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Record Group/Collection:	George H.W. Bush Presidential Records
Collection/Office of Origin:	Chief of Staff, White House Office of
Series:	Sununu, John, Files
Subseries:	Issues Files

OA/ID Number:	29173
Folder ID Number:	29173-004

Folder Title:
Transition - Miscellaneous (1989) [1]

Stack:	Row:	Section:	Shelf:	Position:
G	15	25	4	4

Craig Fuller
File

AMERICA 2000

o use the State of the Union to talk about the goals for America at the start of the century

o develop a Fall strategy for preparing such a SOTU that involves the President early and directly

o set up a plan for 1990 that allows the President to speak on the future and the goals for the nation throughout the year

o provide the Vice President and other senior administration officials with themes for 1990, particularly for use on the campaign trail during mid-term elections

o lay out the framework for 1990 - 1992 and beyond in a Bush administration

<u>The Fall</u>

o several senior project teams should be formed within the White House to develop and coordinate substantive work

o select critical areas: education, competitiveness, environment, jobs/workforce, science/technology, drugs, health care, transportation, space, Western hemisphere, East/West policy, NATO, trade policy areas, etc.

o develop a schedule of Presidential briefings with administration and non-administration officials looking toward the future -- let people know that the President is engaged in this effort as part of an extensive end of the year review

o build in what cabinet officers are doing (e.g. Skinner's Transportation Policy review process, Watkins' Energy Policy review)

o form a SOTU group to integrate the work of project teams and begin drafting

<u>The State of the Union</u>

o research will confirm how SOTU's coming at the start of new decades are viewed, but this SOTU will be the first of a new decade <u>and</u> it is the last decade of the century...making this one even more historically significant from the standpoint of laying out goals for the nation.

o the SOTU is a particularly good place to make important assignments...this time the challenges should address the needs over the decade o the tone, feel and concept for the speech ought to be that George Bush has thought alot about the future and is preparing America for the next century....a large task, but a popular President with the experience he has will be listened to as all the "last decade" and "year 2000" stories are being written

o following up will be important....this is the kind of approach that establishes a direction for the next few years...the project teams that started in the Fall might stay together to develop and advance the policies -- the tasks will stretch well into 1991 following the mid-term elections

THE 1990 ECONOMIC SUMMIT

o you're building on success

o capture the process immediately

o set up a structure to manage this with people dedicated to the project

o consider locations that will "count" later (e.g. California)

CLF--7/24

THE WHITE HOUSE

WASHINGTON

November 21, 1988

MEMORANDUM FOR THE PRESIDENT-ELECT

FROM: ANTHONY R. DOLAN

Some random thoughts. These points may already be in your mind or made more effectively by others. I know this but perhaps there are some useful moments.

1. PERSONAL NOTE -- Please permit again warmest congratulations. Your press conference the day following was sublime -- you were gracious and Presidential without negating the results as you put it of the election. Liked particularly the parts about helping the contras, not accepting the liberal agenda and the kind words about RR as a man who taught us how to come back and back again for our principles.

I think -- along with your immediate and skillful announcements of appointments -- this silenced all the nonsense about a negative campaign.

2. CAMPAIGN PERSPECTIVES -- The moans about the campaign will fade as two long-terms results emerge:

(a) the liberals will now be not just 8 years -- from which they might recover -- but 12 and probably 16 years without Executive branch credentials and prominence for their leadership infrastructure. This is a grave and possibly fatal burden to their hopes. The young and ambitious are going to turn increasingly away and the old and ambitious will grow discouraged.

(b) Even more important, what Member of Congress does not harbor deep within thoughts of national office and which of them will now risk a vote against the death penalty or tough judges; which will risk running up a string of anti-defense or pro-tax votes? So, your campaign may have permanently disabled liberalism; we may never see it again in a national candidate -- at least without a serious rupture within the Democratic Party itself.

3. SUNUNU -- Do you know what is being said? Even among the insiders who had invested so much time and effort in cultivating others they thought might be in the power circle, even they are saying that Bush continues to amaze; the best example of a backup quarterback surprising everybody since Unitas' emergence.

known the Governor for some time now and who cannot be impressed with his brains and warmth and competence.

4. DEFICIT -- This is the first big but not the only big problem. In the eyes of the media, it is the focal point. We should play to this because not too many years ago, you remember well, it was not possible to get the opposition interested in this problem. Here are some suggestions for hitting it head on and immediately in a way that captures the public imagination.

(a) In your statements on this matter, possibly the inaugural and certainly the State of the Union, the following perspective should be offered;

(1) Of all the problems we had at the start of the eighties -- the economic stagnation, the inflation and unemployment and interest rates and trade deficits and overtaxation and overregulation -- this is the one outstanding one that remains. Let us take stock of our success but also move speedily to complete the job. The deficit problem is very grave. But let us remember how we got here -- that spending increased 10 times in the seventies (and taxes 5 times) -- so that we are simply reaping the awful buildup of entitlement costs, etc. during the past few decades.

(2) Actually spending and the deficit has been brought under some control -- in the eighties we've managed to slow down a five-decade juggernaut. For example, spending increases have been cut from 17 percent to 1.4 percent and last year the Federal Government actually spent less than the year before in real terms.

(3) The yearly deficit spending has been cut by more than one third.

(4) The deficit has actually declined as a percentage of the G.N.P. (and this in the view of most economists is the tell-tale indicator). It has been cut by almost half since 1983 (As function of the GNP.)

(5) For the first time since the New Deal, a consensus emerged in the eighties that rejected "The New Economics" -- that we couldn't spend ourselves rich any more than we could drink ourselves sober, that the way to make one's mark in Congress is no longer to propose and get passed some massive new Federal program. Gramm-Rudman is a tremendous breakthrough -- it is a glide path to a balanced budget. Let us be glad of it.

(6) Congress has the appropriation responsibility. In the past 8 years it has turned down something like $100 billion in spending cuts. Its budget process has been an extraordinary disaster. It's worth reviewing what was pointed out at the start of the year. In 7 years, of 91 appropriations bills scheduled to arrive, only 10 made it on time. Last year, of the 13 appropriations bills due by October 1st, none of them made it. Instead, we had 4 continuing resolutions lasting 41 days, then 36 days and 2 days, and 3 days, respectively. And then there was a conference report -- 1,053 pages weighing 14 pounds. A reconciliation bill 6 months late, that was 1,186 pages long, weighing 15 pounds; and the long-term continuing resolution -- this one 2 months late, 1,057 pages long and weighing 14 pounds.

That was a total of 43 pounds of paper and ink. Congress had 3 hours to consider each, and it took 300 people at the Office of Management and Budget just to read the bill so the Government wouldn't shut down.

Congress did better in 1988 but only because of pressure from the administration and the arrival of an election year.

(7) Congress needs help. And that means no continuing resolutions and last minute catch-all bills. If it's sent to you, you will not sign it.

(8) Congress also needs the discipline of a line-item veto and balanced budget amendment.

(b) You might want to consider this: As you leave the inaugural platform, you could sign in the rotunda an Executive Order limiting hiring, travel and public relations expenses in Federal departments or an order in some other way putting in force your flexible freeze.

(c) Your first meeting at the White House might be with the Cabinet but even better would be a meeting with the I.G.'s. Complimenting them as a new force in the Federal system -- answering to Congressional and Executive branches -- noting the billions they have saved and charging them to go after billions more.

(d) Following your meeting with I.G.s: You might consider announcing:

(1) A new Cabinet department: Inspector General who would coordinate all I.G.s and things like Grace Commission compliance report to the President.

(2) Announcing a new series of 12 regional, fraud-against-the-government task forces like the Justice Department's drug task forces and organized crime strike forces that would work closely with the I.G.s. This would mean an increase of 150 prosecutors and additional accountant-investigators. You could cite rate of cheating statistics in medicare, medicaid, food stamps, housing, etc. -- <u>not by poor people</u> but by greedy, well-to-do vendors. (The statistics here, by the way, are disturbing.)

Over the long run, this approach, like the Defense Department scandal, would do a great deal to bring down false claims and reduce the increasing costs of entitlement programs.

If I can speak from 6 years experience with program fraud as an investigative reporter, nothing stops fraud and starts brining down false claims as much as a stream of indictments. As somebody said last summer about the defense procurement problems: "there's nothing like a few public hangings." But, in truth, setting up this sort of aggressive law enforcement helps establish the most important change of all -- a spiritual change, a new ethos -- zero tolerance of fraud against the Government.

(3) Announcing a new commission that will examine the amount of money in the major welfare programs that are going not to the poor but to a tiny group of upper middle class and even wealthy households. Mr. Vice President, I have a presentation on this that is most disturbing. Extrapolating from one recent census survey of eight major welfare programs, it is possible that as much as $7 to $9 billion in questionable payments are going to families with over $40,000 in income and some above $100,000. Instead of "welfare cadillac" we have "cadillac welfare."

Some of this is pure fraud, some of it may just be taking advantageous but legal use of the programs. But whatever it is, it means money is going to well-to-do and rich Americans (a tiny few, by the way) not poor people. (For example, according to these statistics, there are 50,000 households with incomes of over $40,000 receiving food stamps and another 100,000 households with incomes of over $40,000 receiving A.F.D.C.).

On the surface, this is crazy and needs to be looked into. There's quite a story here that the press would like. It would put the focus on the social spending side of the equation.

(4) Telling Congress that once the constitutional problems have been resolved (that led to RR's veto), you are prepared to sign a bill that offers whistle blowers the added protection they need.

How's that for a first day?

5. <u>REGIONAL CONFLICTS</u> -- Second day, should be on regional conflicts. The highlight here should be a clear, unmistakable message to the Congress that the Sandinista regime is illegitimate and we have a moral obligation to help those who are fighting to return to democracy.

Your message here should be unequivocal. You are prepared to take defeats in the Congress -- to come back and back again until you prove the adage that in politics "losing is winning." Because with each loss the American people will grow more and more aware of what is truly happening in Nicaragua. And, as the polls show, they will become increasingly committed to helping the freedom fighters once the facts are known.

I think a resolute and robust statement would lead to victory. In any case, it must be done quickly -- tarrying would only let the other side build up opposition.

Obviously, Angola and Afghanistan are part of this discussion and discussing them can only add to the focus and moral weight of the contra cause. I mean what is the point of supporting freedom fighters half a world away but not here in our hemisphere?

6. <u>THE DRUG WAR</u> -- On your third day you should travel to Los Angeles. Be briefed at Police headquarters on the gang

situation and give a speech outlining the appalling growth of what amounts to an insurrection, a murderous one at that. The point should be made that the people of Los Angeles and the people of the United States are not about to turn neighborhoods and cities over to this sort of squalid lawlessness. The next sound the gang members will hear is that of a jail door slamming behind them. It's chiefly a local responsibility but you're ordering the F.B.I. to give every assistance etc. The Federal conspiracy laws and the Rico statutes will be used when they can help local authorities.

Finally, the point should be made that these gangs are another aspect of the drug war. In your speech, you should say that you will be putting a full drug package before the Congress at State of the Union time.

If the media wants to speculate that it's interesting that your first visit is to California where you want to establish more of a personal and political identity -- let 'em.

7. GERRYMANDERING AND THE INCUMBENCY FACTOR -- You should establish a bipartisan commissions on this for the 90 reapportionment. No "fish hook" districts. This system of "rotten boroughs" is a serious corruption of the American electoral system. We need to put it behind us. It is ridiculous that 47 percent of the vote in contested districts goes to Republicans but we get 40 percent of the seats. You might want to recommend a constitutional amendment.

8. PARTISAN POLITICS -- In the second or third month, you should give a realignment speech to a Republican group. I would emphasize the contribution of the Richard Perles and Jeane Kirkpatricks and Max Kampelmans and urge the Nunns and Bradleys and Robbs to think about coming over.

9. CONSERVATIVES -- I make this proposal with trepidation because I think you have already given deep reflection to whom you want to appoint where. But James Buckley is an old friend and my guess is that his greatest wish in life has been to be Secretary of the Interior. This would be a wonderful thing. You would have the benefit of his able help. It would delight conservatives. It would also please environmentalists. It would go over well in the Senate. Again, I realize this is usually a Western appointment but possibly you might want to consider this.

Jack Kemp for a high visibility post in foreign affairs? I think it would add to your own posture as party leader. It would be good for Jack and would warm conservative hearts.

