



House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

222 O'Neill Building • Washington, DC 20515 • 202-226-7200 • www.house.gov/budget_democrats

February 7, 2000

Dear Democratic Colleague:

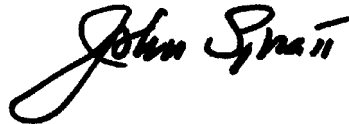
The Democratic staff of the Budget Committee has prepared the attached report highlighting President Clinton's budget for fiscal year 2001. You are probably already receiving inquiries from the media and constituents, and I hope this report will help you respond. The report is preliminary because we received our copy of the President's budget only this morning. Nevertheless, I thought it was important to get the staff's analysis to you as quickly as possible. We will send you a longer, more thorough report later this week.

When surpluses started appearing in our budget projections two years ago, the President insisted that they not be tapped until we "save Social Security first." His budget for 2001 follows up that commitment and extends the solvency of Social Security to 2050 and Medicare to 2025. It also closes a gaping omission in Medicare coverage by providing for a prescription drug benefit. His budget continues his strong commitment to education by providing for smaller classes in the primary grades and tax subsidies for school construction. It requests a \$1.4 billion increase for veterans' health care and a \$12 billion increase in defense funding. In addition, his budget provides for other tax cuts, including proposals to help the middle class by mitigating the marriage penalty and the alternative minimum tax. At the same time, the budget saves 100 percent of the Social Security surplus and dedicates an additional \$350 billion over the next ten years for debt reduction and the extension of Medicare solvency.

We have come a long way since 1992 when the deficit was \$290 billion and headed up. Thanks to the fiscal policies of the Clinton Administration and the work of Democrats in Congress, we balanced the unified budget in 1998, and in 1999 we achieved a budget surplus over and above the surplus in Social Security. But the job is not finished yet. Social Security and Medicare face funding shortfalls that appear just over the horizon of the ten-year projections. To its credit, the Clinton budget uses the vast bulk of the surplus to pay down the debt, thereby making available the resources needed to extend the solvency of both Social Security and Medicare.

A long road lies between receipt of the budget and final passage. As the Budget Committee works on the budget, I welcome advice from every member of our Caucus. In the meantime, the Democratic staff of the Committee is a resource for our entire Caucus, and I hope you will feel free to call me or have your staff call the Budget Committee staff with any questions or suggestions.

Sincerely,

A handwritten signature in black ink that reads "John Spratt". The signature is written in a cursive style with a large, looping initial "J".

John M. Spratt, Jr.
Ranking Democratic Member



House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

214 O'Neill Building • Washington, DC 20515 • 202-226-7200 • www.house.gov/budget_democrats

February 7, 2000

Preliminary Summary and Analysis of President Clinton's Budget for Fiscal Year 2001

John M. Spratt, Jr.
Ranking Member

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes:

- ! All years are fiscal years unless otherwise noted.
- ! Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- ! All figures are OMB estimates.
- ! Numbers may not add due to rounding.
- ! Funding levels for 2000 include emergency funding unless otherwise noted.

TABLE OF CONTENTS

| | |
|---|----|
| Overview | 1 |
| Debt Reduction, Social Security, and Medicare | 3 |
| Appropriated Programs | 5 |
| Health | 8 |
| Education | 12 |
| National Defense | 14 |
| Low-Income Programs | 15 |
| Environment | 17 |
| Tax Relief | 19 |
| Civilian and Military Pay and Retirement | 25 |
| Other Major Issues: New Markets Initiative, Agriculture, Veterans, International, and Research Initiatives | 27 |
| The Record Economic Expansion | 30 |

Overview

President Clinton's final budget lays out the policies by which he intends to implement the priorities outlined in his State of the Union address. It also follows the fiscal approach that has contributed to our extraordinary economic success. The President addresses specific national needs through targeted tax cuts and spending initiatives. Most importantly, the President's budget reserves resources to extend the solvency of both Social Security and Medicare and to pay down public debt.

A restrained approach to fiscal policy has turned chronic deficits into surpluses not dreamed of only a few years back. In 1992, the deficit was \$290 billion and the debt was exploding. Thanks to the policies of the Clinton Administration and Congressional Democrats, we have wiped out the deficits. In 1998 and 1999, the federal government achieved unified budget surpluses, which had not been seen in thirty years. By the end of this year we will have repaid close to \$300 billion of the publicly held debt.

This unprecedented fiscal restraint has reduced the weight of federal borrowing needs on financial markets, helped keep interest rates down, boosted investment and productivity, pushed up real wages, and led to the longest economic expansion in our history. This pattern of investment-led growth has yielded the lowest unemployment and inflation rates in 30 years, the lowest poverty rate in 20 years, and the highest home ownership rate on record. The exceptional economy has, in turn, helped to improve the budget outlook over the next decade. The Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) both project a \$3 trillion 10-year unified budget surplus.

Recognizing the budgetary pressures on Social Security and Medicare just beyond the 10-year budget horizon, the President devotes 100 percent of the Social Security surplus and an additional \$350 billion over ten years to debt repayment, extinguishing the entire publicly held debt by 2013. Furthermore, the President uses this debt reduction to provide the resources to extend the solvency of Social Security to 2050 and Medicare to 2025 or longer.

At the same time, the President's budget addresses specific national priorities through targeted tax cuts and focused program increases. The President's budget includes targeted initiatives for education, the environment, defense modernization, veterans, prescription drugs, health access, and the communities that prosperity has left behind. It also includes tax cuts to bolster these initiatives, as well as relief from the marriage penalty and alternative minimum tax (AMT) for middle-class families, incentives to save for retirement, and provisions to promote philanthropy.

The President puts forth a budget that emphasizes debt reduction, Social Security, and Medicare as the overriding priorities. It does not commit growing portions of the 10-year projected surplus to a large, risky tax cut, due to the precariousness of long-term budget projections. While the baseline surpluses projected by both OMB and CBO are nearly \$1 trillion more than they were just six months ago, the projected surpluses could shrink or even disappear if the economy falters. This argues strongly for a cautious fiscal policy until we see the surpluses actually materialize.

This preliminary summary and analysis of the President's budget outlines the major highlights. It will be followed later this week by a more comprehensive analysis that will provide the Congress with a detailed reference tool.

Debt Reduction, Social Security, and Medicare

President Clinton's budget uses the vast bulk of the projected surpluses over the next ten years to reduce the debt and strengthen Social Security and Medicare. The President's budget will extend the solvency of Social Security to 2050 and Medicare to 2025.

