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BALANCED BUDGET AGENDA

January 5, 1994

1. DEFENSE:

Action:

- Inman Hearings?
- Joint Chief of Staff Pentagon Press Conference
- Defense will do Budget Scenarios
- Defense Budget Project may do Scenario
- Defense looking for ex–Administration Defense Officials

2. TAXES:

Action:

- Promote Concord Coalition plan which uses 50 cent gas tax as well as sin taxes and dramatic entitlement cuts to get to balanced budget.

- Get mock proposals which show tax alternatives. I am calling House Budget Committee, Center for Budget Priorities, Joint Economic Committee.

- Get State Legislators to challenge people to show how the BBA could be done without raising taxes. (Right to Know campaign)

3. SOCIAL SECURITY AND THE ELDERLY:

Action:

- AARP/Roosevelt Group Mailings
- Family USA Study
- Budget Scenarios must highlight impact of Social Security

4. HEALTH CARE:

Action:

- AARP/Roosevelt Group
- Phone calls from Administration to all sponsors all Health Care legislation who are supporters of balanced Budget
- State–by–State Medicaid Impact

5. JOBS:

Action:
- WEFA Study in progress
- I have consulted DRI. Should we seek another study from DRI or internally?

6. ECONOMISTS LETTER: (Nobel/Bipartisan): Jeff Faux is recirculating their letter from last year, so we should have a new letter with economists signed on in the near future. He will get back to me shortly.

- Someone fund a full-page ad?

7. RIGHT TO KNOW CAMPAIGN: One suggested proposal is to encourage a grass-roots Right to Know campaign among the state legislators. The grass roots campaign would be that state legislators would say that they should not be sent a balanced budget proposal to vote on without knowing whether the Congress was going to raise middle class taxes, cut middle class Social Security benefits or give up on health care reform. The right to know campaign could ask no proposal be sent to the states without answering the question and ask members of Congress to not vote for it without some guarantees. The advantage of a right to know campaign is that it gives a populist, anti-tax side to opponents of the balanced budget. It turns the issue from more vs. less deficit reduction to are you going to raise taxes or not.

Action:

- Gene will discuss with advisors
- State Legislator Strategy (Gene and Marcia)

8. IMMEDIATE IMPLEMENTATION: Linked to the Right to Know message, is the notion that a balanced budget requirement by 2000 must be designed and implemented as part of a 5-6 year plan. Members of Congress must not have the false impression that they can put off the hard choice until 2000. They will have to deal with them possibly even before the 1994 elections.

Action:
- This point will have to be stressed in all budget scenarios

9. MAKE REPUBLICANS MAKE THEIR CASE FOR BALANCED BUDGET, NO TAXES AND HEALTH CARE: Currently, the onus is on us for the balanced budget. Yet right now, Bob Dole is in a completely untenable position. He wants health care reform with $200 billion of Medicare and Medicaid cuts (and no taxes) and no new taxes and a balanced budget. That could require a total of $800 billion in spending cuts over a five or six year total. The degree of Medicare and Social Security cuts to do this would be devastating. We must smoke them out.

10. ANTI-CRIME IMPACT: The goal here is, to at a minimum, have a major police organization that publicly takes on the balanced budget amendment. Jose will consult with Marcia and work on an strategy outline

11. NEW DEMOCRAT MESSAGE: I have spoken with Rob Shapiro about him (or him and From) doing an op-ed opposing the Simon Amendment, talking about an alternative measure (like a future budget and balanced consumption budget) and stressing that it would hurt major New Democrat initiatives like the crime bill, welfare reform and a strong, bottom-up defense approach.

Action:

- DLC/Shapiro op-ed, article, speech.

12. CONSTITUTIONAL IMPACT: (Cliff and Melanne): Cliff and others have arranged for a bipartisan scholars letter, authored by Charles Fried (Harvard) and Burke Marshall (Yale) that is now being circulated. They will try to focus on getting as many deans of prestigious law schools as possible. Walter Dellinger is working on a letter to Reno describing the enforcement problems and how much courts would be driven into governance of the federal budget.

- Law School Professors/Deans Letter
- Marshall/Fried Op-Ed
- Dellinger Enforcement Memo

13. ALTERNATIVE BALANCED BUDGET OPTIONS:

Action: Meeting next week to prepare options for NEC meeting.

14. KEY SENATOR SPECIFIC STRATEGY SHEETS: We need to do a "book" on each swing Senator. Rahm is doing a editorial board strategy that targets the editorial boards that affect the swing Senator, so that we don't have the problem of getting great editorials in the New York Times and Washington Post, but not the hometown papers that matter.

Action: Rahm, Gene and Chow will begin working on sheets.

15. BUSINESS LEADER STRATEGY: We need to make progress here.
Altman, Rubin and Alexis must head this up.

16. SPENDING CUT STRATEGY

- Must be tied to economist/jobs strategy

- Business leaders: who will come out against?

- Mailing to Business leaders on spending cuts

17. STATE AND LOCAL IMPACT:

- Mayors Strategy
- Governors
- Legislatures
- Economic Studies

18. DEFENSE SPENDING/DEFENSE CONVERSION IMPACT

- Aerospace/defense contractors
- Regional Impact

19. FOREIGN AID IMPACT:

- Jewish Groups: aid to Israel and anti–poverty programs
Prince?

20. CHURCH/ANTI–POVERTY IMPACT:

21. AGRICULTURE IMPACT:

22. VETERANS IMPACT

23. EDUCATION

THE WHITE HOUSE

Office of the Press Secretary
(Bryn Mawr, Pennsylvania)

For Immediate Release December 13, 1993

REMARKS BY THE PRESIDENT
IN ADDRESSING THE FUTURE OF ENTITLEMENTS CONFERENCE

Bryn Mawr College
Bryn Mawr, Pennsylvania

10:45 A.M. EST

THE PRESIDENT: Thank you very much.

Ladies and gentlemen, it's a pleasure for me to be here. I have looked forward to this conference with great anticipation for some time. I want to thank Congresswoman Margolies-Mezvinsky for getting this together and for inviting me here. I thank President McPherson and this wonderful institution for hosting us. (Applause.) I'm delighted that Speaker Foley and Congressman Penny are here for the Congress; and Senator Kerrey and Senator Walker, your own senator, are here to talk about these important issues.

I want to also thank all the people who helped to put this conference together and to all the people in our administration who were invited and are here participating. We pretty much shut the town down in Washington today and just sort of came up here to Pennsylvania to talk about entitlements. (Laughter and applause.)

This is a very serious subject, worthy of the kind of thoughtful attention that it will be given today. I hope there will be a great national discussion of the issues that we discuss today, and I hope that this will be the beginning of a debate that will carry through for the next several years.

I ran for President because I thought our nation was going in the wrong direction economically, and that our society was coming apart when it ought to be coming together. I wanted to work hard to create jobs and raise incomes for the vast mass of Americans; and to try to bring our country back together by restoring the bonds of family and civility and community, without which we cannot hope to pass the American dream on to the students who are here at Bryn Mawr or the students who will come behind.

To do this, we must all -- without regard to party or philosophy -- at least agree to face the real problems of this country: 20 years of stagnant wages; 30 years of family decline, concentrated heavily among the poor; 12 years in which our debt has quadrupled, but investment in our future has lagged leaving us with twin deficits, a massive budget deficit and a less publicized investment deficit -- the gap between what we need to invest to compete and win, and what we are receiving in terms of new skills and new opportunities.

These things are linked. Creating jobs in growth requires that we bring down both the budget deficit and the investment deficit. High government deficits keep invest -- interest rates high, they crowd out private demands for capital, they take more government money to service the debt. All this tends to reduce investment, productivity, jobs and ultimately, living standards.

The deficit increased so dramatically over the last 12 years because of things that happened on the spending side and

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on the revenue side. Defense increased dramatically until 1987, but it's been coming down since then quite sharply. However, the place of defense, as we'll see later, has been more than overtaken by an explosion in health care cost going up for the government at roughly three times the rate of inflation. Interest on the debt is obviously increased more when interest rates were high than now, but always when the accumulated national debt goes up. And the larger number of poor people in our country has inevitably led to greater spending on programs that are targeted to the poor.

On the revenue side, the tax cut of 1981 wound up being roughly twice the percentage of our income that was originally proposed by President Reagan as the President and the Congress entered into a bidding war. And then in 1986 we adopted indexing, a principle that is clearly fair, but reduced the rate of growth of federal revenues by adjusting people's taxes downward as inflation pushed their incomes upward. And finally, a prolonged period of very slow growth has clearly reduced government revenues and added to the deficit.

If you look at this chart, you will see that we inherited a deficit that was projected to be actually -- when I took office, for the fiscal year that ended at the end of September -- above $300 billion. It was obvious that -- and it was headed upward. This was the line -- the blue line here is what I found when I became President. It was clear that something had to be done. I asked the Congress to pass the largest deficit reduction package in history. It had $255 billion in real enforceable spending reductions from hundreds of programs. Now, let's make it clear what you mean. When you hear the word spending reductions or cuts in Washington terms, it can mean two things. One is a reduction in the rate of increase in government spending from the previous five-year budget, which is still an increase in spending, but not as much as it would have been had the new reduction not taken place.

The second thing it might mean is what you mean when you say cut, which is you spend less than you did before you used the word. (Laughter.) And it is important to know which one you're talking about. However, both are good in terms of reducing the deficit over a five-year period. We not only reduced the rate of increase, but actually adopted hundreds of cuts this year. The budget year that started on October 1st has less spending than the previous year in 342 separate accounts of the federal budget.

Adjusted for inflation, this means a discretionary spending cut of 12 percent over the next five years, more than was done under the previous two administrations. If this continues, according to the Wall Street Journal, then by 1998, discretionary spending -- that is the non-entitlement spending and discounting interest on the debt, the things that we make decisions on every year -- will be less than 7 percent of our annual income; about half the level it was in the 1960s.

In addition to the discretionary spending cuts, our budget did reduce entitlements, making reductions in agricultural subsidies, asking upper-income recipients of Social Security to pay more tax on their income, lowering reimbursements to Medicare providers, making other adjustments in Medicaid and in veterans' benefits. Now, all these cuts are already on the books. We are also cutting -- with the help of the Vice President's National Performance Review -- over 250,000 positions from the federal payrolls, largely by attrition and early retirement over the next five years. We're finally attempting to reform the system in ways that will permit us to save billions of more dollars in discretionary spending through reform of personnel budgeting and, most importantly, procurement systems -- if the Congress will authorize all three of those systematic reforms.

We also passed some taxes -- a modest 4.3 cents-a-gallon gas tax which, so far, has been barely felt because we have the lowest price in oil in many, many years so the price of gasoline has actually dropped since the gas tax was put on. We also asked the top 1.2 percent of Americans to pay higher income taxes because their incomes went up the most and their taxes dropped the most in the previous 12 years. The corporate income tax on corporations with incomes above $10 million a year was raised. Middle-class families will pay slightly less taxes because, again, of the adjustments for inflation. And taxes were cut for 15 million families who worked for very modest wages as a dramatic incentive to get them to continue to chose work over welfare.

When Congresswoman Mezvinsky and her colleagues voted for this economic plan, they voted for your economic future, for lower deficits, higher growth and for better jobs. They did vote to cut spending. They did not vote to raise taxes on the middle class. And, frankly, the kinds of radio ads that have been -- this is the only political thing I'm going to say today (laughter) -- but the kind of radio ads that have been run against here in this district do not serve the public interest because they do not tell the truth. (Applause.)

If somebody wants to say that we should not have raised income taxes on the top 1.2 percent of the American people, let them advertise that on the radio. If someone wants to say that the corporate income taxes above $10 million a year in income should not have been raised, let them advertise that on the radio. If someone wants to say that the gas tax was unfair, let them advertise that on the radio. But do not try to tell the American people there were no budget cuts and they paid all the tax increases, because that is simply not true. And we have a lot of work to do in this country and a lot of honest disagreements to have, we need not expend our energy on other things. And if you don't believe that read the front page of the Wall Street Journal this morning. That is hardly the House organ of my administration. (Laughter.)

Read the front page of the Wall Street Journal this morning talking about the unprecedented cuts that this budget made. It does not do anybody any good to continue to assert things about that economic plan that are not true. The markets had it figured out. That's why interest rates are down and investment is up. That's why inflation is down and more jobs have come into this economy in the last 10 months than in the previous four years. The markets figured it out. All the smoke and mirrors and radio ads in the world couldn't confuse the people that had to make investment decisions and read the fine print. (Applause.)

That's the good news. Now let's talk about the continuing problems, the real problems. The economic plan which the Congress adopted represents the red line. That's how much less the deficit will be. And the aggregate amount between these two lines is how much less our total debt will be by 1998. The yellow line represents where we can go, by conservative estimates, if the health care plan is adopted. You still have an operating deficit, and the national debt will still increase by this amount, but not by that amount.

So we are clearly better off with the economic plan. We will have to make further cuts, by the way, to meet this red line. We're not done with that. We will be better off still if we do something about health care -- I'll say more about that in a minute -- but there is still more to be done. The debt of this country now is over $4 billion. That means our accumulated debt is more than two-thirds our annual income. It is important that the debt, as a percentage of our annual income, go down. It is way too high, much higher than it has been outside of war time. It is important that the annual deficit, as a percentage of our income, go down. It will go down under this plan, but we can do

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more to try to reduce the aggregate debt and the deficit as a percentage of our income. Both of them are too high.

Now, let's look at the next chart here. I think you all have it out in the audience. This chart just basically shows where you money goes. When you pay federal taxes, or when the government -- on your behalf -- borrows money, in debt, we spend 47.4 percent in entitlements -- that is what we're here to talk about today -- about 21 percent on defense, it's going down, as you'll see in a minute; about 18 percent on non-defense, discretionary, which is being held constant; and about 14 percent in interest on the national debt.

