Budget—FY2001

PHOTOCOPY
PRESERVATION

DPC Ideas for 2000 State of the Union and the Budget • Alt to $200m
11.19.99

EDUCATION ($1.7)

1. Increase class size funding to $1.7-2.3b. [Andy should figure out what level would get us 50,000 teachers. It must be in the 2.3-2.5 range.]
2. ($200) Double after-school funding to $900m [At that level, I think it could be universal for low-income kids. Ask Andy and Ann] We also have our idea for after-school vouchers, which at one point had NEA/AFT support. Or we could just look at opening up the program to faith-based institutions. → rather than [illegible] the fiscal year
3. ($130) Increase charter school funding from $145m to $200m [or whatever level enables us to reach President's goal of 3,000 by the time we leave. [FY2000 budget gets us to 2,400]
4. ($50m) Pay for performance: 10-city demo to reward good teachers (linked to our proposal to make it easier to fire bad ones) + rural areas (not states)
5. ($50 needs 5 yr) Reward and incentive fund for ESEA: Our ESEA bill authorizes rewards for states that make progress in Title I schools, but we never set a funding level. We should in this budget – even if it's only 50-100m in the first year. [Andy, Ann, and Mike Cohen can flesh this out.] – needs shift to performance after Y3 + what works
6. BC: $170 Increase small schools program from $45m to [$200m]. This idea has enormous potential as both an education reform and a school safety proposal.
7. Teacher quality block grant: Our ESEA bill combines Goals 2000, Eisenhower, and Title VI into a $1.2 billion teacher quality block grant. To do this right, we'll need another $300m because we never fund Title VI.
8. Public school choice: Our ESEA bill authorizes a new program; I don't know what level.
9. Increase Title I by $200-300m, while increasing accountability set-aside from 134m to 200m.
10. Distance learning (Andy)
11. School leadership (Eric/Andy) – we tried for this last year and failed
12. Test prep for minorities (Eric): competitive grants
13. School construction (NEC) + Teacher Grow-Your-Own (WB)
14. Troops-Teachers

[In general, Andy and Ann need to review our ESEA proposal (as well as Lieberman's and the House Title I bill) to see whether there are other ideas we authorize and should now fund, so that we're in the strongest possible position going into the ESEA debate.]

$50

CRIME/GUNS

1. COPS II: Increase hiring from $600m to $800m; increase crime technology to $300m (not 350m); increase community prosecutors to $50m (not 200m); fund prevention elsewhere or scale back.

2. National Gun Enforcement Project ($210 million): This would be a comprehensive initiative to put an unprecedented level of resources into firearms enforcement.

1,000 new Federal gun prosecutors to increase federal gun prosecutions and bolster the local gun strategies all 94 U.S. Attorneys developed in response to the President's directive.

500 new ATF agents to investigate more gun trafficking cases including straw purchasers, gun show enforcement, and Brady denial cases. This would cover additional agents to expand the Youth Crime Gun Interdiction Initiative to more cities.

100 new ATF inspectors to crack down on the most unscrupulous dealers, manufacturers and distributors to ensure industry compliance. Inspectors would target dealers with the most crime gun traces.

Comprehensive crime gun tracing. The initiative would be the first step in a new effort to trace every crime gun in America. It would fund ATF training and software for every interested state and local law enforcement agency, and additional staff for the National Tracing Center to accommodate the increase in trace requests.

Expanded ballistics testing. The initiative would help law enforcement catch more gun criminals by expanding existing ballistics testing systems to accommodate 10 additional manufacturers to test fire new guns.

3. Police Gun Buybacks: Ending the re-sale of used police weapons and seized guns ($10 million). This initiative would encourage state and local police departments to end the practice of re-selling used police guns and confiscated crime guns on the civilian market. The Justice Department grant program would purchase used police guns on a one-time basis from departments on the condition that they permanently agree to halt re-sales or trade-ups in the future (unless they want to transfer the guns to another police agency) and destroy all seized firearms. [We are still determining whether this is best accomplished through a grant program.]

4. Community Supervision of Released Offenders

Reentry Courts and Reentry Partnerships ($100 million). The reentry initiative will help address community safety concerns, lower recidivism rates, as well as support issues for the nearly 500,000 inmates that will leave prison this year. Two-thirds of all prisoners re-arrested for new offenses within three years of release. The initiative – which would ideally be targeted to areas with the most returning offenders -- would be comprised of three elements: reentry partnerships, reentry courts, and the hiring of more probation and parole officers.

Reentry partnerships ($25 million). Through reentry partnerships, police and corrections agencies would monitor offenders in the community, and team up with other community service providers to target and provide resources for offenders such as drug treatment, housing, and counseling services. This would fund up to 25 demonstration sites.

Reentry courts ($25 million). Reentry courts would use the drug court concept of judicial supervision to oversee offenders on conditional release. Offenders would meet regularly scheduled court appearances on the status of individual accountability plans, with graduated sanctions for failing to meet plan requirements. Reentry courts would work with community service providers to identify and target needed resources for the offender. This would fund up to 25 sites.

Hiring more probation and parole officers ($50 million). To heighten community supervision of offenders, and to complement reentry courts/partnerships, the initiative would provide new funds for localities to hire additional probation and parole officers. These officers would help communities to better monitor offenders through frequent home visits, regular drug testing, location monitoring devices, and other means. Officers could administer swift and certain punishment for offenders who violate the terms of their parole or probation.

5. School Violence Prevention

School Violence Tipline ($2 million): The Education Department could establish a national toll-free telephone tipline that would allow students to anonymously report actual/potentially dangerous youth; ongoing or planned criminal activity; and weapons, gangs, sexual harassment, child abuse, etc. The tipline would help provide students with an appropriate response or referral and immediate notification of authorities for imminent threats. The tipline could be used to collect statistics on school crime trends. The tipline could potentially be administered in partnership with the National Youth Violence Campaign.

[What else? Counselors? Metal detectors? Le/Deanne should look at our post-Littleton proposals]

6. Zero Tolerance Drug Supervision ($215 million). This initiative combines key programs to promote coerced abstinence from drugs for offenders under criminal justice supervision – and is a carry over from the FY 2000 budget request. The initiative provides (1) $100 million to help states and localities to drug test, treat, and punish prisoners, parolees and probationers; (2) $50 million for drug courts; and (3) $65 million for the Residential Substance Abuse Treatment program to provide intensive drug treatment to hardcore drug users before and after they are released from prison. [Open to faith-based?]

7. Elder Crime: Le/Deanne & Chris need to come up with something here.

HEALTH CARE [Pending]

CHILD CARE/FAMILIES

1. Move CCDBG to discretionary side, set at $1b in 01 and $5b over 5 yrs.
2. Scale back Early Learning Fund if possible
3. Paid leave demo
4. Adoption??
5. Benefits for temps and free agents (Eric) – any cost?

[Need ideas from Nicole/Ann]

WELFARE/CHILD SUPPORT

1. Split fathers proposals out of WTW reauthorization (emphasis on VP's work requirements)
2. Decide whether to scale back WTW reauthorization
3. Restore pass-through
4. Child support enforcement (CR)
5. Welfare-to-work housing vouchers?
6. IDAs
7. Child development accounts, SITC (Eric)

TOBACCO

1. 50-cent price increase and/or a souped-up lookback.
2. Farmers?
3. Recoupment??

FAITH-BASED/PHILANTHROPY/SERVICE

1. Venture fund (Eric)
2. SBA for non-profits (Eric)
3. Deductions for non-itemizers and other tax ideas (other Eric)
4. Community coaches, nat. mentor network, grants to support universal service, Americorps reserves (Eric)

MISCELLANEOUS

1. Food safety: reform proposals plus more money
2. Civil rights/equal pay: increases we didn't get this year
3. Media literacy initiative (Eric)
4. Internet: digital divide initiative; electronic referendum (Eric)
5. Race: public housing integration, asset gap (Eric)

IMMIGRATION

1. Reforms to the INS Financing Mechanisms - our latest INS restructuring proposal included a few INS financing provisions to ensure that funds for immigration services (backlog reductions for naturalization and green card applications, training, etc) are not used for enforcement purposes and that there are sufficient funds for these services. This proposals are important to the immigrant groups because in the past Congress has raided the fee accounts for immigration services and used the money for enforcement purposes. I have begun discussions with OMB on this and they are agreeable and will work with me to flesh this out.

2. Citizenship Test Streamlining Development - this proposal would provide funding to fund INS's implementation of Pricewaterhousecooper's recommendation to improve the current citizenship test. Estimated Cost: Pending

3. ESL/Civics Initiative Proposal - asked for $70 million in FY 2000 and got $25.5 million, recommend that we ask for at least $75 million for FY 2001 if not more.

4. AgNet Registry for Farmworkers - Last year, we requested $10 million for this program but did not receive any funding. I think we should re-propose this proposal to improve the current way that growers hire farmworkers which we hope will decrease the demand for a new guestworker program and decrease reliance on foreign workers.

Barbara Chow
11/23/99 09:56:32 AM

11/29 tasks
12/5 pass-back
12/10 appeals
12/20 close

Record Type: Record

To: Larry R. Matlack/OMB/EOP@EOP, Jack A. Smalligan/OMB/EOP@EOP, Wayne Upshaw/OMB/EOP@EOP

cc: Kathryn B. Stack/OMB/EOP@EOP, Jennifer E. McGee/OMB/EOP@EOP
Subject: budget shopping list

FYI but please do not distribute too widely or share with agencies. thx.

---------------------- Forwarded by Barbara Chow/OMB/EOP on 11/23/99 09:55 AM ---------------------------

Bruce N. Reed
11/22/99 06:31:01 PM

→ Busing
Summer school / Ext. school

Record Type: Record

To: Barbara Chow/OMB/EOP@EOP

cc: Andy Rotherham/OPD/EOP@EOP, Eric P. Liu/OPD/EOP@EOP
Subject: budget shopping list

Sorry to miss your meeting tomorrow. As we talked about on the phone, our priorities are:

EDUCATION
1. Class size: somewhere in the vicinity of 1.8-2.0b.
2. After school: 700-900m (I think 700m will get us to 1 million kids)
3. Charter schools: 180m (or whatever # gets us to Pres's goal of 3,000 schools)
4. ESEA reward and incentive fund: 50-100m in year 1 for states that comply with Title I requirements, begins to reward progress in student achievement in year 3.
5. Small schools: 170-200m – (fold into HS reform)
6. Title I: an increase along the lines of what you suggested, while raising the accountability earmark from 134m to 250m
7. Teacher quality: in addition to your idea of a high school ROTC for teachers, we'd like to spend 50m on a Denver-style teacher pay-for-performance demo in 10-15 districts. We'll get you more details.
    -- We should also decide what level to fund our Goals-Eisenhower-Title VI block grant. It might make sense to put that at 1.2b -- or at least at 1b (which would be an increase of about 170m above the Goals/Ike total, right?)
8. Report cards: 50m for states to develop the new report cards called for in ESEA;
9. School leadership: 20m for principal academies – Fellowships
10. Schools of the Future fund: 50m for competitive grants (we'll get you more details)
11. Ed tech $ for distance learning
12. 10m for SAT/ACT test prep for minorities. → expand AP for minorities / including dist. learning
13. Some increase for character education/civics
14. School safety: let's discuss -- we should be creative
15. Other items you already mentioned: public school choice; troops to teachers;

-- should we try again on teacher scholarships?

CHILD CARE
1. Move CCDBG to discretionary side, scale back to $5b over 5
2. Scale back Early Learning Fund if possible
3. An inexpensive paid leave demo
4. Whatever you recommend on SSBG

WELFARE/FOOD STAMPS/IMMIGRANTS
1. Child support enforcement/distribution rules/pass-through: 100m/yr (maybe more if we can come up with a good enforcement idea)
2. Competitive grants for welfare-to-work: 250-500m, with another 500-750m of formula grants in the out-years (and extend the 3-yr deadline for when they can spend down the $). We're looking at the VP's proposal for work requirements for fathers.
3. Cars-to-work: Raise the food stamps vehicle limit (1.6b over 5), plus perhaps a few other cheap bells and whistles
4. IDAs: 25m
5. Food stamp outreach: 10m (We're also looking at USDA's proposal on elderly nutrition)
6. Whatever you think we can get on immigrant benefits
7. Re-entry: DOL has proposed a training program for ex-offenders; we're also looking at a DOJ proposal on fathers leaving prison. Maybe we should combine all these fatherhood proposals together into a single package.

8 - [illegible]

In the no-cost department, we'd like to expand charitable choice to whatever social services programs we can.

DRAFT 11/23
CEQ/SOTU 2000

Clean Energy for the 21st Century – A package of initiatives to further demonstrate the Administration's commitment to addressing climate change, both by reducing domestic emissions of greenhouse gases and by encouraging the adoption of clean energy technologies in developing countries:

Investing in Clean Power – A proposed rule, and proposed legislation, to reduce emissions from older coal-fired power plants, a major source of greenhouse pollution. Rule would tighten standards but provide companies new flexibility to meet. Legislation would set a cap on carbon emissions from utilities, and could include financial incentives to retire old plants or switch to cleaner fuels. Would have major public health benefits by reducing smog and other air pollutants.

Choosing Fuel Economy – Challenge automakers to voluntarily provide American consumers with more fuel efficient cars and SUVs (as they are doing in the European market) and pledge to raise fuel economy standards if they don't.

Clean Energy Abroad – A $250 million program, based on the recommendations of the President's Council of Advisors on Science and Technology, to promote clean energy technologies in developing countries through research, development, and export incentives.

Lands Legacy – Launch a new package of initiatives, and a Lands Legacy tour, to build on the Administration's conservation accomplishments and protect additional lands across the country:

Protecting Natural and Historic Sites – Presidential designation of sites warranting additional protection.

Permanent Conservation Funding – Secure guaranteed funding of at least $1 billion a year for federal, state, and local conservation efforts.

Encouraging Private Land Conservation – A package of tax incentives to preserve farms, forests and other private lands.

Expanding Refuges – Set a goal of 100 million acres in refuges 2003, the 100th anniversary of the national wildlife refuge system.

Clean Water Across America – Set a goal of making all our rivers, lakes and coastal waters clean enough to fish and swim in doubling our investment in clean water over the next 10 years. Would increase funding to Clean Water State Revolving Funds ($1.35 billion in FY 2000) and make them available to help farmers and ranchers reduce polluted runoff. Also call on Congress to reauthorize a strengthened Clean Water Act.

Greening the Globe – A new initiative to promote forest conservation and reforestation around the world, particularly in tropical regions facing the gravest threat of biodiversity loss. Would increase funding to USAID and other agencies to provide technical assistance and training, and increase funding for debt-for-nature swaps. Could challenge other developed countries to take similar effort or join us in a multilateral effort.

THE WHITE HOUSE

WASHINGTON

November 23, 1999

MEMORANDUM FOR MARIA ECHAVESTE

FROM: NEAL LANE

SUBJECT: State of the Union Messages

I appreciate this opportunity to provide input for the President's Year 2000 State of the Union message. Science and technology should figure prominently in the record of accomplishments that will be featured in the address as well as in the initiatives announced to ensure continued progress toward the Administration's goals.

Accomplishments

When the President remarks on the eight years of record peacetime expansion in the U.S. economy, he should – as Alan Greenspan has – credit science and technology for much of the outstanding performance. Innovations in science and technology had multiple and reinforcing effects on the economy that:

- have resulted in improved productivity, yielding increases in wages or increases in benefits without letting loose higher inflation;
- have led businesses to continue to invest in high-tech capital equipment, making our capital stock more productive and profitable; and
- have provided U.S. businesses with payoffs from technology's efficiencies and from greater education in school and on the job that U.S. workers have acquired to keep pace with the new technology.

I hope the President will also remark on the progress toward a goal he and the Vice President established in 1994 of bringing the total national R&D investment up to 3 percent of GDP. By current projections, total annual R&D expenditures in the United States have outpaced growth in the economy as a whole for three consecutive years, with R&D as a share of GDP reaching 2.79 percent in 1999 – the highest since 1967. In 2000 the U.S. R&D/GDP ratio could exceed the all-time high ratio of 2.87 percent in 1964. The President's policies that spurred economic growth also spurred growth in R&D investment, and those investments will, in turn, ensure continued economic growth.

Initiatives

Most of the growth in R&D investment has occurred in the private sector. Federal investment remains critically important, however, and I hope the President will take every opportunity to ensure his vision – which has bipartisan support on Capitol Hill – endures. The SOTU address should reemphasize 4 objectives:

- World leadership in science and technology. The most tangible evidence of commitment to this goal would come in the form of a substantial increase in the 21st Century Research Fund. This fund represents the kind of pure investment that characterized the early strategy of this Administration, and might well be renamed the 21st Century Research Investment Fund for this occasion. I hope to see particular emphasis given to all of the peer-reviewed R&D programs.
- A balanced R&D portfolio. As the President stated in the Online Town Meeting, we need to see substantial growth in the physical sciences and engineering disciplines (e.g., chemistry, physics, astronomy and space sciences, mathematics, and geosciences), with particular emphasis on the R&D initiatives identified by my office and OMB. For example, initiatives in the following areas would support advances in a number of disciplines:
    - *Information Technology*: This initiative will deliver to every American in every community the power of instant knowledge and instant communication. It will yield a stronger economy, better jobs, and higher quality health care and education for all citizens.
    - *Nanotechnology*: This initiative will lead to the following potential applications: nanoparticles for improving drug delivery, minute sensors for earlier detection of cancer, computer chips capable of storing trillions of bits on information on a pin-head, advanced materials stronger than steel, and artificial photosynthesis for clean energy.
    - *Climate Change Technology*: This initiative promotes research aimed at technologies that lower carbon emissions, reduce greenhouse gas emissions, and increase the efficiency of energy and materials used in transportation, buildings and manufacturing. One illustration of the potential of this initiative is the Partnership for Advanced Technology in Housing (PATH) site in California where the heating/cooling costs of new homes are less than $23/month, and construction costs are about $40/square foot – roughly $25/square foot cheaper than the average cost for a single family home.
- Research to solve critical national problems. The President has called for research and development to give us tools to address problems that will confront us as we enter the new millennium. We need to develop technologies to fight emerging security threats such as chemical and biological weapons, or attacks on our national information systems and other critical infrastructures.
- Preparation of the 21st century workforce. Substantial growth in university-based basic research, important in civilian and military research but particularly important for DOD (which has decreased its basic research spending by more than ten percent in real terms since the start of the first Clinton Administration), is the best way to ensure that this country is well positioned to prosper from advances in science and technology. It links education with scientific advance, which are both vital to the economy.

