

# **CREATING AN AGE OF POSSIBILITY**



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*We live in an age of possibility. A hundred years ago we moved from farm to factory. Now we move to an age of technology, information, and global competition. These changes have opened vast new opportunities for our people, but they have also presented them with stiff challenges.*

President Clinton  
January 1996

The change that we face is both exciting and frightening. For some, it raises hope of a better, more prosperous, and more secure life. For others, it transforms the traditional rules of life and work in unsettling ways.

In this period of change, our challenge is to make the age of possibility one that will raise living standards and expand opportunity for all; make our streets safer and our air and water cleaner; and enable Americans to share the full potential of a new era.

Change of that magnitude comes mainly from the private sector. But a leaner, more flexible Federal Government—as the President is creating—has an important supporting role to play, working with State and local governments, businesses, schools, churches and synagogues, and other organizations. By providing a sense of national purpose, and the funds when appropriate, the Federal Government can be an important catalyst for change.

The Government also plays a key role in creating a climate for strong, sustained economic growth, and higher living standards now and in the future. Its tools include a responsible budget policy, an expansive trade policy, and investments in education and training, science and technology, and other priorities.

Over the last three years, the President's economic program has generated much stronger growth, millions more new jobs, and lower interest rates than under the previous Admin-

istration. The program also has produced stable prices and record exports. For the first time in a decade, the economy is moving in the right direction.

In this budget, the President proposes to build on his strong record of deficit reduction and to bring the budget into balance over the next seven years. His plan includes a balanced mix of deep spending cuts in both entitlements and discretionary spending—deep enough to allow for a modest tax cut for average Americans and small businesses.

The budget balances the need to cut total discretionary spending with maintaining, and in many cases increasing, the President's investments in key priorities. A balanced budget would help set the stage for continued economic growth, low interest rates, and stable prices in the future.

Clearly, the Nation cannot achieve its common goals without strong economic growth. But growth alone is not enough. We must ensure that America is growing together, and that everyone is sharing the benefits. Today, too many Americans are working harder and harder just to stay in place, or are actually falling behind. To address that problem, the President proposes to help Americans get the skills they need to assume high-wage jobs in the new economy. He would invest in education, from pre-school to college; fund training for the workplace; and support science and technology to spur future productivity and wage growth.

As the President has said, "the era of big Government is over." At the same time, the Federal Government must support growth by giving the private sector the tools it

needs. This budget builds on the Administration's three-year record of success in establishing, and implementing, Government's proper role in our economy.

# 1. A VISION FOR THE FUTURE

This budget helps promote a strong economy for the future and, with it, helps Americans build better lives for themselves and their families.

To promote a strong economy with sustained growth and low interest rates, the budget reaches balance in seven years by cutting unnecessary and lower priority spending. At the same time, it invests in education and training, the environment, science and technology, and other priorities to help raise average living standards and the quality of life. The budget protects Medicare and Medicaid, reforms welfare to make work pay, and provides tax relief to middle-income Americans as well as small businesses.

## Reaching Balance the Right Way

This budget reaches balance in 2002, a goal to which the President is committed, using the last available economic and technical assumptions of the Congressional Budget Office (CBO). It also achieves a surplus of \$44 billion in 2002 under the economic and technical assumptions of the Office of Management and Budget (OMB).

The budget embodies the proposal that the President put forth in budget negotiations with the bipartisan congressional leadership

on January 18, 1996. The President and the leaders have worked hard to find agreement on a plan to balance the budget over seven years. While they have not finished the job, the President believes strongly that their negotiations have been productive, bringing the two sides closer together. He is committed to doing whatever he can to complete the task.

In their talks, the President and the leaders have outlined a variety of proposals. The minimum amounts of savings that the plans have in common in the major budget categories (e.g., \$124 billion in Medicare, \$297 billion in discretionary spending) provide enough in total savings to balance the budget and also provide a modest tax cut.

The congressional leadership wants bigger tax cuts—offset by deeper cuts in Medicare and Medicaid, other mandatory programs that help farmers and the poor, and discretionary spending. But the President believes those cuts are too deep and would threaten the Government's vital role in guaranteeing health care to vulnerable Americans and investing in the future. He has proposed that the two sides quickly enact the savings they have in common and give the American people a balanced budget.

