

Remarks and a Question-and-Answer Session With the Business Roundtable

June 9, 1993

The President. Thank you. Thank you, John, and thank you, ladies and gentlemen, for the invitation to come here and speak with you today. I appreciate it not only because of the important things that we need to discuss but because you, as the CEO's of our Nation's top businesses, have a vital role to play in providing what our country needs most now, economic renewal and an honest facing of our real challenges.

In recent years, members of the Business Roundtable have often been among the most enlightened leaders of our Nation, in any walk of life. Many of you have supported the economic program that I have advanced, and for your help I am extremely grateful. All of you know there is a moment in the life of every enterprise when a CEO looks up and realizes that the company has been doing something that simply doesn't work anymore, that the time has come for overhaul and change, and though it will be painful, it has to be done. When that time comes, if you have the courage to do it, you just have to go before the stockholders and tell them that things aren't working, that there's some pain in the short run, but there's a lot of gain in the long run.

Many of you have had exactly that experience in the last 10 to 15 years. You've had to restructure your companies, slim them down, eliminate unnecessary layers of management, embrace quality management, invest more in the training of your work force and in the quality of your equipment and in the competitiveness of your operations.

And as a result of those calls, American companies now are once again the wonder of the world. Detroit turns out much better cars than it did 10 years ago. And guess what? It's gaining market share now in America, something that a lot of people thought would never happen again. Motorola goes head-to-head in Japan and often wins, and manufacturing as a whole has come roaring back. Our workers are proving once again that they are the best in the world. That's exactly what can happen to our Nation as a whole, and what I believe has to happen. If we put our shoulder to the wheel and face

the issues squarely, I think it will happen. We'll come roaring back, too.

As a new President, I feel the same as many of you did a few years ago. I look around and I see what I've inherited, and I realize that, just as I said in the campaign, we have been on the wrong track for too long. Just as you've overhauled your companies, we've got to work together to overhaul this country. And I believe that we can. I promise you I'm doing everything I can to get it done.

The people of this country are just like the stockholders in your companies. You can tell them the changes we need. First, the people want to know what's wrong and what the problems are. Then they want to know what the strategy is for solving the problems. And then they want to know what's in it for them, both good and bad. They deserve to have all those questions answered, and I'm doing my best to answer them. They are tough questions but fair ones. They have to be faced.

Four months ago when I came to office, our country was suffering from a long period of economic slowdown, and the Government's deficit figures had been revised upward after the election by \$165 billion over the next 4 years. After World War II, the income of the average American family was doubling about every 25 years, an extraordinary feat that created a vast middle class in our country. Everybody thought these good times would go on forever, that the next generation would always be better off than its parents, that the quality of life and of social justice would continue to increase.

But in the early 1970's, that upward escalator came to a screeching halt, brought on by the global economy, its competitive pressures, and a lot of problems we had in our own country which slowed down the productivity growth rate. The incomes of many Americans started falling and average hourly incomes have been stagnant virtually ever since for the Nation as a whole, in spite of the fact that the average family is spending more hours per week at work than it was in 1969.

Now we look forward to a doubling of our standard of living not every 25 years but every

75 years. That is plainly an unacceptable rate. Many unhappy trends accelerated during the 1980's and into the 1990's. Even though the wealthiest Americans consistently did better, middle class incomes stalled and the percentage of people living in poverty exploded, especially the percentage of people working and still living in poverty. Our leaders continued to promise us something for nothing. There was always an easy answer. There was always a slogan that solved the problems. And slogans are always appealing. But as Americans, we can't live like that anymore.

You and I know that a major roadblock to our long-term recovery is the Federal deficit. You and I know that it hasn't been tackled seriously in the past. And I want you to know today that I am committed to tackling this deficit, no matter how much political capital I have to spend to do it, because unless we regain control over our economic destiny, none of the other things that I would hope to do as President will be possible.

What I faced when I came to office was the prospect that unless we acted and acted decisively, deficits would soar out of sight in the 1990's. And notwithstanding the dramatic drop in short-term interest rates, we would continue to have the highest real long-term interest rates of any of our competitors. That would cripple the economy. The United States would relinquish its place of leadership. And most importantly, we would leave our children a mean and surly existence of less economic opportunity and more social division.

That's why I believe so strongly that, as a nation, we have to have the courage to change. And so I spent weeks and weeks working on an economic plan for the Nation, one that would dramatically reduce the deficit while also achieving an equally important aim: investing in a very disciplined way in some of the areas we had neglected in the 1980's but that are critical to our growth and productivity, especially education, training, new technologies for the 21st century, and strategies to ease the transition from a defense-based high-tech economy to one based on a dramatically reduced level of defense spending but increased domestic spending.

