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where should
these things
be filed?.

passionist
lay
missioners

Eli Segal
Special Assistant to the President
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500
February 12, 1993

Dear Mr. Segal,

I thank you for the Clinton administration's challenge to voluntary service. As Executive Director of a volunteer program that allows men and women to experience direct service to those most in need through working in grass-roots social service agencies, we are indeed carrying out your mandate to service. I work with a not-for-profit program called the Passionist Lay Missioners. Our mission is to enable volunteers to work with and provide presence and hope to those who are suffering or poor. We do this by engaging in work which alleviates suffering and addresses the structures that oppress people, by reflecting on how the contemporary human struggle embodies the Passion of Jesus, and by living simple, communal life which enables us to carry out our mission.

Because we already provide the opportunity for such service, I believe this administration needs to do all it can to provide incentives to encourage men and women to consider service opportunities in programs such as the Passionist Lay Missioners. Any incentives offered by this administration should include loan deferment/cancellation, vouchers, stipends, etc. for volunteers who work through tax-exempt organizations affiliated with religious institutions as long as their service honors the Church-State limitations found in the Higher Education Act and the National Community Service Act. We are already carrying out your mandate of voluntary service. Do not exclude us!

Though the Higher Education Act of 1980 and the National Community Service Act included provisions for deferment for volunteers in not-for-profit organizations such as ours, this must be kept in effect! I am asking for an extension of this well established concept. The same should apply to any grants to an organization like ours that sponsors volunteers.

The Passionist Lay Missioners is an active member in the International Liaison of Lay Volunteers in Mission (ILLVIM), an organization that provides support and networking for volunteer programs. ILLVIM has been in contact with you on these matters as well.

Sincerely,

Anne T. Avellone

Anne T. Avellone
Executive Director

5700 North Harlem Ave. • Chicago, IL 60631 • 312-631-6336

14 Timothy Lane
East Brunswick New Jersey 08816

February 11,1993

Eli Segal
Assistant to the President
White House
Washington D.C. 20500

Dear Eli,

Congratulations on your appointment as Assistant to the President. By chance, I had seen your acceptance speech on C-Span. As I too have hit the big five-O, my thoughts sometimes filter back beyond Brandeis to a four story school on East 8th Street and I am astounded at the changes since that time. A few weekends ago, my wife and I had dinner in SoHo with Danny Gold and Allen Bender and their wives. Your name popped up and we reminised about the past.

While I have not read any specifics regarding a National Service Corps, the concept of public service as a means for students to repay educational debt is a terrific one. In addition to teaching children, training adults so they can obtain jobs, graduates can assist with the special needs of the elderly, which are generally overlooked.

I am somewhat sensitive to college costs since my kids are two years apart and both will be in college next year (awful planning). My daughter is currently a sophmore at the University of Michigan and my son is a high school senior. Although he has been accepted to Michigan, we don't know as of yet which school he will attend. I find myself wondering where the money is going to come from to pay for two children, as I am not optimistic on obtaining financial assistance. I am a charter member of the not rich enough not poor enough group.

The financial aid form in use is known as FAFSA. Many schools such as Michigan just use this form. (Other schools such as the Ivys also use the FAF plus their own forms).The FAFSA only asks if anyone else in the family attends college, but does not inquire as to which college and the costs associated with it. The Michigan financial office has indicated to me that a set formula is used and on my son's application, it makes no difference whether I am spending $2000 or $22000 to send my daughter to Michigan. The FAFSA used alone is senseless.

Washington is a great area in which to live. I had graduated from George Washington Law School and worked there for a while. My wife Gloria was raised in Washington and Silver Spring Md. and her family is still there.

I want to wish you great success.

Best regards,

Michael

Michael Meyer

Michael S. Meyer
Vice President

CHEMICALBANK

Chemical Bank New Jersey NA
Two Tower Center
P.O. Box 1090
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908 220-3176

February 12, 1993

Mr. Eli Segal
Special Assistant to the President
The White House
Washington, D.C. 20500

Dear Mr. Segal,

I was deeply moved by the words of President Clinton in his inauguration address and the challenge he gave to the citizens of our country to service for the betterment of our society.

I am writing to encourage and support his initiative for a national service plan. I would ask that you extend any incentives that may be offered (vouchers, stipends, loan cancellations) to members of volunteer corps affliliated with non-profit, tax-exempt organizations. The Higher Education Act and the National Community Service Act already include provisions on deferment for our group, Catholic Charities Volunteer Corps.

The members of our Volunteer Corps give one or more years of their lives in service to those most in need in the Twin Cities through a great variety of social service programs. These volunteers are a fine example of what you are talking about.

I, myself, spent two years as a volunteer working in the inner city of Chicago, Illinois. I was a member of Claretian Lay Volunteers, an non-profit organization that offered me a learning experience and a way to gain practical and insightful experience into life. I have direcrted also Claretian Volunteers and helped Catholic Charities begin their program. This is a viable service and a way for all citizens to give of themselves for their sisters and brothers.

Please keep Catholic Charities and all non-profit organizations in mind as the details of a national service program are worked through. We would be more than happy to share what a good experience the Volunteer Corps has been for Catholic Charities and I'd be more than willing to share my own personal experience as a full-time volunteer right out of college and how it helped define my way of life. Keep up the good work and know of my support for the work you are doing.!

Sincerely,

Kevin T. Kenney

Kevin T. Kenney
2260 Summit Avenue
St. Paul, Minnesota 55105
(612) 962-8983

Leesburg, Virginia
February 9, 1993

Mr. Eli Segal
National Service Director
Executive Office Building
1400 Pennsylvania Avenue N.W.
Washington, D.C.

Dear Eli,

Roger and I were sorry to miss talking to you at the Duffey reunion party for we have followed your career with great interest and think that you have the most interesting job in the new administration.

I am moved to write because of the article in yesterday's Washington Post which refers to your possible use of ACTION as a vehicle for National Service volunteers. I would like to suggest that you also investigate the possibility of using the 4H program.

It has been some time since I have been actively involved in 4H but in its best days, it and its parent the Extension Service, were in my opinion, the most effective and efficiently run of all government programs. The program began to weaken in the seventies and has deteriorated more precipitously in the last twelve years. Nonetheless there are a number of reasons that you may want to consider it.

The structure is in place.
There is an Extension office in almost every county in the country. Many have a 4H agent who could serve as trainer and supervisor.

The primary programs are directed toward children aged ten to sixteen.
Although there is justified concern for the pre-school child from impoverished homes, it is in the middle school/junior high years that we are losing our most promising youth across the whole social and economic spectrum. 4H offers projects, competition, training, travel, and service opportunities which keep this age group interested and involved.

Broad support is already built in.

4H succeeded because it was a collaboration of federal, state and local governments; corporate philanthropy and individual volunteers. Since the program remained strong in many states through the seventies, there is a reservoir of 4H'ers as young as 30 through the most senior citizens. Many of the great agents are retired but still willing to be active.

Volunteers would make an immediate impact with a minimum of training

4H worked because the agents worked directly with members and clubs. The program began to go down hill when there were not enough agents available. Those in place were encouraged to get advanced degrees in order to become administrators who relied on volunteers, just at the time when traditional volunteers became scarce. National Service volunteers should be effective replacements for the original concept of agent.

4H really teaches service.

It sounds syrupy but the concept of service permeated the 4H program and survives to this day. The teaching of values was subtle but effective.

Sounds perfect doesn't it? Actually there are all kinds of barriers which have been erected in the last few years: "urban" efforts are add ons rather than integrated parts of the program; attempts to become more "relevant" were often misdirected; there is a lot of entrenched bureaucracy to overcome. Nonetheless I am convinced that it is worth your consideration.

Roger joins me in sending you best wishes for great success. If you ever want a country break, we have wide porches and comfortable rockers.

Very truly yours,

Ceci

Cecile D. Banner

Mrs. Roger H. Banner
Post Office Box 1936
Leesburg, Virginia
(703) 777-4927

MEMO The Heritage Foundation

To: Mr. Eli Segal, National Service

From: David M. Mason, Director of Executive Branch Liaison DM

Date: February 10, 1993

Subject: Urgent Domestic Policy Concerns

Taxing and spending more are not the answers to America's economic problems. As you put the finishing touches on the administration's spending and budget plans, please take a moment to review two Heritage Foundation publications:

The Impact Of Higher Taxes: More Spending, Economic Stagnation, Fewer Jobs, And Higher Deficits cites the record of tax increase failures. Office of Management and Budget figures show that, "in the last three years, spending has increased by $1.91 for every dollar of additional tax revenue." Rather than continuing of the path of more taxing and spending, Heritage's John M. Olin Fellow Dan Mitchell recommends that the government practice more fiscal responsibility and institute spending controls in order to increase incentive to work, save, and invest: "if the government had permitted spending to rise no faster than 2.0 percent annually, beginning in 1987, the budget would be in surplus to the tune of $17 billion this year."

In **Increased Government Spending: A Recipe For Economic Stagnation Not Stimulus**, Mitchell contends that the $15 billion proposed by the Clinton administration to jump-start the economy will have just the opposite effect. No matter how much government money is invested in public programs, it will cause the economy to falter.

I am certain you will find these memos useful as you and President Clinton face the enormous tasks before you. If you are interested in more information on these or other topics from The Heritage Foundation, please feel free to contact me at 546-4400.

RUSH!

Executive Memorandum

The Heritage Foundation

214 Massachusetts Avenue, N.E. Washington, D.C. 20002-4999 (202) 546-4400

2/9/93 Number 351

INCREASED GOVERNMENT SPENDING: A RECIPE FOR ECONOMIC STAGNATION, NOT STIMULUS

President Bill Clinton is considering proposals to increase government spending in an effort to stimulate the economy. The "stimulus" plan is said to include at least $15 billion of new spending, most of which would be designated for public works spending. But the most likely result of these higher federal outlays, regardless of how the money is spent, would be a drop in the economy's performance. Record increases in federal spending and budget deficits did not help the economy during the Bush Admininistration. There is no reason to think that expanding the size of government will work any better for President Clinton.