To estimate the deficit for 1996 through 2002 based on assumptions from the Congressional Budget Office (CBO), the Administration used the most recent assumptions that were available—from December 1995.

In March or April, CBO plans to release a new, updated set of economic and technical assumptions. While the President's budget reaches balance under CBO's December 1995 assumptions, the new assumptions could change the President's path to balance; in 2002, they could produce a bigger surplus or a deficit.

In case the new assumptions produce a deficit in 2002, the President's budget proposes an immediate adjustment to the annual limits, or "caps," on discretionary spending, lowering them enough to reach balance in 2002.

The President is committed not only to proposing a budget that reaches balance according to CBO, but reaching an agreement with Congress to enact such a budget.

Using the last available CBO assumptions, this budget saves \$593 billion over seven years (after accounting for the President's tax cuts) by reforming Federal entitlement programs, cutting deeply into discretionary spending, and limiting corporate subsidies.

Among its major elements, the budget:

- saves \$297 billion in discretionary spending, cutting unnecessary spending but investing in education and training, the environment, science and technology, law enforcement, and other priorities that will raise living standards and improve the quality of American life (see Chapters 8–11);
- saves \$124 billion in Medicare, strengthening and improving the program and guaranteeing the solvency of the Part A trust fund for over a decade (see Chapter 6);
- saves \$59 billion in Medicaid, reforming the program but continuing the guarantee of meaningful health and long-term care coverage for the most vulnerable Americans (see Chapter 6);
- saves \$40 billion through real welfare reform, moving recipients to work while protecting children (see Chapter 7);
- saves \$49 billion by reforming a host of other mandatory programs (see the more detailed explanation in the next paragraph);
- saves \$62 billion by ending corporate subsidies and other tax loopholes, and taking steps to improve tax compliance (see Chapter 12); and
- cuts taxes by \$100 billion, providing tax relief to tens of millions of middle-income Americans and to small businesses (see Chapter 12).

Among the \$49 billion in other mandatory savings, the budget proposes to auction, privatize, or sell, rather than give away, valuable public resources, including segments of the broadcast spectrum, energy resources, materials stockpiles, and other assets. It also proposes that Federal agencies fully fund their employees' retirement costs.

In addition, the budget extends previously-enacted savings in veterans' benefits; cuts

subsidies to financial institutions that make and hold student loans (without increasing program costs to borrowers); imposes fees to recover the costs of services that the Federal Government provides to private businesses; reforms Federal housing and banking programs; and makes other program efficiencies and improvements.

The budget also includes a "trigger" to ensure that the budget reaches balance under either CBO or OMB assumptions. Under the trigger, most of the tax cuts end after 2000 if the deficit is not at least \$20 billion below CBO's initial estimate for that year. If, however, the deficit is at least \$20 billion below the estimate, then the budget distributes the additional savings in the following order:

- first, it maintains the tax cuts after the year 2000;
- second, it reduces the cuts in discretionary spending; and
- third, it splits any additional savings evenly among more tax cuts, more reductions in the discretionary cuts, and more deficit reduction.

If OMB's assumptions prove correct, the budget would provide tax relief over the next seven years of \$117 billion, and discretionary spending cuts of \$186 billion.

### **Maintaining Our Values**

From the start, the President's economic program has emphasized one primary concern—to raise the standard of living of average Americans now and in the future. His budget policy has played a central role.

By cutting the deficit nearly in half in the last three years, we have reduced Federal borrowing, making more funds available in the private markets so that businesses can invest, grow more productive, expand, and create jobs. We also have shifted resources to education and training, science and technology, and other priorities—to enable Americans to get the skills they need to compete in the new economy and to help businesses become more competitive.

Like the President's previous budgets, this budget maintains his investments in education

and training, science and technology, environmental protection, law enforcement, and other key priorities.

These investments include Head Start for disadvantaged children; the Safe and Drug-Free Schools and Communities program to create safe learning environments; Goals 2000, which helps States and school systems extend high academic standards, better teaching, and better learning to all students; AmeriCorps, through which 25,000 Americans are serving their communities this year and earning money for college; direct lending that makes it easier to borrow and repay college loans; Pell grant scholarships for needy students; and job training Skill Grants for dislocated workers and low-income adults.

