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THE CLINTON REVOLUTION: A DOMESTIC POLICY AGENDA FOR THE FIRST 100 DAYS

Prepared for the President-Elect
and the Vice-President-Elect

By the Presidential Transition Domestic Policy Staff
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Memorandum to the President- and Vice President-Elect

From: Al From and Bruce Reed

Subject: Pursuing the Clinton Revolution

In the pages that follow, we will present for your review a number of policy options developed by the transition's domestic policy staff. From them you can choose the policy course you wish to pursue at the outset of your Administration.

The purpose of this memorandum is to help you chart a clear course through the details. In it, we offer our thoughts about which policy ideas you should make cornerstones of your Administration, as well as a strategy for putting those policies into action.

The Clinton Revolution

When the excitement of your election and inauguration has passed, you will be confronted with a difficult challenge: to redeem your promise to bring fundamental change to our country within the constraints of a budget crisis more severe than you could have imagined. To meet that challenge, we propose a strategy to promote a "Clinton Revolution," rich in vision, innovation, and values, but low in cost.

At the center of the Clinton Revolution are five signature proposals:

- National service;
- Reinventing government (including campaign finance and lobbying reform);
- Welfare reform;
- Youth apprenticeship; and,
- Community policing.

Put into action, these initiatives can fundamentally change our country as well as our government. They can define a Clinton Revolution that will give millions of Americans a crack at the American dream, restore personal responsibility, and begin to repair our nation's tattered social fabric. Moreover, though their impact will be great, they can be phased into place at an affordable cost. By putting these ideas at the top of your agenda, you can assure that they — not the priorities of Congress, the press, or the interest groups — will dominate the national debate next year.

The strategy outlined in this memorandum does not include every domestic policy action to be undertaken during your Administration. It is a transition strategy — to turn momentum from the end of the campaign into a running start for the Clinton Administration.

The Promise of Your Presidency

During the campaign you took positions on hundreds of specific issues. But the essence of your campaign — and the reason you were elected — boiled down to two large promises that spelled fundamental change. The first was to get the economy moving again; the second was to be a different kind of Democrat who rejected business as usual in Washington.

As President, your top priority must be to keep those two big promises. If you do, your Presidency will be successful. If you don't, your Presidency will be in trouble, even if you honor every specific promise you made.

The purpose of this strategy is to keep that second big promise: to show by your policies and actions that you are a different kind of Democrat who is not beholden to the status quo. Assuming economic conditions improve during the next four years, keeping that second promise is the most important thing you can do to build a durable governing and political coalition. That's why you need a domestic reform agenda that goes beyond the economy and health care.

To build a strong and durable governing coalition as President, you must rally the American people behind a new domestic agenda that breaks the gridlock in Washington by transcending the tired and predictable left-right debate. You must not only maintain the support of the 43 percent of the electorate who supported you, but you must win the loyalty of the supporters of Ross Perot — the 19 percent of the electorate most change-oriented and most hostile to the status quo.

Fighting for a domestic reform agenda (reinventing government and welfare reform) and for new ways of doing business (national service, apprenticeship, and community policing) will be critical to cementing the support of the Perot voters. Economic and health policies are important to them, but are too complicated to send a message of fundamental change. Perot voters will want to see tangible evidence that you are not more of the same.

We believe the strategy suggested in this memorandum can help you change American politics in our time as profoundly as Franklin Roosevelt did in his day.

The Signature Ideas

Your domestic agenda should tell the American people what your Presidency stands for and demonstrate that you are an agent of fundamental change.

That's why we believe it should be driven by a handful of signature proposals

that will define the Clinton Revolution. By focusing your attention on these signature proposals and showing a willingness to spend some of your political capital to get them done, you will also assure that they are at the center of the political debate at the beginning of your Administration.

These signature ideas must clearly promote fundamental change: change from the Republican status quo of the last 12 years; change from the old Democratic ways that the American people have consistently rejected; and change from business as usual in Washington that has left most Americans feeling disconnected from and disgusted by their government. These ideas must reinforce the main themes of your campaign: opportunity, responsibility, and community.

After careful review of your campaign promises, what you've said since the election, and the initiatives developed by the transition issues staff, we propose you select the following proposals as the signature ideas at the outset of your Administration:

- **National Service.** National service is an idea with the potential to transform our society. Not only is service a better way to pay for post-secondary education, but even more important, it can (a) provide young people a unifying common experience in our ever more diverse and divided country and (b) restore the crucial civic ethic that has waned so much over the past two decades. More than any other single proposal you will make, national service embodies opportunity, responsibility, and community.
- **Reinventing Government (including campaign and lobbying reform).** Reinventing government will demonstrate that you won't settle for business as usual in Washington. That is critical to sustaining any real momentum for the Clinton Revolution. If we can't fix government so ordinary people believe it works for them, we cannot expect them to support new government initiatives, no matter how attractive those initiatives may seem to us.
- **Ending Welfare as We Know It.** Fundamental welfare reform will demonstrate to all who still doubt it that you have the courage to change. No program symbolizes the failure of the old Democratic approaches more than the welfare mess. Taking on the battle for time-limited welfare — and make no mistake, it will be a battle — is the right thing to do for our country, and will put you and the new Democratic Party on the side of work, family, and personal responsibility once and for all.
- **High School Based Youth Apprenticeship.** Nothing is more essential to the American promise of opportunity for all Americans — and particularly those living in the inner city — than creating an upward mobility track

for the half of our young people who don't go on to college. A school-based youth apprenticeship program is the best way to create that track.

- **Community Policing (100,000 new cops on the street).** Restoring safety in our neighborhoods is critical to fostering a new sense of community in our country. Making community policing one of your signature ideas is not only the right thing to do but it would also signal your willingness to put your mark on an issue that too many Democrats have ducked in the past.

These five ideas — individually or taken together — can be the heart and soul of an agenda to change not only the government, but the country. They are progressive ideas that reinforce mainstream values and promote non-bureaucratic approaches to governing. That's a formula that should command broad and diverse public support.

Moreover, these ideas can have enormous impact almost immediately without breaking the bank. Vision is cheap, and it's exactly what we need. After 12 years of Republican rule, you are taking over not only a government that is deep in debt, but a nation that is largely untapped in spirit.

Strategic Timetable

We propose that, over the next five weeks, we concentrate our efforts on developing and building support for the signature ideas. Each of them — and the policy choices they pose for you — will be explained in detail in the materials that follow this memorandum.

Our goal is to prepare legislation and executive orders on your signature ideas ready for introduction and/or action by Inauguration Day. Obviously, time is short, but we propose the following timetable for meeting that goal:

1. The materials attached to this memorandum contain the major policy decisions you need to make before we can start drafting. We hope you can review these materials during the next two weeks, and sit down with us to discuss your decisions. We hope you can make the major decisions necessary to begin the drafting process by the close of business January 5.