I look forward to discussing these ideas with you after Thanksgiving.

THE WHITE HOUSE

WASHINGTON

November 24, 1999

MEMORANDUM FOR MARIA ECHAVESTE

FROM: GENE B. SPERLING

SUBJECT: FY 2001 BUDGET IDEAS

This memorandum provides a brief description of new ideas we are considering for the 2001 budget.

Education

- *Stay in College:* To address the rising, especially among minorities, college drop out rate by increasing appropriations for grant programs and encouraging colleges to front-load grants (for example, award a student's 4-year eligibility for Pell Grants in the first 2 years.) To create partnerships with colleges and businesses, similar to the GEAR UP program that would help provide guidance on course selections for solid career tracks, internships, work-study and mentoring that would make transitioning into the work world easier

Children

- *Universal O-5 Preschool:* An initiative combining child care, early learning, Head Start and parenting education for a major and universal 0-5 initiative.

Poverty

- *Expand the Widow Benefit for Social Security to 75 Percent of the Couples' Benefit and Provide a Credit ($10,000?) for up to Five Years Spent Raising Children:* The President could move further in endorsing a specific widow poverty option. He could also say that he would like us to get together and *do this option in a paid for manner that does not affect solvency.*

Taxes

- *Eliminate the Marriage Tax Penalty – for the EITC Also:* Make the standard deduction for married couples double that of single filers. An alternative proposal could be better targeted and thus provide more for those who pay a penalty. It could also be pitched as being pro working family. We could make a new deduction that would be a fraction of the lower earner's income – so that couples with only one earner would not get marriage penalty relief, but couples who paid the largest penalty (those who earned about the same amount) would get the largest bonus. EITC marriage tax relief would be an integral part of this proposal.

Banking Reform/Financial Services

- *Financial Privacy:* Initiative to protect personal financial privacy as an overarching administration goal in the President's final year in office that would deal with consumer protection issues and fixing problems with the Financial Modernization bill.
- *America Saves Initiative/financial Literacy:* A Clinton initiative to encourage savings and financial literacy for all Americans with a separate New Markets focus.

New Markets/Economic Development

- *Propose New $100 Million Broadband Deployment Initiative for New Market Areas:* Provides grants to states and local areas to plan for and install high-speed Internet access infrastructure to help attract new business and job opportunities in our Nation's under-served communities.
- *Internet Access for Rural America:* Fiber optic cable is replacing traditional copper and coax cable as the primary source of data transmission. In rural areas, however, the small numbers of users per mile make the cost of installing fiber optic cable prohibitively expensive. In the Pacific Northwest, the Department of Energy's Bonneville Power Administration (BPA) has installed fiber optic cable within its right-of-way to provide communications between its facilities. In order that it has room to expand its data transmission capacity in the future, BPA's fiber optic cable contains excess capacity which BPA's has begun leasing to public utility districts (PUD) so that they may offer data transmission access to internet providers and their rural customers. BPA simply provides the backbone of the system, and the PUDs have to pay for the cost of local interfaces. The President could propose expanding such a program to all of the Federal power administrations, bringing affordable Internet access to a much greater geographic area.
- *Digital Divide:* Launch a bold initiative to help close the digital divide, by:
  - Expanding support for Community Technology Centers (currently at $32 million);
  - Providing tax incentives for broadband investment in distressed urban and rural communities;
  - Encouraging the development of content that will help empower low-income families (e.g. adult literacy, English as a Second Language, local information on child care, health care, transportation, information needed to start own micro-enterprise); and
  - Subsidizing PC and Internet access to the home for low-income households;
  - Encouraging the private sector to provide PCs and Internet access with a "telecommuting tax credit."
- *Native American/New Markets Initiative:*

Health

- *Encouraging Small Businesses To Offer Health Insurance:* Creating a new tax credit for small businesses who decide to offer coverage by joining coalitions; encouraging private foundations to support coalitions by allowing their contributions towards these organizations to be tax exempt; offering technical assistance to small business coalitions from the Office of Personnel Management. This proposal was in the President's FY 2000 budget. (Costs: $100 million over 5 years).

- *$1,000 Tax Credit for Workers with Disabilities:* Provide workers with significant disabilities with an annual $1,000 tax credit to help cover the formal and informal costs that are associated with and even prerequisites for employment, such as special transportation and technology needs. (Costs: $700 million over 5 years)
- *Expanding Assistive Technology:* This proposal would double the budget for assistive technologies that enable people with disabilities to work. (Cost: $35 million for 2001)
- *Keeping Out of Institutions and Getting to Work:* Provide support staff for the disabled allowing more people with disabilities to live at home and to contribute to the workforce. Furthermore this would free up people who are now taking time out from their jobs to help out their disabled relatives.

Reinventing Government

- *Green Pages in the Phone Book – Government Service and Hotline Numbers:* Develop a Green Pages section in the phone book that would describe in plain English basic rights and regulations the Government enforces, and services it provides with 1-800 numbers to find out more.

Child Labor

- *Call for a New Global Effort To Educate Children to Avoid Child Labor:* Presidential appeal to the international community to provide resources to reduce child labor by extending primary education to all children in poor developing country – (Cost – UNICEF estimate: $7 billion annual global)

Trade

- *Increased Trade Compliance in China:* Devote a small amount of money (e.g., $5 million) to increase the number of people at ITA working to ensure that China is complying with our trade agreements (30 people). This could also meet the requests of the AFL-CIO and NAM, who have both asked for increased trade compliance funding. And it could help build support for China WTO.

Savings

- *Son of USAs:* Tax policies modeled on Universal Savings Account that are potentially less expensive that would provide SEED money to help families establish the habit of saving for retirement.

HighTech

- *Information Technology for the Twenty-First Century:* This is the second year of a multi-year effort to significantly expand our investment in information technology research in three areas (VP has called for doubling IT research over 5 years): (1) Fundamental IT research: (2) Scientific and other applications of IT: (3) Economic, ethical, legal and social implications of the Information Cost: Last year's request was an increase of $366 million.
- *Internet for Economic Development Initiative:* To expand Internet and its applications in 11 developing countries. Elements of initiative include: policy reform (encouraging developing countries to adopt Internet and e-commerce friendly policies); training of people in developing countries; support for applications of Internet – including e-commerce for small and medium-sized enterprises, distance learning, and telemedicine. *Cost:* $45 million.

Manufacturing

- *Manufacturing Initiative:* To strengthen the competitiveness of US Manufacturing. This preliminary list of proposed initiatives have been grouped as follows:
  - Incumbent worker training;
  - Increasing manufacturing exports;
  - Development and diffusion of technologies;
  - Sustainable manufacturing

DRAFT – 11/22/1999 1:27 PM

November _____, 1999

MEMORANDUM FOR JOHN PODESTA

FROM **GENE SPERLING**

RE **FY 2001 BUDGET IDEAS**

This memorandum provides a brief description of new ideas we are considering for the 2001 budget.

Education

College Completion: Record numbers of students are entering college, but there is a disturbing trend in college completion. College dropout rates are unacceptably high, particularly among minorities. We are working on an initiative to address this problem by increasing appropriations for grant programs, and encouraging colleges to front-load grants (for example, award a student's 4-year eligibility for Pell Grants in the first 2 years). Financial need is a primary factor influencing dropout rates, and students are much more likely to complete college if they make it through the first 2 years.

School Construction: We will need to re-propose a school construction initiative this year. We are currently considering the appropriate size and duration of this initiative, as well as whether it would be better to return the idea of funding the initiative on the spending side rather than structuring this initiative as a tax credit.

Poverty

Expand the Widow Benefit for Social Security to 75 Percent of the Couples' Benefit and Provide a Credit ($10,000?) for up to Five Years Spent Raising Children: The President could move further in endorsing a specific widow poverty option. He could also say that he would like us to get together and *do this option in a paid for manner that does not affect solvency.* One possibility would be to pay for this out of the on-budget surplus through transfers. It may be possible to change certain rules and accounting practices in Social Security to do this.

Getting to Work: A major factor in getting out of welfare and into a job is being able to drive to work. But the way the food stamp program works, it penalizes any beneficiary who owns a car worth more than $4,650. That car allowance was $4,500 in 1977 and has barely crept up since. In the meantime, as a result of welfare reform, states can now liberalize their car allowance for purposes of the TANF program, and more than 40 states have. We should give states the option of conforming their car allowance under the food stamp program to their car allowance for TANF (so long as they do not lower it). Because of Administration steps to increase categorical eligibility under food stamps, the cost of this option will be less than it was last year. As well, the intervening year has seen a worrisome drop in food stamp participation. Finally, with states liberalizing their TANF car allowance, this is now an idea that the states have pioneered.

Helping Low-Income Working Families: The poverty rate among children in families with three or more children is nearly twice that of families with fewer children:

Child Poverty Rate by Family Size	
Number of Children in Family	Poverty Rate
1	12
2	14
3	24
4	36

Source: Bob Greenstein examining 1997 data

As well, with welfare caseloads declining markedly, the question is raised whether work – which, unlike welfare, does not compensate more for larger families – still pays for people with larger families. For the sake of family formation, supporting work, and reducing poverty, the President could call for expanding the EITC to help these working families. A third tier of EITC benefits could be created for families with three or more children. The President began his Administration with a large expansion of the EITC. The poverty rate for children has fallen dramatically, but it is still too high. The EITC plus the minimum wage lifts full-time workers with one or two children out of poverty. With a one dollar increase in the minimum wage, a full-time worker with two or more children would have earned $15,115 in 1998 – which is about $1,500 below the poverty line for a family of four ($16,660). Adding an additional tier to the EITC would be a well-targeted way to pursue the goal that no parent working full time should have to raise children in poverty. Senator Gore introduced a proposal to do this (among other things) in the bill (S. 995) he introduced May 7, 1991. Congressman Downey introduced the companion bill (H.R. 2242) the same day.

Muni-Mac – Fannie Mae for Municipal Bonds as Part of New Markets Agenda: An institution modeled after Fannie Mae for municipal bonds could improve liquidity for risky and small municipalities. Many small and poor communities may face poor risk ratings because of the lack of quality information about these municipalities to provide investors with an accurate picture of future risks. Poor quality information creates uncertainty that can increase risk premiums. Muni Mac could help standardize municipal bond issues for selected markets so that these communities could better enter the bond market. More standardized and uniform issues could also facilitate bond pooling and thus diversify the risk of small and poor communities. This initiative could be incorporated into the broader New Markets agenda by helping these untapped communities.

Publish Annual Statistical Report on New Markets and Develop Website Database To Pool Data Useful to Investors To Locate Business Opportunities in New Markets: *Statistical report.* We argue that one of the reasons that there is hidden investment potential in New Markets is that there is an information gap that does not enable potential investors to identify productive business opportunities. The Federal Government can play a key role in filling this gap by publishing an annual statistical survey of New Markets to help investors understand this potential. Funding should include resources to pay for the pooling of existing data, making key statistical indicators more timely, and developing new useful indicators that do not currently exist. For example, many businesses are dependent on using the median income indicator to assess market capacity. But the aggregated figure hides what may be large numbers of households with much higher incomes within poor communities. We could therefore have Census collect data on the numbers of households that fit into various income brackets to help assess the distribution of income in poor communities and thus better target investment opportunities. *Website Database.* We can also set up a website that would enable easy access and sorting of Census data on local communities that would not be possible in printed form because of the volume of information.

Taxes

Cutting High Marginal Tax Rates: Some of the highest marginal tax rates in the tax system are those paid by people phasing off of EITC. If Congress really wants to reward work and lower tax rates, it should lower the rate by which EITC benefits phase down. Under current law, starting at $12,460 in income, EITC benefits decrease by 16 percent for families with one child and by 21 percent for families with two or more children. To maximize the number of working families EITC could lift out of poverty, we could lower the rate of decrease in EITC benefits until the poverty level for families of three or families of four, respectively

Eliminate the Marriage Tax Penalty – for the EITC Also: There are better and worse ways to address the "marriage tax penalty." Currently, about half of married taxpayers pay more taxes than if they were single filing separately and half pay less taxes. One way of addressing this is to make the standard deduction for married filing jointly double that of single filers. One limitation of this approach is that it provides a bonus for all married couples that take the standard deduction – whether or not they are paying a penalty. The other limitation is that it provides relatively little tax relief (about $210 for people in the lowest bracket). An alternative proposal could be better targeted and thus provide more for those who pay a penalty. It could also be pitched as being pro working family. We could make a new deduction that would be a fraction of the lower earner's income – so that couples with only one earner would not get marriage penalty relief, but couples who paid the largest penalty (those who earned about the same amount) would get the largest bonus. EITC marriage tax relief would be an integral part of this proposal.

Paid Leave Through the Tax Code: We have long been trying to create ways of paying people for the leave they take under FMLA. While we now allow states to create state programs through the UI system, the Federal Government can encourage companies to offer paid leave through tax deductions, or enable individuals to make up for lost pay through tax credits. (1) Provide corporate tax deductions to encourage firms to provide paid family leave for eligible uses. (2) Tax credit for lost pay during leave. We could offer individuals a progressively structured tax credit for the pay individuals lose during leave. The credit would be targeted to lower income families by making only those with joint earnings less than $100,000 eligible. The credit could also be progressive by offering $1 in credit for each $1 lost in pay to families earning less than $40,000 and $0.50 for each $1 lost in pay for families earning between $40,000 and $100,000.

Tax Reform: The tax code has become enormously complex. Nonetheless, the individual income tax remains a bulwark of fairness. Defense and maintenance of the income tax is necessary to sustain Government that has a progressive effect on personal income. The President could call for a Treasury study and proposal for how to simplify taxes – like the 1984 version by Secretary Regan cited by President Reagan in his 1985 State of the Union that helped lead to the 1986 tax reform law. Launching a campaign for tax reform would allow the Clinton-Gore Administration to steal the thunder of both Republican tax cutters and Democratic tax simplifiers from days gone by.

Individual Investment Credits – Flexible Tax Credits: The Administration could create Individual Investment Credits. The Credits would act like a voucher that could be transferable for an array of services that provide development support such as child care, pre-school, college, health, job training, or basic skills building. Every American would benefit, but the credits would be allocated according to a steeply progressive scale. Individuals themselves would decide how to use the credits where they need it most among the allowable services, instead of Government deciding for them. In order to enable people to claim the credits when they need them rather than during the tax cycle, collection could also be done through "employer provided advanced payment option." This option allows employees to estimate their eligibility and get refunds in real time from their employer through the tax withholding process. It is currently allowed for EITC and could be used as a vehicle for this form of credit. The Administration has already developed a solid track record of targeted tax credits for specific key investments such as education, child care, long term health care, and retirement. We could take a step further by broadening core support for an array of services while also providing Americans the flexibility to allocate for themselves how the financial support is used. This flexibility would be more efficient and could also blunt some Republican criticisms that "American's should decide for themselves how to use their taxes."

Taxation of Civil Rights Settlements: The taxation of civil rights judgments and settlements encourages lawyers to push for higher damages and increases litigation. Successful plaintiffs are taxed on the full amount of a judgment, notwithstanding that much of the proceeds go to attorneys' fees. Both business and the civil rights community would applaud exempting such settlements from taxation.

Savings

Children's Savings Accounts (CSAs): Provide $1,000 deposited into a CSA for the roughly four million babies born each year, followed by $500 yearly deposits until age five. The Corporation for Enterprise Development (CFED) estimates this would cost $40 billion. Eligible withdrawals from CSAs would be for: higher education, first-home purchase, and small business capitalization. Matching contributions could additionally be encouraged through additional tax incentives.

IDA Tax Credits: $10 billion over 10 years for two tax credits: (1) a Financial Institution Individual Development Accounts (IDA) Tax Credit for matching, on a one-to-one basis, IDA savings up to $500 per year; (2) and IDA Investment Tax Credit for private sector investments in certified IDA programs administered by 501(c)(3)s, credit unions, or CDFIs. These credits could increase the scale of IDAs by leveraging private sector involvement.

Boosting IDAs: $25 million for Assets for Independence Demonstration Program (AFI), a $5 million increase over the $20 million included in the FY 2000 budget and the maximum allowed under the authorization. AFI is currently the most important source of IDA funding. According to CFED, $25 million would allow about 12,000 low-income Americans to open up IDAs.

Executive Order To Encourage Savings, Either Among Federal Employees (as a Demonstration) or in the Private Sector: Last year, the President announced that the companies could make 401(k)s the default option; that is, they could automatically put new employees in a 401(k) unless they took action to opt out of the plan. There may be ways to extend this for the private sector, and also to have the Government do this with the TSP as a demonstration to the private sector. This could be part of an overall package to encourage savings for working Americans, possibly along with USAs or other tax incentives.

Medicare Reform

Plan To Strengthen and Modernize Medicare: The President should include his reform plan in the budget. We could include the June proposal unchanged, a modified version of it, or we could see if we could work with key Congressional members to develop a bipartisan plan for introduction in January. Below are the elements of the proposal that could or should be revisited.

Nature of drug benefit. At the end of 1999, it appears that we have made significant headway in gaining public support for a universal rather than a low-income benefit. This may, however, have created a problem. Given the cost of the universal benefit – and the likely higher cost in the new baseline – we may be faced with a choice of paying more for the same benefit or reducing the benefit. Indeed, the Breaux-Frist proposal includes a higher premium for beneficiaries for coverage that is about the same value as the President's (it allows managed care and private plans to design their own benefit within a certain dollar value, which we think is not viable). We fear that we may be headed down the path of the 1989 Catastrophic Act debacle, resulting in a universal benefit that will be too expensive or too modest to be supported by beneficiaries. As such, we may need to shift the discourse from a choice between low-income and universal coverage to decent versus substandard coverage. We may also want to consider modifying the design of the drug benefit to include some level of catastrophic coverage. This could be done by reducing the benefit cap to allow for adding some type of out-of-pocket limit. Some catastrophic coverage would make it more palatable to both liberal Democrats and some Republicans who are concerned about the insurance nature of the benefit. Such a policy, however, remains subject to the same criticisms that led us to reject it last spring: It has a higher growth rate over time, and is more complicated.

