Collection: President, Office of the: Presidential Briefing Papers: Records, 1981-1989

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Page 1 of 3 ID # 115116

WHITE HOUSE
OFFICE OF RECORDS MANAGEMENT
WORKSHEET

☐ X–MEDIA
☐ H–INTERNAL

Name of Document: BRIEFING PAPERS FOR PRESIDENT'S SCHEDULED APPOINTMENTS FOR DEC 16 82

1) **Subject:** Meeting with the Cabinet to discuss:
A) Tax Incentives for Education Savings
B) Quality of Education in Science and Math
C) Education Vouchers
D) Federal Financing Bank

2) Signing Ceremony for the United Nations proclamation declaring 1983 as World Communications Year

3) Meeting with the Republican National Committee 1982 Dinner Committee

4) Interview with journalists from the Washington Post newspaper

5) Meeting with representatives of Professional Sports Associations on the President's Campaign against Drug Abuse

Subject Codes:

PR 007-01
FG 010-01
ED
FA 003
FI 005-03
FI 010-02
FI 002
FG 012
FE 009
IT 086
BE 003-04
PL 005-04
SO 002
PL 002
PR 016
FG 001
RE
HE 006-01

ROUTE TO:		ACTION		DISPOSITION		
Office/Agency	(Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
RMHENL		RSZ			C	

Referral Note:

Page 2 ~~8~~ 3

ID # 115116

WHITE HOUSE
OFFICE OF RECORDS MANAGEMENT
WORKSHEET

☐ X–MEDIA

☐ H–INTERNAL

Name of Document: BRIEFING PAPERS FOR PRESIDENT'S SCHEDULED APPOINTMENTS FOR DEC 16 82

Subject Codes:

PR 007-01
AG ___-__
WE 009-__
BE 003-06
HO 016-__
RM 033-07
AR ___-__
GI 002-__
FO 002-__
CO 102-__
CO 070-__
CO 044-__
PR 007-02
PR 006-__
~~FG 006-12~~

Subject:

6) Meeting with the national officers of the Future Farmers of America

7) Meeting with Representative James HANSEN and the Mormon Youth Symphony and Chorus

8) Photo Sessions with U.S. Ambassadors:
A) EDWARD PECK - MAURITANIA
B) JOHN HOLDRIDGE - INDONESIA
C) SAMUEL HART - ECUADOR

9) Photo session to help publicize the LOUIS SUDLER NATIONAL INTERCOLLEGIATE MARCH BAND TROPHY

10) ~~Staff of Invitees for National Security Council Meeting~~

ROUTE TO:		ACTION		DISPOSITION		
Office/Agency	(Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
RMHENL		RSZ			C	

Referral Note:

Page 3 of 3 ID # 115116

WHITE HOUSE
OFFICE OF RECORDS MANAGEMENT
WORKSHEET

☐ X–MEDIA

☐ H–INTERNAL

Name of Document: BRIEFING PAPERS FOR PRESIDENT'S SCHEDULED APPOINTMENTS FOR DEC 16 82

Subject Codes: PR 007-01

10) **Subject:** Lighting of the National Christmas Tree

11) Schedule of Events for Christmas Reception for members of the press corps. — SO 004-

12 List of invitees for National Security Council meeting — FG 006-12

ROUTE TO:		ACTION		DISPOSITION		
Office/Agency	(Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
RMHENL		RSZ			C	

Referral Note:

THE SCHEDULE OF
PRESIDENT RONALD REAGAN

Thursday, December 16, 1982

9:00 am (30 min)	Staff Time (Baker, Meese, Deaver)		Oval Office
9:30 am (15 min)	National Security Briefing (Clark)		Oval Office
9:45 am (15 min)	Senior Staff Time		Oval Office
10:00 am (15 min)	Personal Staff Time		Oval Office
10:15 am (60 min)	Cabinet Meeting (Fuller)	(TAB A)	Cabinet Room
11:15 am	Meeting with Edwin Meese and James Baker		Oval Office
11:45 am (15 min)	Signing Ceremony for World Communications Year 1983 Presidential Proclamation (Moorhead/Henkel)	(TAB B) (draft remarks attached)	East Room
12:00 m (60 min)	Lunch with the Vice President		Oval Office
1:00 pm (30 min)	Personal Staff Time		Oval Office
1:30 pm (15 min)	Meeting with RNC Dinner Committee (Rollins)	(TAB C)	Roosevelt Room
2:00 pm (60 min)	National Security Council Meeting (Clark)		Cabinet Room
3:00 pm (30 min)	Briefing for Washington Post Interview (Gergen/Speakes)	(TAB D)	Oval Office
3:30 pm (30 min)	Washington Post Interview (Gergen/Speakes)	(Q&A distributed separately)	Oval Office
4:00 pm (20 min)	Personal Staff Time		Oval Office
4:20 pm (30 min) (TAB E)	Administrative Time		
	1. Dropby Briefing for Professional Sports Organizations Commrs (Harper/Turner)		Cabinet Room
	2. Photo with Future Farmer Officers (Dole)		Oval Office
	3. Photo with Cong. Jim Hansen and Youth Chorus Directors (Duberstein)		Oval Office
	4. Ambassador Photos (Clark)		Oval Office
	5. Photo with Louis Sudler and Ambassador Daniel Terra (Bistany)		Oval Office
5:30 pm N	Christmas Tree Lighting (Rosebush/Henkel)	(TAB F) (draft remarks attached)	Rose Garden
8:00 pm N	Christmas Party for the Press (Speakes/Rosebush)	(TAB G)	State Floor

UNP 12/15/82 5:00 pm

Thursday, December 16, 1982 0

9:00 am (30 min)	Staff Time (Baker, Meese, Deaver)		Oval Office
9:30 am (15 min)	National Security Briefing (Clark)		Oval Office
9:45 am (15 min)	Senior Staff Time		Oval Office
10:00 am (15 min)	Personal Staff Time		Oval Office
10:15 am (60 min)	Cabinet Meeting (Fuller)	(TAB A)	Cabinet Room
1115 (30)	SR STAFF –		OVAL
11:45 am (15 min)	Signing Ceremony for World Communications Year 1983 Presidential Proclamation (Moorhead/Henkel)	(TAB B) (draft remarks attached)	East Room
12:00 m (60 min)	Lunch with the Vice President		Oval Office
1:00 pm (30 min)	Personal Staff Time		Oval Office
1:30 pm (15 min)	Meeting with RNC Dinner Committee (Rollins)	(TAB C)	Roosevelt Room
2:00 pm (60 min)	National Security Council Meeting (Clark)		Cabinet Room
3:00 pm (30 min)	Briefing for Washington Post Interview (Gergen/Speakes)	(TAB D)	Oval Office
3:30 pm (30 min)	Washington Post Interview (Gergen/Speakes)	(Q&A distributed separately)	Oval Office
4:00 pm (20 min)	Personal Staff Time		Oval Office
4:20 pm N (30 min) (TAB E)	Administrative Time 1. Dropby Briefing for Professional Sports Organizations Commrs (Harper/Turner) 2. Photo with Future Farmer Officers (Dole) 3. Photo with Cong. Jim Hansen and Youth Chorus Directors (Duberstein) 4. Ambassador Photos (Clark) 5. Photo with Louis Sudler and Ambassador Daniel Terra (Bistany) 7113		 Cabinet Room Oval Office Oval Office Oval Office Oval Office
5:30 pm N	Christmas Tree Lighting (Rosebush/Henkel)	(TAB F) (draft remarks attached)	Rose Garden
8:00 pm N	Christmas Party for the Press (Speakes/Rosebush)	(TAB G)	State Floor

