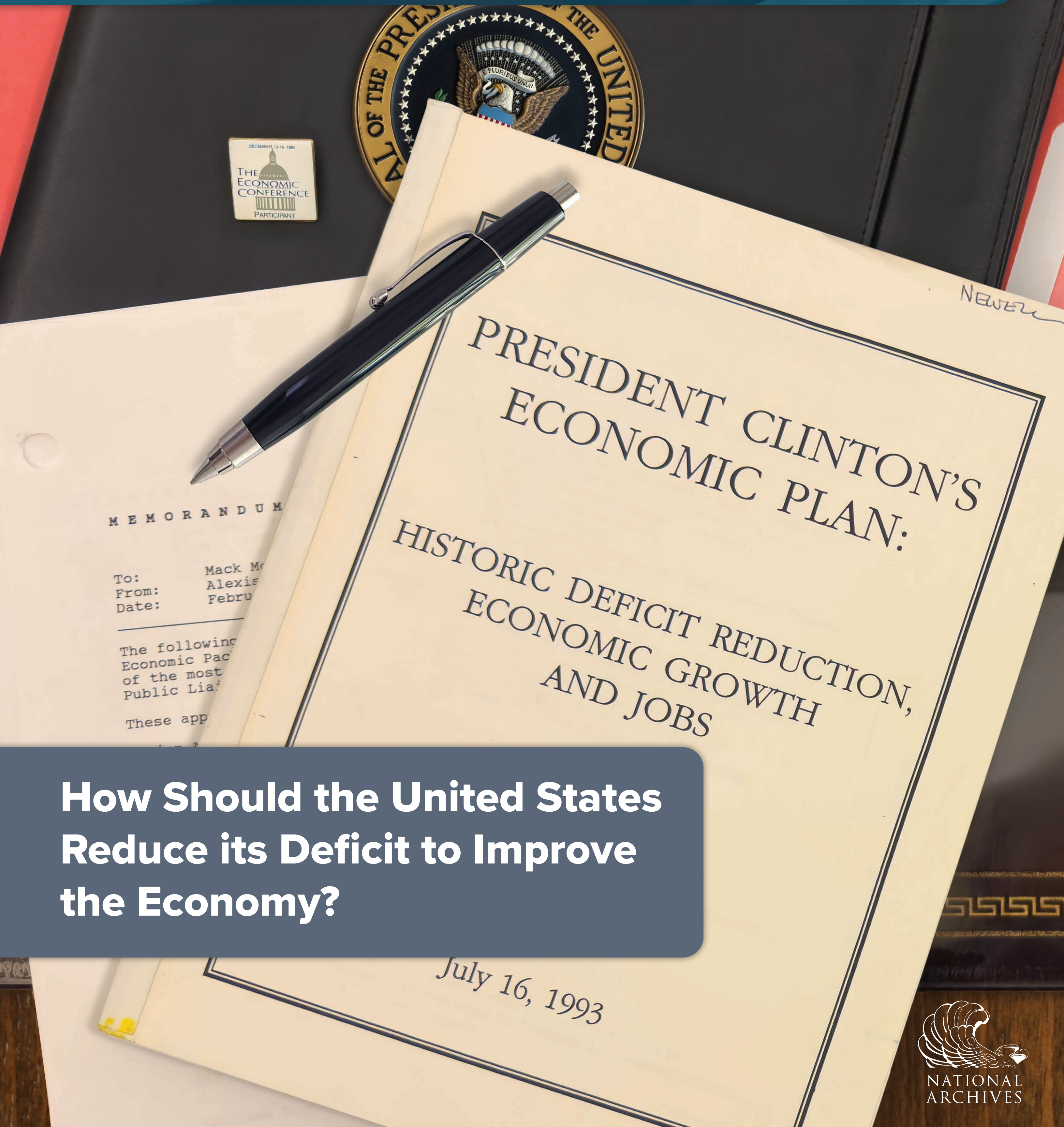
Advise the President:

WILLIAM J. CLINTON



How Should the United States Reduce its Deficit to Improve the Economy?

NATIONAL ARCHIVES

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THE WHITE HOUSE

WASHINGTON

How Should the United States Reduce its Deficit to Improve the Economy?

