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ABSTRACT

This report was prepared to accompany President Clinton's first address to a Joint Session of Congress. It describes in detail the comprehensive economic plan being proposed by the new administration for the nation. The plan has three key elements: economic stimulus to create jobs now while laying the foundation for long-term economic growth; long term public investments to increase the productivity of people and businesses; and a balanced deficit-reduction plan to prevent the drain of private investments that generate jobs and increase incomes. The text is organized into four sections: (1) "A New Direction" (a brief 3-page preamble); (2) "A Legacy of Failure" (a 16-page statement of the problem, under subheadings such as "Skyrocketing Health Care Costs"); (3) "What We Must Now Do" (a 92-page statement of the solution, under subheadings such as "Investing in the Future: Reducing the Deficit To Increase Private Investment" and "Restoring Fairness"); and (4) "The Task Remaining" (a brief 6-page wrap-up). A closing Appendix contains 25 pages of statistical tables outlining various discretionary program savings, proposed changes to mandatory programs, stimulus proposals, investment proposals, and revenue and receipts proposals. Most tables provide figures for each year for the 6-year period 1993-1998. The field of education is touched upon in the report at six locations: (1) "Relative Earnings by Education for 25-34 Year Olds" (Chart 2-9, p. 18); (2) Chapter 1 Compensatory Education (p.31); (3) Pell Grants (p. 32); (4) "Lifelong Learning," covering full funding of Head Start and related child care funding and Medicaid, National Service, Dislocated Workers Program, Job Corps Expansion, Summer Youth Employment and Training Program, Youth Apprenticeship, and various Department of Education reforms and initiatives (p. 57-59); (5) Impact Aid "b" Projects (p. 87); and (6) Reform of Student Loan Programs (p. 92). (WTB)

NOTICE

There should be no release of this document until 9 p.m., Wednesday, February 17, 1993

A VISION OF CHANGE FOR AMERICA

February 17, 1993

We have heard the trumpets. We have changed the guard.
And now each in our own way, and with God's help,
we must answer the call.

President Bill Clinton
January 20, 1993

THE WHITE HOUSE

WASHINGTON

February 17, 1993

TO THE CONGRESS OF THE UNITED STATES:

To accompany my address to the Joint Session of the Congress, I am submitting this report, entitled *A Vision of Change for America.* This report describes the comprehensive economic plan I am proposing for the nation.

I am asking you to join with the American people in their call for change. My vision is one of fundamental change—to invest in people, to reward hard work and restore fairness, and to recognize our families and communities as the cornerstones of America's strength.

For more than a decade, our government has been caught in the grip of the failed policy of trickle-down economics. While the rich get richer, middle-class Americans pay more taxes to their government and get less in return. My plan will put an end to government that benefits the privileged few and mark the beginning of an economic strategy that puts people first.

My plan has three key elements: economic stimulus to create jobs now while laying the foundation for long-term economic growth; long-term public investments to increase the productivity of our people and businesses; and a serious, fair, and balanced deficit-reduction plan to stop the government from draining the private investments that generate jobs and increase incomes.

The change will not be easy, but the cost of not changing is far greater. We must ensure that our children's generation is not the first to do worse than their parents. We must restore the American dream.

We have already heard the clamor of the powerful special interests who oppose change because they profit from the status quo. But the American people have demanded change, and it is our responsibility to answer their call. With that in mind, I ask for your help and support to restore our economy and give our people hope.

William J Clinton

A Vision of Change For America

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GENERAL NOTES

All years referred to in this volume are fiscal years, unless otherwise specified.

Detail in the tables, text, and charts of this volume may not add to the totals because of rounding.

The Budget Enforcement Act of 1990 changed the date by which the President is required to transmit his Budget from the first Monday after January 3rd to the first Monday in February. As a result of this change, President Bush was not required to submit a budget before he left office. Thus, President Clinton is the first President in modern times required to construct and submit to Congress a complete budget in the first few weeks of his Administration. If as a result of developing this budget document in such a short time errors have been made, they will be corrected.

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A New Direction

When our Founders boldly declared America's independence to the world and our purposes to the Almighty, they knew that America to endure would have to change; not change for change sake, but change to preserve America's ideals: life, liberty, the pursuit of happiness.

Bill Clinton
Inaugural Address
January 20, 1993

Throughout our history, at every critical moment, Americans have summoned the courage to change, to adapt our nation's policies and institutions to address new problems in a changing world. Today we must once again find the courage to change. We must shift our energies from the Cold War priorities of the past to the economic priorities of the future. And we must reverse the distorted trends of the last twelve years—slow growth, stagnant family incomes, growing inequality, an increase in poverty among children, soaring health care costs, and rising fiscal deficits as far as the eye can see.

It is not enough simply to stay the course. We must change our course. In the words of Abraham Lincoln, "We must think anew and act anew . . . and then we shall save our country."

Americans have an underlying vision that has sustained us through previous challenges and that will sustain us through the challenges we now confront. It is a vision of economic and political freedom, of the rewards of hard work and initiative, of a fundamental sense of fairness, of the family and the community as the foundations of our strength, and of every generation's obligation to create a better life for the one that follows.

In recent years, our leaders lost sight of this vision. They embraced trickle-down policies that benefitted the wealthy at the expense of the middle class and the working poor. We have deluded ourselves that somehow economic growth and fairness are at odds, when in fact they go hand in hand. While the privileged few have prospered, millions of Americans who worked hard and played by the rules have been left behind.

Our family structures have weakened, often as a result of economic adversity and government negligence. Greed and financial scheming have eclipsed the virtues of hard work and sacrifice for the common good. Debt has soared as individuals, businesses, and governments have lived beyond their means. Our commitment to invest in the future and to bequeath a promising future to our children has somehow fallen by the wayside.

In this report, we share our economic vision for America. We attempt, candidly and forthrightly, to explain the challenges that face us. For too long, bland pronouncements and fiscal gimmicks have obscured harsh economic realities. We offer, instead, a detailed plan that can, if we work together, transform our vision and values into reality.

First, we seek an America that can provide rising living standards for all of its citizens. To achieve this, we must fundamentally shift our spending priorities away from consumption to investment. Investment is the key to a growing economy that produces good jobs and high-quality goods and services for ourselves and for the international marketplace. We must invest more in our people, our plant and equipment, our infrastructure, and our research and development if we are to restore the American dream for our children.

Second, we seek an America that provides opportunities for all who want to work hard and play by the rules and that offers assistance to those who want jobs but cannot find them. We seek meaningful opportunities for all Americans—not just for a privileged few. We must give all of our people a chance to acquire the skills they need to succeed, understanding that in today's world, education is a lifelong process. We must support parents in their efforts to balance the demands of work with the needs of their children. And we must commit to fundamental change in our health care system, to control skyrocketing costs and provide security for every individual and family.

Third, we seek an America that fosters a spirit of responsibility and service to community among its citizens. People must feel responsible not only for improving their own lives, but also for helping those in need. We must reject the idea that the individual stands in opposition to the community and embrace the idea that we are all members of the same community. There is no *them*; there is only *us*.

Fourth, we seek an America in which the government is viewed not as the enemy of prosperity but as a partner with the private sector working to foster growth. Only a government that works can ensure that view. Government must be accessible to those it serves and to those who pay its bills. It must be responsive to their concerns. It must be run efficiently and well with respect for the tax dollars on which it depends. It must be financed by a fair tax system that rewards work and requires a fair share from those most able to pay. And it must pay its way and live within its means.

Fifth, we seek an America that recognizes the importance of the environment to the quality of our life, rejecting false choices between economic prosperity and environmental quality. We must demand both for our future, not sacrifice one for the other.

Sixth, we seek an America that is prosperous and confident enough to continue its role as a world leader. The nations of the world look to us to strengthen the international trading system, to preserve the global environment, to nurture the growth of democracy, and to maintain global peace and security. Whether we will continue to shoulder these global responsibilities depends on whether we successfully overcome the economic problems we face at home. If we fail, America, like other global powers that preceded it, will ultimately be defeated not by external power but by internal weakness.

Productive jobs and rising standards of living; opportunity and fairness for all Americans; responsibility and community; a government that works and that continues to meet its global commitments. That is our vision. To achieve it, we must change our course.

A Legacy of Failure

Raised in unrivaled prosperity, we inherit an economy that is still the world's strongest, but is weakened by business failures, stagnant wages, increasing inequality and deep divisions among our own people.

Bill Clinton

The election of 1992 was a mandate for change—and no wonder. Twelve years of neglect have left America's economy suffering from stagnant growth and declining incomes. They have left the average American family worried about its future, working harder, and getting less in return. The specter of rapidly rising health care costs threatens every family and business. They have left a mountain of debt and a Federal Government that must borrow to pay more than a fifth of its current bills. Perhaps most sadly, they have left the great majority of our people no longer dreaming the American dream. Our children's generation may be the first to do worse than their parents.

Such is the sorry legacy of 12 years of short-sightedness, mismanagement, and protection of the privileged. All of this must be changed.

Anemic Recovery from Recession

The U.S. economy grew very slowly in the late 1980s and slid into recession in the summer of 1990. Sales and profits fell. Unemployment rose. The National Bureau of Economic Research says that the recession ended in March 1991. For most Americans, however, the recession has not ended. The great American job machine has ground to a halt, and the unemployment rate is higher than it was at the recession's official end (Chart 2–1). The fraction of the unemployed who have permanently lost their jobs is near its record high (Chart 2–2).

The 1991–93 recovery has been called a "jobless" recovery—a description that is all too apt (Chart 2–3). The reason is simple: few new jobs have been created because production has grown so slowly (Chart 2–4). Until the last two quarters, this was not a recovery worthy of the name. That is the first thing we must change.

In a strong, durable recovery, people go back to work in great numbers, and are able to earn the incomes they need to buy the goods and services that economic growth produces. The increase in sales stimulates investment, and thus generates still more jobs. The process sustains itself until the economy is producing at its full capacity and the labor force is fully employed.

Recently, however, recovery has been slowed by powerful forces that are reducing the numbers of jobs. Key industries are laying off workers to become leaner and more competitive. The defense sector is downsizing to reflect the new realities of the post-Cold War world.

Already we have seen the recovery process begin twice, only to sputter when early signs of growth were not followed by solid gains in employment. Now, once again, the long-dormant American economy seems to be waking up. This time, we must be absolutely sure that the recovery is strong enough and durable enough to put Americans back to work. The stimulus component of the Clinton economic program is an insurance policy designed to make sure that the recovery does not falter again. It is also a downpayment on the long-term investments that will encourage lasting economic growth.

Stagnating Productivity and Living Standards

But mere recovery from recession is not good enough if we return to the trickle-down policies of the 1980s. America's economic problems are deeper than a temporary lull in economic activity. We must aim not only for more jobs, but also for better jobs at higher wages. We must aim not only to produce at our current capacity, but also to add to our economy's capacity to create a better life for all.

The productivity of American labor—what an average worker produces in an hour—has been growing at an agonizingly slow pace for about two decades. In turn, real wages have stagnated (Chart 2–5) and family incomes have advanced at a snail's pace. These developments, more than anything else, explain why the American dream is fading for the average worker.

Even a small improvement in a nation's productivity growth rate can yield much higher standards of living in the long run. Had real hourly compensation grown at 2.0 percent a year since 1973, instead of the actual 0.7 percent gain, average American workers would make almost $5.00 per hour more (Chart 2–6). Increasing productivity growth will have a direct and positive impact on living standards. We simply must do better.

Underinvestment and Slow Growth

The slowdown in productivity growth is partly mysterious, even to experts who have studied it for years. But no one doubts that part of the cause is that as a nation we have underinvested: in private business capital, in public capital, and in "human capital"—the skills and capabilities of the American workforce.

Chart 2–7 shows that the United States devotes a smaller fraction of gross domestic product (GDP) to business investments than do the other major nations with whom we compete in the international marketplace. Chart 2–8 shows that American governments at all levels have been spending a decreasing share of our total resources on civilian public investment—including both physical investment and the research and development that underpins future growth. Studies indicate that additional investment in private and government R&D, and in public infrastructure, could yield substantial economic benefits.

We have also underinvested in education and training. American students routinely score far below their counterparts in other industrial countries on tests of mathematical competence and scientific knowledge. Moreover, recent evidence also suggests that the demand for more highly trained, better-educated workers has been outrunning the supply. Chart 2–9 shows that the wages of college graduates have advanced far faster than those of high school graduates since 1978; similarly, the wages of high school graduates have risen faster than the wages of nongraduates. These growing wage gaps indicate that the financial returns to education have been rising.

This evidence suggests that more investment is vital to raising the growth rate of productivity and boosting living standards. We must invest more in business capital, in public infrastructure, and in the skills of our people. Our future has been shortchanged for too long. We owe it to our children to change course now. The Clinton program will do precisely that.

The Alarming Rise in Inequality

Throughout the 1980s, slow growth in living standards was accompanied by growing inequality. The rich got richer while the middle class paid more in taxes and fell further behind. In fact, income gains were so concentrated that people at the bottom of the income scale actually lost ground: measured in inflation-adjusted dollars, their incomes fell between 1977 and 1991. The rising staircase in Chart 2–10 depicts a simple but doleful message: During this period, the richer you were, the better you did.

Behind these statistics lay very real problems. Middle-class families grew disillusioned and cynical while they worked longer hours but had trouble making ends meet. Tens of millions of families lived in fear of losing their health insurance; 37 million had none at all. The working poor were forced to choose between feeding their children and heating their homes. Hopelessness bred violence in America's inner cities. The nation drifted.

It is time to reverse that drift and reorder our priorities. It will require those who have profited to bear the greatest burdens and do right by the people who work hard and play by the rules. Our economic plan will redress the inequities of the 1980s.

A Government That Doesn't Pay Its Way

For more than a decade, the Federal Government has been living well beyond its means—spending much more than it takes in, and borrowing the difference. The annual deficits have been huge, both in dollars and as a percent of GDP (Chart 2–11). As a result of all this borrowing, the Federal debt has grown as a percentage of GDP since 1981, reversing three decades of decline (Chart 2–12).

The Federal deficit is currently swollen by two temporary factors. One is the recession, which has reduced revenues and increased expenditures to aid those adversely affected; the other is increased borrowing for the savings and loan cleanup. Even when these temporary factors are behind us, however, a large structural deficit will remain. The structural deficit—the deficit that would be there even if the economy were producing at full capacity and the savings and loan cleanup were complete—was 3.4 percent of GDP in 1992. The really bad news is that the structural deficit not only will remain but will grow even faster than the economy unless the Government changes course.

The problem of the structural deficit is rooted in the early 1980s, when we cut income taxes and massively increased defense spending. Subsequent tax hikes—in particular, large increases in regressive payroll taxes—and a slower growth of defense spending during the second half of the 1980s temporarily halted the growth of the structural deficit. Nonetheless, the structural deficit remained huge by historical standards, and it once again began to climb relative to GDP by the early 1990s. Without a real deficit reduction program, the structural deficit will exceed 4 percent of GDP by 1997, rivalling the highs of the mid-1980s, and it will grow at an accelerating rate as a percent of GDP.

At first glance, slowly growing revenues and rapidly rising outlays, both aggravated by the economy's slowdown during the last two years, appear to be responsible for our deficit problem. Correcting for these recession effects, the share of Federal revenues in GDP is 0.5 percent less than it was at the beginning of the 1980s, while the share of Federal outlays has increased by 1.1 percent. These trends in total revenues and outlays, however, mask some important changes in how the Government raises its revenues and spends its money.

Major reforms of the Social Security system in 1977 and 1983 sharply raised taxes, stabilized benefits as a percentage of total Federal spending and caused an accumulation of large surpluses in the Social Security trust fund. But taxes to support the rest of the Government's activities have been cut by as much as Social Security taxes have been raised.

Adjusting for cyclical effects, the share in GDP of revenues to support the Government's other spending programs has actually shrunk by about 1.5 percentage points since 1980. And the surpluses in the Social Security fund have been used to fill the gap. Instead of adding to national savings to fund the retirement of the baby boom generation early in the next century, these surpluses have camouflaged the true imbalances in the Government's revenue and spending streams. Consequently, if we do not change course and revitalize our economy, redeeming the IOUs held by the trust funds will require major tax increases when the baby boom finally retires.

While Government spending has increased, its composition has changed. After a sharp increase in the first half of the 1980s, defense spending currently accounts for about 22 percent of total Federal outlays, down slightly from its 1980 share. Spending on non-defense discretionary programs has fallen sharply, from about 24 percent of total spending in 1980 to about 17 percent today. During the same period, public investment by the Federal Government—measured as the sum of outlays for non-defense physical capital, non-defense R&D, and education and training—has fallen from 8.2 percent to 6.3 percent of total outlays.

In contrast, health care—Medicare and Medicaid—and interest payments on the debt have claimed increasing shares of total spending. Between 1980 and 1992, spending on Medicare and Medicaid rose from 7.8 percent to 13.3 percent of total government spending. To make matters worse, large annual deficits, together with high interest rates for more than a decade, have swollen net interest payments on the debt. Interest payments now amount to almost $200 billion a year. About three-quarters of the money the Government borrows this year will go to pay interest on the debt piled up from previous years.

Unless there are meaningful changes in policy, sharp continuing growth in health care costs and self-perpetuating growth of interest on the debt will overwhelm projected revenue growth and cuts in defense spending. The Federal deficit will continue to balloon out of control unless we change course.

Why Deficits Matter

Deficit reduction is not an end in itself. It is a means to the end of higher productivity, rising living standards and the creation of high-wage jobs. In short, it is about securing a better economic future for ourselves and, even more importantly, our children

Huge structural budget deficits are harmful for a simple reason: when the economy is not in recession, each dollar the Federal Government borrows to finance consumption spending absorbs private savings that would otherwise be used to increase productive capacity. Large, sustained budget deficits mean that we must either reduce our investment at home or borrow the money overseas.

This drain on our savings has caused anemic domestic investment, especially in comparison with most other advanced industrial countries (Chart 2–7). It has retarded growth in productivity and living standards. Meanwhile, borrowing from the rest of the world to maintain investment at even today's depressed levels has increased interest payments to foreign lenders. In effect, we have signed over some of the fruits of today's productivity-enhancing investments to the children of Europe and Japan, rather than preserving them for our own.

Regardless of whether the debt is owed to foreigners or U.S. citizens, the interest obligation requires higher taxes. Moreover, our skyrocketing interest costs squeeze out revenues that would otherwise be available for other priorities. Since 1988, for example, net interest alone has risen by $50 billion, making interest payments the fastest growing Federal "program." This mounting interest burden mocks our efforts to fund token initiatives for pressing social needs: next year's projected increase in interest payments by itself could fully fund the Head Start program five times over.

As a result, the nation has suffered from another deficit—the deficit in public investment in education, training, infrastructure, and civilian technology. Like private investments, well-chosen public investments raise future living standards. *Deficit reduction at the expense of public investment has been and will continue to be self-defeating.* The Clinton plan is explicitly and emphatically aimed at reducing the deficit while *increasing much-needed public investment.* One without the other will not work.

Beyond the quantifiable benefits of deficit reduction—greater investment and economic growth—are unquantifiable but no less important benefits.

First, deficit reduction could allay anxiety in financial markets. Large and growing structural deficits could destabilize global capital markets because of the growing drain of government borrowing on available funds. Such anxieties help explain why historically high long-term real interest rates persist despite a weak economy. The threat that the United States might ultimately inflate the dollar to depreciate its runaway debt obligations raises the specter of a spike in interest rates, a collapse of the dollar, or both.

Second, a credible effort to reduce our structural deficit will improve our ability to coordinate macroeconomic policies with our major trading partners, who are concerned about our deficit's drain on global capital markets. Putting our fiscal house in order will improve our leverage in international negotiations.

Finally, deficit reduction will help break legislative gridlock and reverse public cynicism about government. Large deficits have virtually assured that each legislative session has been dominated by the deficit debate, encouraging budgetary quick fixes that have shortchanged the nation's long-term public investment needs and created a deficit of trust.

Skyrocketing Health Care Costs

Another legacy of the past 12 years is the crisis of rapidly escalating health care costs—a crisis that threatens the security of every American family and business. In 1992, Americans spent $840 billion on health care, or 14 percent of GDP compared with about 9 percent of GDP only a dozen years ago (Chart 2–13). At this rate health spending will reach an astonishing 18 percent of GDP by the year 2000: Americans will be devoting almost one dollar of every five they earn to health care, and the average family's health costs will rise to almost $10,000 a year.

Rising health care costs are straining the budgets of families, businesses, and government. They are eating up incomes and squeezing out other spending. Individuals are facing soaring insurance premiums and rising out-of-pocket bills. Skyrocketing premiums have forced many businesses to drop or curtail health coverage for their workers, swelling the ranks of the uninsured. More than 37 million people do not now have insurance coverage. Many are dependent on hospital emergency units for care.

Inflation in health care costs is also robbing government budgets of scarce resources needed for critical investment in our future—education, job training, infrastructure, and technology development. If current trends continue, by 1998 the Federal Government will spend one in every four dollars on health care (Chart 2–14). State and local spending for health will rise over the same period from 14 to 18 percent of total outlays. Exploding health costs threaten funding for other public priorities.

The rise in health care costs now projected will consume between 25 and 35 percent of total projected GDP growth for the rest of the decade and will account for over 40 percent of the total increase in Federal spending. In short, containing health care costs has become an economic imperative. Indeed, the potential "health dividend" is far larger than the peace dividend promised by the end of the Cold War. If America spent the same share of GDP on health as our main international competitors do, last year alone we would have had $230 billion more to invest in our people. Similarly, if spending by employers on health insurance had remained at the 1980 percentage of total compensation, cash wages for the average worker could have been $670 a year higher in 1991 without affecting corporate profits.

Despite these bleak statistics, widespread evidence suggests that we can control health care costs and maintain quality. Other advanced industrial nations have levels of health spending substantially below ours and have controlled cost growth more successfully—even while providing care that matches and often exceeds our own. Their success offers a strong basis for hope as we step up to the challenge of fundamental change.

A Government That Doesn't Work Well

Finally, it is clear that the American people have lost confidence in their government. They believe that government has gotten too big, that it is out of touch with its citizens, that it wastes money, that it is ill-equipped for taking on the country's problems—or, worse, that it causes those problems and hears only the voices of the privileged few.

In too many cases they are right. We cannot deny the evidence.

- Billions of taxpayers' dollars have been lost to fraud and abuse. The worst examples—scandalous military purchases, sweetheart deals, the saving and loan debacle, and abuse of government perks—have made headlines, but many remain hidden. We must crack down on these hidden scandals and catch problems before they occur, not after.
- Millions of Americans every year must deal with the maze called "Federal bureaucracy." The American people deserve a government that treats them like customers, by giving them more choices and stripping away unnecessary layers of management and red tape.
- The size and cost of the Federal Government has grown over the past twelve years. Despite many promises, administrative costs have increased and special perquisites for high-level officials have proliferated. That is why we have already made real cuts in the Executive Branch and will do so over the coming years.

Our political system has failed to address many of the most urgent problems facing the American people—health care, declining incomes, job loss, budget deficits. A large part of the blame must go to the lobbyists and special interests who profit from the status quo. All too frequently they control the agenda or use their campaign contributions to dominate the debate. Even as government did less, the ranks of the special interests grew. By the decade's end, some 80,000 people will make their living pleading the causes of the special interests. To break the stalemate in Washington, we must attack the problem at its source: entrenched power and money.

The Clinton Administration is determined to meet a double challenge. First, we must cut the waste and make government operations more responsive to the American people. It is a time to shift from top-down bureaucracy to entrepreneurial government that generates change from the bottom up. We must reward the people and ideas that work and get rid of those that don't.

Second, we must restructure government to deal with new realities, both foreign and domestic. Our defense and foreign affairs agencies must be reorganized to reflect the new problems of the post Cold-War era and the global economy. We must also reinvent our domestic agencies to serve us more effectively in the twenty-first century.

Public cynicism about government is not merely a political problem. Making our government more responsive and improving the way it works is essential to the future of our children and our democracy.

The Price of Not Changing

Reversing the legacy of the last twelve years will not be easy. Nor will it happen overnight. But the cost of clinging to the status quo will be born by every family—and by our children and their children. Consider:

(1) If we do not change, we could continue to have epidemics of measles and other preventable childhood diseases; if we find the courage to change, we could immunize every child.

(2) If we do not change, a college education could become the domain of the privileged; if we find the courage to change, hundreds of thousands of Americans could go to college in exchange for national service.

(3) If we do not change, health care costs will continue to terrorize our families. If we find the courage to change, all Americans can have affordable quality health care.

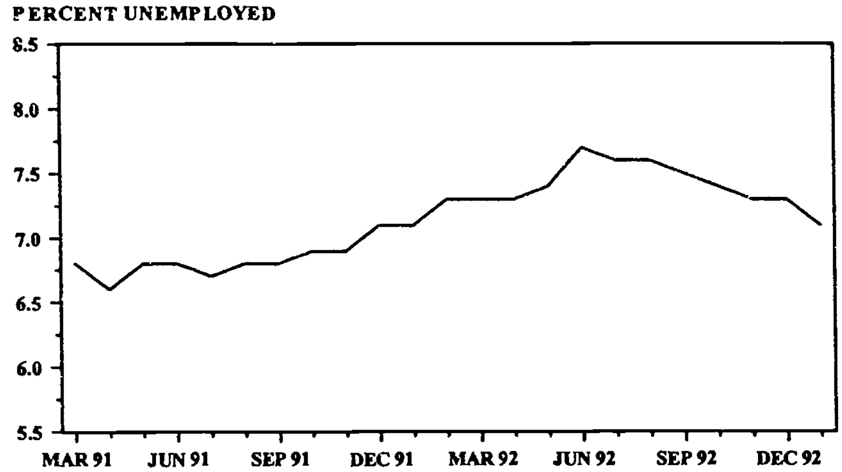
(4) If we do not change, the deficit will continue to grow and incomes will stagnate. If we have the courage to change, we can have a higher standard of living and a government that pays its way.

The stakes for every American's standard of living are enormous. From World War II to the early 1970s, we grew more productive year by year and our standard of living doubled. At today's anemic rate of growth, our standard of living will no longer double every generation—but once every 100 years. If we do not summon the courage of change, our legacy will not be worthy of the nation we have inherited.

Continuing the failed policies of the past twelve years is a choice without a future. To restore our nation's economic vitality and reclaim our vision of America, we must change course. And we must do it now.

Chart 2-1. CIVILIAN UNEMPLOYMENT RATE

Though the unemployment rate has declined from its peak of 7.7 percent, it is currently still higher than it was in March 1991, at the trough of the recession.



SOURCE: Department of Labor

Chart 2-2. RATIO OF PERMANENT JOB LOSERS TO TOTAL UNEMPLOYED

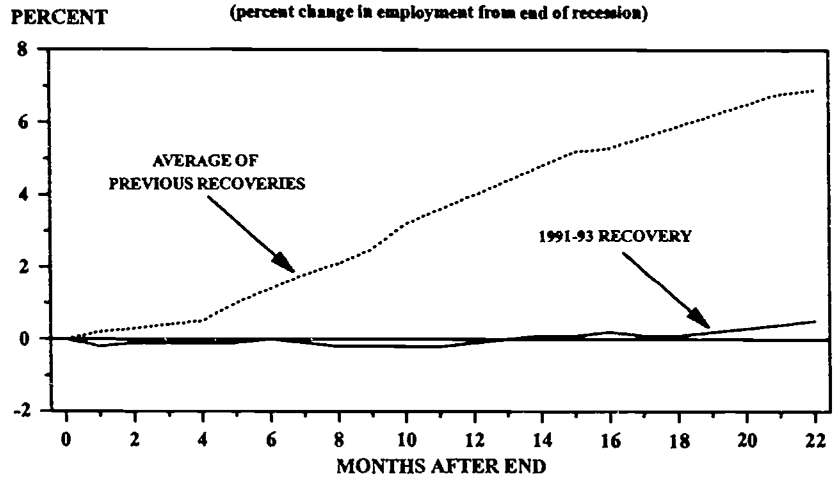
In 1992, the fraction of unemployed workers not expecting to be recalled to a job rose to its highest level on record.

SOURCE: Department of Labor

Chart 2-3. NONFARM PAYROLL EMPLOYMENT IN POST-WWII RECOVERIES

The current recovery has not produced the growth in employment that characterized previous recoveries.

(percent change in employment from end of recession)

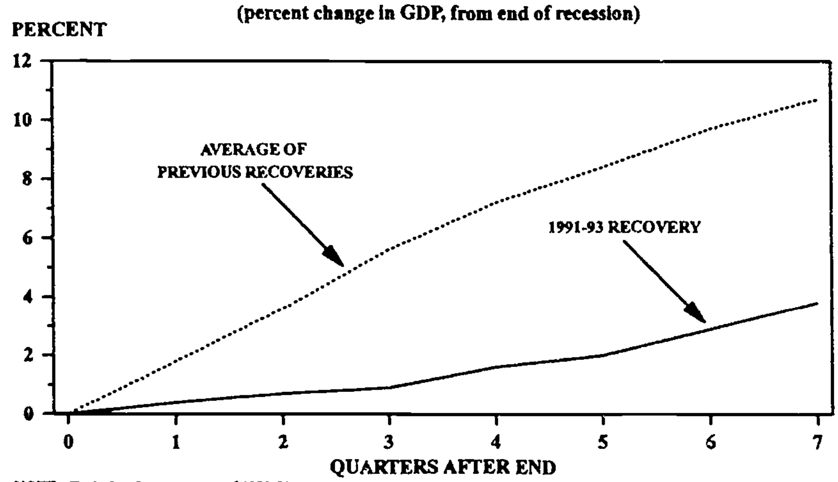


NOTE: Excludes short recovery of 1980-81.
SOURCE: Department of Labor

Chart 2-4. GROWTH OF GROSS DOMESTIC PRODUCT IN POST-WWII RECOVERIES

Output in 1991-93 has grown much more slowly than in a typical recovery.

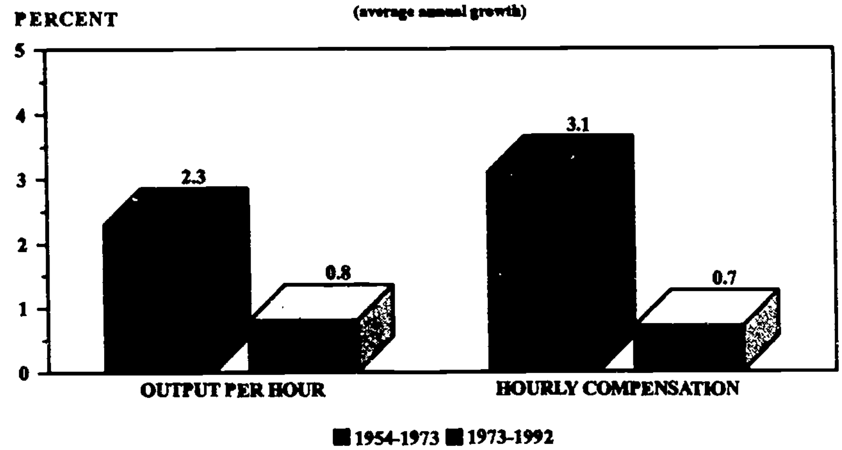
(percent change in GDP, from end of recession)



NOTE: Excludes short recovery of 1980-81.
SOURCE: Department of Labor

Chart 2-5. PRODUCTIVITY AND REAL HOURLY COMPENSATION

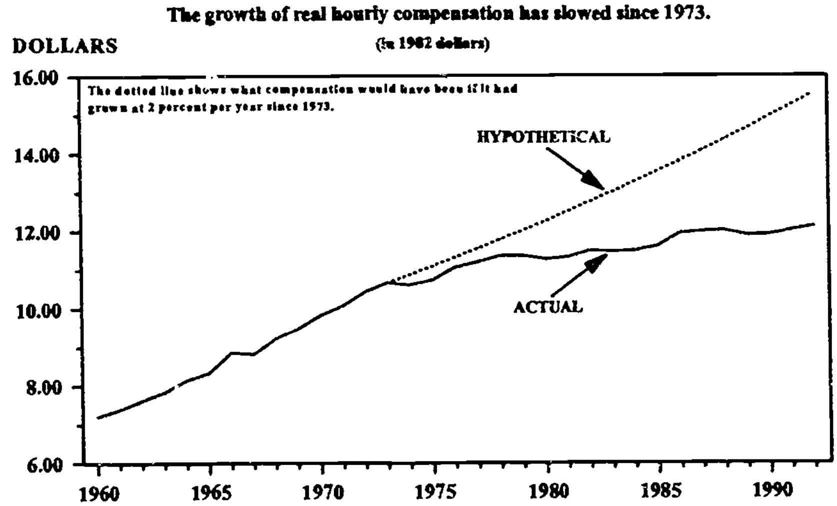
Output and real compensation per hour grew much more slowly between 1973 and 1992 than between 1954 and 1973.



NOTE: Compensation and output per hour are for the total economy.
SOURCE: Department of Labor

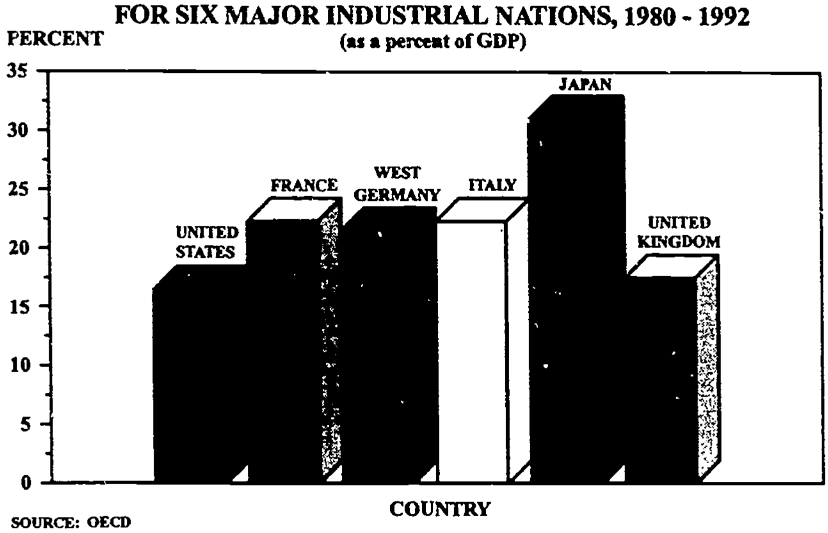
Chart 2-6. REAL HOURLY COMPENSATION, TOTAL ECONOMY

The growth of real hourly compensation has slowed since 1973.



NOTE: Compensation is deflated by the CPI-U-X1.
SOURCE: Department of Labor

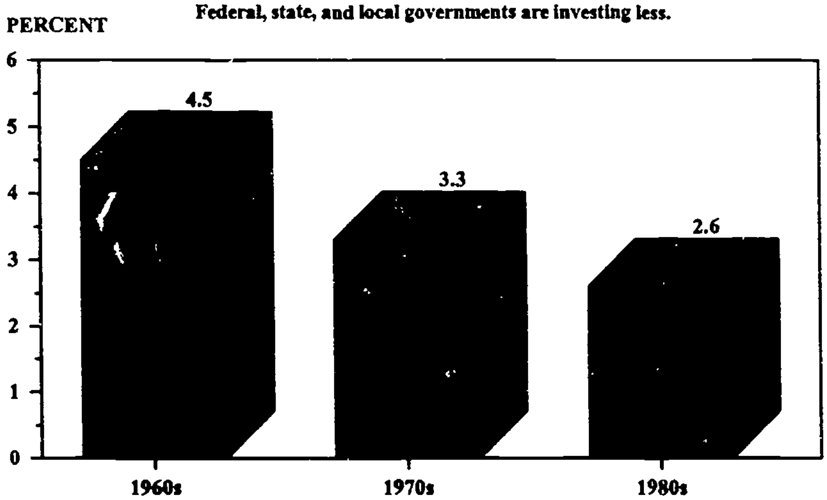
Chart 2-7. FIXED PRIVATE INVESTMENT AS A PERCENT OF GDP FOR SIX MAJOR INDUSTRIAL NATIONS, 1980 - 1992



SOURCE: OECD

Chart 2-8. PUBLIC INVESTMENT AS A PERCENT OF GDP

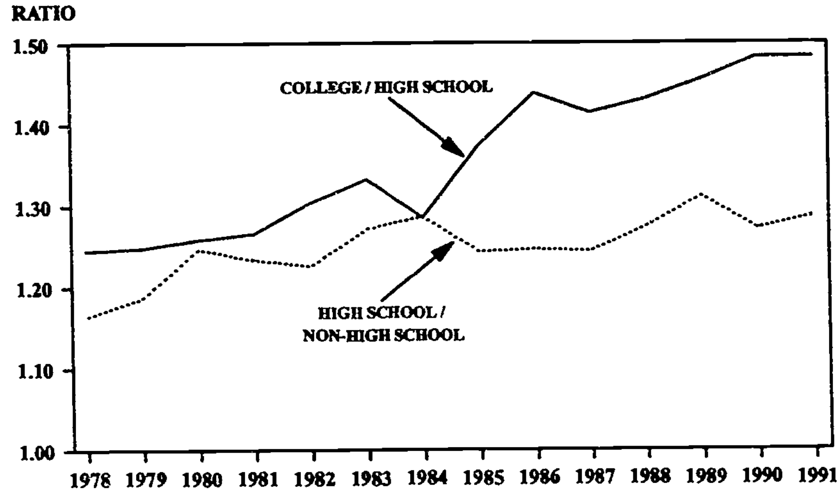
Federal, state, and local governments are investing less.



NOTE: Defined to be fixed non-residential government capital and federal outlays for R & D.
SOURCE: Department of Commerce

Chart 2-9. RELATIVE EARNINGS BY EDUCATION FOR 25-34 YEAR OLDS

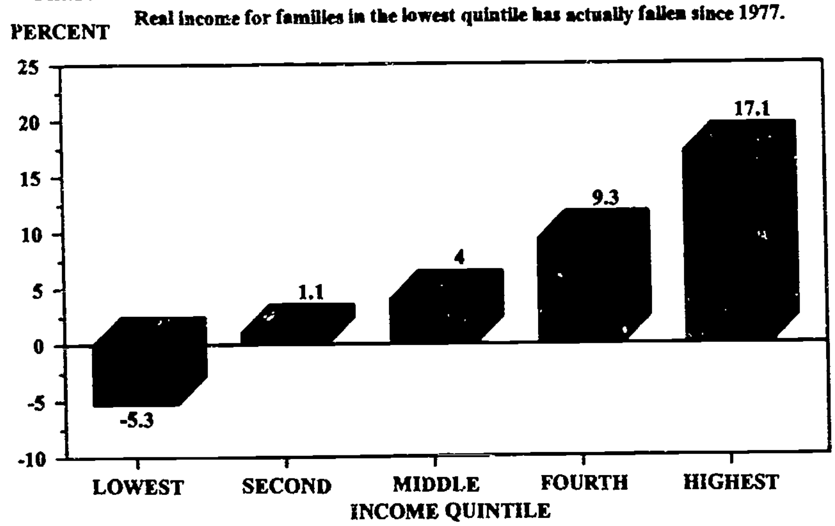
The relative payoffs of both high school and college degrees have been increasing since 1978.