UNP 12/15/82 5:00 pm

Dec

Thursday, December 16, 1982

9:10 –

9:00 am (30 min)	Staff Time 9:10 – (Baker, Meese, Deaver)	Oval Office
9:30 am (15 min)	National Security Briefing 9:25 – 9:47 (Clark) Bush, Clark, EM, JB, MKD	Oval Office
9:45 am (15 min)	Senior Staff Time	Oval Office
10:00 am (15 min)	Personal Staff Time	Oval Office
VP 10:15 am (60 min)	Cabinet Meeting 10:25 – 11:22 (TAB A) (Fuller)	Cabinet Room
11:15 –	11:23 – 11:50 EM, JB, Stockman, Darman	
VP 11:45 am (15 min)	Signing Ceremony for World Communications Year 1983 Presidential Proclamation (Moorhead/Henkel) 11:55 – 12:14 (TAB B) (draft remarks attached)	East Room
VP 12:00 m (60 min)	Lunch with the Vice President 12:16 – 12:59	Oval Office
1:00 pm (30 min)	Personal Staff Time 12:59 – 1:04 – Judge Clark – 1:18	Oval Office
1:30 pm (15 min)	Meeting with RNC Dinner Committee 1:33 – 1:46 (Rollins) (TAB C) 1:48 – JB, Fred Fielding – 1:58	Roosevelt Room
VP 2:00 pm (60 min)	National Security Council Meeting 2:05 – 3:02 (Clark)	Cabinet Room
3:00 pm (30 min)	Briefing for Washington Post Interview (Gergen/Speakes) 3:05 – 3:34 (TAB D)	Oval Office
3:30 pm (30 min)	Washington Post Interview (Gergen/Speakes) 3:38 — 4:13 (Q&A distributed separately)	Oval Office
4:00 pm (20 min)	Personal Staff Time	Oval Office
4:20 pm (30 min) (TAB E)	Administrative Time 5:05 – Staff Time 1. Dropby Briefing for Professional Sports Organizations Commrs (Harper/Turner)	Cabinet Room
4:40 –	2. Photo with Future Farmer Officers (Dole)	Oval Office
	3. Photo with Cong. Jim Hansen and Youth Chorus Directors (Duberstein)	Oval Office
	4. Ambassador Photos (Clark)	Oval Office
	5. Photo with Louis Sudler and Ambassador Daniel Terra (Bistany)	Oval Office
5:45 ~~5:30~~ pm N	Christmas Tree Lighting (Rosebush/Henkel) (TAB F) (draft remarks attached)	Rose Garden
8:00 pm N	Christmas Party for the Press (Speakes/Rosebush) (TAB G)	State Floor

6:00 Residence

UNP 12/15/82 5:00 pm

CABINET MEETING

December 16, 1982

PARTICIPANTS

The President

The Vice President

Secretary Regan
Secretary Weinberger
Secretary Watt
~~Secretary Block~~
~~Secretary Baldrige~~
Secretary Donovan
Secretary Schweiker
Secretary Pierce
Secretary Hodel
Secretary Bell
Edwin Meese III
Director Stockman
Ambassador Brock
~~James A. Baker, III~~
Edwin Harper
Martin Feldstein
Deputy Secretary Dam
(Representing Secretary Shultz)
Deputy Attorney General Schmults
(Representing Attorney General Smith)
Deputy Secretary Trent
(Representing Secretary Lewis)

Richard Darman, Assistant to the President and Deputy to the Chief of Staff
Elizabeth Dole, Assistant to the President for Public Liaison
Craig L. Fuller, Assistant to the President for Cabinet Affairs
~~David Gergen~~, Assistant to the President for Communications
~~Edward Rollins,~~ Assistant to the President for Political Affairs
Richard Williamson, Assistant to the President for Intergovernmental Affairs

For Presentation:

Gary Jones, Under Secretary of Education
Robert Carleson, Special Assistant to the President for Policy Development

Additional Attendees:

~~Michael Baroody~~, Deputy Assistant to the President and Director of Public Affairs
Nancy Risque, Special Assistant to the President for Legislative Affairs
Roger Porter, Deputy Assistant to the President for Policy Development
Jim Cicconi   Dan Murphy   Jay Keyworth
Larry Kudlow/OMB   BN Dunlop

THE WHITE HOUSE

WASHINGTON

INTERVIEW WITH THE WASHINGTON POST

DATE: December 16, 1982 (Thursday)
PLACE: Oval Office
TIME: 3:30 p.m. (30 minutes)

FROM: Larry Speakes

I. PURPOSE

To be interviewed by The Washington Post at the midpoint of the President's first term.

II. BACKGROUND

The interview will focus on a mid-term assessment of where the country is, what has been accomplsihed and where we go from here on the wide range of issues facing the President such as Social Security, the jobs bill and the Mideast.

III. PARTICIPANTS

The President
Lou Cannon
David Hoffman

IV. PRESS PLAN

The interview will be used in Friday's edition of the Post, with the possibility of an additional in-depth article being written for the weekend edition. The Washington Post photographer will photograph the first few minutes of the interview, along with the White House photographer

V. SEQUENCE OF EVENTS

After pleasantries, the interview will proceed.

EM
JAB
GERGEN
SPEAKES
M. ALLEN
DUBERSTEIN

SPEAKES
DARMAN
CLARK

THE WHITE HOUSE

WASHINGTON

MEETING WITH REPRESENTATIVE JAMES HANSEN (R-UTAH) AND REPRESENTATIVES OF THE MORMON YOUTH SYMPHONY AND CHORUS

DATE: Thursday, December 16, 1982
LOCATION: The Oval Office
TIME: 4:30 (5 minutes)
FROM: Kenneth M. Duberstein KD.

I. PURPOSE

To honor Congressman Jim Hansen's (R-Utah) request for the President to meet with representatives of the Mormon Youth Symphony and Chorus who would like to present him with a number of albums and a cassette of their Emmy Award Winning Christmas Show (1981).

II. BACKGROUND

Jim Hansen, a Freshman Republican from Utah's First Congressional District (east Utah, including Ogden and Provo), serves on the House Interior and Insular Affairs and Standards of Official Conduct Committees. Jim, whose family was injured in an accident caused by a drunken driver, spearheaded the Congressional effort to force federal and state governments to take strong measures to solve the problem of the drinking driver. He met with the President on November 13, 1981 in the Oval Office to present him with a letter co-signed by 160 Members of Congress, urging the appointment of a Presidential Commission on this subject.

Jim has been a strong supporter of Administration policies.

The representatives of the Mormon Youth Symphony and Chorus will be Dr. Robert C. Bowden, Conductor and Director; Mr. Raymond Furgeson, President; and William Wingert, a member of the group and an intern in Representative Hansen's office.

III. PARTICIPANTS

The President
The Vice President

Representative James V. Hansen
Dr. Robert C. Bowden
Mr. Raymond Furgeson
Mr. William Wingert

Staff

Kenneth M. Duberstein

THE WHITE HOUSE

WASHINGTON

PHOTO OPPORTUNITY

4:51

DATE:	THURSDAY, DECEMBER 16, 1982
LOCATION:	THE OVAL OFFICE
TIME:	4:20 P.M. (administrative time) (5 Minutes)
FROM:	JOANNA BISTANY Joanna Bistany

I. PURPOSE

Photo opportunity is intended to generate national and international publicity in the medium of newspapers, magazines, television and radio, for the kick-off presentation of the Louis Sudler National Intercollegiate March Band Trophy being awarded at the Rose Bowl. It will also be used in conjunction with a message that the President recently taped that will be shown on national tv at half-time of the Rose Bowl.