Inclusion of Balanced Budget Act (BBA) extenders. It is unlikely that we could credibly include the extension of BBA policies in our plan, in light of the recent Balanced Budget Restoration Act (BBRA). They comprised the majority, however, of the savings in our plan. Thus, if we do not include them in our budget, then we would need to consider alternative financing sources for the prescription drug benefit, such as a tobacco tax or additional surplus funding. While using a tobacco tax for the budget may be a non-starter, there appears to be support in the Senate for it as a financing source for a prescription drug benefit (the Snowe-Wyden drug benefit funded by a tobacco tax gained 54 votes in the budget resolution). In addition, the recent report about the decline in Medicare spending may lower the need for surplus for solvency and could justify the additional dedication of the surplus for prescription drug coverage.

Managed care and competition. Although most of the unwarranted managed care spending in the BBRA cannot be changed (the 2001 risk adjustment change gets implemented in April and most of the $4.8 billion results from the indirect effect of the fee-for-service changes on managed care payment rates), we could add a repeal of the change in the 2002 risk adjustment and rescission of the rate increase for 2002 to the competition proposal. (Savings: probably $0.5 to 1 billion over 5 years).

Medicare board. To the extent that we want to try to pass legislation next year, we will need to be more aggressive on the Medicare Board issue. Like the IRS, HCFA has developed a reputation as an immovable and archaic bureaucracy. While this is in large part untrue, it seems clear that no reform package will pass without changes to Medicare management. Thus, we should consider whether it is advisable to move out ahead of this issue, or simply be prepared to respond to Congressional proposals.

Policies To Reduce Fraud, Abuse and Overpayments: Medicare policies to reduce overpayments, fraud and abuse include: Medicare secondary payer enforcement, tightening up the partial hospitalization benefit, reducing overpayment for epogen, single fee for surgery, expand the DRG payment window, enteral nutrients payment change, and durable medical equipment payment changes. (Savings: about $4 billion over 5 years). In addition, Medicaid policies to reduce the windfall for administrative costs (cost allocation) and overpayments for generic drugs could save about $1.5 billion over 5 years. All of these policies were included in the President's FY 2000 budget.

Cancer Clinical Trials: A three-year demonstration would cover the patient care costs associated with certain clinical trials. This proposal was in the President's FY 1999 and 2000 budgets. (Cost: $750 million over 3 years)

Health Quality

Patients' Bill of Rights: The President will continue to encourage Congress to pass the bipartisan, Norwood-Dingell legislation. We did not include the revenue loss associated with this bill in our budget last year and it would probably be advisable to do the same this year. We have, however, explicitly supported the House Democrats position that its cost should be offset. As you may recall, they took this position to undermine the Republicans' lack of financing of their so-called "access" provisions in the House-passed patient bill of rights.

Privacy Protections: In the context of the Administration's overall commitment to privacy protections in health care, financial and other areas, we will likely want to initiate or endorse legislation to expand the scope of our authority to regulate in this area to include paper claims (not just electronic claims), to provide for greater enforcement authority to ensure the protections promised are real, and to contemplate the possibility of an earlier implementation of these protections (the HIPAA legislation constrains our ability to implement the privacy protections until two years after the final regulation is issued, which is planned for next spring). We would likely work with Congressional staff on this rather than initiate such legislation ourselves.

Genetic Discrimination: We will continue on our efforts to promote legislation to prohibit use the use genetic information in health insurance and employment situations. Again, this is a Congressional initiative that we will support rather than an explicit budget proposal.

Promoting Outcomes-Oriented Health Care: Last year, the Vice President appointed a commission to examine ways to promote and disseminate results of studies on effective health care practices. This proposal would give HHS a greater leadership role in accelerating this activity. (This may have discretionary costs.)

Health Coverage

Encouraging Small Businesses To Offer Health Insurance: This initiative would encourage small businesses to offer health insurance to their employees through: a new tax credit for small businesses who decide to offer coverage by joining coalitions; encouraging private foundations to support coalitions by allowing their contributions towards these organizations to be tax exempt; offering technical assistance to small business coalitions from the Office of Personnel Management. This proposal was in the President's FY 2000 budget. (Cost: $100 million over 5 years) (Note: could broaden)

Coverage of Parents of Children in Medicaid and Chip): This Administration could issue guidance on the CHIP 1115 option, allowing states that cover parents of children on Medicaid to access CHIP allotment funds for parents of children in CHIP. This option would only be available to states that have expanded coverage for children to at least 200 percent of poverty and have successful outreach programs in place. It could also provide state with the same, enhanced matching rate that is available for CHIP for the parents of children enrolled in Medicaid as an incentive to expand coverage.

Extending Transitional Medicaid: Under current law, families covered by Medicaid (under section 1931) can continue Medicaid coverage for up to one year after they become ineligible because of increased earnings or child support. This requirement expires in at the end of FY 2002. This proposal would lift this sunset. (Cost: likely several billion over 5 years)

Restoring State Options To Cover Legal Immigrants: Welfare reform prohibited states from providing Federally-subsidized health insurance for certain legal immigrants. This proposal would restore this option for pregnant women and children in Medicaid and the Children's Health Insurance Program (CHIP). This proposal was in the President's FY 1999 and 2000 budgets. (Cost: $300 million over 5 years)

Tax Credit for Individual Insurance: This policy would give people without access to employer-based insurance a tax credit, equal to 25 percent of the cost of coverage, for purchasing individual insurance. While it is not expected to have a significant impact on coverage, it would removes an inequity in the tax treatment of health insurance.

Accelerating the Tax Deduction for the Self-Insured: This policy, included in the Republican "access" bill, would allow for 100 percent deduction of health insurance for self-employed to be implemented in 2001 rather than the scheduled 2004. (Cost: about $3 billion over 5 years)

Health Care for the Near Elderly

Medicare Buy-In for Certain 55 to 65 Year Olds: This initiative expands the health options available for older Americans by: enabling Americans aged 62 to 65 to buy into Medicare, by paying a full premium; providing vulnerable displaced workers ages 55 and older access to Medicare by offering those who have involuntarily lost their jobs and their health care coverage a similar Medicare buy-in option; providing Americans ages 55 and older whose companies reneged on their commitment to provide retiree health benefits a new health option, by extending "COBRA" continuation coverage until age 65. This proposal was in the President's FY 1999 and 2000 budgets. (Cost: $1.8 billion over 5 years)

Health Care for Children

Option for Using School Lunch Information for Children's Health Insurance Outreach: Currently, school lunch programs are allowed to share enrollment information with other social programs, but not health insurance programs. The proposal would allow schools to elect to share school meal applications with Medicaid and CHIP staff unless parents opt not to have such information disclosed. When shared, application information may be used only for the purpose of child health insurance outreach and enrollment. (Cost: $50 million over 5 years)

Broadening Presumptive Eligibility for Children for Medicaid: This proposal builds on the 1997 option to allow workers in programs that provide services to children, like school lunch programs and child care subsidy programs, to provide families with immediate, temporary Medicaid coverage while their full application is being provided. This proposal was in the President's FY 1999 budget. (Cost: about $600 million over 5 years)

Option for Deemed Eligibility in Medicaid for Children: Currently, people enrolled in the supplemental security income (SSI) program automatically get Medicaid without filling out a separate application. This proposal would give states the same option for Medicaid-eligible children (note: states can use this option in CHIP under current law). Specifically, it would allow states whose income standards exceed the income eligibility for the Federal free- and reduced-price, WIC, Head Start, or Food Stamps to enroll children in Medicaid without a separate application. States would have to assure that they have safeguards against fraud and that they check immigration status.

Aligning Medicaid and CHIP: States would be required to use the same application for children eligible for Medicaid and CHIP, to simplify enrollment. States also must use the same redetermination process for Medicaid and CHIP.

Long-Term Care

Long-Term Care Tax Credit: This new tax credit compensates for a wide range of formal or informal long-term care for people of all ages with three or more limitations in activities of daily living (ADLs) or a comparable cognitive impairment. This proposal would benefit about 2 million Americans. This proposal was in the President's FY 2000 budget. (Cost: $5.5 billion over five years)

National Family Caregivers Program: The program is designed to assist approximately 250,000 families caring for elderly relatives who are chronically ill or disabled. It will support a caregiver support system in all states that provides information, education, counseling, and respite services directly to care-giving families. This proposal was in the President's FY 2000 budget. (Cost: $625 million over 5 years)

Offering Quality Private Long-Term Care Insurance to Federal Employees: Proposal allows OPM to offer non-subsidized, private long-term care insurance to all federal employees, retirees, and their families at group rates. Roughly 300,000 Federal employees are expected to participate in this program. This proposal was in the President's FY 2000 budget. (Cost: negligible)

National Campaign To Educate Medicare Beneficiaries About Long-Term Care Options: This campaign would provide Medicare beneficiaries with information about State administered home and community based care options including: what long-term care Medicare does and does not cover; Medicaid and Older Americans Act programs; and what to look for in a quality private long-term care policy. This proposal was in the President's FY 2000 budget. (Cost: $10 million for 2001)

Extending Medicaid Home and Community-Based Care Options: This proposal would remove the institutional bias in Medicaid by allowing states to cover people with income up to 300 percent of the SSI limit both within and outside of nursing homes. This proposal was in the President's FY 2000 budget. (Cost: $110 million over 5 years)

Promoting Assisted Living for People on Medicaid: This proposal would provide HUD grants to convert elderly housing to assisted living facilities if those facilities worked with Medicaid to ensure that Medicaid beneficiaries can live there. This proposal was in the President's FY 2000 budget. (Cost: $100 million over 5 years)

Disability

Extending Medicare for People with Disabilities: In the compromise on the Work Incentives Improvement Act, its Medicare benefit was limited to an additional 4 and a half years. The policy in our budget last year was unlimited. This proposal would remove the time limit. (Cost: $0 for 2001-05, about $200 million for 2006-10)

$1,000 Tax Credit for Workers with Disabilities: Under this proposal, workers with significant disabilities would receive an annual $1,000 tax credit to help cover the formal and informal costs that are associated with and even prerequisites for employment, such as special transportation and technology needs. This tax credit would help 200,000 to 300,000 Americans. This proposal was in the President's FY 2000 budget. (Costs: $700 million over 5 years)

Expanding Assistive Technology: This proposal would double the budget for assistive technologies that enable people with disabilities to work. (Cost: $35 million for 2001)

Parity for Mental Health Treatment: Following up on this year's White House Conference on Mental Health led by Tipper Gore, we should press on toward improving mental health parity in health insurance. And to help fight the scourge of substance dependency, we should ensure that parity is also ensured for coverage of substance abuse treatment.

Keeping Out of Institutions and Getting to Work: Millions of people with disabilities would prefer to live at home rather than in an institution. Millions of people with disabilities would like to contribute to the workforce, if they just had a little help. These two groups share the need for support staff to help them. By facilitating the providing of support staff for the disabled, not only would we help people with disabilities stay out of institutions and help people with disabilities live more productive lives, but we would also free up millions of middle-aged mothers and daughters, fathers and sons of people with disabilities, who are now taking time out from their jobs to help out their disabled relatives. We can build on the bipartisan success of the Work Incentives act.

Reinventing Government

Social Venture Capital Fund – Reinventing Government by Improving Investments in Social Programs: We could set up a quasi-governmental social venture capital fund to make *investments* in social programs in priority areas such as education/training, child care, and other anti-poverty initiatives. The Fund would draw its staff from the private and non-profit sectors, and its staff would not become part of the civil service. Salaries would be pegged to the performance of the programs to improve incentives for the mainline staff to identify promising programs and cut off funding for repeatedly poor performing programs. The fund would be modeled after Venture Capital Funds, but investments would be targeted to effective social programs. Formulas would be developed to account for the social value of the programs to determine clear returns to capital. Such a Fund could be part of a Vice Presidential re-invention effort to improve Government program incentives so that Government funding is held more accountable. While NPR and the Government Performance Review Act (GPRA) are making strides to improve the performance measures that are collected, they do not change the incentive structure to make funding dependent on performance.

Green Pages in the Phone Book – Government Service and Hotline Numbers: The Administration should develop a Green Pages section in the phone book that would describe in plain English basic rights and regulations the Government enforces, and services it provides with 1-800 numbers to find out more. The initiative could be introduced by the Vice President as part of his reinvention effort and be part of a full-scale customer service campaign. The Vice President's NPR office does have an initiative to modify their existing Blue Pages to make it more user friendly. The effort falls short, however, of its potential, and there are no plans to integrate it into a more visible campaign.

"Putting a Human Face on the Global Economy"

Launch an Economic Democracy Institution Building Initiative: The President could enhance his legacy of world economic leadership and contribute to building the new consensus on trade he seeks by issuing an appeal to international financial institutions and donor governments to raise the profile, increase the funding, and improve the coordination of assistance to countries that wish to build modern systems of public administration for the implementation of economic policies. He could urge the international community to offer not only expertise in the design of laws, regulations, and adjudicatory procedures, but also resources for the training and compensation of public administrators. It is quite possible that he will do so in December to a meeting with heads of international organizations in Seattle. As a follow up to this appeal to the international community, the Administration could propose a new program of bilateral assistance in this area, building on the considerable work AID and other agencies are already doing in developing countries. It might involve a high-profile exchange program that would bring developing country public administrators to the U.S. to learn how our public institutions operate as well as send our experts and resources to their countries for onsite assistance (an Economic Democracy Corps?). The initiative could be explained to the American public as helpful not only in aiding poor countries combat the scourge of corruption in their daily economic affairs (which places American businesses at a disadvantage because of our comparatively strong anti-bribery strictures) but also to ensure that financial, labor, environmental, and other protections are extended to entrepreneurs, investors, workers, and communities in practice as well as in law. Americans have a clear stake in the latter, as there is little that would respond more directly and constructively to concerns about the impact of globalization on workers and the environment in developed countries than an effort to improve the capacity of developing countries to administer their own labor, environmental, and other laws.

The cost to the U.S. of enhancing its bilateral activity in this area could be modest, anywhere from $25 million to $150 million per year above our current capacity building requests. US AID has forwarded to OMB an FY 2001 request for a $175 million plus-up in its governance and economic growth program, which covers the scope of activities entailed in this proposal. This is AID's major request for next year, and it seems quite willing to have it linked in some way to our "human face" and WTO developing country agendas. Some portion of this amount, when combined with our existing capacity building funding levels and initiatives, would be sufficient to leverage our contribution many times over with international institution funding. We may well launch the international organization aspect of this appeal in some form at the Seattle WTO ministerial as part of our developing country agenda there, in which case an FY 2001 budget request for additional USG funds for this purpose would be helpful follow through.

Institution building in developing countries is a missing (or at least seriously underemphasized) piece of the world's economic policy architecture. Particularly in the aftermath of the Russia corruption revelations, the U.S. is emphasizing the need to add good governance to our standard development prescription of sound fundamentals, openness, and competition. Institutions that enforce the rule of law in economic affairs influence the breadth of participation in the benefits from the expanded economic growth brought by trade and investment. As we hear repeatedly in trade debates, many developing countries fail to adequately implement and enforce investor, worker, consumer, and environmental legal protections. The reason is typically not the lack of good laws but rather weak public administration stemming from inadequate expertise and resources. As these countries expand trade and investment ties with developed countries, their weak domestic institutions can contribute to skepticism about the fairness of trading arrangements and fears about a race to the bottom with respect to social protections among citizens in advanced countries. Moreover, as we learned from our own industrialization, the absence of effective financial, labor, health and safety, and judicial protections can limit the gains to broad living standards from rapid industrialization and contribute to inequality in developing countries. This in turn can undermine public support for open markets and domestic reforms.

Call on World Bank and MDBs To Support Creation of Social Insurance Programs in Industrializing Countries: One of the lessons of the Asian crisis is that the human toll of financial crises is worse in countries without basic social protections. We learned this lesson in the United States in at an earlier stage of our own economic development. Out of the ashes of our own financial crash and economic depression, we created two basic social insurance schemes to lessen the human costs the accelerated economic change brought by a modernizing economy. The establishment of our unemployment insurance and Social Security programs in the 1930s not only made our economy more resilient, it also bolstered public support for market-oriented policies essential to the flexibility and innovation central to America's subsequent economic success. The forces of creative destruction unleashed by today's global information economy dwarf those we experienced earlier in our industrialization. We should stand ready to help newly industrializing countries seeking to institutionalize greater social protections for their workforces. The President could call on the World Bank in consultation with the regional multilateral development banks to take steps to provide technical and financial assistance in the design, capitalization, and administration of such programs. Again, this step ties in well with our efforts to reassure workers here that global integration will naturally and steadily lift living standards and working conditions in developing countries.

Call for a New Global Effort To Educate Children: UNICEF estimates that providing primary education to all kids would cost the world an additional $7 billion per year. UNICEF's estimate relates to all kids in all countries not now being provided primary education (a large proportion of those not now in school are girls). We might bring the international annual cost down by focusing on least developed countries or by phasing in the program (which would require a considerable period to implement in any event). We could make it effective by emphasizing a school lunch component (this would add a practical incentive for poor families to send their kids to school). Such a proposal would be a visionary, legacy-leaving initiative that would help reduce child labor and boost economic growth prospects in the developing world. The direct cost to the U.S. would be limited in that we'd be appealing mainly to international donors, notably the IFIs, but also private donors, to step up their efforts. The initiative would dovetail well with the Cologne Debt Initiative framework for channeling savings to developing country governments from debt relief into higher spending for poverty reduction, including education.