2. Research and drafting of likely executive orders has already begun and that will continue to proceed expeditiously.

3. In early January, we will launch an extensive consultation process with key constituencies and on the Hill. Our goal is to have most of the key players bought in at the beginning. That's not likely to happen in every case, but making the effort to make it happen will pay dividends down the road. Part of that consultation process will

include identifying Members and Senators to introduce your legislation as soon as you send it up.

4. By January 20, we hope to have legislation ready to be sent to the Hill so that your proposals can frame the debate. (The one exception may be welfare reform, where, at the very least, we want to have a proposal on which we can begin negotiations with the governors.)

In addition to developing the signature ideas, we will have ready for your early action a number of executive orders on topics ranging from abortion to reinventing government. You will also need to decide which good ideas left over from the last Congress — items like the family leave, the crime bill, and the motor voter bill — you want to get behind early. You support most of these proposals, and they will pass easily. Finally, you will need to decide what to do about other initiatives you may support — like the Freedom of Choice Act and the Equal Remedies Act — but which for now, at least, loom as potential legislative quagmires that could swallow up political capital you may need elsewhere.

Strategic Considerations

A few central strategic considerations have guided our recommendations:

First, as President, you'll be judged on your performance and what you stand for. Nothing else is as important. Daily press spin, which was so important during the campaign, matters much less when you're President. Substance matters a great deal; style and process matter much less. If you perform well as President, you'll do just fine with the press and especially with the voters; if you don't, no amount of spin will convince the public to support you. Re-election campaigns are referendums on the performance of the incumbent. Ask George Bush — and Jimmy Carter. Both performed poorly and got about 40 percent of the vote.

Second, what you stand for matters because it can be an insurance policy when things go wrong. If voters believe you stand for values they care about, they'll give you the benefit of the doubt in bad times. That's why you need to push definitional ideas like national service and welfare reform, so from the outset voters will know you stand for mainstream values like work, opportunity, responsibility, and community. Reagan let the people know what he stood for in his first year, and in 1982, his losses in Congress were half what they should have been given economic conditions. Because no one knew what they stood for, Carter and Bush collapsed when the economy turned bad. In 1968, Democrats lost on the values issues even with a good economy.

Third, every President says something during his campaign that comes back to haunt him when he seeks re-election. For Carter it was the misery index; for Bush it was "Read my lips." Your promise to take on permanent welfare could be your alba-

tross if you don't make it happen. Permanent welfare will be very difficult to change — substantively and politically. Already some interest groups are lining up against making welfare recipients work. But welfare is the symbol of three decades of failure on the left and the right, and in your campaign, two-year welfare was the cornerstone of your argument that you are a different kind of Democrat. You need to make a major effort to implement it, lest you undermine a key promise of your campaign.

Fourth, you need to take on the tough issues first. That not only applies to the budget, but to issues like welfare, reinventing government, and national service as well, where resistance is likely to be greatest. There are three reasons for that: (a) you are likely to have more political capital at the outset than at any other time. And, after a few months, that capital tends to dissipate whether you use it or not. (b) Congress never likes to do tough things — that's why they'll want a stimulus package and be wary of deficit reduction — and after the first year, you're into their re-election year. Then after the mid-term election, you're into your re-election cycle. So year one is best for tough things. (c) If you wind up taking political hits to get something tough done, your policies have three years to prove their merit and you have three years to recover politically.

Fifth, dealing with Congress will always be more difficult than it appears. After a victory like yours, virtually everyone on the Hill says he wants to do what you want to do. But members — and particularly committee chairs — have their own way of doing business that may or may not be compatible with your agenda. It is critically important from the outset to convince committee chairs that your agenda is really their agenda, not the other way around.

Finally, your role as leader of the country is more important than your role as leader of the government. Presidents who understood that — like Roosevelt and Reagan — have been successful. Presidents who didn't — like Carter and Bush — failed.

Sometime during your Presidency, you're going to have to call upon the American people to trust your judgment to do what you think is right. When that time comes, they won't be thinking about what kind of health care proposal you settled on, or whether you chose short-term stimulus or not. What will matter to them is what kind of country you want and what you believe in.

In the coming weeks, many will advise you to cut your losses, make the easy choices, and settle for the possible and the popular rather than what you really want. Remember what you told us during the campaign: no President has ever changed our history for the better without challenging the American people to live up to higher standards and a higher ideal.

As you once said, we are not out just to change the Democratic Party or even to change the government. The Clinton Revolution must change America.

NATIONAL SERVICE

"We never create energy; we only release it."

—Peter Drucker

National service was perhaps the signature idea of your campaign. No proposal evoked wider or more enthusiastic reaction than linking national service to broadened access to education, training, and opportunity. In *Putting People First*, you proposed to:

Maintain the Pell grant program, scrap the existing student loan program, and establish a National Service Trust Fund to guarantee every American who wants a college education the means to obtain one. Those who borrow from the Fund will pay it back either as a small percentage of their income over time, or through community service as teachers, law enforcement officers, health care workers, or peer counselors helping kids stay off drugs and in school.

As you envision it, national service would simultaneously broaden opportunity for education, training, and economic empowerment, emphasize individual responsibility to give something back for this increased opportunity, and build community by bringing people together to address urgent national needs. In the process, national service can revitalize the civic spirit without which our democracy cannot flourish.

This last point deserves special emphasis. Through national service, we seek nothing less than to transform our society—renewing the link between responsibilities and rights and leavening individual freedoms with the understanding that in the long run we rise or fall together. We hear much today about social diversity, and, appropriately, we celebrate it. But we also need civic unity, and national service can help provide it. As we learned during the public programs of the New Deal, in World War II, and in every great national endeavor, the surest basis of community is shared experience. By bringing us together across racial, ethnic and class lines, national service can provide such an experience, making our differences a source of strength rather than division.

Creating a new national service program is also a prime opportunity to reinvent government. Whenever possible, our system should employ incentives rather than commands and regulations, invest in good management, build on success, and draw on grassroots energy and initiative.

This chapter explores how to turn this popular concept into a concrete program and lays out options for you in a handful of key areas. The early sections of this chapter focus on options and recommendations for a national service system; the later sections discuss technical and policy issues regarding student loans.

POLITICAL BACKGROUND

Any proposal for national service/universal education access will spark intense debate in Congress and among the American people. The discussion will take place against the backdrop of the recent debate over the Nunn-McCurdy national service bill that began early in 1989 and lasted for more than a year.

History makes clear that the more radically a national service/universal access bill departs from the status quo, the more those with an interest in the status quo will seek to thwart change. This is especially true for the structure and conditions of higher education finance, but also for the scope and shape of service opportunities. Building broad support for the fundamental changes you have proposed will require difficult assessments of what is truly feasible given current circumstances.

