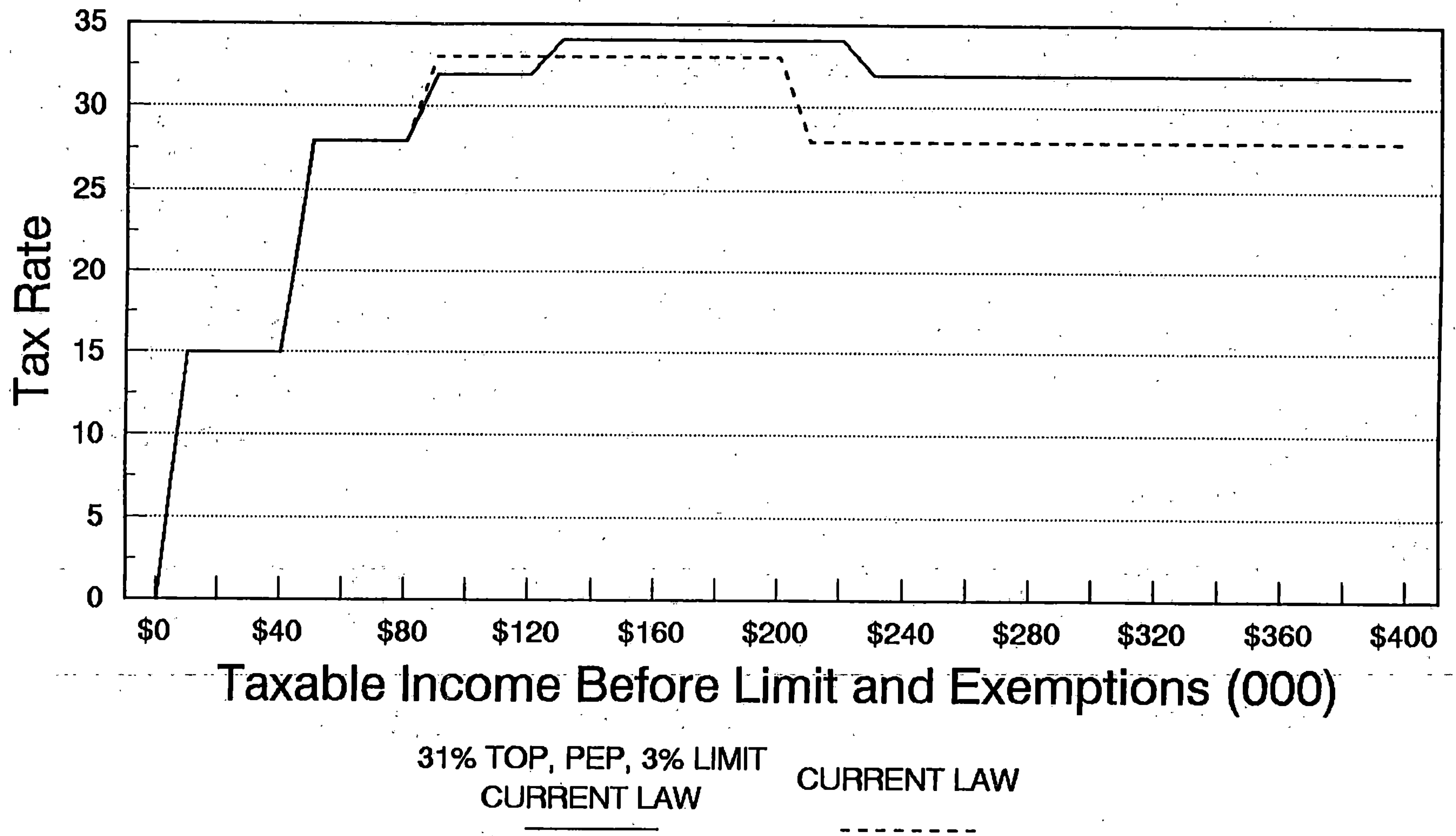
Recommendations: Accept Democratic thresholds (100/125/150) but change phase-out rate for joint returns and heads of households to 1 percent/$2500 from 2 percent/$2500.

NFB

cc: Messrs. Darman
Sununu

31% TOP RATE, PEP & 3% ITEMIZED DEDUCTION LIMIT VERSUS CURRENT LAW

JOINT RETURNS, FOUR EXEMPTIONS



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Pease Proposal

Under the Pease proposal, taxpayers with adjusted gross income in excess of a threshold (perhaps $100,000) will reduce their itemized deductions by 3% of the amount of their adjusted gross income in excess of the threshold. Itemized deductions could not be reduced more than 80% of total itemized deductions. Medical and investment interest deductions would not be affected.

Resident of a Low Tax State

Example 1. Taxpayer A has adjusted gross income of $145,000 and itemized deductions as follows:

. state and local taxes	3,000
. charitable contributions	10,000
. home mortgage interest	18,000
	31,000

Under the Pease proposal, $1,350 of these deductions would be disallowed (145,000 - 100,000 = 45,000 x .03 = 1,350). If the marginal tax rate is 31%, the effect of the Pease proposal is to increase the tax otherwise payable by $418 ($1,350 x .31 = $418).

Resident of a Moderate Tax State

Example 2. Taxpayer B has adjusted gross income of $145,000 and itemized deductions as follows:

. state and local taxes	12,000
. charitable contributions	10,000
. home mortgage interest	18,000
	40,000

Under the Pease proposal, $1,350 of these deductions would be disallowed (145,000 - 100,000 = 45,000 x .03 = 1,350). If the marginal tax rate is 31%, the effect of the Pease proposal is to increase the tax otherwise payable by $418 ($1,350 x .31 = $418).

Resident of a High Tax State

Example 3. Taxpayer C has adjusted gross income of $145,000 and itemized deductions as follows:

. state and local taxes	20,000
. charitable contributions	10,000
. home mortgage interest	18,000
	48,000

Under the Pease proposal, $1,350 of these deductions would be disallowed (145,000 - 100,000 = 45,000 x .03 = 1,350). If the marginal tax rate is 31%, the effect of the Pease proposal is to increase the tax otherwise payable by $418 ($1,350 x .31 = $418).

NOTE: The effect of the Pease proposal in disallowing itemized deductions is identical in the three states, regardless of the level of state taxes.

Personal Exemption Phase-out Example

Example. A single taxpayer in 1991 has Adjusted Gross Income of $175,000 and claims one exemption of $2,150 for herself. The proposal would phase-out 2% of the personal exemption for every $2,500 in excess of $100,000. Thus the value of the single $2,150 exemption would be reduced by 60% ($75,000 ÷ 2,500 = 30; 30,000 x .02) or $1,290 ($2,150 x 60%). Since the taxpayer is in the 31% tax bracket, this would produce an increase in tax of $400 ($1,290 x .31). The effect of the personal exemption phase-out for this taxpayer is a marginal tax rate increase from 31% to 31.5%.

Under current law, this taxpayer generally would have the benefits of his or her personal exemption fully eliminated due to the 33% "bubble" rate.

ROUGH OUTLINE OF PROPOSAL

All Expiring Provisions - One Year
HI at $125,000 ($100K)
31% rate/24% AMT
PEP - 2% - $2500 - 100K/125K/150K (5 year sunset)
Pease 3% - 100K (cosmetic surgery not a deduction) (5 year sunset)
5 cent gas tax 50/50 - 20% mass transit - 95% rule
Energy Incentives - 2.5 Billion
alcohol 32 cents/21 cents/$1.00
luxury - furs/jewelry 10K - raises $1.5 billion
OASDI for state and local - those not covered by pension plan - begin 7/1/91 - raises $9.1 billion.

No Small Business Expensing
Estate Freeze language
Disability Access Credit
1 Year AMT tangible property preference repeal
Some Child Care
double gas guzzler
tobacco
Ozone
LUST
Airport
Harbor
P&C salvage value
DAC at $8 billion
Compliance
Retiree Health
Corporate Interest Disallowance
Business loopholes
IRS User Fees
FUTA surtax
Payroll Stabilization
Telephone
Statute of limitations on collections
House cash reporting rules
House foreign grantor trust provision

Budget Summit Agreement In Nominal Dollars And As A Percentage of GNP

($ in billions)	Actual 1990	1991	1992	1993	1994	1995
Outlays	1252	1361	1392	1381	1343	1385
Revenues	1032	1138	1221	1306	1395	1473
Economic Adjustments	--	30	58	54	36	19
Deficit	-220	-254	-229	-129	17	68
Deficit-w/o Social Sec	-278	-317	-297	-208	-76	-40
GNP	5486	5807	6199	6670	7141	7607

The average annual growth in outlays during this period is 2.1%. (2% on a compound basis.)

(As a % of GNP)	1990	1991	1992	1993	1994	1995
Outlays	22.8	23.4	22.5	20.7	18.8	18.2
Revenues	18.8	19.6	19.7	19.6	19.5	19.4
Deficit	-4.0	-4.4	-3.7	-1.9	0.2	0.9

NOTE: Based on information available at 4 p.m. October 26, 1990. All numbers subject to change.

Prepared by:
HBC Republican Staff
October 26, 1990

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BUDGET RECONCILIATION (H.R. 5835) - REVENUE PROVISIONS SUBJECT TO APPROVAL BY THE CONFEREES

Fiscal Years 1991-1995

[Millions of Dollars]

Item	Effective	1991	1992	1993	1994	1995	1991-95
I. REVENUE-LOSING PROVISIONS							
A. Extend Expiring Provisions through 12/31/91 (1)							
1. Foreign allocation of R&D	—	-503	-289	—	—	—	-792
2. Research and experimentation tax credit	—	-602	-381	-105	-74	-47	-1,209
3. Employer-provided educational assistance (include graduate students)	—	-340	-128	—	—	—	-468
4. Employer-provided group legal services	—	-98	-29	—	—	—	-127
5. Targeted jobs tax credit	—	-81	-104	-67	-31	-20	-303
6. Business energy tax credits (solar and geothermal property)	—	-55	-28	3	2	1	-77
7. Low-income housing credit (with modifications)	—	-266	-355	-420	-420	-420	-1,881
8. Mortgage revenue bonds and mortgage credit certificates	—	-10	-50	-110	-100	-100	-370
9. Qualified small-issue manufacturing bonds	—	-10	-50	-80	-70	-70	-280
10. Health insurance for self-employed (25% deduction)	—	-253	-102	—	—	—	-355
11. Orphan drug tax credit	—	-4	-3	—	—	—	-7
Subtotals, Extension of Expiring Provisions		*-2,222*	*-1,519*	*-779*	*-693*	*-656*	*-5,869*
B. Other Tax Incentives							
1. Energy incentives:							
a. Extend nonconventional fuels tax credit (section 29) for two years and expand to tight sands gas	1/1/91	-35	-115	-163	-152	-131	-597
b. Adopt tax incentives for ethanol production	1/1/91	16	18	-32	-89	-135	-221
c. Adopt 15% credit for enhanced oil recovery costs	1/1/91	-21	-42	-49	-50	-51	-213
d. Amend percentage depletion provisions	1/1/91	-24	-48	-61	-67	-78	-278

