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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. note	Will Marshall to John re SOTU (1 page)	12/15/1999	Personal Misfile
001b. report	Progressive Policy Institute, "Building New Skills for the New Economy" (10 pages)	12/15/1999	Personal Misfile
002. memo	First Lady's Gallery [non-selection] (3 pages)	01/10/2000	b(6)
003. memo	FLOTUS BOX/SOTU [non-selection] (23 pages)	12/21/1999	b(6)
004. memo	Sidney Blumenthal to the Vice President re: The Next Stage (3 pages)	12/30/1999	Personal Misfile

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SOTU [State of the Union] [Folder 3] [1]

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State of Union

SOTU

THE WHITE HOUSE

WASHINGTON

January 7, 2000

Spoke at the un

[illegible]

MEMORANDUM FOR THE PRESIDENT

FROM: **SIDNEY BLUMENTHAL** SB

SUBJECT: **FROM PAST TO FUTURE**

Axioms

1. There is no long run.
2. Strategy cannot be made on the notion that it will position the President a year from now for his next move.
3. The President's overriding goals must be to affirm and vindicate the purposes of his presidency.
4. These goals are preeminently achieved, apart from foreign policy, through the election of Vice President Gore as President, the First Lady to the Senate and the Democrats as the majority in the House.
5. These electoral goals are more important to the purposes of the Clinton presidency than the enactment of any particular domestic policy or even of a complete budget agreement.
6. Everything the President does affects the presidential campaign.
7. The political context in which the President calculates his strategy and tactics is fundamentally changed for the first time since 1994, when the Republicans captured the Congress.
8. No longer is the President perceived in relation to the Gingrich-dominated Congress or its impeachment trial.
9. The onset of the presidential campaign—the candidacies of the Vice President and the First Lady—draws a line under the events of 1998-99.
10. The battle of succession takes the dramatic place of the battle with the Congress.
11. Because of the President's success the Democrats dominate the issues agenda virtually across the board for the first time in more than 30 years.
12. The Republican congressional leaders are increasingly seen as yesterday's men. Dennis Hastert may not be the Speaker in a year. Trent Lott is being repudiated in his own party through the campaign of John McCain. No Republican presidential candidate, including George W. Bush, will openly ally himself with them. They are the caretakers of Gingrich's failure.
13. The more the President is seen negotiating with the Republican congressional leaders (or even photographed or reported to have met with them), his power will rapidly diminish. He will be conflated with them as belonging to the past. (Both John McCain and Bill Bradley blew an enormous opportunity at their joint appearance on campaign finance by

failing to remark that they will move beyond the Gingrich-Clinton era. It was a narrow escape from being encased in the wax museum. That it might have happened only emphasizes the danger to the President if he does not quickly adjust his strategy.)

14. The more the President is perceived as a prime minister, engaged in or supervising the day-to-day struggle of a legislative cockpit, the more his influence will be regarded as narrow, unexceptional and waning.
15. The most effective issues are those salient issues of the new Democratic consensus created by the President that instantly put the Republicans in a bad light, make them seem outside the national mainstream, drive them into a corner, split them, or force them to capitulate (nicely through bipartisan cooperation or not nicely).
16. Small legislative wins are preferable to none, of course, but they don't necessarily prove that the President is relevant.
17. The President must either be framing the 2000 debate or gradually but steadily lose influence.
18. Issues that lock him in protracted dealings with the Republican congressional leaders, either personally or even through his representatives, will inexorably deflate him, if this is seen as his main focus of energy.
19. Enacting large issues will enhance the President because it will reflect desperation on the part of the Republican Congress and abandonment of the GOP presidential candidate.
20. It is unlikely that large issues will pass because the Republican Congress cannot be assured that if it treats its presidential candidate the way it treated Bob Dole it will help them keep control of the Congress.
21. The public is entering an unprecedented period of good feeling because of continued prosperity (despite momentary market selloffs) and the successful passing of the Y2K millennial scare.
22. The public is eager for an optimistic and realistic statement of its possibilities in the new century. It is eager for an optimistic, buoyant and expansive leader.
23. While the four leading presidential candidates are trying to become this figure, the President embodies the qualities the public is looking for.
24. Bush, McCain and Bradley are all campaigning on the same premise: that the President squandered his chance and only they are the ones to establish a new era of possibility.
25. The President should state that the American people have built the bridge to the 21st century and crossed it. We are in the new era. Having crossed the great divide between the past and the future, we must continue moving forward.
26. The measure of the President's influence is whether the country keeps moving in the direction he has set.
27. The President should be the most future-oriented political figure while remaining rooted in the public's positive outlook about the present.
28. The President should state simply that tomorrow can be better if we continue on the path we're on today. We're on the path to the future.
29. The President should repeatedly set goals over whose fulfillment he will not preside. In 2000, he will get credit for setting the agenda; he will be serving his principal political goals; and, in time, he will get credit as a visionary.

Eighth Year Presidents

There has not been a Democratic president in his eighth and final year in office since Andrew Jackson. The presidents of the 20th century who have been in this position offer varied lessons. But the final year need not be a wasted or vestigial year. What a president does in his last year can have a profound effect in setting a lasting agenda and on his continuing reputation.

Ronald Reagan, the last president to have served eight years, saved his presidency from ignominy in his last year. Within days of the revelation of the Iran-contra scandal in November 1986, Reagan's popularity plummeted and did not recover until he repudiated the conservatives by fastening onto the idea that the Cold War was ending. The Intermediate Nuclear Force Treaty was the symbolic gesture heralding its end (opposed by such realists as Henry Kissinger and Vice President George Bush). Through his embrace of Gorbachev, Reagan restored his own standing and his historical reputation. It was only then that his poll numbers rose. On the domestic scene, in 1988, he accomplished almost nothing of note. But he did help elect his vice president as president, which was widely viewed as his third election.

Dwight Eisenhower, toward the end of his presidency, suffered from incidents of international humiliation (the U-2, cancelled summit) and recession. He was withdrawn and distant. He ridiculed the contributions of his vice president to his administration. ("If I had a year I might think of one.") Only at the very end of 1960 did Ike campaign for Nixon. It almost put him over the top, but it was too little, too late. The most memorable speech of Eisenhower's presidency was his Farewell Address.

Franklin D. Roosevelt, with his health failing, laid out his vision for the post-war future in his twelfth year, during the 1944 campaign—new international institutions (fulfilling Wilson's dreams), more domestic reform (the GI Bill) and the Economic Bill of Rights. The social contract making possible the prosperity of the 1950s and 1960s was credited to him.

Woodrow Wilson, after having been received as the messiah at the Paris peace conference, was felled by a stroke. He had mishandled the peace treaty and it went down to defeat. He left the White House embittered and paralyzed. The main reason Wilson is regarded as an important president is that he fought for ideals that were not realized in his lifetime.

Theodore Roosevelt left office a vigorous but frustrated man, having failed to accomplish the great things he believed he could do. He envied war presidents. Yet he is credited with setting the progressive domestic agenda for the first half of the 20th century because of his great advocacy. In part, his reputation is due to his 1912 campaign in which he ran against the Old Guard of his own party, that wing whose heirs lead Congress today.

There's no rule that the President can only advocate those things that can be passed by the Congress or must be subject to executive order before the end of term. He can make peace; he can advocate for the future of the country; he can elaborate on the new social contract, the new American consensus, he has forged.

How the President Can Get Credit Through the Opportunity Theme

The country is in an optimistic mood and ready to rise to new challenges. Above all, according to every survey, it wants to follow the path of economic growth and public investment (the essence of the Third Way, the Clinton formula). On the Republican side, candidates are arguing that material wealth has only cast the administration's spiritual and moral deficit in stark relief. Bradley hits a similar theme, but also adds (inaccurately) that poverty has increased, which is part of his general attitude of disapproval toward the President. Various critics on the left, in the meantime, pound on the notion of a widening chasm of inequality fostered by the new economy. While they point to a real problem, in order to make their driven case they overlook all efforts that have broadened opportunity. They present a rudimentary class warfare model of change: the raw accumulation of capital causing an enormous gulf between the wealthy and the immiserated masses (in their SUVs).

The soft response to the left critics has been to speak about an "opportunity gap." It is an unfortunate phrase. It suggests that the administration has neglected the problem until now, that its policies may even have contributed to divisions in the country and that, because the likelihood of passing dramatic new proposals is virtually nil, it will have failed. Raising the idea of opportunity as a negative proposition, as something that is absent, creates a downbeat atmosphere. The "opportunity gap" is vaguely reminiscent of "malaise." It sounds like an occasion for an outpouring of national guilt, wearing sackcloth and ashes, and wrenching self-analysis over a soul-splitting flaw. The emotion that the "opportunity gap" elicits is, at best, sympathy for the less fortunate. It plays on a worthy philanthropic impulse, but verges on Lady Bountiful condescension, and blots out any strong sense of national progress and purpose.

The theme of opportunity should be voiced in an unwaveringly positive tone, as it has been since Andrew Jackson. Opportunity for all is always our goal. It should, moreover, always be presented as a possible goal, one that a strong, capable nation can attain. And in the process of reaching it we become stronger. Stressing opportunity means stressing that we are committed to a more inclusive society, not a zero-sum economy. The quest for more opportunity shouldn't be described as pulling us apart, but as bringing us together as one nation.

In the 1996 campaign, the President spoke of crossing the bridge to the 21st century. The rhetoric he uses in 2000 should evoke his own figure of speech, but carry the image further. He should now speak about the nation crossing the great divide between the past and the future. He should tell the story of how we came to cross the bridge spanning the divide—making the bold decision to leave decay and decline behind us; the sacrifices the American people made on the journey, knowing that if they pressed on they would reach the goal; why we can't turn back; and the new world we are on the eve of entering if we continue to believe in ourselves and our future together as one nation.

In speaking about the great divide we have crossed, the President should celebrate the energy, knowledge, skill, and hard work of the American people. He can compare them to Americans before us who crossed great divides—the pioneers; the immigrants, drawn by the beacon of liberty, who crossed oceans; those who battled injustice to reach the promised land of American rights; those, from the Revolution to the world wars of the last century, who defeated oppressive empires to lead the way to freedom.

Opportunity is about more than getting ahead, though it is that, too. It is about moving ahead into the future. Moving ahead is not only the safer route, but the more courageous. The President should appeal to the peoples' sense of bravery in embracing the future. He should not stint in praising the American character for setting aside fear and doubt to build a new world. And he must emphasize this isn't a story of long ago. It's the story of our own time.

The President should tell this story using different historical references. Each one puts the present into an ever-expanding perspective. He should start by considering today through the lens of 1992, comparing the dreary conditions then to the progress we've made. He can refer to the beginning of the 20th century, the optimism of the American Century, the challenges we faced and mastered. But the deepest focus lens of all is the American Revolution. Peering through that, the President can connect our most profound ideals and themes to the world we have made in our time.

Once our ancestors created a new nation the likes of which the world had never before seen, Americans did not rest. They trailblazed new frontiers; they fought for freedom; they welcomed tens of millions of immigrants from old lands to become a new people. Today, we are renewing the values of the first and most enduring revolution in human history, the American Revolution. We have carried our banner from century to century, from millennium to millennium. In the beginning, our beginning, our revolution, Tom Paine said, "We have it within our power to begin the world over again." No generation knows what tests it will meet to preserve the union, but there is no doubt that each has been tested. In our time, we are making the world over again. America is forever young.

The President should pay tribute to the American people who have crossed the great divide into a new era of prosperity, opportunity and peace. He should unceasingly praise them for the job they have done. In reciting his own accomplishments, he should never fail to give credit to the people. It is they who have created the new economy, gone from welfare to work, cut crime, etc. It is the people who have forged a new American way, a new American consensus. The more he gives credit to the people, the more they will give him credit.

Then the President can explain how much more powerfully today the country is able to solve its problems, to widen opportunity, to build bigger and broader bridges into the future, to create one nation, a new America.

When Will the President Begin to Get Credit?

It took about a year and a half for the President to begin to get credit for the turnaround in the economy. Even by 1996, the realization of what had changed had not fully registered. In 2000, all the candidates are campaigning to bring about what is already here: an age of possibility, a new era of progress. Most of the people understand the change that has occurred over the past seven years in their daily lives. But a counter-argument intended to depict the President as a failure is being vociferously made by elements of the Washington media establishment that pursue their vendetta against the President and his proxy, the Vice President. Even if they did not favor the president's removal, they are still upset that he survived. They cannot reconcile themselves to have been mistaken about their news judgment and about the President. If they are proved wrong by circumstances, they deal with the difficulty by accusing the President of bad faith. Rather than their judgment, his motive is fingered as the issue. The President's successes are debased as products of his guile. They dismiss the entire scene of national renewal before them as a trick played on the eye. Or they insist it has nothing to do with the President.

On January 2, The Washington Post, in a lead editorial, "The Clinton Record," captiously described the President's accomplishments as "more political than substantive...more tactical than structural. Much of his success has consisted in confounding the Republicans as they pursued their own agenda." Ah, trickery. (See the attached editorial.)

On January 5, David Broder wrote in his Washington Post column: "On the most important issue of 2000—the character question—Clinton has left an indelible stain on his party, just as Richard Nixon did in 1976, when another good man, Jerry Ford, lost to a one-term southern governor in an act of delayed punishment for sins he had not committed himself." Thus the self-imprisonment of the press in its Watergate syndrome. (See the attached article.) And if the President is Nixon, who is the virtuous knight on the white horse?

The persisting case against the President made by the media elites is incoherent and emotional, wrapped up in a thousand status anxieties. After having focused after the impeachment trial on "Clinton fatigue," they have now trained their hopes for vindication in their anti-Clinton crusade on Bill Bradley. Running against the "Washington bunker," no one is more its candidate. With every public appearance and debate, he emerges more openly contemptuous of the President and engages in more belittling of his achievements.

Once the media elites lose their horse, however, they have no basis in practical politics for pressing their anti-Clinton views. When Bradley is defeated, there will be no forum or support outside the claustrophobic bubble of the elites for their hostility, except for the Republican congressional leaders and George W. Bush. To mount their attacks, the elites must ally with the Republicans. (This is just fine for those on the payrolls of Rupert Murdoch and the Rev. Moon, but not for the others, who have their "objectivity" to mind.) Even Ken Starr was more socially acceptable. And he could be confused with a higher kind of investigative reporter, who generously handed out his secrets to promote his friends' careers. Bush is too intellectually lightweight to have cachet; too many members of the press corps knew him during the times he says he can't remember. Except for the children and the blind among them, they also know that he really doesn't like them. His will to power, and the cash and organization that sustain it, signal to the elites that he will win on his terms, not theirs. Ultimately, he's both too unserious and too serious for them. Bradley, however, has all the virtues of the beautiful loser, especially moral vanity.