If higher federal spending and larger budget deficits could stimulate economic growth, the economy would be booming today. In the last four years, federal spending has increased by more than $340 billion. In this year alone, federal spending is expected to grow by more than $93 billion—not counting any spending which might be added by Clinton. The budget deficit, meanwhile, has jumped from $152.5 billion in fiscal year 1989 to a projected $327.3 billion for this fiscal year. Rather than grow, however, the economy in the last four years has experienced its weakest growth rate in more than fifty years. Nor has the increase in federal spending helped create jobs for American workers, the main goal of Clinton's planned stimulus package; unemployment climbed from 5.3 percent in 1989 to more than 7 percent today.

Outmoded Theory. The notion that higher federal spending generates economic growth is based on the Keynesian theory of economics, which was popular in the academic world prior to the 1980s. Under this theory, it is total private and government spending that determines the economy's performance, especially in the short term. If the economy slows, Keynesians believe that policy makers can restore growth by increasing the budget deficit and thereby boost total spending in the economy.

The Keynesian theory fell into disrepute in the 1970s when it became clear that high government spending and deficits were associated with slow economic growth and inflation—often called "stagflation"—and not with robust growth. Critics of the theory pointed out that, among other reasons, this was because Keynesians assumed that the money used for expanded deficit spending appears out of thin air. In the real world, however, every dollar of deficit spending requires the government to borrow one dollar from private credit markets. Rather than stimulate growth or increase total spending in the economy, deficits simply transfer resources from workers, consumers, and investors in the productive sector of the economy and put them under the control of politicians and bureaucrats. These officials tend to use the money less efficiently than the private sector would. The result: slower, not faster, economic growth and slower job creation.

If President Clinton approves $15 billion of additional deficit spending, this will simply crowd out $15 billion of private sector investment. The economy can benefit from this new federal spending only if government spends the money more wisely and efficiently than the private sector. World history suggests that is not very likely. Increased pork-barrel spending will please the interest groups on Capitol Hill, but it will not increase incentives to work, save, and invest.

Note: **Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.**

Rather than increasing deficit spending, lawmakers should be slashing federal spending, so more of the nation's pool of savings will be available for investment in the productive sector of the economy. Private sector borrowing—which is used for such things as research and development, business investment, auto loans, and home mortgages—increases the economy's capacity to produce goods and services. And private investment makes possible the productivity increases that lead to rising wages and higher living standards for all Americans.

The Infrastructure Hoax. Clinton claims that spending increases will have a particularly beneficial impact if the money is spent on infrastructure. According to this theory, the economy's performance depends to a significant extent on how much taxpayer money is spent on roads, bridges, mass transit, government-financed research and development, education, and other programs that special interests have re-classified as public "investment."

The evidence is very clear, however, that higher spending in these categories will not stimulate job creation and economic growth. The General Accounting Office, for instance, discovered that each job created by the "Emergency Jobs Act of 1983" cost the economy $175,000 in today's dollars. A 1979 study by the Office of Management and Budget found that infrastructure jobs cost between $136,000 and $384,000. Since an average of $40,000 is needed to create each private sector job, any government program that uses more than $40,000 to create a job will actually reduce the total number of jobs in the economy. Besides being a net job-destroyer, scholarly research has found, additional infrastructure spending does not increase private sector productivity.

A Real Growth Policy. In order to stimulate economic growth, the Clinton Administration should copy the successful policies of John F. Kennedy and Ronald Reagan. Both Kennedy and Reagan triggered record economic expansions by slashing tax rates and reducing the burden of government spending. Both Kennedy and Reagan also favored free trade policies, resisting the siren song of protectionism. The pro-growth Kennedy and Reagan policies worked. The unemployment rate during the Kennedy expansion fell from 6.7 percent in 1961 to 3.5 percent in 1969, while Reagan's policies caused the unemployment rate to fall from 7.6 percent in 1981 to 5.3 percent in 1989.

Businesses are not charities; they create jobs when they expect that the revenues generated by an additional worker will exceed the total cost of employing that new worker, including government-imposed costs such as taxes and mandated benefits. If Clinton increases taxes, spending, regulation, and federal mandates, some existing jobs will be destroyed and fewer new jobs will be created.

Four More Years? Like Presidents Herbert Hoover and Jimmy Carter, George Bush undermined economic growth by increasing the burden of government. Bush reversed President Reagan's successful policies, ending the longest peacetime economic expansion in American history. Ironically, Clinton's economic platform—more taxes, higher spending, and increased regulation—signifies four more years of the same failed policies.

With federal spending already expected to increase by nearly $100 billion this year, the $15 billion of additional spending likely to be proposed by President Clinton will compound the damage already caused by a growing government share of the nation's economic output. Higher spending may produce economic growth on the university blackboards of Clinton's economic advisors, but it does not do so in the real world.

Daniel J. Mitchell
John M. Olin Fellow

For further information:

Edward L. Hudgins, "Why Infrastructure Spending Won't Jump Start the Economy," Heritage Foundation *Memo to President-Elect Clinton* No. 9, January 15, 1993.

"Anti-Recessionary Job Creation: Lessons From the Emergency Jobs Act of 1983," Testimony of Lawrence H. Thompson, General Accounting Office, GAO/T-HRD-92-13, February 6, 1992.

"Highlights From Public Works As Countercyclical Assistance," Special Studies Division, Office of Management and Budget, November, 1979.

Douglas Holtz-Eakin, "Public-Sector Capital and the Productivity Puzzle" (Working Paper No. 4122, National Bureau of Economic Research, Inc., July 1992).

The Heritage Foundation Backgrounder

No. 925 The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202) 546-4400

The Thomas A. Roe Institute for Economic Policy Studies

February 10, 1993

THE IMPACT OF HIGHER TAXES: MORE SPENDING, ECONOMIC STAGNATION, FEWER JOBS, AND HIGHER DEFICITS

By Daniel J. Mitchell
John M. Olin Fellow

Many Washington lawmakers and interest groups are urging President Bill Clinton to impose higher taxes on the American economy. They say such taxes will reduce the deficit and provide funds for new programs. Unfortunately, the former Arkansas Governor seems to need little convincing. Although he already has broken several promises made during the presidential campaign, there is no indication that Clinton will backtrack on his promise to raise taxes by $150 billion over the next four years. Indeed, evidence is mounting that Clinton will propose even more taxes.[1] Moreover, after telling Americans to examine the fine print in his campaign statements, it appears the new President also will violate his promise to raise taxes only on those families with annual incomes of more than $200,000.[2]

Proponents of raising taxes argue that the federal budget cannot be balanced without a tax hike. They argue, too, that tax increases will make the tax code "fairer." Some even claim that tax increases will encourage economic growth by reducing the need for federal borrowing.

Raising taxes, however, would be a political and economic mistake, regardless of who pays and what taxes are increased. If history is any guide:

✗ **Higher taxes will fuel additional federal spending.** For every dollar of higher taxes since 1947, spending has increased by $1.59.

1 *White House Bulletin*, Alexandria, Virginia, January 25, 1993, p. 5.

2 "Clinton to Consider Consumption Tax," *The Washington Post*, January 25, 1993, p. A1.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

- ✘ **Higher taxes will hinder economic growth.** Large tax increases under Herbert Hoover, Jimmy Carter, and George Bush slowed the economy, while tax cuts under John F. Kennedy and Ronald Reagan led to record economic expansions.

- ✘ **Higher taxes will shrink the tax base and reduce tax revenues.** The record tax increase in 1990, for instance, was meant to bring in billions of dollars to the Treasury and spur growth. Instead, the increase in the tax burden helped throw the economy into a recession and lost $3.25 of tax revenue for every dollar it was supposed to raise.

- ✘ **Higher taxes will result in larger federal budget deficits.** Taxes were raised in 1982, 1984, 1987, and 1990. In each case, proponents of the hike claimed that the deficit would decline. But in each case, the deficit rose the following year.

Advocates of higher taxes have resorted to promoting general myths in an effort to derail opposition. Among the dishonest statements now being used:

Myth #1: The 1981 tax cuts caused the deficit.
Reality: Tax revenues this year are $630 billion higher than they were in 1980, an increase of 26 percent *after* adjusting for inflation.

Myth #2: The federal government is suffering a revenue shortfall.
Reality: Federal tax revenues are expected to increase by an average of $67.8 billion each year between 1993 and 1998.

Myth #3: The rich are not paying their "fair share."
Reality: The wealthiest 10 percent of taxpayers are paying a larger share of the income tax burden today than they were in 1980.

Myth #4: The rich got richer and the poor got poorer during the 1980s.
Reality: All income groups enjoyed higher real earnings during the Reagan years.

The only beneficiaries of tax increases are those who gain from the new programs that taxes finance. By contrast, typical American families suffer when higher taxes consume a larger percentage of their income. American workers suffer when tax increases reduce employment opportunities and upward mobility. American businesses suffer when tax hikes make new investment unprofitable and hinder their international competitiveness.

If policy makers are concerned about economic growth, they should cut taxes instead of raising them. Presidents from Calvin Coolidge to John Kennedy to Ronald Reagan triggered strong economic expansions by cutting tax rates; that policy increased incentives to work, save, and invest. Presidents Herbert Hoover, Jimmy Carter, and George Bush, on the other hand, imposed substantial tax increases and the economy suffered in each case. This does not mean, of course, that tax policy is the sole determinant of economic growth. Herbert Hoover's protectionist trade policy, for instance, clearly contributed to the economy's poor performance in the 1930s while John Kennedy's free trade policies helped boost economic growth in the 1960s. But tax policy is a major factor in U.S. economic performance.