The Realities of Governing

Place: The Oval Office, the White House
Time: February 1993

Following the inauguration, President Bill Clinton began reviewing policy proposals to address the concerns of citizens who want more job opportunities, higher wages, and governmental reforms that support the economic needs of families and communities.

Rising unemployment and mounting deficits are creating an unstable and uncertain economy. On the evening of February 15, 1993, Clinton addressed the nation from the Oval Office for the first time. In his speech, the President described how over the previous 12 years the federal deficit "roared" out of control. Clinton believes economic inequality and political realities must be tackled to increase public confidence in the government's ability to handle fiscal challenges and give the American people a sense of hope.

The time has come for President Clinton to meet with Cabinet members and economic advisors—including you—to develop a strategy that will stabilize the economy and ensure a more prosperous future for all citizens.

STEP INTO THE OVAL OFFICE.
THE PRESIDENT IS EXPECTING YOU.

Background

In the decade before the Clinton presidency, between 1980 and 1990, the country's debt increased significantly as the government borrowed money to fund a variety of new domestic and international initiatives.

By the late 1980s, the U.S. economy was in a state of flux. Prosperity was abundant for wealthy Americans, but many middle class and poor citizens still faced uncertainty. A mild recession, overpriced goods, and increased unemployment became the unintended consequences of excessive defense spending and policies enacted by the Federal Reserve.

According to various sources of business news and financial information, the recession from 1990 to 1991 in America was caused by a collapse in real estate prices, stock market turbulence, financial mismanagement, loan failures, rising taxes, a war in the Middle East, a spike in oil prices, and several other factors. The recession only lasted eight months, but in that time unemployment in the United States increased to 7.8% and consumer and business confidence decreased. Many political and economic analysts suggest the slow recovery contributed to Bill Clinton's victory in the 1992 presidential election.

Presidential candidate Bill Clinton talks with voters in Cincinnati, Ohio on September 7, 1992.

Presidential candidate Bill Clinton and his running mate Al Gore talk with a farmer in Albany, Georgia.

The 1992 Campaign

As a presidential candidate, Governor Clinton stressed that strengthening the economy was not a Democratic or a Republican issue. Rather, it should be a national priority to ensure America remained competitive with the rest of the world.

After becoming the nominee of the Democratic Party, Clinton and his vice presidential running mate, U.S. Senator Al Gore of Tennessee, began campaigning across the country to promote their agenda for transforming the American economy. The duo developed a comprehensive plan, titled "Putting People First." They knew Americans wanted solutions to the nation's continuing economic problems.

The Clinton-Gore plan offered reform strategies to encourage job growth and improve livelihoods. Putting people first became a core component of Clinton's national economic strategy and a fundamental principle to guide the work of a potential Clinton Administration.

Soon the Clinton campaign began using the catchphrase "it's the economy, stupid" to remind campaign workers that the election was winnable if voters understood that Bill Clinton's agenda would improve the economy and expand opportunity.

Clinton was victorious on election night. With the campaign over, President-elect Clinton quickly learned America's economic problems were a lot worse than he first realized.

Presidential candidate Bill Clinton at a voter registration rally in Chicago on July 20, 1992.

Presidential candidate Bill Clinton makes a campaign stop in Louisville, Kentucky on September 30, 1992.

A CALL TO ARMS TO RESTORE

The American Dream

"This is a momentous time for our Nation. We stand at the end of the cold war and on the edge of the 21st century. For two decades we've moved steadily toward a global economy in which we must compete with people around the world, a world which requires us to work hard and smart, a world in which putting people first is more than a political slogan, it's a philosophy of governing and the only path to prosperity.

For 12 years we've followed a very different philosophy. It declared that Government is the problem, that fairness to the middle class is less important than keeping taxes low on the wealthy, that Government can do nothing about our deepest problems: lost jobs, declining wages, increasing inequality, inadequate educational opportunity, and a health care system that costs a fortune but does too little...

The typical middle class family is working harder for less... more than 9 million of our fellow citizens are still out of work. And... if this were a real, normal recovery, 3 million more Americans would already be back at work by now. In fact, there are more jobless people now than there were at what the experts call the bottom of this recession.

All during this last 12 years the Federal deficit has roared out of control... the big tax cuts for the wealthy, the growth in Government spending, and soaring health care costs all caused the Federal deficit to explode. Our debt is now 4 times as big as it was in 1980.

That's right. In the last 12 years we piled up 4 times as much debt as in the previous 200...

