

M E M O R A N D U M

January 24, 1992

TO: SENATOR DOLE
FROM: JIM WHITTINGHILL
SUBJECT: FLOOR STATUS

Friday afternoon, Senators Wirth and Wellstone sent to the desk first and second degree amendments (second is attached) which state the Sense of the Senate that the Budget Agreement should be changed to provide that defense spending be reduced and the money transferred to education.

We believe a Section 306 point of order lies against the Amendment, since it is within the jurisdiction of the Budget Committee and it was not reported by the Budget Committee. This is a 60 vote point of order.

We did allow Senator Kennedy to send an unrelated first degree amendment to the desk, but only with consent that the Wirth Amendment be pending upon our return to the Bill at noon on Monday. Leader time has been reserved and there is no morning business.

The Department of Education could not come up with any good ideas for an amendment for you, but you still have two places reserved, one of which might be needed to counteract the Wirth Amendment.

All remaining amendments must be offered by 3:00 P.M. on Monday. Relevant second degree amendments may be offered after that time.

BUDGET

C.B.O. Forecast

On Wednesday, C.B.O. released its Outlook. Here are the some of the highlights:

Budget:

- O The deficit will increase from \$269 billion in 1991 to \$352 billion in 1992 -- both are all-time records. The 1993 deficit will be \$327 billion.
- O The deficit will move downward as the cost of the deposit insurance bailout falls from \$68 billion in 1993 to \$33 billion in 1994 to -\$16 billion in 1995.
- O Interest on public debt will increase from \$297 billion in 1992 to \$317 billion in 1993. The Gross Federal Debt will grow from \$4 trillion in 1992 to \$4.48 trillion in 1993.

Economic Outlook:

C.B.O is projecting a moderate recovery towards the end of the year primarily as a result of lower interest rates. Unemployment is expected to remain high at 6.9 percent in 1992, while underlying the inflation rate (without energy and food) is expected to be 3.6 percent in 1992 and 1993 -- the smallest two year increase since the mid-1960s.

The President's FY 1993 Budget - Accrual Accounting

Bill Hoagland expects one of the most controversial budget issues to be the move from cash basis accounting to accrual accounting for the Pension Guarantee Corporation and deposit insurance program. Accrual accounting is a much more responsible way to budget because it takes account of future receipts and obligations.

Many will suspect budget gimmickry because the change will improve the deficit picture in the short run. However, O.M.B. will adjust the maximum deficit amounts downward to reflect the difference.

DEFENSE

MEMORANDUM
JANUARY 24, 1991

TO: SENATOR DOLE *MB*
FROM: MIRA BARATTA
SUBJECT: FACE THE NATION -- DEFENSE SPENDING

There were several articles today (attached) talking about President Bush's possible defense cuts and the various Democratic defense cut proposals. At today's meeting with Cheney, Senate Republicans were told that the President would make additional cuts to the defense budget, but were asked not to mention this to the press -- the President will discuss this in his State of the Union address. Attached are articles on this subject -- Cheney said some parts are true, some false (but, didn't say which). Cheney did provide some useful points that I have incorporated below. I have also attached a list of Democratic proposals.

TALKING POINTS

THE FORMER SOVIET UNION IS FACED WITH A CRISIS OF SUCH MAGNITUDE THAT, IN MY VIEW, IT IS UNLIKELY THAT WEAPONS MODERNIZATION PROGRAMS ARE A PRIORITY ANY LONGER.

THAT DOES NOT MEAN, HOWEVER, THAT WE KNOW WHAT THE REPUBLICS WILL DO WITH THE MANY WEAPONS THEY STILL HAVE, ESPECIALLY THEIR LARGE NUCLEAR ARSENAL; THE SITUATION IS STILL UNCERTAIN AND UNSTABLE.

SO, IT SEEMS TO ME THAT WHILE THERE MAY BE ROOM FOR CUTS IN SOME PROGRAMS THAT WERE DESIGNED TO MEET CERTAIN SOVIET THREATS, WE NEED TO KEEP IN MIND THAT THERE ARE OTHER THREATS OUT THERE, AND INTERESTS WE NEED TO PROTECT, IE. THE NEED FOR BALLISTIC MISSILE DEFENSES IS GROWING.

AND, THE GULF WAR IS A PERFECT EXAMPLE OF A NON-SOVIET CONFLICT THAT REQUIRED CONSIDERABLE U.S. PERSONNEL, WEAPONS, AND RESOURCES.

I AM CONFIDENT THAT SECRETARY CHENEY AND THE PRESIDENT ARE REVIEWING OUR DEFENSE BUDGET AND FORCE STRUCTURE AND WILL DETERMINE HOW TO SHAPE OUR FORCE STRUCTURE, IN AN ORDERLY AND SAFE WAY, THAT MEETS THE THREATS OUT THERE, BOTH OLD AND NEW.

IT'S EASY TO SECOND GUESS THE SECRETARY OF DEFENSE AND PRESIDENT WHEN RESPONSIBILITY FOR THE SECURITY OF THE UNITED STATES DOES NOT REST ON YOUR SHOULDERS.

I KNOW THAT THE DEMOCRATS ARE OUT THERE POINTING TO THE DEFENSE BUDGET AS A POT OF GOLD FOR THEIR VARIOUS SPEND, SPEND, SPEND PLANS.

BUT, THEY ARE NOT SAYING WHAT THE PRICE IS -- IN TERMS OF U.S. SECURITY -- OR HOW RAPID AND DRASTIC CUTS WOULD CAUSE SEVERE ECONOMIC AND SOCIAL DISLOCATION.

PROPOSALS FOR DEFENSE BUDGET REDUCTIONS

Following are proposals to reduce defense spending below the levels agreed in the October 1990 budget summit for Fiscal Years 1993 and outyears. Very little, if any, specific information is available on most of the proposals.