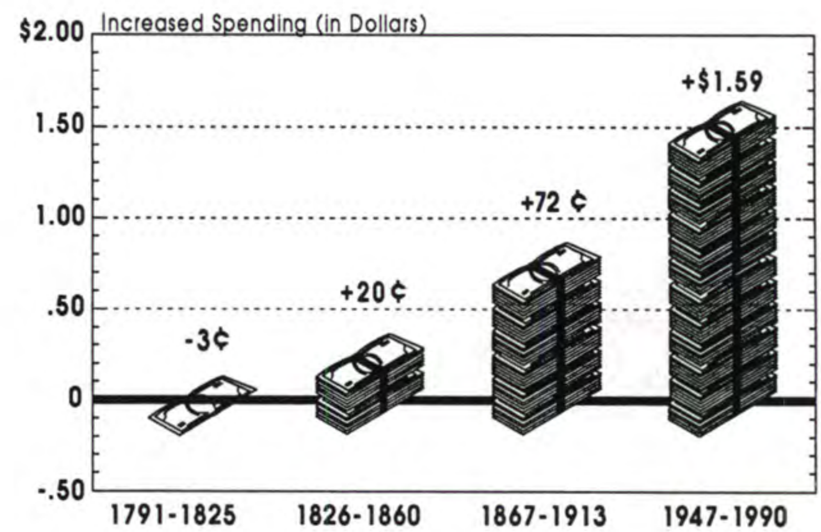
Lawmakers thus should be wary of proposals to reduce the deficit by increasing tax rates or raising taxes on savings and investment. The record is unambiguous. Raising taxes fuels spending and widens the deficit. And raising taxes slows the economy by directly reducing incentives to engage in productive economic activity. No lawmaker familiar with this record can support a tax increase while genuinely wishing to protect the economic interests of the average American.

HOW MORE TAXES MEAN MORE SPENDING

Politicians routinely claim that higher taxes mean deficit reduction. But in reality, additional tax revenues are consumed by more spending. In the 1970s, for instance, tax revenues grew by $324.3 billion, but spending rose by $395.3 billion. In other words, for every dollar of higher taxes, spending rose by $1.22. In the 1980s, tax revenues rose by $514.2 billion. Rather than use the new money for deficit reduction, however, lawmakers increased spending between 1980 and 1990 by $661.7 billion, a spending increase of $1.29 for each dollar of new tax revenue. The pattern has become even more pronounced since 1990. In the last three years, federal spending has increased by $1.91 for every dollar of additional tax revenue.[3]

The relationship between taxes and spending is confirmed by scholarly research. A 1991 study by Congress's Joint Economic Committee, for instance, measured the budgetary impact of tax increases. The study found that every dollar of higher taxes between 1947 and

Increase in Federal Spending Associated With a $1.00 Increase in Taxes



Source: Vedder, Galloway and Frenze, *Taxes and Deficits: New Evidence*, Joint Economic Committee, 1991.

Heritage DataChart

3 *Budget Baselines, Historical Data, and Alternatives for the Future*, Office of Management and Budget, Washington, D.C., January 1993.

1990 was associated with $1.59 of new spending.[4] To make matters worse, the propensity of Congress to spend new revenues has increased. As the chart on the previous page indicates, the bulk of new tax revenues went to deficit reduction in the early years of the Republic. But over time lawmakers steadily have increased the amount of new spending associated with higher taxes.

Given the persuasive historical evidence that tax increases result in higher spending, it is incumbent upon proponents of higher taxes to explain why the pattern would be different in 1993—why tax increases today will produce any different result than tax increases in the past. In theory, the budget deficit could be solved with higher taxes. In reality, however, lawmakers seem more concerned with reaping political benefits by increasing spending. Until this political relationship is changed, higher taxes will undermine rather than promote the goal of deficit reduction.

WHY HIGHER TAXES ARE A RECIPE FOR RECESSION

Higher taxes lead not only to higher spending, but also to a deterioration in the economy's performance. Taxing labor income (payroll and income taxes), for instance, drives a tax wedge between the employer's cost of hiring a worker and the after-tax income a worker receives. This wedge reduces the incentive for Americans to work. And it discourages businesses from hiring new workers by raising the cost of attracting labor. The increased tax burden between 1965 and 1980, for instance, drove an estimated 1.9 million people out of the labor force.[5] For businesses, statistical research has found that each one percent increase in payroll taxes reduces hiring by approximately 1.4 percent.[6]

Taxing capital is equally pernicious. Capital formation is the key to economic growth and rising living standards. Yet the tax code is heavily biased against savings and investment.[7] Examples of this bias include the double taxation of dividend income, the taxation of capital gains, punitive depreciation schedules, the taxation of interest income, es-

4 Richard Vedder, Lowell Gallaway and Christopher Frenze, "Taxes and Deficits: New Evidence," Joint Economic Committee, Washington, D.C., October 30, 1991. For additional evidence, see Neela Manage and Michael L. Marlow, "The Causal Relation between Federal Expenditures and Receipts," *Southern Economic Journal*, Volume 52, No. 3 (January 1986); Paul R. Blackley, "Causality Between Revenues and Expenditures and the Size of the Federal Budget," *Public Finance Quarterly*, Volume 14, No. 2 (April 1986); and Rati Ram, "Additional Evidence on Causality between Government Revenue and Government Expenditure," *Southern Economic Journal*, Volume 54, No. 3 (January 1986).

5 Otto Eckstein, "Tax Policy and Core Inflation, A Study Prepared for the Use of the Joint Economic Committee," (Washington, D.C.: Government Printing Office, 1980). Also see L. Godfrey, "Theoretical and Empirical Aspects of the Effects of Taxation on the Supply of Labour" (Paris: Organization for Economic Cooperation and Development, 1975).

6 Michael Beenstock, "Taxation and Incentives in the U.K.," *Lloyds Bank Review*, Number 134, October 1979, pp. 1-15.

7 For a detailed discussion of the role of capital in the economy, including quotes from liberal economist Paul Samuelson and the Democrat-controlled Joint Committee on Taxation, see Daniel J. Mitchell, "An Action Plan to Create Jobs," Heritage Foundation *Memo to President-Elect Clinton* No. 1, December 14, 1992. Also see Gary Robbins and Aldona Robbins, "Capital, Taxes and Growth" National Center for Policy Analysis, Report No. 169, January, 1992); and Arthur P. Hall, II, "Big Government or Economic Prosperity? A Primer on Taxation, Regulation, and Economic Growth" (Washington, D.C.: Citizens for a Sound Economy Foundation, June 1992).

tate taxes, and the corporate income tax. These taxes combine to discourage savings and investment, biasing economic choices in favor of consumption rather than investment, and creating a preference for short-term rather than long-term investment.[8]

Other levies, such as excise taxes and property taxes, may not impose quite as much economic damage as taxes on capital and labor, but their impact still is negative. Energy taxes, for instance, increase the cost of producing and transporting almost every good produced in the economy.[9] So-called luxury taxes can devastate particular industries. The luxury taxes imposed as part of the disastrous 1990 budget deal, for example, are widely credited with destroying jobs and businesses in the light aircraft and boat-building industries.[10]

Major tax increases almost always have a significant impact on the economy's performance. Herbert Hoover's decision in 1930 to increase the top tax rate from 25 percent to 63 percent doubtless contributed to the Depression. Lyndon Johnson's surtax on income tax liabilities enacted in 1968, together with an increase in the capital gains tax, helped choke the expansion triggered by the Kennedy tax cut. The economy's dismal performance during the Presidency of Jimmy Carter was associated with large tax increases, including inflation-induced bracket creep. And George Bush's record tax increase in 1990 was a principal cause of the recent recession and subsequent anemic recovery.

The inverse relationship between taxes and economic growth is confirmed by academic research. A 1983 World Bank study of twenty countries found that low-tax nations experience faster growth, generate more investment, enjoy faster productivity growth, and experience more rapid increases in living standards than high-tax nations.[11] A more recent study of taxes in the United States found that each 1.0 percent increase in the federal tax burden reduces economic growth by 1.8 percent and lowers national employment by 1.14 percent.[12]

8 For empirical evidence on the relationship between taxes, capital formation, and economic growth, see Eckstein, *op. cit.*; Roger H. Gordon and Dale Jorgenson, "The Investment Tax Credit and Countercyclical Policy" (Cambridge: Harvard Institute of Economic Research, Discussion Paper No. 373, June 1974); James M. Poturba and Lawrence Summers, "Dividend Taxes, Corporate Investment and 'Q'" (National Bureau of Economic Research, Working Paper No. 829, December 1981); Martin Feldstein, "Inflation, Tax Rules and the Accumulation of Residential and Non-residential Capital" (Seminar Paper No. 186, Institute for International Economic Studies, University of Stockholm, November 1981); Dale W. Jorgenson, "Taxation and Technical Change" in Ralph Landau and N. Bruce Hannay, eds., *Taxation, Technology and the U.S. Economy* (New York: Pergamon Press, 1981); Robert E. Hall and Dale W. Jorgenson, "Tax Policy and Investment Behavior," *American Economic Review*, 58:3, pp. 391-414; and Charles W. Bischoff, "The Effect of Alternative Lag Distributions," in Gary Fromm, ed., *Tax Incentives and Capital Spending* (Washington, D.C.: The Brookings Institution, 1971).

9 "Jobs-At-Risk: Short-Term And Transitional Employment Impacts of Global Climate Policy Options, Final Report" CONSAD Research Corporation, Pittsburgh, PA, May 12, 1992.

10 "The 1992 Joint Economic Report" Joint Economic Committee, Washington, D.C., Government Printing Office, 1992, pp. 159-164.

11 Keith Marsden, "Links Between Taxes and Economic Growth: Some Empirical Evidence" (World Bank Staff Working Paper Number 605, Washington, 1983).

12 William C. Dunkelberg and John Skorburg "How Rising Tax Burdens Can Produce Recession" Cato Institute *Policy Analysis*, No. 148, February 21, 1991.

The direct economic cost of taxation is compounded by a tax code that is unnecessarily complex and burdensome. In fact, tax experts have discovered that the tax system as a whole imposes $1.65 of cost on the private sector for every $1 that the government receives.[13] This cost to the economy includes the time, money, and resources that are used to comply with the tax law, and the economic output lost because of the tax code's impact on incentives to work, save, and invest. Thus elected officials deciding whether to create or expand government programs should ask themselves the following question: What will benefit people more, one dollar of additional federal spending or $1.65 of spending in the productive sector of the economy? Many government programs today would fail this test.

HOW TAX INCREASES LEAD TO HIGHER DEFICITS

When the economy slows, the impact on the tax base is often dramatic. Workers without jobs do not pay income and payroll taxes. Businesses losing money do not pay corporate income taxes. A reduction in disposable income means fewer purchases of gasoline, imported goods, alcohol, cigarettes, and other items subject to excise taxes. It is because tax increases cause the tax base to shrink in this way, compared with what would have happened if economic policy had remained constant, that new taxes never raise as much money as originally forecast.