Now, when I first presented this plan to Congress and to the American people in February, it received rave reviews. The reaction of the financial markets was immediate and very favorable, just as the reaction to the financial markets

had been favorable right after the election when we said we would come forward with a strong deficit reduction plan.

As the plan has moved its way through Congress, the outline of the budget resolution passing on time for the first time in 17 years, the House of Representatives passing the plan rigorously and quickly under enormous pressure, the financial markets have continued to respond in a very positive way. And many of you have stuck with us because you understand that this is a balanced and fair plan. But most Americans don't know about that because ever since February, the last time I had a chance to discuss it entirely directly with the American people, we have seen a barrage of the same old sloganeering that got us in the fix we're in today. There is an easy answer: Just don't raise taxes and cut spending. It's a simple, unqualified thing. This, from the people who raised all the spending and cut the taxes in the 1980's.

I want to say again how very grateful I am for the people who have supported this program, from the CEO's of companies like Anheuser-Busch, ARCO, Ford, NationsBank, Sara Lee, Tenneco, TRW, Apple, Xerox, and others, to the Home Builders Association, the Realtors Association, the American Electronics Industry Association, and others. I appreciate that.

You might be interested to know that a Congresswoman from California told me that after she spent a week at home, after voting for the plan, in town meetings she met with people who were angry at her and who left supporting the plan for two reasons: Number one, they were astonished to find out what it actually did, since they couldn't tell from the rhetoric of the last 3 or 4 months; number two, they were astonished to know who was for it.

The other day, the Home Builders Association brought their national officers group in to Maryland to meet with me at a homebuilding site to reaffirm their support for the program because we got mortgage rates at a 20-year low and housing sales at a 7-year high.

There has been a calculated effort to distort and to destroy this program by calling it "tax and spend." Never mind that for years the leaders of this effort gave us "borrow and spend." Never mind that they were the architects of a program that took us from a \$1 trillion to a \$4 trillion debt in 12 years, from an annual deficit of \$74 billion a year to over \$300 billion a year. Spending increased more than at any

time during World War II in the last 4 years, and so did borrowing. And we're in a deep hole. But one more time, the apostles of the easy answers seek to divert the attention of the American people with their simple slogans.

I've been through a lot of political wars in my lifetime. I've, on occasion, gotten knocked down. Sometimes I've knocked myself down. But I always try to come back. And this time the administration is going to come back, because we're telling the truth to the American people, and if we don't face this problem now, we're going to let it get out of hand and lose control of our destiny. That is the big issue, and we've got to have the courage to face it.

Because there have been so many distortions, I'd like to go back through this program one more time, to tell you about the principles that have to be preserved as this plan works its way through Congress. First of all, let's take a look at where the deficit is heading. This is what I found based on the previous actions of the last 12 years. If we fail to act, look at where it's heading and look what the plan now before the Congress will do to bring it under control. That's what this first chart shows.

This is the inherited deficit, even after the 1990 plan, the red line. The deficit, with our budget, is the blue line. I want to come back to that in a minute, but you will see what I want to do with the blue line is take it from where it is in 1997 all the way down to zero. The slight increase in '98 is due to something you all know very well; it's the same thing a lot of you find in your balance sheets. That is health care costs.

If you want to go from where it is in '97 to zero, we have to bring health care costs in the Government as well as in the private sector in line with inflation. That is the sole reason for that line going up. But as you can see, there is a huge difference. That's why there's been a drop in long-term interest rates and mortgage rates are at a 20-year low, the promise of moving this line from red to blue.

There are things that I think can be done that will make a huge difference. Now, how do we get to the red line? First of all, in the 1980's, there was a big tax cut in '81 and a huge increase in national defense. And even though there were some restraints in domestic spending, there was no way in the wide world the domestic spending cuts got even close to the defense increases and the tax cuts.

Then in the mid-eighties, when the defense budget started to go down, by that time, two other bad things had happened from the point of view of the deficit: Health care costs were exploding at 2 and 3 times the rate of inflation, and the interest payments on the debt had become a churning engine that kept going up and up and up and were aggravated by high interest rates, so that we got no benefit from the defense cuts in terms of the deficit because of the health care increase and the rise in interest payments. Interest payments now consume about 15 cents on the tax dollar. And if we don't do anything about the size of the deficit, they will be up over 20 cents on the tax dollar within the next 10 years. These things have to be faced.

Now, let's go to the next chart. My opponents have been distorting the ratio of spending cuts to tax increase in all manner of ways. First they started off saying it was three to one; now they're saying its six to one. Again, I will say that this is the crowd that gave you the deficits of the eighties, and all I used in trying to determine what the ratio of spending to taxes was, was the same thing my predecessors did in defining what was a reduction in Federal spending.

There are some minor differences in the way these things are calculated. Actually, the House Budget Committee has given me more credit for spending cuts as opposed to tax increases than we do. But the rough balance is 50-50. And let me give you an idea of why it's hard to be exact, because of all the word games that are played in Washington. I'll give you two examples: one that arguably redounds to my favor, one that arguably doesn't.