SOURCE: U.S. Bureau of the Census

Chart 2-10. GROWTH IN REAL MEAN FAMILY INCOME, 1977-1991

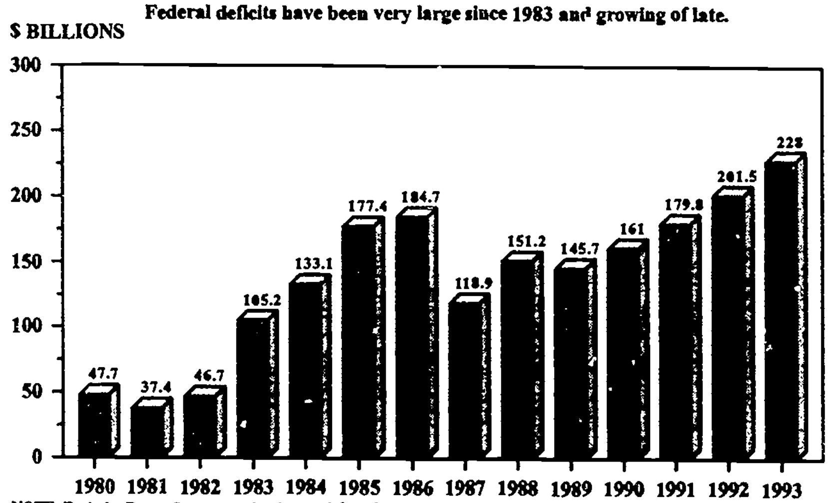
Real income for families in the lowest quintile has actually fallen since 1977.



SOURCE: Department of Commerce

Chart 2-11. FEDERAL STRUCTURAL DEFICITS SINCE 1980

Federal deficits have been very large since 1983 and growing of late.

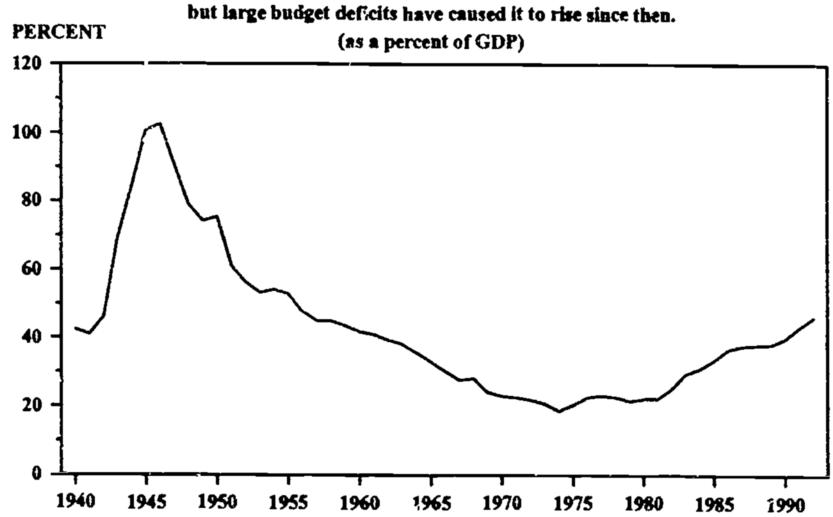


NOTE: Excludes Desert Storm contributions and deposit insurance since 1989.
SOURCE: Congressional Budget Office

Chart 2-12. FEDERAL DEBT HELD BY THE PUBLIC

Strong economic growth allowed the debt-to-GDP ratio to fall until 1974, but large budget deficits have caused it to rise since then.

(as a percent of GDP)



NOTE: Equals gross Federal debt less Federal debt held in Federal government accounts and by the Federal Reserve.

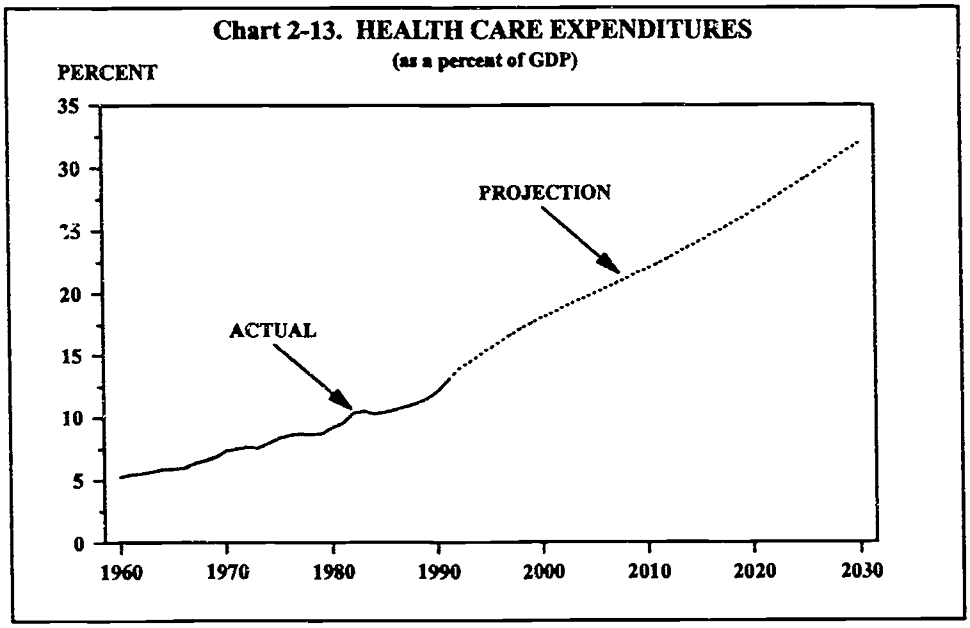


Chart 2-13. HEALTH CARE EXPENDITURES
(as a percent of GDP)
PERCENT
35
30
25
20
15
10
5
0
PROJECTION
ACTUAL
1960
1970
1980
1990
2000
2010
2020
2030

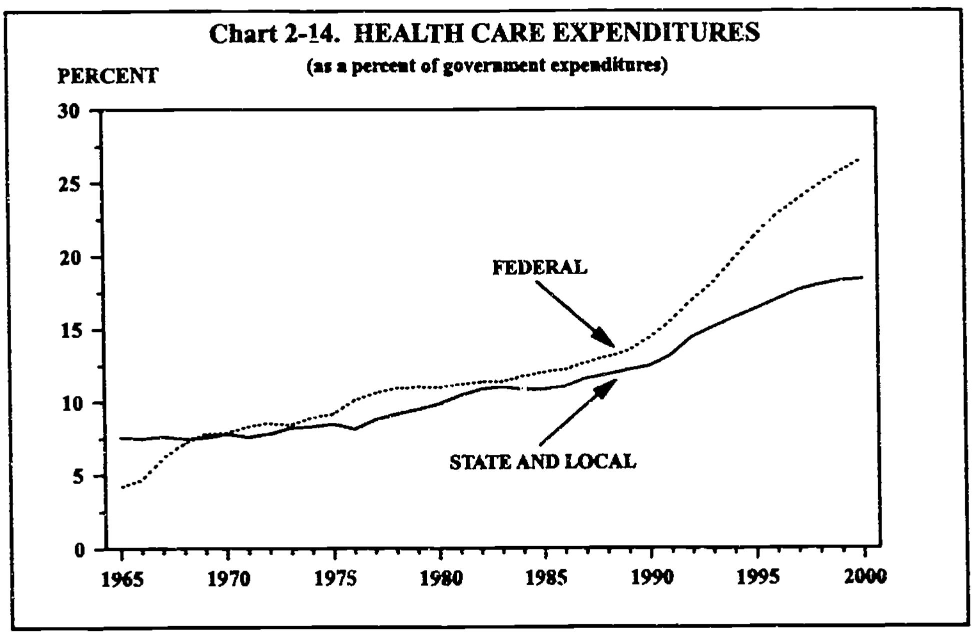


Chart 2-14. HEALTH CARE EXPENDITURES
(as a percent of government expenditures)
PERCENT
30
25
20
15
10
5
0
FEDERAL
STATE AND LOCAL
1965
1970
1975
1980
1985
1990
1995
2000

What We Must Now Do

To renew America, we must be bold.

Bill Clinton

Change Is Imperative

To reverse the legacy of failure and move toward our vision of the future, drastic changes in Federal policy are needed. We must soberly take stock of where we are and dedicate ourselves to revitalizing our economic future.

The over-arching theme of the Clinton Administration's economic plan is *increasing public and private investment* in the broadest sense. To ensure more productive, higher-wage jobs and greater economic opportunities for ourselves and our children, we need to devote a larger share of our current resources to modernizing factories and equipment, developing skills, and accelerating the advance of technology. We must increase the share of the Government's budget devoted to investment in future growth and must create incentives for the private sector to shift from consumption to investment. The need to increase investment motivates all three elements of the Clinton economic plan: stimulus, investment, and deficit reduction.

The *stimulus* package is designed to ensure that recovery from recession is strong and durable. It will provide a boost to the economy in the short run and create up to half a million new jobs. What we call stimulus in this plan, however, is not a conventional prescription for adding to consumer demand by cutting taxes or creating make-work jobs. Instead, it is a down payment on longer-run investment. We selected some investment projects that could be started quickly—especially those that would create a significant number of new jobs—and get a fast start on these projects. Spending proposals in the stimulus package will be included in a request to Congress for supplemental funds for 1993. All of the proposed spending in the stimulus package is consistent with the proposals for longer-term public investment. Tax incentives for immediate increases in investment by large and small business are also a vital part of the stimulus package.

The *investment* package proposes major additions to ongoing activities that expand America's capacity to produce and provide more opportunities for current and future workers. It is designed to help fill the investment deficit by increasing spending for highways and other infrastructure, to enhance the opportunities and skills of future workers, to accelerate the development and use of science and technology, to improve the delivery of health care for underserved groups, and to increase incentives and opportunities for productive employment. Tax incentives for business investment also continue.

The *deficit reduction* plan makes a vital contribution to increasing investment and raising standards of living by gradually reducing the structural deficit in the Federal budget. Cutting the deficit will reduce the Federal Government's drain on national savings, lower long-term interest rates, and encourage productive private investment.

The deficit reduction plan is a balanced mix of cuts in ongoing spending and selected tax increases. We believe it is fair, that it contains many changes that would be desirable even without the necessity for deficit reduction, and that it is a bold assault on the structural deficits that threaten our future prosperity.

TABLE 3–1. HIGHLIGHTS OF THE PLAN

(In billions of dollars)

	1993	1994	1995	1996	1997	1998	1994–1997 Total	1994–1998 Total
Baseline Deficit	**319**	**301**	**296**	**297**	**346**	**390**	**1,241**	**1,630**
Spending Changes:								
Defense Discretionary		-7	-12	-20	-37	-36	-76	-112
Nondefense discretionary	1	-4	-10	-15	-20	-23	-50	-73
Entitlements	-*	-6	-12	-24	-34	-39	-76	-115
Social Security		-3	-6	-6	-7	-8	-21	-29
Subtotal	*	-20	-40	-65	-98	-106	-223	-329
Debt Service	*	-*	-3	-7	-14	-22	-24	-46
Total spending cuts (-)	**1**	**-20**	**-43**	**-73**	**-112**	**-128**	**-247**	**-375**
Revenue increases (-)	**-3**	**-46**	**-51**	**-66**	**-83**	**-82**	**-246**	**-328**
Gross deficit reduction	**-2**	**-66**	**-93**	**-139**	**-195**	**-210**	**-493**	**-704**
Stimulus and investment:								
Stimulus outlays	8	6	2	1	*	*	9	9
Investment outlays		9	20	32	39	45	100	144
Tax incentives	6	13	17	15	15	17	60	77
Total stimulus and investment	15	27	39	47	55	62	169	231
Total Deficit Reduction	13	-39	-54	-92	-140	-148	-325	-473
Resulting Deficit	332	262	242	205	206	241	916	1,157
Deficit as a percent of GDP	5.4%	4.0%	3.5%	2.9%	2.7%	3.1%	3.3%	3.2%

* $500 million or less.

Economic Assumptions

Budget outcomes are determined in part by the performance of the economy. Hence, any budget proposal must rest upon assumptions about future changes in the key economic variables: real economic growth, inflation, unemployment, and interest rates. The more optimistic the assumed path of those economic variables, the smaller future deficits will appear to be.

Unfortunately, in recent years, unrealistically optimistic economic assumptions have become a standard substitute for responsible budget choices. Instead of proposing unpopular measures—reducing spending and raising taxes—to bring the deficit down, budget planners have assumed lower unemployment and higher growth rates to make future deficits look smaller. But these budget planners could reduce unemployment and raise the growth rate only on paper—not in the real world.

This statistical manipulation has masked the true size of the deficit problem, postponed necessary choices about how to solve it, and resulted in higher national debt. Moreover, the use of rosy scenarios has eroded trust in Government broadly, and in economic policymaking in particular. The American people have been so disappointed by economic programs that have promised instant prosperity and failed to deliver that they could dismiss out of hand even a solid program of private investment through deficit reduction and carefully targeted public initiatives.

This Administration's economic program provides no gimmicks and promises, no instant gratification. Instead, it proposes the difficult and often unglamorous steps necessary to ensure prosperity over the long run. To make this message clear, and to direct the public debate to the substance of the program rather than to imagined immediate rewards, the Administration has deliberately chosen cautious economic assumptions that some may even regard as overly pessimistic.

In an effort to avoid controversy over the forecast, the Administration used the economic assumptions that the Congressional Budget Office (CBO) used in its January 1993 report to Congress. The Administration thus assumes that the economy will continue to recover from the recent recession at a pace well below the historical average, with real annual economic growth peaking at 3 percent. Over the longer term, as the economy approaches full utilization of its capacity, real growth is projected to slow gradually to only 2 percent per year. This estimate marks the low end of the consensus range among economists, and significantly limits the measured benefit of the Administration's economic program.

Because productivity growth is projected to be slow, even this modest rate of growth of GDP implies a steady decline in the unemployment rate. The forecast assumes that unemployment will reach its minimum level consistent with low inflation—about 5.5 percent unemployment—shortly after the end of the five-year forecast period.

In part because of this modest economic growth, the inflation rate is projected to decline: with slow economic activity and hence limited consumer demand, producers have little latitude to raise prices. Consumer prices are expected to increase in the long run by only 2.7 percent per year; prices of economic output produced in the United States, measured by the GDP implicit deflator, increase by only 2.2 percent in the long run. (The GDP deflator increases more slowly than the consumer price index because computers, whose prices are falling in quality-adjusted terms, make up a greater share of the former index than of the latter.) Though the American public might be gratified by such modest inflation, it will offer little reward in terms of the budget deficit: slower inflation helps to hold spending down, but it also reduces tax revenues.

The deficit is highly sensitive to interest rates, however, and interest rates are themselves highly sensitive to inflation. When inflation is expected to increase, for example, lenders tend to demand higher interest rates to protect the purchasing power of the money that will be returned to them. The Administration assumes that the projected decrease in inflation will be passed through to the long-term interest rates that the Treasury must pay approximately point for point. This is a cautious assumption because inflation-adjusted long-term interest rates may have remained at their current near-record levels in spite of a moderation of inflation because lenders fear that inflation could accelerate in the near future. One might expect that several more years of modest economic growth and low inflation would assuage those fears and bring long-term interest rates down much closer to their historical average. If they do not, the Government's projected interest costs—and budget deficit—will be higher. Further, the Administration projects that short-term interest rates will increase by more than a full percentage point, even though growth remains modest and the inflation rate falls.

Taken together, these assumptions constitute almost a worst-case forecast of the likely course of the economy. On every score, the elements of the forecast work against the attainment of the desired budget outcomes.

This Administration does believe, however, that enacting its economic program will provide significant rewards for both the economy and the budget. Accordingly, we provide an alternative economic forecast that is conditional upon enactment of our program (See Table 3–2) (in fact, such a "post-policy" forecast in the budget document is required by law). Though we do not present detailed budget data based on this forecast, we do illustrate the effect of a more favorable economic performance on the deficit itself.

TABLE 3–2. ECONOMIC ASSUMPTIONS

(Calendar years)

	1992	1993	1994	1995	1996	1997	1998
BASELINE ASSUMPTIONSM	*Percent Change, Fourth Quarter Over Fourth Quater*						
Real GDP Growth	2.7	2.8	3.0	2.8	2.6	2.2	1.8
GDP Deflator Growth	2.4	2.5	2.4	2.3	2.2	2.2	2.2
Consumer Price Index Increase	3.1	2.8	2.7	2.7	2.7	2.7	2.7
	Annual Average						
Unemployment Rate (civilian)	7.4	7.1	6.6	6.2	6.0	5.8	5.7
91-Day Treasury Bill Rate	3.5	3.2	3.7	4.3	4.7	4.8	4.9
10-Year Treasury Note Rate	7.0	6.7	6.6	6.6	6.5	6.5	6.4
	1992	1993	1994	1995	1996	1997	1998
ADMINISTRATION POLICY	*Percent Change, Fourth Quarter Over Fourth Quarter*						
Real GDP Growth	2.9	3.1	3.3	2.7	2.5	2.5	2.5
GDP Deflator Growth	2.4	2.8	2.9	3.0	3.0	3.0	3.0
Consumer Price Index Increase	3.1	3.0	3.1	3.3	3.3	3.4	3.4
	Annual Average						
Unemployment Rate (civilian)	7.4	6.9	6.4	6.1	5.9	5.7	5.5
91-Day Treasury Bill Rate	3.5	3.7	4.3	4.7	4.8	4.9	5.0
10-Year Treasury Note Rate	7.0	6.7	6.6	6.5	6.5	6.4	6.4

Our post-policy economic forecast assumes that the economy will recover somewhat more quickly from the current recession, and that its sustainable growth rate in the long run will be 2.5 percent rather than 2.0 percent. This increase in growth reflects greater optimism about productivity, at least partially attributable to the Administration's program of deficit reduction. It also reflects moves to bring down interest rates (with the cooperation of the Federal Reserve), a development that will itself further encourage private investment. The increase in growth is also expected to stem from the Administration's stimulus package in the near term, and from its program of investment in productive public and human capital in the longer run. Even this projected growth rate, however, is only at the midpoint of the consensus of economists for the average rate in the economy. In other words, even this more optimistic post-policy forecast is really rather cautious.

The Administration expects that this more rapid economic growth will help to bring unemployment down. In contrast to our baseline forecast, we project that unemployment will reach 5.5 percent on an annual basis before the end of the five-year period.

We expect that the economic activity added by the Administration's program will increase inflation slightly. The ultimate rate of increase of the GDP deflator is 3.0 percent, or almost a full percentage point per year higher than the baseline forecast; for consumer prices, inflation is about 0.7 percent per year faster in the long run.

Despite the additional inflation, we expect that interest rates will be about the same as in the baseline forecast. This means that inflation-adjusted interest rates will be lower. The Administration believes that this expectation is realistic because our proposed substantial reduction of the budget deficit will reduce both federal demand in the credit markets and the risk of a future increase of inflationary pressures.

The Administration's economic assumptions based on the enactment of its program are themselves close to the mainstream of economic opinion. We believe that this forecast presents a reasonable expectation of the benefits of our program of increased private and public investment. We supplement our presentation of the program with the resulting deficit computations to show that sound policy will be rewarded beyond any transient cost.

Ensuring Economic Recovery and Creating Jobs: Economic Stimulus

First things first. None of the things we want for America can be accomplished while millions of our citizens are unemployed and hundreds of billion of dollars of industrial capital lie idle. Americans will not tolerate another false start; and they shouldn't. We must get our economy moving again—and producing jobs.

Two criteria guided the design of the stimulus package.

Speed. Any tax reductions or spending programs included in the package had to be fast-acting and job-creating. The unemployed have waited too long. We consulted with mayors and governors as well as with all the major agencies to ensure that the money requested in 1993 could be obligated quickly for projects that were ready to go and that workers would be hired right away—this summer—to work on them.

Content. Items selected for inclusion had to be worthwhile on their merits and consistent with the long-run goal of shifting the nation's attention to its future. The stimulus package is *a down payment on the Administration's long-run investment program*. For example, our long-run investment plan puts major emphasis on ensuring that all children get a healthy start in life and come to school ready to learn. To generate major new efforts for children quickly, we included these elements in the stimulus package: summer Head Start, an increase in funding for the Supplemental Food Program for Women, Infants and Children (WIC), and a fast start on a new immunization initiative. Similarly, the investment package stresses the improvement of our nation's infrastructure, including major upgrading of our highway network. Hence, the stimulus package includes funding for highway projects that can be started quickly, especially repair and resurfacing projects that can employ workers soon.

The Size of the Stimulus

The Administration proposed its economic stimulus program in part to provide insurance for the twice-stalled economic recovery. The economy harbors heavy imbalances: large accumulations of debt by households, businesses, and governments at all levels; shaky financial institutions; an enormous overhang of vacant commercial real estate; and extraordinary competition from imports. These imbalances make the course of recovery far less predictable than it was after past recessions. The impact of substantial corporate downsizings, though they were announced over the last two years, is yet to be fully translated into actual layoffs. The defense base closings that were absorbed in the national consciousness over the last three years are just beginning to be realized; and more defense conversion is yet to occur as the Cold War fades into history.

Thus, we have an economy that may have achieved a self-sustaining recovery, but that is operating well below its capacity. The unemployment rate is still higher than it was at the bottom of the recent recession, and inflation remains well under control—in part under intense competition from imported products. The risks posed by a short-term economic stimulus are thus small; and the rewards—in greater near-term economic growth and in forestalling any possible relapse into recession—are significant.

Under these circumstances, the Administration has chosen a stimulus program that is substantial enough to provide real impetus to the recovery, but that is small enough to avoid jarring the financial markets or triggering inflation. The program is targeted to the investments in the administration's long-term economic program, on both the tax and the spending sides of the budget.

In spending, the stimulus program provides additional budget authority equal to \$16.3 billion—the amount by which the 1993 appropriations fell short of the combined discretionary spending caps in the Budget Enforcement Act. Thus, the discretionary spending proposed in the stimulus program will not increase the deficit relative to what was outlined in the 1990 budget agreement.

The program also increases the obligation limit for transportation funding under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) by \$3.0 billion. This increase allows for full funding of the portion of ISTEA devoted to Federal-aid highways, and also increases potential obligations for the Airport Improvement Program and mass transit. The stimulus further includes \$3.3 billion to increase loan levels, primarily for the Small Business Administration 7(a) loan guarantee program. Of that amount, \$220 million is specified as the long-term budget subsidy.

In tax incentives, the program provides over \$12 billion in temporary incremental investment tax credit. This provision will be available through calendar year 1994; over \$6 billion will be received by taxpayers as reductions in liabilities in 1993.

While much of the additional budget authority will not be spent in 1993, the near-term economic impact will be greater than the outlay figures indicate. Many of the investment programs—including prominently the ISTEA highway program—will result in binding contracts with private firms within the fiscal year, even though payments will not be made until the work is completed in later years. Those contractors will hire workers and begin work immediately. Thus, the contractual obligations will trigger economic activity even before outlays register in the budget itself. Likewise, private investors will commit themselves to investment projects because of the stimulus program's investment tax credit before they can actually claim the tax savings on their returns.

This economic stimulus will be felt most directly in the creation of new jobs; the lack of new jobs especially marks the current recovery, and constrains the spending needed to create a self-sustaining economic expansion. Several of the spending programs in the stimulus package—particularly community development block grant assistance to States and localities, and highway programs—promote substantial job creation. The youth summer jobs program of the Job Training Partnership Act, as well as the summer Head Start program, will have particularly strong impacts in the summer months. The investment tax credit and even the longer-term business incentives will stimulate spending on capital goods and thereby promote hiring in the private sector. We estimate that the tax and investment proposals together will create almost 500,000 new jobs by the end of 1994.

All told, this plan provides almost $30 billion in outlays and tax incentives in 1993 and 1994. This stimulus will provide insurance against renewed economic weakness in the near term; create jobs; help boost the recovery; add to economic growth over the next two years; cushion the beginning of the Administration's deficit reduction program; and begin the investment program that will lay the foundations for enhanced private-sector productivity and prosperity.

Infrastructure

One of the key elements of the Administration's long-term investment package is the strengthening of our nation's infrastructure. Some of the initiatives in that area can be advanced into 1993, providing an immediate impact on jobs and economic growth. In this category, the stimulus package contains transportation projects, Army Corps of Engineers water projects, and improvements in deteriorating Department of Veterans Affairs medical facilities. Details of these investments follow.

Transportation/Federal-aid highway program. The Administration proposes to expand the Federal-Aid Highway program to the levels contained in the Intermodal Surface Transportation Efficiency Act (ISTEA) for 1993. This will require increasing total obligations for Federal-aid Highways from the current level of $17.7 billion to $20.6 billion, a 17-percent increase of almost $3 billion. More than one-third of the increase will be directed to fast-spending resurfacing, rehabilitation, and restoration projects, which can proceed quickly and bring jobs on line most rapidly. This measure will create an additional 13,000 jobs in 1993 and 45,000 in 1994. This increase will improve the conditions and performance of the 155,000 mile National Highway System. This system carries over forty percent of all highway traffic.

Transportation/Mass transit capital improvements. The Administration proposes to increase 1993 funding for mass transit capital improvements by $736 million. The funds will be used to replace over age buses and vans, and to fund rail cars and rail rehabilitation projects. Of the $736 million, about $270 million will be entirely devoted to quick-to-acquire bus and van purchases, while the remaining $466 million may be used for either bus or rail capital purposes. This initiative will create more than 9,000 jobs in 1993 and 1994. The bus/van program will permit the acquisition of more than 100 full-size buses, 1,800 small buses, and 2,000 vans.

Transportation/Amtrak capital projects. This initiative provides $188 million for AMTRAK to purchase new train cars and locomotives, modernize stations and maintenance facilities, and overhaul aging equipment. These will help to improve Amtrak's financial performance, moving it closer to achieving operating self-sufficiency.

Transportation/Airport grants. Many of the Nation's airports are congested, resulting in unacceptable delays for air travelers. Growth in air travel in the future will only add to the problem. Increased airport capacity can help reduce delays, speed air travel, and increase safety in many cases. This proposal to add $250 million for airport grants in 1993 will enable airports to undertake safety and capacity improvement projects that are "ready-to-go".

Army Corps of Engineers water project construction and cyclic maintenance. The Administration proposes an additional $94 million to speed construction of about 30 projects nationwide for flood damage reduction, inland waterway and deep-draft harbor transportation, hydropower, environmental restoration, and recreation.

Veterans Affairs/Medical Care and Minor Construction. The Administration proposes $235 million to fund much needed improvements, largely in VA medical facilities, such as roof repairs, interior finishing, utility systems upgrades, and projects to ensure compliance with current safety and fire codes. This investment will create more than 4,000 jobs in an eight-month period.

A Summer of Opportunity

The Administration's stimulus package seeks to expand the opportunities for learning for children, youth, and workers while providing thousands of jobs, particularly during the summer months. In several instances, the initiatives are the leading edge for a specific program contained in the long-term investment plan.

HHS/Head Start Summer Program. The Administration is proposing a new Head Start summer program, which eventually would enroll up to 350,000 disadvantaged children. The purpose of the program is to help the youngest pre-school and school children to retain the social and intellectual gains made during the school year. It would expand the proven benefits of Head Start to the summer months and reduce further the learning disadvantages faced by children served by the program. This initiative would employ up to 50,000 Head Start staff (12,500 full-year equivalent) during 1993.

Education: Chapter 1 Summer School Program. The Administration proposes new, one-time supplemental funding of $500 million to expand summer school programs in 1993 for educationally disadvantaged children. Funds would be allocated to schools with concentrations of poor children. About 14,000 full-year equivalent jobs would be created.

Education: Chapter 1 Census Supplemental. The proposal would provide $235 million in 1993 to substantially mitigate the effects on distribution of Chapter 1 funds caused by changes in the location of poor children in the U.S. that occurred between the 1980 and 1990 censuses. The Chapter 1 compensatory education program will, for the first time, use 1990 census data to distribute 1993 appropriations used during the 1993–94 school year. The total number of poor children ages 5 to 17 increased between 1980 and 1990, and the distribution of those children shifted. Poor children are increasingly concentrated in the schools of the western States and less concentrated in the schools of the eastern States. The supplemental will ease the transition to a smaller compensatory education program in communities that would otherwise have the size of their Chapter 1 grants substantially reduced for the 1993–94 school year.

Agriculture/WIC Program. The Administration proposes to expand 1993 funding by $75 million for the Special Supplemental Food Program for Women, Infants, and Children (WIC), which pays for supplemental foods, health care referrals, and nutrition education for low-income pregnant and post-partum women, infants, and children under 5 years of age who are found to be at nutritional risk. The increase will permit the program to serve 300,000 additional participants, most of whom will be children ages 1–4. It is a down payment on the Administration's commitment in the long-term investment plan to provide full funding for WIC so that it serves all eligible children.

Agriculture/Emergency Food Assistance Program. The Administration proposes to provide $23 million worth of food to the States through The Emergency Food Assistance Program (TEFAP). This successful program provides surplus food to about 2.5 million needy households and has been an important weapon in the Nation's arsenal against hunger.

HHS/Childhood immunizations. The President's plan to increase childhood vaccinations will immunize one million children during the summer of 1993. The Administration proposes to award $300 million to support a community-based effort to finance vaccine purchases and education and outreach campaigns. This program will help to raise the Nation to the standards of child immunizations set by other advanced countries, which we have fallen far behind. Too many families are deterred by outrageously high costs from having their children immunized. The President intends to end that problem.

Labor/Summer Youth Employment and Training Program. Young Americans have an especially hard time finding jobs. The problem is worse for disadvantaged youth, and worse yet in the cities. The Summer Youth Employment and Training Program employs economically disadvantaged youth ages 14 to 21 to work at public and nonprofit agencies during the summer months. The Administration proposes to boost program funding by $1 billion in the summer of 1993. This will finance almost 700,000 summer jobs, bringing to nearly 1.4 million the total number of youth who could participate in the program. Approximately one-half of this summer's funding will be concentrated on the 100 American cities—small and large—with the greatest number of eligible youth. The public summer jobs program will be coupled with and complemented by a campaign to expand private summer job opportunities for young Americans.

National Service. This is a first step in the President's long range national service initiative. The Administration proposes to implement a program in the summer of 1993 to train a core group of leaders to spur service around the country. Combining leadership training with service, this initial phase of the national service initiative will cost $15 million.

Extension of Emergency Unemployment Compensation. For millions of workers, the apparent recovery has not brought employment opportunities. The rate of job growth in the economy relative to past recoveries has been extremely sluggish. The Administration proposes to extend the current Emergency Unemployment Compensation program for seven months, through October 2, 1993. The program provides an additional 20 to 26 weeks of support for workers who have exhausted their regular unemployment benefits. The net estimated cost is $5.6 billion over two years.

Education/Pell Grant unfunded shortfalls. The Administration proposes to make up shortfalls in the Pell Grant program, providing over $2.0 billion to ensure that the program is funded at estimated current law levels through school year 1993–94.

HHS/AIDS/Ryan White Act. To initiate the President's long-term investment plan to fully fund HIV/AIDS prevention efforts under the Ryan White Act, the Administration proposes to increase funding for 1993 grants by $200 million. These programs focus on AIDS prevention efforts.

Agriculture/Child and Adult Care Food Program. The Administration proposes an increase of $56 million for the Child and Adult Care Food Program, which pays for meals and snacks at Head Start centers, to serve the children in the proposed Summer Head Start program.

Labor/Worker profiling. The Administration proposes establishment of a $14 million program in 1993 and 1994 to assist the States in developing automated systems to identify laid-off workers who may have difficulties in finding new jobs, and to assist them in finding employment. This initiative seeks to respond to the problems faced by many workers laid off because of business downsizing and restructuring. Federal funding for this initiative will cover the up-front costs of developing worker profiling systems in the States.

Labor/Community Service Employment for Older Americans. The Administration proposes $33 million to expand participation in the Community Service Employment for Older Americans program, which offers low-income seniors meaningful work experience in community service projects. This investment will finance over 5,000 jobs in the current year.

Interior/Bureau of Indian Affairs (BIA) School Operations. The Administration proposes that $49 million be provided to cover currently identified shortfalls in funding due to rising enrollments to improve the educational performance of over 40,000 Indian students at the elementary and secondary level attending BIA-funded schools.

Equal Employment Opportunity Commission. Financing of $9 million for additional staff to enforce the Americans with Disabilities Act and the Civil Rights Act will help stem the ballooning backlog of cases filed under those Acts.

Technology Investments

A very important part of the Administration's efforts to promote long-term economic growth is to increase investment in new, productivity-enhancing technology. A number of such projects are funded in the stimulus package because they can be initiated quickly, with immediate increases in jobs.

Industry-Led Federal R&D at the National Institute of Standards and Technology (NIST). The Advanced Technology Program at the National Institute of Standards and Technology provides matching grants for industry-led research projects for the development and commercialization of pre-competitive generic technologies and refining manufacturing practices. The Administration proposes $103 million for the program in the current fiscal year.

Commerce/Information Highway Demonstrations. The development of a broadband, interactive telecommunications network linking the Nation's schools, libraries, health care facilities, governments, and other public information producers could pay enormous dividends to the U.S. economy. Interactive networks such as this are in their very early stages of development. The Administration proposes to make $64 million available to the Department of Commerce's National Telecommunications and Information Administration to accelerate development of such information highways.

National Science Foundation/Research and development. Investments in research and development (R&D) tend to be the strongest and most consistent positive influence on productivity growth. Most of the National Science Foundation's (NSF) investments are in competitively selected university-based R&D programs. These activities contribute to the nation's productivity by generating new scientific and engineering knowledge and contribute to the training of the next generation of scientists and engineers. The Administration proposes an investment in 1993 of $188 million to restore NSF funding to roughly the level that was planned for in 1993.

Networking and computer applications. The Administration proposes that programs be initiated at the National Institute of Standards and Technology, the National Science Foundation, the National Aeronautics and Space Administration, and the National Institutes of Health to develop applications which use advanced computers and communication networks to solve problems in health care, education, manufacturing, and access to library information.

National Oceanic and Atmospheric Administration equipment acquisition. The Administration proposes an investment of $81 million to accelerate the modernization of National Weather Service and central NOAA data systems, to procure hardware for more efficient utilization of the nation's fisheries, to improve weather prediction technologies, and to further climate and atmospheric research in areas of global concern such as atmospheric ozone.

HHS/Disability Insurance processing. The Administration proposes that $302 million be provided to help the Social Security Administration reduce delays in processing of Disability Insurance claims, review cases earlier, and make other improvements to improve delivery of services. There has been a tremendous backlog of Disability Insurance claims in recent years, which this investment would help alleviate.

Treasury/Accelerate implementation of Internal Revenue Service Tax System Modernization. The IRS is now operating with severely outdated computer equipment. Through Tax System Modernization (TSM), the IRS is undertaking a multi-billion-dollar, decade-long effort to re-invent its operations. The Administration proposes fiscal stimulus funding of $148 million to enable the IRS to accelerate several TSM projects and replace computer and telecommunications equipment that in many cases is nearly ten years old. This is a down payment on a long-term investment in the IRS modernization program.

Urban Development and Housing Initiative

The fiscal stimulus contains several initiatives to provide additional resources for housing and other development in the Nation's urban areas. These efforts are critical to our hopes of reviving our cities.

Housing and Urban Development/Community Development Block Grants. Community development projects are an important source of jobs and economic development in America's communities. States and local governments have a backlog of unfunded projects that are ready to begin, such as basic street and bridge work, painting and resurfacing, building rehabilitation, and public service projects. The Administration proposes a one-time supplemental appropriation of $2.5 billion for Community Development Block Grants to fund such projects and create about 60,000 jobs during 1993–1995. The Administration will propose modifications to the program to ensure that projects have an immediate economic impact.

Commerce/Economic Development Administration grants. The Administration proposes $94 million for Economic Development Administration awards to economically distressed areas to rebuild basic infrastructure—industrial parks, water and sewer improvements, and access roads to industrial sites. The grants are also for the purpose of planning for economic development.

Minority Business Development Administration. $2 million is proposed for the Minority Business Development Administration to support the provision of technical assistance to minority businesses through a nationwide network of 107 centers. These centers help minority businesses write loan applications, develop marketing plans, and upgrade accounting practices.

Housing and Urban Development/Accelerate HOME investment partnership. The Administration proposes to speed the spendout of $2.5 billion in previously released affordable housing funds by regulatory and statutory changes to increase participant flexibility and information, and training to improve public understanding of the program. These changes will increase the rate at which existing funds can begin to create jobs and boost the local economy.

Housing and Urban Development/Accelerate public housing modernization. A substantial amount of funds in HUD's modernization program remain unspent. Explanations for this "backlog" of unspent funds—the time-consuming process of getting the funds out of HUD to the public housing authorities, inefficient management and planning on the part of public housing authorities—make the problem more comprehensible but no more tolerable to this Administration. Accelerating the spendout will not only stimulate the economy but also help to ensure a better quality of life for public and Indian housing residents. This measure will create over 10,000 jobs during 1993–1998. It will result in the repair/restoration of approximately 2,500 more public housing units in 1993 (or 31,800 more public housing units 1993–1998).

Housing and Urban Development/Supportive Housing Program. The Administration proposes an accelerated investment of $423 million in the Supportive Housing Program, which assists homeless persons not only with shelter but also with the root causes of homelessness. The Administration will propose modifications to ensure that these funds go to projects ready for immediate implementation. This proposal will create over 10,000 new jobs during 1993–1995.

District of Columbia. The Federal Government makes an annual payment to the District to compensate it for the net cost of the large Federal presence in the nation's capital. The 1993 Federal payment was reduced below the amount the Mayor requested to help balance the District's budget. The Administration proposes $28 million to reduce the District's budget deficit.

Rural Development Initiative

The Nation's rural areas were among those hardest hit by the recent recession. The fiscal stimulus plan provides a number of key initiatives to provide needed assistance for the special concerns of rural areas.

Agriculture/Rural water and wastewater loans and grants. Water quality is a matter of increasing concern in cities and towns across the U.S. Drinking water and sewage treatment systems serving small, mostly rural populations currently have the highest rates of noncompliance with Federal environmental standards. Without Federal assistance, rural areas often find compliance very difficult to achieve. The Administration proposes an estimated additional $470 million in loans and $281 million in grants for the Rural Development Administration to help poor rural communities comply with clean water standards.

