

THE WHITE HOUSE

Office of the Press Secretary

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THE PRESIDENT'S STATE OF THE UNION ADDRESS

FACT SHEET

The President in his State of the Union Address spoke about America's unique place in the world and about his plans for restoring growth in America's economy. He challenged the Congress to pass his economic growth package by March 20.

Previously, the President had identified five tests for evaluating proposals for restoring economic growth:

- Does the proposal stimulate the investment necessary to create jobs?
- Does it bolster real estate values and increase home sales?
- Does it give Americans confidence they will be able to afford the cost of raising a family, including meeting their education and health care expenses?
- Does it increase America's capacity to compete in the global economy?
- Does it control wasteful government spending and work to reduce the Federal deficit?

The President's agenda meets these tests. In his State of the Union address, the President outlined three broad themes:

- Securing a New World Order;
- Getting the Economy Moving: The Short-Term Agenda; and
- Securing America's Future: The Longer-Term Agenda.

The following is a summary of the initiatives announced by the President.

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## I. SECURING A NEW WORLD ORDER

The President noted the historic American victory in the Cold War, and paid tribute to the "roll call of honor" -- the long list of servicemen and women who fought faithfully for freedom. He also acknowledged the role of the American taxpayer in bearing the brunt of the burden of providing resources to fight the Cold War. While threats still exist, the President observed that Operation Desert Storm demonstrated the good that can come from the "prudent use of power".

The President said that, with Communism gone, plans for cutting military spending can be accelerated. He announced that he has approved an additional \$50 billion in defense savings through fiscal year 1997.

The President has told President Yeltsin that the United States is prepared to respond in kind if Russia eliminates all land-based multiple warhead ballistic missiles and reduces its strategic nuclear forces. Specifically, the United States would eliminate all Peacekeeper missiles and reduce the number of warheads on Minuteman missiles to one. We would also reduce the number of warheads to be deployed on our Trident submarine force by about one-third and would convert a substantial portion of our strategic bombers primarily to conventional use.

The President also announced the following steps that the United States will take unilaterally:

### A. Limiting Production of the B-2 Bomber.

After completing the 20 B-2 stealth bombers for which airframe procurement has begun, we will stop further production. There were 75 B-2 bombers in the previous plan. Because of the changes in the Soviet threat, America's strategic bomber force is less likely to face the sophisticated air defenses for which the B-2 was designed. Current bomber forces, including B-1B and B-52 aircraft, can be adapted to ensure adequate capabilities for strategic nuclear and conventional missions. Proposed savings are \$14.5 billion through 1997.

### B. Cancelling the Small ICBM Program.

The small ICBM will be terminated. The guidance system for existing Minuteman III missiles will be improved and the service life of these missiles will be extended. Projected savings are \$1 billion through 1997.



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Tuesday, January 28, 1992

HIGHLIGHTS OF THE PRESIDENT'S GROWTH AGENDA

- \* The President has a plan to address both the short-term and the long-term problems facing the economy.
- \* For the SHORT TERM, the President's plan will get the economy moving again:

1.) Executive Actions:

- Cutting back on excessive withholding and acceleration of already planned Federal spending will pump more money into the economy now.
- Curbing regulation will enhance growth; and responsible banking regulation will ease the credit crunch.

2.) Congressional Actions: CONGRESS SHOULD PASS THE PRESIDENT'S PLAN BY MARCH 20th.Protecting Real Estate Values:

- The \$5,000 tax credit and penalty-free IRA withdrawal for first-time homebuyers, and allowing deductions for losses on personal residences will spur home sales.
- Modified passive loss rules and encouraging pension investments in real estate will help stop the slide in real estate.

Increasing Job-Creating Investments:

- Cutting capital gains taxes to a top long-term rate of 15.4%.
- The new 15% Investment Tax Allowance and better treatment of depreciation under the Alternative Minimum Tax will give industry a strong incentive to invest in productive equipment.