	<u>Total Defense Outlay Savings</u>
PRESIDENT'S BUDGET (<u>unconfirmed</u>)	\$50-60 billion over 6 years
BYRD	<u>At least</u> \$60 billion over 3 years
BENTSEN	\$69 billion over 5 years
GRAMM	\$74 billion over 5 years
SASSER/SARBANES	\$80 billion over 5 years
BRADLEY	\$80 billion over unspecified period
MITCHELL	<u>At least</u> \$100 billion over 5 years
PANETTA	\$100 billion over 6 years
ROTH	\$133 billion over 5 years
KENNEDY/WELLSTONE	\$153-168 billion over 7 years
MCCAIN	6% reduction over 5 years (\$235 billion in BA cuts) from unspecified baseline

David Hoffman
Washington Post Staff Writer

States announced
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Bush Plans Steeper Arms Cuts

MX, Midgetman, B-2 Affected

By R. Jeffrey Smith
Washington Post Staff Writer

President Bush plans to
announce steps next week
leading to elimination of the
nation's entire force of 50
nuclear-tipped MX intercon-
tinental ballistic missiles as
well as other substantial cuts
and changes in the strategic
arsenal, U.S. officials said yes-
terday.

The officials said Bush's
announcement, part of Tues-
day's State of the Union ad-
dress, will represent a further
response to a steep drop in
the nuclear threat to the Unit-
ed States from the former
Soviet Union and eventually
save billions of dollars in de-
fense spending.

The officials said they ex-
pect Bush also to pledge the
eventual elimination of two-
thirds of the 1,500 nuclear
warheads now deployed atop
Minuteman III missiles. In
addition, the president will
order cancellation of a new
strategic missile, the Midget-
man, and a scaling back of B-2
strategic bomber production.
He will also reduce the de-
ployment of warheads on stra-
tegic submarines at sea, the
officials said.

Bush will call for new cuts
in strategic nuclear weapons
held by four former Soviet
republics and controlled by
Moscow, but will order the
U.S. military to proceed with

See MISSILES, A6, Col. 4

Senate Rejects Bush Proposal On Education

in
neapolis

WASHINGTON POST

Bush Plans Steeper Nuclear Cuts

MISSILES, From A1

some new nuclear cutbacks even if the republics do not accept his appeals, officials said.

The republics already have pledged to trim their overall strategic force by at least 1,000 more warheads than the United States had previously intended under provisions of a bilateral Strategic Arms Reduction Treaty expected to be implemented over the next seven years. In discussions with Bush administration representatives, leading republic officials have signaled a desire to move more rapidly toward much smaller nuclear forces on both sides.

The U.S. officials, speaking on condition they not be named, said Bush's new actions are intended to reshape the U.S. strategic deterrent into a smaller force, shrinking particularly the number of U.S. warheads deployed with land-based missiles, such as the MX and Minuteman III. These missiles are considered vulnerable to a preemptive nuclear attack on their fixed silos.

Once the reductions are completed, a greater percentage than now of the U.S. nuclear arsenal will be deployed on submarines hidden at sea or on single-warhead missiles based in silos. Such single-warhead missiles pose a less inviting target for preemptive attack than multiple-warhead missiles and are therefore considered more stabilizing in a nuclear face-off.

Bush's expected move thus represents what officials described as a major step toward fulfillment of a longstanding U.S. arms control goal: safeguarding the heart of the strategic nuclear deterrent from surprise attack.

The directors of the CIA and Defense Intelligence Agency testified Wednesday that the breakup of the Soviet Union has already dramatically reduced, if not eliminated, the threat of such an attack against the United States. But officials said yesterday that the nuclear cutbacks are nonetheless still worth pursuing, because a reciprocal Soviet move to reduce or eliminate multiple-warhead, land-based missiles would help diminish any residual fears of sudden war on both sides.

The timetable and number of

weapons involved in Bush's plan could not be learned yesterday as many officials spurned press inquiries to preserve some suspense surrounding Bush's speech. But officials confirmed a report in yesterday's New York Times that the details of Bush's plan were settled in a meeting last weekend involving White House national security adviser Brent Scowcroft, Secretary of Defense Richard B. Cheney and Secretary of State James A. Baker III. The Washington Post had reported on Jan. 7 that the administration was considering sweeping reductions in land- and sea-based multiple-warhead missiles.

The cutbacks of land-based missile warheads will likely total 1,500 and reductions of sea-based warheads could total another 1,400 or so, according to independent experts. These would be in addition to a drop of an estimated 2,000 to 3,000 nuclear warheads mandated by the Strategic Arms Reduction Treaty from the existing U.S. arsenal of 11,500 warheads.

Officials said that further nuclear warhead cuts may accompany

Bush's expected announcement of a sharp reduction in the planned B-2 bomber force to around 20 planes, instead of the 75 sought by the administration last fall. Congress has authorized just 15 of the planes, which may wind up costing more than \$2 billion apiece.

A senior Air Force official said he expects Cheney to announce the development of a new missile—armed with conventional rather than nuclear warheads—for deployment aboard the B-2. By emphasizing the plane's non-nuclear role, he said, the new missile may garner support for at least five more bombers, which together with the 15 already approved would be enough to complete two squadrons.

The officials said they were uncertain if Bush will cancel plans to renew production of one sea-based warhead, the W88, at the Energy Department's controversial Rocky Flats weapons plant, or if he will halt plans to spend another \$18 billion on several hundred associated Trident II submarine-based strategic missiles.

A6 FRIDAY, JANUARY 24, 1992

THE WASHINGTON

Pentagon Cuts Target Hill-Favored Programs

Plan Seen as an Attempt to Gain Political Edge

By John Lancaster
Washington Post Staff Writer

The Defense Department's strategy for cutting the military budget will include targeting up to \$4 billion in "marginal or unnecessary" current programs funded by Congress over Bush administration objections.