10. ENVIRONMENTAL SPEECH -- Do it early. Meet with reasonable groups.

11. RACISM AND ANTI-SEMITISM, BIGOTRY, ETC. -- what a proud thing that America has yanked itself out of this muck. Please

make this theme a common one in your administration. How vigilant we must be to achieve racial equality etc.

12. ORGANIZED CRIME -- There is no more potent issue in American political life. Witness the rise of the Dewey, Kefauver, Kennedy, Jim Thomson or Giuliani (not to mention pop culture stuff like the Godfather or Untouchables). Americans know the mob exists and hate it. The Reagan-Bush Administration was the first administration to put the mob on the ropes.

Now that the mob is on the ropes tell America you intend to put the mob out for the count.

13. VOLUNTEERISM -- use this as a counterforce to Government welfare. Some imaginative thinking might get done here. For example, challenging churches to adopt the homeless and help the jobless.

14. THE FREEDOM THEME -- In the eighties, a curious thing happened. Americans were no longer satisfied with just "peace" as a foreign policy goal. Suddenly containment was no longer enough. It was world freedom that we're after -- avoiding war while pursing a democratic revolution all around the globe.

Don't let the foreign policy establishment sink us back into "spheres of influence" or "stability." We don't want stability. We want change. We want world freedom. We're playing to win. And the only way to do that is past our own 50-yard line. Containment is not enough.

FINAL NOTE -- Of course, some of these proposals, if they intrigue you at all, will run into the usual bureaucratic second-guessing. The anti-crime initiative in October '82 came out of a memo I did and presentation made to Bill Smith and his staff during that summer. We worked hard but we were constantly amazed at the people in the bureaucracy who didn't want new prosecutors or agents or an organized crime commission, etc. It was something getting it through the White House or Justice Department bureaucracy.

So if any of these ideas are found intriguing, don't let the bureaucracy dismiss them without hearing rebuttals. But, of course, you better than anyone knows all this.

Hope you have a wonderful Thanksgiving. I'll be at home in Connecticut from Tuesday on. Signal has a number. Again, warmest regards to you and Mrs. Bush.

December 8, 1988

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: MIKE FARREN JWF

SUBJECT: Attached Memo

Per your request for a memo outlining the legal and administrative issues associated with the White House Transition, please find Boyden Gray's analysis attached.

When you have the opportunity to review the memo, I stand ready to discuss and offer any and all assistance.

cc: Andy Card
Ed Rogers

OFFICE OF THE PRESIDENT-ELECT
WASHINGTON, D.C. 20270

December 8, 1988

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: C. Boyden Gray CBG by SM

SUBJ: Transition of Future White House Staff Members

I understand that by January 5, 1989 you plan to have designated approximately 20-30 individuals to join you on the WH Staff. (I will refer to these individuals as your "designees".) I understand that prior to January 20th you would like your designees to spend time at the WH with the incumbents of the jobs they will assume. You have asked for guidance on the legal and administrative steps that should be taken to implement these arrangements.

On December 6 members of my staff met with WH lawyers to discuss these matters. We outlined two basic requirements:

1. The need to agree upon the ground rules for a pre-Inauguration phase-in period during which your designees will be spending substantial time at the White House.

2. The need to make arrangements to ensure that on Inauguration Day, the designees can immediately assume their official positions on the WH Staff.

We have had a number of exchanges with the WH lawyers since the December 6 meeting. Here is where things stand.

I. Pre-Inauguration Period

The WH has agreed that there will be a phase-in period prior to the Inauguration during which the designees will be given access to the WH complex as well as appropriate access to information, work space and phones. For purposes of discussion, we have proposed a two-week phase-in period from about January 5 to January 20, but the WH recognizes we may want to phase-in some designees before January 5.

The WH has proposed the following ground rules for the pre-Inauguration period:

1. Salaries: The WH lawyers insist that all designees must be Transition employees and that none can be put on the WH payroll prior to the Inauguration. While I do not believe the WH position is legally mandated, it is not an unreasonable position for them to take.

You should be aware that any designees who are receiving income from a private employer can be employed in the Transition as volunteers and may continue to receive their private income while working on the Transition (so long as there is no conflict of interest).

2. Physical Access: We advised the WH lawyers that, during the pre-Inauguration period, we would like the designees to have free physical access to the White House complex (including the West Wing). To accomplish this, we requested that, by January 5th (and perhaps earlier in some cases), the designees be issued the same "temporary badges" normally issued to newly-hired WH Staff. (Ordinarily, when a new WH Staff member is hired, he is issued a "temporary badge" pending completion of the FBI's full field investigation. This temporary badge gives the holder free access to the WH complex.)

The WH has agreed with this request and will establish a process to issue temporary badges to the designees upon receipt of (1) an expanded FBI "name check", and (2) completion of the WH Counsel's Personal Data Statement. This means that, once a designee has been identified, it should take only a few days to get the badge.

3. Access to Information: We have requested that, during the pre-Inauguration phase, designees be afforded the same access to information as newly-hired WH staff members. This means, as a practical matter, that the designees should be able to see whatever their incumbent counterparts see, except they would not have access to classified information until their full field investigation is completed.

The WH lawyers have agreed and stated that our informational needs can be met under existing WH guidelines for sharing information with Transition personnel. Thus, in response to a request from the Transition, President Reagan would direct his staff to share with designees whatever information is necessary to assist them in preparing to assume their respective duties.

The WH proposal should be satisfactory. We expect the vast majority of incumbent staff to be helpful and forthcoming. If it turns out that the designees are not getting the information they should, we may explore having OVP appoint the designees as dollar-a-year Special Government Employees who, as government employees, should have unquestioned access to non-classified government documents.

4. Space: The WH lawyers say they are "adamant" that the Transition pay for any space formally dedicated to Transition personnel, including space for individuals named as future WH Staff members. However, they feel the designees' space needs can be met on an "informal" basis. They propose we proceed under a

"Buddy System", whereby each designee makes informal arrangements to share space and phones with his incumbent counterpart. The idea is that each designee would have access to the office of his counterpart and would be welcome to "camp out" there as he learns the ropes.

We believe reimbursement for office space is not necessary as a matter of law. Moreover, it may cause problems for the transition with allocation of space to cabinet designees by the departments. (The WH lawyers have opined that such space, unlike WH space, may be provided without charge.) We are currently exploring whether GSA, under its statutory authority, will issue a general waiver of any requirement for office facility reimbursement. Nevertheless, since the buddy system should prove workable and your designees would also have transition office space available, we expect the WH proposal to prove workable in most instances.

II. Post Inauguration

The WH has agreed to put a process in place now so that designees can immediately assume their official jobs on Inauguration Day. This will require assembling the paperwork packages for each designee to complete as soon as they are selected. This will include the FBI forms, financial disclosure statements and WH personnel forms. As noted above, designees will be permitted to assume their positions pending completion of the FBI's full field investigation. Also, under recently implemented rules, all incoming employees to the Executive Office of the President will be required to submit to drug testing.

III. Need for Early Designee for Management/Administration

I recommend that you consider designating a management/administrative person as soon as possible to coordinate with the White House Office of Administration. There are a host of administrative issues that must be addressed now to avoid chaos on January 20, -- e.g. everything from space assignments, to phone lines, to badge colors. But the most important of these issues may be the allocation of the extra transition funds Congress specifically appropriated to the White House Office and its Office of Administration for the transition.

As you may know, Congress appropriated an extra $650,000 in the White House Office budget and an extra $250,000 in the White House Office of Administration budget to be used for transition purposes. (These funds are in addition to the $3.5 appropriated for the Transition.) It was anticipated that as much as $450,000 of the WHO money might be needed for lump sum leave payments to departing employees. However, those funds are also available for such transition-related expenses as office space reconfiguration, reprogramming for ADP systems, etc. The Office of Administration funds are expected to be used for such expenses as extra overtime pay, reconfiguring phone systems, printing costs, ADP costs, etc.

These additional transition funds are available to <u>both</u> the Reagan Administration and the Bush Administration. Yet decisions on how this money is to be allocated are currently being made by the WH without your input. Prompt designation of a Bush WH management person could ensure that a fair portion of these funds is available for our use after January 20.

THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF has seen

National Security Portfolio

AID	Vice
Administrator	Alan Woods
Deputy Administrator	Jay Morris
ACDA	Vice
Director	William Burns
Deputy Director	George Murphy
Assistant Director (Strategic Programs)	William Fite
CIA	Vice
Director	William Webster
Deputy Director	Robert Gates
Department of Defense	Vice
Secretary	Frank Carlucci
Deputy Secretary	William Taft
Under Secretary (Acquisition)	Bob Costello
Under Secretary (Policy)	Vacant
Assistant Secretary International Security Affairs	Richard Armitage
Assistant Secretary Legislative Affairs	Margo Carlisle
Assistant Secretary International Security Policy	Ronald Lehman
General Counsel	Kathleen Buck
Comptroller	Clyde Glaister
Director, Strategic Defense Initiative Organization	LTG James Abrahamson
Department of the Army	Vice
Secretary	John Marsh
Under Secretary	Michael Stone
Assistant Secretary (Financial Management)	Kenneth Kramer
Department of the Air Force	Vice
Secretary	Edward Aldridge
Under Secretary	James McGovern

Department of Defense (cont.)

Department of Navy	**Vice**
Secretary	William Ball
Under Secretary	Larry Garrett
Assistant Secretary (Financial Management)	Robert Conn
Department of State	**Vice**
Secretary	George Shultz
Deputy Secretary	John Whitehead
Under Secretary (Political Affairs)	Michael Armacost
Under Secretary (Security Assistance, Science and Technology)	Edward Derwinski
Under Secretary (Management)	Ronald Spiers
Under Secretary (Economic Affairs)	Allen Wallis
Assistant Secretary (Inter-American Affairs)	Elliott Abrams
Assistant Secretary (African Affairs)	Chester Crocker
Assistant Secretary (Legislative and Intergovernmental Affairs)	Edward Fox
Assistant Secretary (Near East and South Asian Affairs)	Richard Murphy
Assistant Secretary (European Affairs)	Rozanne Ridgway
Assistant Secretary (East Asian and Pacific Affairs)	Gaston Sigur
Legal Advisor	Abraham Sofaer
U.S. Representative (North Atlantic Treaty Organization)	Alton Keel
U.S. Representative (United Nations)	Vernon Walters
Ambassador to Korea	Jim Lilly (vacant 1/1/89)
Executive Secretary to the DOS (not a PAS appointment)	Melvyn Levitsky
Federal Emergency Management Agency	**Vice**
Director	Julius Becton
National Aeronautics and Space Administration	**Vice**
Administrator	James Fletcher
Deputy Administrator	Dale Myers
National Science Foundation	**Vice**
Director	Erich Bloch

<u>Office of Science and Technology Policy</u>	<u>Vice</u>
Director	William Graham
<u>USIA</u>	<u>Vice</u>
Director	Charles Wick
Deputy Director	Marvin Stone
Associate Director (Broadcasting - VOA)	Richard Carlson
* <u>Veterans Administration</u>	<u>Vice</u>
Administrator	Thomas Turnage
Deputy Administrator	Thomas Harvey

Total: 52

* The Veterans Administration will be a Cabinet Agency in the next Administration.