- \* For the LONG-TERM, the President outlined nine steps designed to guarantee that America continues to lead the world of the future:

- 1.) Trade: Opening Up Foreign Markets to U.S. Exports: By working to reduce or eliminate tariffs and subsidies, and through negotiation of the North American Free Trade Agreement.
- 2.) Reforming and Investing in Education: By promoting choice, passing the America 2000 initiative, and providing the Department of Education with the largest

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discretionary increase (+\$1.6 billion) in the FY 1993 budget.

- 3.) Investment in the Future: The budget proposes a record investment in R&D (\$76.5 billion) and making the R&D tax credit permanent.
- 4.) Fighting Crime: Congress should pass the President's crime bill.
- 5.) Expanding Opportunities for Individuals and Families: The President asked Congress to enact Enterprise Zones, and fund his budget recommendations for HOPE and Head Start (+\$600 million).
- 6.) Comprehensive Health Care Reform: The President has a plan to make health care more affordable (through a tax credit and deduction), increase access, protect choice, and bring costs under control -- without rationing, government control, or huge new taxes.
- 7.) Bringing the Deficit Under Control: Through a total freeze on domestic discretionary spending and domestic Federal employment, a line-item veto, and the elimination of 246 Federal programs.
- 8.) Enacting Bold Reform Proposals: Banking reform, the National Energy Strategy, tort reform, and civil justice reform.
- 9.) Strengthening the American Family: Through an increase in the personal exemption of \$500 per child, a new Flexible IRA, tax deductibility of interest on student loans, a new Commission on America's Urban Families, and Federal waivers to support welfare reforms which encourage work, responsibility, and asset building.

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C. Ceasing Production of New Warheads for Sea-Based Ballistic Missiles.

The Department of Energy will cease production of W-88 warheads for Trident missiles. This will be the first time since 1945 that the United States has no nuclear weapons in production.

D. Halting Purchases of Advanced Cruise Missiles.

Procurement will be terminated after 1992 at a total of 640 missiles, instead of the planned 1,000 missiles. This reflects reductions in the strategic target base and in the strategic threat. Projected savings are \$1.3 billion through 1997.

E. Stopping New Production of Peacekeeper Missiles.

For the second year in a row, the President will recommend no funds for the production of additional Peacekeeper missiles.

The President noted that he has consulted on these cuts with the Joint Chiefs of Staff and is acting on the recommendation of Secretary Cheney. He observed that, with the proposed cuts, by 1997 we will have reduced defense expenditures by thirty percent since he took office. The President underscored his resolve to resist further reductions as inconsistent with America's security interests and world leadership responsibilities. He declared that "as long as I am President we will continue to lead in support of freedom everywhere."

II. GETTING THE ECONOMY MOVING: THE SHORT-TERM AGENDA

The President declared that "we can bring the same courage and sense of common purpose to the economy that we brought to Desert Storm. And we can defeat hard times together." He identified a series of immediate actions necessary to get America back to work. He is taking several actions on his own authority. Other actions require the cooperation of Congress.

A. Actions the President Is Taking on His Own Authority.

The President has previously proposed several major growth-oriented legislative initiatives, such as his banking reform and energy bills, and he has urged the Congress to act on them. There is, however, much the Administration can and will do on its own to promote economic growth. For example, the Administration will continue to take steps to alleviate the



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credit crunch. Similarly, it will continue to cut back excessive and misguided regulations that impose a large burden on the economy -- a hidden tax on American households in the form of higher prices for goods and services.

1. Regulatory Review.

The financial services reforms, tax proposals, and other regulatory initiatives listed below are just part of the intensive 90-day period of review and reform launched tonight by the President.

- The heads of the major Federal regulatory agencies will undertake a 90-day review of regulations and programs that may hinder economic growth and will identify and accelerate action on initiatives to reduce the burden of existing regulations or otherwise promote economic growth.
- To the extent permitted by law, each agency will refrain from proposing or issuing new regulations and programs that retard economic growth. This moratorium will be implemented without undermining health and safety and will not prevent compliance with statutory or judicial deadlines.