Among the items on the Pentagon list are a \$143 million upgrade of the Navy's F-14 Tomcat fighter, hardware improvements for additional M-1 tanks and OH-58 helicopters and several dozen defense research grants earmarked for specific universities, many at the request of individual lawmakers.

The department's plan to challenge the congressional appropriations has been interpreted on Capitol Hill as an attempt by the administration to gain political advantage in the coming debate over how best to trim the armed forces to reflect the collapse of the Soviet Union. Pentagon officials have asserted that Congress should not criticize their spending plans while defending programs the Defense Department deems unnecessary.

"'In your face' would be a good way to summarize" the Pentagon's approach, a congressional staff member said. A copy of the Defense Department's nine-page list of proposed cuts to 1991 and 1992 defense appropriations was obtained by The Washington Post.

Pentagon officials declined to comment on the proposals, saying such announcements should be left to President Bush, who is expected to reveal up to \$50 billion in new defense cuts in his State of the Union speech next week.

Defense officials have said in recent days that the president's initiatives will not include substantial revisions of previously announced plans to cut the size of the armed forces by 25 percent, and that additional savings will come out of weapons programs, not personnel. They contend that to go below the

so-called "base force" would jeopardize the nation's ability to respond to distant regional crises.

But the president's proposals, while cutting far deeper than generally thought possible a few months ago, still are not likely to satisfy Congress, where lawmakers have recently called for reductions in defense spending of up to 50 percent. Rep. Les Aspin (D-Wis.), chairman of the House Armed Services Committee, recently outlined plans for a "ground-up" rebuilding of the armed forces, arguing that the Pentagon's current plans only slice away at the existing Cold War structure.

"If we reduce our forces from the top down, by simple subtraction, we will get a smaller defense budget and smaller forces, but the chances are good that neither the budget nor the forces will be the right ones," Aspin said in a speech scheduled for delivery today. Aspin has yet to propose any spending targets, but House staff members said his approach almost certainly would lead to sharper reductions than those sought by the Pentagon.

In light of the coming debate, Hill sources saw the Pentagon's targeting of lawmakers' favored programs as an attempt to head off congressional attacks on the administration's spending priorities. Such budget "recissions"—in which the Pentagon asks Congress to return already appropriated funds to the treasury—have been submitted to Capitol Hill in the past. But several congressional staff members said yesterday that they were struck by the variety and number of programs in the latest plan.

The Pentagon budget document, dated Jan. 8, said Congress last year "funded a variety of research and development, procurement, operation and maintenance and military construction projects that are outside the scope of current defense requirements. These marginal or unnecessary projects are therefore proposed for recission."

Congress does not have to accept

the recommendation, and congressional sources said yesterday it is unlikely to do so. "This is procurement that has been authorized and appropriated by the Congress, and now the Pentagon comes back and says, 'We're not going to buy it,'" one staff member said. "You can imagine what kind of reaction that gets on the Hill."

Among the proposals sure to inflame passions on Capitol Hill is the elimination of \$1.051 billion in congressionally mandated funds to buy new equipment, including C-130 Hercules air transports, for the National Guard and Reserves. Congress has resisted Pentagon proposals for sharp cuts in the part-time forces, arguing that to do so would disrupt local economies and rob the nation of a cost-effective answer to declining military budgets.

Similarly, the proposed elimination of funds to modernize the Navy's venerable F-14 is likely to meet stiff resistance from New York's congressional delegation, which sought the funds on behalf of Long Island-based Grumman Corp. Other congressional "add-ons" slated for elimination include \$40 million for remanufacture of Marine AV-8B Harrier "jump jets," \$238 million for a Navy air-cushion landing craft; \$50 million for additional purchases of Bradley Fighting Vehicles, which the Army wants to terminate, and \$130 million for the Navy's Standoff Land Attack Missile, a video-equipped guided missile used in the Persian Gulf War.

The Pentagon document also takes aim at earmarked research grants for specific colleges, museums and research facilities, targeting virtually all such funds included in the recently passed 1992 appropriations bill. Pentagon officials say such grants should be awarded on a competitive basis, while some lawmakers have defended the practice as a way to break the lock on defense research by a few big universities.

Conspicuously absent from the spending hit list was the V-22 Osprey "tilt-rotor" aircraft, which takes off vertically and flies like an airplane. Defense Secretary Richard B. Cheney has tried several times to cancel the program as unaffordable, but Congress has approved funds anyway. The Marine Corps is continuing to try to get him to reconsider.

WP
A8 FRIDAY, JANUARY 24, 1992 ...

THE WASHINGTON
CAMPAIN

Harkin Urges 50% Cut In Defense Spending

Saving Would Be Aimed at Domestic Rebuilding

By Dan Balz
Washington Post Staff Writer

Criticizing President Bush as a man incapable of adapting to the post-Cold War world, Sen. Tom Harkin (D-Iowa) yesterday called for a 50 percent cut in defense spending, drastic reductions in strategic arms and a foreign policy based on democratic values and greater cooperation with multinational organizations.

"George Bush is a son of the Cold War and has given no indications that he is capable of coming in from it," Harkin said in a speech prepared for delivery at the John F. Kennedy School of Government at Harvard University.

The speech, the first detailed description of Harkin's foreign policy views, was designed to overcome criticism that he, like the other Democratic presidential candidates, lacks foreign policy experience.

Harkin said his defense cuts would save \$420 billion over the next decade, much of which he said he would invest in economic rebuilding in this country. He said he would slash U.S. troop levels in Europe to about 25,000, arguing that a world where the greatest security threats are from terrorists, errant nuclear weapons and drug traffickers requires a more flexible and mobile military.

As part of the military restructuring, Harkin said he favored federal assistance to communities whose economies are hurt by base closings and troop reductions.