Bradley is running on the idea that his big ideas will usher in an age of possibility. He wishes to present himself as the champion of boldness and optimism. He has adopted the left critique on inequality, coupled it with the campaign finance issue and uses it to suggest the administration's universal squalor. He's the populist outsider versus the corrupt "Washington bunker." He stands for big change against the special interests, purity against sleaze. Unfortunately, Bradley is not a happy warrior. His moody personality runs against the grain of his message. (See the attached memo to the Vice President for more on Bradley's appeal and liabilities.)

The President can undermine Bradley without ever saying anything directly about him. Bradley's pose as avatar of a new era can be preempted by the President. Bradley has failed to paint a picture of what the country will be like if he succeeds. Gore has begun to do that with his speech on January 3 in Davenport, Iowa. But the President has been doing it for years. He needs to remind the people that he is the one who has brought about an age of possibility (a phrase he used years ago, echoed last year by Tony Blair in his Labour Party conference speech). The President must now evoke the promise of 21st century America he has made real. He must call attention to the great divide from the past to the future we have crossed. He must celebrate the country's progress. He must make the people feel good about what they have achieved. What he must not do is fall into negative rhetoric constructions or wistful nostalgia. The country is looking for an optimistic, intelligent, experienced leader. In fact, it's looking for someone remarkably like President Clinton. Paradoxically, after the President has solved the terrible fiscal and social issues of the 1990s, the country is ready for Bill Clinton. He should seize the moment from the pretender Bradley by filling the political opening himself.

The effect will be to buttress Gore without appearing heavy-handed. The President's full-throated optimistic account of crossing the great divide and the possibilities before us if we continue will shrink Bradley down to size. The State of the Union should, therefore, in every aspect, interpret the meaning of the new era of progress. If Gore wins in New Hampshire four days later, his victory will ratify the message.

Gore provides the first chance for the President to win this year. The First Lady and the rest of the Democratic congressional candidates cannot win until November. But Gore can win the primaries. It is a truism that the winners get to dictate the story of why they won. By underscoring the theme of progress, telling the story of crossing the bridge into the 21st century, previewing the dazzling opportunities that are within our grasp, the President will contribute enormously to the momentum.

With Gore's win, much of the political press will move on from Bradley's anti-Clinton last stand. Only the die-hard revanchists will remain to percolate angry and dismissive "legacy" reviews. But they will have no candidate, no independent counsel, no tribune in the arena. Then the President can roll.

The New America Tour

The President should act as the president of the American nation and society, not as the prime minister of the Congress. He should not be tethered by old-fashioned ideas about his role. Beginning with the bus tour in 1992 and throughout his presidency, the President has broken the mold. He should break it again. He should campaign for the new America he has brought into being. He should take the high road, but he should be on the road.

The President should do more than speak about his accomplishments. The best way to draw attention to the signs of health, growth and dynamism in the country is to visit them. The President should launch a New America tour. His New Markets tour should be viewed as the prototype. But it focuses on only one issue and one proposal. The President should take this model to focus on every issue area in which he has changed America. He should go to welfare centers to highlight welfare reform, schools to highlight education, police stations to highlight public safety, the Center for Disease Control to highlight health, etc. On April 19, he should travel to Oklahoma City to speak about hate, extremism and community. On April 20, he should travel to Columbine to speak about the mutual responsibility of parents and children, the culture of violence and gun control. And so on. Above all, he should be out in the country.

The New America tour should begin in February or March and go through July Fourth. All of the President's previously booked travel should fall under the rubric of the New America tour. This would give him a vehicle to reinforce his message around the country, which serves his largest goals. The President should leave the losers of the Republican Congress behind in Washington and spend much of his time with the leaders of the future.

Much of the press is not inclined to give the President much coverage if he simply occupies his traditional role in Washington. Particularly against the backdrop of the presidential campaign, he will fade as a subject that correspondents can convince their editors should receive more than dutiful attention. The New America tour will change that equation. At the least, it will provide a focus for tremendous regional coverage in places of political importance.

This campaign, the New America tour, will be the presidential equivalent of the bus tours. But it will be more pointed. On the New America tour, the President will visit places to showcase progress and to discuss how well equipped we are to handle the new challenges. He will discuss the changes that he has brought about, provide forums for people to talk about how they have moved forward and what it's meant in their lives, and for the President to chart the path further into the new era. He will not be on a nostalgia trip. He will be on a trip to the future.

The Washington Post

AN INDEPENDENT NEWSPAPER

The Clinton Record

BILL CLINTON'S accomplishments as president have been more political than substantive. Partly that reflects the fact that the Republicans controlled Congress for most of his two terms. The tax increase at the heart of his first budget helped to restore both the government's finances and the tax code's progressive edge. In the first budget of his second term he achieved a still under-appreciated 50 percent increase in federal aid to higher education in the guise of a tax cut that helps defray tuition.

The victories otherwise have been more tactical than structural. Much of his success has consisted in confounding the Republicans as they pursued their own agenda. In this, he has been much helped by their ineptitude. The legislative year just ended is the latest example.

It began with a great deal of talk about the major tax cut the Republicans were prepared to enact to keep the Democrats from spending the anticipated budget surplus. They dared the Democrats to resist. The president's entire budget was built around preventing the tax cut from occurring—keeping the money in the public sector to help meet future public needs. "Save Social Security first" was his motto; he intermittently invoked Medicare as well. No matter that the president himself had no plan to save either. This was politics, not substance, and politically he was right; these are in fact the two great long-term costs that make it folly to grant a significant tax cut.

The Republicans passed their bill, which carried the added political baggage of being tilted hugely toward the well-to-do. He vetoed it, as promised. There was virtually no public reaction, and the issue now has faded, though it has hardly disappeared. The Republicans may try to pass a smaller tax cut in the run-up to the election, and cutting taxes remains a totem in the Republican presidential campaign. But on what was supposed to be the defining issue in 1999, the president won a major victory, partly because the merits were strongly on his side. The Republicans' latest position is that they want to save Social Security even more than the Democrats do; they would use the bulk of the surplus to pay down debt in its name. That's pretty much what the president proposed earlier in the year; the principal difference is that the Republicans have become more zealous about it.

The rest of the year was consumed in fairly minor maneuvering. The Republicans raised defense spending, but not before the president anticipated the shift and beat them to the head of the parade. The Republican leadership is blocking campaign finance reform, which allows the Democrats to champion the cause without having to fear the result. Long, loud battles have been fought about mostly modest bills to regulate managed care and handgun sales. If the gun bill were half as fierce as the rhetoric on either side, it might be worth having.

Big bills are out. The president sent up a health care bill that was too big in 1993, and suffered a humiliating defeat; the Democrats lost control of Congress in the next election. He sent up a major tobacco bill last year and lost again. He continues to have trouble mustering majorities for trade legislation. The welfare reform bill he proudly signed in 1996 was in our judgment a reverse accomplishment—again a political act, the long-term effect of which will be to weaken a part of the safety net on which an eighth of U. S. children used to depend.

Welfare is one of a number of issues on which Mr. Clinton has shifted and blurred the position and image of his party to protect it from the traditional Republican attacks that it was an instrument of tax and spend, soft on welfare, weak on defense and crime, etc. The party is thought to benefit from the insulation. The question is, at what cost has it been bought?

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David S. Broder

Three Puzzles

No one knows who the nominees for president will be this year, but we do know three factors that will make the election of 2000 easily distinguishable from those of the old century.

More than ever before, the challenge to candidates will not be so much getting people to vote for them as simply persuading people to vote. Between 1960 and 1996, the turnout trend was straight downward, except for 1992, when voter anger with the status quo induced millions to support the independent candidacy of Ross Perot and momentarily reversed the trend.

But general prosperity has melted that anger, and as yet no wave of enthusiasm has appeared to replace it. In a dead-calm climate of opinion, with millions turned off by the money-saturated political process, the parties will have to struggle to turn out even their most loyal adherents. As a rule, low turnouts favor Republicans, because the more affluent and better-educated are most likely to vote. It may not be true in 2000, however. In the most recent election cycles, Democrats, powerfully aided by teachers and other unions and the growing political activism of Latinos and African Americans, have developed voter identification and turnout tools more efficient than Republicans and their allies in either business or the religious conservative movement have deployed. The Democrats could win the voter mobilization war.

The second difference is that with the end of the Cold War and the improvement in many social indicators—the decline in crime, welfare dependency, abortion and teen pregnancy rates—the Republicans' cupboard of issues is looking bare. Communism, crime and moral decline are not the threats they once were. Republicans have tried to make taxes their issue, but ironically, the achievements of Republican governors in states with 70 percent of the population in actually reducing taxes have taken the steam out of demands for federal tax cuts.

Democrats are strongly favored on the issues that do matter most to voters—health care, education and Social Security. Bill Bradley's vote against welfare reform and the support both he and Vice President Al Gore give to affirmative action and homosexual rights could become wedge issues for the Republicans. But overall, the issue agenda is heavily tilted in the Democrats' favor.

Were these the only things that set the 2000 election apart, the Republicans might have little hope. But the other factor—one we have not seen since 1976—is that this campaign follows hard on a major scandal in the incumbent administration.

The press has given this factor the label "Clinton fatigue," but that is a misnomer. It sounds too much like the standard weariness voters express after one party and its president have been in office for eight years. The normal cyclical pattern of American politics is one thing; what voters are expressing this year is quite another.

A year ago the public was telling Republicans not to remove President Clinton from office. Today, with that threat gone, that same public is giving full voice in voter interviews to its repugnance at the spectacle of the Oval Office's being used for trysts between the president of the United States and a woman young enough to be his daughter.

Gore praised that president for seven years—and continues to do so. Bradley, because he is competing for the support of Democratic loyalists in Iowa and New Hampshire, cannot echo unreservedly the moral condemnation many Americans express at the example Clinton showed to their children—and the world.

On the most important issue of 2000—the character question—Clinton has left an indelible stain on his party, just as Richard Nixon did in 1976, when another good man, Jerry Ford, lost to a one-term southern governor in an act of delayed punishment for sins he had not committed himself.

It is the uncertain equation created by those three special factors that makes the outcome of the 2000 presidential election so uncertain.

■

One of the true heroes of the Watergate scandal, former attorney general Elliot Richardson, died last week. It is ironic that he is best known for having resigned, rather than carrying out Richard Nixon's order to fire Watergate special prosecutor Archibald Cox.

Engagement, not resignation, was the keynote of Richardson's extraordinary public life, from his military bravery, to his fearless prosecutorial independence in Massachusetts, to his notable service as the head of four Cabinet departments. He and his wife, Anne, who died a few months earlier, were models of good citizenship. She was for many years the volunteer head of Reading is Fundamental, an organization that distributes books to needy children. Both of them set examples of civic leadership and responsibility that serve as a guidepost for the new century.

The Washington Post
Wednesday, January 5, 2000

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- AIDS prevention
- Food safety
- Mental health
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- nursing home quality
- Native Ams
- Family planning

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In fact, Hynes was scheduled to appear at an Irish-American event in Manhattan last month, but canceled when he learned that Mrs. Clinton was going to be there.

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THE WHITE HOUSE

WASHINGTON

December 20, 1999

SOTU

STATE OF THE UNION MEETING

DATE:	**December 20, 1998**
LOCATION:	**Oval Office**
TIME:	**11:00am-11:30am**
FROM:	**Maria Echaveste**
	Terry Edmonds

I. PURPOSE

In this meeting, we will review policy, themes and structural ideas for the State of the Union.

II. PARTICIPANTS

John Podesta
Maria Echaveste
Terry Edmonds
Jeff Shesol
Tom Freedman

III. ATTACHMENTS

Attached for your review is the themes memorandum we sent you last week.

THE WHITE HOUSE

WASHINGTON

December 17, 1999

Little Rock Chamber of Commerce
– record of last 7 years
– Social justice
– 46 yr. low in poverty rate

MEMORANDUM FOR THE PRESIDENT

CC: JOHN PODESTA
DOUG SOSNIK

THROUGH: MARIA ECHAVESTE

FROM: TERRY EDMONDS
JEFF SHESOL
STATE OF THE UNION PLANNING GROUP

SUBJECT: 2000 STATE OF THE UNION ADDRESS: GOALS, THEMES, AND STRUCTURE

The purpose of this memorandum is to provide context and a thematic framework for your 2000 State of the Union Address. This memo reflects a series of discussions among Maria Echaveste, Doug Sosnik, Bruce Reed, Gene Sperling, Jack Lew, Mark Penn, Charles Burson, Melanne Verveer, Eric Liu, Tom Freedman and ourselves.

Only nine Presidents before you – Washington, Jefferson, Madison, Monroe, Jackson, Wilson, Truman, Eisenhower, and Reagan – have delivered an eighth and final year State of the Union Address. Only you will have done so at the turn of a century, let alone at the turn of a millennium. This gives you important, unprecedented opportunities: to define the promise and perils of the new era; to identify what you and your administration are doing in both regards; and to propose the ways we will move forward as a nation – not just in the year 2000 but in the decades to come.

The importance of this year's State of the Union to the rest of your term, to your legacy, and to the upcoming elections makes it different than any previous Address. It should therefore fulfill three main objectives.

First, the speech should reflect briefly on the past 7 years – the narrative of then-and-now that you have told often, particularly at Democratic functions, during this past year. As you put it just yesterday, at the DNC Luncheon, "I had an idea [in 1992] of what I wanted America to look like at the beginning of the new millennium. It is very important to have a vision and to pursue it." This is a story that bears re-telling – to remind all Americans how very far we have come since 1992, and how we got here. This should not be a valedictory address – it is much too early for that – but it is indeed instructive to glance backward before looking forward.

Second, you should press for action on the unfinished business of last year: the solvency of Social Security and Medicare; a prescription drug benefit; a patient's bill of rights; hate crime and gun legislation; and the minimum wage. The State of the Union should re-direct attention to these defining Democratic issues.

Third, and most important, it should assert an ambitious agenda for your final year in office: to prepare a new generation for a new millennium. Last year's State of the Union set out your plan to continue our prosperity; this year's should focus on expanding it into every corner of America. This is the essence of your successful New Markets message – that now is the time to expand opportunity for all our people; that doing so is not only right for our economy, it is the right thing to do.

As the centerpiece of the speech, this "New Opportunity Agenda" (below) should incorporate key elements of your agenda – from education to New Markets to work and family – but should be a tight package of policies that help close the opportunity gap.