2. Alleviating the Credit Crunch.

The President is continuing his efforts to ensure that creditworthy businesses and individuals have access to funds for productive investments. Federal agencies are taking the following administrative steps to increase the availability of capital throughout the economy:

- The Administration is proposing to remove certain geographic restrictions on Federal thrift institutions.
- The bank and thrift regulatory agencies are enhancing the ability of banks and thrifts to raise additional capital by, among other things, removing certain restrictions on the assets that institutions can count as "Tier One" capital.
- The FDIC will implement ahead of schedule the new risk-based premium system for deposit insurance. Healthy banks will be rewarded with lower premiums

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which, in turn, can help generate new lending without endangering the FDIC's insurance fund.

- The Securities and Exchange Commission will shortly propose rules to simplify registration requirements, reduce costs, and enhance the ability of small businesses to obtain capital from securities markets.
- To alleviate the concern of lenders that they will be saddled with liability under the Superfund law for environmental damage done by their borrowers, the Environmental Protection Agency will promulgate its final rule clarifying lenders' liability under Superfund.

3. Accelerating Agency Pro-Growth Initiatives.

The President has directed every cabinet Department and agency to get funds into pro-growth initiatives as quickly as possible. This should put an extra \$10 billion into the economy in the next 6 months. As part of this effort, he has directed the Department of Transportation to disburse quickly to state and local governments funds for highway and transit projects authorized by the recently signed Surface Transportation Act.

4. Reforming Federal Income Tax Withholding.

The Treasury Department will adjust IRS withholding tables to reduce the amount of over-withholding on low- and middle-income wage earners.

- This change will increase take-home pay by \$300, on average, for more than 90 million wage earners. Increases will range from around \$175 for single individuals to more than \$600 for two-income families.
- This change will increase wage earners' take-home pay by about \$25 billion in the coming year.
- This change is permanent. Over-withholding has crept into the system over time.
- More than 85 percent of taxpayers currently receiving refunds will continue to receive refunds, although smaller ones.



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- Later this year, the IRS will contact those taxpayers who could owe tax, or additional tax, as a result of this change. The IRS will advise these taxpayers how to adjust their withholding to avoid owing the government money in April.
- Wage earners can elect not to change the amount withheld from their paycheck by reducing the withholding allowances they claim with their employers.

5. Reforming The Federal Payroll Tax System.

One of the barriers to increased employment and higher growth -- particularly of small and emerging businesses -- is the payroll tax system, which imposes billions of dollars per year in compliance costs. In addition to supporting tax simplification legislation now pending in Congress, the Department of the Treasury, in cooperation with the Department of Health and Human Services, will reduce the economic burden of the payroll tax system by abolishing and modifying requirements and procedures that needlessly increase employer costs.

6. Supporting Sound Monetary Policy.

The President pledged that his Administration would "continue to support monetary policy that keeps both interest rates and inflation down." The rate of inflation was 3.1 percent in 1991, the second-lowest level since 1967, and interest rates are now at their lowest level in two decades.

B. Actions That Require the Cooperation of Congress.

The President proposed a number of steps to encourage increased job-creating investment and saving and promote economic growth while maintaining budget discipline. Some of these measures are designed to have an immediate impact, while others are intended to provide a more permanent increase in the Nation's investment in productive assets.

1. Encouraging Investment and Saving.

To encourage increased investment and saving, the President proposed changes in the Tax Code.



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- Creating an Investment Tax Allowance. To stimulate an immediate increase in investment in productive assets, the President proposed an additional 15 percent first-year depreciation allowance for certain property acquired between February 1 and December 31, 1992, and placed in service by June 30, 1993.
  - The additional depreciation allowance applies for both regular and alternative minimum tax purposes.
  - The additional allowance applies to machinery, equipment and the like (so-called "Section 1245 property").
  - A taxpayer's basis in qualifying property is reduced by the amount of the investment tax allowance.
- Simplifying and Enhancing Alternative Minimum Tax Depreciation. The President proposed a permanent modification to the alternative minimum tax (AMT) rules that would simplify the law and provide additional investment incentives.