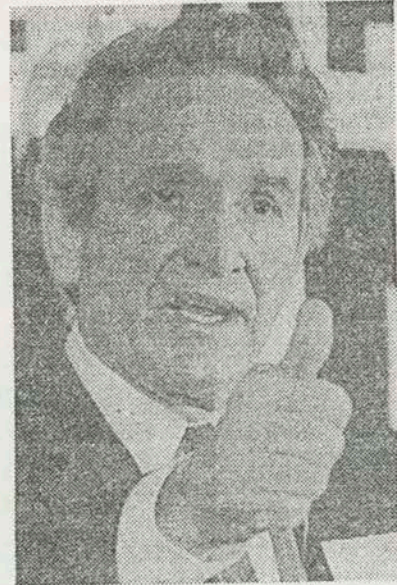
Calling nuclear proliferation the single largest threat to the globe, he said the United States should help eliminate all nuclear weapons from the non-Russian republics of the former Soviet Union. Then, he said, he would seek the elimination of all tactical nuclear warheads in the world and negotiate strategic reductions to 1,000 each for both the United States and the Russian republic.

Other nuclear powers in the world would be allowed to maintain fewer than 500 warheads each.

Harkin said he would support "humanitarian assistance to citizens of the former Soviet Union," and said associations of business and farm experts in the United States should help with the economic restructuring in Russia.

To head off future conflicts, Harkin said he would "breathe new life into international institutions such as the United Nations" and regional groups like the Conference on Security and Change in Europe. He recommended a similar group for Northeast Asia.

To encourage development over military spending in the Third



SEN. TOM HARKIN

... Democrat seeks to blunt criticism

World, Harkin said he would introduce legislation that would instruct the U.S. executive directors at the World Bank and the International Monetary Fund to oppose aid for countries that spend more on their militaries than on development.

Harkin said he supports the current Middle East peace process but called for the United States to take the lead in promoting a moratorium on the sale or transfer of arms to the region.

Like other Democrats, Harkin said he wants U.S. foreign policy to emphasize human rights and the promotion of democracy. He criticized Bush for being too "cozy" with dictators and said the Persian Gulf War could have been avoided if the administration had not helped build up Iraqi President Saddam Hussein and later had firmly warned the Iraqis not to go into Kuwait.

January 24, 1992

FACT SHEET ON PROSTATE CANCER

- 30 percent of men over the age of 50 have at least a small area of treatable cancer in the prostate gland.
- There are 96,000 new cases of prostate cancer diagnosed in the United States each year.
- Prostate cancer is the second most common type of cancer among American men.
- It is a type of cancer that is very treatable and that has an excellent rate of survival when diagnosed early.
- Prostate cancer very often causes no symptoms in the early stages. That's why it's so important for men to be tested routinely.
- There's a very simple blood test available now -- the PSA test -- which makes the detection of prostate cancer possible at a very early stage.
- This country has made great progress in cancer research, ever since Richard Nixon declared war on cancer in the 1960s, with the expansion of the National Cancer Institutes.
- It used to be that when you heard the word "cancer", you automatically assumed the worst. Today, that's no longer the case. The American Cancer Society says that the number of people who have survived cancer can fill the city of Los Angeles -- about 3 million.
- These high rates of survival are largely due to early detection and prompt treatment.

January 25, 1992

MODIFIED TALKING POINTS
DEMOCRATS' BILL (MITCHELL/KENNEDY)
"PAY OR PLAY"

HISTORY

- 0 The health care crisis and resulting lack of access to care for millions of Americans is not a new issue. As far back as 1979, I introduced legislation, then known as the 3D bill (Dole, Domenici, Danforth). Since that time other initiatives dealing with rural health care and health care for the unemployed have been proposed by myself and others.
- 0 In fact, there have been dozens of Republican initiatives by Sen Durenburger, Sen Chafee and others since that time - all trying to grapple with this issue.
- 0 The Democrats do not have a monopoly on caring about Americans who are without needed services.

REPUBLICAN BILL

- 0 Again in the current discussions, Republicans do not come empty handed. We have on the Senate side a proposal endorsed by 23 Republicans to date, showing far more consensus than the Democrats.
- 0 The proposal which is the result of two years of work by the Republican Health Task Force, led by John Chafee, uses incentives and public subsidies, rather than mandates and new payroll taxes.
- 0 The President will also have a proposal for us to consider that is the result of years of analysis and study by his own agencies and departments. Like the rest of us, he knew this problem was too complex and sensitive for simple political rhetoric.

PAY OR PLAY

- 0 In health care as in other areas, the Democrats instinctively turn to mandates and promise more than they can do.
- 0 The Labor Department just came out with an analysis of these pay and play proposals. Secretary Martin summed up the proposal when she said it looks like "pay or play" really means pay and pay.

- 0 In fact the "Pay or Play" plan introduced by Senator Mitchell and a small number of his colleagues could result in as many as 52 percent of non-elderly Americans being covered by a government-run health insurance program which would end up costing even more than the current system.
- 0 Perhaps even more frightening is the likely impact on small business of the new mandates. The new payroll tax of 7 to 9 percent, which they in fact propose, would be the death knell for many of those small business just barely surviving now.
- 0 Instead of stimulating the economy, the Democrats would force many employers who want to help their employees, to choose between creating new jobs and retaining old ones, and providing this new benefit.
- 0 Notwithstanding the Democrats promise of more for less, the Urban Institute believes "pay or play" would increase health insurance spending by at least \$52 billion.
- 0 Small businesses could see their costs increase by 70% or more as a result of the Democrats' plan.
- 0 Republicans continue to believe that given the chance, small business, the self-employed, and many individuals will seek to protect themselves and their employees. The bill we introduced in November seeks to do just that through the use of tax credits and reforms in small market insurance.