Item	Effective	1991	1992	1993	1994	1995	1991-95
e. Cut back AMT preference for certain intangible drilling costs (IDCs)	1/1/91	-98	-188	-165	-154	-151	-756
f. Reduce AMT preference for percentage depletion on marginally producing properties	1/1/91	-42	-84	-87	-92	-100	-404
2. Additional small business incentives:							
a. Modify estate freeze rules (section 2036(c))	10/9/90	12	-17	-126	-251	-393	-775
b. Disabled access expenditures:							
i. Adopt disabled persons access tax credit (50%/$5,000)	D/o/E	-50	-90	-92	-94	-96	-422
ii. Lower cap on section 190 expensing to $15,000	D/o/E	58	95	92	90	89	424
c. Repeal AMT preference for charitable contributions of tangible personal property (expires 12/31/91)	1/1/91	-8	-22	8	—	—	-22
Subtotals, Other Tax Incentives		*-192*	*-493*	*-675*	*-859*	*-1,046*	*-3,26*
C. Progressivity Enhancement Provisions							
1. Increase EITC and adjust for family size (2)	1/1/91	-75	-1,495	-2,091	-2,969	-5,730	-12,360
2. Child health insurance credit (3)	1/1/91	-58	-1,155	-1,239	-1,329	-1,426	-5,207
3. Increase standard deduction by $500 for taxpayers with children under 1 year old	1/1/91	-65	-135	-145	-155	-166	-666
Subtotals, Progressivity Enhancement Proposals		*-198*	*-2,785*	*-3,475*	*-4,453*	*-7,322*	*-18,233*
SUBTOTALS: REVENUE-LOSING PROVISIONS		-2,812	-4,797	-4,929	-6,005	-8,024	-27,367
II. REVENUE-RAISING PROVISIONS							
A. Deficit Reduction Provisions							
1. Provisions affecting high-income taxpayers and itemized deductions:							
a. Individual rate structure: 15%/28%/31% (24% AMT rate; 28% maximum capital gains rate)	1/1/91	767	2,313	2,478	2,723	2,955	11,234
b. Phase out personal exemption (2%/$2,500; $100,000/$125,000/$150,000 thresholds; indexed) (5 year sunset)	1/1/91	1,046	2,028	2,275	2,552	2,863	10,764
c. Limit on itemized deductions of high-income taxpayers (3%; $100,000 threshold; indexed) (5 year sunset)	1/1/91	548	3,714	4,101	4,531	5,010	17,904
d. Eliminate medical deduction for cosmetic surgery	1/1/91	9	60	60	70	70	269
2. Impose 5-cent per gallon tax on motor fuels (4)	12/1/90	4,406	5,203	5,111	5,119	5,200	25,039
3. Double gas guzzler tax	1/1/91	75	95	85	70	60	385
4. Increase all tobacco excise taxes by 25% (e.g., for cigarettes 4 cents per pack in 1991and 4 cents per pack in 1993)	1/1/91	542	792	1,546	1,519	1,477	5,876
5. Increase beer, wine, and distilled spirits excise taxes	1/1/91	1,300	1,850	1,862	1,874	1,882	8,768
6. Impose 10% luxury excise tax	1/1/91	25	65	426	461	502	1,479

Item	Effective	1991	1992	1993	1994	1995	1991-9
7. Expand ozone-depleting chemicals excise tax	1/1/91	73	72	84	134	122	48
8. Extend Leaking Underground Storage Tank (LUST) Trust Fund excise tax (5 years)	12/1/90	94	122	124	126	128	59
9. Increase and extend Airport Trust Fund aviation excise taxes (5 years)	12/1/90	1,351	2,335	2,520	2,727	2,975	11,90
10. Increase harbor maintenance excise tax	1/1/91	314	342	369	395	422	1,84
11. Extend telephone excise tax and modify collection period (5)	1/1/91	1,643	2,578	2,757	2,946	3,145	13,06
12. Revise treatment of loss deductions and salvage values for insurance companies	1/1/90	204	83	90	98	106	58
13. Amortize insurance policy deferred acquisition expenses (DAC)	9/30/90	1,445	1,730	1,677	1,610	1,533	7,99
14. Adopt tax compliance provisions including certain provisions from H.R. 4308 and S. 2410	3/20/90	42	47	78	63	68	29
15. Adopt retiree health provision with reversion excise increase and asset cushion requirement	—	491	196	140	83	39	94
16. Increase by 2 percentage points the interest rate on corporate tax underpayments over $100,000 following notice from IRS	1/1/91	1,559	96	79	46	46	1,82
17. Certain corporate business tax provisions:							
a. Expand and clarify reporting and allocation rules for certain asset acquisitions	10/10/90	9	13	15	17	19	7
b. Require accrual of redemption premium for certain preferred stock	10/10/90	19	55	86	104	109	37
c. Expand application of CERT rules to subsidiary acquisitions	10/10/90	45	81	84	77	69	35
d. Require recognition of corporate-level gain in certain divisive corporate transactions (5-year limitation period)	10/10/90	9	25	38	49	60	18
e. Clarify treatment of debt exchanges	10/10/90	111	95	75	53	25	35
18. Extend IRS user fees (5 years) (5)	9/30/90	45	45	45	45	45	22
19. Extend Social Security (OASDHI) to State and local employees not participating in a public employee retirement system (6)	7/1/91	444	1,970	2,106	2,253	2,414	9,18
20. Extend FUTA 0.2% surtax (5 years)	1/1/91	787	1,106	1,137	1,167	1,199	5,39
21. Adopt payroll tax deposit stabilization	—	950	2,200	-3,150	—	—	—
22. Extend Hazardous Substance Superfund taxes (4 years) (7)	1/1/92	—	—	—	—	—	—
23. Increase Medicare (HI) wage cap to $125,000	1/1/91	1,848	5,709	6,058	6,439	6,827	26,881
24. Extend statute of limitations for collection from 6 years to 10 years	1/1/91	1	1	2	2	2	8

Item	Effective	1991	1992	1993	1994	1995	1991-9
25. Increase penalty for intentional disregard of cash reporting requirement and adopt certain other modifications	1/1/91	—	—	—	—	—	—
26. Treat U.S. beneficiary as grantor of foreign trust indirectly funded by beneficiary	D/o/E	2	23	46	91	135	29
Subtotals, Deficit Reduction Provisions		***20,204***	***35,044***	***32,402***	***37,444***	***39,507***	***164,60***
B. Other Provisions							
1. Technical corrections	—	—	—	—	—	—	—
2. Repeal obsolete provisions (deadwood)	—	—	—	—	—	—	—
3. Revise Treasury Departmet study mandates	—	—	—	—	—	—	—
4. Increase Joint Committee on Taxation refund review threshold	D/o/E	—	—	—	—	—	—
5. Review impact of IRS Regulations on small business	D/o/E +30	(8)	(8)	(8)	(8)	(8)	(8
6. Require pie charts in IRS tax form instruction booklets	1/1/91	—	—	—	—	—	—
Subtotals, Other Provisions		—	—	—	—	—	—
SUBTOTALS: REVENUE-RAISING PROVISIONS		20,204	35,044	32,402	37,444	39,507	164,601
GRAND TOTALS		17,592	30,247	27,473	31,439	30,483	137,234

NOTES: Details may not add to totals due to rounding.
Interaction between or among items has not been taken into account for the purpose of this table.
In "Effective" column: D/o/E = Date of enactment; D/o/E +30 = 30 days after date of enactment.

(1) All estimates assume full restoration of tax benefits for 1990.

(2) Increased EITC by number of children:
In 1991: 1 child = 16.7% credit, 11.93% phaseout; 2 children = 17.3% credit, 12.36% phaseout.
In 1992: 1 child = 17.6% credit, 12.57% phaseout; 2 children = 18.4% credit, 13.14% phaseout.
In 1993: 1 child = 18.5% credit, 13.21% phaseout; 2 children = 19.5% credit, 13.93% phaseout.
In 1994 and thereafter: 1 child = 23% credit, 16.43% phaseout; 2 children = 25% credit, 17.86% phaseout.
Estimate incorporates the Treasury proposal to enhance compliance with EITC eligibility rules.

(3) 6% credit rate; 4.29% phaseout rate; phaseout income levels are the same as EITC.

(4) Railroads will pay 50% of increase in rates. 50% of motor fuels tax increase dedicated to deficit reduction; remainder dedicated to Highway trust fund (20% of this portion to be allocated to mass transit account).

(5) Modification of collection period effective after 12/31/90.

(6) Estimate provided by the Congressional Budget Office (CBO).

(7) The estimate is presented relative to the CBO baseline which assumes automatic extension of provisions in present law when revenues are dedicated to specific trust funds and when the provision is scheduled to expire within the current budget period.

(8) Negligible amount.

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SUMMARY OF DISTRIBUTIONAL EFFECTS, BY INCOME CATEGORY (1)
Budget Reconciliation (H.R. 5835) - Revenue Provisions
Subject to Approval by the Conferees
(1990 Income Levels)

Income Category (2)	Change in Federal Taxes (1)(3)		Federal Taxes Under Present Law (4)		Federal Taxes Under Proposal (1)(4)		Effective Tax Rates	
							Present Law	Proposal
	Billions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000.....	-$0.3	-2.0%	$14.2	1.6%	$14.0	1.6%	13.3%	13.1%
10,000 to 20,000.....	-2.1	-3.2%	65.8	7.6%	63.7	7.2%	15.6%	15.1%
20,000 to 30,000.....	1.8	1.8%	102.5	11.9%	104.3	11.8%	18.4%	18.8%
30,000 to 40,000.....	2.3	2.0%	115.8	13.4%	118.1	13.4%	20.0%	20.4%
40,000 to 50,000.....	1.8	2.0%	87.9	10.2%	89.7	10.2%	21.4%	21.9%
50,000 to 75,000.....	2.6	1.5%	172.8	20.0%	175.3	19.9%	24.7%	25.1%
75,000 to 100,000.....	1.4	2.1%	66.5	7.7%	68.0	7.7%	25.8%	26.4%
100,000 to 200,000....	2.4	2.3%	104.4	12.1%	106.7	12.1%	26.2%	26.8%
200,000 and over.......	8.4	6.3%	133.3	15.4%	141.7	16.1%	25.2%	26.8%
Total, All Taxpayers..	$18.3	2.1%	$863.2	100.0%	$881.5	100.0%	21.8%	22.3%

Joint Committee on Taxation

(1) Distributional analysis includes effects from the Budget Reconciliation (H.R. 5835)-Revenue Provisions with respect to beer, wine, and distilled spirits taxes, tobacco tax, motor fuels tax, telephone tax, increase in HI wage cap, increased individual and AMT rates, phaseout of personal exemption, limitation on itemized deductions, Individual AMT component of oil and gas production incentives, increase and modification of the EITC, child health insurance tax credit, and increase in standard deduction for taxpayers with children under 1 year old. Analysis does not take into account effects from changes in taxpayer behavior.

(2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] inside buildup on life insurance, [4] workers' compensation, [5] nontaxable social security benefits, [6] deductible contributions to individual retirement accounts, [7] the minimum tax preferences, and [8] net losses in excess of minimum tax preferences from passive business activities.

(3) Estimates of total tax liability presented in distributions will not match estimated changes in receipts because of differing time periods (CY 1990 vs. FY 1991-95), because of varying patterns of fiscal year receipts.

(4) Distributions represent combined effects of individual income taxes, payroll taxes, Federal excise taxes, and estate and gift taxes. For the purpose of distributions, the full burden of payroll taxes is assigned to employees. Excise taxes are assumed to be borne fully by individuals either directly through purchase of the taxed commodity or indirectly through higher prices on all commodities as businesses pass along these added costs. Because of the uncertainty concerning the incidence of the corporate income tax, it is excluded from this table. Information in table excludes individuals who are dependents of other taxpayers.

ONE HUNDRED FIRST CONGRESS

U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

October 26, 1990

Dear Colleague:

Attached are preliminary estimates and descriptions of deficit reduction in the reconciliation conference report. As of 1 p.m. Friday conferees have completed action in most areas but final details are not available for the Medicare, Medicaid and revenue sections. That information will be provided as details are available. Currently committee staffs are drafting legislation and we are making every effort to have the reconciliation conference report on the House floor later this evening.

Questions on specifics should be directed to the Budget Priorities section of the House Budget Committee at X67166.