Let's look at the next chart now. This chart gives you an idea of which spending categories are headed in which direction. Average annual real growth -- now, I want to tell you what this means. I haven't lived in Washington very long so I still use ordinary meanings for words. (Laughter.) When you see real on a government chart, that means adjusted for inflation. (Laughter.) You'll never find that in a dictionary, but that is what it means. In other words, these are the numbers adjusted for inflation at a projected inflation growth of more or less three and a half percent a year. If you look at that you see defense is going down. Frankly, we're reducing it as much as I think we responsibly can; and, in fact, more than we responsibly can unless Congress will pass the procurement reform so the Defense Department can buy what it needs for our national defense at more efficient prices. But I hope that will happen.

Other entitlements -- we'll come to that in a minute what those other entitlements are -- they're also going down relative to inflation. That is basically the entitlements for the poor and the veterans' benefits and agriculture benefits.

Non-defense discretionary is a little under zero, as you see. That's all the investments for education, for training, for technology, for defense conversion, for you-name-it, anything for infrastructure, for roads; anything we spend money on that we have an option not to spend money on that -- we'll come back to that -- is going down relative to inflation. If there were no inflation numbers here, it would actually be just a tiny bit above the line, but it is functionally zero. For all practical purposes, if I want to increase the amount of money, for example, we spend on Head Start in Pennsylvania by a million dollars, we have to cut something else by a million dollars. We are not increasing the aggregate amount of this kind of discretionary spending. Net interests will go up and, again, this is adjusted for inflation, so it is continuing to rise because the amount of the debt is continuing to rise.

Social Security will go up, again, adjusted for inflation. This is about -- this is the population increase, effectively, in Social Security. There aren't new benefits being added, so there will be a couple of percent growth in population between now and 1998. So it will go up by the amount of increasing numbers of people on Social Security.

And look what happens to health entitlement. It's going up more than twice as much as Social Security, more than three times as much as net interest, and everything else is going down. Now that's what's happening. Let's go on to the next chart.

As the chart shows here, this is the new revenues we're getting in this year. Now, the new revenues include the tax increases that we just talked about. They're about 40 percent of that revenue growth. The rest of it's just ordinary increases in tax revenues to the government coming from increasing employment or increasing incomes. So it's -- every year -- and inflation -- so every year we get some revenue growth. This revenue chart is about 60 percent ordinary revenue growth, 40 percent new taxes. As you can see, the whole thing goes to deficit reduction, interest increases and entitlement increases. That's where the money went.

Eighty percent of the new revenues, including taxes and revenue growth went to deficit reduction and interest increases; 20 percent of it went to entitlement increases. As you can see, that does not leave a great deal of room for any kind of future investments. This is something that presumably both Senator Kerrey and Congressman Penny will talk about today. But there is, I think it's fair to say, a broad consensus in the Congress among Republicans and Democrats, among liberals and conservatives, that there are some things on which we are not spending enough money to get us to the 21st century. We have put ourselves in a box after the last -- trying to work our way out of this deficit business, so that we do not have the flexibility to make those kind of growth-oriented investments in the public sector.

That is a dilemma. So we have two continuing dilemmas, if you will -- one, we still got a deficit and a debt problem; two, there are things which literally over 80 percent of the Congress -- both parties -- would agree we should invest more in that we simply cannot invest more in because of the problem we have with the budget.

Could we go on now into the next chart? Let's go into the next chart.

Now, this gives you a picture of entitlement spending. And I know Alice Rivlin talked about this a little before -- and she knows a lot more about it than I ever will -- but I think it's worth going back over because this is an entitlements conference. So it's worth focusing on what an entitlement is. And when you hear people use that term, what they are.

So look at this. These entitlement programs are programs that provide benefits for people that have certain characteristics. People who meet the test of eligibility for the program get it, notwithstanding some previously budgeted amount for that program. That's why they're called entitlements.

For example, someone who has paid into the Social Security Trust Fund, along with his or her employer, who is 65 becomes "entitled" to Social Security. You just go to the Social Security office with the documents that prove you're eligible and you're going to get the check no matter how many other people qualify for Social Security. Since it's hard to know in advance exactly how many people will apply for benefits, Congress doesn't set aside a specific amount of money as it does for the discretionary spending programs. Instead, it simply directs to Treasury to make payments to everybody who applies and qualifies for the benefits under the laws.

There are two main kinds of entitlements. And you can just see by looking up here what they are. They are the contributory entitlements; that is, you're entitled to something because you paid into it. It's contract-oriented. Social Security is a contributory entitlement. Medicare is a contributory entitlement. Federal retirement is a contributory entitlement. You did the work, you put the money aside, you get it back.

Then there are the entitlements for those in need, or entitlements that are in a special category because you can't predict how much is going to be needed every year. The entitlements for those in need would include AFDC, supplemental security income, the Medicaid program, medical care for the poor. Agriculture is in a separate category. It has been treated as an entitlement partly because it's so caught up in the global economy, it's impossible to predict from year to year how much of the support subsidies will be needed.

Now, the contributory retirements are sometimes called middle-class entitlements because they benefit everybody. The middle class, or Mr. Peterson will tell you in a few minutes, the upper-middle-class or the wealthy -- if you pay in, you get it back plus a cost of living increase. Now, the poor people's entitlement, I said, are mostly in the category of like AFDC and food stamps and Medicaid. But let me show you something about these entitlements, because most people, I think, don't know this. Social Security is 43 percent of the total. Medicare is 18 percent, Medicaid is 11 percent, federal retirement is 8 percent, unemployment is 5 percent -- obviously it goes up or down, depending on what the unemployment rate is and how long people are unemployed. Food stamps are 4 percent, other is 11 percent.

In the other you have agriculture, veterans, supplemental security income -- which is for lower-income elderly people -- and AFDC. The welfare program of this 11 percent is 2 percent. The average monthly welfare benefit in America is actually lower today, adjusted for inflation, than it was 20 years ago. The program is more expensive because there are more poor people. But I think it's quite interesting to point that out. Most people are surprised to know that the welfare budget is about two percent of the entitlements, or about one percent of the overall federal budget.

Now, the entitlement programs for the needy, as you can see, make up about 12 percent of the whole budget; or about a quarter of the entitlement spending. The biggest entitlements are Social Security and Medicare. They are about 61 percent of the total. When you add federal civilian retirement and military retirement, you've got over two-thirds of the retirements there -- of the entitlements there.

Now, I think it's important to point out, just in passing, that behind every one of these entitlements there's a person. That's why it's so controversial when they're debated in Congress. It's not just organized interest groups, there are people who believe they are literally entitled to receive something back that they paid into. It is the middle-class entitlements, that have united us and brought us together, that also have the strongest constituencies and provoke the biggest controversies when we get into dealing with this. And these programs are also very important in human terms. And I just might mention, too, the -- if you look at Medicare, before Medicare, there was a good chance that Americans, when they got older, would need charity care, would simply do without health care. Today nearly 34 million people go to see a doctor, or get medical care because of the Medicare program.

Social Security has changed, literally, what it means to be old. In the beginning of 1985, for the first time in our history, the percentage of our elderly people who were above the poverty line was better than the percentage of the population as a whole. In other words, the poverty rate for the elderly was lower than the poverty rate of the general population.

It is very difficult to say that this was a bad thing. That was -- I argue -- a good thing. We should not view this whole program, in other words, as welfare. It is not a welfare program. Does that mean that there should be no changes in it? No. It just means that we should be very sensitive about the fact that this is something that has worked. Because of these programs, we are a healthier people. We are a more unified country. We treat out elderly with greater dignity by having allowed them to earn a decent retirement and to maintain a middle-class standard of living, independent of whatever their children are required to do, and to make them more independent over the long run. This is a huge deal in a country where the fastest growing group of people, in percentage terms, are people over 80 years of age. (Applause.) This is a big deal. (Applause.)

Now, I recommended exposing more of the incomes of the top 10 or 12 percent of Social Security recipients, somewhere in that range, to taxation, and Congress adopted a modified version of that plan. That was an entitlements move. I thought it was an appropriate thing to do because a lot of people in upper-income levels, by definition, have other sources of income, too, and will get back what they paid into Social Security plus reasonable interest growth in a reasonably short period of time, so I thought it was fair to do that.

We recommended upper-income people pay more for Medicare benefits. I think that is reasonable to do because the Medicare payment itself only covers a small percentage of the total cost of Medicare. Where I think we should draw the line, however, is in trying to have happen to the elderly middle class what is happening to the non-elderly middle class. All over the world today, and certainly in all the advanced countries of the world, the middle class is under assault. Earnings inequality has increased in the last 12 years. It is becoming very difficult for working people to sustain a middle-class way of life. We are going to have to all change. We've got to change our government policies. People are going to have to acquire much higher levels of skill and be committed to training for a lifetime. There are a lot of things that have to be done. But the general policy point, I think, is valid. We do not want to deal with a problem like the deficit which is aggravated because middle-class people's incomes have stagnated by having the same sort of income stagnation for the middle-class elderly.

So I think there are things we can do to deal with this. They will be discussed later. We did some things to deal with the entitlements in the last budget. But let us not say that it was a bad thing to dramatically reduce poverty among elderly people, or that it is a bad thing for our consumer economy to maintain a large number of middle-class people in their retirement years. That means that we have to have honest, specific and clear discussions of this, as unencumbered as possible by these sort of rhetorical bombs flying in the air from the left and the right.

Just talking it through and listening to each other and asking ourselves what will be the practical impact of proposed change A, B or C; and will we all be more secure, will our children and our grandchildren be better off; will this help to stabilize and increase the middle class ballast of our society? And I think we are on the verge, perhaps, of having that discussion in no small measure because of this kind of conference.

Now, let's go on and let's look at what I think the real problem in the entitlements is, is clearly the danger signal for the long run. Let's look at the next chart. As you can see, 20 years ago health spending and entitlements -- Medicare and Medicaid -- 13 percent of the total; 1983, 19 percent of the total; 1993, 30 percent of the total; 2003, 43 percent of the total. Keep in mind -- and this is with the number of elderly people going up like crazy, so the population of people drawing Social Security is going way up, right? And still, look at that.

So, clearly, that is the portion of government spending that is out of control. That is the portion of entitlement spending that is out of control. Now let me just illustrate it by a couple more charts, real quickly. Let's go to the next one.

Non-defense discretionary outlays are going down as a percent of our income. Social Security outlays as a percentage of our income is solid, stable here. It could go up some in the next century, is projected to when all the baby boomers go in. I heard Ms. Rivlin refer to that as the President's generation. (Laughter.) I am the oldest of the baby-boomers.

But still, you see, it's a stable as a percentage of the gross national product. And the Congress, in 1983, after the Bipartisan commission on Social Security made recommendations for fixing Social Security, attempted to keep this number stable by gradually raising the retirement from 65 yo 67, by about a month a year over a prolonged period of time starting just in the next century.

Now let's go on to the last one. This chart shows you that unlike Social Security and discretionary spending, medical spending is going up like a rocket. Medicare and Medicaid have tripled since 1982. Medicare and Medicaid will soon cost more than Social Security. And next year for the first time -- in large measure because Medicaid is a state-federal matching program, so that every state has to put in money along with the federal government -- next year, for the first time, states will spend more money on health care than education. And since we -- and since I supported this, I see other present and former governors around this table -- in the 1980s we said to the national government, "You've got a problem with the deficit, we'll spend more on education. You do what you have to do to deal with your other problems." This is a very serious danger signal. If you want the states to spend more educating people, getting children to the point where they can compete, training the work force -- to have the states all of the sudden spending more on health care than education is a very serious danger signal for the distribution of responsibilities between the state and the federal government.

Now, we have some options. If we want to control Medicare and Medicaid spending, basically we have some options. And to be fair, again I want to say during the 1980s under the Reagan and Bush administration -- the two administrations and the United States Congress did try to cooperate on several things to control Medicare and Medicaid spending. They took total pricing controls away from hospitals and doctors. They tried to do a number of things. But what happened? If you control the price of a given product in this environment, what happens? Providers can provide more products, I mean, more of the same product, right? You increase the volume if you lower the price, and the money still goes up. That's one problem. Secondly, poverty increased in the '80s and is continuing to increase among the poor and the -- both the idle and the working poor -- and that drives the Medicaid budget up. So controlling unit prices didn't work. The other thing you could argue that we could do is to try to control the categories within Medicare and Medicaid; basically, just spend less. In other words, even though they're entitlements, just say we are going to spend less on certain categories by both controlling volume and price. Is there a problem with that? Yes there is. What is it? Any doctor or hospital will tell you that there has been a lot of cost shifting in this health care system, and it's one of the causes of rising prices and inefficiency. Cost shifting largely occurs in two ways -- when hospitals have to care for people who don't have any insurance, or when they provide government funded health care at less than their cost of providing the service, they shift the cost onto the private sector.

So we could bring this deficit down -- we could do this -- I want to -- let's 'fess up, we could do this. We could just cut how much we're going to spend on Medicare and Medicaid, even though it's an entitlement, in terms of price per unit and volume. We can just take 'er down. But if we do that, what will happen? Those costs will be shifted by the health care providers to the people who already are providing insurance; with the impact that it will be a hidden tax increase on businesses and on employees. Employees will probably see it in not getting pay raises they otherwise would have gotten. Businesses will see it in spending more on health insurance premiums and having less to reinvest in the business or to take in profits. I don't think it is fair thing to do. That is why our administration has argued that if you really want to solve this problem, you have to go back and have comprehensive health care reform. This is the only country in the world that doesn't find a way to solve that issue, that doesn't give -- the only advanced nation, that is -- that doesn't give basic health care to all its citizens within a framework that controls costs in the public and private sector.