One of the best things about this program is we increased the earned-income tax credit—I'll say a little more about that in a minute—to reward people who move from welfare to work; to say that if you work 40 hours a week and you've got kids in the house, the tax system should lift you above the poverty line. Now, that's a tax cut, right? Because the earned-income tax credit involves an outlay by the Government, some people count it as a spending increase, even though it's a tax cut. I think it's a tax cut. That's the way we count it.

Let me give you another example. Previous Presidents had counted anything that restricted Social Security benefits as a spending reduction in entitlements. Now my adversaries say my proposal to extend income tax consideration to 85 percent of the incomes of the top 20 percent

of Social Security earners is a tax increase. In a literal sense, it's a restriction on entitlements and a tax increase. You can argue it either way.

Which is better policy? We could restrain cost-of-living allowances to Social Security recipients, or we could apply taxation to the incomes of upper-income recipients. The fairer way to do it plainly is to ask the people who can afford it to pay more as opposed to holding down the cost-of-living allowances to people just above the poverty line. One is called a tax increase; the other is called a spending reduction. It's six of one and half a dozen of the other.

So there are some arguments around the edges. But basically, this plan is roughly equally divided between spending cuts and tax increases. And as those of you who follow this closely know, we are moving into the Senate where we hope and believe there will be less tax and more spending cuts to further improve the ratio.

But I do want to emphasize that there are significant and very real spending cuts in this program and, as all of you know again, that 75 percent of the new taxes are paid for by people with incomes above \$100,000, two-thirds of people with incomes above \$200,000, me and everybody else in this room included in that.

The spending cuts I want to talk to you about, they're made in discretionary programs, entitlement programs, and interest payments on the national debt. You can't make cuts of this size unless you basically disappoint every interest group in the Congress. For example, in agriculture, we have made cuts in commodity support, crop insurance, and rural electric. We've asked Federal employees to forego the automatic pay increases tied to inflation they have been getting for years and years and years to the tune of \$13 billion. We're trimming 150,000 people from the Federal payrolls by attrition and saving \$11 billion in overall administrative cuts.

We're replacing the existing system of guaranteed student loans in a way that will save \$4 billion and is wildly unpopular from the people who were making money from the student loan program because it was a Government guarantee with no risk. If you ask about Medicare, there's about \$60 billion in cuts from Medicare from the red line I showed you. There are cuts in Medicaid. There are cuts in military and civilian retirement, delaying payments for them to reduce our payments on retirement this year and in the years ahead. No part of the Federal budget has been fully spared.

Of the cuts that are made—I don't think I have a chart on this—but of the cuts that are made, basically we cut over twice as much and apply it to the deficit as we cut and apply to new spending. I've been criticized because I've advocated some new spending programs. I plead guilty to that. But I want you to know exactly what they are.

I plead guilty to believing that it is worth it to have the Government replace some of these defense cuts with investments in domestic commercial technologies and new partnerships with the private sector. That's what our competitors do. I think we have to compete.

I plead guilty to wanting to fully fund the Head Start program, because we've got all these underprivileged kids out there that need to be very privileged and empowered adults, and I think we ought to fully fund the program as part of an overall strategy to meet the national education goals. I plead guilty to that. I think it's worth the money.

There are some targeted and limited funds in there to help every State in the country work with the private sector to set up a system of apprenticeship for all the people who don't go to college and a system of lifetime learning because the average worker will change jobs seven or eight times in a lifetime. It's not a lot of money, but it needs to be spent. I plead guilty. I think it is worth the investment.

These kinds of things matter to a society over the long run. The irony of the last 12 years is that because of, first, our reliance on defense spending to boost the economy, and then when defense spending was cut, our explosion of health care costs and interest payments, we have actually reduced our investments in a lot of the things that make us a richer country, even as this deficit has exploded.

So, those are the things that have been cut. A member of the more liberal wing of the Democratic Party called me the other day and said, "We have done you a terrible disservice. You told us we had to cut this spending, and we did it. And because there was no conflict, there was no publicity on it. Now nobody in America thinks you cut any spending. And you cut retirement; you cut Medicare; you cut Medicaid; you went after Social Security. You cut all these discretionary spending programs, and nobody knows it." Well, I'll predict you'll hear more about it in the days and weeks ahead

from the people who feel that they have been rolled and gotten no credit for it. There are a lot of budget cuts in this program, and there will be some more. But the lion's share of the work has been done there.