Agriculture/Food Safety and Inspection Service. The Administration proposes to add meat and poultry inspectors, at a cost of $4 million, to improve the Federal meat and poultry inspection system to help reduce the risk of future food poisoning outbreaks.

Agriculture/Forest Service natural resource protection and environmental infrastructure initiative. This is one part of an Administration proposal to protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources, and improve public access to them. This funding would complete the inventory of ready-to-go resource protection projects, facility maintenance, rehabilitation and construction, and other similar projects that stimulate economic growth and employment in rural and urban areas. This investment will total $188 million in 1993.

Agriculture/Farmers Home Administration low-income housing repair loans and grants. The Administration proposes $6 million in grants and $3 million in loans for a Farmers Home Administration program that helps rural, very low-income applicants to repair or rehabilitate their homes in order to remove safety and health hazards.

Agriculture/Single Family Housing Guaranteed Loans. This proposal would increase the single-family guaranteed loan authority by $235 million. The 1993 level of $329 million is expected to be used by May 1993. Given the increased demand for this program, because of lower commercial interest rates, the proposed increase would meet the remaining demand for this program.

Agriculture/Soil Conservation Service watershed projects. The proposed stimulus includes $47 million to fund a backlog of projects to address emergency watershed problems resulting from natural disasters, soil erosion, sedimentation, and flood damage that affect public health and safety.

Agriculture/Agricultural Research Service facility maintenance. The Administration proposes $38 million to finance repairs and accelerate hazardous waste clean-up at aging Federal agricultural research laboratories. There are approximately 30 hazardous waste clean-up projects planned, including removal of underground storage tanks and clean-up of pesticide spills.

Interior/Economic development on Indian reservations. $39 million is provided to upgrade roads, improve school facilities, and subsidize loan guarantees for reservation facilities, hotels, and office buildings.

Environment and Energy Initiatives

The Administration's initiatives offer certain proof that environmental protection and economic growth can—and must—go hand in hand. These proposals represent a down payment not only on longer-term investments, but also on creating a cleaner world for ourselves and our children.

Interior/Natural resource protection and environmental infrastructure initiative. This is one part of an Administration proposal to protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources, and improve public access to them. This funding would complete the inventory of ready-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural and urban areas. This investment of $349 million in 1993 would create over 11,000 jobs. Much of the investment would be earmarked for the National Park Service alone, including increased operational funds to keep open areas that were previously scheduled for closure during 1993.

Interior/Historic preservation funding for repair and deferred maintenance projects. The Administration proposes $23 million to fund a backlog of brick and mortar rehabilitation projects, emergency surveys, engineering reports, and deferred maintenance at National Trust for Historic Preservation Museum properties across the Nation, and other priority projects.

Environmental Protection Agency/Watershed resource restoration. The Administration proposes $47 million to reduce non-point source pollution which poses a threat to the Nation's water quality.

Environmental Protection Agency/Voluntary "Green" programs. The Administration proposes to expand EPA's voluntary "Green" programs by $23 million in 1993 over the current $8 million funding level. The program encourages the Nation's business community to seek ways of increasing energy efficiency.

Environmental Protection Agency/Wastewater treatment project. The Administration proposes $845 million in capitalization grants for the construction of sewage treatment facilities. This would accelerate completion of an $18 billion wastewater treatment grant authorization that is scheduled to end in 1994. This investment creates about 16,000 jobs over the four year period 1993–1997.

Cooperative Research and Development Agreements. CRADAs are one of the mechanisms by which the national laboratories can work with industry to transfer lab-developed technology and know-how to the private sector. Current funding for non-defense CRADAs is $9 million in 1993, but there is more demand from industry for assistance through CRADAs then can be met with that funding, This increase will allow additional lab scientists to work with industry. In addition, $47 million in 1993 funds appropriated for research and development of nuclear weapons at DOE's defense laboratories will be redirected to research in dual use technologies.

Energy/Weatherization Assistance Program. The Administration proposes $47 million (conditioned on matches from States or utilities) to encourage State weatherization programs to take advantage of utilities' demand-side management (rebate and discount) programs, assuring that funds go to States that demonstrate a serious commitment to low-income weatherization activities. Approximately 62,500 additional homes will be weatherized over the currently projected number.

Energy/Building and industrial conservation. The Administration proposes $19 million in cost-shared funding (50 percent) for "model projects" that demonstrate or accelerate the commercial acceptance of advanced energy conservation technologies and products.

Energy/Alternative fuel vehicles. The Administration proposes $28 million for the acquisition of and/or conversion to additional alternative fuel vehicles in the Federal fleet.

Federal buildings energy efficiency. An additional investment of $19 million is proposed to improve energy efficiency in facilities throughout the Federal Government.

Stimulus: Tax Incentives

The plan also contains carefully targeted tax provisions designed to provide an immediate boost to investment in the short term, and to encourage capital spending over the long run.

Permanent small business tax credit. Small businesses will now be eligible for a permanent investment tax credit on their equipment. The credit will generally be 7 percent in 1993 and 1994 and 5 percent thereafter. Small businesses operate at the margin and need a permanent incentive to invest, grow and provide new employment opportunities. At the same time, the decrease in the rate from 7 percent to 5 percent after two years will provide an incentive to accelerate investment and add support for the current recovery.

Temporary marginal investment tax credit for all business. Businesses will also be eligible for a tax credit on qualifying investments; the credit will be temporary and will apply only to "marginal" investment acquired between December 3, 1992 and December 31, 1994. The credit will amount to 7 percent in 1993 and 1994, with somewhat lower rates applicable to shorter-lived property. To ensure that the credit is targeted to marginal investment by large companies, the credit each year is applied to investment over an historic base.

Simplifying and enhancing depreciation provisions for companies subject to the alternative minimum tax (AMT). Currently, property is depreciated for AMT purposes over a substantially longer period than for regular tax purposes. (For example, commercial aircraft are depreciated over 7 years for regular tax purposes and 12 years for AMT purposes.) In addition, a corporation subject to the AMT must compute three depreciation schedules for federal tax purposes.

The proposal substantially enhances the investment incentives for taxpayers subject to the AMT and simplifies the AMT by using the shorter regular tax depreciable lives for minimum tax as well as regular tax purposes. Thus, one depreciation period will be used for computation of both the minimum and regular tax, although the rate of depreciation will remain less rapid under the minimum tax than under the regular tax.

Because they reduce the net cost of acquiring depreciable assets, the investment tax credit proposals will stimulate investment by both small and large businesses. The investment tax credit proposals, coupled with the liberalized depreciation under the minimum tax, will provide a strong and lasting stimulus to investment, encourage modernization of productive equipment, and help create good jobs.

Investing in the Future: Increasing Public Investment

We must invest more in our people, in their jobs and in the future...

Bill Clinton

Even after economic recovery is assured, our real economic challenges remain long term. The Administration's vision of public investment to improve our people's productivity involves initiatives in a wide range of critical physical and human capital priorities.

Rebuild America

Transportation

While our economic competitors have invested heavily in their infrastructure, we have not done as well. To regain our economic edge, we must invest more. We will upgrade our nation's roads, bridges, mass transit, and airports; support high-speed rail links between major cities; and create "information highways" that link homes, businesses, schools and libraries to databases and public records. These initiatives will put Americans back to work, spur productivity, and make transportation safer, faster and easier for all Americans.

DOT/Expand the Federal-aid highway program to the levels contained in the Intermodal Surface Transportation Efficiency Act (ISTEA). Full-funding of ISTEA will maintain conditions and performance on the nation's most important roads, the National Highway System. It calls for $2.6 billion in obligations in 1994 above baseline spending amounts. The total increase through 1997 is $5.6 billion in outlays, targeted to high priority projects. This initiative will create approximately 14,000 new jobs in 1994, and about 150,000 over a four year period.

DOT/Accelerate "Smart cars/smart highways" (part of Federal-aid highway program). The Intelligent Vehicle-Highways Initiative (IVHS) (also known as "Smart cars/smart highways") will improve traffic control systems, warn drivers of dangerous situations, and make more efficient use of the existing highway infrastructure. It will combine state-of-the-art communications, warning systems, electronic displays, and computer technology. IVHS also has the potential to make innovative highway policy such as "congestion pricing" a reality. The new funding would increase advanced technology development (including artificial intelligence, machine vision, and other defense-related technologies) that will make the highways of the next century both safer and more efficient. 1997 obligations will exceed the baseline by $100 million and 1994–1997 obligations will exceed the baseline by $345 million, a 50 percent increase over the baseline.

DOT/Increase funding for mass transit capital improvements. This proposal—implemented through the Federal Transit Administration's formula grant programs—will upgrade rail facilities and equipment by beginning to eliminate a rail investment backlog recently estimated at $14 billion. The additional funds will also replace ancient buses, vans and rail cars still in the U.S. transit fleet. These newer vehicles will be not only safer and more efficient, but also more accessible to disabled persons. Over four years an estimated $1.2 billion will be invested (outlays), creating about 83,000 jobs.

DOT/Investment in magnetic levitation (maglev) and high-speed rail transportation. Maglev and high-speed rail systems can meet the transportation needs of several of the nation's high-density corridors. These systems could relieve congestion, improve air quality, reduce consumption of petroleum-based fuels and improve safety. The funds could be used for construction of a maglev prototype and/or to support the start-up of private or State/local high-speed rail projects. Total increased outlays: over 1994–1997—about $646 million; 1997—$258 million.

DOT/Alcohol-related highway safety grants and other DOT capital. These grants to States will support programs that reduce alcohol-related traffic accidents and increase the use of safety belts and motorcycle helmets. Other DOT capital funds two important safety and environmental-protection projects in the maritime area: (1) state-of-the-art Vessel Traffic Systems (VTS) in busy ports and harbors, which reduce maritime accidents and the threat of hazardous materials and oil spills; and (2) replacement of seagoing and coastal buoy tenders—many of which are over 50 years old. The new vessels carry oil recovery systems and require smaller crews, saving operating costs. Total increased outlays: over 1994–1997—$201 million; 1997—$88 million.

DOT/Increase funding for airport grants. Investing in airport development projects at both large and small airports will speed air travel, link remote communities with opportunities elsewhere, and open up airports to different aircraft and aviation uses. These projects include building or expanding runways to increase capacity, removing obstructions to improve safety, or adding terminal facilities and airport taxiways to speed the movement of airplanes on the ground. Noise abatement projects permit these improvements to occur while minimizing the impact on surrounding communities. Outlays over 4 years: $108 million. 1997 outlays: $44 million.

DOT/Increase funding for air traffic control modernization. Growth in air travel is expected to result in more than a 25 percent increase in aircraft operations at our major airports in the next 10 years. The Federal Aviation Administration's multi-year air traffic control modernization program, which will help address this growth includes new radars, computers, controller workstations and communications equipment, and the supporting R&D. Benefits will include reduced air travel delays, more efficient aircraft routing, fewer accidents and the more cost-effective operation of the air traffic control system.

Investment (budget authority) over 4 years: $720 million. 1997 investment: $200 million. Over 2,000 jobs will be created.

DOT/Public land highways and Indian reservation roads. Many national parks, forests, and Indian reservations are located in rural areas of the country where roads are unpaved or impassable. Good roads ensure that visitors have safe access to national parks and forests, and are critical to economic development opportunities on Indian reservations. Investment in upgrading these roads will reduce the acknowledged backlog of projects in excess of $15 billion. Estimated outlays: $295 million in 1994–1997; $153 million in 1997.

Environment

A healthy environment means a better future for generations of Americans to come, and it also means jobs. The investments outlined here will create tremendous new opportunities for Americans to develop advanced systems to recycle, treat toxic waste and clean our air and water. Together, these investments prove that there is no choice between spurring economic growth and protecting the environment—that we can and must do both at once.

EPA/Drinking water state revolving funds. Provide $599 million in 1994 and $1 billion per year for 1995 to 1997 in new grants for low-interest loans to help municipalities comply with the Safe Drinking Water Act (SDWA)—which is estimated to require $10 billion in water infrastructure upgrades between now and 1998. Estimated outlays: over four years—$1.3 billion; in 1997—$692 million.

EPA/Clean water state revolving funds. Provide $1,198 million in 1994 and $2 billion per year for 1995 to 1997 under a new authorization for capitalizing Clean Water State Revolving Funds (SRFs). These SRFs would make low-interest loans to municipalities for construction of projects to address water quality problems. If these capitalization grants are leveraged in the financial markets (as allowed under the Clean Water Act), States could have up to $6 billion available annually for clean water project loans. Funding for waste water (as well as drinking water) projects in rural areas can be obtained also through USDA loans and grants. Estimated outlays: over four years 1994–1997—$2.7 billion; 1997—$1.4 billion.

Interior and USDA/Natural resource protection and environmental infrastructure initiative. Building on the stimulus initiative, this proposal would protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources, and improve public access to them. This funding would help to eliminate the backlog of resource protection projects, facility maintenance, rehabilitation and construction and other similar projects in rural and urban areas. The work would be located at resource areas managed by the Department of the Interior (National Park Service, Fish and Wildlife Service, Bureau of Land Management, and Bureau of Indian Affairs), and by the Department of Agriculture (Forest Service). This investment would create more than 5,500 jobs in 1994. It calls for an estimated investment of $1.5 billion in 1994–1997 outlays; $509 million in 1997 outlays.

Interior/Bureau of Indian Affairs (BIA) safety of dams. In 1989, the Department of the Interior's Inspector General reported that more than half of the high-risk dams on Indian reservations were in poor or unsatisfactory condition. This proposal will ensure that urgently needed rehabilitation and repair work can proceed. It calls for outlays of $59 million in 1994–1997; $23 million in 1997.

Reduce backlog of water resource Corps of Engineers cyclic maintenance projects. Corps of Engineers water projects provide flood damage reduction, inland and harbor waterway transportation, hydropower, and environmental restoration benefits. The projects, though, are aging: more than 50 percent of these projects are over three decades old. Nearly one quarter exceed 50 years of age. In spite of a growing backlog, resources for these projects have stayed largely constant. Estimated expenditures: over four years—$544 million; 1997—$160 million.

EPA/Watershed resource restoration. This proposal would double the current funding level of $50 million annually by 1995 for non-point source grants under Section 319 of the Clean Water Act. Non-point source pollution, such as runoff from farms, mining sites and city streets is now the largest cause of pollution in our Nation's waters. Reductions in non-point source pollution will help restore watersheds and estuaries, leading to increased numbers of fish and other aquatic life, and improving fishing and recreational opportunities in urban, suburban, and rural areas. Estimated outlays: over four years—$139 million; 1997—$47 million.

DOE/Cleanup of non-defense sites and uranium enrichment facilities. The Department of Energy is responsible for the management and disposal of radioactive and hazardous wastes resulting from research and uranium enrichment activities conducted by the Department of Energy. The investment supported by this Administration reflects the emphasis that it places on reversing the imbalance in priorities, by placing more priority on the environment. Outlays will increase $220 million between 1994 and 1997, and $107 million in 1997 alone.

USDA/Forests for the Future. Vice President Gore stated that "forests represent the single most important stabilizing feature of the Earth's land surface" in his book *Earth in the Balance*. The Administration proposes to invest $30 million in 1994 and $50 million in each of the next four years, towards the international goal of reducing world-wide deforestation. At the 1992 Rio "Earth Summit", the U.S. proposed that all countries join in doubling international forest assistance. This investment will be a down payment towards that commitment, to fund initial partnership activities with foreign nations and domestic and international non-governmental organizations. Funds would be used, in part, to support integrated resource management, assist scientific research on tropical forests and biodiversity, assist local communities in forest resource management, improve inventory and management of large forests, develop institutions that can attract private investment in forest conservation, and reforest degraded lands. Estimated outlays; over four years—$170 million; 1997—$50 million.

NOAA Weather Service modernization. NOAA is now in the process of modernizing National Weather Service systems. Under the Administration's plan, by the turn of this century, NOAA will operate one of the most advanced weather warning and prediction networks in the world. New observation systems such as doppler radars and weather satellites will provide for more accurate and timely forecasts of severe weather events and for more reliable forecasts. These improvements will translate into lives saved and damages averted. They will also benefit all sectors of the economy that rely on accurate warnings and forecasts for planning. Estimated investment (budget authority): $35 million in 1997; $293 million over 1994–1997.

EPA/Environmental technology. This proposal would increase funding for environmental engineering and technology development by $36 million in 1994, a total of $626 million through 1998, and a total of $1.85 billion over nine years. EPA currently allocates about $120 million annually to these activities. The focus of this initiative will be long-term research and pollution prevention by EPA, other Federal agencies, and the private sector. The goal is to develop more advanced environmental systems and treatment techniques that can yield environmental benefits and increase exports of "green" technologies. This investment will aid in the transition away from a defense-oriented economy, by stimulating the increased use of private-sector R&D resources for environmental quality-related purposes. Estimated outlays: over four years 1994–1997—$271 million; 1997—$127 million.

Expand EPA's voluntary "green" programs. EPA launched its "Green Lights" program two years ago to encourage Fortune 500 companies to convert profitably into more energy-efficient lighting, which will reduce electricity generation and greenhouse gas emissions. EPA identifies profitable opportunities for companies to conserve energy and enlists participants to install the energy conservation measures. As of October 1992, Green Lights participants had committed over 2.8 billion square feet of facility space to the program—the equivalent of all the office space in our eight biggest cities. EPA estimates that expanded "green" programs such as this one can reduce greenhouse gas emissions by 75–108 million metric tons of carbon by year 2000. Estimated outlays: over four years 1994–1997—$69 million; 1997—$25 million.

USDA/Tree planting initiative. Reforestation on the huge tracts of poorly managed private, nonindustrial forests can result in increased environmental benefits such as removing more carbon dioxide from the air. These benefits of tree planting also make it important for urban forests because of their location in and around population centers. In addition to the environmental benefits, urban forestry programs can provide productive seasonal jobs for inner city youth. Estimated outlays 1994—$33 million; 1994–1997—$246 million.

USDA/National research initiative (NRI) grants. Top flight R & D is needed to assure the continued competitiveness of U.S. agricultural products in global trade, ensure the food supply's safety and quality, and sustain natural resources. NRI grants are awarded competitively after a stringent peer-review process to ensure that the most qualified research proposals are chosen. The NRI funds research in animal and plant biotechnology (including genome mapping), food safety, sustainable agricultural production practices, and technologies to manufacture new agricultural materials. Because the competitive grants program focuses primarily on basic research, the results of many projects would be useful to scientists in other disciplines. Five hundred more projects will be funded each year by this increase. Estimated increased outlays: over four years—$188 million; in 1997—$110 million.

USDA/Forestry research initiative. Managing the Nation's forest resources relies increasingly upon scientific information and technology. This includes areas as diverse as understanding forest ecosystems and the wildlife/urban interface, to research on extending the use of wood as a raw material. This investment will allow the Forest Service and other USDA research agencies to increase the breadth and depth to which forestry research areas are investigated, providing the necessary information to help the Nation develop sound forest-related policies that will both provide resources to meet ever-increasing demands from the population and sustain forest ecosystems. The initiative would be funded at $287 million over four years. Estimated outlays: 1994—$16 million; 1994–1997—$261 million.

Rural Development Initiative

Family farmers have made a unique contribution to this nation's growth, feeding our people and caring for our land. This initiative would provide resources to improve rural infrastructure, which provides the necessary underpinning for rural economic development. It would also directly assist rural communities and businesses to improve the quality of rural life and increase employment opportunities in rural areas.

USDA/Increase RDA rural water and waste water loans and grants. Federal and State regulators report that drinking water and sewage treatment systems serving small, mostly rural populations currently have the highest rates of noncompliance with Federal environmental standards. To comply with clean water standards set by EPA, rural America's water and waste water needs total roughly $10 billion by the year 2000. Often these small rural communities are unable to meet these expensive standards without Federal assistance. The Rural Development Administration (RDA) administers a water and waste water loan and grant program that targets rural communities of up to 10,000 in population whose average income is at or below 80 percent of State median income. This proposal increases RDA loan authority from $600 million to $780 million, and its grant authority from $390 million to $510 million in 1994; and to $900 million and $590 million respectively each year 1995 through 1997. Additional funding for drinking water and waste water construction is proposed through EPA for new drinking water and clean water grants to State revolving funds. Estimated RDA outlays: over four years 1994–1997—$331 million; 1997—$176 million.

Community and business assistance. This initiative would provide Federal assistance to rural communities, businesses, and individuals, by leveraging Federal investment to allow rural areas to help themselves. Farmers Home Administration (FmHA) direct loans for community facilities would be increased by $300 million in 1994, and $500 million thereafter, for construction of rural health care clinics, fire stations and equipment, and other vital facilities. Rural Development Administration (RDA) guaranteed loans for rural businesses and industries would be increased by $300 million in 1994 and $500 million thereafter to assist rural businesses in securing start-up capital and financing for expansion, creating jobs and helping diversify the rural economy. Additional rural business assistance would be provided through the RDA Intermediary Relending Program that provides one percent loans to State-sponsored rural development programs who, in turn, re-lend to rural businesses. These funds (an additional $150 million in 1994 loans, and an additional $250 million in loans each year through 1997) would be targeted to small, emerging "micro-enterprises." In addition, RDA rural development grants would be increased by $30 million in 1994, and $50 million thereafter. Business assistance would be coordinated through RDA's existing State Rural Development Councils, whose members include representatives from Federal, State and local government agencies, as well as the private sector.

These investments would provide increased employment opportunities for rural individuals, and upgrade community infrastructure to improve the quality of life for all rural residents. The investment proposal also would improve the housing conditions of low-income, rural individuals. FmHA direct and guaranteed homeownership loans would be increased by $300 million each in 1994, and by $500 million each year 1995 through 1998. Rental assistance in rural areas would also be provided through housing vouchers and grants for use in FmHA-financed rental units. Vouchers would be targeted for areas where rental units are available, but not currently affordable for low-income persons. A total of $150 million in additional rental assistance would be provided through these programs in 1994, and $300 million each year from 1995 to 1998. Estimated RDA outlays for community and business assistance; over four years 1994–1997—$1,115 million; 1997—$454 million.

Energy

Without thoughtful energy policies, our nation will remain dependent on foreign oil and special interests. The Administration will launch initiatives to develop new, clean, renewable energy sources that cost less and preserve the environment. We will also encourage energy efficiency and conservation to lower the energy bill for middle-class Americans, and lessen our vulnerability to events outside our control.

DOE/Increase funding for renewable energy and energy conservation programs. The Energy Policy Act of 1992 contains new responsibilities for the Federal government including: (1) establishment of new energy efficiency standards; (2) authorization for enhanced research programs; and (3) new demonstration/commercialization programs for renewable energy and energy conservation. This initiative progressively increases funding in these areas, reaching an increase of $500 million in 1997, for a four-year total increase of $1.3 billion. The increased funding will be distributed roughly equally among the four major program areas: solar and renewable energy, and industrial, transportation, and buildings conservation R&D. The largest increases will go to technology transfer and commercialization, advanced materials (especially ceramics), industrial wastes and materials processing, electric and hybrid vehicles, and modeling of building systems interactions. By making a major effort to develop and commercialize these environmentally "clean" technologies, substantial energy cost savings will be realized by consumers while creating enormous opportunities for economic growth and increased jobs.

DOE/Increase weatherization assistance program. This Department of Energy program provides funds to States to help pay for home weatherization improvements for low-income citizens. The increase proposed here, $60 million in 1994, and $100 million per year in 1995–97, would be distributed differently than the typical "formula grants," in order to increase the leverage received on taxpayer funds. Matching funds (at least 1:1) will be required from States or utilities. This will encourage State weatherization programs to take advantage of utilities' demand-side management (rebate and discount) programs, and will ensure that the funds go to States that demonstrate a serious commitment to low-income weatherization activities. With 1:1 leveraging of these funds, an additional 450,000 homes will be weatherized over the currently projected number for the 1994–97 period.

Increase the energy efficiency of Federal buildings and facilities. Current Federal investment in energy efficiency improvements is running around $150 million per year. This initiative will increase spending to almost $500 million per year by 1996. The cumulative increase will be $1 billion over four years. The four biggest energy-consuming agencies—Defense, Energy, Veterans Affairs and the General Services Administration—will receive increased funding for their in-house energy management programs directly. In addition, a fund will be established at the Department of Energy for energy efficiency improvements proposed by all of the remaining Federal agencies. Over 700 energy managers will be trained in 1994, and over 2,000 per year in 1995–98. Outside energy audit teams will review 600 Federal sites in 1994, starting with the largest energy consumers, and 1,000 sites per year in 1995–98. By 1997 these investments should payoff heavily, saving the Government about $350 million per year.

Provide increased funds for acquisition of alternative fuel vehicles for the Federal fleet, and for conversion of existing vehicles. This initiative provides $18 million in 1994, and $30 million per year from 1995 through 1998 for the purchase and/or conversion of petroleum based gasoline powered motor vehicles to alternatively fueled vehicles. This expands upon the Alternative Motor Fuels Act (AMFA) purchases currently funded by appropriations to the Department of Energy.

DOE/Increase natural gas utilization R&D. This initiative will roughly double the combined natural-gas spending of the Conservation and Fossil R&D programs. A critical new feature is to involve segments of the natural gas industry in the design and operation of research programs. This will help ensure that the enhanced R&D is relevant to the needs of industry and the market place. It will also provide an opportunity for private sector cost-sharing, thereby increasing the overall level of gas research. In the combined programs, this initiative will increase spending on natural gas utilization by $14 million in 1994, increasing to $119 million in 1997, for a total of $263 million in additional spending over that four-year period.

Build an advanced neutron source—a user facility for applied research and development. This proposal would fund the design and construction of a national user facility to produce rare isotopes for medical diagnosis, treatment and research and to perform applied research using neutron scattering and neutron irradiation techniques. The facility, called the Advanced Neutron Source (ANS), would be used by approximately 1,000 user groups each year. Users would come from industry, universities, and Federal laboratories. The medical isotopes produced could help tens of thousands of patients. Neutron scattering is a relatively new experimental technique with applications for materials science, metallurgy, crystallography, chemistry, industrial radiography, forensic detection of trace elements, biology, and biotechnology. The heart of the facility would be a new research reactor that would have the most intense beams of steady-state neutrons in the world—approximately five to ten times higher than the current world leader at the Institute Laue-Langevin in Grenoble, France. The total projected cost of the facility is about $2.7 billion. The proposal adds $243 million in outlays over the baseline between 1994 and 1997.

DOE/Increase funding for fusion energy research. Fusion offers the promise of abundant energy from readily available fuels with low environmental impact. The centerpiece of the research effort in magnetic fusion energy is a collaboration among the United States, the European Community, Japan, and Russia to build an International Thermonuclear Experimental Reactor (ITER). Design and construction of ITER will be a multi-billion dollar effort that could take two decades to complete. The United States must maintain a vital domestic research program to support our efforts on ITER. Yet, the U.S. has not commissioned a major new machine for fusion research since the early 1970s. This investment would fund moderate growth in the U.S. fusion energy program above inflation to allow construction of a new facility, the Tokamak Physics

Experiment (TPX). Estimated additional spending 1994 and 1997 is $210 million in outlays; ($90 million in 1997).

Community Development and Defense Conversion

If we are going to rebuild our nation, we will have to do it from the bottom up. These initiatives will empower the Americans who create jobs and raise incomes—small businesses, entrepreneurs, and the dreamers with an idea and the initiative to make it work. They will make sure that the skills of our defense workers are not lost, but harnessed to the peacetime projects our future demands. And these initiatives will create real opportunity in America's inner cities—because America will not prosper until our urban areas once again become engines of economic growth.

HUD/Provide additional funding for Community Development Block Grants (CDBG). Community development projects are an important source of jobs and economic development both in the short- and long-term. States and local governments have a backlog of unfunded "ready to go" projects such as basic street and bridge work, painting and resurfacing, building rehabilitation, and public service projects. However, the State and local needs continue to exceed the existing Federal contribution. The Administration's proposal would provide an additional $690 million between 1994–1998 to continue much-needed investment in America's communities. This additional funding would directly create about 60,000 jobs over the next five years, with even more jobs being created indirectly in the local economy. These funds are targeted at low- and moderate-income residents, providing assistance in areas with the greatest need. Because communities can select eligible activities most appropriate to their local circumstances, this additional funding will help communities where they need it most.

Enact enterprise zones legislation in order to promote investment and job creation in Federally-designated zones. The Administration's enterprise zone proposal will promote entrepreneurship and job creation in distressed urban and rural communities through a number of employment and investment incentives. The proposal includes such policies as an employer wage credit and an expansion of the targeted jobs tax credit in order to encourage low-income inner-city and rural residents to obtain employment, become self-supporting, and leave welfare. It also includes investment incentives designed to encourage individuals to invest in zones. Taken together, these incentives will be a critical factor in helping poorer cities and rural areas become economically more vital. Estimated outlays reach $2.4 billion over four years, with 1.2 billion in 1997.

Community Development Banks. Many American communities face problems of deteriorating housing, loss of jobs, lack of private enterprise, and declining economic and social infrastructure. A network of community development banks will be created to provide loans for business and housing purposes in distressed communities that have previously been underserved by traditional lending institutions. Government investment and technical assistance would supplement private funds and expertise to ensure community development banks' effectiveness in restoring healthy economic development in these communities. Estimated cost: over four years—$354 million; 1997—$110 million.

SBA/Increase Section 7(a) loan guarantees. This program helps small businesses struggling to attract bank lending because of the general weakness of the economy. Building on a stimulus proposal, increased funding levels will be extended to assure that creditworthy small businesses have access to capital. These funds will make about 14,000 loans to individuals otherwise unable to expand or start small businesses. Estimated cost: over four years—$501 million; 1997—$157 million.

Defense Conversion Program. With the end of the Cold War, the nation faces the challenge of the defense transition. How should we address the needs of the men, women, companies and communities who helped us win the Cold War but who now feel the impact of declining defense budgets? How do we best reinvest in the industrial, technological and workforce capabilities of the Cold War so they can play a role in our effort to make the nation globally competitive? Our economic plan is designed to face this challenge and to seize this opportunity.

Our defense conversion program builds on current efforts and increases investment funding. In the Department of Defense, we will propose additional funding for dual-use technology programs and for the community adjustment assistance activities of the Office of Economic Adjustment. In the Department of Labor, significant new investment funding will be requested to provide for the training and retraining of America's workforce, including those parts of the workforce displaced by defense spending reductions. In the Department of Commerce, we will request additional funding both for National Institute of Science and Technology programs helpful to industry and for the work of the Economic Development Administration supporting the economic diversification of communities hurt by defense reductions.

These programs will address the need for defense transition assistance in the industries, the workforce and the communities that experience the impact of declining defense budgets. In addition, our investment initiatives in high technology will help stimulate the "market pull" to provide new opportunities for high technology businesses and the highly skilled workforce currently in the defense market. To meet this goal, we are proposing spending for the Departments of Energy, Transportation and Commerce, and NASA, among others, on such technologies as high performance computing, aviation and aeronautics, transportation, space and manufacturing technology.

To ensure that the parts of this defense conversion program work together, activities will be coordinated through the Executive Office of the President and interagency committees.

This proposal provides additional funding of $555 million in 1997 for defense conversion, of which $480 million will go to the Department of Defense for dual-use technology and manufacturing programs. Funding of $20 million will be provided to DoD's Office of Economic Adjustment and $55 million to the Economic Development Administration in the Department of Commerce for community diversification. For the programs of the other agencies described above, additional initiatives in the investment package include about $2 billion for job training and $4 billion for the acquisition of high technology products and R&D. Estimated outlays of the Department of Defense and the Economic Development Administration parts of this proposal: over four years—$1.5 billion; 1997—$520 million.

Revitalizing Technology

To move ahead of our competitors in technological research and development, this initiative will provide incentives to explore new technologies. It will create high-wage jobs and help push America toward the cutting edge of groundbreaking technologies. It will create markets that encourage the use of defense technology for civilian purposes and bring together businesses and universities in an effort to ensure that innovative products have the label "Made in America."

NSF/Enhancing university-based competitive science and engineering research in the U.S. Studies show that investments in research and development (R&D) tend to be the strongest and most consistent positive influence on productivity growth. Most of NSF's investments are in university-based R&D programs which are competitively selected on their merit by members of the science and engineering community. These activities contribute to the Nation's productivity by generating new scientific and engineering knowledge and contribute to the training of the next generation of scientists and engineers. In 1992, NSF had $1 billion of unfunded proposals that were rated excellent through peer review. Thus, it appears that NSF has the capacity to invest more funds in a broad range of important research areas, including strategically targeted research in improving our understanding of the climate system and improved engineering approaches to mitigate environmental problems; advanced computers and digital networks; biotechnology; materials processing; advanced manufacturing; math and science education; and smart highways, bridges, and other civil infrastructure. This proposal—which adds $2.3 billion over four years, and $954 million in 1997—also includes funds to support the Nation's university-based research facilities and instrumentation.

Commerce/Increase civilian R&D at the National Institute of Standards and Technology (NIST). America's competitiveness rests ultimately with the private sector. Yet, the Federal Government has an important role to play in promoting economic growth, in part by supporting research and development. This proposal provides aggressive growth for the National Institute of Standards and Technology (NIST). NIST is the only Federal lab with the principal mission of supporting U.S. industry and has provided a steady stream of technology support to U.S. firms for over 90 years. This proposal provides for: 1) an increase of $138 million in 1994, rising to $680 million by 1997, for the Advanced

Technology Program to provide matching grants for industry-led R&D projects, including funding for consortia like SEMATECH; 2) over 100 manufacturing extension centers nationwide by 1997 to assist manufacturers to modernize their production capability; and 3) doubling the amount of R&D performed in the NIST labs by 1998. This proposal would increase total NIST funding from $381 million in 1993 to $1.2 billion in 1997 (budget authority).

Commerce/"Information Highways" Demonstrations. The development of a broadband, interactive telecommunications network linking the Nation's businesses, schools, libraries, hospitals, governments, and others could pay enormous dividends to the U.S. economy. Engineers working on the same problem, teachers and students, and patients and doctors would all be able to communicate instantly no matter how much distance separated them. This proposal builds on the 1993 stimulus initiative by providing new seed money to "jumpstart" the development of these networks. In 1994, $54 million will be made available to the Department of Commerce for grants to States, local governments, universities, school systems, and non-profits to link public facilities in such a network. Between 1995 and 1998, $150 million annually would be made available.

Federal Coordinating Council for Science, Engineering, and Technology (FCCSET) initiatives. As the fields of science and technology have progressed, and as applications of scientific advances have improved, it has become obvious that a single field of science can have applications in numerous different areas, governed by different Federal departments and agencies. In order to coordinate scientific advances among agencies and to avoid duplication of efforts, the Federal Coordinating Council for Science, Engineering and Technology (FCCSET) has established interagency committees.

There are currently six specific areas, which have been identified as important national research and education activities. They are: improving our understanding of the climate system, advanced supercomputers and computer networks, math and science education, materials processing, biotechnology, and advanced manufacturing. The climate initiative, for example, is focused on understanding the processes involved in climate change and was a key component of the U.S. action plan in the recent "Earth Summit" negotiations. The advanced manufacturing initiative will focus on areas such as intelligent manufacturing cells and computer-based tools for production design. Over a dozen Federal agencies, including NASA, Defense, Energy, the National Science Foundation, Commerce, Agriculture, and the National Institutes of Health, have programs which address one or more of the six specific areas.

Crosscutting high performance computing (NSF/NIH/NASA/NIST). This investment builds directly on a stimulus program to develop applications which use advanced computers and communication networks to solve problems in health care, education, manufacturing, and more. For example, under a pilot test in Boston, a physician could transmit images (X-rays, CAT scans, photos) quickly to a specialist across town for immediate consultation. This program would be part of the multi-agency High Performance Computing and Communications program and would be coordinated by the Office of Science and Technology Policy's Federal Coordinating Council for Science, Engineering, and Technology (FCCSET). 1997—$320 million; four year total—$784 million.

NASA/Civil aviation. The quality of the air transportation system has a direct impact on the quality of life of every U.S. citizen. This investment option would expand NASA aeronautics research in its support of the aviation industry and its enhancement of the safety and capacity of the national airspace system. One area for investment, advanced subsonics research, would focus on developing technology that would increase the competitiveness of U.S. commercial transport aircraft and enhance the safety and productivity of the national aviation system. The other area for investment, high-speed research, would focus on resolving critical environmental issues and establishing the technology base for an economical, supersonic aircraft. These investments will help counter aggressive government-supported foreign competition. In addition, it will provide technologies that improve the environmental compatibility of existing and future aircraft by reducing noise and engine emissions. Funding will reach an additional $222 billion in 1997, for a four year total increase of $550 million.

NASA/Short-haul aircraft research. This initiative will expand NASA aeronautics research to develop technologies for short-haul aviation. Short-haul aircraft includes commuter aircraft, rotorcraft, and general aviation airplanes. There are roughly 220,000 short-haul aircraft in the United States, making up 98 percent of the total civil aviation fleet. To help bolster the competitive position of the U.S. short-haul industry, NASA would develop technologies for both rotary and fixed wing aircraft to enable a new mode of high utility, safe, fast, and direct transportation linking thousands of smaller communities. The program would take advantage of ongoing and new Federal Aviation Administration (FAA) and industry cooperation to accelerate application of these advanced technologies to U.S. aircraft and engine manufacturers. Estimated outlay increase: in 1997, $20 million; over four years, $50 million.

Greatly increase non-defense Cooperative Research and Development Agreements (CRADAs) at the national labs. Cooperative Research And Development Agreements (CRADAs) are one of the mechanisms by which the national laboratories can work with industry to transfer lab-developed technology and know-how to the private sector. The funds go to the labs to pay for their share of the jointly agreed-upon R&D in the CRADA. The laboratory work under each CRADA is proprietary to the private-sector partner, who also hold the patent rights to inventions made under the CRADA. The current funding for CRADAs to transfer technology developed by DOE non-defense programs is $9 million, but there is more demand from industry for assistance through CRADAs than can be funded with that amount of money. This investment initiative provides an additional $30 million in 1994 and $50 million per year over the baseline in 1995–97.

Modernizing Social Security Administration computer systems. The Social Security Administration (SSA) relies heavily on its information systems to provide services and pay benefits. To meet current and future demands, SSA and State Disability Determination Services (DDSs) must abandon their labor-intensive, paper-driven tradition and automate. The proposal would invest in the pilot tested Intelligent Workstations and Local Area Networks and (IWS/LAN), creating a standard, state-of-the-art, computing network for all of SSA and DDSs. The investment funding includes modular workstations, and design/site preparation/installation. Estimated cost: over four years—$880 million; 1997—$245 million.