- ***Social Security Solvency*** — The budget devotes to the Social Security trust fund the interest savings from paying off the publicly held debt in 13 years. In 1999, net interest on publicly held debt accounted for \$229.7 billion or 13.5 percent of total federal spending. By repaying the entire publicly held debt by 2013, the President's budget frees up these resources for strengthening Social Security. Starting in 2011, after realizing ten years of debt repayment, the budget allocates the resulting interest savings to the Social Security trust fund. This extends the solvency of the trust fund to 2050.
- ***Medicare Solvency*** — The President's budget includes a new mechanism to extend Medicare solvency. Over the next ten years, the budget reserves \$299 billion of the on-budget (i.e., non-Social Security) surplus for additional debt reduction. Each dollar of this debt reduction, which is in addition to the debt repayment associated with not using any of the Social Security surplus, is credited to Medicare Part A. This extends solvency for Medicare by an estimated ten years.
- ***Debt Reduction Essential to Protecting Social Security and Medicare*** — Economists of differing persuasions, including Federal Reserve Chairman Greenspan, agree that paying down the publicly held debt is the most effective way to prepare for the fiscal challenges facing Social Security and Medicare. In addition to repairing the federal government's finances, debt repayment will lower interest rates, prompt increased business investment, boost productivity, and raise economic growth.
- ***Locking Up the Surplus*** — The President's budget locks up the entire Social Security surplus and a significant portion of the on-budget surplus by dedicating those surpluses to extend the solvency of the Social Security and Medicare trust funds. Diverting these funds to large tax cuts would have a detrimental effect on the solvency of these two programs.
- ***Prefunding Social Security and Medicare to Prepare for the Baby Boom*** — The budget provides the Social Security and Medicare trust funds with additional assets to pay benefits in the future. These special Treasury securities will give the trust funds first claim on the U.S. Treasury when the Baby Boom generation retires. At that

point, the Treasury's financial position will be greatly improved since we will have largely eliminated the publicly held debt and the interest burden associated with it.

- ***Retirement Savings Accounts (RSAs) for Those Who Do Not Save*** — The budget provides a new tax benefit that will encourage low-income workers to prepare for retirement by saving more on their own. Currently, most low-income workers save little or nothing for retirement. The budget sets up new RSAs for which employee contributions are matched on a progressive basis by financial institutions and pension plans, which then receive a tax credit equal to the value of the match. (For more details, see *Tax Relief*.)

Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The 2001 budget increases total appropriated budget authority by \$30.8 billion over the 2000 program level, or 5.2 percent. Over five years, outlays for appropriated programs are \$7.3 billion above a zero real growth baseline (the level needed to stay even with inflation), but over ten years, they are \$11.7 billion below baseline.

! **Appropriated Programs for 2001** — The table below compares the 2001 budget with the 2000 levels. The 2001 budget repeals outlay timing shifts enacted in 2000 appropriations, such as the federal employee pay delay. The repeal of these timing shifts is shown in the table for both defense and non-defense. To make the 2000 and 2001 budget authority figures comparable, the table also adjusts the enacted 2000 budget authority upward by \$14.4 billion to reflect the fact that 2000 funding is, for some agencies, artificially low; last fall, Congress shifted that amount of funding from 2000 to 2001 in the “13-month” gimmick it used to avoid the caps. This is essentially a timing shift as well, but affects only budget authority. Finally, the table does not include the President’s offsets to appropriated programs for 2001, totaling \$7.9 billion in budget authority and \$7.5 billion in outlays. These offsets are a combination of cuts in mandatory programs and increases in revenues that are (presumably) to be enacted by the Appropriations Committee. They are reflected instead as mandatory or revenue proposals.

Appropriations (in billions of dollars)

| | 2000 | | 2001 | | Increase/Decrease | |
|------------------------------|--------------|--------------|--------------|--------------|-------------------|-------------|
| | BA | Outlays | BA | Outlays | BA | Outlays |
| Defense | 294.1 | 286.5 | 306.3 | 296.8 | 12.2 | 10.3 |
| Outlay Timing Shifts | 0.0 | 4.7 | 0.0 | -4.7 | 0.0 | -9.4 |
| Subtotal, Defense | 294.1 | 291.2 | 306.3 | 292.1 | 12.2 | 0.9 |
| Non-Defense | 297.3* | 325.1 | 315.9 | 343.1 | 18.6 | 18.0 |
| Outlay Timing Shifts | 0.0 | 1.3 | 0.0 | -1.3 | 0.0 | -2.6 |
| Subtotal, Non-Defense | 297.3 | 326.4 | 315.9 | 341.8 | 18.6 | 15.4 |
| Total | 591.4 | 617.5 | 622.2 | 633.9 | 30.8 | 16.4 |

*Includes \$14.4 billion in advance appropriations, for comparability.

! **The Long-Term Outlook** — When analyzing overall levels for appropriated programs, it is best to use outlays because of anomalies associated with the timing of budget authority. In aggregate, the President’s budget increases outlays for appropriated programs only slightly above a zero real growth baseline; outlays from 2001-2005 are a total of \$7.3 billion more than a zero real growth baseline, less than \$1.5 billion per year on average.¹ Over ten years, outlays are \$11.7 billion below the baseline.

**Increases or Decreases in Appropriated Outlays
Relative to a Zero Real Growth Baseline
(Dollars in Billions)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2001- 2005 | 2000- 2010 |
|--------------------------|------|------|------|------|------|------|---------------|---------------|
| Defense | 1.6 | 1.6 | -1.2 | -1.7 | -1.2 | 5.1 | 2.6 | 7.7 |
| Non-Defense | 0.7 | 2.8 | 4.0 | 1.6 | -0.8 | -2.8 | 4.8 | -19.3 |
| TOTAL | 2.3 | 4.4 | 2.7 | -0.1 | -2.0 | 2.3 | 7.4 | -11.6 |
| Repeal of Timing Shifts* | 6.0 | -6.0 | 0.0 | 0.0 | 0.0 | 0.0 | -6.0 | -6.0 |

*Repeal of timing shifts are not included in the defense and non-defense levels.

Viewed in an historical context, the President’s budget is restrained. Even when the nation suffered from chronic deficits, outlays for appropriated programs, especially non-defense, steadily increased, with two of the largest increases posted in 1999 and 2000. In fact, measured in constant 2000 dollars, the President’s budget for appropriated programs is 2.5 percent **less** than the average appropriation during the Bush Administration (1989-1992).

! **Raising and Extending the Caps** — The last two years, Congress demonstrated that the appropriations caps established by the 1997 BBA were not realistic for 1999 and 2000. As the table on the next page indicates, OMB estimates that through a combination of emergency designations of dubious merit (such as the decennial census), timing shifts, advance appropriations, and other means, Congress succeeded in providing considerably more appropriated funding for 1999 and 2000 than the caps allowed. While some of this increase was for legitimate emergencies, the vast bulk reflects a bipartisan consensus to increase defense, education, biomedical research, and other programs in real terms, and

¹This analysis excludes \$6.0 billion in 2000 “costs” and 2001 “savings” from the repeal of outlay timing shifts included in 2000 appropriations, such as the federal employee pay delay.

a bipartisan unwillingness to cut other programs to stay within the BBA caps. The President's budget raises the caps to more realistic levels — equal to his budget proposals less his “mandatory and revenue offsets” — and extends them through 2010.

| Appropriations Actions to Increase the Caps | | | | |
|--|--------------------|--------------------|--------------------|---------------------|
| (OMB estimates, in billions of dollars) | | | | |
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>Total</u> |
| BA | 3.0 | 26.4 | 49.3 | 78.7 |
| Outlays | 1.0 | 13.5 | 29.8 | 44.3 |

Health

Access to Affordable Health Care

For access to affordable health care, President Clinton's 2001 budget increases spending by \$110 billion over 10 years (2001-2010) relative to a baseline projection of current law. The budget improves the affordability of health insurance for at least five million Americans, and expands access to health insurance for millions of others.