This matters. When you don't invest in jobs and education and economic opportunity, unemployment goes up and our incomes go down. And when the deficit gets bigger and bigger and bigger, the Government takes more of your money just for interest payments. And then it's harder for you to borrow money for your own business or to afford a new home or to send a child to college...

My message to you is clear: The price of doing the same old thing is far higher than the price of change... If you will join with me, we can create an economy in which all Americans work hard and prosper. This is nothing less than a call to arms to restore the vitality of the American dream."

– President Bill Clinton

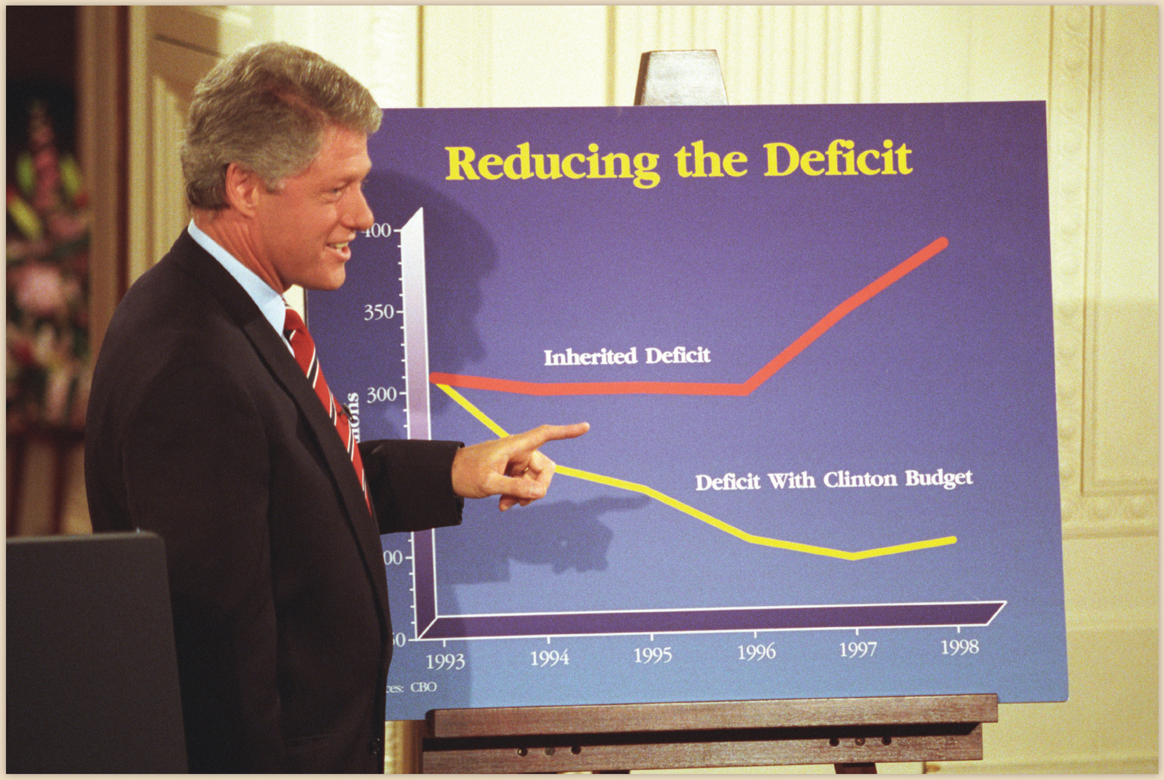
Excerpt from a Televised Economic Address to the Nation
The White House, February 15, 1993

Collective Decision Making

The Federal budget is one of the most important documents produced each year by the President and Congress. Developing the budget can be a lengthy process. The nation's leaders try to determine the amount of money they expect the government to receive in the coming year and how that money should be spent to reach important domestic and international priorities. However, this process has become increasingly difficult because of the growing deficit.

Budget deficits occur when government spending is greater than the money it receives from taxes and other revenues. If the United States takes in $5 trillion dollars but spends $9 trillion dollars in one year, then it has run a $4 trillion dollar deficit. When the government runs a deficit, it must borrow money to make up the difference. The national debt, also known as the public debt, is the result of the Federal Government borrowing money to cover years of budget deficits. The debt grows every year the government has to borrow money; the debt shrinks when the government has enough money for all the programs it funds, and can pay back previous loans.