Significant changes have taken place since 1989. The provisions of the Nunn-McCurdy bill that stirred the greatest controversy – eliminating Pell grants and moving swiftly to make service a condition for all types of student assistance – are not under consideration. Also, some of your proposals, including direct lending demonstrations, income-contingent repayment, authorization for IRS involvement in collection, and universal (albeit unsubsidized) loan availability were included in the 1992 Higher Education Reauthorization amendments.

At the same time, several key participants in the debate have shifted toward common ground. The higher education community is prepared to acknowledge that service can be a basis for differential benefits – that those who serve should get more than those who don't. And the service community is prepared to acknowledge that the prime (though not exclusive) focus of new initiatives for 1993 can be full-time, compensated service extending over a considerable length of time. In short, circumstances may have created a promising foundation for meaningful consensus, a foundation on which energetic, skillful presidential leadership can build to resolve remaining differences.

Still, significant problems remain. Public employee unions are skittish at best about a significant national service program, as are the principal teachers unions. Banks, state-based guarantee organizations, and the Student Loan Marketing Association (Sallie Mae) are hostile to a significant expansion of direct loans. As Senator Nunn points out, the views of the Armed Services are still important, though the winding down of the Cold War may have made them somewhat less worried about the impact of civilian service on military recruitment.

The bottom line is that while we have made every effort to consult widely and take divergent views into account, we will need to organize extensive further consultations on whatever draft service/loan program you endorse as the basis for public discussion.

One final point: Across the political spectrum, those with whom we consulted warned fervently against repeating the fiascoes of programs of the 1960s, and of public sector jobs programs of the late 1970s. National service must be (and be seen to be) meaningful work (rather than make-work) meeting true public needs (rather than controversial advocacy causes). While these considerations argue for significant central oversight in the selection and monitoring of service that qualifies under the program, the need for serious quality control must be balanced by the need to maximize local energy, innovation, and public entrepreneurship.

EXISTING PROGRAMS

The Clinton national service proposals will not be painting on a blank canvas. Existing programs, federal and non-federal, can help provide the foundation for a national service system. Federal programs include:

The National and Community Service Act (NCSA). This landmark legislation, initiated by Senate Democrats and enacted in 1990, funds full- and part-time service programs run by schools, colleges, local and state government, and non-profit organizations. The Act also includes funding for programs that may serve as models for large-scale national service.

VISTA. Established as a Great Society program in the 1960s, VISTA currently engages more than 3,000 adults in full-time service through community-based organizations each year.

Peace Corps. The hallmark of the Kennedy Administration, the Peace Corps currently supports 6,000 adults in service to developing countries and fledgling democracies around the world.

Older American Volunteer Programs. Created in the 1960s and early 1970s, the OAVP programs include Foster Grandparents, Senior Companions, and the Retired Senior Volunteer Program.

Non-federal programs, many of which are supported by the NCSA, include:

State and Local Youth Corps. Based on the Civilian Conservation Corps of the 1930s, youth corps have made a comeback in the last decade, providing full-time and summer service opportunities for more than 25,000 youth aged 15 to 24 each year.

School- and Campus-based Programs. During the 1980s and 1990s, schools and colleges across the country greatly expanded programs for millions of students to become engaged in service as part of the educational process or through

extracurricular activities.

Programs Run by Youth Organizations. Community-based youth organizations, such as YMCAs, Girl Scouts, and 4-H, provide significant service opportunities for school-age youth after school and during the summer.

National, regional, and state non-profit organizations have provided technical support and leadership to the national and community service field over the last decade and should be an important resource for the Clinton National Service system.

A NEW NATIONAL SERVICE SYSTEM: OPTIONS AND PROPOSALS

In the following pages, we lay out the basic questions that will shape your national service proposal. We recommend a system that encourages flexibility and innovation, and gives young people who want to serve their country as many choices as possible: a program which is open to pre-college, post-college, and non-college-bound youth; which lets people serve in local, state or national corps, non-profits, or other positions that do not displace workers but do meet unmet public needs; and which is as decentralized as it can be without running amok. We believe the program should give those who serve an opportunity voucher worth \$10,000 per year of service and a small stipend on which to live. We suggest expanding the program gradually to 100,000 slots by 1996, which will cost approximately \$2 billion at that level.

This section focuses on decisions needed to implement the national service system.

Who is eligible?

We recommend three categories of eligible participants:

1) **Post-college:** Any individual who has taken out either a subsidized or unsubsidized student loan may seek a service placement qualifying for loan forgiveness (and in some cases other opportunities, discussed below). Based on the existing loan programs, this would include students at community colleges, four-year colleges, and trade schools (proprietary schools).

2) **Pre-college:** Any young person who meets the entrance requirements for and obtains a placement in an eligible program may earn an Opportunity Voucher (a term we use to signify "service-related benefits") equal to the amount of loan forgiveness and other benefits provided to post-college participants.

3) **Non-college:** Because non-college-bound youth can make an important contribution to meeting national needs, they should be allowed to participate on equal terms with pre-college youth and have an equal chance to earn Opportunity Vouchers. The program will ultimately help some members of this group go on to higher education and training; others will gain skills that will help them obtain future employment; still others will be able to make entrepreneurial investments in their own future. We recommend that a high school diploma or the equivalent be required in order to “graduate” from the program, but not to enroll.

Sen. Nunn and others have suggested that the post-college participants would have to be matched with clearly defined professional needs in areas such as education, health, and public safety. Others have noted that high school non-graduates present special challenges of administration, supervision, and program design that increase both costs and risks. Taken together, these points suggest that most of the participants (say, 80 percent) should be at least high school graduates and that a relatively small fraction (say, no more than 25 percent) would fall into the post-college category.

What types of service will qualify participants for Opportunity Vouchers?

We recommend that all of the types of service discussed below be supported through the Trust Fund, at least on a test basis, and qualify participants for Opportunity Vouchers. This system will allow for experimentation, optimum matching of participants with service opportunities, and maximize the program’s chances for success in future years.

Youth Corps

Although funded primarily by state or local sources, Youth Corps programs also receive federal support from the American Conservation and Youth Service Corps and national service demonstration programs of the National and Community Service Act. Most corps programs are structured to promote *esprit de corps* by organizing participants into supervised crews. However, some place participants in individual assignments, bringing them together for joint education or other activities. While most existing corps programs involve economically and educationally disadvantaged youth, some strive for greater diversity, which we see as critical to achieving important national objectives.

Youth corps have attracted widespread support for several reasons:

- their proven success with disadvantaged populations;
- ancillary benefits such as increased educational attainment, jobs skills development, self-esteem, cooperation, teamwork, and community-building;
- the opportunity for leadership development for participants within the corps structure;

- their ability to meet local needs while generating local support.

The added benefits, attention to supervision, and support services, however, mean that corps programs tend to be relatively expensive (as much as \$10,000 per participant, exclusive of stipend and loan forgiveness).