We're spending 14.5 percent of our income on health care. Nobody else is over ten; Germany and Japan are at nine. The health outcomes of other countries are roughly similar to ours. We can't get down to where they are because we spend more on technology and more on, basically, costly treatments than other countries do, and more on medical research. And that's fine. And we can't get down to where they do because we have more violence and higher rates of AIDS and other very expensive diseases than other countries. But we could do better. And unless we do better in an overall way, in my judgement, we are going to be in trouble.

Now we had a nonpartisan analysis by the respected firm of Lewin-VHI last week about our health care plan. This company does research on the economics of health care for businesses, unions, consumer groups. It includes people who served in the Reagan and Bush administrations as budget and health officials. They say that our plan will reduce the deficit. We think it will reduce it even more than they will. I won't get into the details of that today. We're here to talk about entitlements. The point I want to make is I believe you don't entitlement control, you don't get ultimate deficit control unless you do something about Medicare and Medicaid. I believe you don't get that done just by cutting Medicare and Medicaid unless you want to hurt the private sector. Therefore, I think we have to have some sort of health reform. That's what I believe. You have to decide if you believe that, but I think it's important. (Applause.)

Let me just close with this. This is the lead editorial in this morning's Washington Post. It says -- on the entitlements mess -- and it says as follows: "Nor have all the entitlements been badly behaved in recent years in terms of costs. The health care programs are the budget busters. By contrast Social Security costs have risen in "stately fashion" with population and inflation. And the costs of all the other entitlements taken together, including those that support the poor has declined in real terms" -- remember what "real" means in Washington, less than the rate of inflation. "The real federal budget problem" -- that's the normal word "real". Here they mean real like you do. (Laughter.) "The real federal budget problem isn't entitlements, it's health care."

So I say to you we can talk about these other entitlements and we should. As we talk about them, let us not make our middle-class squeeze problem worse than it is already. That's one of the profound problems that is driving this country. One of the reasons that Senator Wofford is in the Senate today, is because of the anxieties of middle-class workers in Pennsylvania.

Let us continue to work on this deficit. Let us realize the deficit is too big and the debt is much too large as a percentage of our gross national product. Let us realize that there are two problems with it. One is the deficit and the other is we aren't investing enough. But on the entitlements issue, I would argue the real culprit is health care costs, and we can only address it if we have comprehensive health care reform.

And let me close by saying one more time, if Marge Mezvinsky hadn't voted for that budget, we wouldn't be here celebrating economic progress or talking about entitlements. We'd still be back in Washington throwing mudballs at each other. And I respect her for that and I'm glad to be here today. (Applause.)

END 11:24 A.M. EST

HEALTH CARE AND THE BALANCED BUDGET AMENDMENT

President Clinton has challenged Americans to reform the national health care system in order to provide universal access, reduce rising health care costs and introduce new efficiencies. Democrats and Republicans alike have endorsed this objective and are working to put together alternative ways to attain them.

The Clinton administration and Congressional proponents of the different health care reform packages share certain preconceptions. They agree that health care costs in both the public and the private sectors are rising rapidly and must be contained. They believe that federal government expenditures on health care must be reduced in order to control the deficit. And they believe that any health care proposal must identify sufficient resources to pay for the new program.

The proposed Balanced Budget Amendment to the Constitution creates imminent dangers to the enactment of heath care reform. Even if health care reform is enacted, the amendment would place benefits under a health care program at risk. Fluctuations in the national economy, emergencies, "technical" errors in the estimates (these can run into tens of billions of dollars) and unforeseen contingencies could create a budget crisis that would block payment of health benefits.

Barrier to Reform.

If the proposed Balanced Budget Amendment is adopted, Congress and the President will be committed to a deficit reduction path that will require over $600 million in additional deficit reduction by FY-1999. The 1993 reconciliation bill, which passed by narrow margins in both Houses, will save two-thirds that amount in a comparable time period.

In order to finance health care reform, the Clinton administration proposes well over $200 billion in Medicare and Medicaid savings by the end of the decade. Consequently, the need to finance health care reform will collide with the requirement for deficit reduction. Two distinct possibilities arise from that reality. One scenario provides that health care reform never gets off the ground due to conflicts over financing. The implications of this outcome are ominous not only for the physical health of the nation, but also for its fiscal well-being. If health care reform fails due to entanglements with the budget process, long-term prospects for health care cost reduction will be dim. Cuts in Medicare and Medicaid will prove more illusory as costs are shifted from one segment of the health care industry to another. Health care costs to the federal government will continue to rise, along with the deficit, even in the face of cuts to Medicare and Medicaid. An alternative scenario would see health care reform adopted, but with many of the cost savings that are presently contemplated to finance the health care system going to deficit reduction. Under this scenario, health care reformers would shift financing of the new system to the private sector through regulation. In the eyes of many economists, this sort of burden shifting would be unduly bureaucratic and, in many cases, undesirable.

Barrier to Security.

Even if health care reform is enacted despite competing demands on budgetary resources, the Balanced Budget Amendment poses threats to the health care benefits that the proposed reforms are designed to guarantee. These threats derive from the fact that the constitutional amendment would make all government obligations, including those undertaken with respect to health care, contingent on the vagaries of the budget and the whims of Congressional minorities.

The Clinton health care proposals, like all of the alternatives being considered on Capitol Hill, are designed to be self-financing. That is, the costs to the federal treasury of the new health care provisions are designed to be more than offset by spending reductions in current federal programs and new revenue sources. While there is spirited debate over the accuracy of various estimates, there is no debate over the notion that the new system should operate under "pay-as-you-go" principles.

Under any of the alternatives, a reformed health care system would resemble trust fund programs such as Social Security. Dedicated revenues and spending reductions would be designed to offset the costs of the program so that the net impact of the program on the federal deficit would be zero or better. The Health Security card, like the Social Security card would be backed by clearly identified taxes and other resources--and by the good credit of the United States.

Advocates of health care reform argue that benefits under such a program should be a **right** accruing to all who qualify, just as Social Security benefits are rights to retired persons who have paid into the system. But under the Balanced Budget Amendment now before the United States Senate, those benefits could be cut off notwithstanding the fact that they would be provided for in law and that resources dedicated to health care benefits exceeded health care cost. This unfortunate outcome stems from the amendment's basic structure and its fundamental restructuring of current federal budget procedures.

Current law and practice focus on the creation of spending **obligations**. The Balanced Budget Amendment focuses on the **satisfaction of obligations**. In other words, the present budget system attempts to control the promises we make--to social security beneficiaries, holders of federally secured obligations and health care recipients. The constitutional amendment would control, arbitrarily, whether or not we honor our promises.

The present budgetary system is undoubtedly flawed. But at least the current constitutional structure has the virtue of encouraging and enabling the federal government to keep its word to its citizens and to the world. Currently, when Congress and the President attempt to reduce spending, they try to reduce obligations and authorizations: they try to promise less. The proposed constitutional amendment would refuse to satisfy those obligations once they were created.

The Technical Context.

To evaluate the potential problems that the constitutional amendment poses to health care benefits it is necessary to explore some of the basic concepts that surround the federal budget. On the spending side of the budget, the key term is "budget authority" (sometimes called "spending authority"). Budget law defines budget authority as the "authority to enter into obligations".

Budget authority can take the form of an appropriation, a new entitlement or some other form of commitment. Budget "outlays" are the actual spending that results from the creation of budget authority.

The federal government does not control outlays directly. In putting together the federal budget, policy-makers rely on estimates of outlays and revenues. Several reasons contribute to this necessity. For discretionary programs (those items for which there is an annual appropriation), a substantial period of time may intervene between the enactment of an appropriation and the actual spending that occurs when a check drawn on the treasury is cashed pursuant to that appropriation. Entitlement programs are "open-ended"; that is, every person who qualifies for a benefit under law has a legal right to the payment. The federal government estimates the amount of outlays that result from a given entitlement benefit based on the amount of the benefit and the projected size of the beneficiary population. Revenue estimates are made by comparing federal tax law with predictions about the economic and expected behavior of American businesses and consumers.

As one might expect, estimates of outlays and revenues are often inaccurate. This is true even given the good faith and professionalism of the Office of Management and Budget and the Congressional Budget Office. These estimates simply require too many educated guesses about too many subjects to be completely reliable. From a political standpoint, revenues and outlays constitute the most important budget figure; they combine to create the budget deficit or surplus.

When outlays exceed revenues, government obligations must be satisfied through borrowing. The public debt limit places a lid on the total amount of treasury obligations that are outstanding. When that limit is reached, Congress must approve a new, higher limit. Under the constitutional amendment, a three-fifths supermajority of both Houses is required to increase the public debt limit. If Congress refuses to take this action, the federal government will default on its obligations and treasury checks will bounce. Consequently, a recalcitrant minority of one House could force the United States to default over any issue.

Given this technical background, the proposed Balanced Budget Amendment poses several dire threats to the national welfare.

- Federal expenditures and tax collections will be manipulated based on the necessity of matching outlays to revenues rather than for any specific public policy reason. Since outlays and revenues fluctuate widely, federal payments will be withheld, accelerated or attenuated in a mad attempt to match exactly the pace of revenues.
- When it becomes clear that outlays exceed revenues for a given fiscal year, additional expenditures--even for programs such a health care--will be halted.
- When the total federal debt exceeds the statutory limit, the United States will default on its obligations.

Supporters of the constitutional amendment argue that under these circumstances, the provisions of the amendment would be waived. In many cases, that may be true. American history records many examples of Congress making hard choices in tough times. Unfortunately, there are also examples of those choices being made by a single vote or not at all. How many of us wants to rest our nation's Health Security on the confidence that "three-fifths of the whole number of each House" will put politics and gridlock aside for the national good. Federal health care benefits should be secure. They should be based on the assumption that, once a promise is made it will be kept. To guarantee this security, the constitutional amendment must be defeated.

CENTER ON BUDGET AND POLICY PRIORITIES

The Balanced Budget Constitutional Amendment

This fall, the Senate and House are likely to consider a proposed constitutional amendment to require a balanced federal budget each year. The constitutional amendment will come first to the Senate floor, where it may be taken up as early as October. If it passes the Senate by the two-thirds majority required for a constitutional amendment, House floor action will swiftly follow.

The constitutional amendment could well pass. Congressional support for it now appears even stronger than it was last year. In June 1992, the leading version of the constitutional amendment — a version introduced by Rep. Charles Stenholm (D-Texas) in the House and Senator Paul Simon (D-Ill.) in the Senate — fell short of the required two-thirds majority in the House by just nine votes, with nearly all Republican members voting for it. The Republican Party picked up 10 House seats in the November 1992 elections. In addition, some retiring Southern Democratic members voted against it; their replacements, who will face the voters in 1994, may be more reluctant to do so. Furthermore, some Democratic freshmen endorsed the amendment during their campaigns or have signed on in recent weeks as co-sponsors of the amendment. On September 9, 1993, the amendment had 245 House co-sponsors.

The constitutional amendment never came to a vote in the Senate last year; there was no point in a vote once the amendment fell short in the House. Had there been a vote, however, it probably would either have secured a two-thirds majority in the Senate or come within a few votes of doing so. And at this juncture, support for it in the Senate appears stronger than last year. The Republican Party has picked up one Senate seat since last year. In addition, four first-term Democratic senators — Campbell, Feinstein, Mathews, and Moseley-Braun — have signed on as co-sponsors. In two of these four cases, the senator they replaced was expected last year to vote against the amendment. The last time a constitutional balanced budget amendment came to the Senate floor was 1986; it fell short of the two-thirds majority by just one vote.

Identical balanced budget measures have been introduced in the House and Senate this year by Rep. Stenholm and Senator Simon. If their measure is approved by two-thirds majorities in the House and Senate, it will become part of the Constitution if ratified by three-quarters of the states. There is a good chance that state ratification would thus occur. More than 30 states have passed resolutions calling for such a constitutional amendment.

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Amendment Could Damage Economy

The current high level of the federal deficit is unhealthy for the economy. Action is needed to reduce the deficit substantially. The proposed constitutional amendment, however, is not a sound mechanism to achieve this goal. In fact, such an amendment could damage the economy more than strengthen it. The amendment would risk causing recessions more frequently and making the recessions longer and deeper. Many economists who favor tough deficit reduction measures strongly oppose the amendment.

The amendment requires a balanced budget every year, regardless of whether economic growth is strong or weak. As a consequence, larger spending cuts or tax increases would be required in periods of slow growth than in times of rapid growth. This is precisely the opposite of what should be done to stabilize the economy and avert recessions.

In years when growth is sluggish, revenues rise more slowly while costs for programs like unemployment insurance increase. As a result, the deficit widens. Eliminating the deficit would require more stringent austerity measures in such years than in years of more robust growth. But cutting government spending or raising taxes slows the economy even more. Balancing the budget during times of slow growth can tip a sluggish economy into recession.

The amendment does allow the balanced budget requirement to be waived for a particular year if three-fifths of the full membership of each chamber of Congress so vote. But it is unlikely a three-fifths majority could be amassed until after the economy was already in a recession and much of the economic damage was done. The Office of Management and Budget and the Congressional Budget Office have rarely if ever forecast a recession before one started. This adds to the likelihood that a three-fifths vote would not materialize — and budgets would continue being balanced — until after the economic downturn was already underway.