The budget maintains environmental enforcement; protects national parks and other sensitive resources; and invests in basic and applied research and technology. It funds the Community Oriented Policing Services (COPS) initiative to put 100,000 more police on the street by the year 2000; more border patrol agents to prevent illegal immigration and more inspections to prevent the hiring of illegal immigrants; and the Community Development Financial Institutions Fund to spur growth and create jobs in communities that have been left behind.

In addition, the budget includes funds to launch the important initiatives that the President outlined in his State of the Union address.

- To promote educational opportunity, the budget funds a Technology Literacy Challenge to bring the benefits of technology into the classroom; expanded work-study to help one million students work their way through college by the year 2000; a \$1,000 merit scholarship for the top five percent of graduates in every high school; and more Charter Schools to let parents, teachers, and communities create public schools to meet their own children's needs.
- To promote a secure future for American workers, the budget funds initiatives to make it easier for small businesses and farmers to establish their own pension plans, to encourage these and other employers to established flexible pension

plans that workers can take with them when they change jobs, and to help workers who lose their health insurance when they lose their jobs pay for private insurance coverage for up to six months.

- To protect our environment, the budget funds tax incentives to encourage companies to clean up "brownfields"—abandoned, contaminated industrial properties in distressed areas.
- To protect public safety, the budget provides funds for the FBI and other law enforcement agencies to step up efforts to combat juvenile crime and gangs that involve juveniles.

### **A Period of Change**

The Nation has entered a period of profound change—from an economy based primarily on traditional manufacturing to one based more heavily on information—the most profound change since we moved from the farm to the factory a century ago. It is a period of great opportunity and great uncertainty, a period that demands new thinking and new responses.

In the 19th and early 20th Centuries, and with the American economy assuming the lead, the economies of the developed world moved from agriculture to manufacturing by way of a pull and a push. The pull: the explosion of opportunities in manufacturing. The push: the growth of productivity in agriculture that freed resources—that is, both workers and investment—to exploit the new opportunities.

Now, an explosion of possibilities in the use of information is drawing workers from manufacturing, while the rapid growth in manufacturing productivity has eased the change. The revolution in information technology has increased productivity by helping people work faster and smarter. It has created jobs, rewarded entrepreneurs and investors, improved learning, and provided more enjoyable uses of leisure time. For society at large, it is both desirable and inevitable.

As President Clinton said in signing the Telecommunications Act of 1996 into law on February 8:

Today our world is being remade yet again by an information revolution, changing the way we work, the way we live, the way we relate to each other. Already the revolution is so profound that it is changing the dominant economic model of the age. And already, thanks to the scientific and entrepreneurial genius of American workers in this country, it has created vast, vast opportunities for us to grow and learn and enrich ourselves in body and in spirit.

But the benefits of this revolution are not spread evenly among all Americans.

### **The Perils of Change**

In 1979, 13,505 taxpayers filed Federal tax returns with incomes of over \$500,000. From that year to 1993, the cost of living roughly doubled. If incomes had just kept pace with inflation over that period, the same number of taxpayers would have had incomes of over \$1 million in 1993.<sup>1</sup>

In fact, the number of taxpayers with incomes over \$1 million had almost quintupled by 1993, to 66,485. Obviously, at the upper end of the income scale, opportunity is alive and well—as it should be for all Americans who are working their way up the economic ladder.

Opportunity, however, has been absent for many others. Average families in the middle fifth of the income scale had \$447 less in purchasing power in 1992 than in 1979. Those in the bottom two-fifths had even larger declines in percentage terms. At the same time, the income of the top fifth of families grew by 12 percent, and that of the highest five percent by 17 percent.

More and more, workers entering the labor market without the requisite skills face worse income prospects over their working lives than their predecessors did. Those who did not invest in their skills, or who invested in skills that have become obsolete, can find that what were once lifetime jobs are disappearing. Too often, these workers face limited prospects for maintaining their incomes.

Wage trends of 25–34 year-old workers make the point: In 1979, male workers with high school degrees who worked full time

and year-round earned, in 1992 dollars, an average of about \$30,900; by 1992, their earnings had fallen to \$24,400. Their female counterparts saw their earnings fall by two percent, to only \$18,900.