Sincerely,

LEON E. PANETTA
Chairman

COMPARISON OF RECONCILIATION DIRECTIVES
AND HOUSE- AND SENATE-PASSED BILLS
(deficit reduction in billions of dollars)

House committee:	Directive FY 1991	Directive 5-Year	House-passed FY 1991	House-passed 5-Year	Senate-passed FY 1991	Senate-passed 5-Year	Conference Agreement (CBO) FY 1991	Conference Agreement (CBO) 5-Year
AGRICULTURE								
Triple base..................			0.000	-7.906	-0.011	-7.186	-0.868	-9.085
Deficiency pmnt. calculations.			-0.315	-3.364	-0.251	-2.691	...	-0.755
1991 ARPs....................			-0.435	-0.945	-0.724	-1.850	-0.289	-0.905
Dairy assessments............			-0.058	-0.840	-0.100	-0.482	-0.051	-0.822
Origination/service fees......	NA	NA	-0.003	-0.166	-0.004	-0.170	-0.010	-0.329
Subtotal, commodity programs			-0.811	-13.221	-1.090	-12.379	-1.218	-11.896
REA loans....................			-0.028	-0.610	-0.024	-0.697	-0.024	-0.516
FmHA farm loans..............			-0.281	-2.082	-0.095	-1.636	-0.280	-2.114
APHIS fees...................			-0.066	-0.420	-0.066	-0.420	-0.059	-0.413
Savings in Farm Bill..........			NA	NA	NA	NA	...	...
Committee total......	-1.022	-13.627	-1.186	-16.333	-1.275	-15.132	-1.581	-14.939
BANKING								
Bank Insurance Fund...........			-1.100	-9.000	-1.100	-9.000	-1.100	-9.000
FDIC borrowing authority......			NA	NA	-0.003	-0.012	-0.003	-0.012
Priority of FDIC claims.......			NA	NA	0.000	-0.095	...	...
FHA Reforms..................	NA	NA	-0.216	-1.815	-0.218	-2.565	-0.216	-1.815
FHA Assignment Waivers........			-0.212	-1.010	-0.212	-1.010	-0.212	-1.010
FHA maximum mortgage amount 2/			-0.181	-0.749	0.000	-0.568	0.000	-0.568
Flood & Crime Ins. Programs...			-0.014	-0.833	-0.014	-0.833	-0.014	-0.833
(Coin Redesign)..............			...	...	...	...	(...)	(-0.040)
Committee total......	-1.507	-13.258	-1.723	-13.407	-1.547	-14.083	-1.545	-13.238
EDUCATION & LABOR								
Stafford Loans (GSL)........			-0.010	-1.665	0.000	-2.025	-**	-1.695
PBGC*......................			-0.120	-0.640	-0.120	-0.640	-0.120	-0.640
OSHA/MSHA fees..............	NA	NA	-0.119	-1.432	-0.069	-0.844	-0.112	-1.137
Child labor civil penalties...			-0.009	-0.045	NA	NA	-0.003	-0.015
NLRA civil penalties........			-0.013	-0.096	NA	NA	...	...
Committee total....DR	-0.215	-3.770	-0.271	-3.878	-0.189	-3.509	-0.235	-3.487
ENERGY & COMMERCE								
Medicare *...................			-3.895	-44.010	-4.156	-49.267	-3.710	-43.812
Medicaid.....................			0.061	-0.337	0.026	-0.934	-0.061	...
NRC fees*....................	NA	NA	-0.287	-1.554	-0.287	-1.554	-0.287	-1.554
Railroad Safety Fees..........			-0.020	-0.169	-0.019	-0.166	-0.020	-0.169
EPA fees *....................			-0.042	-0.254	-0.022	-0.154	-0.028	-0.180
Travel & Tourism fees.........			NA	NA	-0.014	-0.079	-0.010	-0.078
Uranium enrichment*...........			NA	NA	-0.063	-0.194	...	...
Committee total......	-3.731	-43.721	-4.183	-46.324	-4.535	-52.348	-4.116	-45.793
GOVERNMENT OPERATIONS								
Computer privacy bill.........	NA	NA	NA	NA	0.000	-0.270	3/	3/
Committee total......	NA	NA	NA	NA	0.000	-0.270	0.000	0.000
INTERIOR								
NRC Fees *....................			-0.287	-1.554	-0.287	-1.554	-0.287	-1.554
Tongass Timber................	NA	NA	-0.028	-0.204	-0.028	-0.204	-0.028	-0.204
Reclamation Fees..............			...	-0.618	NA	NA	...	-0.832
Fees of Oil Shale Claims......			-0.010	-0.014	NA	NA	...	...
Corps of Eng. rec. fees.......			NA	NA	-0.020	-0.100	...	...
Uranium enrichment*...........			NA	NA	-0.063	-0.194	...	...
Committee total......	-0.343	-2.018	-0.325	-2.390	-0.398	-2.052	-0.315	-2.590
JUDICIARY								
Patent & Trademark Fees.......	NA	NA	...	...	-0.091	-0.495	-0.102	-0.495
Committee total......	-0.091	-0.495	...	...	-0.091	-0.495	-0.102	-0.495

COMPARISON OF RECONCILIATION DIRECTIVES
AND HOUSE- AND SENATE-PASSED BILLS
(deficit reduction in billions of dollars)

	Directive		House-passed		Senate-passed		Conference Agreement (CBO)	
House committee:	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year	FY 1991	5-Year
MERCHANT MARINE								
EPA User Fees*..			-0.042	-0.254	-0.022	-0.154	-0.028	-0.180
Coast Guard user fees			-0.028	-0.173	-0.200	-1.080	-0.155	-0.885
Tonnage Taxes	NA	NA	-0.190	-0.950	NA	NA	-0.053	-0.266
Coastal Zone Management Fees..			-**	-**	NA	NA	-**	-**
Committee total	-0.222	-1.231	-0.260	-1.377	-0.222	-1.234	-0.236	-1.331
POST OFFICE								
Lump-Sum Retirement Option			-1.430	-7.550	-1.230	-8.050	-1.390	-7.600
Postal Service			-0.780	-5.795	-0.746	-4.799	-0.710	-4.680
FEHB limits age 65+	NA	NA	NA	NA	-0.190	-0.865	0.000	-0.790
FEHB Administrative Reforms			-0.216	-1.115	-0.176	-1.075	-0.216	-1.115
CoD portability			NA	NA	-0.006	-0.030	-0.006	-0.030
Computer Matching & Pricing							0.000	-0.135
Committee total 1/	-2.165	-14.350	-2.426	-14.460	-2.348	-14.819	-2.322	-14.350
PUBLIC WORKS								
EPA fees *			-0.042	-0.254	-0.022	-0.154	-0.028	-0.180
Aviation reauthorization	NA	NA	0.000	0.244	NA	NA	...	...
Corps of Eng. rec. fees			NA	NA	-0.020	-0.100	...	...
Committee total	-0.042	-0.254	-0.042	-0.010	-0.042	-0.254	-0.028	-0.180
SCIENCE, SPACE & TECHNOLOGY								
NOAA User Fees	NA	NA	-0.001	-0.008	-0.005	-0.027	-0.002	-0.012
Nuclear Waste Fund Fees			-0.005	-0.025	NA	NA	...	...
Radon Program User Fees	...	...	...	...	...	...	-0.002	-0.008
Committee total	-0.005	-0.025	-0.006	-0.033	-0.005	-0.027	-0.004	-0.020
VETERANS								
Compensation			-0.125	-0.291	-0.125	-0.778	-0.125	-0.291
Vocational Rehabilitation			-0.020	-0.180	-0.063	-0.574	-0.020	-0.180
Compensation and Pensions			-0.010	-0.334	-0.010	-0.334	-0.010	-0.334
Third-party Collections			-0.113	-0.734	-0.113	-0.990	-0.113	-0.826
Pensions	NA	NA	-0.045	-1.056	-0.045	-1.100	-0.067	-1.180
Housing			-0.073	-0.073	-0.098	-0.416	-0.083	-0.093
Remarried Spouses			-0.019	-0.374	-0.019	-0.374	-0.019	-0.374
Prescription Drugs			-0.066	-0.085	-0.066	-0.411	-0.066	-0.085
Medical Care Eligibility			-0.035	-0.045	-0.035	-0.217	-0.035	-0.045
Miscellaneous Reforms			-0.121	-0.430	-0.074	-0.865	-0.083	-0.257
Committee total	-0.620	-3.350	-0.627	-3.602	-0.648	-6.059	-0.621	-3.665
WAYS & MEANS								
Medicare*			-3.710	-43.812	-4.156	-49.267	-3.710	-43.812
Social Security			...	-0.071	-0.089	-0.046	...	-0.071
Other income security			NA	NA	0.001	0.013	...	...
Child care grants			NA	NA	0.039	0.299	...	...
Customs Service User Fees	NA	NA	...	-2.292	0.001	-2.287	...	-2.292
IRS user fees			-0.045	-0.225	NA	NA	-0.045	-0.225
PBGC*			-0.120	-0.640	-0.120	-0.640	-0.120	-0.640
Committee total:								
Mandatory/fee savings	-3.320	-55.603	-3.875	-47.040	-4.324	-51.928	-3.875	-47.040
Deficit reduction........DR	-2.000	-20.000	NA	NA	NA	NA	NA	NA
+ Revenues................REV	-13.225	-118.800	-22.400	-148.600	-17.500	-142.100	-14.670	-147.363
Committee total....DR	-18.545	-194.403	-26.275	-195.640	-21.824	-194.028	-18.545	-194.403

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COMPARISON OF RECONCILIATION DIRECTIVES
AND HOUSE- AND SENATE-PASSED BILLS
(deficit reduction in billions of dollars)

House committee:	Directive FY 1991	Directive 5-Year	House-passed FY 1991	House-passed 5-Year	Senate-passed FY 1991	Senate-passed 5-Year	Conference Agreement (CBO) FY 1991	Conference Agreement (CBO) 5-Year
ALL COMMITTEES (w/o double counts):								
MANDATORY/FEE SAVINGS..	-8.867	-103.636	-10.863	-103.817	-10.934	-110.147	-10.807	-100.762
DEFICIT REDUCTION....DR	-2.215	-23.770	NA	NA	NA	NA	NA	NA
+ REVENUES............REV	-13.225	-118.800	-22.400	-148.600	-17.500	-142.100	-14.670	-147.363
TOTAL................DR	-24.307	-246.206	-33.263	-252.417	-28.434	-252.247	-25.477	-248.125

? 137.

NOT RIGHT WILL BE 139.7

240.5

NEEDED 246.2

9.3 IRS

+ = guess

* Joint jurisdiction, double-counts not included in the totals.

** Less than $500,000

1/ DOD portability is a revenue item and only half of computer privacy is scored to this Committee with Energy & Commerce receiving the other half.

2/ The conference figures do not include the savings (-$181 million) from the first-year increase in the FHA maximum mortgage amount because these savings also were included in the conference report on the FY 1991 VA-HUD Apropriations bill which passed the House on October 20, 1990.

3/ These savings were credited to Post Office and Energy and Commerce Committee.

NOTES: All amounts are outlays unless specified as REV (revenues) or DR (deficit reduction -- outlays and revenues combined). Revenue increase are reflected as minuses because they reduce deficit.

NA = Not applicable -- the reconciliation directives did not assume savings from specific programs.

5.7 SHORT
2.7
8.4

171 gross
151 gross/nets
142 nets

1) .5 FROM MEDICAID
($ ELIGIBILITY... MAKE IT OPTIONAL...).

2).

Pres. Reprimand: Skinner. Reilly

DESCRIPTION OF RECONCILIATION SAVINGS

Agriculture Committee

The conference agreement assumes the following savings:

- Establishes a triple base plan which reduces the amount of farm acreage eligible for crop subsidies by 15% for crop years 1991-95. In return, producers will be able to grow program crops, oilseeds and non-program crops (except fruits and vegetables) on the flexible acres. Crops planted on the flexible acres will not be eligible for deficiency payments but would be for crop loans.

- Changes the calculation of deficiency payments on wheat, feed grains, and rice to a 12-month national average market price in 1994 and 1995, rather than the current 5-month average price.

- Mandates a 1991 crop year acreage reduction program of 15% for wheat and 7.5% for feed grains.

- Establishes a service fee on CCC dairy purchases of 5 cents per hundredweight in FY 1991 and 11 cents per hundredweight thereafter as an offset to the costs of the dairy support program.

- Establishes a program service fee of 1% on sugar, peanuts, honey, and tobacco loans and deducts 1% from wool and mohair payments.