# # #

THE WHITE HOUSE

WASHINGTON

Justice, Finance, and Financial Independent Regulatory Agencies Portfolio

Department of Commerce	**Vice**
Secretary	C. William Verity, Jr.
Deputy Secretary	Donna F. Tuttle
Under Secretary for International Trade	W. Alan Moore
Under Secretary of Export Administration	Paul Freedenberg
Under Secretary for Economic Affairs	Robert Ortner
Under Secretary for Oceans and Atmosphere	William E. Evans
Under Secretary for Science and Technology	Vacant
Assistant Secretary for Administration	Katherine Bulow
Director of the Census Bureau	Vacant

Department of Justice	**Vice**
Attorney General	Richard Thornburgh
Deputy Attorney General	Harold Christensen
Associate Attorney General	Francis Keating II
Solicitor General	Charles Fried
Assistant Attorney Generals	
(Civil)	John Bolton
(Criminal)	Edward S. G. Dennis
(Legal Policy)	Stephen Markman
Commissioner, INS	Alan C. Nelson

Department of the Treasury	**Vice**
Secretary	Nicholas F. Brady
Deputy Secretary	Peter McPherson
Under Secretary for Finance	George Gould
IRS Commissioner	Lawrence Gibbs
Comptroller of the Currency	Robert L. Clarke

Office of Management and Budget	**Vice**
Director	Joseph Wright

Office of the U.S. Trade Representative	**Vice:**
U.S. Trade Representative	Clayton Yeutter
Deputy Trade Representatives	Alan Holmer
	Michael Smith
	Michael Samuels
General Counsel (not PAS)	Judith Bello

Small Business Administration	Vice:
Administrator	James Abdnor
Chief Counsel	Frank Swain
General Services Administration	Vice
Administrator	Richard Austin (Acting)
Export-Import Bank	Vice
Chairman and President	John Bohn
Vice Chairman	William Ryan
(Terms expiring 1/20/89)	
Federal Communications Commission	Vice
Chairman	Dennis Patrick
(Serves as Chairman at the Pleasure of the President; Term as Member Expires 6/30/92)	
Members	Bradley Holmes
(Potential Recess Appointees)	Susan Wing
Federal Deposit Insurance Corporation	Vice
Chairman	William Seidman
(Term Expires 10/16/91)	
Federal Trade Commission	Vice
Chairman	Daniel Oliver (Holdover)
(Term Expired 9/25/88)	
Federal Home Loan Bank Board	Vice
Chairman	M. Danny Wall
(Serves at the Pleasure of the President)	
Member	Roger Martin
(Term Expiring 6/30/89)	
International Trade Commission	Vice
Chairman	Anne E. Brunsdale (Acting) (Term Expires as Vice Chairman 6/16/90)
Securities and Exchange Commission	Vice
Chairman	David Ruder
(Term Expires 6/5/91)	
Members	Charles Cox (Holdover)
(Term Expired 6/5/88)	Mary Schapiro (Potential Recess Appointee)

Total: 42

THE WHITE HOUSE

WASHINGTON

Social Services, Agriculture and Transportation Portfolio

Department of Agriculture	Vice
Secretary	Richard Lyng
Deputy Secretary	Peter Myers
Under Secretary - Small Community & Rural Development	Roland Vautour
Asst Sec - Administration	John Franke
Asst Sec - Mktg & Inspect Services	Kenneth Gilles
Asst Sec - Govt & Public Affairs	Wilmer Mizell
General Counsel	Christopher Hicks
Administrator, Farmers Home Administration	Vance Clark

Department of Education	Vice
Secretary	Lauro Cavazos
Under Secretary	Linus Wright
General Counsel	Diane Weinstein
Asst Sec - Legislation	Frances Norris
Asst Sec - Elementary & Secondary	Beryl Dorsett
Asst Sec - Post Secondary Education	Kenneth Whitehead
Dep Under Sec - Planning, Budget & Evaluation	Charles Kolb
Dep Under Sec - Management	Patrick Pizzella

Department of Health and Human Services	Vice
Secretary	Otis Bowen
Under Secretary	Don Newman
Asst Sec - Legislative Affairs	Mary Goedde
Asst Sec - Public Affairs	Stephanie Lee-Miller
Asst Sec - Health	Robert Windom
Dir - National Institute of Health	James Wyngaarden
General Counsel	Malcolm Sterrett
Comm - Social Security	Dorcas Hardy
Admin - Health Care Financing Admin	William Roper

Department of Housing and Urban Development	Vice
Secretary	Samuel Pierce
Under Secretary	Carl Covitz
Asst Sec - Leg & Congressional Rels	Timothy Coyle
Asst Sec - Community Plan & Development	Jack Stokvis
Asst Sec - Administration	Judy Tardy Hoffman
Asst Sec - Federal Housing Commission	Thomas Demery
General Counsel	John Dorsey

Department of Labor	Vice
Secretary	Ann McLaughlin
Deputy Secretary	Dennis Whitfield
Solicitor	George Salem
Asst Sec - Administration & Management	Thomas Komarek
Asst Sec - Congressional Affairs	Francis Duggan
Asst Sec - Enforcement	William White

Department of Transportation	Vice
Secretary	James Burnley
Deputy Secretary	Mary Ann Dawson
Admin - FAA	T. Allen McArtor
Asst Sec - Policy & Intl Affairs	Gregory Dole
Asst Sec - Budget & Progs	Janet Hale
Asst Sec - Government Affairs	Edward Hamberger
General Counsel	Bernard Vance
Equal Employment Opportunity Commission	Vice
Chairman (Serves at the Pleasure of the President)	Clarence Thomas
Federal Election Commission	Vice
Commissioner (R)	Joan Aikens (Term expires 4/30/89)
Commissioner (D)	John McGarry (Term expires 4/30/89)
Government Printing Office	Vice
Public Printer of the U.S.	Ralph Kennickell (Resignation effective 11/18/88)
Interstate Commerce Commission	Vice
Chairman	Heather Gradison (Term expires 12/31/88)
National Labor Relations Board	Vice
General Counsel	Rosemary Collyer (Term expires 4/3/89) (No holdover)
Occupational Safety & Health Review Commission	Vice
Chairman	E. Ross Buckley (Term expires 4/27/89) (No holdover)
Office of Personnel Management	Vice
Director	Constance Horner (Term expires 3/25/89) (No holdover)
Deputy Director	Hugh Hewitt

TOTAL: 54

THE WHITE HOUSE

WASHINGTON

Energy and Environment Portfolio

Department of Energy	Vice
Secretary	John Herrington
Deputy Secretary or Under Secretary	Joseph Salgado
	Donna Fitzpatrick
Asst Sec - Management and Administration	Lawrence Davenport
General Counsel	Frank Ruddy
Asst Sec - Congressional, Intergovernmental and Public Affairs	Anson Franklin
Asst Sec - Defense Programs	Vacant
Dir - Civilian Radioactive Waste Management	Vacant
Asst Sec - Environment, Safety and Health	Ernest Baynard
Asst Sec - Nuclear Energy	Ted Garrish
Dir - Energy Research	Robert Hunter

Department of the Interior	Vice
Secretary	Donald Hodel
Under Secretary	Earl Gjelde
Asst Sec - Policy, Budget & Administration	Rick Ventura
Solicitor	Ralph Tarr
Asst Sec - Fish and Wildlife and Parks	Becky Dunlop
Asst Sec - Water and Science	Jim Ziglar
Dir - Geological Survey	Dallas Peck

Environmental Protection Agency	Vice
Administrator	Lee Thomas
Asst Admin - Administration	Charles Grizzle
Asst Admin - Congressional and External Affairs	Jennifer Wilson
General Counsel	Lawrence Jensen
Asst Admin - Water Programs	Vacant
Asst Admin - Solid Waste and Emergency Response	J. Winston Porter
Asst Admin - Air and Radiation	Vacant

Nuclear Regulatory Commission	Vice
Chairman (POP)	Lando Zech (term expires 6/30/89)
Commissioners:	Ken Carr (6/30/91)
	Jim Curtiss (6/30/93)
	Thomas Roberts (6/30/90)
	Ken Rogers (6/30/92)

TOTAL: 30

GRAND TOTAL: 178

National Security Portfolio

AID	Vice
Administrator	Alan Woods
CIA	Vice
Director	William Webster
Department of Defense	Vice
Secretary	Frank Carlucci
Deputy Secretary	William Taft
Under Secretary (Acquisition)	Bob Costello
Department of the Army	Vice
Secretary	John Marsh
Department of the Air Force	Vice
Secretary	Edward Aldridge
Department of Navy	Vice
Secretary	William Ball
Department of State	Vice
Secretary	George Shultz
Deputy Secretary	John Whitehead
U.S. Representative (United Nations)	Vernon Walters
Federal Emergency Management Agency	Vice
Director	Julius Becton
National Aeronautics and Space Administration	Vice
Administrator	James Fletcher
USIA	Vice
Director	Charles Wick

Veterans Administration	Vice
Administrator	Thomas Turnage

Justice, Finance, and Financial Independent Regulatory Agencies Portfolio	
Department of Commerce	Vice
Secretary	C. William Verity, Jr.
Department of Justice	Vice
Attorney General	Richard Thornburgh
Solicitor General	Charles Fried
Department of the Treasury	Vice
Secretary	Nicholas F. Brady
IRS Commissioner	Lawrence Gibbs
Office of Management and Budget	Vice
Director	Joseph Wright
Office of the U.S. Trade Representative	Vice
U.S. Trade Representative	Clayton Yeutter
Small Business Administration	Vice
Administrator	James Abdnor
General Services Administration	Vice
Administrator	Richard Austin (Acting)
Federal Communications Commission	Vice
Chairman	Dennis Patrick
Federal Deposit Insurance Corporation (term expires 10/16/91)	Vice
Chairman	William Seidman
Federal Trade Commission (term expired 9/25/88)	Vice
Chairman	Daniel Oliver (holdover)

<u>Federal Home Loan Bank Board</u>	<u>Vice</u>
Chairman (serving at pleasure of President)	M. Danny Wall
<u>International Trade Commission</u>	<u>Vice</u>
Chairman	Anne Brunsdale(Acting) (term expires as Vice Chairman 6/16/90)
<u>Securities and Exchange Commission</u> (term expires 6/5/91)	<u>Vice</u>
Chairman	David Ruder

Social Services, Agriculture and Transportation Portfolio

<u>Department of Agriculture</u>	<u>Vice</u>
Secretary	Richard Lyng
<u>Department of Education</u>	<u>Vice</u>
Secretary	Lauro Cavazos
<u>Department of Health and Human Services</u>	<u>Vice</u>
Secretary	Otis Brown
Comm - Social Security	Dorcas Hardy
<u>Department of Housing and Urban Development</u>	<u>Vice</u>
Secretary	Samuel Pierce
<u>Department of Labor</u>	<u>Vice</u>
Secretary	Ann McLaughlin
<u>Department of Transportation</u>	<u>Vice</u>
Secretary	James Burnley
<u>Equal Employment Opportunity Commission</u>	<u>Vice</u>
Chairman (serving at pleasure of President)	Clarence Thomas
<u>Office of Personnel Management</u> (term expires 3/25/89; no holdover)	<u>Vice</u>
Director	Constance Horner

Energy and Environment Portfolio

Department of Energy	**Vice**
Secretary	John Herrington
Asst Sec - Defense Programs	Vacant
Department of the Interior	**Vice**
Secretary	Donald Hodel
Environmental Protection Agency	**Vice**
Administrator	Lee Thomas
Asst Admin - Air and Radiation	Vacant
Nuclear Regulatory Commission	**Vice**
(term expires 6/30/89) Chairman(POP)	Lando Zech

Planning

1/6/88 p.m.

I. REAGAN PROGRAMS AND BUSH COMMITMENTS *

INITIATIVE	REAGAN INCREASE		BUSH PROPOSALS (1 YEAR)
Justice [including Prison Construction]	.8	.25	0-.075-.25 [.075 (double construction only)-.250 (double entire prison budget)]
FAA	.9		0
International	1.1		0-?
NASA	2.0		0-?
NSF	.2	OK	0-.150
* Supercollider	.1		0-.1
AIDS	.2		0-?
TOTAL	5.3		0-.5

* Represents cost in billions

II. COST OF BUSH PROGRAMS *

[Except where noted, the President-elect did not commit to adopt these proposals in his first budget.]

INITIATIVE	BUSH PROPOSALS (1 YEAR)
Child Care	
Tax Credit	.3-1.5
Refundable Dependent Care Tax Credit	.4
Child Care For Employees	.05
Expand Head Start (first year) and Increase Choice	.24-.25
Total Child Care	.99-2.2
Justice/crime	
Increased spending on prisons	.075-.25
Anti-gang unit	.02
Total Justice/crime	.095-.27
Education	
Merit Schools	0-.5 .100 .200 .300 .400 .500
Magnet Schools	0-.05
FIRST Experimental Fund	0-.044
NAEP (assessment for progress)	0-.002

* Represents cost in billions.

President's teachers award	0-.006
Total Education	0-.602
<u>Science</u>	
"Double" NSF funding	0-.15
<u>YES</u>	0-.1
<u>Homeless</u>	
Fully fund McKinney Act	.25
<u>Enterprise Zones</u>	.1
<u>Child Adoption Credit</u>	.01
<u>Parental Leave Incentives</u>	0-.2
<u>Long-Term Care Incentives</u>	.2
<u>TOTAL BUSH PROPOSALS:</u>	<u>1.645-4.082</u>

#

1/6/88

MEMORANDUM

RE: The Reagan Budget and Bush Promises

[Note: "LOI" refers to George Bush: Leadership on the Issues]

I. Reagan Proposals

A. Justice Department

1. Prison Construction

- Reagan budget: Bureau of Prisons would receive budget authority of $1.6 billion (up from $1.4 billion in 1989).