On the other hand, the earnings of young male college graduates rose two percent, to \$40,000, after adjusting for inflation. Female college graduates enjoyed an even larger gain, 15 percent (see Chart 1–1). And yet, though those with college degrees are doing better than others, even they have experienced slower income growth in recent years.

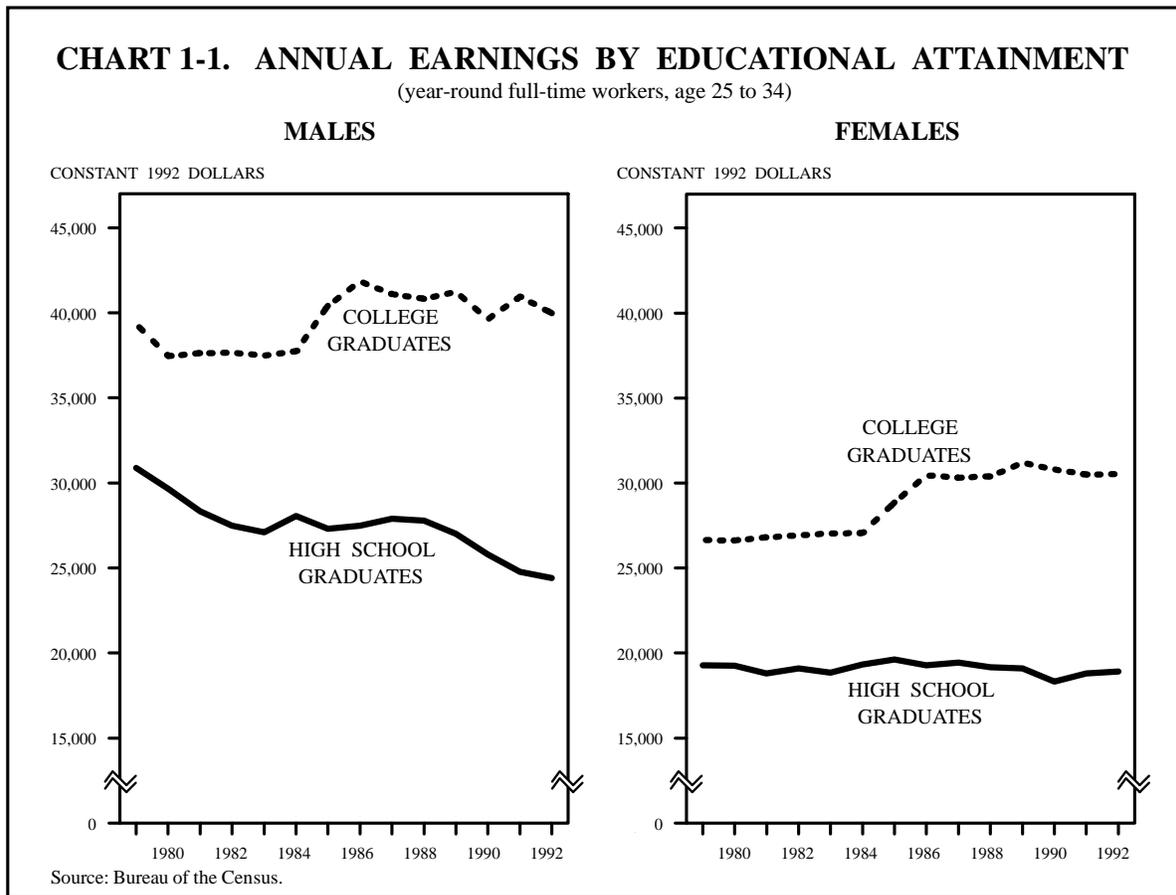
Nor do these figures begin to explain how profound economic change has affected peoples' lives. If economic change shakes an entire business firm, the retirement security of that firm's workers can shake with it. Young people who cannot get the skills and training to compete in the information economy risk facing a considerable disadvantage for their working lives. And with health care often dependent on employment, the absence of skills or loss of a good job can adversely affect family security beyond the measure of a worker's income.

The Nation cannot afford to dismiss any workers, to relegate them to the bottom rung of the economic ladder. The stakes are far too high. To build a stronger, more competitive economy at a time of increasing global competition, we need the contributions of all Americans. We need everyone to actively partake in the society at large, rather than impose costs on it through crime or dependency. As the President often says, "We don't have a person to waste."

