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NEWSLETTER

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15 February 1996

Washington, DC

The President's 1997 Budget. The subject I am currently contacted about more than any other is the budget. While we are continuing to work on reaching a 1996 budget compromise, the law requires that the President submit to Congress his budget for the next fiscal year on the first Monday of February. This is an annual document that outlines how the White House plans to spend the nation's money during the upcoming fiscal year.

Because of the uncertainty over 1996 appropriations as well as possible changes in mandatory programs and tax policy, this year's budget provides only a thematic overview of the Administration's priorities as we continue to discuss how to balance the budget over the next seven years. Those who have been in touch with me about the budget will be interested in reading the following portion of the Office of Management and Budget's statement with regard to the President's goals:

"The President's 1997 Budget achieves two basic objectives:

- * It reaches balance in seven years, making real cuts in entitlements and discretionary spending while providing modest tax relief; and
- * It maintains our commitments to economic growth and to protecting the most vulnerable Americans, including senior citizens, working families, and children.

"The budget strengthens Medicare and Medicaid; invests in education and training, the environment, science and technology, and other priorities; reforms the welfare system; provides for a strong defense; and provides tax relief to help families raise their children, send their children to college, and save for the future.

"The budget reflects the President's most recent proposal in his budget negotiations with the bipartisan congressional leadership. Because it reaches balance in 2002 by basically using the economic and technical assumptions of the Congressional budget Office (CBO), it fulfills a goal that the President shares with Congress. Using the economic and technical assumptions of the Office of Management and Budget, this budget projects a surplus of \$40 billion in 2002.

"The President believes that Congress should quickly enact the savings that he and congressional leaders have in common in their budget proposals -- savings that are sufficient not only to balance the budget in seven years, but to provide a modest tax cut. As the President said in his State of the Union address, we should make permanent deficits a part of yesterday's legacy.

"To reach balance, this budget saves \$596 billion over seven years by reforming Federal entitlement programs, cutting deeply in discretionary spending, and limiting corporate subsidies. It saves \$124 billion in Medicare, \$59 billion in Medicaid, \$40 billion in welfare programs, \$56 billion in other mandatory programs, \$297 billion in discretionary spending, and \$59 billion in corporate subsidies and other revenue provisions.

"The budget also includes a mechanism, known as a 'trigger,' to ensure that the budget reaches balance under either CBO or OMB assumptions. Under this 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, on the other hand, the deficit is at least \$20 billion below estimates, then (1) the tax cuts remain in place, and (2) the amount that exceeds \$20 billion is applied, first, to reduce the discretionary spending cuts and, then, to a larger tax cut and more deficit reduction.

"From the start, the President's economic program has emphasized one primary concern -- to raise the standard of living for 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 have also shifted resources to education and training, science and technology, and other priorities, not only to make businesses more competitive but to give Americans the skills they need to compete in the new economy.

"Like the President's previous budget, this budget maintains his investments in education and training, science and technology, environmental protection, law enforcement, and other key priorities. These include the Head Start program 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 a year serve their communities and earn money for college; lower cost student loans with greatly increased flexibility for repayment; Pell grant scholarships for needy students; and Skill Grants (or job training vouchers) for dislocated workers and low-income adults.

"The budget also protects environmental enforcement through the Environmental Protection Agency's operating program; programs to protect national parks and other sensitive resources; and basic and applied research and technology development. It funds the Community Oriented Policing Services (COPS) initiative to put 100,000 more police on the street by 2000; more border patrols 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. In education, the budget funds an educational technology initiative to connect every classroom to the information superhighway by 2000; expanded work-study to help one million students work their way through college by 2000; a \$1,000 merit scholarship for the top five percent of graduates in every high school; and charter schools to let parents, teachers, and communities create public schools to meet their own children's needs.

"For workers, the budget funds an initiative, which the White House Conference on Small Business recommended, to make it easier for small businesses and farmers to establish their own pension plans. For the environment, it funds tax incentives to encourage companies to clean up abandoned, contaminated industrial properties in distressed areas. And for law enforcement, it provides funds with which the FBI and other law enforcement agencies will launch a war on juvenile crime and gangs that involve juveniles."

In short, the outline projects the 1997 deficit will be \$160.6 billion, up slightly from this year's estimated \$154.4 billion shortfall. Beginning in 1998, the president foresees declining red ink until 2002, when he projects a multi-billion dollar surplus. Domestic spending other than entitlement programs would be trimmed by \$297 billion. Also proposed is \$98.5 billion in tax relief, most in the form of tax credits for parents, tax deductions for education and training expenses and breaks for small businesses. About \$59 billion in corporate tax breaks would be eliminated.

It is my hope this summary is helpful, and if anyone has questions please don't hesitate to let me know. I will certainly do my best to try and answer them.

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