Modernize Internal Revenue Service. IRS currently processes tax returns using technology from the 1960s. These out-of-date systems result in long delays for taxpayers and extra costs for the Federal government. Tax Systems Modernization (TSM) represents IRS's effort to move to an up-to-date, automated approach to processing taxes. With TSM, tax returns will be processed and stored using modern technology. Tax returns will be available in electronic files instead of remote warehouses. As a result, IRS employees will be able to provide immediate responses to most taxpayer questions over the phone. TSM will enable IRS to reduce the risks and costs associated with operating their current systems while also improving their ability to serve the public in the administration of the nation's tax system into the 21st century. Estimated cost: over four years—$1.8 billion; 1997—$0.7 billion.

Housing

These initiatives will help make housing more affordable, and streets and neighborhoods safer. In conjunction with other measures, they will also provide the help that the homeless need. By empowering our people, these measures will go far toward creating real choices for Americans at every income level—and help them achieve the American dream.

HUD/Assist more households with housing subsidies. The Department of Housing and Urban Development currently provides housing subsidies to 4.7 million low-income and very-low-income households to overcome their housing problem. Nevertheless, an estimated 3.6 million families and elderly very-low-income renters still face severe housing problems because they either have a "worst case need" for housing with (1) rent that exceeds 50 percent of their income or (2) live in a severely substandard housing unit. Additional Federal investments are needed to eliminate these remaining very-low-income rental housing problems. This investment would substantially increase assistance through HOME grants and housing vouchers. HOME funds would double to the full amount authorized of $2.2 billion; housing vouchers would increase from nearly 40,000 annually in 1993 to 100,000 by 1998. Estimated investment: over four years $716 million; 1997 $422 million.

HUD/Supportive housing program. This investment is targeted towards the problem of homelessness. It increases funds for rehabilitation of housing that serves the homeless as well as other services which seek to address the root causes of homelessness. The $138 million increase in 1997 and $241 million over four years represents a doubling of the program.

HUD/Public housing operating subsidies. The rent paid by residents of public and Indian housing often does not cover the operating costs incurred by housing authorities. The Department of Housing and Urban Development's Payment for the Operation of Low-Income Housing program pays the housing authorities for those operating costs not covered by rental payments, thus permitting housing authorities to provide and maintain safe, sanitary and decent housing. This investment of an additional $121 million in 1997 and $206 million over four years, by meeting the estimated cost of providing quality public housing, will strengthen our nation's stock of public housing and enable the people who reside there to have decent shelter.

HUD/Preserving and renovating low-income rental housing. The Administration proposes to increase funding to repair and restore the nation's stock of assisted rental housing, most of which is 20 to 30 years old. Many units are in deteriorated buildings. Many operators of buildings are also financially troubled. In the worst cases, hundreds of project operators have defaulted on federally insured mortgages, turning HUD into the lender and, ultimately, the landlord-of-last-resort. Another 360,000 units of HUD-assisted low-income housing face a problem of a different sort. These properties are nearing the end of the long-term HUD subsidies that helped them to remain as low-income rental housing. Without additional Federal subsidies, some owners could convert these affordable rental units into luxury apartments or even condominiums, leaving their low-income tenants out in the cold. Congress created the Low-income housing preservation program in 1990 to provide landlords the necessary incentives and subsidies to preserve this federally subsidized low-income housing as affordable low-income housing. The Administration proposes increasing funding for this program to ensure that no existing tenant loses his or her housing benefits as a result of adverse landlord actions. The cost of this additional investment in preserving and renovating low-income rental housing will be $858 million over the next four years. For 1997, spending will total $384 million.

HUD/Community Development Block Grants (CDBG). Since 1974, the CDBG program has been an important source of flexible Federal aid to State and local governments. CDBG funds directly help fund local economic and community development projects that benefit low- and moderate-income residents in large cities and urban counties and smaller communities. The Administration's proposed investment would directly create more than 7,300 jobs over the next five years, with even more jobs being created indirectly in the local economy. Because communities can select eligible activities most appropriate to their local circumstances, this additional funding will help communities where they need it most. Total spending would increase $137 million in 1997 and $430 million between 1994 and 1998.

HUD/Crime in public housing. The Administration proposes an Urban Partnership Against Crime initiative to address the increase in gang- and drug-related crime activity in many public housing developments across the country. Crime has exacted a profound and intolerable toll on public housing residents. Living in a constant state of fear of physical harm, residents have been robbed of their sense of community and personal well-being. Meanwhile, they have witnessed an ever-increasing expenditure of scarce public resources on repairing the damage done by crime to the physical environments of these developments. This initiative, costing $138 million in 1997 and $312 million over four years, would allow the Department of Housing and Urban Development to work with public housing and other local officials in an intensive effort to reduce crime in public housing. It focuses resources on those developments with greatest need, and gives flexibility to local officials to develop solutions (like community policing, neighborhood watches, youth activities) to the problems of crime in their communities.

HUD/Restore dilapidated public housing. This investment would provide an additional $138 million in 1997 and $241 million over the next four years to rehabilitate and restore severely dilapidated public housing projects that today are not only uninhabitable, but also contribute to the economic and social problems of the surrounding neighborhoods. These economically viable public housing units would then provide, once again, decent, safe, and affordable housing for low-income renters.

Lifelong Learning

Becoming a productive member of the community requires certain basics: like a healthy, supportive childhood; safe, sound schools; a chance to serve your country; and the opportunity to be retrained for the challenges of today's global economy. The Administration's commitment to major investments in these kinds of "human capital" promises payoffs for the nation far beyond their original price.

HHS/Full funding of Head Start. Children who participate in Head Start do better in school and become more productive as adults. By giving them the caring, stimulating environment they need, Head Start programs enable at-risk children to become problem-solvers instead of problems. Thousands of parents and selected studies have testified to the program's success, but for years our government—despite promises—has failed to make Head Start available to all the children who need it. With this initiative, one of our country's most cost-effective programs will become far more widely available and help change countless lives. The Administration will increase funding for Head Start by $3.2 billion in 1997, $8 billion over four years, achieving full funding for an estimated 1.4 million eligible disadvantaged children by 1999.

USDA/Head Start-related child care feeding. Pay for meals at Head Start centers and serve them to the participants added by the Administration's Head Start initiative; $237 million in 1997; $590 million over four years.

HHS/Head Start related Medicaid. Fund new entrants in the Medicaid program resulting from Head Start expansion; $116 million in 1997, $275 million over four years.

USDA/Full funding of WIC program. If our nation is going to prosper, our children will have to grow up healthy, not hungry. This special supplemental food program for women, infants, and children (WIC), helps make sure they do. By the end of 1996, all eligible children ages 1 to 4, including some 2 million who were not served last year, can be assisted with the proposed investment of $1 billion in 1997, $2.6 billion over four years.

HHS/Parenting and family support. These initiatives stem from a simple reality: governments don't raise children; parents do. These proposals will empower parents with the skills and the tools they need to help raise their children. They will support disadvantaged parents, including activities to help them work with their children at home and parenting classes, with an investment of $500 million in 1997, $900 million over four years.

Department of Education/Reforms and initiatives. All American children need greater access to better education—not just to make the American Dream more available, but to make the American economy more productive. These initiatives will provide $2.7 billion in 1997, $6.2 billion over four years, to support reforms and reauthorizations in elementary, secondary, and postsecondary education, including state and local systemic reforms, a new SAFE Schools program, student assistance program improvements, and support of Historically Black Colleges and Universities.

National Service. The national service initiative will help young people pay for college and other postsecondary education by serving their country. In conjunction with income-contingent loan repayment, which will help Americans take low-paying community service jobs and still pay off their student loans, the program will provide dramatic new opportunities to serve our country. Young people will meet pressing national needs in areas including education, public health, environmental protection, and public safety. In return for one or two years of service, they will be able to receive a significant educational benefit. As it enables Americans of all backgrounds to help themselves and their country at once, the initiative will reinvigorate American citizenship—lifting our country up and bringing our people together. The Administration's commitment to a fully realized program of national service is behind its plan to invest $7.4 billion in the next four years, building from $389 million in budget authority in 1994 to $3.4 billion in 1997.

Labor/Dislocated workers program. Legislation will be proposed for a new program to replace and improve upon two existing programs to help workers who lose their jobs because of restructuring of their industries, international competition, or defense downsizing to secure rapid reemployment or train for new careers. The program will cost an additional $2 billion in 1997, $4.6 billion over four years.

Labor/Job Corps expansion. Provide resources to increase the size of the Job Corps program by 50 percent by 2001. This will increase the number of Job Corps participants to 104,000, from the current 70,000. Job Corps provides remedial education, occupational skills training, supportive and job placement services to severely disadvantaged youth in its network of 110 residential centers. The plan would finance 50 new residential centers. The 1997 cost is $202 million; the 1994–97 cost is $341 million.

Labor/Job Corps maintenance. Spend $50 million in 1997 and $105 million over four years to repair and renovate Job Corps' aging residential centers.

Labor/Summer youth employment and training program (SYETP). The SYETP offers economically disadvantaged youth age, 14 through 21, work experience in minimum wage jobs in public and nonprofit agencies during the summer months. This investment of $625 million in 1997 and $2.0 billion over four years would finance about 2 million additional summer youth jobs. The plan includes an enriched program of work experience, basic skills training, testing and counseling, and closer coordination with schools.

Labor/One-stop career shopping. This program would make it easier for adults seeking to change jobs or careers or upgrade their skills to obtain access to the confusing array of Federal programs and services by developing "one-stop shop" career centers. Over four years, the proposed investment is $900 million, $250 million of which is to be spent in 1997.

Labor and Education/Youth apprenticeship. This program would finance a nationwide system of school- and work-based learning programs for high school youth who do not plan to attend college, in order to reduce drop-out rates and help them make a successful transition to meaningful careers in technical occupations. The proposal provides $500 million in 1997, a total of $1.2 billion over four years.

Rewarding Work

Earned Income Tax Credit (EITC). In America, no one who works should have to raise a family in poverty. The EITC currently provides refundable tax credits to low-income working families with children. By expanding the EITC, we will assure that a family of four will not be forced to live in poverty, if one of the parents works full-time at a minimum wage job. The cost of the entire proposal is $6.7 billion in 1997 and $19.9 billion over four years.

Welfare Reform. Later this year, the Administration will present a comprehensive reform plan to end welfare as we know it. The President's plan will carry out his pledge that no one with a family who works full-time has to live in poverty, that parents who bring children into the world should be held accountable for raising them, and that welfare ought to be a second chance, not a way of life. The plan, coupled with the Earned Income Tax Credit, tougher child support enforcement to crack down on deadbeat parents, increased training, parenting, and family support for moving people from welfare to work, will move toward a time-limited system of welfare. This will give people on welfare the education and training they need for up to two years, but after that, require all those who can work to go to work.

Justice

Justice/Crime initiative. A comprehensive program to support and improve all aspects of the criminal justice system. The initiative includes: (1) a new Community Policing/"Cops on the Beat" grant program to localities to create safer streets and to community policing, thereby building a bond of trust between citizens and police so that they can work together to fight crime; (2) a new Police Corps program, to provide scholarships to would-be police officers in exchange for a commitment to service as a State or local police officer; (3) a Criminal Records Upgrade program to assist States in improving their criminal records infrastructure and link with the FBI's criminal information databases; (4) increased funds to meet costs associated with detaining and incarcerating the growing Federal prison population, which has resulted from increased arrests and the imposition of minimum mandatory sentences; and (5) increased funds for existing Federal law enforcement activities. The budget authority investment is $900 million in 1997, $2.8 billion over four years.

Equal Employment Opportunity Commission (EEOC)/Enforcement. Increase EEOC enforcement staff in field offices to provide full enforcement of the Americans With Disabilities Act and the Civil Rights Act of 1991. The proposed outlays are $18 million in 1997, $63 million over four years.

Health Care

HHS/AIDS, immunizations, NIH research, and other public health initiatives. This investment provides substantial new funding—$3.4 billion in 1997 and $8.2 billion over four years—for a number of public health initiatives including: (1) HIV/AIDS research; (2) research on women's health issues; (3) the President's plan for increasing childhood immunizations; (4) teen pregnancy programs, and (4) other efforts to promote public health.

HHS/Substance abuse prevention and treatment. Challenge grants to the States to create substance abuse treatment capacity where is it needed most and for hard-to-treat populations. It will serve 30,000 people in 1994 and more in years after. The outlays are $800 million in 1997, $1.5 billion over four years.

USDA/Food Safety and Inspection Service. Improve the existing meat and poultry inspection system by increasing the number of Food Safety and Inspection Service inspectors available in order to ensure that visibly diseased animals are not processed, slaughterhouses and processing plants are clean and follow safe food handling procedures, and plant employees follow proper hygiene. Food safety research would also be enhanced. This responds to a clear need for improvements, highlighted by the recent food poisoning outbreak in Washington State. The initiative adds 200 inspectors. The investment is $34 million in 1997, $111 million over four years, and it would create some 275 jobs in 1994.

Rural Health Initiative. This proposal provides grants and other assistance to small rural hospitals to upgrade needed services. Grants may be used to launch integrated health systems and telecommunications links for remote consultation and diagnosis in low manpower areas. Estimated $50 million in 1994.

VA/Medical care. This four-year investment provides a $2.5 billion increase over the baseline to ensure high quality health care for veterans by such measures as providing adequate staff levels to meet requirements on residency education programs and automating drug dispensing in VA hospitals.

HHS/Social Security Administration/Disability insurance processing. Increase resources for the processing of dramatically increased disability benefit claims by $200 million in 1995–98. This will cut down on the significant delays that have occurred in recent years and reverse the general decline in service.

HHS/Ryan White Act. HIV/AIDS is now the ninth leading cause of death overall. Currently, approximately 1 million people are infected with HIV in the U.S., and about 60,000 new AIDS cases are reported each year. The President has pledged to respond to this need by fully funding the Ryan White Act and increasing Federal support for HIV/AIDS prevention efforts. To begin fulfilling these pledges this year, this proposal would increase funding for grants authorized under the Ryan White Act by $120 million in 1994. The proposal includes additional funding of approximately $1 billion over the next four years.

State and Local Relief. Within the Health Care, Rewarding Work and Lifelong Learning investment packages, the Administration will design a program to offset the impact of refugees and undocumented residents on the budgets of State and local governments, including those in California, Texas and Florida.

Investment Package: Tax Incentives

We recognize that the only way to lay the foundation for renewed American prosperity is to spur investment. New investment will create jobs, putting people back to work today, and will provide the productive equipment that we need to compete in the global economy.

Our overall program consists of outlays for physical and human capital and investment tax incentives for the private sector. Outlays for physical capital will help rebuild the crumbling foundations of the United States, create millions of high-wage jobs, and smooth the transition from a defense to a commercial-based economy. Our program will concentrate on the transportation, environment, and communications infrastructure. The program of tax incentives will increase private investment over the long run. Like the outlay programs, these incentives are designed to increase investment in human and physical capital. These incentives will be particularly helpful to small business which generates the lion's share of jobs.

Permanent small business tax credit. As discussed in the stimulus package, the plan provides that small businesses will now be eligible for a permanent investment tax credit on their equipment. The credit will generally be 7 percent in 1993 and 1994, and 5 percent thereafter. Small businesses operate at the margin and need a permanent incentive to invest, grow and provide new employment opportunities.

Incentive for investment in small business. The program provides relief from the capital gains tax for investors in small businesses. This proposal will allow investors generally to exclude 50 percent of the gains earned from investment in the stock of a qualified small business (less than $25 million capitalization) when held at least 5 years. Furthermore, 50 percent of the excluded gain is not subject to taxation under the alternative minimum tax. The tax incentives will both stimulate job creation over the short-run and increase investment over the long-term.

Research and experimentation tax credit. The economic plan will permanently extend the research and experimentation credit. This will encourage firms to undertake the research necessary to develop the technological innovations required to increase the supply of good jobs.

Real estate. The plan also permanently extends both the low-income housing credit and mortgage revenue bond provisions. Doing so will provide a stimulus to increase the supply of housing for low-income families. In addition, the program modifies the passive loss rules for persons in certain real estate trades or businesses, relaxes restrictions on pension investments in real estate and extends the depreciable life of nonresidential real estate.

Enterprise zones. This part of the program authorizes the establishment of a number of enterprise zones. Businesses located in enterprise zones will be eligible for a wage credit for the hiring of enterprise zone residents and accelerated depreciation or expensing of investments in enterprise zone property. In addition, small businesses in qualifying economically distressed areas will be eligible to obtain low interest rate loans through tax-exempt financing even if the area is not selected as one of the zones. Combined with the other tax incentives and other non-tax initiatives targeted to urban areas, these benefits should help promote investment and job creation in these areas.

Simplifying and enhancing depreciation provisions for companies subject to the alternative minimum tax (AMT). As noted in the discussion of the stimulus package, the plan substantially enhances the investment incentives for taxpayers subject to the AMT and simplifies the AMT by using the shorter regular tax depreciable lives for minimum tax as well as regular tax purposes. Because they reduce the net cost of acquiring depreciable assets, this proposal will provide a lasting stimulus to investment for affected companies.

Targeted jobs tax credit; employer-provided educational assistance. The plan permanently extends these two provisions, thus providing an incentive for American businesses to continue to invest in human capital. The plan also expands the targeted jobs tax credit to include workers in an apprenticeship program. An educated workforce will be more productive and better able to adapt to the challenges of a modern information-based economy.

Health insurance deduction for the self-employed. The plan calls for an extension of the 25 percent deduction for health insurance premiums of the self-employed through the end of 1993. This will retain the current law tax treatment of these premiums for affected individuals until the Administration's comprehensive health care proposals are enacted.

Small issue bonds and high speed rail facilities. The ability to issue tax-exempt bonds for qualifying small businesses and certain farmers would be extended permanently under the plan. In addition, in order to promote the development of high speed rail facilities, tax-exempt bonds issued for that purpose will not be subject to the State private activity bond volume limitations.

Investing in the Future: Reducing the Deficit to Increase Private Investment

Why this plan?

The Federal budget deficit is too high, and must be reduced. But how fast? A lower deficit will strengthen the economy in the long run—by increasing national saving, lowering long-term interest rates, and encouraging private investment. But reducing the deficit too rapidly could weaken the economy in the near term. Every dollar of Federal spending, worthy or unworthy, is someone's income. If that income is cut, and that recipient reduces his or her spending as a result, the loss of income cascades through the economy. Tax increases produce the same effect. So deficit reduction must be prudently sized, carefully timed, and coordinated with other Government policies (and with the Federal Reserve's monetary policy) to limit the economic cost.

The impact of a deficit reduction package on the economy is best measured by the relative sizes of the two—that is, by the amount of the deficit reduction amount as a percentage of the gross domestic product (GDP). The larger the deficit reduction at any given time, the greater the risk of economic dislocation. History suggests that annual deficit reduction of less than one-half of 1 percent of the GDP is safe, and that deficit reduction of under 1 percent of the GDP is manageable, as long as the Federal Reserve cooperates by easing the money supply. Further, to limit that risk in a substantial program of multiyear deficit reduction, the size of the bite out of the deficit should be held to a relatively even percentage from year to year.

Relying on these principles, this Administration's economic program is designed to impose policy deficit reduction savings of slightly less than one-half of 1 percent of the GDP per year over four years. This pace maintains a substantial margin of safety and provides the Federal Reserve with ample notice to expand the supply of credit in compensation, but also accumulates to a significant reduction of the Federal Government's drain on the Nation's savings by the end of the period.

Apart from growth miracles, there are only two ways to reduce a deficit: spending can be cut or taxes can be raised. Both are controversial and bound to arouse vociferous opposition. We have attempted to put together a balanced plan of deficit reduction that includes both spending cuts and tax increases.

We believe the plan is *fair*. It spreads the necessary contributions broadly. It does not bear heavily on any one group or region or industry. The proposed spending cuts do not fall on the most vulnerable members of our society, but on those best able to shoulder the cost. The tax increases included in the plan fall disproportionately on the wealthiest. They place a fair share of the burden of deficit reduction on those who profited the most from the uneven prosperity of the last decade and who enjoyed the greatest reduction in their share of the burden of Government. Those earning more than $100,000 will contribute over 70 percent of the total new revenue.

We believe that the specifics of the plan contain many *desirable policies* that could be defended on their merits, quite apart from the need to reduce the deficit. On the spending side, cuts have been aimed at low-priority programs. The purpose of deficit reduction is to transfer resources within the economy from low-priority uses to additional public and private investments that add more to our economic strength. A changing world makes some Government programs obsolete—just as it leaves some private businesses in abandoned corners of the marketplace. The Administration proposes to rationalize or eliminate programs that have outlived their usefulness; that provide unnecessary or excessive subsidies to narrow groups at great expense to society at large; or that reduce the overall efficiency of Government. Continued support for such programs would weigh down the economy as a whole with a burden that can only grow in the future. It is time to put the national interest ahead of the special interests. On the tax side, the proposed new tax on energy will encourage socially responsible behavior such as energy conservation and environmental protection.

We also believe that the plan is *bold*. There is no way to reduce the deficit without incurring the opposition of politically powerful groups and lobbies. This Administration has not shrunk from proposing necessary spending cuts or tax increases for fear of offending powerful interests. Deficit reduction is essential to the economic health of the nation, and all groups must contribute to the solution of this common problem.

Much of the deficit reduction that we propose can and should be legislated in this fiscal year. Some of it, however, will depend upon actions in later years that cannot be determined now. For this reason, we propose an extension of the Budget Enforcement Act of 1990 to set the conditions for decisions in the future; and we also propose an enhanced rescission procedure that will give this President—and all future Presidents—the opportunity to require a simple majority vote on individual spending items. These procedural changes will safeguard the deficit reduction we need.

The heart of the benefit from deficit reduction is the additional private investment that it allows. Those investment dollars, driven to their best uses by an intensely competitive marketplace, will add to wages for workers and profit for entrepreneurs. However, the private sector also needs tools that only the public sector can efficiently provide: the skills and the infrastructure upon which businesses can build.

Accordingly, this Administration proposes to dedicate a modest share of its deficit reduction—about one dollar in five in 1997—to selected public investments in physical infrastructure; technology development and dissemination; environmental protection and energy conservation; the education and training of our work force; incentives for work; and preventive health care and public health. A further share of the deficit reduction—less than 10 percent—will go toward tax incentives for private investment and work effort.

This combination of increased private investment—through deficit reduction and targeted incentives—and increased public investment—through a reorientation of Federal Government priorities—will help to reverse the self-destructive consumption binge of the last decade and to solidify the economic base upon which our nation can grow in the competitive world of the next century.

Based on cautious economic assumptions, this program will begin to rein in the Federal budget deficit, which now is growing faster than the economy; that is an unsustainable condition that will deal with us if we do not deal with it. We chose that cautious base to avoid the overconfidence that has led to foolish and impossible commitments in the past, and to the resultant reversals of economic policies. However, the Administration is confident that the additional public and private investment will stimulate growth and reduce interest rates, both of which will narrow the deficit gap still further. There remain unfinished economic policy tasks. Other commitments must be addressed and other economic policies reformed. These will be identified later in this report.

The Clinton Administration's approach to deficit reduction accepts change as its point of departure. Because the world has changed, America's armed forces must redefine their roles and missions, and translate those updated missions into new resource requirements. Similarly, old verities no longer work on the domestic side. Indeed, a drastic restructuring of Federal priorities is overdue on both fronts.

Facing New International Challenges and Opportunities

While this report focuses on our economic plan, the nation faces a host of new international challenges and opportunities that will affect the prospects for domestic economic renewal. World economic growth, our national security and the health of our domestic economy are integrally linked. When our economy is growing, we have more strength in international negotiations, our institutions and values hold more attraction abroad, and our international engagement is more affordable and sustainable. Moreover, our willingness to confront the global issues and problems of the post-Cold War era will determine whether we will shape global change in ways that advance our interests, or let those changes engulf us. The agencies of government that defend and promote American interests and values abroad must be redesigned to deal directly with new international challenges and to operate efficiently in a streamlined government.

This economic plan and the budget that will follow redirect and reinvigorate our national security priorities and institutions to meet new international challenges and take advantage of new opportunities. This plan is an investment in preventing regional wars and international crises that could consume scarce resources. It also invests in new initiatives that will yield economic and environmental benefits for the American people.

International Affairs

United States foreign policy seeks a world community increasingly receptive to democracy, market economics and international cooperation as we face new international challenges. While spending for international affairs must share in the reductions we are carrying out across the government, our budget plan has made room for a number of important new initiatives, while maintaining those existing programs that advance our enduring interests.

Few issues are more vital to our long-term security than the progress made in Russia and other states, from Eastern Europe to Latin America and Africa, toward democracy and the establishment of market economies. We already have made a significant investment in supporting this evolution; our new budget increases our commitment to progress in this area. For example, we are committing funds to such new initiatives as a Radio Free Asia, to carry news and hope to China and other Asian nations.

Our national security is also linked to helping prevent or resolve conflicts that can grow out of ethnic, regional, or religious tensions throughout the world. International peacekeeping and peacemaking activities have increasing value in such conflicts. Somalia, Bosnia, Cambodia and Mozambique provide current examples of multilateral peacekeeping efforts; more such exercises are likely in the future. Our budget plan accommodates the likelihood of greater peace-keeping commitments.

The proliferation of weapons of mass destruction and the means of their delivery poses a serious long-term threat to international peace and stability. This administration is shaping a coherent non-proliferation strategy, which will be supported by our budget plan.

The competitiveness of U.S. firms in the global market is another foreign policy priority. We will create a dynamic two-way relationship with the business community that responds to its needs rapidly and creates a more level playing field for international trade.

We also plan to address more coherently the many challenges posed by the degradation of the global environment, through strong support for international agreements and programs to protect that environment. We are building a strong base for a new approach to global environment problems. Finally, our budget plan increases our commitment of resources to active population programs, and significant on-going support for refugee and humanitarian assistance—festering problems that, unattended, will create tomorrow's crises.

In order to fund these priorities and initiatives, we are also working to streamline and modernize the structure of our national security machinery. Some current programs, designed to meet the needs of the Cold War era, need new focus. We are reshaping the Department of State, as well as the Office of the Secretary of Defense and the National Security Council staff, to give new strategic emphasis to problems such as assisting the former Soviet Union, non-proliferation, new global issues and our economic competitiveness. We are reviewing such programs as international security assistance, development assistance, and information and broadcasting, many of which were designed for the Cold War. We will be taking a close look at future priorities for international development lending through multilateral development banks, and at export guarantee and promotion programs. Over time, we hope to restructure many of these activities, streamline their operations or redesign them, while meeting our existing international commitments and enhancing American interests.

National Defense

The world remains a dangerous place, but the nature of those dangers has dramatically changed. Our military forces and intelligence capabilities must, therefore, continually be redesigned in a changing world. Unquestioned American military power remains essential to the success of our diplomacy and to strengthening our international relationships.

Reducing the size of the military to provide funds for other needs, therefore, is not our purpose. Rather, our goal is to reshape our forces to provide us with the capabilities we need to defend our continuing interests, deal with new problems and threats, and contribute to the promotion of democracy, prosperity, and security in a new world.

Our defense strategy will be driven by a fresh assessment of the challenges that require the use of American military force because they threaten our interests or require our engagement. Many of these already are known: from the continuing confrontation in Iraq, to our humanitarian operations in Somalia. Other risks are equally real: the potential for new conflict in such places as Korea or the Middle East; the international dangers of ethnic, religious or regional conflicts in other regions, such as the Balkans; and the proliferation of weapons of mass destruction and the means of their delivery.

The forces we design to address these challenges will continue to be built on the superb capabilities and training of our military personnel and the continuing technological superiority of our weapons. The men and women who proudly serve America in our military constitute the finest fighting force in the history of the world; we must ensure they remain so. We are determined to avoid a hollow military. Our defense program will fulfill this promise. Together with active diplomacy and a strong economy, our military will maintain deterrence, reduce the incentive for others to proliferate, reassure our friends and democratic allies and discourage potential adversaries, preserve freedom on the high seas, protect our global economic interests, combat terrorism and drug-trafficking, and enable us to take part in global peacekeeping and peacemaking activities.

These forces will be consistent with the design we have promised: 1.4 million men and women on active duty, a strong, integrated reserve and a capable forward presence of roughly 100,000 troops in Europe. Our military will be *mobile* (with the sealift and airlift it requires), *agile* (with new technologies and integrated doctrine which allows it to dominate by maneuver, speed and technological superiority), *precise* (to reduce the loss of life in combat), *flexible* (to operate with diverse partners in diverse regions), *smart* (with the intelligence and communications it needs for the diverse threats it will face) and, especially, *ready* (given the unpredictability of new threats).

Our defense planning also confronts a new fiscal and management challenge. The most recent five-year budget projection of the previous administration may underestimate the true costs of the forces and hardware in their plan. In addition, we may well face greater than previously anticipated liabilities, such as environmental cleanup costs at our bases and facilities, as we downsize the Cold War defense establishment. Finally, the budget we inherited may overstate the savings that would result from planned defense management reforms and overhead consolidations. A task force has been appointed to review this problem and report back to the Secretary of Defense. Our defense plan delivers on the savings we promised; we plan to deliver, as well, on our commitment to honest budgeting and tight management in the Defense Department.

Our plan will also redesign defense administration and operations to carry out new initiatives and face post-Cold War challenges. A restructured Defense Department will focus on the new issues and threats, on sound financial and cost management, on military personnel and readiness, and on creating a streamlined, efficient acquisition process. In addition, we intend to do more to integrate and harmonize the roles and missions of the services.

Finally, we plan to attend to the needs and problems of the nation's defense industrial and technology base, defining the core skills and industries we require for our defense and working to integrate more closely defense and commercial technology and manufacturing. As we reduce the size of our forces, we must repay the debt of gratitude we owe to the men and women in the services and the defense industries who have served their nation over the past 45 years. Our budget plan includes a firm commitment to assist the transition for military and civilian personnel to private life and other work. Elsewhere, we have described our defense reinvestment and transition program, including new technology investments and programs, job retraining, and community diversification assistance.

This military program will also be affordable. Planned funding for national defense over the next four years fulfills the promise of an additional $60 billion in program savings. Combined with government-wide pay and benefit changes and additional reductions to offset projected underfunding, this program will yield $37 billion in outlay savings in 1997. (See Table 3–3.) We will implement those reductions carefully as part of our effort to redesign the force. As we undertake a major strategic review over the coming months, we will identify new changes, savings and additions that will fit our new strategy.

TABLE 3–3. SUMMARY OF NATIONAL DEFENSE BUDGET ADJUSTMENTS

(In billions of dollars)

	1997 Outlays
Bush adjusted baseline	287
Adjustments to baseline:	
Program reductions [1]	−28
Pay and benefit changes	−6
Additional reductions to offset projected underfunding	−5
Total adjustments	−37
Revised budget level [2]	249

Note: Details may not add due to rounding.

[1] These outlay savings reflect 1994–1997 budget authority reductions of about $60 billion from national defense programs

[2] These estimates do not include the investment package initiatives for defense conversion and for energy efficiency in Federal buildings.

Restructuring Domestic Government

Our founders saw themselves in the light of posterity. We can do no less. Anyone who has ever watched a child's eyes wander into sleep knows what posterity is. Posterity is the world to come—the world for whom we hold our ideals; from whom we have borrowed our planet; and to whom we bear sacred responsibility.

Bill Clinton

It is critical that we reduce long-term budget deficits in order to make room for greater private investment in the economy. Some savings are justified on those grounds alone. But part of the effort to remake government means eliminating spending that is unnecessary or wasteful, that provides unjustified subsidies to particular industries or areas, that goes to programs that simply do not work or which are no longer useful in a changed world, or that contribute to growing health care costs. There are some savings we must also enact to ensure that all groups contribute to the success of our efforts. The detailed deficit reduction plan follows. Unless otherwise noted, savings are in outlays for 1997 and the four-year period of 1994–1997.

Reform programs that don't work or are no longer needed

Making government work for the next century means reforming programs that don't work and updating policies and programs that were designed to meet the needs of an earlier era.

USDA/Federal Crop Insurance. The Federal crop insurance program suffers from high losses and low farmer-participation. Over the period 1981-1990, total Federal Crop Insurance Corporation (FCIC) indemnities exceeded total premiums by $2.5 billion. For every dollar paid in premiums, one dollar and forty cents is paid out by FCIC in indemnities. The Administration proposal for reform builds on an ongoing FCIC pilot project by changing to "area-yield" insurance. Area-yield would set premiums and pay indemnities based on an area's (e.g. a county's) performance, rather than that of an individual farmer. Farmers who purchase area-yield insurance would be paid whenever the county yield for a particular crop dropped below a specified level for a given area. Farmers could select a desired "trigger" yield and amount of protection per acre. Higher, individual insurance coverage would be available only through the private sector without Federal subsidies. Discretionary savings would result from reduced loss adjustment activities. Entitlement savings would come from a reduced FCIC loss ratio, from the present 1.4 to roughly 1.1. The estimated savings are $171 million in 1997, $551 million over four years.

USDA/Economic Research Service. USDA's Economic Research Service (ERS) provides economic and other social science information and analysis to USDA and others. However, much of its work duplicates that of other USDA bureaus. This proposed reform would result in reduced duplication as well as direct ERS efforts toward the most essential information activities. The estimated savings are $17 million in 1997, $61 million over four years.

Commerce/Economic Development Administration Trade Adjustment Assistance Program. The Administration proposes to eliminate the Department of Commerce's Trade Adjustment Assistance Program (TAAP), which provides technical assistance to firms that are adversely affected by increased imports. There is no evidence that the TAAP succeeds in restoring the international competitiveness of the firms it assists. It simply diverts resources and attention away from competitive businesses and eases the problems of non-competitive businesses. This proposal would **not** affect the Department of Labor's Trade Adjustment Assistance Program for **individuals** in industries affected by international trade. Estimated savings are $14 million in 1997, $30 million over four years.

State Justice Institute. The Administration proposes to eliminate the State Justice Institute, a Federally-assigned agency. The program serves States well but fulfills no clear Federal purpose. The estimated savings are $17 million in 1997, $51 million over four years.

Energy/Eliminate unnecessary nuclear reactor research. The Administration proposes necessary funding in the research and development area for maintaining the operation of the current generation of reactors and the licensing actions for reactors that have commercial interest. It also includes the necessary funding to support the high-level waste program. This proposal eliminates the research and development funding support and related facility funding for nuclear reactors **that have no commercial or other identified application.** It provides necessary funding for termination costs as well as for safety-related activities that are required to place the test facilities in a safe-shutdown condition.

Termination of Commissions. The Administration proposes to eliminate a number of commissions which are no longer necessary, for savings of $11 million in 1997, $41 million over four years. They are:

- National Space Council
- National Critical Materials Council
- Commission on the Bicentennial of the U.S. Constitution
- Competitiveness Policy Council
- National Advisory Council on the Public Service

In addition, the President has issued an executive order requiring the elimination of more than 200 advisory committees now operating throughout the government.

USDA/Rural Electrification Administration. The Administration proposes to maintain electric and telephone loan levels but eliminate loan subsidies on most REA loans by increasing loan interest rates from 5 percent (and in some cases 2 percent) to Treasury rates (currently 6.8 percent). $25 million in 5 percent loans for electric distribution "hardship" borrowers would be maintained each year through 1998. REA was created in 1935, when only 11 percent of farms in the U.S. had electric service. Now nearly 100 percent of rural areas have this service. Many REA loans are currently made to suburban and resort areas. In addition, many current telephone borrowers are subsidiaries of major telephone corporations. The vast majority of REA borrowers can afford private financing without significant increase in rural subscriber rates. The estimated savings are $150 million in 1997, $374 million over four years.

USDA/Farmers Home Administration. The Administration proposes to reduce Farmers Home Administration (FmHA) direct farm loans 25 percent and replace them with an equal amount of subsidized guaranteed loans. Lower interest rates have created greater opportunities for use of subsidized guaranteed loans rather than direct loans, and given the projected continuation of these lower rates, the same individuals can be assisted at less cost to the taxpayer, while farmers gain valuable, lasting relationships with their local lending institutions. Estimated savings are $10 million in 1997, $31 million over four years.

Commerce/Bureau of Export Administration. The Bureau of Export Administration is the principal Federal export control agency. Since the break-up of the Soviet bloc and the dissolution of the Soviet Union, the workload associated with export control licenses on dual use technologies has precipitously declined. Estimated savings are $7 million in 1997, $27 million over four years.

HHS/Health Professions Curriculum Assistance Grants. The Federal government, through HHS, awards health professions curriculum assistance grants to support the training of various types of health professionals. Recognizing that most health professionals are no longer in short supply, targeted support through the health professions curriculum assistance grants would continue to be available for primary care, nursing, and the effective elements of disadvantaged student assistance. Estimated savings are $27 million in 1997, $87 million over four years.

Environmental Protection Agency/Completion of Wastewater Treatment Construction Grants. This proposal reflects savings due to the completion of the current wastewater treatment grant funding authorization that was designed to end Federal assistance for wastewater funding. With the $846 million in wastewater stimulus funding provided in 1993, the $18 billion authorization under the 1987 Water Quality Act will have been largely completed a year ahead of schedule. Under this authorization, wastewater State Revolving Funds will have been capitalized at $10.3 billion (including the State 20-percent match) for the purpose of making loans to municipalities for construction of wastewater treatment plants. As these loans are repaid, States will be able to make a new round of loans due to the self-sustaining nature of the State Revolving Funds. Also, one of the long-term investments proposed by the Administration is a new $2 billion annual authorization for capitalizing Clean Water State Revolving Funds for low-interest loans to municipalities to address water quality problems. Estimated savings resulting from the completion of the wastewater treatment authorization are $1.9 billion in 1997 and $4.1 billion over four years.

Commerce/Appalachian Regional Commission. The Administration proposes to freeze spending for the Appalachian Regional Commission at the 1993 level of spending. The Commission was established in 1965 to help improve economic and social conditions in the 13-state Appalachian region. Approximately 70 percent of its funding supports highway construction. More than two-thirds of the Appalachian Highway System has been funded. Increases in federal-aid highway funding will more than compensate for the reductions necessitated by this proposal, which saves $11 million in 1997 and $20 million over four years.

Community Investment Program. This program will be fully funded in 1994. However, the new crime initiative proposed by the Administration provides substantially increased funding for the social service and anti-crime programs supported by the Community Investment Program, making this program duplicative. Streamlining these programs will allow for increased Federal coordination and lead to efficient and effective policies of community revitalization and crime fighting throughout the country. Estimated savings are $552 million in 1997, $1.2 billion over four years.

Tennessee Valley Authority. The Administration proposes to terminate the Tennessee Valley Authority's fertilizer research activities and its economic development program. The fertilizer industry is fully capable of financially supporting fertilizer research without the need for taxpayer subsidized work in TVA. With regard to economic development, while these activities have a long and noted history, other much larger programs with similar purposes have been put into place, and are slated to receive substantial increases from the Administration's stimulus and investment proposals. The estimated savings from this proposal are $188 million from 1994 to 1997, including $50 million in 1997.

Eliminating Subsidies; Charging Fees for Government Services

The nation can no longer afford subsidies and giveaways to those who don't need them, and we must assure that the taxpayer is fairly compensated for services or resources provided by government.