**U.S. Senate
Republican Policy
Committee**

Don Nickles, Chairman
Rick Lawson, Staff Director

Issue Alert

January 16, 1992

Taxpayers Would Pay and Pay for "Play or Pay," Labor Department Finds

Congressional enactment of "play or pay" legislation could drive as many as 52 percent of non-elderly Americans into a government-run health insurance program at a net cost to taxpayers of \$36.4 billion in the first year, according to a study funded by the Labor Department and released on January 9.

The study, produced by the Urban Institute, examined the effects of requiring employers either to sponsor health insurance coverage for their employees or pay a new tax on wages. Senate Majority Leader George Mitchell has advanced legislation (S. 1227) that would impose a "play or pay" mandate on employers. The Senate Labor Committee is scheduled to mark up S. 1227 on January 22. [A detailed description and analysis of the measure can be found in "HealthAmerica: The Democrats' Proposal for Health Care Reform," an *RPC Policy Analysis*, issued June 19, 1991.]

Using data from the March 1990 Current Population Survey and an economic model known as TRIM2, the study predicted how employers would respond to payroll tax rates of 7 percent and 9 percent. Although S. 1227 does not stipulate a tax rate, leaving that task instead to the Secretary of HHS, it is generally assumed that the rate would fall in the 7-to-9 percent range.

The report was based on a model which utilized certain assumptions about employer requirements, benefit packages, coverage requirements and workers' premiums that are similar to those contained in S. 1227 [see Table 1 for a list of assumptions].

"Dumping" Workers onto the Public Plan

The study found that many employers would find it cheaper to pay a tax on payroll than to purchase private coverage for their employees even if they currently provide such coverage. If the wage tax rate were 7 percent, an estimated 111.9 million non-elderly Americans — more than three times as many people as are now covered under Medicare — would be enrolled in the public plan, according to the study. Roughly 51.7 million of these public-plan participants would be workers and dependents who are now covered under employer-sponsored private plans.

If the payroll tax were higher, fewer employers would choose to pay it. At a 9-percent tax rate, an estimated 84.8 million people, including nearly 32.3 million workers and dependents who now have employer-provided insurance, would end up in the public program.

Higher Costs for Government

Neither the 7-percent nor the 9-percent rate would cover the cost of the new public program. The study estimates that if the payroll tax rate were 7 percent, the federal government would have to raise \$36.4 billion in additional revenues to finance the program in its first year. If the rate were 9 percent, the additional costs to government would be \$25.2 billion. [See Table 2 for a complete list of cost figures.]

This lower cost to the public sector under a 9-percent tax rate does not reflect overall health care savings. The study found that the **combined** additional cost to the government and private employers is roughly the same under both tax rates. The difference is in the relative amounts paid by businesses and taxpayers. Under a lower tax rate, the government assumes a greater proportion of the cost; under a slightly higher rate, businesses would pay the greater share. Regardless of rate, both the government and employers would pay more for health insurance.

Higher Costs for Employers

If the tax were 7 percent, employers would spend \$29.7 billion more for health insurance than they currently do. This figure would reach \$44.3 billion under a 9-percent tax.

These additional costs, although they would be borne by firms of all sizes, would not fall evenly on all employers. Some businesses, notably those that could drop costly health insurance plans and enroll their workers in the public program, would spend less for health insurance than they do now. Others, especially smaller firms, would face large increases. The study estimates that health care costs — whether in the form of private insurance premiums or payroll taxes — would more than double for firms with fewer than 25 workers if the payroll tax were 9 percent. Their costs would increase by 71 percent under a 7-percent tax. The report did not explore the impact of these higher costs on jobs, wages or consumer prices.

Potential Refinements to “Play or Pay”

Proponents of “play or pay” note that estimated costs to the government could be reduced by raising the payroll tax rate. They also say that “play or pay” would save money by eliminating uncompensated care — care provided without charge to uninsured people. The cost of such care is often shifted to people with private and public insurance coverage through higher costs of health care services.

The report does suggest that higher payroll tax rates would produce a smaller government program. That is because the higher the rate, the more likely that an employer will prefer purchasing private coverage to paying the tax. By requiring everyone to have public or private health insurance, “play or pay” resolves the problem of uncompensated care.

The report also found, however, that “play or pay” would increase health insurance spending by at least \$52 billion, even assuming savings of \$15 billion from the elimination of uncompensated care provided by hospitals. Raising the payroll tax rate simply shifts costs from the government to employers, with predictably adverse results for marginal businesses. The report also suggests that such a rate hike would disproportionately affect small businesses since they are more likely than larger firms to opt for paying the tax.

“Play or Pay” or “Pay and Pay”

Proponents of “play or pay” say that the proposal would increase access to health care while containing runaway costs. The study, commissioned by the Labor Department, suggests that “play or pay” would have many unintended consequences, burdening small employers and creating a massive government-run insurance program that would dwarf Medicare and Medicaid. Tens of millions of workers and their families who now have employer-sponsored coverage would be shifted to this public program at considerable cost to taxpayers. The findings of the study should figure prominently in Senate debate over S. 1227 later this year.