This year, Congress enacted legislation for a federally run corps, which, unlike a federally supported state or local program, requires hiring significant numbers of new federal employees. A federal corps, however, highlights national service as a Clinton "signature" program, and could target urgent national needs highlighted by the President. The CCC's success in the 1930s is invoked regularly (and plausibly) as a baseline for service in the 1990s. It is surely a model worth testing—provided the federally run program does not dwarf state and local efforts.

In addition to federally-run and federally-supported corps, state and local corps receiving no federal funds could qualify to provide Opportunity Vouchers so long as they meet the corps standards authorized under the National and Community Service Act.

Individual Placements with Non-Profit or Other Direct Service Organizations

A second service option is the placement of individual participants in programs run by federal, state, local government or non-profit organizations. The primary difference from the corps model is that participants do not work together as teams on projects. The program would provide participants with stipends, place them in service positions, and could offer special activities such as training, regular meetings, or other group functions. This model works best where host organizations need additional staff but lack the resources to pay additional full-time workers.

An example of this type of program is VISTA. Non-profit direct service organizations seeking a VISTA volunteer apply through their federal regional ACTION office. Volunteers may be recruited in two ways: nationally, with an 800 number and national placement bank, and locally, by the organization approved for a VISTA slot. The administrative cost of this system is about \$6,000 per placement. VISTA volunteers receive a living allowance of about \$7,000 a year plus health insurance and training from the federal government.

A private, non-profit organization could also recruit, train, and place participants with other non-profit agencies -- sort of a private-sector VISTA. The federal government might make a grant to the placement organization to cover a share of administrative expenses and provide stipends (or a portion of the stipend) and health insurance for the participants.

Alternatively, individual public and private non-profit organizations could create placements that meet federal criteria. Such organizations might pay the full cost of the

stipend and health insurance and absorb their own administrative costs. The cost to the federal government other than loan forgiveness would be marginal. However, it is unclear how many such jobs would be created, even at below market wages, if the full costs had to be borne by the host organization.

A final model would involve placing post-college participants in schools to serve as youth service coordinators. These individuals would assist teachers in organizing service-learning programs, through which elementary and secondary school students would perform service as part of their education. Such a program could significantly expand the number of schools providing service opportunities to younger students. It could also be extended to college campuses and community based youth organizations.

Individual Placements in Regular Jobs Supported by Employers

In this model, which is most appropriate for post-college participants, the government sets criteria for jobs qualifying for Opportunity Vouchers. Salaries, benefits and costs of training and supervision are borne by the employer. Positions may be existing jobs that are hard to fill or new positions created by the sponsor. The participant and sponsor must certify that they have met the requirements for the loan discharge. These could include:

- income ceilings
- work in a specific field or for a specific type of employer (such as a non-profit organization or a state or local governmental agency)
- jobs in certain locations (such as enterprise zones)
- hard to fill positions where there is a shortage of qualified and willing candidates.

Several variations on this theme are worth considering. Although generally participants would locate their own job placements, state or local government or non-profit organizations could establish programs to place qualified individuals with employers and provide recruitment, training and a support system, as in a corps program. Salaries or stipends would, however, still be paid by the employer. This model works best where there is a shortage of qualified individuals available to fill a position that is already funded. Teach for America, which recruits, trains, and places recent college graduates in teaching positions, and Public Allies, which recruits, trains, and places young adults in community jobs with non-profit organizations, both at a cost of approximately \$6,000 per placement, are examples of non-stipend programs.

Another model is based on the ROTC system. Certain types of jobs, such as public safety work, nursing, child care, or teaching may require specialized training that

could be obtained during college. Individuals could be enticed into these fields during their first or second year of college with the promise of scholarships or enhanced loan forgiveness. They would agree to take a specified curriculum to prepare them for their specific career, to perform internships or other forms of service to supplement their classroom learning during the school year and over the summer, and work in their specified field for a minimum number of years after graduation. The proposed Police Corps is an example of this model, although for technical reasons it would probably fall outside the scope of the National Service Trust Fund (see the Crime chapter).

This model has many advantages. Salaries do not have to be paid by the federal government, thereby lowering the per placement cost. Administrative costs are also lower than under other program options. Large numbers of individuals may participate if they are able to find suitable qualifying employers. Such a program can help fill jobs in geographic areas (remote rural communities, urban enterprise zones) or career fields where it is difficult to find willing and qualified workers. By using programs to place individuals (as in the Teach for America and ROTC models described above), many of the benefits of corps-type service can be realized.

This model has some drawbacks as well. It is effective if there is a shortage of workers in a particular profession or jurisdiction, but not if there is a shortage of funds to pay those workers. It is difficult to design a list of qualifying jobs that does not create inequities by excluding similar jobs or that would not, if implemented on a large scale, create incentives for individuals to leave one type of socially useful employer for another that qualifies. If qualifying jobs are limited by salary, the program may depress wages for other workers. If a programmatic approach is taken, it may be unfair to reward with loan cancellation a participant in, for example, Teach for America, but not the comparable teacher down the hall. There is also significant potential for fraud and abuse without significant federal oversight of placements. There would need to be strict job nondisplacement requirements and a regulatory system to approve placements.

Public Service Entrepreneurs

A limited number of particularly talented young people may seek to design their own placements — perhaps starting new organizations, conducting independent projects, or filling needs in their community that they themselves identify. This model fosters innovation and allows talented youth to put their best ideas into practice. These individuals should be supported because they hold particular promise as future leaders.

On the other hand, a significant risk of fraud and abuse is inherent in this model. Young entrepreneurs may need to be supported through a programmatic structure that provides advice and technical assistance. For reasons of risk and administrative cost, only a limited number of placements should be made in this category.

Must service be full-time? Would part-time service qualify?

While most qualifying slots would be full-time, part-time programs should also be eligible, particularly to accommodate non-traditional older students whose family responsibilities may otherwise preclude them from opting for service. (While an analogy is often drawn between full-time service and the GI bill, part-time service might be seen as a civilian version of the military National Guard/Reserve structure.) Benefits earned would be scaled to the fraction of full-time service performed, with some minimum threshold (say, one-sixth time, the equivalent of two full months) each year. The National and Community Service Act already supports several model part-time programs in which participants receive education scholarships or loan forgiveness in exchange for a minimum number of hours of service.

Will the system be decentralized or will it be run by the federal government?

We recommend that the National Service system be decentralized, with important roles played by national non-profit organizations and state and local programs. While a federally-run system might provide a common experience for all participants, its disadvantages include: a large federal bureaucracy; interference with state and local efforts to build community-based programs; high costs; impediments to flexibility and innovation; and lack of community control. By contrast, a well-designed decentralized system would encourage public/private partnerships, leverage federal dollars with those from state and local sources, build on expertise within the field, enable young people with diverse needs and interests to be matched with optimum placements, minimize federal bureaucracy, allow the local community to take the lead in setting most priorities, and provide for maximum innovation. As we suggested earlier, a decentralized system would require vigorous federal and state monitoring to guard against fraud and abuse and enhance quality control.