USDA/Phase out below-cost timber sales. Timber sales from some National Forests do not cover the costs to the government of making the timber available for sale. This proposal would gradually eliminate sales in those forest regions where timber-sale program costs exceed timber-sale revenue. This gradual phase-out would reduce the economic impacts on rural communities dependent on the timber industry. Below-cost forests would be reviewed periodically to determine if sales could proceed at no net loss to the Government. Estimated savings are $86 million in 1997, $274 million over four years.

Expand Agriculture user fees. New user fees for three USDA agencies (the Federal Grain Inspection Service, the Agricultural Marketing Service, and the Agricultural Cooperative Service) to recover costs for Federal services being provided to a specific group. Estimated savings are $16 million in 1997, $59 million over four years.

USDA/Meat and poultry fees. Requires all slaughterhouses and processing plants with overtime shifts to reimburse the government for the full cost of Federal meat and poultry inspections. Estimated savings are $104 million in 1997, $416 million over four years.

HHS/Food and Drug Administration user fees. Identifiable beneficiaries of government services should pay for the value conferred by certifying the safety and efficacy of drugs and medical devices. Estimated savings are $336 million in 1997, $1 billion over four years.

Bureau of Alcohol, Tobacco and Firearms (BATF) user fees. BATF is required to approve all alcoholic beverage labels and conduct various laboratory analyses to assure compliance with Federal law. There is currently no charge for these services, though manufacturers receive real, tangible benefits from them.

Collection of these fees to cover BATF's costs will save $20 million over the 1994–1997 period, and $5 million in 1997.

SEC/Higher registration fees for securities being sold to the public. The Administration proposes to raise this charge to corporations to cover the SEC's costs. The proposal would raise the rate at which this fee is collected, and at the same time increase the amount that helps to fund the SEC directly. Estimated savings are $54 million in 1997, $203 million over four years.

DOE/Power Marketing Agencies (PMAs) debt repayment reform and market incentives for conservation. The Federal Government owns and operates five Power Marketing Agencies (PMAs), which sell electric power generated at 123 Corps of Engineers and Bureau of Reclamation dams across the country. Congress intended that the full cost of the power portions of these facilities be repaid by power customers. Proposals to cover the full cost of PMA-supplied power have been studied for years. The Administration's initiative, however, is different from previous proposals. It combines a modest repayment reform, which does not involve changing interest rates, with a powerful market-based incentive for customers to reduce electricity consumption through demand side management programs and switching to the direct use of natural gas. Under the proposal, the PMAs would use straight line amortization of project appropriation debt to help recover more of the government's full cost of providing the power. The proposal also creates incentives for conservation by allowing PMA wholesale customers to resell power saved through demand side management activities or through switching to the direct use of natural gas. Customers' profits from the resale of the conserved power would be shared 50/50 with the Federal government until the power portions of the projects were repaid. The Federal government would collect over $500 million in 1997 from both of these initiatives, about $1.7 billion from 1994 to 1997. The straight line amortization schedule (requiring a fixed percent of the outstanding principal to be repaid each year) would have a *de minimus* effect on retail rates.

Phase-in increased Inland Waterway user fees. The Nation's inland waterways are the most heavily subsidized form of commercial freight transportation. Since the system was constructed for commercial navigation beneficiaries, they should pay for all operation and maintenance costs. Existing inland waterway fuel taxes collected on applicable segments of the system only offset half of the Corps of Engineers' cost of construction and major rehabilitation (estimated at $430 million in 1993). This proposal would increase the 1994 Federal inland waterway fuel tax from 19 cents to $1.19 per gallon in a series of increasing steps to a total of $1.00. Estimated savings are $460 million in 1997, $820 million over four years.

USDA and Interior/Increase grazing fees. The Administration proposes an increase in grazing fees on public lands as negotiated by the Secretaries of Interior and Agriculture. Grazing fees are the charge for an annual permit to graze cattle, sheep, or horses on Federal lands. The permits are based on a fee per "Animal Unit Month" (AUM). The AUM for cattle is the acreage needed to support a cow and calf with one month's worth of forage. Today, grazing fees are based on a formula established by the 1978 Public Rangelands Improvement Act for a seven-year trial period. The formula was continued by Executive Order in 1985 when the trial period ended. Th formula calculation resulted in a fee of $1.92 per AUM in 1992, and a reduction to $1.86 per AUM for 1993. Recent estimates of fair market value for public range are two to five times higher. This proposal would give Secretaries of the respective departments the authority to negotiate a fee schedule that would generate estimated revenues of $76 million in 1994–1997 ($35 million in 1997).

Interior/Implement a Federal irrigation water surcharge. Authorize a per acre-foot surcharge on water sales to Reclamation projects throughout the West (except for the Central Valley Project in California, for which a similar surcharge was recently enacted). Revenue from the surcharge would be deposited into a special fund for use (subject to appropriations) in mitigating harm to fish and wildlife caused by irrigation. These costs are currently paid by the Federal taxpayer or repaid by project beneficiaries (without interest) over 50 years. The surcharge would also encourage more rational water use that would reduce the harmful impacts of non-point source pollution. Estimated savings are $15 million in 1997, $45 million over four years.

Army Corps of Engineers/Increase recreation fees at existing Corps of Engineers areas. This proposal would give the Corps of Engineers authority to increase certain camping fees and eliminate free camping sites in order to increase the amount of Corps of Engineers' costs that are offset by the users of these facilities. Additionally, the Corps could add fees for use of some facilities. The fee increases would be in the range of $1 to $3 per site or activity, but in no case greater than $3 per site or activity. Fees would not be charged for wayside exhibits, overlook sites, general visitor information, or comfort facilities. The increased fees would be collected in a special account to be used (subject to appropriation) to offset recreation program costs. No Corps of Engineers entrance fees would be charged. The Corps of Engineers currently charges camping fees, averaging $6 per site, and special-use fees for activities such as use of group picnic shelters. Estimated savings over four years, $72 million, including $18 million in 1997.

Interior/Increase recreation fees at certain national parks and other recreation areas. Authority would be given to the Secretary of the Interior to increase entrance fees for certain National Park Service and Fish and Wildlife Service areas. Also establish entrance fees at other National Park units and Bureau of Land Management developed recreation sites where justifiable. Where appropriate, the Bureau of Land Management would also increase special-use permit charges. With the exception of entrance to national parks, increases in current fees would be no greater than $3 per entry. This proposal would generate an anticipated $147 million in 1994-1997 receipts ($45 million in 1997) to be used, subject to appropriation, to maintain and enhance recreational opportunities furnished by the Department of the Interior.

Interior/Permanently extend hardrock mining holding fees. There are over one million hardrock mining claims on Federal lands operating under the 1872 Mining Law. Hardrock minerals include gold, silver, lead, copper, zinc, and numerous other minerals. The 1872 Law requires claimants to annually perform $100 worth of work to develop and maintain their claims. Claimants must pay only a filing fee to the Federal government for the right to mine this land. This proposal would permanently authorize charging a $100 per claim holding fee on all hardrock claims on Federal lands (extending a fee enacted for 1993). The claimant would be relieved of annual work requirements, which should increase his or her flexibility on timing the development of claims. It will also reduce unnecessary ground disturbance to satisfy current law. The proposal would increase revenues to the Treasury by an estimated $80 million per year, after covering the costs of administering the entire hardrock mining program, including environmental compliance. It would generate estimated revenues of $320 million in 1994–1997.

Interior/Institute hardrock mining royalties. Establish a 12.5 percent royalty on the gross value of the hardrock minerals extracted from mining claims on public lands. There are over one million hardrock mining claims on Federal public lands operating under the 1872 Mining Law. Hardrock minerals include gold, silver, lead, copper, zinc, and numerous other minerals. The 1872 Law was one of many laws intended to encourage the settlement and development of the West. It allows miners to prospect, make claims, and extract minerals from Federal lands for the cost of filing a claim. There is no current authorization to charge a royalty on hardrock minerals privately extracted from public lands. Laws enacted early in this century provide for Federal leasing and collection of royalties from oil, gas, coal and certain other minerals extracted from Federal lands. Hardrock mining, however, remains under the rules of the 1872 Law. The new royalty would be phased in over three years. The time necessary to set up and administer the royalty in the most effective way would delay initiation of royalty collection until 1995. Receipts from hard rock mining royalties would be shared with the States where the mining occurs. This proposal is expected to pay for the costs of enforcement and collection. It would generate estimated revenues of $471 million in 1994–1997, including $277 million in 1997.

Treasury/Improve enforcement of harbor maintenance fees. Provide up to $5 million annually from the Harbor Maintenance Trust Fund for the Department of the Treasury (Customs Service) to improve compliance with existing harbor maintenance fees. Harbor maintenance fees paid by shippers consist of an ad valorem tax applied to the value of cargo shipped through U.S. harbors. Currently, the Customs Service administers the Harbor Maintenance Fee only at a minimum level, and many fee collections are on a voluntary basis. Estimated savings: over four years, $165 million; 1997, $65 million.

USDA and Interior/Permanently extend 50 percent net receipt sharing (on shore minerals). Permanently extend 50 percent net receipt sharing for on-shore minerals. States sharing mineral receipts should also share the costs of administering the mineral receipts program. Net receipt sharing occurs when the Federal government, prior to distribution of gross mineral receipts to the States and Federal Treasury, deducts a portion of the costs of administering the Federal minerals program. Since 1991, Congress has placed language in the Interior Appropriations bills directing 50 percent net receipt sharing (deducting 50 percent of the cost of the programs before distribution to States and the Federal Treasury). This proposal would save an estimated \$170 million in 1994–1997 outlays (\$45 million in 1997).

USDA/Increase Forest Service recreation fees. The Forest Service manages 156 national forests that provide a wide spectrum of outdoor activities, including over 33 million acres of wilderness, 5,800 facilities, and approximately 116,000 miles of trails. Currently, the Forest Service charges user fees for fully equipped camping sites. In order to generate revenue to maintain and enhance recreation on National Forests, the Forest Service would selectively charge entrance fees for developed recreation areas, such as areas where all-terrain vehicles are allowed. These fees would range from \$1 to \$3. User fees would be increased by no more than \$3 per site or activity. These proposed recreation fees would generate an additional \$10 million in 1994 and would be placed in a special account to be used, subject to appropriation, to maintain and enhance recreational opportunities in National Forests. Estimated savings are \$13 million in 1997, \$46 million over four years.

USDA/Eliminate subsidies to honey producers. All Commodity Credit Corporation (CCC) price-support payments to honey producers would be terminated. There are roughly 3,500 individuals enrolled in USDA's honey program. These represent slightly more than 1 percent of all honey producers in the U.S. Roughly 350 individuals get over 50 percent of payments made by the honey program. Due to the large number of pollination servicers whose bees are not in the program, pollination of the Nation's crops would not be significantly affected by this proposal. Estimated savings: \$4 million in 1997, \$32 million over four years.

USDA/Target CCC farm subsidy payments to farmers with off-farm incomes below \$100,000. Make ineligible from receiving CCC crop subsidies (price support loans and income support payments) any producer receiving \$100,000 or above in off-farm adjusted gross income. USDA farm programs are criticized for unfairly supporting large farms and wealthy producers rather than smaller farms and lower-income farmers. U.S. farm producers have an annual income more than twice the national average. The Congressional Office of Technology Assessment concluded that most big farms "do not need direct government payments and/or subsidies to compete and survive." The proposed targeting of subsidies would direct farm payments to smaller, family farms, which deserve Federal financial help more than large agricultural enterprises. It would cause an estimated 1–2 percent of program participants to drop out of USDA farm programs. Most of these wealthiest participants include corporations and individuals for whom farming is not their primary occupation or source of income. Savings: $470 million in CCC outlays during 1994–1997, and $140 million in 1997.

USDA/Increase non-eligible payment acres (triple base) starting in 1996. Under "triple base," instituted in the 1990 Omnibus Budget Reconciliation Act, 15 percent of a farm's crop acreage base is ineligible for CCC deficiency payments (authorized for wheat, feedgrains, cotton, and rice). Most crops still can be raised on those acres, and the farm's crop acreage base for future CCC payments in later years is preserved. This proposal raises the percentage of "triple base" acres from 15 percent to 25 percent in the 1995 Farm Bill. The resulting budget savings do not reduce farm income dollar-for-dollar. Crops raised on the ineligible acres receive the market price, and the producer responds more directly to markets, rather than to CCC rules for its farm programs. Since triple base began in 1991, farm income has been at record levels. The triple base provision in CCC programs is good for the environment. It gives farmers more flexibility to plant as the market indicates, and to rotate crops as sound environmental practice indicates, rather than as the goal of maximum Federal subsidies dictates. Triple base moves the U.S. farm sector toward the global future of less subsidized, competitive production. Savings: $1 billion during 1994–1997 and $720 million in 1997.

USDA/Eliminate 0/92 and 50/92 (PAY/92) programs starting in 1996. USDA's PAY/92 program is an example of paying farmers not to plant. The program allows farmers to not plant their crop base—ordinarily devoted to wheat, feed grains, cotton, or rice—in return for receiving income-support payments. The producer must set aside a minimum of 8 percent of his maximum payment acres without pay, while all additional set-aside acreage may receive income-support payments. For wheat and feed grains, producers may elect to plant none of their acreage—the "0/92 option"—and then receive 92-percent of their normal deficiency payments. For cotton and rice, producers must plant at least 50 percent of their acreage base ("50/92"), with most of the rest eligible for clover and deficiency payments. PAY/92 was introduced in the 1985 Farm Bill during a time of substantial excess production. Because CCC target prices and loan rates have been capped or reduced since the 1985 Farm Bill, excess production has declined. Other Farm Bill provisions, like the marketing loan and the Acreage Reduction Program, help to ensure that USDA will not be forced to purchase large quantities of commodities under CCC loan. Also, because of the paid set-aside of the PAY/92, exports have been less than they would have been otherwise. While U.S.-planted acreage fell by 10 percent over the period when PAY/92 was introduced from the previous decade (1975–1984), planted acreage in other countries virtually replaced America's idled acres on an acre-for-acre basis. Estimated savings are $937 million over four years, including $664 million in 1997.

USDA/Increase assessments on "non-program" Federally-subsidized crops starting 1996. This proposal would increase projected receipts on "non-program" crops such as sugar, tobacco, honey, peanuts, soybeans, wool and mohair by 67 percent in the 1995 Farm Bill, in line with the percentage increase in non-eligible acres in the Administration's "triple base" proposal. Some crops receive a subsidy through Federally-restricted markets rather than from the Treasury directly. Federal support for these crops arises not from direct subsidy payments from the U.S. Treasury but from U.S. government loans and restrictions on production or imports. These laws cause consumers, rather than taxpayers, to pay most of the subsidy through higher market prices. A proposal to increase triple base non-eligible acres for subsidy payments affects the "program" crops and so favors the "non-program" crops. For equitable treatment of all subsidized crops, fees on "non-program" crops should be increased in tandem with the triple base increase. If not, crop production patterns could be distorted, leading to increased CCC costs. These assessments will be designed so as to avoid, to the extent possible, any serious impact on small family farmers. The proposal would reduce net CCC outlays by $900 million during 1994–1997, and $450 million in 1997.

USDA/Limit payments on wool and mohair to $50,000 per person. USDA's wool program was authorized in 1954 to ensure the Nation a strategic reserve of wool in times of war and other emergencies. Wool can no longer be considered a "strategic" material. Mohair never was. Under this proposal, income-support payments from the wool and mohair program would be limited to $50,000 per producer. The 1993 payment limitation is currently $150,000 each for both wool production and mohair production (a maximum of $300,000 per producer). Payments are heavily concentrated. In 1991, less than 1 percent of producers received 54 percent of the payments. Thirty percent of all producers receive checks for $100 or less. Producers on average receive from the Federal government almost 210 percent of the market value of their production. Estimated savings over four years, $212 million; in 1997, $66 million.

FDIC/Assess examination fees for state-chartered, FDIC-insured banks. Although all FDIC-insured banks and thrifts must be examined every year, State-chartered banks (unlike federally-chartered banks and thrifts) are not assessed fees for their Federal examinations. Many federally-chartered banks and thrifts have converted to state charters to avoid the higher Federal examination fees. The Administration proposes that state-chartered banks pay the same rates as national banks, but that they also be allowed to take credit for amounts they pay to state regulators. Estimated savings are $286 million in 1997, $1.1 billion over 4 years.

CFTC/Institute a fee on all U.S. futures exchange transactions. Currently, traders, brokers, hedgers, speculators, exchanges and others who benefit from Federal regulation of U.S. futures exchanges do not pay for its cost. The Administration proposes to institute a fee on all U.S futures exchange transactions. The revenue from this fee would cover the costs of the CFTC. To the extent this fee may adversely affect the competitiveness of U.S. futures exchanges, the Commodity Futures Trading Commission (CFTC) would be given the discretion to correct for any adverse competitive effects that may arise.

Estimated savings are $235 million over four years, including $63 million in 1997.

SEC/Higher registration fees for securities being sold to the public. Corporations which raise money through our securities markets must file a registration statement with the Securities and Exchange Commission (SEC) and pay a fee. The revenues collected from this fee cover a portion of the SEC's costs. The Administration proposes to raise the rate at which this fee is collected, and at the same time increase the amount that is deposited to the General Fund of the Treasury. Estimated savings over four years, $188 million; $50 million in 1997.

Postal Service/Require payment of outstanding retirement and health care costs. When the U.S. Postal Service (USPS) was reorganized in the early 1970s, it assumed assets and liabilities. One of the liabilities was the retirement costs associated with former USPS workers. These workers, however, have been covered by health and benefit payments managed by the Office of Personnel Management (OPM). The USPS has made payments towards OPM's costs but only well after the costs have been incurred. As a consequence, when the Federal Government's interest costs are included USPS's payments have fallen $1 billion short of OPM's costs. This proposal would require USPS to make payments of $347 million in 1995, 1996 and 1997. Estimated savings over four years are $1.0 billion, $347 million in 1997.

Commerce/Permanently extend patent and trademark fees. The Patent and Trademark Office (PTO) is self-financed through various user fees. The standard patent fee was increased by the Omnibus Budget Reconciliation Act (OBRA) of 1990 by adding a surcharge, which is set to expire in 1995. This proposal raises the standard fee to incorporate the surcharge and allows the standard fee to fully cover patent operation costs with annual adjustments to the Consumer Price Index (CPI). It does not propose new fees. The proposal also assures that the patent and trademark process continue to be fully funded by fees. Estimated savings: $115 million in 1997, $226 million over 1994–1997.

DOT/Increase registration fees for general aviation aircraft. General aviation aircraft account for about 26 percent of the Federal Aviation Administration's cost of running our aviation system, but pay fees covering just 7 percent of these costs. Airlines and their passengers pay all the costs they impose on the system. As a result, taxpayers provide general aviation operators with an annual subsidy of about $2 billion. This proposal would gradually increase current general aviation registration fees over 4 years and require annual, rather than 3-year, renewals. The increased fees will result in general aviation operators still paying only a fraction of their "fair share" costs. Estimated savings over four years are $151 million, including $58 million in 1997.

Social Security Administration/Fee for State SSI administration. The Administration proposes that states reimburse part of the cost of Federal administration of state supplements to the Federal Supplemental Security Income

(SSI) benefit. Estimated savings: over four years, $520 million; in 1997, $180 million.

VA/Increase housing loan fees to 2 percent. The VA Home Loan Program guarantees mortgages made by private lenders to veterans, active duty service-persons, and selected reservists. Beneficiaries obtain mortgage credit on favorable terms (e.g., no-downpayment and a loan fee that is below the fees for a private mortgage). The Administration will propose legislation to increase most loan fees by .75 percent (e.g., the no-downpayment fee would go from 1.25 to 2 percent). This fee increase would reduce the taxpayer subsidy to this program, while continuing to offer veterans a downpayment and fee package that would be below conventional loan requirements. Estimated savings are $157 million in 1997, $620 million over four years.

Treasury/Permanently extend Customs Service merchandise and passenger processing fees. The current fees are set to expire in 1995. The Administration will propose legislation extending them indefinitely, in order that the government may continue receiving payment to cover the costs of these necessary services. Over the 1994-1997 period, this will save $1.1 billion; in 1997, savings will be $579 million.

FCC/Auction spectrum for communication services. Today many multimillion dollar industries—including television and radio—are built around the free use of a scarce and valuable Federal resource: the electromagnetic spectrum. The traditional practice of assigning spectrum rights by lottery or hearing has often resulted in huge windfalls being distributed to individuals and businesses at the taxpayers expense. In the cellular industry alone, for example, many overnight fortunes were made by speculators who won spectrum rights through a lottery and resold them days later to large communications companies. The bottom line is that an "auction" of these rights already occurs today; the question is whether the taxpayer will benefit. The Administration will seek legislation to transfer 200 megahertz now used by the Federal Government to the FCC for private use, and to grant the FCC authority to assign this new spectrum, and make all other future license assignments, using auctions. Enactment of the legislation will help to ensure that new licensees do not reap large financial windfalls at the taxpayer's expense. The proposal does not apply any fees or royalties to existing licensees so as not to disturb settled arrangements. Estimated savings are $2.1 billion in 1997, $4.1 billion over four years.

The Administration is concerned about so-called "earmarking" of projects in various Federal programs. The following options for deficit reduction identify such projects with the understanding that the Congress may find offsetting savings within the same program areas to preserve these initiatives.

USDA/Cooperative State Research Service (CSRS) earmarked research grants. Congressional earmarking of CSRS research funding has increased significantly in recent years. In report language for the 1993 appropriations, 126 grants, totaling over $50 million, were funded through specific earmarks. These grants were not peer-reviewed, competitively awarded, or specifically authorized. Many of the research projects funded could be financed by the agribusinesses that directly benefit from the research (e.g., the floral, timber, and seafood industries). Another source of funds for projects with scientific merit is the National Research Initiative (NRI) competitive grants program, also administered by CSRS, which is proposed at higher funding levels in 1994. Estimated savings over four years are $96 million, $42 million in 1997.

USDA/Cooperative State Research Service (CSRS) earmarked facilities construction. The CSRS Buildings and Facilities account has become a main example of Congressional earmarking of scarce Federal research dollars. The projects funded often are not high national priorities and would be better funded by States, or the agribusinesses that directly benefit from them. Estimated savings over four years are $86 million, including $44 million in 1997.

USDA/Earmarked special ES grants. Each of the Extension Service's (ES) earmarked special extension grants that would be eliminated could be financed through funds each State receives from USDA to support the Extension Service's general operations in each State. The use of these State funds, which are awarded by formula, is not restricted and can be used to address high-priority projects identified by each State. Estimated savings are $14 million in 1997, $54 million over four years.

Commerce/Low-priority NOAA programs, projects, and demonstrations. Approximately 47 National Oceanic and Atmospheric Administration projects have been identified as low priority. Many of these projects have had funding "earmarked" for them in the past, thereby bypassing NOAA's project competitive review process. Estimated savings: $70 million in 1997, $220 million over 1994–1997.

Army Corps of Engineers, Interior/Reduce or stretch out construction funding for low priority water projects. Funding for these projects is not high priority because the projects are either: (1) not economically justified, (2) not a Federal responsibility, (3) exempted from standard non-Federal cost sharing, or (4) environmentally unacceptable. Estimated savings are $398 million over four years, including $92 million in 1997.

DOT/Lower-priority programs and projects. There are a wide variety of lower-priority projects which have been funded by the Department of Transportation. Estimated savings over four years, $1.3 billion, including $428 million in 1997.

HUD/Eliminate individual HUD grants (special purpose). For the past three years, Congress has added money for 408 projects that are awarded by HUD's Appropriations Act. Past projects included art centers, drainage improvements, health care facilities, and business centers. The ten states with the highest per capita income receive 33 percent of the funding in 1997. Estimated savings over four years: $565 million; in 1997: $278 million.

SBA/Funding for SBA earmarked grants. Appropriations were provided to SBA in 1993 for a number of unnecessary earmarked grants. Estimated savings over four years, $315 million; $110 million in 1997.

Managing Government for Cost-Effectiveness and Results

Making our government more effective and efficient means abandoning structures and practices that impede flexibility, waste resources, and frustrate service delivery.

White House staff reductions. The Administration will share in the sacrifices all Americans will be asked to make in working together to reduce the Federal deficit. The President has already taken action to reduce the size of the White House staff by 25 percent. The newly reorganized White House will be better suited to promote the agenda for change and economic growth. Through greater emphasis on policy councils and the Cabinet, the President will reach beyond the White House for policy development and ideas. Estimated savings are $40 million in 1997, $129 million over four years.

Federal salaries. Reflecting the President's intention to ensure that government makes the first contribution to the major deficit reductions that he is calling for, the Administration proposes that there be no national pay increase or locality pay increase for Federal employees in calendar year 1994. National pay increases in 1995–1997 would be one percent less than current law in each year. Locality pay would be implemented beginning in 1995 under a revised system that will permit more equitable and accurate determinations to be made than would occur under the current, flawed methodology. The savings from these initiatives are $2.7 billion in 1997 and $8.0 billion over four years.

Agency streamlining, employee reductions, administrative cost-cutting. The Federal Government today employs over two million workers, not counting the armed forces or the Postal Service, with an annual payroll of about $100 billion. Many are employed in inefficient work settings, using obsolete equipment and antiquated work processes. The use (and abuse) of government-owned aircraft and limousines, executive dining facilities, and attendance at conferences held at vacation resorts have in the past entailed unjustifiable costs to the taxpayers. Overhead costs of Federal agencies are excessive and can be reduced significantly by more efficient and frugal management and by modernization of equipment, facilities and processes.

The Administration has taken a number of steps to reduce administrative and overhead costs, increase productivity, streamline agency operations, and improve delivery of services to the public. The President has issued Executive Orders requiring a reduction of 100,000 civilian personnel positions by the end of 1995; reduction of at least 50 percent in the number of executive motor vehicles owned or leased by Federal agencies by the end of 1993; elimination of non-essential air travel and use of government-owned aircraft where commercial air travel is available; guidelines for selection of conference sites and Federal employee attendance at conferences; closing or placing on a full-cost-recovery basis all executive dining facilities; abolition of at least one-third of the 700 non-statutory Federal advisory commissions now in existence; and reduction of Federal administrative costs by 14 percent by 1997. These measures are estimated to save taxpayers $15.6 billion over the next four years.

Agriculture/Consolidation into one Farm Service Agency. The Administration proposes to create a new Farm Service Agency (FSA) from the USDA programs and staffs serving farmers from county offices. The agencies that would be consolidated are the Agricultural Stabilization and Conservation Service (ASCS), the Soil Conservation Service (SCS) and the Farmers Home Administration (FmHA). Currently USDA maintains more than 12,000 offices for these county-based agencies, with separate computer systems and State and National office support staffs. Most farmers must visit different county offices of these agencies and often are required to fill out redundant paperwork. The proposed FSA would maintain a USDA field office at the county level, and would improve service to farmers. Savings would result from a streamlined county office structure and from efficiencies at the National and State offices, as these agencies are consolidated. Estimated savings are $307 million in 1997, $730 million over four years.

Agriculture/Reform agricultural crop disaster payments made by the CCC. Each year since 1987, Congress and the Administration have provided ad hoc disaster payments to farmers. Under existing 1990 Farm Bill law, disaster payments are subject to appropriations. This proposal would reform ad hoc disaster payments. The option assumes a continuation of the Federal Crop Insurance Corporation (FCIC). Under 1990 Farm bill law, a farmer must suffer a 35 percent loss (40 percent if the farmer has not purchased Federal crop insurance, even though it was available). In addition, disaster payments would only be available contingent upon a Presidential declaration of an emergency as defined by the Budget Enforcement Act. Because disaster payments are not assumed in the baseline, no savings are scored for this proposal. However, savings would be realized upon the enactment of the next disaster bill.

Justice/Prison construction. There remains a need for new prison construction to accommodate the rapidly increasing prison population. However, more than $1.6 billion already authorized has not been spent due to a construction lag. The Administration proposal permits the continued spending of already authorized funds, so that the current rate of overcrowding—40 percent, compared to 70 percent in 1990—will be reduced to less than 6 percent by 1997. It allows limited new construction in 1994 and 1995. Estimated savings are $181 million in 1997, $331 million over four years.

Education/Reform campus-based aid. Today, the three campus-based student aid programs (supplemental grants, work-study, Perkins loan capital) overlap and duplicate aid available from the much larger Pell Grant and Family Federal Education Loan Programs. They represent less than 9 percent of total aid made available by the Department of Education's major student aid programs. Pell and guaranteed loans have requirements that assure that those who are most in need benefit most from Federal funds. Campus-based programs, however, while need-tested, permit schools to select less needy students for awards. The Administration proposal reduces spending for campus-based student aid programs by $200 million but gives schools complete flexibility to use the remaining $1.2 billion for whichever aid approaches best meet student needs. In combination with other budget policies, total aid available from the Education Department's major student aid programs is estimated to increase, despite the reduction in campus-based funding. Also, the new flexibility increases the efficiency of the campus-based programs in addressing student needs and should enable more funding to be used for high priority purposes, such as funding additional community service jobs. The estimated savings from the proposal are $275 million in 1997, $732 million over four years.

Education/Impact Aid "b" Payments. The proposal would phase out Impact Aid "b" payments to school districts over a three-year period. The Impact Aid program makes payments to school districts to partially offset the presumed adverse impact on the school district of the presence of Federal property and federally connected children. However, "b" payments, unlike "a" payments, are based on children who either do not actually live on Federal property or whose parents do not work on that property. Most "b" children live in the community on property that is taxed by the school district and have families who pay State and local taxes used to finance local education. Estimated savings are $145 million in 1997, $404 million over four years.

DOE/Superconducting Super Collider. The Administration is committed to the development of the superconducting super collider as a major contribution to scientific information for the future. The Administration believes, however, that in order to ensure that all of the components of this project are technologically effective, the project schedule should be extended.

Energy/Uranium enrichment. The Department of Energy's uranium enrichment program will become a government corporation, known as the U.S. Enrichment Corporation, on July 1, 1993. It will be required to operate as a commercial business enterprise on a profitable and efficient basis. The Administration is moving in this direction by proposing several actions to enhance the cost effectiveness of Federal uranium enrichment-related activities while reinforcing the Administration's nuclear non-proliferation policies. These Administration initiatives provide for: (1) the phase-out by 1996 of one of the operating diffusion plants; (2) lower Federal costs for power purchased for Federal uranium enrichment operations; and (3) speed-up of the purchase of highly enriched uranium from the republics of the former Soviet Union. This will allow former weapons grade uranium to be recycled into commercial power reactor fuel, provide a valuable commercial activity for the former Soviet republics, and advance mutual nuclear weapons non-proliferation goals. Estimated savings are $386 million in 1997, $1.3 billion over four years.

Energy/Strategic Petroleum Reserve. The Strategic Petroleum Reserve currently contains over 570 million barrels of oil. This stockpile has served well in defusing the impacts of oil disruptions such as that experienced during Iraq's invasion of Kuwait, and in deterring market manipulations by oil-exporting countries. The U.S. today obtains less than one-quarter of its oil from OPEC countries, and the rate at which we continue to fill the Reserve can be slowed, saving money for the taxpayer. The Administration proposes to reduce the fill rate by one-third, from 20,000 barrels of oil per day to 13,300 barrels per day.

Transportation/Federal Aviation Administration streamlining. Major growth has occurred in the budget of the Federal Aviation Administration (FAA) to upgrade operations following the 1981 firing of almost 10,000 striking air traffic controllers. The controller work force has been reestablished. In addition, air traffic growth has slowed. These factors lead the Administration to propose a modest decrease in operational funding. This reflects reduced requirements as the agency transitions from a period of rapid growth to one of maintaining existing operating levels in the face of slowed aviation traffic growth. Estimated savings are $62 million in 1997, $241 million over four years.

Housing and Urban Development/Modify fees for Federal housing. The Administration proposes to reduce gradually to a uniform level the fee that the Department of Housing and Urban Development pays to local entities to administer several Federal housing subsidy programs. Independent studies by the General Accounting Office and a HUD contractor determined that the current fee substantially exceeds the costs of services the local administrative agents provide. The plan will reduce Federal housing costs and eliminate windfall gains to administrative agents. Estimated savings are $193 million in 1997, $454 million over four years.

Housing and Urban Development/Consolidate several HUD programs into HOME. This proposal to consolidate funding for several HUD housing programs into the HOME program allows states and large urban cities greater flexibility and efficiency in providing low-income housing assistance. HOME allows local officials to determine and pay for the housing assistance—new construction, tenant based assistance, rehabilitation of existing housing—that best meets the needs of the community. Several current HUD housing programs are very costly. Budget pressures have continuously reduced the number of additional housing subsidies these specific programs can provide. Consolidation will increase the amount of total resources available to mayors and governors to address their most critical low-income housing needs. The HOME program calls for states and locals to match 25–30 percent of the Federal funds provided to the community. With this leveraging of local resources, this proposal to shift funding to HOME provides savings for the Federal government without reducing the amount of public resources dedicated to meeting the housing needs of low-income people. Estimated savings over four years: $178 million. Estimated savings in 1997: $150 million.

Housing and Urban Development/Low-income housing preservation, homeownership grants. Preserving the affordability of as many as 360,000 units of low-income housing is one of the Administration's investment proposals. To avoid paying excess subsidies to landlords to ensure preservation, this proposal limits the maximum preservation subsidy that landlords can receive to the same amount that a tenant would receive in the same circumstances. In addition, the proposal eliminates homeownership grants from the Preservation program. The Administration supports the goal of helping low-income tenants to become homeowners through other programs. This proposal would save over $190 million from 1994 to 1998.

EPA/Increase private sector financing of Superfund cleanups. In line with the "polluter pays" principle, this proposal will increase the proportion of hazardous waste sites cleaned up by private parties (as allowed by law). The proposal would preserve Federal Superfund money only for sites where there are no viable private parties to undertake the cleanup. Estimated four-year savings are $308 million, including $109 million in 1997.

NASA programs. The Administration is committed to a cost-effective space station program. To control serious cost overruns in the present program, the Administration recommends a restructuring of the space station. Employment associated with the program would be maintained, and additional funds would be directed to other NASA space missions.

Small Business Administration/Reduce subsidies. The Administration proposes to reduce losses on loans made to small businesses by private lending institutions under the SBA Section 7(a) loan program. This would be accomplished by decreasing the Federal guarantee on loans to an average of 75 percent. Requiring private lenders to take a greater share of the risk would increase their scrutiny of loan applications, ultimately resulting in a lower default rate and better recovery rate on loans repurchased. Estimated savings are $118 million in 1997 and $423 million over four years.

U.S. Postal Service/Reduce subsidy payments. The Administration proposes to reduce the subsidy paid to the Postal Service for the reduced postal rates paid by certain non-profit organizations. This postal subsidy is an inefficient means of supporting charitable and non-profit organizations, particularly compared to the support provided by the tax deduction allowed for charitable contributions. Additionally, loopholes exist that allow some mailers to take advantage of this system; for example, certain special interest lobbying groups can mail at reduced rates. The estimated savings from this proposal are $43 million in 1997, $152 million over four years.

Justice/Freeze grants. The Administration proposes to freeze at 1993 levels funding for Office of Justice Programs grants. Estimated savings are $56 million in 1997, $138 million over four years.

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Education/Streamline programs and other program reform. This proposal saves $620 million in 1997 and $1.5 billion over four years by eliminating, restructuring, or combining some of the many small programs in the Department of Education that are low priority, have achieved their purpose or can be made more effective by merger with other authorities, as well as by maintaining funding at 1993 levels for other categorical programs for which there are not compelling policy reasons to increase or decrease funding.

Education/Require States to share default costs in the Student Loan Program. Student loan defaults cost the Federal Government $2.5 billion in 1992. This proposal would require States to share default costs for student loans, as a way of encouraging better State management to prevent excessive defaults. The fee, assessed against new loan volume, would be equal to one half the percentage by which the default rate in the state exceeds 20 percent: a 22 percent default rate would yield a one-percent fee on new loan volume.

States would be authorized to charge schools in their State a fee based on the school's default rate and the State's implementation costs. States would have an additional incentive to tighten licensing provisions, monitor schools more intensely and take corrective action early to prevent high defaults. Schools would work harder to avoid defaults. Schools that could justify high default rates would be exempt. Savings would be $131 million in 1997 and $459 million over four years.

Agriculture/Foreign Agricultural Service. The Administration proposes to streamline Foreign Agricultural Service (FAS) programs to better assist U.S. agricultural overseas market development. The proposal would decrease funding for FAS program operations, while making changes to enable FAS to utilize its funds more effectively. Savings from this proposal are $10 million in 1997, $35 million over four years.

Overhead costs for university research and development. Federal research grants to colleges and universities by the Departments of Agriculture, Health and Human Services, and Defense, and the National Science Foundation and other agencies, cover both direct research costs and overhead administrative costs. In 1972, each dollar of direct research funding paid to universities cost an additional 30 cents for the overhead allocated to Federal research. By 1990, 46 cents in overhead was paid for each dollar spent on direct research. Consistent with the Administration's actions to streamline overhead costs in Federal departments and agencies, the budgets for civilian research and development grant-making agencies have been adjusted to place an upper limit on overhead charges. This proposal and the substantial new investment in civilian research and development included in the President's economic plan represent a concerted effort to shift national spending from overhead to funding research. Savings from this overhead change are $383 million in 1997, $1.2 billion over four years.

Veterans Affairs/Improving management of construction. The Major Construction program of the Department of Veterans Affairs primarily supports the veterans' direct delivery health care system. To meet veterans' future needs, the Administration proposes $362 million in 1994 budget authority for construction, maintenance and improvements of VA medical facilities. In addition, to improve the planning and management of VA's construction program, the Department will take into account the following major factors in planning and proposing future construction projects: (1) the projected demand from veterans who are likely to use the VA system; (2) the relationship of the project to the VA system as a whole; and (3) the health care resources available to veterans in the community. Estimated savings are $134 million in 1997, $282 million over four years.

Veterans Affairs/Improve management of VA hospitals. To ensure that VA resources are used more efficiently, the Administration proposes to use a prospective payment system, similar in concept to Medicare's, for allocating funds to VA medical centers. In general, the current resource allocation system simply retains the past year's allocation among medical centers and then adds funds for inflation and special projects. Little or no changes are made to the "base budget" to reflect potential improvements or efficiencies in current operations. Estimated savings from this proposal are $400 million in 1997 and $1 billion over four years.

Agriculture/Market Promotion Program. The Market Promotion Program provides commodity associations, cooperatives and private for-profit companies subsidies in order to promote the utilization of U.S. commodities overseas. Because the program has a large and fixed funding level, the Department acts to use all funds. Consequently, a number of questionable and controversial funding decisions have been made. Therefore, the Administration proposes freezing the program at the 1993 level, encouraging the Foreign Agricultural Service to more effectively target the funding toward those industries that would otherwise be unable to promote their products abroad. Estimated savings are $52 million in 1997, $208 million over four years.