- Establishes a new marketing loan program for oilseeds at $5.02 per bushel with a 2% loan origination fee for deficit reduction purposes.

- REA direct loans would be reduced by approximately 25%, and REA loan guarantees increased correspondingly.

- Shifts about 50% of FmHA farm loans from direct loan to guaranteed loans over the next 5 years.

- Establishes user fees to recover the costs of inspecting common carrier passengers arriving in the U.S. for agricultural products and pests by the Animal and Plant Health Inspection Service.

- Eliminates spending increases provided in the 1990 farm bill passed by the House for food stamps and other programs in the jurisdiction of the Agriculture Committee. This is necessary to bring the farm bill down to baseline levels.

- GATT Trigger--The reductions in the commodity price support programs are made contingent upon the implementation of an agricultural trade agreement resulting form the Uruguay Round of GATT. If such an agreement is not negotiated by June 30, 1992, commodity export promotion programs would be increased and a marketing loan for wheat and feed grains would be implemented. If an agreement is negotiated, but not put in force by June 30, 1993, the Secretary of Agriculture would be authorized to restore the reductions made in reconciliation.

Banking, Finance, and Urban Affairs Committee

The conference agreement assumes the following savings:

- Changes in the Bank Insurance Fund program which grant the FDIC more flexibility to increase commercial bank insurance premiums. As a result, it is estimated that commercial bank deposit insurance premiums would increase to .195 percent on January 1, 1991 and to .23 percent on January 1, 1992. This provision saves $1.1 billion in 1991 and $9.0 billion over 5 years. The agreement also includes a provision which allows the FDIC to borrow from the Federal Financing Bank (FFB), saving $3 million in 1991 and $12 million over 5 years.

- Reforms of the FHA mortgage insurance program agreed to in the conference on the housing reauthorization bill, which save $216 million in 1991 and $1,815 million over 5 years. These reforms include changes in the down payment and mortgage insurance premiums required for FHA mortgage insurance. These reforms are expected to restore the single family FHA insurance program to actuarial soundness.

- Establishes permanent increase in the maximum mortgage amount eligible for FHA insurance to $124,875. This increase generates additional insurance volume and, hence, additional premium receipts for FHA, which are expected to total $568 million between FY 1992 and 1995. These figures do not include the savings (-$181 million) from the first-year increase in the FHA maximum mortgage amount because the provision also was included in the conference report on the FY 1991 VA-HUD Appropriations bill which passed the House on October 20, 1990.

- Provides for annual subsidy payments to the holders of mortgages otherwise eligible for assignment to FHA in order to bring the yield on those mortgages up to current market yields. In return, the holders of the mortgages would waive their existing option to assign those mortgages to HUD and receive a payment for the remaining principal amount of the mortgage in the form of an FHA debenture. The current market yield would be determined, if necessary, through an auction of the mortgage, including the interest subsidy, by the current holder to other private investors. This provision saves $212 million in 1991 and $1,010 million over 5 years.

- Extends the National Flood and Federal Crime Insurance programs for FY 1992 through 1995, which saves $304 million in 1992 and $609 million over four years. Under current law, these programs are scheduled to expire at the end of FY 1991. The agreement also allows FEMA to increase flood insurance premiums to cover the administrative costs of the flood insurance and flood management programs, saving $14 million in 1991 and $224 million over 5 years.

Education and Labor Committee

The conference agreement assumes the following savings:

Stafford Student Loan Program:

- Requires 30 day delay in disbursement of loans to all first-time borrowers;

- Requires borrowers without a high school diploma or GED to take and pass an independently administered test;

- Eliminates from all student loan programs any school with a calculated default rate over the last three years in excess of 35 percent for 1991 and 1992 and 30 percent or more for 1993 and beyond (does not apply to Historically Black Colleges or Universities or Tribally Controlled Community Colleges until July 1, 1994);

- Extends the current limitation on SLS loan limits in short-term programs;

- Extends the current limitation on SLS loan program eligibility for borrowers attending schools with a calculated default rate in excess of 30 percent;

- Prohibits eligibility of a school filing bankruptcy;

- Amends the Bankruptcy Code to tighten laws as they relate to student borrowers; and

- Mandates supplemental pre-claims assistance on all delinquent loans and reimburse guarantee agencies for successfully preventing a default claim through early intervention.

Pension Benefit Guaranty Corporation:

- Increases the flat premium from $16 to $19 and the variable rate premium from $6 to $9 (capped at $53 per participant) under the Pension Benefit Guaranty Corporation.

OSHA/MSHA Revenues:

- Increases by seven times the maximum civil penalties that can be imposed by the Occupational Safety and Health Administration (OSHA) for violations of OSHA laws with a mandatory minimum penalty of $5,000 for a willful violation.

- Increases by five times the maximum civil penalties that can be imposed by the Mine Safety and Health Administration (MSHA) for violations of MSHA laws, with no minimum penalty.

Child Labor:

- Increases the maximum civil penalties that can be imposed by the Labor Department for violations of child labor laws, with no minimum penalty.

Pension Reversions:

- Transfer of excess pension plan assets to health benefit plans and excise tax on pension plan reversions.

Energy and Commerce Committee

The conference agreement assumes the following savings:

- Establishes Nuclear Regulatory Commission (NRC) user fees which fully recover NRC costs, which results in savings of $287 million in FY 1991 and $1,554 million over 5 years.

- Establishes Railroad safety fees which total $20 million in FY 1991 and $169 million over 5 years.

- Establishes travel and tourism fees which generate savings of $14 million in FY 1991 and $79 million over 5 years.

- Authorizes the Environmental Protection Agency (EPA) to assess additional fees for certain permits and activities, which increases receipts by $28 million in FY 1991 and $180 million over 5 years.

Judiciary Committee

The conference agreement assumes the following savings:

- Establishes a 69 percent surcharge on certain existing patent and trademark fees during fiscal year 1991 through 1995 to cover more of the costs of the Patent and Trademark Office, saving $102 million in 1991 and $495 million over 5 years. The provision also establishes statutory ceilings on an annual basis and other controls on the use of these fees by the Patent and Trademark Office.

Interior and Insular Affairs Committee

The conference agreement assumes the following savings:

- Eliminates the permanent appropriation for the Tongass Timber Supply Fund, which saves $28 million in 1991 and $204 million over 5 years;

- Increases existing Nuclear Regulatory Commission (NRC) fees to recover 100 percent of the NRC costs incurred in regulating nuclear power plants, which would save $287 million in 1991 and $1.544 billion over 5 years; and

- Reauthorizes reclamation fees collection for use in cleaning up abandoned coal mines, which increases receipts by $832 million over 5 years.

Merchant Marine and Fisheries Committee

The conference agreement assumes the following savings:

EPA Fees

- Authorizes the Environmental Protection Agency to assess additional fees for certain permits and activities.

Coast Guard Fees

- Allows the Coast Guard to collect direct fees for services, including inspection and examination of vessels; licensing of masters, mates, pilots and engineers; and the engagement and discharge of seamen, and;

- Establishes a schedule of fees for owners of boats over 16 feet in length using United States navigable waters where there is a Coast Guard presence.

Tonnage Duties

- Increases the tonnage charges presently collected from vessels arriving in the United States from foreign ports.

Coastal Zone fees

- Establishes fees to recover to costs of processing appeals under section 307 of the Coastal Zone Management Act.

Post Office and Civil Service Committee

The conference agreement assumes the following savings:

- Suspends for five years the lump-sum retirement option effective December 1, 1990. Employees retiring on or before November 30, 1990 would not be affected by the suspension of the lump sum benefit. Exemptions are provided for workers with a terminal illness, Federal workers who are mobilized because of Operation Desert Shield and employees who are classified as involuntarily separated. The lump-sum proposals save $1,390 million in fiscal year 1991 and $7,600 million over five years.

- Requires Federal Employee Health Benefit (FEHBP) carriers to implement cost-containment measures including: exempting the FEHBP from State premium taxes; requiring improved coordination between the Office Of Personnel Management and the Department of Health and Human Services in order to ensure that Medicare's payments and limits can be correctly applied when the FEHBP carriers make a secondary payment; instituting mandates for cash management controls in administering payments from the Employees Health Benefits Fund and applying Medicare hospital payment limits to payments to providers of services to FEHBP annuitant enrolles who are age 65 and older but not eligible for Medicare (effective

MAJOR PROVISIONS IN BUDGET PROCESS REFORM PACKAGE

PROVISIONS SPECIFICALLY ENFORCING THE FIVE-YEAR BUDGET PACKAGE

- Discretionary Spending Limits There are ceilings on defense, international, and domestic discretionary spending in Fiscal Years 1991-1993, and a single ceiling on total discretionary spending in Fiscal Years 1994-1995. These ceilings are enforced by an end-of-session sequester applied across-the-board solely to the corresponding category.

- Pay-As-You-Go for Entitlements and Revenues Any increase in direct spending or reduction in revenues after enactment of the current reconciliation bill must be paid for by other spending reductions or revenue increases. Otherwise there will be a special reconciliation to eliminate any net revenue loss and a sequester to eliminate any deficit increase. The sequester would come from entitlements, except those that are exempt.

OTHER ENFORCEMENT AND REFORM PROVISIONS

- Social Security Completely Off-Budget Social Security receipts and disbursements would be removed from the Gramm-Rudman-Hollings (GRH) law. (Social Security is already off-budget.) The Social Security trust funds would be protected by "firewall" points of order in the House and Senate against legislation which would reduce trust fund balances.

- Multi-year Budgeting and Enforcement To prevent temporary savings and timing shifts, budget resolutions in each year through Fiscal Year 1995 would be for five years, with five-year 302(a) discretionary spending allocations, revenue floors, and reconciliation. The budget resolution would be required to conform to GRH limits.

- Deficit Targets GRH is extended through 1995, with new Fiscal Years 1991-1995 deficit targets to reflect current economic and technical assumptions. These targets will be adjusted before the Fiscal Year 1992 and Fiscal Year 1993 budget cycles to prevent sequesters due only to changes in economic and technical assumptions. (Hence only "categorical sequesters," based on policy violations, as described above, could occur in Fiscal Years 1991-1993.) In Fiscal Years 1994-1995, the GRH system would return to fixed deficit targets enforced by the current sequestration rules unless the President exercised an option to fully adjust the targets for later economic and technical reestimates.

- Locked-in Estimating Assumptions The economic and technical assumptions used in estimating the President's budget would be locked-in for the GRH sequestration projection later in the year. Congress would no longer be aiming at "moving targets" as the President altered his estimating assumptions during the year.

- Credit Reform Budget accounting for credit programs is modified to reflect true economic costs instead of cash flow.

Science, Space and Technology Committee

The conference agreement assumes the following savings:

- Increases existing NOAA user fees based on the fair market value of a variety of NOAA products and services, which saves $2 million in 1991 and $12 million over 5 years.

- Authorizes EPA to assess fees to offset the costs of EPA radon research program, which saves $2 million in 1991 and $8 million over 5 years.

Veterans' Affairs Committee

The conference agreement assumes the following savings:

- Eliminates compensation for mentally incompetent veterans whose incomes exceed $25,000 which would save $125 million in FY 1991 and $291 over 5 years;

- Requires pension reforms such as eliminating the presumption of total disability at age 65, reducing pensions to Medicaid nursing home patients, and verifying income through IRS would save $67 million in FY 1991 and $1.2 billion over 5 years;

- Establishes a VA medical care cost recovery fund, modifying co-payments and deductibles, and requiring a $2 monthly fee for outpatient drugs would save $214 million in FY 1991 and $956 million over 5 years;

- Limits vocational rehabilitation to veterans with disability ratings of 20% or more would save $20 million in FY 1991 and $180 million over 5 years;

- Changes in the manufactured home loan program and a 0.625% increase in VA housing loan origination fees for 1 year would save $83 million in FY 1991 and $93 million over 5 years;

- Eliminates burial headstone and marker allowances and limiting the burial plot allowances would save $30 million in FY 1991 and $166 million over 5 years;

- Prohibits the payment of compensation for secondary effects of willful misconduct such as alcohol or drug abuse which would save $10 million in FY 1991 and $334 million over 5 years;

- Repeals benefit restoration eligibility for remarried survivors which would save $19 million in FY 1991 and $374 million over 5 years; and

- Rounding down compensation COLAs and requiring disclosure of social security numbers would save $53 million in FY 1991 and $91 million over 5 years.