Firms that pay taxes under the AMT currently receive less tax benefit from depreciation than other firms. The President proposes to repeal the "adjusted current earnings" (ACE) depreciation adjustment for firms placing new equipment in service on or after February 1, 1992. The current depreciation adjustment used to compute the ACE penalizes capital-intensive companies, such as airlines, chemicals, paper, motor vehicles, and steel when they buy equipment to modernize, expand capacity or meet the challenge of international competition.

## 2. Stimulating the Real Estate Market and Home Ownership.

The President called for enactment of several proposals affecting real estate. These proposals, coupled with other elements of the President's economic growth plan and the availability of low mortgage interest rates, will bolster residential and commercial real estate values and assist low- and middle-income families in buying homes and meeting their housing needs.

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- Providing a Temporary Tax Credit for First-Time Homebuyers. The President has proposed a temporary tax credit for first-time homebuyers.
  - The credit would be 10 percent of the purchase price of a home, up to a maximum of \$5,000.
  - Half the credit would be allowed in the year the residence is purchased (1992) and half in the succeeding year (1993).
  - The tax credit would be effective for homes purchased between February 1 and December 31, 1992.
  - A "first-time homebuyer" would include any individual not owning a home during the previous three years.
- Using IRAs for First-Time Home Purchases. The President also proposed to waive the 10 percent penalty for withdrawals from Individual Retirement Accounts for first-time homebuyers.
  - Amounts up to \$10,000 could be withdrawn from Individual Retirement Accounts for a first-time home purchase. If both spouses have IRAs, each can make withdrawals, so the total can be as high as \$20,000.
- Modifying Certain Passive Loss Rules Affecting Real Estate Developers. The President proposed allowing developers actively engaged in the real estate business to offset non-rental income with rental losses from properties they developed.
  - Under the "passive loss" rules, rental losses can only offset "passive" income.
  - As a result, many real estate developers cannot use rental losses from properties they have developed to offset income from other profitable parts of their business.

### 3. Cutting the Capital Gains Tax Rate.

To encourage investment for a more competitive America, the President proposed a permanent exclusion of up to 45 percent of the capital gain on the sale of an asset,



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resulting in a maximum tax rate on long-term capital gains of approximately 15 percent.

- The proposal would be phased in over three years. Eventually, only assets held for at least 3 years would qualify for the 45 percent exclusion; assets held between 2 and 3 years would qualify for a 30 percent exclusion; assets held between 1 and 2 years would qualify for a 15 percent exclusion.
- In general, all capital assets held by individuals, except collectibles, would be eligible for the capital gains exclusion. Corporations would not be able to claim the exclusion.

#### 4. Extending Federal Unemployment Benefits.

The President is proposing legislation to make two changes to the emergency unemployment compensation program enacted on November 14, 1991. First, the expiration date of the program would be extended for five additional months of benefits. Second, the President is proposing to enable all states to pay an additional 13 weeks of benefits through June 13, 1992. The President asked the Congress to work with him and act immediately.

### III. SECURING AMERICA'S FUTURE: THE LONGER-TERM AGENDA

The President stated that "we need long term improvement in our nation's economic position." He proposed the following steps to "guarantee our future."

#### A. Expanding Trade and Opening Markets for American Exports.

Open markets around the world mean expanded export opportunities for U.S. entrepreneurs, greater profits for our businesses, new jobs for our workers, lower prices and greater choices for our consumers, and a better standard of living for all Americans.

##### 1. Concluding the Uruguay Round GATT Negotiation.

A successful conclusion to the Uruguay Round will:

- Reduce tariffs and non-tariff barriers by a third, thereby pumping \$5 trillion into the global economy over the next decade;



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- Sharply cut the theft of America's best ideas, now estimated at \$60 billion annually through the infringement of our patents and copyrights, and the counterfeiting of our trademarks;
- Create new opportunities for America's service industries, which export \$115 billion annually and create 90 percent of our new jobs; and
- Expand trade for American farmers, who are already the world's most productive, with more than \$40 billion in annual exports.

