

THE WHITE HOUSE

WASHINGTON

October 7, 1996

TO: TOM O'DONNELL
FROM: MARK MAZUR
SUBJECT: NEC PLANNING ISSUES

This is in response to your request for a discussion of the more and less successful NEC endeavors during my tenure on the staff. As you know, I have been on the NEC staff for only about a year, perhaps limiting the range of my comments. Please let me know if you wish to discuss this memo.

General Achievements of the NEC

The NEC appears to have brought a necessary discipline to the policy-making process in the Clinton Administration. As time has gone by, the role of the NEC has become somewhat institutionalized. Now, many of the agencies expect any serious policy initiative involving economic issues (at least on the domestic side) to go through a rigorous process where the pros and cons of the initiative are debated. This process ensures that either a consensus is forged or the differences sharpened so that higher level participants can make an informed decision.

One aspect of the NEC's imposing discipline on the policy process is the requirement, accepted by all NEC agencies, that all new spending and tax initiatives be "paid for" in the sense of having revenue offsets. This usually places the onus on the proposing agency to generate a revenue item and permits decision makers to weigh the costs and benefits of a policy proposal in fairly concrete terms. This requirement has also prevented a "free for all" from occurring as agencies rush to move programs from the discretionary side of the budget onto the mandatory side, in order to free up scarce resources for other initiatives.

Another achievement of the NEC has been the ability to adapt to changing circumstances. Until the November 1994 election, the NEC presided over numerous discussions on how to improve, expand, or create discretionary spending programs. After that election, it became apparent that discretionary spending would be on a downward path in real and probably nominal terms. The NEC helped organize the various agencies in the "budget wars" that occurred in late 1995 and early 1996. This endeavor helped the NEC gain credibility with the various agencies as an effective participant in the policy development process in an era of increasingly tighter budgets.

My Portfolio

I view my role at the NEC as having three components: (1) to a large extent, I function as a kind of utility economist, able to help other NEC staff in several specific policy areas (e.g., working with Ellen Seidman on retirement issues, with Elgie Holstein on energy issues, with Paul Dimond on economic development issues); (2) by virtue of keeping in close contact with the CEA Members and staff, I act as a liaison between the NEC and CEA on numerous smaller issues that need not rise to the Deputy level or higher; (3) I maintain a portfolio of tax and related issues.

More Successful Efforts

- Generating several revenue raising items that Treasury included in its package for the President's balanced budget submission (e.g., a proposal to increase the caps on amounts that can accumulate in various trust funds without the related taxes being triggered off).
- Working with DPC, EPA, and Treasury staff to develop the Administration's "Brownfields" tax incentive and related proposals (included in the President's FY 1997 Budget).
- Working with DPC staff to develop language on a demonstration program that the Administration used in its negotiations with Congress over Medical Savings Accounts (enacted in August 1997).
- Working with DPC and other agency staff to develop a proposal to provide health insurance subsidies for the temporarily unemployed (included in the President's FY 1997 Budget).
- Working with staff from Treasury, Commerce, OMB, and Labor to develop a way for the agencies to share statistical data without compromising taxpayer-identified information (bill language introduced).
- Worked with NEC, OMB, and HUD staff to develop and promote the homeownership capital gains proposal introduced by the President in August.
- Working with Elgie Holstein and staff from OMB and Energy to respond to increasing gasoline prices in the Spring of 1996. The Administration's response of accelerating oil sales from the Strategic Petroleum Reserve and its patience in dealing with calls for greater action allowed gasoline prices to fall throughout the summer and prevented Congress from enacting an ill-conceived reduction in motor fuel excise taxes.
- Wrote about half of a Chapter in the 1996 *Economic Report of the President* that dealt with tax issues. This Chapter provided strong critiques of broad-based capital gains cuts and the flat tax that have formed the basis for much of the Administration's response on these issues.

- Wrote numerous articles in the *Weekly Economic Briefing*, with areas of emphasis being tax issues, supply-side economics, and energy issues.
- Helped subject numerous tax subsidy proposals to increased scrutiny that resulted in many being rejected as inequitable, inefficient, or having costs that outweighed the potential benefits. Two examples are: (1) the proposal to impose a “tax” or “tariff” on legal immigrants to fund training programs; and (2) the “R-Corporation” proposal of Senator Bingaman (and others) that would have provided an alternative tax system for businesses meeting criteria deemed to characterize “corporate responsibility”.

Less Successful Efforts

- Trying to get a serious discussion of tax reform into an NEC-led process. This proved more difficult than expected, because White House participants were concerned about public expectations if it became known that tax reform was under consideration and because Treasury was adamant about maintaining complete control over the tax policy development process.
- Getting a commitment for a serious and impartial evaluation of the effectiveness of the Empowerment Zone/Enterprise Community program. Both HUD and many of the more political people in the White House were reluctant to risk a negative evaluation of this signature initiative. An inability to communicate that a serious evaluation was in the Administration's long run interest, if the program is to be extended or expanded in the future, led to rejection of an analytically objective evaluation through inaction.
- Inability to get the NEC to consider a serious economic comparison of the costs and benefits of the proposed tuition tax deduction and, more recently, the proposed tuition tax credit. In both cases, insufficient attention has been paid to the incentives for schools to increase tuition or decrease financial aid to capture much of the value of the tax break from targeted individuals. Moreover, these proposals raised substantial tax policy and compliance concerns that were generally unaddressed in the decision-making process. In the case of the tuition credit, the policy development process was conducted at a very rapid pace, limiting the ability of skeptics to question the policy desirability of the proposal and to shape the details.