January 1, 1992). These proposals save $216 million in fiscal year 1991 and $1,905 million over five years.

- Requires the Postal Service to pay the employer FEHBP premiums for those postal employees (and survivors) who retired after June 30, 1971 (postal reorganization), but prorates the Postal Service's liability to reflect only that portion of total service performed as an employee of the Postal Service. This proposal saves $116 million in fiscal year 1991 and $594 million over five years.

- Requires the Postal Service to fund Civil Service Retirement System (CSRS) cost-of-living adjustments for postal retirees (and survivors) who retire after postal reorganization. The payment is prorated to reflect only that portion of total service performed as an employee of the Postal Service. The fiscal year 1991 saving is $322 million and the five year savings are $1,946 million.

- Requires the Postal Service to make payments to the Civil Service Retirement and Disability Fund and the Employees Health Benefits Fund to fund liabilities incurred between July 1, 1971 and September 30, 1986. Payments are spread over fiscal years 1991 through 1995. The fiscal year 1991 saving is $272 million and the five year savings are $2,140 million.

- Amends H.R. 5450, the House-passed Computer Matching and Privacy Protection Act Amendments of 1990 in terms of the time required by law to notify recipients of Federal benefit programs about the results of a computer match prior to taking adverse action against individuals. The bill is also amended to establish an alternative to independent verification requirements set up in 1988. The savings credited to this committee in FY 1991 is zero and the five-year savings are $135 million.

- Assumes the provisions of H.R. 3139, the Portability of Benefits for Department of Defense Nonappropriated Fund Employees Act of 1989. The Act allows the Department of Defense to reorganize the nonappropriated fund (NAF) work force which would cause up to 6,000 NAF employees to be converted to the civil service and up to 2,000 civil service employees to be converted to nonappropriated fund status and provides for appropriate transfer of employee benefits. The fiscal year 1991 saving is $6 million (revenues) and the five-year savings are $30 million.

<u>Public Works and Transportation Committee</u>

The conference agreement assumes the following savings:

Environmental Protection Agency Fees:

- Authorizes the EPA to assess additional fees for certain permits and activities.

COMPARISON OF FIVE-YEAR DEFICIT REDUCTION IN SUMMIT AGREEMENT AND RECONCILIATION
($ billions)

	Summit Agreement		Senate-passed Reconciliation		Tentative Conference Reconciliation	
	$	%	$	%	$	%
SPENDING:						
Discretionary (current status)	182.4	36.1%	182.4	36.0%	182.4	37.2%
Entitlement and mandatory:						
Agriculture	13.0	2.6%	15.1	3.0%	14.9	3.0%
Federal workforce and retirement	14.4	2.8%	15.1	3.0%	14.5	3.0%
Stafford loans (GSLs)	2.0	0.4%	2.0	0.4%	1.7	0.3%
FHA reforms	3.4	0.7%	4.1	0.8%	4.1	0.8%
Veterans	2.7	0.5%	6.1	1.2%	3.7	0.7%
Other	8.1	1.6%	0.9	0.2%	0.2	0.0%
Medicare	60.0	11.9%	49.3	9.7%	43.0	8.8%
Medicaid	2.4	0.5%	2.9	0.6%	3.1	0.6%
Entitlement add-backs	−4.1	−0.8%	−2.9	−0.6%	−2.5	−0.5%
Subtotal, Entitlements	101.8	20.1%	92.6	18.3%	82.7	16.9%
User Fees:						
Bank Insurance Fund	9.0	1.8%	9.0	1.8%	9.0	1.8%
Coast Guard	1.1	0.2%	1.1	0.2%	0.9	0.2%
NRC	1.6	0.3%	1.6	0.3%	1.6	0.3%
OSHA/MSHA	1.1	0.2%	0.8	0.2%	1.1	0.2%
Customs	2.3	0.5%	2.3	0.5%	2.3	0.5%
Other	3.7	0.7%	2.5	0.5%	2.7	0.5%
Subtotal, User Fees	18.8	3.7%	17.2	3.4%	17.5	3.6%
Total Mandatory	120.6	23.9%	109.8	21.7%	100.2	20.4%
TOTAL SPENDING	303.0	59.9%	292.2	57.6%	282.6	57.6%
REVENUES:						
Tax credits/incentives/other losers	−24.0	−4.7%	−29.1	−5.7%	NA	0.0%
Revenue raisers	153.9	30.4%	171.2 142	33.8%	138.0	28.1%
IRS enforcement initiative	9.4	1.9%	9.4	1.9%	9.4	1.9%
TOTAL REVENUES	139.3	27.5%	151.5	29.9%	147.4	30.0%
NET INTEREST	63.3	12.5%	63.5	12.5%	60.5	12.3%
TOTAL DEFICIT REDUCTION	505.6	100.0%	507.2	100.0%	490.5	100.0%

238.2

Details may not add to totals due to rounding.
Discretionary savings not specified by category in 1994 and 1995.
Summit Agreement does not include Child Care.
Congressional Budget Office, Joint Committee on Taxation, and staff estimates.
Prepared by SBC Minority Staff, October 26, 1990.

"(3) SUPPLEMENTAL INFANT CREDIT.-

"(A) IN GENERAL.-In the case of a taxpayer with a qualifying child who has not attained age 1 as of the close of the calendar year in which or with which the taxable year of the taxpayer ends-

"(i) the credit percentage shall be increased by 4 percentage points and

"(ii) the phaseout percentage shall be increased by 2-5/6 percentage points.

The percentages under this paragraph shall be in addition to the percentages determined under paragraph (2) [An EITC young child supplement and the EITC] with respect to such child.

"(B) ELECTION BETWEEN DEPENDENT CARE CREDIT AND CREDIT FOR CHILD CLAIMED UNDER THIS PARAGRAPH.-If the taxpayer elects to take a child into account under this paragraph, such child shall be treated as not being a qualifying individual under section 21."

---

10 BILLION SHORT

Problems.

MUST CHANGE

*1) GATT Trigger.

2). GOV. AFFAIRS:
½ BILLION BACK -

3) CZM:
DEF/INT/....
Fed operations = f(CZM)..

*4) CHILD CARE
1.4 @ W. TOTS.
WEE TOTS
TITLE IV
> STRUCTURE PROGS. ok TRADE -
ok

5) MEDICAID -
Not a deal breaker
$500M ours.
0 theirs.
$200. MIL. TRADE. -

6). FAA REAUTHORIZATION. $114M
House ok.
Senate ?

7). MEDICARE ?

*8) PROCESS REFORM
ABSOLUTE MUST
DEAL BREAKER

½*9) MEDICARE SEQUESTER
@ 4% (NEED 4%)
(NOW 2% HIT)
IF OTHER ENTITLEMENTS EXPOSED

½*10). DESERT SHIELD ADJUSTMENT
MAKE EXEMPT FROM CAP

?, 11) SOFT LANGUAGE ON GSE'S

TAXES

1). PEP 1% FLATTEN ... HOW REPLACE
½ c on 55/666 $2.8B

2). TECHNICAL/TREATY OVERRIDE IN DAC....

Dear Harry
Your own
leader - Come
up with a course
of action - & lets
do it!
George

CENTURY 21
REAL ESTATE OF THE MID-ATLANTIC STATES INC.
1951 Kidwell Drive, Suite 200
Vienna, Virginia 22182
(703) 821-3121

George F. Kettle
Regional Owner

October 2, 1990

The Honorable Nicholas F. Brady
The Secretary of the Treasury
1500 Pennsylvania Avenue, N. W.
Washington, D. C. 20220

Dear Secretary Brady:

I certainly appreciate your letter concerning the depression in the building industry. I had hoped that we would have been able to get together in person so that I could introduce you to one or two major developers in the real estate industry to tell you just how desperate the situation really is!!

Your analysis of the tightening of credit that "is caused both by demand and supply conditions and slower economic activity" is really understated. The situation is drastic - it is apocalyptic! People who have been in business and have had good credit for 15 or 20 years are having their lines of credit withdrawn - not reduced. I know of developers and builders that have office buildings half constructed with signed leases and the banks are reneging on their commitment. There are builders who have houses sold with substantial deposits to good creditworthy clients that cannot get financing.

Personally I have an asset ratio of 27 - 1 and have paid my bills on time or 40 years. I've had a million dollar line of credit with Riggs Bank for at least two years and a relationship with them for three. After paying off my entire line two months early, when I went back after 30 days as the banking representative had indicated to me to renew my line, he not only refused to renew it for the same amount, but refused to renew it for any amount - I mean not even $100.00. From a million dollar line of credit to zero is not tightening credit -it's cutting off credit! Two other banks totally refused to give me any line of credit. I'm enclosing those turndown letters from three different banks.

Secretary Brady, if you or the powers that be do not get the regulators "off of the backs of the banks" this entire country, not just the building industry, is in for major problems - far worse than 1929. Regardless of what people are telling you this is what the regulators are doing: (1) They are threatening the bankers that if they report them to their superiors they will be sorry. (2) They are "frightening the bankers to death". (3) They refuse to give them any guidelines. They tell the bankers to make the loans and **<u>then after they have made the loans</u>** they will tell them if they did it right or wrong. What a way to do business! (4) I recently had a long time banking friend tell me that a group of young men came in from the regulatory department to go over his bank - **not** one of them had ever done an audit before - there was no team captain who had done an audit - he had to explain to them such words as "foreclosure" - he had to spend a tremendous amount of time educating them on the various phrases and aspects of the banking business, and these people then told him how he should run the bank when they were through the audit! Absolutely incredible!!

Mr. Secretary, I would urgently request that you call in a group of bankers from this area or any area and ask them on a confidential basis exactly what is happening to them because of the regulatory bodies that govern them. Find out first hand how the regulators are intimidating them. You would than be in a better position to make decisions with regard to what actions you should take. Every day that you delay good quality people that have had long term credit relationships with banks are going into bankruptcy. There is urgent need for action!

I say the foregoing with the utmost respect for your position and authority in hopes that you will do something to stem the tide.

Sincerely,

George

George F. Kettle

GFK:lbf

P. S. I still welcome the opportunity to meet you personally and bring with me two or three people who can clearly articulate this crisis for you. Mr. Secretary, I was Eagles' chairman for Virginia for three years, Chairman for Virginia - Victory '88 and Co-Chairman Team 100. I really don't want to be presumptuous, but I somehow feel that the above may entitle me to 15 or 20 minutes of your time. Ordinarily I would not bring this up, but the times and conditions give me little alternative. Thanks.

10. 26. 90 11:05 AM P02

10/26/90

To Mr. Bathgate
Larry — And we wonder why they beat our brains in.
Jim Welch

Goldman Sachs Strategy

Table 45

Capital Gains Taxation by Country

Country	Maximum Long-Term Capital Gains Tax Rate	Period to Qualify for Long-Term Gain Treatment
United States(a)	28.0%	One year
Australia	50.3	One year
Belgium	Exempt	None
Canada	17.5 —	None
France	16.0 —	None
Germany	Exempt +	Six months
Italy	Exempt —	None
Japan	5.0 +	None
Netherlands	Exempt —	None
Sweden	18.0 —	Two years
United Kingdom	40.0 X	None

(a)The nominal tax rate for long- and short-term capital gains is 28%. The marginal rate, however, rises to 33% for joint returns between $74,850 and $155,370 and for single returns between $44,900 and $93,130 for calendar year 1989.

Source: C. Walker and M. Bloomfield, "The Case for the Restoration of a Capital Gains Tax Differential," *Tax Notes*, May 22, 1989, p. 1,021.

<u>TEN POINTS RE: HALF TRILLION DOLLAR DEFICIT REDUCTION PROGRAM</u>

(1) <u>Deficit Reduction</u>: The <u>largest reduction program in history</u> -- almost half-a-trillion dollars -- seven times more permanent savings than in the previous record for a reconciliation bill under G-R-H.