As I said before and as you can see—and I might as well make full disclosure since I'm here with you—the effect of the new taxes is highly progressive, with almost all the real burden falling on people in the top one percent of the income category and 75 percent of the money being paid for by the top 6 percent. Now, that tracks income growth and tax reductions in the eighties. That is, it reverses the fact of the eighties where middle class taxes were increased through the Social Security tax while middle class incomes declined. But we do ask, through the energy tax, a contribution from virtually all Americans, not including those with incomes under \$30,000 with one or two kids in the family. Otherwise, everybody else is asked to pay something.

Now, as I said, I want to mention a couple of other things. In addition to the spending programs, there are some incentives in this program that a lot of people asked for; maybe some of you in this room did. But I want to run through them, because they cost money, too, but I think they're worth it. And you have to decide whether you think they are.

The small business community for years has been asking us to increase the expensing provisions from \$10,000 to \$25,000 on the theory that they're creating most of the new jobs, and this will help them to do it. So that's what this bill does. The Venture Capital Association for years has been asking us to adopt a venture capital gains tax that would provide huge incentives for people to start new enterprises. We do that in this bill. It costs some money. I think it's worth it.

After the Tax Reform Act of 1986, many businesses, including businesses in this room, said there had to be some changes in the alternative minimum tax provisions of the Tax Code if we wanted people to continue to invest in plant and equipment in this country because of the unfair way the alternative minimum tax works. And we changed it in this Tax Code. We were asked to do it by many people. I think it makes sense. We did it. It's in the Code. It costs money.

For years, Republicans and Democrats alike who actually live out there where people are

struggling to make a living have believed that if we wanted to do something meaningful for inner cities and poor rural areas, we had to try to get the private sector more involved, and we had to use market mechanisms. And there are any number of suggestions under the so-called enterprise zone rhetoric about that.

We have, in this proposal, an empowerment zone concept which is by far the most ambitious incentives program ever offered to try to get the private sector involved in distressed areas in America on an experimental basis: to pick 15 or 20 communities and say, "If you hire people from there, you get a credit; if you invest there, you get a permanent credit," and to provide all kinds of other resources in terms of training and support to people who will try to make the private sector work. It's almost 100 percent a private sector initiative. But it costs money.

Is it worth it? I think it is. There's not enough Government money in the world to rebuild south central Los Angeles or some of the most distressed areas in other cities in our country or the Mississippi Delta where I live. But it costs money. But we have to try, I think.

So you have spending reductions. You have tax increases. You have some new spending, and you have a significant amount of private sector incentives in this bill. I think it's all worthwhile.

The most interesting thing is the signals that have been sent to the markets and the result. Now, if I had told you in December—to me this is the most amazing thing of all, and I can't take credit for this. This chart, in some ways belongs to my friend John Scully at Apple Computers. He came in last week, and he said, "Bill, I know you must be low, and I read all the press and the polls and everything." He said, "I am happy as a clam." And I said, "Are you happy as a clam because you're a Republican, and I'm in trouble?" He says, "No, I'm happy as a clam because I'm an American." He said, "If somebody had told you 4 months ago that by June 1st unemployment would drop below 7 percent for the first time in 17 months, that we'd have 755,000 new jobs, over 90 percent of them in the private sector, that we'd have a 20-year low in mortgage rates and a 7-year high in housing sales, and that people would be responding to the program to seriously reduce the deficit and grow the economy, would you have been happy?" He said, "I don't know why everybody's not happy." He said, "I make

a living thinking about the long run and thinking about what's happening. This is working."

I believe it's working, too. Now the program is going into the Senate, and they will change it some in cooperation with the House Members, I might add. There's an unusual amount of cooperation here among people who really want to do something. There will be at least one meeting a day between Senators and House Members before the Senate even votes, something that's almost unheard of. People just trying to work together to work this out.

Here's what I think ought to come out of that. There should be some less tax and some more spending cuts. We should have \$500 billion in overall deficit reduction, all the cuts in the taxes ought to be in a trust fund so they can't be put anywhere else. There ought to be an enforcement mechanism for the first time that requires the President—because who can foresee what's going to happen 5 years from now? It would be hard for all of you to adopt 5-year budgets with absolute certainty. Nobody can do that. This bill has an enforcement mechanism that says if we miss the deficit target every year, the President has to come in and offer a plan to fix it. Not just shrug your shoulders and say, oh, it's too bad, the economy was down, or something else went wrong, but a plan to fix it, to live with the discipline that the numbers will impose. That's something new, and it ought to stay in there.

The third thing that ought to be in there is the progressivity of this program. Middle class Americans are being asked to pay a modest amount, much less than most of them think now because of the rhetoric of the last few months but a modest amount. It still ought to be progressive because of the tax history and the income history of the last 12 years. So it should be progressive.

We should leave the empowerment initiatives there. The empowerment zones, the small business incentives, the new business incentives, the changes in the alternative minimum tax, in my judgment, ought to be left in there. We should have the targeted investments. And I believe there must be some sort of broad-based energy tax.