II. BACKGROUND

The Sudler Trophy is one in a series of awards developed by Louis Sudler and the John Philip Sousa Foundation to recognize and to encourage excellence in the various aspects of band work.

III. PARTICIPANTS

The President
Ambassador Daniel Terra
Louis Sudler

IV. SEQUENCE OF EVENTS

After a brief introduction, the photo opportunity will begin.

V. PRESS PLAN

White House photographer only.

PHOTO SESSION WITH US OUTGOING AMBASSADORS

Thursday, December 16, 1982 -- 4:30 p.m. -- Oval Office

Ambassador Edward Peck - accompanied by:

Wife: Ann
Father: George A. Peck (93 yrs)
Daughter: Julia (2-1/2 yrs)
" Heather (23 yrs)
Son: Thomas (5yrs)
Son-in-Law: Joseph Slevin
Katherine Slevin
NSC: Howard Teicher

Ambassador John Holdridge - accompanied by:

Wife: Martha
Son: Geoffrey (22 yrs)
NSC: Richard Childress
State: Daniel O'Donohue

Ambassador Samuel Hart - accompanied by:

Mother: Willie Hart
Sister: Bennie Hart
NSC: Alfonso Sapia-Bosch
Lewis Tambs

William P. Clark
Charles P. Tyson

cc: Dave Fischer
Kathy Osborne
Nell Yates

REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Thursday, December 16, 19 82

for THE PRESIDENT (NAME OF PERSON TO BE VISITED) of White House (AGENCY):

THe Vice President
Admiral Daniel Murphy

STATE
Kenneth Dam
Robert Blackwell

TREASURY
Donald T. Regan
Marc Leland

OSD
Casper Weinberger
Frank Carlucci

AGRICULTURE
Secretary John Block

COMMERCE
Malcolm Baldrige
Lionel Olmer

OMB
Mr. RObert Howard

CIA
William Casey

USUN
Jeane Kirkpatrick

JCS
General John Vessey

ACDA
Acting Director Robert Gray

USIA
Mr. Charles Wick

WHITE HOUSE
Edwin Meese III
James Baker III
Judge William P. Clark
Michael Deaver
Richard Darman
Robert C. McFarlane
Admiral John Poindexter

NSC
Mr. RIchard Pipes
Ms. Paula Dobriansky
Col. Michael Wheeler

MEETING LOCATION

Building White HOuse

Room No. Cabinet Room

Time of Meeting 2:00

Requested by Carol Cleveland

Room No. 372 Telephone x3044

Date of request December 16, 1982

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

UNITED STATES SECRET SERVICE

SSF 2037 (05-78)

A

THE WHITE HOUSE

WASHINGTON

December 15, 1982

CABINET TIME

DATE: December 16, 1982
LOCATION: Cabinet Room
TIME: 10:15 A.M.

FROM: Craig L. Fuller CF

I. PURPOSE

To discuss three education issues which would have budget impact and to discuss the Federal Financing Bank and the option of moving it on-budget.

II. BACKGROUND

Individual Education Accounts: This proposal suggests creation of a tax incentive for education savings by "family" units, such as parents, grandparents, spouses or individuals, without limit on cumulative savings. The purpose is to provide incentives for taxpayer savings toward college costs. It will reverse the current federal disincentive to family savings.

Improving Math and Science Education: In response to the shortages of high school science and mathematics teachers, DED has developed a plan which will assist the state and local districts in overcoming this problem. It would provide project grants to local school districts to be used for training additional teachers in science and mathematics. The proposal recommends equal shares from Federal, state and local funds. DED is prepared to meet the full Federal cost by displacing other activities in the 1984 budget allowance given by OMB but would not object if additional monies were provided.

Education Vouchers: The issue here is: how can the Administration encourage use of education vouchers by States and local governments through federal programs? One idea to be discussed tomorrow is to introduce vouchers in compensatory education. This is an area in which the "Chapter 1" grant program permits significant Federal leverage. This authority could be exercised by states or local districts.

Federal Financing Bank: This issue deals with federal credit policy. CCEA has discussed whether or not the Federal Financing Bank should be placed on the budget. The working group recommended that it be placed on-budget. There are others who take the position that credit authority should not be on-budget because it would encourage Congress to change credit programs to grants and thus encourage additional federal spending. This decision could have far-reaching effects on the budget.

IV. PARTICIPANTS

Bob Carleson, Office of Policy Development, and Gary Jones, Undersecretary of Education will make the presentation on the education issues.

Members of the Cabinet (a listing will be attached to the agenda)

V. SEQUENCE OF EVENTS

Bob Carleson will be prepared to provide background on the education issues and will turn to Gary Jones for the presentations. Secretary Regan will lead the discussion on Federal Financing Bank.

Department of Education
December 2, 1982

TAX INCENTIVES FOR EDUCATION SAVINGS

Paper for consideration by the

Cabinet Council on Human Resources

Issue

How can the Federal Government provide incentives for taxpayer savings toward college costs?

Background

Many families fail to make financial plans in advance of college attendance by their children. Consequently, even when their income level would permit them to meet their full responsibilities if costs were over several years, they cannot pay the tuition, room and board fees from current income.

Federal student aid programs have been enacted partially in response to this situation. But Federal policy has provided a disincentive to family savings through its heavily subsidized guaranteed loans. In recent years the family share of college costs has actually declined:

	1978-1981
o Annual increase in college costs	
- 2 year public	+ 5.2%
- 4 year public	+ 8.9%
- 4 year private	+11.6%
o Annual increase in disposable income	+ 9.9%
o Annual increase in parental support	+ 0.1%

The Administration's goal is to reverse the philosophy that has led to this decline in parental responsibility. That goal is addressed in grant, work study and loan proposals under discussion with OMB.

An IRA-Keogh retirement savings type treatment for educational savings would be a complement for Federal student aid programs. Such a measure could reduce the demand for subsidized loans over time, while assisting families in meeting heavy annual costs through the college years. At least five bills have been introduced in Congress based on this concept.

Proposal

The Department of Education proposes to create a tax incentive for education savings by "family" units, such as parents, grandparents, spouses or individuals, without limit on cumulative savings.

However, the tax provision would be in the form of a credit equal to 25% of the savings instead of a tax deduction as in all Congressional bills. The credit feature is preferable to a deduction because a given amount of credit is worth the same to persons with different income.

The credit also has other advantages over a deduction in the case of education savings:

- o Under retirement accounts, the tax beneficiary and the ultimate user of the fund are the same individual.
- o By contrast, under education savings the beneficiary is ordinarily someone other than the taxpayer so any deduction would have to be tracked from one taxpayer to another.
- o The education saver, unlike the retirement saver, may not have reached peak tax brackets that characterize older IRA-Keogh taxpayers, so a deduction would be of less benefit.

As a consequence of this proposed use of credits, in contrast to deductions, the Department measure requires no tax at the time benefits are withdrawn. Key provisions of the Department proposal are described in Attachment A.

Cost

The tax incentive could be provided in two forms that would have different revenue consequences:

- o One option would be a limit of $2000 per year per family.
- o Another option would permit one account for each child.

Attachment B shows the costs, participants and annual investment level for these two plans compared with S. 24, a bill for which the Joint Committee on Taxation has made cost estimates. First year revenue loss under the Department proposal would be about $1.3 billion for the family plan and about $1.8 billion for the individual child plan; after that the loss would be about $2.2 billion and $3.0 billion annually for the two plans.