Under this decentralized cooperative model, the federal government would do a fair amount of steering but very little rowing. Federal level activities would include: establishing broad policy directions and general standards for eligible programs; administering the National Service Trust Fund; allocating (through agreed formulae) NSTF program slots to the states; selecting key national and local programs and intermediaries for the remaining slots; serving as a clearinghouse for service information and program evaluation; disseminating the federal share of program-related costs; backstopping state fraud and abuse prevention through a strong Inspector General; running a federal corps (of some as yet undetermined size); and exploring innovative ways of establishing a common consciousness and *esprit de corps* among thousands of local service programs. One possibility for accomplishing this would be a standardized initial training (boot camp) for all service participants, run by the National Guard, combined with a national logo and meetings bringing together representatives of different groups to share experiences and prescriptions for success.

At the state level, each governor would designate a lead agency to receive federal funds, certify programs as eligible for NSTF slots, serve as the first line of defense against fraud and abuse, and preside over the formation of representative local national service councils. The local councils would serve as principal agents for the recruitment and placement of volunteers. (Not all volunteers would be local, however. For discussion of the ensuing complications in matching volunteers and slots, see below.) These same councils could serve to help place AFDC recipients in community service jobs, as described in the Welfare Reform chapter.

With regard to certification of positions, it might be argued that a central role for state governments could increase the risk of political competition for designation and restrict opportunities in some states. Given these potential problems, two other possibilities should be noted. The **centralizing option**, federal designation of all positions, would standardize opportunities for participants from different areas and facilitate the use of volunteers by national non-governmental organizations, but at the cost of spawning federal bureaucracy, minimizing local control, and diminishing experimentation.

By contrast, the **radical decentralizing option** would grant presumptive approval to all 501(c)(3) organizations and government agencies as potential employers. This would create the broadest market of potential employers, maximize participant choice, and minimize bureaucracy. At the same time, this procedure would incur the greatest risk of poor supervision and use of participants, and produce the most problems monitoring quality and type of work.

What services would be performed?

A Ford Foundation study in 1986 identified 3.5 million labor-intensive community service jobs that could be filled by people in national service. We suggest that service in any of the following areas qualify: human service (including child care, health care, services for the elderly); education; public safety; and the environment. In most cases, except in service-specific models discussed below, priorities would be determined by the local community.

Examples of service-specific models may include:

- **Public Safety Corps**, in which service volunteers work in the areas of drug education, mediation, and crime prevention.
- **Public Health Corps**, in which service volunteers work in community health centers and in outreach programs for pregnant women and shut-in elderly citizens.
- **Earth Corps**, in which service volunteers help preserve and protect the urban and rural environment, e.g., by assisting in understaffed recycling

programs.

- **School-age Child Care**, in which older students staff after-school and summer programs for younger students requiring supervision while their parents work.
- **Youthbuild**, in which out-of-school youth learn building trades while they build or renovate housing for the homeless.

Examples of broad-based service programs include:

- **Youth Service Corps**, in which a variety of community projects are undertaken.
- **School-age Service Programs**, in which college graduates organize school-age children to participate in a variety of service activities.

Prohibited types of service should include: religious activities (although nonsectarian service in religious organizations would be permitted); activities to promote or deter union organizing; and activities directly connected with partisan politics or with the objectives of advocacy groups.

How much will service be worth?

Two basic options are represented by legislation already on the books.

A. Fixed amount. This is the approach taken by the National and Community Service Act, which provides full-time volunteers roughly \$5,000 in scholarship funds per year of service.

- *Advantages:* simplicity; ability to control costs (because the cost per individual would not vary); and provision of equal benefits to those performing equal work.
- *Disadvantage:* individuals with a great deal of debt must work longer than those with smaller loans to pay them back.

B. Percentage of total loan debt. This is the approach taken under existing federal loan forgiveness programs, which provide that 15% of the loan is forgiven in each of the first and second years of service, 20% in each of the third and fourth years, and 30% in the fifth year.

- *Advantage:* individuals with different amounts of debt work the same number of years to wipe out their debt.

- *Disadvantage:* it would be difficult to estimate costs from year to year, since each year of service would be worth a different amount for each individual.

On balance, the advantages of the fixed-amount approach appear decisive, and the disadvantage can be counteracted by setting the benefit high enough so that all but the most indebted students can discharge their loan obligation through two years of service.

While some advisors believe that the existing NCSA level of \$5000/year is about right, most believe that it is much too low and ought to be doubled, to \$10,000/year. (For example, the co-directors of City Year are strongly of this view.) A \$10,000/year figure would enable national service sponsors to tell pre-college youth: "Serve your country for two years and you'll be able to go to the public college or university of your choice and graduate debt-free." This is the figure your campaign used. It would also give incentives to graduates of elite institutions to reduce their debt significantly through service rather than automatically selecting income-contingent repayment.

There are four arguments against the higher figure that are worth considering. First, when combined with subsistence stipends and other benefits, the larger voucher would produce a total package larger than most comparable work performed outside the service system.

Second, the larger voucher exceeds the education and training benefits earned through military service. Under the Montgomery GI bill, for example, members of the military with two-year contracts earn benefits of \$7800 (\$3900 per year). The Army College Fund (ACF), which limits participation in various ways, provides an additional \$8000 for two years of service. The maximum available to two-year members of the military is thus \$15,800. The higher Opportunity Voucher figure might collide with the recruiting requirements of the ACF. This issue must be carefully explored with senior representatives of the armed forces.

Third, many voluntary service advocates believe that at some level the provision of material rewards in return for service may undermine rather than build the ethic of service. While it is difficult to quantify or test this concern, it should be taken into account.

Finally, the higher figure would add significantly to the overall cost of the national service program—roughly \$500 million per 100,000 participants.

Whatever figure is eventually selected for the Opportunity Voucher, its benefits should be non-taxable, and the legislative language should make this clear to avoid endless battles with the IRS.

Should service qualify individuals for post-service benefits other than education/training loan forgiveness?

There is less than full consensus on this question. Some advisors believe that the use of post-service benefits ought to be restricted to education and job training (including apprenticeships). Others take the view that the benefits should also be usable as training and internship vouchers payable to employers, as down payments for first-time homebuyers, and as seed capital to set up small businesses. Senator Mikulski is strongly in the second camp: she believes that pre-college Opportunity Vouchers ought to be usable for a wide range of opportunity-enhancing investments.

We favor the second option. For some young people, home ownership and small business entrepreneurship may represent the best next step up the ladder of opportunity; we should not be making their decisions for them.

We believe that a similar (though not identical) principle should govern benefits earned through post-college service. While the benefits should first be applied against outstanding loans, individuals should be allowed to retain any surplus and use it for a range of purposes roughly equivalent to those of the pre-college Opportunity Vouchers.