Energy and Environmental Technologies: The global markets for energy and environmental technology are growing dramatically. An increased supply of energy is needed for economic development around the world; failing to provide needed energy services would risk economic development and political stability. Likewise, the developing countries have a growing need for new environmental technologies; they are necessary to clean water, reduce environment-related health problems, and to promote sustainable development and the efficient use of global resources. The President could propose a comprehensive initiative to expand U.S. export of energy and environmental technologies, creating perhaps several hundred thousand new jobs. Moreover, we would at the same time be enhancing air and water quality, reducing the emission of greenhouse gasses and improving health around the world. The President's Committee of Advisors on Science and Technology (PCAST) has concluded that global markets for energy supply technologies alone could total $10 trillion over the next 20 years. The Department of Commerce believes that we could double the export of environmental technologies to $36 billion by 2005, creating about 130,000 new jobs. U.S. firms need to capture a significant share of that market, however, if they are to remain competitive. PCAST has recommended approximately $250 million of additional spending in order take advantage of the opportunity that lies ahead. These funds would be used to promote increased joint technology cooperation in research, development and adaptation, including technical assistance and training, for buildings, industrial efficiency, transport, clean fossil energy, and renewables; to offer bilateral assistance to trading partners; increase support for energy sector policy reforms at multilateral banks; work with the private sector to promote practices that will facilitate the sale of such technology; and, streamline and enhance trade assistance at U.S. export agencies. The President noted as recently as his last press conference that developing countries need not develop along the same fossil energy fuel path that the United States and Great Britain developed, and this initiative is consistent with that thought.

High Tech

Internet Access for Rural America: Fiber optic cable is replacing traditional copper and coax cable as the primary source of data transmission. In rural areas, however, the small numbers of users per mile make the cost of installing fiber optic cable prohibitively expensive. In the Pacific Northwest, the Department of Energy's Bonneville Power Administration (BPA) has installed fiber optic cable within its right-of-way to provide communications between its facilities. In order that it has room to expand its data transmission capacity in the future, BPA's fiber optic cable contains excess capacity which BPA's has begun leasing to public utility districts (PUD) so that they may offer data transmission access to internet providers and their rural customers. BPA simply provides the backbone of the system, and the PUDs have to pay for the cost of local interfaces. The President could propose expanding such a program to all of the Federal power administrations, bringing affordable Internet access to a much greater geographic area.

Information Technology for the Twenty-First Century: The President first called for this initiative in his 1998 MIT Commencement address, and it was included in the 1999 SOTU. The Vice President rolled out the initiative in California. This is the second year of a multi-year effort to significantly expand our investment in information technology research in three areas: (1) *Fundamental IT research:* (examples) Managing the Internet as it grows to connect not just millions of computer, but potentially billions of devices; developing software that is much more reliable and dependable; improving wireless technology so that it will provide broadband connectivity to rural America; real-time translation between multiple foreign languages; developing computers not based on computer chips – but biological mechanisms such as DNA. (2) *Scientific and other applications of IT:* Acquisition of very high-end computers capable of trillions of calculations per second; more accurate prediction of hurricanes and tornadoes, which can save lives and reduce evacuation costs; reducing the time required to develop live-saving drugs, and moving from determining the sequence of the human genome to determining the function of genes; (3) *Economic, ethical, legal and social implications of the Information Revolution:* Studies on the broad economic and social impacts of IT. *Rationale:* Information technology is driving the U.S. economy. In recent years, IT has accounted for 1/3 of U.S. economic growth, and is generating jobs that pay almost 80 percent more than the private sector average. All sectors of the U.S. economy are using IT to increase productivity and become more competitive. Many of the technologies that are responsible for the remarkable U.S. economic performance have their roots in Government-sponsored research going back to the late 1960's. The ARPANET is only the best known example – others include the first graphical Web browser – which led to the explosion of the World Wide Web. Companies rarely, if ever, fund research with a time horizon of longer than 3-5 years. Funding university research also helps address the skills gap – since it provides support for graduate students through research grants. A blue-ribbon commission (the President's Information Technology Advisory Committee) has endorsed doubling our current IT research investment. *Cost:* Last year's request was an increase of $366 million. We would be looking at a similar level of investment this year. Agency requests will be modified to reflect final FY 2000 appropriations. For example, NSF got almost full funding; Energy was zeroed out.

Nanotechnology: Nanotechnology is the ability to manipulate matter at the atomic and molecular level to create things with new, useful properties. A "nanometer" is a billionth of a meter. Nanotechnology could transform the 21st century in the same way that the transistor and the Internet transformed today's economy and society. Nanotechnology could lead to the following breakthroughs: Material that is strong as steel but 10 times lighter; the ability to detect tumors a few cells in size as opposed to waiting until they are visible to the human eye; the ability to store the equivalent of the Library of Congress on your watch; filters that can dramatically reduce air and water pollution by screening out small particles. The initiative has five elements, including: (1) support for fundamental research; (2) "grand challenges" (discussed above); (3) university-based centers of excellence; (4) education and training; and (5) research infrastructure (instruments). *Rationale:* Huge potential payoff – could be the next big thing. Beyond time horizon of companies – requires some real breakthroughs before the technology can be commercialized. Will help with the "balance" of our overall research portfolio by increasing support for physics, chemistry, materials science, electrical engineering, etc. Very high-level of interest in the research community – agencies can only fund a small portion of the meritorious research proposals that are coming in. *Cost:* Agencies have submitted requests for $311 million in FY 2001.

Educational Technology Research Initiative: Invest in research to improve the "state-of-the-art" of educational technology. Examples would include: use of speech recognition and speech understanding to improve reading performance of at-risk 3rd graders; modeling and simulation to allow students to learn by doing – similar to the way pilots learn to fly by using a flight simulator as opposed to getting lectures on aerodynamics; an intelligent tutor that recognizes common student errors and provides customized feedback. *Rationale:* Leverage Federal Government's investment in IT research by applying it to education. Current level of investment in education research (relative to total spending) is 0.1 percent – compared to 3 percent for industry and 10-15 percent for high-tech industries. Recommended by President's Council of Advisors on Science and Technology (David Shaw report). Research in this area has led to demonstrable results that show effectiveness of educational technology (for example, Carnegie Mellon Algebra Tutor significantly improves student performance on story problems). *Cost:* $50 million in Department of Education budget. This would support 10 centers of excellence – including research, development, and evaluation in a classroom setting.

Internet for Economic Development Initiative: On October 12, 1999, President Clinton said: "Now, last year we made – and this year we will make, through our aid programs in foreign countries – over 2 million microenterprise loans to poor people, to help them start their businesses in Africa, and Latin America, and Asia. If you could somehow marry the microenterprise concept to setting the infrastructure of the Internet out there, I do think it's quite possible that you could skip a generation in economic development in a way that would reinforce rather than undermine the environment." The President called for this in November 1998, too late to seriously affect the FY 2000 AID budget. The goal of initiative is to expand Internet and its applications in 11 developing countries. The Vice President has given several keynotes on the link between the Internet and development in developing countries. Elements of initiative include: policy reform (encouraging developing countries to adopt Internet and e-commerce friendly policies); training of people in developing countries; support for applications of Internet – including e-commerce for small and medium-sized enterprises, distance learning, and telemedicine. *Rationale:* Global spread of Internet will boost U.S. exports, because of dominant position of U.S. suppliers. If developing countries feel that they have a stake in the Information Revolution, they will be more likely to support U.S. positions on e-commerce. Major impact on economic and social development in developing countries. For example, farmers can get twice as much for their crops just by being able to find out the current price in the capital city. *Cost:* $45 million.

Manufacturing Initiative: The goal of this initiative is to strengthen competitiveness of U.S. manufacturing sector. Possible components include: export promotion (ExIm, Department of Commerce); incumbent worker training (Labor, tax incentives); helping small and medium-sized companies adopt e-commerce (Commerce); "green" manufacturing (Energy Dept.); 21st century manufacturing technology (NSF). *Rationale:* Concerns about manufacturing job loss. Importance of manufacturing to U.S. economy.

Vaccine Initiative: In his UNGA speech, President Clinton committed to hold a White House conference on vaccines for developing countries (for example, AIDS, malaria, TB). A budget initiative to encourage development of vaccines might include: Guaranteed purchase of vaccines if developed (for example, agree to purchase vaccines for each African new-born); funding for R&D; tax incentives for pharmaceuticals; purchase of vaccines that already exist. *Rationale:* Millions of people die each year from diseases prevalent in developing countries, but pharmaceutical companies don't have any incentives to develop vaccines. Diseases in developing countries can effect U.S. as well. Significant opportunities for leverage exist (Gates Foundation, other G-8 countries, etc.).

E-Society: [See separate memo.]

Other High Tech: Telecommuting tax credit. Initiative to encourage broadband deployment in rural or depressed urban areas for small and medium-sized businesses (Commerce is working on this). Tax credits for IT worker training (modified Conrad bill). DoD research budget: Issue is that Congress plussed up DoD research budget by $1 billion in FY 2000 above President's request. If we submit current FY 2001 request – it will look like a 14 percent cut from FY 2000 enacted. Overall level of research funding – Research Fund for America. Continued/expanded funding for previous initiatives: Community Technology Centers; Disabilities tech initiative; Digital Library for Education; Learning Anytime Anywhere; Non-profit applications of Internet and IT – Commerce program; Technology for adult literacy.

1. Families – a conference on Healthy Parenting; teen town meeting; temp/free agency
2. Crime – re-entry; community prosecutors; enforcement
3. Service – pilot program universal service; National Mentor Network; Community Coaches; Work-study
4. Philanthropy – venture philanthropy fund; SBA for non-profits
5. Welfare – making work pay; child development accounts; SITC (if put EITC money into a CDA or IDA then added credit)
6. Culture/Violence – media literacy pub-priv partnership; street marketing of social messages
7. Education – charter school accreditation; school leaders academy with Army; workplace schools; test prep tax credit; teacher college reform
8. Internet – PBS for the Web, electronic commons , Dig Divide
9. Sprawl – Regional summits to highlight enviro, transportation, econ linkages
10. Politics – conference on new generation politics
11. Race -- housing integration; home ownership; equity inequity and class aff act

Civics

Organize

Governance

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Document No. ____________

WHITE HOUSE STAFFING MEMORANDUM

Date: 1·11·00 ACTION / CONCURRENCE / COMMENT DUE BY: 1·12·00 5 PM

Subject: FY 2001 Budget Chapters - Strengthening the American Communi

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☑	☐	LOCKHART	☐	☐
PODESTA	☑	☐	MARSHALL	☐	☐
ECHAVESTE	☑	☐	MOORE	☐	☐
RICCHETTI	☑	☐	NASH	☐	☐
LEW	☐	☐	NOLAN	☐	☐
BAILY	☐	☐	REED	☑	☐
BERGER	☐	☐	SOSNIK	☑	☐
BLUMENTHAL	☐	☐	SPERLING	☑	☐
BURSON	☐	☐	STEIN	☑	☐
CAHILL	☐	☐	STREETT	☐	☐
EDMONDS	☐	☐	TRAMONTANO	☑	☐
FRAMPTON	☑	☐	UCELLI	☐	☐
IBARRA	☐	☐	VERVEER	☐	☐
JOHNSON, B.	☑	☐	L. CUTLER	☑	☐
JOHNSON, J.	☑	☐	C. JENNINGS	☑	☐
LANE	☐	☐	____________	☐	☐
LEWIS	☐	☐	____________	☐	☐

REMARKS:

comments to LINDA RICCI

RESPONSE:

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January 10, 2000 (6:56PM)

7. STRENGTHENING THE AMERICAN COMMUNITY

"We need to provide the same encouragement to invest in Appalachia, Native American reservations, the Mississippi Delta, and the inner cities that we provide today to invest in new markets overseas.... It's good for business, it's good for America's growth, and it's the right thing to do."

.....President Clinton

.....August 1999

President Clinton took office in 1993 determined to rebuild the American economy. In February of 2000, the economy enters its (number) straight month of growth, the longest period of economic expansion in recorded history. For many Americans, the past seven years have meant opportunity and prosperity: twenty million new jobs have been created; real wages have continued to rise and the number of people who own homes has reached an all-time high. However, there are still some communities which have not been carried along in this historic wave of economic expansion. In these areas, unemployment is high, economic development weak and the opportunity to build a better life is unacceptably limited.

Because the President believes that "a nation that lives as a community must value all its communities," he is committed to new and renewed efforts to close the opportunity gap and generate growth in these areas. The guiding principle is that the public sector can provide incentives to attract private sector investment, creating partnerships that tap the potential for growth, profit and economic opportunity in distressed areas.

At the start of his first term, the President proposed and worked with Congress to pass legislation creating Empowerment Zones and Enterprise Communities to encourage private sector investments in underserved areas and establishing the Community Development Financial Institutions Fund to build a network of lending institutions that provide loans including mortgage financing to first-time home buyers and commercial loans to small businesses.

The President's New Markets Initiative will, in its expanded form this year, comprise the centerpiece of this year's community development efforts. Using tax credits, loan guarantees, private investment institutions, and technical expertise for small business, this initiative offers the potential to connect residents of distressed neighborhoods to the jobs and opportunities of the regional marketplace, and replace economic distress with opportunity.

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(Native Americans)

At the same time, this budget will specially target regions and communities that have long been overlooked in our nation's history by providing investments for Native Americans. [**One paragraph TK** - to explain reason why we are launching this initiative, what it is mean to accomplish. - This initiative will provide expanded support for Native Americans in areas including health care, education, law enforcement and economic development.]

Jobs and Economic Development

This budget builds upon continuing efforts to encourage economic growth in America's distressed communities through the three complementary efforts of The New Markets initiative, the Empowerment Zone and Enterprise Community program, and the Community Development Financial Institutions Fund.

The New Markets Initiative:

The New Markets Initiative, **for which Congress expressed a measure of support last year,** by funding $39.5 million of the Administration's request, is expanded to a total of $198 million. It includes two new elements – a $15 million microenterprise initiative for investments and microentrepenures (prime) and a $5 million university partnerships initiative.

1. The New Markets Tax Credit: To help spur $6 billion in new equity capital, a 25 percent tax credit is re-proposed for investments in a variety of vehicles serving distressed communities, including community development banks, venture funds and other new investment company programs created by this initiative. A wide-range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturing facilities, and retail stores.

2. America's Private Investment Companies (APICs):APICs will encourage private investment in this country's untapped markets by providing guaranteed debt--administered by the Department of Housing and Urban Development (HUD) in consultation with the Small Business Administration (SBA)--for private investment companies that target portfolios of larger businesses that are expanding within, or relocating to, economically distressed inner-city and rural areas.

3. Small Business Investment Companies New Markets Initiative: This variant of SBA's existing SBIC program offers more flexibility and new financing terms--through a new type of federally guaranteed loan--to make it more attractive for SBICs to invest in low-

and moderate-income areas.

4. Other key elements of the New Markets initiative include: New Markets Venture Capital Firms, which will match equity of private investors with Government debt guarantees and deferred interest to provide capital and expert guidance to smaller inner-city and rural entrepreneurs seeking to transform their small businesses into thriving companies; New Markets Lending Companies, which will allow approved non-bank lenders to target their lending to underserved areas by originating loans through the SBA; Business Linc, an innovative public-private partnership, spearheaded by the Vice President and CEOs of leading American companies.

5. Microenterprise/Prime: This new element to the New Markets initiative proposes $15 million for microenterprise to provide technical assistance grants to microenterprise intermediaries to enable them to assist low-income and disadvantaged entrepreneurs. Micro enterprises are very small businesses that typically have fewer than 10 employees and generally lack access to conventional loans, equity, or other banking services.

6. University Partnerships: Another new element to the New Markets initiative proposes $5 million for the university partnerships program to be administered by HUD. Grants will be provided to 10 to 12 universities for the development of local community partnerships, assistance to intermediaries, and technical and business development assistance to business owners, micro entrepreneurs, and individuals wanting to start a business.

7. First Accounts: The new markets initiative proposes $10 million to provide low-cost electronic bank accounts designed for approximately 10 million unbanked households that do not receive federal benefits. Funding will be provided to reimburse banks for the set-up of the accounts and for marketing and education in communities about the "First Account."

8. Post Office ATMs (Automated Teller Machine): Another element to the new markets initiative proposes $20 million to expand the Postal ATM pilot currently running in six cities. Funding will be provided to subsidize the purchase, installation and operation of ATMS in post offices in low-income neighborhoods where access to ATMs and banking services is limited.

Community Development Financial Institutions (CDFI): Complementing the New Markets Initiative, CDFI uses limited Federal resources to leverage significant private sector resources. CDFIs include a broad range of institutions--community development banks, low-income credit unions, venture capital funds, and microenterprise loan funds--that provide a wide range of products and services, such as mortgage financing to first-time home buyers, commercial loans for small businesses, and other basic financial services. By creating and expanding a diverse set of CDFIs, the Fund helps develop new private markets, create healthy local economies, promote entrepreneurship, restore neighborhoods, generate tax revenues, and empower residents in distressed urban and rural communities.

Every CDFI that receives financial assistance from the Fund must provide at least a one-to-one match with funds from non-Federal sources. To date, the CDFI Fund has awarded over $200 million in financial and technical assistance to CDFIs. In addition, the Fund has awarded over $90 million to traditional banks and thrifts for increasing their activities in economically distressed communities and investing in CDFIs. The budget proposes $125 million for the CDFI Fund.

Empowerment Zones (EZs)/Enterprise Communities (ECs): While the New Markets and CDFI programs address capital access and credit, the EZ and EC initiative is the foundation of the Administration's empowerment agenda for communities with high unemployment and poverty rates. This initiative challenges these urban and rural communities to develop comprehensive strategic plans for revitalization, with input from residents and community partners. The program selects communities with the most innovative plans and significant local commitments.

Investment in EZs and ECs is available in many forms. The Federal Government provides tax benefits for businesses and flexible block grants to communities for job training, day care and other purposes. EZs and ECs can apply for waivers from Federal regulations, enabling them to better address local needs. Special set-asides from USDA rural development programs are available to rural EZs and ECs.

Original, Round I, EZs and ECs: Designated in 1994, these EZs and ECs are showing results. The Baltimore, MD EZ, for instance, has created approximately 2,860 new jobs as a result of Title XX funding and other leveraged investments and 3.250 Zone residents placed directly into jobs through various workforce placement partners. Through June 1999, Empower Baltimore Management Corporation (EBMC) has spent more than $18,450,000 across four components of Baltimore's strategy: Business Development for job creation, workforce development, quality of life, and community-capacity building.