- ! ***Affordable Family Health Insurance Option*** — The budget builds on the State Children's Health Insurance Program (S-CHIP) by giving states a new coverage option for the parents of children who are eligible for S-CHIP or Medicaid.
- ! ***Health Insurance Options for Those Facing Unique Coverage Barriers*** — The budget creates several coverage options or makes existing options more affordable for people ages 55-64, the unemployed, small businesses without health plans, some legal immigrants, and others.

Medicare

- ! ***Extend Medicare Solvency*** — The budget extends the life of the Medicare Part A Trust Fund to at least 2025 by dedicating \$299 billion of the non-Social Security surplus to the Part A Trust Fund over 10 years. The 1999 annual report of the Social Security and Medicare Trustees reported that the Medicare Part A Trust Fund would be exhausted in 2015 without changes in current law.
- ! ***Prescription Drug Coverage*** — The budget establishes a voluntary outpatient prescription drug benefit available to all Medicare beneficiaries. The drug benefit provides first-dollar coverage, pays half of beneficiaries' prescription drug costs up to certain limits, and requires beneficiaries to pay a monthly premium in addition to the existing Part B premium.
- ! ***Reserve Fund for Catastrophic Prescription Drug Coverage*** — The budget portrays a reserve fund (\$35 billion through 2010) for catastrophic prescription drug coverage beginning in 2006. However, because the budget reflects no spending on such benefits during this time, the reserve fund currently represents another means of paying down the debt rather than increasing spending on Medicare benefits.

- ! **Medicare Buy-in** — The budget expands health care options for older Americans by allowing people between the ages of 55-64 to buy into Medicare. The budget establishes a tax credit to accompany the buy-in. (See *Tax Credits for Affordable Health Care* section.)

- ! **Fee-for-Service Modernization** — The budget provides fee-for-service (traditional) Medicare with a variety of purchasing and quality management tools used in the private sector. The fee-for-service modernization package reduces projected Medicare spending by \$3.2 billion over five years (2001-2005).

- ! **Competitive Defined Benefit (CDB)** — The budget establishes the CDB to modernize managed care payments by introducing price competition into the payment process in 2003. This package decreases projected Medicare spending by \$1.8 billion over five years (2001-2005).

- ! **Other Reductions in Provider Payments** — The budget extends several provider update reductions included in the Balanced Budget Act (BBA) of 1997. These cuts (so-called BBA extenders) are not as deep as the cuts in the BBA, and they are effective for three years (2003-2005). Overall, the cuts in provider updates decrease projected Medicare spending by \$6.4 billion over three years. Most of the savings (\$4.3 billion of the \$6.4 billion) result from reducing the update for prospective payment system hospitals.

- ! **Provider User Fees** — The budget imposes several new fees on Medicare providers to fund a number of administrative purposes ranging from provider certification to processing of duplicate claims. The fees total \$355 million for 2001.

Medicaid and the State Children’s Health Insurance Program (S-CHIP)

Highlights of Medicaid Improvements and Expansions

- ! **Access to Health Care** — The budget expands the Medicaid and S-CHIP programs in the following ways: (1) makes permanent the Medicaid transitional fund for those moving from welfare to work; (2) simplifies the enrollment procedures; (3) allows coverage of 19 and 20-year-olds; and (4) restores Medicaid coverage for certain legal immigrants (the disabled, pregnant women, and children) regardless of their date of entry into the United States.

- ! **Immediate Medicaid Eligibility for Pregnant Women and Children** — The budget gives states the option to expand the types of entities permitted to make pregnant women and child immediately eligible (presumptive eligibility) for Medicaid benefits.

- ! **Expanded Coverage** — The budget gives states the option of providing Medicaid benefits for treatment to uninsured women diagnosed with breast or cervical cancer at existing screening centers and requires states to pay for smoking cessation drugs.

Highlights of Medicaid Reductions

- ! **Reduce Administrative Costs** — The budget reduces each state's Medicaid grant by the amount of Medicaid-related costs that were previously charged to the former AFDC program. States are given flexibility to use funds from the Temporary Assistance for Needy Families (TANF) block grant to cover shared TANF-Medicaid costs.
- ! **Reduce Costs of Generic Drugs** — The budget requires generic drug manufacturers, not just brand name manufacturers, to pay an additional dollar-for-dollar rebate to the Medicaid program if they increase the price of their drugs in excess of increases in the consumer price index-urban (CPI-U).

Tax Credits for Affordable Health Care

- ! **Health-Related Tax Credits** — The budget establishes several tax credits to increase access to health insurance. They are: (1) a credit equal to 25 percent of the required premium costs for the Medicare buy-in; (2) a credit equal to 25 percent of COBRA's required premiums; (3) a credit equal to 20 percent of the employer's contributions for those small employers (2-50) who do not currently offer health coverage to employees; (4) a \$1,000 credit for disabled workers for impairment-related work expenses; and (5) a \$3,000 long-term care credit for the taxpayer, a spouse, or a dependent with long-term care needs. These tax credits lose \$12.9 billion in revenues over five years (2001-2005) and \$39.1 billion over ten years (2001-2010).

Health Programs Subject to Annual Appropriations

- ! **National Institutes of Health (NIH)** — President Clinton's 2001 budget funds NIH at \$18.8 billion, an increase of \$1 billion (5.6 percent) over the 2000 level. The budget repeals current law that prohibits NIH from using \$3 billion of its 2000 appropriation until the last day of the fiscal year.
- ! **Ryan White AIDS Programs** — For 2001, the budget funds Ryan White AIDS programs at \$1.7 billion, an increase of \$125 million (7.8 percent) over the 2000 level.

- ! **Title X Family Planning** — The budget funds Title X family planning programs at \$274 million for 2001, an increase of \$35 million (14.6 percent) over the 2000 level.
- ! **Maternal and Child Health (MCH) Block Grant** — For 2001, the budget funds the MCH block grant at \$799 million, the same as the 2000 level. The budget repeals a provision of current law that prohibits using \$450 million of the 2000 appropriation until the last day of the fiscal year.

- ! **Substance Abuse and Mental Health Services Administration (SAMHSA)** — The budget funds SAMHSA at \$2.8 billion for 2001, an increase of \$171 million (6.4 percent) over the 2000 level. The budget repeals a provision of current law that prohibits SAMHSA from using \$200 million of its 2000 appropriation until the last day of the fiscal year.

- ! **Centers for Disease Control and Prevention (CDC)** — For 2001, the budget funds CDC at \$3.2 billion, an increase of \$202 million (6.7 percent) over the 2000 level. Because of transfers from other accounts and agencies, CDC's program level for 2001 is \$3.5 billion, an increase of \$195 million (5.8 percent) over the 2000 level. The budget repeals a provision of current law that prohibits CDC from using \$500 million of its 2000 appropriation until the last day of the fiscal year.

- ! **Childhood Immunizations** — For 2001, the budget provides \$999 million for immunizations, including \$530 million in discretionary funds appropriated to CDC and \$469 million in Medicaid funds for the Vaccines of Children (VCF) programs.

- ! **Food and Drug Administration (FDA)** — FDA's funding level for 2001 is \$1.2 billion, an increase of \$138 million (13.1 percent) over the 2000 level. In addition to providing these funds, the budget imposes user fees of \$203 million for 2001, an increase of \$25 million over the 2000 level, and new fees for food additives, food export, and medical devices.