Pro

- o The proposal would encourage savings and assist parents who plan ahead in meeting large annual college costs (see Attachments C and D for examples).
- o It would be a cost effective Federal benefit in comparison with other forms of aid (see Attachment E).
- o It would complement other student aid programs

- o It would relieve the demand for highly subsidized Federal student aid programs, reducing Federal costs in the future (of 12.6 million U.S. college students, some 5 million receive aid now).

Con

- o Measure would further complicate a U.S. tax system that should be simplified
- o Would set a precedent for application to ther types of tax-favored savings and investment goals that various groups would like to favor
- o The incentive may be used mostly by taxpayers who already save and/or those with sufficient resources to meet costs
- o So long as GSL subsidies are maintained, incentives to save in advance will be limited

This proposal has been discussed with Treasury Assistant Secretary Chapoton, Budget Director Stockman and other senior officers in OMB. There is general agreement among these Administration officials as to the favorable political response such a tax credit would receive and the general strength of the proposal. They express concern, however, that the measure might be seized as a precedent for tax credits in other less worthy or appropriate cases and as to the revenue loss that would occur.

Decision

There are three options that can be considered:

A. Adopt a tax credit plan limited to one account per family________

B. Adopt a tax credit plan limited to one account per child__________

C. Adopt no tax incentive for education savings ____________________

Recommendation

The Department of Education recommends option A.

ATTACHMENT A

Department of Education

Tax Incentive Plan for Education Savings

Description of principal features

Creation of Trust

Eligible Contributors	"family" units, such as parents, grand-parents, spouses or individuals (limit of $2000 per family per year)
Maximum Annual/ Cumulative Contribution	$2000/None
Tax Treatment of Donation	25% rebate (tax credit)
Origins and Purposes of Trust	single purpose: Postsecondary education

Rules Governing Trust Prior to Withdrawal

Tax Treatment	no deferral of tax on dividends and interest earnings of the account
Investment Restrictions	no contribution after age 18 of beneficiary

Rules Governing Trust During Payout Period

Tax Treatment of Distributions	No tax on amount used for higher education. Amounts withdrawn for non-educational purposes are taxed at 25% (recapture of prior tax credits).
Maximum Annual Payout	Total cost of attendance
Maximum Payout Period	to age 26

Non-Educational Use

Unused Funds	25% tax on amount withdrawn
Early Non-Educational Withdrawal	25% tax on amount withdrawn

COMPARISON OF S.24 ESTIMATES WITH ED TAX CREDIT PLANS

	S. 24 Dole/Downy Joint Committee on Taxation Estimate		Proposed ED Plan: Low Option		Proposed ED Plan: High Option	
Yearly Investment Amount	$1000 per person		$2000 per family		$2000 per person	
Fully Operational Expected Annual Savings	$8.5 Billion		$8.6 Billion		$12.2 Billion	
Participation Rate Assumed	26% (Based on Treasury data)		21% (Based on Census data)		21% (Based on Census data)	
Expected Cumulative Savings and Annual Federal Costs	Savings	Cost				
1983	$ 5.1B	$ .8 Billion	$ 5.0B	$1.3 Billion	$ 7.3B	$1.8 Billion
1984	$13.6B	$2.7 Billion	$13.6B	$2.2 Billion	$19.5B	$3.0 Billion
1985	$22.1B	$3.1 Billion	$22.2B	$2.2 Billion	$31.7B	$3.0 Billion
1986	$30.6B	$3.7 Billion	$30.8B	$2.2 Billion	$43.9B	$3.0 Billion
1987	$39.1B	$4.4 Billion	$39.4B	$2.2 Billion	$56.1B	$3.0 Billion
Reason for annual cost differences:	Deferred tax must be paid on principal and yearly interest earnings for accumulated savings.		Family plan only permitted; no tax deferment on interest.		One plan per student permitted; no tax deferment on interest.	

ATTACHMENT B

PERCENTAGE REDUCTION OF TAX OWED BY VARIOUS LEVELS OF ADJUSTED GROSS INCOME AND IEA SAVINGS

Adjusted Gross Income	Taxed Owed	IEA Savings	IEA Tax Credit	Tax Reduced By/ Amount of Credit As % of Tax Owed
$15,000	$ 1823	$ 500	$125	6.9%
		$1000	$250	13.7%
		$1500	$375	20.6%
		$2000	$500	27.4%
$23,000 (Median)	$ 3637	$ 500	$125	3.4%
		$1000	$250	6.9%
		$1500	$375	10.3%
		$2000	$500	13.7%
$35,000	$ 7257	$ 500	$125	1.7%
		$1000	$250	3.4%
		$1500	$375	5.2%
		$2000	$500	6.9%
$60,000	$17,705	$ 500	$125	0.7%
		$1000	$250	1.4%
		$1500	$375	2.1%
		$2000	$500	2.8%

ATTACHMENT C

EXAMPLE: EFFECTS OF EDUCATION SAVINGS CREDIT CUMULATIVE

INVESTMENT OVER TIME - MEDIAN INCOME TAXPAYER

Year/Income 1/	Tax Owed	Annual Amount Saved	Cumulative Savings 2/	Cumulative Tax Credit	Cumulative Credit As % of Cumulative Savings
1. $23,000	$3,641	$ 200	$ 211	$ 50	23.7%
2. $24,380	$3,997	$ 400	$ 646	$ 150	23.2%
3. $25,843	$4,424	$ 600	$ 1,312	$ 300	22.9%
4. $27,393	$4,893	$ 800	$ 2,224	$ 500	22.5%
5. $29,037	$5,394	$1000	$ 3,396	$ 750	22.1%
6. $30,779	$5,978	$1200	$ 4,827	$1050	21.8%
7. $32,626	$6,628	$1400	$ 6,540	$1400	21.4%
8. $34,583	$7,320	$1600	$ 8,550	$1800	21.1%
9. $36,659	$8,195	$1800	$10,824	$2250	20.8%
10. $38,858	$9,125	$2000	$13,411	$2750	20.5%

1/ beginning salary is median income. Annual increase of 6 percent compounded, consisting of 2.5% productivity (seniority) increment plus 3.5% wage inflation.

2/ includes after-tax interest, accrued and compounded

ATTACHMENT D

Federal Subsidy Per $1000 of Aid Received

By Various Types of Aid

Type of Student Aid	Federal Subsidy Per $1000 1/
Pell Grants/SEOG	$1000
National Direct Student Loan	$ 936 2/
College Work Study	$ 800
Guaranteed Student Loan	$ 760 3/
State Student Incentive Grant	$ 500
Individual Education Account	$ 121 4/

Note: many loans are either repaid in less than 10 years or are subject to minimum monthly repayment amounts. Both factors reduce the amount of subsidy paid by the Federal government in NDSL and GSL.

1/ shown in constant dollars not adjusted for inflation

2/ assumes Treasury capital cost of 12% over life of loan for Federal Capital Contribution, four year schooling period, 10 year repayment period, and proportional default probability for any given NDSL (17%)

3/ variation may average ± $200 depending on long-term average of 91-day Treasury bill rates and average length of repayment period. Figure shown assumes 91-day T-bill rate averaging 8.5% over life of loan, four year schooling period, 10 year repayment period, and proportional default probability for any given GSL (13%)

4/ figure shown represents cost per $1000 withdrawn for educational expenses not cost per $1000 originally invested. Assumes annual total return rate of 7.5% during period of accumulation. Average accumulation period assumed to be 10 years. Amount withdrawn is 2.061 times amount initially invested. Original tax credit of 25% is 12.1% of amount withdrawn.

Department of Education
December 2, 1982

QUALITY OF AMERICAN EDUCATION IN SCIENCE AND MATH
Paper for consideration by
The Cabinet Council on Human Resources

Issue

What action can the Federal Government take to stimulate an effective partnership with States and local districts that will overcome present and growing shortages of high school science and mathematics teachers?