A major reason why projected revenues from tax increases routinely exceed the amount of money actually generated is that lawmakers rely on static economic models. Incredibly, these models assume that higher taxes will have no impact on the economy. As a result, even though taxes have a well-documented harmful effect on economic activity, Congress uses revenue estimates that simply pretend the real world does not exist. The absurdity of this system was exposed in 1989 by Senator Robert Packwood of Oregon, the ranking Republican on the Finance Committee. Senator Packwood asked Congress's revenue estimating body, the Joint Committee on Taxation (JCT), to estimate what would happen to tax revenues if the government confiscated all income over $200,000 per year. The JCT replied that such a tax would generate $104 billion the first year, $204 billion the second year, $232 billion in the third year, $263 billion in the fourth year, and $299 billion in the fifth year.

The notion that such a tax would raise higher amounts of revenue each year is of course preposterous. As Senator Packwood pointed out, "[The JCT estimate] assumes people will work if they have to pay all their money to the Government. They will work forever and pay all the money to the Government when clearly anyone in their right mind will not. Of course, there will be a behavioral response."[14]

Despite the theoretical models used by the JCT, in the real world higher taxes do affect the economy. Individuals and businesses change their behavior in an effort to reduce their tax liability.[15] As a result, tax increases never increase revenues as much as congres-

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13 James L. Payne, "Unhappy Return: The $600-Billion Tax Ripoff," *Policy Review*, Winter 1992.

14 *Congressional Record*, November 14, 1989, p. S 15534.

15 Many citizens already are taking action to protect their earnings from excessive taxation. Executives at major

sional forecasts predict. This revenue shortfall, combined with lawmakers' propensity to spend projected new tax revenues (which do not materialize), explains why tax increases almost always increase the budget deficit.

America's recent fiscal history illustrates the counterproductive effect of tax increases. Major tax hikes were imposed on the American economy four times in the last twelve years, but not once did the deficit fall:

- ✘ **The 1982 Tax Equity and Fiscal Responsibility Act was supposed to reduce the budget deficit, but the deficit climbed the following year.**
- ✘ **The 1984 Deficit Reduction Act was supposed to reduce the budget deficit, yet the deficit rose in 1985.**
- ✘ **The 1987 Omnibus Budget Reconciliation Act was supposed to reduce the budget deficit. Once again, the deficit was higher the following year.**
- ✘ **The budget deal of 1990 saddled the economy with the largest single-year tax increase in American history, as Congress allegedly sought to reduce the deficit. Since then the budget deficit has risen to record highs.**

The 1990 budget deal exemplifies why tax increases are such an ill-conceived policy. Not only did the agreement unleash a record increase in domestic spending, but the massive tax hike also helped cause a large decline in tax revenue. The table below compares five-year baseline revenue projections made in the Summer of 1990—before the budget deal was enacted—with the revenue numbers and estimates released in January 1993. Rather than rising by an additional $175 billion over the five-year period, tax revenues actually fell by $569.7 billion compared with the Summer 1990 estimates. This means the tax increase produced a revenue loss of $3.25 for every dollar it was supposed to generate.[16]

The 1990 Budget Agreement: More Taxes Equals Less Revenue

Billions of Dollars	1991	1992	1993	1994	1995
1990 Mid-Session	$1121.7	$1194.5	$1278.7	$1363.1	$1441.1
1993 Baseline	1054.3	1091.6	1147.6	1230.3	1305.6
Difference	**-67.4**	**-102.9**	**-131.1**	**-132.8**	**-135.5**

Source: *Mid-Session Review of the Budget* and *Budget Baselines, Historical Data and Alternatives for the Future*, Office of Management and Budget, 1990 and 1993.

corporations, including General Dynamics and Disney to name just a few, arranged to take bonuses and exercise stock options in 1992 because of fears that tax rates would be raised this year. Similarly, many major league baseball players, such as Detroit Tigers outfielder Cecil Fielder and Kansas City Royals pitcher David Cone, have signed contracts taking a substantial portion of their remuneration in lump-sum amounts in 1992 because of expected increases in tax rates.

16 The tax increase is not responsible for the entire drop in tax revenues. Other misguided policies, such as the

Tax increases have failed to reduce the deficit in the past and they are not likely to work now for President Clinton. Indeed, if tax increases were to reduce projected economic growth by just one percentage point over the next five years, the deficit almost certainly would grow rather than fall. A one percentage point reduction in growth causes a small increase in spending and a large drop in projected tax revenues. And the projected spending increase, it should be noted, only includes higher outlays caused by heavier demands on existing entitlement programs, such as food stamps and unemployment insurance. It does not include any spending increases accompanying a tax increase.

Deficit Impact of Economic Growth 1% Less Than Predicted

Billions of Dollars	1993	1994	1995	1996	1997	1998
Receipts	-$5.8	-$19.1	-$35.5	-$52.4	-70.8	-$90.9
Outlays	+1.3	+4.8	+9.7	+16.4	+24.8	+33.2
Deficit Increase	**+7.1**	**+24.0**	**+45.0**	**+68.8**	**+95.6**	**+124.1**

Source: *Budget Baselines, Historical Data and Alternatives for the Future,* Office of Management and Budget, 1993.

If tax increases could eliminate the deficit, the budget would have been balanced long ago. Between 1962 and 1991, Congress approved at least 47 pieces of legislation increasing the burden of taxes.[17] Yet the budget has never been balanced since 1969. In the 24 years since then, an unbroken string of budget deficits has added more than $3 trillion to the national debt, and annual budgets have climbed from $183.6 billion to $1.475 trillion, an increase of more than 700 percent.

FEDERAL SPENDING IS REAL PROBLEM

Even if tax increases could reduce the budget deficit, higher taxes still would be the wrong choice. The reason for this is that budget deficits are only a symptom of a greater problem—excessive federal spending.[18] It is the total level of spending, regardless of whether it is financed by taxing or borrowing, that is the fiscal burden imposed on the economy by government. Both taxes and borrowing hinder economic growth by reducing the amount of resources available to the productive sector of the economy. Simply replacing government borrowing with taxes—even assuming the taxes do not of themselves harm the economy or induce additional spending—leaves the overall fiscal burden of government unchanged.

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minimum wage increase, the Americans with Disabilities Act, the Clean Air Amendments, and the record increase in domestic spending have contributed to the economy's problems and helped shrink the tax base.

17 "Listing of Tax Laws Which Increased Revenues from 1962 to the Present" *Memorandum*, Congressional Research Service, Washington, D.C., May 11, 1992.

18 For an excellent discussion of this issue, see Lawrence Kudlow, "The Deficit Obsession," *The Wall Street Journal*, January 25, 1993, p. A16.

As in the case of taxes, scholars have discovered a strong inverse relationship between government spending and economic growth. A 1983 study in the *Southern Economic Journal*, for instance, discovered that a one percentage point increase in government consumption spending as a percent of gross domestic product causes real economic growth to fall by .33 percentage points.[19] A 1989 study in the *Journal of Monetary Economics* came up with similar results. The authors found that every percentage point increase in government consumption spending as a share of national output reduces the economy's inflation-adjusted growth by .35 percentage points.[20] Numerous other studies also confirm the inverse relationship between economic growth and government spending.[21]

One reason for this inverse relationship is that politicians and bureaucrats do not have the incentive to spend money in ways that promote economic growth. Instead, government decision makers spend money in response to political pressures. Workers, consumers, investors, and businesses in the private sector, on the other hand, have strong financial incentives to use resources as efficiently and productively as possible. Thus a dollar taken from the private sector and spent in the public sector almost always means a net economic loss.

THE PHONY FAIRNESS ISSUE

Even though higher taxes encourage more spending, undermine economic growth, and increase the budget deficit, some policy makers still argue that the tax burden on upper-income citizens should be increased in order to restore "equity" to the tax code. Proponents of this "fairness" argument maintain that tax changes during the 1980s allowed upper-income Americans to avoid paying their fair share.

This ideologically driven assertion is factually flawed and economically bankrupt.

Indeed, wealthier Americans in fact are paying a larger share of the income tax burden than they were in 1980. The top ten percent of income earners, for instance, paid 53.9 percent of federal income taxes in 1990—compared with 48.6 percent in 1980. The bottom 50 percent of income earners, on the other hand, saw their portion of the income tax burden drop from 7.4 percent to 6.2 percent.

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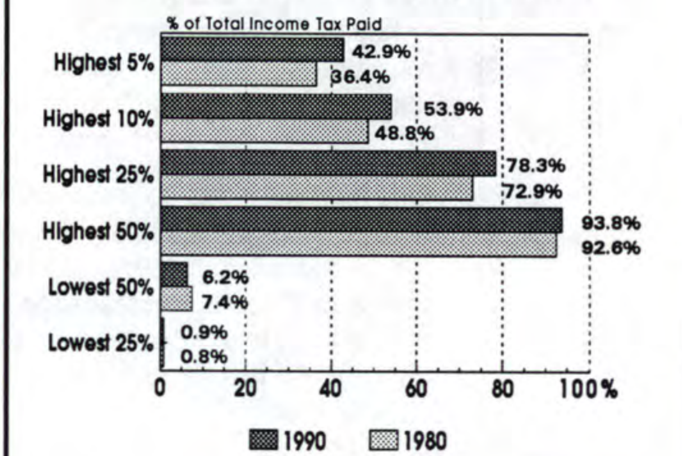
19 Daniel Landau, "Government Expenditures and Economic Growth: A Cross-Country Study," *Southern Economic Journal* 49 (1983), pp. 783-792.

20 Kevin B. Grier and Gordon Tullock, "An Empirical Analysis of Cross-National Economic Growth, 1951-1980," *Journal of Monetary Economics* 24 (1989), pp. 259-276.

21 For example, see R.C. Kormendi and P.G. Mequire, "Macroeconomic Determinants of Growth: Cross-Country Evidence," *Journal of Monetary Economics* 16 (1985), pp. 141-163; Michael Marlow, "Private Sector Shrinkage and the Growth of Industrialized Economies," *Public Choice* 49 (1986), pp. 143-154; John McCallum and Andre Blais, "Government Special Interest Groups and Economic Growth," *Public Choice* 54 (1987), pp. 3-18; James R. Barth and Michael D. Bradley, "The Impact of Government Spending on Economic Activity," The National Chamber Foundation, 1988; Robert J. Barro, "A Cross-Country Study of Growth, Saving, and Government," National Bureau of Economic Research, Working Paper No. 2855, February 1989; and Robert J. Barro, "Economic Growth in a Cross-Section of Countries," *Quarterly Journal of Economics* 56 (1991), pp. 407-443.

