FOIA Number: 2008-1524-F

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Subgroup/Office of Origin: Office of Science and Technology Policy

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Subseries:

OA/ID Number: 10829

FolderID:

Folder Title:
Accomplishments/Goals [Binder] [3]

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Divider Title: EDUCATION

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

MEMORANDUM TO THE PRESIDENT

Through: Kitty Higgins, Cabinet Secretary

From: Richard W. Riley Dick Riley

Date: December 6, 1996

Subject: Department of Education Accomplishments and Vision for Your Second Term

INTRODUCTION AND EXECUTIVE SUMMARY

In this information age and technological era, education must be a priority for the American people if we are to compete in the international economy and keep our democracy vibrant in a diverse nation. One of the major successes of your Presidency has been to raise education to the top of the nation's agenda.

The impact of your leadership was demonstrated quite dramatically in an exit poll after the 1996 election. Education was one of the four top concerns -- and on education, voters gave you an extraordinary 62% margin, 78% to 16%.

You have led by articulating and committing resources to a positive school improvement agenda of raising standards, improving teaching, making schools safer and drug-free, preparing students for school-to-career transitions, providing more choice in public education, and expanding access to technology in every classroom in America. You have also issued an important call for streamlining and improving student financial aid for college. At the same time, you have addressed some of the most deeply held values and concerns of our nation's parents and grandparents, through your advocacy of school uniforms, your support for family friendly businesses, and your commitment to protecting religious expression.

Since January 20, 1993, the Department of Education has worked to carry out your vision of building a firm foundation for nationwide progress in improving education.

During the first two years of the Administration, the Department enjoyed unprecedented success in Congress, building a powerful framework for elementary and secondary education improvements through passing:

- The Goals 2000: Educate America Act

- The Improving America's Schools Act
- The School-to-Work Opportunities Act

The Department also began to reform a cumbersome and costly student financial aid system, with the enactment of Direct Lending in the Student Loan Reform Act and the reduction of the student loan default rate. During the second two years, the Department played a pivotal role in the budget battle with Congress, fostering strengthened public support for investing in improvements in K-12 education and in better student financial aid for college. All of this was accomplished through a less regulatory, more flexible federal role in education.

The Department has worked diligently to implement needed reforms passed during the 103rd Congress and to demonstrate leadership on non-legislative matters that go to the heart of American education, such as increasing family involvement in learning. Throughout the first term, the Department has sought to ensure equal access to education for all Americans, and has taken to heart the Vice President's charge to reinvent itself, providing greater flexibility, reduced burden, and better customer service at less cost to taxpayers.

While progress in education in this vast, decentralized country takes time, we have seen some promising improvements over the past four years. Our focus on higher standards is starting to take hold, with 48 states developing common standards in core academic subjects. More high school students are taking core academic and AP courses, and the percentage of high school graduates ages 18-24 enrolled in college is at an all-time high. In a single year -- from 1994 to 1995 -- the percentage of schools connected to the Internet increased by 43%, and since 1992, the number of charter schools has grown from 1 to over 400.

Moving into the second term, the Department will build on this groundwork, drawing on the momentum of your campaign emphasis on improving education, to challenge states and school districts to significantly intensify their efforts to provide a world-class education. The Department will help build a bridge to the 21st Century by:

- **Helping Students Master World-Class Skills**
  - Make it possible for every eight year-old to read independently
  - Raise standards to internationally competitive levels
  - Foster high-quality teaching
  - Expand public school choice and charter schools

- **Helping Communities Develop 21st Century Schools**
  - Make it possible for every child to log on to the Internet by age 12
  - Assist communities to build new schools or repair old ones
  - Increase options for moving from school to careers
- **Strengthening the Best of Our American Values and Traditions in Education**
  - Support greater family and community involvement
  - Make schools safe and drug-free
  - Keep school open in the afternoons and summers
- **Widening Access to Postsecondary Education and Lifelong Learning**
  - Make the first two years of college universally accessible
  - Make postsecondary education more affordable for all Americans
  - Make it possible for all Americans to strengthen their skills and improve their earning power throughout their lives

As I travel around our nation, as I visit our schools and colleges and meet with parents, students, business people and citizens from every walk of life, I continue to grow more firmly convinced that education is truly the key to our nation's future. As you recently stated:

> *Let us pledge to give our children the best education in the world, and the support they need to build strong futures, higher standards in our schools, more choices, and the opportunity for all Americans to go on to college.*

The Department of Education is eager to continue working with you to take on this vital challenge. Working together with the American people, we believe we can succeed.

ACCOMPLISHMENTS

I. Improving Elementary and Secondary Education

Raising Standards for America's Schools: Grassroots Reforms to Improve Teaching and Learning

Throughout the past four years, the Department of Education has built upon the bipartisan consensus of the 1989 Education Summit in Charlottesville, refashioning federal education programs and policies to support state and local school improvement efforts and to place greater emphasis on helping all students achieve to much higher educational levels. Along with the focus on higher standards, the Department has upgraded its programs to provide for more flexible use of federal education funds, more accountability for performance, more public school choice, and greater grassroots involvement in school improvement programs. In this way, we ended the old model of top-down, one-size-fits-all federal programs and replaced it with a new model of local partnership and citizen involvement. And we passed more good education legislation than at any time in the past quarter of a century.

Goals 2000: Educate America Act

Passed with strong bipartisan support and signed into law by you on March 31, 1994, the **Goals 2000: Educate America Act** adopts the National Education Goals and supports states and communities in their efforts to improve academic achievement by raising academic standards, supporting high-quality teacher professional development, expanding the use of technology in classrooms, and increasing parental and community involvement in education. With its focus on a comprehensive approach to raising student achievement, including student assessments, teacher training, and accountability aligned with challenging standards in core subjects, the Goals 2000 Act provides a solid framework for other federally funded education programs.

At the heart of the Goals 2000 Act is a grants program that provides seed money to help states and communities develop and implement their own approaches to education reform. No new regulations have been issued to implement the program, and the application for first-year funds was only four pages long, with state funding awards granted, on average, less than a month after submission of the application. In addition to seed money, Goals 2000 also expands flexibility in other federal education programs by providing me -- and some states -- with the authority to waive many federal rules and regulations if they interfere with local or state education reform strategies.

Goals 2000 is already making its mark across the U.S. Despite heated debate in some statehouses across the country, and the threat of cuts in Congress, thousands of school and communities in 49 states have received Goals 2000 funds. According to a recent study, 48 states are developing common academic standards for their students in core subject areas, with 38 states developing new or revised standards documents in the last year. Likewise, 42 states either have or are in the process of developing assessments linked to their standards. With respect to urban districts, more than 75% report that they are writing content standards, with 85% changing their assessment systems to bring them in line with standards.

Improving America's Schools Act

Goals 2000 has accelerated the pace of state and local reforms. The **Improving America's Schools Act** (IASA) complements and supports that effort. IASA, signed by you on October 20, 1994, fundamentally restructured the existing Elementary and Secondary Education Act (ESEA) of 1965 to improve instruction and achievement for all students. The new ESEA gets rid of the old, watered-down curriculum found in too many previous federal education programs and places less reliance on narrow categorical programs. It emphasizes the use of federal funds to expand or "speed up" state and local reforms, and helps to ensure that those traditionally served by federal programs -- disadvantaged students, minority and limited English proficient (LEP) students, and migrant students -- make progress toward the same challenging standards as other children, rather than separate, minimum objectives.

The centerpiece of the reauthorized ESEA is **Title I**, which directs about $7 billion to strengthen teaching of basic and advanced skills to approximately seven million children attending the highest poverty schools in all 50 states. The new Title I places the focus on teaching and learning rather than rules and requirements, with students who receive services expected to make progress toward the same challenging academic standards as other students, measured by the same state assessments -- rather than low expectations, remediation, and separate testing for Title I students. The revised law also focuses on schoolwide reforms instead of isolated programs, and targets more funds on high-poverty districts and schools.

The new Title I is complemented by changes made in the **Eisenhower Professional Development program**. Before, the Eisenhower program focused exclusively on funding math and science professional development activities, with too little attention given to the scope and quality of these activities. Now, under the new ESEA, depending on appropriations levels, Eisenhower can fund intense and sustained professional development geared to helping teachers teach to high standards in all core academic subjects, according to the needs of states and school districts.

The **Safe and Drug-Free Schools and Communities Act** was a centerpiece of the Administration's first-term efforts to reduce violence and drug use among the nation's youth. The Administration expanded the Drug-Free Schools Act into the Safe and Drug-Free Schools Act in 1994, making violence prevention a key part of that program. The Safe and Drug-Free Schools Program now provides school security, drug prevention and education programs in 97% of America's school districts, thanks to our successful fight against attempted Republican cuts. In October 1994, you also signed into law the **Gun-Free Schools Act**, and issued a

Presidential Directive later that month to enforce "zero tolerance" in our schools -- if a student brings a gun to school, he or she does not come back for a year.

The Administration has also provided strong national leadership in providing students and their families with more choice in public education and in helping communities to create publicly accountable charter schools. You have called for states to enact charter school laws, and for the creation of 3,000 charter schools over the next several years. To that end, you proposed a new **Public Charter School Program**, enacted as part of the Improving America's Schools Act, that is providing start-up funding to help teachers, parents, businesses, museums and others create high-quality charter schools in 19 states. The Administration pushed through an increase in the start-up fund from $6 million in FY 95 to $51 million in FY 97.

With the Administration's leadership, the number of charter schools has grown from 1 to over 400 since the 1992 election, and the number of states with charter school laws has grown from two to 25.

Creating Learning Opportunities of the Future

School-to-Work Opportunities

In 1994, with bipartisan support, the Congress passed and you signed the **School-to-Work Opportunities Act**, which embodies your vision that today's schools must prepare all students for high-skills careers. School-to-work systems can improve student learning by connecting what goes on in the classroom to future careers and to real work situations, and by connecting students to a range of opportunities for postsecondary education and advanced training. The School-to-Work Act, jointly administered by the Departments of Education and Labor, is helping states and communities to design and put into place their own systems for improving work-based education.

All 50 states have received planning and development grants under School-to-Work, and by late 1996, 37 states had made sufficient progress in their planning efforts to receive 5-year grants for implementing their plans. The states, in turn, are responsible for allocating funds to local partnerships within their states. In addition, 47 local school-to-work partnerships, 53 urban and rural partnerships, and 20 Native American partnerships have received implementation funding directly from the federal government. Data from states that received grants in 1994 and 1995 show that over 500,000 young people in 1,800 schools throughout the nation participate in school-to-work systems that integrate academic and vocational instruction and provide work-based learning. Over 135,000 employers have been involved in school-to-work systems.

To support efforts to build school-to-work systems, the Office of Vocational and Adult Education initiated a **New American High Schools** project to showcase distinguished secondary schools in which students achieve high levels of academic skills, learn in the context of a career major, and benefit from strong links between their schools and postsecondary institutions.

Technology Initiatives

In 1995, the Administration initiated **Technology Learning Challenge Grants** to foster partnerships among local schools systems, colleges, universities and private businesses to develop creative new ways to use technology for learning. Nineteen grants were awarded in FY 95 involving 134 school districts in 23 states demonstrating innovative uses of computers, networking and multi-media across the curriculum. In FY 96, the Department received 586 applications and awarded 24 new five-year grants.

The **National Technology Plan**, *Getting American Students Ready for the 21st Century*, was submitted to Congress in June 1996. In developing the plan, the Department galvanized the efforts of hundreds of state and local educators, citizens and industry leaders in seven regional forums, two national conferences, and an on-line discussion over the Internet to address the important issues in educational technology. Four major elements of the plan include: (1) providing teachers with the training and support needed to help students learn through educational technology; (2) developing effective software and on-line learning resources as an integral part of the school curriculum; (3) providing access to modern computers for all teachers and students; and (4) connecting every school and classroom in America to the Internet.

At your and the Vice President's urging, the Department was the lead agency in designing and representing the Administration's position in implementing the Snowe-Rockefeller Amendment to the 1996 Telecommunications Act, which for the first time allows schools and libraries to receive discounts on telecommunications services. As a result of our efforts in supporting the **E-rate**, the FCC Federal-State Joint Board has recommended $2.25 billion in annual funding to provide discounts for all telecommunications services, including access to the Internet. The average discount will be about 60 percent, and one-third of all schools will receive discounts of 80 to 90 percent.

The Administration also initiated the Department of Education's **Regional Technology Consortia** to help states, local education agencies, teachers, administrators and others to integrate advanced technologies into K-12 classrooms, library media centers and other education settings, including adult literacy centers. The six regional consortia provide professional development, technical assistance, and on-line and other innovative resources.

The Department and others within the Administration are working actively with Congress, states, local governments, private industry, public interest groups and concerned individuals to achieve the goal of connecting all classrooms to the Internet by the year 2000. In March 1996, you and the Vice President worked with more than 20,000 other volunteers to wire 3,000 California schools in an "electronic barnraising." Companies contributed wiring kits, more than six million feet of cable, technical assistance, free Internet access, and free or discounted hardware and software. This sparked considerable nation-wide interest, and over 40 states organized **NetDays** in the fall of 1996, wiring over 25,000 schools with the help of over 250,000 volunteers.

Improving the Nation's Report Card

Under this Administration's leadership, the National Assessment Governing Board has committed to long-term changes to improve the **National Assessment of Educational Progress** (NAEP) -- also known as the Nation's Report Card -- and make it more useful to citizens, educators, researchers, and policymakers across the U.S. Among other changes, the Board has committed to testing students annually according to a publicly released schedule and providing state-level results in reading, writing, math and science at grades 4 and 8.

Preserving and Expanding Federal Resources for Improving Education

From January 1995 through September 1996, Congressional Republicans proposed education cuts in every piece of education-related **budget and appropriations** legislation, in addition to proposing the outright elimination of the Department. Overall, Republicans sought the largest education cuts in the nation's history -- a 1/3 cut in the federal investment in education over seven years. Republicans tried to eliminate both Goals 2000 and School-to-Work funding, sought drastic cuts in Safe and Drug-Free Schools and Communities programs, and initially proposed no funding for the new Technology Literacy Challenge Fund. However, the Department, with your leadership, worked hard to remind the public and the Congress of the long-term importance of investing in our nation's schools. Amidst a strong public backlash, threats to the Department were dropped and, in the negotiations for fiscal 1997 spending, Congressional Republicans agreed with your priorities and recommended greater investments in almost every elementary and secondary program. The total education investment amounted to $3.5 billion more than the level for fiscal 1996, an historic investment in our nation's future and a remarkable change from original Congressional proposals.

Increased funding under the FY 1997 appropriation will allow the number of schools receiving Goals 2000 awards to rise by an estimated 3,500 to 12,000 nationally, will expand School-to-Work implementation grants to nearly all the states, and will help an additional 470,000 disadvantaged children learn to challenging academic standards through Title I. Moreover, expanded Eisenhower funding will help 375,000 teachers and other educators teach to higher standards in core subjects, while a nearly 20% increase in Safe and-Drug-Free Schools funds will assist communities to address youth drug use and school violence. In addition, the Department's investment in educational technology will quintuple, from $48 million in 1996 to $267 million in 1997.

Non-legislative Leadership: Restoring Community and Enhancing Safety, Discipline and Family Involvement in Education, and Improving the Quality of Teaching

Supporting Family Involvement in Education

Through our initiation and support for the **Partnership for Family Involvement in Education**, the Department of Education has played a critical role in helping schools to be more welcoming and inviting to families; encouraging employers to provide ways for parents and employees to be involved in education, including volunteering in their local schools; and expanding the support that youth, community, cultural and religious groups are giving to back greater family involvement in education. Over 2,000 employers, schools, religious, and community groups have joined the Partnership and have pledged to be more family-friendly.

Strong Families, Strong Schools: Building Community Partnerships for Learning, developed and released by the Department in September 1994, helped provide a research base for the initiative, as well as ideas for effective activities to involve parents. The Department's **America Goes Back to School** initiative in each of the past two autumns led parents, employers, citizens, and groups across the country to get involved in education in their communities, homes, and schools. This initiative has been endorsed by the PTA and every major education organization and has generated support from prominent business, community and religious leaders. Over 500 special back-to-school events were held in August, September, and October of 1996.

*Getting America Reading in the Summer: Read*Write*Now!*

In 1995, the Department of Education, in partnership with 40 reading organizations, launched "**Read*Write*Now!**" During the summers of 1995 and 1996, Read*Write*Now! focused on encouraging libraries, youth groups, and schools to assist families and caring adults to read with young children for 30 minutes each day to prevent the summer fall-off in reading skills that often occurs. In 1996 alone, the initiative reached almost one million children through an estimated 300,000 reading tutors and partners. Read*Write*Now! can be a good prototype for the "America Reads" challenge.

Finding Common Ground: Religion and Schools

Another important example of your efforts to build common ground for improved schools was the directive on **Religious Expression in Public Schools**. Developed in July 1995, as part of the Department's efforts to bring together leaders of religious groups across the entire spectrum, this directive clarified allowable religious expression in schools, and has gone a long way toward ending 30 years of confusion over the issue. According to the National School Boards Association, the guidance caused a dramatic decrease in the number of inquiries regarding how schools can address holidays such as Christmas. Other education groups agree that the guidelines have reduced tension and divisiveness based on religion.

We have made a concerted effort to begin an ongoing relationship with America's religious community. This includes a statement of purpose signed by over 33 religious leaders and two ground-breaking regional summits between religious leaders and public school educators.

In addition, with your full support, the Department has joined the City of New York in a vigorous effort to have the Supreme Court reverse its 1985 ruling in Aguilar v. Felton that severely limits our ability to serve Title I students in religiously affiliated schools. The Justice Department has recently filed a petition on my behalf asking the Court to rehear the case.

Promoting Orderly and Safe School Environments

In addition to strong academics, the Administration has promoted a quality education that stresses discipline, hard work, respect and responsibility, where guns, violence and drugs are not present. You successfully elevated the issue of school safety and discipline through your encouragement of curfews, school uniforms, and strong truancy prevention programs. For example, the Department of Education and the Department of Justice developed and distributed a **Manual on School Uniforms** in February 1996. The manual provides examples and discusses common elements of the best local uniform policies. The response to the uniform manual was so positive that we followed with a **Manual to Combat Truancy**. These efforts helped contribute to a climate supporting the dramatic reduction in juvenile crime during your Administration -- including a 2.9% decrease in the juvenile crime arrest rate -- the first decline in seven years -- and a dramatic decline in the juvenile murder rate.

Expanding Flexibility and Improving the Federal-State-Local Partnership

Waivers of Federal Program Requirements

Even with a more flexible ESEA and many fewer regulations, schools, school districts, and states may encounter federal program requirements that interfere with their strategies for improving teaching and learning. Now, for the first time ever, under Goals 2000, School-to-Work, and the reauthorized ESEA, the Department can provide **waivers** of the vast majority of statutory and regulatory requirements for major federal education programs. The Department has aggressively implemented this authority, forming a cross-Department Waiver Action Board, mailing guidance to all local school districts, establishing a dedicated Waiver Assistance Line, and putting waiver information on the Department's web site. As of November 1996, the Department had considered 162 requests for waivers and approved 139, the majority of which covered requirements of Title I, with another 113 waiver applicants able to implement their plans for school improvement without the need for a waiver.

Delegating Waiver Authority to States: The Ed-Flex Demonstration

One of the most dramatic examples of the Department's new flexibility is the Education Flexibility Partnership Demonstration Program (**Ed-Flex**), a part of the Goals 2000 Act.

Under Ed-Flex, I can delegate my waiver authority to up to twelve state educational agencies. As a result, the states can waive a range of federal statutory or regulatory requirements affecting them, their districts and their schools, in order to remove barriers to better teaching and learning. Those affected by the waivers agree to be held accountable for the academic performance of their students. The first Ed-Flex state, Oregon, was designated in February 1995. Thus far, nine states have been selected, and we expect to name the last three participants shortly.

Schoolwide Programs -- Using Federal Funds for Whole-School Reform

The new Title I dramatically expanded the number of schools eligible to operate **schoolwide programs**, opening this option to an additional 12,000 Title I schools with greater than 50% poverty. Schools operating schoolwide programs can combine all of their federal education funds -- including Title I -- with state and local resources in order to upgrade teaching and learning throughout the whole school. Participating schools no longer have to conform to specific statutory and regulatory requirements of each separate program as long as the intent and purposes of the programs are met.