While this opportunity agenda should comprise the centerpiece of the speech, it is of course only one element of your Third Way triad: opportunity, responsibility, community. These are not merely your defining principles; these are principles you yourself have defined, and so the rise of a so-called "compassionate conservatism" marks perhaps an appropriate moment for you to reassert your, and our party's, ownership of these ideals. We therefore propose to group all policies beneath the broad headings outlined below.

New Opportunity Agenda: Preparing a New Generation for a New Millennium

Education
- Universal pre-school
- Universal after-school
- Turning around every failing school

New Social Contract for the Working Poor
- Expanded EITC
- Child Care
- Expanding access to health care

Mastering the New Economy and Closing the Skills Gap
- Bridging the digital divide
- Helping low-income students enter and complete college

New Markets Initiative and EZs
Equal pay

Responsibility Agenda: Renewing America's Families for the New Millennium

Responsibility to older Americans: Aging of America
- Social Security
- Medicare

Responsible fatherhood
Responsible parenthood: Balancing work and family
Responsible behavior: Crime, guns, school violence
Responsible leadership in the world: Foreign policy and trade

Community Agenda: Rebuilding American Communities for the New Millennium

Faith-based organizations
Philanthropy
Environment
Service/ AmeriCorps
Immigration/ citizenship
One America

SOTU

PENDING ANNOUNCEMENTS
FOR STATE OF THE UNION ROLLOUT

EVENTS AND/OR RADIO ADDRESSES:

Medicare Fraud Initiative and Report (need 1 week advance notice)
Charter Schools (including 4th year report)
Medical Errors (Sunday leak or radio address) (after 1/17)
Climate Change Budget
Native Americans Initiative (maybe package with regional initiatives leak on 1/25)

EVENTS/LEAKS FOR OTHER PRINCIPALS:

Paid Leave Demonstration Program
Mental Health & Substance Abuse Prevention and Treatment Services (MEG?)
Food Safety System Expansion (JDP leak?)

Internet

LEAKS:

Closing the Opportunity Gap for College
SAT/ACT Test Preparation
AP Online Initiative
Polio Eradication
Domestic AIDS Initiative
ESL/Civics and Naturalization Testing Process Streamlining
HUD Budget and Mainstream Homeless Initiative
Hispanic Agenda Items (around 1/11 Houston trip?)
Child Support
NIH Budget (include in CA Science & Tech. Speech?)
Ex-Offenders Initiative (?)
Education Tax Credit
Alternative Minimum Tax Relief
Standard Deduction Increase
Vaccines

STATE OF THE UNION ITEMS:

Universal After-School
Failing Schools Initiative
Gun Initiatives
Digital Divide
Head Start Funding Increase

POST STATE OF THE UNION ANNOUNCEMENTS:

Child Labor Initiative (Announce at Davos?)
Trade Enforcement Initiative (Announce at Davos?)

DRAFT STATE OF THE UNION MESSAGE SCHEDULE

Friday 1/7

Announcement of Cyber Security report and FY2001 funding.

VP: Announcing FY2001 **conservation funding**. (Katzen)

Saturday 1/8

Radio Address: Announcement of FY2001 family planning proposal.

Leak: .38 cuts (OMB)

Sunday 1/9

No Message Event Opportunity

VP: Announcing FY2001**Great Lakes** proposal. (CEQ)

Monday 1/10

Event to recognize end of Ramadan in Room 450.

Departure Statement on China/WTO. Note: Over next week, release of POTUS letter to Capitol Hill on China WTO. (T)

Admiral Zumwalt Memorial Service in Annapolis.

VP: On Today Show. Announcing **Safe Schools/Healthy Students** funding. (DPC)

VP: Speaking to UN Security Council on AIDS crisis. Announcing **HIV/AIDS initiative** and **Vaccine funding** in FY2001 budget. (NSC/DPC)

First Lady: Announcing **National Disease Surveillance System/Infectious Diseases** proposal. (DPC)

Tuesday 1/11

Travel to Grand Canyon site in Arizona to announce Presidential Proclamation acquiring or expanding 4 national monuments. (CEQ)

Leak: FY2001 proposed **EITC increase** to set up New Opportunity speech. (NEC)

VP: ??

FLOTUS: Announcing **National Service** proposed funding in FY2001 budget. (DPC)

Wednesday 1/12

Speech to DLC to lay out **"new opportunity"** agenda in State of the Union. (NEC/DPC)

Leak: **New Markets budget initiatives** to set up New York trip. (NEC)

VP: Announcing **Smaller Schools Initiative** in FY2001 budget. (DPC)

Thursday 1/13

Possible departure statement on **FAA passenger safety proposal.**(T)

Travel to New York City to participate in Reverend Jackson's Wall Street Project and a new markets event with Congresswoman Velazquez. Possibly announce **First Accounts/Postal ATMs proposal**(T) and further push out "New Opportunity" agenda. (NEC)

VP: ??

FLOTUS: Announcing **Environmental Causes of Diseases** initiative. (DPC)

Friday 1/14

The President and First Lady will announce the **Philanthropy Proposal** in the FY2001 budget at an event at the White House. (DPC)

VP: Announcing **Nursing Home Quality** proposal. (DPC)

Saturday 1/15

Live Radio Address. Possibly unveil **health coverage expansion package** in FY2001 budget. (DPC)

VP: Possibly amplifying health coverage announcement.

FLOTUS: Possibly amplifying health coverage announcement.

Sunday 1/16

No Message Opportunity.

Leak FY2001 **Civil Rights Enforcement proposal** to set up Martin Luther King service event. (DPC)

Monday 1/17

Martin Luther King Day service event. Location TBD.

VP: TBD.

FLOTUS: Amplifying Civil Rights Enforcement proposal.

Leak: **FY2001 higher education budget**.(T)(NEC)

Tuesday 1/18

The President will unveil the **FY2001 guns enforcement package** at an event in Boston. (DPC)

Leak: ??

Wednesday 1/19

Cabinet Meeting. Possible message opportunity for State of the Union roll-out and Administration-wide push on China-WTO.

FLOTUS: Announcing **Equal Pay Initiative** in FY2001 budget. (DPC)

ND

Leak: ??

Thursday 1/20

Meeting with Arafat.

The President and the First Lady will participate in an event at the White House to announce the **teacher quality proposals** in the State of the Union/FY2001 budget. (DPC)

Leak: ??

Friday 1/21

The President will give a speech at a California University on the Administration's science and technology agenda, and will announce the **FY2001 Research and Development Initiative**.(OSTP)

FLOTUS: Announcing **Child Care Initiative**. (DPC)

Saturday 1/22

Taped Radio Address. Potential topics include **Medical Errors or Medicare Fraud**. (DPC)

Leak announcement for Sunday papers.

Sunday 1/23

No Message Event Opportunity.

Leak: ??

Monday 1/24

Iowa Caucus.

Message Event TBD. (possibly Columbian Aid package?)

Leak: ??

Tuesday 1/25

Message Event TBD. Possibly participate in One America-corporate event. (T)

Leak: **Regional funding packages** in FY2001 budget – i.e. Hispanic Agenda, Native Americans, Amtrack Highspeed Rail, and others. **(THIS IS VERY TENTATIVE)**

Wednesday 1/26

No Message Opportunity.

Leak: **After-School/Education Reform Agenda**(T)(DPC)

Thursday 1/27

STATE OF THE UNION

Friday 1/28

State of the Union Travel.

December 12, 1999

S.U.
Current
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MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Eric Liu

SUBJECT: State of the Union/Budget Ideas

This memorandum provides ~~summaries of all~~ the budget proposals we are developing for the State of the Union, organized by issue area. A separate memo lays out overarching themes and highlights the most compelling ideas.

EDUCATION

A. Smaller Classes, Smaller Schools

1. **A Comprehensive Effort to Modernize and Revolutionize Schools.** As you have often said, the trouble with America's schools as we enter the 21st Century isn't that they aren't what they used to be; it's that they still *are* what they used to be. We need to change that, in two significant ways:

    - **A New Initiative to Repair Existing Schools.** To complement our existing school construction tax credit, which will primarily help fund new construction, we have worked with OMB on a discretionary initiative for FY2001 that would provide funds for immediate repairs. As part of the discretionary budget, this plan will make it more difficult for Congress to ignore school construction in the budget debate next fall.

    - **A Small Schools Initiative to Reform the American High School.** Since Littleton, a movement has emerged to make America's high schools smaller, not only for reasons of safety, but as an engine of reform. This initiative would offer competitive grants to school districts for opening smaller schools (including charter schools), or for breaking up larger schools and such using strategies as schools-within-schools, career academics, or restructured school days. The funds could be used for planning and implementation costs, professional development, team building, minor facility renovation, additional planning time, legal and accounting consulting, supplies and other relevant costs. These funds could also be used to seed small charter high schools in the district. The initiative received $45 million in the FY2000 omnibus; we recommended expanding funding to at least $125 million for FY2001.

2. **Class Size.** The Education Department is prepared to settle for $1.5 billion for class size, only a modest increase from the $1.3 billion we got this year. If we want a defining fight on 100,000 teachers next fall – and if we want to say credibly that we're on a path to 100,000 over 6 years – we'll have to request a bigger increase than that. Funding class size at $1.7 –1.8 billion would make more sense.

B. Turning Around Failing Schools

1. **Universal After-School.** By doubling after-school funding in the FY 2001 budget (from $453 million in FY 2000 to at least $900 million in FY 2001), you can meet an urgent goal, which is to provide after-school and summer school to every student in a failing school. You called on states and districts to end social promotion in this past year's State of the Union; this initiative will enable you to say we're giving them the resources to end social promotion the right way, and give every student in our worst schools the extra help they need. Over a ten year period, we can make after-school and summer school universal for every Title I school – and with a sliding scale for students above 200% of poverty, we could eventually make after-school available to every student. (Cost: $20-30 billion over 10 years).

2. **Reward High Performance.** This proposal calls for a Rewards Fund that would award funding to states meeting federal performance criteria and would support teacher performance pay demonstration projects described above. From FY 2001-2003, states would receive awards for adopting statewide accountability systems, including high school exit exams, meeting teacher quality requirements, and developing and disseminating report cards ahead of the timetable you are calling for in your ESEA proposal. After 2003, the Reward Fund would incorporate student performance measures as well. (Cost: $150 million).

3. **Expanding Charter Schools, Second-Chance Schools, and Public School Choice.** With a decent increase in the FY01 budget, you can reach your goal of 3,000 charter schools by the time you leave office. We could also propose using charter funds to create new second-chance schools to serve students who have been removed from their previous schools because of discipline problems. Finally, we should provide seed money for innovative public school choice projects, and continue to support universal public school choice for students in failing schools. (Cost: $50-100 million).

4. **Education Opportunity Zones.** To encourage innovation and reward districts that end social promotion the right way, we could once again propose Education Opportunity Zones, which we left out of the FY00 budget, but which could attract bipartisan support from Jeffords, Rangel and Clay.

C. Teacher Quality And Performance

1. **Teacher Quality Fund.** Our ESEA proposal includes a Teaching to High Standards block grant that combines Eisenhower Goals 2000, and Title VI. At the passback level of $1 billion, that block grant can include set-asides for:

- A pay-for-performance and peer review demo (still under development this week in consultation with the Vice President).
- Troops to Teachers (Cost: $25 million).
- Teacher Recruitment: a down payment on the Vice President's 21st Century Teachers Corps (modeled after Teach for America), and an OMB initiative to recruit future teachers while they're still in high school. (Cost: $100 million).
- Principals: Without quality school leaders, school reform is destined to fail. Our initiative would fund independent School Leadership Centers to recruit nontraditional candidates and to focus on effective management, school design, technology, and district governance. At present, there is no federal program focused solely on school leadership and only a handful of programs allow funds to be used for it. (Cost: $25 million).

D. Distance Learning, Higher Standards

1. **AP Online.** Small and poor schools often lack the resources and teachers to offer challenging courses. Indeed, less than 60 percent of high schools today offer AP courses. This distance learning initiative aims to ensure that students in underserved areas get access to high-quality academic courses and ESL programs online. In order to ensure high-quality content, the proposal also calls for a partnership with leading course software developers like APEX (run by Microsoft co-founder, Paul Allen), which would subsidize the cost of high quality Web-based course development in return for cut-rate prices for high poverty school districts. Total funding for the initiative would be $225 million, including $50 million for grants, $25 million for course development, and $125 million in increases in existing programs.

2. **SAT and ACT Test Prep.** Historically, poor and minority students have not scored well on college entrance exams such as the SAT and ACT. This program would be modeled after California's College Preparation Partnership Program, which the NAACP has recently endorsed. It would support partnerships among high schools, proven providers of college test prep courses (such as Kaplan and Princeton Review), and community-based organizations to offer high-need students college test preparation and other services related to college admissions. Competitive grants of $30 million would serve approximately 50,000 students.

CHILD CARE

1. Child Care Subsidies. Our FY '99 and FY '00 budget requests have included $7.5 billion over five years in mandatory funds for the Child Care and Development Block Grant (CCDBG). We recommend moving our CCDBG increase request to the discretionary side of the budget (the CCDBG has mandatory and discretionary titles). The discretionary title is currently funded at $1.182 million. The CCDBG is a forward-funded program, but we recommend adding $818 million for FY 01 to the title, reaching $2 billion to the title overall and serving an additional 200,000 low-income children with subsidies, and adding $1 billion to the title for FY 02.

2. Improving Child Care Quality. The President's FY 99 and FY 00 budget included $3 billion over five years in mandatory funds to create a new Early Learning Fund to help local communities improve child care quality, through a variety of allowable activities including licensing, accreditation, parent education, etc. We recommend maintaining a request for new child care quality dollars, by moving our request to the discretionary side and building on our FY 99 achievement of $173 million in CCDBG quality dollars. (Cost: $350 million).

3. Create Early Childhood Professional Development Grants. Fund this new proposal (currently in our ESEA bill) at $40 million to provide grants to partnerships between universities, child care providers, and school districts to offer training and professional development to child care providers around language and literacy. (Cost: $40 million).

4. Campus-Based Child Care. The FY '00 budget included $10 million to support campus-based child care. According to estimates by universities, only 10-25 percent of the students who need this benefit are being served. We propose doubling this request. (Cost: $20 million).

5. Child Care in Non-Traditional Hours. We could create a new set-aside within the Child and Development Block Grant to help build supply of non-traditional hour child care (e.g. for parents on night shifts, etc.). According to studies, there is a growing need for this care.

6. Maintain Child Care Tax Credit Expansion Proposal. Expand Child and Dependent Care Tax Credit (CDCTC) to provide greater tax relief to three million low- and middle-income families who are struggling to afford child care. We are also exploring the possibility and cost of making this tax credit refundable. (Cost: $4-4.5 billion over five years for refundability).