Presented with these data, proponents of "tax fairness" respond that the only reason that upper-income taxpayers are paying a larger share of the income tax burden is because the rich got richer and the poor got poorer during the last decade. In other words, the rich paid comparatively more in taxes because their incomes skyrocketed, leaving the poor farther behind.



In 1990, Upper Income Americans Paid a Larger Share of Income Taxes Than a Decade Earlier

Source: The Tax Foundation, Washington, D.C., August 1992. Heritage DataChart

Once again, the assertion is incorrect. The rich did report significant income gains during the 1980s, just as tax-cutters predicted would happen once lower tax rates reduced incentives to shelter and under-report income. But every other income class in America also experienced substantial gains in income during the Reagan expansion. Income fell for every income class during the high-tax Carter years, rose for every income class once the Reagan tax cuts took effect, and fell again when President Bush returned to high-tax policies.

Household Income Growth By Quintile: 1977-1991

Income Growth in Constant Dollars	Bottom Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Top Fifth	Top 5%
1977-1981	-3.2	-2.0	-1.9	-0.2	-0.0	-2.9
1981-1989	10.4	10.3	10.7	12.3	22.9	33.6
1982-1989	**12.6**	**10.7**	**11.1**	**13.0**	**20.5**	**28.8**
1989-1991	-5.5	-5.0	-5.1	-4.4	-6.2	-9.4

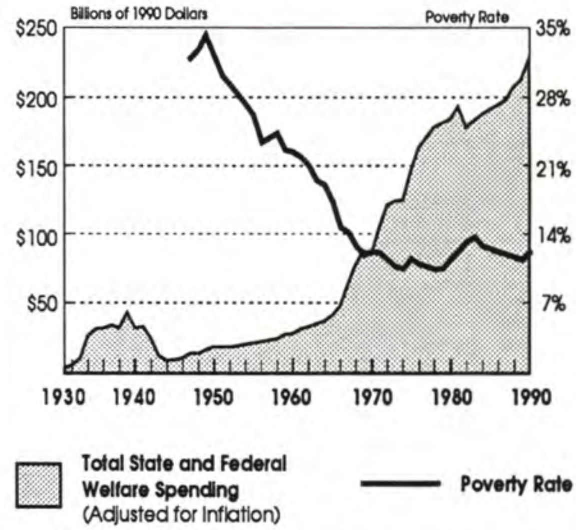
Note: 1982-1989 represents the period between Reagan's tax cuts and Bush's tax increase.
Source: *Budget Baselines, Historical Data and Alternatives for the Future* , Office of Management and Budget, 1993.

Even these figures understate the error of the rich-got-richer, poor-got-poorer argument. Research has demonstrated that there is substantial mobility between income classes from one year to the next, so the poor and rich in 1980 are not the same people as the poor and rich in 1985. Similarly, the poor and rich in 1985 represent different people than those who are poor and rich in 1990.[22]

22 For further information, see: Christopher Frenze, "Income Mobility and Economic Opportunity" (Joint Economic Committee, Washington, D.C., June 1992); "Household Income Mobility During the 1980s: A Statistical Assessment Based on Tax Return Data" (U.S. Department of the Treasury, Washington, D.C., June 1992); Ed Gillespie and Christopher Frenze, "Income Mobility and the U.S. Economy: Open Society or Caste System" (Joint Economic Committee, Washington, D.C., January 1992); Isabel Sawhill and Mark Condon, "Is U.S. Inequality Really Growing" (*Policy Bites*, Urban Institute, Washington, D.C., June 1992); and, Christopher Frenze, "Family Income Growth and Income Equality: Progress or Punishment?" (Joint Economic Committee, Washington, D.C., July 1992).

As the preceding table indicates, policies encouraging economic growth are the best way to increase the living standards for all income classes, including the poor. Income growth was especially strong during the years when the Reagan tax cuts were in effect. During the high-tax periods of the Carter and Bush presidencies, by contrast, all income classes experienced a decline in living standards. Nor will raising taxes for the purpose of income redistribution address the poverty problem. The adjacent chart illustrates how rising welfare expenditures have had no effect on the poverty rate. Indeed, the poverty rate was falling at a steady rate before the War on Poverty began. Once federal anti-poverty programs took effect, the decline in poverty ceased.[23]

More Welfare Spending Does Not Result in Less Poverty



Note: Accurate poverty data prior to 1947 are unavailable.
Source: Various U.S government reports. Heritage DataChart

TAX RATE REDUCTIONS DID NOT CAUSE THE DEFICIT

Many politicians argue that tax cuts caused the deficit, and so higher taxes are needed to balance the budget. Nothing could be further from the truth. The 1981 Economic Recovery Tax Act did indeed reduce marginal tax rates, as did the 1986 Tax Reform Act, but lower rates do not mean less tax revenue. Tax revenues today are more than $630 billion higher than they were in 1980, an increase of 122 percent. Even after adjusting for inflation, tax revenues jumped by more than 26 percent.

Proponents of higher spending specifically blame President Reagan's 1981 Economic Recovery Tax Act for the budget deficit. But tax revenue growth was more impressive in the period when the tax cuts were in effect than in other years since 1980. From 1983, when the tax rate reductions enacted in 1981 became effective, until 1990, when Bush agreed to the infamous budget deal, tax revenues grew by an average of more than $61 billion per year. But in the three years since taxes were raised by a record amount, as part of the 1990 budget deal, revenue growth has averaged less than $39 billion annually.

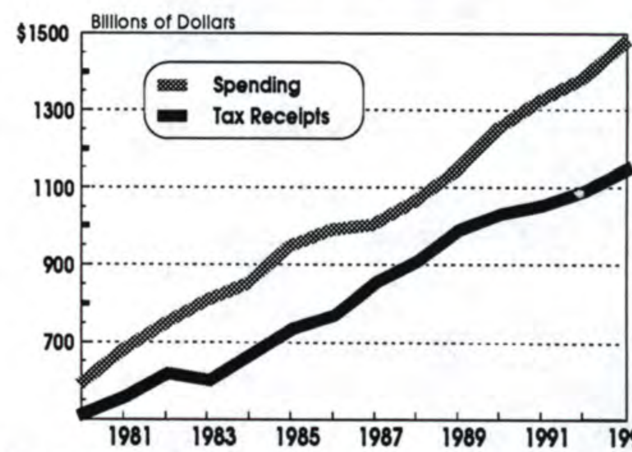
23 For further details on the harmful effects of government welfare programs, see Robert Rector, "The Paradox of Poverty: How We Spent $3.5 Trillion Without Changing the Poverty Rate," *Heritage Lecture* No. 410, September 3, 1992.

The deficit exists not because of tax rate reductions but because federal spending has increased even faster than tax revenues. Federal outlays have climbed from $590.9 billion in 1980 to an estimated $1,474.9 billion in 1993, an increase of nearly 150 percent. Even adjusting for inflation, outlays have risen by almost 42 percent since 1980.[24] This relentless rise in spending is the reason that the deficit has jumped from $73.8 billion in 1980 to more than $327 billion in 1993.

THE SOLUTION: SPENDING CONTROLS, NOT TAXES

The only way to solve the budget crisis is to tackle its root cause—the growth of federal spending. The budget would be balanced today had lawmakers chosen to exercise fiscal responsibility in the past. For example, if lawmakers had decided in 1989 to freeze total federal spending at that year's level of $1,143.2 billion, there would have been a budget surplus this year of more than $4 billion. If they had permitted spending to rise no faster than 2.0 percent annually, beginning in 1987, the budget would be in surplus to the tune of $17 billion this year. And if federal spending growth since 1983 had been limited to the rate of inflation, the budget deficit this year would be less than $4 billion. Unfortunately, policy makers did not choose these prudent and reasonable options. Instead, they continued to vote for rapid increases in spending, pushing the deficit to record levels.

Will More Taxes Reduce the Deficit? Since 1980, Tax Revenues Have Increased Over $630 Billion



Note: Data are for Fiscal Years.
Source: *Budget of the U.S. Government,* Historical Tables.
Heritage DataChart

On the few occasions when policy makers have adopted policies to slow the growth of federal spending, the results have been dramatic. In 1987, for example, the overall growth of federal spending was held to 1.37 percent. As a result of this fiscal restraint, the budget deficit fell by a record $71.4 billion. And significantly, taxes did not increase that year.

The Gramm-Rudman-Hollings Deficit Reduction Act is another example of just how successful spending control can be in reducing the deficit. Enacted in 1985 and amended in 1987, the law created fixed deficit targets designed to balance the budget by 1993.

24 Another prevalent myth is that higher defense spending caused the deficit. While it is true that defense spending did climb, non-defense spending grew at a faster rate. Inflation-adjusted defense spending rose by 27.7 percent between 1980 and 1993, compared with a 45.8 percent increase in non-defense spending. Moreover, defense spending has fallen from 22.7 percent of total spending in 1980 to 19.6 percent of outlays in 1993.

Gramm-Rudman was far from perfect, and lawmakers regularly engaged in budget gimmicks to avoid some of the fiscal discipline the law demanded, but the Act significantly slowed the growth of federal spending. The budget deficit, which consumed 5.4 percent of gross domestic product (GDP) when the law was enacted, fell to 2.9 percent of GDP by the time Reagan left office just four years later. Unfortunately, the Bush Administration and Congress conspired to evade the Gramm-Rudman law in 1989, and effectively repealed the law in 1990 as part of the budget deal. The result? The repeal of Gramm-Rudman unleashed a torrent of domestic spending.

Annual Average Domestic Spending Growth: The 1990 Budget Agreement Unleased a Massive Spending Binge

Billions of 1987 Dollars	1985-1990	1990-1993
Discretionary	$1.52	$8.98
Entitlements	4.97	38.83
Total Domestic	6.49	47.81

Source: *Budget Baselines, Historical Data and Alternatives for the Future,* Office of Management and Budget, 1993.