Consolidated Program Plans

To help promote a coherent approach to school improvement planning, the ESEA now permits states and local school districts to develop a single **consolidated plan** covering several ESEA programs and federal vocational education grants, instead of separate plans for each program. Forty-nine states have submitted consolidated plans to the Department, describing their general goals for all students and strategies for designing and integrating ESEA programs to further these goals. States can also consolidate funds for state administration received under various ESEA programs and Goals 2000; with state approval, local districts may consolidate their ESEA administrative funds as well.

Improved Assistance and Program Management

The Office of Elementary and Secondary Education has refocused its monitoring efforts on technical assistance rather than narrow compliance issues. Moreover, it has reorganized into 10 **regional service teams** that will be more responsive to the needs of states. In a significant departure from prior practice, each regional team has begun conducting **integrated reviews** of all of a state's major ESEA programs during a single visit rather than conducting multiple, separate reviews. In addition, the Department has initiated its first ever cross-Department integrated review teams, including staff from special education, bilingual education, and vocational education programs.

The Department has undertaken the **Cooperative Audit Resolution and Oversight Initiative** (CAROI) which seeks to improve oversight techniques, such as audits, monitoring and technical assistance. The initiative brings officials from across the Department into partnerships with state and local officials to promote a better understanding of program requirements, further streamline audit procedures and audit resolution steps, and reduce or eliminate unnecessary disputes and litigation. The Department has issued a new guide for auditors of ESEA programs and has already reached an agreement with the Florida Department of Education on a jointly developed, less burdensome record-keeping system.

Ensuring Access to A Quality Education for All Students

Civil Rights: Ensuring Equal Educational Opportunity for All Students

Since 1993, the Office for Civil Rights (OCR) has proactively and effectively enforced the nation's civil rights laws to protect America's most vulnerable students from illegal discrimination in education. By initiating compliance reviews, receiving and resolving complaints, providing technical assistance, and developing guidance documents clearly describing the civil rights obligations guiding federal funding recipients, OCR has taken the lead on such critical civil rights issues as affirmative action, Title IX, higher education desegregation and testing and assessment.

For example, the Department has been a leader in the fight to maintain appropriate **affirmative action** programs, following your charge "to mend, not end." In 1994, the Department published its race-targeted aid policy, which helped establish a legal framework upon which colleges and universities could rely in their sponsorship of scholarship programs. This policy, which was the Administration's first policy statement on affirmative action, confirmed that both remediation of past discrimination and diversity are sufficiently compelling justification for using race and national origin in awarding scholarships.

In the area of gender discrimination under Title IX, OCR has addressed the two issues of **under-representation of females and minorities in math, science, and other challenging courses** and **sexual harassment**. This has included clearly recognizing that peer-on-peer harassment and same-sex harassment are covered by Title IX. OCR also reaffirmed and clarified principles relating to issues of **gender equity in intercollegiate athletics**. For the first time, OCR also developed a statement of legal principles to guide its work in the area of **testing and assessment**, and through an ongoing relationship with the National Academy of Sciences, has further developed the Department's ability to address problems of discrimination related to various testing practices. Among the most significant cases in 1996, OCR resolved allegations against the Educational Testing Service and the College Entrance Examination Board. As a result, beginning with the October 1997 administration of the PSAT, a test that measures writing skills will be added, with the expectation that the disparity between males and females qualifying for the semifinalist pool in the National Merit Scholarship competition will be significantly reduced, if not eliminated.

In the area of Title VI, in 1994 OCR published a Federal Register notice advising colleges and universities that it would reexamine their obligations to **desegregate formerly racially**

segregated systems of higher education to ensure consistency with the Supreme Court's decision in Fordice v. Ayers. Florida, Pennsylvania, and Ohio are working with OCR to address not only desegregation compliance standards under the Supreme Court's decision but also issues of access to educational excellence.

In addition to demonstrating leadership, OCR activities under this Administration have been far more efficient and effective. For example, OCR resolved 139 agency-initiated actions in FY 1996 alone (up from 82 in FY 1993). By restructuring its cumbersome process for complaint resolution, OCR resolved over 5,500 cases in FY 1995, in, on average, under 120 days -- with almost 100 fewer staff than in FY 1993. This represents a record for OCR and translates into greater access to education for many thousands of additional students facing illegal discrimination.

Improved Educational Opportunities for Students with Disabilities

In providing a voice for students with disabilities in the nationwide debate on school reform over the past four years, the Administration has reinforced its commitment to educational opportunities and higher standards for all children. The Department of Education's **strengthened enforcement of IDEA,** consistent with the goal of improved educational results for children with disabilities, has complemented its legislative efforts. For example, the Department improved its monitoring process through such changes as obtaining input from the public and parents before developing a state's corrective action plan, focusing those plans on requirements most directly influencing educational results for students, visiting certain states to ensure they have taken corrective actions, and documenting both improvement and any remaining non-compliance.

Strengthened Bilingual Education Programs

The Department successfully proposed the broadest overhaul of federal bilingual education programs in 25 years, culminating in passage of the Improving America's Schools Act of 1994. The new act changed the focus of federal bilingual education programs from small-scale, classroom-based projects to whole-school and whole-district reform that holds LEP students to the same high standards expected of all children. The proportion of funding for bilingual education projects awarded to whole-school and whole-district reform efforts has increased from virtually none to 51 percent in FY 96, and is expected to reach 80 percent in FY 97. The new law also enhanced programmatic flexibility, strengthened the state administrative role, improved research and evaluation, and emphasized professional development. The number of LEP students served by federal bilingual education programs has increased over 50 percent, reaching more than half a million children in FY 96.

Defeating Harmful Immigration-Related Restrictions on Access to Educational Services

The Department worked extremely hard, together with the White House, the Department of Justice, legislative leaders, and a coalition of education, immigration, and law enforcement organizations, to defeat extreme legislative proposals to kick undocumented alien children out of schools and onto the streets. One particular proposal, the Gallegly Amendment, would have explicitly authorized states to exclude such children from public elementary and secondary schools, threatening the Supreme Court's landmark 1982 decision in Plyler v. Doe. You took a courageous stand, making clear that you would veto the immigration bill if it contained the Gallegly Amendment, and Republicans dropped the provision in conference. In the face of opposition by the Department and others, Republicans also dropped misguided "deeming" provisions that would have unwisely reduced the eligibility of legal immigrant students for student financial assistance and their ability to contribute to the U.S. economy.

II. Expanding Access to College and Improving Services for Students and Postsecondary Institutions

Expanding Access to College

Because the challenges of today's economy make education after high school more important than ever, the Department has been working hard to ensure access to postsecondary education for all students. In order to help students and their families pay for college, the Department has focused on two major efforts: creation and implementation of the Direct Loan program, and increases in funding for the grant, loan, and Work-Study programs that comprise federal student financial aid.

Direct Loans

The **Direct Loan** program, proposed and signed into law by you in the **Student Loan Reform Act of 1993**, has revolutionized federal student loan delivery by providing borrowers and participating schools with a simple, more automated and accountable system while saving taxpayers billions of dollars. In this, its third successful year, the program will provide $10 billion in loans at over 1,600 schools. More than 2.1 million student and parent borrowers have received direct loans since the program began. During the 1996-97 academic year, it is expected that Direct Loans will make up approximately 36 percent of federal student loans.

The Student Loan Reform Act has resulted in savings for students who borrow under either of the federal student loan programs. Borrowers who have direct loans can better manage their student loan debt by repaying loans as a percentage of their income under the pay-as-you-earn repayment plan, one of a range of repayment options available through direct lending. This income-contingent option helps students to choose the careers they want.

Even the millions of students who borrow through the Federal Family Education Loan (FFEL) program benefit from the Direct Loan program. The competition and choice created by Direct Loans have forced the FFEL industry to improve its services to students, and savings generated by reductions in government subsidies to banks and middlemen in the FFEL program are passed along to all borrowers in the form of lower fees and interest rates.

Increased Aid Available to Students

The Administration has striven to increase funding for student financial aid programs. Aid available to students increased by $10 billion between 1993 and 1995 -- an impressive increase of 40 percent. With the enactment of the fiscal year 1997 appropriations bill, aid available to students will increase by an additional $3.6 billion for a record total of $36 billion benefiting an estimated 7.7 million students in 1997.

Pell Grants are the most important form of student financial aid for the nation's neediest students, but appropriations that have not kept pace with inflation have seriously eroded the grants' purchasing power. To address this problem, you have called for increases in the Pell Grant maximum award, to reach $3,128 by the year 2002. Toward this end, you requested and won an increase in the Pell Grant maximum award from $2,300 in 1993 to $2,700 in fiscal year 1997. Pell Grants will provide a total of 3.8 million low-income students the opportunity to attend college in fiscal year 1997. This increase will also assist 126,000 more students than in 1996 to receive a postsecondary education.

The Administration also is committed to the **Work-Study** program and has proposed incremental annual funding increases so that one million students will be served by the program by the year 2000. Work-Study earnings complement grant and loan assistance. The amount appropriated for this program increased from $583 million in 1993 to $830 million in 1997 -- and because this federal commitment leverages additional funds from schools, more than one billion dollars in financial aid will be available in 1997 to an estimated 960,000 students through the program.

Ensuring access also requires additional support for at-risk students, encouraging them to apply to college and complete their educational programs. For this reason, the Administration has pushed for increased funding for federal **TRIO** programs; in FY 97, these programs won an increase of $37 million. The $500 million appropriation will permit institutions of higher education and other organizations to provide outreach and support services as well as information about postsecondary education opportunities, to approximately 685,000 low-income and first-generation college students.

In addition, the Administration played a key role in preventing changes in the student financial aid programs that would have eroded access. The Department vigorously opposed proposals in Congress that would have eliminated the in-school interest subsidy for student loan borrowers;

eliminated the six-month grace period; imposed a fee on colleges based on their student loan volume; and eliminated a large number of students from the Pell Grant program.

Decreasing Loan Defaults and Improving Student Financial Aid Services Through Better Program Management

Loan Servicing and Default Collection

In addition to expanding access, the Administration has made a commitment to improving services to students and postsecondary institutions through better management of student financial aid programs in a number of key areas. For example, the Department has transformed its loan servicing and collection efforts. Since the start of the Administration, the Department of Education has doubled total defaulted loan collections to $2.5 billion in fiscal year 1996.

Reengineered Institutional Oversight

The Department also has refocused its oversight of the postsecondary institutions that participate in the student financial aid programs. At the heart of this effort is the reorganization of the Office of Postsecondary Education's Institutional Participation and Oversight Service (IPOS) into regional case management divisions. These divisions are responsible for all core oversight functions for their respective portfolio of schools. The reorganization will allow the Department to monitor schools' compliance with requirements of the student financial aid programs more efficiently while relieving administrative burden on schools.

Removing Ineffective Schools from Student Financial Aid Programs -- and Cutting the Default Rate by Nearly One-Half

As a result of the Department's efforts to target its monitoring resources on schools that pose the greatest risk to students and taxpayer funds, a total of 672 institutions have lost eligibility to participate in Title IV programs, with 381 institutions having been terminated from all Title IV programs for poor performance and 291 institutions having lost their eligibility to participate in the student aid programs through the on-going recertification process. In addition, 203 institutions are no longer eligible for participation in the loan programs because of high default rates. These aggressive accountability and oversight efforts remove ineffective schools from the student financial aid programs, both protecting students and ensuring accountability for taxpayer funds.

The Department's efforts, along with new statutory controls and lender and guarantor efforts, have cut the student loan default rate by nearly *one-half*, from 22.4 percent in FY 90 to 11.6 percent in FY 93. The rate is expected to be even lower for FY 94.

Cutting Red Tape -- Experimental Sites

The Department also has made a concerted effort to reduce the administrative burden on institutions. Under the Department's Experimental Sites initiative, over 600 experiments have been approved at 135 higher education institutions. These projects exempt schools from certain regulatory and statutory requirements so that they can innovate to better meet their students' needs without sacrificing accountability. These experiments not only reduce the burden on participating schools, but also will be used to evaluate how the Department might monitor institutions of higher education more flexibly in the future.

Improved Systems for Greater Efficiency and Accountability

The Department's use of the latest technology further improves services for students and schools in the federal financial aid programs. The National Student Loan Data System (NSLDS) is in the final stages of implementation, providing schools and the Department with information in an electronic format on student aid recipients. Schools' jobs are made easier, and improved data integrity helps to prevent fraud, waste, and abuse in the programs. Institutions also receive a number of free EDExpress software packages that allow them to administer the delivery of student aid electronically. The new technology also benefits students, who now can apply for financial aid using Free Application for Federal Student Aid (FAFSA) Express software.

III. <u>Reinventing the Department to Improve Services, Reduce Burden and Save Taxpayer Dollars</u>

Over the last four years, the Department has reinvented itself to improve services and save taxpayer dollars. Since 1993, the Department has reduced its paperwork burden to customers, increased program flexibility, improved customer service and access, created award-winning partnerships, and developed a Department-wide strategic plan. In recognition of our commitment to a government that works better and costs less, Vice President Gore has awarded the Department 10 Hammer Awards since 1993.

<u>Improving Access to Information</u>

The Department has dramatically improved customer access to its programs and materials. 1-800-USA-LEARN, the toll-free, one-stop shopping center, provides information and accurate referrals to approximately 5,000 callers each week. 1-800-4FED-AID, our student aid hotline, will assist over 3 million callers this year. The Department's World Wide Web site provides information to an average of 1.6 million requests each month and has received numerous awards for its useful content and customer-friendly access.

Providing Better Customer Service and Reducing Burden

Reducing the Burden of Regulation and Paperwork

The Department recognizes that serving customers better requires reducing regulatory and paperwork burdens. As part of the your Regulatory Reinvention Initiative, the Department committed to eliminate or reinvent 93% of all its regulations. The Department has already exceeded that ambitious goal by eliminating 39% and reinventing 55% of its regulations -- a total of 2,031 pages. By consistently applying a set of strict "Principles for Regulating," and consulting extensively with customers, the Department of Education has made significant practical changes that reduce requirements on school districts, state education agencies, colleges, student borrowers and their families, and grant applicants.

The Department has also cut more than 10% of the information collection requirements that were in place just a year ago. This translates into *5.4 million* fewer hours for schools, students, parents, states and other customers to complete required forms to get student loans, apply for education grants, or manage student aid systems.

Grants Reengineering

The Department is streamlining its discretionary grants process by eliminating unnecessary requirements and improving the timeliness of grantee notification. When fully implemented, this reform is expected to reduce the number of steps needed to make a discretionary grant by 50 percent, cut the processing time by 25 percent, and reduce the notification time by two to three months.

Improving Management and Efficiency

Improving Financial Management and Technology Systems

The Department is improving key financial management and technology systems. The Education Department Central Automated Processing System (EDCAPS), when completed, will serve as a central repository for all Department business transactions, providing single input of data and fast, easy access to information. The Monthly Electronic Expenditures Reporting System (MEERS), our new system for electronic filing of cash expenditures, eliminates manual and mail transfers of forms and provides accurate and timely data to more than 1,800 of the largest states and universities. FedWire automates the payment process to allow states, universities and large colleges access to the Education Payment Management System online, enabling customers to view their account history and balances, request payments, and edit or view payment requests up to 30 days in advance.

Increasing Employee Productivity

A new 360-degree performance appraisal system, linked to the Department's strategic plan, provides feedback on employee performance from customers, co-workers, and subordinates. In addition, the Department has reduced the average hiring time from 113 days to 61 days, increased the funding and quality of employee training, and made family-friendly and flexible workplace arrangements available to employees.

AGENDA FOR THE SECOND TERM

Building on the accomplishments of the first term, and your bold agenda for the future, we will use the next four years to make it possible for all Americans to acquire the education and skills needed for the 21st century.

We will help states and communities to make their schools safer and more engaging for students, places where skilled teachers teach world-class material, where technology expands learning opportunities, and where parents are more involved in their children's education.

We will also help students and their families realize their dreams of a college education, and continue their learning to develop new skills.

We will vigorously carry out your agenda to improve the teaching profession, make schools safer and fight drugs, support families and increase parent and community involvement, provide more choice in public education, assist students to make the transition from school to careers, and expand access to postsecondary education.

Four years from now, this Administration's legacy in education will be a nation in which many more children can read independently by third grade; a nation in which students are learning to clear, high academic standards; a nation in which schools are connected to the benefits of technology; and a nation in which Americans who are willing to work for it can go to college and can receive the training and skills needed over the course of their lifetime.

I. Helping Students Master World-Class Skills

Helping Every Child Read by Age 8

Today, 40% of American 4th graders cannot read as well as they should; until children master this essential skill, they will not meet their full potential as students and citizens.

In August 1996, you announced your **America Reads** challenge to ensure that all children can read independently and well by the end of 3rd grade. You called on all Americans -- parents, teachers, libraries, religious institutions, universities, college students, the media, community and national groups, business leaders, senior citizens -- to become the frontline troops in the battle to meet this challenge.

As part of this challenge, the new initiative will help mobilize one million tutors -- America's Reading Corps -- to provide individual attention to more than 3 million young children before and after school, during the summer and on weekends. It also will offer "Parents as First Teachers" grants to support effective and proven efforts that help parents help their children learn to read and expand Head Start to one million children in FY 2002. This new "America

Reads" initiative also builds on Administration efforts to work with the private sector in helping parents help their children learn to read, such as the Partnership for Family Involvement in Education and the Read*Write*Now! coalition. In your recent call for 100,000 college Work-Study slots for reading tutors, you moved to provide a unique opportunity for college students to serve their communities. Finally, strengthening Title I, bilingual, and special education programs to improve reading during the school day will also be part of our efforts to meet your reading challenge.

Raising Standards -- Challenging American Students

As the recent results of the Third International Math and Science Study (TIMSS) underscore, the nation needs genuinely challenging state or local standards that translate into rigorous curricula, better professional development, and improved teaching and learning in the classroom. With the legislative framework of Goals 2000 and the reauthorized Title I in place, as well as solid FY 97 funding levels in federal elementary and secondary programs, the Administration is in a strong position to work even more closely with states and school districts to accelerate the process of **raising academic standards** in core subjects.

In order to ratchet up the pace and quality of reforms, the Department will take advantage of the opportunities presented by Goals 2000 and the reauthorized Title I, strongly encouraging states and school districts to take a critical look at the quality of their standards and assessments, and making resources available to states and districts that wish to compare their standards and assessments with outside benchmarks of excellence. In addition, the Department, working with the National Science Foundation and other partners, will sponsor a high-profile series of forums across the country designed to familiarize officials, educators, and the public with the findings and implications of TIMSS, especially with regard to improving math achievement. The Department will work with you and the Vice President to use the bully pulpit, encouraging parents, educators, the business community, state and local leaders, and the public to demand high expectations for students, matched with challenging curricula and teaching -- and an end to watered-down courses.

Expanding Public School Choice and Charter Schools

The Department will work with states, school districts, and potential charter school developers to encourage the continued expansion of accountable public **charter schools**, moving toward your goal of 3,000 such schools by the year 2000. We will actively take advantage of increased funding for the public charter school program, supporting local efforts to create high-quality charter schools. The Department will also sponsor a series of regional conferences for charter school developers, a World Wide Web site, and a number of guidebooks related to charter schools. In addition, the Department will work to familiarize the public with other **public school choice** strategies, such as schools-within-schools, magnet schools, open enrollment and postsecondary options, consistent with your call for all families to be able to choose what school their child will attend.

Fostering Better Teaching

To help speed the pace of improvements in classroom teaching, the Department will actively respond to your directive on Promoting **Excellence and Accountability in Teaching**, helping states and school districts to recruit, train, and retain talented teachers, and remove incompetent or burnt-out teachers from the classroom quickly and fairly. We will urge colleges and universities to reinvent teacher training and urge states to strengthen teacher licensing. The Department will continue its support for the National Board for Professional Teaching Standards, helping to Board-certify 100,000 high-quality teachers. We will disseminate to school districts, colleges, and states resources and information that can be used to meet your directive.