- Bush promise: "Double the current Federal prison budget over the next 4 years, providing an additional $250 million each year. . . . Use money seized from drug dealers and racketeers to help pay for additional prison space" [LOI p. 198].

- Bush promise: "I have proposed doubling the current federal prison budget over the next four years, converting certain unneeded military bases into state and federal prisons, and helping to finance the construction of more prisons with the confiscated assets of the drug traffickers and racketeers. We are going to make the criminals help pay the rent on their prison stays" [LOI, p. 188].

- Bush promise: "Where needed, those [unneeded domestic military bases] should be converted to prison facilities for use by the states" [LOI, p. 191].

- Comment: The current prison budget is $953,012,000 for "salaries and expenses" and $300 million for "buildings and facilities." Given that the President-elect stated this promise in light of his commitment to increase prison construction, we have some leeway as to how we wish to interpret this promise, i.e., whether the entire budget should be doubled or only the portion concerned with prison construction. During the campaign, we estimated that this proposal would cost $250 million per year, which indicates that the intention was to double the entire budget. But we could simply say that the fact sheet [LOI, p. 198] was wrong.

- Comment: The provision for using monies seized from drug dealers could be interpreted to mean that this would offset to some degree the additional $250 million (or other amount) for prison construction -- note Bush's remarks re criminals helping to pay for their prison stays, and re converting unneeded military bases.

2. Targeting Career Criminals

- Bush promise: "Providing additional special agents to expand the Repeat Offender Program. . . . [the Fact Sheet later says "100 new special agents will help prevent 2450 armed robberies. . . ."]

- Bush promise: "Instituting the Law Enforcement Management Information System (LEMIS). . . . "Establish additional Career Criminal Task Forces" [LOI, p. 199].

- Comment: No timeframe was given for this proposal.

3. Other Reagan Budget Proposals

- Drug Enforcement Administration: increase of 15% to $615 million.

- FBI: $1.5 billion (up from $1.439 billion in 1989).

- Immigration and Naturalization Service: $867 million (current total not given in Reagan budget paper).

- U.S. Attorneys: $802 million (up from $752 million in 1989).

- Office of Justice Programs: $96 million (down from $319 million in 1989, owing to proposed ending of five grant programs).

- Comments: Total proposed increase: $320 million B.A. DOJ proposes options for reducing the 1990 budget by $52 million (for a proposed net increase of $268 million).

B. Federal Aviation Administration

o Reagan budget: Plans $900 million in spending increases.

1. Operations

o Reagan budget: Increase spending $478 million.

o Bush promise: "I will continue our strong effort to retain current controllers in the system as well as to bring adequately trained new controllers on board as quickly and as safely as possible in order to accommodate present needs and future growth" [LOI p. 107].

o No spending increases necessarily implied in Bush promise.

2. Facilities and Equipment

o Reagan budget: Increase spending $571 million.

o Bush promise: "I will ensure that funding to complete the National Airspace System Plan is made available. This $12 billion program to replace virtually all of the equipment and computer software in the air traffic control system is improving safety and increasing capacity to meet needs into the next century" [LOI, p. 107].

o The Reagan budget increased is justified by the need to keep the National Airspace System Plan on schedule. Technically, we could delay the spending increase necessary to complete the Plan according to the President-elect's promise, since the spending was not promised for next year.

3. Airport Grants

o Airport grants finances the formula and discretionary grants to airports. The Reagan budget proposes to reduce this by $50 million.

o Bush promise: "Provide the leadership needed to break the logjam that has prevented any new major airport in this country from being built since the early 1970s. I will ensure that the Federal government and local communities work together to satisfy the needs of increasing numbers of aviation system users . . . " [LOI, pp. 107-8]

o Bush promise: Do not take Aviation Trust Fund "off budget." "[W]e need a broad national consensus, requiring cooperation by Congress and strong support from state and local authorities, to further expand and modernize the nation's airports and our air traffic control system" [LOI, p. 108]

- o Both these Bush promises imply that the Federal government will work with state and local governments to build new airports. They do not necessarily imply higher or even stable spending on airport grants.

C. International Affairs

- Reagan budget: Plans $1.1 billion in spending increases. The Reagan budget paper does not divide this increase among its constituent parts.

1. Security Assistance

- Bush promise: "Collective security is a tough, challenging, expensive proposition" [LOI, p. 15].

- Bush promise: "We have met Communist subversion around the world with support for freedom and democracy, sending aid to the brave freedom fighters battling to liberate their countries from Communist domination. The results have been dramatic and positive" [LOI, p. 19].

- Bush promise: "Support for the freedom fighters is the only hope for true negotiations, the only hope for democracy and human rights in Nicaragua and a real, lasting peace in the region" [LOI, p. 20].

- Bush promise: "Even as strategic cooperation with Israel has gone forward, we have forged a stronger relationship with Egypt, Saudi Arabia, Kuwait, and other Gulf states. . . . U.S.-Israel cooperation is fundamental to our strategic interests" [LOI, pp. 28, 29].

- Comment: No dollar figures were ever given for levels of security assistance.

2. Multilateral Development Banks

- Bush promise: "[W]e will continue to evolve the program for sustained growth -- based on the American model of low taxes, deregulation, and entrepreneurship -- the one realistic approach for helping debtor nations restructure their economies to be receptive to long-term investment" [LOI, p. 6].

- Comment: No dollar figures given on support for multilateral development banks.

3. State Department Operations

- Comment: No positions expressed.

4. UN

- Comment: The Reagan budget paper notes that the "fanfare" with which President Reagan announced full funding of our obligations to the UN in September might make it difficult to stretch out these obligations further.

5. Special Assistance Initiative

- Comment: This account will be presented for the first time in the 1990 budget, with $200 million in assistance for the Philippines.

6. Israel Radio Station

- Comment: No comments by the President-elect were found relating to Radio Free Europe/Radio Liberty, but he does strongly support both Radio and TV Marti, the equivalent programs for Cuba.

D. NASA

- Reagan budget: Plans to increase spending by $2 billion.

1. Space Station

- Reagan budget: Specific spending increase not given, but it is a sizable proportion of the increase.

- Bush promise: "Why the space station? Because it is the critical next step in all our space endeavors" [LOI, p.116].

- Bush promise: "I have decided this evening to announce that I will as President commit this nation to the development of an operational space station by the year 1996. This will demand the commitment of men and women and resources, but it is a commitment well made. This goal is achievable, sensible, and worthy of a great nation. 1996 also has a certain resonance for me as I hope that's when we'll be finishing the work of the second term of the Bush Administration" [LOI, p. 117; 9/3/88]

- Comment: This would appear to be a solid promise. The proposed Reagan increase is needed to keep the station on the schedule of development of permanently manned operational capability by 1996. We could under extremely tenuous reasoning claim that the President-elect only meant development (building) of a space station, not its deployment, but it is clear that deployment was intended.

- Comment: LOI p. 116 says that with the space station, "we will be able to make progress in becoming used to working and living in space." However, we might be able to say that the President-elect supports an unmanned space station, which is cheaper, rather than a manned space station.

- Comment: The Reagan budget paper admits that "In order to achieve any significant outlay savings and still support the National Space Policy objective of a balanced civil space program, the major reductions must come from the Space Station program."

- Bush promise: "We cannot write a blank check to NASA or any other government agency" [LOI, p. 120; 10/29/87].

2. Space Shuttle

- Reagan budget: No specific spending increase given. The Reagan budget paper discusses the possibility of reducing the number of shuttle flights by one.

- o <u>Bush promise:</u> "The way I see it the logical order is this: first the shuttle, then the space station" [<u>LOI</u>, p. 116].
- o <u>Comment:</u> No spending increase implied for the Shuttle.

<u>3. Space Science and Technology</u>

- o <u>Reagan budget:</u> Specific spending increase not given.
- o <u>Bush promise:</u> Support "Mission to Planet Earth."
- o <u>Comment:</u> No time given on Mission to Planet Earth.

<u>4. NASA Personnel and Facilities</u>

- o <u>Reagan budget:</u> Specific spending increase not given.
- o <u>Bush promise:</u> None.

E. National Science Foundation

- o Reagan budget: Plans spending increase of $200 million.
- o Bush promise: Although the President-elect spoke warmly of President Reagan's 1987 decision to double the National Science Foundation budget by 1993 (i.e. in five years) [LOI, p. 125, he did not specifically endorse this goal for himself.
- o Comment: The spending increases necessary to fulfill this promise could be delayed to future years.

10-10-10

F. AIDS

- Reagan budget: Plans to increase spending $200 million.

- Bush promise: "George Bush believes we must commit the resources and the will to find a cure for AIDS" [LOI, p. 257].

- Bush promise: "And as we look into the 1990s we may have to spend even more. But money alone won't stop AIDS" [LOI, p. 263, 6/1/87].

- Comment: This does not specifically imply an increase in spending, but it flies in the face of logic to say that we will not have to spend more when the caseload is growing.

- Comment: The Reagan budget paper states that "President-elect Bush would probably face wide criticism if the FY90 HIV request did not represent double digit growth over FY89."

G. Superconducting Supercollider

- Reagan budget: Plans spending increase of $100 million.
- Bush promise: Supports the supercollider.
- Comment: No timeframe was given for this support of the supercollider.

II. Bush Proposals

A. Education

1. Head Start

- Bush promise: "He will maintain his commitment to this successful program by phasing in Head Start to reach all eligible four-year-old children. Head Start provides comprehensive development services for pre-school children from low-income families. George Bush will sharply increase its funding" [LOI, p. 140].

- Bush promise: "In my first budget, I will ask that funding for Head Start be increased sharply" [July 12, 1988].

- Comment: It is unclear whether the President-elect was referring to the FY90 or FY91 budgets. The current budget of Head Start is $1.207 billion. The Child Care Fact Sheet said that the President-elect would "begin immediately to phase in funding so that all eligible four year-olds could enroll in Head Start," and gave a cost of $240 million.

2. National Merit School Program

- Bush promise: "George Bush proposes to create a $500 million National Merit School program . . . . He will present an average award of $100,000 to each National Merit School which serves a significant proportion of disadvantaged students [LOI, p. 140, emphasis in the original].

- Bush promise: "For $500 million a year, the federal government could provide such awards to one-fifth of all schools with a significant proportion of disadvantaged students" [LOI, p. 146].

- Comment: No timeframe given for this program.

3. Magnet Schools

- Bush promise: "I support the idea of providing federal matching funds -- up to $50 million -- to encourage states to create or support magnet schools" [LOI, p. 146].

- Bush promise: "He proposes spending an additional $50 million -- in addition to the $114 million already spent on matching grants to states so they can create or support magnet schools" [LOI, p. 162; fact sheet].

- Comment: The first quotation uses the phrase "up to $50 million" instead of "an additional $50 million," as in the fact sheet. No timeframe given for this program.

4. FIRST (Fund for Innovation and Reform of Schools and Teaching)

- Bush promise: "He will increase funding from $6 million to $50 million and provide approximately $1 million to each state that selects one school district for experimentation" [LOI, p. 141, emphasis in the original].

- Comment: No timeframe given for this program.

5. Presidential Awards For Excellent Teachers

- Bush promise: "George Bush will award $5,000 to the best twenty-five teachers in each of the 50 states. [LOI, p. 162, emphasis in the original].

- Comment: No timeframe given for this proposal.

6. National Assessment For Educational Progress

- Bush promise: "George Bush supports increased funding for the National Assessment of Educational Progress to develop a profile of student achievement" [LOI, p. 162, emphasis in the original].

- Comment: Cost about $2 million per year. No timeframe given for this proposal.

B. Child Care

1. Children's Tax Credit

- Bush promise: "George Bush proposed creation of the "Children's Tax Credit," a new refundable tax credit of up to $1000 per child under age 4, to recognize the increased costs of families with children. Implementation would be tied to the earned income tax credit. The tax credit would phase out as income rises, but would be available to all families at equivalent income levels."

  "Because low-income working couples face the greatest needs, families with very low incomes would be eligible immediately. To accommodate budget goals, this new tax credit would be phased in over four years, from $11,000 in annual household income to $16,000 to $20,000 over the first four years; it would be phased higher as budgetary goals allow" [Child Care Fact Sheet].

- Comment: Cost: $300 million in first year according to unpublished campaign estimate; $1.5 billion according to Child Care Fact Sheet. While the phrase "phased in over four years" implies that we expect the program to begin in 1989 (or FY90), we did not specifically say that we would introduce a bill in 1989.