President Bill Clinton had the opportunity, on January 21 of this year, to return to Gramm-Rudman by using his executive authority to mandate fixed deficit targets.[25] Unfortunately, Clinton chose to continue the current practice of allowing the deficit targets to expand, thus permitting more spending and higher deficits.

In the absence of a tax limitation/balanced budget amendment, returning to Gramm-Rudman would be a significant move toward a more responsible fiscal policy. Indeed, lawmakers could make a good bill even better by closing some of the loopholes used to skirt the law between 1985 and 1990. In particular, replacing deficit targets with spending targets would focus the law on the real problem—uncontrolled federal spending.

WASHINGTON'S WELL-KEPT SECRET: TAX REVENUES ALREADY ARE RISING

Listening to the rhetoric about "revenue shortfalls" in Washington, one would think that tax revenues were plummeting and conclude that a tax increase was a necessary response. Once again, however, proponents of higher taxes either do not know the numbers or they are being dishonest. According to the Congressional Budget Office (CBO), tax revenues are expected to climb by an average of $67.8 billion annually between 1993 and 1998—without any additional increase in the tax burden. All told, according to CBO, tax revenues are projected to be $339 billion higher in 1998 than they are estimated to be in 1993.[26]

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25 Daniel J. Mitchell, "Clinton's Real Deficit Test," *The Wall Street Journal*, January 12, 1993.

26 *The Economic and Budget Outlook: Fiscal Years 1994-1998*, Congressional Budget Office, Washington, D.C., January 1993.

Office of Management and Budget (OMB) estimates confirm the CBO numbers. According to OMB's projections, tax revenues under current law are supposed to be $376 billion higher in 1998 than they are this year, an average annual increase of more than $75 billion. Regardless of which estimate is more accurate, reducing the deficit should be a relatively simple exercise—use the new revenues for deficit reduction, not more spending.

Unfortunately, when advocates of higher taxes assert that additional tax revenues must be part of any deficit-reduction package, they are not referring to the revenue windfall the government already is projected to receive. They mean that American taxpayers must sacrifice even more of their incomes to feed a rapidly growing government.

WHAT DO VOTERS REALLY WANT?

Many Washington insiders argue that the American people really favor higher taxes. But there is little support for this claim in polling data. Voters on election day were asked, for instance, whether they would rather have government provide more services but cost more in taxes, or government cost less in taxes but provide fewer services. By a 55 to 36 margin, voters chose smaller government and lower taxes.[27]

Since the three major candidates had records or platforms supporting tax hikes, voters did not have much choice when voting for President last November. But several state initiatives and referenda did give voters a chance to support or reject higher taxes at the ballot box. A ballot initiative in California, for instance, would have raised state taxes on individuals earning more than $250,000 annually, and on corporations, and would have used the money to cut taxes paid by lower income residents. California voters defeated the initiative by a 58 percent to 42 percent margin.

Similarly, voters in South Dakota rejected a proposal to impose state-wide personal and corporate income taxes by nearly a three-to-one margin. Some 78 percent of Ohio voters rejected a proposal to levy a tax on toxic chemicals. Voters in New York were given the opportunity to approve an $800 million bond package to finance additional state spending on "job-creating" infrastructure. They rejected it by a 56 percent to 44 percent margin. Colorado had an initiative to increase the state sales tax by one cent, to fund more education spending. Voters said no by a 54 percent to 46 percent margin.

Overall, voters rejected eleven of the twelve tax and/or spending increases on state ballots. By contrast, voters approved three-fourths of the tax and/or spending reduction initiatives. Connecticut, Colorado, and Rhode Island voters approved limits on state spending. Arizona voters approved a measure requiring that tax increases receive two-thirds support from the legislature. Colorado voters passed a measure mandating that all state and local tax increases must be approved by voters.

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27 "Public Opinion and Demographic Report," *The American Enterprise*, Vol. 4, No. 1 (January/February 1993), p. 94.

CONCLUSION

Higher taxes are neither necessary nor desirable. If taxes are increased, the results will be easy to predict. Federal spending will increase, the economy will weaken, jobs will be destroyed, and the deficit will rise. Rather than promote income equality, higher taxes will have an especially negative impact on the poor and others who are most dependent on economic growth for advancement. Tax increases also will undermine American competitiveness and hinder the capital formation that is so necessary to rising wages and higher living standards.

Americans who will benefit from new or expanded programs are clamoring for higher taxes. Feigning concern for the economy as a whole, they say that raising taxes will reduce federal red ink and spur economic growth. Yet the record shows exactly the opposite. No honest lawmaker familiar with this record can vote for a tax increase while claiming to be acting in the interests of ordinary Americans.

All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNWS library.

AQUARIUM

INTERACTIVE AUDIOVISUAL EVOLUTIONARY STUDIES

2000 14 St. North, Suite 5oo, Arlington VA. 22201, Tel: (703) 875-2236 Fax: (703) 875-2231

file

Mr. Eli Segal
White House
National Service Director
Old Executive Building Rm 146
Washington DC 20500

February 14, 1993

Dear Mr. Segal:

With the historical effort underway toward developing a civilian **National Service** I would like to ask your consideration for discussing the following collaboration.

As a no-stock corporation dedicated to building current historical, interactive and educational collections **AQUARIUM Corp** would like to follow the administration's efforts as it evolves the **National Service.** Also, I would like you to consider the possible collaboration with our Demo-Lab at **George Washington University, GWU** presently being reviewed and discussed for setting -up.

AQUARIUM has every intention of developing a 24hr live educational service. It will generate funding through tv/radio distribution and on-line subscribers enabling it to be free of access to users in public schools and public libraries. As a public service to the people such state of the arts educational and research technology could, perhaps, qualify for volunteer services in on-line tutorials.

Every **Interactive Audiovisual Evolutionary Study** will include budgets for scholarships, fellowships, research assistants and internships. I would like to initiate in the collaborative agreement with **GWU** the possibility of **AQUARIUM** being a pilot study for a **National Service** exchange. We could closely document the students receiving funding and the volunteer service exchange, keeping it closely woven with education. Although time is an important factor the first evolutionary studies initiated are all long term and visionary (see Preliminary Proposal).

I mentioned to Dr. Bill Lynch in charge for educational technology at **GWU**, who presents this Lab/Site request to the dean, that I was hoping to see if you would be interested. He felt that the dean would indeed be concerned in not only the **AQUARIUM** program but working with the **National Service** as a pilot study.

The **AQUARIUM** corporate office will be established at the **Professional Video Services, PVS**, where Washington's most talented production facility for major news agencies around the world up-link 24 hours a day. It is located on 21st and M st NW not far from your offices should you be able to come for videoconferancing or monthly updates in the studio as to the **National Services** developments.

I know how busy you must be to take on this gargantuan task. If you would find favor with the thought of linking a non-profit educational activity with **National Service** and especially want to assist our complete documentation in this historic adventure please accept to meet with me for further discussion. I would hope it could be soon since I would not like to give **GWU** the proposal without knowing your opinion.

Thank you for your consideration it these requests and I look forward to your reply.

Respectfully yours,

Clare Fanning

Clare Fanning
President
AQUARIUM Corp.

Preliminary Proposal

DEMONSTRATION LAB/SITE REQUEST
AQUARIUM Corp. & GEORGE WASHINGTON UNIVERSITY

OBJECT: To establish a full-time educational multi-media demonstration lab for the **AQUARIUM** Program within **GWU**'s Educational Technology Department. It would coordinate relations with the **AQUARIUM Corp.** office in Washington DC at **Professional Video Services, PVS.** The corporation hopes also, to establish a pioneering collaboration with the developing National Service for educational support against volunteer service.

AQUARIUM is an authorized public 501 (c)(3) tax exempt educational activity. It is preparing for the new world of on-line interactive multi-media communication. The purpose of the **AQUARIUM** Program is to produce **INTERACTIVE AUDIO-VISUAL EVOLUTIONARY STUDIES (IAES).** "Evolutionary studies" will be devoted to following current historical processes, therefore co-ordinating outstanding research collections for posterity and making them instructional.

Each study will offer within the **AQUARIUM** program: TV/Radio documentaries accompanied by the on-line computer network; choice of programming by on-line voting of **AQUARIUM** users; continuous documentation and updating; on-line facility for worldwide multi-lingual communication; precise data bank accesses (audiovisual, audio & full text); educational activities and games; expert/teacher/ student networks; tutorial relays; testing and equivalency charts; accredited courses; study trips to expand understanding of subjects with hands-on experience for specific needs.

Four **IAES's** are initially proposed. 1) **"The European Odyssey"** (following the political and economic consolidation of the European Community) - research and collaborative agreements completed, along with introductory promotional video; 2) **"Gene Therapy"** (following the evolution in genetic research as it revolutionizes and normalizes a new healing science); 3) **"The Science of Education"** (following the evolution of the American society towards global standards and outstanding educational environments); and **"The American Dream"** (following the American ideal through reforms in the Economy, Health Care, Government and National Service).
These 'special collections' will continue well into the 21st century.

The **PVS** facility, where **AQUARIUM** will set-up its corporate and Expo-Site, up-links around the world news coverage 24 hr/day. **AQUARIUM Corp.** needs to establish a multi-media demonstration lab for: research and development; inter-departmental subjects coordination; archive summaries and coding; accredited courses; comparative equivalencies tests and games; videotapes with incorporated testing by author software. Examinations for future producers of **INTERACTIVE AUDIOVISUAL EVOLUTIONARY STUDIES** to harmoniously enter into the **AQUARIUM** multi-media library structure can be set-up within the University for franchising licenses.

The initial phase would set-up the interactive computer central with staff in the Educational Technology Department at **GWU** and regularly download the information for the first accredited studies. Thanks to aid of research assistants in collaboration with their Schools and professorial guidance, information will be regularly updated and tutorials established.

An estimated funding of $150,000 will be required to set-up the demonstration lab, its staff and research assistants for one year. The labs equipment and staff will cost $70,000; 4 research assistants at $20,000 each will be needed. They are: The International School for **"The EUROPEAN ODYSSEY"**, the School of Medicine for **"GENE THERAPY"**, the School of Education for **"The SCIENCE of EDUCATION -2001"**, the Public Administration Department for **"The AMERICAN DREAM"**, the Journalism Department for news analysis and the Communications Department for TV/radio.