II. Helping Communities Develop 21st Century Schools

Helping Every Child Log on to the Internet by Age 12

In February 1996, we proposed a five-year, $2-billion **Technology Literacy Challenge** fund that would support efforts at the state and local level to provide every student with modern computers, high-quality educational software, trained teachers, and connections to the Information Superhighway. $200 million has been appropriated for fiscal year 1997. The fund will encourage and leverage efforts by states, communities, and the private sector to work in partnership with schools.

The FCC has until May 1997 to develop rules for implementing the recommendations of the Joint Board for an affordable **E-rate** for schools and libraries. The Department will continue to provide input to the FCC and other parties on implementation of the E-rate.

The Department will also continue to support grassroots **NetDays** to connect classrooms to the Information Superhighway. The next National NetDay effort is scheduled for April 1997.

School Construction

You have proposed a $5-billion **school construction initiative** to construct new schools, repair or renovate existing schools, provide physical infrastructure necessary for computers and other educational technology, and help school systems meet the challenges of record-high student enrollment. This initiative would provide $5 billion in federal funds to help schools and communities renovate existing schools and construct new ones. The federal funds would pay for up to half the interest that local school districts incur on school construction bonds. Over the four-year life of the initiative, $20 billion in construction and renovation activity could be generated nationwide for a 25% increase in construction activity over current levels. As proposed, the states would administer the bulk of the subsidies, and approximately 100 of the largest school districts would be able to apply directly to the Department for funding.

Your school construction initiative is especially timely, considering the growing needs of America's schools. The Department has released a major report on the "Baby Boom Echo," which alerted the nation to the record-breaking number of students in our nation's classrooms. Today, there are 51.7 million students, and the number will continue to grow throughout the next 10 years. The report noted that the nation will have to build over 6,000 more schools, triggering a wide-ranging public discussion about how to meet the challenge.

Increasing Options for Moving from School to Careers

By the fall of 1997, almost every state will have developed comprehensive plans to build **school-to-work** systems and will have received their five-year grants. These grants will be used as venture capital to begin the development of school-to-work systems that are available to all students. However, these funds cannot support the full implementation of school-to-work systems. The support of state and local education funds, and the support and participation of the business community, will be vital. At the same time that school-to-work systems are expanding, states must ensure the quality of these systems. The federal government, through the national school-to-work office, has a key role to play by providing technical assistance and building national support for the initiative.

Vocational Education -- Reinforcing Access to School-to-Work Opportunities for All Students

The Perkins Act is the primary source of federal support to secondary schools and postsecondary institutions for vocational education. The Administration's proposal to reauthorize the Perkins Act will expand access to School-to-Work systems for all students. The proposal is driven by three themes: program consolidation, flexibility, and accountability. Funds would be targeted to schools and postsecondary institutions that serve large numbers of disadvantaged students.

III. Strengthening the Best of Our American Values and Traditions in Education

Keeping Schools Safe and Drug-Free

The Department will continue its efforts to make the **Safe and Drug-Free Schools and Communities Program** more effective and provide adequate resources to local school districts. As part of this effort, we are distributing to school districts a guide to promising strategies to help them run safe, disciplined, and drug-free schools. The Department will also hold one of its Satellite Town Meetings on successful practices in this area.

Keeping School Open in the Afternoons and Summers

The Department will support a new initiative to provide additional safe havens and extended learning opportunities for children and their families. The initiative will help highlight how after-school, summer and weekend programs in **Community Learning Centers** can get us "back to basics" and foster active community involvement. Community Learning Centers can offer such services as after-school tutoring, adult education, parenting skills, drug and alcohol prevention, and violence prevention. The initiative will underscore the ties between home, school, and community and how current safety, reading, and learning policies support their success.

Promoting Family Involvement

The Partnership for Family Involvement has grown from 45 national organizations to more than 2,400 organizations representing families, schools, communities, employers, and religious denominations representing 75 percent of church-affiliated Americans. Efforts will be expanded to sign up partners, who will pledge to implement family-friendly practices that encourage greater parental involvement in learning. The Department will also continue efforts to increase the number of employers signing the **"Employers' Promise for Learning,"** particularly by assisting with sign-up events and state and local conferences.

The Partnership will be central to the Department's efforts to increase the number of parents and concerned Americans who are actively involved in their schools. It will also encourage more parents to enter into agreements -- or "compacts"-- with their schools, in which parents define what they want their children to learn. The Partnership can also support a nationwide initiative to help more middle-school-aged students prepare for college through mentoring and community involvement.

Supporting Families in Their Efforts to Find Time With Their Children

You have proposed an **expansion of the Family and Medical Leave Act** to help more parents and family members take an active role in schools and in children's learning. Specifically, family members would be allowed to take up to 24 hours of unpaid leave per year to attend parent-teacher conferences or PTA meetings, volunteer for school activities, take children to the doctor, or participate in other educational or child-rearing activities. Additionally, the Administration has proposed that family members who work overtime be allowed to chose between getting paid an overtime wage or taking time off for family matters. The Department is preparing to disseminate to every public school in America a "how to" guide for school principals and teachers to make their schools family friendly and encourage greater family involvement in education.

Reauthorizing the Individuals with Disabilities Education Act (IDEA) -- Access Plus Higher Quality

The Department's forward-looking **proposal for the reauthorization of the Individuals with Disabilities Education Act (IDEA)** has already influenced the thinking of Congress and the field on the future of special education services and the relationship of special education to regular education. A number of the proposal's major ideas undoubtedly will be reflected in the final legislation. Key principles include: students with disabilities should be included in general assessments and have access to the general curriculum; programs should focus on results and regular reporting to parents; requirements should be streamlined; and funding incentives to inappropriately identify children for special education services should be eliminated. The Department's proposal would improve the teaching and learning of disabled students throughout the U.S. and strengthen programs that will result in meaningful employment of working-age individuals.

III. Widening Access and Improving Services in Postsecondary Education and Lifelong Learning

Ensuring Students Can Attend College at 18 and Providing All Americans with Opportunities to Improve Their Skills

HOPE Scholarships and Tuition Tax Deductions

Your proposed **America's HOPE Scholarships** would guarantee that a college education is accessible and affordable to all Americans at any time in their lives. The HOPE Scholarship would make at least two years of college the standard for all Americans by providing a refundable tax credit of up to $1,500 to full-time, first-year postsecondary students and to full-time, second-year students who earn at least a B-minus average in the first year. Students who attend at least half-time would receive a $750 tax credit.

The tax credit could be applied to tuition and fees at any college. Students receiving tax credits would also be eligible for other federal student aid, including student loans, Pell Grants, and Work-Study. The maximum tax credit would be limited to $1,500 minus any grants awarded to the student.

You have also proposed a **tax deduction** of up to $10,000 per family for tuition and fees at colleges and other postsecondary institutions for full-time or part-time study. The deduction would be phased in, with a maximum deduction of $5,000 in FY 1997 and 1998, and $10,000 thereafter. Eligibility would be reduced by the amounts of both federal and non-federal student aid grants.

Students eligible for both the tax credit and the tax deduction would choose one or the other, although students benefiting from the tax credit in the first two years would still be eligible for the deduction later. Because the tax proposals are meant to help low- and middle-income students pay for college, eligibility for both the tax credit and the tax deduction would be phased out for joint tax filers with incomes between $80,000 and $100,000 and for individual filers with incomes between $50,000 and $70,000.

Presidential Honors Scholarships -- Rewarding Achievement

The **Presidential Honors Scholarship** program you have proposed further emphasizes the importance of student achievement. This program would award one-year, $1,000 scholarships to the top five percent of graduating high school students in every high school in the nation.

Direct Lending, Pell Grants and Work-Study

The Administration is committed to the **Direct Loan** program because of the flexibility, efficiency, choice and competition that it adds to the federal student loan programs. The Department will further improve Direct Lending to attract more schools to the program.

The Department also will continue its expansion of the **Pell Grant**, **TRIO**, and **Work-Study** programs to further its mission of expanded access to postsecondary education. You have proposed an increase in the maximum Pell Grant to $3,128 by the year 2002 to ensure that all students have the opportunity to attend college. You have also encouraged an increase in Work-Study funding to enable the program to serve one million students by the year 2000. In FY 97, the program received a 35 percent increase in program funding to $830 million. As a result, approximately 960,000 students will find part-time employment and earn more than $1 billion next year. In light of this large funding increase, the Administration is exploring ways to encourage Work-Study colleges and universities to employ more students in community service jobs, including serving as reading tutors for elementary school children.

To increase the amount of federal student aid available to students, and to strengthen the Direct Loan program, the Department is also developing its proposal for **reauthorizing the Higher Education Act.** The programs authorized under the HEA provide a strong foundation of support for higher education. As part of reauthorization, the Department will consider how to make these programs work better and ensure that they complement our other proposed initiatives.

Our reauthorization proposals will encourage access with responsibility shared by students, families, the federal government, states, and institutions; support high standards and high achievement; simplify program delivery and improve management; and improve outreach to potential students and linkages to employment opportunities.

Improving the Student Financial Aid Application Process

The Department is also working to improve the way students and families apply for and receive student financial aid. ***Project EASI*** (Easy Access for Students and Institutions) is a collaborative effort among diverse government, business and education leaders, initiated by the Department, to reengineer the country's postsecondary education financial aid delivery system. *Project EASI* will assist students and their families in planning for education beyond high school, choosing among alternatives and financing their choices.

Adult Education -- Expanding English Literacy to an Older Generation

The reauthorization of the **Adult Education Act** provides an opportunity to establish a core set of objectives for adult education and strengthen state accountability systems while consolidating or streamlining adult education programs. In addition, the proposal will expand the Administration's reading and technology initiatives to include the target populations of adult education programs (including speakers of English as a second language and older Americans).

III. Moving Ahead with Department Reinvention Efforts

Finally, in order for the Department's policy initiatives to fully take root and produce results across the country, we will also forge ahead with our efforts to transform the Department into a high-performance, customer service organization. The Department of Education will continue to enhance its one-stop shopping capabilities and improve customer service, improve its planning for technology, transform its relationship with states, and improve its data collection efforts through increased coordination. In addition, the Department will continue its efforts to consolidate programs, cut paperwork requirements (another 10% in FY 97), make the personnel system more responsive, manage technology systems, and strike the proper balance between providing more flexibility to states with the need to ensure accountability and fiduciary responsibility. Ultimately, the challenge for the second term lies in ensuring that system improvements become lasting and sustainable.

Clinton Presidential Records
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Divider Title: VA

DEPARTMENT OF VETERANS AFFAIRS
Washington DC 20420

DEC 6 1996

MEMORANDUM TO: SECRETARY TO THE CABINET

FROM; CHIEF OF STAFF

SUBJECT: VA ACCOMPLISHMENTS AND PLANS

Attached are the Department of Veterans Affairs accomplishments over the past four years and our plans for the next four years as you requested. Please let me know if you have any questions or would like additional information.

Harold F. Gracey

Harold F. Gracey

Attachment

Department of Veterans Affairs

Accomplishments over the Past Four Years

Improved Customer Service

- Initiated a nationwide campaign – Putting Veterans First – focused on caring, courtesy and treating veterans with the dignity they deserve. Improved customer service by enhancing surveys to measure satisfaction, establishing service standards, improving service to meet expectations, and measuring results.

Veterans Health Care

- Continued to provide high quality medical care to veterans. Both patient satisfaction surveys and other quality indicators, including Joint Commission on Accreditation of Healthcare Organizations scores, demonstrated this accomplishment.

- Obtained landmark reform of veterans' health-care eligibility authority allowing more simplified and rational rules and more effective and efficient delivery of health care.

- Began transitioning from a largely inpatient-focused health care system to an outpatient system. By using most efficient and appropriate clinical practices and state of the art technology, increased ambulatory surgeries and invasive procedures from less than 5 percent to 52 percent of potential; decreased average inpatient operating beds 29 percent (from 66,664 to 47,336) and staffing 5 percent (from 204,489 to 195,153); while increasing outpatient visits 22 percent (from 22.8 to 27.8 million) and the number of unique users 7 percent (from 2.7 to 2.9 million.)

- Initiated major organizational and functional restructuring of VA's entire health care system. Established 22 Veterans Integrated Service Networks designed to decentralize decision making to the local level, emphasize patient-centered care, and better coordinate services, resources, and planning. Integrated 31 facilities into 15, thereby streamlining operations and eliminating duplication of services.

- Established a specific strategic plan (*Prescription for Change*) and planning process with a comprehensive performance management system to move toward becoming a performance-based organization and allow both measurement of progress and tools/incentives to direct the course of the system. The results were published for the first time for FY 1996.

Veterans Benefits

- Completed a Business Process Reengineering study of claims processing and began to improve service, increase reliance on technology, and work closer with veterans, veterans organizations, and DoD. Improvements included reducing original claims processing time 12 percent (from 166 to 144 days), and pending caseload by 36 percent (from 535,135 to 342,683.

- Conducted extensive outreach to advise 1.6 million veterans holding high interest rate mortgages of the opportunity to refinance their loans at lower interest rates and at little or no cost -- since 1994, more than 100,000 veterans refinanced their mortgages and saved an average of $14,760 over 10 years.

- Increased the number of disabled veterans attaining suitable employment through vocational rehabilitation 103 percent (from 3,636 in 1993 to 7,395) and in the Loan Guaranty program, reduced the number of foreclosed properties on hand by 37 percent (from 13,755 to 8,624.)

- Consolidated education program claims processing to four sites, achieved a 19 percent reduction in required resources and redirected the saved resources toward the compensation and pension workload.

Maintaining VA's National Cemeteries

- Acquired 2,426 acres for construction of new national cemeteries in Chicago, Seattle, Dallas, Cleveland, and Albany and acquired hundreds of acres of land to keep open well into the next century 12 national cemeteries that would have closed.

- Automated burial records to reduce paper records, provide a centralized data base and allow cemeteries to redirect staff to direct service.

Persian Gulf Veterans Assistance

- Provided a broad range of services at VA facilities to more than 200,000 Persian Gulf veterans and compensated chronically-disabled veterans with undiagnosed illnesses that became disabling within two years after Gulf service.

- Participated in the Persian Gulf Veterans Coordinating Board to review and make recommendations on clinical research and compensation issues related to war service in the Gulf region and to assess and coordinate activities which VA, DoD, and HHS established to respond to the needs and concerns of Persian Gulf veterans. President Clinton designated VA lead agent for Gulf War research.

- Established three environmental hazards research centers as major focal points for Gulf War veteran health studies and conduct a variety of interdisciplinary research exploring the health effects of possibly toxic exposures. Another center is being established to research the reproductive risks of military service, including service in the Persian Gulf. Completed a two-year mortality study of Persian Gulf veterans.

- Awarded a contract to the National Academy of Sciences, jointly funded by VA and DoD, for an independent review of existing scientific and other information on the health consequences of Gulf operations.

- Enhanced communications with Persian Gulf veterans by creating an 800 number helpline, public service announcements, an Internet homepage, a newsletter, and a series of town hall meetings.

Environmental Hazards

- Awarded disability payments to Vietnam veterans suffering from prostate cancer and peripheral neuropathy, respiratory cancers (lung, larynx and trachea), multiple myeloma (a cancer involving the bone marrow), Hodgkin's disease, and porphyria cutanea tarda (a liver disorder) based on presumed exposure to Agent Orange and other herbicides. Gained authority to ~~provide, beginning~~ in FY 1998, compensation, health care, and vocational training to Vietnam veterans' children who suffer from spina bifida.

- Conducted an aggressive search for veterans involved in mustard gas tests and broadened eligibility standards for presumptive service-connected disability compensation for veterans who experienced full-body exposure to mustard gas and Lewisite.

- Provided compensation to former prisoners of war who had a nutritional deprivation while in service that caused wet beriberi and who later develop ischemic heart disease.

Women Veterans Care

- Established the Center for Women Veterans to advise the Secretary on all matters affecting women veterans.

- Funded 23 full-time women veteran coordinators and established eight comprehensive health centers and four stress-disorder treatment teams for women veterans, as well as a national counseling program for sexual assault victims. Created four academic medicine fellowships in women's health. Forty six VA medical centers now have mammography units.

- Established collaborative relationships with the Department of Health and Human Services and other federal agencies to assure women veterans' issues are incorporated into the national agenda on women.

Homelessness Among Veterans

- Increased funding for VA homeless assistance programs from $32 million to $76 million. Awarded 84 grants to public and private non-profit groups totaling $17.5 million to develop or expand homeless veterans assistance programs.

- Hosted the first National Summit on Homelessness Among Veterans. Provided support to over 75 service and assistance "stand-downs" nationwide.

Minority Veterans

- Established the Center for Minority Veterans to advise the Secretary on all matters affecting minority veterans. Identified over 300 facility coordinators to assist the Center in major outreach initiatives. Established a 15-member Advisory Committee on Minority Veterans to evaluate the effectiveness of VA programs and services in meeting the needs of minority veterans.

- Established collaborative relationships with the Bureau of Indian Affairs, Department of Labor, Department of Defense and Public Health Service to ensure minority veterans' issues are properly addressed by federal agencies.

- Translated the "Federal Benefits for Veterans and Dependents" handbook to Spanish and posted it on VA's Home Page on the World Wide Web.

Partnering with Stakeholders

- Enhanced participation of veterans organizations in Department decision making.

- Established an Interagency Veterans Policy Group to provide veterans input and direct communication with the Domestic Policy Council and included veteran's interests in White House Conferences on Aging and Small Business.

- Included the leadership of a number of veterans service organizations on four major fact-finding trips to Vietnam regarding resolution of MIA/POW issues.

- Established mechanisms at the Veterans Integrated Service Network level for seeking advice from and providing information to stakeholders.

Plans for the Next Four Years

Improve Customer Service

- Make service for veterans and their families "5-star" by identifying and benchmarking against the "best in business," developing plans to match their service, surveying veterans, refining service goals and standards, measuring performance, and integrating customer service into the planning, budgeting, and planning processes.

- Establish an on-line, interactive system providing a wide range of services including: applying for benefits, scheduling clinic appointments, and checking the status of payments, claims or appeals using the Internet. Promote Internet access for veterans without computers at veterans organizations' local posts and chapters.

- Automate over 2,000,000 historical records of interment in national cemeteries to provide families and visitors access through use of kiosks and multimedia technology.

- Continue to monitor and improve service to women and minority veterans.

Establish an integrated, customer-focused, strategic management and planning process.

- Fully integrate the Government Performance and Results Act (GPRA) into the infrastructure of operations and program management and in the management, planning and budgeting processes.

Meet the Needs of Veterans of the Persian Gulf and Future Hot Spots

- Continue to provide needed health care and benefits and resolve the issues relating to the health of Persian Gulf veterans and their families. Complete a national survey to determine the prevalence of symptoms and health status of Persian Gulf veterans and their families and conduct an international scientific symposium of multi-disciplinary experts on health effects of low-level exposure. Continue a long-term mortality study of Persian Gulf veterans.

- In collaboration with both other governmental (DoD, HHS) and non-governmental entities, establish a proactive approach to identify and anticipate the unique needs of veterans of future "hot spots" such as Bosnia, Haiti, Somalia, and Zaire and provide and coordinate required health care and other services in a timely and responsive manner.

Introduce Major Service Improvements

- Improve claims processing by using Business Process Reengineering to: improve quality, timeliness and efficiency of service; increase reliance on technology; and work closer with veterans, veterans organizations, and the Department of Defense. Refocus the mission of the Vocational Rehabilitation program to emphasize employment of severely disabled veterans.

- Fully implement health care eligibility reform and complete the restructuring of the VA health care system, continuing to move, where clinically appropriate, from inpatient care to outpatient and primary care. Base capital funding on strategic planning and focus construction funding on outpatient services and improvements to patient environment and functional deficiencies. Focus medical research on problems prevalent among veterans, i.e., prostate cancer.

- Continue to address homelessness among veterans.

Improve Cost/Management Efficiencies

- Complete the restructuring of VA health care through integrated service networks, continue implementation of an equitable resource allocation, ensure that limited funds are used to care for the greatest number of the nation's veterans having the highest priority for VA healthcare services, and to effect a method of distributing funds that aligns system-wide management and operational incentives with the "best practices" in healthcare. Continue to expand and use performance measures to ensure provision of high-quality, cost-effective health care.