(2) <u>Entitlement Reform</u>: The first comprehensive and substantial <u>reform of mandatory/"entitlement" programs</u> -- about $100 billion in long-sought savings from:

- Farm program reforms;
- FHA reforms;
- Student loan reforms;
- Veterans Program reforms;
- Postal subsidy reforms;
- Federal Employee benefit reforms;
- Medicare reforms.

(3) <u>Discretionary Program Caps</u>: Five-year caps on overall discretionary spending -- <u>in law</u>, on day one -- bringing total discretionary spending down from 10.7% of GNP in '91 to about 7% in '95.

- Automatic "<u>mini-sequesters</u>" -- in law -- to keep domestic and international spending from growing any faster than inflation;

- "<u>Nunn levels</u>" for defense to allow orderly defense build-down without threatening national security.

(4) <u>Credit Reform</u>: a new federal accounting and budgeting system to expose and limit previously hidden (and rapidly growing) liabilities.

(5) <u>Enforcement and Process Reform</u>: toughest enforcement system ever; Gramm-Rudman extended and strengthened -- with caps, mini-sequesters, credit reform, and <u>pay-as-you-go</u>.

(6) <u>Energy Security</u>: incentives for both conservation and for exploration and development of domestic energy resources.

(7) <u>Child Care</u>: a major reform and expansion of child care -- with emphasis on tax credits to people, special credits for children under one, block grants to states, and vouchers.

(8) <u>Social Security</u>: Social Security fully protected and taken off-budget.

(9) <u>Tax Changes</u>: A <u>tax rate cut</u> -- from 33% to 31% -- for about 3.5 million middle/upper-middle income taxpayers; an <u>overall decrease in taxes paid by those with incomes under $20,000</u>; disincentives for consumption of gas, tobacco, alcohol; tax increase for wealthy. Total taxes: 28% of package (versus total outlay reduction: 72%).

(10) <u>Threats avoided</u>: income tax rate increase; indexing delay; excessive national security hit; sequester; higher interest rates; etc.

The Budget Agreement: Process Reform

- **The "categorical sequester" means that for the first time, when a sequester occurs, "the offender pays." From now on, runaway growth in entitlement spending will stop eating away at our ability to invest.**

Under the old Gramm-Rudman-Hollings law, when a sequester occurred, regardless of its cause, it applied to all government programs, unless they were exempt. Many of the big entitlements -- Social Security, Medicare, Medicaid, Food Stamps -- were either exempt or largely exempt from sequester. Thus big sequesters were being applied to a narrow base -- which explains why a $100 billion sequester on a $1.2 trillion budget would have caused a 38% sequester this year, instead of a 9% sequester. The result was that unanticipated growth in entitlement spending, including the creation of new entitlement programs, caused sequesters that primarily affected appropriated (discretionary) programs -- roads, bridges, universities, environmental protection, the space program, etc.

The budget agreement corrects this imbalance. Under the budget agreement, if mandatory spending is greater than planned because of a program expansion, then *mandatory programs only* will be subject to a sequester. If defense spending is greater than the agreed-to cap on defense, then *defense programs only* will be subject to a sequester. If non-defense discretionary spending exceeds its cap, *non-defense discretionary spending* will be subject to a sequester.

Further, the sequester base has been broadened. A larger proportion of mandatory programs will be subject to a sequester, should it occur.

These two changes will combine to have one important effect: from now on, the sequester will become more realistic, more usable, and more effective.

- **Mandatory entitlement spending will now be subject to a "pay as you go" rule.**

The single biggest area of runaway spending growth in the last 30 years has been in mandatory entitlement spending. It has gone from about 25% of the budget in 1960 to nearly 50% of the budget today. The budget agreement tries to address this unrestrained growth. From now on, any new entitlement program or existing program expansion must be paid for with either cuts in other entitlement spending or a new revenue source.

- **The budget agreement caps *spending* in the major areas of government -- and not just deficits.**

The President has long believed that spending growth is the principal cause of the deficit. Where the old Gramm-Rudman-Hollings contained deficit targets for each fiscal year, the new budget agreement contains caps on *spending* in the categories of domestic discretionary, international, and defense. This is a much more effective and enforceable tool -- especially for OMB, which will be responsible for scoring the spending associated with appropriations bills and thus determining if a sequester is triggered.

- **The budget agreement gets control over supplemental appropriations.**

Under Gramm-Rudman-Hollings, once the final sequester snapshot is taken at the beginning of the fiscal year, all discipline was removed from the system. There was no effective method, short of a Presidential veto, for the executive branch to control supplemental appropriations and prevent them from becoming "Christmas trees" which sharply increased the deficit. Thus, the experience of the last few years has been that *actual* end of the year deficits have been much higher than *estimated* beginning of the year deficits.

Under the new budget agreement, only supplementals which reflect funding needed for "dire emergencies" -- *as defined by the President* -- are permitted. Thus, the President can now send forward a request for emergency assistance in response to an earthquake or a foreign policy crisis with the confidence that it won't become loaded up with unrelated domestic pork. Any additions to a supplemental beyond the Presidentially defined "dire emergency" would be subject to a Budget Act point of order and would require a supermajority vote to be approved, and if the bill containing the additions were enacted, the additions would trigger a "categorical sequester."

- **The budget agreement retains the basic structure of Gramm-Rudman-Hollings for future years.**

One goal of those who advocate more Federal spending was to eliminate the bothersome constraint of Gramm-Rudman-Hollings. Under the new budget agreement, fixed targets (as in Gramm-Rudman-Hollings) are maintained for fiscal years 1994 and 1995. In 1991, 1992, and 1993, a system of categorical sequesters and spending caps applies, with adjustments permitted for various economic and technical reestimates.

- **The budget agreement allows the government, for the first time, to begin accurately account for and control its various contingent liabilities.**

The budget agreement contains an entire set of provisions related to "credit reform." Until now, when the government guaranteed loans in areas from education to agriculture to power generation, it never recorded any liability until the borrower defaulted. Thus, the government has been carrying and indeed increasing a huge portfolio of risk without any method of recording it. Under the new credit reform package, the subsidy value of these loan guarantees will be scored at the time the loan is made, and reforms will be required to increase the creditworthiness of borrowers and thereby limit the risk to the government.

TABLE I.C. – BASELINE AMOUNTS AND REDUCTIONS BY CATEGORY

08-Nov-90

(in billions of dollars)

	1990 Actual	% GNP	MSR 91 Base	1991	% GNP	1992	% GNP	1993	% GNP	1994	% GNP	1995	% GNP	91–95
Defense discretionary														
Adjusted baseline.......	NA	NA	NA	307.4	5.4%	318.3	5.2%	327.5	5.0%	NA	NA	NA	NA	NA
Savings.................	NA	NA	NA	–10.5	–0.2%	–22.6	–0.4%	–34.8	–0.5%	NA	NA	NA	NA	NA
Enacted Level...........	300.3	5.6%	307.4	296.9	5.2%	295.7	4.9%	292.7	4.5%	NA	NA	NA	NA	NA
International discretionary														
Adjusted baseline.......	NA	NA	NA	18.6	0.3%	19.1	0.3%	19.6	0.3%	NA	NA	NA	NA	NA
Savings.................	NA	NA	NA	0.5	0.0%	0.0	0.0%	0.0	0.0%	NA	NA	NA	NA	NA
Enacted Level...........	18.8	0.3%	19.1	19.1	0.3%	19.1	0.3%	19.6	0.3%	NA	NA	NA	NA	NA
Domestic discretionary														
Adjusted baseline.......	NA	NA	NA	198.1	3.5%	210.1	3.4%	221.7	3.4%	NA	NA	NA	NA	NA
Savings.................	NA	NA	NA	1.7	0.0%	0.0	0.0%	0.0	0.0%	NA	NA	NA	NA	NA
Enacted Level...........	184.6	3.4%	196.1	199.8	3.5%	210.1	3.4%	221.7	3.4%	NA	NA	NA	NA	NA
Total Discretionary														
Adjusted baseline.......	NA	NA	NA	524.1	9.2%	547.5	9.0%	568.8	8.7%	588.0	8.4%	602.8	8.0%	2831.2
Savings.................	NA	NA	NA	–8.3	–0.1%	–22.6	–0.4%	–34.8	–0.5%	–53.2	–0.8%	–62.0	–0.8%	–180.9
Enacted Level...........	503.7	9.3%	522.7	515.8	9.0%	524.9	8.6%	534.0	8.2%	534.8	7.6%	540.8	7.2%	2650.3
Mandatory														
Adjusted baseline.......	NA	NA	NA	670.2	11.7%	705.3	11.6%	686.0	10.5%	655.7	9.3%	705.4	9.4%	3422.7
Savings.................	NA	NA	NA	–9.6	–0.2%	–16.1	–0.3%	–18.6	–0.3%	–22.2	–0.3%	–25.0	–0.3%	–91.5
Enacted Level...........	562.7	10.4%	634.9	660.5	11.5%	689.2	11.3%	667.4	10.2%	633.5	9.0%	680.5	9.1%	3331.1
Interest														
Adjusted baseline.......	NA	NA	NA	199.2	3.5%	211.0	3.5%	215.7	3.3%	212.2	3.0%	206.9	2.8%	1045.0
Savings.................	NA	NA	NA	–1.8	–0.0%	–6.4	–0.1%	–11.6	–0.2%	–17.2	–0.2%	–23.7	–0.3%	–60.7
Enacted Level...........	183.8	3.4%	195.6	197.4	3.4%	204.6	3.4%	204.1	3.1%	195.0	2.8%	183.2	2.4%	984.3
Total Outlays														
Adjusted baseline.......	NA	NA	NA	1393.5	24.3%	1463.8	24.0%	1470.6	22.4%	1455.9	20.7%	1515.1	20.2%	7298.9
Savings.................	NA	NA	NA	–19.8	–0.3%	–45.1	–0.7%	–65.0	–1.0%	–92.6	–1.3%	–110.7	–1.5%	–333.1
Enacted Level...........	1250.2	23.1%	1353.1	1373.8	24.0%	1418.7	23.3%	1405.6	21.5%	1363.3	19.4%	1404.4	18.8%	6965.7
Tax and Receipt Measures														
Adjusted baseline	NA	NA	NA	1098.4	19.2%	1154.8	19.0%	1242.3	19.0%	1339.2	19.1%	1429.8	19.1%	6264.4
Savings.................	NA	NA	NA	22.5	0.4%	34.0	0.6%	30.2	0.5%	34.1	0.5%	32.3	0.4%	153.0
Enacted Level...........	1031.5	19.1%	1121.7	1120.9	19.6%	1188.8	19.5%	1272.5	19.4%	1373.2	19.6%	1462.0	19.5%	6417.4
Consolidated Deficit														
Adjusted baseline.......	NA	NA	NA	295.1	5.2%	309.1	5.1%	228.3	3.5%	116.7	1.7%	85.3	1.1%	1034.5
Savings.................	NA	NA	NA	–42.3	–0.7%	–79.2	–1.3%	–95.2	–1.5%	–126.6	–1.8%	–142.9	–1.9%	–486.2
Enacted Level...........	218.8	4.0%	231.4	252.9	4.4%	229.9	3.8%	133.1	2.0%	–9.9	–0.1%	–57.6	–0.8%	548.3

	1990 Actual	% GNP	MSR 91 Base	1991	% GNP	1992	% GNP	1993	% GNP	1994	% GNP	1995	% GNP	91-95
Deficit excluding social security total														
Adjusted baseline.......	NA	NA	NA	363.1	6.3%	380.7	6.3%	317.6	4.8%	225.1	3.2%	211.0	2.8%	1497.5
Savings.................	NA	NA	NA	-41.9	-0.7%	-77.5	-1.3%	-93.3	-1.4%	-124.5	-1.8%	-140.6	-1.9%	-477.8
Enacted Level 1/........	277.0	5.1%	305.1	321.2	5.6%	303.2	5.0%	224.2	3.4%	100.6	1.4%	70.4	0.9%	1019.7
Bill targets.....................	NA	NA	NA	327.0	NA	317.0	NA	236.0	NA	102.0	NA	83.0	NA	NA
ADDENDUM														
Social security operating surpluses (-)														
Adjusted baseline.......	NA	NA	NA	-46.7	-0.8%	-45.1	-0.7%	-57.8	-0.9%	-72.1	-1.0%	-84.1	-1.1%	-305.7
Savings.................	NA	NA	NA	-0.4	-0.0%	-1.6	-0.0%	-1.7	-0.0%	-1.8	-0.0%	-1.9	-0.0%	-7.3
Enacted Level...........	-42.2	-0.8%	-52.4	-47.1	-0.8%	-46.7	-0.8%	-59.4	-0.9%	-73.9	-1.1%	-86.0	-1.1%	-313.1
Social security total surpluses (-)														
Adjusted baseline.......	NA	NA	NA	-68.0	-1.2%	-71.6	-1.2%	-89.3	-1.4%	-108.4	-1.5%	-125.7	-1.7%	-463.0
Savings.................	NA	NA	NA	-0.4	-0.0%	-1.7	-0.0%	-1.9	-0.0%	-2.1	-0.0%	-2.3	-0.0%	-8.3
Enacted Level...........	-58.2	-1.1%	-73.7	-68.4	-1.2%	-73.3	-1.2%	-91.2	-1.4%	-110.5	-1.6%	-128.0	-1.7%	-471.3
GNP..........................	5407.0			5723.2		6090.4		6550.5		7024.1		7490.2		

1/ OMB estimate of target.