2. Negotiating a North American Free Trade Agreement.

The negotiations now underway on a free trade area throughout North America will create one of the world's largest markets, with 360 million producers and consumers and \$6 trillion in annual output. Partly due to the promise of the free trade area, U.S. exports to Mexico have doubled since 1986, creating 320,000 additional jobs.

3. Implementing the Enterprise for the Americas Initiative.

President Bush introduced the Enterprise for the Americas Initiative in June 1990 to promote continued growth and stability throughout the Western Hemisphere. The Initiative stimulates economic reform by encouraging open markets for both trade and investment, and by helping to reduce debt burdens in the region. Congressional action is needed to implement this initiative.

B. Revolutionizing American Education.

The President stated that "we must revolutionize America's schools," and how we care for our children outside the schools. He emphasized the importance of the parental choice proposals contained in his AMERICA 2000 strategy. He called for giving teachers more flexibility in spending Federal monies and helping communities create break-the-mold New American Schools.

Since it was launched in April 1991, 30 states and over 1,000 communities have joined the AMERICA 2000 crusade to help move the country community-by-community toward the six national education goals.



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In his 1993 budget, the President is proposing the largest increase for any Federal discretionary program for the Department of Education -- bringing it to a level 42 percent above FY 1989 discretionary spending.

C. Investing in Research, Development and Technological Innovation.

The President declared that "we must make common sense investments that will help us compete, long term, in the marketplace."

1. Encouraging Private Research and Development.

The President proposes to make permanent the current 20 percent research and experimentation credit and extend the current research and experimentation sourcing rules through December 31, 1993.

2. Increasing Federal Support for Emerging Technologies.

Investments in research and development form the foundation for the exploration of all of the new frontiers of today and tomorrow. The President's budget proposes \$76.5 billion in research and development expenditures for 1993. This funding will support investments to expand the frontier of knowledge in such areas as biotechnology, materials science, and high performance computing.

D. Combatting Violent Crime.

The President's plan for building strong neighborhoods supports his serious, all-out assault on crime and drug abuse. He noted that violent crime "saps our strength and hurts our faith in our society, and in our future together."

The President called upon Congress to pass his comprehensive crime bill which, he said, is "tough on criminals and supportive of police." The proposed Comprehensive Violent Crime Control Act's key elements include:

- An enforceable Federal death penalty;
- Reform of habeas corpus procedures;
- Reform of the exclusionary rule; and

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- Enhanced penalties for crimes committed with a firearm.

E. Expanding Opportunity for Individuals and Families.

1. Increasing Home Ownership: Homeownership and Opportunity for People Everywhere (HOPE).

The President challenged Congress to fund fully his HOPE proposals.

- HOPE offers opportunities for homeownership and resident management of public and assisted housing.
- The program also includes "Shelter Plus Care" to provide help to those homeless who need support services, such as mental health care, to achieve dignified and independent lives.
- The President's budget proposes an increase of 102 percent in the HOPE program, to a level of \$4.8 billion. Over the past three years, Congress has cut funds requested by the President for HOPE by more than \$300 million.

2. Creating Job Opportunities: Enterprise Zones.

The President called on Congress to pass his Enterprise Zones legislation, which he first transmitted to Congress on July 26, 1989.

- The Enterprise Zones initiative would target tax incentives and regulatory relief to some of the nation's most economically depressed areas.
- Under the President's proposal, 50 areas would be chosen to become enterprise zones. In these zones, workers would receive tax credits against their income taxes, capital gains would be eliminated on investments, and expensing rules for capital investments would be liberalized.

3. Extending Tax Preferences for Low-Income Housing and Mortgage Revenue Bonds.

The President proposed to extend the low-income housing tax credit and the authority for state and local



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governments to issue mortgage revenue bonds through December 31, 1993.

#### 4. Investing in Our Children.

The President asked for support for his proposal to fund Head Start at record high levels.