Additional EZs and ECs: In January 1999, the Administration announced the designation of 15 new urban Zones and 5 rural Zones, selected on a competitive basis, from the applications of more than 250 communities. Qualified businesses in Round II zones are eligible for tax incentives including: up-front deductions for qualifying capital investments; new tax-exempt facility bonds; new deductions for environmental remediation costs; and new tax credits for holders of qualified zone education academy bonds.

The budget proposes that the remaining 9 years of funding for urban and rural EZS and ECS be established as mandatory rather than discretionary funding.

Designated EZ and EC communities will receive priority consideration for funds from Federal economic development programs and for waivers of certain regulatory requirements from the Community Empowerment Board chaired by the Vice President.

Other programs that promote economic development and provide services to underserved markets include: The HUD Community Empowerment Fund (CEF): The Community Empowerment Fund/EDI working in tandem with the Section 108 loan guarantee program will work with the CEP pilot program beginning in FY 2000 to create a loan pool and improve securitization of Section 108 loans.

Department of Agriculture's (USDA's) Rural Development Programs: Because their needs are so different, no single approach will help both urban and rural communities. The Administration proposes to give States, localities, and Tribes more flexibility in how they use USDA's Rural Development grants and loans for businesses, water and wastewater facilities, and community facilities such as day care centers and health clinics. The 1996 Farm Bill authorized this approach through a new Rural Community Advancement Program (RCAP), combining 12 separate USDA programs into a Performance Partnership that can tailor assistance to the unique economic development needs of each rural community. The budget proposes $XX billion in loans and grants for RCAP, XX percent more than in 2000 and the full flexibility that the 1996 Farm Bill envisioned. It also re-proposes Partnership Technical Assistance (PTA) grants and grants for early-warning weather systems in areas prone to tornadoes. As part of the Administration's multi-agency initiative for the Mississippi Delta Region (MDR) $2 million of the PTA grants are targeted to MDR counties (the 219 counties of the region as defined by P.L. 100-460). In addition, there is a set-aside of $8 million in Intermediary Relending Program Loans for the MDR.

Farm Safety Net proposal: Many rural communities depend significantly on the economic health of the farm sector. In addition to helping these communities diversify their economic base, through the New Markets and other economic and community development initiatives in the budget, the Administration is proposing a $3.5 billion package to enhance the farm "safety net" directly. The 1996 Farm Bill fails to support farm family incomes adequately. **Because Freedom to Farm is fundamentally structured in a way that fails to address the problems of farmers in need and has eliminated/reduced(?) the farm safety net. Even with emergency appropriations of $15 billion in emergency funding appropriated for distressed farmers**

and ranchers in the last two years, assistance remains inadequate because the structure of Freedom to Farm is flawed. . The budget proposes to mend the farm safety net by providing counter-cyclical income assistance when crop prices are low, to make up a portion of farmers' lost revenue relative to a five-year average, and by increasing federal crop insurance subsidies so farmers are better protected from natural disaster losses. The budget also proposes increases in USDA conservation programs, such as the Conservation and Wetlands Reserve and Farmland Protection Programs, which would enable farm families to protect and enhance environmentally sensitive farmland and protect their farms from urban and suburban sprawl while increasing farm income. To help diversify farm families' income sources, the budget will include funding to enable farmer cooperatives build commodity processing facilities that will channel value-added profits back to producers, and support greater crop use for ethanol production. In addition, the budget assumes that USDA marketing loan rates will be frozen at their FY 2000 levels for the 2000 crops, increasing farmer income by $500 million in FY 2001.

Appalachian Regional Commission (ARC): The Administration continues support for ARC to help 406 economically distressed counties in the 13-State Appalachian region. The ARC's Federal-State partnership is a proven economic development model of balanced fiscal decision-making that has helped improve the economic viability of this region over the past 35 years. Furthermore, the Administration is doubling the ARC's Entrepreneurship Initiative, which seeks to fund innovative economic development projects in the region, from $5 million to $10 million in FY2001.

Rural Alaskan Economic Development: The Denali Commission, which focuses on the economic development challenges of rural Alaska, will focus its resources on improving the basic infrastructure of this region. $30 million of new funding will address water and sewer and leaking fuel storage tanks in Alaska. Funds will also be used to create job training programs to provide the sustainable economic development opportunities for these remote Alaskan communities.

Delta Regional Authority (DRA): In December 1999, the Administration announced $110 million in the 2001 Budget to create the new Delta Regional Authority to assist the Lower Mississippi Delta Region. The $110 million budget request includes $30 million in new resources to create the Delta Regional Authority. Modeled after the Appalachian Regional Commission, the DRA will target funding and resources to economically distressed counties throughout the Delta. The remaining $80 million will be targeted to these counties from existing programs at the Departments of Housing and Urban Development, Commerce, Transportation, Agriculture, Labor, Education, and Health and Human Services.

Livability Initiative: The Livability Initiative encourages the creation of livable communities and regions by aligning and dedicating new and existing federal resources in support of locally determined livability initiatives. The programs included in the Livability Initiative will help to accelerate and strengthen the development of regional capacities to address the problems of making America's metropolitan and rural areas good places to live, work, play and raise a family. The budget proposes five investments as part of the Livability initiative.

This initiative includes an unprecedented request for Community Transportation Choices, a $6.3 billion mass transit program, a $1.8 billion congestion relief and air quality improvement program, and $614 million to implement innovative community based transportation programs; federal tax credit enabling local, State and Tribal governments to issue $9.5 billion over five years for Better America Bonds, for green space preservation, water quality enhancement, and clean up of abandoned industrial sites; and a $25 million HUD Regional Connections Initiative to promote regional ``smart growth" strategies and complement the Administration's other regional efforts; Regional Connections matching grants will help local partnerships design and pursue smarter growth strategies across jurisdictional lines.

The budget proposes $115 million for the Department of Justice's Crime-Solving Technologies to improve community safety. Also included in the budget is the continuation of the Lands Legacy initiative (see Chapter X), which will complement the Administration's Livability initiatives, emphasizing land conservation; smart growth; planning; and partnerships with State and local governments, land trusts, and other non-profit groups to preserve open spaces in urban, suburban, rural, and coastal areas. This year's Lands Legacy initiative includes $50 million for the Community/Federal Information Partnership to provide, through grants and technical assistance, information and analytical tools to communities to manage resources and future growth while preserving environmentally valuable land.

Meeting the Housing Needs of American Communities

The Administration's efforts to create the National Partners in Home ownership--a coalition of 66 key public and private housing organizations--and to form a National Home ownership Strategy have led more families to Home ownership than at any time in American history. Along with a strong economy and low interest rates, the Administration's policies have helped boost Home ownership to 67 percent--a new all-time high. Under this Administration, 8.7 million Americans have become homeowners including record numbers of minorities.

Federal Housing Administration (FHA): The Administration's successful 1999 proposal to increase the FHA mortgage limit has allowed FHA to help more than 50,000 families purchase their first homes, especially large families and families in high cost areas. Building on this success, the budget proposes to increase the FHA mortgage limit even further to equal the conforming loan limit–the maximum mortgage amount for loans purchased by the housing secondary market Government-Sponsored Enterprises, Fannie Mae and Freddie Mac. This will allow an additional 75,000 families to purchase homes in 2001. The budget also authorizes FHA to offer new adjustable-rate mortgage products to borrowers who would not qualify for a fixed-rate mortgage, opening Home ownership to more than 50,000 families in 2001.

Low-Income Housing Tax Credit (LIHTC): The budget proposes to expand the Low-Income Housing Tax Credit to spur the private sector to develop more affordable low-income rental housing, including adding an option for states to target their LIHTCs to extremely low income households (defined as having incomes below 30 per cent of area median income) in low income areas. The proposal will cost $1.6 billion over the next five years and help develop another 75,000 to 90,000 units per year. It will restore the value of the tax credit, which has eroded over the last decade due to an increase in building costs, helping to reduce rents by an average of $450 a month for the average assisted renter who earns $13,300 a year.

Public Housing Program: The budget continues to reduce poverty concentrations by providing $625 million in HOPE VI grants to local housing authorities to demolish approximately 28,000 dilapidated non-viable public housing units over the next three years, and replace them with portable subsidies or newly constructed mixed income housing. These funds provide sufficient resources to surpass the Administration's goal of demolishing 100,000 of the most severely distressed units by 2003. The Administration also proposes $690 million for 120,000 and portable housing vouchers, including 30,000 for families seeking to move from welfare to work, 18,000 to help homeless move to permanent housing with supportive services. Local housing agencies that work in partnership with State and local welfare agencies will get the flexibility to design programs serving welfare families for whom housing assistance is critical to getting and retaining jobs.

USDA's Rural Housing Service (RHS) offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. One of the goals of RHS is to reduce the number of rural residents living in substandard housing. The RHS direct loan program provides subsidized loans to very-low and low-income rural residents. Its single family guaranteed loan program guarantees up to 90 percent of a private loan for buying new or existing housing. Together, the two programs will provide $XX billion in loans and loan guarantees in 2001, providing xx,xxx decent, safe, affordable homes for rural Americans. This level of funding includes a legislative proposal increasing the single family housing guarantee program loan fee from 1% to 2%, which permits the Administration to provide higher loan levels at less cost.

RHS's 515 program, which generally lends to private developers, finances both the construction and rehabilitation of rural rental housing for low- to moderate-income, elderly, and handicapped rural residents. The Budget provides $XXX million in direct loans, providing over XXX new units for very-low income tenants in rural America. RHS also provides section 538 multifamily housing guaranteed loans, and the budget provides a loan level of $XX million, which funds x,xxx new units for low to moderate income tenants. Additional multifamily housing funding includes $XX million in farm labor housing program level and increase of xx percent over 1999, which serves almost 100% minority populations.

Helping to Close the Opportunity Gap through Volunteerism

The budget includes numerous programs to narrow disparities and to increase economic opportunity in our Nation, so that we may achieve the goal of strengthening the American community. What follows are selected examples of such programs in areas including national service, public television, and civil rights.

National Service: The President has consistently supported and encouraged community service and volunteerism through such programs as AmeriCorps and other programs supported through the Corporation for National and Community Service. Volunteerism and community service have been a strong and important tradition in American ever since its founding. In 1994, President Clinton signed the King Holiday and Service Act making this national holiday a day of service that would bring people together, promote racial cooperation and help solve problems through citizen action.

The Corporation for National Service: This program encourages Americans of all ages and backgrounds to help solve community problems and provides opportunities to engage in community-based service. The budget proposes $851 million for the Corporation, (a 16) percent increase over 2000.

AmeriCorps: Over 150,000 individuals will have participated in AmeriCorps in the first five years. The program allows young Americans of all backgrounds to serve in local communities through programs sponsored by local and national nonprofits. Participants serve full-or part-time, generally for at least a year. In return, they earn a minimum living allowance, set at about the poverty level of a single individual and, when they complete their service, they earn an education award to help pay for postsecondary education or repay student loans.

The National Senior Service Corps: This program provides opportunities for citizens age 55 and older to use their time and talents to meet community needs. The budget funds the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program, enabling more than half a million older Americans to serve.

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January 10, 2000 (6:56PM)

From Digital Divide to Digital Opportunity

Access to computers and the Internet and the ability to effectively use this technology are becoming increasingly important for full participation in America's economic, political and cultural life. In the face of strong evidence of a "digital divide" - a gap between those who have access to information technology and those who do not - the Administration proposes an initiative to close the digital divide and ensure that every American benefits from the opportunities created by information technology.

Community Technology Centers

Community Technology Centers are designed to provide access to and training for information technology in a community-based setting within traditionally underserved areas. X centers were established in 1999. The budget provides $100 million for CTCs in 2001 to support the creation of up to 1,000 CTCs. (Education Branch to check!)

Broadband Communities

Grants to communities by the Department of Commerce's Economic Development Administration (EDA) and the Department of Agriculture's Rural Utilities Service (RUS) will help ensure that underserved rural, urban, and Native American communities can build the infrastructure necessary to promote economic development through information technology. The Administration proposed $23 million for EDA for ____ (Bill) and $2 million for RUS for _____ (Jennifer).

Internet Home Access Program

The Administration proposes to create a public-private partnership to help meet the goal of ensuring that every American can have affordable access to a computer and the Internet at home. The budget provides $50 million to connect up to 400,000 low-income households to the Internet. The program would be managed by the National Telecommunications and Information Administration within the Department of Commerce.

Technology Opportunities Program

Increased economic opportunity for all Americans hinges not only upon the access to information technology tools by also upon content and applications that help empower low-income households and underserved communities. The budget proposes increasing funding for the Department of commerce's Technology Opportunities Program (formerly

Telecommunications and Information Infrastructure Applications Program) to $45 million to expand its successful program of replicable, community-based grants into areas such as microenterprise development and job training.

Public Television in the Digital Age: The budget provides a total of $ 393 million for 2001 through 2003 for the public broadcasting system's transition to digital technology. Digital broadcasting will allow greatly expanded educational, community service, and cultural programming through innovative applications, including high-definition and interactive television. Funding through the Department of Commerce will be devoted to promoting digital transmission, while funding for the Corporation for Public Broadcasting will be for digital program production and development capabilities.

Civil Rights Enforcement:

Ever since the civil rights movement eliminated the most obvious forms of discrimination, including segregation, it has become increasingly difficult to document remaining discrimination in areas such as housing, employment, credit and insurance. The budget includes $695 million for funding civil rights enforcement agencies, a $79 million or 13 percent, increase over the 2000 level of $616 million. The budget proposes a total of $322 million for the Equal Employment Opportunity Commission (a 14-percent increase); $98 million for the Department of Justice's Civil Rights Division (a 20-percent increase); $76 million for the Department of Education's Office of Civil Rights (27 per cent increase); $76 million for the Department of Labor's Office of Federal Contract Compliance Programs (a 4-percent increase); and $50 million for HUD's fair housing activities (a 14-percent increase). Additionally, $21 million will be used by the USDA to improve civil rights enforcement and program outreach to under-represented customers. (See Table 9091 for civil rights enforcement funding.)

CIVIL RIGHTS CHART WILL GO IN JUST LIKE LAST YEAR AND FY 99

Commitment to Native Americans

The relationship between the United States government and Native Americans is a historical one founded on a trust responsibility. The Administration continues to honors its government-to-government relationship with Tribes by protecting critical, **programs on**

reservations, and by bringing together tribal leaders with leaders and resources across the government to address priority Tribal concerns, such as health care, education, economic development, and infrastructure development and other basic services. Within the total funding to address the unique relationship with Native Americans, the Administration includes a government-wide initiative increase of $xxx million to address these crucial issues comprehensively and systematically. The Domestic Policy Council Interagency Work Group, chaired by the Interior Secretary will coordinate agency efforts to implement the initiative.

The FY 2001 Budget reflects the Administration's commitment to Native Americans, proposing $x.x billion, xxx percent more than in 2000 and 72 percent over 1993, for Federal programs addressing basic Tribal needs and encouraging self-determination (see Table xxxx). The Health and Human Services Department's Indian Health Service (IHS) at $2.6 billion (10 percent over 2000) and the Interior Department's Bureau of Indian Affairs (BIA) at $2.2 billion (+17 percent) make up nearly half of total Federal funding for Native American programs and services. In addition, BIA and IHS will continue to promote Tribal self-determination through local decision-making. Tribal contracting and self-governance compact agreements now represent xxx of BIA's operations budget, and over 45 percent of IHS' budget.

The government-wide initiative will substantially expand existing opportunities and create new ones for Native Americans four principal areas:

Health Care: For IHS, the budget proposes an investment of $2.6 billion, a ten-percent increase over the 2000 level. This increase would enable IHS to continue expanding accessible and high-quality health care to its Native American service users, through IHS' existing network comprised of over 540 direct health care delivery facilities (discussed earlier in this chapter). This increase reflects a six-pronged approach for IHS: a substantial funding increase in 2001, sustained increases for selected clinical and preventive services over multiple years, better access to health grants, Medicare and Medicaid reimbursements, achievement of medical efficiencies by ensuring that health care procedures are done only when they are necessary and are done in a cost-effective manner, and vigilance on fraud and abuse, which is discussed in detail in Chapter 5, ``Strengthening Health Care".

The budget also supports access to health services and improves health status of Native American by ensuring that IHS' health facilities are adequately maintained. Within the increase, IHS will continue the construction of the Navajo Fort Defiance Hospital, the Parker Health Clinic, the Winnebago Hospital, and the design of the Fort Defiance Staff Quarters.In addition, the $30 million a year in diabetes-related funding that IHS receives under the new Children's Health Insurance Program will help alleviate complications from diabetes.

Education: The Administration is continuing its commitment to Native American education by systematically funding school repair and replacement needs on Indian reservations. The budget proposes $300 million (+$195 million over 2000 enacted) for BIA to fund the replacement of xx elementary and secondary schools and numerous health and safety improvement and repair projects. Within BIA's school construction funds, up to $30 million may be used by Tribes or tribal consortia to decrease the principal on bonds authorized under the Administration's school construction bonding proposal. In addition to school construction, BIA will provide $xxx million (+XX percent over 2000) for elementary, secondary and higher education school operations, early childhood development, and early intervention partnerships. New therapeutic pilots will be established at xx BIA boarding schools to provide students with holistic services, ranging from education to mental health and substance abuse treatment.

The Education Department will provide $1.7 billion (5 percent over 2000) in direct and indirect support for the education of Native Americans. This includes $115.5 million ($38.5 million increase over enacted) for the Indian Education program to fund grants to local educational agencies and continue the second year of in-service and pre-service training for the American Indian Teacher initiative. This amount also provides $5 million for a new initiative, the American Indian Administrator Corps, that will support the recruitment, training, and in-service professional development of American Indians to become effective school administrators in schools with high populations of Native American students. The Department will also set-aside $50 million in its School Renovation initiative for public schools with high concentrations of Native American students and provide $9 million to strengthen tribal colleges and universities.

Economic Development: (including funding in the New Markets and Digital Divide initiatives): The FY 2001 Budget proposes $54 million (nearly nine times the 2000 level) for the Department of Commerce. In keeping with last years efforts to expand New Markets to underserved areas, $49 million of the total amount will further the Economic Development Administration's infrastructure, planning, and public works projects. These projects will focus on technology, business development, and tribal economic development activities.