I must say that when I first started on this—and my economic adviser over here, Bob Rubin, as most of you know, has laughed a lot when he sees people say, oh, this is such a liberal program—Rubin, Bentsen, and Panetta, my

three deficit hawks, were the people who convinced me that it was worth it even to raise a little more tax if we had to do it to get the deficit down and the interest rates down to get the country going again, not the liberals in my Cabinet who were worried about all of that. The others, the business people did it, the people who understood the financial markets. They said, "We've got to get the interest rates down, and we've got to get the deficit down, even if we have to take a little more heat for the taxes."

So we are trying to come to grips with this. But I know when we started I was told by person after person after person in New York, "If you want to have an influence on interest rates, you've got to do two things: deal with entitlements and have an energy tax, because that looks real to us." Well, we did those things and cut a lot of other spending besides.

So, is this a perfect program? No, there's no such thing. Is it a good one? You bet it is. You can tell by the results. Is the Senate going to work on it? Yes, it is. The Senate will work on it. Then the House and the Senate and the White House will confer. And we'll try to come out with a program which meets these principles. I believe we will.

The main thing I want to say is, it is hard to quarrel with results. And I hope to goodness it is going to be very hard to go back to the same old siren song we've heard time and time again. I've heard all these people say, "Well, just cut spending." It turns out they always want somebody else's spending cut. And we have cut a lot of spending. There are some kinds of spending that everybody in this room wouldn't support. If we don't have it quite right, you can tell us what you think.

Now, let me just also say, the House passed the modified line-item veto. And if the Senate would pass that, I'll give you some more spending cuts. If the Senate will give me that, I'll be happy to give you some more spending cuts and bring it down a little more. And I'm hoping that will come out of this whole budgetary process, so the President can have some more discipline on spending.

But the thing we have to do most of all is to act. We have to act. We have to act, because that is the only thing that will produce results. I believe that we're going to do that. I think you will see the Senate act. I think you will see the Senate and the House come forward

with a program that meets the basic principles that I have outlined. I think you will see America in control of its economic destiny. I think interest rates will stay down and growth will stay up, and we'll continue to generate jobs for this economy.

But it requires a lot of courage when all you hear, day-in and day-out, are people trying to paralyze action with the same old rhetoric that put us to sleep for 12 years and got us in the fix that the first chart showed. I like these results better than that first chart. And if you do, I hope you'll support our efforts.

Thank you very much.

Moderator. Mr. President, we thank you for a very substantive and significant speech. The President, ladies and gentlemen, has offered to answer some questions, so I'll turn it over to him for that purpose.

The President. Is somebody carrying a microphone?

Taxes

Q. Mr. President, as one who just refinanced my own home mortgage, I want to thank you for that.

My question really goes to the apparent demise of the Btu tax, which was announced by Secretary Bentsen yesterday, and obviously, the work with Congress that's required in the last administration or this one to make anything really happen. I heard you say that another broad-based energy tax would be recommended. I appreciate any comment you'd have on that and why you think another broad-based energy tax might get more reception or, rather, not have the same treatment that the Btu tax did.

The President. Well, let me say I'm still not sure how it's all going to come out. And let me try to answer this very carefully. Secretary Bentsen did not so much announce as to grudgingly acknowledge—[laughter]—the state of play in the Senate. And it's quite interesting, because he's from an energy State, and he came to this Btu tax after going through a lot of other issues.

Let me tell you what the state of play in the Senate is, first of all. You've got essentially a Senate Finance Committee where no Republicans will vote for this bill because they are not going to be for any taxes. And the Boren substitute is a massive shift of the burden to elderly people and the working people just above the poverty line. And if it got on the floor of the Senate, I bet it wouldn't get 20

votes. So there is no other viable alternative out there.

But with an 11-to-9 majority, the Democrats cannot lose any votes on the Senate Finance Committee and get any bill out. Now, Secretary Bentsen had what I thought was a great suggestion for modifying the Btu tax which would essentially have drastically alleviated, all but eliminated, the burden on production, whether industrial or agricultural, but would have otherwise left the tax in shape, so that it applied to all forms of energy and, therefore, was less burdensome to any region of the country but got out of the whole business of whether we were being uncompetitive with people from—when we exported our products or whether imports would acquire a competitive advantage, and whether we were putting too much of a burden on energy-intensive forms of industry which had led the House to make too many exceptions to it. So if you just essentially had a blanket alleviation of the production sector, which is what Secretary Bentsen was talking with them about, it looked to us like that was the best thing.

There had been so much said about the wording of the Btu tax—and, I must say, some legitimate concern about the whole administrative difficulty of starting a new one—the Senate seems disinclined to go forward. That does not mean that the House will give up on a modified Btu tax. I don't know what's going to happen from here on in. And we have not agreed to anything or disagreed with anything. We have been in consultation with the Senate and would go to any meeting they asked us to. But they're going to have to come up with their own program. And they know what the principles I have outlined are. And I just gave them to you. So I don't know what's going to happen now.