Estimates of current shortages in qualified science and math teachers range upward from 12,000. It would take an additional 34,000 teachers if high school standards were raised and students completed just one additional science or math course before graduation. The proposal described here would prepare about 30,000 new high school teachers in these fields over a four year life.

Background

Widely circulated reports in the media have recently emphasized the poor record of American high school students in science and mathematics. A critical element in addressing this problem is the supply of teachers that the nation has and will need.

There is already a significant gap between the supply of competent science and math teachers and the demand:

- In the ten-year period from 1971-80 there has been a 79 percent decline in individuals preparing to teach math and a 64 percent decline in science.
- Forty-three States reported a "shortage" or critical shortage of mathematics teachers in 1981-82 according to a survey of State science supervisors; 42 States reported such shortages in physics and 38 States in chemistry.
- This year some 10,500 teachers of science and math are not certified at all according to a science teachers association survey.
- NCES reported 1,500 unfilled science and math teacher positions in 1979.

But the gap will widen markedly as boards of education and States raise graduation requirements:

- Among 1980 high school graduates, only 49 percent have taken algebra 2, only 38 percent chemistry, only 20 percent physics.
- School boards and States are raising course requirements for graduation, a move that will shift teacher positions away from social sciences, psychology and other fields and increase the demand in science and math.

- An estimated 34,000 additional full time teachers of science and mathematics would be required if each student took just one additional science or math course sometime between grades 9 and 12

Members of Congress have introduced about two dozen bills dealing with instructional improvement, teacher training, teacher upgrading, school equipment, training of scientists and engineers, support for research and other matters. Many of these include measures that--despite costs as high as $5 billion--would be of limited effectiveness or take many years to achieve any result.

Proposals advanced by Science Adviser Keyworth would respond to several national concerns in these areas (Presidential teacher awards, upgrading the existing supply of teachers and young faculty merit grants). The Department is in accord with those proposals. The Secretary's judgment, with which Dr. Keyworth concurs, is that the most critical issue requiring new legislation is the teacher shortage.

Proposal

The Department of Education proposal would both (1) encourage more rigorous academic performance and (2) assist school districts in providing necessary staff resources expeditiously.

It would provide Federal allocations to States for project grants to local school districts. Private schools would be able to participate on the same basis as they participate in the Chapter 2 education block grant program. These grants would be used for training additional teachers in science and mathematics from several sources, including:

- certified teachers now in other fields who have aptitude for science and math teaching

- individuals from the private sector with subject matter competence but who may lack pedagogical experience

- retired or reenterting teachers who may need to have their skills upgraded

A local district would be eligible to receive a project grant only if the State determined it met one of the following conditions:

- The local Board has raised graduation requirements in science and mathematics by 25 percent or more

- The local Board demonstrates that it has raised course enrollments in science or mathematics at least 10 percent over the last academic year and requires additional staff to maintain such an increase.

An applying Board would agree:

- To sponsor trainees who can qualify to become certified teachers within a period of one year or less through fellowships or "vouchers" supported under the grant

- To permit trainee enrollment at certified institutions of higher education for a combination of semester, in-service and/or summer sessions not exceeding one academic year equivalent

- To assure its intent to employ trained individuals at conclusion of the training

There would be equal shares of Federal, State and local funds for this program. Each would contribute $1000 for training and up to $6000 for subsistence per trainee. (These amounts would be reduced for training of lesser duration than one academic year and in some cases much lower subsistence costs may be achieved.) Thus, for a Federal contribution of $50 million per year for each of four years and $100 million in each of these years from states and localities, at least 28,000 to 30,000 teachers could be trained and placed.

The Department is prepared to meet the full Federal cost by displacing other activities in the 1984 budget allowance given by OMB. However, there would be no objection if an additional allowance were provided for this initiative.

Pro:

- Proposal is complementary to NSF activities (that are primarily addressed to existing teachers)

- Meets a widely recognized need in school districts

- Deals with the problem at its site--local districts--rather than through schools of education or other intermediaries.

- Provides a positive incentive for districts to raise their requirements in these critical subject areas

- Would provide an immediate effective response, meet the Federal objective, then "sunset"

Con:

- Congress may view this approach as too small for the magnitude of the problem (without considering its potential effectiveness)

- School districts may object that by providing incentives for increased science and math enrollment the nation would be imposing long term annual salary costs on their already strained budgets

- Some people believe teaching as an occupation has some strong disincentives in both pay and working conditions and the measure would do nothing directly to change those disadvantages.

Recommendation: It is recommended that the proposal be included in the President's fiscal 1984 program.

Department of Education
December 2, 1982

EDUCATION VOUCHERS

Paper for Consideration by the Cabinet Council on Human Resources

Issue

How can the Administration encourage use of education vouchers by States and local governments through Federal programs?

Background

The Administration has given issues of choice and parental rights in education the highest priority. The President's tuition tax credit proposal is one measure to carry out that priority. Vouchers as a means to enhance choice and parental rights have been suggested by President Reagan for many years but the Administration has not yet made a specific proposal to encourage their use in elementary and secondary education.

In reflection of the President's objective, a recommendation for vouchers was included in the report of the Office of Policy Coordination transition team in January, 1981. That report included the following comments:

> "Education vouchers are tuition certificates which would be distributed by a State (or other governmental entity) to parents--one per child. Parents would purchase admission for each child to the school of their choice. The school, in turn, would redeem the vouchers for cash. Proponents of such a system argue that:
> (1) these arrangements would end the so-called 'monopoly' of public education,
> (2) create a competitive free market system for the delivery of education,
> (3) competition among schools would improve the quality of education, and
> (4) parents would have a range of schools to select among without financial constraints."

The transition report concluded that there should be an increase in experimentation with voucher arrangements, particularly related to employment needs and vocational education programs.

The Department has reviewed several options for Federal encouragement of voucher use. One way to implement the experimentation approach described by the transition report is to introduce vouchers in compensatory education, an area where the "Chapter 1" grant program permits significant Federal "leverage."

Chapter 1 has frequently been evaluated and publicly defended as an educationally effective program. However, a compensatory education voucher could strengthen compensatory programs by increasing district incentives to improve quality. Furthermore, there are some indications that private schools are doing an excellent job with minority students and pupils from low income families. A voucher would also enable a number of children to take advantage of high-quality programs in private schools.

Proposal

The proposal would amend Chapter 1 to permit Federal grants to be used in establishing voucher systems for compensatory education. Vouchers issued to parents could be used to purchase compensatory education services from eligible public or private institutions.

This permissive authority could be exercised by:

- A local district, using funds allocated under Chapter 1 (States would be barred from any action prohibiting such an option to be exercised by local districts)

- A State, choosing to direct all districts within their boundaries to spend Chapter 1 funds in the form of vouchers.

Advantages of this approach are:

- It would be an excellent vehicle for the Administration to advance the issue of choice and parental rights in education to complement the tuition tax credit proposal

- It would probably be easier to enact than some more sweeping measure (such as converting Chapter 1 to a voucher in its entirety)

- It has the special advantage of giving sanction to local and community sponsored moves toward vouchers (e.g. along the lines of a citizens group now recommending such an approach in Minneapolis) yet it does not provide a Federal mandate to coerce any response at all.