The budget also proposes $7 million for the Small Business Administration to fund the Office of Native American Affairs and to establish two initiatives for improving economic development on reservations: BusinessLINC a program designed to establish mentor/protege relationships between large and small businesses, and funding to expand the Small Business Development Centers program into Indian Country to provide business and technical assistance to Native American entrepreneurs. A set-aside of $5 million from the Treasury Department's Community Development Financial Institutions Fund will also be used to promote New Markets on reservations by establishing a training and technical assistance program addressing human capital development needs in Indian Country.

Infrastructure and Other Services: The Transportation Department (DOT) will expand its program to improve roads and bridges on Indian reservations. The proposed FY 2001 level of $375 million (a 50-percent increase over 2000) would allow Tribes to address the estimated backlog of $4 billion in needs on these roads and bridges. In addition, a set-aside for Indian tribes would be created under the DOT Job Access program to increase mobility and access to employment opportunities on reservations, and additional technical assistance for construction training would be provided through assistance to tribal colleges.

Of the BIA's total funds, $x million (x percent over 2000) will be used to supplement DOT's funds by maintaining BIA and tribal roads on reservations across the country, and xx million (x percent over 2000) will be used to repair or replace dilapidated homes across Indian Country, to prevent family displacement.

The Environmental Protection Agency would continue and expand technical assistance to Tribes on such activities as hazardous and solid waste removal, leaking underground storage tanks, and water clean-up. Part of EPA's proposed $188 million (10 percent over 2000) would also be used for increased tribal general assistance grants to build institutional capacity.

The FY 2001 Budget proposes $725 million (5 percent over 2000) in the Department of Housing and Urban Development to enable Tribes and tribal housing entities to create affordable rental and homeownership opportunities, as well as develop the regulatory and legal framework necessary to facilitate economic revitalization on tribal lands.

The third year of the Interior and Justice Departments' joint law enforcement initiative, for which the budget proposes$xxx million in 2001 (xx percent over 2000), will continue to address high crime rates in Indian Country with more resources for officer hiring and retention, drug control and youth crime prevention programs, law enforcement equipment, construction of detention facilities, and crime reporting surveys.

The Administration is committed to resolving disputed Indian trust fund account balances through informal dispute resolution and supports the unique government-to-government relationship that exists in Indian trust land management issues. After Tribal consultations, BIA submitted its recommendations to Congress in November 1997. Legislation reflecting these recommendations was proposed in 1998, but not enacted. Similar legislation will be re-proposed in the 106th Congress.

The budget provides $90 million for the Interior Department's (DOI's) Office of Special Trustee's trust management improvement project. Current activities include verifying the remaining individual Indian's account data and converting these data to a commercial-grade accounting system. Ownership, lease, and royalty information related to the underlying trust assets will also be verified and converted to a recently acquired commercial asset management system.

As part of DOI's commitment to resolving trust land management issues, DOI worked with Congress in 1999 to re-propose legislation (S. 1586) to establish an Indian Land Consolidation program to address the ownership fractionation of Indian land. DOI began implementing three pilot projects in Wisconsin in cooperation with Tribes, to purchase small ownership interests in highly fractionated tracts of land from willing sellers. In the first year of this effort, more than 8,000 small ownership interests have been consolidated. The budget proposes $x million in FY 2001 for this program and DOI will work with Congress to get S. 1586 enacted in the 106th Congress.

Commitment to the District of Columbia

The Administration strongly supports the District's right of self-governance and continues to work with the District to promote economic well-being and to advance the interests of the District. As part of the 1997 balanced budget agreement, the President proposed, and Congress enacted, a comprehensive financial restructuring plan for the District of Columbia. It relieved the District of major financial burdens and laid the groundwork to restore the District's fiscal health. Due to prudent fiscal management and on-going efforts to build private investment, the District--facing bankruptcy only six years ago--produced budget surpluses in 1997 and 1998 and estimates a third budget surplus in 1999. To maintain a balanced budget in the future, the District has launched major management reforms, cut spending, and directed a portion of budget surpluses to eliminate its accumulated deficit by 2000. If the District continues to balance its budget through 2000, it can regain full home-rule.

The budget includes $485 million to implement the President's plan for District courts and corrections, including $225 million to house the DC sentenced felon population. By December 2001, all adult-sentenced felons will be in the custody of the Federal Bureau of Prisons (FBOP).

The Administration--through its departments and agencies--will continue to provide technical help and other assistance to the District in such areas as education and law enforcement. In addition, the Administration continues to assist the District in spurring neighborhood revitalization and economic development and in bolstering the District's long-term fiscal stability. In FY 2000, the Federal government provided $17 million to launch a college tuition program for District residents and, in FY 2001, continues to fund the program at $17 million.

For FY 2001, the budget provides $38 million for economic development and infrastructure investments, including $10 million for environmental remediation in economically distressed neighborhoods and $25 million for the Federal share of construction of a Metro station at the intersection of New York and Florida Avenues, in Northeast DC. This $25 million will be matched by city and private funds to create an improved gateway into the Nation's Capital and revitalize the distressed neighborhoods surrounding the Metro site.

The President's vision of One America in the 21st Century is to have a diverse, democratic community in which we respect and celebrate our differences, while embracing the shared values that unite us. He envisions an America based on opportunity for all, responsibility from all, and one community of all Americans. To reach that goal, the President has asked all Americans to join him in a national effort to deal openly and honestly with our racial differences. The President recognizes that, even as America rapidly becomes the world's first truly multi-racial democracy, race relations remains an issue that too often divides our nation and keeps the American dream from being real for everyone who works for it.

In February 1999, the President established his Initiative for One America, the first White House Office dedicated to ensuring that we have a coordinated and focused strategy to close the opportunity gaps that exist for many minorities and the underserved. The new office builds on the important work done by the President's Initiative on Race in 1997 and 1998 by promoting the President's goals of educating the American public about race; encouraging racial reconciliation through a national dialogue on race; identifying policies that can expand opportunities for racial and ethnic minorities; and ensuring common access to health care and the broad enforcement of laws against discrimination. The Initiative for One America coordinates the work of the White House and federal agencies to carry out the President's vision of One America and partners with non-government entities to increase private sector commitment, investment and action to increase opportunity.

The One America Initiative has hosted discussions and public forums on diversity and opportunity to a wide range of organizations, educational institutions and communities all across the country. For example, it launched the *Presidential Call to Action to the American Legal Community* in a joint effort with Department of Justice officials and professional to implement a nationwide strategic plan to increase opportunity and promote racial diversity in the legal profession and worked with the Department of Education to promote the Campus Days Dialogue program to discuss a variety of educational challenges and the importance of faculty leadership on the issue of diversity. Six hundred-twenty educational institutions participated in this year's Campus Dialogue program. The Initiative also worked with local elected officials and advocacy organizations to develop a pro-active strategy to address the sometimes volatile relationship between communities of color and law enforcement agencies.

The Administration has made progress in a range of program areas, including those listed below. Many others, including a range of programs related to education and training, economic development, law enforcement and health care are listed throughout the *Budget*.

For example:

- Eliminating Racial and Ethnic Disparities in Health. In February 1998, the President committed the Nation to an ambitious goal by the year 2010: eliminate disparities in six health areas where racial and ethnic minorities are disproportionately affected, while continuing the progress we have made in improving the overall health of the American people.
- Closing the Education Opportunity Gap. Increases in funding for major education initiatives, including school construction and class size reduction, will significantly benefit minority groups. Other targeted programs also receive generous funding increases, including a $858 million increase in the Hispanic Education Action Plan and a $20 million increase in funding for Historically Black Colleges and Universities.

As these efforts continue, many other programs included by the President in the budget and described in these chapters will advance these goals to realize the potential of One America in the 21st Century.

Document No. ____________

WHITE HOUSE STAFFING MEMORANDUM

Date: 1/10/00 ACTION / CONCURRENCE / COMMENT DUE BY: 1/11 5pm

Subject: FY2001 Budget Chapters – Sustaining Economic Growth

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	✓	☐	LOCKHART	☐	☐
PODESTA	✓	☐	MARSHALL	☐	☐
ECHAVESTE	✓	☐	MOORE	☐	☐
RICCHETTI	✓	☐	NASH	☐	☐
LEW	☐	☐	NOLAN	☐	☐
BAILY	✓	☐	REED	✓	☐
BERGER	✓	☐	SOSNIK	✓	☐
BLUMENTHAL	☐	☐	SPERLING	✓	☐
BURSON	☐	☐	STEIN	✓	☐
CAHILL	☐	☐	STREETT	☐	☐
EDMONDS	☐	☐	TRAMONTANO	✓	☐
FRAMPTON	☐	☐	UCELLI	☐	☐
IBARRA	☐	☐	VERVEER	☐	☐
JOHNSON, B.	☐	☐	____________	☐	☐
JOHNSON, J.	✓	☐	____________	☐	☐
LANE	☐	☐	____________	☐	☐
LEWIS	☐	☐	____________	☐	☐

REMARKS:

COMMENTS TO LINDA RICCI

RESPONSE:

Office of the Staff Secretary

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 10, 2000

MEMORANDUM FOR LISEL LOY

FROM: Rob Nabors

SUBJECT: FY 2001 Budget Chapters

Per our conversation, attached is the first budget chapter for circulation - "Sustaining Economic Growth." We would recommend circulating the chapter to the following:

COS
NEC
DPC
CEA
LA
NSC
Sosnik
Johnson

Linda Ricci (x 57254) was hoping that comments could be forwarded directly to her in hardcopy by 5pm tomorrow. Thank you for your consideration and please do not hesitate to call if you have any questions or concerns (x 55604).

C:\work\wp\linda\2001 budget writing\Sec. 3 Econ\LR editDocument.Ch 3 draft 19991213.wpd
January 10, 2000 (10:02AM)

III. BUILDING ON OUR PROSPERITY
1. SUSTAINING ECONOMIC GROWTH

In 1993, we put in place a new economic strategy. It cut the deficit and increased investment by eliminating hundreds of inessential programs and putting us on a path that now has given us the smallest Federal Government in 37 years. In 1997, with the Balanced Budget Act, we continued the strategy, again increasing investment, cutting inessential programs, first balancing the budget and then providing the first back-to-back surpluses in 42 years. President Clinton, December 3, 1999

When President Clinton took office in 1993, his greatest priority was to build up the economy and, in turn, restore prosperity and purpose to our nation. To reach this goal, it was essential to reverse the unrestrained growth of the federal budget deficit. In the previous twelve years, the budget deficit had exploded, sapping resources from productive investment and undermining confidence in the government's ability to help shape our economic future for the better.

The President confronted a federal budget deficit that had grown enormously since 1981, hitting its highest level in the nation's history, $290 billion dollars, in 1992. During the same years, those deficits added to the national debt, multiplying it four-fold and adding $2.3 trillion dollars to reach a total of $3 trillion dollars by 1992 . The national debt was so large that it required, on an annual basis, almost fifteen cents of every Federal tax dollar to provide for the interest costs to finance it. The government's massive borrowing also imposed costs in the private sector; higher interest rates made it more expensive for Americans to finance home mortgages and other borrowing, and for businesses to finance investments upon which the nation's job creation and economic expansion depend.

In order to set the nation's economic path right , the President moved swiftly to introduce his three-part economic plan. This strategy was based upon: targeted investments including education and research and development; the expansion of global trade including opening markets for American exports; and fiscal discipline, making government more efficient, controlling the growth in spending and taking measures to significantly cut the federal budget deficit.

Within months, after tireless efforts by the President, his Administration and Democrats in Congress, Congress passed the OBRA 1993 with a deficit reduction plan of which would cut the deficit in half as a percentage of the economy in five years. To finish the job of eliminating the deficit, the President and Congress joined in a bipartisan effort to pass the 1997 Balanced Budget Act, which reached its goal four years ahead of schedule, producing the first budget surplus in a generation in 1998. In only seven years, after inheriting the largest Federal budget deficit in history which peaked at $290 billion, the President and his successful strategy of fiscal discipline and targeted investment produced a budget surplus of nearly $123 billion, the largest in history.

The turnaround in the budget under President Clinton is the largest deficit reduction in dollar terms in our history; and relative to the economy, the improvement is the greatest since the years immediately after the massive deficits of World War II. 1999 marks the second year in a row that the budget was in surplus – the first back-to-back surpluses since the post-war economic boom of the mid-1950's.

The surpluses have finally allowed the Government to retire some of the publicly held Federal debt, reducing the accumulated obligations from past deficits and bringing down the Government's ongoing interest costs. Because we have paid down the debt by more than $120 billion [*update*], while the economy has grown, debt service costs have declined almost to thirteen cents [*update]* on every Federal tax dollar, a reduction that reduces related interest payments by (x$) annually.

These results are all the more remarkable when compared with the likely results n had this Administration not taken on the difficult problem of debt reduction. If the Clinton Administration had not changed the inherited policy, with the same trajectory of growth, today the national debt (*question: publicly held debt/national debt?... double check for accuracy and consistency throughout)* would approach $7 trillion, or 75 percent of GDP, draining 18 cents from each tax dollar to cover interest costs. Instead, today the publicly held debt is $ 3.6 trillion, or 39 per cent of GDP, and declining. Under the President's long-term plan to meet the demographic changes of the nation by strengthening Social Security and Medicare, to which debt-reduction is central, debt held by the public can be reduced to zero by 2013. *(Possibly insert similar comparison for deficit... awaiting possible Minarik input.]*

The President's fiscal policy soon yielded changes in the economy that are so broad and enduring that February 2000 marks the achievement of the longest economic expansion in this nation's history. During the President's first year in office, financial markets responded to the prospect of meaningful deficit reduction by substantially reducing long-term real interest rates (actual market rates minus expected inflation). These lower real interest rates reduced the cost of borrowing, prompting more business investment, resulting in faster economic growth, increased job creation, rising productivity and higher real wages.

The numbers tell a clear story of economic success. Long-term real interest rates under President Clinton have been lower than those of the previous 12 years by an average of 1-1/4 percentage point.. The rate of real economic growth in this Administration has averaged 3.8 percent per year -- compared with an average growth rate of 2.8 percent per year in the previous 12 years. In the past seven years, 20 million new jobs were created. At 4.3%, the unemployment rate is at its lowest rate in three decades and has fallen by more than three percentage points since 1992. Productivity has risen by 2.7 percent in the last four years. And as a result, after two decades of stagnant wages, Real hourly wages have grown by 2.5% since (when?). The number of people in poverty has dropped by 4.8 million and 6.8 million Americans have left the welfare rolls.

The economy continues to thrive, in part because price inflation has dropped during the past seven years of more rapid economic growth. In the face of this remarkable economic expansion, inflation has remained relatively stable and remarkably low. Dampened inflation rate is not characteristic of previous economic booms and has helped allowed this expansion to continue unhampered by fear of rising rates. The decline in the inflation rate and falling unemployment have produced the lowest "misery index" since the 1960s. (This index sums the unemployment and inflation rates.)

Economic Growth and Fiscal Discipline Benefit the American People

President Clinton's economic program has concentrated on changes that benefit the American people in their daily lives and their prospects for the future. The success of this strategy is clear:

- The economy has created more than 20 million jobs since January 1993, nearly all of them in the private sector, most of them full-time, and in sectors that pay good wages.
- The unemployment rate is the lowest it has been in 29 years; for African Americans and Hispanics, unemployment is lower than at any time in the quarter-century for which statistics have been kept.
- Work has begun to pay more, reversing a two-decade trend of declining real wages, and boosting household incomes throughout the economy.
- After two decades of decline and stagnation, Americans at the lower end of the income scale -- those in the poorest 20 percent of households -- have seen a rise in their real incomes. Since 1993, their incomes have risen by almost $900 per household (in 1998 dollars), a 10 percent increase.
- In the past six years, 6.8 million people have left the welfare roles, a 48 percent decline. Welfare recipients now account for the lowest percentage of the U.S. population since 1967. Meanwhile, 1.5 million people who were on welfare in 1997 are now working, and all the States have met the work requirements imposed by the 1996 welfare reform law.
- From 1993 to 1998, the number of poor people in America declined by 4.8 million, and there are 2.1 million fewer poor children. The poverty rate has declined sharply from 15.1 percent to 12.7 percent, the lowest it has been since 1979.
- Crime rates are at the lowest level in over 25 years.
- A record number of Americans now own their own homes, which was made possible by lower real interest rates and larger real incomes. More than eight million households have bought homes since the President took office.

Budgetary Performance

Deficit Reduction Has Far Exceeded Projections: In the twelve years of spiraling budget deficits before President Clinton took office, the publicly held debt quadrupled, growing by $2.3 trillion. In dollar terms, this was the largest buildup of Federal debt in the Nation's history.
The President's program, enacted by Congress, the Omnibus Budget Reconciliation Act (OBRA)

of 1993, was a crucial step toward fiscal responsibility. The Administration expected OBRA to reduce the deficit significantly; but the actual improvement in the budget has been more than twice what was originally projected.

To finish the job of eliminating the budget deficit, the President worked with the Congress to enact the bipartisan Balanced Budget Act (BBA) in mid-1997, which set a goal of reaching a balanced budget by 2002. Because of fiscal discipline and unexpectedly good economic performance, the budget went into surplus in 1998, four years sooner than projected. Upon OBRA's enactment, the Administration had projected that it would reduce the accumulated deficits from 1994 to 1998 by $505 billion. In fact, the back-to-back surpluses in 1998 and 1999 combined with reduced deficits from 1993 through 1997 were responsible for $1.8 trillion of deficit reduction (see Chart 1-1). The total deficit reduction from 1993 to 2003 will be approximately $4.4 trillion.