2. Refundable Dependent Care Tax Credit

- Bush promise: "George Bush proposed to maintain the existing dependent care tax credit, and to take an additional important step to make it refundable. Too many low-income families go without the assistance we have made available to upper-income families because they do not earn enough to pay taxes. A family could take the greater credit, the Children's Tax Credit or the refundable dependent care credit" [Child Care Fact Sheet].

- Comment: Cost: $400 million. No timeframe given for implementation.

3. Child Care for Employees

- Bush promise: "George Bush would initiate more employer-sponsored day care, starting with the federal government as a model. He would see that every federal agency provided assistance to government employees" [Child Care Fact Sheet].

- Comment: Cost: $50 million. No timeframe given for implementation.

4. More Choices, Better Information

- Bush promise: "George Bush proposed to expand the Head Start program, an extremely successful early childhood program. He would begin immediately to phase in funding so that all eligible four year-olds could enroll in Head Start" [Child Care Fact Sheet].

- Comment: Cost: $240 million. No timeframe given for implementation.

- Bush promise: Seed money for innovative program design in sick child care, before- and after-school care; encourage employers to provide more flexible work schedules and cafeteria work plans and include child care in cafeteria plans; Labor Department to develop consumer education guidelines and information services.

- Comment: Cost: $10 million. No timeframe given for implementation.

C. Environment

1. National Endowment for the Environment

o Bush promise: "He will create a self-perpetuating trust fund based on the Land and Water Conservation Fund called the National Endowment for the Environment and will use these funds to protect and build the park system" [LOI, p. 239].

o Comment: This, the successor to the Land and Water Conservation Fund, is designed to be revenue neutral. It is worth remarking that the President-elect specifically said he would not rule out increases in user fees such as entrance fees at the National Parks, in his no tax increase stand.

2. Superfund

o Bush promise: "George Bush will speed cleanups under the federal Superfund programs" [LOI, p. 243].

o Comment: Again, this program is designed to be revenue neutral on the theory that polluters should pay. However, particularly in the initial stages, costs do occur and are sometimes not recouped for years because of litigation.

3. Clean Air Act

o Bush promise: "George Bush will work with Congress to enact an effective reauthorization of the Clean Air Act" [LOI, p. 242].

o Bush promise: "Frankly, I am disappointed that the Congress is now set to adjourn without passing clean air legislation in this session. So let me say today that, next January, if I am sworn in as your President, one of my first priorities will be to win passage of clean air legislation. . . " [LOI, p. 232].

o Bush promise: "Support a program to cut millions of tons of sulfur dioxide emissions by the year 2000, and to reduce significantly nitrogen oxide emissions. George Bush will work with Congress on the exact amounts and the exact methodology" [LOI, p. 239].

o Comment: No amounts given. Costs of the various proposals in Congress vary widely. Most costs would be borne by polluters.

4. Environmental Summit

- Bush promise: "In my first year in office, I will convene a global conference on the environment at the White House. It will include the Soviets, the Chinese, the developing world as well as the developed" [LOI, p. 247].

- Comment: Cost unknown. To keep the promise, this conference would have to be held in FY90 or FY91.

D. YES

- Bush promise: "The way I see it, Yes to America is going to be more like a movement than a program" [LOI, p. 304].

- Bush promise: "George Bush will request up to $100 million in federal funds for the YES to America foundation to match on a one-to-one basis private donations up to $100 million. The $200 million generated in this effort will give new meaning to the term "public-private partnership" . . . . Its growth will be determined by community and school-based private sector fundraising" [YES to America Fact Sheet; emphasis in original].

- Comment: The spending commitment is only up to $100 million, not a full $100 million, and it is determined by the rate of private giving. Thus we could have budget authority of up to $100 million, and outlays could be significantly smaller.

E. Homeless

1. Military Facilities

- Bush promise: Direct the Secretary of Defense to enforce the law regarding use of surplus military facilities as homeless shelters.

- Comment: The cost of rehabilitating a building as a shelter for the homeless is estimated at $500,000. Operating a 100-person shelter is also estimated at $500,000 per year.

2. McKinney Act

- Bush promise: During the first Presidential debate, the President-elect said, "I want to see the McKinney Act fully funded."

- Comment: The McKinney Act authorized $635.8 million, but only $385.5 million was appropriated. Thus, full funding would cost $250.3 million.

3. Community-based Mental Health Clinics

- Bush promise: During the first Presidential debate, the President-elect said, "And I think maybe we could look back over our shoulders and wonder whether it was right to let all of those mental patients out. Maybe we need to do a better job in mental clinics to help -- help them, because there is a major problem there."

- Comment: Under the McKinney Act, $18.7 million was appropriated for community-based mental health clinics. In addition, HHS has two programs relating to the homeless mentally ill -- a mental health services block grant of $14.1 million and an appropriation of $4.6 million for mental health demonstration projects. If fully funded, these programs would be funded at $35 million and $11 million.

F. Enterprise Zones

- o Bush promise: "I will ask the Congress to join me in creating enterprise zones in the most depressed areas of our cities and the poorest rural areas" [LOI, p. 53].

- o Comment: No promise given as to time or spending commitment. Enterprise zones may be eventually revenue-positive, but in the first year at least they would likely be revenue-negative.

G. Drugs

- Comment: Many of these policies will be covered under the Narcotics Control Act of 1988 which is not fully funded.

- Comment: No spending figures were provided for the following promises.

  - Bush Promises:

- "Challenging students to end drug use by establishing the President's Drug-Free Challenge: . . . recognize student governments whose emphasis on a drug-free student body results in real reductions in the number of classmates on drugs" ["George Bush On Drug Policy Fact Sheet", p.3, emphasis in the original].

- "help schools develop special education/treatment programs for students who do use drugs and alcohol" [George Bush On Drug Policy Fact Sheet", p. 3, emphasis in the original].

- "George Bush will link federal assistance to the success rate of the drug treatment programs" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "Convene a summit of Western hemisphere nations to develop a strategy and a framework for cooperation" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "Provide training, advice and equipment to foreign law enforcement and military units assigned to fight the drug lords" ["George Bush On Drug Policy Fact Sheet," p. 4, [emphasis in the original].

- "Create an international strike force capable of rapid deployment to 'hot spots' of local eradication efforts" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "Help drug-producing countries develop crop substitution programs to follow up eradication" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "George Bush will replicate the South Florida Task Force, tailoring it to other areas that demand concentrated force" ["George Bush On Drug Policy Fact Sheet," p. 5, emphasis in the original].

- "call a national conference with the states to toughen drug laws..." ["George Bush On Drug Policy Fact Sheet," p. 6, emphasis in the original].

22-22-22

III. Studies

Health and Long-Term Care

- Bush promise: Support Medicaid buy-in; support tax changes to benefit purchase of long-term care insurance; support "adequate" funding for research on diseases which contribute to the need for long-term care.

Energy Incentives

- Bush promises:
  - Tax incentives for stripper wells.
  - A 10 percent tax credit for oil and gas exploration -- up to $10 million of costs, and 5 percent thereafter -- creditable to the alternative minimum tax. The cost of this will be offset by the revenues that flow to the government from increases in drilling, in production, and in employment.
  - Clarification of the R&D tax credit to include enhanced recovery techniques.
  - Elimination of 80 percent of intangible drilling costs as an alternative minimum tax preference item for independent producers.
  - Repeal of the Transfer Rule prohibiting independents from using percentage depletion on acquired properties.

Comment: No timeframe was given for implementation of these incentives. The 10 percent tax credit (bullet 2) is designed to be revenue neutral. Decontrol of natural gas prices is expected to offset the cost of these tax incentives.

#

1/6/88

MEMORANDUM

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I. Reagan Proposals

A. Justice Department

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- Reagan budget: Bureau of Prisons would receive budget authority of $1.6 billion (up from $1.4 billion in 1989).

- Bush promise: "Double the current Federal prison budget over the next 4 years, providing an additional $250 million each year. . . . Use money seized from drug dealers and racketeers to help pay for additional prison space" [LOI p. 198]. 75 million for 4 years

- Bush promise: "I have proposed doubling the current federal prison budget over the next four years, converting certain unneeded military bases into state and federal prisons, and helping to finance the construction of more prisons with the confiscated assets of the drug traffickers and racketeers. We are going to make the criminals help pay the rent on their prison stays" [LOI, p. 188].

- Bush promise: "Where needed, those [unneeded domestic military bases] should be converted to prison facilities for use by the states" [LOI, p. 191].

- Comment: The current prison budget is $953,012,000 for "salaries and expenses" and $300 million for "buildings and facilities." Given that the President-elect stated this promise in light of his commitment to increase prison construction, we have some leeway as to how we wish to interpret this promise, i.e., whether the entire budget should be doubled or only the portion concerned with prison construction. During the campaign, we estimated that this proposal would cost $250 million per year, which indicates that the intention was to double the entire budget. But we could simply say that the fact sheet [LOI, p. 198] was wrong.

- Comment: The provision for using monies seized from drug dealers could be interpreted to mean that this would offset to some degree the additional $250 million (or other amount) for prison construction -- note Bush's remarks re criminals helping to pay for their prison stays, and re converting unneeded military bases.

2. Targeting Career Criminals

- Bush promise: "Providing additional special agents to expand the Repeat Offender Program. . . . [the Fact Sheet later says "100 new special agents will help prevent 2450 armed robberies. . . ."]

- Bush promise: "Instituting the Law Enforcement Management Information System (LEMIS). . . . "Establish additional Career Criminal Task Forces" [LOI, p. 199].

- Comment: No timeframe was given for this proposal.

3. Other Reagan Budget Proposals

- Drug Enforcement Administration: increase of 15% to $615 million.

- FBI: $1.5 billion (up from $1.439 billion in 1989).

- Immigration and Naturalization Service: $867 million (current total not given in Reagan budget paper).

- U.S. Attorneys: $802 million (up from $752 million in 1989).

- Office of Justice Programs: $96 million (down from $319 million in 1989, owing to proposed ending of five grant programs).

- Comments: Total proposed increase: $320 million B.A. DOJ proposes options for reducing the 1990 budget by $52 million (for a proposed net increase of $268 million).

B. Federal Aviation Administration

- o Reagan budget: Plans $900 million in spending increases.

1. Operations

- o Reagan budget: Increase spending $478 million.
- o Bush promise: "I will continue our strong effort to retain current controllers in the system as well as to bring adequately trained new controllers on board as quickly and as safely as possible in order to accommodate present needs and future growth" [LOI p. 107].
- o No spending increases necessarily implied in Bush promise.

2. Facilities and Equipment

- o Reagan budget: Increase spending $571 million.
- o Bush promise: "I will ensure that funding to complete the National Airspace System Plan is made available. This $12 billion program to replace virtually all of the equipment and computer software in the air traffic control system is improving safety and increasing capacity to meet needs into the next century" [LOI, p. 107].
- o The Reagan budget increased is justified by the need to keep the National Airspace System Plan on schedule. Technically, we could delay the spending increase necessary to complete the Plan according to the President-elect's promise, since the spending was not promised for next year.

3. Airport Grants

- o Airport grants finances the formula and discretionary grants to airports. The Reagan budget proposes to reduce this by $50 million.
- o Bush promise: "Provide the leadership needed to break the logjam that has prevented any new major airport in this country from being built since the early 1970s. I will ensure that the Federal government and local communities work together to satisfy the needs of increasing numbers of aviation system users . . . " [LOI, pp. 107-8]
- o Bush promise: Do not take Aviation Trust Fund "off budget." "[W]e need a broad national consensus, requiring cooperation

by Congress and strong support from state and local authorities, to further expand and modernize the nation's airports and our air traffic control system" [LOI, p. 108]

o Both these Bush promises imply that the Federal government will work with state and local governments to build new airports. They do not necessarily imply higher or even stable spending on airport grants.

C. International Affairs

o Reagan budget: Plans $1.1 billion in spending increases. The Reagan budget paper does not divide this increase among its constituent parts.

1. Security Assistance

o Bush promise: "Collective security is a tough, challenging, expensive proposition" [LOI, p. 15].

o Bush promise: "We have met Communist subversion around the world with support for freedom and democracy, sending aid to the brave freedom fighters battling to liberate their countries from Communist domination. The results have been dramatic and positive" [LOI, p. 19].

o Bush promise: "Support for the freedom fighters is the only hope for true negotiations, the only hope for democracy and human rights in Nicaragua and a real, lasting peace in the region" [LOI, p. 20].

o Bush promise: "Even as strategic cooperation with Israel has gone forward, we have forged a stronger relationship with Egypt, Saudi Arabia, Kuwait, and other Gulf states. . . . U.S.-Israel cooperation is fundamental to our strategic interests" [LOI, pp. 28, 29].

o Comment: No dollar figures were ever given for levels of security assistance.