Staff Contact: Doug Badger, 224-2946

Table 1

Play or Pay Employer Mandates: Simulation Assumptions

Employer Requirements	Must <u>either</u> pay 80% of the cost of a uniform benefit package for workers and their dependents <u>or</u> pay a payroll tax.
Benefit Package	<ol style="list-style-type: none"> 1) All employers can purchase insurance at average rates currently available for firms in their region in the same size/industry group. 2) The uniform benefit package includes deductibles of \$200 for singles and \$500 for families; a 20% coinsurance requirement; covers well care; preadmission certification required.
Coverage Requirements	<ol style="list-style-type: none"> 1) Hours of work: persons working 18 hours a week or more included in play or pay mandate; employers pay a payroll tax on the wages of persons working less than 18 hours. 2) Primary payer: workers accept coverage through own employer; dependents covered through primary worker's plan; coordination of benefits for persons with dual coverage.
Workers' Premiums	Pay 20% of the cost of the employer's premium or the cost of the public plan if full time, less subsidies for low-income persons.
Public Plan	<ol style="list-style-type: none"> 1) Government pays premiums equal to those currently available to large (1000+) firms. 2) Persons not covered through employer enroll in public plan. 3) Families pay full public plan premium when not enrolled by employer, subject to premium subsidies.
Government Subsidies	<ol style="list-style-type: none"> 1) Premiums for persons in private and public plan: reduced by 2 percentage points for each 10% that income is below 200% of poverty. 2) Premiums for families enrolled in public plan with incomes between 200-400% of poverty not to exceed 3.5%, 4%, and 5% for those with income less than 250%, 325%, and 400% of poverty, respectively. 3) Government pays cost-sharing for persons with incomes below poverty; and shares costs for persons with incomes between 100-200 percent of poverty.

Table 2
Insurance Costs by Payor: Current System Compared to Play or Pay
Billions of 1989 Dollars

9 Percent Play or Pay Plan			
	<u>Current</u>	<u>Mandate</u>	<u>Difference</u>
Employers	\$128.9	\$173.2	+\$44.3
Individuals ¹			
Group Premiums	\$31.1	\$23.2	-\$7.9
Other Premiums ²	<u>14.5</u>	<u>22.6</u>	<u>+\$8.1</u>
Total	\$45.6	\$45.8	+\$0.2
Government			
Public Coverage ³	<u>\$27.6</u>	<u>\$53.2</u>	<u>+\$25.2</u>
Total	\$217.1	\$272.2	+\$69.7
Uncompensated Hospital Care	(4)	<u>\$0.0</u>	<u>-\$15.0</u>
Total Insurance Costs	\$217.1 ⁵	\$272.2	+\$55.1 ⁵

7 Percent Play or Pay Plan			
	<u>Current</u>	<u>Mandate</u>	<u>Difference</u>
Employers	\$128.9	\$158.6	+\$29.7
Individuals ¹			
Group Premiums	\$31.1	\$18.2	-\$12.9
Other Premiums ²	<u>14.5</u>	<u>28.2</u>	<u>+\$13.7</u>
Total	\$45.6	\$46.4	+\$0.8
Government			
Public Coverage ³	<u>\$27.6</u>	<u>\$64.4</u>	<u>+\$36.4</u>
Total	\$217.1	\$269.4	+\$67.3
Uncompensated Hospital Care	(4)	<u>\$0.0</u>	<u>-\$15.0</u>
Total Insurance Costs	\$217.1 ⁵	\$269.4	+\$52.3 ⁵

Source: The Urban Institute's Transfer Income Model (TRIM2),
based on the March 1990 Current Population Survey.

- Notes:
1. Individual premiums are net of premium subsidies paid by government.
 2. Includes private, nongroup premiums under current system (Holahan and Zedlewski, 1991) and premiums in public plan under mandate.
 3. Medicaid costs for nonelderly, noninstitutionalized (Holahan and Zedlewski, 1991).
 4. Uncompensated care under the current system is included in insurance costs of direct payors (employers, individuals, and government).
 5. The current insurance system is far less comprehensive than the pay or play systems. Fewer persons have coverage, and out-of-pocket cost sharing is not covered for low-income persons with health insurance. Thus, many of the additional costs shown under the play or pay options would simply offset out-of-pocket health care spending under the current system.

M E M O R A N D U M

January 24, 1992

TO: SENATOR DOLE
FROM: JIM MCMILLAN
RE: FACE THE NATION: JOB TRAINING PROGRAMS

BACKGROUND

To counter democrat assertions that the President is insensitive to the plight of the jobless and under-privileged, the President announced on January 17, 1991 his so-called "Job Training 2000" initiative which seeks to streamline the maze of existing federal training programs and to provide the private sector with more input into the process.

While there is no legislation prepared (although there is reference to the initiative in the budget), the outline of the new program is as follows:

- simplify and coordinate program services;
- decentralize decision-making and make programs more responsive to local labor market conditions;
- ensure high standards of accountability and incentives for quality job training services; and
- encourage greater private sector involvement.

The emphasis of the program is on reforming vocational training; assisting the transition from school-to-work and from welfare-to-work; and promoting life-long learning.

TALKING POINTS

- AS PART OF HIS DOMESTIC AGENDA TO HELP UNEMPLOYED AMERICANS OR AMERICANS WHO NEED BETTER SKILLS AND TRAINING TO GET BETTER JOBS, THE PRESIDENT ANNOUNCED HIS JOB TRAINING 2000 INITIATIVE EARLIER THIS MONTH.
- THE PROGRAM SEEKS TO BUILD ON THE EXISTING MAZE OF FEDERAL TRAINING PROGRAMS. THE POINT IS TO IMPROVE THE COORDINATION AMONG THESE PROGRAMS AND TO BRING IN MORE PRIVATE-SECTOR INVOLVEMENT.
- OVERALL, THE PRESIDENT'S PLAN IS INTENDED TO REFORM VOCATIONAL TRAINING, TO FACILITATE THE TRANSITION FROM SCHOOL-TO-WORK AND FROM WELFARE-TO-WORK, AND FINALLY TO PROMOTE LIFE-LONG LEARNING.

TAX

January 24, 1992

M E M O R A N D U M

TO: SENATOR DOLE
FROM: NINA OVIEDO *Nina*
SUBJECT: TAX CUTS -- WHO TOOK THE LEAD?

According to Senator Coats, Senator Mitchell has been declaring that the "Republicans are trying to steal the middle class tax cut idea from the Democrats". Coats had his staff prepare a list of all the family tax relief packages introduced in the 102nd Congress (attached).