In addition to Opportunity Vouchers, what payments/benefits should be provided to participants in the service system?

It would of course be possible to provide no additional support beyond Opportunity Vouchers. This would economize on outlays, but at the cost of greatly restricting participation.

Stipends, at least reaching subsistence levels, will be necessary to encourage participation. Stipends in existing programs include \$100 a week (City Year), the poverty line (VISTA), and the minimum wage (Wisconsin Conservation Corps). The actual value of the stipend will vary depending on whether the stipend is taxable and whether it will affect a family's means tested benefits.

Other possible program-related costs include:

- providing health care benefits (\$1000/year)
- forgiving interest on outstanding education loans while serving (\$625/year)
- providing child care assistance to make participation more feasible for custodial parents (an average of \$1250 per position/year).

These program-related costs are prime candidates for state/local/private cost-sharing, discussed below.

How many slots will be available?

At first glance, it might seem most appropriate to establish national service as an entitlement: anyone who wants to serve should have the chance to do so on fair terms. But the moral appeal of this approach is overwhelmed by its practical disadvantages: it would make needed planning impossible; costs could go through the roof; and if high-end projections of demand materialize, the administrative infrastructure at every level could be swamped. For these and related reasons, there seems to be no alternative to a federal-level determination of the number of full-time-equivalent slots available each year.

In determining this number, three variables are critical: total funds available; capacity to locate, and match individuals with, meaningful work; and rate of program expansion. **At an earned benefit (Opportunity Voucher) level of \$10,000/year, our estimates suggest program costs of about \$2.3 billion per 100,000 full-time participants.** A program involving 250,000 would thus cost about \$5.8 billion. If states and localities (including the private sector) were challenged to put up 25 percent of program costs, a program of this size would require federal outlays of about \$4.9 billion annually; a program of 100,000 would require annual outlays of slightly less than \$2 billion.

As for the absorption capacity of the overall system, it's hard to be sure; but recall that altogether, VISTA, the Peace Corps, and state/local youth corps provide fewer than 35,000 full-time slots. An increment of even 100,000 would represent a huge jolt; building up to 100,000 over (say) four years would mean adding nearly the equivalent of today's full-time service opportunities in each of those years. A buildup to 250,000 over four years would mean an increment of more than twice the current level of activity in each of four years.

Putting everything together, we draw the following tentative conclusion: an increment of 100,000 by the end of FY 1997 would be enough to make a significant and visible difference, while an increment of 250,000 by FY 1997 probably represents the limit of what is fiscally and administratively possible.

Of course, this is all on the supply side. Given the program parameters, we have no way of knowing in advance whether enough people will avail themselves of these new opportunities to serve. We should not allow ourselves to be bewitched by our own rhetoric about the revival of civic spirit; if your economic growth program works as we all hope, we may find ourselves competing against increasingly attractive private sector opportunities.

How will slots be allocated and participants matched with slots?

While much of the task of allocating slots and matching participants would be handled by local councils, two problems would remain. First, the number of individuals seeking service opportunities might exceed the number of available slots. Second,

with a decentralized service option and individuals from across the country seeking a limited number of positions, some system would be needed to match students and positions across jurisdictional lines.

- There are a number of options for dealing with an imbalance between slots and service-seekers. Slots could be allocated on a competitive basis. Alternatively, service-seekers meeting basic qualifications could be selected on a first-come first-served basis or through a random lottery. (There's no necessity to make a one-size-fits-all choice among these options; it ought to be possible, within limits, to take local and programmatic differences into account.) If there were an effort to preserve a certain ratio between post-college and pre- or non-college servers, a separate pool would have to be established for post-college service-seekers.
- To deal with placements across jurisdictional lines, programs and employers with certified positions might be listed on a national database that could be accessed by students seeking placements. Individuals seeking placements could put their resumes into the database along with any preferences (type of service, location, etc.) so that organizations across the country could locate qualified applicants. Vigorous local recruiting would likely provide a steady stream of individuals from the communities in which service would be performed. If slots are in short supply, this system would reward individuals who are particularly eager to serve and therefore make the effort to contact a broad range of organizations.

How can we guard against displacement of paid workers?

An important premise of the program is that participants will provide needed services that would not otherwise be provided. This will not be the case if paid workers lose their jobs to the volunteers. In order to protect paid workers, the anti-displacement provisions of the National and Community Service Act should be incorporated in any new legislation. Further, potential for displacement of paid workers should be a primary consideration in the determination of which positions qualify for loan forgiveness.

OTHER KEY SERVICE PROGRAMS

While the proposed National Service Trust Fund emphasizes full-time service by young people 18 to 25 years of age, we recognize that service to our country stretches over an entire lifetime. We celebrate initiatives in every part of our society that promote the ideal of lifetime service. And we believe that with only modest additional resources but extensive use of the Bully Pulpit, you could help turn this ideal into reality.

School-age and College Youth

The National Education Goals recognize the importance of community service participation as a means of achieving the citizenship goal. Participation of elementary and secondary school-age children in these programs will not only lay the groundwork for future participation in community service, but will pay additional dividends by:

- Teaching young people from the earliest grades that they have the power to make a difference in their communities and a responsibility as citizens to do so;
- Improving student achievement by making learning meaningful and reengaging students turned off by traditional teaching methods;
- Increasing young people's connection to their communities, thereby reducing antisocial behavior such as drug use and crime;
- Providing many hours of needed services at minimal cost; and
- Helping young people develop self-esteem and skills of teamwork, leadership, and problem-solving.

The existing federal program that supports service by school-age youth is "Serve-America," part of the National and Community Service Act. Federal funding for service by college students is provided through "Higher Education Innovative Projects," also authorized under the Act, and the "College Work Study Program." Because these programs are part-time and generally do not provide stipends for the young volunteers, they are relatively low-cost.

Participation in these programs would generally not qualify students for loan forgiveness. However, these programs could provide placements for up to 25,000 full-time national service participants who would help organize the younger students in service activities.

The National Commission estimates that with relatively modest annual appropriations (\$60 million in FY 1994, \$105 million in FY 1995, and \$150 million in FY 1996), meaningful and well-run service programs could be established in more than 50 percent of America's public schools by the end of 1996.

It could be argued, however, that these activities are primarily a state and local function. For example, Maryland recently imposed a service requirement for high school graduation. At the very least, you could challenge every other state to follow Maryland's lead and (as Sen. Mikulski has suggested) find a way of rewarding states that do so with what she calls a "Good Guy bonus."

In a similar vein, the Commission estimates that a total appropriation of \$100 million (\$20 million in FY 1984, \$30 million in FY 1995, and \$50 million in FY 1996) would suffice to create service programs on over two-thirds of all college campuses. Here again, others might argue that this is principally a non-federal responsibility; after all, of 3,500 universities, 650 have such programs already. You could vigorously encourage the rest to follow suit. A visit to an outstanding campus-based service program, such as Rutgers University's Civic Education and Community Service Program, would be an excellent way of dramatizing his concern.