- ! **Food Safety and Inspection Service (FSIS)** — For 2001, the budget funds FSIS at \$154 million and levies user fees of \$534 million on the meat, poultry, and egg industries to fund FSIS inspection activities. The budget shifts the entire cost of FSIS in-plant inspection from the federal government to these private industries. The user fee proposal is identical to one included in last year's budget.

Education

President Clinton's budget provides \$40.1 billion in discretionary funding for education, an increase of \$4.5 billion (12.6 percent) over the 2000 level. For mandatory programs, the budget reduces spending by \$2.3 billion relative to a projection of current law, which reflects policy changes to reduce payments to banks in the student loan program and to recall federal reserves held by guaranty agencies. The budget increases to \$54.2 billion postsecondary aid to 8.6 million students, an increase of \$2.8 billion (5.5 percent).

- ! **Tax credits** — The President's budget includes several tax cuts to benefit students, including two new tax credits: (1) a College Opportunity Tax Cut, which provides a 28 percent tax deduction or credit on the first \$10,000 of tuition and fees for post-secondary education, at a cost of \$11.1 billion over five years; and (2) tax credits to pay interest on about \$25 billion in bonds for local communities to build or renovate school facilities, at a cost of \$2.4 billion over five years. (See *Tax Cuts* for more details.)

- ! **Renovate Schools** — The budget provides \$1.3 billion in loans and grants to high-poverty school districts unable to fund urgent repairs. Most will subsidize seven-year no-interest loans to leverage nearly \$6.7 billion for roughly 8,300 renovation projects.

- ! **Reduce Class Size** — The budget provides \$1.75 billion to fund the third year of the President's initiative to improve educational results by reducing class sizes in the early grades to 18 students per class. This additional funding of \$450 million above the 2000 level will fund as many as 49,000 teachers, almost half the final goal of hiring 100,000 teachers over seven years.

- ! **Expand After-school Programs** — The budget includes \$1.0 billion for 21st Century Community Learning Centers, an increase of \$547 million, more than double the 2000 level. This is enough to let each low-performing school serve all eligible students.

- ! **Special Education** — The budget increases special education funding from the 2000 level of \$6.0 billion to \$6.4 billion, and provides \$5.3 billion for state grants, an increase of \$290 million.

Selected New Education Programs

- \$1.3 billion: school renovation program
- \$1.0 billion: teacher quality initiatives
- \$120 million: smaller, safer high schools
- \$50 million: reward states that improved student achievement in math
- \$40 million: Dual Degree for Minority-Serving Institutions program
- \$35 million: College Completion Challenge Grants

- ! **Improve Teacher Quality** — The budget includes \$1.0 billion to raise the quality of classroom instruction. This includes: (1) \$690 million for *Teaching to High Standards*, new grants to promote professional development; (2) \$75 million for *Hometown Teacher Recruitment* for high-need communities; (3) \$50 million for *Higher Standards, Higher Pay* for high-poverty districts; (4) \$50 million for *Teacher Quality Incentives* for districts that reduce the number of teachers teaching outside their subject area; and (5) \$40 million for *School Leadership* centers to train principals and superintendents.

- ! **Education for the Disadvantaged (Title I)** — The budget includes \$9.1 billion to help children in high-poverty school districts, up \$449 million (5.2 percent) from the 2000 level. Of this total, \$250 million is focused on holding schools accountable for results.

- ! **Educational Technology** — The budget provides \$903 million to expand access to educational technology, an increase of \$137 million (17.9 percent) above the 2000 level. This funding includes: (1) a new \$170 million *Next Generation Technology Innovation* program (that replaces the Technology Innovation Challenge Grants and Star Schools); (2) \$150 million to train teachers (double the 2000 level); and (3) \$100 million for technology centers in low-income communities (more than three times the 2000 level).

- ! **Pell Grants and Campus-based Programs** — The budget increases funding for Pell Grants by \$716 million (9.4 percent) to \$8.4 billion, and increases the maximum award from \$3,300 to \$3,500. It provides \$1.9 billion for campus-based programs, including \$1.0 billion for the Work Study program (\$77 million above the 2000 level), and \$691 million for Supplemental Educational Opportunity Grants (up \$60 million).

- ! **College Preparation and Completion** — The budget includes \$325 million for GEAR UP, up \$125 million (62 percent) from the 2000 level. It provides \$725 million for TRIO programs (up \$80 million), which includes \$35 million for new *College Completion Challenge Grants*.

- ! **Student Loans** — The budget reduces costs in the Federal Family Education Loan and the Direct Loan programs by \$2.3 billion in 2001 and \$3.8 billion over 2001-2005 relative to a baseline projection of current law. The changes include: (1) reducing lender subsidies (\$329 million savings in 2001); (2) reducing the percentage that guaranty agencies retain from collections of defaulted loans (\$648 million savings in 2001); and (3) recalling more reserve funds held by guaranty agencies (\$1.3 billion savings in 2001).

National Defense

President Clinton's budget for 2001 provides \$306.3 billion in discretionary funding for national security activities, including \$292.2 billion for the Department of Defense (DOD), \$13.1 billion for nuclear weapons-related activities of the Department of Energy (DOE), and \$1.0 billion for defense activities in various other agencies.

The President's 2001 Defense Budget *Discretionary Budget Authority in Billions of Dollars*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| DOD | 280.9 | 292.2 | 295.9 | 302.0 | 309.2 | 317.3 |
| DOE | 12.2 | 13.1 | 13.2 | 13.4 | 13.8 | 13.9 |
| Other | 1.0 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 |
| Total | 294.1 | 306.3 | 310.1 | 316.4 | 324.1 | 332.4 |

- ! **A Significant Increase** — The 2001 level is \$12.2 billion more than the 2000 level (4.2 percent). In inflation-adjusted (real) terms, the President's budget provides a 1.3 percent increase. (The 2000 level shown above reflects a \$2.3 billion supplemental requested in the 2001 budget to cover costs associated primarily with Kosovo.)

- ! **Military Readiness** — The budget includes \$109.1 billion for Operation and Maintenance (O&M), an account critical to readiness, an increase of \$4.4 billion (4.2 percent) over the 2000 level. Last year, the 2000 Consolidated Appropriations bill actually cut the President's request for this account by more than \$500 million.

- ! **Procurement and National Missile Defense** — The budget includes \$60.3 billion for military procurement, meeting the goal of \$60 billion that was established by the Joint Chiefs of Staff. The budget also includes \$1.9 billion (mostly research funding) for a ground-based national missile defense system. The Administration is scheduled to decide this summer whether to deploy the missile defense system by 2005.

- ! **Military Pay and Quality of Life Initiatives** — The 2001 budget provides a pay raise of 3.7 percent. The budget includes funding to eliminate out-of-pocket expenses paid by military personnel for off-base housing by 2005. The budget also provides funds to build 27,800 new units of housing for 2001, which is 6,900 more units than will be acquired in 2000, and almost triple the number acquired in 1999.

! **Department of Energy** — The budget includes \$13.1 billion for DOE's national security activities, which is an increase of \$927 million (7.6 percent) over the 2000 level.

Low-Income Programs

President Clinton's budget includes a number of changes affecting programs that serve low-income people, with an emphasis on expanding support for working families.