Housing and Urban Development/Real Estate Mortgage Investment Conduits (REMICs). The Administration proposes to have the Government National Mortgage Association (GNMA) guarantee prompt payment to all investors in secondary mortgage market securities known as Real Estate Mortgage Investment Conduits or REMICs. These mortgage-backed securities, established after the 1986 Tax Act removed a tax impediment, will increase the funds available to make Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) insured mortgages, and consequently decrease mortgage interest rates for FHA and VA homebuyers. This proposal saves $146 in 1997, $584 million over four years.

Housing and Urban Development/FHA insurance reforms. The Department of Housing and Urban Development (HUD) provides mortgage insurance through its FHA programs to help low and moderate income homebuyers obtain mortgage financing and to help owners and developers finance the construction or rehabilitation of low and moderate income rental properties. The Congress enacted reforms in the 1990 National Affordable Housing Act (NAHA) to restore the single family FHA insurance program to an actuarially sound financial position. Unfortunately, the original financial goals established in NAHA have not yet been achieved and further reforms appear necessary. In addition, HUD continues to encounter major losses in its insurance for multifamily properties. Legislative and regulatory impediments, as well as poor management, have added to these excessive insurance losses. Reforms will be proposed to help reduce these insurance losses and reestablish these FHA insurance programs as effective government financing vehicles. Savings from these reforms are expected to reduce spending by $81 million in 1997 and by $336 million between 1994 and 1998.

Education/Reform student loan programs. The Administration proposes to modify and expand the current direct lending pilot program, with the goal of replacing guaranteed lending now provided under the Federal Family Education Loan Program (FFELP) with direct loans in 1997. Federal capital and schools largely would replace private capital and banks as loan originators. The direct lending program is to be built up gradually, to permit development and implementation of the administrative systems necessary while maintaining proper management of the outstanding guaranteed loan portfolio. At the same time, as part of the President's goal of enhancing people's ability to work in community service jobs, new systems will be devised to permit eligible borrowers to repay their loans under flexible repayment options, including options where repayment varies with annual income. This will permit many individuals to take lower paying community service jobs without fear of inability to pay their student loan debt. Estimated savings over five years are $3.2 billion, including $1.3 billion in 1997.

Office of Personnel Management/Federal employee child-survivor benefits. Under the Federal employee retirement programs, child survivors may continue to receive survivor benefits until age 22 if they are full-time students, 18 if not. (Disabled children may receive benefits indefinitely and would not be affected by this proposal.) The Administration proposes to conform the maximum entitlement age for CSRS/FERS child-survivor benefits to that of Social Security. Child survivors would receive benefits until age 18 unless they are full-time students in a primary or secondary school, in which case they would receive benefits until age 19. The proposal does not affect those receiving benefits before October 1, 1994. Estimated four-year savings are $50 million, including $20 million in 1997.

Office of Personnel Management/Federal employee survivor annuities. CSRS/FERS retirees may elect survivor benefits in exchange for a reduced annuity for themselves. The survivor benefits are equal to a percentage (up to 55 percent) of the retiree's unreduced annuity. This proposal would base the survivor annuity on the retiree's reduced annuity, thus slightly reducing the government's subsidy to survivors. Estimated savings over 1994–97: $350 million. Estimated 1997 savings: $140 million.

Veterans Affairs/Down payment, fee for multiple use of loan guarantees. Under current law, there is no limit on how many times a beneficiary may use the VA loan guaranty program. Multiple-users are charged the same fees as one-time users, and are not required to make a down payment. Allowing borrowers who have already received home-ownership assistance to remove the equity from their existing homes and purchase another home (with zero equity) with VA-guaranteed financing, exposes the Government to additional risk. The Administration proposes to require a 2.5 percent fee and a 10 percent down payment for multiple-use of the loan guaranty benefit. This will provide savings because of the fees and because it will reduce foreclosures. Estimated savings are $17 million in 1997, $68 million over four years.

Veterans Affairs/Permanently extend resale loss provision. When a private lender forecloses on a VA guaranteed property, VA uses a formula for determining whether to pay the guarantee to the lender or acquire the property from the lender and resell it. The Administration proposes to make permanent the inclusion in that formula of expected losses on the resale of foreclosed properties. This requirement makes property acquisition more cost-effective to the Federal government and is consistent with the practices of private mortgage lender. Estimated savings over four years are $80 million, including $21 million in 1997.

Treasury/Reform U.S. Customs Inspector overtime laws. Customs Inspectors receive compensation for overtime work at rates different from most other Federal employees. Current law contains quirks that tend to provide strong incentives for wasteful overtime scheduling practices and other abuses. The Administration proposes to eliminate these opportunities for abuse, reducing required overtime payments by an estimated $72 million over the 1994–1997 period, and $18 million in 1997 and to make necessary changes in the law to ensure that savings from overtime reform are used to reduce the deficit.

Interior/Mariana Islands funding agreement. A recent agreement with the Commonwealth of Northern Mariana Islands, a U.S. territory, reduces Federal support for the Commonwealth and directs it toward infrastructure projects only. In addition, the agreement gradually eliminates Federal funding. Implementation of this agreement would save an estimated $31 million in 1994–1997, including $10 million in 1997.

Veterans Affairs/Insurance administration costs. The Administration proposes that the administrative costs of three of the five VA life insurance programs be paid with excess revenues from those programs, rather than from annual appropriations. This would reduce the $30-million-a-year taxpayer subsidy to these programs, which pay dividends of over $1 billion per year to policyholders. The estimated savings are $31 million in 1997 and $113 million over four years.

Veterans Affairs/Internal Revenue Service income verification. The Administration proposes to extend permanently the Department of Veterans Affairs' authority to access IRS tax data to verify income reported by pension and medical care beneficiaries. There are no savings from this extension in the 1994–97 period. Savings in 1998 are $197 million.

Veterans Affairs/Permanently extend pensions-Medicaid nursing home provisions. The Administration proposes to extend permanently the current $90 monthly limit on pension benefits paid to any veteran or survivor without dependents who receives Medicaid coverage in a Medicaid-approved nursing home. This proposal would reduce an indirect federal subsidy from veterans programs to state Medicaid programs. There are no savings in the 1994-97 period. Savings in 1998 would be $300 million.

Veterans Affairs/Service members' contributions to the Montgomery GI Bill Education Program. The Montgomery GI Bill program provides monthly benefit payments to eligible service members and veterans who are enrolled in a post-secondary education program. To become eligible, military personnel agree to contribute to the program through a reduction in their basic pay during their first year of service. In two steps over the last three years, Congress has increased the monthly benefits by 33 percent without increasing individuals' payroll contributions to the program. Before the increases in benefits, the program funding match was 9:1 (government:service members). This proposal would prospectively increase their contributions to restore the 9:1 match. Estimated savings are $339 million over four years, including $98 million in 1997.

Controlling Health Care Costs

Systemwide health care reform is a top Administration priority, but some additional short-term savings proposals, focusing on providers rather than beneficiaries, make immediate sense.

Medicare:

HHS/10 percent capital reduction, inpatient. The proposal would extend current law beyond 1995. Hospitals receive payments for Medicare's share of capital expansions and improvements of both inpatient and outpatient department (OPD) facilities. The current payment level was reduced in OBRA 90 by 10 percentage points to 90 percent of Medicare's share of capital costs in every year. Estimated savings: over four years—$680 million; 1997—$380 million.

HHS/10 percent capital reduction, OPD. The proposal would extend current law beyond 1995. Hospitals receive payments for Medicare's share of capital expansions and improvements of both inpatient and outpatient department (OPD) facilities. The current payment level was reduced in OBRA 90 by 10 percentage points to 90 percent of Medicare's share of capital costs in every year. Estimated savings: over four years—$260 million; 1997—$150 million.

HHS/Maintain calendar year 1995 ratio of premium collections to program outlays with a 27 percent ceiling. Under this proposal, beginning in January, 1996, the monthly Part B premium would be set to maintain the percentage of program costs covered by premium collections in the previous year, but with a ceiling of 27 percent. The monthly Part B premium amount currently is set in law through the end of calendar year 1995 ($36.60 in CY93, $41.10 in CY94, $46.10 in CY95), and premium collections are projected to cover about 27.5 percent of program costs in 1995. When originally established, SMI premiums were intended to cover 50 percent of program costs. They eroded significantly over the years, however, and TEFRA 1982 established a temporary 25 percent premium floor, beginning in 1984. Congress extended the floor twice, and OBRA90 set fixed premium amounts in law through 1995 at levels then estimated to be approximately 25 percent of program costs. Beginning in 1996, calculation of the premium is scheduled to increase by the lower of the OASI COLA adjustment to the previous year's premium, or to be set at 50 percent of program costs. Estimated savings: over four years—$5 billion; 1997—$3.9 billion.

HHS/Eliminate add-on payment for hospital-based HHAs. This proposal would eliminate the separate add-on payment that hospital-based home health agencies (HHAs) receive in addition to payment under the Medicare cost limits. Eliminating the add-on would create a level playing field on which all home health agencies can compete. Estimated savings: over four years—$840 million; 1997—$250 million.

HHS/Eliminate skilled nursing facility return on equity payments. The proposal would eliminate the Medicare payment policy that pays proprietary skilled nursing facilities (SNFs) a return on equity (ROE) invested in the SNF. Medicare should pay for services rendered to beneficiaries; it should not subsidize private investment. Estimated savings: over four years—$560 million; 1997—$160 million.

HHS/Lower IME to 5.65 percent. This proposal would gradually lower the Medicare indirect medical education (IME) from 7.7 percent to 5.65 percent for each .1 increase in the intern and resident to be a ratio (IRB ratio). Teaching hospitals currently receive an additional 7.7 percent payment to the Medicare DRG payment for each .1 increase in their IRB ratio, above their base year levels. The adjustment is intended to compensate these hospitals for the higher costs of delivering care incurred by inexperienced residents. In addition, teaching hospitals tend to have sicker case mixes than non-teaching hospitals. The General Accounting Office (GAO) and the Prospective Payment Assessment Commission (ProPAC) have both found that the 7.7 percent adjustment overcompensates teaching hospitals for these costs and have recommended that the adjustment be reduced. ProPAC has recommended setting the adjustment at 5.4 percent. Lowering the IME adjustment would also encourage teaching hospitals to instill within their residents more cost-effective patterns of care at an early stage in the residency. Estimated savings: over four years—$1.94 billion; 1997—$1.4 billion.

HHS/Permanently extend 2 percent laboratory fee update. This proposal would extend the 2 percent annual update of Medicare reimbursement rates for clinical laboratory services. OBRA 90 established a 2 percent update through the end of 1993, after which laboratory fees would be updated by the urban component of the Consumer Price Index (CPI-U), approximately 3.5 percent annually. There is no evidence, however, to indicate that laboratory costs are increasing by the rate of inflation. Medicare payments to laboratories should more closely reflect decreasing costs due to technological advances, such as increased automation, and changes in the market, such as lower-cost equipment. Medicare payments to laboratories are already excessive. An OIG study found that Medicare paid laboratories 90 percent more than physicians paid for the same tests. Moreover, a GAO study indicated that laboratories use higher profits from Medicare to subsidize discounts to other, private payers. Estimated savings: over four years—$740 million; 1997—$380 million.

HHS/Provide incentive to encourage submission of claims via electronic format. In total, Medicare Part B outlays were projected to be $59.8 billion in 1993. The proposal would save 0.1 percent of the 1994–98 Medicare Part B baseline. The proposal would encourage physicians and other Part B providers to submit claims via the more administratively efficient electronic format by charging physicians and other providers $1 for each paper claim filed. The proposal would not take effect until January 1, 1996, to give providers lead time to adjust their filing systems. Estimated savings: over four years—$265 million; 1997—$175 million.

HHS/Medicare Secondary Payer (MSP) reforms. The MSP requirements currently vary depending upon the category of enrollee. This proposal would create a consistent MSP threshold for the aged, disabled, and end stage renal disease (ESRD) patients—all employers of 20 or more would be primary payers. Current law already requires that Medicare enrollees with employer-based health insurance use their private health insurance before drawing upon their Medicare policies. This applies more consistent standards and more efficient enforcement of these provisions to save Medicare costs. Estimated savings are $947 million for 1994 through 1997; and $305 million in 1997.

HHS/Permanently extend reduction of payments for hospital outpatient services by 5.8 percent. OBRA 1990 reduced Medicare reimbursement for hospital outpatient department (OPD) reasonable costs by 5.8 percent through 1995. This proposal would extend that provision permanently. Depending on the service, OPDs are paid based upon varying formulas, some of which take into account the OPDs' reasonable costs. The overall reduction to OPDs would be much less than 5.8 percent, because less than half of Medicare reimbursement is based on reasonable costs. Because hospital inpatient reimbursement rates are constrained by DRGs, hospitals have shifted services and costs to the outpatient setting. As a result, outpatient services are one of the fastest growing components of the Medicare program, rising by an average of 17 percent per year in the 1980s. Legislators approved a 5.8 percent reduction in OBRA 1990 in an attempt to counter this rapid growth. If this provision is allowed to expire, outpatient costs, which continue to grow in the double-digits, will start growing even faster. Support for this proposal is well-established through previously approved legislation. Estimated savings are $950 million for 1994 through 1997; and $525 million in 1997.

HHS/Reduce hospital outpatient department reimbursement by an additional 4.2 percent. In total, Medicare Part B outlays were projected to be $59.8 billion in 1993. The proposal would save 0.5 percent of the 1994-98 outpatient services base. Currently, Medicare reimbursement for outpatient services is based in part on the OPD's reasonable costs minus 5.8 percent, while reimbursement for outpatient capital costs is reduced by 10 percent. This proposal would reduce reimbursement for OPD services by an additional 4.2 percent beginning in 1996, to a 10 percent reduction. This would make payment for both categories consistent by reimbursing both at 90 percent of costs. Estimated savings: over four years—$690 million; 1997—$375 million.

HHS/Ban physician self-referrals. A Physicians may not refer a Medicare or Medicaid patient to a clinical laboratory in which the physician or the physician's relatives have a financial interest. Several exceptions are specified in statute. This proposal would extend ownership and referral prohibitions to additional services, such as physical and occupational therapy, durable medical equipment, and parenteral/enteral nutrition equipment and supplies. Estimated savings: over four years—$250 million; 1997—$100 million.

HHS/Set EPO at non-U.S. market rates. The proposal would reduce the amount Medicare pays for erythropoietin (EPO) from $11 per 1,000 units to $10 per 1,000 units. EPO is the drug used by patients suffering from kidney failure, to counter anemia by increasing the body's production of red blood cells. Medicare is virtually the sole purchaser of EPO and should exercise its market power to pay reasonable costs while maintaining access for all Medicare beneficiaries. Estimated 1997 savings are $50 million. Estimated savings 1994–1997—$160 million; savings for 1994–1998—$210 million.

HHS/Resource-based practice expense phase-in. This proposal is an interim step toward a resource-based system for practice expenses. It would reduce practice expenses in relation to the relative value work units by one-half of the difference between practice expense and physician work relative value units, rent no lower than 110 percent. Phase-in to a resource-based system for practice or overvalued expenses under the physician fee schedule would begin in 1997. The recently implemented physician payment reform system divided payment into three distinct components—overhead, work, and malpractice expenses. The work component is based on an extensively-researched relative value system, developed in 1991. The existing practice expense component is based upon an obsolete fee schedule and bears no relationship to the reformed work component of the fee schedule. This proposal would only reduce the practice component in extreme instances—when it exceeds the value of the work component. More comprehensive reform of the practice component is expected to take several years to develop. This proposal provides a simple, intermediate step to address immediately the most egregious inequities in the reimbursement framework. Estimated 1997 savings—$875 million. Estimated savings 1994–1997—$2,025 million; savings for 1994–1998—$2,975 million.

HHS/Pay hospitals for inpatient services by hospital-based physicians. Include payment for radiology, anesthesia, and pathology (RAP) services as an add-on to the hospital DRG payment. Separate billing by physicians for these services would not be allowed. Quality of care would be improved and unnecessary utilization would be minimized. Estimated 1997 savings are $160 million; 1994–1997—$390 million.

HHS/Single fee for surgery. The fee paid to a primary surgeon would be reduced by the amount paid to assistants-at-surgery. HHS would establish exceptions by regulation in which the difficulty of the procedure or the condition of the patient necessitated the use of physicians as assistants-at-surgery. Whether assistants are used and what type of personnel are used are primarily dependent on geographic practice patterns and the practice styles of individual surgeons, rather than on characteristics related to the specific patient and the surgery performed. Evidence does not show that quality of care would be jeopardized. Estimated 1997 savings is $120 million; 1994–1997—$380 million.

HHS/Durable Medical Equipment (DME) options—Set DME at market levels. Initially, fee schedules for DME would be adjusted downward with an upper limit based upon the median DME fee schedule, rather than the national average. The fee schedule for prosthetics and orthotics would also be recomputed with a national median cap. The HHS Secretary would be authorized to adjust DME rates based upon market factors, including surveys of what other providers, such as the VA, DoD and the private sector, pay for DME. The Secretary also would be authorized to initiate competitive bidding programs for DME supplies where appropriate. Granting broader HHS discretion would allow adjustments to be made to reflect changes in technology, utilization patterns and other market factors. Estimated savings are $510 million for 1994–97; and $160 million in 1997.

HHS/Direct medical education. This proposal would base Medicare direct medical education payments on a national per resident amount derived solely from the average of salaries paid to residents. Direct medical education payments would reflect differential weighing of the national average resident salary, based on the specialty area a resident is pursuing and the length of the residency. A resident in a primary care specialty would be weighted at 240 percent, a non-primary care resident in the initial residency period would be weighted at 140 percent, and a non-primary care resident beyond the initial residency period would be weighted at 100 percent. The average weight would be 175 percent of the national average resident salary, down from the average weight of about 215 percent under current law. Estimated savings: over four years—$1.4 billion; 1997—$330 million.

HHS/Set laboratory rates at market levels. The proposal initially would limit the Medicare Part B laboratory fee schedule to 76 percent of the median of all fees (as opposed to current maximum of 88 percent). Later, based on market surveys, the Secretary of HHS would adjust Medicare payment rates to laboratories to account for technological changes or other market factors. This proposal would address excessive Medicare payments for laboratory tests. An OIG study found that Medicare paid laboratories 90 percent more than physicians paid for the same tests. Moreover, a GAO study indicated that laboratories use higher profits from Medicare to subsidize discounts to private payers. In addition, the proposal would control growth in Medicare Part B laboratory payments, which more than doubled from 1985 to 1990. Estimated savings: over four years—$3.1 billion; 1997—$1.1 billion.

HHS/Reduce default Medicare volume performance standard and update. The effect of this proposal is to reduce the amount of increases in physician fees in future years. This proposal would reduce the Medicare volume performance standard (MVPS) default formula and the default update for Medicare payments to physicians. These two factors determine annual aggregate physician payment levels. Estimated savings: over four years—$850 million; 1997—$650 million.

HHS/Permanently extend three current Medicare Secondary Payer (MSP) provisions. The proposal would extend three OBRA '90 Medicare Secondary Payer provisions due to expire at the end of 1995 including: (1) 1862(b) of the Social Security Act authorizing MSP for disabled active individuals with employer group health plan (EGHP) coverage; (2) 1826(c) of the Social Security Act amended by OBRA '90 authorizing MSP for individuals with ESRD after 18 months (expanded from 12 months); and (3) 8051 of OBRA '90 authorizing an IRS/SSA data match for MSP. The data match authorizes access to tax data to identify the existence of EGHP for MSP purposes. Estimated savings over four years—$1.845 billion; 1997 savings—$1.115 billion.

HHS/Put hospitals on calendar year update. Medicare payments to hospitals for inpatient care are updated October 1 of each year. Most other Medicare services are updated January 1 or July 1. This proposal would move the hospital update to January 1. Estimated savings: over four years—$4.6 billion; 1997 $1.3 billion.

HHS/Fully increase primary care fees; modestly increase doctor fees in 1994. The proposal would update in full the physician fee schedule in CY 1994 for primary care services only. For all other physician services, the update would be two percentage points less than the full update. Estimated savings: over four years—$1.3 billion; in 1997—$400 million.

HHS/Reduce Medicare hospital update market basket by 1 percent in 1994 and 1 percent in 1995. This proposal would extend the current law practice of PPS updates of less than the hospital market basket index (HMBI). The 1993 update of the PPS standardized amount is set at the HMBI minus 1.55 percent for urban hospitals and HMBI minus 0.55 percent for rural hospitals, as set in OBRA 1990. Under current law, the update for urban hospitals will equal the market basket rate of increase in 1994 and 1995. For rural hospitals the update is set at market basket plus 1.5 percent for 1994 and the HMBI plus an adjustment needed to match the urban rate in 1995. Estimated savings: over four years—$5.19 billion; 1997—$1.7 billion.

HHS and others: Third party liability—enhanced identification of other health coverage. Federal and State taxpayers spend over $1.5 billion a year for health care that should be paid for by others. Inappropriate payments have been identified in most federally-assisted or financed health programs including: Medicare, Medicaid, Veterans Affairs Health, CHAMPUS/DOD Direct Care, and the Indian Health Service. This proposal removes many of the structural impediments hindering proper identification and billing of third party liability (TPL) by: (1) requiring employers to report employment based health coverage data annually on the W-2; (2) granting access to this data to all federally-assisted and financed health programs; (3) reinforcing existing coordination of benefits (which payer pays and in what order) laws and regulations; and (4) removing impediments that hinder states from collecting from private insurers. Rather than the current 'pay and chase' procedures where federal programs pay first and chase payers afterwards, this proposal focusses on avoiding erroneous payments by identifying the appropriate coverage **before** payment.

Medicaid:

HHS/Tighten estate recovery/transfer of assets rules. Total Federal Medicaid outlays for 1993 are projected to be $80.3 billion. This proposal would save approximately 0.1 percent of the 1994–98 Medicaid baseline. This proposal would strengthen transfer-of-asset rules to restrict further the diverting of property to qualify for Medicaid. In addition, the Federal government would require States to operate estate recovery programs and would enhance States' abilities to implement these programs. Estimated savings: over four years—$395 million; 1997—$155 million.

HHS/Remove prohibition on State use of drug formularies. This proposal would repeal the OBRA 1990 statutory provisions that prohibit States from using formularies. Before OBRA 1990, States were allowed to limit the number of drugs listed on their formularies, e.g., States could cover only the generic alternative of a multiple-source drug. The OBRA 1990 formulary restriction resulted in increased expenditures for States and the Federal government. Estimated savings: over four years—$70 million; 1997—$25 million.

HHS/Eliminate mandatory Medicaid personal care. This proposal would ensure that personal care remains an optional benefit after 1994. The Medicaid statute requires States to cover home health services for all individuals who are eligible for nursing home services. Currently, States also have the option to pay for personal care services to these individuals. Due to a legislative drafting error, OBRA-90 designated personal care as a home health service. Therefore, coverage of personal care services would become mandatory for all States in 1995, if Congress does not amend the statute. In an era of increasing fiscal pressures and growing Medicaid spending, Congress should avoid imposing additional mandates upon State Medicaid programs. Moreover, maintaining personal care as an optional service would allow States continued flexibility in designing and administering Medicaid long-term care strategies. Estimated savings: for four years—$4.1 billion; 1997—$1.5 billion.

Shared Contribution

For deficit reduction to succeed, all groups must contribute. Only if there is a sharing of the load can the entire country be sure that everyone is participating.

Social Security/Conform taxation of benefits to private pensions. Up to 50 percent of Social Security and Railroad Retirement (Tier I) benefits are currently included in taxable income for those recipients with income and benefits exceeding $25,000 for individuals, and $32,000 for couples. The Administration proposes including up to 85 percent of benefits in adjusted gross income, for those with income and benefits exceeding the current $25,000/$32,000 thresholds. This would move the treatment of Social Security and Railroad Retirement Tier I benefits toward that of private pensions. Under current law, pension benefits that exceed an employee's after-tax contributions to qualified pension plans are subject to tax at distribution. Extending this approach to Social Security would mean including at least 85 percent of benefits in taxable income for nearly all recipients. However, maintaining the existing income thresholds protects most low- and middle-income beneficiaries from benefit taxation.

HHS/Strengthening child support enforcement. Of the over 10 million women living alone with their children, only half have child support orders and only half of those women receive full payment. Child support enforcement will be strengthened by streamlining paternity establishment; using the IRS to collect seriously delinquent child support; making sure that absent parents who can pay child support do; setting up a national registry to track down deadbeat parents; requiring employees to report child support obligations on IRS W-4 forms; and improving medical support for children. Better child support enforcement will ensure both parents' responsibility for the well being of their children and decrease the burden of welfare on the taxpayer. Estimated Savings: over four years—$328 million; 1997—$109 million..

HHS/Equate matching rates for welfare programs. Currently, States are reimbursed by the Federal Government at different rates for the various costs of administering Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicaid. The Administration proposes to set the Federal reimbursement rate at a uniform 50 percent for all administrative costs of each of these three programs. There will be waivers for some States, in hardship cases. Estimated savings: over four years—$1.8 billion; 1997—$600 million.

OPM/End lump-sum benefit retirement. The lump-sum retirement option allows Federal civilian employees to elect upon retirement to receive a lump sum roughly equal to employee contributions in exchange for a reduced annuity for life. The Omnibus Budget Reconciliation Act suspended the lump sum for 5 years, through 1995, for all employees except those who are critically ill, involuntarily separated or activated for Desert Shield/Storm. This proposal would eliminate the lump sum for all employees retiring on or after October 1, 1995. Estimated 1994–97 savings: $5.1 billion. Estimated 1997 savings: $3 billion.

Veterans Affairs/Permanently extend medical care cost recovery. The VA operates a nationwide health care delivery system for our nation's veterans. This proposal would make permanent VA's authority to collect the cost of medical care from health insurers of veterans with service-connected (military related) disabilities when the care is provided for non-service-connected conditions. This proposal would hold private health insurance companies responsible for the costs of their beneficiaries' care. VA already has permanent authorization to collect costs from insurers of veterans without service-connected conditions. Estimated savings: over four years—$1.2 billion; 1997—$407 million.

Veterans Affairs/Permanently extend prescription charge/copayment. The VA operates a nationwide health care delivery system for our nation's veterans. This proposal would make permanent VA's authority to collect from most veterans a $2 copayment for each 30-day supply of outpatient prescription drugs that is not related to treatment of a service-connected (military related) disability. Cost sharing encourages more appropriate utilization of prescription drugs. This proposal has been enacted three times by the Congress (currently through 1997). Estimated savings in 1998—$42 million.

Deficit Reduction: Revenues

The Administration had hoped to achieve the twin goals of economic growth and deficit reduction without asking those who were squeezed the hardest in the 1980s to contribute more. But the deficit has grown substantially and, if we are to invest in our people and achieve fundamental change, we must all do our part.

Revenue increases, by necessity, must play a role. In raising new revenue, we had two goals. First, raise the bulk of new revenue from those who can most afford to pay. Second, minimize any increases in the burden on the middle class and the working poor. These goals were met; those earning more than $100,000 will contribute over 70 percent of the total new revenues.

Most Americans, however, will be asked to contribute a small amount towards reducing pollution and lowering our dependence on foreign oil through a new broad-based energy tax. The direct impact of the new energy tax, even when fully phased in, will be less than $10 per month for a typical family of four earning $40,000. And special offsets will fully insulate low-income households from any increase in their tax burden.

In 1997, the deficit reduction package will yield a net increase of $74 billion, the result of $78 billion in new revenues minus $4 billion to offset the impact of the energy tax. Non-energy sources will account for approximately three of every four dollars of this increase. Those who can most afford to pay will bear the vast majority of the burden.

Raising taxes on the wealthiest. The 1980's saw the personal income tax rate on the most affluent Americans drop from 70 percent to 28 percent; at the same time, middle income families paid a rising share of their incomes in income and payroll taxes. Our plan reverses that trend.

Personal Income Taxes. The plan increases the top income tax rate from 31 percent to 36 percent for taxpayers with high incomes. The 36% tax rate will apply to taxable income in excess of $140,000 for couples and $115,000 for individuals, beginning this year. Average taxpayers with taxable income in excess of the $140,000/$115,000 thresholds will have adjusted gross income in excess of $180,000 on joint returns and $140,000 on individual returns. In addition, the package applies an additional 10 percent surtax for those people with taxable income over $250,000, resulting in a 39.6% tax rate for those income levels; and increases the Alternative Minimum Tax rate to 26 percent on AMT income of less than $175,000 and 28 percent on AMT income over $175,000.

These changes affect just over 1 percent of taxpayers and produce $26 billion of new revenues in 1997. Yet tax rates remain well below previous highs, preserving incentives to work and save.

The plan also extends existing law rules on itemized deduction limitations and the personal exemption phaseout that are targeted to high income taxpayers. Those provisions are scheduled to expire in calendar years 1996 and 1997, respectively.

The package also includes a number of other personal income tax changes that are designed to improve fairness. It reduces compensation that can be taken into account for purposes of benefits and contributions under qualified retirement plans to $150,000 (1993 cap is $235,840). This change will better target the benefit of tax deferral to middle income Americans and will raise almost $1 billion in 1997. It also disallows deductions for closing costs and meals incurred as a result of moving to a new residence. These expenses that are generally not deductible for other taxpayers should improve the equity of the tax system. The change in the moving expense rules raises $0.5 billion in 1997.

Hospital Insurance Taxes. Higher income individuals are also required to increase their payments under the Medicare tax. The proposal eliminates the current cap ($135,000) on earnings subject to the Hospital Insurance (HI) portion of the Social Security tax. Imposing the HI tax on all earnings increases revenues by $7 billion in 1997 and ensures that those who can afford to pay more for their health care in retirement do so. The additional revenue will bolster the HI Trust Fund, which is estimated to be exhausted by about 2002.

Estate Taxes. Current law imposes a tax on the cumulative value of gifts and bequests. The rates range from 18 percent on the first $10,000 of taxable estate to 50 percent on transfers of more than $2.5 million as of January 1993. Our proposal extends the additional marginal rates of 53 percent and 55 percent that were in effect in 1992. Extending these rates will affect only the wealthiest taxpayers, while raising nearly a $1 billion in 1997.

Business Taxes. The investment tax credits, the corporate alternative minimum tax changes and the favorable capital gains provisions in the stimulus and investment packages will spur investment and encourage the growth of all businesses, especially small business. At the same time however, large highly profitable companies will have to pay a greater portion of their net earnings in taxes. The package increases the corporate tax rate from 34 percent to 36 percent for taxable income above $10 million, raising $6 billion in 1997. Of the 2.2 million corporations, only about 2,700 large corporations will be affected by this proposal in any year.

Deductions. The package also contains a proposal to reduce the deductible portion of meals and entertainment from 80 percent to 50 percent. This will increase revenues by almost $4 billion in 1997. Meals and entertainment expenses involve a substantial component of personal consumption. A 50 percent split reasonably balances the mixed benefits of meals and entertainment expenses.

The plan would deny certain other business deductions, including the deduction for compensation in excess of $1 million, unless linked to productivity. The goal is to encourage corporations to focus more carefully on their compensation policies and to shift business spending from excess pay to investment. This proposal would raise $.2 billion in 1997.

Possessions tax credit. In a package in which enterprise zones are being established throughout the United States for economically distressed areas, we must reassess the extremely costly tax incentives provided in Puerto Rico. At the same time, we must recognize our unique relationship with Puerto Rico and its unusual circumstances. The package seeks to strike a balance by capping the tax incentives available to American corporations in Puerto Rico at 65 percent of compensation paid to workers there.

Tax compliance. The package also contains a series of international compliance reforms and related provisions. Two provisions are designed to improve the tax compliance of both foreign and domestic corporations by preventing the improper shifting of U.S. profits to foreign jurisdictions. The principal provision would require multinational enterprises to establish their transfer prices before they file their tax returns. A related provision restricts the ability of U.S. corporations with foreign shareholders to avoid tax on their earnings distributed as interest. In addition, the Administration will institute a sweeping new enforcement initiative targeted at transfer pricing abuses. It is expected that marked improvement in compliance will result from this investment of IRS resources.

Another set of provisions will reduce the tax incentives for U.S. corporations to operate abroad. These include encouraging research and development to be performed in the United States and the related products to be manufactured here as well, preventing multinational oil companies from sheltering foreign earnings by inflating their working capital reserves abroad, and compelling multinationals to pay tax on excessive passive earnings accumulated abroad.

Securities dealers will no longer be permitted inventory accounting rules that have allowed the recognition of losses, but not gains and will generally be required to conform their tax treatment to their accounting practices. This will result in additional revenues of $1.1 billion in 1997. In addition, certain businesses which have acquired troubled savings and loans will not be allowed deductions for asset losses subject to Government reimbursement. This proposal will result in additional revenues of $200 million in 1997.

The tax gap—the difference between what people owe in taxes and what is actually paid—is a persistently large number. The lion's share of this shortfall is attributable to unreported income, often by business. The package includes several provisions—raising over $2 billion in 1997—to get at this problem and improve compliance with the tax laws in other ways.

Introducing a broad-based energy tax. The package introduces a broad-based tax on all types of energy, based on the energy content of the fuel (measured in British Thermal Units or BTUs), to be collected at the source. The tax is designed to promote energy conservation and to reduce harm to the environment. Coal and natural gas will be taxed at the rate of $.257 per million BTUs, while oil will be taxed at the rate of $.599 per million BTUs. The higher rate on oil is intended to promote energy security and the use of cleaner burning fuels. The new tax raises $18.3 billion in 1997 (net of the offsets described below).

Energy taxes will encourage conservation by making energy more expensive, reducing pollution, and decreasing the country's dependence on foreign energy suppliers. Despite a drop in oil prices during the Persian Gulf War, this country still depends on foreign sources for nearly half of its oil and about one-fifth of its total energy.

Without some form of adjustment or offset, the broad-based energy tax would impose a particularly heavy burden on low-income households. To avoid such an outcome, the energy tax is accompanied by proposed increases in transfers under the Low-Income Home Energy Assistance (LIHEAP) and Food Stamp Programs. Since many low-income households are outside of the labor force and the tax system, these programs are needed to alleviate the burden of the energy tax.

Other Provisions. The package includes a number of other miscellaneous revenue-raising proposals, including extension of the 2.5 cents per gallon gasoline tax currently scheduled to expire in 1995.

Distribution of Burden Among Taxpayers. The plan distributes the burden of the changes in tax treatment in a fair way, ensuring that taxes rise proportionately more for high-income households than for households with less income. Those earning more than $100,000 will contribute over 70 percent of the total new revenue. The impact of the revenue raising component of the deficit reduction package is shown below.

Budget Enforcement Proposals

A strong, workable enforcement mechanism is essential to the credibility of any deficit reduction package. As part of the process of implementing the President's economic program, the Administration will propose specific measures to ensure that the deficit reduction contained in the plan, once enacted, is maintained.

The current Budget Enforcement Act (BEA) expires at the end of 1995. If the BEA is not extended, there will not be an adequate mechanism for enforcing deficit reduction decisions. The budget will propose to extend the BEA with limited modifications, including specifically the extension of discretionary spending caps through 1998, and extension of "Pay-As-You-Go" provisions through 2003 in order to reach the outyear effects of entitlement and tax legislation and the use of sequestration to enforce compliance. In addition, the budget will support enactment of enhanced rescission authority legislation that would require expeditious Congressional action on Presidential rescissions, similar to H.R. 2164 as passed by the House last year.

Restoring Fairness

Distributional Effects of the Spending Proposals

Some of the outlay proposals in the Administration's program have effects that spread across the population. Others, however, have identifiable effects on incomes, or on services targeted to particular income groups. We have sought to impose the principle of fair contribution so that the burden is concentrated on those most able to bear it. Similarly, investment programs are targeted to those in need and pursue greater productivity growth and standards of living for the population as a whole.

Table 3–4 shows the distributional effects of those program increase proposals that are amenable to such analysis including Head Start, the Job Training Partnership Act and the Job Corps, housing assistance, WIC, dislocated worker training, one-stop career training centers, and veterans medical care and hospital construction. Also included are three spending reductions: Federal employee health benefits; Federal employee pay; and the premium increase for Medicare Part B. Table 3–4 reflects 1997 spending levels deflated to 1994 dollars. This year was chosen to correspond to the fully implemented tax proposals displayed on subsequent tables. The total of analyzed spending increases is $8.9 billion; the total of analyzed spending reductions is $6.6 billion. Not all of the spending proposals constitute changes to the disposable incomes of families. Some spending on services, such as Head Start or Job Corps, would brighten the economic futures of participants but would not change their families' incomes directly.

Table 3–4 shows that families and single people with incomes below $10,000 benefit from $3.6 billion of additional spending. Those with incomes below $20,000 benefit from an estimated $4.9 billion. Further, these groups will benefit from almost all of the proposed increases of $8.2 billion in outlays for the earned income tax credit, food stamps and the low-income home energy assistance program (LIHEAP) when tax policies discussed below are fully phased-in. Table 3–4 also shows that families with incomes above $50,000 would bear virtually the entire burden of the budget savings. Most of the savings are the result of the proposal to hold Federal salaries below projected levels.

Although Table 3–4 includes a significant proportion of the proposed changes in outlay programs, many proposals are not reflected. Stimulus outlays for 1994 are not included. Some spending proposals would not affect beneficiaries directly, such as Medicare changes that would affect providers but not beneficiaries, and so are not included. When proposals are intended to affect the economy as a whole or everyone more or less equally, such as increased spending to improve the national infrastructure, no attempt was made to distribute the effects by income level. In a few cases, such as enterprise zones, education proposals for schools in low-income neighborhoods, or community development block grants

(CDBGs), there were no bases for a reasonable distribution by income level, and they were omitted from the analysis. The outlay programs not included in this analysis are a substantial part of the overall recommended policy changes, and so these estimates of the ultimate distributional impact should be used with caution.

Distributional Effects of the Tax Proposals

The impact of the revenue raising proposals is shown in Table 3–5. As discussed above, the major revenue changes in the deficit reduction proposal are higher rates under the personal income tax, removal of the earnings cap for the Medicare tax, higher rates for the estate tax, and increased taxation of large businesses. These taxes primarily affect wealthy individuals and have virtually no impact on taxpayers in the lower- and middle-income groups.

To control pollution and alleviate our dependence on imported oil, the package also contains a broad-based energy tax. The energy tax by itself would place a relatively heavy burden on many taxpayers with limited ability to pay. For this reason, the introduction of the energy tax was combined with several offsets, including an expansion of the earned income credit and an increase in transfers under the Low-income Home Energy Assistance Program (LIHEAP) and under the Food Stamp program. These three offsets eliminate any increased burden at the low end of the income distribution. Middle-income families experience only a slight increase in their tax liabilities, and the tax burden rises with family income thereafter.