During the initial phase research assistants would, under the guidance of the most qualified professor, concentrate upon: regrouping information; gather and write summaries for entry on-line; collaborate on accredited courses related to these studies and identify equivalency standards on the subjects for elementary through adult levels. Upon fulfillment of **AQUARIUM** program budgets for full time development of each on-going **IAES** collection the Demo-Lab team, professors, departments and schools can then expand activities.

Although an over half a million dollars of acruel and several years of dedication have gone into **AQUARIUM**s research, development and collaborative agreements, the corporation has only begun the official fundraising for the first **IAES**s. One live, full time study will cost approximately $4,500,000 annually until prices drop due to a solid multi-media foundation. Once an accord is reach between the corporation and **George Washington University** concerning the demonstration lab for the initial introductory phase, fundraising will begin for specifically setting-up that activity as described by this preliminary proposal.

Should an enthusiastic agreement for collaboration be reached, **AQUARIUM Corp.** will offer **GWU**, it Schools, professors and students a privileged relationship with its program. Each production budget includes funding for: R&D, experts, fellowships, scholarships and film production. As a no stock corporation all the benefits from the commercialization of the **AQUARIUM** Program may only and always be reinvested in the production of further studies. However, funding will also be used to support free access to the **AQUARIUM** Program in public schools and public libraries.

As the perfection of this new interactive multi-media programming with its numerous activities and educational designs develops, many producers will want to create studies on different historical processes. This is when they will have to go through a franchise study and examination that can be established within the Universities multi-media center.

Each **INTERACTIVE AUDIOVISUAL EVOLUTIONARY STUDY** that the corporation or franchise producers develop will oblige the outside coordination of relations with individuals, businesses, institutions and administrations of all kinds. A sound collaboration with **GEORGE WASHINGTON UNIVERSITY** and its schools can focalize these live, contemporary, educational collections. An active Demo-Lab will establish an institutional site in the **USA**. Since the combined interactive, multi-media, TV/radio educational and on-line programming are infant technological programs, mastery of their production and maintenance in this frontier science will develop new professional careers.

AQUARIUM has the potential by the year 2000 of being an outstanding international, multi-lingual, multi-media program worldwide. American 'knowhow' can take the lead in this future multi-media world and showcase the collaboration necessary for this future technology in communication and education.

Clare Fanning
President
AQUARIUM Corp.

ARTICLES OF INCORPORATION

For

AQUARIUM Corp.

(A Nonprofit Tax Exempt Corporation)

Excerpt:

Third: The purpose or purposes for which the corporation is organized are exclusively charitable, educational, literary and scientific as defined by Section 501 (c) (3) of the Internal Revenue Code of 1954, as amended, (or the corresponding provisions of any future United States Internal Revenue Law), and which purpose include:

(a) To create an innovative, specialized public library facility for historical, evolutionary studies through interactive/audiovisual programming devoted to the development of educational, cultural and scientific series and archives;

(b) To collaborate with centers of library and audiovisual research and specific banks of knowledge for coordinated interactive archive access;

(c) To establish visual aid examinations on these subjects for different scholastic levels;

(d) To solicit and receive funds and facilities in furtherance of any purpose of the corporation;

(e) To administer such funds and facilities as may be received.

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Aquarium Corp.
c/o National Corporation
Company of Delaware
381 West North Street
Dover, DE 19903

Person to Contact:
Edwin Brown

Telephone Number:
202-566-3376

Refer Reply to:
E:EO:R:1-2

Date:
AUG 8

Employer Identification Number:	98-0105076
Key District:	Baltimore
Accounting Period Ending:	December 31
Foundation Status Classification:	509(a)(1) & 170(b)(1)(A)(vi)
Advance Ruling Period Begins:	July 10, 1990
Advance Ruling Period Ends:	December 31, 1994
Form 990 Required:	Yes

Dear Applicant:

Based on information supplied, and assuming your operations will be as stated in your application for recognition of exemption, we have determined you are exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

Because you are a newly created organization, we are not now making a final determination of your foundation status under section 509(a) of the Code. However, we have determined that you can reasonably be expected to be a publicly supported organization described in the section(s) shown above.

Accordingly, you will be treated as a publicly supported organization, and not as a private foundation, during an advance ruling period. This advance ruling period begins and ends on the dates shown above.

Within 90 days after the end of your advance ruling period, you must submit to your key District Director information needed to determine whether you have met the requirements of the applicable support test during the advance ruling period. If you establish that you have been a publicly supported organization, you will be classified as a section 509(a)(1) or 509(a)(2) organization as long as you continue to meet the requirements of the applicable support test. If you do not meet the public support requirements during the advance ruling period, you will be classified as a private foundation for future periods. Also, if you are classified as a private foundation, you will be treated as a private foundation from the date of your inception for purposes of sections 507(d) and 4940.

Donors may deduct contributions to you as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to you or for your use are deductible for federal estate and gift tax purposes if they meet the applicable provisions of sections 2055, 2106, and 2522.

Donors (including private foundations) may rely on the advance ruling that you are not a private foundation until 90 days after your advance ruling period ends. If you submit the required information within the 90 days, donors may continue to rely on the advance ruling until we make a final determination of your foundation status. However, if notice that you will no longer be treated as the type of organization shown above is published in the Internal Revenue Bulletin, donors may not rely on this advance ruling after the date of such publication. Also, donors (other than private foundations) may not rely on the classification shown above if they were in part responsible for, or were aware of, the act that resulted in your loss of that classification, or if they acquired knowledge that the Internal Revenue Service had given notice that you would be removed from that classification. Private foundations may rely on the classification as long as you were not directly or indirectly controlled by them or by disqualified persons with respect to them. However, private foundations may not rely on the classification shown above if they acquired knowledge that the Internal Revenue Service had given notice that you would be removed from that classification.

If your sources of support, or your purposes, character, or method of operation change, please let your key district know so that office can consider the effect of the change on your exempt status and foundation status. In the case of an amended document or bylaws, please send a copy of the amended document or bylaws to your key district. Also, you should inform your key District Director of all changes in your name or address.

As of January 1, 1984, you are liable for taxes under the Federal Insurance Contributions Act (social security taxes) on remuneration of $100 or more you pay to each of your employees during a calendar year. You are not liable for the tax imposed under the Federal Unemployment Tax Act (FUTA).

Organizations that are not private foundations are not subject to the excise taxes under Chapter 42 of the Code. However, you are not automatically exempt from other federal excise taxes. If you have any questions about excise, employment, or other federal taxes, please contact your key District Director.

If your organization conducts fund-raising events such as benefit dinners, auctions, membership drives, etc., where something of value is received in return for contributions, you can help your donors avoid difficulties with their income tax returns by assisting them in determining the proper tax treatment of their contributions. To do this you should, in advance of the event, determine the fair market value of the benefit received and state it in your fund-raising materials such as solicitations, tickets, and receipts in such a way that your donors can determine how much is deductible and how much is not. To assist you in this, the Service has issued Publication 1391, Deductibility of Payments Made to Organizations Conducting Fund-Raising Events. You may obtain copies of Publication 1391 from your key district office.

In the heading of this letter we have indicated whether you must file Form 990, Return of Organization Exempt from Income Tax. If Yes is indicated, you are required to file Form 990 only if your gross receipts each year are normally more than $25,000. If your gross receipts each year are not normally more than $25,000, we ask that you establish that you are not required to file Form 990 by completing Part I of that Form for your first year. Thereafter, you will not be required to file a return until your gross receipts exceed the $25,000 minimum. For guidance in determining if your gross receipts are "normally" not more than the $25,000 limit, see the instructions for the Form 990. If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. A penalty of $10 a day is charged when a return is filed late, unless there is reasonable cause for the delay. The maximum penalty charged cannot exceed $5,000 or 5 percent of your gross receipts for the year, whichever is less. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it.

You are required to make your annual return available for public inspection for three years after the return is due. You are also required to make available a copy of your exemption application, and supporting documents, and this exemption letter. Failure to make these documents available for public inspection may subject you to a penalty of $10 per day for each day there is a failure to comply (up to a maximum of $5,000 in the case of an annual return). See Internal Revenue Service Notice 88-120, 1988-2 C.B. 454, for additional information.

You are not required to file federal income tax returns unless you are subject to the tax on unrelated business income under Code section 511. If you are subject to this tax, you must file an income tax return on Form 990-T, Exempt Organization Business Income Tax Return. In this letter, we are not determining whether any of your present or proposed activities are unrelated trade or business as defined in section 513.

You need an employer identification number even if you have no employees. Please that number on all returns you file and in all correspondence with the Internal Revenue Service.

We are informing your key District Director of this ruling. Because this letter could help resolve any questions about your exempt status and foundation status, you should keep it in your permanent records.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter. For other matters, including questions concerning reporting requirements, please contact your key District Director.

Sincerely yours,

Conrad Rosenberg

Conrad Rosenberg
Chief, Exempt Organizations
Rulings Branch 1

Enclosure
Form 872-C

Multimedia Takes Center Stage

by joy frascinella

When the city of Atlanta competed for the right to host the 1996 Summer Olympic Games, the International Olympic Committee (IOC) was so impressed with the city's presentation, that they were awarded the games, beating some very tough international competition in the process.

It wasn't content alone, however, that impressed the IOC. What made Atlanta's presentation so outstanding was that it was created using multimedia, a technological enhancement that combines text, animation, audio, video, and graphics in a way that draws the audience's attention into what is being explained.

The Best of All Possible Worlds

Multimedia fits today's visual-oriented society like a glove by combining consumer electronics, such as compact disc players and video cassette recorders, with the power and versatility of a computer. It means companies making a pitch to clients no longer have to fumble around with papers and traditional brochures. Instead, the potential client is treated to a visual and audio extravaganza combining graphs, charts, and other data, along with animated images, narration, and compact disc-quality music that allows the company to tell its story in a new and exciting way.

The pioneers of PC-based multimedia, Apple Computer and IBM, see multimedia as the next logical progression of the technology revolution. "We think the multimedia market will 'pop' pretty soon," says Steve Franzese, director of worldwide marketing for multimedia at Apple Computer Corp. "There will be a lot of activity this fall on both the hardware and software side but it will take another 12 months before multimedia really migrates throughout the corporate world."