7. Child Care Tax Credit for Businesses. Maintain proposal from last two years to provide tax relief to companies offering child care to their workers. (Cost: $500 million over five years).

CRIME

1. Federal Firearms Enforcement. To complement our legislative proposals on gun control – and to blunt the rhetoric of the gun lobby – we propose a comprehensive initiative on enforcement and prosecution. This initiative puts an unprecedented level of resources into firearms enforcement. It includes: 1) 500 new ATF agents, to investigate more gun trafficking cases and to bring the successful Youth Crime Gun Interdiction Initiative to more cities; 2) new ATF inspectors to crack down on unscrupulous dealers, manufacturers and distributors; 3) a comprehensive crime gun tracing package; 4) 1,000 new federal gun prosecutors and additional funds to help cities create community gun prosecutors; 5) a major expansion of existing ballistics testing systems; 6) funding for better Brady background checks; and 7) a new national notification system tied to NICS that speeds certain Brady denials (felons and other restricted persons) to local authorities. (Cost: $309 million).

2. 21st Century Policing Initiative. This is the next generation of COPS, and will put us on the path to reach 50,000 officers by FY 2005. It also funds law enforcement technology, community prosecutors and community crime prevention. (Cost: $1.475 billion)

3. Police Gun Buybacks. 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 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 and destroy all seized firearms. (Cost: $10 million).

4. Kids and Gun Safety. We have two initiatives in mind: a Treasury proposal to fund gun safety technology experts and expand public education to help prevent children's access to guns and accidental deaths; and a plan to support local media campaigns to highlight proper storage of guns as well as other messages to prevent child access, accidents, and other forms of gun violence. Localities could also use media campaigns to publicize gun penalties to maximize deterrence. (Cost: $12 million).

5. Community Supervision of Released Offenders. With nearly 500,000 inmates expected to leave prison this year – and with data showing that two-thirds of all released prisoners are re-arrested for new offenses within three years – we plan a broad initiative to address community safety concerns, reduce recidivism rates, and provide support for ex-offenders. The initiative – targeted to areas with the most returning offenders – would be comprised of three elements: 1) community reentry partnerships, through which police and corrections agencies would team up with community providers to monitor and provide targeted social services to offenders; 2) reentry courts modeled on drug courts; and 3) the hiring of more probation and parole officers. The Labor Department is also developing a complementary proposal to help ex-offenders become better fathers and prepare for employment. (Cost: $125 million).

6. Zero Tolerance Drug Supervision. This initiative combines key programs to promote coerced abstinence from drugs for offenders under criminal justice supervision. 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. (Cost: $300 million).

WELFARE AND WORK

1. Responsible Fatherhood Initiative. Promoting responsible fatherhood is the critical next stage of welfare reform and one of the most important things we can do to reduce child poverty. We can put forward a package of proposals to 1) ensure every unemployed father who owes child support goes to work and supports his children; 2) collect more child support from parents who can afford to pay; 3) revise outdated rules to ensure mothers and children receive more of the support the father pays; and 4) promote efforts to ensure fathers returning from prison become responsible fathers and responsible members of society. (Cost: $100 million in discretionary costs in FY 2001 plus mandatory costs of $1.2 billion over 5 years and $2.6 billion over 10 years).

2. Welfare-to-Work Grants. These grants could fund projects in three areas key to sustaining the success of welfare reform: 1) to help every low income father work, pay child support, and reconnect with his children; 2) to help the hardest to employ move from welfare to work and succeed in the workforce; and 3) to increase job retention, skills upgrading and supports (including outreach on food stamps, Medicaid, child care, and EITC) for low-income working families, including those who have left welfare, through local one-stop employment centers. (Cost: $1 billion over 5 years and $2.4 billion over 10 – $200 of which would be FY 2001 discretionary, the rest mandatory).

3. Affordable Housing for Working Families. This proposal would provide housing vouchers to working families with children who need housing the most. This group of families could be defined in several ways: currently between 500,000 and 1 million working poor families get no housing assistance and pay more than 50 percent of their income in rent and/or live in substandard housing, while about 600,000 families with poor children live in public housing. Adding 100,000 vouchers a year for five years (reaching 500,000 in the fifth year) would cost about $3 billion dollars, and reaching a million families within 10 years would cost twice as much. This ignores the cost of renewing vouchers in the years after they are put in place, which OMB does not normally include in cost estimates but would create large ongoing obligations ($20 billion or more if a million families are served). (Cost: $3 to $6 billion over 5 years).

4. Employment for People with Disabilities. By enabling people with disabilities to work and keep their health care, the Ticket to Work and Work Incentives Improvement Act of 1999 will give individuals with disabilities a greater opportunity to participate in our nation's workforce. To build on this progress, we have a package of proposals. Among them would be a program to improve local One-Stop employment and training offices to better serve people with disabilities, as well as technical assistance, tax credits and assistive technology. (Cost: $113 million in discretionary funds in FY 2001, and $700 million in mandatory funds over 5 years).

5. Food Stamps. There are several proposals we could make to help ensure access to food stamps for working families. Unlike the executive actions we took last July, these require legislative changes. One is to raise the vehicle asset limit for TANF. This proposal would give states the option to conform this food stamp vehicle limit to the vehicle limit used in their TANF or Medicaid program, ensuring families that work their way off welfare do not suddenly face the loss of their food stamps if they buy a reliable car. Another is to provide at least $15 million for FY 2001 for on-going food stamp outreach efforts, including campaign materials and an enhanced 1-800 number. To improve nutrition among the elderly, we could offer a pilot program to make it easier for this population to access food stamps. Less than 30 percent of the elderly who are eligible for food stamps actually participate. (Cost: $80 million discretionary, $700 million - $1.7 billion mandatory).

6. Legal Immigrant Benefits. At a minimum we should repeat the proposals we made last year, and there are compelling reasons to go further in several areas. Our FY2000 proposal would have provided a state option to cover children and pregnant women under CHIP and

Medicaid, regardless of when they entered the U.S. (Under current law, states have this option only for immigrants who arrived in the U.S. before 8/22/96.) This proposal has bipartisan support. We could also allow legal immigrants who are qualified under the Violence Against Women Act due to domestic violence to be eligible for all federal public benefits, including SSI, food stamps, TANF, Medicaid, and CHIP, regardless of the date of entry. In addition, we could eliminate the 7 year limitation on the exemption from all benefits for refugees and asylees, propose making all legal immigrants eligible for food stamps, and restore SSI eligibility to more legal immigrants. (Cost: $2 to $6 billion).

7. Cars to Work. There are several ways we could help low income families get the transportation they need to get to work. In addition to providing full funding for the Access to Jobs Transportation program ($150 million), we could launch a program providing one-time seed funding of $10 million to one or more national organizations to provide loans to low-income families to repair or purchase cars.

8. Individual Development Accounts. We support $25 million for the Assets for Independence IDA demonstration program, which is the full authorized level and more than double the $10 million appropriated for the last two years. We also recommend a legislative change to allow low-income families to use IDAs to save for a car that will allow them to get a job, keep a job, or take advantage of job opportunities they couldn't otherwise access. Currently IDAs can be used to purchase a home, pay for higher education, or start a small business. (Cost: $25 million).

9. Boosting Homeownership. We are working on a number of options to promote home-ownership among low-income families and think this, along with other proposals, could be part of a proposal to reduce the "asset gap" among racial and ethnic minorities. We understand Treasury is developing a proposal to encourage homeownership through a tax credit that reduces monthly costs for low-income homebuyers. PPI has proposed "no interest second mortgage tax credits" to lending institutions that are willing to make small no-interest 25 year loans to qualified low-income families to use as down payments. Incentives could also be provided to employers to help their low-income employees buy homes, such as Bank of America's Associate Home Ownership Program which was highlighted in the President's August 3rd welfare town hall. This approach has the advantage of connecting employment and home ownership, and enlisting employer participation, but on balance, it probably makes more sense to subsidize individuals than businesses. We could certainly highlight leading-edge companies such as Bank of America, whose efforts would complement a tax credit for families, in any announcement. We are also exploring ways to highlight existing authority to use Section 8 vouchers toward homeownership, through publication of housing regulations and other administrative actions.

10. Increasing Targeted Substance Abuse Treatment. We could build on our success in the FY 2000 budget process by requesting an additional increase for SAMHSA's Targeted Capacity Expansion Grant program. In FY 2000 we succeeded in getting $114 million, slightly above our request of $110 million and more than double FY 99 levels. These funds are provided on a competitive basis to communities to meet emerging substance abuse problems and unmet treatment needs. In past years, a significant number of grants have focused on women moving from welfare to work, Native Americans, youth offenders, and HIV/AIDS. We could also designate a portion of these resources for treatment in communities who participate in the reentry initiative. These grants are a high priority for Mayors and for the Congressional Black Caucus, and HHS proposed a substantial increase in its budget submission. (Cost: $139 million).

PHILANTHROPY, FAITH AND SERVICE

1. Faith-Based Involvement in Substance Abuse Treatment, Juvenile Justice, and After-School Programs. Propose to allow federal substance abuse treatment, juvenile justice, and after-school funds to be used by faith-based organizations. The substance abuse treatment idea is included in the Frist-sponsored Senate SAMSHA reauthorization bill. A House bill, by Representatives Watts and Talent, allows faith-based groups to receive funded through both SAMSHA and Medicaid. (Currently, faith-based groups can be Medicaid providers only if they are actually health care providers or are involved in certain outreach activities). The Juvenile Justice bill in conference included provisions allowing faith-based groups to provide certain services. Faith-based groups are not currently eligible for direct funding through the 21st Century Community Learning Centers program, but the Department of Education has made clear that faith-based groups can be partner with programs that receive direct funds. (Cost: none).

2. Deductibility of Charitable Contributions for Nonitemizers. One broad change that could effect both the level and composition of individual gifts would be to allow non-itemizers to claim a deduction (or tax credit) for charitable contributions above a certain floor. In addition to affecting the total amount of charitable contributions, allowing non-itemizers to take such a deduction could also affect the proportion of gifts going to different types of recipients since non-itemizers gifts disproportionately benefit religious organizations and social service groups as opposed to educational institutions and private foundations. (Cost: $2 to $6 billion a year).

3. Allowing Charitable Giving Until April 15. If the charitable deduction is meant to provide incentives for charitable giving, the program should encourage such activity to the fullest extent. The cost of this proposal is negligible.

4. Excise Tax on Investment Income of Private Foundations. Private foundations pay an excise tax on their net investment income, with a complicated formula requiring some to pay 1 percent tax and others to pay a 2 percent tax. While the intent of the distinction between a 1 and 2 percent rate of tax on investment income was to prevent foundation disbursements from falling, the mechanism is unduly complicated and may even dampen foundation giving. This excise tax should be eliminated or modified. In 1997, foundations paid $486 million in federal excise taxes. (Cost: to be determined, probably about $500 million).

5. Nonprofits Capacity Building Program (NCBP). In order to create a stronger and more effective nonprofit sector, capacity and technical assistance could be provided to train and manage assistance for nonprofit and community-based organizations through development centers nationwide. This could be accomplished either through a new and dedicated program or through existing agencies such as the SBA. (Cost: $50 million).

6. Social Venture Capital Formation. We are exploring the idea of stimulating "venture philanthropy" by allowing a tax credit (greater than the current deduction for charitable gifts) to individuals and corporations that contribute to neighborhood organizations engaged in educational, social and economic services for the poor. To be eligible for the credit, obligors would have to make a contribution over a certain floor and submit a joint proposal with a tax-exempt non-profit. The initiative encourages businesses to form more committed partnerships with grantees in order to achieve the long-term goals of the nonprofit organization.

7. Improving Disclosure by Charitable Organizations. By far the most important source of public information about charitable organizations is the IRS Form 990 annual information returns. Over the years, the amount of information to be included on these returns by charitable organizations has increased, as have the penalties for failure to file and accurately completing these returns. Despite the evolution, the Forms 990 are frequently criticized both by charities who have difficulty completing them and by the public that has difficulty reading them. Requiring electronic filing of Forms 990 would make it easier for the public to access this information and reduce fraud. (Cost: minimal to none).

8. Second Chance Homes. Provide funding through HHS for second chance homes, including homes funded by faith-based organizations, to teen parents to help them and their children succeed. Perhaps these funds could fall under the rubric of preventing child neglect, and could be funded through IVB or IVE programs (will coordinate with our children and families team). States can use TANF funds for these purposes.

9. Assistance to Children of Prisoners. Propose new funding in the HHS Community Services Block Grant programs to fund community and faith-based organizations to assist children of prisoners (current CSBG funding is about $500 million per year). This could be coupled with other ex-offender proposals, including possible faith-based ministries in re-entry programs.

10. AmeriCorps Reserves Program. This program would be modeled on the military Reserves program. Young people would serve in the Reserve Corps on weekends and/or after work in exchange for funds that could be used toward: repaying student loans, financing further education for self or children, start-up costs for non-profits and charter schools, down payment on a first home, etc. The mission of the Reserve Corps would be to address national problems and crises, including natural disasters and domestic social problems while, at the same time, working to renew and reinvigorate civic life by committing to service, responsibility, and citizenship. Reserve Corps members would be given flexibility in terms of how much time they were willing/able to serve each year and would be awarded correspondingly. (Cost: $4 million).

11. Community Coaches. Provide seed money to school districts to fund point people in the public schools who "coach" community service for kids and who act as liaisons to the surrounding business and civic leaders. (Cost: $5 million).

WORK, FAMILY AND CHILDREN

1. Benefits for Alternative/Contingent Workers. Alternative workers, including agency temps, part-time workers, and independent contractors, are less much likely than traditional workers to receive or be eligible for health insurance coverage and pension benefits from their employers. For example, seven percent of agency temporaries receive health insurance coverage from their employers, and only 24 percent are eligible and only four percent of agency temporaries participate in an employer retirement plan and only 10 percent are eligible to do so. We are considering tax credits that encourage non-profit organizations and unions to offer (health insurance and) pension/401-k benefits. We are also looking into requiring Census CPS to develop better measures of this fast-growing but vaguely-defined sector of the workforce. According to the Bureau of Labor Statistics, the category of workers that includes independent contractors, on-call workers, temporary workers, and contract workers comprises 12.5 percent. In addition to the 18.3 percent of the workforce that is employed part-time, approximately 30 percent of the workforce is employed by some alternative arrangement. It has been difficult, however, to collect accurate data (which would inform policy decisions) on this class of workers, as well as telecommuters and other alternative workers.