- ! **Child Care**—The budget contains a child care initiative similar to the ones proposed in each of the past two years. It: (1) increases discretionary funding for the Child Care and Development Block Grant by \$817 million, providing a total of \$2.0 billion for 2001; (2) funds a new mandatory Early Learning Fund at \$600 million a year; (3) increases funding for summer and after-school activities under the 21st Century Community Learning Centers by \$547 million, providing \$1.0 billion for 2001; (4) expands the Child and Dependent Care Tax Credit by making it refundable, increasing the amount for families earning up to \$60,000, and extending a credit to parents who stay at home with an infant, at a total cost of \$7.5 billion over five years; and (5) creates a new tax credit for businesses that provide child care services to their employees, at a cost of \$539 million over five years. (See also *Education* and *Tax Relief*.)
- ! **Earned Income Tax Credit (EITC)**—The budget expands the EITC for married couples and larger families by: (1) increasing the maximum credit for families with three or more children; (2) slowing the rate at which the credit phases out for families with two or more children; and (3) allowing higher combined earnings for married couples. These changes cost \$2.3 billion in 2001 and \$11.5 billion over five years. (See also *Tax Relief*.)
- ! **Child Support Enforcement**—The budget contains measures to increase child support collections and to pass on to current and former welfare recipients more of the support collected on their behalf. These changes increase spending by \$2 million in 2001 and save \$57 million over five years, relative to projected spending under current law.
- ! **Legal Immigrants**—The budget restores Supplemental Security Income (SSI), food stamp, and Medicaid benefits to certain legal immigrants who lost eligibility due to the 1996 welfare law, at a total cost of \$2.5 billion over five years. First, it extends SSI and related Medicaid to immigrants who entered the country after the welfare law was enacted (August 22, 1996), who live in the U.S. for more than five years and become disabled after entry. Second, it restores food stamps to eligible legal immigrants who were in the country at the time of enactment and who subsequently reach age 65 or live with children eligible for food stamps. Finally, it restores the state option to cover some legal immigrants (the disabled, pregnant women, and children) under Medicaid and the State Children's Health Insurance Program regardless of their date of entry.

! **Head Start, Section 8, and Social Services Block Grant** —The budget provides \$6.3 billion for Head Start for 2001, an increase of \$1.0 billion (19 percent) above the 2000 level. It funds the renewal of all expiring Section 8 housing vouchers and provides an additional \$690 million for 120,000 new housing vouchers. It includes \$1.8 billion for the Social Services Block Grant, a \$75 million increase above current law and the same level as 2000.

Environment

President Clinton's 2001 budget includes several initiatives to protect the environment and to preserve our nation's natural resources. Foremost is the Lands Legacy Initiative, a \$1.4 billion plan to conserve our natural treasures, preserve local green spaces, and protect ocean and coastal resources. In addition, the budget contains environmental initiatives addressing agriculture, climate change, clean air and water, salmon recovery, and international concerns. These proposals involve several federal agencies and provide new resources for state and local participation. For environment-related research efforts, see the discussion in *Research*.

Lands Legacy Initiative

Like last year's budget, the 2001 budget contains a comprehensive Lands Legacy Initiative to expand federal protection of critical lands, help states and communities preserve local green spaces, and strengthen protections for oceans and coasts. However, the 2001 initiative differs from the 2000 proposal in two ways. First, the 2001 initiative provides significantly more funding than the President's 2000 budget and nearly doubles the actual appropriations for 2000. The 2001 funding level is \$1.4 billion, while the President's 2000 budget requested just over \$1.0 billion and the 2000 appropriated level was \$727 million. Second, the 2001 initiative places the \$1.4 billion in a new capped appropriations budget category similar to the ones created for highway and mass transit funding in 1998. With this cap, Congress will be unable to shift conservation funding to other appropriated programs. Of the total 2001 funding, \$600 million comes from the Land and Water Conservation Fund.

Lands Legacy Initiative

(budget authority in millions of dollars)

| | 2000 Enacted | 2001 | Change from 2000 |
|--|-----------------|--------------|---------------------|
| Federal Land Acquisition | | | |
| Department of Interior | 264 | 320 | 56 |
| U.S. Forest Service | 156 | 130 | -26 |
| Subtotal | 420 | 450 | 30 |
| State and Local Assistance | | | |
| Department of Interior | 80 | 415 | 335 |
| U.S. Forest Service (USDA) | 61 | 106 | 45 |
| Subtotal | 141 | 521 | 380 |
| Ocean and Coastal Protection (NOAA) | 166 | 429 | 263 |
| Total, Lands Legacy | 727 | 1,400 | 673 |

Other Environmental Proposals

- ! ***Farm Conservation Initiative*** — As part of a larger effort to strengthen the farm safety net, the President's budget includes a \$1.3 billion increase in mandatory spending for 2001 to help farmers preserve farmland and protect water quality and the environment. The centerpiece of the initiative is a new \$600 million Conservation Security Program that would pay farmers who voluntarily adopt various conservation practices. The budget devotes the rest of the increase to existing conservation-related farm programs.

- ! ***Better America Bonds*** — As part of the Administration's Livable Communities initiative, the budget provides a new financing tool for states, tribes, and localities to preserve green spaces and spur economic activity in distressed urban areas. For 2001, the federal government will competitively distribute \$2.2 billion in bond authority for zero-interest bonds, for which the federal government will provide tax credits in lieu of interest. The budget provides \$10.8 billion in bond authority over five years, with an estimated cost of \$700 million over that period.

- ! ***Clean Water Action Plan*** — The budget devotes \$2.4 billion in appropriated funding for 2001 to the third year of the Clean Water Action Plan, an increase of \$426 million (21.4 percent) from last year's level. That sum includes \$334 million for the multi-agency restoration of the Florida Everglades and \$60 million for restoration of the California Bay-Delta. Also a part of the action plan is the \$325 million in mandatory spending for the Environment Quality Incentives Program, which provides financial and technical assistance to farmers wishing to implement conservation practices on land currently in production. This spending level is \$151 million (86.8 percent) higher than the 2000 level and \$125 million higher than a baseline projection of current law.

Tax Relief

Summary

President Clinton's budget includes \$101.7 billion in gross tax relief over five years and \$351.4 billion over ten years. Approximately \$37 billion of the tax relief represents refundable tax credits for the Earned Income Tax Credit (EITC) and other provisions. Tax relief is offset by a variety of other tax provisions that raise \$47.2 billion over five years and \$95.6 billion over ten years. The President's budget also includes new policies related to the environment, the Airport and Airway Trust Fund, tobacco, and various other items that offset an additional \$44.2 billion over five years and \$85.2 billion over ten years.

The budget targets tax relief to specific policy objectives such as promoting education, reducing poverty, strengthening community revitalization, broadening health care availability, strengthening families, promoting retirement savings, providing relief from the individual alternative minimum tax (AMT), encouraging philanthropy, and safeguarding the environment. In many cases, these tax changes complement program initiatives aimed at the same goals.

Some of the cost of these tax initiatives is offset by the President's policies to limit the benefits of corporate tax shelter transactions. The budget's tax offsets build upon those the President proposed last year. The budget also reinstates Superfund taxes, converts Airport and Airway Trust Fund taxes to a cost-based user fee system, increases the excise tax on tobacco, and addresses other policy goals that further offset the revenue loss of the budget's tax relief.