Senator Breaux has some ideas that he wants to float, and some others have some ideas. I think you'll have plenty of time to react to them. A lot of them want to rely more on a broad-based transportation tax, but that also has some economic difficulties even if you raise less money.

The number one thing: 100 percent of us agreed and the House Members agreed that we would lower the dollar volume of the energy tax, the total money raised, and make it up in various kinds of cuts. And I think that's where everybody is now. Everybody is there.

And let me just run a few other things out here. There is also a discussion about whether

or not there should be a delay in the effective date of the taxes, the income taxes. That's being discussed, the economic grounds for that. And there are all kinds of discussions about that.

I want to red-flag one issue for all of you who provide comprehensive health policies for your employees, though, again, because sometimes things are not what they seem. We cut about \$60 billion in Medicare expenditures over and above the red line I showed you. That is, that was a big part of our deficit reduction. There are those who say, "Well, we ought to cut a lot more, and we can freeze provider fees and we can do all this kind of stuff with Medicare." I would urge all of you as employers to look at that very closely because, again, it's a sleight of hand. You know, yes, we can cut the fool out of Medicare. But if we don't have some sort of comprehensive resolution to the health care crisis, what will happen? The same thing that's been happening the last 12 years: All those people will send you the bill.

There will be massive cost-shifting with certain kinds of Medicare cuts unless it is part of an overall health care strategy, which just means a hidden tax on employers and their employees, which is the very thing I'm trying to get away from, anything hidden. And it contradicts one of the essential goals of our long-term strategy, which is to bring health costs in line with inflation and fairly apportion the burden throughout society, which it's not now. Most of you are paying too much and your employees are because of the way the thing is.

So I'm not trying to avoid your question, I'm just trying to tell you I do not know what the Senate will do. My position has been to try to tell them what my principles are; make Secretary Bentsen and Mr. Panetta available to them to discuss everything; ask them to be faithful to the House by involving the House Members in the discussions, because a lot of House Members passed this budget on the understanding there would be some less tax and some more spending cuts and that they would be a part of it. And I don't know what's going to come out of there yet.

Deficit Reduction

Q. My question is this: We in the Roundtable, of course, have made deficit reduction a major issue for a long, long time. And we applaud your efforts in that regard and certainly are

hopeful that the \$500 billion sort of reduction over the 4- or 5-year period will be forthcoming. And we're working, as you know, with your administration and Bob Rubin and Leon and others. But even if that objective is achieved, it's clear we have a very significant continuing deficit problem. What is it, \$1 trillion over the next 4 or 5 years? The deficit only goes from the baseline number of 3.3 percent to about 2.7 percent of GDP. We still have a big, big deficit problem.

My question is, how do you feel about the proposals for process reform that I gather are gaining some currency in the Congress, to put the spending caps on the entitlement programs, the nondiscretionary programs, as well as the discretionary programs, with the fire walls and with the sequestration. How do you look at that whole issue of process reform to deal with this underlying problem of a deficit that doesn't seem to come under manageable proportions?

The President. I want to answer it, but I'd like to ask for—where did those charts go? Are they still up here? I just wanted the first one back to try to highlight the point you're making. Just bring me back the first one, the one with the red and blue lines.

This is what he's talking about. This line here ought to go down to here. And I want to answer your question, but I've got to put it into context. This deficit here is actually about—it's more, it's about—it's over 5 percent of GDP, and we're going to cut it from 5.2 down to about 2.7 or 2.6 here, to a pretty good cut. But it does continue to increase the total national debt by what's down here.

Now, in the mid-seventies, I started looking at what other countries had done on this. This is not an unusual problem for a Western country with a lot of support systems coming out of the Government and difficulty generating jobs and income. I mean, a lot of these Western countries are in the same shape we're in, and I include Japan with that.

Japan had a huge operating deficit in the mid-seventies. And they had a 10-year plan to bring it into balance which they did over a 10-year period, thinking that to rush it any faster might cause a recession, but to delay it would be a terrible mistake. So I thought to myself, maybe we could do it in 8 or 9 or something like—in that range, if we could just deal with this. This is where you have to take the curve down.

Now, to get the curve down, I can just tell

you, we have to do a number of things. But let me say what we cannot do and then what we must do, and then I'll come back to your cap device. There is a limit to how much we can responsibly cut defense within a short time. I think we are right at that edge. I do not want to cut any more in this 5-year budget. Based on what we now know, we are at that limit, unless there—the only other way you can do it that I know of is the Vice President has this reinventing Government task force on. If we can have significant procurement reform, we might be able to have some savings. But in just terms of “slash and burn,” we don't need to do any more in my opinion.