- Continue to seek legislative authority for reimbursement from Medicare and expand other revenue sources to reduce reliance on appropriated funds.

- Strengthen cooperation between the VA and DoD health care systems, including joint venture facilities, by enhancing the integration and sharing of services.

- Continue to streamline VA's workforce by improving supervisory ratios, reducing headquarters, and decreasing management overhead and control positions.

Be an Employer of Choice

- Improve employee working environment by delegating authority to lower levels, surveying employees, becoming a "learning organization," and establishing a VA University.

- Complete reengineering of VA's human resource and payroll service delivery and implement a new payroll and information system.

- Enhance union-management relationships by increased reliance on partnership councils and agreements and maximized use of alternative dispute resolution techniques.

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Divider Title: EPA

THE ADMINISTRATOR

MEMORANDUM TO THE PRESIDENT

SUBJECT: **Accomplishments and Challenges**

ACCOMPLISHMENTS

The Clinton/Gore Administration has made enormous strides in protecting public health and the environment over the past four years. Most importantly, after twelve years of Republican control of EPA that ranged from benign neglect to downright abuse of the public trust, you and the Vice President have reinvigorated EPA and made it relevant to and a significant tool in the work of protecting the health of the American people. And you proved that vigorous public health and environmental protection goes hand in hand with a strong economy.

More specifically, we have had major successes in protecting public health through protecting the air we breathe, the water we use and the land we live on. We have done so while working to change fundamentally the way EPA does business. We are moving from the command and control structure that has made enormous progress over the past twenty-five years -- but which has in many ways reached the end of its useful life -- to a system that reaches for cleaner, cheaper and smarter results.

Over the past two years, this work has progressed in the face of a full-scale frontal assault by Congress on public health and environmental protection. By standing firm in the face of these generally partisan attacks, you protected the Agency from the most serious effort to inhibit our ability to do our job for the American people in EPA's 26-year history.

Cleaner Air

Since 1993, the Clinton/Gore Administration has moved aggressively to reduce industrial emissions of toxic air pollution. These actions will reduce toxic air pollution by more than 1.6 billion pounds each year.

- We issued a safeguard that will reduce by 90 percent the toxic air pollution emitted from chemical plants.

Particularly notable are our efforts to protect our communities from toxic air pollution.

- In November 1995, we took action to strengthen air standards for municipal incinerators, which will cut dioxin emissions from these facilities by 99 percent. It will reduce other dangerous air pollutants such as mercury, lead and acid gases, resulting in an emissions reduction of 145,000 tons per year from these incinerators.

- This year we took action to control emissions from solid waste landfills. This action will cut by half landfill emissions of smog-forming and toxic air pollutants. It is the smog-fighting equivalent of removing 3.5 million cars from the road.

- We also proposed this year the toughest ever standards for controlling pollution from hazardous waste burning incinerators and cement kilns. These facilities burn 80 percent of the hazardous waste combusted each year in America. These proposed standards would result in 98 percent reduction in dioxin and furan emissions and a 95 percent decrease in lead and cadmium emissions. This would protect the more than 53 million Americans who live in the same county as a hazardous waste combustion facility.

Cleaner Water

Your leadership has led to the first fundamental changes in our nation's drinking water law in nearly a decade. You stood firm against congressional efforts to roll back drinking water protection and Congress ultimately adopted provisions that the Administration had championed for three years. These changes will streamline the way we regulate drinking water contaminants, will allow us to better protect drinking water sources, and will provide much-needed funding to communities for improving their drinking water systems.

- EPA worked with the State of New York, the City of New York and others in developing a watershed protection agreement that will protect the upstate drinking water sources that serve 9 million New York City residents. This comprehensive watershed protection plan, announced in September 1996, will allow New York City to protect its drinking water without the need for expensive filtration systems.

The Administration also successfully opposed a Republican congressional rewrite of the Clean Water Act that would have rolled back over two decades of improvement in water quality. While turning back these onerous changes, we have also achieved a number of accomplishments in protecting water quality under the current law.

- Over the last four years, the Clinton/Gore Administration has proposed or made final standards that will prevent close to a billion pounds per year of pollution from entering our nation's water and city treatment systems. More than 16 million pounds per year of these pollutants are toxic.

- This Administration acted to protect the Great Lakes from toxic pollution. For the first time, all of the Great Lakes will have consistent, cost effective environmental standards. State implementation of the Great Lakes program will help protect 23 million people who depend on the Great Lakes as a source of drinking water.

- Breaking the gridlock of more than a decade, the Agency negotiated a consensus plan to protect the San Francisco Bay Delta, which provides drinking water to two thirds of Californians and irrigation for 45 percent of

American fruits and vegetables.

Cleaner Land

The Clinton Administration has done more than any other administration to improve the Superfund toxic waste cleanup program -- both administratively and legislatively. You called for legislative reform for the Superfund program, but did not yield when special interest lobbyists tried to turn the program away from the principle that the polluter should pay. The Clinton/Gore Administration has fundamentally redirected Superfund to make it faster, fairer and more efficient for the protection of the one in four Americans who live near a toxic waste site.

- Eleven thousand small businesses and individuals have been shielded from Superfund liability.

- Cleanups have been dramatically accelerated. This Administration has cleaned up more sites than were cleaned up by all previous administrations. Clean up costs and clean up times have both been reduced by approximately 20 percent.

The Clinton Administration has also made the Superfund program more than just an important effort to protect public health -- it has also become a vital tool in revitalizing our communities. For too long, brownfields -- abandoned, contaminated industrial and commercial properties in urban areas -- sat unused in our cities, hurting both the economy and the environment. The Administration's Brownfields Action Agenda is helping renew our cities.

- More than 24,000 sites have been removed from the Superfund inventory. Financial institutions are wary of loaning money for sites on the inventory because of concerns about potential liability. This action helps to clear the way for redevelopment and reuse of such sites.

- EPA is making grants to cities for site assessment and clean up of brownfields properties. Brownfields pilot cities commit to seeking developers to restore abandoned sites to new uses, thereby creating jobs, economic growth, increased property values and tax revenues. The effort will also protect the environment by encouraging development on existing sites rather than in undeveloped areas.

- EPA is working with community colleges in cities with brownfields properties to help train students to do environmental work.

Other Accomplishments

Community Right to Know

- You strengthened and expanded the public's right to know about local pollution by requiring federal facilities and government contractors to report on chemical releases.

- The Agency nearly doubled the number of chemicals the release of which must be reported under the Community Right to Know law, increasing the citizens ability to inform themselves about pollution in their neighborhoods.

- EPA also expanded the number of facilities that must report their toxic releases by 30 percent.

- EPA launched a new labeling and disclosure program to help consumers use household products safely and to protect them against lead paint hazards.

Food Safety

- The Administration successfully negotiated with Congress a new food safety law that is more protective of our food supply and includes special considerations to protect the health of children. The law basically embodies the proposals you put forth over three years ago.

Reinvention

The Clinton Administration moved beyond the one size fits all environmental rules of the past to achieve the very best protection of public health and the environment at the least cost. With an effort known as *Reinventing Environmental*

Regulation, EPA is strengthening the environmental protection system to meet the challenges of the future and solve the problems of today. Announced in March 1995, the program includes 25 specific priority actions for common sense strategies to protect public health and the environment.

- The Common Sense Initiative provides a sweeping effort to regulate environmental protection on an industry-by-industry basis, rather than pollutant by pollutant. EPA established six stakeholder groups of industry, environmentalists, federal, state and local governments, labor, environmental justice and others around six industries (automobile manufacturing, computers and electronics, iron and steel, metal finishing, petroleum refining and printing) to seek consensus-based approaches to environmental regulation that are cleaner, cheaper and smarter. These industry sector groups are working on dozens of pilot projects.

- Project XL -- for excellence and leadership -- invites regulated entities to demonstrate leadership by developing common sense, cost effective strategies for achieving greater environmental results than current law and regulations require.

- EPA is making changes to more than 70 percent of its regulations and is working to eliminate 1,400 pages of obsolete rules -- some 10 percent of the total. The Administration has already eliminated more than 10 million hours of paperwork and red tape for businesses seeking to comply with environmental laws.

- The Administration initiated a Common Sense Compliance Policy for Small Businesses in June 1995. The policy allows the waiver of penalties for first time violators if the business comes forward to find and fix the problem. Small businesses receive a 180 day grace period to correct violations without penalty as long as the violation is not criminal, does not create a serious environmental threat and the company has made a good faith effort to comply.

Attacks on Environmental Protection

Because of your willingness to stand firm against congressional attempts to roll back 25 years of bipartisan support for environmental protection, severe damage to the Agency and the statutes we enforce has been avoided.

- We avoided proposed cuts in our budget as large as one third, with even larger cuts proposed for specific programs such as enforcement. Instead, our budget has remained level and we will soon propose to the Congress increases in that budget.

- We similarly avoided a number of congressional riders that would have inhibited our ability to do the job the American people expect.

- We avoided a rewrite of the Clean Water Act that would have rolled back environmental protections that have been in place for decades.

- Because the Administration held firm, the Congress ultimately abandoned bad drinking water and food safety legislation and adopted proposals in line with what you had been proposing for over three years.

- The Administration's Superfund proposal came close to passage in the 103rd Congress and was supported by an unprecedented coalition ranging from the Sierra Club to the Chemical Manufacturers Association. By holding firm against the Congress, we have been able to stop congressional proposals to turn our backs on the polluter pays principle of Superfund.

<u>GOALS FOR THE NEXT FOUR YEARS</u>

EPA plans to build on the excellent base established by you and the Vice President over the next four years. Our plans include a number of important rules, legislative initiatives, and continued attention to reinvention. When you made this request to us for this memorandum, I scheduled a meeting of the senior political leadership at EPA so that we could finalize and commit to our goals for the coming years. That meeting will take place next week, and at the conclusion of that meeting, I will discuss those goals in another memorandum to you.

Carol M. Browner

Carol M. Browner

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Divider Title: UN

MEMORANDUM FOR THE PRESIDENT

FROM AMBASSADOR ALBRIGHT

SUBJECT: First Term Accomplishments, Second Term Goals

Summary.

During your first term, we were able to use our participation and leadership at the UN to advance significant national security interests, promote American values, share the costs and risks of responding to emergencies, and begin the process of preparing the organization for the 21st century.

The efforts of the mission focused on four areas:

• **U.S. security interests**: Approval of Comprehensive Test Ban Treaty and extension of Nuclear Non-Proliferation Treaty; maintenance of Iraq and Libya sanctions; reform of UN peacekeeping.
• **Democracy and U.S. values**: Support for restoration of democracy to Haiti; support for War Crimes Tribunals; condemnation of Cuban shootdown of civil aircraft.
• **U.N. Reform**: Progress on financial and management reforms; election of a new Secretary General; working with Congress to pay UN bills.
• **Global issues**: Creation of UN High Commissioner for Human Rights; progress towards ban on landmines; and strengthening international norms on terrorism, sustainable development and other matters..

Second term priorities will build on these accomplishments. We will continue to use our position on the Security Council to advance and protect our interests in the Persian Gulf and elsewhere. We will continue to use the tool of UN peacekeeping in circumstances where it is appropriate to do so. We will proceed to next steps on the implementation of arms control agreements and seek to negotiate a ban on anti-personnel landmines. We will press ahead with our agenda for far-reaching UN reform. And we will seek to move the international community from the stage of articulating consensus goals through the means of international conferences to a process of prioritizing and implementing those goals.

Over the next four years, we can expect that the role of the UN in U.S. foreign policy will remain a subject of controversy both domestically and internationally. Congressional support for paying past and future UN bills is essential if we are to maintain our influence and succeed in gaining support for our reform agenda. However, that support depends in large measure on whether further progress towards UN reform is achieved. If our policies are to prosper, we will need to undertake a concerted, high-level effort to transform this potential deadlock into a "win-win" arrangement, in which reforms are made and arrears are paid.

ACCOMPLISHMENTS AND OBJECTIVES

U.S. SECURITY INTERESTS

Arms Control. The Comprehensive Test Ban Treaty (CTBT) and the Nuclear Non-Proliferation Treaty (NPT) are the foundation of our global effort to limit nuclear weapons. In September 1996, you signed the CTBT, taking the second step envisioned by President Kennedy when he signed the Limited Test Ban Treaty in 1963. In 1995, the General Assembly overwhelmingly and unconditionally extended the Nuclear Non-Proliferation Treaty (NPT). The latter achievement resulted from an intensive campaign in the General Assembly that overcame objections from regional powers and the North-South divisions that had crippled the Assembly in prior decades.

A major goal of the next four years will be to bring the CTBT and other UN arms control treaties, especially the Chemical Weapons Convention, into force.

Sanctions. Following the Persian Gulf war, the toughest UN sanctions regime in history was imposed on Iraq. The results have been positive: Iraq's capacity to produce weapons of mass destruction has been dismantled; weapons have been destroyed; the border with Kuwait has been recognized; and there are clear constraints on what Iraq can do to intimidate its neighbors. The effectiveness of these sanctions is directly attributable to their multilateral nature. Here, the value of the United Nations, and the importance of international cooperation in defense of common interests, is clear.

Looking ahead, we are determined to maintain sanctions until we are convinced by Iraq's behavior that it no longer constitutes a threat to international peace and stability. Iraq can demonstrate that by proving--through its compliance with all relevant Security Council Resolutions--that it is no longer an outlaw state. It is highly questionable, given Saddam Hussein's ongoing acts of brutality, venality and deception, that Iraq will ever adequately comply with Council resolutions while the current regime is in power.

We can expect debate during your second term about the proper use and value of economic and weapons sanctions as a foreign policy tool. Sanctions have clearly contributed to our objectives in Iraq, as described above, and in Libya, by keeping the heat on Qaddaffi over Pan Am 103. They also proved helpful in persuading Serbian President Milosevic to sign the Dayton Accords, and placed needed pressure on the illegitimate military and economic elite that had seized power in Haiti following the ouster of President Aristide.

Sanctions have been faulted, however, for their unintended adverse humanitarian impacts, for the inequitable burden that enforcement may place on neighboring states, and for the frequent inability of sanctions--in and of themselves--to achieve a dramatic change in the behavior of target states. Our goal must be to work closely with UN members--as we did in the "oil for food" deal with Iraq--to make sanctions less a blunt intrument and more a carefully-honed instrument of international policy.

Peacekeeping. There was a dramatic increase in the number, size and ambition of United Nations peacekeeping operations during the last year of the Bush Administration and the first year of ours. This trend was fed by early successes in Cambodia and El Salvador, where transitions from bloody civil war to fragile democracy were achieved. By mid-1993, however, it was clear from the troubled situations in Somalia and Bosnia that the new responsibilities given to the UN were outstripping capabilities. You ordered an inter-agency review that resulted in a Presidential Directive on Reforming Multilateral Peace Operations. That initiative has led, in turn, to the adoption of far more rigorous guidelines both by the U.S. and--at our insistence--by the Security Council before new peacekeeping operations are authorized.

During the past two years, UN peacekeeping's batting average has improved noticeably. The operation in Mozambique was successful and has shut down. The UN mission in Haiti is winding down after maintaining the climate of stability established by the multinational force. The preventive deployment of peacekeepers to the Former Yugoslav Republic of Macedonia has achieved its purpose of deterring the spread of Balkans violence. And operations in Angola and eastern Slavonia appear to be on track.

This improved performance is due not only to more rigorous decisionmaking by the Security Council, but also to more professional performance by the UN.

Five years ago, the UN's peacekeeping office consisted of a handful of people--mostly civilians--working nine to five. Today, largely as a result of technical assistance from the U.S. and a few of our key allies (notably Canada and the U.K.), a 24 hour situation center links UN headquarters to the field, a Mission Planning Service helps assure that lessons learned from past missions are incorporated in future plans, and special units focused on training, civilian police, de-mining, logistics and financial management all contribute to an integrated whole.

Because of these reforms, it is less likely than it was a few years ago that the UN will begin new operations it cannot finish. The bad news is that situations will continue to arise that will demand international action of a more rapid and robust type than the UN could ordinarily be expected to provide. As recent events in central Africa bear witness, this will place pressure on the United States to take the lead in assembling, participating in, and financing "coalitions of the willing" to undertake emergency response.

During the next four years, we should plan to make use of UN peacekeeping operations where and when they meet the criteria we have established.

We should continue efforts to professionalize UN peacekeeping so that it can improve its capacity to respond to difficult situations. An example of such an effort is our plan for an African Crisis Response Force to be available to participate in UN missions on that continent.

Finally, we will need to maintain and sharpen our own emergency response capabilities in preparation for whatever contingencies may arise.

DEMOCRACY AND U.S. VALUES

Haiti. Security Council approval of your decision to restore democracy to Haiti helped to gain diplomatic support from regional partners, encouraged multilateral participation in the U.S.-led intervention force and eased domestic Haitian concerns about the presence of foreign troops on Haitian soil. It also paved the way for a follow-on UN mission that permitted the timely withdrawal of U.S. troops.

In your next term, we must continue to encourage an international presence, as needed, to maintain a secure environment within Haiti and thereby allow the construction of durable democratic institutions to proceed.

War Crimes Tribunals. Established and sustained by strong U.S. leadership, the International Tribunals have become important tools for justice and peace. The Tribunals kept indicted Serb leaders out of Dayton and have denied legitimacy to Hutu extremists and others responsible for atrocities. Victims of atrocities deserve justice and an impartial record of the crimes committed against them, so that the world does not forget their suffering. The Tribunals also serve the cause of reconciliation in these societies by assigning individual responsibility for crimes that would otherwise be attributed to entire groups.

To maintain viability and credibility, the Tribunals need to take more of those indicted into custody for trial. The United Nations can help by maintaining sanctions (especially the outer wall on Serbia and Montenegro), diplomatic pressure, and financial leverage on states harboring fugitives.

Cuba. The Security Council served as a useful forum for condemning Cuba's illegal shootdown of two civil aircraft in February of this year. The repercussions of this incident are still being felt, but they have clearly increased the willingness of European and Latin states to offer verbal support for democratic change in Cuba. Encouraging such change should be a significant foreign policy priority during the second term.

REFORMING THE UNITED NATIONS

Fiscal Restraint. Since 1993, per your instructions, we have been imparting to the UN Secretariat and to UN members the urgency of adapting to the very competitive environment that exists for scarce public resources.

Our efforts have yielded substantial dividends:

o In 1995, for the first time in its history, the UN approved a budget that is below the spending level for the previous two years. This has resulted in a host of cost-cutting measures, including a reduction of almost 10% in UN Secretariat staff.

o The budgets of the larger UN specialized agencies, such as the Food and Agriculture Organization and the World Health Organization, also reflect either reduced spending levels, or far smaller than normal increases.

o A new Office of Internal Oversight Services (OIOS), or Inspector General, was created and has become an increasingly effective mechanism for identifying fraud and poor management practices within the UN.

o Under the leadership of Under Secretary General Joseph Connor, the UN has established an Efficiency Board that is seeking to identify more cost-effective ways of doing business.

A New Secretary General. As you are well aware, we have decided to seek the election of a new Secretary-General. Our position is that although the next Secretary-General need not have experience managing a Fortune 500 company, he--or she--must understand that reforming the UN is job #1, and be willing to work with UN members to improve every aspect of program management. As this is written, it appears that African states are finally coming forward with viable alternative candidates.

Paying our arrears. After FY 1997 appropriations are expended, we will still owe the UN itself about $700 million in arrears, and another $250 million or so to UN-affiliated organizations. The combination of these debts and our strong support for reform has led to an assault on U.S. influence in international organizations not only by the developing world, but by our key allies. If we are unable to gain Congressional approval for a plan to pay our arrears, we will face increasing difficulty in achieving reform, gaining the election of U.S. candidates to high level positions within the UN system, and attracting support for our positions on substantive matters coming before UN bodies.

We have worked hard to educate key members of Congress on UN issues. These efforts are paying off, but need to continue. Last year, Congress did appropriate sufficient funds to meet our current year obligations to the UN regular budget and peacekeeping accounts, plus a $50 million downpayment on arrears. Unfortunately, this was accompanied by an $86 million shortfall in amounts legally owed to other international organizations for UN dues.