Chart 1-1. Budget Surpluses Follow Years of Deficits

The Administration has begun to Reverse the Debt Buildup of the 1980s: When the Government runs a deficit, it must borrow from the public to finance the excess outlay, in turn accumulating what is known as publicly held debt. For much of our nation's history, the accumulation of debt was traditionally associated with the need to provide for war time expenses. [*correct?*] For example, compared with the size of the economy as measured by GDP, publicly held Federal debt accumulated to a sum even greater than the economy's annual production -- peaking at 109 percent at the close of World War II in 1946. For many years after that, the economy grew faster than the debt, and the ratio of debt to GDP gradually fell to about 25 percent in the 1970s. The exploding deficits of the 1980s sent it back up; debt held by the public peaked at 50 percent of GDP in 1993. Since then, the Administration's policy of deficit reduction has steadily reduced this ratio. The back-to-back surpluses of 1998 and 1999 have even cut into the dollar amount of publicly held debt, driving down the size of the debt relative to the economy even faster.

Had President Clinton's Administration done nothing, both OMB and the Congressional Budget Office (CBO) projected publicly held debt would approach $7 trillion, or 75 percent of GDP, by 2002, and would reach even higher levels thereafter. Instead, at the end of fiscal year 1999, the ratio of publicly held debt to GDP had already fallen about 26 percentage points below projections made just before the Administration began pursuing its concerted policy of deficit reduction (see Chart 1-2).

Chart 1-2. Publicly Held Debt Has Been Brought Under Control

There Is an On-Budget Surplus: Up until recently, the unified budget has been the most commonly used framework for tallying the Federal Government's deficits and surpluses. The unified budget includes all Government receipts and spending, including Social Security contributions and benefits.

This measure is the most appropriate to use in evaluating the effect of the Federal Government's operations on the economy; obviously, for that purpose, it is essential to leave nothing out.

Because contributions to Social Security have been greater than the benefits paid out, the Social Security Trust Funds have been accumulating surpluses. In the unified budget, these Social Security surpluses are counted toward the unified surplus. Without the Social Security surplus, the unified budget would not have been balanced in 1998 and would have remained narrowly in deficit in 1999.

Recently, attention has been focused on the budget surplus or deficit excluding Social Security Trust Fund surpluses -- the so called "on-budget" surplus or deficit (which also excludes the relatively small amount of transfers to or from the U.S. Postal Service). Within this budget framework there has also been a large reduction in the deficit over the past seven years (see Chart 1-3). The on-budget deficit has fallen from $340 billion in 1992, to $1 billion in 1999. In 2000, it is expected to be in surplus for the first time since 1960. The improvement in the unified budget for the past seven years is due primarily to the decline in the on-budget deficit.

Chart 1-3. On-Budget Deficits Have Been Turned into Surpluses

The Government's Claim on the Economy has been Reduced: Federal spending reached a higher share of the economy during the previous two Administrations than at any other time since the end of World War II; it was still near its peak 22.5 percent of GDP in 1992. The defense buildup in the early part of the 1980s, higher Federal interest payments because of increased debt plus high interest rates, and large increases in the cost of Federal health programs overwhelmed all efforts to reduce spending. This pattern has been reversed under President Clinton, while, at the same time, this Administration has made investments in education, the environment, and other priorities. During the last five years, the ratio of Federal spending to GDP has steadily declined, and in 1999 it was only 18.9 percent, a smaller percentage of the economy than at any time in a quarter century.

Economic Prosperity has Spurred Receipts: A healthy economy and a booming stock market have led to a surge of Federal tax receipts. In the past six years, receipts have generally been higher and spending lower than projected in the budget, leading to more deficit reduction than expected. Most recently, the surprisingly strong growth in receipts has been especially important in bringing the budget into surplus well ahead of schedule.

The United States is among World Leaders in Budgetary Performance: In the 1980s, the United States was criticized by world leaders for its large budget deficits, which were seen driving up worldwide interest rates and threatening global economic growth. The Clinton Administration's fiscal policies have put an end to this criticism. The United States can now point proudly to its fiscal policy as a model for other countries. The United States is a leader among the G-7 nations; only Canada runs a larger surplus, and four of the other five nations are in deficit (see Chart 1-4). The reason for this outstanding U.S. performance is comparatively low public spending. The share of GDP devoted to taxes is lower in the United States than in any other leading country. And while the United States supports a much larger defense establishment than the other G-7 countries, it nonetheless has its lowest public spending as a share of GDP in a quarter century.

Chart 1-4. Among the Other G-7 Countries Only Canada Had a Larger Budget Surplus in 1999

Economic Performance

The Administration's strategy of reducing the Federal budget deficit while investing in people and opening foreign markets has helped to unleash a powerful surge of private economic activity. Eliminating the deficit has freed saving to finance private investment in business and housing, and enabled the Federal Reserve to maintain generally lower interest rates for the past seven years; in turn, that has helped maintain and strengthen the economic expansion. Businesses have been able to borrow resources for capital improvements at favorable interest rates. New home buyers have been drawn into the housing market because of the lower interest rates, while current homeowners have been able to refinance their mortgages. The strong economy has fostered confidence among consumers and businesses, reinforcing the effects of the fiscal and monetary policy. The surge in business and residential investment since the early 1990s shows that the Administration's fiscal policy is working; and with the budget now balanced and producing a surplus, prospects for continued economic progress are excellent.

The Expansion Sets a New Record: This February the economic expansion that began in 1991 enters its 107th month, setting a new record as the longest U.S. expansion of all time (statistics go back to the middle of the 19th century). Earlier expansions have generally been curtailed when rising inflation has forced the Federal Reserve to raise interest rates to curb demand. Demand has grown very rapidly in the United States, but inflation has generally drifted downward, so monetary policy has been able to accommodate the growing economy. Such a moderate inflation performance this long into an expansion is unique in post-war economic history.

The Administration's Fiscal Policy Has Helped Extend the Expansion: Federal budget deficits that were ultimately unsustainable helped stimulate the two other lengthy post-war economic expansions -- the one in the 1960s and the other in the 1980s. In those earlier expansions, an expanding Government dragged the private sector along, but such a stimulative policy could not continue indefinitely, because of rising inflation and debt; when the stimulus ended, the expansion was threatened.

In the expansion of the 1960s, the deficit was restrained in the early part of the decade, but it grew sharply after 1965 because of spending for the war in Vietnam, which helped bring on the inflation that marked the end of the decade and with it the expansion. In the early 1980s, the "structural budget deficit" (the deficit that would remain even if the economy were at high employment,) [*this explanation may need to be clarified?]* that was pushed to almost five percent of GDP by large tax cuts and expanded military spending.[1] Though the actual deficit declined after the deep 1981-1982 recession was over, the "structural deficit" did not. The Government's failure to curb the structural deficit once the 1980s recovery was under way held up interest rates, contributing to the financial problems that marked the end of that decade and brought on the recession of 1990-1991.

In contrast, during the current expansion, the Federal budget deficit has been eliminated; and that shift in fiscal policy has facilitated the rise in private investment that propelled the economy forward.

This Expansion has been Led by a Strong Private Sector...: Since President Clinton took office in 1993, the economy has grown at an average rate of 3.8 percent per year after adjustment for inflation, compared with an average growth rate of 2.8 percent over the previous 12 years. Recent growth has been driven by increased demand for private goods and services. The Federal Government's direct claim on GDP (mainly defense and other discretionary spending, not counting transfer payments) has actually shrunk over the past 6-1/2 years at an average real rate of 1.1 percent per year. Meanwhile, 92 percent of the 20.0 million jobs created during this Administration have been in the private sector (and Federal Government employment has shrunk by more than 350,000; see Section IV, "Improving Performance Through Better Management").

...Especially Business Investment: The ratio of real business equipment investment to real GDP has reached record levels: 11.3 percent in the third quarter of 1999. Since the beginning of 1993, inflation-adjusted equipment investment has grown at an annual rate of 12.5 percent, more than 2-1/2 times its annual rate of growth from 1980 through 1992 (see Chart 1-5).

Investment growth is important for two reasons:

- Investment adds to the economy's productive capacity by providing more capital goods.

- New equipment added to the capital stock contains the latest technology; so the more we invest, the faster we adopt new production techniques.

[1] The structural deficit is the budget gap that would remain after removing (analytically) the effects of the business cycle on spending and receipts (along with purely temporary factors, such as the annual budgetary effects that arose from the crisis in the Saving and Loan industry).

Both additions to capacity and the adoption of new technology make workers more productive, and have helped to restore productivity growth to its fastest pace since the 1960s. Increases in productivity are the *only way* (?) to raise real wages and average living standards in that employers whose workers are producing more are in a position to pay them more. Increased productivity also helps curtail inflation by allowing business to pay workers more without increasing prices because the workers' additional output pays for the higher wages.

Chart 1-5. Equipment Spending Has Led the Expansion

Productivity Growth Has Revived: In the 1970s, productivity growth (the average annual growth rate in output per hour in the nonfarm business sector) fell sharply, from 2.7 percent per year to 1.5 percent. Lower productivity growth meant a slowdown in real wage growth and stagnating living standards. With productivity growing at nearly 3 percent per year, living standards double every generation. With productivity growing at only 1.5 percent per year, each generation sees only a 50 percent improvement in living standards, and many within each generation can find themselves falling behind their parents.

For twenty years following the 1970s slowdown, productivity growth stayed at the new slower rate. Since then, however, productivity growth has staged a remarkable recovery.

On average, over the last four years, output per hour in nonfarm business has been rising by 2.7 percent per year. This is the same growth rate as before the slowdown.

It is is still too soon to know for sure if the earlier trend has returned permanently. Some of the extra growth could be due to temporary factors that will be discernable only after a period of time has elapsed; but the fact that the higher trend has persisted for four years makes it more likely that the faster productivity will persist. This is welcome news, not only for businesses seeking to hold down costs and maintain a competitive pricing structure, but also for American workers and their families, who once again see real improvements in their standard of living.

While there will never be a definitive answer to the reasons for the original productivity slowdown in the 1970s, just as those in the 1990s will remain a cause of debate, surely the Clinton Administration's policy of fiscal discipline along with Government investments in research and education are having an effect and deserve a share of the credit.
[Given the tentative nature of discussion in the paragraph above... do we really need it?]

Chart 1-6. Productivity Growth has Revived

The Lowest Misery Index in 30 Years: Both unemployment and inflation have continued to fall even as the expansion finishes its ninth year. Last year, unemployment fell to 4.2 percent, the lowest annual average since 1969; while inflation, at 1.9 percent (as measured by the core CPI, excluding volatile food and energy prices), was the lowest since 1965. The misery index--the sum of the inflation rate and the unemployment rate--is lower than at any time since the 1960s (see Chart 1-7).

Chart 1-7. The Misery Index Is at Its Lowest Level in Thirty Years

Unemployment Rates and Interest Rates are Both Low: The combination of real interest rates[2] and unemployment is at its lowest in decades. Generally, since President Clinton took office, real interest rates have been below the average levels of the 1980s, with the real 10-year Treasury bond rate dropping in 1998-1999 to around 3 percent -- near its lowest level since the 1970s. It is noteworthy that real interest rates have remained low while sustained economic growth and low unemployment which might normally increase the demand for credit and send rates higher (see Chart 1-8).

Chart 1-8. Real Interest Rates and Unemployment Are Both Low

The Economic Outlook

Conservative Forecasts Call for Continued Growth and Low Inflation: Continuing its prudent economic forecasts, the Administration projects that growth will moderate somewhat in 2000, and again in 2001, but that real GDP will grow at an average pace of 2.6 percent per year for the next four years. Last year's unemployment rate was the lowest in three decades, and is projected to rise somewhat over the next few years; inflation is also projected to increase slightly. Special factors including the strong dollar, low oil prices, and the economic slowdown abroad ; have held inflation down recently, but they are not expected to be permanent.

Still, if fiscal and monetary policies remain sound, the economy could well continue to outperform this conservative forecast, as it has for the past seven years. The Administration expects that the record-setting expansion will continue for the foreseeable future, and will sustain many of the economic gains of the last few years. Ultimately, the Administration believes the

[2] The real interest rate is the excess of the actual market interest rate above expected inflation. When expected inflation is high, as it was in the 1980s, market interest rates will be high for this reason alone, and not because of any pressure from credit demand. Real interest rates can be calculated in different ways. The real rates in Chart 1-8 are derived from surveys of expected inflation for 10 years ahead.

economy can return to its long-run potential growth rate of approximately 3 percent per year[3] on a sustainable basis by the middle of the new decade, accompanied by low levels of inflation and unemployment.

The longer-term economic and budget outlook also is favorable -- even more so than only a few years ago. With prudent fiscal policy, the budget could remain in surplus for many decades. Still, there are foreseeable challenges that will threaten budgetary stability in the 21st Century. In less than 10 years, the "baby-boomers" -- the large generation born between 1946 and 1964 -- will become eligible for early retirement under Social Security. In the space of two decades, the elderly's share of the U.S. population will jump from around 13 percent to 21 percent. This demographic bulge will put intense pressure on the Federal budget through Social Security and the Federal health programs, Medicare and Medicaid. Reforms will be needed to preserve the affected programs; and budgetary restraint will be needed to preserve this Administration's fiscal achievements.

The Near-Term Economic Outlook: The Administration expects economic growth to moderate from its average pace of 4.2 percent per year during the past four years to 2.9 percent over the four quarters of 2000, and to 2.5 percent in 2001-2003. Inflation should remain low. Recent growth has been much faster than mainstream forecasts have believed to be sustainable without higher inflation. The Administration projects that the more moderate pace of growth will keep inflation low.

After more than a year of worldwide financial turmoil, most of the affected countries in South East Asia and Latin America appear to have turned the corner toward recovery, or at least to have arrested their declines. Korea, one of the countries where the crisis began in 1997, has been recovering rapidly in 1999. Other East Asian economies are also beginning to emerge from recession. Europe, which suffered stagnant growth for much of the 1990s, has begun to grow more rapidly in the past year. Among the major industrial countries, only Japan appears to remain in the very early stages of recovery.

The worldwide economic crisis in 1997-1998 had very little effect on the U.S. economy. In the first three quarters of 1999, growth continued at an average annual rate of 3.7%. Despite an adverse trade balance, strong consumer and investment demand kept the economy healthy. Looking ahead, mainstream forecasts, like the Administration's, expect some moderation in the growth of domestic demand in 2000. Consumer spending has been outpacing income growth,

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[3] In October, a major statistical revision adjusted real GDP upwards. The revision added about 0.4 percentage point to the recent growth rate of real GDP. That adjustment is reflected in this estimate. The revision is discussed in more detail in Chapter 1 of *Analytical Perspectives*.

and cutting into personal saving; with the household saving rate at a record low, consumption may grow more slowly in the future. Business profits, which had been growing at double-digit rates from 1993 through 1997, have been rising more moderately since then. Profits are expected to continue to increase, but the unusually rapid growth is not projected to return. Furthermore, the rate of capital utilization is below its long-run average, which suggests that there could be some moderation in the rate of business investment as business finds less need to add to capacity (though businesses will continue to invest for modernization and to increase productivity). Though these developments could lead to more moderate economic growth, the longest economic expansion in history is expected to continue. Through 2003, real GDP growth should average around 2.6 percent per year.

As the recent rapid burst of productivity growth moderates, the Administration estimates potential growth will settle at 3.0 percent from 2004 through 2007. Beginning in 2008, potential growth is expected to slow gradually as the retirement of the baby-boomers begins to cut into the growth of the labor supply.

Beginning later this year, as economic growth moderates, the unemployment rate is projected to rise gradually, stabilizing at 5.2 percent in 2003. Mainstream private-sector economic forecasters generally agree that inflation would be expected accelerate when unemployment is at a rate slightly above five percent. The modest anticipated increase in unemployment is expected to keep price inflation under control.

After rising by 1.6 percent in 1998, the CPI has picked up somewhat in 1999, rising through October at an annual rate of 2.8 percent. It was driven up in large part by rapidly rising prices for gasoline and home heating oil; just as falling energy prices held down the average inflation rate in 1998, rising energy prices have driven it up in 1999. Economists often recompute the CPI excluding food and energy to get a clearer picture of the underlying (or "core") rate of inflation. On this basis, inflation continued to decline in 1999; core CPI inflation, excluding food and energy, was only 1.9 percent at an annual rate through October. This was the lowest core rate of inflation since 1965, and it indicates that the faster inflation in energy prices was not passed through to other goods and services. The chain-weighted price index for GDP also increased somewhat faster in 1999 following an extremely low rate of increase in 1998. After rising 1.1 percent over the four quarters of 1998, it has increased at an annual rate of 1.8 percent so far in 1999. It is projected to rise 1.9 percent in 2000 and 2.0 percent per year thereafter.

Interest rates on Treasury debt fell to extremely low levels -- under five percent -- during the world financial crisis of 1997-1998. Since then, they have increased somewhat. Short-term rates -- following three interest rate hikes by the Federal Reserve during 1999 -- are back to pre-crisis levels, while 10-year rates remain about 1/2 percentage point below their pre-crisis average. The Administration projections are close to the current levels, with the 91-day Treasury bill rate at

5.2 percent and the yield on 10-year notes at 6.1 percent.

The medium-term projections shown in Table 1-1 should be thought of as the average behavior expected for the economy, not a precise year-to-year forecast. In some years, growth could be faster than assumed; in other years, it could be slower. Similarly, inflation, unemployment, and interest rates could fluctuate around the projected values. But these assumptions, taken on average, should provide a prudent basis for projecting the budget. In recent experience, the economy has outperformed the consensus forecast, and the Administration believes that it can continue to do so if fiscal policy remains sound.

Table 1-1. ECONOMIC ASSUMPTIONS

The Budget Outlook

The Administration projects budget surpluses in 2000 and subsequent years. The unified surplus should reach [$180] billion dollars in 2000 and [$220] billion dollars in 2001, while the on-budget surplus is expected to be [$35] billion in 2000 and [$63] billion in 2001. All budget projections contain elements of uncertainty, which are compounded as they extend further into the future. However, long-run budget projections are both valuable and necessary to identify problems that will develop in the future, thereby allowing policy makers and devise solutions on a timely basis. *[Proposed footnote:* This Administration has always used cautious assumptions when projecting economic forecasts, and its budget projections have invariably proved to be conservative, as actual economic and fiscal results at this point have invariably exceeded Administration projections.]

The Long-Term Budget Outlook: In the 1980s and before, budget projections were extended for no more than five years. In the 1990s, attention has increasingly focused on the outlook for 10 years and even longer, especially when it has been necessary to consider longer-term issues such as the aging of the population and possible reforms to Social Security.