We recommend the Bully Pulpit rather than any major funding commitments to school-based service at this time, until your overall national service program is up and running and its funding base is secure.

Older American Volunteer Programs

Given the growing number of older citizens and their increasing expected life-span, retirees are an important resource for communities. The three Older American Volunteer Programs, now administered by the ACTION agency, should be expanded and additional opportunities created for this older population. In addition, intergenerational components should be incorporated into many of the youth-targeted programs discussed above. For example, seniors could help staff the local service councils (described above) that help locate service opportunities and match slots with volunteers.

OPTIONS FOR FEDERAL ADMINISTRATIVE STRUCTURES

The issue of a federal structure for administration of the National Service system remains unsettled and contentious. There is consensus on two points, however:

1. The White House Office of National Service, now led by a Director with the rank of Assistant to the President, can help promote vital interagency coordination, draft legislation, and keep national service high on the President's agenda. Notwithstanding the proposed White House staff reduction, this position should be retained for an individual who enjoys the confidence of the President and of the key elements of the national service community.
2. Rather than an existing department already charged with a mission other than service (such as the Education, Labor, or Defense departments), the lead national service agency should be one whose purpose is service itself.

Three federal agencies now administer the major federal service programs: the Commission on National and Community Service, ACTION, and the Peace Corps.

The Commission, which is governed by a 21-member board of directors appointed by the President, administers the National and Community Service Act programs. Designed to be a small, non-bureaucratic agency (currently it has only 17 employees to administer \$75 million in programs), the Commission has no field structure, working instead through state lead agencies identified by governors. Created by Democratic legislation in 1990, the Commission has been characterized by innovation and a close working relationship with the field. Although the Board is currently composed of individuals appointed by President Bush, members are eager to work with you. There are currently five openings on the Board, with an additional seven positions opening up in September. Therefore, within the year, you can appoint an effective majority of Board members.

ACTION was created in 1971 to administer federal volunteer service programs. In recent years, it has suffered under poor political leadership and a demoralized civil service staff. Currently ACTION employs over 400 people to run VISTA and the Older American Volunteer Programs. It has a regional and state field structure.

The Peace Corps has a relatively small regional field structure within the United States. Because the Peace Corps deals with overseas rather than domestic service, we have ruled out including it in any reorganization.

The following are the principal structural options for the lead national service agency:

Option 1: The service aspects of the National Service Trust Fund could be administered by a single entity created by folding ACTION into the Commission on National and Community Service and making modifications to the Commission's governance structure to allow for greater operational strength and Presidential control. This agency would not necessarily be a "commission"; it could be a corporation along the lines of the original Nunn-McCurdy proposal, or an agency along the lines of EPA.

- *Advantages:* Building on a small, non-bureaucratic group known for innovation would create a good precedent for reinventing government. The Commission's primary experience is in the field of youth service, also the target of the Clinton national service system. Because the agency is still relatively new, it could be easily reshaped to fit the new system. The Commission works well with the field, including the state and local programs likely to play a major role in the new system, and has developed a good system for drawing on the technical expertise of individuals in the private sector. It enjoys strong support in Congress.

- *Disadvantages:* The Commission is new and has relatively limited experience. Absorbing the ACTION programs would require a major expansion of the agency. The Commission has little experience with senior volunteer programs

and those involving individual placements.

Option 2: In order to give the service programs better coordination and visibility, the two federal agencies that administer the major domestic service programs could be loosely federated as "sister agencies" with ACTION charged with administering VISTA and the Older American Volunteer Programs and certifying individual placements, and the Commission charged with supporting the National and Community Service Act programs, new programs specially targeted on post-college youth, and certifying programs. An individual who is both a good administrator and a national leader with service program experience would be appointed to head ACTION. Vacancies on the Commission board would be filled by individuals with knowledge of the service field, including young people who have participated in service programs. The ACTION field structure would be retained, and would be charged with national recruitment for the loan forgiveness program, as well as VISTA. Both agencies should coordinate closely with the Peace Corps, particularly on recruitment.

- *Advantages:* This would allow time for planning and quick start up of programs; reorganization could take place at any time in the future. It could preserve the positive aspects of both agencies.
- *Disadvantages:* Coordination of functions between two agencies could be difficult. In the worst case, it could preserve the negative aspects of both agencies.

Option 3: Fold the Commission into ACTION. Under this option, the Commission board would be eliminated or placed under the Director of ACTION, and ACTION would run the National Service system.

- *Advantages:* ACTION has long experience with domestic service programs and its regional and state offices could be an asset. It is Presidentially controlled and has experience with individual placements through VISTA and with senior volunteer programs.

- x me* ?
- *Disadvantages:* ACTION is an old-style bureaucracy, heavy on federal personnel with a history of resistance to change. It has been subject to the political winds and has been a dumping ground for unqualified political appointees who have driven out many good civil servants. It also has very little experience with youth service programs; when the Commission was created, Congress explicitly decided not to put the new programs in the ACTION agency for these reasons.

Option 4: Merge the two agencies into a single new agency.

- *Advantages:* This could be a visible way to show the President is serious about elevating national service on the national agenda. It would build on the expertise of both agencies while allowing the President to eliminate a federal agency,

thereby modestly reducing bureaucracy.

- *Disadvantages:* Slow start-up. The Commission was intended to be this new agency, one which could expand when Congress and the President were willing to put new resources into service.

Option 5: Scrap both existing agencies and create a new one.

- *Advantages:* As with Option 4, this would be a visible way to elevate service.
- *Disadvantages:* This would mean an even slower start-up, and it would risk losing the accumulated experience of both ACTION and the Commission.

On balance, we believe that the Commission has been an entrepreneurial success story and that we ought to build on its strengths. The point is not to reinvent success, but to replicate it. We favor Option 1, with serious attention to the legal and structural changes the Commission would require to handle greatly enhanced responsibilities and to respond to presidential directives.

Whichever option is ultimately selected, the timing of your national service initiative is propitious: both the National Commission and ACTION are up for reauthorization in 1993. The legislative calendar thus provides the opportunity for fundamental rethinking and redesign of the administrative structure through which the federal government seeks to steer national service.

One of the most difficult structural issues concerns the location of the National Service Trust Fund. This Trust Fund is actually an amalgam of two distinct activities and revenue streams. On the one hand, it would administer appropriations and disbursements for Opportunity Vouchers; on the other hand (at least as conceptualized during the campaign), it would administer appropriations and disbursements for, and repayments from, income-contingent direct loans.

The first set of activities is relatively straightforward and intrinsically related to service; the Opportunity Vouchers could (and probably should) be handled by the lead service agency (whatever it turns out to be).