2. Multilateral Development Banks

o Bush promise: "[W]e will continue to evolve the program for sustained growth -- based on the American model of low taxes, deregulation, and entrepreneurship -- the one realistic approach for helping debtor nations restructure their economies to be receptive to long-term investment" [LOI, p. 6].

o Comment: No dollar figures given on support for multilateral development banks.

3. State Department Operations

o Comment: No positions expressed.

4. UN

o Comment: The Reagan budget paper notes that the "fanfare" with which President Reagan announced full funding of our obligations to the UN in September might make it difficult to stretch out these obligations further.

5. Special Assistance Initiative

o Comment: This account will be presented for the first time in the 1990 budget, with $200 million in assistance for the Philippines.

6. Israel Radio Station

o Comment: No comments by the President-elect were found relating to Radio Free Europe/Radio Liberty, but he does strongly support both Radio and TV Marti, the equivalent programs for Cuba.

D. NASA

- Reagan budget: Plans to increase spending by $2 billion.

1. Space Station

- Reagan budget: Specific spending increase not given, but it is a sizable proportion of the increase.

- Bush promise: "Why the space station? Because it is the critical next step in all our space endeavors" [LOI, p.116].

- Bush promise: "I have decided this evening to announce that I will as President commit this nation to the development of an operational space station by the year 1996. This will demand the commitment of men and women and resources, but it is a commitment well made. This goal is achievable, sensible, and worthy of a great nation. 1996 also has a certain resonance for me as I hope that's when we'll be finishing the work of the second term of the Bush Administration" [LOI, p. 117; 9/3/88]

- Comment: This would appear to be a solid promise. The proposed Reagan increase is needed to keep the station on the schedule of development of permanently manned operational capability by 1996. We could under extremely tenuous reasoning claim that the President-elect only meant development (building) of a space station, not its deployment, but it is clear that deployment was intended.

- Comment: LOI p. 116 says that with the space station, "we will be able to make progress in becoming used to working and living in space." However, we might be able to say that the President-elect supports an unmanned space station, which is cheaper, rather than a manned space station.

- Comment: The Reagan budget paper admits that "In order to achieve any significant outlay savings and still support the National Space Policy objective of a balanced civil space program, the major reductions must come from the Space Station program."

- Bush promise: "We cannot write a blank check to NASA or any other government agency" [LOI, p. 120; 10/29/87].

2. Space Shuttle

- Reagan budget: No specific spending increase given. The Reagan budget paper discusses the possibility of reducing the number of shuttle flights by one.

- Bush promise: "The way I see it the logical order is this: first the shuttle, then the space station" [LOI, p. 116].

- Comment: No spending increase implied for the Shuttle.

3. Space Science and Technology

- Reagan budget: Specific spending increase not given.

- Bush promise: Support "Mission to Planet Earth."

- Comment: No time given on Mission to Planet Earth.

4. NASA Personnel and Facilities

- Reagan budget: Specific spending increase not given.

- Bush promise: None.

E. National Science Foundation

- o <u>Reagan budget:</u> Plans spending increase of $200 million.

- o <u>Bush promise:</u> Although the President-elect spoke warmly of President Reagan's 1987 decision to double the National Science Foundation budget by 1993 (i.e. in five years) [<u>LOI</u>, p. 125, he did not <u>specifically</u> endorse this goal for himself.

- o <u>Comment:</u> The spending increases necessary to fulfill this promise could be delayed to future years.

10-10-10

F. AIDS

- Reagan budget: Plans to increase spending $200 million.

- Bush promise: "George Bush believes we must commit the resources and the will to find a cure for AIDS" [LOI, p. 257].

- Bush promise: "And as we look into the 1990s we may have to spend even more. But money alone won't stop AIDS" [LOI, p. 263, 6/1/87].

- Comment: This does not specifically imply an increase in spending, but it flies in the face of logic to say that we will not have to spend more when the caseload is growing.

- Comment: The Reagan budget paper states that "President-elect Bush would probably face wide criticism if the FY90 HIV request did not represent double digit growth over FY89."

G. Superconducting Supercollider

- Reagan budget: Plans spending increase of $100 million.
- Bush promise: Supports the supercollider.
- Comment: No timeframe was given for this support of the supercollider.

12-12-12

II. Bush Proposals

A. Education

1. Head Start

- Bush promise: "He will maintain his commitment to this successful program by phasing in Head Start to reach all eligible four-year-old children. Head Start provides comprehensive development services for pre-school children from low-income families. George Bush will sharply increase its funding" [LOI, p. 140].

- Bush promise: "In my first budget, I will ask that funding for Head Start be increased sharply" [July 12, 1988].

- Comment: It is unclear whether the President-elect was referring to the FY90 or FY91 budgets. The current budget of Head Start is $1.207 billion. The Child Care Fact Sheet said that the President-elect would "begin immediately to phase in funding so that all eligible four year-olds could enroll in Head Start," and gave a cost of $240 million.

2. National Merit School Program

- Bush promise: "George Bush proposes to create a $500 million National Merit School program . . . . He will present an average award of $100,000 to each National Merit School which serves a significant proportion of disadvantaged students [LOI, p. 140, emphasis in the original].

- Bush promise: "For $500 million a year, the federal government could provide such awards to one-fifth of all schools with a significant proportion of disadvantaged students" [LOI, p. 146].

- Comment: No timeframe given for this program.

3. Magnet Schools

- Bush promise: "I support the idea of providing federal matching funds -- up to $50 million -- to encourage states to create or support magnet schools" [LOI, p. 146].

- Bush promise: "He proposes spending an additional $50 million -- in addition to the $114 million already spent on matching grants to states so they can create or support magnet schools" [LOI, p. 162; fact sheet].

- Comment: The first quotation uses the phrase "up to $50 million" instead of "an additional $50 million," as in the fact sheet. No timeframe given for this program.

4. FIRST (Fund for Innovation and Reform of Schools and Teaching)

- Bush promise: "He will increase funding from $6 million to $50 million and provide approximately $1 million to each state that selects one school district for experimentation" [LOI, p. 141, emphasis in the original].

- Comment: No timeframe given for this program.

5. Presidential Awards For Excellent Teachers

- Bush promise: "George Bush will award $5,000 to the best twenty-five teachers in each of the 50 states. [LOI, p. 162, emphasis in the original].

- Comment: No timeframe given for this proposal.

6. National Assessment For Educational Progress

- Bush promise: "George Bush supports increased funding for the National Assessment of Educational Progress to develop a profile of student achievement" [LOI, p. 162, emphasis in the original].

- Comment: Cost about $2 million per year. No timeframe given for this proposal.

B. Child Care

1. Children's Tax Credit

o Bush promise: "George Bush proposed creation of the "Children's Tax Credit," a new refundable tax credit of up to $1000 per child under age 4, to recognize the increased costs of families with children. Implementation would be tied to the earned income tax credit. The tax credit would phase out as income rises, but would be available to all families at equivalent income levels."

"Because low-income working couples face the greatest needs, families with very low incomes would be eligible immediately. To accommodate budget goals, this new tax credit would be phased in over four years, from $11,000 in annual household income to $16,000 to $20,000 over the first four years; it would be phased higher as budgetary goals allow" [Child Care Fact Sheet].

o Comment: Cost: $300 million in first year according to unpublished campaign estimate; $1.5 billion according to Child Care Fact Sheet. While the phrase "phased in over four years" implies that we expect the program to begin in 1989 (or FY90), we did not specifically say that we would introduce a bill in 1989.

2. Refundable Dependent Care Tax Credit

o Bush promise: "George Bush proposed to maintain the existing dependent care tax credit, and to take an additional important step to make it refundable. Too many low-income families go without the assistance we have made available to upper-income families because they do not earn enough to pay taxes. A family could take the greater credit, the Children's Tax Credit or the refundable dependent care credit" [Child Care Fact Sheet].

o Comment: Cost: $400 million. No timeframe given for implementation.

3. Child Care for Employees

o Bush promise: "George Bush would initiate more employer-sponsored day care, starting with the federal government as a model. He would see that every federal agency provided assistance to government employees" [Child Care Fact Sheet].

- o <u>Comment:</u> Cost: $50 million. No timeframe given for implementation.

<u>4. More Choices, Better Information</u>

- o <u>Bush promise:</u> "George Bush proposed to expand the Head Start program, an extremely successful early childhood program. He would begin immediately to phase in funding so that all eligible four year-olds could enroll in Head Start" [Child Care Fact Sheet].

- o <u>Comment:</u> Cost: $240 million. No timeframe given for implementation.

- o <u>Bush promise:</u> Seed money for innovative program design in sick child care, before- and after-school care; encourage employers to provide more flexible work schedules and cafeteria work plans and include child care in cafeteria plans; Labor Department to develop consumer education guidelines and information services.

- o <u>Comment:</u> Cost: $10 million. No timeframe given for implementation.

16-16-16

C. Environment

1. National Endowment for the Environment

- o Bush promise: "He will create a self-perpetuating trust fund based on the Land and Water Conservation Fund called the National Endowment for the Environment and will use these funds to protect and build the park system" [LOI, p. 239].

- o Comment: This, the successor to the Land and Water Conservation Fund, is designed to be revenue neutral. It is worth remarking that the President-elect specifically said he would not rule out increases in user fees such as entrance fees at the National Parks, in his no tax increase stand.

2. Superfund

- o Bush promise: "George Bush will speed cleanups under the federal Superfund programs" [LOI, p. 243].

- o Comment: Again, this program is designed to be revenue neutral on the theory that polluters should pay. However, particularly in the initial stages, costs do occur and are sometimes not recouped for years because of litigation.

3. Clean Air Act

- o Bush promise: "George Bush will work with Congress to enact an effective reauthorization of the Clean Air Act" [LOI, p. 242].

- o Bush promise: "Frankly, I am disappointed that the Congress is now set to adjourn without passing clean air legislation in this session. So let me say today that, next January, if I am sworn in as your President, one of my first priorities will be to win passage of clean air legislation. . . " [LOI, p. 232].

- o Bush promise: "Support a program to cut millions of tons of sulfur dioxide emissions by the year 2000, and to reduce significantly nitrogen oxide emissions. George Bush will work with Congress on the exact amounts and the exact methodology" [LOI, p. 239].

- o Comment: No amounts given. Costs of the various proposals in Congress vary widely. Most costs would be borne by polluters.

4. Environmental Summit

- o **Bush promise:** "In my first year in office, I will convene a global conference on the environment at the White House. It will include the Soviets, the Chinese, the developing world as well as the developed" [LOI, p. 247].

- o **Comment:** Cost unknown. To keep the promise, this conference would have to be held in FY90 or FY91.

D. YES

- o Bush promise: "The way I see it, Yes to America is going to be more like a movement than a program" [LOI, p. 304].

- o Bush promise: "George Bush will request up to $100 million in federal funds for the YES to America foundation to match on a one-to-one basis private donations up to $100 million. The $200 million generated in this effort will give new meaning to the term "public-private partnership" . . . . Its growth will be determined by community and school-based private sector fundraising" [YES to America Fact Sheet; emphasis in original].

- o Comment: The spending commitment is only up to $100 million, not a full $100 million, and it is determined by the rate of private giving. Thus we could have budget authority of up to $100 million, and outlays could be significantly smaller.

19-19-19

E. Homeless

1. Military Facilities

- Bush promise: Direct the Secretary of Defense to enforce the law regarding use of surplus military facilities as homeless shelters.

- Comment: The cost of rehabilitating a building as a shelter for the homeless is estimated at $500,000. Operating a 100-person shelter is also estimated at $500,000 per year.

2. McKinney Act

- Bush promise: During the first Presidential debate, the President-elect said, "I want to see the McKinney Act fully funded."

- Comment: The McKinney Act authorized $635.8 million, but only $385.5 million was appropriated. Thus, full funding would cost $250.3 million.

3. Community-based Mental Health Clinics

- Bush promise: During the first Presidential debate, the President-elect said, "And I think maybe we could look back over our shoulders and wonder whether it was right to let all of those mental patients out. Maybe we need to do a better job in mental clinics to help -- help them, because there is a major problem there."