Last January, Apple unveiled "Quick Time", a Macintosh-based systems software package that provides the architecture on which to build a wide variety of multimedia applications. Numerous academic institutions and corporations are using "Quick Time" which currently supports over 275 applications, from lower-end word processing and database applications to full-blown, higher-end multimedia tools.

In addition to Apple, other companies are also providing components for multimedia applications. "We've turned the corner in terms of momentum," says Rockley Miller, editor and publisher of The Multimedia and Videodisc Monitor, a newsletter that tracks trends in the multimedia market. "One reason for this momentum is that we're seeing a significant number of company players out in the marketplace who are addressing the public's interest in multimedia. The other reason is that this increased awareness on the part of vendors is forcing down the price of creating multimedia tools."

Miller also feels the advent of Microsoft Windows and IBM's OS/2, both of which can be used as building blocks for multimedia capabilities, has helped spur interest in this market. Another innovation has been the Videoblaster, developed by Creative Labs, a company based in Santa Clara, California. The Videoblaster is a tool that allows several video sources (tape, disc or cable) to be tied into a personal computer. The images, which are displayed in a window format, can be captured and manipulated to suit the user's individual needs.

In addition to using multimedia as a presentation tool, Miller has seen this specialty picking up steam in the education arena. Museums, too, are giving multimedia their stamp of approval as are exposition and exhibit handlers. "Corporate presentations are seen as being a major chunk of the market because multimedia is something that can be done in-house," Miller explains. "But, because everyone has different levels of creativity, we'll still need editorial and layout people who are experienced at helping a company present in the best possible light."

COURTESY: IBM

Above: Tom Wheeler, CEO, Multimedia Design Corporation. Right: By combining text, animation, audio, video, and graphics, multimedia presentations for schools will bring history and current events to life for students.

Breaking into the Multimedia Market

With industry watchers predicting the multimedia market, now at about $500 million, will approach $16 billion by the year 1995, organizations specializing in multimedia solutions are scrambling to capture this important new market. "It's not tomorrow's technology — it's already here," declares Tom Wheeler, president and CEO of the Alexandria-based Multimedia Design Corporation (MDC), a company specializing in providing state-of-the art communications tools for business, education, and the federal government.

MDC is currently working on IMPACT, an integrated multimedia presentation and control unit that is fully transportable. Designed for George Washington University, IMPACT is expected to revolutionize lecture halls at colleges and universities across the U.S.

Helping the Bottom Line

Wheeler says one of the best things about multimedia is that it "makes the computer seem invisible" by allowing companies to utilize their technology in better and more efficient ways.

With a multimedia approach, vast amounts of information currently stored on different media can be integrated for faster access. Since the technology can be accessed via a desktop, many companies have already found that multimedia presentations are actually less expensive than traditional marketing tools, i.e. videotapes, audiotapes, brochures, etc. And, since programs can be run through either DOS or Macintosh platforms, additional hardware investments are kept to a minimum. An additional benefit is the flexibility of the programs. By using a personal computer, text and other information can be easily manipulated with the click of a mouse and can be changed or updated with few additional costs.

Multimedia is also ideal for on-the-road presentations which can be loaded onto a disk, carried to the desired site, then loaded onto a local computer.

As a training tool, multimedia can save valuable time and resources. Instead of herding employees into a classroom, each employee can access information from individual workstations, listening and watching as they learn at their own pace. Salespeople, for example, can be given a set of variables and hypothetical situations they might encounter. For companies with a bilingual staff, training programs incorporating different language tracks can also be used.

American Airlines is developing a multimedia project to provide initial and refresher training for 50,000 of its employees; at Northern Telecom of Nashville, management is using multimedia to train their 20,000 employees at roughly one-tenth the time of traditional training methods, according to a recent article in *MacWeek*.

Roanoke College in Western Virginia is currently using multimedia to increase the efficiency of its admissions process. Students can fill out admissions applications with a disk brochure that provides applicants with information on every area of the college— information that would normally appear in a printed college brochure. Prospective students can also see pictures of the campus, its environs, and access maps giving directions to the college from anywhere in the U.S.

Putting Your Skills to Work

Industry watchers like Rockley Miller believe that as multimedia gains ground, programmers, software engineers, graphic designers, and video engineers will be needed to develop new multimedia tools. There will also be opportunities with hardware vendors for those able to design computer enhancements which facilitate multimedia production.

"In order to successfully implement multimedia, we will need to go beyond the traditional computer team," adds Miller. "That means traditional computer programmers must change their orientation and learn to become more visually focused. They will also have to work with graphic and design specialists who understand multimedia's psychological appeal. Getting all of these talented professionals to work together as a team is one of the biggest challenges we will face in the future."

The skills sought for those who will sell this technology is also a bit different.

"We don't look for the typical computer sales rep," says Wheeler. "We look for energetic people with successful sales experience in the advertising, video or computer industries who have a sparkle about them."▲

Video producers turn to PVS to cut costs

Business booms as more use firm's D.C. facilities

By ALICE A. LOVE

Professional Video Services Corp., a downtown firm which leases office and studio space, technical equipment, and camera crews to broadcasters, government and business, wrapped up a contract last week to house and feed the Washington bureau of Medical News Network. MNN is the newest project of Knoxville, Tenn.-based Whittle Communications, best known for its planned for-profit private school system, dubbed The Edison Project.

The contract with Whittle — worth close to $1 million over a 15-month period, and including a 56-month extension option — is one in a string PVS has picked up this year. As cash-strapped communication's companies look to consolidate their operations in the nation's capital, PVS's facilities at 2030 M St. NW, are quickly replacing The National Press Building as the Washington headquarters of choice for foreign and domestic news broadcasters.

"Sharing facilities can cut costs tremendously, and it's cheaper to go out of house because you don't have to maintain and operate equipment," said Bob Grevemberg, president and founder of PVS. "The TV industry is hurting, so we're growing."

The three and a half floors PVS currently occupies are a maze of studios, and news and editing rooms, in a continual state of redesign to accommodate long- and short-term clients who don't want to invest in and maintain their own broadcast equipment, facilities, and crews, but need

Bob Grevemberg

to have a presence in Washington.

For Medical News Network — which will move in by November and begin broadcasting an ad-supported news and information program to 5,000 doctors' offices in February — 1,500 square feet of space is being made over into a newsroom and outer office. PVS will also provide MNN with a camera and editing crew of six, and all its technical equipment. Whittle Communications need only send along management and production talent to make MNN in Washington operational.

"PVS is a cheaper alternative for us, and they have the experience we need in Washington," said Ken Creed, president and chief operating officer of MNN.

PVS's no-strings appeal has also attracted clients like the British Broadcasting Corp., the European Broadcast Union, French and Japanese networks, and Fox News Service. The Christian Science Monitor Channel left PVS when it folded last year, but was quickly replaced by CTV of Canada, several Norwegian broadcast companies, and others. Adding to the traffic are major American networks — like NBC and ABC — which increasingly turn to PVS facilities and its staff of 50 for special projects here.

"Television news isn't going to be the same in five years. You see a lot more pooling already," explained Grevemberg.

PVS has also found a mushrooming market in the corporate and government sectors, offering teleconferencing and video production equipment and facilities to clients like Mobil Corp., IBM Corp., The American Bankers Association, and the Federal Drug Administration. The Bush campaign has turned to PVS because it can't legally tape commercials and election-related news releases using publicly-funded White House facilities.

PVS doesn't own the M Street office space it subleases to clients, ("We don't want to be in the real estate business," Grevemberg explained.) so risk and debt are kept to a minimum. Since the start of its new fiscal year in July, the company's bottom line has been about $500,000 better than last year, Grevemberg said, and plans are underway to expand Washington operations and open PVS of London. The United Kingdom is an especially fertile market, Grevemberg said, because the British government requires regulated broadcasters to take a percentage of their work out of house.

"We're negotiating with the Financial Times, to take over their television operations, and also with some major British banks," he said.

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Citizens Volunteer Program Expanded

CDC is expanding its Citizens Volunteer Program to the Czech Republic, Poland, Slovakia and Ukraine. This expansion doubles the number of countries aided by the Citizens Volunteer Program, which heretofore operated only in Bulgaria, Hungary, Romania, and Russia.

Volunteer Advisors will soon be stationed in the Czech Republic, Hungary, and Poland, and will be providing assistance to local governments, nonprofit organizations, and universities. Program expansion is also planned for Slovakia later in the year.

CDC has identified volunteers for three projects in the Czech Republic. Former University of Chicago Vice President Charles O'Connell will advise Palackeho University in Olomouc on university governance. Management consultant Anna Elman will help the Czech Philharmonic with its fundraising and exhibit efforts. Finally, Jim Friedlander, a retired state and local government planner, will work with the Tabor city government.

Chuck Sikora will be in Poland serving as a Volunteer Advisor to the Foundation for Economic Development, giving management advice for small business development in local and regional offices. In Hungary, city planner

See "CVP," page 6

Ambassador Strauss Returns to CDC

New Executive Committee Members Named

Ambassador Robert Strauss (left) and U.S. Rep. Steny Hoyer

Speaking at a recent meeting of CDC's Executive Committee, Ambassador Robert Strauss said it is important that CDC continue to provide assistance to Central and Eastern Europe and the former Soviet Union. Ambassador Strauss, who recently returned from Moscow, made his comments as the featured speaker of the December meeting. He focused on recent developments in the region, and how they could affect CDC.

CDC is pleased to announce that Ambassador Strauss will rejoin the CDC Executive Committee in February. Ambassador Strauss was a member of CDC's original Executive Committee, leaving to serve as U.S. Ambassador to the Soviet Union, and later, to Russia.

Three New Members Join Executive Committee

U.S. Representative Steny H. Hoyer (D-MD) is the second Member of Congress to be elected to the Executive Committee, joining Senator Nancy Kassebaum (R-KS). Rep. Hoyer is the Chairman of the House Democratic Caucus, and serves on the Committees on Appropriations and House Administration. He is also Chairman of the Commission on Security and Cooperation in Europe (the "Helsinki Commission").

William Davidson joins CDC as Chairman of the Board and President of Guardian Industries Corp., a glass products manufacturer located in Northville,

See "New Members," page 6