The Federal Government cannot guarantee each, or any, person's success. But it can, and should, help every individual to achieve his or her greatest potential by reducing the barriers and the risks to building personal skills for a changing, information-based economy.

Education and training are the cornerstone of the new economy. To help give workers the skills they need, and the opportunities they deserve, for high-wage jobs, the budget enhances the Government's support for education and training. It protects funding for essential education programs, from Head Start

<sup>1</sup>Population growth would have raised the number to roughly 16,000, and changes in income definitions in the tax law might have raised it slightly higher.



for disadvantaged pre-schoolers to college scholarships. The budget proposes an income tax deduction for tuition and expenses for college and career training, to encourage especially those for whom costs present the greatest obstacle. It allows penalty-free withdrawals from individual retirement accounts (IRAs) for educational costs. And it anticipates a major overhaul of Federal job training programs based on the President's G.I. Bill for America's Workers, proposed in last year's budget.

Building on the retirement safety net that Social Security and Federal pension protections already offer, the budget proposes to expand IRAs to help workers build their own reserves against their retirement needs. The budget also proposes to help workers who lose their jobs to continue health insurance for themselves and their families. And it proposes simplified retirement savings systems to encourage employers to establish

flexible, portable pension plans that workers can take with them when they change jobs.

### Maintaining Our Edge—Abroad

In this age of possibility, the United States must continue to provide leadership across the globe and cooperate in the community of nations, not withdraw from it. Despite the voices that call for a U.S. retreat into isolationism, our diplomatic leadership remains critical to keeping the peace and defending our interests in major regions of the world.

American leadership is a key ingredient in dealing with the new threats of the post-Cold War era. Leading the global effort for arms reductions and nonproliferation continues to be an integral element of our diplomacy and national security strategy.

Our efforts support a broad range of programs to reduce the threat of nuclear and chemical weapons. We are making our chil-

dren's future safer by reducing existing arsenals and ensuring that rogue states and terrorist groups do not acquire these terrible weapons or the materials and technologies needed to make them.

Other emerging threats know no national borders. America must lead in confronting such problems as ethnic and national conflicts that threaten regional stability; terrorism, international crime, and drug trafficking, which directly threaten our free and open society; and large-scale environmental degradation.

More than ever, our domestic and foreign economic interests are closely intertwined, and mutually reinforcing. Economic and trade issues are increasingly at the forefront of our diplomacy. We need a strong economy to sustain our military forces and diplomatic strategy. And we must be global leaders in trade and investment in order to open foreign markets and create the high-wage jobs that will raise the living standards of our people.

Our defense capability is what sustains and supports our diplomacy. We have the world's strongest and most ready military force, one designed to fight successfully two nearly simultaneous regional conflicts. Our weapons are state-of-the-art, and our military is the best equipped, best trained, and best prepared in the world. And, when necessary, we have sent the men and women of our military into action.

### **Maintaining Our Edge—At Home**

At home in this time of change, the public and private sectors must work together; we cannot rely on just one or the other. Americans of all generations must come to-

gether in the interests of all—whether it is for better schools, safer streets, or a cleaner and healthier environment.

As Americans, we should dedicate ourselves to building a society in which we all have the opportunity to use our talents to their fullest potential, and in which we all take responsibility for our actions; in which all children can learn at safe and stimulating schools, free from the fear of gangs and guns; in which all fathers and mothers give the task of raising their children the energy and attention it deserves; and in which all those who want to work can find good jobs.

To reach this goal in a time of change, we need the right kind of Government and the right kind of policies. We need a Government that creates opportunity, not bureaucracy; one that works with State and local governments, businesses, and religious, charitable, and civic associations; and one that manages its resources wisely.

We need a leaner, but not meaner, Government, one that puts its customers—the American people—first by delivering better services every day and not imposing undue burdens on individuals and businesses. And we need a Government dedicated to better performance and results, rather than to simply doling out dollars.

Government should not do for individuals what they can do for themselves. We must ask more of ourselves, expect more of one another, and meet the challenges that confront us together. We must strive to enable all of our people to make the most of their lives with stronger families, more educational opportunity, economic security, safer streets, a cleaner environment, and a safer world.