The amendment poses further risks for the economy because it requires a balanced budget by fiscal year 1999 (or two years after state ratification, if that results in a later date). The Congressional Budget Office forecasts a deficit of $223 billion in 1999, after taking into account the tax increases and spending cuts enacted as part of the new budget reconciliation law. Bringing the deficit to zero by 1999 thus would entail substantial further retrenchment on top of that required under the just-enacted budget law. The combined effect could slow growth substantially and possibly trigger a recession, costing many jobs. Other deficit reduction proposals, including one issued in the fall of 1992 by a Center for Strategic and International Studies panel chaired by Senators Sam Nunn and Pete Dominici, call for bringing down the deficit over a longer timeframe so the adverse effects of overly precipitous deficit reduction are avoided.

Eliminating a deficit this large in such a short period would require massive cutbacks in government programs, making it likely that programs without powerful constituencies would face the budget ax. A number of programs where *more* investment is needed to boost long-term economic growth would likely be cut. At a minimum, much of the Clinton investment program would have to be abandoned. The amendment thus could undermine efforts to reorder national priorities in a manner that can help the economy grow over the long term.

Harder to Raise Taxes than Cut Spending

The amendment also raises serious equity issues. The Stenholm-Simon proposal would alter Congressional voting procedures that have existed for more than 200 years by requiring more votes on the House and Senate floors to raise taxes than to cut programs. In addition, the amendment makes it very difficult in certain circumstances to raise revenues at all when a deficit emerges and must be erased.

Because of this imbalance between program cuts and tax increases, the amendment is likely to favor wealthy individuals and large corporations — most of whose government benefits come through tax subsidies — over low-, moderate-, and middle-income households, most of whose benefits come through programs. If it requires more votes to raise taxes than cut programs, the burdens of deficit reduction could be borne disproportionately by those in the bottom half of the income scale.

The poor may bear the heaviest sacrifices since they are the weakest constituency. While other budget procedures — such as the across-the-board cuts under the Gramm-Rudman-Hollings Act — protect basic programs for the poor, the constitutional amendment does not.

Weakening the Legislative Branch

In addition, the amendment could lead to a shift in power from Congress to the President and the courts. If a deficit develops for a given fiscal year, perhaps because of slower-than-expected economic growth, what happens if Congress and the President fail to reach prompt agreement on measures to eliminate it? Would the President unilaterally cut benefits or assert line-item veto authority, arguing the constitutional amendment implicitly conferred such powers upon him? Would the matter be decided by the courts? Would they order cuts? Would the government stop writing Social Security and veterans checks, issuing farm price support payments, and the like? The constitutional amendment ducks these critical questions, stating only that enforcement and implementation questions shall be addressed later in subsequent legislation. Crucial details of how the amendment would work (some of which were in last year's version of the amendment but have now been dropped because they drew criticism) are omitted. The details might be provided only after the amendment is already in the Constitution.

The amendment could also cause major shifts in power within the federal government, greatly increasing the power of a minority of Members of Congress who seek to reduce sharply the role of the federal government. The amendment would be likely to have this effect because it requires balancing the budget even when the economy falters or slips into recession (or when a bank failure or natural disaster unexpectedly raises government costs) unless three-fifths of the Members of Congress agree to waive the requirement. This would enable a minority of Congress to exercise an unprecedented degree of control over national economic and budget policy, threatening to plunge the government and the economy into turmoil unless they were given major policy concessions in return for their votes.

Finally, the amendment would largely deny to the federal government a basic practice that most businesses, families, and states and local governments use — borrowing to finance investments with a long-term pay-off. Borrowing to finance new investments is standard business practice. A business that failed to modernize because it could not borrow would soon be left behind. Families borrow to finance home purchases and college education. State and local governments borrow to finance road construction, the building of new schools, and similar capital projects. Under the proposed constitutional amendment, however, the federal government could borrow to finance needed investment only if three-fifths of the members of both houses agreed on a fairly regular basis to waive the balanced budget requirement and authorize the borrowing to take place. The likely result would be less investment — and less long-term growth.

Don't States Have to Balance Their Budgets?

Supporters of the amendment often dismiss such concerns about its impact, arguing that states balance their budgets and the federal government should also. But these allusions to state balanced budget requirements overlook five critical points which were made in a recent GAO study of state balanced budget requirements[1]:

- Many states are required to balance their *operating* budgets, not their *total* budgets. States typically have separate budgets for operating expenses and capital expenses, and the requirements for budget balance

[1] General Accounting Office, *Balanced Budget Requirements: State Experiences and Implications for* the Federal Government, (GAO/AFMD-95-58BR, March 26, 1993).

often apply to the operating portion of the budget. This means that investments in roads, bridges, school construction, and the like often are not subject to budget balancing requirements and can be financed through bonds or other borrowing measures. This is widely regarded as a sound practice because such capital investments are designed to yield long-term benefits that can strengthen state economies and also because such investments may be placed at a disadvantage if they have to compete for funds, under a balanced budget regime, with ongoing costs for government operations.

The constitutional amendment does not make such a distinction. It includes, as part of the overall federal budget that must be balanced each year, the roughly $135 billion now expended annually for investments in physical capital (as well as the additional $70 billion a year invested in research and development and the $38 billion in education and training).[2] As a result, it is fundamentally different from, and cruder than, the balanced budget procedures in many states.

- In addition, many states require that the governor submit a balanced budget or that the legislature enact a balanced budget, but *not* that year-end balance in the general fund actually be achieved. Such requirements recognize that developments in the economy and other circumstances beyond a state's control often push budgets out of balance. The General Accounting Office found that 21 states allow deficits either to be carried forward to the next year or to be covered through borrowing. Under the proposed federal constitutional amendment, such practices would be impermissible unless three-fifths of the House and Senate voted to authorize them for a specific year.

- Many states allow governors to act unilaterally without legislative approval to cut spending in the middle of a fiscal year. The President does not have this power at the federal level. Providing this authority to the president would represent a dramatic shift of responsibility for budgeting and power from the Congress to the executive branch.

- In addition, many states have established "rainy day" or reserve funds, which they draw upon when their budgets would otherwise be out of balance. Under the proposed constitutional amendment this approach would *not* be permitted at the federal level, since all expenditures count as "outlays" in the year the expenditures are made — regardless of

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[2] These figures are drawn from the budget presented by the Bush Administration in early 1992.

whether the funds expended are drawn from a trust fund, a reserve fund, or any other fund.

- The federal budget has a much larger impact on the U.S. economy than state budgets do, and federal fiscal retrenchment during periods of slow growth can have adverse consequences of a far greater magnitude than the effects wrought by state austerity measures. Moreover, the fact that states cut their budgets and raise taxes when the economy slows or recession hits is itself a reason the federal government should *not* follow suit. Federal counter-cyclical policies are essential during such periods to stabilize the economy and to offset the drag on the economy caused by state and local retrenchment.

* * * * *

The deficit reduction package enacted in August 1993 makes important progress in reducing the deficit. But, further action will also be needed. The most important next step is tough national health care reform that substantially reduces the long-term growth rate in health care costs. That step, plus one more large budget agreement several years from now, should get the long-term deficit under control. This is the course of action needed. A balanced budget constitutional amendment that risks making recessions deeper and more frequent, leads to reductions in needed investments, shifts substantial power to minority factions, and makes it harder to raise revenues is not.

September 15, 1993

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Daschle*	Mack*	Warner*		
DeConcini*	**Mathews***			
Dole*	McCain*			
Domenici*	McConnell*			
Dorgan*	Murkowski*			
Faircloth*	Nickles*			

Democrat Republican

AFSCME LEGISLATIVE ALERT

BALANCED BUDGET AMENDMENT FACT SHEET

Background

During the past two decades, efforts to approve a balanced budget amendment to the U.S. Constitution have periodically swept through the Congress threatening to wreak havoc on our economy, our standard of living, on the ability of governments at all levels to deliver public service. In the past, just before this irresponsible and dangerous proposal had gathered sufficient votes for approval, two-thirds of the votes in both chambers, reason had prevailed and economic catastrophy was narrowly avoided.

In May 1992, when congressional approval seemed a near certainty, the efforts of a coalition of 100 organizations led by AFSCME together with leading Democrats were successful in defeating balanced budget resolutions on the floors of both bodies. In the House, the battle was won by just nine votes, 280-153. The balanced budget forces in the Senate were turned back by only four votes.

Summary of Legislation

Despite broad agreement that the nation's low level of public investment is hampering U.S. productivity and competitiveness, the likelihood that Congress will approve a balanced budget resolution has never been greater. H.J. Res. 103 has over 200 cosponsors, with additional members expressing support if the resolution comes to a floor vote. Senator Paul Simon's (D-IL) resolution, S.J.Res. 41, has been approved in the Judiciary Committee by an overwhelming 15 to 3 vote. Both bodies are expected to consider a balanced budget resolution before the end of the 1993 session.

AFSCME Position

AFSCME strongly opposes any balanced budget resolution. The balanced budget amendment is not the silver bullet which will deliver healthy economic growth. Just the contrary. A requirement to balance the federal budget would demand such drastic spending cuts and tax increases that the economy, already laboring to sustain its meager recovery, would, in all probabiility, be thrown back into another recession.

Promising the public that a balanced budget amendment, to be fully implemented by Fiscal Year 1999, will solve the nation's short and long-term economic woes is certain to slow economic growth, costing many Americans their jobs, thus putting more strain on the economy.

Amending the constitution to force Congress to balance the budget will not solve the country's short or long-term economic problems. Borrowing is not inherently "bad" or "wrong" so long as the borrowing is used for investment. Businesses must borrow to grow; state and local governments borrow for capital investment; and individuals borrow to buy a home.

For additional information regarding the Balanced Budget Amendment, please call Marge Allen at (202) 429-1184.

Questions and Answers About the Balanced Budget Amendment

Q. "If I can balance my checkbook, why can't the federal government?"

A. Most Americans don't balance their checkbooks. Credit is an important part of our consumer economy:

- Mortgages allow us -- if we're very lucky -- to take 30 years to pay for a house.
- Middle-class and low-income students can pay for their educations with future earnings.
- Installment payments allow many of us to purchase cars, clothing, furniture and food.

Q. "If states can balance their budgets, why can't the federal government?"

A. States don't balance their budgets.

- States only have to balance their operating budgets. States borrow money for capital expenditures such as roads, schools, hospitals and prisons.
- States skirt their state constitutional requirements for balanced budgets by creating agencies and corporations to issue the bonds necessary to finance capital expenditures. These budget gimmicks put spending "off-budget" and avoid violating the letter of the law. However, the states' debts are increased and the budgets unbalanced.
- States are not responsible for handling the largest economy in the world. The federal budget significantly affects the performance of the nation's economy. Balancing the budget over a short period of time would slow growth even in a stronger economic environment. During recessions or slow recoveries, a balanced budget will be devastating.
- In fact, a balanced budget amendment would make matters much worse for the states. In order to eliminate the deficit, the federal government would have to find lots of money or drastically cut spending. The proposed amendment makes it easier for the federal government to cut spending than to raise taxes. States would lose substantial amounts of federal money.

Q. "Won't balancing the budget help?"

A. Quite the opposite. The balanced budget would:

- Substantially increase unemployment.
- Significantly hurt programs serving the hungry, homeless and other populations.
- Cause a weak economic recovery to turn back into a recession.
- Require cutbacks in investments in our people and our infrastructure which would further threaten our quality of life and reduce America's ability to compete in international arenas.
- Allow Congress to once again sidestep their responsibilities to make hard decisions.

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COMMON QUESTIONS ABOUT THE BALANCED BUDGET AMENDMENT

Friend and foe alike have raised important questions about the constitutional balanced budget amendment pending before Congress and likely to be voted upon in the Senate in early November. Here's a brief Q & A addressing these concerns about opposing the amendment.

Q. "Won't the constitutional balanced budget amendment help our economy?"

A. Quite the opposite. The balanced budget amendment would harm the economy. We support reasonable measures to reduce the deficit like the $500 billion deficit reduction package passed this summer. However, we must avoid draconian methods like a balanced budget amendment that would force the federal government to make huge spending cuts quickly which would:

- Significantly hurt programs serving the hungry, homeless, the elderly, children and other vulnerable populations.
- Severely restrict environmental health and safety, and erode consumer protections.
- Hamper the ability of the federal government to respond to national crises and natural disasters like flooding in the Midwest or Hurricane Andrew.
- Impair job growth and send different regions of the country into an economic tailspin. Balancing the budget in a short period of time can be a significant drag which would likely slow down growth even when the economy is strong. During recessions or slow recoveries -- like we are experiencing now -- a balanced budget could be devastating.
- Allow Congress to once again sidestep their responsibilities to make hard decisions.

Q. "If I can balance my checkbook, then why can't the federal government?"

A. Most Americans *don't* balance their checkbooks. Credit is one of the most important parts of our everyday lives. Without the ability to borrow money, most people would be unable to purchase a house, go to college or even eat out. Debt financing is what allows us to make vital purchases now with money that we expect to earn over time. For example:

- Mortgages give families and individuals the opportunity to buy a home over a period of time as long as thirty years.
- College loans allow middle-class and low-income students who cannot pay their entire college tuition up front to finance their education through future earnings.
- Credit cards permit people to purchase items ranging from food to furniture and pay over time.

In the same way, the federal government borrows now to invest in programs that pay off in long-term benefits. Without government spending now on education, childhood immunizations, Medicare and Medicaid, environmental protection and worker safety programs, we pay more in the long-run through increased medical costs and building more prisons.

Q. "If states can balance their budgets, why can't the federal government?"

A. Most states *don't* balance their budgets.

- States are only responsible for balancing their *operating* budgets. A number of states are able to borrow money for vital programs like road maintenance, construction, improving our cities and even funding for education through separate budgets created for capital items.

- States also get around balanced budget requirements by creating entities to issue bonds to finance projects. These types of budget tricks put spending "off-budget" to avoid violating the letter of the law. However, the effect is the same -- an unbalanced budget.