Next year, we will again propose a multi-year plan for the repayment of arrears with the understanding that Congress is likely to attach reform and budget-related conditions to the release of any funds appropriated for this purpose. For this plan to succeed, we will need a strong commitment from the next Secretary of State, which I believe will be forthcoming. We will also need help from you.

GLOBAL ISSUES.

One major function of the UN is to serve as a forum for multilateral discussion, and for the formulation of agreed standards of right and wrong in a host of areas. Below are some examples from the past four years.

High Commissioner for Human Rights. In 1993, after decades of Cold War stalemate, the UN General Assembly agreed to establish a UN High Commissioner for Human Rights. This is something the U.S. has supported since the days of Eleanor Roosevelt. The primary responsibility of the High Commissioner is to engage in a dialogue with governments that appear to have human rights problems, and to serve as a champion for human rights around the world.

Land mines. We have made substantial progress towards the Administration's goal of gaining international support to begin negotiations towards a ban on the use, stockpiling, production and transfer of anti-personnel landmines. Taking a cue from your statements to the General Assembly, UN members voted in 1994 to support a moratorium on the export of landmines, and in 1996 to endorse the negotiation of an agreement to ban them. The problems created by the misuse of anti-personnel landmines can only be dealt with on a global basis. And experience tells us that this misuse cannot effectively be regulated or controlled; it must be stopped. In September, you told the General Assembly that "our children deserve to walk the Earth in safety." That will be a primary objective of the next four years.

Terrorism. The 1994 UN Declaration on Measures to Eliminate International Terrorism pledged international cooperation to deny safe havens to terrorists.

Sustainable Development. During the past four years, a series of well-publicized UN conferences were held on major issues related, in one way or another, to sustainable development. These conferences covered population, social development, the status of women, housing and food security.

These conferences have created a long list of goals towards which the world community should strive. Our approach in the years immediately ahead should be to encourage specific and concrete steps towards the achievement of the most important and broadly-supported of these objectives. At this point, we do not need more conferences or more goals; we need more progress.

Citizens Security. This year, the General Assembly has approved our proposal for an International Declaration on Citizens' Security designed to demonstrate our resolve to combat transnational crime in all its forms.

Business Practices. The General Assembly has approved a UN Declaration Opposing Corruption and Bribery in Transnational Commercial Activities. The U.S. business community is strongly supportive of this and other measures aimed at encouraging foreign companies to meet anti-bribery and corruption standards comparable to those in U.S. law.

A FINAL NOTE -- BUILDING STRATEGIC AND GLOBAL RELATIONSHIPS

-- Maintaining constructive strategic relationships.

I have devoted special effort to our relationships with the current and likely future permanent members of the Security Council. Even when bilateral relations are uncertain, our shared interest in an effective Security Council provides a basis for constructive, ongoing relationships. Our relationships in New York remind each permanent member of its stake in a stable international order and the benefits of cooperation.

-- Expanding global relationships.

During your first term, I have expanded our working relationships with states beyond the Security Council. I attend meetings of the non-aligned movement and regional groupings. My connections proved very helpful in debates on China (where for the first time we succeeded in bringing a resolution condemning human rights practices before the Human Rights Commission), Cuba, and the CTBT.

During your second term, we would benefit from expanding even further our working relationships at the UN. I have already started an informal caucus of the Americas, to parallel similar groups from other regions. The mere existence of this new grouping reinforces our trade and democracy promotion efforts throughout the hemisphere.

-- Israel and the UN.

One priority throughout the past four years has been to work closely with Israel to increase its ability to participate fully in UN bodies and activities, and to encourage the General Assembly and Security Council to adopt a more balanced approach to Middle East issues than in the past. The pace of progress has mirrored developments in the Middle East peace process, with the most dramatic change in attitudes developing after the Declaration of Principles were announced in the fall of 1993.

Looking ahead, the improved treatment of Middle East issues will remain a central focus of UN mission efforts. To this end, we will continue to maintain a strong relationship with the Israeli representative, with the Palestinians, and with representatives from the moderate Arab states.

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Divider Title: USTR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

December 6, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: AMBASSADOR CHARLENE BARSHEFSKY CB
ACTING U.S. TRADE REPRESENTATIVE

SUBJECT: **Office of the USTR: Accomplishments and Next Term Outlook**

OVERVIEW

The importance of the Administration's accomplishments in trade during the first term, and the central role played by Presidential leadership, are widely acknowledged. You have presided over an unprecedented period of trade expansion, which both capitalized upon and contributed to the strength of the U.S. economy. The high-profile fights for NAFTA and GATT, however bitter and difficult, raised public awareness of the importance of trade to our economy to new levels. California and the Pacific Northwest have been conscious of the importance to trade to their well-being for years. But there is today a wide understanding in the country of the need "to compete, not retreat," particularly in the vibrant and prospering Midwest, where a decade ago trade was viewed only as a threat to jobs, communities and families -- to be opposed at all costs.

In a very real sense, you have delivered on the promise of your 1992 campaign and your February 1993 speech at the American University. The traditional debate between "free trade" and "protectionism" needed to be transcended. You and your Administration succeeded in fashioning a third way, by committing to trade that was both "free" and "fair." By combining trade expansion agreements like NAFTA and the Uruguay Round with the tough, bilateral efforts to open markets in Japan and China, we have made progress opening markets around the world and established a potentially stronger base of political support for trade expansion.

Nevertheless, we should operate under no illusions about the challenges ahead. While public understanding of the importance of trade has grown, the political base of support for expanded trade is far from secure. We face an extremely difficult fight to get fast track authority, which may pit the Administration against parts of the Democratic caucus, and yet without fast track authority, it will be impossible to exercise full and effective Presidential leadership on trade in the next four years. Even among those who are generally pro-trade, such as the agriculture community, there is some disillusionment that the trade agreements to date have not produced immediate benefits of the magnitude anticipated. (This, despite the fact that agriculture exports hit record levels in 1995.) We still fact politically difficult issues with Mexico, such as cross-border trucking. China's WTO accession and related issues will be controversial and divisive. With Japan, where we have had some of our most significant accomplishments, there is evidence of backsliding which could, if unchecked, begin to reverse some hard-won progress.

Nonetheless, in my view, we have no alternative to moving forward with trade expansion aggressively in the next four years. Otherwise we will cede economic opportunities to other nations and their companies and workers. But there are also more than considerable economic interests at stake. In the post-Cold War period, the ability to form alliances based on trade is strategically important. It is the way that we can project American leadership, and American values, around the world. Open markets are important, but equally, or to some even more important, are the continued expansion of democracy, human rights and the rules of law, which can follow expanded trade if we can reach the right kind of agreements.

The United States is in a position to engage in a number of strategic economic alliances, which will benefit us and our trading partners, as we come to the end of the century. We can potentially make unprecedented progress in Latin America and Asia and be instrumental in setting the terms of China's and Russia's accessions tot he WTO. We understand that any comprehensive trade negotiation on the order of a NAFTA or bilateral free trade arrangement can provoke significant opposition in the U.S. We best overcome that opposition by making the fight about something larger. For that reason, we need to articulate a strategic vision of the importance of trade.

CLINTON ADMINISTRATION I

During the last four years, the Administration negotiated over 200 trade agreements, including the NAFTA, the Uruguay Round, and an unprecedented 24 agreements with Japan. The expanded opportunities from market-opening abroad came at a time when our companies, farmers and workers were at their most competitive. As a result, in the past four years, the United States returned to being the world's most competitive economy and the world's leading exporter. In just four years, we witnessed a 37% increase in our export of goods and services to the world. U.S. jobs supported by U.S. exports are estimated to have increased 1.5 million, since 1992 and export-related jobs are better jobs, with wages for jobs supported by goods exports paying 13-16% more than the average U.S. wage.

The leading trade accomplishments of the past four years include:

* **NAFTA.** In November 1993, the Administration succeeded in winning passage of NAFTA, including unprecedented side agreements on labor and the environment. This was a major accomplishment that could not have occurred without committed Presidential leadership. Today, it is clear that NAFTA helped stabilize Mexico through its worst financial crisis in modern history. Our goods exports to Mexico, despite the crisis, are expected to be $55 billion this year, 32%

higher than in 1993. In regional terms, NAFTA can serve as a staging ground in the effort to build the Free Trade Area of the Americas (FTAA), on the basis of U.S./NAFTA levels of market openness.

* **Uruguay Round.** After seven years of negotiations under the Reagan and Bush Administrations, your Administration completed the Uruguay Round. The agreement cut global tariffs by an average of 40% and extended international trade rules in areas such as agriculture, services, investment and intellectual property. One of the most significant results of the final agreement was the establishment the World Trade Organization, which puts in place a comprehensive set of rules to which all members must adhere. It is fair to say that the Uruguay Round was dead in the water until you provided the U.S. leadership to finish the negotiation. Overall, the Administration and GATT analysts estimate that the Uruguay Round would add $100 to $200 billion to the GDP annually when fully implemented.

* **Japan Framework Agreement.** Your Administration brought new intensity and a sustained effort to the task of opening the Japanese market. Through the Framework Agreement reached in July 1993, we pursued market opening and deregulation in Japan on all fronts: macroeconomic, structural and, most visibly, sectoral negotiations. We have reached 24 trade agreements with Japan, including such key areas as autos and auto parts, telecom, government procurement, cellular phones, glass and semiconductors. We have begun to make unprecedented headway in opening closed agricultural markets, such as rice and apples. Our exports to Japan are at record levels, up 34% since you became President, and U.S. merchandise exports to Japan have grown at a rate five times as fast as imports from Japan. Over 800,000 American jobs are supported by our exports to Japan.

* **China.** China has been a critical foreign policy issue over the past four years, and its importance to the United States -- and the challenges that it poses -- will only intensify. We have battled to open a highly protected market, still dominated in many areas by the central or provincial governments. We have negotiated landmark agreements to combat piracy and advance the interests of our copyright industries. We have also negotiated -- and vigorously enforced -- agreements on textile trade, designed to prevent transshipments. We have taken the lead in consulting with China on its WTO accession, and insisted that this accession occur on commercially meaningful terms.

* **APEC.** The elevation of APEC to the Presidential level in Seattle in 1993 was an historic event that breathed new life into this forum. With U.S. leadership, APEC has made progress toward its goal of increased trade and investment, and lowering barriers, in the fastest-growing economic area in the world. (APEC represents half the world's GNP, and last year, 62 percent of all U.S. merchandise exports went to APEC countries.) Progress is slow, though the level of accomplishment in market opening initiatives is impressive, given the political and economic diversity in the region and its traditional reluctance to engage in broad trade liberalization. APEC's endorsement of the ITA in Manila represented another important step in the region's commitment to concrete trade liberalization.

* **Free Trade Area of the Americas.** Your Administration has strengthened the commitment to the nations in our hemisphere. The 1994 Summit of the Americas began the process of achieving a Free Trade Area of the Americas (FTAA) by the year 2005. Despite the lack of fast track authority, considerable progress has been made at the working level to prepare for future free trade negotiations. At the same time, Latin America has become the second fastest growing economic region in the world, and the largest market for U.S. exports, accounting for nearly 40 percent of total U.S. exports in 1995. By 2010, we estimate that our exports to Latin American will exceed our exports to Europe and Japan combined.

* **Transatlantic Business Dialogue.** Our trade and investment relations with the European Union are deep and mutually beneficial, but even in this relationship, trade can be substantially expanded through further tariff cutting and the elimination of non-tariff barriers, such as the different standards that govern most manufactured products in the U.S. and the EU. The ITA initiative originated out of the Transatlantic Business Dialogue, which we spearheaded along with our private sectors, and other promising initiatives for the next four years are underway.

* **"New Issues".** Against considerable international opposition, we have pushed the envelope to advance several "new issues": labor rights, trade and the environment, and combating bribery and corruption. These initiatives usually provoke the response that we are saddling the trade agenda with too many "extraneous" issues. While we recognize the risks involved, and the real opposition that we face, it should be remembered that most of the world opposed the ideas of intellectual property protection or rules for trade in services when the United States first advanced them. We have made gratifying progress against bribery and corruption, and a recent OECD endorsement of our initiatives suggests that international tolerance of widespread bribery in government procurement is starting to end. Our leadership in the WTO Committee on Trade and Environment has begun to produce some progress. We have waged a vigorous fight for core labor standards both in the WTO and in the context of the FTAA efforts. It has, in fact, been a lonely fight, one that engenders considerable hostility globally and even among our NAFTA partners, but one that is right on the merits and essential to our ability to minimize labor and Democratic opposition to future trade expansion initiatives. In this regard, however, we must be realistic about what we can accomplish in the short term.

* **Enforcement of Trade Laws and Agreements.** Our willingness to enforce trade laws and existing agreements is crucial to our support at home and our credibility abroad. Your Administration has brought a record number of enforcement actions by using all the trade tools at our disposal. USTR has formed a highly visible and active enforcement unit which has already brought more than 20 cases to the WTO dispute settlement system, showing our determination to enforce our rights and building confidence in the system.

CLINTON ADMINISTRATION II

In the second Clinton Administration, USTR plans to build on the successes of your first term. First and foremost, we will seek fast-track authority. Second, we will continue to build a strong foundation for the WTO, and seek to bring emerging markets like China and Russia into the rules-based system on commercially meaningful terms. We will move forward with regional pacts and will negotiate bilateral trade agreements that further open international markets. And we will seek to be vigilant and aggressive in our insistence that our trade partners live up to the agreements they make with us.

Fast Track Authority. Several key issues on the trade agenda can go forward without obtaining fast track authority. But there is no doubt that your ability to provide global leadership on trade, and our ability to ensure that, as a strategic matter, the United States can position itself at the hub of a constellation of trade groups, particularly in Latin America and Asia, depend on obtaining fast track authority from Congress. More than any single policy initiative, the fight to obtain fast track is likely to be the defining trade issue of the second term.

It should be understood that winning fast track authority will require a major effort of a magnitude not unlike that used for NAFTA. It involves a major political and communications efforts, and creation of a "war room" may well be necessary to mobilize and coordinate it. It should also be recognized that a Congressional fight over fast track brings into play virtually every other trade issue on the agenda, or in the minds of members of Congress. The mood of Congress is likely to be affected by a range of issues that seem somewhat removed from the request for negotiating authority. It will affect fast track, for example, if we lost a key WTO panel decision, or if we open the border with Mexico to trucking (as we are obligated under the NAFTA to do.)

With fast track authority, a wide range of bilateral and regional initiatives become possible to pursue:

NAFTA Expansion to Chile, as a first step to Latin America. The Administration has committed to Chile's accession to the NAFTA. Failure to accomplish that objective in 1995 and 1996, because of political considerations and our inability to get fast track authority, caused significant, although reparable, harm to our relationship with Chile. More seriously, however, our ability to deliver on the commitment to Chile is seen, with justification, as a litmus test of our commitment to trade expansion in this hemisphere. Failure to deliver has already had an adverse effect on our economic interests and our leadership role within the hemisphere, although we have worked to continue providing leadership through the FTAA process. Continued failure to move forward could be very costly.

As you know, Latin America has been the second most rapidly growing region in the world. Moreover, it is our natural market, and exports to the rest of the hemisphere have already increased enormously, particularly in manufactured goods. Our leading competitors, Japan and the EU, recognize the opportunities in Latin America, and are moving vigorously to compete with us there. The EU has reached out to the Mercosur nations with a trade pact, and Prime Minister Hashimoto recently completed the first visit to Latin America by a Japanese leader in many years. The Chinese have sent nine high level delegations to Latin America in 1996 alone. Moreover, the Latin American nations are moving ahead to form regional subgroups, such as expanded Mercosur, to increase trade among themselves. Our inability to get fast track and seriously negotiate within the hemisphere has strengthened Brazil's ability to pose as hemispheric leader, which sets back the cause of trade expansion and operates, inevitably, to our disadvantage.

1997 is the time for serious negotiation with Chile, and demonstrating our commitment to leading the hemisphere in the direction of trade expansion. Fast track would provide a real boost to our efforts in the hemisphere; if we obtain it, we could do Chile's accession in 1997 and open the possibility to further hemispheric integration in the last three years of your term.

<u>Further Steps Toward Free Trade with the Asia-Pacific Region</u>. Your leadership has moved APEC, and the APEC process, dramatically forward since 1993. Very practical steps which produce real benefits for U.S. companies have moved forward. However, the long time frame for achieving free and fair trade in the Asia-Pacific area, coupled with the major challenges of dealing with the diverse APEC nations, make it important to consider if we could advance our objectives, provide leadership and enhance our strategic positioning in the region by negotiating reciprocal free trade agreements with individual nations. Australia, New Zealand, and Singapore present possibilities, although even there, serious obstacles would have to be overcome with respect to particular sectors. As in Latin America, fast track negotiating authority would be crucial if we are able to explore whether such agreements are credible possibilities.

<u>The Transatlantic Businessplace: Deepening the Trade Relationship with the European Union</u>. As noted, along with the leadership of the EU, you described a vision for a new Transatlantic Marketplace at the U.S.-EU Summit in December 1995. While tariff barriers on most manufactured goods have been significantly reduced between the U.S. and the EU, non-tariff trade barriers continue to impede Transatlantic commerce. The most significant barriers to trade arise from regulatory barriers, such as difference standards that govern most manufactured products in the U.S. and the EU. For example, of the approximately $110 billion of U.S. merchandise exports to the EU, more than one half ($66 billion) required some form of EU certification in addition to U.S. domestic certification requirements. Such redundant testing and certification requirements increase the base cost of exports by up to 15%.

The U.S. business community is strongly supportive of an effort to reduce regulatory barriers and duplicative testing requirements to increase trade with he EU. We are currently engaged in negotiations to complete Mutual Recognition Agreements (MRAs), which would help harmonize standards and eliminate double testing between the U.S. and the EU. The areas under negotiation include telecommunications, electronics and medical devices, with negotiations on pharmaceuticals and the automotive sector to follow. While this a very technical area, the additional opportunities for U.S. companies and workers are significant. Moreover, increased trade with the EU is a motherhood issue, raising none of the political concerns that trade expansion with other regions of the world can trigger. While these issues do not require fast track, other initiatives with the EU may.

Africa. USTR recently completed its statutory report from the President to Congress reviewing all of the trade, investment, and technical aid now in place for African nations. The urgency of the situation in Africa, and the failure of existing programs to address it, are well known. The poorest nations, concentrated in Africa, have not shared the benefits of the trading system and global growth. The Administration is reviewing possible initiatives interagency; we anticipate that a Congressional initiative will originate in the Ways and Means Committee.

Part of the political equation of fast track remains the labor standards issue. We will continue our advocacy of the need to include worker rights and core labor standards as part of the WTO as it evolves, as well as including the issue in our bilateral and regional trading arrangements, particularly NAFTA accession efforts. We press these issues because it is right to do so; as globalization intensifies, the trading system must deal with issues like abuse of child labor, deplorable working condition and the right to collectively bargain. We also champion these issues out of political necessity; failure to press forward could fatally undermine the tenuous political support in the U.S. for trade expansion, particularly within our party. At the same time, we need to recognize that aggressive advocacy in these areas can adversely affect business community and Republican support for our trade initiatives, which has been crucial to advancing your trade agenda. It also sets us against virtually all of the developing world, who view our advocacy of this issue as a protectionist effort to deny them the opportunity to compete on the benefit of low wages. This remains one of our most difficult political challenges, although we are benefitting from a good working relationship with John Sweeney and his new team.

Two of our highest priorities for a strategic trade policy at the multilateral level would be the WTO accessions of China and Russia.