The unexpectedly swift reduction of the budget deficit since the passage of OBRA in 1993 and the BBA in 1997 bodes well for the long run. Without the changes enacted in OBRA, the Federal deficit was projected to spiral out of control. Following the changes in OBRA, projections in the fiscal year 1997 Budget showed a unified budget surplus beginning in 2002 and lasting for about 20 years; but the budget returned to deficit in the long run. Since the 1997 Budget, the economy and the budget have performed much better than expected, reducing the accumulated debt at the start of the long-run projections and thereby extending the projected surpluses for many decades. The current budget projection shows surpluses lasting until well past mid-century.

However, such projections are inherently uncertain, because, while prudent fiscal policy can safeguard our hard-earned prosperity, so too can (*misguided/false?*) choices to reverse the policy of budget discipline that is responsible for our ongoing success. Reform of Social Security and Medicare would go a long way to safeguard our hard-won fiscal stability. Preserving fiscal discipline must include strategic investments and reform of the age-related entitlement programs. The favorable long-term results shown in these projections will require prudent policy -- choosing continuing reductions in outstanding debt over expensive tax cuts or spending increases -- and avoiding adverse economic shocks that could knock the projections off track. However, ordinary business cycles should not affect the projections assuming the economic assumptions prove on average accurate over time. (For more details on the long-run budget projections see *Analytical Perspectives*, Chapter 2, "Stewardship.")

Due to past Clinton Administration policy initiatives, the budget will be able to preserve the solvency of Social Security and Medicare, while protecting current and future beneficiaries. Restoring confidence in these vital programs is an Administration priority. The improvements in the long-term budget outlook illustrated here will offer the opportunity to get the job done.

Chart 1-9. The Long-Term Budget Outlook Has Greatly Improved

Investing in Federal Statistics

Our democracy and economy demand that public and private leaders have unbiased, relevant, accurate, and timely information on which to base decisions. Data on population, real GDP, the CPI, and the trade deficit, for example, are critical inputs to monetary, fiscal, trade, and regulatory policy. They also have a major impact on government spending, budget projections, and the allocation of Federal funds. Taken together, statistics produced by the Federal Government on demographic, economic, and social conditions and trends are essential to inform decisions that are made by virtually every organization and household.

Rapid changes in our economy and society, **including the unprecedented growth of e-commerce,** have meant that the current funding levels of the Government's statistical agencies have not kept pace with the need for good statistics. The relevance and accuracy of some of our Nation's key statistics are in question. Without the improvements proposed in this budget, it will become more difficult for our statistical system to mirror our economy and society accurately, which, in turn, could undermine core government activities, such as the accurate allocation of scarce Federal funds. Fortunately, the most serious shortcomings of our statistical infrastructure could be substantially mitigated by proposals set forth in the Administration's budget. These initiatives are documented in greater detail in Chapter 11 of Analytical Perspectives, "Strengthening Federal Statistics."

AN ECONOMIC LEGACY

Today's economy is one of remarkable success, and by (almost?) every measure, far exceeds the economy of seven years ago. By the same token, today's Federal budget is in balance and is projected to produce surpluses far into the future.

While the U.S. economy has always been subject, as all economies are, to expansion and recession, there is reason to believe that the gains of the past seven years can be extended to future generations, if fiscal choices and other policy remains sound.

The Budget

Debt. At the beginning of this Administration, the publicly held debt had quadrupled in just 12 years, and approached 50 percent of our GDP. It was projected nearly to double again by 2001, and to approach 75 percent of our GDP. Today, the projected debt for 2001 should be almost $3 trillion lower than that estimates of (just x years ago?), and should fall to less than 40 percent of GDP. As debt reduction continues, the portion of federal tax dollars financing interest costs is expected to continued shrinking. Under the President's long-term plan, the national debt would disappear by 2013.

Debt Service. The debt service savings because of this lower debt are substantial. Net interest costs in the budget were expected nearly to double by 2001, approaching $400 billion per year. Instead, net interest costs have begun to decline, and are projected to fall to just over $200 billion. As debt reduction continues, the portion of federal tax dollars financing interest costs is expected to continue shrinking as responsible fiscal choices are extended.

Deficits into Surpluses. In part because of these debt-service savings, the budget moved in just six years from the largest deficit in history to the largest surplus in history. The budget is about to enter surplus, even without the traditional unified accounting that includes the Social Security surplus . Through the virtuous cycle of surpluses to reduced debt to lower interest costs to further surpluses, this legacy as well can be handed on to future generations of Americans. It also provides greater budgetary strength to address long-term demographic issues as we prepare for the retirement of the baby-boom generation and its consequences.

Prudent, Credible Economic Forecasts. Prior to the election of President Clinton, White House economic forecasts were treated as mere political statements. [*Tone down?*] In the preceding 12 years, the economy and the budget fell short of Administration projections in almost every year. This Administration changed that practice, issuing prudent, mainstream economic forecasts based on conservative assumptions with realistic budget targets. As a result, the Federal Government has renewed credibility with financial markets in the United States and around the world. A formal poll of private-sector forecasters has confirmed that Administration economic estimates are now considered to be far more accurate tools to predict likely economic developments.

Federal Employment. When the Clinton Administration took office, Federal civilian employment had changed little in a quarter of a century. [*But hadn't it grown a lot?*]. But by the close of the last fiscal year, due to Administration efforts to streamline and make more efficient the operations of government, Federal full-time equivalent employment had declined by more than 350,000, or more than 16 percent. This leaves a reduced obligation upon succeeding generations of Americans.

Federal Spending. Federal spending as a share of our economy has declined in every year of the Clinton Administration. In fact, Federal spending as a share of GDP has been lower in every year for which President Clinton submitted a budget than it was in any year under the previous two Administrations. In the fiscal year just ended, Federal spending is the lowest percentage of the GDP in a quarter century. Again, this leaves a smaller burden on succeeding generations of Americans.

State and Local Government Finance. The Federal budget has not been the only beneficiary of the strong U.S. economy. State and local governments are in the best shape in decades. State fund balances average 8.7 percent of outlays – the highest since 1980. And 36 percent of the States have fund balances above the Wall Street standard of 5.0 percent.

The Economy

Investment. Business investment in equipment has grown at inflation-adjusted double-digit rates in every year of the Clinton Administration. This leaves a larger productive base, with newer technology, in the hands of American workers for years to come.

Productivity Growth. Partly as a result of this strong investment growth, worker productivity growth has accelerated from its slowdown in the 1970s and 1980s. Faster productivity growth yields higher real wages, without inflation, building a stronger economy for future workers.

Private-Sector Growth. During the Clinton Administration, the private sector, as measured in the National Income and Product Accounts, has grown faster than in the preceding 12 years. In fact, the Federal Government sector in the Accounts has shrunk at a rate of more than one percent per year. The American economy will be stronger as a result.

Strong Equity Markets. As a result of the rapid private-sector growth, the value of corporate equities has soared. This has made it easier for new firms to raise investment capital, and it has added resources to the holdings of millions of American households.

Low Unemployment; Low Welfare Rolls. In the past seven years, unemployment has fallen from about 7.5 percent to barely 4 percent. The percentage of the adult population that is employed has reached the highest levels ever recorded. When unemployment is low, employers actively seek out new workers, including those who are more disadvantaged, and give them the chance to prove themselves. In fact, the welfare rolls have been cut almost in half, and many workers, including former welfare recipients, have had their first chances to achieve a better life in the world of work.

Low Inflation. In part because of the Clinton Administration's dedication to fiscal responsibility, which eliminated the threat of exploding budget deficits, expectations of inflation have subsided, and inflation is at its lowest in 30 years. This greater price stability has relieved the pressures on financial markets, and made it easier for firms to make long-term investment commitments. As was noted earlier, this strong investment has been instrumental to our rapid economic growth.

Low Interest Rates. With low inflation has come low interest rates, even in a faster-growing economy. Low interest rates have facilitated the crucial growth of business investment. Also, it will be far easier to maintain this low-interest-rate environment than it would be to break down continued expectations of higher inflation and interest rates. If future policymakers maintain low interest rates and low inflation, it will help the economy to sustain its steady growth.

Better Economic Statistics. During this Administration, the Federal statistical agencies have undertaken several fundamental conceptual improvements. Two of these -- the shift to chain-weighting of the National Income and Product Accounts, and the revision of the survey questionnaire for the monthly employment situation report -- made important economic statistics *appear* somewhat less favorable, *with no change in the actual underlying economic situation.* This Administration did not interfere with those statistical improvements, regardless of the unfavorable appearances. We have better economic statistics as a result.

Trade. In the Clinton years, the United States has negotiated over 270 trade agreements. As a result, markets all over the world are more open to U.S. exports, benefitting future generations of American workers.

Role in the World Economy. Before President Clinton came to office, the United States was a target of criticism from many foreign leaders, who objected to the large and growing Federal government budget deficits and their destabilizing effect in world financial markets. Now, the United States has put its fiscal house in order, and the rest of the world looks to us as the leader in economic policy making.

SOCIAL SECURITY BOX

One of the most important responsibilities we have to future generations is ensuring the long-range health of Social Security. For more than 60 years, Social Security has formed the bedrock of income security for millions of Americans. For individuals who grow old after a lifetime of work, who become disabled or who suffer the death of a family breadwinner, Social Security represents America's promise to stand by them.

The pending retirement of 76 million baby boomers will put significant pressure on the Social Security system, which is self-financed through payroll taxes and income taxes on Social Security benefits. These dedicated revenues go into the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds. Right now, the revenues to these trust funds exceed the benefit payments going out. The surplus is invested in Treasury securities, which generates interest income for the trust funds. However, the system is not in balance over the 75-year period traditionally used by the Social Security Trustees to evaluate the financial status of Social Security. Under the Trustees' current projections, Social Security benefit payments will exceed dedicated tax revenues starting in 2014. By 2022, benefit outlays will grow larger than total tax revenues plus interest income, meaning the trust funds will start drawing on their reserves to meet benefit obligations. By 2034, those reserves are projected to be exhausted. At that time, payroll taxes are projected to cover only 71 percent of currently promised benefits. While numerous economic and demographic factors affect Social Security's financial status, two demographic factors stand out: the baby boomers and subsequent generations are living longer, and they are having fewer children. Consequently, they will spend more time in retirement, and compared with previous generations there will be fewer younger workers paying into the system relative to the number of retirees.

Restoring the Social Security trust funds to long-range solvency is one of the President's top priorities. He led the way in 1998 with a series of regional bipartisan forums to build public awareness of the nature and scope of the problem, and to build public consensus for solutions. In 1999, the President proposed a framework for a solution built on the principle of ensuring long-term fiscal responsibility and making prudent investments in activities that enhance the Nation's economic performance. Such a framework is crucial, because the Government's ability to meet its future Social Security benefit obligations is tightly linked to the long-term economic and budgetary outlook.

This year, the President urges the Congress to adopt his framework for helping Social Security through a commitment to sustained fiscal responsibility. Rather than spend all of the currently projected on-budget surpluses on new spending or tax cuts, the President proposes a balanced approach that will best prepare the Nation for the challenges ahead by paying down the entire debt held by the public by 201x and encouraging economic growth. The President's plan contains the following components.

Lock away the Social Security surpluses for debt reduction. The President proposes to devote the entire Social Security surplus to paying down $X trillion of debt held by the public over the next 15 years. This will produce substantial interest savings. Devoting a decade of Social Security surpluses to debt reduction will reduce interest payments from $xxx billlion in FY1999 to zero in FY 201x. Paying down the publicly held debt will improve the Nation's ability to respond to Social Security's future needs.

Transfers to extend Social Security solvency. The President proposes to devote the rewards of fiscal discipline to extending the life of Social Security. The substantially lower interest burden on the Federal budget will free up on-budget resources that can be transferred to the trust funds to extend their solvency. The President proposes to make transfers to the trust funds from 20XX to 20XX of amounts reflecting the annual interest savings attributable to locking away the Social Security surpluses. The annual transfer would be $XX billion in 20XX and grow through 20XX, after which it would stay level at $XXX billion. The framework includes an added safeguard to ensure that the transfers will not exceed the currently projected on-budget surpluses for years 20XX and beyond. These transfers will extend the solvency of the trust funds from 2034 to 20XX. **[this paragraph and the preceding one will need to be refined once the SocSec working group has settled on the details of the final plan.]**

Promote long-term fiscal responsibility. The President proposes to extend existing budget enforcement laws beyond their current scheduled expiration date in 2002. These laws control discretionary spending levels and require any new permanent spending or tax cut to be offset fully by other spending cuts or revenue increases. The President also proposes to prohibit legislation that would cause or increase an on-budget deficit relative to the current baseline. These budget enforcement protections promote the fiscal discipline that is a critical feature of the President's framework.

Reforms to the Social Security program. The President encourages Congress to work with him in a bipartisan fashion to close the rest of the 75-year solvency gap through sensible reforms to the Social Security system. As part of a larger reform plan, the President is committed to taking measures to improve income protections for elderly women and other vulnerable groups who experience high poverty rates relative to the overall elderly population. In addition, the President believes that an overall Social Security solvency agreement should remove the barriers to work that result from the current Social Security earnings test. Social Security's rules discourage retired individuals from working, because benefits are reduced when a retiree's earnings exceed a certain level.

The best way to ensure our ability as a Nation to meet future Social Security benefit obligations is to increase national income, thereby improving the Government's fiscal position. This can be accomplished by paying down the Nation's publicly held debt, which frees up resources for private investment and reduces Federal interest payments, and by making targeted investments in areas such as education and research where there is a high payoff in increased productivity.

The President believes it is critical to address Social Security's financing shortfall now, for several reasons. First, addressing the issue now expands the number of options available for dealing with the problem. Second, there is time to engage in careful deliberation and develop a well-thought-out plan that protects vulnerable populations. Third, the healthy American economy and the budget surplus provide a rare opportunity to tackle the problem from a position of strength. Finally, making decisions now will allow individuals sufficient time to adjust their retirement planning, if necessary. The President believes that, working together, the Administration and Congress can fulfill America's long-standing promise to future generations.

Budget -
FY01 Bud. Resolution

The Honorable Pete V. Domenici
The Honorable Frank R. Lautenberg
The Honorable John R. Kasich
The Honorable John M. Spratt

Dear:

I am writing to express the Administration's deep concerns about the House and Senate budget resolutions. Both resolutions would set the country's overall fiscal policy on the wrong path. If implemented, they would reverse much of the fiscal progress of recent years and could erode our hard-won budget surplus. The resolutions offer fiscal plans that would make it more difficult to address priorities such as reducing our public debt, strengthening Social Security and Medicare, including providing a prescription drug benefit, expanding health care coverage, and enacting targeted tax relief. The resolutions would also make it difficult to complete the FY2001 appropriations bills in a timely manner.

Both versions of the budget resolution make room for a fiscally irresponsible tax cut by short-changing important priorities for the American people. As a result, Social Security, Medicare, health coverage, and discretionary programs would all suffer. The resolutions call for policies that would undermine the pledge to dedicate the entire Social Security Trust Fund annual surpluses to debt reduction. In short, the resolutions call for tax cuts and related additional debt service costs that would consume all or virtually all of the entire OMB and CBO on-budget surplus estimates over the next five years.

Both resolutions create room for the tax cut through an unrealistic assumption that Congress will be able to pass deep cuts in domestic discretionary spending. The House resolution would cut next year's budget for most non-defense programs by an average of nine percent. While the Senate resolution claims to protect more programs, it would cut the remaining accounts by an average of twelve percent **[this may change with Sense of Senate amendments expanding the universe of protected programs]** These artificially low levels would be cut even lower over time in order to pay for the resolution's tax cut. Too often, past policymakers have used questionable economic and budget assumptions to produce rosy scenarios and avoid making tough but necessary budget choices. That approach to budgeting helped produce the record deficits of the 1980s and early 1990s. This resolution should not set us back on that course.

The results of these discretionary cuts would be devastating. The resolutions could prevent us from reaching the President's goals of serving 950,000 children in Head Start, providing urgent repairs for 5,000 schools, ~~and and~~ hiring 49,000 public school teachers to reduce class size, and hiring up to 50,000 more officers for our nation's streets. Compared to the President's Budget, the resolutions could require the FBI to cut about 900 agents. They could prevent full funding of the President's $280 million gun enforcement initiative to crack down on gun criminals. They could deny National Science Foundation support to thousands of researchers, educators, and students. They would also threaten our ability to keep our national security commitments around the world.

Discretionary spending is not the only priority that would be crowded out by the resolutions' fiscally irresponsible tax cut. The resolutions do not adequately address the critical issues of Social Security and Medicare. They include no proposals to extend Social Security's solvency. The reserve funds for Medicare are inadequate to address Medicare's solvency and modernize the program with a prescription drug benefit. However, the Senate reserve fund makes some improvements and I hope the conferees will build on that progress. Moreover, the resolution fails to fund other important health initiatives, including the President's proposals to expand access to health coverage through Medicaid and the State Children's Health Insurance Program (SCHIP). The President's Budget framework would allocate $91 billion ($18 billion over five years) to the health coverage initiative.

The President's budget proposed to reverse some of the mechanisms used last year in the final appropriations bills. We made those proposals to restore normal budgetary conventions in hopes of returning to more straightforward fiscal legislation that is free of gimmicks. The resolutions rightly assume the President's proposal to reverse some of those timing shifts. Unfortunately, by relying on unrealistic assumptions about discretionary spending, both versions of the budget resolution risk once again forcing the use of the same approach.

The resolutions are fundamentally flawed and fail to provide a balanced and workable economic plan that addresses the long-term needs of our people. In the past, this approach has delayed, rather than expedited, action on appropriations bills and other fiscal legislation.

The House and Senate-passed resolutions share an overall structure whose major flaws are discussed above. These concerns cannot be addressed by simply focusing on the differences between the two resolutions. I hope you will work in conference to address these broader concerns and produce a bipartisan budget resolution that will make it possible to complete this year's work in a timely manner while producing effective results for the American people. I look forward to working with you towards that end.

Sincerely,

Jacob J. Lew
Director