- Comment: Under the McKinney Act, $18.7 million was appropriated for community-based mental health clinics. In addition, HHS has two programs relating to the homeless mentally ill -- a mental health services block grant of $14.1 million and an appropriation of $4.6 million for mental health demonstration projects. If fully funded, these programs would be funded at $35 million and $11 million.

F. Enterprise Zones

- o <u>Bush promise:</u> "I will ask the Congress to join me in creating enterprise zones in the most depressed areas of our cities and the poorest rural areas" [<u>LOI</u>, p. 53].

- o <u>Comment:</u> No promise given as to time or spending commitment. Enterprise zones may be eventually revenue-positive, but in the first year at least they would likely be revenue-negative.

G. Drugs

- Comment: Many of these policies will be covered under the Narcotics Control Act of 1988 which is not fully funded.

- Comment: No spending figures were provided for the following promises.

  - Bush Promises:

- "Challenging students to end drug use by establishing the President's Drug-Free Challenge: . . . recognize student governments whose emphasis on a drug-free student body results in real reductions in the number of classmates on drugs" ["George Bush On Drug Policy Fact Sheet", p.3, emphasis in the original].

- "help schools develop special education/treatment programs for students who do use drugs and alcohol" [George Bush On Drug Policy Fact Sheet", p. 3, emphasis in the original].

- "George Bush will link federal assistance to the success rate of the drug treatment programs" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "Convene a summit of Western hemisphere nations to develop a strategy and a framework for cooperation" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "Provide training, advice and equipment to foreign law enforcement and military units assigned to fight the drug lords" ["George Bush On Drug Policy Fact Sheet," p. 4, [emphasis in the original].

- "Create an international strike force capable of rapid deployment to 'hot spots' of local eradication efforts" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "Help drug-producing countries develop crop substitution programs to follow up eradication" ["George Bush On Drug Policy Fact Sheet," p. 4, emphasis in the original].

- "George Bush will replicate the South Florida Task Force, tailoring it to other areas that demand concentrated force" ["George Bush On Drug Policy Fact Sheet," p. 5, emphasis in the original].

- "call a national conference with the states to toughen drug laws..." ["George Bush On Drug Policy Fact Sheet," p. 6, emphasis in the original].

22-22-22

III. Studies

Health and Long-Term Care

- Bush promise: Support Medicaid buy-in; support tax changes to benefit purchase of long-term care insurance; support "adequate" funding for research on diseases which contribute to the need for long-term care.

Energy Incentives

- Bush promises:
    - Tax incentives for stripper wells.
    - A 10 percent tax credit for oil and gas exploration -- up to $10 million of costs, and 5 percent thereafter -- creditable to the alternative minimum tax. The cost of this will be offset by the revenues that flow to the government from increases in drilling, in production, and in employment.
    - Clarification of the R&D tax credit to include enhanced recovery techniques.
    - Elimination of 80 percent of intangible drilling costs as an alternative minimum tax preference item for independent producers.
    - Repeal of the Transfer Rule prohibiting independents from using percentage depletion on acquired properties.

Comment: No timeframe was given for implementation of these incentives. The 10 percent tax credit (bullet 2) is designed to be revenue neutral. Decontrol of natural gas prices is expected to offset the cost of these tax incentives.

#

ENTERPRISE ZONES

Background

The President's budgets as recently as FY86 included an enterprise zone program, but no enterprise zone initiatives were included in subsequent budgets. The President's proposed program included the following provisions:

-- Up to 25 small areas per year (not to exceed 75 in total) be designated enterprise zones;

-- Two employment tax credits:

  - A tax credit for employers equal to 10 percent of any qualified increases in their payroll;

  - A separate tax credit for employers of certain disadvantaged individuals equal to 50 percent of the wages of such persons for the first three years of employment (the percent declines by 10 points in the fourth year and each year thereafter);

-- Two investment tax credits:

  - An increase of 50 percent in the regular investment tax credit for investment in equipment (which generally was 10 percent);

  - A 10 percent investment tax credit for new construction and reconstruction of buildings;

-- An exemption from capital gains tax on certain qualified property; and

-- Continued availability of tax-exempt bond financing beyond the 1986 sunset date for small issue bonds.

The President's proposal, updated to current prices, is estimated to cost approximately $2.1 billion for the first three years. If the number of zones were reduced from 25 per year to 10 per year, this proposal is estimated to cost approximately $120 million in FY90, $290 million in FY91, and $445 million in FY92 ($855 million for the first three years). These estimates assume that the effective date is January 1, 1990.

Options

The Administration and President-Elect Bush have supported the enterprise zone concept as a constructive approach for dealing with problems of economically distressed areas. Because enterprise zone tax proposals would increase the budget deficit, the Administration may wish to redesign its prior proposal to reduce its cost. Assuming that the baseline proposal is 10 zones per year, the cost of the program could be reduced as follows:

1. Reduce the number of zones from 10 per year to 5 per year. This option would cut the cost in half ($715 million for the first three years).

2. Reduce the amount of qualifying wages for the credit for increased enterprise zone employment. Under the President's proposal, the maximum amount of wages qualifying for the credit generally would equal $17,500 per employee, which is 250 percent of the FUTA wage base (currently $7,000). This cap could be reduced to 100 percent of the FUTA base. This option would reduce the revenue cost by approximately 10 percent.

3. Limit qualifying wages for the credit for employment of disadvantaged individuals to twice the FUTA base ($14,000). Under the President's proposal, a 50 percent credit was provided for wages paid (without limit) to each disadvantaged worker. This option would reduce the cost of the credit by about 2 percent.

4. Decrease the investment tax credit rate for new construction and reconstruction of buildings from 10 percent to 5 percent. The credit rate for equipment also would be 5 percent. This option would reduce the revenue cost by about 7 percent.

5. Defer taxation of the capital gains attributable to the sale or exchange of certain enterprise zone property if the proceeds are reinvested in enterprise zone property within one year. This option would reduce the revenue cost by approximately 3 percent.

6. Require states with enterprise zones to set aside 5 percent of their state volume cap for private activity bonds for use in such zones in the state. Under present law, certain state and local government bonds issued for use by private business are subject to a state volume limitation. If states currently have reached their volume cap, this provision would have no revenue effect.

7. Experiment with alternative mixes of tax incentives for different enterprise zones. Because the effectiveness of tax incentives for revitalizing distressed areas is uncertain and the appropriate mix of labor and capital incentives is unclear, it may be desirable to experiment with alternative mixes in a small number of experimental zones.

<u>Other policy considerations</u>

The effectiveness of tax incentives in revitalizing economically distressed areas is uncertain for the following reasons:

(1) The incentives would be of no help to many new firms and small firms that are unlikely to experience profits, particularly in the early years;

(2) Tax incentives for hiring disadvantaged workers, such as the current targeted jobs tax credit, have been shown to be ineffective in increasing total employment;

(3) Tax incentives are unlikely to induce creation and growth of firms indigenous to the zones. To the extent that the incentives increase the level of economic activity within a zone, it is likely to be attributable to a migration of firms into a zone from elsewhere in the same metropolitan area.

Office of Tax Analysis
January 5, 1989

1/6/89

CAPITAL GAINS OPTIONS

Basic Options	*Explanation*	*Key Points*
15% Rate Cap	Set 15% maximum rate.	- Rate cap revenues likely to be higher than exclusion for any maximum rate. - Would not benefit the vast majority of taxpayers already facing 15% rate or less.
55% Exclusion 50% HISTORIC $@55% $@45%	Tax only 45% of gains to achieve a maximum "normal" rate of 15%.	- Exclusion shares benefits "more fairly," at relatively small cost given flatter ordinary-income rates. - Would lower rate for wealthiest taxpayers, who pay 28% top rate, to 12.6%. - Would not prevent rates higher than 15%, due to phase-outs of tax provisions.
Nominal Gains or Real Gains	Could index cost basis of asset for inflation.	- Indexation seen as fairer; reduces high effective tax rates on real gains and eliminates tax liability on real losses that are nominal gains. - Indexation increases ability to manipulate the system (offsetting taxable gains with taxable losses); substantial revenue loss much more likely. - Distributionally appears to benefit lower income taxpayers more because they realize a higher percentage of inflationary gains. - Does relatively little to encourage entrepreneurial investment since real gains are still taxed at high rates. - More complex administratively, particularly where there are conversions and multiple investments. - Proposed in Treasury I.

CAPITAL GAINS OPTIONS (cont'd)

Variations	*Explanation*	*Key Points*
Limit Eligibility to Certain Assets	Could limit preferential treatment to "productive" assets by excluding "collectables" as defined for IRAs.	- Avoid appearance of preference for "unproductive" assets (e.g., art, wine, stamps, etc.) - Definition of "productive" investment could be difficult and controversial. - Raises compliance and enforcement problems. - Again, adds complexity to otherwise clean proposal.
	Could limit preference only to corporate stock.	- Realization of gains on corporate stock may be more responsive to tax rates, thus limit to corporate stock would enhance revenue. - Preference for corporate stock would reduce degree to which corporate profits are subject to taxation at both the corporate and individual level. - Would reduce corporate preference for debt finance. - Would ignore potential gains from incentives for noncorporate investment.
	Could limit preferential treatment to assets held by individuals, not corporations.	- Individuals may be more responsive to rate changes, thus revenue may be higher. - Would still reduce most of the double tax on corporate income.

CAPITAL GAINS OPTIONS (cont'd)

Variations	*Explanation*	*Key Points*
Rollover or Reinvestment Provision	Could require after-tax proceeds of asset sale to be reinvested in order to qualify for preference. Boskin Credit	- Mitigate perception of capital gains preference as tax break for the rich. - Same problems of definition, compliance and enforcement involved in limiting eligible assets. - Special treatment might be required for elderly who save to finance consumption in retirement.
Treatment of Owner-occupied housing	Could eliminate the taxation of capital gains on owner-occupied housing.	- Vast majority of gains on owner-occupied housing escape taxation because of rollover provisions and one-time $125,1000 exclusion for taxpayers over 55. Taxable realizations in 1983 only $1.7 billion. - Lock-in effect keeps people in too-large houses until age 55, raising cost of housing. Social cost large relative to revenue gained. - Elimination would provide an additional tax preference which could enhance chance for passage of a general capital gains tax rate decrease. - Further incentive for over-investment in owner-occupied housing. - Would simplify tax compliance for homeowners.

CAPITAL GAINS OPTIONS (cont'd)

Variations	*Explanation*	*Key Points*
Pension Benefits	Could tax that portion of benefits which was earned as a capital gain at preferential rate. anti-speculative	- Provide incentive for saving by increasing after-tax pension. - Benefit elderly, enhancing public support. - Require procedures for allocating portion of pension to capital gains; more difficult for defined benefit than for defined contribution plans. - Revenue costs delayed until budget constraint is not so severe. - Would provide tax treatment for pension income which is more favorable than consumption tax treatment.
Staged Holding Period	President-elect Bush's proposal applied only to long-term gains. Could stage in one or more intermediate holding periods (e.g., 1-3 year holding period would get half of preference applied to over 3 years).	- Staged treatment encourages long-term investment; reduces churning. - May be easier to sell. - May be viewed as going back on the President-elect's simple, clean proposal which applied to "gains on investments held for at least one year." - Tried for increments from 1-10 years in 1934-38, then phased out because of administrative complexity and reduction in volume and liquidity in financial markets. - Although counter-intuitive, a staged holding period equivalent to inflation indexing would lower the exclusion the longer the holding period.

CAPITAL GAINS OPTIONS (cont'd)

$12 to 15 BIL ANNUALLY

Variations	*Explanation*	*Key Points*
Taxation of Accrued Gains at Death Remove from our list?	Could tax accrued gains at death instead of current tax exemption. No G. Mitchell will propose Equity –	- Democrats' "killer amendment" to "pay for" rate cut. - Greatly reduces lock-in, resulting in positive revenue effect. - Unless estate taxes rates are reduced, large increase in total tax bill at death.
Increase Loss Limitation	Could increase current $3,000 annual loss limitation.	- Fairer treatment of losses. - Encourages capital formation and long-term investment by increasing expected after-tax return. - Revenue loser.
Timing of Eligibility	Could limit eligibility to newly purchased assets.	- Long-run implications unaffected by timing of eligibility. - If preexisting accrued gains are eligible for preference there would be an incentive to realize gains which had been previously "locked-in" by high rates. - If only newly purchased assets were eligible there would be a different type of incentive to sell and repurchase assets, or mark assets to market and pay tax, to establish their eligibility. - If only prospective gains eligible, no revenue loss on preexisting gains which would have been realized in the absence of a tax rate cut, but potentially less revenue gain on unlocking of preexisting gains than if all gains eligible. - Limitation of eligibility to newly-purchased assets might improve public perception of policy. - As with other limitations, may be viewed as going back on President-elect's simple clean proposal.