Secondly, as I said earlier, there are some things that any government has to do to maintain its competitiveness. And thirdly, there are just human concerns that have to be taken care of, even though they're subject to constraints of the budget. For example, a lot of people don't know this, but actual out-of-pocket costs on welfare and food stamps haven't kept up with inflation in the last 10 or 15 years. The reason those costs have gone up is that there's a whole lot more poor people. You've got 1 in 10 Americans on food stamps now.

But this number, anyway, to go back to his comment, is being driven by two things. One is the entitlements and the fact that things like retirement, wages, Social Security, and whole lot of other things have automatic cost escalators. The one that is not a problem is Social Security. Social Security is no more of our national income than it was 20 years ago, and the tax is higher. And it's producing a \$60 billion a year surplus that makes our deficit look smaller than it is. If anything, the payroll tax is too big. But it is producing that.

On the income tax side, what you've got, though—here's the problem with paying for the rest of that stuff that's paid for with income taxes. We are now indexing income taxes, which is fair. That is, people don't get pushed into higher brackets by inflation. But the flip side of that is, if you index income taxes downward and you index income upward for people who are getting tax money, you don't have to be a mathematical genius to realize that there is a conflict there. Then, if you have health care costs increasing at 2 and 3 times the rate of inflation—because you've got more people on the Government rolls, about 100,000 a month losing their health insurance; you have more

people on the Government rolls, prices going up and the ability to churn the system, if there's a fee-for-service system, you've got some real problems.

There are several suggestions which have been made that would essentially require us over the next 5 years to adopt a disciplined system of bringing the cost of entitlements in line with inflation, plus population, to be fair. They're all acknowledging that if there's a growth in poverty or an unexpected downturn in the economy, we would take that into account. I would be open to that as a part of the health care reform issue. That is, what I would like to see is the budgetary discipline on the entitlement issue taken up with health care reform for this reason: If we impose the entitlement caps and we don't face health care reform because it's too controversial or we can't bear to do it, then if the entitlement caps trigger, we will be massively shifting our cost to you, like I said earlier.

The other tough decisions can be made within the budget discipline. But the health care cost issue which is driving it, in my judgment, should be dealt with at the time we impose the overall entitlement restrictions over a 5-year period. That protects the employers and the employees of the country from having mass cost-shifting and forces us to make the tough decisions in Government. But anyway, I know it's a long answer, but I had to explain it in the context that we're operating.

There was a question over here, I think.

Superfund

Q. The Business Roundtable believes that the only way to fix Superfund is to make some fundamental change in the law. If you agree, would you support a legislative fix?

The President. To change the Superfund?

Q. Yes.

The President. Oh, sure I would, but I would want to know what the details are first. But I agree that it needs to be changed, and I'm certainly open to changing it. Lawyers are making more money than cleanup folks are right now.

Let me say as a general proposition on the spending issue, too, there are two other opportunities that the Congress and the President will have to deal with, Government spending and the efficiency of Government programs, this year in addition to this reconciliation process

which is going on, and that is that all the appropriations committees are reviewing all their spending.

Keep in mind, what you see now in the budget only includes tax cuts or tax increases and the entitlement programs and the overall spending limits. The specific programs, whether they're cut, increased, or kept the same, that's all handled by the Appropriations Committee, and that's going on now, too. And that will offer other opportunities for dealing with the spending issues.

And the third thing that's going to happen is in September the Vice President is going to come in with this report about reexamining the whole functioning of the Federal Government, and that will open a new avenue of opportunities for dealing with a lot of these issues also.

Is there another question back there? I thought I saw one more hand up. The boss here says we can do one more. Am I going to get out without one more? I accept if—go ahead. I'll do two more. Mr. Morecote once let me play golf with him, so I owe him a question. [*Laughter*]

Trade Negotiations

Q. Mr. President, we heard this morning, some of us, from Mickey Kantor about trade issues, North American trade agreement, Uruguay round, and negotiating with Japan. Can you just comment on those subjects briefly, starting with NAFTA?

The President. Yes. I'm for it, number one. I'm for it.

Number two, we can't pass it in the House of Representatives today, but I think we'll be able to when the time comes.

Number three, the reason we can't pass it and what we're doing with the Mexican and the Canadian Governments are tied together but not—it's not an exact fit, but let me—you know that there's just an awful lot of economic insecurity out there now in this country. And a lot of the Members are rebelling against NAFTA because they see it as the first trade agreement we've ever made where we're making investment easier in another country for the purpose of setting up production to sell in our market, not theirs.

So that's the basic tension, because of the wage differentials. My argument back is the argument that most of you would make, I think, which is that, first of all, you've got a free-

market oriented government in Mexico that has unilaterally dropped trade barriers and taken us from a \$5 billion deficit to a \$6 billion surplus in trade, creating an awful lot of jobs in America.