Arguments against this approach are:

- There may be church-State constitutional problems, although the approach to that issue followed for Chapter 2 block grants may provide a solution

- Administration and regulation of vouchers at the local district level may be difficult but are matters best determined locally

- Local districts may have little incentive to permit Chapter 1 funds to be used in the form of vouchers because it could lead to termination of current staff

- <u>Diversity and competition</u> among providers <u>might be rather limited</u> because local school districts would retain responsibility for administration and, hence, would determine eligible providers

<u>Recommendation</u>:

It is recommended that permissive voucher authority for Chapter 1 be included in the President's program for fiscal 1984.

Approve_______________ Disapprove_______________

THE WHITE HOUSE

WASHINGTON

December 15, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: CABINET COUNCIL ON ECONOMIC AFFAIRS

SUBJECT: Budget Treatment of Federal Financing Bank Activities

Issue

Should the activities of the Federal Financing Bank be moved on budget beginning in FY 1984?

Background

The Federal Financing Bank (FFB), established in 1974, is a unit of the Treasury Department whose function is to assist federal agencies in financing marketable agency-issued or agency-guaranteed securities. The bank borrows from the Treasury at the Treasury's current rates and lends to agencies and guaranteed borrowers at the Treasury rate plus one-eighth of a percentage point.

The demand for the favorable financing terms available through the FFB has grown rapidly since the bank's inception. Initially it was anticipated that the bank would lend $6 to $7 billion annually. FFB net lending totaled $24.8 billion in FY 1981, and at the end of FY 1981 outstanding loans totaled $107.3 billion.

Although the FFB has been a success as a debt management and financing tool, its activities pose two budgetary problems. First, because FFB activities are recorded off-budget -- counted neither in the initiating agencies' budgets nor in the unified budget totals -- agency budget totals and the budget deficit are understated. This budget treatment creates the second problem, the overallocation of resources to FFB activities.

Cabinet Council Review

The Cabinet Council on Economic Affairs has considered the budget treatment of FFB activities at three recent meetings. The Council has identified two principal issues bearing on FFB budget treatment.

The first issue is control of off-budget activities. FFB activities are not subject to congressional budget resolutions or ceilings. As the congressional budget process has imposed ever tighter ceilings on on-budget spending, the off-budget programs of the FFB have grown dramatically. FFB programs increased 27.6 percent (19.1 percent real rate) versus 11.8 percent (3.6 percent real rate) for federal on-budget programs. The control problem is dramatized by the large differences between the Administration's March 1981 budget ceilings for off-budget programs and the current services baseline for FY 1984. The cumulative off-budget spending for FY 1983 through FY 1986 has almost doubled from $34 to over $64 billion.

The second issue is the appearance of creating a higher deficit. By bringing on budget programs which are currently not accounted for on the budget, the reported budget deficit will increase. This higher reported budget deficit, however, will not result in greater federal borrowing or outlays but would simply change the accounting practices we presently use. The resulting accounting change would increase the reported annual deficit by an estimated $9 to $17 billion. If Congress did not adopt the Administration's proposal to place FFB activities on budget, the accounting effect would be to reduce the deficit estimates submitted by the Administration with the FY 1984 budget by $12 to $17 billion. For partisan reasons, this could be a tempting course of action and would convey the illusion that the Congress was more committed to reducing deficits than the Administration.

Options

There are two basic options: moving FFB activities on budget beginning in FY 1984 or preserving the status quo for another year with the possibility of reviewing the issue again for the FY 1985 budget.

Option 1: Move the activities of the Federal Financing Bank on budget beginning in FY 1984.

This proposal would involve:

- Moving the federal government toward a consolidated cash budget which would reflect all of the off-budget cash outlays of the government by including in the budget all Federal Financing Bank activities. (Other off-budget federal entities, such as the Strategic Petroleum Reserve, the U.S. Railway Association and the Rural Telephone Bank, also would be on budget.)

- o Charging outlays currently attributed to the FFB to the agencies responsible for generating those outlays.
- o Submitting legislation that would make these changes effective beginning FY 1984.
- o Over time, consolidating through the Treasury all federal financing activities, including guaranteed securities.

Advantages

- o This offers the best chance of bringing the off-budget lending activities of the FFB under the scrutiny and controls associated with on-budget spending.
- o Consolidating on-budget government lending activities presents a more accurate picture of total federal borrowing in the capital markets.
- o This is a necessary step in reducing the growth of off-budget activities to a rate in line with that of other federal programs, thereby reducing federal borrowing requirements.

Option 2: Preserve the current budget treatment of FFB activities with these activities remaining off budget in FY 1984.

Advantages

- o This preserves the consistency of the Administration's deficit estimates for FY 1984 and beyond presented in the FY 1984 budget with past practices.
- o Maintaining current budget treatment avoids providing the Congress with a "no action" alternative -- refusing our proposed modification -- which would enable them to claim that they had "saved" $12 billion of the deficit in FY 1984 and $48.7 billion over the five year period FY 84 - FY 88.
- o A move which would raise the reported budget deficit estimates for FY 1984 could have an adverse psychological effect under present circumstances.

Decision

Option 1 _____ Move the activities of the Federal Financing Bank on budget beginning in FY 1984.

Option 2 _____ Preserve the current budget treatment of FFB activities with these activities remaining off budget in FY 1984.

DTR

Donald T. Regan
Pro Tempore

Department of Education
December 2, 1982

TAX INCENTIVES FOR EDUCATION SAVINGS

Paper for consideration by the

Cabinet Council on Human Resources

Issue

How can the Federal Government provide incentives for taxpayer savings toward college costs?

Background

Many families fail to make financial plans in advance of college attendance by their children. Consequently, even when their income level would permit them to meet their full responsibilities if costs were over several years, they cannot pay the tuition, room and board fees from current income.

Federal student aid programs have been enacted partially in response to this situation. But Federal policy has provided a disincentive to family savings through its heavily subsidized guaranteed loans. In recent years the family share of college costs has actually declined:

	1978-1981
o Annual increase in college costs	
- 2 year public	+ 5.2%
- 4 year public	+ 8.9%
- 4 year private	+11.6%
o Annual increase in disposable income	+ 9.9%
o Annual increase in parental support	+ 0.1%

The Administration's goal is to reverse the philosophy that has led to this decline in parental responsibility. That goal is addressed in grant, work study and loan proposals under discussion with OMB.

An IRA-Keogh retirement savings type treatment for educational savings would be a complement for Federal student aid programs. Such a measure could reduce the demand for subsidized loans over time, while assisting families in meeting heavy annual costs through the college years. At least five bills have been introduced in Congress based on this concept.

Proposal

The Department of Education proposes to create a tax incentive for education savings by "family" units, such as parents, grandparents, spouses or individuals, without limit on cumulative savings.

However, the tax provision would be in the form of a credit equal to 25% of the savings instead of a tax deduction as in all Congressional bills. The credit feature is preferable to a deduction because a given amount of credit is worth the same to persons with different income.

The credit also has other advantages over a deduction in the case of education savings:

- Under retirement accounts, the tax beneficiary and the ultimate user of the fund are the same individual.

- By contrast, under education savings the beneficiary is ordinarily someone other than the taxpayer so any deduction would have to be tracked from one taxpayer to another.

- The education saver, unlike the retirement saver, may not have reached peak tax brackets that characterize older IRA-Keogh taxpayers, so a deduction would be of less benefit.

As a consequence of this proposed use of credits, in contrast to deductions, the Department measure requires no tax at the time benefits are withdrawn. Key provisions of the Department proposal are described in Attachment A.

Cost

The tax incentive could be provided in two forms that would have different revenue consequences:

- One option would be a limit of $2000 per year per family.

- Another option would permit one account for each child.