ADDITIONAL ANALYSIS

An important element of President-elect Bush's election campaign was his pledge to reduce the tax rate on capital gains. The primary goal of this reduction would be to spur investment and economic growth. A major benefit is that this increase in incentives could well be obtained at little cost in tax revenue and might even be structured to yield a revenue increase, particularly in the short run. After a discussion of criteria for evaluating alternative options, the remainder of this note will summarize the major options and potential variations on these options. A more detailed table of options which provides additional background is attached.

Criteria for Assessing Options

The alternative capital gains proposals presented below should be evaluated in terms of their ability to achieve two goals -- equity and efficiency. For instance, a capital gains tax cut which reduces the taxation of purely inflationary gains or the double taxation of corporate income would improve the equity of the tax system. On the other hand, a cut which encourages capital formation, entrepreneurship, or reduces the impact of the tax system on otherwise economic decisions would improve the efficiency of the tax system. It is important to remember that the options make trade-offs between these goals, as well as the goals of tax simplicity and ease of administration.

Three Major Approaches

The President-elect's campaign proposal. During the election campaign, President-elect Bush ran on a proposal to "cut the capital gains tax to 15 percent on investments held for at least a year." This is a straightforward, simple proposal, and the election results indicate that it has broad appeal. It is not, however, comprehensive. Details on a number of issues would have to be specified, including (1) whether the 15 percent rate would result from a cap or an exclusion and (2) what assets would qualify as "investments" and so be eligible for preferential treatment upon sale. An alternative to a cap or exclusion would be inflation indexing, so that taxes are paid only on real, not inflationary, gains.

Modifications to focus benefits on productive behavior. The President-elect's basic plan has been criticized as benefiting only the "wealthy." One way to avoid this perception is to carefully focus the benefits on productive behavior. There are several ways in which this might be done. First, the proposal could be limited to gains on "productive" assets, eliminating benefits for, e.g., "collectables," as defined for IRAs. The proposal could also be limited to assets held by individuals, not corporations. An even tighter restriction would limit preference to individual holdings of corporate stock. This restriction might be justified on the grounds that individual stock transactions are more responsive to tax rates, thus improving revenue, and that special treatment for stock would reduce the "tilt" toward debt financing by reducing the double tax on corporate income which exists under current law. Finally, the proposal could be limited to gains which are reinvested in productive assets. This restriction would increase investment incentives and reduce a taxpayer's ability to use the tax benefit to increase consumption.

Modifications to broaden the set of beneficiaries. Another way to avoid the appearance that preferential treatment of capital gains is simply a tax break for the wealthy is to broaden the set of beneficiaries. Two additional proposals, which could be combined in an overall package, would spread the benefits to two large and influential groups. First, the taxation of capital gains on owner-occupied housing could be eliminated. Very little revenue is currently raised from this tax because of the $125,000 exclusion and rollover provisions, and complete elimination of the tax might gain significant support from homeowners and the housing industry. Second, a portion of pension benefits could be taxed as capital gains. This might be justified on the grounds that pension funds earn a substantial portion of their income as capital gains, and preferential treatment of this income would increase the incentive to save for retirement. It would, however, tax pension investment income at a lower rate than would apply under a consumption tax.

Variations on the Major Approaches

Any of the above options can be varied in a number of ways in order to tailor the most effective proposal. At least four variations require careful consideration.

A staged holding period. The President-elect's proposal applied to capital assets held over one year. A strong argument could be made to stage in one or more intermediate holding periods which would receive a smaller preference. (For instance, gains on assets held for one to three years might get half the preference given to gains on assets held for three years or more.) This provision would encourage investors to focus more on long-term productivity rather than short-term profits and reduce the churning of assets.

Taxation of gains at death. Under current law, capital gains are exempt from taxation if held until death, and the tax basis of the assets for a taxpayer's heirs is stepped-up to current market value when the taxpayer dies. Some analysts have proposed that accrued gains be taxed at death to help pay for any rate cut and to reduce the lock-in effect of the step-up of basis. Any modification of this rule, however, should address two issues. First, capital gains taxes could be coordinated with the federal estate taxes to set an appropriate total tax rate on estates. Second, taxation of gains at death might kill any chance to pass a capital gains tax cut.

Increase loss limit. The current loss limitation of $3,000 has not been changed for some time and is not indexed for inflation. An increase in the current level and future indexation of the loss limit would encourage capital formation and long-term investment by increasing the expected after-tax return, but would also lose revenue.

Timing of eligibility. In the past, changes in the tax treatment of capital gains have applied to both preexisting and prospective gains. Consideration should be given to whether this approach should be continued, or whether eligibility should be limited to future gains. Although these two options have the same long-run implications, they provide very different short-run incentives. If preexisting gains qualify for preferential treatment, there is an incentive to realize gains which have been locked-in by higher rates. If, on the other hand, only prospective gains qualify, taxpayers would have an incentive to sell and repurchase assets, or mark their assets to market and pay tax, to establish their eligibility. These short-run differences will affect revenue, but it will be *extremely* difficult to determine which option would yield more.

Revenue Estimates

The Office of Tax Analysis is working on short-term and long-run revenue estimates of different capital gains options. New empirical methodologies with new tax return data are being developed to improve estimates of the effects of lower capital gains realizations and other income sources. The revenue effects of lower capital gains rates depend on the magnitudes of several different, and sometimes opposing, behavioral changes. These separate effects are still being estimated, so even the sign of the net revenue effect is unknown.

Several of the options can currently be ranked in terms of their likely *relative* short-run and long-run revenue effects. Revenue estimates require details of the specific proposal, including announcement and effective dates. Budget period revenue estimates of specific options will be available by February 1st.

DRAFT

POTENTIAL PROPOSALS ON ISSUES PERTAINING TO THE TAX CODE

PROPOSAL	DESCRIPTION	1990	1991	1992	1993	1994	TOTAL 90-94	
		REVENUE IMPACT FISCAL YEAR ($ Billions)						
FAMILY								
1. Children's Tax Credit[a]	$1000 refundable credit for each child under four for families with incomes less than $10,000. Eventually to be extended to a $20,000 cut-off.	-0.3	-2.9	-3.7	-3.9	-4.0	-14.7	
2. Child Adoption Credit	Restoring the Adoption Tax Break eliminated in 1986 ($1500 deductible for adoption of "special needs" children).	b	b	b	b	b		Double it — do it
3. Parental leave incentives[c]	Endorses using the tax code to "create incentives for businesses to grant leaves."	-0.1	-0.1	-0.2	-0.2	-0.2	-0.8	
4. Long term care incentives[d]	Advocates "incentives to spur the private sector to provide more affordable health care." Allows conversions on IRA's, savings accounts, and life insurance policies to pay for long term care.	-0.2	-0.4	-0.8	-0.9	-1	-3.3	
BUSINESS								
1. Capital Gains Reduction	Decreases capital gains to 15% from 28%. Possibly multi-tiered capital gains tax with higher rates for short term holdings.	Pending the Capital Gains Study by The Treasury						
2. Enterprise zones	Federal tax relief for companies that locate in economically depressed rural areas. # sites	-0.1	-0.3	-0.4	-0.4	-0.4	-1.7	short note — limit length of credit applicability — already there
3. Tax Credit for R&D cost	Supports making R&D Tax Credit permanent.	-0.4	-0.7	-1.0	-1.2	-1.4	-4.7	
~~4. Tax Free Savings Plan~~	~~Interest earned on maximum annual $1000 investment is tax-deferred for savers with income under $50,000. Benefits are phased-out and eliminated at $60,000.~~	-0.0	-0.1	-0.1	-0.2	-0.3	-0.8	?

$20'

PROPOSAL	DESCRIPTION	1990	1991	1992	1993	1994	TOTAL 90-94
		REVENUE IMPACT FISCAL YEAR					
I. ENERGY		($ Billions)					
1. 10% oil/gas exploration credit...........							
With Incentive effect[e]................		-1.1	-2.0	-2.2	-2.5	-2.8	-10.6
Without Incentive effect[f]............		-1.1	-1.9	-2.0	-2.2	-2.3	-9.6
2. Increase Oil Depletion Allowance.........	Allows integrated producers to receive percentage depletion.	-1.0	-1.6	-1.6	-1.8	-1.9	-7.8
3. Include Enhanced Recovery Techniques within R&D Credit[g]........................	Allows 10% Research and Development credit on expenditures for enhanced recovery techniques.	h	h	h	h	h	-0.1
4. Eliminate 80% of intangible drilling costs from AMT coverage.........................		-0.4	-0.8	-0.9	-1.0	-1.1	-4.2

IE: The estimates in this table are based on incomplete information, and are intended for general guidance only. The specification of the actual proposals may produce different estimates.

lendum: Vice-President Bush has proposed or previously supported changes that would have indirect effects receipts, including increases in the minimum wage (with possible increases in the Earned Income Tax Credit), l various unspecified user fees.

artment of The Treasury
Office of Tax Analysis

(McD)
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All families with at least one working parent and child under age four are eligible.
In first year, any family with income below $7000 receives $1000 credit per child. Credit phases out at $12,000.
By fourth year, any family with income below $10,000 receives full credit, phasing out by $20,000.
Welfare recipients who work part year are assumed eligible for the credit on the basis of their earnings.

Less than $5 million per year.

25 percent credit on 50 percent of wages and fringe benefits (maximum of $20,000) for up to 6 weeks parental leave.

Proposals not fully specified. Estimates here assume that total incentives for pension, IRA and life insurance are restricted approximately by the same limits allowed under current law. However, payments out of pension, IRA and life insurance accounts would be allowed to be adjusted for long-term care needs.

Assumes 70% of cash flow from credit is re-invested into additional drilling.

Assumes current forecast for drilling expenditures.

Includes tertiary recovery only. If secondary recovery is included, the total revenue loss would be approximately $1.4 billion.

Less than $20 million.

January 6, 1989

MEMORANDUM FOR KENNETH M. DUBERSTEIN

FROM: JOHN H. SUNUNU JHS ANC

SUBJECT: White House, Office of Policy Development, and Office of Administration Staff

On November 10, on behalf of the President and the President-elect, you asked all Presidential Appointees to submit their resignations in order to give President-elect Bush maximum flexibility in the staffing of his Administration and to effect a smooth and orderly transition. On December 30, resignations were also requested from all non-career SES and Schedule C appointees.

In order to clarify the status of White House, Office of Policy Development and Office of Administration staff, we recommend that you arrange to do the following:

1. Employees who are members of what has traditionally been treated as the career staff of the White House Operating Units should be asked to remain in their positions after January 20.

2. Non-career SES and Schedule C detailees, both reimbursable and non-reimbursable, to the White House and the Office of Policy Development should be notified that their details will end on January 20 and that they should submit letters of resignation to the head of their detailing agency pursuant to the directions set forth in the December 30, 1988, Memorandum for Cabinet and Agency Heads.

3. All non-career employees on the payrolls of the White House Office and the Office of Policy Development who have not already done so should be asked to submit a letter of resignation to whomever you see fit, effective at his or her pleasure.

4. Employees in Administratively Determined positions in the Office of Administration should also submit letters of resignation to the Director of the Office of Administration, effective at his pleasure.

5. All employees covered in paragraphs 2, 3, and 4 should also be asked to indicate whether or not they wish to be considered for continuing in their positions or others in the Bush Administration. I would appreciate it if you could have their responses collected and ready for our review as soon as possible. Those employees who indicate a desire to remain will then be contacted individually by President-elect Bush's incoming White House, OPD and OA office heads.

6. All White House, OPD and OA employees who are asked to submit letters of resignation, whether or not they indicate a desire to be considered for continued employment, as well as all current White House commissioned officers who have already submitted letters of resignation, should be informed that they may remain on their respective payrolls through Friday, February 3, 1989, should they so desire. Their duties in the period between the Inauguration and February 3 will be determined by their new-office heads.

Obviously, Ken, what we are trying to do is to treat the "political" staff of the White House, OPD and OA fairly and equitably in a manner parallel to the other political appointees in the rest of the Executive Branch, while at the same time assuring the "career" staff that for them its business as usual. I know that my staff has been in touch with yours on this matter so that if you agree conceptually with the above, I'm sure they can work out the details.

Thank you for your help.