Through consultations with advisors, President Clinton realizes that his team may have to take immediate action to curb the growing deficit. To succeed, President Clinton knows he will need the country's support in creating a viable economic program. As Clinton consults with his team, time is of the essence. There are countless citizens losing jobs, having difficulty paying bills, and worrying whether they will have a chance to live the American Dream.



President Clinton discusses plans to reduce the deficit on June 17, 1993.

How should the United States reduce its deficit to improve the economy?

The Clinton Administration is reviewing several options designed to reduce the deficit and improve the economy. Cabinet officials and economic advisors must weigh the possible consequences of any course of action and be ready to provide sound advice to President Clinton before he makes a final decision.

POSSIBLE COURSES OF ACTION

OPTION ONE: Cut Government Spending

Cut government spending to reduce the national debt and curb the amount of money borrowed to cover years of budget deficits.

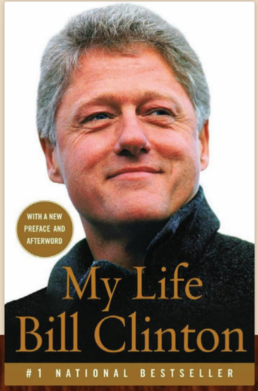
OPTION TWO: Increase Revenue

Increase revenue by modifying tax rates so all citizens contribute their share to the country.

OPTION THREE: Invest In Communities

Invest in communities to increase job opportunities, spur long-term economic growth, and increase employment.

> "[The growing deficit will make it] more difficult to juggle competing priorities: to cut the deficit in half without weakening the fragile economic recovery in the short run; to find the right combination of spending cuts and tax increases necessary to reduce the deficit and increase spending in areas vital to our long-term economic prosperity; and to ensure more tax fairness for middle- and lower-income working people."
>
> —Excerpt from Bill Clinton's memoir titled "My Life"



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OPTION ONE: **Cut Government Spending**

This option suggests the path to economic recovery begins with acknowledging that our collective security as Americans is threatened by continuing deficits and the growing national debt. The government must learn to live within its means and not spend more than it takes in from taxpayers.

President Clinton meets with staff in the Oval Office on April 1, 1993.

WHAT WE COULD DO

- **Reduce the number of military combat units, cut funding for tactical operations and new equipment, and close or realign military bases that either offer redundant services or do not meet the nation's immediate defense intelligence needs.**

  But... Fewer forces might hinder the military's capacity to respond to or engage in prolonged conflicts; lower funding could jeopardize the military's ability to purchase new weaponry and adequately train personnel; and military installations are engines for economic growth, particularly in smaller communities. Closing certain facilities could increase unemployment, depress neighborhoods, and harm local businesses.

- **Promote policies that cut spending for social programs and eliminate services that are not cost-effective.**

  But... Deep cuts to certain social programs will be an added burden for poor and middle class citizens who rely on government assistance for food, housing, and health support.

- **Reduce the size of government by eliminating certain Federal positions and laying off personnel, freezing employee salaries, cutting administrative waste from programs, and reducing benefits and pensions for Federal Government employees.**

  But... Cuts to the government's workforce or a salary freeze could damage employee morale, increase unemployment, and create additional financial hardships for Federal employees.

- **Speed up the transfer of former military bases to communities so local officials can use the land for other purposes and the Federal Government can receive additional money from property sales.**

  But... Selling land from former military installations takes a lot of coordination between Federal and local officials and it may become costly to rid the environment of chemicals and hazardous waste from old weaponry.

OPTION TWO: **Increase Revenue**

This option makes the case that all citizens have a stake in paying down the deficit and supporting government programs that provide basic equity and fair treatment for every person in the country. This means all Americans should provide funding for Federal programs, so that the government is not forced to borrow money. The President and members of Congress must work together to fix the tax code so all citizens contribute their fair share.

President Clinton reviews policy proposals in the Oval Office on November 22, 1993.

WHAT WE COULD DO

- **Raise income tax rates for the top 1.2% of tax payers; increase the income subject to taxation for people who receive Social Security and have higher incomes; and increase the corporate income tax on businesses that have incomes in excess of $10 million a year.**

  But… Increased tax rates could cause a decline in productivity, stifle innovation, and force some businesses to outsource American jobs to foreign countries.