Table 3–5 summarizes the combined impact of all revenue raising provisions in the stimulus, investment, and deficit reduction combined, including the offsets to the energy tax. This table confirms that our plan distributes the tax burden in a fair way, ensuring that low-income families are spared any tax increase and that middle-income families experience only a slight rise in their taxes; most of the burden falls on higher-income households.

Overall Distributional Effects of the Program

Table 3–6, which combines the tax and outlay changes as a percentage of pre-tax income, shows that the effects of the Administration's program on the two sides of the budget ledger are consistent and mutually reinforcing.

The lowest income category receives both a small tax cut and a benefit increase under the administration's program. Other income categories up to $30,000 have little net tax change. At higher income levels, there are spending cuts that are quite small, but tax increases that are more substantial.

The program effects identified here, however, will not affect all families within any income group in the same way. In fact, many families will not be affected at all by any of the program changes, while others (Federal employees, low-income program beneficiaries) may be affected by several. Thus, the ultimate impact on the population may vary considerably from family to family. On the whole, the burden is borne mainly by those most able to bear it.

Table 3–4. Change in Federal Outlays for Social Programs and Federal Pay [1]

(Positive numbers are additional tax revenues, negative numbers are outlays)

Family income	Amount (billions of dollars)	As a Percent of Pre-tax income
$0 to $10,000	3.6	3.7
$10,000 to $20,000	1.3	0.5
$20,000 to $30,000	0.0	0.0
$30,000 to $50,000	−0.8	−0.1
$50,000 to $75,000	−0.9	−0.1
$75,000 to $100,000	−0.6	−0.1
$100,000 and more	−0.6	−0.1
Total	2.3	0.1

[1] 1997 spending levels deflated to 1994 dollars. Includes increases of $8.9 billion and savings of $6.6 billion for a net proposed change of $2.3 billion. Increases are for Head Start and associated nutrition programs ($3.4 billion), youth titles of JTPA ($0.8 billion), housing programs ($1.1 billion), WIC ($0.9 billion), dislocated workers ($1.8 billion), one-stop career shopping ($0.2 billion), and veterans medical care and construction ($0.6 billion). Savings are for lower Federal salaries ($3.0 billion), Federal employees health benefits ($0.02 billion), and higher Medicare premiums ($3.6 billion).

Table 3–5. Change in Federal Taxes and Certain Transfer Payments [1]

(Positive numbers are additional tax revenues, negative numbers are outlays)

Family income	Amount (billions of dollars)	As a Percent of Pre-tax Income	As a Percent of Post-tax Income
$0 to $10,000	−0.2	−0.2	−0.2
$10,000 to $20,000	0.0	0.0	0.0
$20,000 to $30,000	0.4	0.1	0.1
$30,000 to $50,000	4.4	0.5	0.6
$50,000 to $75,000	7.6	0.7	0.9
$75,000 to $100,000	5.9	0.7	0.9
$100,000 to $200,000	8.0	0.7	0.9
$200,000 and more	34.3	2.9	3.7
Total	60.5	1.0	1.3

[1] Effects as if policies were fully phased in CY 1994. Transfer payments include increases of $3 billion for Food Stamps and $1 billion for LIHEAP.

Table 3–6. Combined Effects of Tax and Transfer Changes

(Positive numbers are additional tax revenues, negative numbers are outlays)

Family income [1]	Amount (billions)	As a Percent of Pre-tax income
$0 to $10,000	3.8	4.5
$10,000 to $20,000	1.3	0.4
$20,000 to $30,000	−0.3	−0.1
$30,000 to $50,000	−5.2	−0.6
$50,000 to $75,000	−8.5	−0.8
$75,000 to $100,000	−6.4	−0.7
$100,000 and more	−42.8	−1.8
Total	−56.2	−1.0

[1] The concepts of family income used in the tax and spending tables above are not strictly comparable. The tax table reflects the Department of the Treasury's concept of economic family income. The outlay table reflects the concept of money income employed by the Bureau of the Census. To combine the tax and outlay effects, amounts of taxes and outlays were compared to aggregates of Treasury family income by income level from the tax table.

Making Government Work Better

This beautiful capital, like every capital since the dawn of civilization, is often a place of intrigue and calculation. Powerful people maneuver for position and worry endlessly about who is in and who is out, who is up and who is down, forgetting those people whose toil and sweat send us here and pay our way. Americans deserve better. And in this city today there are people who want to do better.

Bill Clinton
January 20, 1993

A crucial element of the President's economic plan, and of the success of our Nation in the coming years, is to improve the way Government works. Before we ask the American people to change, Government must change. It must work effectively and efficiently if it is to help encourage economic growth. We must restructure our defense and international mechanisms to adjust to the new realities of the post-Cold War era. Moreover, the American people have a right to Government that is honest, that is responsive to their concerns, and that serves them well.

Adapting to a Changing World

The institutions of Government that handle national security and our foreign relations must be redesigned. Constrained budgets necessitate efficient management of our defense and foreign relations. In addition, the many new challenges and opportunities of the next decade mean that structures designed for the Cold War must be reorganized so that they can carry out new policy initiatives successfully.

The major restructuring of our foreign relations institutions, as announced by the Secretary of State, has begun. Through the consolidation of functions and a one-third reduction in the number of deputy assistant secretaries, we will significantly streamline the operations of the State Department. In addition, the undersecretaries are acquiring new responsibilities, consonant with such new international missions as peacekeeping, democratization, and U.S. economic competitiveness, and such global issues as non-proliferation, the environment, refugees and population. To manage the critical relationship with the countries that were part of the Soviet Union, we have also created the position of Special Advisor to the Secretary of State for the New Independent States. And we are also initiating a review of current international affairs programs and structures in such areas as international development, finance and promotion, and international radio broadcasting, intending to streamline and redesign operations while ensuring we meet our current commitments.

A similar restructuring is under way in the national security arena. As the defense budget declines, we must become more efficient in managing the operations of the Department of Defense. Even as we build down and reshape our forces, we must assure an effective military capability, structured to meet new international challenges. The management structure of the Department of Defense must also be realigned for the new tasks ahead. The Office of the Secretary of Defense is being reshaped for efficiency and effectiveness by reducing the number of officials who report directly to the Secretary of Defense and by giving the undersecretaries responsibility for key departmental operations: defense policy, financial management, personnel and readiness, and technology and acquisition. In addition, defense policy offices are being restructured to focus on such new challenges as counter-proliferation, peacekeeping, economic and environmental security, and democratization. These changes promise to ensure that the Department of Defense is managed to achieve key strategic results, rather than simply conducting business as usual. As we develop a new defense strategy this year, we will be paying close attention to other defense management issues, such as defense overhead and business practices, acquisition reform and the future of the defense industrial and technology base.

Finally, the National Security Council staff is also being reshaped to focus on the new challenges we face internationally, so that it can lend effective support and coordination for interagency activities.

Restructuring for Domestic Change

Here at home, the President has already taken a number of direct actions to reduce the size and cost of Government, improve its honesty, and reduce the privileges that too often fostered insensitivity and arrogance in previous administrations:

- An executive order requiring that the Federal civilian workforce be reduced by 100,000 by 1995, with at least 10 percent coming from the ranks of management.
- An executive order requiring a reduction of at least 14 percent in administrative costs throughout Government over the next four years, which, along with the reduction in personnel, will save over $15 billion over that period.
- An executive order requiring the elimination of more than 200 non-statutory Federal advisory committees that currently operate throughout the Government.
- A 25 percent reduction in the size of the White House staff, with savings of $10 million in 1994.
- An executive order that imposes on top-level Administration employees the most stringent ethical standards in the nation's history.

- A Presidential memorandum sharply reducing the availability of Government automobiles and drivers for high-level officials.
- A Presidential memorandum requiring that executive dining rooms, if they remain open, fully recover their costs.
- A Presidential memorandum restricting air travel by high-level officials.

In addition to these steps, the Administration will make more effective management of Government a top priority. Government is not a business. But there are business management techniques which can help improve the performance of Government, streamline bureaucracies, and reduce costs. Overcoming years of neglect is a difficult task. But it is essential that we begin now.

Managing for results. Too often, Government agencies and programs have only the vaguest goals. As a result, they have little to guide their efforts, and there is no way for an Administration, or the American people, have no way to measure the results of their work. Businesses set goals and evaluate managers and workers based on their performance in meeting those goals. Government can and should do the same. The Administration is studying possible ways of testing performance-based management to help agencies and their employees do their jobs better, and to enable managers and the public to evaluate their work.

Restructuring Government. The Federal Government is more complex than it needs to be. Often, many different agencies deal with the same issue, and individuals, businesses, communities, and states find it impossible to have their problems addressed. Departments and agencies are already consolidating and simplifying their operations, and the Administration will seek to rationalize and streamline functions Government-wide.

More responsive Government. Well-run businesses seek to maintain good relations with their customers, but Government is too often arrogant toward those it serves. This Administration will seek to improve the delivery of services, using client-oriented, "user-friendly" approaches, such as "one-stop shopping" for multiple services.

Unnecessary spending. Wasteful spending is sometimes the result of legislative mandates that escape scrutiny through their inclusion in large appropriations bills. Under current procedures a President cannot single out wasteful items in an appropriations bill for a veto; he must veto the entire measure. The President intends to work with the Congress to enact a modified line-item veto that will enable a President to reject wasteful items from an appropriations bill and will require the Congress to cast a separate vote on those items. Items that have broad support will survive; but over time millions, perhaps billions, of dollars will be saved by the defeat of items without broad support.

Campaign reform. A primary reason for the cynicism of the American people about politics and Government has been the pervasive influence of special interests. Much of that influence is related directly to the impact of money on the political system. The President is already working with the Congress to develop strong campaign reform legislation that will curb the influence of special interest political action committees (PACs) and control election spending.

Lobbying reform. The American people have a right to know who is lobbying their Government leaders, who is paying them to lobby, and how much they are being paid. The Administration is working with the Congress to enact legislation that would impose strict disclosure rules on lobbying. In addition, the President's deficit-reduction plan includes a tax provision eliminating the deduction of the expenses special interests incur in lobbying the Congress or state legislatures. No longer will the average taxpayer have to subsidize this search for Government benefits by high-priced lobbyists. The Administration is committed to enactment of campaign finance reform legislation. If such legislation calls for public resources, funds raised by the repeal of the provision are a possible source of funding for this purpose.

Taken together, these actions will help bring about Government that is better able to meet its responsibilities at home and abroad, that is more responsive, effective, efficient, and honest. This Administration is making a full-time commitment to improving Government and making it truly the servant of the people.

The Task Remaining

The urgent question of our time is whether we can make change our friend and not our enemy.

Bill Clinton

The plan presented in these pages is as bold as the challenges it confronts are daunting. It calls for fundamental change—to invest in people; to reward hard work and restore fairness; to recognize our families and communities as the cornerstones of America's strength; to reclaim our future.

This plan promises rising standards of living, productivity and national savings. It stimulates job growth and provides insurance that the current slow recovery will be lasting and strong. It invests in the education, training and health of our people. It encourages the private sector to modernize and acquire the tools and technology to compete in the global economy. And it confronts our deficit head on, with a serious, fair plan to bring it under control and generate economic growth.

The Perils of Inaction

Achieving this change will not be easy. But the cost of not changing is far greater.

After the fiscal failures of the last twelve years, we cannot accept the status quo. While every American can sense the weakness in our economy from day to day, the real cost of inaction becomes clear only when we examine the course that our economy and budget will follow if we do not change.

Under the policies left by the previous Administration and taking a cautious view of the economic outlook, the budget deficit will decline for the next two years, and then begin to grow even as the economy continues to recover and expand (Chart 4–1). As a percentage of the GDP, a better measure of its impact on the economy, the deficit declines through 1996, but then begins to climb (Chart 4–2).

Far more troubling, however, these deficits will be so large that the national debt will grow faster than the economy (and thus will increase as a percentage of the GDP) all the way to the forecast horizon (Chart 4–3). This path cannot be sustained. If rising deficits are left to cascade into debt, hence into interest costs, and then back into still higher deficits, there can be no good economic outcome.

And the longer this vicious cycle is left to build its momentum, the more painful the jolt when—inevitably—it is broken.

The Administration's economic plan controls the deficit before the deficit controls our economy. In a fair and measured way, the plan will bring the deficit down until, by 1997, it will be $140 billion lower than it would be if we cling to the status quo. The deficit under this program falls from 5.4 percent of the GDP in fiscal year 1993 to 2.7 percent in 1997. This is 1.9 percent of GDP lower than would occur under the policy left behind by the previous Administration.

To be cautious, we have based our deficit projections on an extremely unfavorable path of economic growth, with slow progress of productivity and real economic output growing less than two percent per year in the long run. Under those circumstances, the deficit would rise slowly after 1996—even with the aggressive deficit reduction policies recommended by this Administration. Though much improved relative to past economic policies, this outcome is unacceptable (Chart 4–1). As a percentage of the GDP, the deficit would rise in the long run (Chart 4–2); and the growth of the national debt relative to the GDP would continue (Chart 4–3).

This Administration believes that its policies of deficit reduction and public and private investment will increase the growth of productivity and incomes, thereby increasing Federal revenues, retarding the expansion of Federal spending, and forcing the deficit down. If the economic outcome is more favorable than we have assumed, the deficit will grow more slowly. Under the more optimistic assumptions, the deficit will be nearly stabilized as a percentage of the GDP. The economy will grow more rapidly than the national debt, and so the debt as a percentage of the GDP will fall slowly. Eventually we will reverse the borrow and spend legacy of the 1980s.

The Role of Health Care Costs

Even the most favorable scenarios for economic growth under our plan leave unfinished business, however. The budget totals conceal rapidly rising health care spending that threatens to bankrupt our national treasury.

Recently, health care costs have accounted for almost half of the increase in Federal spending; if we do nothing, by decade's end one in every four Federal dollars will go to providing health care. Relentlessly rising costs will continue to stunt long-term economic growth—and terrorize American families—unless and until we achieve fundamental change.

Later this spring we will deliver to the Congress a comprehensive plan for change. That plan will control health care costs and will provide security to families, so that they cannot be denied the coverage they need. It will root out fraud and outrageous charges, and make sure that paperwork no longer chokes consumers or doctors. And it will maintain American standards—the highest quality medical care in the world, and the choices we all deserve.

Our health care plan will bring costs under control. And while the savings we achieve will go mostly to the private sector, taxpayers will benefit as well. Federal funds will be freed for investments in education, training, and the technologies of tomorrow.

That reform will control the growth of Medicare and Medicaid spending in the long term, and thereby supplement the deficit reduction in this economic program. If the growth of Federal health care costs can be limited to the rate of growth of the population, plus the rate of inflation, plus two percent, the deficit will decline in dollar terms and as a percentage of the GDP (Charts 4–1 and 4–2); and the increase in the ratio of the national debt to the GDP of the 1980s will be reversed (Chart 4–3).

Enactment of the economic plan and health care reform together will reverse the failures of the 1980s, and put the economy on a sound footing for the next century. It will reduce the threat of financial instability posed by a national debt rising faster than our income. It will stop sending the signal to the rest of the industrialized world that our economic policy is out of control. Most important, it will add to the prosperity and security of the American people and allow us to compete more effectively in the global economy.

Conclusion: A Vision of Change for America

Throughout our history, at every critical moment, Americans have summoned the courage to change, to adapt our nation's policies and institutions to changing problems and a changing world. Once again we face such a challenge. Now we must change our course.

We need a change to restore what makes America great: a vision of economic and political freedom; of the rewards of hard work and initiative; of a fundamental sense of fairness, of our families and our communities as foundations of our strength; and of every generation's obligation to create a better life for those that follow.

The plan we present invests in our people and promises an America where a growing economy produces rising living standards and high-wage, high-skill jobs. It rewards hard work and restores fairness, providing opportunity in return for responsibility. It ends twelve years of government that served only the privileged and returns that government to its rightful owners: the American people.

Here in Washington, the powerful special interests are already doing their best to suffocate change. They oppose it because they profit from the status quo. They refuse to listen to the American people's call for change.

It is our responsibility to answer that call and restore hope to our people. The voices of conventional wisdom will first whisper and then shout that it cannot be done. But we must summon the wisdom and courage to reject convention and embrace the new direction that we have needed for so long.

Chart 4-1. FEDERAL DEFICIT PROJECTIONS 1993 - 2003

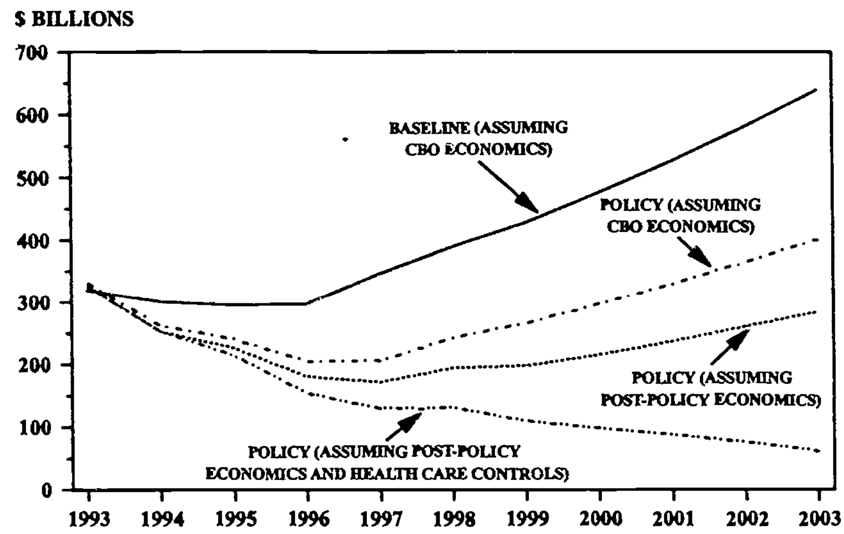


Chart 4-2. FEDERAL DEFICIT PROJECTIONS 1993 - 2003
(as a percent of GDP)

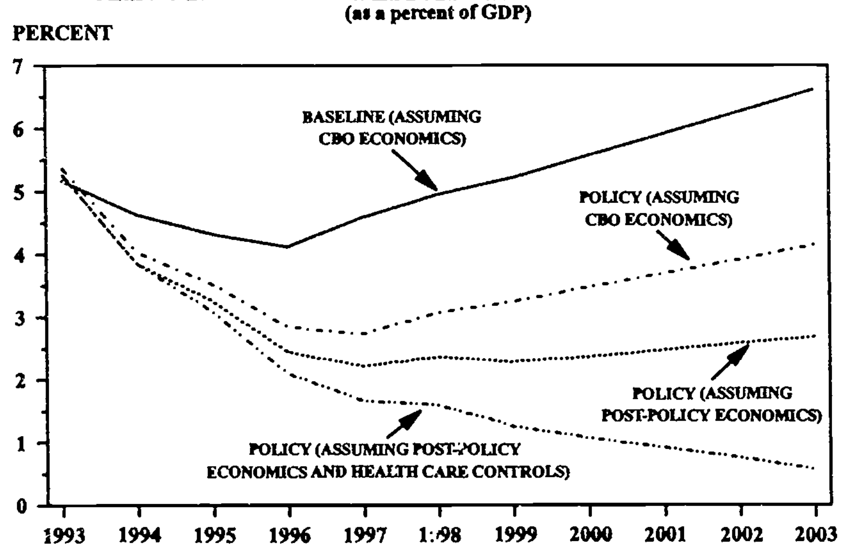
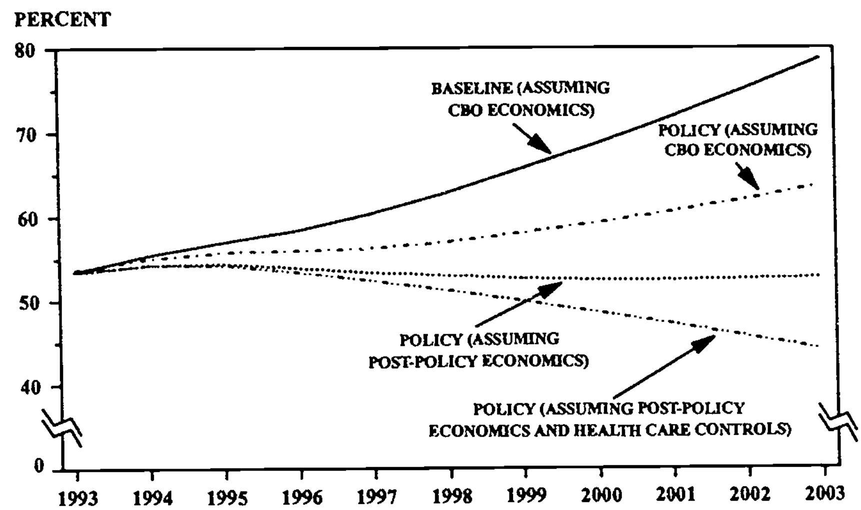


Chart 4-3. FEDER. L DEBT PROJECTIONS 1993 - 2003
(as a percent of GDP)



Appendix

TABLE 1. DEFENSE DISCRETIONARY PROPOSALS

(in billions of dollars)

	1993	1994	1995	1996	1997	1998
Current OBRA Baseline:						
Budget Authority	274.3	288.0	296.4	304.5	312.9	321.5
Outlays	294.3	289.6	293.8	299.8	306.5	313.8
Change from OBRA to Bush Adjusted:						
Budget Authority		-12.5	-18.4	-26.2	-28.3	-28.1
Outlays		-5.3	-9.5	-15.2	-20.0	-24.8
Current Bush Adjusted Baseline:						
Budget Authority		275.5	278.0	278.3	284.6	293.4
Outlays		284.4	284.3	284.6	286.5	289.0
Proposed Policy Changes:						
Budget Authority		-11.8	-15.2	-24.5	-36.2	-39.2
Outlays		-6.7	-11.7	-19.7	-37.4	-36.3
Proposed Defense Discretionary:						
Budget Authority	274.3	263.7	262.8	253.8	248.4	254.2
Outlays	294.3	277.7	272.6	264.9	249.1	252.7

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TABLE 2. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
PROGRAMS THAT DON'T WORK OR ARE NO LONGER NEEDED						
Commerce:						
Eliminate Trade Adjustment Assistance for firms	-1	-5	-10	-14	-14	-30
Reduction in Export Administration workload	-6	-7	-7	-7	-7	-27
Health and Human Services:						
Fund priority health professions curriculum assistance grants	-14	-21	-25	-27	-29	-87
State:						
Eliminate Russia/Eurasia research	-1	-8	-10	-10	-11	-29
Environmental Protection Agency:						
Completion of wastewater treatment grants authorization (except NAFTA)	-109	-624	-1,424	-1,947	-2,207	-4,104
Appalachian Regional Commission:						
Freeze Appalachian Regional Commission	-1	-2	-6	-11	-12	-20
Community Investment Program:						
Reforms in light of new crime initiative		-211	-411	-532	-550	-1,154
State Justice Institute:						
Terminate State Justice Institute	-3	-15	-16	-17	-17	-51
Tennessee Valley Authority:						
Terminate TVA fertilizer and community development	-42	-46	-50	-50	-52	-188
Multi-Agency:						
Eliminate unnecessary nuclear reactor R&D	-97	-198	-257	-268	-279	-820
Terminate commissions	-9	-10	-11	-11	-11	-41
Subtotal, Programs That Don't Work or are No Longer Needed	-283	-1,147	-2,227	-2,894	-3,189	-6,551
ELIMINATING SUBSIDIES: CHARGING FEES FOR GOVERNMENT SERVICES						
Agriculture:						
Reduce Rural Electrification Administration 5-percent loan subsidies	-27	-77	-120	-150	-171	-374
Expand certain agriculture user fees	-14	-14	-15	-16	-16	-59
Eliminate Cooperative State Research Service (CSRS) earmarked research grants	-4	-18	-32	-42	-46	-96
Eliminate CSRS earmarked facilities construction	-3	-7	-32	-44	-60	-86
Eliminate earmarked special extension grants	-13	-13	-14	-14	-15	-54
Eliminate Agricultural Research Service earmarked facilities construction	-1	-6	-7	-10	-10	-24
Meat/Poultry fees: Reimbursement for overtime	-104	-104	-104	-104	-104	-416
Commerce:						
Terminate NOAA demonstration projects	-30	-55	-65	-70	-73	-220
Corps of Engineers:						
Reduce construction funding for lower priority water projects	-85	-70	-30	-50	-15	-235
Energy:						
Assess foreign customers decommissioning and decontamination fee (receipts)	-10	-10	-11	-11	-12	-42
Health and Human Services:						
Increase FDA user fees	-167	-230	-285	-336	-387	-1,018

TABLE 2. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS–Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Housing and Urban Development:						
Eliminate special purpose grants	−5	−73	−209	−278	−288	−565
Interior:						
Reduce construction funding for lower priority water projects	−18	−40	−63	−42	−23	−163
Transportation:						
Eliminate low priority Transportation programs and projects	−129	−337	−438	−428	−417	−1,332
Treasury:						
Establish a Bureau of Alcohol, Tobacco, and Firearms user fee	−5	−5	−5	−5	−5	−20
Small Business Administration:						
Eliminate SBA earmarked grants	−44	−71	−90	−110	−116	−315
Securities and Exchange Commission:						
Increase SEC Registration Fees	−47	−50	−52	−54	−56	−203
Subtotal, Eliminating Subsidies: Charging Fees for Government Services	−706	−1,180	−1,572	−1,764	−1,814	−5,222
MANAGING GOVERNMENT FOR COST-EFFECTIVENESS AND RESULTS						
Agriculture:						
Reduce Enterprise for the Americas debt forgiveness (P.L. 480)	−6	−17	−20	−36	−38	−79
Reduce development-oriented foreign food aid	−30	−63	−72	−81	−90	−246
Phase out below-cost timber sales (Forest Service)	−46	−59	−83	−86	−86	−274
Implement one new Farm Service Organization	−65	−139	−219	−307	−403	−730
Reform crop insurance through area-yield	−105	−110	−165	−171	−177	−551
Reduce Economic Research Service programs	−12	−16	−16	−17	−18	−61
Reduce Foreign Agriculture Service programs	−5	−10	−10	−10	−10	−35
Reduce direct ACIF farm loans 25%; replace with guarantees	−3	−8	−10	−10	−11	−31
Education:						
Reform campus-based aid	−20	−198	−239	−275	−312	−732
Phase out impact aid "b"	−39	−86	−134	−145	−149	−404
Energy:						
Stretchout Superconducting Super Collider	108					108
Implement uranium enrichment initiative	−241	−274	−374	−386	−340	−1,275
Reduce Strategic Petroleum Reserve fill by one-third	−55	−58	−22	37	39	−98
Housing and Urban Development:						
Eliminate public housing new construction amendments			−7	−36	−58	−43
Modify fees Federal housing	−40	−85	−136	−193	−204	−454
Reforming low-income housing preservation	−5	−15	−37	−58	−80	−115
Consolidate several HUD housing programs into HOME	−1	29	−56	−150	−474	−178
Justice:						
Reduce prison construction	−7	−40	−103	−181	−249	−331
Transportation:						
Maintain level Federal Aviation Administration (Operations)	−55	−62	−62	−62	−62	−241
Adjust Coast Guard for military pay	−29	−53	−69	−86	−99	−237
Veterans Affairs:						
Reform major construction	−7	−46	−95	−134	−152	−282
Improve management of VA hospitals	−100	−200	−300	−400	−500	−1,000

TABLE 2. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Environmental Protection Agency:						
Increase private sector Superfund financing	-31	-73	-95	-109	-118	-308
National Aeronautics and Space Administration:						
Redesign Space Station and invest in new technology	203	662	625	636	510	2,126
Small Business Administration:						
Reduce 7(a) business loan subsidies	-58	-113	-116	-118	-121	-405
Board for International Broadcasting:						
Consolidate overseas broadcasting	-60	-59	-281	-244	-250	-644
Executive Office of the President:						
Cut White House and Office of National Drug Control Policy staff	-20	-32	-37	-40	-43	-129
Funds Appropriated to the President:						
Re-orient AID programs and reduce spending	-7	-84	-152	-257	-341	-500
Phase out defense acquisition fund	-23	-92	-138	-133	-86	-386
Reduce International Security Assistance	-84	-264	-504	-731	-943	-1,583
Reduce Enterprise for the Americas debt forgiveness (AID)	-8	-20	-34	-45	-54	-107
Export Import Bank of the United States:						
Reduce Export Import Bank credits	-3	-6	-39	-105	-148	-153
U.S. Information Agency:						
Russian Far East Technical Assistance Center	-2	-2	-2	-2	-2	-8
Terminate funding for North-South Center	-4	-9	-9	-10	-10	-32
Multi-Agency:						
Freeze other foreign assistance programs	-6	-14	-75	-95	-111	-190
Maintain current program level for programs in small agencies	-12	-30	-60	-92	-124	-194
No Federal Pay Raise CY94; ECI-Based Raise minus 1% CY1995–1997; revise locality pay beginning CY1995	-1,361	-1,963	-2,281	-2,741	-2,965	-6,346
Administrative Efficiencies:						
Cut 100,000 Federal employees	-932	-2,180	-2,306	-2,509	-2,591	-7,927
Other administrative savings	-676	-1,392	-2,169	-3,462	-3,553	-7,699
Reduce overhead rate on university R&D	-156	-330	-369	-383	-396	-1,238
Subtotal, Managing Government for Cost-Effectiveness and Results	-4,003	-7,511	-10,271	-13,227	-14,819	-35,012
STREAMLINING GOVERNMENT						
Agriculture	-38	-76	-96	-117	-139	-327
Education	-70	-318	-486	-620	-758	-1,494
Energy		-1	-3	-7	-12	-11
Health and Human Services	-199	-500	-832	-1,168	-1,512	-2,699
Housing and Urban Development	-104	-265	-443	-621	-822	-1,433
Justice	-25	-19	-38	-56	-73	-138
Labor	-2	-52	-105	-161	-215	-320
Transportation	-10	-25	-33	-44	-54	-112
Treasury	-33	-52	-63	-68	-73	-216
Veterans Affairs		-1	-3	-6	-10	-10
Corps of Engineers	-13	-34	-56	-77	-99	-180
Environmental Protection Agency	-10	-38	-70	-103	-137	-221
Other agencies	-100	-170	-230	-267	-292	-767
Subtotal, Streamlining Government	-604	-1551	-2,458	-3,315	-4,196	-7,928

TABLE 2. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS–Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
TECHNICAL ADJUSTMENTS						
Agriculture	-9	-10	-10	-10	-11	-39
Commerce	-30	-11	5	53	257	17
Education	66	122	131	135	134	454
Energy	214			-35	-144	179
Health and Human Services	-105	-91	-74	-61	-48	-331
Interior:						
Indian Land and Water Rights Claim Settlements	200	200	200	200	200	800
Other Interior programs	2	0	-4	-8	-10	-10
Justice	41	55	65	72	78	233
Labor:						
Unemployment Insurance administration workload adjustment	130	133	126	119	143	508
Other Labor programs	-54	-194	-265	-270	-281	-783
State	169	106	147	79	117	501
Transportation	104	122	127	135	144	488
Treasury:						
United States Customs	29	29	30	31	32	119
Fund additional IRS tax compliance efforts	143	156	163	171	178	633
Environmental Protection Agency	-15	-59	-95	-102	-104	-271
General Services Administration	-89	-90	-96	-222	-323	-497
Office of Personnel Management	3	9	8	5	9	25
Funds Appropriated to the President: International Affairs programs	236	469	533	580	540	1,818
Other agencies	83	250	131	110	97	574
Subtotal, Technical Adjustments	1,118	1,196	1,122	982	1,008	4,418
TOTAL, all categories	-4,478	-10,193	-15,406	-20,218	-23,010	-50,295

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TABLE 3. PROPOSED CHANGES TO MANDATORY PROGRAMS

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
ELIMINATING SUBSIDIES: CHARGING FEES FOR GOVERNMENT SERVICES						
Energy:						
Reform Power Marketing Administration			−100	−100	−100	−200
Natural Resources and Environment:						
Phase-in increased Inland Waterway user fees	−35	−115	−210	−460	−460	−820
Increase grazing fees: Agriculture Department	−2	−5	−8	−13	−19	−28
Increase grazing fees: Interior Department	−4	−8	−14	−22	−32	−48
Implement a Federal irrigation water surcharge	−10	−10	−10	−15	−15	−45
Increase recreation fees: Corps of Engineers	−18	−18	−18	−18	−18	−72
Increase recreation fees: Interior Department	−29	−34	−39	−45	−50	−147
Increase recreation fees: Agriculture Department	−10	−11	−12	−13	−13	−46
Permanently extend hardrock mining holding fees	−80	−80	−80	−80	−80	−320
Institute hardrock mining royalties		−63	−131	−277	−277	−471
Improve enforcement of harbor maintenance fees	−10	−25	−65	−65	−65	−165
Permanently extend 50% net receipt sharing (on-shore minerals)	−40	−42	−43	−45	−47	−170
Below-cost timber sales (loss of receipts)	38	48	58	58	58	202
Agriculture:						
Eliminate subsidies to honey producers	−12	−10	−6	−4	−3	−32
Target CCC subsidies to farmers with off-farm incomes below $100,000	−75	−115	−140	−140	−140	−470
Increase non-eligible payment acres (triple base) starting in 1996			−310	−720	−720	−1,030
Eliminate 0/92 and 50/92 (PAY/92) programs starting in 1996			−273	−664	−640	−937
Increase assessments on "non-program" crops starting in 1996			−450	−450	−450	−900
Limit payments on wool and mohair to $50 thousand per person	−10	−68	−68	−66	−66	−212
Permanently extend market promotion program at 1993 level	−52	−52	−52	−52	−52	−208
Commerce and Housing Credit:						
Assess examination fees for State-chartered, FDIC-insured banks	−255	−265	−275	−286	−297	−1,081
Institute Commodity Futures Trading Commission processing fees (revenue)	−55	−57	−60	−63	−66	−235
Increase Securities and Exchange Commission registration fees (revenue)	−44	−46	−48	−50	−52	−188
Permanently extend patent and trademark fees			−111	−115	−120	−226
Transportation:						
Increase registration fee on general aviation aircraft	−18	−31	−44	−58	−60	−151
Permanently extend tonnage fees			−67	−68	−70	−135
Health:						
Complete payment of outstanding postal liabilities: FEHB portion		−116	−116	−116		−348
Income Security:						
Charge fee for State SSI administration	−50	−110	−180	−180	−190	−520

TABLE 3. PROPOSED CHANGES TO MANDATORY PROGRAMS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Administration of Justice:						
Permanently extend U.S. Customs merchandise and passenger processing fees			−564	−579	−597	−1,143
Undistributed Offsetting Receipts:						
Auction Federal Communications Commission spectrum		−374	−1,623	−2,083	−340	−4,080
Complete payment of outstanding postal liabilities: Cost-of-living adjustments for retirees		−231	−231	−231		−693
Subtotal, Eliminating Subsidies: Charging fees for Government Services	−771	−1,838	−5,290	−7,020	−4,981	−14,919
MANAGING GOVERNMENT FOR COST-EFFECTIVENESS AND RESULTS						
Agriculture:						
Reform crop insurance program through area-yield (mandatory savings)		−238	−246	−255	−264	−739
Reform commodity disaster payments						
Commerce and Housing Credit:						
Government National Mortgage Association: Real estate mortgage insurance conduits	−146	−146	−146	−146	−146	−584
Reform Federal Housing Administration insurance	−28	−66	−78	−81	−83	−253
Education, Training, Employment, and Social Services:						
Reform student loan program	171	213	−378	−1,343	−1,833	−1,337
Require States to share default costs	−80	−122	−126	−131	−137	−459
Income Security:						
Conform CSRS/FERS child-survivor benefits age to Social Security	−5	−10	−15	−20	−25	−50
Base CSRS/FERS survivor annuities on reduced retiree annuity	−35	−70	−105	−140	−175	−350
Veterans Benefits and Services:						
Restore 1:9 contribution ratio for GI Bill benefits	−68	−83	−90	−98	−108	−339
Implement housing down-payment for second and subsequent uses	−17	−17	−17	−17	−17	−68
Pay insurance administration from excess funds	−25	−28	−29	−31	−32	−113
Set housing loan fees at 2%	−153	−155	−155	−157	−165	−620
Permanently extend pensions-medicaid nursing homes provisions					−300	
Permanently extend pension/medical care income verification through Internal Revenue Service					−197	
Permanently extend medical care costs recovery	−46	−326	−391	−407	−425	−1,170
Permanently extend prescription charge/co-payment					−42	
Permanently extend resale loan loss provisions	−19	−20	−20	−21	−22	−80
Administration of Justice:						
Reform U.S. Customs overtime	−18	−18	−18	−18	−18	−72
General Government:						
Implement Commonwealth of the Northern Mariana Islands funding agreement	−6	−7	−8	−10	−12	−31
Net Interest:						
Shorten maturity of debt securities	−1,634	−2,660	−3,264	−3,919	−4,877	−11,477

TABLE 3. PROPOSED CHANGES TO MANDATORY PROGRAMS–Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Other:						
FTE cut—offsets—employer contributions	115	269	284	310	320	978
FTE cut—offsets—employee contributions	29	67	71	77	80	244
Pay reduction—related employee contributions	71	95	109	131	141	406
Increase revenues from IRS tax compliance efforts	-11	-74	-297	-554	-601	-936
Subtotal, Managing Government for Cost-effectiveness and results	-1,905	-3,396	-4,919	-6,830	-8,938	-17,050
CONTROLLING HEALTH CARE COSTS						
Health:						
Institute Medicare fee limits over 65: Federal Employees Health Benefits	-12	-18	-21	-24	-27	-75
Medicaid: Eliminate mandatory medicaid care		-1,190	-1,355	-1,540	-1,760	-4,085
Medicaid: Tighten estate asset rules	-25	-80	-135	-155	-170	-395
Medicaid: Remove prohibition on drug formularies	-10	-15	-20	-25	-30	-70
Medicare:						
Pay hospitals for inpatient services by hospital-based physicians		-80	-150	-160	-180	-390
Put hospitals on a calendar year update	-1,000	-1,140	-1,180	-1,290	-1,420	-4,610
Gradually lower indirect medical education rate to 5.65%			-580	-1,360	-1,600	-1,940
Set laboratory rates at market levels	-390	-690	-890	-1,120	-1,390	-3,090
Eliminate skilled nursing facility return on equity payments	-110	-140	-150	-160	-170	-560
Durable medical equipment—options	-75	-125	-150	-160	-175	-510
Set erythropoietin (EPO) at non-U.S. market rates ($10 per 1000 units)	-30	-40	-40	-50	-50	-160
Medicare secondary payor (MSP) reforms	-127	-240	-275	-305	-345	-947
Eliminate add-on for hospital based home health agency	-160	-200	-230	-250	-280	-840
Phase-in resource-based practice expense	-100	-350	-700	-875	-950	-2,025
Implement single fee for surgery	-50	-100	-110	-120	-130	-380
Discount for interactions	160	200	490	940	1,410	1,790
Reduce hospital update market basket minus 1% in 1994 and 1995	-550	-1,380	-1,560	-1,700	-1,860	-5,190
Permanently extend 10% capital reduction, outpatient department			-110	-150	-170	-260
Permanently extend 2% laboratory fee update	-30	-110	-220	-380	-570	-740
Permanently extend 10% capital reduction, Prospective Payment System neutral			-300	-380	-420	-680
Permanently extend Medicare Secondary Payer (MSP) for the disabled			-650	-960	-1,085	-1,610
Permanently extend MSP for End Stage Renal Disease after 18 months			-35	-35	-35	-70
Permanently extend Internal Revenue Service/Social Security Administration/Health Care Financing Administration data match			-45	-120	-205	-165
Permanently extend reduction of payments for hospital outpatient services by 5.8%			-425	-525	-600	-950
Third party liability—Enhance identification of other health coverage		-150	-250	-400	-450	-800
Direct medical education	-350	-340	-340	-330	-320	-1,360