In summary, Republicans, introduced five family tax relief proposals (4 by Coats, 1 by Congressman Wolf (Va)) before the introduction of the Gore/Downey proposal. Four more Republican proposal were offered before the second Democratic proposal.

[I've asked the Republican Policy Committee to see what their records shows from 1980 to the present. They liked the idea and will get back to us.]

MEMO:

FROM: GRAY RATHER

RE: FAMILY TAX RELIEF PROPOSALS

1/23/92

IN LOOKING AT THE INTRODUCTION OF FAMILY TAX RELIEF PACKAGES IN THE 102ND CONGRESS, REPUBLICANS WERE CLEARLY THE LEADERS IN ADVOCATING ASSISTANCE FOR LOWER AND MIDDLE INCOME FAMILIES THROUGH THE TAX CODE. THE FOLLOWING IS A LIST OF THE PRIMARY TAX RELIEF PROPOSALS AND THEIR DATE OF INTRODUCTION:

1/14/91	S. 152	SEN. COATS	(R)	DOUBLES THE PERSONAL EXEMPTION
3/5/91	H.R.1277	REP. WOLF	(R)	INCREASES PERSONAL EXEMPTION TO \$3,500 FOR DEPENDENTS UNDER 18.
3/13/91	S. 642	SEN. COATS	(R)	DOUBLES THE PERSONAL EXEMPTION FOR ALL DEPENDENTS.
3/13/91	S. 643	SEN. COATS	(R)	DOUBLES THE PERSONAL EXEMPTION FOR DEPENDENTS UNDER AGE 6.
3/20/91	S. 701	SEN. COATS	(R)	INCREASES PERSONAL EXEMPTION TO \$3,500 FOR DEPENDENTS UNDER 18.
5/7/91	S. 995	SEN. GORE	(D)	REPLACE PERSONAL EXEMPTION WITH \$800 REFUNDABLE TAX CREDIT FOR DEPENDENTS UNDER AGE 18.
5/8/91	S. 1009	SEN. COATS	(R)	DOUBLES THE PERSONAL EXEMPTION FOR DEPENDENTS UNDER 18.
5/8/91	S. 2306	SEN. GRASSLEY	(R)	PROVIDES A \$500 TAX REFUNDABLE TAX CREDIT FOR CHILDREN UNDER 5 FOR FAMILIES EARNING LESS THAN \$50,000 PER YEAR.
5/9/91	H.R. 2306	REP. WOLF	(R)	SAME AS S. 2306.
6/20/91	H.R. 2714	REP. CRANE	(R)	DOUBLES THE PERSONAL EXEMPTION
10/22/91	S. 1846	SEN. BRADLEY	(D)	\$350 REFUNDABLE TAX CREDIT FOR CHILDREN 18 AND UNDER.
10/25/91	S.1875	SEN. LIEBERMAN	(D)	INCREASES THE DEPENDENT EXEMPTION BY AS MUCH AS 38%.
11/6/91	S. 1920	SEN. KASTEN	(R)	\$300 TAX CREDIT FOR CHILDREN AGED 6 TO 18; \$1,000 CREDIT FOR CHILDREN UNDER 6.

11/6/91 S. 1921 SEN. BENTSEN (D) \$300 CREDIT FOR CHILDREN
UNDER 18.

SUMMARY: REPUBLICANS (SENATOR COATS IN PARTICULAR) HAD INTRODUCED FIVE FAMILY TAX RELIEF PACKAGES BEFORE THE INTRODUCTION OF A LONE DEMOCRAT PACKAGE -- GORE/DOWNEY -- LAST MAY. FOUR MORE REPUBLICAN PACKAGES WERE THEN OFFERED BEFORE THE INTRODUCTION OF A SECOND DEMOCRATIC PROPOSAL IN OCTOBER. ANOTHER REPUBLICAN AND DEMOCRAT EACH OFFERED PACKAGES IN NOVEMBER OF 1991.

LET ME ADD THAT THEN REPRESENTATIVES COATS AND KEMP, BOTH REPUBLICANS, WERE THE PRIMARY FORCES BEHIND THE DOUBLING OF THE PERSONAL EXEMPTION IN THE 1986 TAX REFORM ACT AND HAVE BOTH BEEN WORKING FOR A PERSONAL EXEMPTION INCREASE SINCE THE EARLY 1980S.

FINALLY, IN THE PRIVATE SECTOR, THE CONSERVATIVE HERITAGE FOUNDATION HAS BEEN STRONGLY ADVOCATING A FAMILY TAX RELIEF PACKAGE FOR SEVERAL YEARS. ONLY WITHIN THE PAST YEAR HAS THE MODERATE-LIBERAL PROGRESSIVE POLICY INSTITUTE ENDORSED THE IDEA.

January 24, 1992

M E M O R A N D U M

TO: SENATOR DOLE
FROM: NINA OVIEDO *Nina*
SUBJECT: MEETING WITH SECRETARY BRADY -- SUMMARY NOTES

The following summarizes the points discussed by Secretary Brady on Thursday, January 23, 1991 regarding the proposals in the State of the Union.

1. Investment Tax Allowance -- temporary, one year program providing for additional 1st year depreciation.
2. First Time Homebuyer Tax Credit -- home must be purchased within a certain time period in 1992; the credit is split between 1992 and 1993.
3. Passive Losses -- scale back for active developers.
4. Capital Gains -- not the House proposal.
5. Alternative Minimum Tax (AMT) -- modifications to the alternative minimum tax.
6. Penalty Free IRA Withdrawals - for first time homebuyers.
7. IRAs -- modest proposal.
8. Enterprise Zones
9. Personal Exemption -- increase of personal exemption for those with children.
10. Compliance Measures -- revenue raisers.
11. Healthcare -- tax credits and market reform for payment of health insurance for the uninsured.
12. Means Testing

Other

1. Effective Date -- all provisions are effective February 1, 1992.
2. Interest Rates -- hopefully rates will come down even more.