- **Offer a targeted tax cut for middle class Americans to encourage them to spend more and boost local economies.**

  But… A large middle class tax cut could increase the deficit.

- **Impose an energy tax to help clean up the environment, promote conservation, and make America more independent of foreign oil through taxing the heat content of energy for oil, gas, and coal.**

  But… A carbon tax could hurt states that rely on the coal industry and a tax on gasoline may be acceptable for city dwellers who use public transit, but unacceptable for people who live in areas where they drive long distances.

- **Reform the tax code to encourage major corporations to hire more American workers and open new factories or businesses in the United States.**

  But… Creating policies that favor corporate interests could lead to the creation of costly loopholes that burden taxpayers with additional expenses and deepen economic inequality.

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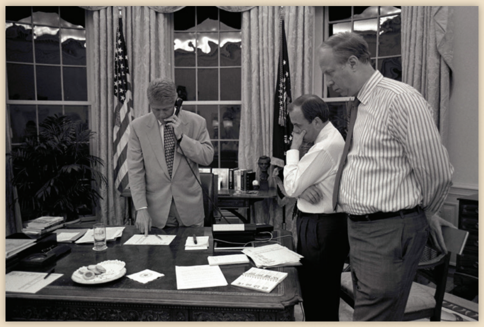
OPTION THREE: **Invest In Communities**

This option maintains that lasting solutions to the country's economic problems will come from supporting efforts by the American people to create their own opportunities. Government should advance policies that encourage citizens to help themselves. Offering targeted support to individuals and communities through training and grants will inspire innovation, promote personal freedom, put people back to work, and stimulate economic recovery.



President Clinton talks with advisors in August of 1993.

WHAT WE COULD DO

- **Reward entrepreneurs by offering tax incentives to innovative large and small businesses that employ Americans and start U.S.-based enterprises.**

  But... Making more capital available to the private sector will lower costs for certain businesses, but it may not produce immediate benefits that aid nationwide efforts to stimulate job growth.

- **Increase training opportunities to reeducate the American workforce so they can compete in a global economy; and provide economic planning grants and special assistance to communities negatively affected by changes in the economy.**

  But... Initiatives that ensure American workers have the training necessary to get a job in a global economy, coupled with additional funding for certain communities, can be costly thereby increasing the federal budget deficit.

- **Invest in roads, bridges, housing, and other economic development projects that support the needs of businesses and communities.**

  But... Using federal funds for various economic development and infrastructure projects will not immediately reduce the deficit and high costs could counteract the gains made from community revitalization programs.

- **Encourage the Federal Reserve to lower interest rates in order to stimulate economic growth, lower financing costs, and encourage borrowing and investing by corporations and consumers.**

  But... Interest rates that are too low can spur excessive growth and even inflation, which could lower the value of American currency and undermine efforts for a sustainable economic expansion.

SUMMARY

How Should the United States Reduce its Deficit to Improve the Economy?

Millions of Americans are unemployed, economic inequality persists after a recent recession, and the national debt is growing because the Government has to borrow money to pay for Federal programs. The President must decide which strategy should be a priority for strengthening the economy.

QUESTIONS TO CONSIDER

- As an advisor to President Clinton, you have just participated in a thorough discussion about the country's economic challenges and you weighed the consequences of certain actions. What are your recommendations for the President?
- Which of the three options represents the most important strategy government officials should use to reduce the deficit and improve the economy?
- Since workers, businesses, and communities are struggling to remain competitive in a global economy, which group should be a priority in the President's policy proposals?
- Should proposals to reduce the deficit require shared sacrifice from all Americans or should corporate interests and the wealthy be compelled to do more?
- Is focusing on deficit reduction the best way to jumpstart the economy and bring immediate relief to struggling Americans?
- If you were the President, what choice would you make? Would you choose one of the proposed options to improve the economy, or would you have a different strategy?
- What would be your major concern before making a final decision?
- How might the American public react to your decision? What feedback would you receive from the business community?