2. Support Domestic Partners. You could recognize the changing nature of the American family and empower non-traditional families by calling for the inclusion of domestic partners in the Family and Medical Leave Act. We could support Representative Maloney's bill to amend the Family and Medical Leave Act (FMLA) to permit leave to care for a domestic partner, parent-in-law, adult child, sibling, or grandparent if the family member has a serious health condition. We could also take leadership in the drive to include domestic partners as health care beneficiaries by putting forward an Executive Order calling for the inclusion of domestic partners in the Federal Employee Health Care Benefit plan.

3. New Paid Leave Demonstration Program. We are exploring a proposal through which states could use the Unemployment Insurance system to create a federally funded, state-administered paid parental leave program. The cost estimate would grow significantly if we cover all workers regardless of income and/or if we cover both parents in a household, and would decrease significantly if we introduce a state match requirement.

4. Youth Empowerment Fellowships. We would reward social entrepreneurship by providing fellowships to young people who have developed innovative community initiatives. The Fellowships could be modeled on programs like the Echoing Green Fellowships, which are targeted to young social entrepreneurs who can catalyze positive social change. Alternatively, grants could be modeled on youth-driven grant programs such as the Oakland Fund for Children and Youth which dedicates 2.5% of the City of Oakland General Fund to youth development projects. The awards would be selective (e.g. 100 per year), prestigious, and would represent a diverse set of young people and set of ideas for youth empowerment. (Cost: $20 million).

5. Rewarding Youth Achievement. We are considering reviving this proposal, which was floated in the FY2000 budget. The goal of RYA is to increase the rate at which academically achieving, economically disadvantaged students graduate from high school and continue on to higher levels of education or training. RYA would provide summer employment to youth who meet academic achievement and attendance standards. Participants would also be eligible for an end-of-summer bonus if they perform well in their summer job. In addition, RYA would provide career counseling, mentoring, and tutoring to place participants in career related employment.

6. Children's Savings Accounts. Set up an asset-building program that would fund accounts for children as they are born. Children could be provided with $1,000 "start in life" deposits for the roughly four million babies born each year, followed by $500 yearly deposits until age five. CSAs would be available for higher education, first-home purchase, and small-business capitalization. The accounts would be funded through a combination of direct government deposits and tax deductions, and contributions would be encouraged through tax incentives for relatives, employers, corporations, churches, and others. (Cost: $40 billion over five years).

IMMIGRATION AND CIVIL RIGHTS

1. Making Naturalization Easier. Earlier this year, an independent auditor issued a report recommending numerous changes to streamline and improve the current citizenship test and naturalization process. This proposal would provide the resources and the technical expertise to implement the recommendations. (Cost: $1.5 million).

2. ESL/Civics Initiative. This year we won partial funding for our proposal to provide funding for English as a Second Language programs that are linked to civics and life skills instruction. (Your request was $70 million and we received $25.5 million in the final budget agreement). In FY2001, we should request at least $75 million.

3. AgNet Registry. This proposal would create an online job registry for growers and farmworkers alike, and thus help growers find an adequate labor supply in a predictable and timely manner. (Cost: $10 million).

4. EEOC/Equal Pay Initiative. In FY 2000, we requested $10 million for a new Equal Pay Initiative to increase compliance with equal pay laws. It would provide training to EEOC employees to identify and respond to wage discrimination, increase technical assistance to businesses on how to meet legal requirements, and launch an equal pay public announcement campaign to inform employers and employees alike of their rights and responsibilities. EEOC only received a slight increase in the final FY 2000 budget, which did not include $10 million for this important initiative. We should repeat the request.

TOBACCO

1. Price Increase. There are several ways we could repackage tax proposals from FY2000. Option 1A: A 55 cents per-pack increase to be collected through tobacco excise taxes. This option should raise about $6.4 billion a year. Option 1B: A per-pack excise tax triggered by youth smoking rates. An increase in the per-pack excise tax would be triggered by missing the target rates for each year. The determination of the excise tax increase would depend on the level that the target rate was missed. Option 1C: Combine elements of Options 1A and 1B so that a per-pack excise tax exists for the first two years and is thereafter determined by youth smoking rates. Option 2: Acceleration of the BBA's 15 cents excise tax. The 1997 Balanced Budget Agreement (BBA) raised the excise tax 10 cents per-pack effective January 1, 2000 and another 5 cents effective January 1, 2002, for a cumulative 15 cent increase. The FY 2001 budget could accelerate the effective date of the additional 5 cents, raising several hundred million dollars. We may wish to consider packaging a tax increase with a particular spending proposal, such as Medicare prescription drugs.

2. State Lookback. Although state officials said the purpose of the $246 billion state settlements with the tobacco industry was to reduce youth smoking, few states are investing settlement funds in programs to prevent youth tobacco use. This proposal would ensure that if the provisions of the state settlement (45 cent price increase, some limitations on marketing and promotion of tobacco products, and funding for a national foundation to reduce youth smoking) do not actually reduce youth smoking, then states would be required to spend settlement funds on youth smoking prevention programs. The spending provisions would be triggered if certain youth smoking reduction targets were not met.

3. Preventing Youth Smoking. We should support continued funding of tobacco prevention programs at CDC and FDA, and include an increase if possible. CDC would provide technical assistance, strengthen tobacco use science for public health action and work with partners to create global tobacco programs. FDA funding would go to enforcement and evaluation and product regulation.

4. Department of Justice Tobacco Litigation. The Department of Justice has initiated litigation against the tobacco industry to recover certain federal health expenditures caused by tobacco use. We could either propose $20 million for the Department of Justice to finance the litigation (the same unsuccessful strategy employed in the FY2000 budget) or include the shared costs of the litigation within the requests for HHS, Defense and VA, since the suit is intended to recover the smoking related costs incurred by the Federal government, of which these three departments experienced substantial costs. (Cost: $20 million).

5. Expanding Cessation Coverage. Currently, smoking cessation prescription and non-prescription drugs are optional state Medicaid benefits that are matched by the federal government at the individual states FMAP rate (57 percent on average). Our understanding is that 27 States provide Medicaid coverage for FDA approved smoking cessation products. There are a number of options we could propose to expand the coverage of smoking cessation products for Medicaid and other federal programs. These include mandating coverage of prescription/nonprescription smoking cessation products, requiring Defense to provide effective cessation programs, or requiring the Federal Employees Health Benefits Program to provide a more generous cessation benefit.

6. Assisting Tobacco Farmers. These are two proposals that would allow us to maintain our commitment to ensure the well-being of tobacco farmers, their families and their communities. The first would directly compensate tobacco farmers. The Agricultural Appropriations bill for FY 2000 directs the Secretary of Agriculture to use $328 million in funds from the Commodity Credit Corporation to provide payments to compensate flue-cured and burley tobacco farmers that had their quotas reduced in 1999. We could propose an additional $328 million in FY 2001 for farmers facing quota reduction in 2000. The second approach would be to provide preferable tax treatment of payments to tobacco farmers. Proposals supported by Sen. Robb and Rep.

Boucher would exclude from gross income payments made by the tobacco industry to tobacco farmers as part of last year's settlement.

OTHER POLICY INITIATIVES

1. Closing the Digital Divide. We have been working with NEC to put together an initiative to address both the access gap and the skills gap that help create the "digital divide." We are considering a broad proposal that would subsidize home Internet access and computer leasing for low-income families, as well as efforts to ramp up Community Technology Centers and to draw private sector partnership commitments.

2. Native American Initiative. We have worked with Lynn Cutler to develop an ambitious, cross-agency package of proposals intended to benefit Native Americans. Included in the package are new initiatives on Indian health, dedicated monies for foster care and family caregiver programs, grants for tribal technology infrastructure, Native American small business development centers, 1000 new Native American professionals, a DOJ/BIA law enforcement initiative, a tribal youth mental health program and an array of other proposals. (Cost: $681 million).

3. National Cardiac Arrest Emergency Plan. Each year, approximately 250,000 Americans suffer cardiac arrest. The American Heart Association estimates that a national plan in this area could save almost 50,000 lives. It seems likely that some form of the Cardiac Arrest Survival Act will pass this year, and it would be wise to supply funds to make its goals a reality. The Act provides for: (1) a plan for providing defibrillators in public buildings and (2) establishing protections from civil liability arising from the emergency use of the devices.

4. Enhancing the Nation's Food Safety System. CDC estimates that contaminated food kills up to 5,000 Americans and sickens 76 million more each year. This initiative will increase the number of imported and domestic food inspections by over 7,000, with a special emphasis on high-risk domestic foods such eggs and unpasteurized juice. It will also place an additional 100 inspection agents in the field. The FDA expects that this new investment will prevent over 100,000 illnesses per year. (Cost: $35 million).

5. Mainstream Homeless Initiative. This initiative would create, for the first time, a mechanism to help states ensure that so-called "mainstream" programs – Medicaid, CHIP, TANF, and the Mental Health and Substance Abuse Block Grant -- are accessible to the homeless. States would look at areas such as: (1) how outreach is being done; (2) how intake questioning captures indicia of homelessness; (3) what outcome measures are in place to see whether homeless needs are being addressed. (Cost: $10 million).

6. Violence Against Women Act (VAWA II). In 1994, Congress passed the Violence Against Women Act (VAWA I), an historic piece of federal legislation that contains a broad array of ground-breaking laws to combat the epidemic of violence against women. Despite VAWA I's success, legislators and advocates alike agree that many gaps in our laws remain. Building upon these successful initial steps, VAWA II extends programs more comprehensively. We are also working with the agencies to develop some other domestic violence ideas. (VAWA needs to be reauthorized in FY2001).

STATE OF THE UNION ROLLOUT Ew – Current Ste

Greenspan / 9-5th - Poss

EVENTS AND/OR RADIO ADDRESSES:

- School Construction & Repair (1/5 congressional meeting)
- Charter Schools (w/4th year report) – January 8 radio address?
- Child Support and EITC (1/10 or 1/12 DLC Event)
- Civil Rights Enforcement/National Service Initiatives (1/17 event)
- Medical Errors (event or radio address) (after 1/17)
- Firearms Enforcement and Gun Violence Reduction Strategy (must do before 1/21) – post SOTU
- Health Insurance Coverage w/CHIP outreach initiative (or to VP or HRC)
- Family Planning (radio address or HRC event) – Thurs.

Joint HRC Events:

- Medicare Fraud Initiative and Report (need 1 week advance notice)
- Environmental Causes of Disease
- Childcare Initiatives
- Head Start Funding Increase → hold?
- Philanthropy/Faith-Based Initiatives

EVENTS/LEAKS FOR OTHER PRINCIPALS:

Vice President:

- Teacher Quality Initiatives (or HRC)
- Small Schools Initiative
- Nursing Home Quality
- Fatherhood Initiative

First Lady:

- Teacher Quality Initiatives (or VP)
- Infectious Diseases/Nat'l Electronic Disease Surveillance Network
- Paid Leave Demo Program w/ Equal Pay Initiative

JDP

- Food Safety System Expansion (JDP leak)

LEAKS:

- SAT/ACT Test Preparation
- AP Online Initiative
- HIV/AIDS initiatives

- Polio Eradication
- ESL/Civics and Naturalization Testing Process Streamlining
- Native American Initiative
- HUD Budget and Mainstream Homeless Initiative
- HispanicAgenda Items (around 1/11 Houston trip?)
- Ex-Offenders Initiative (?)

STATE OF THE UNION ITEMS:

- Universal After-School
- Failing Schools Initiative
- Gun Initiatives
- Digital Divide
- Universal Banking

OTHER BUDGET INITIATIVES THAT DO NOT NEED EVENTS OR LEAKS:

- Completing Jeffords-Kennedy
- Mental Illness & Substance Abuse Prevention and Treatment Services
- Children's Hospitals Education Funds
- HUD Gun Initiative
- Tobacco

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. note	Will Marshall to John re SOTU (1 page)	12/15/1999	Personal Misfile

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Thomas Freedman
OA/Box Number: 17549

FOLDER TITLE:

SOTU [State of the Union] [Folder 3] [1]

2015-0274-S
wr10813

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
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RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001b. report	Progressive Policy Institute, "Building New Skills for the New Economy" (10 pages)	12/15/1999	Personal Misfile

COLLECTION:

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FOLDER TITLE:

SOTU [State of the Union] [Folder 3] [1]

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INTERNET AND STATE OF THE UNION

Theme: this is a model for how the Internet will be used in the future to make government more accessible and responsive to Americans.

Elements:

- A separate web site
- Internet simulcast
- Interactive – Americans can comment
- Includes the speech, specifics on each of the proposals the President makes, links to agencies web sites for more info.
- Ask the Cabinet and Chief of Staff – make members of the cabinet available to answer questions about their proposals.
- Children's page – the history and role of the SOTU
- Link to the Republican response page as well. Aim is to give Americans as much information over their government as possible.
- Other possibilities: we could offer to e-mail people further information on proposals they are interested in and send them the President's roll-out speeches on education etc.
- In a follow-up to the SOTU we could have the President answer some comments on e-mail.