Attachment B shows the costs, participants and annual investment level for these two plans compared with S. 24, a bill for which the Joint Committee on Taxation has made cost estimates. First year revenue loss under the Department proposal would be about $1.3 billion for the family plan and about $1.8 billion for the individual child plan; after that the loss would be about $2.2 billion and $3.0 billion annually for the two plans.

Pro

- The proposal would encourage savings and assist parents who plan ahead in meeting large annual college costs (see Attachments C and D for examples).

- It would be a cost effective Federal benefit in comparison with other forms of aid (see Attachment E).

- It would complement other student aid programs

- It would relieve the demand for highly subsidized Federal student aid programs, reducing Federal costs in the future (of 12.6 million U.S. college students, some 5 million receive aid now).

Con

- Measure would further complicate a U.S. tax system that should be simplified

- Would set a precedent for application to ther types of tax-favored savings and investment goals that various groups would like to favor

- The incentive may be used mostly by taxpayers who already save and/or those with sufficient resources to meet costs

- So long as GSL subsidies are maintained, incentives to save in advance will be limited

This proposal has been discussed with Treasury Assistant Secretary Chapoton, Budget Director Stockman and other senior officers in OMB. There is general agreement among these Administration officials as to the favorable political response such a tax credit would receive and the general strength of the proposal. They express concern, however, that the measure might be seized as a precedent for tax credits in other less worthy or appropriate cases and as to the revenue loss that would occur.

Decision

There are three options that can be considered:

A. Adopt a tax credit plan limited to one account per family________

B. Adopt a tax credit plan limited to one account per child__________

C. Adopt no tax incentive for education savings ____________________

Recommendation

The Department of Education recommends option A.

ATTACHMENT A

Department of Education

Tax Incentive Plan for Education Savings

Description of principal features

Creation of Trust	
Eligible Contributors	"family" units, such as parents, grand-parents, spouses or individuals (limit of $2000 per family per year)
Maximum Annual/ Cumulative Contribution	$2000/None
Tax Treatment of Donation	25% rebate (tax credit)
Origins and Purposes of Trust	single purpose: Postsecondary education
Rules Governing Trust Prior to Withdrawal	
Tax Treatment	no deferral of tax on dividends and interest earnings of the account
Investment Restrictions	no contribution after age 18 of beneficiary
Rules Governing Trust During Payout Period	
Tax Treatment of Distributions	No tax on amount used for higher education. Amounts withdrawn for non-educational purposes are taxed at 25% (recapture of prior tax credits).
Maximum Annual Payout	Total cost of attendance
Maximum Payout Period	to age 26
Non-Educational Use	
Unused Funds	25% tax on amount withdrawn
Early Non-Educational Withdrawal	25% tax on amount withdrawn

COMPARISON OF S.24 ESTIMATES WITH ED TAX CREDIT PLANS

	S. 24 Dole/Downy Joint Committee on Taxation Estimate		Proposed ED Plan: Low Option		Proposed ED Plan: High Option	
Yearly Investment Amount	$1000 per person		$2000 per family		$2000 per person	
Fully Operational Expected Annual Savings	$8.5 Billion		$8.6 Billion		$12.2 Billion	
Participation Rate Assumed	26% (Based on Treasury data)		21% (Based on Census data)		21% (Based on Census data)	
Expected Cumulative Savings and Annual Federal Costs	Savings	Cost				
1983	$ 5.1B	$ .8 Billion	$ 5.0B	$1.3 Billion	$ 7.3B	$1.8 Billion
1984	$13.6B	$2.7 Billion	$13.6B	$2.2 Billion	$19.5B	$3.0 Billion
1985	$22.1B	$3.1 Billion	$22.2B	$2.2 Billion	$31.7B	$3.0 Billion
1986	$30.6B	$3.7 Billion	$30.8B	$2.2 Billion	$43.9B	$3.0 Billion
1987	$39.1B	$4.4 Billion	$39.4B	$2.2 Billion	$56.1B	$3.0 Billion
Reason for annual cost differences:	Deferred tax must be paid on principal and yearly interest earnings for accumulated savings.		Family plan only permitted; no tax deferment on interest.		One plan per student permitted; no tax deferment on interest.	

ATTACHMENT B

PERCENTAGE REDUCTION OF TAX OWED
BY VARIOUS LEVELS OF ADJUSTED GROSS
INCOME AND IEA SAVINGS

Adjusted Gross Income	Taxed Owed	IEA Savings	IEA Tax Credit	Tax Reduced By/ Amount of Credit As % of Tax Owed
$15,000	$ 1823	$ 500	$125	6.9%
		$1000	$250	13.7%
		$1500	$375	20.6%
		$2000	$500	27.4%
$23,000 (Median)	$ 3637	$ 500	$125	3.4%
		$1000	$250	6.9%
		$1500	$375	10.3%
		$2000	$500	13.7%
$35,000	$ 7257	$ 500	$125	1.7%
		$1000	$250	3.4%
		$1500	$375	5.2%
		$2000	$500	6.9%
$60,000	$17,705	$ 500	$125	0.7%
		$1000	$250	1.4%
		$1500	$375	2.1%
		$2000	$500	2.8%

EXAMPLE: EFFECTS OF EDUCATION SAVINGS CREDIT CUMULATIVE

INVESTMENT OVER TIME - MEDIAN INCOME TAXPAYER

Year/Income 1/	Tax Owed	Annual Amount Saved	Cumulative Savings 2/	Cumulative Tax Credit	Cumulative Credit As % of Cumulative Savings
1. $23,000	$3,641	$ 200	$ 211	$ 50	23.7%
2. $24,380	$3,997	$ 400	$ 646	$ 150	23.2%
3. $25,843	$4,424	$ 600	$ 1,312	$ 300	22.9%
4. $27,393	$4,893	$ 800	$ 2,224	$ 500	22.5%
5. $29,037	$5,394	$1000	$ 3,396	$ 750	22.1%
6. $30,779	$5,978	$1200	$ 4,827	$1050	21.8%
7. $32,626	$6,628	$1400	$ 6,540	$1400	21.4%
8. $34,583	$7,320	$1600	$ 8,550	$1800	21.1%
9. $36,659	$8,195	$1800	$10,824	$2250	20.8%
10. $38,858	$9,125	$2000	$13,411	$2750	20.5%

1/ beginning salary is median income. Annual increase of 6 percent compounded, consisting of 2.5% productivity (seniority) increment plus 3.5% wage inflation.

2/ includes after-tax interest, accrued and compounded

Federal Subsidy Per $1000 of Aid Received

By Various Types of Aid

Type of Student Aid	Federal Subsidy Per $1000 1/
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Department of Education
December 2, 1982

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- o In the ten-year period from 1971-80 there has been a 79 percent decline in individuals preparing to teach math and a 64 percent decline in science.

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- Meets a widely recognized need in school districts

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- Provides a positive incentive for districts to raise their requirements in these critical subject areas

- Would provide an immediate effective response, meet the Federal objective, then "sunset"

Con:

- Congress may view this approach as too small for the magnitude of the problem (without considering its potential effectiveness)

- School districts may object that by providing incentives for increased science and math enrollment the nation would be imposing long term annual salary costs on their already strained budgets

- Some people believe teaching as an occupation has some strong disincentives in both pay and working conditions and the measure would do nothing directly to change those disadvantages.

Recommendation: It is recommended that the proposal be included in the President's fiscal 1984 program.

Department of Education
December 2, 1982

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Paper for Consideration by the Cabinet Council on Human Resources

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Background

The Administration has given issues of choice and parental rights in education the highest priority. The President's tuition tax credit proposal is one measure to carry out that priority. Vouchers as a means to enhance choice and parental rights have been suggested by President Reagan for many years but the Administration has not yet made a specific proposal to encourage their use in elementary and secondary education.