- Furthermore, states are not responsible for handling the largest economy in the world. The federal budget can have a significant impact on the performance of the national economy, balancing the needs of states and regions in different economic situations.

- In fact, a balanced budget amendment would make matters considerably worse for the states. In order to eliminate the deficit, the federal government would either have to raise revenue or cut costs. The proposed amendment makes it easier for the government to cut spending than to raise taxes, putting additional pressure on state budgets which rely heavily on federal funds.

Q. "How would a balanced budget amendment work?"

A. Each year, Congress and the President must ensure that federal "outlays" do not exceed federal "receipts." This means that any time during the fiscal year, if it appears that the federal government is going to run a deficit, action must be taken to balance the federal budget. (The only exception would be during times of war.) However, this amendment does not tell Congress how to balance the budget, except to make it easier to cut spending than to raise taxes without protecting necessary social programs.

Q. "What would it take to pass the constitutional balanced budget amendment?"

A. In order to pass the balanced budget amendment:

- Two-thirds of the U.S. Senate and the House of Representatives must propose the amendment. That means 67 Senators and 290 Representatives must vote in favor, <u>and.</u>

- Three-quarters of the states legislatures (38 of 50) must also vote in favor of the amendment after it passes through Congress.

- Unlike normal legislation, these votes cannot be vetoed by either the President or the Governors of any of the states voting for the amendment. Once the states have ratified the amendment, it cannot be changed or overturned unless another constitutional amendment is passed.

Q. "What is the current status of the balanced budget amendment?"

A. Right now, we will need to fight hard to defeat the amendment.

- The Senate is considering a resolution sponsored by Sen. Paul Simon (D-IL). There are currently 62 supporters in the Senate. This leaves supporters only 5 votes short of reaching the necessary 67.

- If the measure passes the Senate, it will be voted on shortly after that in the House. Rep. Charles Stenholm (D-TX) introduced a resolution with the same wording as Simon's resolution. There are currently 243 additional co-sponsors, putting the resolution only 46 votes short of the necessary 290.

- If the measure passes through Congress, the states will have seven years to consider the amendment. 32 states have passed resolutions in the past calling for a constitutional balanced budget amendment (although 4 states have rescinded those votes). However, all state legislatures must vote again on this specific amendment. Still, that number is only 6 short of the necessary 38 needed for ratification.

TAKE ACTION NOW!
OPPOSE THE BALANCED BUDGET AMENDMENT!

Prepared with assistance from AFSCME and National Association of School Psychologists.

October 21, 1993

FEDERAL DEPOSIT INSURANCE AND THE BALANCED BUDGET AMENDMENT

However desirable a balanced budget might be from a fiscal perspective, the proposed constitutional amendment would actually work against that goal. It would undermine the good faith and credit of the United States and increase interests costs as the market adjusts to uncertainties created by the new procedures. The amendment would create the potential for constitutional gridlock if Congress were to be unable to muster the required supermajorities necessary to waive enforcement of the amendment and fulfill promises made to holders of insured bank accounts and others.

The Simon proposed Balanced Budget Constitutional Amendment (S.J.Res 41) could have unintended consequences whereby depositors in federally-insured financial institutions are denied compensation when their banks or other financial institutions fail. This unexpected and undesirable result flows directly from inherent flaws in the constitutional amendment approach to setting fiscal policy.

The present constitutional and budgetary structure focuses on the creation of an obligation that will result in spending. In technical terms Congress and the President create "budget authority" or "spending authority" by enacting laws. This authority may take the form of an appropriation bill, a veterans pension, a non-recourse CCC loan, or a commitment to pay the interest on the national debt. Congress and the President may also create contingent obligations which pledge the full faith and credit of the United States behind a certain enterprise.

Nowhere, however, does Congress appropriate or create "outlays". Outlays are the spending that results from the original obligation created by law. Under our present system, spending is controlled by reducing the extent to which the United States is obligated to make payments; in other words, we control spending by controlling what we promise. For example, outlays can be reduced by cutting CCC price support or loans levels, changing federal retirement benefits, or restricting the conditions under which deposits are insured in federally-chartered banks. It is not appropriate under current practice, however, to undertake an obligation--to promise to buy wheat at a certain price, for example--and then refuse to pay up when the bill is due.

The proposed Balanced Budget Constitutional Amendment would change all this. By focusing on the level of outlays and by ignoring the very obligations and authorizations that generate those outlays, the amendment would say to the prospective beneficiary of some federal program, "No matter that we promised to insure these deposits, guarantee that loan, buy the crop or pay the disability benefit, you won't get your money until three-fifths of the whole number of both Houses of Congress say that you will." It takes little imagination to conjecture the effect of such a half-hearted promise on participation rates in CCC programs, the inclination on the part of lenders to participate in the Guaranteed Student Loan program, or the confidence of depositors in federally "insured" institutions.

An examination of the text of S.J.Res 41 and a brief look at one of the many salient examples from the last two decades demonstrates the accuracy of the foregoing analysis. In 1980, Congress and the Carter administration crafted a budget which they believed, in early summer, to be balanced. By fall however, a recession had pushed down revenues and shoved up federal payments, resulting in a deficit for that fiscal year (FY 1981) that eventually exceeded $70 billion. If S.J. Res. 41 had been part of the constitution at that time, and if the recession or other factors had led to the failure of financial institutions, holders of federally-insured deposits would face uncertainties in collecting on their deposit insurance.

At the very minimum any legislation to replenish the RTC's net loss funds would have to be approved by three-fifths of the whole number of both Houses. Supporters of the constitutional amendment may be heard to argue that Congress would surely take such an action. Such confidence may not entirely re-assure observers who have seen Congress fail to muster a simple majority to pass the replenishment currently pending.

Furthermore, even payments to depositors made from funds already available to the RTC might be illegal. Section 1 of the proposed constitutional amendment provides: "Total outlays for any fiscal year shall not exceed total receipts for that fiscal year, unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays over receipts by a rollcall vote." Payments to depositors from funds already available to the RTC would clearly constitute an "outlay". Given the circumstances of an excess of outlays over receipts, such payments might well be declared illegal unless approved by a Congressional supermajority.

Because the constitutional amendment would control outlays--disbursements from the federal treasury--rather than agreements and commitments to spend money, no matter how clear the contract or law (or how skilled the lawyer who writes the contract or law) U.S. government obligations such as those to pay depositors in federally insured institutions are in jeopardy under the proposed Simon constitutional amendment. For these reasons, the amendment should be rejected.

NATIONAL SECURITY AND THE BALANCED BUDGET AMENDMENT

Whatever the merits or defects of a Balanced Budget Constitutional Amendment from a fiscal policy perspective, adoption of the amendment would certainly have severe adverse consequences for national security and the American defense establishment. The amendment would confuse and undermine the President's responsibilities as Commander-in-Chief, overturn long-standing authority to support American troops who serve in harm's way and cripple the American defense infrastructure. The amendment would send an invitation to foreign adversaries to manipulate the United States through the inevitable gridlock it would produce. The framers of the amendment recognize its potential threat to national security. They have drafted ineffective national security exemptions that merely serve to highlight the impact of this proposal on American defense and foreign policy interests.

The Constitutional and Legal Context

The United States Constitution recognizes the primary importance of providing for the national defense. Major responsibilities for national security are enumerated for the executive and legislative branches of government. The Constitution establishes the President as Commander-in-Chief, but places the power to declare war within the Congress. The Congressional power of the purse is a further check on the executive branch war-making power.

Over the years the Congress and many Presidents have sought to elaborate upon this division of responsibilities. The War Powers Act sought to limit and define Presidential authority in "undeclared" wars. Since the enactment of the War Powers Act, various Presidents have been careful to reserve their Constitutional objections to the law even as they follow its requirements.

Presidents have also asserted their Constitutional prerogatives as Commander-in-Chief. Throughout history, Presidents have chaffed at perceived Congressional attempts to interfere with their responsibilities as paramount military leaders. Theodore Roosevelt, reacting to Congressional restrictions, sailed the Great White Fleet halfway around the world and threatened to leave them there until Congress provided the funds to bring them home. In less flamboyant terms, the executive and legislative branches have reached an unprecedented mutual understanding that the national security may require the President to deploy forces **even in the absence of an appropriation**. The Fuel and Forage Act (41 USCA 11) enables the government to contract on behalf of the Defense Department for "clothing, subsistence, forage, fuel, quarters, transportation, or medical and hospital supplies. . . " in the absence of an adequate appropriation. The intent of the Fuel and Forage Act is to permit the President to deploy U.S. forces in the national interest even without specific Congressional authorization or funding. The Act recognizes that time and circumstances may not permit the normal procedures to be observed when national security is at stake. This authority was invoked most recently when President Bush sent American forces to the Mid-East as part of Desert Shield and Desert Storm.

The Supreme Court has maintained a prudent distance from its sister branches on national security matters. It has permitted a broad "gray area" to develop where Presidential and Congressional responsibilities intersect, refusing--often on procedural grounds--to decide many of the issues involving national security matters. This stance has permitted a degree of pragmatic accommodation within the American government where national security is concerned. Presidents Lincoln, Franklin Roosevelt, Truman and Bush were all able to confront successfully threats to American security by taking advantage of the gray area and the traditional American sense of pragmatism when the common defense is threatened.

The Balanced Budget Amendment would transform the gray area into stark black and white.

Impact of Balanced Budget Amendment on the National Defense Powers

The requirement that "[total outlays for any fiscal year shall not exceed total receipts for that fiscal year, unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays over receipts by a rollcall vote" (Section 1 of S.J. Res. 41) could leave the United States unable to respond effectively to international aggression or repel an attack on American interests.

The recent examples of Desert Shield and Desert Storm provide evidence in support of this conclusion. In Desert Shield, President Bush sent substantial U.S. forces to the Middle East in order to deter Iraqi aggression against Saudi Arabia and the Gulf States and to apply pressure on the Iraqis to withdraw from Kuwait. To finance this expeditionary force, the President relied on the authority of the Fuel and Forage Act .

If the proposed Balanced Budget Constitutional Amendment had been in effect during Desert Shield, the Fuel and Forage Act would have been unconstitutional and the operation illegal because outlays exceeded receipts for that fiscal year.

Even if the President had proposed and the Congress adopted a balanced budget for that fiscal year, recent history teaches that budgets that appear to be in balance at their inception may fall seriously out of balance as the fiscal year nears its end. Thus, an enemy of the United States such as Saddam Hussein could engage in hostile activity against the U.S. and its allies with one eye on the calendar and the other on the Treasury balance sheets, knowing that a minor shift in outlays or receipts could make aggression against our friends and interests a relatively cost-free option.

Supporters of the constitutional amendment can be heard to argue that 1) spending could be cut or revenues raised to finance the expeditionary force; or 2) Congress would utilize the special national security waiver provisions in the amendment. In response to these points, it should be noted that mounting a significant military force, transporting it a great distance, and supporting it in the field results in a substantial and immediate increase in outlays. Toward the end of a fiscal year, it simply may not be technically possible to raise taxes or cut spending quickly enough to accommodate the new outlays.

As to the potential for a Congressional waiver of the balanced budget requirement, even if Congress were in session when the circumstances requiring the deployment of American troops occurs, such a motion would not be approved without substantial debate. As the current prolonged discussion of Interior Department grazing fees demonstrates, even relatively minor matters can drag on for weeks.

Furthermore, a close examination of the national security waiver provisions of the constitutional amendment will raise alarms in the minds of those concerned about national defense. The present version of the amendment contains simple-majority waiver provisions for declared wars and "for any fiscal year in which the United States is engaged in military conflict which causes an imminent and serious military threat to national security". In the modern context, declared wars are an anachronism. Consequently, the operative portion of the national security section of the amendment involves undeclared wars.

Several troubling points emerge from an examination of this clause. First, as the legislative history makes clear, a waiver in one fiscal year does not carry over to a subsequent fiscal year. Thus, if a military conflict became controversial or unpopular, American military personnel could be left without support or resources due to fiscal problems at home or gridlock in the Congress.

Secondly, the simple majority waiver provision applies only to instances in which American troops are "engaged in military conflict". Imagine a situation in which North Korean forces are massing on the South Korean border. U.S. re-inforcements are desperately needed. But since no American soldiers are "engaged in military conflict", a three-fifths supermajority of both Houses would be required to authorize the expenditure of outlays in excess of revenues. If threats developed into actual combat, a determination would have to be made as to whether the conflict posed a "serious military threat to national security". And of course, if the incident occurred near the end of a fiscal year, the whole process would have to be repeated come October first.

Eroding the Defense Establishment

Even apart from the impact of the proposed Balanced Budget Constitutional Amendment on military operations that may be necessary for national defense, the measure would also disrupt the peacetime operations of the Defense Department, with substantial new costs to the taxpayer and inefficiencies to the defense establishment. For example, contractors could be denied compensation for contracts already agreed to and for which appropriations have already been made, military personnel may be subject to dismissal without cause and notwithstanding enlistment agreements, and our defense forces might not be maintained at the minimum level required for their safety and national security. These unexpected and undesirable results flow directly from inherent flaws in the constitutional amendment approach to setting fiscal policy.

An examination of the text of S.J.Res 41 and a brief look at one of the many salient examples from the last two decades demonstrates the accuracy of the foregoing analysis. In 1980, Congress and the Carter administration crafted a budget which they believed, in early summer, to be balanced. By fall however, a recession had pushed down revenues and shoved up federal payments, resulting in a deficit for that fiscal year (FY 1981) that eventually exceeded $70 billion. If S.J. Res. 41 had been part of the constitution at that time, Congress and the Administration would have been forced to find more than $70 billion dollars in spending cuts and tax increases (not counting the multiplier effect of reducing fiscal stimulus in a recession).