Secondly, two-thirds of our new jobs in the last 3 or 4 years have come from expansion of trade. Our unemployment problems today are directly related to the fact that our economy, even though it's in a fragile recovery, is in better shape than a lot of other economies which is making our trade situation worse because people don't have the money to buy our products.

What will happen in Asia and in Europe is unpredictable in the years ahead, but we believe we need to establish a relationship not only with Mexico but with the other market economies to the south. Opportunities with Chile, with Venezuela, with Argentina, with all kinds of other countries could open up. So I'm for it.

What Mickey Kantor—he's already talked to you about this—but we're trying to get an agreement on labor standards and the environment with the Mexican and Canadian Governments which would enable us to have some sort of enforcement mechanism, not only if there is one violation but if there is a whole pattern and practice of violations as found by a neutral finder of facts. So that's what we're trying to work out. My gut feeling is that will get worked out pretty soon. We'll go forward with it, and we will pass it. That's what I think will happen.

On GATT, as you probably saw in the press this morning, the French Government has withdrawn some of its objections on the agriculture points of view. That makes me elated. I think that's where—that's a real winner for us and is likely to face less opposition in Congress.

Not very long ago, I met with the central bankers and the finance ministers of the G-7. And I told them that on behalf of the United States I would make exceptional efforts to get a GATT agreement if they would, and I thought we ought to stop talking about it and do it and do it before the year is over because we all needed the global growth. And so I'm hopeful there. And I think the French action is a big plus, and I thank them for that.

On Japan, basically, we're trying to move toward a more results-oriented trade policy with Japan, not to get to the managed trade quota point that they're criticizing us for but in recognition of the fact that there are several areas where by any objective measure we are competi-

tive in price and quality for various products and services. And while they don't have stated tariffs and quotas and barriers that keep us out, we nevertheless aren't in and don't get in and can't get in. And so what we're trying to do is to find our way into dealing with that issue on the theory that it's just—I don't want to close American borders to Japanese products, but I do expect more opportunities for Americans in Japan if we're going to play this.

I know the Japanese have been very harsh in their criticism of our new approach. But that could be because it might work. And I know that they've been harsh in their criticism, but I also know that, notwithstanding all of the problems around, they not only have a massive surplus with us, they're about the only country I know that's got a massive trade surplus with all the Third World countries they deal with, all of them.

So I just think a new approach is called for. And I say that not in the spirit of hostility. I think I probably have more pure admiration for Japan and what they do right and well than any other person that's ever held this job. But I know what's happened to American productivity growth in the last 5 or 6 years. And I know what we can do there if given the chance. And I think we've got to do our best to do it.

If you think we're on the wrong track, feel free to tell us. But I believe we've got to keep pushing forward to try to show you some results from all this talking. We've been talking until we're blue in the face for a long time now. I'd like to show a little bit of result.

Q. That was the question I had.

The President. Let me just say to all of you, we're going to need your help on NAFTA because to pass it, the Congress, and particularly the House, must believe that over the long run it is good for American jobs and incomes. I believe it is. I believe it is. I wouldn't be for it if I didn't think it was. And it just doesn't make sense to me that we can ever grow this economy unless we expand the number of our trading partners and unless we are doing more trade with people whose incomes are rising rather rapidly.

The Mexicans have reached out their hand to us. I want to reach out my hand to President Salinas. And I think we can get over this negotiating impasse we're at now and then go forward. And that's what I intend to do.

Thank you very much.

NOTE: The President spoke at 3:22 p.m. at the J.W. Marriott Hotel. In his remarks, he referred to John Ong, chief executive officer, B.F. Goodrich.

Remarks and an Exchange With Reporters Prior to a Meeting With the Domestic Policy Council

June 10, 1993

Economic Program

The President. I want to make a statement now that we have the Domestic Policy Council here, about what is going on in the Senate.

First of all, I'm very encouraged that the Senate Finance Committee is working hard in trying to push the process forward. I want to reemphasize that, to me, in the end, we have to have certain basic principles satisfied: \$500 billion in deficit reduction in the trust fund so that all the spending cuts and taxes have to be protected for that; \$250 billion of spending cuts. The taxes have to fall primarily on those best able to pay them. Right now, over two-thirds of the taxes fall on people with incomes above \$200,000,

75 percent on people with incomes above \$100,000. I want the energy tax to be pro-conservation and as broad-based as possible. And I want the initiatives for growth and jobs in there, the earned-income tax credit to encourage the working poor to move out of poverty, the empowerment zones for investment in our cities, the incentives to create jobs. Those are the principles that I want.

I want to remind you all, too, that the Senate and House will naturally have some disagreements. But when we wind up in conference, we can perhaps get the best bill of all. The main thing, until the Senate acts, we can't go to conference and get a final bill to continue