- The President's fiscal year 1993 budget proposes \$2.8 billion in funding for Head Start, the largest increase (\$600 million) in the program's history. The President's proposal would allow the comprehensive pre-school program to serve more than 779,000 low-income children, which includes all eligible four-year-olds whose parents choose for them to participate.
- The President's 1993 budget requests over \$100 billion for programs that help children, including Head Start. This represents a 66 percent increase since 1989.

#### F. Reforming our Health Care System.

The President called for reforming our health care system. He rejected a government takeover of the health care system, or plans that would:

- Deny patient choice in picking a health plan;
- Ration health care services;
- Burden small business with expensive new mandates; or
- Require tax increases.

The President announced that he will propose a plan to reform our health care system that would:

- Preserve and increase the idea of choice.
- Make basic health care insurance affordable for low-income people not now covered, through a transferable health insurance credit (voucher) that would be as large as \$3,750 per family;
- Provide insurance security for workers moving between jobs;

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- Bring costs under control;
- Help middle-class Americans pay for health insurance with a tax deduction; and

The full details of the President's comprehensive health care plan will be presented within the next two weeks.

G. Controlling Federal Spending.

The President announced several initiatives to bring Federal spending under control by building on the budget discipline imposed by the Budget Enforcement Act of 1990.

1. Freezing Domestic Discretionary Budget Authority.

The budget authority in the President's 1993 Budget will be at the level of 1992 budget authority -- a nominal freeze on discretionary spending. Because of savings on defense expenditures, total discretionary budget authority will decrease.

2. Capping the Growth of Uncontrolled Spending.

The President proposed establishing a mechanism to control the automatic growth in spending for existing entitlement and other mandatory programs.

3. Freezing Federal Employment for Non-Defense Agencies.

Total full-time equivalent positions in non-defense agencies for 1993 will not exceed the 1992 level. Because of defense employment reductions, the Federal workforce will shrink by almost 4 percent.

4. Terminating Federal Programs.

The President presented Congress with a list of 246 Federal programs that do not deserve funding and asked Congress to abolish them. The total savings would be almost \$5 billion in fiscal year 1993.



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5. Adopting a Line-Item Veto.

The current budget process encourages special interest spending. The President should have the power to defend the general interest by striking from appropriations legislation any provisions that reflect only narrow interests.

6. Ending Unfinanced Federal Government Mandates.

The President asserted that Congress should pay for any mandated policies, programs, or activities that it imposes on our cities, counties, or states.

H. Enacting Bold Reform Proposals.

The President challenged Congress to enact four major reform proposals still awaiting Congressional action -- bank reform, civil justice reform, tort reform, and his national energy strategy.

I. Strengthening the Family.

The President declared that "we must strengthen the family -- because it is the family that has the greatest bearing on our future."

1. Establishing a Commission on America's Urban Families.

The President announced he will establish a new Commission on America's Urban Families, to identify ways to "keep families together, strong and sound."

2. Easing the Financial Burden on Families.

The President urged Congress to:

- Raise the Personal Exemption for Children. To help families with children, the President proposed increasing the personal exemption for dependent children, effective October 1, 1992. The exemption would be increased by \$500 and would be indexed for inflation.

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- Allow the Deduction of Interest on Student Loans.  
The President proposed allowing families to deduct the interest they pay on student loans.
  - The deduction would be permitted for interest incurred in financing higher education and training for the taxpayer and his or her spouse and children.
- Allow IRAs to be Used for Medical and Educational Expenses. The President proposed allowing penalty-free withdrawal of IRA funds for qualifying medical and educational expenses.

### 3. Reforming the Welfare System.

The President pledged to help any state attempting to reform its welfare system to promote individual responsibility by making it easier to obtain quickly any waiver of Federal regulations that may be required.

### J. Moving Forward.

The President reminded Americans that we are "the freest nation on earth -- the kindest nation on earth -- the strongest nation on earth," but recognized that we can do even more. He also reminded us that "if we can change the world, we can change America."