Highlights of Major Tax Cuts

- ! ***Expanding Educational Opportunities*** — The budget includes a number of education initiatives. (See discussion of education policy in *Education*.) The two most important are:
- ! ***College Opportunity tax cut*** — The President's budget allows a tax deduction of up to \$10,000 of tuition and fees for any postsecondary education, including training and graduate school. Alternatively, families have the option to take a 28 percent credit, enabling families to receive up to \$2,800 in tax relief. This provision costs \$11.1 billion over five years and \$29.8 billion over ten years.
- ! ***School Modernization*** — The budget includes a tax credit to lower the cost of bonds issued to finance school modernization. The credit applies to \$24.8 billion in such bonds

over two years to modernize up to 6,000 schools. This provision costs \$2.4 billion over five years and \$8.0 billion over ten years.

- ! ***Poverty Relief and Community Revitalization***—The budget includes several tax initiatives to revitalize and aid communities. (See discussion of other programs in *New Markets Initiative* and *Housing and Income Assistance*.)

- ! ***Expanding and simplifying the Earned Income Tax Credit (EITC)*** — The budget increases the child credit for families with three or more children receiving the EITC and reduces the rate at which the EITC phases out by two percentage points. This delivers up to \$1,200 of tax relief to 6.4 million families. This provision costs \$10.2 billion over five years and \$20.5 billion over ten years.

- ! ***Expanding the low-income housing tax credit*** — The low-income housing credit is allocated at a rate of \$1.25 per capita per year for each state. The budget includes a 40 percent increase to \$1.75 per capita. This credit costs \$1.0 billion over five years and \$5.7 billion over ten years.

- ! ***Empowerment Zones and the New Markets tax credit*** — The President’s budget expands incentives for investment in Empowerment Zones and increases their number. In addition, the budget more than doubles the New Markets tax credit. Together, these initiatives cost \$4.0 over five years and \$9.5 billion over ten years.

- ! ***Making Health Care More Affordable***— The budget includes tax relief and tax incentives to make health care less costly and to expand health insurance coverage. These tax provisions buttress program initiatives. (See *Health* for details.)

- ! ***Tax credits for long-term care*** — The President’s budget provides eligible people with long-term care needs (e.g., those people unable to do at least three activities of daily living) or their care-givers with a \$3,000 tax credit to offset the cost of care. This initiative costs \$8.4 billion over five years and \$25.4 billion over ten years.

- ! ***Making health coverage more affordable for workers losing coverage*** — The budget provides workers and retirees who lose employer-based health insurance with a 25 percent nonrefundable tax credit for their contribution to the purchase of COBRA coverage. This initiative costs \$3.3 billion over five years and \$10.3 billion over ten years.

- ! ***Helping Families*** — The budget provides wide-ranging tax relief for families, including reduction of the marriage penalty, expanded child and dependent care credits, and relief

from the individual Alternative Minimum Tax (AMT). (See *Housing and Income Assistance* for related material.)

- ! ***Reducing the marriage penalty*** — The President’s budget increases the standard deduction for two-income couples to twice that of single filers, increasing it by more than \$2,000 when fully phased in. This provides substantial relief for 9.1 million married couples. The budget also increases the standard deduction for single-income couples by \$500 and for single filers by \$250. This proposal costs \$9.4 over five years and \$44.8 billion over ten years. (The changes in the EITC discussed above also reduce the marriage penalty faced by low-income families.)

- ! ***Expanding the child and dependent care tax credit*** — The budget makes the Child and Dependent Care Tax Credit refundable for the first time, increases the level of the credit, and extends the credit to families who stay home with their children. This provision costs \$4.6 billion over five years and \$16.6 billion over ten years.

- ! ***Alternative minimum tax (AMT) relief*** — The budget corrects design flaws in the individual AMT that would increasingly hurt middle-income families and complicate their tax preparation. When fully phased in, this provision will take more than 9 million families per year off the AMT at a cost of \$4.9 billion over five years and \$32.8 billion over ten years.

- ! ***Promoting Retirement Savings and Security*** — The budget creates new private accounts to help low- and moderate-income workers save for their retirement and includes tax incentives for employers to offer pensions.

- ! ***Retirement Savings Accounts (RSAs)*** — Both individuals and married couples can make contributions to investment accounts offered either by their employers or private financial institutions. Their contributions would be matched according to the size of their contribution and their income level. Withdrawals would be allowed before retirement, but only after five years of contributions and only for qualified purposes such as paying for medical care, buying a house, or paying for college. Furthermore, employers of workers receiving the EITC would receive a refundable tax credit for 100 percent of matching payments that they make to the RSAs of those workers. This initiative costs \$ 9.2 billion over five years and \$53.8 billion over ten years.

- ! ***Promoting Energy Efficiency and a Cleaner Environment*** — The budget provides a tax credit for new energy-efficient homes, extends the electric vehicle tax credit, provides a tax credit for hybrid vehicles, and includes other tax initiatives for the environment. Together, these provisions cost \$4.0 billion over five years and \$9.3 billion over ten years. (See *Environment* for discussion of environmental policy initiatives.)
- ! ***Encouraging Philanthropy*** — The budget allows deductions for charitable contributions by non-itemizing taxpayers and creates other tax incentives to promote philanthropy. Together, these provisions cost \$4.3 billion over five years and \$13.9 billion over ten years.

Major Revenue Raisers

The President's budget divides revenue increasing measures into two broad categories: explicit revenue offsets and other policy initiatives that have revenue consequences. The former consists largely of the President's policies to limit unwarranted tax benefits. The latter consists primarily of reinstating Superfund taxes, converting aviation taxes to user fees, increasing tobacco excise taxes, and assessing a fee on tobacco manufacturers for not achieving youth smoking targets.

Major Revenue Offsets:

- ! ***Unwarranted tax benefits of corporate tax shelter transactions*** — The President's budget institutes a new initiative to prevent abuse of tax shelters. This initiative includes requirements for increased disclosure of certain transactions, modification of penalties for substantial understatement of taxes because of abusive shelters, codifying the economic substance doctrine, taxing income from shelters involving tax-indifferent parties, and imposing a penalty excise tax on certain fees received by shelter promoters. This initiative raises \$7.3 billion over five years and \$14.5 billion over ten years.
- ! ***Expanding upon last year's proposals for revenue offsets*** — The budget contains 80 modifications of tax law that raise revenue to offset the President's tax relief. These provisions increase revenues by \$39.8 billion over five years and by \$81.2 billion over ten years.

Other Major Policies That Affect Revenues:

- ! ***Reinstating Superfund taxes*** — The budget reinstates both Superfund excise taxes and the environmental tax on corporate taxable income. These initiatives raise \$6.3 billion over five years and \$12.9 billion over ten years.

- ! ***Converting aviation taxes to user fees*** — The budget changes Airport and Airway Trust Fund taxes to a cost-based user fee system. This provision raises \$6.7 billion over five years and \$9.0 billion over ten years.