8/8

Candidate Positions

Ranked By Much More Likely

Here are some positions a candidate for president might take in the next election. For each one, please tell me if it would make you much more likely to vote for the candidate, somewhat more likely, make you somewhat less likely or much less likely to vote for that candidate.	**Much More Likely**	**More/ Less Likely**
We should work to ensure that our students have the highest educational test scores.	65	93/4
We can and should, improve waste disposal processes by encouraging recycling through new recyclable product lines, improving drainage sewers to prevent river pollution, and developing new forms of waste treatment.	63	96/3
All health insurance plans should cover regular early warning tests for cancer, such as mammograms for women over 40 and prostate cancer tests for men over 50.	63	91/8
Every patient should be guaranteed the right to choose their own doctor without paying an excessive penalty for using a doctor not favored by a particular coverage plan.	63	88/9
Now is the time to use our prosperity to help fix the problems we have in our educational and healthcare systems.	61	89/10
Equal pay rules need to be strengthened to ensure men and women receive the same pay for the same work.	61	86/12
Prevention is the long-term answer to crime. We need to invest in programs to keep kids off the streets, or in job training programs so that young people have an alternative to gangs and drugs.	61	86/12
We need to end social promotions in the schools to require that all students master the skills that they need to advance to the next grade, and provide help to students who need it to make the grade.	61	90/8
We need new laws that protect patient's rights, and that means standing up to the powerful insurance industry lobby to get it done.	60	92/8
We need tough new measures such as background checks and photo ID licenses to keep guns out of the hands of kids and criminals.	58	77/21
College tuition and saving for college should be tax-free.	57	91/7
Teachers' performance should be evaluated, and those who fail to meet the standards should be given a chance to improve or be dismissed.	57	91/7
We should offer all unemployed fathers who owe child support a public works job, and if they refuse to work, they can go to jail for not paying their support.	57	89/10
We have to clean up the pornography and hate on the internet.	56	77/18
We should increase the penalties for failure to pay child support, and have the federal government help track down deadbeat dads.	56	83/16
All teachers should be required to pass a competency test.	55	92/7
We should increase funding and the development of programs to reduce domestic violence.	55	84/15
No parent should have to wonder if their child is endangered by drinking tap water. We	55	89/10

should undertake an initiative to ensure that every community has safe drinking water.		
It is time for revolutionary improvements in education.	53	85/13
Our families need more help – help with education, healthcare, eldercare, and protecting children from violence and the influence of the media.	53	86/13
We must attack the problems of alcohol abuse with tougher standards against drunk driving, more treatment for alcoholics and greater consciousness of the problem.	53	89/10
We need health care reform that would guarantee that all Americans have health insurance, regardless of ability to pay.	53	53/20
We need additional programs that make sure there will be adequate nursing home care for the aged or that help people take care of their aging parents.	53	88/10
It is important that we expand services to the mentally ill to make sure they receive the proper care and coverage under Medicaid and Medicare and are not left on the streets without proper care.	52	93/7
Seniors on Medicare should be able to buy their prescription drugs at lower wholesale prices, and the government should help them do that.	52	83/11
We need tougher penalties for hate crimes motivated by race, religion, or sexual orientation.	52	81/17
We should work toward having the cleanest environment possible.	52	86/13
We should keep pushing the auto manufacturers to improve the efficiency of cars to burn fuel cleaner and get more miles per gallon.	52	84/14
We need to stimulate innovation in all sectors of the economy – from agriculture to manufacturing – to keep it growing.	51	87/9
We must regulate tobacco as a drug, and prevent the marketing of it to children.	49	69/30
We need mental illness to receive the same health insurance coverage as other types of illness.	49	86/11
We need a federal program to promote school construction and modernization in communities with overcrowded classrooms.	48	74/23
We need to make corporations more responsible by requiring that every employee have access to the education, pension and healthcare opportunities made available to those at the top.	47	74/24
We should do two things with the budget surplus: make sure all the Social Security taxes go to Social Security and use the rest of the surplus for an across the board tax cut.	47	79/19
We should expand the Family and Medical Leave Act so it is easier for parents to take time off for their child's medical appointments or for their child's parent-teacher conferences and so that it covers small business.	46	74/23
We need to keep moving forward with our current approach to economic policies that are working.	46	88/7
Affirmative action has to be limited so that it applies only in cases where past discrimination can be proven; in all other cases, decisions should be made on a color blind basis, with only the most qualified individuals being admitted to schools, hired for jobs, or promoted in their jobs.	45	72/25
We should limit the size of any tax cut to $250 billion and instead strengthen Social Security, Medicare, and eliminate the national debt by 2015.	44	77/19
We should increase the penalties on crimes against the elderly.	44	79/19

We need to prohibit discrimination in the workforce against parents who take off allowable work time in order to tend to the medical or educational needs of the families.	44	76/19
We should participate in an international agreement to curb pollution and fossil fuel emissions that are causing global warming.	43	77/20
We need to do everything we can to make sure our air is clean and safe to breathe. We can do this in part by reducing carbon dioxide pollution levels through more energy efficient technology, moving to new lower pollution fuels, and promoting mass transportation and telecommuting.	43	83/13
We have to step up government monitoring of business in areas where public safety is at risk such as the airlines and food safety inspections.	43	83/17
The human genome project mapping the purpose of every human gene has presented us with an historic opportunity to uncover the causes of cancer. We should therefore make it a top priority to advance the war against cancer.	43	83/15
With relative peace in the world, now is the time to tend to domestic problems and withdraw from as many international issues as possible.	42	67/32
Now that we have had welfare reform, we need to create the opportunities to move another million people off of welfare.	42	77/18
We should help families with targeted tax relief cover the cost of providing for their elderly parents.	42	82/14
We have too much in the way of government regulation and we need to reduce government's ability to regulate business.	40	67/26
We need to do more to protect our national parks and national forests from logging and mining.	40	72/23
All families should have universal access to pre-school, just like the rest of the grades.	39	78/20
We should cut off all government aid, welfare, and food stamps to all illegal aliens.	39	63/33
We should use some of the surplus for Medicare and modernize it with a new, voluntary prescription drug benefit.	39	84/12
We must use the surplus for Social Security, Medicare, education and the military first, and only use what is left for targeted tax cuts.	39	72/23
We should double the amount of funding for cancer research, to speed up treatments, prevention, and one day find the cure.	39	77/18
We need to have the infrastructure to catch and convict criminals. We should build more prisons, enact tougher sentences, and make it easier to arrest and convict criminals.	38	66/32
It is time to cut back on government programs and benefits, not time to increase them.	38	66/30
Murderers and violent criminals must face the death penalty; this is the key to fair justice in America.	36	62/36
We need a leader who will work to keep strong relations with China and Russia, not a leader who will isolate us more from them.	36	79/17
It is important that we expand the use of programs from faith-based organizations that provide job training, counseling, food, and health care, to fight drugs, homelessness and youth violence while ensuring the government never promotes a particular religious view and always offers a high-quality secular alternative to a faith-based organization.	35	75/22
We should work to provide Americans the longest life expectancy in the world.	35	74/20
We need new regulations to label all foods that have been genetically modified.	35	71/24

We should set as our goal eliminating the entire national debt.	33	78/18
Now is the time for the U.S. to assert itself around the world in foreign policy to prevent the spread of nuclear weapons, protect human rights and fight aggression by terrorists and rogue nations.	33	75/23
We need to change the pattern of development and growth so more new investment goes into our cities and so suburbs avoid more sprawl and traffic congestion.	31	70/23
We should strive to provide America with the highest median income in the world.	31	74/22
We should create a system of paid maternity leave.	31	69/28
The Federal government should provide vouchers to families so they can send their children to the school of their choice, public or private.	30	55/40
We need to take much tougher positions against China and Russia, even if that breaks off some of the engagement.	30	60/31
Every woman should have safe and legal access to an abortion.	29	52/44
Affirmative action programs are needed to promote diversity and to ensure that minorities have access to college, job promotions, and government contracts.	27	63/34
We have a constitutional right to bear arms and all these proposals for gun controls are just attempts to interfere with that right.	26	47/51
The NRA and the right wing have shown their true colors; they put their radical agenda before the broader public interest in reasonable gun control measures to protect American families	22	48/47
The health system has problems but making many changes threatens to destroy too much of what is good about health care in America.	21	55/38
We should lift trade restrictions on Cuba.	19	47/47
We should continue to support the peacekeeping efforts in Bosnia and Kosovo.	19	54/40
We need to build a star wars type missile defense system to protect against nuclear attack.	18	50/47
Any further off-shore oil drilling should be banned for another 10 years.	17	50/39
Prayer has no place in the public schools of America.	14	24/72
We need to revisit and expand the policy on gays in the military and make that policy more compassionate.	13	32/65

50% think that environmental regulations create a cleaner environment while helping the economy grow, **40%** think that most environmental regulations hurt the economy and cost jobs.

What is your highest priority for the environment? (CLOSED END)

Making Drinking Water Safe	29%
Curbing Industrial Air Pollution	15%
Cleaning Toxic Waste	13%
Cleaning up our rivers and beaches	11%
Protecting our Parks, Forests, Open Spaces	8%
Combating Global Warming	7%
Encouraging Recycling	7%
Making Cars More Efficient	6%

EYES ONLY

THE WHITE HOUSE

WASHINGTON

January 7, 2000

MEMORANDUM FOR JOHN PODESTA
MARIA ECHAVESTE
DOUG SOSNIK
BRUCE REED
GENE SPERLING
LORETTA UCELLI
SID BLUMENTHAL
ERIC LIU
TOM FREEDMAN

CC: PRESIDENTIAL SPEECHWRITERS

FROM: J. TERRY EDMONDS

SUBJECT: REVISED SOTU OUTLINE

Pursuant to yesterday's meeting with POTUS, we have revised our expanded outline for the State of the Union. While this outline will guide our production of a first draft, which we plan to deliver on Thursday, Jan. 13, please know that this speech, perhaps more so than any other, remains a work in progress until the very last minute. In addition, this outline contains information that remains confidential. Please do not share this with anyone and be prepared for further revisions.

Thank you.

EYES ONLY

Draft 1/08/00 9am

PRESIDENT WILLIAM J. CLINTON
STATE OF THE UNION ADDRESS
REVISED DRAFT OUTLINE

I. Introduction

a. *Brief historical context* – the century and the last seven years
b. *Victory lap* – the state of our economy and society
c. *How we got here* – opportunity, responsibility, community
d. *How we're going to move ahead* – unfinished business and beyond (Social Security, Medicare [prescription drugs, solvency], Patient's Bill of Rights, Guns, Hate Crimes)

II. New Opportunity Agenda: Preparing a New Generation for a New Millennium

a. *Education*
- universal pre-school – access to pre-school for every 4-year-old in America [VPOTUS]
  -increase in Head Start; increase in Early Childhood Learning Fund
- school construction
  -tax credit bonds over 2 years to modernize up to 6,000 schools
- universal after-school
  -doubling resources for every student in failing schools
- closing the achievement gap
  -improving teacher quality; choice; charter schools; turning around or shutting down failing schools, teacher training (military schools)

b. *Rewarding Work and Renewing Families*
- expanded EITC
- expanded housing vouchers
  -new housing vouchers
- expanded child care
  -resources to serve low-income children
  -expanded Child and Dependent Tax Credit
- expanded access to health care coverage
  -school-based CHIP and Medicaid enrollment
- equal pay – funding to train women for non-traditional, high-tech jobs
- Medicare buy-in
- minimum wage

c. *Mastering the New Economy and the Promise of New Technology*
- promise and perils of new technology (Internet and biotechnology vs. privacy)
- closing the digital divide
  -increased funding for Community Technology Centers
  -public-private partnership to provide poor families access to Internet

- closing the opportunity gap for college
  -test prep for poor children
  -more funding for Youth Opportunity Grants, TRIO, GEAR UP & Youth Build
- shaping the new global economy: trade, debt relief
  -China/WTO – a) greater access to their markets; b) rules-based system; c) dumping and surge laws; d) keep economy growing/ transition to new markets at home & abroad

d. *New Markets Initiative and Enterprise Zones* [Hastert]
  -doubled New Markets Tax Credit & expanded EZ Tax Credit
  -new home-ownership tax credit for low-income families
  -Native American initiatives (tribal colleges, health, law enforcement)
  -IDA demo

III. New Responsibility Agenda

a. *Responsibility in our Homes*
- fatherhood initiative [VPOTUS & MEG]
  -focus welfare-to-work program on putting low-income fathers to work
  -new measures to collect more child support
  -challenge states to use welfare surpluses to require deadbeat dads to work and pay child support
- foster care & adoption

b. *Responsibility in our Neighborhoods*
- crime/ guns
  -close gun show loophole
  -licensing [hunting license analogy]
  -smart-gun technology
  -ex-offenders initiative/ zero tolerance drug supervision
  -new enforcement mechanisms
- voluntary rating systems [FLOTUS]
- school violence

c. *Responsibility to our Environment*
- Lands Legacy
- climate change
- forests

d. *Responsibility to lead in the world: foreign policy*
- making former adversaries into partners: Russia, China
- containing terrorism and proliferation
- strengthening new democracies & foreign aid (UN dues, AIDS initiative, vaccines)
- embassy security

IV. New Community Agenda

a. *Millennium* [FLOTUS]
b. *Faith-based organizations*
c. *Philanthropy*
d. *Service/ AmeriCorps*
e. *Livability*
f. *Immigration/ citizenship*
g. *Vote 2000*
h. *Hate crimes/ ENDA*
i. *Containing ethnic and religious conflicts abroad: Mid East, Ireland, etc.*
j. *One America*

V. Conclusion – Big Challenges for the New Century

PROGRESSIVE POLICY INSTITUTE

Policy Briefing
July 1998

Innovation, Social Capital, and the New Economy

New Federal Policies to Support Collaborative Research

Jane E. Fountain and Robert D. Atkinson

Innovation in the New Economy

Innovation is a driving force behind economic growth.[1] In the old economy, innovation was often generated through a series of discrete steps in research, development, and production. In the New Economy, innovation is increasingly generated in networks where value is generated through productive working relationships or collaboration. In fact, Peter Drucker, the noted management thinker, as well as a host of other experts, has suggested that a main organizing principle of the New Economy is networks, partnerships, and collaborative ventures.

Because of deregulation and increased competition, the focus of innovation in industry is moving away from the centralized, prestigious laboratories of major multinational firms to large numbers of small and medium size firms in their supply chains. Firms, through a proliferating array of partnerships, increasingly turn to suppliers, customers, and users for sources of technology and innovation. While only 750 inter-firm alliances were formed in the United States in the 1970s, 20,000 were initiated between 1987 and 1992.[2] For example, in the development of Internet cable TV, cable TV companies are working with a number of software and hardware firms to develop a new type of cable TV signal converter box that can communicate with the Internet. Similarly, with state, federal, and industry funds, eight companies have formed a consortium at Penn State University to conduct collaborative research on better materials for helicopter drivetrain systems.

As many large firms have reduced, reoriented, or in some cases eliminated their central research laboratories and reduced their share of funding invested in basic research (from 1991 to 1995, industry investment in basic research declined 4.6 percent per year[3]), the number and extent of industry ties with universities have multiplied dramatically. For example, one of the striking aspects of this is the range and number of formal interorganizational collaborations among biotech firms, research laboratories, and universities. Although decades of biotech research funded by the National Institutes of Health played a vital role in the formation of the biotech industry by its support of $65 billion of scientific research through universities and their buffer institutions, partnerships between the pharmaceutical companies, start-up firms, and universities have played a key role in the development of the industry.[4] Although industry funding of university research is still small compared to federal sources (which in 1995 contributed 68 percent

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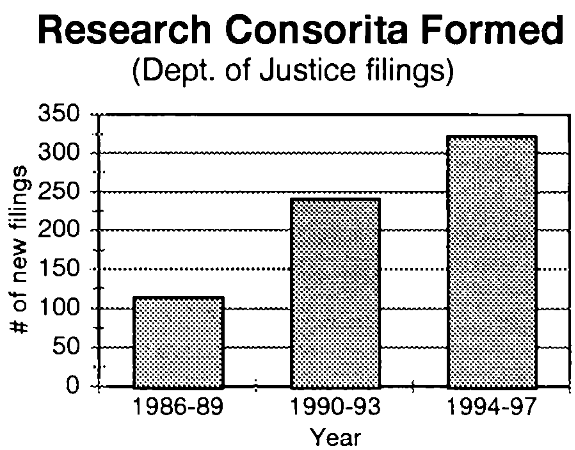
of all university R&D support), it rose from $236 million in 1980 to approximately $1.5 billion in 1995.