January 24, 1992

M E M O R A N D U M

TO: SENATOR DOLE

FROM: NINA OVIEDO *Nina*

SUBJECT: FACE THE NATION -- PRESIDENT'S TRIP TO JAPAN

- We sometimes forget how much progress has been made since President Bush took office. During the Bush Administration, U.S. exports to Japan have grown 10 times faster than U.S. imports from Japan.
- Exports to Japan have risen by 30 percent in the last three years -- U.S. imports from Japan have increased by just 3 percent.
- Since 1988, our trade deficit with Japan has declined by 18 percent.
- Japan is currently our largest since buyer of agricultural products. Last year, Japan's purchases exceeded \$8 billion.
- Our expansion of exports to Japan has created an additional 200,000 export-related jobs.

STILL MORE WORK TO DO

- The issue remains -- better access to the Japanese market for U.S. exports of all kinds. No single visit to, and no single agreement with, Japan is going to the all that we want and need.
- But, the President's recent trip was a real success -- and a number of companies and trade associations have agreed.
- The President achieved greater market access in:
 - computer hardware and services -- The U.S. computer industry projects the value of the market-opening agreement between \$3.5 to \$5.5 billion annually by 1995.
 - paper market -- Japan has a \$65 billion paper market.
 - glass market -- Japan has a \$4 billion glass market.
 - new car market -- this market has been encumbered with standards impediments and excessive markups.

M E M O R A N D U M

January 24, 1992

TO: SENATOR DOLE
FROM: JIM MCMILLAN
RE: FACE THE NATION: UNEMPLOYMENT

BACKGROUND

Unemployment Rate. As you know, the unemployment rate for the month of December went up to 7.1% (or 8.9 million unemployed persons) from the adjusted rate of 6.9% for October and November.

Current UI Extension Program. The Emergency Unemployment Compensation Act of 1991 (as amended -- Dec. 4, 1991) provides for a temporary 100% federally funded program of extended benefits running from Nov. 17, 1991 to June 13, 1992. States with an Adjusted Insured Unemployment Rate (AIUR) of 5% or more or a Total Unemployment Rate (TUR) of 9% or more over six months get 20 weeks; all other states get 13 weeks. The bill provides for a reachback to those exhausting regular UI after February 28, 1991 and before the date of implementation of the Act.

The program was financed under the requirements of the Budget Enforcement Act (BEA) by 1) extending program for IRS collection of non-tax debts owed to Federal agencies, 2) one year extension of the 0.2% FUTA surtax, and 3) modification to estimated tax requirements.

House -- Rosty/Downey Proposal. On January 22, 1992, H.R. 4095 was introduced by Rosty/Downey et al. A hearing was held on Jan. 23rd; markup will be on Jan. 29th and House floor action is expected at the end of next week or the beginning of the following week.

The bill adds an additional 13 weeks of benefits to the existing two tiers of 13 and 20 weeks (i.e., the two tiers of benefits become 26 weeks and 33 weeks) and extends the program from June 13th to October 3rd. Costs per CBO are \$3.5 billion for FY 1992 and \$1.0 billion for FY 1993. The bill requires the President to declare an emergency under the BEA.

Senate. Finance Committee has a UI hearing scheduled for Jan. 29th. The Administration has been invited to testify. According to Van McMurtry, Bentsen supports benefits comparable to the House measure, although strongly prefers to pay for the program.

Administration. With the State of the Union on the 28th, the Administration isn't saying much except that the President will support an extension of jobless benefits. David Taylor has indicated that the budget provides for an extension of the EB program through to December 31, 1992 (get through the election)

and that it will provide for an expansion of the program as well (unclear -- perhaps an additional 4 to 6 weeks on top of current levels). It is paid for -- although since it is part of the budget -- no specific offsets are identified with the program. David also said that the President will reference the program in his speech.

TALKING POINTS

- I THINK WE WILL SEE QUICK ACTION ON AN EXTENSION OF UNEMPLOYMENT BENEFITS.
- IN BOTH HOUSES AND ON BOTH SIDES OF THE AISLE THERE IS BROAD SUPPORT FOR AN EXTENSION AND EXPANSION OF THE PROGRAM ENACTED LAST DECEMBER.
- WHILE I SUSPECT WE WILL HEAR MORE IN THE STATE OF THE UNION ADDRESS ON TUESDAY, THE WHITE HOUSE HAS ALREADY SAID THAT IT SUPPORTS AN EXTENSION OF UNEMPLOYMENT BENEFITS BEYOND THE JUNE EXPIRATION DATE OF THE CURRENT PROGRAM. I ALSO SUSPECT THAT WE WILL SEE SOME SORT OF INCREASE IN THE NUMBER OF WEEKS -- BEYOND THE CURRENT 13 AND 20 WEEKS OF BENEFITS -- ENACTED AS PART OF THE PACKAGE.
- A LOT OF THE DEBATE WILL LIKELY FOCUS ON WAYS TO PAY FOR THE PROGRAM. THE BILL INTRODUCED BY REPS. ROSTENKOWSKI AND DOWNEY RELIES ON THE DECLARATION OF AN EMERGENCY AND ADDS TO THE DEFICIT. THAT WAS UNACCEPTABLE TO THE ADMINISTRATION LAST GO-AROUND.
- I THINK THE PRESIDENT HAS MADE IT PRETTY CLEAR THAT AS PART OF THE ECONOMIC GROWTH AND RECOVERY PROPOSAL -- WHICH HE WILL UNVEIL IN HIS STATE OF THE UNION ADDRESS, HE WANTS TO HELP THOSE AMERICANS WHO ARE OUT OF WORK -- THOSE AMERICANS AND THEIR FAMILIES WHO ARE HURTING -- UNTIL THOSE POLICIES CAN TAKE EFFECT.