OPTION ONE: **Cut Government Spending**

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Cut government spending and reform programs to reduce the amount of money borrowed to cover budget deficits. BUT: Spending cuts and program overhauls could stall economic growth and further burden struggling communities and citizens who need extra support.	Reduce combat units, cut funding for military operations, and close obsolete military bases.	Fewer forces, less funding, and base closures may harm national defense and local economies.
	Decrease spending for social programs and put money toward economic initiatives.	Some citizens may lose government assistance for food, housing, and health support.
	Reduce Federal staff, freeze salaries, limit pensions and benefits, and lower administrative expenditures.	Employee layoffs, freezing salaries, and pension cuts could damage employee morale and increase financial hardships.
	Speed up the transfer of former military bases to communities to increase Federal revenue.	Environmental cleanup efforts at military sites could be costly and hazardous for residents.

OPTION TWO: **Increase Revenue**

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Increase revenue by modifying tax rates so all citizens contribute their fair share to the country. BUT: Tax hikes add real costs to companies, force some businesses to outsource jobs to foreign countries, and increase the tax burden of some citizens.	Raise income tax rates on the wealthy and increase the corporate income tax on certain businesses.	A tax hike could hinder innovation, harm productivity, and cause some companies to send American jobs overseas.
	Offer a targeted tax cut for middle class Americans.	A large middle class tax cut could increase the deficit.
	Impose an energy tax that will promote conservation and energy independence.	States that rely on revenue from fossil fuels will be negatively affected by certain energy taxes.
	Reform the tax code and encourage major corporations to hire and build in America.	Policies favoring corporations may create tax loopholes that shift the tax burden to citizens.

OPTION THREE: **Invest In Communities**

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
Invest in communities to increase job opportunities and spur long-term growth. BUT: Increased expenditures can put the nation deeper in debt and threaten economic security by not immediately addressing the rising deficit.	Reward entrepreneurs by offering tax incentives for innovation and starting U.S.-based businesses.	Making capital available to certain businesses may not immediately stimulate job growth nationwide.
	Offer training programs for workers and grant funding to cities in economic distress.	Training initiatives and Federal grants limit the government's ability to reduce spending.
	Invest in economic development that supports business and community needs.	Directing Federal funds to economic development projects does not reduce the deficit.
	Lower interest rates to aid corporate and consumer borrowing and investment.	Low interest rates can spur excessive growth or inflation and undermine economic gains.

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until the forum discussion is finished.

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PRESIDENTIAL DEBRIEF:
How did President Clinton reduce the country's deficit and improve the economy?

After in-depth discussions with top advisors, President Bill Clinton decided that a comprehensive deficit reduction plan would be the best way to restore fiscal responsibility, increase consumer confidence, and get the American economy moving again. Clinton unveiled his economic plan to the nation in February, 1993.

President Clinton's plan focused on reducing the budget deficit by increasing taxes, particularly for the wealthiest 1.2% of taxpayers; cutting taxes for 15 million low-income families, making tax cuts available to 90% of small businesses, and implementing spending restraints to balance the budget over several years.

Clinton's 1993 Economic Plan passed without any support from Republican lawmakers. In addition to reducing the deficit by nearly $500 billion over five years and increasing Medicare solvency, the final bill provided a combination of grants, tax credits for businesses, and other benefits to highly distressed communities. The plan launched a new direct student aid program that lowered costs for millions of students; increased food stamp benefits; and provided full funding for a federal assistance program that offered healthcare and nutrition for low-income mothers, infants, and children under the age of five. President Clinton's economic plan became law in August when he signed the Omnibus Budget Reconciliation Act of 1993, commonly referred to as the Deficit Reduction Act of 1993.

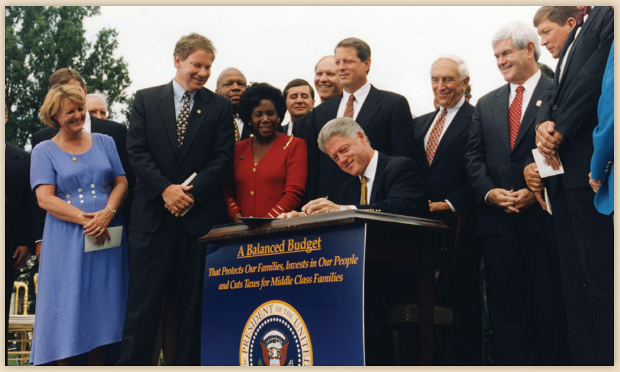
In the summer of 1993, President Clinton also approved recommendations by the independent Defense Base Closure and Realignment Commission to close over 30 unneeded military installations across the United States and expand or reduce 27 others. Those closures and consolidations resulted in a net savings of over $2 billion annually.