Since national defense spending constitutes a substantial portion of the federal budget, it is worth noting that policy-makers would surely look to the national defense accounts with an even sharper pencil. Reductions would be made in a number of areas, often with unanticipated and undesirable consequences. In the area of **procurement**, the federal government might be forced to halt payments for items for which funds have been appropriated and obligated, but for which no "outlays" have proceeded from the treasury. Thus a company with a contract to provide trucks to the army, for example, might be told to stop production and that any compensation under the government contract would be subject to the attainment of a balanced budget. At present, most military contractors rely on a cancellation penalty clause in government contracts. This clause provides for damages in the event that the contract is canceled during production. Under the proposed constitutional amendment, such contractual obligations would be placed in question due to the stricture in Section 1 of S.J.Res. 41 that "[t]otal outlays shall not exceed total receipts to the United States for that year, unless Congress approves a specific excess of outlays over receipts by three-fifths of the whole number of each House on a rollcall vote." Payments to contractors under a penalty clause, like all other contractor payments, would clearly constitute "outlays". Given the circumstances of an excess of outlays over receipts, such payments might well be declared illegal unless approved by a Congressional supermajority.

For government contractors--and for the American taxpayer--the consequences of this fact are clear: As recessions create deficits, payments to contractors are cut off, thus contractors go out of business or reduce their work force. Since the government may halt production unexpectedly or fail to honor contractual obligations to pay termination costs, the price of trucks, weapons systems and other equipment will go up as companies attempt to factor in new financial risks. Contractors will demand payment up front and will seek to have potential termination costs paid into escrow accounts. All of these consequences are unintended by the supporters of the constitutional amendment. They are, nonetheless, dire.

Personnel costs, including pay and benefits, constitute a major portion of the defense budget. Unlike procurement accounts, where the cancellation of a $1 billion contract may actually save only a small portion of that in the first year due to the fact that the $1 billion is to be spent out over many years, funds available for pay and benefits are spent out quickly. Consequently, one way to cut outlays rapidly is to sharply reduce the number of military personnel and their attendant benefits. Therefore, if defense were to be suddenly and sharply reduced, military and other government employees would surely suffer.

Some of the former Soviet republics are currently in turmoil due, in part, to the inability of their governments to issue and honor paychecks to the military. By creating circumstances under which outlays resulting from military pay and benefits are actually unconstitutional, the proponents of S.J. Res. 41 would unwittingly create a similar circumstance in the United States.

Finally, the **readiness** accounts of defense programs would feel the impact of the constitutional amendment. Readiness includes the operations and maintenance of equipment, training for our servicemen and women, and the cost of transporting personnel to areas of potential need. Like personnel costs, the readiness area would be a prime target for reductions in the event of a crisis generated by the constitutional amendment because cuts could be implemented rapidly and the outlay effects would be felt almost immediately. The consequences for national security, unfortunately, could be disastrous and would also be felt almost immediately. With fewer resources for training, upkeep of complex weapons systems and the air and sea lift capability to send troops where they are needed, our armed forces would be substantially weakened in their ability to deter aggression and react to crisis.

These examples reveal the extent to which the unintended effects of the Balanced Budget Constitutional Amendment pose a threat to national security. Sharp and rapid reductions in our defense structure could be triggered by a recession--or by simple mistakes in estimates of outlays and receipts. History teaches that a weakened national defense is an invitation to aggression by unscrupulous nations. Can anyone be heard to argue that the benefits of a constitutional amendment, whatever they may be, outweigh such severe costs.

THE BALANCED BUDGET AMENDMENT AND EMERGENCY SPENDING

One of the principal flaws of the proposed Balanced Budget Constitutional Amendment is its inability to provide sufficient flexibility for the federal government to deal with natural and man-made disasters. This outcome is irrational as well as unfair, since promptly repairing the damages that result from flood, fire, volcano, hurricane, riot or other unforeseen events will help contain the damage done to the national economy and insure continued growth and prosperity.

Proponents of the constitutional amendment argue that Congress would surely waive the enforcement of the amendment in times of emergency. They also contend that a contingency fund could be created in anticipation of such events. Some point to a new provision in the proposed amendment that would provide for a balance of budget **estimates** rather than a balance of actual numbers. A close analysis of the facts argues against these easy dismissals of the problems associated with disasters and other emergencies.

Contingency Funds

From a common sense perspective, putting money away for a rainy day is the essence of prudence. Many budget reformers have suggested setting aside a contingency fund for emergencies and other unforeseen occurrences. Unfortunately, the proposed Balanced Budget Amendment would preclude such an arrangement. Since the balanced budget requirement provides that total outlays must not exceed total receipts, it would be difficult--perhaps impossible--to set aside a contingency fund for disasters. First of all, the proposed constitutional restrictions apply to budget totals, not to any part of the budget such as trust funds or contingency funds. Consequently, the constitutional prohibition would be triggered if spending out of a contingency fund (or any other governmental source) caused total outlays to exceed total revenues. This would be the case even if federal resources had been set aside to cover such a contingency. Furthermore, when funds are set aside in a trust fund or similar financial structure, outlays do not occur until the funds are actually released from the treasury. Even if Congress were to appropriate billions in a contingency fund for emergencies, no outlays would occur as a result of this action until the funds were obligated. Under the 1990 budget agreement, as modified, emergency spending is simply not treated as on-budget for enforcement purposes. This "loophole" provides a necessary safety valve that allows the agreement to function successfully. By contrast, the Balanced Budget Amendment treats all outlays and all revenues as being equal.

The Waiver Option

Apologists for the constitutional amendment can be heard to say: "Why worry, we can waive the requirement in case of an emergency." In fact, the possibility of a waiver may prove illusive for victims of a disaster. While it is true that the amendment provides for a waiver upon the vote of "three-fifths of the whole number of both Houses of Congress", increasingly austere financial conditions throughout the United States have reduced support for disaster relief. Events that are confined to one or two areas of the country or to specific population groups may not be able to command the support of supermajorities in the Congress. In the House of Representatives, for example, the supplemental appropriation for disaster relief to Chicago and Los Angeles failed to pass by the supermajority level specified in the proposed constitutional amendment. Bitter controversy and close votes accompanied the 1993 flood disaster appropriation bill in the House of Representatives.

Balancing the Estimates

Supporters of the constitutional amendment also contend that the present version of the amendment provides a degree of leeway sufficient to accommodate emergencies: the enforcement clause of the amendment provides that implementing legislation "may rely on estimates of outlays and receipts". Some interpret this provision to mean that the amendment merely requires Congress and the President to enact a budget that **estimates** the budget to be balanced rather than ensuring that the budget is actually in balance in a given year. They conclude that this loophole is sufficient to allow for contingencies such as disaster assistance.

In reality, the "estimates clause" provides scant relief for victims of disasters. Under current budgetary practices, flexibility with economic and technical estimates do provide a degree of flexibility in accommodating changes that occur within the budget baseline. For example, a given tax change or entitlement provision may cost more than originally estimated. "Flexible" estimates and the familiar Rosy Scenario can help in those instances. But even the most optimistic of forecasts cannot wish away a major disaster, such as this year's Mid-western floods. Furthermore, the public debt limit, which is also subject to the supermajority requirement under the proposed amendment, poses an insurmountable barrier to unaccounted deficits. When the debt limit is breached, default is a fate that even the most optimistic of assumptions cannot remedy.

Additional Defects

The Balanced Budget Constitutional Amendment may also prevent victims of a disaster from receiving benefits to which they would be entitled under provisions of law in effect before the disaster struck. For example, the victim of a disaster may be eligible for unemployment compensation, flood insurance payments, disability benefits or other compensation stemming from existing federal law and triggered by the disaster. Under the peculiar effects of the constitutional amendment, these benefits could be denied.

An explanation of the changes that a Balanced Budget Constitutional Amendment will force upon the present budget and legal structure illuminates these perverse effects. The present constitutional and budgetary structure focuses on the creation of an obligation that will result in spending. In technical terms Congress and the President create "budget authority" or "spending authority" by enacting laws. This authority may take the form of an appropriation bill, a Social Security disability pension, unemployment compensation, or a promise to insure property from the effects of floods.

Nowhere, however, does Congress appropriate or create "outlays". Outlays are the spending that results from the original obligation created by law. Under our present system, spending is controlled by reducing the extent to which the United States is obligated to make payments; in other words, we control spending by controlling what we promise. For example, outlays can be reduced by cutting Social Security disability benefit levels, changing federal unemployment compensation law, or restricting the conditions under which property owners may collect federal insurance. It is not appropriate under current practice, however, to undertake an obligation--to promise to pay unemployment compensation, for example, and then refuse to honor the commitment when circumstances deprive a qualified individual of his job.

The proposed Balanced Budget Constitutional Amendment would change all this. By focusing on the level of outlays and by ignoring the very obligations and authorizations that generate those outlays, the amendment would say to the prospective beneficiary of some federal program, "No matter what promises the government of the United States may have made to its citizens, they are all conditional upon the fluctuation of the deficit and the concurrence of "three-fifths of the whole number of both Houses of Congress".

Not only is such a result--mandated by the Balanced Budget Constitutional Amendment--cruel and wrongheaded, it is also inappropriate from a practical standpoint. Common sense and the history of organized society has shown the efficacy of moving quickly to rebuild what has been destroyed by nature or man, even if that requires borrowing money in the short run for a long term gain. For these reasons, the constitutional amendment should be defeated.

THE BALANCED BUDGET AMENDMENT AND UNEMPLOYMENT COMPENSATION

Nowhere are the unintended adverse consequences of the proposed Balanced Budget Constitutional Amendment revealed more starkly than in the case of benefit programs such as unemployment compensation. The constitutional amendment could have the effect of cutting off these benefits (benefits that are provided for in law and which are offset by payroll taxes set aside in trust funds). This unfortunate outcome results from the amendment's fundamental restructuring of the federal budget system.

Under current law and practice, unemployment compensation, like other federal entitlement benefit programs, is governed by laws which set benefit levels and define their eligible population. When an individual becomes unemployed, he or she can receive compensation if he meets the statutory standard. In a technical sense, the law that established the benefits created "spending authority" or "budget authority".

Thus, the present constitutional and budgetary structure focuses on the creation of an **obligation** that will result in spending. Consequently, when Congress and the President try to reduce spending, they currently focus on the process of creating and reducing obligations rather than refusing to satisfy those obligations once they have been created. Nowhere in the present budget process does Congress appropriate or create "outlays". Outlays are the spending that results from the original obligation created by law.

The proposed Balanced Budget Constitutional Amendment would change all this. By focusing on the level of outlays and by ignoring the obligations and authorizations that generate those outlays, the amendment would say to the prospective beneficiary of some federal program, "No matter that we promised to pay you benefits in the event that you become unemployed you won't be paid your money if the budget is unbalanced until three-fifths of the whole number of both Houses of Congress say that you will."

Proponents of the constitutional amendment may argue that Congress would surely avoid the cut-off of unemployment benefits by waiving the enforcement of the balanced budget requirement. In response, one only needs observe the close (and unsuccessful) margins by which Congress attempted to override President Bush's veto of attempts in the previous Congress to extend unemployment benefits beyond then-existing terms. The constitutional amendment would alter our present balance of power by instituting a tyranny of the minority whereby two-fifths of one House of Congress could block the delivery of benefits previously guaranteed by law.

In addition to posing a threat to the unemployment benefits of individuals, the Balanced Budget Constitutional Amendment will also threaten the fiscal health of states by increasing their already heavy burden in times of recession. Under present law, unemployment compensation benefits in the United States mix federal and state resources. Both state and federal payroll taxes go into trust funds to benefit potential beneficiaries. Under the current program, state payroll taxes pay for all regular state benefits. During periods of high unemployment in a state, extended benefits (financed one-half by state and one-half by federal payroll taxes) become effective. State unemployment trust funds receive repayable advances from the federal unemployment compensation trust fund if balances in the state funds become too low.

Under the proposed constitutional amendment, however, the present arrangement could be disrupted. If the federal budget were to fall out of balance, advances to the state funds might not be forthcoming. Thus, states as well as individuals would feel the pinch of the constitutional amendment. This situation would most likely occur during recessions, at just the time that federal resources are most needed in order to cushion the blow of an economic downturn.

As a final irony among the list of injustices wrought by the amendment: its operation could cut off unemployment benefits even though there were sufficient balances in the trust fund to pay them in their entirety. Given the "cash and carry" structure of the proposed constitutional amendment, funds to individuals and state unemployment compensation trust funds would be halted if **total** federal outlays exceed **total** federal receipts, even though the federal trust fund might be in surplus.

Many economists and politicians point to the need to reduce current deficit levels. Few, however, contend that the federal government should fail to honor its commitments to the unemployed and others to which it has pledged its support in public law. Unfortunately, the Balanced Budget Constitutional Amendment would have just this effect. For these reasons, and for others, it should be rejected.

file balanced budget

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 13, 1995

PRESS BRIEFING
BY
CHIEF OF STAFF LEON PANETTA,
CHAIRMAN OF NATIONAL ECONOMIC COUNCIL DR. LAURA TYSON,
OMB DIRECTOR ALICE RIVLIN,
SECRETARY OF TREASURY BOB RUBIN

The Briefing Room

6:50 P.M. EDT

MR. PANETTA: What I'd like to do is to give you a broad summary of the approach that the President is going to be announcing tonight in terms of the balanced budget. And then I'll have Alice Rivlin, the OMB Director, present the specific numbers with regards to each of the areas that I touch on. Then I'd like Laura Tyson to talk about the economics of the 10-year plan that the President will be presenting, and then have Secretary Bob Rubin speak to the larger issues of the importance of doing this particularly as we approach Halifax.