China's WTO Accession. We have been steadfast in leading the effort to assure that China's accession to the WTO would occur on commercial, rather than political, grounds. Japan and the EU pay lip service to that view, but we can safely assume that their desire to bring China into the system now -- and deal with problems later -- will be increasingly evident. Importantly, we should assume that many, if not most, in our own business community will favor that approach as well, although, as a practical matter, each major sector has demanded that the accession take care of its problems first. Without in any way underestimating the pressure, or the geopolitical importance of having a positive relationship with China, bringing China into the WTO without the requisite changes in China's trade regime would be a mistake. Despite the operation of something resembling a free market in parts of China, the country as a whole does not come close to conforming to WTO rules. It may be possible to use WTO accession to bring about profoundly important changes in China's trade regime which could not be attained in the foreseeable future in any other way. It is also possible that China will not make such dramatic changes, even in exchange for WTO membership, because the changes, if implemented, would cause significant dislocation in enterprises run and dominated by the government. We have the ability to give

China transition periods to make the necessary and appropriate adjustments before assuming full WTO obligations. But this clearly will be a negotiation of historic importance, which will inevitably be tied into developments in, and the climate of, the overall U.S.-China relationship.

Related to the question of China's accession is the issue of MFN. From China's standpoint, simultaneous with its entry into the WTO, it would expect to have permanent MFN status, requiring legislative action because of Jackson-Vanik. Until accession occurs, the annual MFN debate will continue to be a potential political flashpoint, an occasion for intense congressional involvement which can both reflect and affect the state of the U.S.-China relationship.

Russia's WTO Accession. While China's accession has attracted far more attention, Russia's WTO accession could play a crucial part in confirming, and assuring, Russia's transition to a market economy, governed by the rules of law and international trade. Discussion so far on Russia's accession, which have grown out of the Gore-Chernomyrdin Commission, have been quite positive. With a sustained effort, Russia's accession during 1998 or 1999 might be possible, which would undoubtedly strengthen the hand of forces in Russia which favor democracy and market economies. It would also provide impetus for accession discussions with Ukraine as well.

Two other pending negotiations would, if successful, open markets in the high tech areas in which we lead the world, and which are of commercial and strategic importance.

Completion of the Information Technology Agreement. This multilateral trade agreement would eliminate tariffs on all information technology products, including semiconductors, computers, telecommunications equipment, and other items which would be part of the Information Superhighway. These products represent more than a trillion dollars in global production and $500 billion in global trade. U.S. exports in this sector already approach $100 billion, and we lead the world in most of the key products covered by a potential ITA. For these reasons, the ITA has the strong support of our information technology companies, particularly the computer industry, who would gain increased sales around the world as tariff barriers fall. An ITA would bring wide benefits by reducing the cost of information technology products around the world, thereby speeding the dissemination of these technologies.

Your leadership at APEC gives us the opportunity to seek completion of the ITA next week at Singapore. Success is by no means assured, because the EU remains extremely divided about giving up their tariffs on IT products, some Asians have never seen Singapore as a negotiating forum, and we have some significant work to do to bring our own industry on board.

Basic Telecom. The multilateral negotiation on basic telecommunications services was originally scheduled to conclude in April 1996. At that time, we refused to reach agreement because the market opening offers around the world, particularly from Asia, were painfully inadequate. Because of the opportunities for our companies and workers if we could reach an ambitious market opening agreement, we convinced our trading partners to continue the talks with a new deadline of February 15, 1997.

If the talks are successful, they would work a dramatic change by opening closed telecommunications markets around the world to national and international competition. The current telecommunications monopolies which dominate the industry in many places around the world would be dismantled. Understandably, the political sensitivity of these negotiations in many countries is extraordinarily high, and it remains unclear as to whether we can succeed in getting market opening concessions sufficient to justify our offer to open fully our basic telecommunications markets to competition. A successful outcome of this negotiation remains very problematic; Asian offers have not significantly improved and even the Quad offers lag behind ours.

Along with these major initiatives, you should be aware of the following issues of potential political flashpoints:

Agriculture. Despite record levels of exports, this economically and politically sensitive sector always raises difficult trade issues. For example, we are currently battling with the EU over a range of market access issues, and hope to use the upcoming U.S.-EU Summit as a spur to resolve some of them. Other sensitive agriculture issues include the avocado dispute with Mexico, the potato dispute between Maine and Canada; the ongoing banana dispute with the EU and the Caribbean nations, and a host of agriculture access issues with China. At the same time, we are approaching the resumption of agriculture talks in the World Trade Organization in 1999, and we may need additional negotiating authority on tariffs, export subsidies, and domestic support programs.

Mexico. A series of difficult issues face us with Mexico, concerning the enforcement and implementation of the NAFTA. Most immediate, and most difficult, is the obligation that we postponed to open the border to Mexican trucks, still strongly opposed by the Teamsters who will have the support of the AFL-CIO and other NAFTA critics. Concerns such as environmental enforcement, the tuna dolphin legislation, some agriculture issues, as well as the magnitude of the trade deficit will be cited as evidence against the success of NAFTA. There are many co-sponsors for the NAFTA Accountability Act, which will serves as one vehicle for criticism, and opposition to fast track.

Japan. After a relatively tranquil year in U.S.-Japan relations, Japan is showing a growing unwillingness to carry out its obligations under the Framework agreements. The current insurance dispute is the first serious challenge, with a December 15 deadline facing us, but we will also confront problems in telecommunications, government procurement, civil aviation, and even autos, where progress has slowed. Japan appears confident that we are satisfied with the progress on trade, focused more on the security relationship, and preoccupied with China. We will need to demonstrate that our commitment to opening the Japanese market remains undiminished. Your involvement in semiconductors and insurance has been critical in demonstrating continuing U.S. resolve.

Shipbuilding. We will need to make another effort to enact legislation implementing the international shipbuilding agreement, which was stymied in the last Congress. The agreement, which came only after several years of U.S. leadership, placed significant limits on government shipbuilding subsidies, which foreign shipbuilders had long used to our disadvantage. As negotiated, the agreement would end all direct subsidies for new shipbuilding, with a three year phase-in period for existing orders, which should provide significant benefit to our shipbuilders. Unfortunately, despite an earlier unified domestic industry, our shipbuilding interests ultimately split on the agreement, with some of the larger yards and labor moving to oppose. We have gained a period of additional time to see if we can work with our trading partners to fashion legislation which meets come of our domestic concerns, while maintaining the benefits that the agreement would provide.

Environmental Issues. We face a series of difficult issues at the intersection of trade and the environment:

- Tuna-Dolphin. You have committed to President Zedillo that the Administration will push legislation early in the new Congress to change the Marine Mammal Protection Act and resolve the long-standing tuna dolphin dispute with Mexico and other trading partners. The legislation passed the House last year, and its authors have, through painstaking compromise, managed to win support from a broad range of U.S. environmental groups. However, Senator Boxer and the animal rights groups managed to block action last year, and will filibuster again. With broad environmental support, however, we believe this is a legislative fight that is worthwhile and winnable.

- Reformulated Gasoline. In 1995, Venezuela and Brazil challenged an EPA regulation requiring them to meet different and allegedly higher certification standards for their gasoline. This year the WTO ruled in their favor, judging that the regulation violated the GATT "national treatment" clause, which requires that foreign products receive treatment not less favorable than domestic. During the first few months of 1997, EPA should develop a draft of a proposed rule to accommodate the WTO ruling. We are supposed to be in compliance by the end of August 1997. We can expect strong Congressional concern throughout the process (it was Congressional intervention that forced EPA to abandon a complex rule-making that would have addressed both the environmental and trade issues effectively.)

- Shrimp-Turtle. A ruling by the Court of International Trade requires the United States to prohibit the importation of shrimp harvested in a manner that adversely affects endangered species of turtles. USTR worked with the State Department over the last year to minimize the impact of the U.S. ban, but even minimized, the ban has resulted in a request by India, Malaysia, Pakistan, and Thailand for WTO consultations.

February 26, 1997

NOTE TO: SYLVIA MATHEWS
JOHN PODESTA
SANDY BERGER
BRUCE REED
GENE SPERLING
KATIE McGINTY
JACK GIBBONS 424

Rec'd 2/26/97
cc: AD's
Newell
Foster
Philips-Diaz

FROM: RONDA JACKSON

RE: PRESIDENTIAL PRIORITIES REPORTS

Please insert the attached USTR report in the Presidential Priorities notebook. We will forward any new reports to you as they come in.

DRAFT

February 24, 1997

MEMORANDUM FOR GENE SPERLING

FROM: MARGIE SULLIVAN

SUBJECT: USTR Promotion of Presidential Policy Priorities

Per the discussion at last week's NEC Principals meeting, following is a list of USTR activities and initiatives that support and/or promote the President's policy priorities. Of course, the Office of the U.S. Trade Representative is by definition a promoter of exports, trade and open markets, and therefore, most of our key initiatives fall under this category.

This list is not meant to be exhaustive, but instead is indicative of some of the key issues on our agenda for 1997 that also fall into the President's priorities.

EXPORTS, TRADE, AND OPEN MARKETS

- **Fast Track:** USTR will play the leading role in securing fast track negotiating authority for the President. Without this authority, our ability to negotiate multilateral market-opening agreements, such as the Information Technology Agreement, is seriously impaired, and the WTO is seriously undermined. Our efforts to negotiate a FTAA by 2005, with concrete progress by 2000, is also jeopardized without fast track, as is our effort to move the APEC process forward in a real way. Other potential -- and potentially critical -- agreements could be out of reach of the Administration without fast track, ans we will continue to be faced with the controversial labor fight that we saw during NAFTA.

- **Enforcement:** The Clinton Administration is committed to opening markets around the world to U.S. goods and services. American workers, products and services are of the highest quality in the world, and -- when the conditions are fair -- are also the world's most competitive. That is why USTR established a Monitoring and Enforcement division: to ensure that our trading partners are living up to the agreements they sign with us.

- **Ending Government Subsidies:** USTR will seek to improve the international position of competitive U.S. products through the reduction and elimination of trade distorting government subsidization. This would include implementing the OECD Shipbuilding Agreement, improving the international disciplines on subsidization in the international commercial aircraft industry, and advancing international negotiations in the speciality steel and carbon steel industries.

BRIDGE TO ASIA-PACIFIC

- **General:** The upward trend of trade and investment interaction between the United States and Asia will continue in 1997. The United States will continue to press bilaterally, regionally, and multilaterally in the WTO and APEC for greater market access for U.S. exports of goods, services, and investment. The ongoing work of the WTO and continuing implementation of the Uruguay Round offer continuing opportunities to open further Asian markets and reduce many of those barriers to the expansion of U.S.-Asian trade that will benefit both economic regions for decades to come. The United States will seek full and effective implementation of the results of the Uruguay Round, in addition to full compliance with all WTO provisions, including bringing cases of alleged WTO inconsistency to the Dispute Settlement Body for adjudication. Trade barriers remain prevalent in many sectors in the Asia-Pacific region and strong enforcement work may be anticipated in the interest of ensuring that multilateral and bilateral trading rights and obligations are honored.

- **China:** USTR continues to work aggressively to open the Chinese market to U.S. exports. We are committed to working with China as it undergoes a difficult economic transition, and we will continue to pursue a policy of commercial engagement that will benefit the United States and China alike.

    -- **WTO Accession:** Consultations with the Chinese regarding China's accession to the WTO are ongoing. Some progress has been made, but we are still a long way from seeing a commercially meaningful protocol package from the Chinese. We will not settle for less. Vice President Gore and Speaker Gingrich both have trips planned to China in March, and President Clinton and President Jiang have a meeting tentatively scheduled for November.

    -- **Intellectual Property Rights:** Since the June 1996 IPR Accord, China has taken concrete steps to crack down on piracy. These efforts include, but are not limited to, the closing of 26 production lines; severe penalties for those who engage in piracy; enhanced customs efforts; monetary rewards for information leading to arrests of pirates, among other tough actions. We will continue to be vigilant and ensure that China is living up to its commitments under the 1995 IPR Agreement.

- **Japan:** USTR continues to work aggressively to open the traditionally-closed Japanese market to U.S. goods and services exports. Over the course of 1997, USTR will pursue a number of agreements that, if successfully concluded, will help American companies gain greater access to the Japanese market. For example:

    -- **Renewal/extension of the NTT agreement.** The NTT procurement agreement expires in September. USTR plans to seek renewal of the agreement.

    -- **Resolution of Motorola/NPA Issue.** Motorola is excluded from the specifications development process for a major telecommunications procurement by Japan's

National Police Agency. This issue raises several concerns under the U.S.-Japan telecom procurement agreement as well as the WTO procurement agreement. We are working to increase the pressure on this issue and reach resolution this year.

-- **Film Case.** Oral arguments will take place mid-April, and the final panel decision is due in October. At some point in this process, Japan may decide that it prefers to enter into negotiations on this issue. Agreement may be possible, but the likelihood of Japan wanting to negotiate remains to be seen.

PEACE IN REGIONS OF IMPORTANCE

- **GSP:** The Generalized System of Preferences (GSP) program assists developing countries by providing duty free access to the United States for many of their products and thereby promoting economic stability in regions of potential conflict. The program has had three suspensions in recent years, which has reduced its effectiveness. The Administration, therefore, is seeking multi-year reauthorization by the Congress.

- **Africa:** USTR strongly supports efforts by the Administration to increase ties to Africa, specifically expand trading opportunities with Africa in an effort to stabilize and strengthen Africa economically.

UNDIVIDED, PEACEFUL, DEMOCRATIC EUROPE

- USTR is involved in the Transatlantic Marketplace, which is under the New Transatlantic Agenda (agreed by President Clinton and the EU in December 1995), which this contributes to peace and stability in Europe, as well as trade and open economy. In addition, USTR supports expansion of the EU to other European countries, but not at the expense of U.S. exports, which supports democracy in Europe.

SERVICES

- The WTO financial services negotiations is scheduled to resume in April and conclude in December 1997.

SCIENCE AND NEW TECHNOLOGIES

- **Telecom and ITA:** The successful conclusion of the landmark Telecom Services Agreement and the pending conclusion of the Information Technology Agreement (ITA) next month demonstrate that this Administration is committed to expanding opportunities for all Americans through expanded technology. The Telecom Agreement will open 90% of the world telecommunications markets to U.S. service exports, thereby creating

American jobs, and will lower the cost of phone calls made by the American consumer. The ITA will eliminate tariffs on a broad range of information technology goods, such as computers, semiconductors, and telephone equipment.

- **Korea:** The Administration is currently pursuing a bilateral telecom agreement with Korea to ensure that U.S. communications firms, which have pioneered advanced technologies, are afforded reciprocal access to Korea's important telecom market. Korean companies have a solid and growing foothold in both the U.S. telecom equipment and services sectors. In addition to market access, USG also seeks to ensure that U.S. intellectual property rights (IPR) are protected from piracy and abuse, and that America's world-class satellite service providers are not discriminated against or prohibited from servicing Korean consumers, and that technical standards are not use as barriers to U.S. exports.

- **Philippines**: The Administration is closely monitoring developments in the Philippines regarding the passage of an important IPR bill which would not allow the decompilation of computer software. If the Philippine legislation were to allow decompilation, there would be no legal restraints against the reverse-engineering and piracy of new and cutting-edge computer programs produced by U.S. software publishers.

ENVIRONMENT

- USTR has consistently reached out to the environmental community and worked with them to develop trade agreements that strengthen rather than deplete the world's environmental resources. Most recently, we are working closely with the environmental groups on how to fashion fast track language that will protect their interests.

USTR SUGGESTIONS FOR TRADE-RELATED EVENTS IN DC AREA
February 25, 1997

- Technology Trade Event: The President could host a technology-telecommunications CEO trade fair event to highlight two recently concluded high technology trade agreements: the Information Technology Agreement (ITA) and the Basic Telecom Agreement. Industry CEOs and workers could be on hand, and we could have a technology tie-in with Geneva (i.e. a video teleconference with WTO Director Ruggeiro as prelude to Presidential remarks).

  Timing: This event could take place (possibly on the South Lawn) sometime soon after the March 31 deadline for final completion of the ITA.

  Message: The central message would be trade equals jobs. We would highlight the tremendous benefits for the U.S. -- in terms of more jobs, enhanced competitiveness, and lower consumer prices -- of the ITA and Telecom agreements).

- Technology and Education: USTR could work with one or more of the companies that benefit from the ITA and/or the Telecom Agreement and see if they were interested in donating computer equipment and telecom services to a local school or worker retraining center. The President or Vice President would present the equipment and demonstrate the service, preferably with an international tie-in (i.e. connect with school in Australia via the internet).

  Message: Technology and education

- Trade Education Speech: To continue to lay the groundwork for what we anticipate will be a difficult fight for fast track, we recommend that the President give a series of speeches on the importance of trade and how trade positively affects the lives of every American. There are a number of CEO-level events in Washington over the next couple of months where the President or Vice President could speak, such as the Semiconductor Industry Association event in March. We could also create an event at a local business, such as one of the two companies listed below or a business in DC proper.

  Timing: Before the President goes to Mexico or between Mexico and South America trips.

  Message: America cannot grow inward, we must grow outward.

- Highlight Local Businesses: There is no lack of local businesses who are taking advantage of and benefitting from the President's open market policies. In addition to the bigger companies (a few listed below), we could also work with Commerce to identify small DC enterprises, particularly minority-owned or women-owned companies, who have started or increased exporting over the past four years.

  Message: Diverse companies are exporting and increased exports mean more local jobs.

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: ONDCP

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

December 6, 1996

MEMORANDUM FOR THE PRESIDENT

THROUGH CABINET AFFAIRS

SUBJECT: **Drug Policy: An Assessment of Where We Stand and Future Directions.**

EXECUTIVE SUMMARY. Drug control policy is on track. The *National Drug Control Strategy* released in Miami last April provides a plan of action to respond to the challenges we face as we work to further reduce drug use and its consequences in America. The strategy's focus on motivating America's youth to reject illegal drugs and substance abuse was underscored by the National Household Survey on Drug Abuse data on the continuing trend of increased drug use by our youth. If we do not reverse this trend, we risk undoing the progress of the past decades, which resulted in a 50 percent reduction in the number of drug users. In the next four years we must:

√ Develop a comprehensive long-term strategy for dealing with the drug problem.

√ Resource the drug control strategy with 5-year budgets.

√ Reverse negative youth drug use trends.

√ Defeat drug legalization efforts.

√ Reduce the number of hard-core drug users.

√ Break the nexus between drugs, crime and violence.

√ Shield our air, land, and sea borders.

√ Make cocaine and heroin less available in the United States.

√ Counter the methamphetamine threat.

√ Be vigilant for and respond to emerging drug threats.

- **Developing a comprehensive long-term plan for dealing with the drug problem.** As required by statute, ONDCP prepares an annual National Drug Control Strategy from the President. No successful strategy, however, can be done year by year. Instead, we need a long-term, ten year strategy with quantifiable measures of effectiveness that guide our action over the course of a decade. In February, we will present Congress a revised strategy that provides this long-range blue print for dealing with the drug problem. We will work with Congress to change the existing requirement for an annual strategy to require an annual report on the nation's drug problem and a report on progress in achieving the strategy's goals and objectives. ONDCP is working with other Federal agencies to develop supporting five-year budget plans for this ten year strategy.

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- **Resourcing the drug control strategy with 5-year budgets.** Just as our counterdrug strategy needs a long-term focus, so too do its constituent programs require a long-term fiscal commitment. The present year-to-year funding approach results in uneven program implementation. It also complicates planning by state and local governments that, although they provide most of the $$ spent on drug programs, are still dependent on Federal funding. A longer-term view of the budget will smooth the strategy implementation process and improve program effectiveness. A five-year budget will provide the opportunity to clarify how we will meet long-range goals and objectives.

- **Reversing negative youth drug use trends.** The centerpiece of our national drug control effort must remain preventing drug use by our children. Your leadership on the issues of underage drinking and smoking has been extremely important. Alcohol-related crashes remain a major killer of our youth, while 3,000 youths begin smoking each day and risk devastating health consequences. Tobacco, alcohol and marijuana are all "gateway" drugs. Children who use any of them have a much greater statistical chance of progressing to other drugs such as cocaine or heroin. If our youth-oriented prevention efforts are successful, we can significantly reduce the number of addicted adults who will cause enormous damage to themselves and our society tomorrow. Ongoing ONDCP initiatives that support this objective include:

  - **Developing a public education campaign.** ONDCP is creating a public education campaign to supplement the anti-drug public service announcements developed by the *Partnership for a Drug-Free America* and other organizations and carried by broadcast and print media. This will be one of the major initiatives in the Administration's forthcoming 1997 National Drug Control Strategy. We will propose a broad public education campaign that warns children of the hazards of using illegal drugs and emphasizes the advantages of drug-free life styles. PSAs and other anti-drug messages have demonstrated the ability to influence attitudes towards drugs among today's youth. Prevention messages must be repeated with adequate frequency and in appropriate venues so that they can counter pro-drug messages.