However, tensions between the two major political parties continued. In the middle of Clinton's first term in office, on November 8, 1994, Republicans won control of both the House and the Senate in midterm elections. This shift in the political landscape compelled Clinton to work in a bipartisan way and make strategic compromises to solve the nation's social and economic problems. The president garnered Republican support to balance the Federal budget and reduce the size of government.

On January 6, 1999 President Clinton describes how fiscal responsibility is improving the U.S. economy.

The Clinton Administration passed budgets that combined tax increases on the wealthy with government spending cuts, achieving the largest budget surplus and debt reduction in U.S. history by the year 2000. After eight years in the White House, the results of President Clinton's economic leadership were clear — record budget deficits became record surpluses, 22 million new jobs were created, unemployment and core inflation were at their lowest levels in more than 30 years, poverty levels fell, and America was experiencing the longest economic expansion in its history.

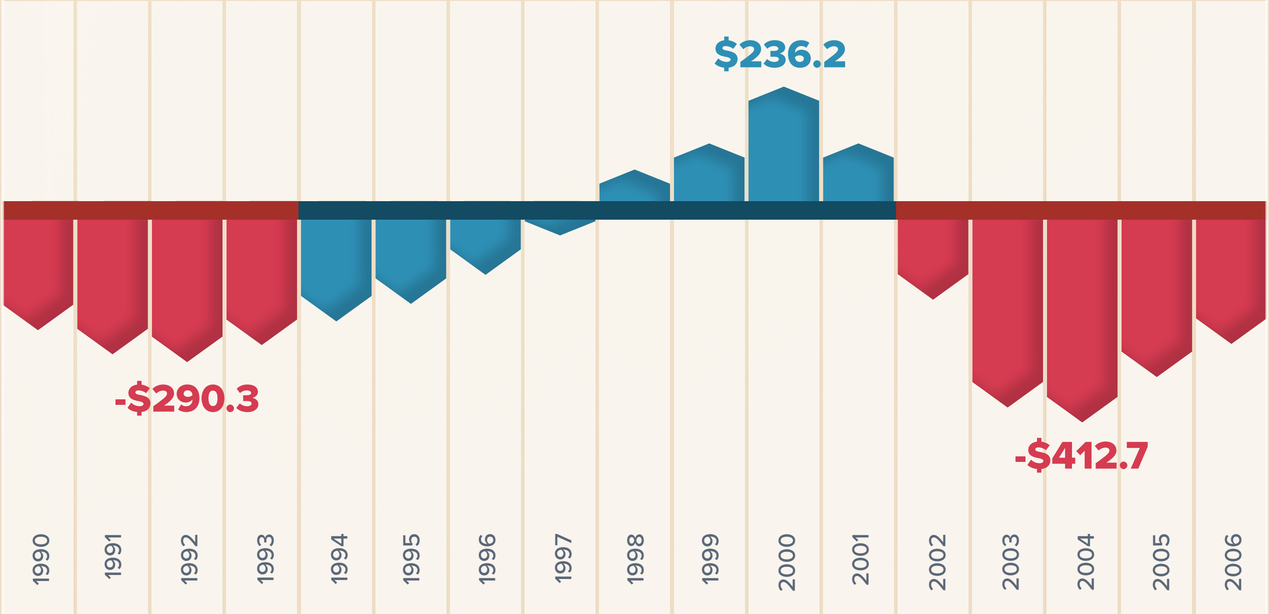
Historians have suggested Clinton's economic strategy: (1) established fiscal discipline by eliminating the budget deficit, keeping interest rates low, and spurring private-sector investment; (2) improved quality of life issues for citizens through investments in education, training, healthcare, technology, and scientific research; and (3) opened foreign markets so American workers could compete abroad.



President Clinton signs The Balanced Budget Act of 1997 on the South Lawn of the White House on August 5, 1997.

Federal Deficit/Surplus

By Fiscal Year, in Billons



Clinton Budget Years in Blue

Source: Congressional Budget Office

This booklet was prepared by the National Archives and Records Administration in collaboration with the National Issues Forums Institute and the Kettering Foundation. The booklets in the "Advise the President" series lead participants in guided discussions based on historic Presidential decisions.

For information about the Presidential Libraries or to access other books in the series, visit: **www.advisethepresident.archives.gov**

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