Tonight the President will present to the nation his economic plan for balancing the budget. Unlike the plans that we've seen so far in the Congress, this plan is intended to put people first.

It builds on the economic plan that the President proposed in 1993. It's a plan that, obviously, is already reducing budget deficits over a period of seven years by a trillion dollars, while it increases our investments in education, in training, and other key areas. That's a fundamental.

The fundamental goals of the President and the consistent goals of the President have been that we ought to achieve deficit reduction, but we ought to do it in a way that maintains our key investments to people in terms of improving their incomes and maintaining the American Dream for our children.

The plan that the President will be announcing tonight takes his '93 even further, balancing the budget by 2005, while, again, as I said, maintaining his key investments. It takes the first serious steps towards health care reform while strengthening the Medicare trust fund and protecting beneficiaries. And it targets tax cuts in -- his tax cut proposal that was presented earlier this year, it is included in the budget and targets those tax cuts only to working families.

There is no area of the budget other than Social Security that is immune from savings and from cuts.

There are three fundamental differences that the President addresses in his budget that he is presenting tonight. And those differences represent the concerns that we have about the resolutions, the budget resolutions that are currently being dealt with by the Congress -- resolutions that have passed the House, passed the Senate and are now in conference.

MORE

The first major difference is in health care. There are obviously concerns that the President and all of us have indicated in the administration with regards to the deep cuts in Medicare and Medicaid, particularly without taking any steps with regards to reform of the health care system. So the result has been that we would essentially be putting anywhere from $1,500 to $2,000 in annual costs for the average elderly couple as a result of the proposals that are up there. Our concern is that this essentially turns Medicare into a second-class health care system, all of this being done largely for the purpose of providing the tax cut that was included particularly on the House side of the budget.

The President will propose about half the level of Medicare savings, and about one-third the level of Medicaid savings that are included in the plans, the budgets that are on Capitol Hill. For Medicare beneficiaries, there will be no benefit cuts; we protect Medicare beneficiaries. Medicaid coverage would be protected with a per-person cap.

Savings in these programs would be achieved in the context of taking the first serious steps towards health care reform. These reforms will include expanded coverage, especially for small business employers and employees. They will include coverage for six-month coverage for the unemployed and for those with preexisting conditions.

Help will be provided in curtailing costs in the health care area. We will establish important new Medicare benefits, and we will protect choice of physicians that is so important to that whole health care side of the budget.

Second difference is in the area of education and training. And, really, this gets down to what budgets are all about. Budgets are not just about numbers, as I've said time and time again; they're about people and they're about investments, and they're about our future. We should not balance the budget to hurt people or simply to make two numbers match. The reason the President wants to balance the budget is to essentially increase private investment and ultimately raise the living standards for all families in this country.

Nothing is more critical, obviously, to increasing living standards and improving the future of our children than education and training. And so the President believes it is absolutely essential as we balance the budget to maintain our investments in education and training so that we, in fact, continue the investment that he thinks is so important to the future. The budgets on Capitol Hill cut education by about $50 billion in real terms in seven years. We essentially provide for inflation increases for education in our budget and training.

The third significant difference is the President's tax cut which, as I said, is targeted to working families to invest in their future. You know the various ingredients that we have in our tax cut proposal. I won't repeat those, but the essence of it is that we want to target a smaller tax cut to working families, particularly to assist in education. And that's maintained in this budget. As I said, Alice will describe the particulars.

The plan essentially achieves its savings in the following areas: Savings in the domestic discretionary area are achieved while we maintain our investments. We are probably looking at somewhere between a 20 to 30 percent cut in what I would call the noninvestment, noninitiative areas of the budget over that period of 10 years. We do maintain the priorities that we put into the '96 budget; those are largely maintained. But that means that we do, in fact, then cut other programs that are nonpriority programs, and that represents part of the savings.

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Medicare and Medicaid savings represent another part of the savings that are achieved here -- as I said, one-half of the number on the Hill. Welfare reform, we achieve about -- it's one-third of the number that we have now that Capitol Hill has put into their welfare reform package. We are about a third of the savings. And that represents compliance with the proposals that the Democrats have introduced on welfare reform. So we achieve additional savings, as I said, in that area as well.

Corporate contribution is made of $25 billion, which is the number was in the Kasich budget. We basically are taking that number and are urging that we engage in a bipartisan effort to include the closure of corporate loopholes and special interest tax breaks, the unwarranted corporate subsidies that are part of that area. We think we can come up with $25 billion to be able to represent those savings.

The extension from seven to 10 years gives us additional savings in terms of our ability to modify the cuts that are part of the budget. And then, obviously, the reduced tax cut also helps us as well.

Let me just say a word about why now, because, obviously, there are many that are saying why should the President confront this issue now. The reasons the President feels that it's important to engage now are really for three reasons. Number one, the concern is that if they, in fact, locked up the budget resolution that will lock up the numbers that are part of the appropriations process, as well as the reconciliation process. And while we can engage -- we've been urged to engage at the point of reconciliation or at the point of the appropriations process -- the problem is once those numbers are locked up in a final budget resolution, pursuant to the rules of both the House and the Senate, it is near impossible to break those rules in order to be able to engage on our priorities.

So the President felt that rather than wait until they lock up those numbers in their budget resolution it was much more important to present it now, and, hopefully, the conferees will take that into consideration in terms of their final budget proposal and meet the priorities that he's included in his budget.

Secondly, we're late in the budget game, as many of you know. We're talking about a budget resolution that has not been completed yet. It's almost two months past due in terms of the legal date when they should have completed a budget resolution on April 15th. What that raises is, obviously, the prospect that if they don't conclude this budget resolution soon that we will, in fact, be backing up on appropriations bills.

They're now talking about not doing reconciliation until September, and the Speaker himself has talked about the possibility of setting up a train wreck that would bring us to October 1st with the real prospect of shutting the government down and not passing a debt ceiling increase, which the President believes would be devastating to the economy. We are not in the situation where we can afford to bring down the government, to shut it down, to prevent checks from reaching people, and to prevent the kind of borrowing that needs to be done as a consequence of lifting the debt ceiling. So, for all of those reasons, the President feels that it is extremely important that we make every effort now to resolve this budget issue, not wait to hit the wall in October, but to try to resolve it now before we reach that point.

The third reason for doing this is that the President is going to Halifax; he's meeting with the other G-7 leaders. It's extremely important that we make clear to these leaders that we are working to resolve the budget issue, that we're working to balance the budget, and that we are engaged, hopefully, in a bipartisan process to be able to set a course for this country in the future that makes sense not only in terms of our fiscal discipline, but makes sense in terms of the priorities that are important to our people.

The announcement that the President is making tonight is an act of optimism. It's an act of cooperation and leadership. He believes that this is the best way to achieve the outcome that he desires, and he believes that it is the outcome that the American people desire. A Congress and a President working together to resolve their differences in order to achieve a balanced budget really does put people first.

Alice?

MS. RIVLIN: Thank you.

This is a bold plan to balance the budget over 10 years. It's also a sensible moderate plan that the President believes will brighten the economic future for average Americans. As Leon has said, a budget is not just dry numbers. It embodies choices in priorities, and the President has made different choices and has different priorities from the congressional Republicans. They want to get to balance by 2002. He wants to reach balanced more gradually by 2005. They want to finance a huge tax cut that benefits high-income people. He wants a more moderate tax cut that will make it easier for average people to raise their kids, pay for education, save for the future.

Now, the combination of those two choices -- the faster track to balance that the Republicans want and the bigger tax cut that they want to finance -- forces them to slash Medicare and Medicaid without any semblance of health care reform. It also forces them to cut deeply into all programs, including education and training and other investments that raise incomes in the future. We think that's just self-defeating.

The President's plan, by contrast, protects education and training particularly, but also investments in science and technology -- things that grow the economy in the future. And it proposes health care reform with less drastic cuts in Medicare and Medicaid, plus expansions of coverage and benefits.

Now, how do we get the arithmetic to add up? How do we get to balance? What we're proposing here is the equivalent of a seven-year budget resolution which can be compared to the House and Senate resolutions. We're not going to give you all the gory details of a complete budget here, and I think for comparison's sake, it may be most useful to look at the seven-year numbers. We balanced over 10 years. They balance over seven years. So we don't get to balance in the seven years, but the comparisons are most usefully made that way.

You have, in the smaller handout, a set of three tables, the last of which is a comparison table that shows a side-by-side of the President's plan with the House and the Senate.

Now, how do we get there? First, we're proposing to cut about $200 billion from non-defense discretionary programs while providing inside that number for the highest priority investments. We actually allow education and training as a whole to continue growing with full compensation for inflation. And we have increases in science and technology, the environment, violent crime control and defense.

Most of the cuts that are in the non-defense discretionary were already made in our 1996 budget; we are not adding very much, net, to the cuts over the seven-year period, although we extend those cuts beyond that.

Second, we take a serious step towards health care reform, and we save about $125 billion in Medicare and Medicaid, net, of the amount we are spending to expand coverage.

Q Is that over seven years?

DIRECTOR RIVLIN: That's seven. We can give you 10-year numbers, too, but those are the seven-year numbers. Our cuts in Medicare are about half of what the Republicans' are, and for Medicaid they're only about a third. On a seven-year basis, the congressional plan -- so they differ somewhat -- cut more than $400 billion from Medicare and Medicaid without any reform.

The health care reform is a serious new proposal. The Clinton administration is back to health care reform. We started it, we're back to it. And there will be a more extensive briefing, especially for those of you who are health care aficionados and for the health trade press tomorrow that Donna Shalala will give.

But briefly, there are reforms in the insurance market that we are proposing so that Americans can keep their coverage when they get sick. There are reforms to allow small businesses access to affordable group purchasing options. We have a new program of subsidies for unemployed people to allow them to keep their insurance. We expand the self-employed tax deduction. We eliminate the co-payment on mammograms under Medicare. And we have a grant program to expand long-term care and a new respite program for Alzheimer's Disease.

The Medicare programs proposals save $99 billion over seven years, excluding the extenders that are already in our budget, and they ensure the solvency of the trust fund, the Medicare trust fund through 2005. In Medicaid, we have savings, but we believe that there will be no cutbacks in coverage in Medicaid.

We save $67 billion in non-health entitlements in reforms in welfare, in farm programs. The welfare proposals move people from welfare to work. The savings are primarily in changing the rules for immigrants and the benefits that they can collect, but we do this in a much less drastic way than the Republicans do. We also propose a $25 billion package of corporate subsidies that we will work out with the Congress to reduce.

And finally, as you know, we target tax relief to middle-income families and we lose much less revenue in doing that than the Republican plans do.

Q How much is the tax relief?

DIRECTOR RIVLIN: It's the same as -- well, the 63 was a five-year number. Our total revenue number here is 96. That includes the tax relief and a few other things.

Q Is that seven years?

DIRECTOR RIVLIN: The table I'm waiting for is a seven-year number.

Q -- ten-year total on the revenue?

DIRECTOR RIVLIN: We'll do that in a minute. Why don't we let Laura proceed now. We'll find it.

DR. TYSON: Well, I just want to make a couple of comments about why this plan is good for the economy. First of all, just to go back to the logic of deficit reduction or balancing the budget and economic growth, the primary reason for balancing the budget from an economic point of view is to increase national savings; that, in turn, increasing national investment in physical, human and technological capital; that, in turn, increasing productivity growth and growth in incomes for all Americans.

Balancing the budget is not an economic end in itself. It's a means to the end of greater investment and higher living standards. This logic, the logic that it's a means to an end, not an end to itself, has two important corollaries: first, to evaluate the economic benefits of balancing the budget, it's important to know what programs are being cut and by how much. The composition of the cuts, in addition to the magnitude of the cuts, matters to economic well-being, squeezing worthwhile national investments in education and training, in science and technology as the Republican plans proscribe is the wrong way to balance the budget from the economy's point of view.

Our proposal safeguards and preserves these investments in our nation's future productivity. That's the right way to balance the budget, from an economic point of view.

A second corollary of thinking about balancing the budget as a means to an end focuses on the reality that balancing the budget makes room for additional private savings and investment. But in the short run, cutting government spending to balance the budget has a direct contractionary effect on aggregate spending and, hence, has a direct contractionary effect on the economy's growth rate. This is a basic tenant of economic models; it is built into all the models that are used to analyze the effect of balancing the budget on the economy, that in the short run the direct effect is contractionary.

So the policy challenge is to balance the budget on a gradual but credible path that will allow interest rates to decline sufficiently fast and sufficiently far enough to offset the direct contractionary effects of balancing the budget. And I want to point out, even the most carefully designed path will always carry some contractionary risk because both the size and timing of interest rate changes and their effects on private economic activity are difficult to predict with precision. So balancing the budget always involves some risk to the economy in the short run.

The benefits, however, are clearly there and they are long-run benefits. Now, one way to reduce the risk is to extend the period for achieving balance, to spread the cuts in government spending out over a longer period of time to reduce the size of the cuts in any given year, to give financial markets more time to adjust interest rates along the way, and to give the private sector more time to adjust its behavior to a steady series of cuts in government spending.

Moderating these contractionary risks from debt reduction is one policy reason why the administration has proposed a 10-year plan for bringing the budget to balance, rather than a seven-year plan as the Republicans have proposed; that's one policy reason for the longer period of time.

Another important policy reason is that a longer path to balance allows us to avoid deep and more punitive cuts in government programs, particularly those that serve education and training, serve children, serve working families, serve the elderly.