Firms increasingly view universities and federal laboratories as key external sources of basic research even as they have turned to relationships with suppliers and competitors for external sources of technology for product development.[5] The number of active cooperative research and development agreements (CRADAs) between federal labs and industry increased from 108 in 1987 to 975 in 1991.[6] For example, a consortium of firms has been working with the Department of Energy and national laboratories to develop commercially distributed power generation using solid oxide fuel cells which create power without combustion.

This increase in collaborative research is being driven by many factors. The information technology revolution has led to significant growth in the base of technology offerings from which new products and services may be developed. This impressive array of technologies and applications has outpaced the ability of single firms to retain proficiency in the technology fields relevant to their business.[7] For example, the traditional pen maker A.T. Cross developed the hardware for its "Cross Pad," a portable digital note pad, while IBM developed the software.

In addition, innovation is increasingly cross-disciplinary in nature, requiring the contributions of different disciplines and organizational expertise. Nanogen, a firm in San-Diego, is developing micro-electronic-based disease testers. This new product combines expertise in software, micro-electronics, chemistry, and biology.[8]

Finally, the investments necessary to sustain technology development and deployment have increased to the point that single firms typically cannot solely absorb the

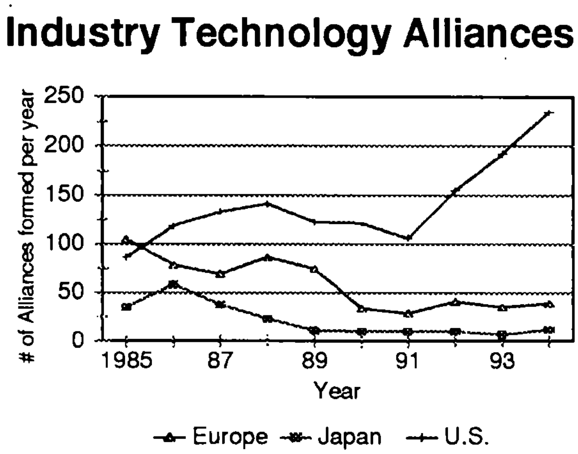


level of risk necessary for innovation. These are all reasons why industry research collaborations have grown.

With most industries affected by rapid technological and scientific change, external relationships have become a positive-sum game in which all firms in a collaborative network benefit.[9] A proliferation of networks of organizations, in the form of partnerships and consortia, has contributed to the successful renewal of the U.S. economy. This emerging network model of innovation produces powerful benefits. The innovative capacity of a well-functioning network exceeds the sum of the individuals or even organizations in the network. The whole becomes greater than the sum of the parts. Collaborative networks also lead to new, more responsive and innovative types of value creation. Moreover, the innovative capacity of networks to attract related industries and grow into "clusters" of associated industries. As Michael Porter has shown, this clustering of industries, with all the benefits of collaboration associated with networks, is highly correlated with national competitive advantage.[10] For example, while industry technology alliances have declined significantly in Europe and Japan in the last decade, they have exploded in the United States, particularly in information technologies.[11]

These dramatic changes in the nature of innovation constitute a compelling challenge to the United States to adapt its approaches to science and technology policies, just as industry has adapted. Federal science and technology policies should support the private sector in reconfiguring itself in ways that advance rapid technological change and diffuse innovation. In particular, policies should recognize that research in the New Economy is conducted not only on the basis of one-time strategic alliances and partnerships but also through ongoing networks of learning and innovation. In general, the pace of institutional innovation by government has lagged behind rapid and fundamental restructuring of the private sector. **Policy makers have paid inadequate attention to policies that support research collaboration.**

This policy brief argues that in the New Economy, "social capital" has become a critical enabler of innovation. Social capital represents the "stock" created when a network of organizations develops the ability to work in collaboration to promote mutual productive gain. It is key to effective public-private partnerships, devolution of some science and technology responsibilities to the states, and a more collaborative and catalytic



federal innovation policy. As a result, **the federal government needs to establish an expanded set of policy tools that fosters linkages and trust to support faster innovation and productivity growth.**

Recommendations

The federal government should modify and restructure its existing technology policy

tools to promote the use of networks and consortia in order to connect firms to universities, national labs, and state and federal partnership programs. To achieve this, PPI proposes that:

- ***Congress expand the existing research and experimentation (R&E) tax credit to provide a flat, 20 percent credit for industry expenditures in research consortia and partnerships between industry and universities or federal laboratories.***

- ***Congress establish an Industry Research Alliances Challenge Grant initiative to co-invest with industry-led research alliances.*** Industry members would establish technology "road maps" and on the basis of these invest in research conducted at universities or federal laboratories. For example, the non-profit Microelectronics Advanced Research Corpora-tion (MARCO) is an industry-government research alliance that supports long-range research at universities throughout the nation.

- ***Congress establish a State Technology Innovation Challenge Grants Initiative to co-invest with states to support regionally-based innovation partnerships, between small- and medium-sized firms and universities or federal labs.***

If a new system of innovation is to fully emerge and prosper, federal science and technology policies—which helped create the broad institutional contours of the post-war R&D system—must now be adapted to support the new institutional relationships between industry, universities, and government. Fostering and expanding these new alliances are particularly critical if the nation is to develop long-term approaches to supplement the increasingly short-term investments companies and institutions now make. In short, the key enabler to strengthening innovation, and its dissemination and absorption, may lie as much in increasing the social capital of our productive sectors as in direct investments in science and technology.

How Social Capital Increases Innovation

Adam Smith and other classical economists recognized that firms require an underlying fabric of shared values and understanding to make division of labor work. Smith's observation is even more true today. When research partnerships and consortia succeed, the "glue" that holds them together is not simply contracts that detail every aspect of these complex and dynamic relationships (although contracts are, of course, important). Nor even is it the information systems that link networks of organizations (although these networks facilitate information sharing). Rather, the glue that makes collaboration feasible in the New Economy is composed of trust and a norm of reciprocity, or enlightened self-interest, among decision makers in networks.

Successful innovation networks rely on collaboration and information sharing to work. Networks absent collaboration—when they function at all—result in unwieldy transaction costs, duplication of effort, lack of coordination, and costly contractual disputes. Research on how manufacturing firms have implemented electronic data interchange (EDI) illustrates this. Firms that successfully implemented EDI were those that could effectively cooperate to formulate shared goals, resources, and incentives.[12] Success was dependent on "interpersonal, organizational, and cultural" factors rather than technical ones. Moreover, it appears that firms that effectively cooperate and communicate internally (by means of cross-functional teams and systematic, decentralized problem-solving at all levels) are precisely the ones that can best collaborate with other organizations. **A network culture inside an organization facilitates the creation of networks outside.**[13]

This "glue" or social capital is a critical component of the value created by these cooperative relationships in terms of economic performance and innovative capacity.[14] **Social capital is as important as physical capital (plant, equipment, and technology) and human capital (intellect, character, education, and training) in driving innovation and growth.** The "stock" of social capital is increased when a network of organizations develops the ability to work in collaboration to promote mutual productive gain.[15] Social capital indicates those properties of organization, notably networks, shared norms, and trust, that lower the costs of coordination and cooperation and thereby increase collective productivity. Thus, well-functioning partnerships, consortia, and networks are in and of themselves a form of social capital.[16] Trust develops over time as individuals gain confidence in the reliability ofothers through a series of interactions.[17] Norms of appropriate behavior develop as a social contract is negotiated largely through interactions among actors in a network. The norm of reciprocity is fundamental to productive relationships. Closely linked to reciprocity is the norm that actors will forgo their immediate self-interest to act not only in the interest of the group but also in their own long-term self-interest. "Favors" that must be repaid quickly and accounts that are monitored closely in a network indicate a lack of social capital.

Networks are more efficient organizational forms for innovation in the New Economy because they facilitate enhanced learning. Compared to large, hierarchical structures, networks more effectively scan the environment for potentially significant events, more accurately interpret environmental change, and more creatively and adaptively craft responses to change. Superior ability to scan the business environment for new developments and interpret them accurately translates into heightened capacity for timely and responsive innovation. Dense social networks can encourage experimentation and entrepreneurship among actors because they represent an optimal mix of collaboration and competition. Network members compete fiercely but also collectively process and share information about environmental changes including markets, regulations, technologies, and opportunities.

In other words, actors in a collaborative network learn interactively. They learn of new technologies, opportunities, challenges, and the outcome of transactions more quickly because of the density of interaction within the network. Learning is of a higher quality because it is subject to discussion and debate among counterparts whose perspectives and backgrounds may differ. And innovation itself is stimulated. Studies have found that successful innovation is characterized by the easy flow of ideas, technology, and people across institutional boundaries. Organizations that exhibit these characteristics have been called learning organizations. Similarly, geographic regions that include highly adaptive industry networks have been termed "learning regions."[18]

Box 1: Collaboration Drives Silicon Valley

One of the best-known learning regions is Silicon Valley, California. The professional culture is both highly collaborative and intensely competitive. Non-proprietary professional and technical information typically is shared among employees and companies. Firms display low levels of vertical integration because of the high degree of outsourcing for inputs that occurs. A rich system of interconnections links producers, suppliers, and customers within and across related sectors.

Educational systems at all levels ensure a supply of skilled labor and provide training, retraining, and development of technical staff. At the graduate school level, these systems produce basic and applied research and researchers. But Stanford University plays a much more central role. Stanford spawned Hewlett-Packard, one of the Valley's central firms, as well as many other firms. Firm leaders and several venture capitalists have strong ties to the university and, thus, to one another. In many ways, Stanford University is the chief influence on the culture of Silicon Valley. Having a first-rate research university or laboratory as an integral part of a regional network rather than as an isolated "ivory tower" greatly strengthens the potential for scientific innovation within both the university and industry.

Innovation benefits from the strong supporting role played by institutions of higher learning. State and community college systems, through strong, focused engineering and technical training programs, supply and sustain high-quality technical employees able to function effectively in a networked environment. Strong networks or partnerships among government, universities, and industry help to ensure the supply of these experts. These partnerships also ensure the continued high quality of scientists and technical experts by translating new ideas, technologies, and methods from universities to industry and from industry to universities.

Source: Anna Lee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Cambridge, MA: Harvard University Press, 1994).

In contrast, **vertically organized firms and institutions tend toward characteristics that adversely affect learning or information-processing capacity.** Such firms typically possess: inward, insular foci; unproductive levels of hierarchy within large firms and bureaucracies; unproductive levels of secrecy and organizational loyalty that dampen information sharing within and across professions; value placed on institutional stability and organizational autonomy that fit poorly with a turbulent economic, technological, globally competitive environment; authority centralized at unproductive levels; and predominantly vertical flows of information which tend to be slower, biased, and thus less reliable.

Countries and regions in which such organizations dominate cannot innovate effectively. In fact, attempts at partnerships and consortia under these conditions of low trust lead either to complete failure or to poorly performing, non-collaborative networks. A key challenge of government in the New Economy is not only to transform itself into a learning network organization, but to also gain the ability to support and engage as a partner in fully functioning collaborative networks, in part to allow it to effectively pursue its own goals, including mission-related research.

These are powerful factors in explaining innovation. Experts on science and technology policy have used the concept to explain why innovation varies so much among countries with similar endowments of financial, physical, and human capital.[19] Yet, **traditional economic perspectives that focus on short-term self interest and individual transactions have failed to recognize the importance of social capital as a key to innovation.**

The Federal Role in Promoting Collaborative R&D

Because collaboration and social capital are critical for innovation in the New Economy, federal research policies need to focus explicitly on building social capital and promoting collaborative research. PPI proposes three policy tools to lead to a higher share of federal support for research being translated into innovation and economic growth. All three recognize the importance of the development of an iterative and non-sequential process of innovation, the need for closer ties between developers and users of science and technology, and the importance of social capital.

1) Collaborative Research and Experimentation (R&E) Tax Credit

Since 1981, companies conducting research in the United States have been eligible for a 20 percent tax credit on research and experimentation investments above what was invested during a "base period." The rationale for such a tax credit is that firms are not able to capture all the benefits from R&D as a share of the benefits "spill over" to other firms or to customers. This inability to capture all the benefits leads firms to underinvest in research relative to what would be socially optimal. Studies by economists suggest that the rates of return for society from a company's R&D spending are significantly higher than the company's own rate of return.

The social benefits from collaborative research are likely to be significantly higher than company-specific proprietary research. In addition, the social rate of return from company-funded basic research is even higher (over 150 percent) than company applied research and development. Collaborative research, whether in partnership with a university, national laboratory, or industry consortium, is more likely to be exploratory and earlier stage than research conducted by a single company. Moreover, because the research is shared from its inception, the benefits are less likely to be fully captured by an individual firm. As a result, because spillovers from collaborative research are greater, firms will tend to underinvest in this even more than in individual research. This suggests that the federal government should support collaborative research through a more generous R&E tax credit.

PPI proposes that all company expenditures, not just incremental expenditures, on collaborative R&E be eligible for a 20 percent R&E tax credit. Investments in collaborative research consortia of at least 5 companies or investments by a company for research conducted at a U.S. university or federal laboratory would qualify as collaborative R&E. A bill introduced by Congressman Amo Houghton in May 1998 with bipartisan support (H.R. 3857), would amend the IRS code to allow a 20 percent research credit for expenses attributable to collaborative research consortia. PPI advocates extending the credit to also include industry funding of university and federal laboratory research. A bill introduced by Senator Jeff Bingaman (S. 2268) applies a 20 percent tax credit to both kinds of research. It is not clear how much this more expansive tax credit would cost in immediate revenue loss but it appears that it could be in the range of $150-200 million per year.

While this would be a significantly higher tax credit than currently exists, it is still not as generous as the policies of some other countries or state governments in the United States. For example, in Canada, all R&D is subject to a 20 percent flat R&D tax credit. Massachusetts provides a 10 percent credit for industry R&D, but a 15 percent credit for industry-sponsored university research.

A collaborative R&D tax credit would have numerous benefits. It would:

- stimulate economic growth because, as economic studies have shown, the payoffs to society in higher rates of economic growth from R&D would more than outweigh the costs to government of the credit;[20]

- lead to increased funding for university research, at a time when university research budgets are under pressure;

- give companies a strong incentive to work with and fund research at federal laboratories; and

- encourage small- and medium-sized firms to conduct more collaborative research to compensate for their lack of large internal R&D programs.