TABLE 3. PROPOSED CHANGES TO MANDATORY PROGRAMS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Ban physician self referrals		-50	-100	-100	-100	-250
Reduce default Medicare volume performance and update			-200	-650	-1,225	-850
Reduce doctor fees in 1994 except primary care	-200	-300	-350	-400	-425	-1,250
Provide electronic billing incentive			-90	-175	-175	-265
Outpatient department cut at 10%			-315	-375	-425	-690
Medicare—Maintain 1995 ratio of premium collections to program outlays with a 27% ceiling			-1,145	-3,870	-6,560	-5,015
Subtotal, Controlling Health Care Costs	-3,059	-6,538	-11,631	-17,204	-21,892	-38,432
SHARED CONTRIBUTION						
Health:						
Medicaid: Equate matching rates for welfare program	-160	-400	-440	-490	-540	-1,490
Social Security:						
Retain Social Security threshold and tax 85% (revenue)	-2,700	-5,600	-6,200	-6,900	-7,700	-21,400
Income Security:						
Strengthen child support enforcement	-27	-80	-112	-109	-177	-328
Equate matching rates for welfare program	-40	-80	-90	-90	-90	-300
End lump-sum benefit			-2,100	-3,032	-3,197	-5,132
Subtotal, Shared Contribution	-2,927	-6,160	-8,942	-10,621	-11,704	-28,650
TOTAL, PROPOSED ENTITLEMENT SAVINGS	-8,662	-17,932	-30,782	-41,675	-47,515	-99,051
MEMORANDUM:						
Revenue items included above	-2,755	-5,755	-6,700	-7,884	-8,723	-23,094

TABLE 4. STIMULUS PROPOSALS

(In millions of dollars)

	1993 Budget Authority	1993 Obligations	1993 Outlays	1994 outlays	1995 outlays	1996 outlays	1997 outlays	1998 outlays	Total 1994–1997 outlays
INFRASTRUCTURE									
Department of Defense—Civil:									
Army Corps of Engineers water projects	94	94	28	66	....	....	....	....	66
Department of Transportation:									
Federal highway program	....	2,976	316	1,895	405	103	64	59	2,467
Airport improvement program	....	250	34	106	63	25	13	10	207
AMTRAK	188	188	28	131	28	....	....	....	159
Mass transit:									
Obligation limitation		16	1	3	5	3	3	1	14
1993 supplemental	736	736	139	245	147	95	89	22	576
Subtotal, Transportation	924	4,166	518	2,380	648	226	169	92	3,423
Department of Veterans Affairs:									
Maintenance backlog	235	235	153	82	....	....	....	....	82
SUBTOTAL, INFRASTRUCTURE	1,253	4,495	699	2,528	648	226	169	92	3,571
SUMMER OF OPPORTUNITY									
Department of Agriculture:									
Food and Nutrition Service:									
Women, Infants, and Children (WIC) supplemental feeding program	75	75	68	7	....	....	....	....	7
The Emergency Food Assistance Program (TEFAP)	23	23	23	....	....	....	....	....	....
Subtotal, Agriculture	98	98	91	7	....	....	....	....	7
Department of Education:									
Pell Grants unfunded shortfalls:									
Fund current law for 1993–1994 school year without borrowing from 1994 funds	653	653	....	....	....	....	....	....	....
Fund shortfall caused in prior years without borrowing from 1994 funds	1,371	1,371	....	....	....	....	....	....	....
Chapter 1:									
Census supplemental	235	235	28	160	42	5	....	....	207
Summer 1993 pre-school and school programs	500	500	400	100	....	....	....	....	100
Subtotal, Education	2,759	2,759	428	260	42	5	....	....	307

TABLE 4. STIMULUS PROPOSALS–Continued

(In millions of dollars)

	1993 Budget Authority	1993 Obliga-tions	1993 Outlays	1994 outlays	1995 outlays	1996 outlays	1997 outlays	1998 outlays	Total 1994–1997 outlays
Department of Health and Human Services:									
Head Start:									
Head Start summer program	500	500	425	75					75
Childcare feeding (Agriculture)	56	56	48	8					8
Immunization	300	300	236	64					64
AIDS: Ryan White Act	200	200	152	48					48
Subtotal, Health and Human Services	1,056	1,056	861	195					195
Department of the Interior:									
Bureau of Indian Affairs:									
Enhanced school operations	49	28	28	17	4				21
Department of Labor:									
Summer youth employment	1,000	1,000	660	340					340
Worker profiling	14	14	9	5					5
Community service employment for older Americans	32	32	6	23	3				26
Extend Unemployment Compensation	4,000	4,000	4,000						
Offsets: Extension lowers spending on Extended Benefits program			-800						
Subtotal, Labor	5,046	5,046	3,875	368	3				371
Other Agencies:									
National Service program	15	15	12	3					3
Equal Employment Opportunity Commission	9	9	8	1					1
Small Business Administration:									
7(a) loan guarantees—loan levels	(2,575)	(2,575)							
Loan subsidy	141	141	42	99					99
Subtotal, Other Agencies	165	165	62	103					103
SUBTOTAL, SUMMER OF OPPORTUNITY	9,173	9,152	5,345	950	49	5			1,004
TECHNOLOGY INVESTMENTS									
Department of Commerce:									
National Institute of Standards and Technology:									
Advanced technology program	103	54	33	31	26	13			70
Networking and computing applications	14	14	11	3					3
National Oceanic and Atmospheric Administration: Equipment acquisition	81	81	67	14					14
National Telecommunications and Information Administration: "Information Highways"	64	38	3	31	30				61
Subtotal, Commerce	262	187	114	79	56	13			148

TABLE 4. STIMULUS PROPOSALS—Continued

(In millions of dollars)

	1993 Budget Authority	1993 Obliga-tions	1993 Outlays	1994 outlays	1995 outlays	1996 outlays	1997 outlays	1998 outlays	Total 1994–1997 outlays
Department of Health and Human Services:									
National Institutes of Health:									
Networking and computing applications	9	9	6	3					3
Social Security Administration:									
Disability Insurance (DI) processing		302	302						
Subtotal, Health and Human Services	9	311	308	3					3
Department of the Treasury:									
Accelerate Tax System Modernization (TSM)	148	148	104	44					44
Other Agencies:									
National Aeronautics and Space Administration:									
Networking and computing applications	5	4	3	2					2
National Science Foundation									
Research and development	188	150	85	75	28				103
Networking and computing applications	19	15	8	8	3				11
Subtotal, NSF	207	165	93	83	31				114
Subtotal, Other agencies	212	169	96	85	31				116
SUBTOTAL, TECHNOLOGY INVESTMENTS	631	815	622	211	87	13			311
URBAN DEVELOPMENT AND HOUSING INITIATIVE									
Department of Commerce:									
Economic Development Administration	94	94	9	29	29	18	7	2	83
Minority Business Development Administration	2	2	1	1					1
Subtotal, Commerce	96	96	10	30	29	18	7	2	84
Department of Housing and Urban Development:									
Accelerate Home Investment Partnership									
Accelerate Public Housing Modernization			83	173	263	260	171	85	867
Community Development Block Grants	2,536	2,536	659	1,319	558				1,877
Supportive Housing	423	423	127	211	85				296
Subtotal, HUD	2,959	2,959	869	1,703	906	260	171	85	3,040
Other Agencies:									
District of Columbia	28	28	28						
SUBTOTAL, URBAN DEVELOPMENT AND HOUSING INITIATIVE	3,083	3,083	907	1,733	935	278	178	87	3,124

TABLE 4. STIMULUS PROPOSALS–Continued

(In millions of dollars)

	1993 Budget Authority	1993 Obligations	1993 Outlays	1994 outlays	1995 outlays	1996 outlays	1997 outlays	1998 outlays	Total 1994–1997 outlays
RURAL DEVELOPMENT INITIATIVE									
Department of Agriculture:									
Soil Conservation Service:									
Watershed and conservation	47	47	24	23					23
Agricultural Research Service:									
Enhanced facility maintenance	38	38	30	8					8
Enhanced natural resource protection	188	188	169	19					19
FmHA Very Low-Income Housing Repair Loans:									
Loan levels	(3)	(3)							
Loan subsidy	1	1	1						
FmHA very low-income housing repair grants	6	6	5	1					1
FmHA Single Family Housing Guaranteed Loans:									
Loan levels	(235)	(235)							
Loan subsidy	5	5	4	1					1
Food Safety and Inspection Service	4	4	4						
Rural Development Administration:									
Loan levels	(470)	(470)							
Loan subsidy	67	67	2	19	22	24			65
Grants	281	281	6	67	84	124			275
Subtotal, Agriculture	637	638	244	138	106	148			392
Department of the Interior:									
Bureau of Indian Affairs: Economic development on Indian Reservations:									
Loan levels	(48)	(48)							
Loan subsidy	6	6	6						
Road maintenance and facility repair	33	33	29	4					4
Subtotal, Interior	39	39	35	4					4
SUBTOTAL, RURAL DEVELOPMENT	676	677	280	142	106	148			396
ENVIRONMENT/ENERGY									
Department of Energy:									
National Laboratories (CRADAs)	47	47	22	19	7				26
Increase weatherization grants	47	47	14	26	7				33
Building and industrial conservation	19	19	10	9					9
Vehicle energy conversion	28	28	28						
Subtotal, Energy	141	141	74	54	14				68

TABLE 4. STIMULUS PROPOSALS–Continued

(In millions of dollars)

	1993 Budget Authority	1993 Obligations	1993 Outlays	1994 outlays	1995 outlays	1996 outlays	1997 outlays	1998 outlays	Total 1994–1997 outlays
Department of the Interior:									
Enhanced natural resource protection	349	349	315	35					35
National Park Service: Historic preservation	23	23	14	9					9
Subtotal, Interior	372	372	329	44					44
Other Agencies:									
Environmental Protection Agency:									
Watershed resource restoration grants	47	47	23	15	8				23
Green programs	23	23	8	11	4				15
Wastewater State revolving fund	845	845	39	179	272	172	72	34	695
Subtotal, EPA	915	915	70	205	284	172	72	34	733
Multi-Agency cross-cutting option :									
Federal buildings energy efficiency	19	19	11	7	1				8
Subtotal, Other agencies	934	934	81	212	285	172	72	34	741
SUBTOTAL, ENVIRONMENT/ENERGY	1,447	1,447	484	310	299	172	72	34	853
TAX INCENTIVES									
Investment tax credit and other tax stimulus provisions	6,442	6,442	6,442						
TOTALS, ALL CATEGORIES									
SUBTOTAL, ALL SPENDING	16,262	19,669	8,336	5,874	2,124	842	419	213	9,259
SUBTOTAL, LOAN LEVELS	3,331	3,331							
LESS LOAN SUBSIDY	-220	-220							
SUBTOTAL, SPENDING + LOAN LEVELS	19,373	22,780	8,336	5,874	2,124	842	419	213	9,259
SUBTOTAL, TAX INCENTIVES	6,442	6,442	6,442						
TOTAL	25,815	29,222	14,778	5,874	2,124	842	419	213	9,259

TABLE 5. INVESTMENT PROPOSALS

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
REBUILD AMERICA—INFRASTRUCTURE						
Transportation:						
Federal-aid highway program	402	1,736	1,847	1,631	1,402	5,616
Smart cars/smart highways (part of Federal-aid highway obligations)	(70)	(85)	(90)	(100)	(100)	(345)
Mass transit formula capital grants	23	149	398	639	864	1,209
High-speed rail and MAGLEV	27	140	221	258	305	646
Alcohol-related highway safety and other transportation capital	11	37	65	88	98	201
Airport improvement program	5	22	36	44	47	107
Air traffic control modernization	24	69	111	140	161	344
Public land highways and Indian reservation roads	5	38	99	153	200	295
High-speed rail bonds (tax incentive)		1	4	11	20	16
Subtotal, Transportation	497	2,192	2,781	2,964	3,097	8,434
Environment:						
Drinking water state revolving funds (EPA)	24	172	440	692	840	1,328
Clean water state revolving funds (EPA)	54	344	900	1,402	1,666	2,700
Safety of dams on Indian reservations (Interior)	4	12	20	23	23	59
Water resources development (Corps of Engineers)	77	147	160	160	160	544
Watershed resource restoration (EPA)	15	34	43	47	49	139
Environmental restoration and waste management (DOE)	8	35	70	107	146	220
Forests for the Future (USDA)	24	46	50	50	50	170
Weather service modernization (NOAA)	84	86	70	50	−16	290
Environmental technology (EPA)	14	46	84	127	175	271
Green programs (EPA)	5	16	23	25	25	69
Natural resource protection and environmental infrastructure (Interior and USDA)	167	384	471	509	538	1,531
Tree planting initiative (USDA)	33	64	73	76	79	246
National research initiative grants (USDA)	2	16	60	110	160	188
Forestry research initiative (USDA)	16	56	84	105	122	261
Subtotal, Environment	527	1,458	2,548	3,483	4,017	8,016
Rural Development Initiative:						
Rural water and waste water loans and grants (USDA)	6	42	107	176	207	331
Business and community initiative (USDA)	105	240	356	454	544	1,155
Subtotal, Rural Development Initiative	111	282	463	630	751	1,486
Energy:						
Alternative fuels vehicles	18	30	30	30	30	108
Energy efficiency in Federal buildings	49	152	270	329	342	800
Increase weatherization grants (DOE)	18	63	94	100	100	275
Close-out costs for DOE reactors	18	8	9	3	1	38
Energy conservation and renewable energy programs (Energy Policy Act)	48	168	304	420	520	940
Natural gas research and development: Emphasize utilization.	5	25	55	90	112	175
Advanced neutron source	11	50	116	243	439	420
Fusion energy research	9	39	72	90	95	210
Subtotal, Energy	176	535	950	1,305	1,639	2,966

TABLE 5. INVESTMENT PROPOSALS—Continued

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Community Development and Defense Conversion:						
Community development block grant (CDBG)	4	41	100	137	148	282
Office of Economic Adjustment for defense reinvestment and transition	9	17	20	20	20	66
Economic Development Administration for defense reinvestment and transition	3	16	33	44	53	96
Enterprise zones (tax incentive)	73	347	772	1,228	1,699	2,420
Community development banks	45	93	106	110	114	354
Subtotal, Community Development and Defense Conversion	134	514	1,031	1,539	2,034	3,218
Technology and Business Reinvestment and Defense Conversion:						
NASA civil aviation	36	121	171	222	267	550
NASA short-haul aircraft research	3	10	17	20	20	50
Dual-use technology for defense reinvestment and transition (DOD)	133	322	420	456	480	1,331
Federal Coordinating Council for Science, Engineering, and Technology (research initiatives)	100	266	383	457	514	1,206
Crosscutting high performance computing (NSF, NIH, NASA, and NIST)	53	158	253	320	362	784
National Inst of Standards and Technology growth	56	219	403	628	805	1,306
National labs (non-defense)	14	35	47	50	50	146
Information highways (Commerce)	6	42	98	129	150	275
National Science Foundation	134	451	758	954	1,100	2,297
Government automation and efficiency	204	652	850	943	735	2,649
Extend R&E tax credit (tax incentive)	1,207	1,503	1,750	1,977	2,200	8,437
Subtotal, Technology and Business Reinvestment and Defense Conversion	1,946	3,779	5,150	6,156	6,683	17,031
Housing:						
100% vouchers (100,000 units)	7	65	222	422	654	716
Preservation and restoration of assisted housing	37	155	282	384	519	858
Supportive housing program	....	22	81	138	183	241
Mortgage revenue bonds (tax incentive)	104	145	160	172	174	581
Extend low-income housing tax credit (tax incentive)	214	478	791	1,114	1,442	2,597
Real estate investment (tax incentive)	254	387	164	17	−158	822
Urban Partnership Against Crime	6	52	116	138	133	312
Severely distressed public housing	....	17	68	121	167	206
HOPE youthbuild	....	5	19	34	48	58
Subtotal, Housing	622	1,326	1,903	2,540	3,162	6,391
SUBTOTAL, TAX INCENTIVES	1,852	2,861	3,641	4,519	5,377	12,873
SUBTOTAL, SPENDING INCENTIVES	2,181	7,225	11,185	14,098	16,006	34,669
TOTAL, REBUILD AMERICA	4,013	10,086	14,826	18,617	21,383	47,542

TABLE 5. INVESTMENT PROPOSALS–Continued

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
LIFELONG LEARNING						
WIC (Special supplemental food program for women, infants, and children)	318	532	800	984	1,000	2,634
Parenting and Family Support	40	85	230	495	600	850
Head Start	932	1,886	2,790	3,676	4,562	9,284
Child Care and Development Block Grant	30	95	145	200	250	470
Education Reform and Initiatives	206	1,043	2,206	2,697	3,083	6,152
Employer Provided Education Assistance (tax incentive)	425	458	492	528	565	1,903
National Service	98	1,042	1,890	3,000	3,400	6,030
Worker Training Initiatives:						
Dislocated Worker Assistance Act (for NAFTA, Defense Reinvestment and Transition, Energy Conversion, and Trade Adjustment)	60	879	1,699	1,960	2,000	4,598
Job Corps: adopt "50–50 plan"	11	32	96	202	344	341
Job Corps: eliminate maintenance backlog	7	20	32	45	50	104
JTPA, summer youth employment and training	247	540	625	625	625	2,037
One-stop career shopping	30	170	250	250	250	700
Older Americans employment	4	22	34	35	35	95
Youth apprenticeship	32	243	448	495	500	1,218
Worker profiling	6	3				9
Targeted jobs tax credit (tax incentive)	170	327	406	496	605	1,399
Subtotal, Worker Training Initiatives	567	2,236	3,590	4,108	4,409	10,501
SUBTOTAL, TAX INCENTIVES	595	785	898	1,024	1,170	3,302
SUBTOTAL, SPENDING INCENTIVES	2,021	6,592	11,245	14,664	16,699	34,522
TOTAL, LIFELONG LEARNING	2,616	7,377	12,143	15,688	17,869	37,824
REWARDING WORK						
Earned income tax credit (tax incentive)	525	6,228	6,445	6,662	6,927	19,860
Extension of unemployment compensation	2,400					2,400
Crime Initiative, including Community Policing, Criminal Records Upgrades, and Police Corps	210	521	725	842	918	2,298
Equal Employment Opportunity Commission	10	17	18	18	18	63
SUBTOTAL, TAX INCENTIVES	525	6,228	6,445	6,662	6,927	19,860
SUBTOTAL, SPENDING INCENTIVES	2,620	538	743	860	936	4,761
TOTAL, REWARDING WORK	3,145	6,766	7,188	7,522	7,863	24,621
HEALTH CARE						
AIDS, women's health, immunizations, NIH research, and other public health initiatives	346	1,660	2,806	3,370	4,251	8,182
AIDS—Ryan White Act	60	192	305	392	445	949
Substance abuse prevention and treatment	46	207	456	797	933	1,506
Food safety initiative (USDA) and emergency food assistance	54	98	101	102	103	355
Food Stamps	1,000	2,000	3,000	3,000	3,000	9,000
Low-Income Home Energy Assistance Program		316	649	982	998	1,947

TABLE 5. INVESTMENT PROPOSALS–Continued

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Rural Health Initiative	50	55	10	....	....	115
VA medical care	279	663	733	800	861	2,475
Improving disability insurance processing	120	200	200	200	200	720
Health Insurance Deduction for Self-employed (tax incentive)	313	....	....	....	....	313
SUBTOTAL, TAX INCENTIVES	313	....	....	....	....	313
SUBTOTAL, SPENDING INCENTIVES	1,955	5,391	8,260	9,643	10,791	25,249
TOTAL, HEALTH CARE	2,268	5,391	8,260	9,643	10,791	25,562
PRIVATE-SECTOR INCENTIVES						
Investment Tax Incentives:						
Targeted capital gains exclusion (tax incentive)	12	93	155	207	247	467
Earned income tax credit (EITC) (tax incentive)	(525)	(6,228)	(6,445)	(6,662)	(6,927)	(19,860)
Mortgage revenue bonds (tax incentive)	(104)	(145)	(160)	(172)	(174)	(581)
High-speed rail bonds (tax incentive)	....	(1)	(4)	(11)	(20)	(16)
Extend R&E tax credit (tax incentive)	(1,207)	(1,503)	(1,750)	(1,977)	(2,200)	(6,437)
Extend low-income housing tax credit (tax incentive)	(214)	(478)	(791)	(1,114)	(1,442)	(2,597)
Small business investment tax credit (tax incentive)	2,795	3,133	3,027	3,309	3,501	12,264
Alternative minimum tax depreciation preference (tax incentive)	188	307	396	404	273	1,295
Temporary incremental investment tax credit (tax incentive)	6,399	3,584	107	-961	-572	9,129
Small issue manufacturing bonds (tax incentive)	14	28	35	37	37	114
Alternative minimum tax exception for gifts of appreciated property (tax incentive)	70	73	75	77	79	295
Railroad retirement fund transfer (tax incentive)	....	....	....	....	....	....
Small business credit availability	60	131	153	157	160	501
SUBTOTAL, TAX INCENTIVES	9,478	7,218	3,795	3,073	3,565	23,564
SUBTOTAL, SPENDING INCENTIVES	60	131	153	157	160	501
TOTAL, PRIVATE-SECTOR INCENTIVES	9,538	7,349	3,948	3,230	3,725	24,065
TAX INCENTIVES, ALL CATEGORIES	12,763	17,092	14,779	15,278	17,039	59,912
SPENDING INCENTIVES, ALL CATEGORIES	8,817	19,877	31,586	39,422	44,592	99,702
TOTAL, ALL CATEGORIES	21,580	36,969	46,365	54,700	61,631	159,614

TABLE 6. REVENUE AND RECEIPTS PROPOSALS

(In billions of dollars)

	1993	1994	1995	1996	1997	1998	1994–1997 Total
Revenue Raising Proposals:							
Raise individual income taxes for upper incomes	1.8	27.7	19.9	22.9	26.3	27.7	96.8
Repeal HI taxable wage base		2.8	6.0	6.4	6.8	7.2	22.0
Increase top income tax rate on large corporations to 36%	0.4	7.7	5.4	5.5	5.7	5.8	24.4
Broad based energy tax [1]		1.5	8.9	16.4	22.3	22.4	49.0
Cap possessions tax credit (sec. 936) at 65% of wages		0.2	0.9	1.6	2.1	2.2	4.8
Service industry non-compliance initiative		0.1	0.6	1.3	1.9	2.2	4.0
Tax Identification Number (TIN) validation		*	*	*	0.1	0.1	0.1
Disallow unreasonable claims		0.3	0.6	0.4	0.3	0.3	1.6
Restrict deduction for business meals and entertainment to 50%		1.8	3.2	3.4	3.7	4.0	12.1
Reduce pension compensation cap		0.3	0.8	0.8	0.9	0.9	2.7
Mark to market for security dealers		0.5	1.1	1.1	1.1	0.7	3.8
Disallow moving deductions for meals and real-estate expenses		0.1	0.4	0.4	0.4	0.4	1.3
Extend 2.5 cent per gallon gas tax				2.6	2.6	2.6	5.2
Extend 53% and 55% estate tax rate		0.5	0.5	0.6	0.6	0.6	2.1
Deny deduction for club dues		0.1	0.2	0.3	0.3	0.3	0.9
Prohibit double-dip related to FSLIC assistance	0.8	0.6	0.1	*	0.2	0.1	0.9
Deny lobbying deductions		0.1	0.2	0.2	0.2	0.2	0.7
Deny deduction for executive pay over $1 million	–*	0.1	0.1	0.1	0.2	0.1	0.5
International tax provisions	*	0.8	1.6	1.9	2.1	2.2	6.5
Miscellaneous revenue raising provisions		0.8	0.1	–0.2	0.2	0.2	1.0
Subtotal, revenue raising proposals	2.9	46.1	50.6	65.9	77.9	80.3	240.4
Investment/stimulus	–6.4	–12.6	–17.1	–14.6	–15.3	–17.0	–59.9
Total, net revenue proposals	–3.6	33.3	33.5	51.1	62.6	63.3	180.5
Other provisions affecting receipts:							
IRS initiative		*	0.1	0.3	0.6	0.6	0.9
Commodity Futures Trading Commission fee		0.1	0.1	0.1	0.1	0.1	0.2
Harbor maintenance tax		*	*	0.1	0.1	0.1	0.2
Inland waterway tax		*	0.1	0.2	0.5	0.5	0.8
SEC registration fee		*	*	*	*	0.1	0.2
Federal pay raise (receipt effect)		–0.1	–0.1	–0.1	–0.1	–0.1	–0.4
Federal FTE levels (receipt effect)		–*	–0.1	–0.1	–0.1	–0.1	–0.2
Total, other provisions		0.1	0.2	0.5	1.0	1.0	1.7
Addendum:							
Total, net revenue proposals	–3.6	33.3	33.5	51.1	62.6	63.3	180.5
Total, other provisions		0.1	0.2	0.5	1.0	1.0	1.7
Tax 85% of social security benefits		2.7	5.6	6.2	6.9	7.7	21.4
Corporate estimated tax rules					3.9	0.8	3.9
TOTAL, REVENUE AND RECEIPTS PROPOSALS	–3.6	36.1	39.3	57.8	74.4	72.8	207.5

* $50 million or less.

[1] The impact of this proposal is offset for low-income families by increases in the low-income home energy assistance program and food stamps that are reflected elsewhere.

TABLE 7. BUDGET OUTLAYS BY FUNCTION

(In billions of dollars)

Function	1993	Estimate 1994	1995	1996	1997	1998
National defense	292.9	277.3	272.3	264.9	249.2	252.7
International affairs	19.3	18.7	18.7	18.2	18.0	18.4
General science, space and technology	17.2	18.1	19.7	20.7	21.6	22.2
Energy	4.9	3.4	4.1	4.5	4.2	4.0
Natural resources and environment	22.1	21.9	22.8	23.3	23.7	23.7
Agriculture	21.6	16.1	13.8	12.2	10.9	11.5
Commerce and housing credit	13.6	14.0	0.6	−10.5	−10.2	−7.0
Transportation	36.9	39.8	40.4	41.3	42.7	43.7
Community and regional development	10.8	11.1	10.4	9.7	9.5	9.7
Education, training, employment, and social services	53.4	53.8	56.6	56.1	62.7	65.5
Health	105.3	118.3	133.3	149.6	166.8	185.4
Medicare	132.7	147.2	162.8	179.0	195.2	213.6
Income security	208.8	214.3	221.5	229.7	240.4	249.1
Social security	305.0	321.0	336.7	351.3	367.4	383.1
Veterans benefits and services	35.7	37.8	37.5	37.0	39.1	40.0
Administration of justice	15.3	15.9	17.2	17.4	17.7	18.2
General government	14.8	14.4	15.6	15.5	15.7	15.8
Net interest	202.1	212.0	227.2	243.3	257.4	272.7
Allowances	*	−3.3	−6.1	−7.2	−8.9	−9.1
Undistributed offsetting receipts	−37.3	−39.0	−40.7	−43.2	−45.6	−46.1
Total outlays	1,475.1	1,513.0	1,564.5	1,612.8	1,677.5	1,767.0

* $50 million or less.

TABLE 8. BUDGET OUTLAY TOTALS BY AGENCY

(In billions of dollars)

	1993	1994	1995	1996	1997	1998
		Estimate				
Cabinet Agencies:						
Agriculture	67.0	63.6	63.9	65.2	65.0	65.9
Commerce	3.1	3.2	3.4	3.7	3.9	4.2
Defense	279.5	264.1	258.9	251.4	235.8	239.5
Education	30.9	31.0	30.6	26.6	30.2	30.8
Energy	16.9	15.8	16.9	17.0	16.8	16.9
Health and Human Services	591.7	639.6	686.3	735.2	789.8	845.4
Housing and Urban Development	26.0	28.9	29.9	29.9	30.2	30.7
Interior	7.5	7.2	7.1	7.2	7.1	7.3
Justice	10.5	10.4	11.0	10.8	10.5	10.8
Labor	46.8	37.8	36.1	37.6	38.4	39.1
State	5.7	5.6	5.7	5.9	5.9	6.1
Transportation	36.5	39.2	39.6	40.4	41.6	42.6
Treasury	302.4	319.9	344.6	368.9	390.7	414.6
Veterans Affairs	35.4	37.1	36.4	35.8	37.7	38.4
Major Agencies:						
Corps of Engineers, Military Retirement and Other Defense	29.5	30.7	31.8	33.1	34.2	35.4
Deposit Insurance Agencies	6.9	7.8	-4.2	-12.7	-11.5	-7.5
Environmental Protection Agency	6.5	6.7	6.9	7.0	7.2	7.4
Executive Office of the President	0.2	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	3.2	1.8	1.2	0.9	0.8	0.7
Funds Appropriated to the President	11.9	11.8	11.5	11.1	10.8	10.8
General Services Administration	1.3	0.9	1.4	0.4	0.3	0.1
Judicial Branch	2.6	2.6	2.7	2.8	2.9	3.0
Legislative Branch	2.8	2.9	3.0	3.1	3.2	3.3
National Aeronautics and Space Administration	14.1	14.7	15.5	15.9	16.3	16.6
National Science Foundation	2.9	3.0	3.3	3.7	4.0	4.2
Office of Personnel Management	37.2	38.8	39.9	43.6	46.8	49.3
Postal Service	1.6	2.2	1.3	-0.6	-1.0	-1.3
Railroad Retirement Board	4.7	4.7	4.7	4.7	4.7	4.7
Small Business Administration	1.0	0.8	0.4	0.4	0.4	0.4
All Other Agencies	7.8	7.7	9.3	8.3	8.5	9.2
Undistributed Offsetting Receipts	-119.3	-127.5	-135.0	-144.6	-153.9	-162.0
Total outlays	1,475.1	1,513.0	1,564.5	1,612.8	1,677.5	1,767 0

TABLE 9. TOTAL FULL-TIME EQUIVALENT EMPLOYMENT

(Full-time equivalent employment in thousands)

Agency	1993 base	Estimate 1993	1994	1995	1996	1997	1993 base to 1997 change
Cabinet Agencies:							
Agriculture	112.5	111.4	109.7	108.0	107.0	105.4	-7.0
Commerce	36.4	36.0	35.5	34.9	34.9	34.9	-1.5
Defense	927.2	917.8	895.2	865.2	842.2	832.2	-95.0
Education	5.0	4.9	4.8	4.8	4.8	4.8	-0.2
Energy	20.0	19.8	19.5	19.2	19.2	19.2	-0.8
Health and Human Services	130.0	128.7	126.7	124.8	124.8	124.8	-5.2
Housing and Urban Development	13.5	13.4	13.2	12.9	12.9	12.9	-0.5
Interior	77.9	77.2	76.0	74.8	74.8	74.8	-3.1
Justice	98.4	97.4	95.9	94.4	94.4	94.4	-3.9
Labor	19.8	19.6	19.3	19.0	19.0	19.0	-0.8
State	26.0	25.8	25.4	25.0	25.0	25.0	-1.0
Transportation	71.1	70.4	69.3	68.2	68.2	68.2	-2.8
Treasury	163.2	161.6	159.1	156.7	156.7	156.7	-6.5
Veterans Affairs	230.4	228.1	224.6	221.2	221.2	221.2	-9.2
Other Agencies:							
Agency for International Development	4.4	4.3	4.3	4.2	4.2	4.2	-0.2
Corps of Engineers	27.4	27.2	26.8	26.3	26.3	26.3	-1.1
Environmental Protection Agency	17.9	17.7	17.5	17.2	17.2	17.2	-0.7
Equal Employment Opportunity Commission	2.8	2.8	2.8	2.7	2.7	2.7	-0.1
Federal Emergency Management Agency	2.7	2.6	2.6	2.5	2.5	2.5	-0.1
Financial Institutions (FDIC/RTC)	16.1	15.9	15.2	13.8	11.3	8.8	-7.2
General Services Administration	22.7	22.5	22.1	21.8	21.8	21.8	-0.9
National Aeronautics and Space Administration	24.9	24.7	24.3	23.9	23.9	23.9	-1.0
National Archives and Records Administration	2.8	2.7	2.7	2.6	2.6	2.6	-0.1
National Labor Relations Board	2.1	2.1	2.1	2.1	2.1	2.1	-0.1
Nuclear Regulatory Commission	3.4	3.3	3.3	3.2	3.2	3.2	-0.1
Office of Personnel Management	6.1	6.0	5.9	5.9	5.9	5.9	-0.2
Panama Canal Commission	8.7	8.6	8.5	8.4	8.4	8.4	-0.3
Securities and Exchange Commission	2.7	2.7	2.7	2.6	2.6	2.6	-0.1
Small Business Administration	4.7	4.6	4.6	4.5	4.5	4.5	-0.2
Smithsonian Institution	4.9	4.8	4.8	4.7	4.7	4.7	-0.2
Tennessee Valley Authority	19.1	18.6	18.5	18.4	18.4	18.4	-0.8
United States Information Agency	8.7	8.6	8.5	8.3	8.3	8.3	-0.3
Other small agencies	22.0	21.8	21.3	20.9	20.9	20.8	-1.2
Total, executive branch	2,135.5	2,113.7	2,072.5	2,023.3	1,996.8	1,962.7	-152.8
FTE reduction from the base		21.8	63.0	112.2	138.7	152.8	
Percentage reduction from the base		1.0	2.9	5.3	6.5	7.2	
Percentage reduction target/1993–1997 FTE reduction target		1.0	2.5	4.0	4.0	4.0	-100.0

TABLE 10. BUDGET BY BEA CATEGORY

(In billions of dollars)

	1993	1994	1995	1996	1997	1998
Discretionary:						
Defense	294.3	277.8	273.1	265.5	249.7	253.3
Nondefense	261.7	270.4	282.1	292.6	302.4	312.5
Subtotal, Discretionary	556.0	548.2	555.2	558.1	552.1	565.8
Mandatory	717.0	752.7	782.1	811.5	868.0	928.5
Net Interest	202.1	212.0	227.2	243.3	257.4	272.7
Total, Outlays	1,475.1	1,513.0	1,564.5	1,612.8	1,677.5	1,767.0
Revenues	1,143.2	1,250.5	1,322.8	1,407.5	1,471.0	1,525.6
Deficit	331.9	262.5	241.7	205.3	206.5	241.4
Addendum:						
On-Budget Deficit (+)	376.7	324.0	314.0	291.6	301.4	347.3
Off-Budget Surplus (–)	–44.9	–61.6	–72.3	–86.3	–94.9	–105.8

TABLE 11. CHANGE FROM JANUARY TO CURRENT BASELINE

(In billions of dollars)

	1993	1994	1995	1996	1997	1998
January Uncapped Baseline Deficit	327.3	309.1	307.1	324.4	384.1	426.4
Bush defense proposals [1]	0.0	-4.2	-9.8	-16.3	-22.3	-28.7
Uncapped Baseline with Bush defense	327.3	304.9	297.2	308.1	361.8	397.7
Changes due to revised economic assumptions:						
Discretionary inflation:						
Defense	0.0	-0.5	-1.9	-4.2	-7.0	-9.9
Nondefense	0.0	-0.4	-1.7	-3.7	-6.1	-8.7
Mandatory outlays	-1.3	-2.2	-7.2	-15.9	-24.7	-35.0
Net interest:						
Rates	-0.5	-6.7	-13.4	-15.5	-17.9	-22.0
Debt service	0.1	0.2	0.3	-0.1	-0.9	-1.5
Subtotal, outlays	-1.7	-9.5	-24.0	-39.4	-56.5	-77.1
Receipts (+ equals decrease)	4.4	12.7	21.6	28.2	42.7	70.1
Subtotal, changes due to revised economic assumptions	2.7	3.2	-2.4	-11.2	-13.8	-7.0
Changes due to technical reestimates:						
Defense discretionary	3.6	0.0	0.0	0.0	0.0	0.0
Nondefense discretionary	-1.3	-0.3	-1.3	-2.3	-2.3	-2.6
Mandatory:						
Deposit insurance	-8.6	-8.2	3.1	2.4	0.1	-0.4
Other	-0.4	-1.4	-1.4	-0.8	-0.5	-1.4
Subtotal, mandatory	-9.0	-9.6	1.7	1.6	-0.5	-1.8
Net interest:						
FFB (deposit insurance and other)	0.2	0.9	1.2	1.1	1.0	1.0
Interest on the public debt	-0.4	-0.1	*	0.4	1.1	3.8
Debt service	-0.3	-0.8	-1.1	-1.2	-1.5	-1.8
Subtotal, outlays	-7.2	-9.9	0.6	-0.4	-2.1	-1.5
Receipts (+ equals decrease)	-3.6	3.2	0.5	0.6	0.4	0.5
Subtotal, changes due to technical reestimates	-10.8	-6.8	1.0	0.2	-1.7	-1.0
Total, changes due to revised economic assumptions and technical reestimates	-8.1	-3.6	-1.3	-11.0	-15.5	-8.0
Current Baseline Deficit	319.2	301.3	295.9	297.0	346.3	389.7

* $50 million or less.

[1] Includes related debt service.

TABLE 12. CHANGE IN THE STRUCTURAL DEFICIT

(Fiscal years, in billions of dollars)

	Estimate					
	1993	1994	1995	1996	1997	1998
Baseline deficit	319.2	301.3	295.9	297.0	346.3	389.7
Cyclical component	66.8	51.6	36.3	24.0	16.8	16.1
Deposit insurance	6.9	7.9	-4.0	-12.5	-11.3	-7.3
Baseline structural deficit	245.5	241.8	263.6	285.5	340.8	380.9
Effect of policy proposals	12.7	-38.9	-54.2	-91.7	-139.8	-148.3
Proposed structural deficit	258.2	202.9	209.4	193.8	201.0	232.6

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