So in point of fact, we looked at policy reasons and we got a date for a path out of our policy analysis. We did not allow an arbitrary date to drive our policy; rather, we looked at the tradeoff, we looked at risk to the economy, we looked at programs we wanted to maintain and preserve, we looked at the pace of cuts that we thought were sustainable over time, and we came up with a 10-year plan which we believe will give us all of the benefits of deficit reduction in the long run for ourselves and our children, while moderating the short-run transition risks from balancing the budget.

Thanks.

SECRETARY RUBIN: Let me start by identifying with something that Laura just said, and then I'll make a comment or two as we go into Halifax -- and that is that I believe what Laura said is exactly right. What this process was -- and all of us sat with the President for many weeks as he went through it -- was to make judgments about tradeoffs as to what would best increase jobs, best increase standard of living in this country over the long-term. When you take that approach and you put a heavy weighting on deficit reduction, you then came out to the 10-year path, in contrast with starting with an arbitrary date, which led you to arbitrary cuts without regard to policy effects.

When we went to Tokyo in 1993, President Clinton was the first President in a long time that could deal with other countries from the moral high ground of having dealt with what we were told was our primary economic problem and a problem that had not been faced in a long time, and that was the deficit. And if you were there -- and probably some of you were there -- you know what difference it made in terms of the President being able to talk to other countries about the kinds of things we thought they should be focusing on.

When I speak to finance ministers -- and I do it a fair bit -- from the G-7, what you hear about consistently, whatever it is that I might want to discuss, is, why aren't you all dealing with your deficit? We have dealt with our deficit, and dealt with it very powerfully, starting in 1993. But this is a major step forward, and I think without question it puts the President again in exactly the same position that he put himself in in 1993 with the powerful deficit reduction then.

He is once again dealing with what the world thinks is our primary economic problem. There are a lot of very important issues to deal with in Halifax, issues that will affect us critically as we go forward. I think the President once again is exerting leadership and putting himself in a leadership position to deal with the other nations in the G-7.

Q Can we get the 10-year effect of the tax cut?

DIRECTOR RIVLIN: Jack, do you have that? Bob Rubin said $170 billion. Let's see how close he is -- $176 billion. That's the 10-year number. The House tax cut over that -- pretty good -- the House over the same period is $630 billion.

Q What assumptions are made about interest rates to get the 10-year interest savings which I added up as $477 billion? I don't know if it's the right number.

DIRECTOR RIVLIN: We have two kinds of interest savings. We have the usual kind that when you reduce the deficit, you have less debt and so you get interest savings. Then we also did what both the plans on the Hill have done; namely, assume that a lower deficit will bring down the interest rates themselves. The assumption in the Senate was 170 over seven. We have 110 over seven because, clearly, we're bringing down the deficit more slowly.

Q What's the ten-year figure on that?

Q On Medicare, Medicaid, as a policy matter, what keeps the cutbacks that you're willing to accept linked to the reforms that you want to make? And as a matter of politics, why shouldn't Republicans simply take your cuts and run?

MR. PANETTA: The fact is they're asking for a hell of a lot more cuts, and I think -- we would be pleased if they would take our recommended cuts, take our policies, take our overall number and that would resolve the issue. But I think the concern that somehow the Republicans are going to take this number and run is not there because they're asking for so much more in terms of reductions in Medicare and Medicaid. We don't know the specifics, obviously. We don't really have a clear plan either from the Senate or the House as to how they achieve those savings. We will, obviously, be happy to present more specifics about how we get to our number.

Q Mr. Panetta, you said that you wanted to effect a budget resolution. Since the President can't veto the budget resolution, what possible reason would there be for the Republicans to adjust the budget resolution to match this?

MR. PANETTA: Look, I think it comes down to this -- it's really a question of whether or not the Republicans want to engage in gridlock, whether they want to engage in just partisanship here, or whether they're really serious about trying to resolve the budget issues for the future. That's what it comes down to.

Now, if they simply march forward and say, okay, it's fine that the President's presented his 10-year plan, but we're going to march forward with our proposal. Then the President is not going to accept their priorities. He's made that clear. We have real differences with regards to where their budget's going. And very frankly, I think when people look at these issues, there is a consensus here that we can achieve a balanced budget over a more rational period of time, that 10 years represents that kind of period. I really think that there is a consensus out there that we ought to reach for, both Republicans and Democrats.

Secondly, you've got to have some investments in a budget. It can't all be about cut and slash. You've got to have some investments in people.

Thirdly, on Medicare and Medicaid, you're not going to get the cuts that they're talking about in Medicare and Medicaid. It has to include reforms in the health care system.

And lastly on their tax cut, make no mistake about it, they will not get the tax cut that they're talking about, certainly on the House side, and the numbers that they're -- or the targeting that they're looking at in terms of the tax cut. That is not going to happen.

Now, the President is basically saying, let's recognize this. Let's recognize this, and let's try to work together to resolve it now. Admittedly, he doesn't have a veto on their budget resolution, but I can assure you he's got a veto on everything else that follows.

Q Well, to follow up on that, then, if that's the case, what in here is non-negotiable from your point of view?

MR. PANETTA: Look, the President has laid down a proposal now to achieve a balanced budget in 10 years. I think that's a significant step for the President. We're saying, look, we're willing to move towards a fixed date in terms of achieving a balanced budget. We want to do it on the basis of meeting the concerns he has about the priorities in the country.

Now, is there some give-and-take here as we go through this process? Sure there's a little give-and-take. But the reality is that we are not going to accept a budget that doesn't maintain our investment in education. We are not going to accept a budget that doesn't include reforms and reduces the hit on beneficiaries with regards to Medicare. And we're not going to accept their tax cut. If they want to talk, if they want to sit down and talk on that basis, fine. If they want to fight, then we, frankly, are reaching a point where we could jeopardize the economy.

So, in the spirit of what happened Sunday, why don't the Republicans and the Democrats try to work together on a budget rather than just try to establish partisan posturing?

Q The health care initiative, how will that go up to the Hill? Some of these things are really new legislation as opposed to budget issues.

DIRECTOR RIVLIN: We've said from the beginning that we want to work with the Congress on health care reform, and we do. We do not have these proposals now in legislative form. Our hope is that they will start a dialogue with the Congress, and that they can come into legislation fairly quickly.

Q How much do the new programs or the expansion in benefits as well as the 50-percent deduction for self-employed cost? All these new health reforms actually cost the government money. How much is that total? Because I did the math but I don't know if I'm right -- $56 billion?

DIRECTOR RIVLIN: I don't know what -- we'll get you that number. It depends on what time period --

Q You mentioned differences, obviously wide differences with Republicans on priorities. But you're also making, with tonight's statement, creating some differences with Democrats. Aren't you concerned that you're going to attacked by Democrats for Medicare cuts and things like that, that you're opening a wedge within your own party with this?

MR. PANETTA: The President in making this proposal recognizes that there are going to be Democrats that don't like his moving forward and presenting a balanced budget approach. There are going to be Republicans that don't like it. But his message is to the American people, and it's the importance of trying to resolve this issue for the sake of the country. I think, speaking specifically to my Democratic colleagues, I would ask them to keep their powder dry and look at the priorities in this budget before they jump, because the reality is that these priorities do reflect what the President has been talking about for years and were included in his budget; reflects the important priorities that he cares about for the American people; and I think reflects the priorities that Democrats have cared about in terms of budgets.

So I would just urge them, keep your powder dry. And I would say the same thing to the Republicans -- keep your powder dry before you jump away from it. At least do us the decency of looking at the substance of what we're presenting here. This is a bold move by the President. I would just ask that everybody take a look at the facts and, ultimately, let's try to work together to try to resolve this.

Q Does this reflect a judgment on your part that the Republicans are now not going to fail to come to an agreement on their own budget resolution? There had been talk around the White House earlier that you'd come forward with a budget at such time as they fail to come forward with one. Now you're coming forward with one. Does that mean that you don't think they'll fail?

MR. PANETTA: The President made the judgment that it was important to present this now so that the conferees would, in the very least, consider what he feels is a way to resolve this budget issue; that once they locked up their budget -- I mean, contrary to the kind of -- the run-of-the-mill discussion was, let them lock up their budget resolution and then we'll engage on reconciliation and then we'll engage on appropriations. The concern is that once they lock up their numbers, the rules in the House and the Senate prevent you from actually trying to establish different priorities at that point. You're basically cut out. And then you are facing the prospect of hitting the wall on October 1st, because the President is not going to accept the priorities that they have in that resolution.

So the President felt it was important to engage now, not wait until later, so that we could really have the conferees look at his proposal and hopefully include that proposal in their final resolution.

Q You call on them to recognize some of your priorities. Are you in turn recognizing any of their priorities, aside from the fact that you both have boxes labeled deficit reduction, Medicare savings, welfare reform, et cetera?

MR. PANETTA: I think what we're recognizing is the reality that we're moving towards a fixed date on balancing the budget, and that a lot of the savings, both in discretionary as well as on health care, we're going to have to include some of those as we arrive at a balanced budget.

Q Mrs. Rivlin, if you could just clear up this question about health care reform. It looks like your health care reform actually costs money -- $125 billion in seven years. Last year we were told that health care reform would save money.

DIRECTOR RIVLIN: Oh, no, this saves money. I was asked earlier what are the seven-year costs of the expansions. The answer to that is $29 billion. But net of that we have $125 billion savings to the deficit over seven years. That's a net --

Q From the reforms.

DIRECTOR RIVLIN: Yes. Well, from the whole health care package.

Q I'm talking about the Alzheimer's, the grants for --

DIRECTOR RIVLIN: Oh, those cost money. They don't all cost money --

Q That's what I'm talking about.

DIRECTOR RIVLIN: No, the reforms cost money. They don't all cost money. Some of them are insurance reforms, for example, that don't cost the federal budget anything, but will make it better for people who have health insurance. But the ones that are expansions of coverage do cost money, and they cost $29 billion over seven years.

MR. MCCURRY: Okay, thank you.

THE PRESS: Thank you.

END 7:25 P.M. EDT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 13, 1995

ADDRESS OF THE PRESIDENT
TO THE NATION

The Oval Office

9:00 P.M. EDT

THE PRESIDENT: Good evening. Tonight I present to the American people a plan for a balanced federal budget. My plan cuts spending by $1.1 trillion. It does not raise taxes. It won't be easy, but elected leaders of both parties agree with me that we must do this, and we will.

We're at the edge of a new century, living in a period of rapid and profound change. And we must do everything in our power to help our people build good and decent lives for themselves and their children.

These days working people can't keep up. No matter how hard they work -- one, two, even three jobs -- without the education to get good jobs, they can't make it in today's America. I don't want my daughter's generation to be the first generation of Americans to do worse than their parents. Now, balancing our budget can help to change that, if we do it in a way that reflects our values and what we care about the most -- our children, our families and what we leave to generations to come.

That's why my budget had five fundamental priorities. First, because our most important mission is to help people make the most of their own lives, don't cut education.

Second, balance the budget by controlling health care costs, strengthening Medicare and saving Medicaid, not by slashing health services for the elderly.

Third, cut taxes for the middle class and not the wealthy. We shouldn't cut education or Medicare just to make room for a tax cut for people who don't really need it.

Fourth, cut welfare, but save enough to protect children, and move able-bodied people from welfare to work.

Fifth, don't put the brakes on so fast that we risk our economic prosperity.

This can be a turning point for us. For 12 years our government -- Congress and the White House -- ducked the deficit and pretended we could get something for nothing. In my first two years as President we turned this around and cut the deficit by one-third. Now, let's eliminate it.

It's time to clean up this mess. Here's how: First, I propose to cut spending in discretionary areas other than defense by an average of 20 percent, except education. I want to increase education, not cut it. We'll continue to cut waste. Under Vice President Gore's leadership, we're already cutting hundreds of programs and thousands of regulations and 270,000 federal positions. We'll still be able to protect the environment and invest in technology and medical research for things like breast cancer and

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AIDS. But make no mistake, in other areas there will be big cuts, and they'll hurt.

Second, we should limit tax cuts to middle-income people, not upper-income people, and target the tax cuts to help Americans pay for college -- like we did with the G.I. Bill after World War II. Let's help a whole new generation of Americans go to college. That's the way to make more Americans upper-income people in the future.

Third, don't cut Medicare services to the elderly. Instead of cutting benefits, maintain them by lowering costs. Crack down on fraud and abuse, provide more home care, incentives for managed care, respite benefits for families of Alzheimer's patients, and free mammograms. For all Americans, I propose the freedom to take your insurance with you when you change jobs; to keep it longer after you lose a job; insurance coverage, even if there are preexisting conditions in your family; and lower-cost insurance for groups of self-employed and small business people. If we don't have tax cuts for upper-income people, as congressional leaders have proposed, we won't need to make harsh cuts in health care or in education.

Finally, balance the budget in 10 years. It took decades to run up this deficit; it's going to take a decade to wipe it out. Now, mind you, we could do it in seven years, as congressional leaders propose. But the pain we'd inflict on our elderly, our students and our economy just isn't worth it. My plan will cut the deficit year after year. It will balance the budget without hurting our future.

This budget proposal is very different from the two passed by the House and the Senate, and there are fundamental differences between Democrats and Republicans about how to balance the budget. But this debate must go beyond partisanship. It must be about what's good for America, and which approach is more likely to bring prosperity and security to our people over the long run. We ought to approach it in the same spirit of openness and civility which we felt when the Speaker and I talked in New Hampshire last Sunday.

There are those who have suggested that it might actually benefit one side or the other politically if we had gridlock and ended this fiscal year without a budget. But that would be bad for our country, and we have to do everything we can to avoid it. If we'll just do what's best for our children, our future and our nation, and forget about who gets the political advantage, we won't go wrong.

Good night. Let's get to work.

END 9:05 P.M. EDT