2) Industry Research Alliances

The debate over science and technology policy has tended to oscillate between those who argue that the federal government should fund industry to conduct generic pre-competitive R&D and those who maintain that money should be spent on curiosity-directed basic research at universities. But this is a false dichotomy. There is no reason why some share of university basic research cannot be oriented toward problems and technical areas that are more likely to have economic or social payoffs to the nation. Science analyst Donald Stokes has described three kinds of research: purely basic research (work inspired by quest for understanding, not by potential use); purely applied (work motivated only by potential use); and strategic research (research that is inspired by both potential use and fundamental understanding). Moreover, there is widespread recognition in the research community that drawing a bright line between basic and applied research no longer makes sense.[21]

As Stanford economist Paul Romer states:

> *[Companies are] finding that while there are a billion haystacks in which there will be some very valuable needles, it is an enormously expensive proposition to go about looking underneath every one. So what they are asking themselves is, how do you allocate the resources that you devote to research most effectively? They are realizing that they cannot just give scientists lots of money and let them follow their curiosity. If they do, this form of tax-and-subsidy system runs the risk of dissipating efforts by looking in too many different directions that don't necessarily lead to the highest returns for shareholders.*[22]

As a result, companies have restructured their programs so that exploratory research is more connected to technology usage and commercial opportunity. The same principle needs to apply to at least a share of federal investments in research if the nation is to increase competitiveness, productivity, and living standards, and to solve pressing environmental and health challenges.

One way to better link economic goals with scientific research is to encourage the formation of industry research alliances that fund academic research. There are numerous examples of successful university-industry partnerships. For example, 18 wireless communications companies have formed a research consortium with the University of California-San Diego Engineering Department to work on advanced research related to the industry. Industry invests because research is performed in areas that are too risky, too long term, and too generic for any one company to invest in. The university invests to ensure that its scientists remain at the cutting edge of their scientific disciplines and work on scientifically and technically demanding tasks.

Similarly, the Semiconductor Research Corporation (SRC)—a non-profit research consortium of 36 companies and federal government agencies—plans, invests in, and manages a low-overhead, industry-driven, pre-competitive research program that addresses the needs of the Semiconductor Industry Association's National Technology Roadmap for Semiconductors. By continuously refining the industry-driven research agenda, the SRC provides a valuable forum for industry, university, and government scientists to collaborate and share knowledge, which is essential to advancement in the semiconductor industry's highly competitive environment. A new subsidiary of SRC, the Microelectronics Advanced Research Corporation (MARCO), is establishing research centers at American universities to focus on long-term, more basic research identified in the semiconductor technology roadmap. Jointly funded by government and industry, the program will invest up to $20 million in 1998.

The National Center for the Manufacturing Sciences (NCMS), located in Ann Arbor, Michigan, is a collaborative research network that includes approximately 50 large corporations and hundreds of medium and small firms. NCMS uses the collaborative model to develop a variety of distinct manufacturing processes. The center's annual budget of $80-100 million comes from industry as well as $20-25 million in DOD funds focused on particular manufacturing processes. Partnerships developed under the umbrella of the center have been responsible not only for new technological applications but also for process improvements such as rapid prototyping using computer simulation.[23]

Collaborative efforts to decrease time to market, or product development cycles, will become increasingly important to U.S. competitiveness during the next decade. Working with the Massachusetts Institute of Technology (MIT), a network of firms including Xerox, Polaroid, IT&T Industrial, and Ford have developed the Center for Innovation in Product Development. The center, an engineering research center funded by the National Science Foundation, draws academic expertise in both engineering and management from MIT. It also takes university-industry collaborations to new levels by hosting research at both industrial and university venues and by requiring students to conduct part of their research at participating firms under the guidance of both university and industry researchers and engineers.[24]

In order to both explicitly link industry objectives to research and build social capital for innovation, **PPI proposes that Congress establish an Industry Research**

Alliance Challenge Grant Fund to match industry consortia funds invested in research at universities and federal labs. To be eligible for matching funding, firms would have to:

- form an industry-led research consortia of at least 5 firms;
- agree to develop a mid-term (3-to-10 year) technology roadmap that charts out generic science and technology needs that the firms share;
- provide at least a dollar-for-dollar match of federal funds; and
- invest the funds in universities and federal laboratories through a competitive selection process. Selection for federal awards would be based on a competitive grants process.

Such a process would definitely not entail "picking winners and losers" because industry, in conjunction with academic partners, would identify the broad technology areas critical for research. In fact, because the policy uses market mechanisms to fund R&D, it prevents government from picking winners and losers and scientists from pursuing research interests in isolation from societal needs and benefits. Government would fund proposals based on the amount of corporate matching funds and the quality of the proposal, but not according to any specific technology or industry. The proposed process would not constitute "corporate welfare" because funding would not be directed to industry but to universities or federal laboratories for R&D on generic, shared technology needs. In fact, because government would leverage industry funds, more money, not less, would flow to universities and national laboratories.

Finally, the effort would draw university and industry researchers closer together to understand common challenges, and in so doing would build the nation's innovation-based social capital. As Paul Romer states:

> *For the nation as a whole, an effective institutional arrangement for supporting technological advance must therefore support a high level of exploration and research in both private firms and in universities. Moreover, it must support a high degree of interaction between these two domains. Both people and ideas must move readily between them. If they do not, the university research can become sterile and irrelevant. Private sector efforts can lose the steady flow of new talent and new ideas that sustain its creatively.*[25]

This initiative would increase the share of federally funded university and laboratory research that is market relevant, and in so doing better adjust the balance between curiosity-directed research and research more directly related to societal need.

This initiative could be funded out of proposed increases in federal support for R&D. The Clinton Administration has proposed increasing R&D by 32 percent over the next five years. In addition, Sens. Bill Frist (R-TN), Jay Rockefeller (D-WV), Joe Lieberman

(D-CT), Pete Domenici (R-NM), Phil Gramm (R-TX), Conrad Burns (R-MT), Jeff Bingaman (D-NM), and John Breaux (D-LA) have co-sponsored the Federal Research Investment Act (S. 2217), which would double federal expenditures for basic scientific, medical, and engineering research by 2010 (an increase of $32 billion per year). Rep. Joseph Kennedy (D-MA) has introduced a similar bill (HR 3660) in the House with bipartisan support. A share of this increase, perhaps 5-to-10 percent, could be allocated to industry research alliances.

3) State Technology Innovation Challenge Grants

The federal innovation system historically has focused on larger firms (typically multinational firms with large R&D units) and the approximately 30 first-tier, large research universities (which receive 47 percent of federal research funds to universities), usually in a small number of states (67 percent of federal support for R&D goes to 10 states). Both sets of institutions have played key roles in driving innovation and technological development in the United States. However, in the New Economy small- and medium-sized firms have become much more important to the nation's innovation system. Moreover, many of the nation's non-top-tier research universities and colleges have developed significant science and technology strengths, often in particular fields. These universities and colleges often play key roles working with industry in their region. Such regional technology collaboration between firms and higher education is increasingly important in the New Economy.

Yet it is hard for federal policy to focus explicitly on either smaller firms or smaller research universities, and especially on collaboration between the two. There are simply too many small and medium size firms, and universities and colleges for the federal government to engage meaningfully with them. In contrast, it is easier for states to work with small- and medium-sized firms and second-tier colleges and universities. As a result, **any federal policy that seeks to stimulate collaborative R&D among small- and medium-sized firms and non-top-ranked universities should strengthen and support state efforts.**

Most states have initiatives underway that could be expanded. Starting in the early 1980s, several states began to refocus their economic development efforts to promote technological innovation. They realized that R&D and innovation are drivers of the New Economy, and specifically that state economies prosper when they maintain a healthy research base closely linked to commercialization of technology. All 50 states have initiatives of some kind to promote technology-based economic development.

Most state programs focus on small and mid-size firms and second-tier universities. For example, under the leadership of Governor Richard Thornburgh, Pennsylvania established the Ben Franklin Partnership Program which provides matching grants primarily to small- and medium-sized firms to work collaboratively with Pennsylvania universities.

More recently, California created a partnership among state government, industry, and universities to promote economic development through support for research and workforce education. Called the Industry-University Cooperative Research Program, a major focus has been the development of commercial biotechnology in California. A key effort of this program, the University of California's Biotechnology STAR Project, invested

$5 million of state and university funds and $7.5 million of industry funds during its first year, 1996, to develop 47 research partnerships. Projects include gene therapy to combat disease, the development of new agricultural products, conversion of municipal solid waste to fuel, and biomaterials research to develop new medical implants. Eighty percent of the firms involved in the program in 1997 were small businesses, of which half had fewer than 50 employees.[26] Independent evaluations of similar state programs show substantial economic gains and favorable cost-benefit ratios.

Yet, in part because of the healthy national economy and because some states have pursued high cost "smokestack chasing," state support for these technology programs has generally remained flat since the late 1980s. In addition, just as private R&D has focused more on product development and less on earlier, riskier research, state initiatives have tended to focus on later stage product development and technology diffusion, and less on earlier stage industry-university partnerships. In part, this is because it is more difficult for states to capture all the benefits from collaborative research within their borders. Research results flow to universities, suppliers and customers in other states. As a result, most states invest less in collaborative R&D efforts than is warranted.

As a result, **PPI proposes that Congress establish a $250 million annual competitive matching grant fund for states to invest in university-industry and other technology and innovation network programs**. States would be required to match the federal funds at a ratio of at least one-to-one and invest in joint university-industry or other collaborative industry-based innovation projects. This could take several forms, including university-industry research centers (such as those in New York, North Carolina, Ohio, and Utah) or matching grant university research projects (modeled perhaps after existing programs in states such as Arkansas, Maryland, Pennsylvania, and Rhode Island). Industry would be required to match all public funds one to one. Thus, $250 million in federal funds would be leveraged into at least $1 billion in additional funding, much of it conducted at non-top tier universities with small- and medium-sized firms as partners. In contrast to the Industry Research Alliances, these funds would be managed at the state level and focused on regional innovation partnerships.

Conclusion

If productivity and per-capita income in the United States are to grow at the levels experienced in the 1950s and 1960s, increased innovation will be key. However, in the New Economy innovation is increasingly based on collaboration, rapid learning, and networks—all three supported by strong investments in "social capital" for innovation.

The responsibility of the federal government to invest in research is clear and relates importantly to the ability of researchers in science and technology to collaborate in a variety of ways. While supporting scientific and technical advance is key, the return on investments will be greater if they also support institution-building to facilitate the creation of a rich and widespread system of collaborative innovation networks within industry, and between industry, universities, and federal laboratories. The proposals detailed here are steps to move our nation more firmly in this direction.

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For further information about PPI publications, call the publications department at 800-546-0027 (202-544-6172 in the Washington, DC metro area), or visit the PPI web site at www.dlcppi.org.

Endnotes:

1. See PPI Policy Briefing, "The Case for Technology in the Knowledge Economy: R&D, Economic Growth, and the Role of Government," Kenan P. Jarboe and Robert D. Atkinson, June 1998, (www.dlcppi.org).

2. Booz, Allen and Hamilton, cited in John Micklethwalt and Adrian Wooldridge, *The Witch Doctors* (New York, NY: Time Books, 1996).

3. National Science Foundation, *Science and Engineering Indicators, 1996.* The Industrial Research Institute also reports that since 1993, the number of companies surveyed who reported that they were increasing total R&D more than 5 percent was more than twice as high as those reporting similar increases in basic research. The average length of an industry basic research project dropped from 21.6 months in 1991 to 16.7 months in 1996.

4. H. Brooks and L. Randazzese, "University-Industry Relations," chap. 14 in L. Branscomb and J. Keller, eds. *Investing in Innovation: Creating A Research and Innovation Policy that Works* (Cambridge, MA: MIT Press, 1998).

5. Ibid.

6. National Science Foundation, *Science and Engineering Indicators, 1996.*

7. Daniel Roos, Frank Field, and James Neely, "Industry Consortia," chap. 15 in Branscomb and Keller, eds., *Investing in Innovation.*

8. Between 1981 and 1993, the number of scientific papers written by industry researchers and involving collaboration from another sector (e.g., universities) increased by 123 percent. In contrast, academic collaborations increased only 33 percent. (National Science Board, *Science and Engineering Indicators, 1996.)*

9. One study of the sources of innovation found that more than 50 percent of technological innovations occur at the interfaces between organizations, rather than within the organization alone. (E. Von Hippel, *Sources of Innovation*, New York: Oxford University Press, 1988).

10. Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990), pp. 149-154.

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12. Harvard University, John F. Kennedy School of Government, Center for Science and International Affairs, Science, Technology and Public Policy Program, "Manufacturing Partnerships in the Digital Environment: Best Practices in CALS Implementation," December 1996.

13. Scott A. Snell and James W. Dean, Jr., "Integrated Manufacturing and Human Resource Management: A Human Capital Perspective," *Academy of Management Journal*, Vol. 35, no. 3 (1992), pp. 467-504.

14. The concept of social capital development as a policy tool is examined in detail in Jane Fountain, "Social Capital: A Key Enabler of Innovation," chap. 4 in Lewis Branscomb and James Keller, eds., Investing in Innovation. The concept, social capital, was originally outlined in James S. Coleman, *Foundations of Social Theory* (Cambridge: Harvard University Press, 1990); and Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, N.J.: Princeton University Press, 1993).

15. Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (NY: The Free Press, 1995).

16. Ronald S. Burt, *Structural Holes: The Social Structure of Competition* (Cambridge: Harvard University Press, 1992), p. 12.

17. For micro-level explanations of the development of interorganizational arrangements, see Peter Smith Ring and Andrew Van de Ven, "Developmental Processes of Cooperative Interorganizational Relationships," *Academy of Management Review*, Vol. 19, no. 1 (1994); Jane E. Fountain, "Trust as a Basis for Interorganizational Forms," paper delivered at conference on "Network Analysis and Innovations in Public Programs," University of Wisconsin at Madison, September 30, 1994.

18. Peter Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization* (New York: Doubleday, 1990). Richard Florida, "Toward the Learning Region," *Futures*, Vol. 27, no. 5 (June 1995), pp. 527-536.

19 Lewis M. Branscomb, "Social Capital: The Key Element in Science-Based Development," *Science-Based Economic Development: Case Studies around the World*, Annals of the New York Academy of Sciences, Vol. 798.

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21. "Basic Research White Paper" *R&D Magazine Online*, posted on World Wide Web site: www.rdmag.com/BRWP/05BRdefq.html.

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23. Aris Melissaratos, *AAAS S&T Policy Yearbook 1998.*

24. Maurice F. Holmes, "Industry-University Collaboration in Innovative Process Management," chap. 21 in *AAAS S&T Policy Yearbook 1998.*

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26. Susanna L. Huttner and Cherisa Yarkin, "California's R&D Partnerships for a Knowledge-Based Economy," chap. 19 in *AAAS Science and Technology Policy Yearbook, 1998.*

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