- ! ***Tobacco policy*** — The budget raises the excise tax on tobacco products to an equivalent of \$0.64 per pack of cigarettes. In addition, revenues are increased due to assessments starting in 2004 that penalize tobacco manufacturers that do not meet targets for reducing teen smoking. These initiatives raise \$31.2 billion over five years and \$65.9 billion over ten years.

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET
Billions of Dollars

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | FiveYears 2001-2005 | Ten Years 2006-2010 |
|--|------|------|-------|-------|-------|-------|------------------------|---------------------------|
| Expand education initiatives | -0.1 | -0.7 | -2.4 | -2.8 | -3.9 | -4.4 | -14.2 | -39.2 |
| Provide poverty relief and revitalize communities | 0.0 | -2.5 | -2.8 | -3.6 | -4.1 | -4.6 | -17.6 | -42.0 |
| Make health care more affordable | 0.0 | -0.1 | -1.3 | -2.8 | -3.9 | -4.7 | -12.9 | -40.1 |
| Strengthen families and improve work incentives | 0.0 | -0.4 | -1.5 | -2.6 | -3.6 | -6.4 | -14.5 | -62.9 |
| Promote expanded retirement savings | -0.0 | 0.1 | -1.0 | -3.3 | -4.8 | -8.0 | -17.0 | -77.3 |
| AMT relief and tax law simplification | -0.2 | -0.9 | -1.2 | -1.4 | -1.8 | -2.2 | -7.4 | -38.2 |
| Encourage philanthropy | 0.0 | -0.6 | -1.2 | -0.8 | -0.9 | -0.9 | -4.3 | -13.9 |
| Promote energy efficiency and improve the environment | 0.0 | -0.2 | -0.4 | -0.7 | -1.2 | -1.6 | -4.0 | -9.3 |
| Modification of international trade provisions | -0.0 | -0.5 | -0.8 | -0.9 | -0.8 | -0.2 | -3.2 | -8.2 |
| TOTAL GROSS TAX RELIEF INCLUDING REFUNDABLE TAX CREDITS | -0.2 | -5.9 | -13.4 | -19.8 | -27.4 | -35.3 | -101.7 | -351.4 |
| OFFSETS FOR TAX RELIEF PROVISIONS: | | | | | | | | |
| (Eliminate unwarranted benefits and adopt other revenue measures) | 0.0 | 2.3 | 2.0 | 2.0 | 2.1 | 2.2 | 10.7 | 22.9 |
| (Other revenue measures) | 0.1 | 3.5 | 7.2 | 7.6 | 8.6 | 9.5 | 36.4 | 72.8 |
| NET TAX RELIEF INCLUDING REFUNDABLE CREDITS | -0.1 | -0.0 | -4.2 | -10.1 | -16.7 | -23.6 | -54.6 | -255.7 |
| OTHER POLICIES AFFECTING RECEIPTS | 0.6 | 9.1 | 5.2 | 5.5 | 12.3 | 12.1 | 44.2 | 85.2 |
| TOTAL EFFECT OF TAX PROPOSALS | 0.5 | 9.1 | 1.0 | -4.6 | -4.4 | -11.5 | -10.4 | -170.5 |

Civilian and Military Pay and Retirement

President Clinton's budget includes pay raises for federal employees and military personnel, repeals delayed pay dates for military and civilians, repeals increased employee contributions to retirement plans, and allows federal employees to pay health insurance premiums with pre-tax income. The budget also offers government-wide buyout incentives and long-term care insurance for federal employees, and allows immediate participation in the Thrift Savings Plan (TSP) for new and rehired federal employees.

- ! **Federal Employees Pay Raise** — The budget increases federal civilian pay rates by 3.7 percent in January 2001, the same as the raise for military personnel.
- ! **Repeal of Delay in Military and Civilian Pay Day** — The budget repeals the provision included in the Omnibus Consolidated Appropriations Act of 2000 that delayed pay dates for all military and federal civilian employees who are scheduled to be paid on September 29 or September 30, 2000, to October 1, 2000. The budget restores the pay date to its original schedule, shifting approximately \$4.3 billion in spending back to 2000.
- ! **Repeal of Increased Employee Contribution to Retirement Plans** — The budget repeals a 1997 deficit reduction provision that increased employee payroll contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for all federal employees beginning in January 1999. The budget restores the employee contribution rates to pre-1999 levels, reducing revenues by \$1.2 billion dollars from 2001 through 2003.
- ! **Federal Workforce** — The Administration has cut the size of the federal civilian workforce by 377,000 employees (250,000 in DoD civilian employees), exceeding the goal of cutting 272,000 federal positions set by the Federal Workforce Restructuring Act. The federal government had 1.8 million civilian employees in 1999, making it the smallest federal workforce in 40 years and, as a share of the nation's total workforce, the smallest since 1960.
- ! **Buyouts** — The budget allows agencies to offer government-wide voluntary separation incentives of up to \$25,000 to support continuing agency downsizing efforts. Currently, buyout authority is available on an as-needed basis to any federal agency that is downsizing or reinventing, as is the case with DoD, the Department of Energy, and the Department of Veterans Affairs.
- ! **Long-term Care Insurance** — The budget makes private long-term care insurance available at negotiated group rates to federal employees, retirees, and qualifying family members.

The Office of Personnel Management (OPM) anticipates long-term care policies being available to the federal community at 15 to 20 percent below private insurance rates.

- ! ***Thrift Savings Plan (TSP)*** — The budget allows immediate participation in the Thrift Savings Plan (TSP) by new federal employees. Under current law, new or rehired federal employees must wait six to twelve months before contributing to the TSP.

- ! ***Federal Employees Health Benefits program (FEHB)*** — The budget allows federal employees to pay their annual health insurance premiums with before-tax wages. The budget also instructs OPM to work harder to hold down future premium increases to enable OPM to offer improved dental benefits.

Other Major Issues

New Markets Initiative

- ! **New Markets Initiative** — The President's New Markets Initiative includes funding and tax credits for several economic development programs. These include the following programs: (1) \$37 million for America's Private Investment Companies (APICs), which encourage businesses to relocate or expand in economically distressed areas; (2) \$52 million for New Markets Venture Capital (NMVCs), which encourage the growth of smaller firms by matching private investment equity with government-guaranteed debt and technical assistance funding; (3) \$6.6 million for BusinessLINC, a program designed to encourage networking and collaboration between small and large businesses in economically distressed areas; and (4) a 25 percent New Markets Tax Credit for community development banks, community-oriented equity funds, and other investment programs that could finance varied businesses and facilities in distressed communities.

The New Markets Initiative for 2001 also includes three new components: (1) \$15 million for the Program for Investment in Microentrepreneurs (PRIME), an initiative to provide technical assistance grants to microenterprise intermediaries that assist low-income entrepreneurs; (2) \$5 million for a pilot project to provide grants to help 10 to 12 law and business schools foster economic and business development in the schools' surrounding communities; and (3) \$30 million to provide financial and banking services for the approximately 10 million people who do not have access to these services.

Enhancing the Farm Safety Net

- ! President Clinton's budget strengthens the farm safety net through a supplementary income assistance program, increased conservation benefits, improved risk management, and expanded economic opportunities for farms and rural areas. Relative to a projection of current law, the budget provides an additional \$4.2 billion for the farm safety net proposal in 2001 and an additional \$10.4 billion over five years. Through both legislation (\$710 million) and administrative actions by the Secretary of Agriculture, the farm safety net proposal increases 2000 spending by \$940 million.