SUMMARY OF H.R. 5835

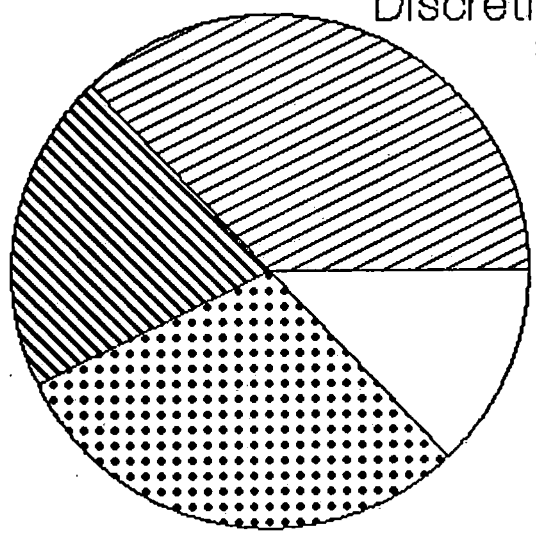
THE OMNIBUS RECONCILIATION ACT OF 1990

CONFERENCE AGREEMENT PROVISIONS

October 27, 1990

Prepared by the Republican Staff of
the United States Senate Committee on the Budget

Five-Year Deficit Reduction
Savings by Category



Total 1991-95

$492 Billion

CBO/JCT estimates
Prepared by SBC Minority Staff
October 27, 1990

COMMITTEE ON THE JUDICIARY

The Judiciary Committee achieved deficit reduction savings of $102 million in 1991 and $0.5 billion over five years through an increase in user fees charged by the Patent and Trademark Office (PTO). This increase would bring the total level of PTO user charges up to nearly the level of the PTO's budget.

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

The Commerce Committee achieved deficit reduction savings of $238 million in 1991 and $1.2 billion over five years through a combination of user fees on the Coast Guard, tonnage, rail safety, Travel and Tourism, and NOAA.

The Coast Guard user fees are of two varieties. Approximately $30 million a year in fees would come from charges for direct services the Coast Guard provides, such as inspection and examination of vessels, and licensing of masters, mates, pilots, and engineers. The conference agreement also provides for indirect Coast Guard user fees on vessels that are greater than 16 feet in length. The fee would be graduated for vessel length and would apply only to vessels operating on navigable waters of the United States where the Coast Guard has a presence.

There are additional fees of $53 million per year from tonnage charges on commercial vessels arriving in the United States from foreign ports. Fishing and recreational vessels, and vessels engageed in domestic trade would be exempt from this new duty.

The conference agreement includes a user fee equal to the United States Travel and Tourism Administration (USTTA) budget on aliens arriving in the United States on commercial aircraft or cruise ships. These user fees would total $78 million over 1991 through 1995.

The Committee's reconciliation language also include railroad safety user fees to cover the costs of the Federal Railroad Administration's rail safety programs. The fees would be charged to railroads based on revenue ton-miles, track miles, passengers miles, or other relevant factors. A five year total of $12 million in NOAA fees is also included.

Two authorization bills are in the conference agreement: (1) an airport capacity act, which includes passenger facility charges, a noise policy, and addition aviation authorizations, and (2) the Coastal Zone Act Reauthorization Amendments of 1990.

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

The Environment and Public Works Committee achieved deficit reduction savings of $317 million in 1991 and $1.7 billion over five years through a combination of Nuclear Regulatory Commission (NRC) and Environmental Protection Agency (EPA) user fees.

The NRC fees, totalling $287 million in 1991 and $1.6 billion through 1995, would fully recover the agency's costs.

The conference agreement on EPA fees requires the agency to assess and collect fees of $28 million in 1991, and $38 million in each fiscal years 1992, 1993, 1994, and 1995 above the amount of fees collected under current law. No more than $10 million of annual new fees may be collected for services and activities under the Federal Water Pollution Control Act.

COMMITTEE ON VETERANS' AFFAIRS

The Committee on Veterans' Affairs achieved savings of $621 million in 1991 and $3.7 billion over the 1991-1995 period, by substantial reforms to veterans' compensation, pension, burial benefits, housing and medical care.

For VA entitlement programs such as compensation, pension and burial benefits, the Committee saved $324 million in 1991 and $2.6 billion over five years. The Committee achieved savings of $83 million in 1991 and $93 million over five years from the VA housing program, and $214 million in 1991 and $956 million over five years from VA medical care.

For compensation and pension benefits, the Committee:

--Limited the amount of accumulated disability payments made to an incompetent veteran that could be inherited by non-dependent heirs of the veteran, effective until September 30, 1992;

--Eliminated the presumption of permanent and total disability at age 65 for the purpose of establishing eligibility for VA pension benefits;

--Limited monthly pension payments to $90 for Medicaid eligible recipients of a VA pension who are in a nursing home and participating in Medicaid, effective until September 30, 1992;

--Precluded a surviving spouse of a veteran who has remarried and subsequently become single from regaining eligibility for dependency and indemnity compensation or pension benefits;

--Rounded down cost of living increases (COLAs) for compensation benefits to the next lower dollar amount for 1991 only, delaying the December 1, 1990, COLA until January 1, 1991, and repaying the increase that would have otherwise been made in December 1990 in January 1992;

--Required income verification for the purpose of determining eligibility for VA pension benefits;

--Eliminated compensation payments for the secondary effects of injuries or diseases incurred during active service which are a result of willful misconduct or the abuse of alcohol or drugs; and

--For all claims for VA disability and death benefits, required the mandatory disclosure of claimants' and dependents' Social Security numbers.
For burial benefits, the Committee limited eligibility for the current $150 plot allowance and eliminated reimbursement for the cost of a headstone or gravemarker for certain deceased veterans.

For educational and vocational assistance, the Committee restricted eligibility for vocational rehabilitation and training to veterans with service-connected-disabilities rated at 20 percent or more.

For VA medical care, the Committee included several substantial changes:

--Expanded medical care cost recovery provisions to allow the VA to collect from third party insurers the cost of care provided to all service-connected-disabled veterans for their non-service-connected conditions, effective until October 1, 1993;

--Required the VA to charge a $2 co-payment for each 30-day supply of medication for all non-service-connected veterans and for service-connected-disabled veterans with disabilities rated at 50 percent or below for the care of non-service-connected conditions, effective until September 30, 1991;

--Modified categories of eligibility for medical care and an expansion of copayment provisions to require veterans with income above a specified threshold to make additional copayments for each day of care, effective until September 30, 1991.

For VA housing, the Committee increased by .625 percent in the current loan origination fee, raising the basic fee from 1.25 percent of the total loan to 1.875 percent. Fees for loans with 5 and 10 percent down payments increased to 1.375 percent and 1.125 percent, respectively. This provision expires on September 30, 1991.

COMMITTEE ON LABOR AND HUMAN RESOURCES

The Committee achieved savings of $235 million in 1991 and $3.5 billion over the 1991-1995 period through increases in penalties levied for violations of OSHA, MSHA and child labor laws, increases in PBGC premiums, and reductions in default volume in the Stafford Student Loan Program. The Committee also included an authorization of $750 million in 1991 for a child care block grant.

For violations of OSHA, the Committee increased the maximum allowable civil penalty by a factor of seven and enacts mandatory minimum penalties of $5,000 for willful violations. For MSHA, the Committee increased the maximum allowable civil penalty by a factor of five. For violations of child labor law, the Committee includes an increase in the maximum civil penalty, but includes no floors.

For the Pension Benefit Guaranty Corporation (PBGC), the Committee increased the current flat premium of $16 for defined benefit plans to $19 and raises the variable premium on underfunded pension plans of $6 per $1,000 of underfunding to $9 per $1,000 of underfunding.

The Committee also included several changes to pension asset reversions, including an increase in the excise tax paid to the government at the time of the termination of a defined benefit plan and the limited transfer of pension plan assets to retiree health benefit accounts. These provisions are included in the Finance/Ways and Means package.

Finally, the Committee has included eight separate changes to the Stafford Student Loan program. These changes are targeted to reducing loans to schools with high percentages of borrowers in default and to reducing defaults in general.

The Committee eliminated from participation schools with default rates in excess of 35 percent, extended the current limitation on borrowing under the Supplemental Loans for Students (SLS) program, extended the current limitation on SLS loans to short term programs, required a 30-day delay in the disbursement of loans, required students without a high school diploma or GED to take and pass an independently administered test before becoming eligible for a loan, amended the bankruptcy code as it relates to student loan borrowers and schools, and mandated supplemental pre-claims assistance on all delinquent loans, reimbursing guaranty agencies at $50 per successful claim, rather than the current rate.

COMMITTEE ON FINANCE

Entitlements/Mandatories/Fees

Medicare

Medicare reductions in the Conference Report total $42.5 billion over five years. Increases in beneficiary premiums and deductibles total $10.1 billion. Changes in payments to hospitals account for $13.7 billion, while physician payment changes total $14.2 billion. Other savings and initiatives produce another $4.4 billion in savings.

Under the Conference Report, the annual Part B beneficiary deductible would increase from $75 to $100 beginning in 1991. The beneficiary premium is set at the following levels between 1991-95: $29.90, $31.80, $36.60, $41.10, and $46.10. These levels are no higher in any year than $1.10 per month above what premiums would have been under a continuation of the current policy which sets the premium at 25 percent of program costs.

Hospital payment updates for inflation are set at market basket less 2.0, 1.5, and 1.4 percent in 1991-93. Rural hospitals would get higher updates in order to eliminate the differential in their payments and those of urban hospitals in areas with less than 1,000,000 population. Hospitals serving disproportionate shares of poor patients also receive an increased payment. Hospital capital continues to be discounted at 15 percent for 1991, but the discount drops to 10 percent thereafter.

Only primary care services would get any update in 1991. Most other physician services would receive no update. Radiology, anesthesiology, and pathology services would be cut across the board. Several hundred services, where prices are more than those being set in pending physician pay reform, will also be reduced partially.

Medicaid

Net Medicaid savings in the Conference Report total $0.6 billion over five years. Drug manufacturers are required to provide 10-15 percent discounts to Medicaid patients (savings of $1.9 billion). Medicaid would be required to pay premiums and co-payments for private insurance for Medicaid beneficiaries if such coverage was cost-effective (savings of $1.0 billion).