  - **Expanding incentives for remaining drug free.** At your request, ONDCP, in conjunction with other Federal agencies, is exploring incentive programs to motivate America's youth to remain drug free. Such incentives might include: conditioning the issue of drivers' licenses or student loans on positive drug test results; enhancing existing programs that recognize and reward schools and youth organizations that attain drug-free status; and supporting community and private sector efforts that focus on at-risk youth.

  - **Developing a Corporate/Community Outreach Program.** This new initiative will invite the participation of leading national corporate and public relations partners whose sensitivity, understanding and marketing resources already focused on the youth market will now incorporate the anti-drug/pro-health mission and message. Target companies will be leaders in youth market products and services such as fast food, athletic footwear and youth entertainment.

  - **Providing guidance for prevention and education programs.** ONDCP will develop a white paper establishing consensus standards for the conduct of prevention and education programs. The purpose is to guide state, local and community use of Federal prevention and education funds.

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- **Defeating drug legalization efforts.** Our efforts to prevent the 68 million Americans under the age of 18 from becoming a new generation of drug addicts is threatened by recently approved drug legalization initiatives in Arizona and California. ONDCP is coordinating a Federal response to both initiatives. We face the possibility that illegal drug use in both states will skyrocket as it did in Alaska when anti-marijuana laws were liberalized in the 1970s. We must prevent other states from repeating this mistake. Marijuana cannot be allowed to become a de facto legal drug.

  - **Setting the record straight on marijuana.** ONDCP will work with the Institute of Medicine of the National Academy of Sciences to design a rigorous review of the existing body of scientific knowledge related to the medical applications and harm of smoked marijuana.

- **Reducing the number of hard-core drug users.** Hard-core drug users are at the heart of the nation's drug problem. Two-thirds of the nation's supply of cocaine is consumed by about 20 percent of the drug using population -- the hard-core users. Their addiction maintains drug markets and keeps drug traffickers in business. These individuals are responsible for a disproportionate amount of drug-related crime and are frequently "vectors" for the spread of infectious diseases such as hepatitis, tuberculosis and HIV. By reducing the number of hard-core users, we can reduce the health, welfare, and criminal consequences of drug use. Ongoing initiatives that support this objective include:

  - **Breaking the cycle of addiction.** ONDCP is currently sponsoring a $1 million pilot "Break the Cycle" program whose intent is to use resources available within the criminal justice system to coerce drug-involved offenders into rejecting drug use. The idea is a simple one -- we should use the coercive power of the criminal justice system to test and treat those drug addicts who come in contact with the criminal justice system each year. No offender should have his or her sanction curtailed or waived unless he or she is drug-free. Subsequent drug use while under the supervision of the criminal justice system should result in an immediate sanction. The demonstration program is being conducted by the University of Alabama within the Birmingham, Alabama correctional system. Program components include mandatory drug testing, treatment during probation, incarceration, or parole, compliance monitoring and immediate sanctions for drug use.

  - **Setting basic expectations for rehabilitation and treatment programs.** Despite the many studies proving the efficacy of treatment programs, a serious credibility problem remains. It is critical to develop a way to make treatment program evaluation information accessible to key policy makers, especially in Congress, so that effective treatment programs receive adequate and sustained funding. ONDCP will develop and disseminate a "Best Practices" white paper for drug rehabilitation and treatment as a guide for state, local, and community use of Federal funds to reduce the addicted population.

  - **Developing anti-cocaine medications.** Pharmacotherapies for cocaine addiction do not exist. Treatment options are limited to counseling, psychotherapy, and participation in self-help groups. ONDCP's Counterdrug Technology Assessment Center, in collaboration with the National Institute on Drug Abuse, is sponsoring research to develop an artificial enzyme that would block cocaine's effect on the brain. Clinical trials are anticipated by the year 2000. In support of these efforts, CTAC and NIDA, are dedicating a Brain Imaging Center in Baltimore on December 16th. A second facility will be opened at Brookhaven National Laboratory in Long Island next year.

- **<u>Breaking the nexus between drugs, crime and violence</u>.** Drug-related crime and violence exacts a steep price on our citizens. A disproportionate number of the more than 12 million property crimes and almost two million violent crimes that occur each year are committed by drug users or traffickers. State and local law enforcement agencies arrest more than a million Americans each year for drug law violations. Approximately 60 percent of Federal prisoners are drug offenders. A Gallup poll commissioned earlier this year by ONDCP found that "crime and violence" is the top national concern among adults. Indeed, Americans from every social and economic background and from every race and ethnic group remain deeply concerned about the nexus between drugs, crime and violence. Responding to these concerns must be one of our priorities. Ongoing ONDCP initiatives that support this objective include:

  - **Organizing the High Intensity Drug Trafficking Area (HIDTA) program coherently.** The ONDCP Director is authorized by Congress to designate geographic areas as HIDTAs and to allocate federal resources to tie together local, state, Federal drug law enforcement efforts in those areas. Properly targeted, the HIDTA program offers us greater efficiency and effectiveness in countering drug effects in particularly troubled areas. Congress has responded to local satisfaction with the program by expanding it and earmarking funds for certain areas. ONDCP is responding to this Congressional interest in expanding the HIDTA program by developing a logical, comprehensive methodology for earmarking priorities of needs, working with other organizing concepts such as the Southwest border and the Justice Department's Organized Crime and Drug Enforcement Task Force program. We are confident that the HIDTA program can be an enormously effective coordinating mechanism. It can help reduce drug-related crime and violence.

- **Shielding our air, land, and sea borders.** The U.S. will never completely eliminate illegal drugs. However, appropriate, properly organized and well-funded interdiction efforts along our land, air, and sea borders can reduce both the availability of foreign drugs within the U.S. and the damage they cause to our society. Interdiction can also establish an environment conducive to effective domestic prevention and education programs. Ongoing ONDCP initiatives that support this objective include:

  - **Coordinating the federal effort to stop drug trafficking across the Southwest border.** Presently, the DEA estimates that up to 70% of the cocaine entering the U.S., 50% of the marijuana available in the U.S., and 5% of the heroin sold in the U.S. comes across the Southwest border. Drug traffickers are clearly exploiting the extensive legitimate commerce and traffic that crosses the busiest border in the world. While illegal drugs comprise but a fraction of the more than $100 billion annual legitimate two-way trade between the U.S. and Mexico, they cause a disproportionate amount of damage to both countries. ONDCP began a comprehensive review of the federal effort to counter drug smuggling at the SW border with a conference in El Paso last July. Our intent is to present a SW border strategy for consideration by the President's Drug Policy Council this coming spring.

We envision the establishment of a SW border coordinating authority that will allow us to integrate efforts, complement individual inspection and interdiction operations, focus resources, provide timely and accurate intelligence, and reinforce threatened areas. This effort should probably be led by a U.S. SW border coordinator who has the requisite access to all federal agency headquarters and the authority to work directly with a Mexican counterpart. We need to develop effective prevention and detection systems to inhibit the importation of illegal drugs while no adversely disrupting the flow of legitimate commerce

- **Bilateral cooperation with Mexico.** The High Level Contact Group established in March has provided a useful framework for addressing drug-related issues. The group has met formally three times and subordinate working groups and separate bilateral initiatives work constantly. Cooperation and progress, however, has not been even across the board. We still have to move beyond traditional Mexican concerns about sovereignty and further develop working relations with those sectors of the Mexican Government that are withstanding the corrupting influence of drugs and that are prepared to cooperate with the U.S. We must continue to closely consult with Congress as we develop this bilateral cooperative effort.

- **Closing the Caribbean "back door."** The DEA estimates that the second most significant drug trafficking route into the U.S. is through the Caribbean, specifically Puerto Rico and the U.S. Virgin Islands. We believe that about 20 percent of the cocaine entering the U.S. comes through this route. Puerto Rico is a natural point of entry because of its central location amidst major lines of communication in the Caribbean and the absence of customs inspections of what is, for all practical purposes domestic cargo traffic between the island and the U.S. We must build on the ongoing interagency and multilateral regional efforts to curtail drug trafficking through the Caribbean. We will continue to develop robust maritime and air interdiction forces that are flexible in capabilities and deployed in depth to respond quickly to trafficker changes in routes and modes; they should be supported by superior technology and an effective intelligence system.

- **Addressing other vulnerable drug entry points.** We anticipate that the greater our success at interrupting drug trafficking along any particular border, the more the drug traffickers will attempt to penetrate elsewhere. South Florida for example continues to be a key site for drugs coming into the U.S. and for money moving out despite the successful disruption of the air bridge that used to bring cocaine from Colombia to the Southeastern United States last decade. New York City remains the primary port of entry for SE Asian heroin. We must develop a comprehensive coordinating capability that allows the federal government to focus resources more efficiently, reinforce success, and retain the initiative in our efforts to keep drug traffickers from penetrating our sovereign territory. Existing organizations and initiatives such as the three Joint Inter-Agency Task Forces (East, West, South), Joint Task Force-Six and Operation Alliance which both address the SW border problem, HIDTAs, and other cooperative interagency efforts initiative should be the building blocks for this effort.

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- **Making cocaine and heroin less available.** These are the two illegal drugs that cause the greatest harm to our citizens. While the number of cocaine users is waning, the continuing annual demand for several hundred tons of cocaine drives an enormous and extremely violent trafficking industry. Though the number of heroin addicts) 600,00 has not changed dramatically, ONDCP is concerned about the trends involving this drug. Heroin-related emergencies are up. Heroin is purer than ever, and the barriers to use have been lowered as smoking and snorting have replaced injection as modes of delivery. Moreover, heroin's impact on high-use communities, whether in Baltimore, Orlando, Florida, or Harlem is devastating. Reducing the domestic availability of both drugs must continue to be a priority. Ongoing ONDCP initiatives that support this objective include:

  - **Confronting cocaine production and trafficking.** We can build on past successes of our hemispheric cocaine strategy to substantially reduce the availability of cocaine in the U.S. The focus of our source country strategy should be Peru -- the source of 80 percent of the cocaine on our streets. Our cooperative efforts have already disrupted trafficking by air over the Andes. We are maintaining the pressure on this air bridge while developing plans to attack the river mode of trafficking. Continued pressure will ensure an environment conducive to the establishment of alternative economically viable activities. A targeted international economic assistance package appropriately funded over the next five years is needed to convince Peru's farmers that they can continue to earn a living if they abandon coca cultivation. In Peruvian President Fujimori we have a dependable partner who is prepared to support this type major project.

  - **Confronting heroin production and trafficking.** The U.S. policy on International Heroin Control (PDD-44) is not meeting its objectives but continues to be an excellent statement of principles. Heroin production and trafficking is a transnational problem that cannot be addressed unilaterally or even bilaterally. U.S. access and influence is extremely limited in Burma, Afghanistan, and Laos -- the key heroin producing countries. We need to build on efforts underway to work against heroin trafficking organizations in cooperation with other regional partners, including China, and to develop a consensus in the area that will support development of a regionally-integrated anti-heroin effort. Burma -- the primary source of the heroin that kills Americans -- poses a quandary. We cannot compromise our principled opposition to the anti-democratic and repressive SLORC regime. Yet without confronting the issues of opium cultivation and heroin trafficking in Burma, there is little prospect for strategic progress. Meanwhile, DEA domestic drug seizures suggest that Colombian and Mexican heroin is displacing SE and SW Asian heroin. Focusing on prevention and treatment offers the greatest likelihood of success; nevertheless, we must continue to target heroin trafficking organizations.

  - **Dismantling international criminal organizations.** We have realized successes through the cooperative and focused interagency efforts of the effective *Linear* and *Linkage* approaches to targeting the kingpins of major narcotics trafficking organizations. We need to refocus these efforts based on the more disjointed trafficking organizations that remain.

  - **Developing coalitions of democracies**. Through international and regional organizations, we stress the global nature of the drug problem, how it adversely affects democracies, and develop coalitions of those democracies to address the broad spectrum of drug control issues: demand reduction, effective interdiction and law enforcement, and development of democratic institutions.

- <u>**Countering the methamphetamine threat.**</u> Methamphetamine abuse is a significant problem on the West Coast, the Southwest and in the Midwest, and is moving eastward. This drug is problematic because it is easily manufactured, is inexpensive, and is incredibly harmful and addictive. ONDCP and the Justice Department developed a national methamphetamine strategy this year as an organizing document to address this threat. ONDCP is following up with a regional methamphetamine conference in California in January and a national conference in Nebraska in April. Our objective is to build on the existing strategy in order to address this complex problem in a comprehensive manner that integrates treatment and prevention programs.

- <u>**Being vigilant for and responding to emerging drug threats.**</u> America's drug problem is not static. While the use of some drugs declines (for example, the number of cocaine users declined by 28 percent in the '90s), other substances -- like LSD and methamphetamine -- are making a come-back. Another serious problem we must address is the growing use of inhalants by young people. Our counterdrug strategy and its subordinate programs must anticipate new trends and address them proactively. Ongoing ONDCP initiatives that support this objective include:

  - **Restructuring our counterdrug intelligence gathering efforts.** Our national counterdrug intelligence activities are disjointed and inefficient. While national-level intelligence organizations such as the National Drug Intelligence Center (NDIC), Treasury's Financial Center (FINCEN), and the El Paso Intelligence Center (EPIC) are making useful contributions, their potential has yet to be realized. At the local level, timely tactical intelligence needs improvement. ONDCP is currently coordinating a review of the existing counterdrug intelligence architecture with a view to make better use of available resources, share (while protecting) information rapidly, and integrate coverage. We must have a system that can detect, monitor, and track drug production and trafficking activities across a spectrum of illegal activities that includes cultivation, movement of precursors, smuggling, wholesale and retail distribution, and laundering of profits. Good intelligence can allow vulnerabilities to be exploited.

  - **Harnessing science and technology.** While a silver bullet solution to any facet of the drug problem is unlikely, science and technology can help our national drug control efforts in all fields. We must integrate emerging technologies and techniques more effectively into our drug control strategy. In particular, we must encourage the scientific communities to consider how they can support our grand strategic purposes rather than focus on short-term tactical fixes. Already, nonintrusive cargo inspection technology is being employed search cargo containers, trucks, cars, and railroad cars along the Southwest border. ONDCP's CTAC is also sponsoring initiatives to support law enforcement with ground positioning systems, advanced mapping and display systems, and wireless tactical communications.

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CONCLUSION. There is perhaps no other issue that cuts across more lines that does drug policy. It is simultaneously a domestic and international issue. It involves national security and public health considerations. It affects the justice and educational systems. It affects entire communities domestically, and entire countries abroad. Almost a million Americans are currently undergoing some form of substance dependency treatment program. Forty five percent of us know someone who has suffered an addictive problem. In the next four years we must organize ourselves so that we can deal more effectively with what is a permanent problem. Government can play a role by attenuating the consequences of drug abuse. By coordinating a truly national response to this problem we can substantially reduce drug use and its consequences within the next four years and improve the quality of life for all Americans. Your leadership of this effort will continue to be critical.

Vfr

Barry R. McCaffrey
Director

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Divider Title: SBA

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

ICE OF THE ADMINISTRATOR

December 6, 1996

MEMORANDUM FOR THE PRESIDENT

THROUGH: **KITTY HIGGINS**
Assistant to the President

FROM: **PHILIP LADER** PL

SUBJECT: **SBA's First Term Accomplishments and Second Term Goals**

At the start of your first term, you established four priorities for the U.S. Small Business Administration (SBA):

- Improving access to capital for entrepreneurs;
- Championing regulatory reform and paperwork reduction;
- Reinventing the SBA; and
- Serving as your "eyes and ears" in the nation's small business community.

In addition, the SBA has focused on expanding access to business education and training. These priorities have guided SBA for the past four years and should serve, I believe, as the agency's mission for the second Clinton/Gore term. As a result of Erskine Bowles' important initiatives here and my continued emphasis on reinvention, supported by an agency workforce open to reform, "this is not your father's SBA."

Today's SBA is committed to building successful public-private partnerships to enable record numbers of entrepreneurs to start and expand their businesses. In each of the last three years, new business formation has reached record levels. And small firms are producing a preponderance of the nearly 11 million new jobs created since January 1993. SBA has played a key role in this growth over the last four years, by doubling its loan volume, providing record amounts of private capital investment, and ensuring that millions of small business owners receive the counseling and training they need to succeed. In fact, while SBA's current business portfolio is worth more than $26 billion, the agency's entire budget is less than the taxes paid by just one company that received critical SBA financing when it was quite small – Intel.

These and other achievements have laid the groundwork for SBA's continued contribution to your Administration's economic legacy.

I. Achievements of the First Term

SBA has worked closely with the White House and members of the National Economic Council to advance some of the major legislative initiatives of your first term, including pension reform, health insurance portability, and telecommunications legislation. In addition to these and other economic measures which are critical to helping small businesses and their employees meet the challenges of the 21st century, the following SBA-specific accomplishments, organized consistent with the aforementioned priorities, are the foundation for my recommendations for your second term.

1. Improving Access to Capital

The 7(a) and 504 Loan Programs. Access to adequate start-up and working capital is a key to a healthy small business sector. Since FY 1992, SBA has geometrically improved access to capital for America's entrepreneurs through its 7(a) and 504 loan programs. In fact, the agency's annual guaranteed loan volume has more than doubled since FY 1992. And over that same period, the number of loans to women small business owners has more than tripled while loans to minorities have nearly tripled in number and more than doubled in amount (see table below). The important factors in this expansion were the Small Business Lending Enhancement Act of 1995, internal agency reforms, and our emphasis on reaching traditionally underserved segments of the populace.

Increases in SBA's 7(a) and 504 Lending				
	FY 1992		FY 1996	
	# of Loans	Dollars	# of Loans	Dollars
Total	26,381	$6.5 billion	52,729	$10.2 billion
Women	3,588	$634 million	11,452	$1.6 billion
Minorities	3,868	$1.0 billion	10,135	$2.1 billion

Small Business Investment Company Program. The SBA has extended greater access to capital on the equity side as well, through the Small Business Investment Company (SBIC) program which provides leveraged private equity and subordinated debt to small businesses through licensed private venture capitalists. In FY 1996, more than 1,850 businesses received SBIC financing valued at $1.3 billion. In fact, more private capital has been raised in the SBIC program in the last two years than in the past 20 years combined. It is significant to note that SBA-backed venture capital assisted at some point in the development of 18 of the "100 Fastest-Growing Public Firms" in the U.S. as ranked by Fortune magazine in 1996.

ACE-Net. SBA has developed the Angel Capital Electronic Network (ACE-Net), which you announced in October, helping small businesses raise private equity capital in the range of $250,000 to $5 million. ACE-Net will make it easier for small entrepreneurs to network with "angel" investors nationwide by listing investment opportunities on SBA's Internet program.

Main Street Investment Program. Begun this past year, SBA's Main Street Investment Program – an SBA partnership with state treasurers – has led those in Pennsylvania, South Carolina, Ohio, Montana, and elsewhere to invest funds in community-bank certificates of deposit which, in turn, are loaned to local small businesses and leveraged through SBA's secondary market. More than $150 million in small-business lending has thereby been made possible in smaller communities.

One Stop Capital Shops. A good example of SBA's commitment to traditionally underserved constituencies is the One Stop Capital Shop, SBA's contribution to your Empowerment Zone/Enterprise Community (EZ/EC) initiative. In the last 18 months, SBA has opened eleven One Stop Capital Shops in Boston, Kansas City, Detroit, Queens, Harlem, Philadelphia/Camden, the Kentucky Highlands, Rio Grande, Baltimore, Tacoma, and Oakland, providing a full range of SBA lending programs, counseling and technical assistance to distressed urban and rural communities.