In reflection of the President's objective, a recommendation for vouchers was included in the report of the Office of Policy Coordination transition team in January, 1981. That report included the following comments:

> "Education vouchers are tuition certificates which would be distributed by a State (or other governmental entity) to parents--one per child. Parents would purchase admission for each child to the school of their choice. The school, in turn, would redeem the vouchers for cash. Proponents of such a system argue that:
> (1) these arrangements would end the so-called 'monopoly' of public education,
> (2) create a competitive free market system for the delivery of education,
> (3) competition among schools would improve the quality of education, and
> (4) parents would have a range of schools to select among without financial constraints."

The transition report concluded that there should be an increase in experimentation with voucher arrangements, particularly related to employment needs and vocational education programs.

The Department has reviewed several options for Federal encouragement of voucher use. One way to implement the experimentation approach described by the transition report is to introduce vouchers in compensatory education, an area where the "Chapter 1" grant program permits significant Federal "leverage."

Chapter 1 has frequently been evaluated and publicly defended as an educationally effective program. However, a compensatory education voucher could strengthen compensatory programs by increasing district incentives to improve quality. Furthermore, there are some indications that private schools are doing an excellent job with minority students and pupils from low income families. A voucher would also enable a number of children to take advantage of high-quality programs in private schools.

Proposal

The proposal would amend Chapter 1 to permit Federal grants to be used in establishing voucher systems for compensatory education. Vouchers issued to parents could be used to purchase compensatory education services from eligible public or private institutions.

This permissive authority could be exercised by:

- A local district, using funds allocated under Chapter 1 (States would be barred from any action prohibiting such an option to be exercised by local districts)

- A State, choosing to direct all districts within their boundaries to spend Chapter 1 funds in the form of vouchers.

Advantages of this approach are:

- It would be an excellent vehicle for the Administration to advance the issue of choice and parental rights in education to complement the tuition tax credit proposal

- It would probably be easier to enact than some more sweeping measure (such as converting Chapter 1 to a voucher in its entirety)

- It has the special advantage of giving sanction to local and community sponsored moves toward vouchers (e.g. along the lines of a citizens group now recommending such an approach in Minneapolis) yet it does not provide a Federal mandate to coerce any response at all.

Arguments against this approach are:

- There may be church-State constitutional problems, although the approach to that issue followed for Chapter 2 block grants may provide a solution

- Administration and regulation of vouchers at the local district level may be difficult but are matters best determined locally

- Local districts may have little incentive to permit Chapter 1 funds to be used in the form of vouchers because it could lead to termination of current staff

- <u>Diversity and competition</u> among providers <u>might be rather limited</u> because local school districts would retain responsibility for administration and, hence, would determine eligible providers

<u>Recommendation</u>:

It is recommended that permissive voucher authority for Chapter 1 be included in the President's program for fiscal 1984.

Approve_______________ Disapprove________________

THE WHITE HOUSE

WASHINGTON

December 15, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: CABINET COUNCIL ON ECONOMIC AFFAIRS

SUBJECT: Budget Treatment of Federal Financing Bank Activities

Issue

Should the activities of the Federal Financing Bank be moved on budget beginning in FY 1984?

Background

The Federal Financing Bank (FFB), established in 1974, is a unit of the Treasury Department whose function is to assist federal agencies in financing marketable agency-issued or agency-guaranteed securities. The bank borrows from the Treasury at the Treasury's current rates and lends to agencies and guaranteed borrowers at the Treasury rate plus one-eighth of a percentage point.

The demand for the favorable financing terms available through the FFB has grown rapidly since the bank's inception. Initially it was anticipated that the bank would lend $6 to $7 billion annually. FFB net lending totaled $24.8 billion in FY 1981, and at the end of FY 1981 outstanding loans totaled $107.3 billion.

Although the FFB has been a success as a debt management and financing tool, its activities pose two budgetary problems. First, because FFB activities are recorded off-budget -- counted neither in the initiating agencies' budgets nor in the unified budget totals -- agency budget totals and the budget deficit are understated. This budget treatment creates the second problem, the overallocation of resources to FFB activities.

Cabinet Council Review

The Cabinet Council on Economic Affairs has considered the budget treatment of FFB activities at three recent meetings. The Council has identified two principal issues bearing on FFB budget treatment.

The first issue is control of off-budget activities. FFB activities are not subject to congressional budget resolutions or ceilings. As the congressional budget process has imposed ever tighter ceilings on on-budget spending, the off-budget programs of the FFB have grown dramatically. FFB programs increased 27.6 percent (19.1 percent real rate) versus 11.8 percent (3.6 percent real rate) for federal on-budget programs. The control problem is dramatized by the large differences between the Administration's March 1981 budget ceilings for off-budget programs and the current services baseline for FY 1984. The cumulative off-budget spending for FY 1983 through FY 1986 has almost doubled from $34 to over $64 billion.

The second issue is the appearance of creating a higher deficit. By bringing on budget programs which are currently not accounted for on the budget, the reported budget deficit will increase. This higher reported budget deficit, however, will not result in greater federal borrowing or outlays but would simply change the accounting practices we presently use. The resulting accounting change would increase the reported annual deficit by an estimated $9 to $17 billion. If Congress did not adopt the Administration's proposal to place FFB activities on budget, the accounting effect would be to reduce the deficit estimates submitted by the Administration with the FY 1984 budget by $12 to $17 billion. For partisan reasons, this could be a tempting course of action and would convey the illusion that the Congress was more committed to reducing deficits than the Administration.

Options

There are two basic options: moving FFB activities on budget beginning in FY 1984 or preserving the status quo for another year with the possibility of reviewing the issue again for the FY 1985 budget.

Option 1: Move the activities of the Federal Financing Bank on budget beginning in FY 1984.

This proposal would involve:

- o Moving the federal government toward a consolidated cash budget which would reflect all of the off-budget cash outlays of the government by including in the budget all Federal Financing Bank activities. (Other off-budget federal entities, such as the Strategic Petroleum Reserve, the U.S. Railway Association and the Rural Telephone Bank, also would be on budget.)

- o Charging outlays currently attributed to the FFB to the agencies responsible for generating those outlays.
- o Submitting legislation that would make these changes effective beginning FY 1984.
- o Over time, consolidating through the Treasury all federal financing activities, including guaranteed securities.

Advantages

- o This offers the best chance of bringing the off-budget lending activities of the FFB under the scrutiny and controls associated with on-budget spending.
- o Consolidating on-budget government lending activities presents a more accurate picture of total federal borrowing in the capital markets.
- o This is a necessary step in reducing the growth of off-budget activities to a rate in line with that of other federal programs, thereby reducing federal borrowing requirements.

Option 2: Preserve the current budget treatment of FFB activities with these activities remaining off budget in FY 1984.

Advantages

- o This preserves the consistency of the Administration's deficit estimates for FY 1984 and beyond presented in the FY 1984 budget with past practices.
- o Maintaining current budget treatment avoids providing the Congress with a "no action" alternative -- refusing our proposed modification -- which would enable them to claim that they had "saved" $12 billion of the deficit in FY 1984 and $48.7 billion over the five year period FY 84 - FY 88.
- o A move which would raise the reported budget deficit estimates for FY 1984 could have an adverse psychological effect under present circumstances.

Decision

Option 1 _____ Move the activities of the Federal Financing Bank on budget beginning in FY 1984.

Option 2 _____ Preserve the current budget treatment of FFB activities with these activities remaining off budget in FY 1984.

DTR

Donald T. Regan
Pro Tempore