States would be required to raise to age 18, one year at a time, coverage of children who live in families with incomes under 100% of the poverty level (at a cost of $1.1 billion over the next five years). States would be permitted to cover functionally disabled elderly for home and community based care (cost of $0.6 billion over the next five years). Further, Medicaid would pay Medicare premiums for the poor elderly up to 110 percent of poverty through 1993 and 120 percent in 1994-95 (at a cost of $0.4 billion over the next five years).

Social Security and Income Security

The Conference Report includes several Social Security and Income Security provisions costing $15 million over five years, including liberalization of disability benefits for widows and widowers (cost of $385 million over 5 years), repeal of certain retroactive Social Security benefits (savings of $713 million over five years), and various new requirements on services provided by the Social Security Administration. In addition, the Conference Report includes new Child Care spending totaling $715 million over five years.

The Conference Report also includes an increase in PBGC premiums and extension of Customs Service user fees, with estimated combined savings of $2.9 billion over five years.

COMMITTEE ON FINANCE

Revenue Provisions

The revenue provisions in the conference report have the effect of reducing the deficit by $17.6 billion in 1991 and $137.2 billion over the period 1991-95.

The debt ceiling is increased by $950 billion to a level of $4.073 trillion.

Revenue raising provisions

The agreement creates an individual rate structure with three marginal rates: 15 percent, 28 percent and a new top 31 percent bracket. The maximum capital gains tax rate is maintained at 28 percent. The alternative minimum tax rate is increased from 21 to 24 percent. These provisions raises $11.2 billion over five years.

The limitation on itemized deductions provision disallows an amount equal to 3 percent of adjusted gross income (AGI) in excess of $100,000 (indexed for inflation) for all taxpayers. Medical expenses and investment interest are excluded from the limitation. This provision raises $18.2 billion over five years.

The personal exemption phaseout would phase out the tax benefits of the personal exemption above certain AGI thresholds ($100,000 for singles, $125,000 for heads of household, $150,000 for joint filers, indexed for inflation). The phaseout is 2 percent of a taxpayer's personal exemptions for each $2,500 of AGI. This provision raises $10.8 billion over five years.

The Medicare wage cap is increased to $125,000, raising $26.9 billion over five years.

The motor fuels excise tax is increased by 5 cents per gallon effective December 1, 1990. This provision raises $25.0 billion over five years, with the money divided equally between the Highway Trust Fund and the general fund. Railroads will pay 2.5 cent per gallon higher fuel taxes, with all of the proceeds going to the general fund.

Tobacco excise taxes are raised by 25 percent. This means 4 cents per pack of cigarettes in 1991, with an additional 4 cents per pack in 1993. This provision raises $5.9 billion over five years.

Alcoholic beverage excise taxes are increased by $1 per proof gallon for distilled spirits ($.16 per fifth), $.21 per bottle of table wine, and $.16 per six-pack of beer. This provision raises $8.8 billion over five years.

A 10 percent luxury excise tax will be imposed on the amount of cost exceeding threshold levels: automobiles above $30,000, boats and yachts above $100,000, jewelry and furs above $10,000, and airplanes above $250,000. This provision raises $1.5 billion over five years.

The agreement extends Social Security (OASDHI) to state and local government employees not participating in a public employee retirement system. This provision raises $9.2 billion over five years.

Airport Trust Fund aviation taxes are extended and increased to raise $11.9 billion over five years.

The telephone excise tax is extended and raises $13.1 billion over five years.

The Federal Unemployment Tax Act (FUTA) 0.2% surtax is extended for five years, raising $5.4 billion.

The tax treatment of insurance policy deferred acquisition costs (DAC) is modified to raise $8.0 billion over five years.

The agreement includes a number of other revenue raising provisions including: an expansion of the ozone-depleting chemical excise tax; extension of the LUST trust fund excise tax; and increase in the harbor maintenance excise tax; new rules for transfers of excess pension assets to pay retiree health benefits; a package of business tax provisions; extension of IRS user fees; and stabilization of payroll tax deposit requirements.

Revenue losing provisions

Expiring provisions, such as the research and experimentation tax credit, targeted jobs tax credit, and the low income housing tax credit, are extended through 1991. These provision lose a total of $5.9 billion over five years.

Some small business incentives are included in the conference agreement losing $800 million over five years.

Energy production tax incentives are included, which lose $2.5 billion over five years.

The agreement contains several provisions that enhance the progressivity of the tax package. The basic EITC is increased, then further expanded, based on family size. A child health insurance tax credit is included. These provisions cost a total of $18.2 billion over five years.

Debt limit

The conference agreement contains language to increase the current permanent debt ceiling by $950 billion to a level of $4.073 trillion. Treasury estimates this is sufficient to fund government operations through May 1992.

Customs fees

Customs fees are extended at current rates, which are effective through 1991, for the period 1992-1995. This provision raises $2.3 billion over five years.

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

The Banking Committees conference agreement achieved reconciled savings of $1.6 billion in 1991 and $13.3 billion over the five year period.

The conference adopted language that gives the Federal Deposit Insurance Corporation (FDIC) more flexibility to increase commercial bank deposit insurance premiums. It is assumed deposit insurance premiums will increase to 19.5 cents on every $100 of insured deposits in 1991, and then to 23 cents thereafter. This provision saves $1.1 billion in 1991 and $9.0 billion over five years.

The agreement also includes a provision that allows the FDIC to borrow from the Federal Financing Bank (FFB), saving $3 million in 1991 and $12 million over five years.

The housing reauthorization bill conference developed an FHA reform proposal that saves $232 million in 1991 and $2.4 billion over five years. These reforms include creating a risk-based premium, raising the total insurance premiums paid, and increasing the closing costs that a borrower must pay up-front. Price Waterhouse determined this provision will substantially lower FHA's default rate and increase its capital position so it is actuarially sound by 1992.

The bill permanently increases the maximum mortgage amount eligible for FHA insurance to $124,875. Increasing the mortgage ceiling generates additional insurance volume and, hence, additional premium receipts for FHA. This provision generates savings of $383 million in 1991 and $3.3 billion over five years. The Banking Committees only received reconciled savings for 1992 through 1995, because a provision to increase the ceiling in 1991 was included in the conference report on the 1991 VA-HUD Appropriations bill.

The conference agreement includes a provision to allow FHA to provide incentive payments to lenders to not assign their mortgage back to HUD. Baseline budget savings are achieved because it is cheaper for FHA to provide incentive payments to lenders than to acquire and service mortgages. This provision saves $212 million in 1991 and $1.0 billion over the five year period.

The bill extends the National Flood and Federal Crime Insurance programs of the Federal Emergency Management Agency (FEMA) for 1992 through 1995. This provision saves $304 million in 1992 and $609 million over four years. Under current law, these programs are schedule to expire at the end of 1991. The agreement also allows FEMA to increase flood insurance premiums to cover the administrative costs of the flood insurance and flood management programs, saving $14 million in 1991 and $224 million over five years.

COMMITTEE ON ENERGY AND NATURAL RESOURCES

The Energy and Natural Resources Committee achieved deficit reduction savings of $64 million in 1991 and $1.0 billion over five years through repeal of the permanent appropriation for the Tongass timber supply fund and an extension of abandoned mine reclamation fees.

The reconciliation bill references the Tongass savings ($28 million in 1991), which were achieved with the passage of the conference report on Tongass legislation (passed by the Senate on October 24, 1990).

The abandoned mine reclamation fee savings, amounting to $831 million over the five year period, are achieved through an extension of tonnage fees on coal, which finance the Abandoned Mine Reclamation fund.

COMMITTEE ON GOVERNMENTAL AFFAIRS

The conference report on the Governmental Affairs Committee achieved $2.3 billion in 1991 and $14.5 billion over the five-year period.

The conference agreement suspends for five years the lump-sum retirement option, effective December 1, 1991. Employees retiring on or before November 30, 1990 will not be affected by the suspension of the lump-sum benefit. Exemptions are provided for terminally ill employees, federal workers involved with Operation Desert Shield, and employees who are involuntarily separated from work. This exemption does not apply to Members of Congress and political appointees in the Executive branch. The lump-sum proposal saves $1.4 billion in 1991 and $7.6 billion over five years.

The bill reduces Federal subsidies to the Postal Service for employees who retired between 1971 and 1986 and are covered by the Federal Employee Health Benefit Program (FEHB). The payments will be pro-rated to reflect only that portion of total service performed as an employee of the Postal Service. This provision saves $116 million in 1991 and $594 million over five years.

The bill requires the Postal Service to make payments to the Civil Service Retirement System (CSRS) for cost-of-living adjustments for postal retirees after postal reorganization in 1971. The payment is pro-rated to reflect only that portion of total service performed as an employee of the Postal Service. This provision saves $216 million in 1991 and $1.7 billion over five years.

The agreement requires the Postal Service to make payments to CSRS and FEHB to fund liabilities incurred between 1971 and 1986. Payments are spread over the five year period and will save $272 million in 1991 and $2.1 billion over five years.

The Computer Matching provision enhances the ability of the government to check and verify the eligibility of individuals who receive government benefits such as food stamps and aid to families with dependent children. This provision saves $270 million over five years.

The FEHB cost containment language will require the Office of Personnel Management (OPM) to institute an FEHB cost containment program saves $38 million in 1991 and $304 million over five years.

The FEHB 65+ language will limit the amount hospitals may charge for care for Federal retirees above age 65 who are not covered by Medicare. This should not impact on beneficiary costs and may result in lower outyear premiums. This will reduce FEHB Trust Fund outlays by lowering expenditures of FEHB hospital claims, producing savings of $790 million over the five year period.

Under current law, FEHB insurance carriers are required to pay state premium taxes. These taxes are build into the program's premium base. Exempting carriers from paying this tax results in lower premium costs, which reduces the government's FEHB costs. This provision saves $68 million in 1991 and $209 million over five years.

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

In this conference report the Committee on Agriculture has reduced its proposed spending by $1.6 billion for 1991 and $14.9 billion for 1991 - 1995.

One of the major programs that will contribute to the agricultural savings is the triple base option initiative, a program designed to promote planting flexibility and contribute to deficit reduction. The base acreage eligibility for deficiency payments will be reduced from 100 percent to 85 percent for each of the crop years 1991 through 1995. Producers will be able to grow program crops, oilseeds, and non-program crops on flexible acres. Flexible acres will be eligible for crop loans but not deficiency payments.

The conference report also limits the acreage reduction program (ARP) by requiring reductions in the ARPs. The Secretary of Agriculture is required to announce acreage limitation programs for 1991 crops of wheat of not less than 15 percent, no less than 6 percent for 1992, 5 percent for 1993, 7 percent for 1994 and 5 percent for 1995. Crop year ARPs will be mandated for feed grains of not less than 7 1/2 percent from 1991 to 1995.

The conference report proposes changes to the calculation of deficiency payments of wheat, feed grains, and rice to a 12-month national average market price in 1994 and 1995. There will be an assessment for dairy products amounting to 5 cents per hundredweight during 1991 and 11.25 cents per hundredweight during 1992 - 1995. Producers who are able to prove their milk marketing did not exceed the prior year's production will receive a refund that will be reflected in future assessments.

A program service fee of 1 percent on crops of sugar, peanuts, honey, and tobacco loans would be charged for crops produced from 1991 to 1995. The bill also deducts 1 percent from wool and mohair payments.

The Rural Electrification Administration (REA) would have a reduction of approximately 25 percent, and the guaranteed loans would be increased correspondingly. Changes to the actuarial accounting of the Farmers' Home Administration loans would cause approximately 50 percent of the direct loans to be shifted to guaranteed loans over the coming five years.

The reductions in the commodity price support programs could be modified upon failure to reach an agricultural trade agreement in the Uruguay Round of the General Agreement on Tariff and Trade. If an agreement is not negotiated by June 30, 1992, and existing Congressional "fast track" procedures contained in the Trade Act remain intact, commodity export loan programs would be expanded, and a marketing loan program for wheat and feed grains would be implemented. If such an agreement is not negotiated by June 30, 1993, the Secretary of Agriculture would have the authority to restore the spending reductions established in this reconciliation bill.