Veterans

- ! **Medical Care** — The President's budget includes \$20.9 billion for 2001 for veterans' medical care. This includes \$20.3 billion in appropriated funding, an increase of \$1.4 billion (7.2 percent) over the 2000 level. In addition, the budget assumes the Department of Veterans Affairs will receive \$608 million in reimbursements from private insurance

companies for treatment of veterans' non-service-connected conditions. This 7.2 percent increase will enable the Veterans Health Administration to continue its restructuring while also providing the enhanced services called for in last year's Veterans Millennium Health Care and Benefits Act. That law establishes a high priority for nursing home care for the most severely disabled veterans and also requires the agency to enhance its extended care programs.

International

- ! **International Affairs** — The 2001 budget includes \$22.8 billion for U.S. international activities: U.S. embassies and consulates throughout the world, military assistance to allies, aid to underdeveloped nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, U.S. payments to international organizations, and peacekeeping efforts. This represents about one percent of the federal budget. The 2001 level is almost \$1.2 billion less than the 2000 level. The 2000 level includes \$1.8 billion for the Wye River Middle East peace process and \$351 million for back dues (arrears) that the U.S. owes to the United Nations. Excluding these items from the comparison, the President's budget is \$1.0 billion (4.7 percent) more than the 2000 level.

Research Initiatives

President Clinton's budget includes \$42.9 billion for the 21st Century Research Fund (see table below), which includes \$2.9 billion for a new cross-disciplinary Science and Technology Initiative on long-term basic research. Some of the Fund highlights are listed below. (See also the discussion of National Institutes of Health research in *Health*.)

- **National Nanotechnology Initiative** — The budget includes \$495 million for a new initiative focusing on maneuvering matter at the atomic and molecular level.
- **Clean Energy** — The budget provides \$289 million for a new initiative to help meet the goal of tripling U.S. use of biobased products and bioenergy.
- **Climate Change Technology Initiative** — The budget provides \$1.4 billion for this government-wide initiative, an increase of \$333 million (30.3 percent) from the 2000 level, plus \$200 million in tax credits for using energy-efficient technologies.
- **University Research** — The budget increases funding for university-based research from \$16.5 billion to \$17.8 billion, with much of the gain at the National Science Foundation.

21st Century Research Fund (budget authority in billions of dollars)

| | 2000 estimate | 2001 request | % change 2000 - 2001 |
|---|------------------|-----------------|-------------------------|
| Health and Human Services | \$17.8 | \$18.8 | 5.6% |
| National Science Foundation | 3.9 | 4.6 | 17.3 |
| National Aeronautics and Space Administration | 4.9 | 5.2 | 5.5 |
| Department of Energy | 3.7 | 4.2 | 14.7 |
| Department of Defense | 4.6 | 4.4 | -4.8 |
| Department of Agriculture | 1.6 | 1.6 | 4.8 |
| Department of Commerce | 0.8 | 0.9 | 3.2 |
| Department of Transportation | 0.6 | 0.9 | 39.2 |
| Department of Interior (U.S. Geological Survey) | 0.8 | 0.9 | 10.1 |
| Environmental Protection Agency | 0.7 | 0.7 | 14.2 |
| Department of Education (Research) | 0.3 | 0.4 | 18.8 |
| Department of Veterans Affairs (Medical Research) | 0.3 | 0.3 | 0.0 |
| TOTAL: 21st Century Research Fund | 40.0 | 42.9 | 7.1 |
| (Total of Science and Technology Initiative) | | (2.9) | |

The Record Economic Expansion

This month, the current economic expansion became the longest in our nation's history. Various factors have contributed to the economy's sustained strength, most notably simultaneous technological advances in a number of fields. However, responsible fiscal policy that turned endless deficits into surpluses has played a crucial role. Democrats deserve credit for ending the debt and deficit policies of the Reagan-Bush era.

In 1990, a Democratic Congress took the first serious step to eliminate the deficit and stop the accumulation of debt. The Budget Summit Agreement of 1990 passed with the votes of only 47 Republican House Members and none of the current Republican leadership. In 1993, the second major effort to repair the government's finances, the Omnibus Budget and Reconciliation Act, passed without even a single Republican vote in either the House or the Senate. At the time, Republicans proclaimed that the package would sink the economy; these predictions could not have been more wrong. Finally, in 1997, Republicans negotiated a budget framework with the President and Congressional Democrats, thus closing the era of fiscal profligacy.

These fiscal achievements are removing the weight of government financing requirements from capital markets, thereby making an essential contribution to this investment-led expansion. Real (i.e. inflation-adjusted) business investment has advanced at more than a 10 percent annual rate over the last five years, the fastest sustained growth of new plant and equipment on record. This has boosted productivity growth to its fastest pace since the economy was recovering from the deep 1982 recession, when unemployment peaked at almost 11 percent. With that exception, we have not enjoyed such rapid productivity growth since the 1960s.

Rapid productivity growth has enabled the economy to grow quickly without inflation, setting records along the way. Since President Clinton first took office, 20.8 million jobs have been created. A phenomenal 92 percent of these jobs are in the private sector, the highest percentage since President Truman presided over the demobilization from World War II.

The unemployment rate has fallen to 4.0 percent, its lowest level in 30 years. The jobless rate has been at or below 5.0 percent for 34 months and below 6.0 percent for over five years. This is a far cry from its 7.3 percent level when President Bush left office and the 7.6 percent averaged during the Reagan years.

African-American and Hispanic unemployment rates are the lowest on record. The jobless rate for African Americans has fallen from 14.2 percent in 1992 to a record low 8.2 percent last month. The unemployment rate for Hispanics has fallen from 11.6 percent in 1992 to 5.6 percent last month, also a record.

Strong investment and productivity growth have meant that tight labor markets have not sparked inflation. In fact, inflation remains virtually non-existent. So-called “core” inflation, i.e. consumer prices excluding volatile food and energy items, was only 1.9 percent last year, its lowest rate since 1965. A broader measure of inflation, the GDP price index, rose only 1.4 percent and over the last two years posted its smallest increase since 1963.

Strong productivity growth also has boosted the growth of real wages to its best pace in three decades. In the last 12 months, average hourly earnings have risen 3.7 percent, well ahead of inflation. Wages have grown faster than inflation for the last five consecutive years, the longest sustained advance since the 1960s. Since 1993, real wages are up 6.6 percent, after *declining* 4.3 percent during the Reagan and Bush years.

Responsible fiscal policy was an essential ingredient in achieving the best economy in three decades. The strong economy, in turn, has improved the government’s finances to the point that we now project budget surpluses for the next decade. Democrats intend to continue along the path of fiscal caution so as not to jeopardize these twin accomplishments. We now face an opportunity to pay down the public debt built up during the Reagan and Bush years, and President Clinton has responded by putting forth a budget that would completely extinguish that debt in 13 years.

Economists of virtually all political persuasions, including Federal Reserve Chairman Greenspan, argue that paying down the public debt is a crucial way to prepare for the fiscal challenges facing Social Security and Medicare after 2010. The hard work Democrats have done has made it possible to do this while simultaneously providing targeted tax relief and funding essential investments in education, defense, the environment, scientific research, and health care.