Microloan Demonstration Program. The Microloan Demonstration Program makes very small loans ($25,000 and under) available to entrepreneurs traditionally considered "unbankable," largely due to inexperience with credit, credit problems, or lack of assets. To date, more than 100 lender intermediaries have made $51 million in microloans to more than 4,000 entrepreneurs. This program could play a small, but significant part in the Administration's welfare-to-work initiative.

Minority and Women's Prequalification Loan Programs. SBA has developed two pilot loan programs to provide specialized support and financial assistance to minorities and women. The Women's Prequalification Loan program, which you highlighted in October, is now offered nationwide, and the Minority Prequalification Loan program continues in its initial pilot stage. Both programs allow SBA to prequalify guarantees for loans of up to $250,000 before the business owner approaches a bank and to focus on the applicant's character, credit experience and reliability rather than assets.

International Trade. In FY 1996, SBA initiated partnership agreements with its counterparts in Russia and Ireland to foster improved cooperation and business opportunities for small businesses in these markets. SBA, now represented in the Gore-Chernomyrdin Commission, is actively working with the banking and small business communities to encourage American small businesses to explore exporting opportunities in the Russian Federation. Similarly, at Secretary Christopher's request, I made presentations at the past two Middle East/North Africa Economic Summits and led the U.S. delegation to this year's APEC Small and Medium-sized Enterprises Ministerial meeting; and such SBA efforts to promote small business export and development internationally are likely to have long-term positive consequences.

Working with the Department of Commerce and Export-Import Bank, SBA has opened 15 U.S. Export Assistance Centers (USEACs) across the country to provide in a single location hands-on export marketing and trade finance counseling. SBA and Ex-Im have also harmonized their Export Working Capital Guarantee programs to achieve a streamlined application process and cut duplication of effort. These actions are important to help small businesses with foreign orders secure financing to produce goods and services for export.

Research and Development. SBA is also improving access to capital for small businesses in the research and technology sector. Under SBA's Small Business Innovation Research (SBIR) program, small businesses propose innovative ideas in competition for specific research and development awards from participating federal agencies with the goal of subsequent commercialization. Federal agencies made approximately 4,500 awards to SBIR firms totalling almost $900 million in FY 1996; and this amount is proposed to grow to 5,500 awards totalling approximately $1.1 billion in the current fiscal year.

DELTA Program. The Defense Loan and Technical Assistance (DELTA) program, established last year with the Department of Defense, provides loan guarantees and management and technical assistance to small businesses adversely affected by defense downsizing. The agency has identified geographic concentrations of those defense-impacted businesses and implemented a major marketing project to target these firms. The Department of Defense has set aside $30 million for loss reserves to enable SBA to guarantee almost $1 billion in loans for fiscal years 1996-97.

2. Championing Regulatory Reform and Paperwork Reduction

Regulatory Reform. SBA's page-by-page, line-by-line review of its regulations converted them to a plain-language format and eliminated more than half the pages. The agency has nearly completed the same reform of its 25,000-page Standard Operating Procedures.

SBA has also achieved significant results in working with other federal agencies to ensure compliance with the Regulatory Flexibility Act. Illustrations include the EPA (simplifying reporting for small firms dealing with hazardous waste), the SEC (developing a simplified registration requirement for small companies), the FCC (structuring bidding rules favorable to small businesses for the auction of personal communications services licenses), and OSHA.

Under the Small Business Regulatory Enforcement Fairness Act, SBA has appointed a national Ombudsman and ten regional Regulatory Fairness Boards to address regulatory problems for small business. This legislation also provides for judicial review of the Regulatory Flexibility Act, which was a National Performance Review initiative.

Paperwork Reduction. The SBA's Low Documentation, or "LowDoc," loan application, introduced by Erskine, is an excellent example of reducing paperwork and providing better service. Through this program, SBA has reduced the paperwork necessary to obtain loans of under $100,000 from a voluminous application to just one page, with dramatically faster turnaround time. Since smaller loans are less profitable for lenders, LowDoc makes it easier for a lender to ask for SBA's guarantee. In FY 1993, 8,475 SBA LowDoc loans were approved; that number increased to 36,039 loans in FY 1996.

A new pilot, FA$TRAK, reduces paperwork further by allowing certified lenders to use their own paperwork, complete no SBA forms, and share the risk equally with the agency. In FY 1996, this program accounted for 2,700 loans for $113 million.

SBA and the Commerce Department last year unveiled the U.S. Business Advisor, an Internet service providing nearly all the federal government's available small-business information. SBA's own homepage, developed in this Administration, logs nearly one million hits per week.

3. Reinventing the SBA

Centralization and Downsizing. In the last four years, SBA has "reinvented" itself through centralization and downsizing, allowing the agency to do "more with less." Significant resources have been shifted to its district offices, where small business customers actually are served. Staffing has been reduced by 23 percent overall, with central office staff reduced nearly 34 percent and the regional offices by 90 percent, for a savings of more than $250 million, exceeding all of the National Performance Review staffing targets. SBA also closed several post-of-duty offices throughout the country, but was foreclosed from further office closings by Congressional opposition.

At the same time, centralization has allowed the agency to provide programs and services to more customers more efficiently than ever before. Incorporating the best practices of private industry, SBA is centralizing much of its loan processing and related administrative support into two locations and has centralized human resources from regional personnel offices to two central sites.

SBA has also centralized the Preferred Lenders Program (PLP), which authorizes active, best-performing lenders to use their own credit judgment, without SBA's re-analysis, in giving an SBA guarantee on a loan. This provides the opportunity to initiate more efficient, computer-based tracking systems and to streamline the loan eligibility determination process. Centralization played a strong role in increasing the number of loans approved under the PLP process from 4,298 loans totalling $1.3 billion in FY 1995 to 9,624 loans totalling $3.0 billion in FY 1996.

Liquidation Improvement. Last year, the agency developed and began implementation of a Liquidation Improvement Project (LIP) to increase the SBA's dollar recoveries and reduce the agency's subsidy rate (loss reserves requirement), through timely completion of liquidation and litigation and other servicing and disposing of the agency's loan portfolio. As a result, SBA anticipates a 20 percent increase in overall collections.

Publications and Image. SBA last year revised, consolidated, and made more business-like its numerous publications and program brochures. A new logo and design for all publications have been adopted, and extensive banners, posters, and public relations tools have been produced to update the agency's image.

4. Serving as Your "Eyes and Ears" in the Small Business Community

White House Conference on Small Business. The 1995 White House Conference on Small Business, including the preliminary state and regional conferences held across the country, attracted more than 20,000 small business owners who contributed their thoughts, interests, and ideas to the Clinton Administration and to Congress. At the national Conference, some 2,000 national delegates made 60 recommendations concerning areas as diverse as access to capital, the globalization of markets, health care, pension reform and the effect of taxes on small business formation and growth. During the Administration's first term, an unprecedented number of recommendations from the White House Conference have been addressed, either whole or in part, making the 1995 gathering the most successful White House Conference on Small Business. We have tenaciously kept delegates informed about the Administration's progress, distributed an "implementation report" to participants, and this month will host a Washington "update conference" for which 300 White House Conference delegates are already registered.

5. Expanding Access to Education and Training

SBDCs and SCORE. Education and training are critical to the success of established small business owners as well as new entrepreneurs. Last year, an estimated 850,000 individuals received management training and counseling from SBA's national network of business education and assistance programs, primarily the 976 Small Business Development Centers (SBDCs) and 13,000 Service Corps of Retired Executive (SCORE) volunteers.

Women's Business Centers. Across the country, SBA sponsors 54 Women's Business Centers (formerly the Women's Demonstration Sites), designed to provide long-term training and counseling to current and potential women business owners. Women's business ownership, through these centers and in all of the agency's programs, has been a major Administration initiative.

USEACs. The 15 USEACs jointly operated by SBA, Commerce, and the Ex-Im Bank provide counseling on how to "go global" and access programs like SBA's new Export Working Capital loan program. This year, four more USEACs are scheduled to open.

Business Information Centers. Since 1993, SBA has established 38 Business Information Centers (BICs) and 15 Tribal BICs nationwide. These facilities make available to small business owners the latest high-tech hardware, software, interactive videos and telecommunications equipment.

6. Other SBA Programs

Disaster Assistance. SBA effectively functions as the federal government's "disaster bank" for non-farm private sector losses. For over 41 years, SBA has helped more than 1.3 million homeowners, renters, businesses of all sizes, and non-profit organizations pay for rebuilding after disasters, in an amount exceeding $23.9 billion. In FY 1996, SBA approved 37,822 loans for a total of $987.9 million in disaster assistance to both homeowners (27,542 loans for $475.7 million) and large and small businesses (10,280 loans for $512.2 million). Note that the preponderance of the agency's disaster loans are made to individuals, not businesses, notwithstanding SBA's name.

Government Contracting and Minority Enterprise Development. Consistent with the Administration's policy to "mend, not end" affirmative action, administration of the 8(a) program, the agency's business development program for socially and economically disadvantaged persons, is being dramatically improved. SBA has worked closely with other government agencies, including the

Department of Justice, to implement the executive branch's response to the *Adarand* decision.

On the programmatic side, contracts in the 8(a) program have increased from a total of $4.9 billion in FY 1992 to approximately $7.0 billion for FY 1996. In addition, the average processing time for 8(a) applications has been reduced from 208 days in 1993 to 91 days currently; and through the recent introduction of computer-disk applications, the processing time will soon be reduced to 14 days. Also, in the past year, more firms have been removed from the 8(a) program than in the program's cumulative history since 1968, and renewed emphasis has been placed on its economic development mission.

II. Goals for the Second Term

During the Clinton Administration's second term, SBA should maintain the aforementioned priorities established by you after your 1992 election. The agency must continue to streamline and improve its programs and operations. Much of its focus should be on further adoption of business-like management and information systems; centralized, automated processing; refinement of the many 1993-96 initiatives; and advocacy of small business issues. In addition, SBA should expand several programs as part of the Administration's welfare-to-work initiative, including the Microloan Demonstration program, key women's business programs, One Stop Capital Shops, Business Information Centers, and the Minority and Women's Prequalification pilot programs. The particular objectives are outlined below.

To accomplish these, SBA must work with Congress to complete a comprehensive three-year reauthorization in this fiscal year to be in place by October 1, 1997. Specifically, SBA will need new authorization levels for all of its loan programs, extension of the funding formula for the SBDCs, and extension of the fees on the 504 and SBIC programs which were included in P.L. 104-208 as a one-year authorization. While SBA does not require reauthorization of the 8(a) contracting program, the agency anticipates Congressional action to repeal it. In addition, new obligations established by Congress for SBA must be met.

1. Improving Access to Capital

- Set and reach measurable goals for underserved small business markets and geographic areas, utilizing the Prequalification and Microloan programs and intensifying the agency's outreach in the Empowerment Zones/Enterprise Communities (EZ/ECs).

- Establish several EZ/ECs as models for using entrepreneurial growth as a means of inner-city economic development through the One Stop Capital Shops. For example, SBA could target a select number of EZs and shopping center developers for financing retailers who open stores in the local EZs.

- Help America's small businesses "go global" through an expanded Export Working Capital program and implementation of the new "SBA Export Express" package to increase the number of lenders willing to extend working capital to small businesses.

- Sponsor additional small-business trade missions led jointly by the Department of Commerce and SBA.

- Improve and promote specialized capital access opportunities through bonding, venture capital and export financing, as well as technological innovations like the SBIR program and the new ACE-Net Internet service for "angel" investors.

- Innovate further through electronic lending processes (as in the FA$TRAK and "SBA Export Express" programs), reduced documentation, and one-stop capital access centers.

Success in meeting these goals will be gauged by assessing the number and dollar value of guaranteed loans, the percentage of loans going to traditionally underserved markets, increases in the percentage of loans that remain current among borrower groups, and increased recoveries on defaulted loans. The agency should also examine in greater depth the percentage of SBA-assisted businesses still in operation after five years, the percentage of borrowers who fully repay their loans, administrative costs of lending programs, variances in the loss rate of specific programs, and the number of businesses and jobs created, maintained or expanded.

These results will depend, of course, on the state of the overall economy, the agency's Congressional authorization and appropriations, and active lender partnerships. But significant improvement is necessary in the measurement of the agency's performance beyond the recitation of gross financing statistics.

2. Championing Regulatory Reform and Paperwork Reduction

- Work with other Federal agencies, including OSHA, EPA and the IRS, to minimize the negative impact of regulations and paperwork requirements to allow small businesses to be more productive. SBA's new Ombudsman and regional Regulatory Fairness Boards should guide SBA's Office of Advocacy in targeting specific opportunities for improvement without sacrificing public health and safety.

- Encourage and mobilize the federal regulatory community to provide compliance assistance. The network of SBA's 976 Small Business Development Centers should be of major assistance in this effort.

- Regarding SBA itself, continue to make the agency's lending more user-friendly, reduce duplication in regulations, and streamline internal processes. For example, by the end of this calendar year, SBA will have completed streamlining by two-thirds its 25,000 pages of Standard Operating Procedures. This type of "grunt work of government" must continue in all areas of SBA's program administration. And lending requirements should be made more understandable and less onerous.

3. Reinventing the SBA

- Further reduce taxpayer costs of SBA programs through continued liquidation improvement to increase recoveries and reduce turnaround times, selective outsourcing of routine functions to the private sector, additional downsizing of the agency where appropriate, and automating and improving the quality of portfolio servicing.

- Improve the agency's use of information systems and other new technologies in cost-effective ways to improve the agency's productivity and increase SBA's outreach.

- Improve and expand the agency's principal Internet resources – the U.S. Business Advisor, SBA OnLine, and ACE-Net.

- Improve financial and general management of the agency through integrated systems linking planning, budgeting, program delivery and performance measurement; a consistent, SBA-wide quality review process to enhance accountability and fraud awareness; and procedures to improve the timeliness and relevance of audits and investigations. These projects must be guided by the objectives of the Government Performance and Results Act as well as recent federal credit reform initiatives.

- Securitize SBA's business loans through a pilot sale of a $100 million portion of its loan portfolio and gradually larger increments if asset sales are proven to be effective.

- Empower employees through improved training, especially in SBA's field offices and centralized processing/servicing centers. Special emphasis should be devoted to computer and new technology skills related to automation of administrative systems.

These efforts can result in a more efficient, cost-effective delivery of services and reduced fraud, waste, and abuse. Improved financial management, expanded training, and increased use of information technology will also result in portfolio quality improvements and, consequently, fewer defaults and reduced loss reserve requirements.

Again, success will depend in part on Congressional and stakeholder support of the agency's reinvention initiatives and sufficient infrastructure development and funding.

4. Serving as Your "Eyes and Ears" in the Small Business Community

- Assist the small business community through all the agency's resources in representation of the small business perspective in regulatory, policy and legislative discussions. This includes providing Regulatory Flexibility Act oversight, championing implementation of recommendations from the 1995 White House Conference on Small Business and continuing the close liaison between the agency and the delegates, and monitoring the legislative and regulatory agenda.

- Serve as a bridge between the Administration and the nation's small business community, especially its trade associations and representative organizations, on major public policy issues. At a recent post-election meeting of such leaders, convened by SBA's Administrator, for example, the following issues were identified as "the small business agenda" for the new Congress: a balanced budget, estate tax relief, independent contractor clarification, tort reform, capital gains tax relief, and home office deduction.

- Develop stronger relations with state and local economic development offices and continue to use the agency's National Advisory Council members, all of whom were appointed under this Administration, to represent the SBA locally and to advise the Administrator on small business issues.

- Create events and public forums for greater recognition of entrepreneurial successes. For example, SBA should shift the focus of the state and national Small Business Weeks from "mom-and-pop" shops to fast-growing companies and new high-tech firms.

- Continue to create forums for small business owners to express their concerns regarding regulatory burdens and other small business issues.

- Expand outreach to small businesses owned by historically disadvantaged persons to help them become successful in the mainstream economy and continue relevant government procurement reforms.

5. Expanding Access to Education and Training

- Reduce the often "bureaucratic" style of current training and technical assistance programs and provide customer-friendly access to information, counseling, and technical and management training.

- Increase the number of One Stop Capital Shops, Women's Business Centers, and Microloan intermediaries across the country. At the same time, SBA should expand the activities and improve the effectiveness of its Business Information Centers and the U.S. Export Assistance Centers. Better performance measurement systems for these new programs must be developed.

- Coordinate business education more closely with financial assistance to maximize benefits to customers who obtain SBA-guaranteed loans. The agency should offer education for small businesses in electronic commerce and electronic data interchange, expand its on-line services for small businesses, and focus business development assistance on traditionally underserved groups, such as veterans, women, African Americans, Native Americans, Hispanics, and Asian Americans.

- Expand the use and coordination of private sector resource partners to provide counseling, training and other resources. There is enormous room for improvement in, and sometimes seemingly insurmountable obstacles to, integrating the 976 Small Business Development Centers (SBDC) and 13,000 Service Corps of Retired Executives (SCORE) volunteers with SBA's economic development programs.

Traditionally, the number of entrepreneurs served has been the principal measure of success for SBA's education-and-training resource partners. Yet the value of these services should be measured by the viability and growth of the client businesses. SBA must also lower delivery costs and make the range of services available to small businesses more current.

Factors contributing to the success of these goals include cooperative partnerships with both existing and future resource partners, Congressional and stakeholder support, and sufficient funding.

6. Other SBA Programs

a. Disaster Assistance

- Improve and simplify SBA's disaster loan-making process. The agency supports the Administration proposal consolidating all disaster programs (e.g., FEMA, SBA, HUD) within a single fund appropriated to the President.

- Consolidate SBA and FEMA resources and systems regarding inspection of damage to homes, create a "paperless" application process for disaster loans, automate loan officer reports, and make loan disbursements through electronic fund transfers directly to the borrower's account.

- Develop systems to share information more effectively with FEMA, the insurance industry, and other stakeholders to ensure timely assistance to victims of disasters and avoid duplicate benefit payments.

- Educate business owners as to disaster mitigation.

b. Government Contracting and Minority Economic Development

- Explore elimination of SBA's contracting role in the 8(a) program by allowing government agencies to contract directly with the licensed businesses.

- Reform the 8(a) program, addressing the concerns raised by legislation proposed by Sen. Kerry in FY 1994 (especially regarding financial net worth criteria for eligibility and continued participation in the program).

- Expand government procurement opportunities for small and minority businesses, especially by aggressive "goaling;" complete the automation of eligibility and certification functions of the 8(a) program; improve its automated tracking system; and provide customers with immediate on-line access to a directory of small business procurement assistance programs, linked to each Federal agency's Annual Procurement Forecasts and other information that small businesses can use to expand their marketing to the federal sector.

- Establish criteria to document accurately the 8(a) program's success and improve the public perception of this program.
- Establish a mentor/protege program that will enable established, successful 8(a) firms to assist businesses still in their developmental stage.

SBA should measure its success in terms of the increased share of federal government procurement for small business, veterans- and women-owned businesses, and disadvantaged firms; the increase in the number of 8(a) firms reaching competitive viability; and the increase in the number of 8(a) firms which graduate from the program.

Attainment of these goals will depend on final implementation of government-wide procurement reform, compliance with the *Adarand* decision, and Congressional support.

7. Statutory Mandates

The recently-enacted FY 1997 Omnibus Appropriations bill established, among others, the following new obligations for SBA:

- Allow Preferred Lenders Program participants to perform routine servicing and liquidation and approve or deny Certified Lenders Program liquidation plans in 10 days and routine liquidation activities in 5 days.
- Establish regulations applied uniformly to bank and non-bank lenders permitting the securitization of the unguaranteed portion of 7(a) loans while retaining an appropriate reserve.
- Consolidate loan servicing functions.
- Implement a demonstration disaster loan servicing program conducted by the private sector.
- Recentralize authority for the Small Business Development Center program at the Central Office.
- Work with the Commerce Department's Minority Business Development Administration (MBDA) on new joint projects for minority business development.

Most of these requirements are consistent with initiatives already underway; but close work with the Congress will be required to ensure that additional unrealistic requirements are not imposed.

Building upon the Clinton/Gore Administration's first-term SBA accomplishments and addressing these recommendations, this agency, in the next four years, can further demonstrate your substantive commitment to America's small businesses, integrate small business formation and growth into your overall economic legacy, and help create millions of jobs by championing America's entrepreneurs.