By contrast, the second set of activities raises complex questions of student loan design and administration—areas in which national service experts have very little experience. Some have suggested that the Department of Education should be given the lead in this area; others note (correctly) that administrative competence within the department is notoriously low, particularly in student loans. ✓

One proposal for breaking this impasse would be to give some competent intermediary such as Sallie Mae lead responsibility for developing efficient and effective ways of implementing this part of the president-elect's proposal. The President and

CEO of Sallie Mae has indicated his willingness to cooperate in this endeavor.

RESTRUCTURING THE NATIONAL EDUCATION FINANCING SYSTEM

Restructuring the national education financing system is the other major component of your National Service Program. Your campaign proposals included:

- Replacing existing loan programs with direct federal lending to students;
- Making loan repayment contingent on income and collectible through the tax system; and
- Total or partial loan forgiveness in return for national or community service.

Current Law

It's funny that no one ever points this out.

In the Higher Education Amendments of 1992, Congress enacted a number of programs similar to, though not as far-reaching as, your proposals.

Universal loan availability Perhaps the most important change makes loans universally available. Beginning October 1, 1992, students who are not judged to be financially needy through the traditional financial aid process are nonetheless eligible for an "unsubsidized" Stafford loan. While this loan has the same terms and conditions as the regular Stafford loan, the government does not make interest payments. The student must either make the payment or add the interest to the principal.

Direct lending pilot The most controversial provision (which drew a veto threat from Bush) was a Direct Loan Demonstration Program to test the idea of taking the banks and Sallie Mae out of the student loan business. This pilot program will use a representative sample of schools at which the loan volume this year totals \$500 million, or about four percent of the current loan program.

Income-contingent repayment The law authorized, but did not mandate, three provisions relating to income-contingent repayment. The Secretary of Education has discretion in designing the program, except that the law requires that loans be forgiven after no more than 25 years, and that the new system cost less than the current system. Implementation will require cooperation from the IRS, which resists the idea, and needs your leadership to ensure movement toward implementation.

Loan forgiveness for community service. The 1992 amendments also include a \$10 million demonstration program in loan forgiveness for teaching, nursing and other

community service work.

Restructuring Loan Programs: Options and Recommendations

There are three basic options for reforming the current student loan program to establish a comprehensive system of financing college education with national service and income-contingent loan repayment options:

1. Scrap the existing program completely and make income-contingent repayment and national/community service cancellation available as part of a direct loan program;
2. Consolidate the current GSL programs and make the new repayment options available to all borrowers; or
3. Make the new repayment options available to all borrowers, consolidate the current GSL programs, and expand the direct loan pilot program authorized in the Higher Education Amendments of 1992.

The third option is most realistic, both administratively and politically. A discussion and analysis of the options follows.

Option 1: Eliminate The Current Guaranteed Loan Program.

Under the existing GSL Program, banks make loans to students, and the federal government subsidizes interest and other costs, covering defaults through state guarantee agencies. This option proposes that the government make loans directly to students through schools, eliminating the confusion and cost of the banker-guarantor system.

The primary arguments in favor of this option are:

1. *It's Bold.* Developing a new loan program would be a bold, imaginative step consistent with your emphasis on change and investing in people. Revising the existing program is unlikely to capture the public's imagination as much as launching a new one.

2. *It Saves Money.* A direct loan program will save billions of dollars over five years because of reduced subsidy costs. There may, of course, be ways to save money by reducing the number of players in the current system, but not moving all the way to direct lending.

3. *It's Right.* Banks should not be making profits at the expense of students. If the federal government can run a student loan program more cheaply, it should.

4. *It's Efficient.* Guarantee agencies, loan servicers and collection agencies are all

involved in the student loan program. Terminating the existing student loan program would eliminate these middlemen and simplify the program.

5. *It's Good for Borrowers.* A direct lending system will be simpler, ending numerous problems students currently encounter: the complexities associated with getting loans and repaying them; servicing problems that plague even the most careful borrowers; lenders and servicers with little administrative ability; student "defaults" because of loan servicer mistakes causing problems in their credit records.

* 6. *It's Popular.* Influential members (primarily Democrats) in both the House and the Senate strongly favored a direct loan program in the last Congress.

Option 2: Consolidate the Loan Programs and Programs and Provide Newer Forms of Repayment.

Achieving the goals of a National Service program may not require scrapping the current system entirely. They may be attainable through several modifications to the existing guarantee system:

- Consolidate the four existing loan programs into two, or possibly one, program.
- Continue to provide lower-income students assistance in making interest payments.
- For other students and parents, create a less subsidized loan program incorporating the current SLS, PLUS, and unsubsidized Stafford programs.
- For students in community service, the government can simply make loan payments to banks, as it does currently for loan deferment.]
- For students choosing income-contingent repayment, the federal government could either purchase the loans for collection by the IRS, or arrange with Sallie Mae or another entity to collect payments based on IRS information.

The primary arguments for this option are:

1. *Administrative Ability.* Given that the Department of Education has not effectively administered the GSL program, better results are unlikely if it runs a direct loan program giving it even greater responsibilities. } ✓

2. *School Concerns.* When Congress considered replacing GSL with a direct loan

program, smaller schools and those without significant administrative expertise opposed the idea, particularly historically black colleges and community colleges. While they may be more favorable to such an idea in a Clinton Administration, they remain concerned about taking legal responsibility from the banks for originating the loans. ~~3~~

3. *Questionable Schools.* You would not want every school to be able to originate loans in the name of the federal government, without far better monitoring than has historically happened. Witness the number of schools in the GSL program with dubious records.

4. *Political Opposition.* Banks will vehemently oppose establishing a comprehensive new program, citing possible harm to their financial stability. [Organizations with a stake in the existing program – particularly guarantee agencies linked to state governments – will oppose it vociferously since direct loans would put them out of business.] Higher education associations will be lukewarm since their memberships are split. Student groups who favor streamlining the loan program don't have strong opinions about direct lending.

5. *Action.* Everyone is excited about the program. We want to satisfy public expectations by making changes quickly. Implementing income contingent repayment and service cancellation will be difficult enough. Trying to start a direct loan program simultaneously will unduly complicate the task at hand.

Option 3: Combine the Consolidated GSL and Direct Loan Approaches.

This option aims to blend the previous two, establishing a National Service Trust Fund that moves toward direct lending (Option 1), while continuing a consolidated guaranteed loan program (Option 2). Under this option:

- For students choosing income contingent repayment, the NSTF would purchase the loans from the holders (or transfer them from the direct loan program) and arrange for collection through the IRS. The precise level of loans to be purchased will depend on the speed with which the IRS can implement income-contingent repayment.
- For students engaging in national/community service, the NSTF could either purchase the loans or make payments to the holders to cancel portions of the loan as the borrower completes his or her service. Participants would receive \$10,000 in loan forgiveness for each of up to two years of certified community service. These options would be available to any borrowers, regardless of the type of federal student loan that they have.

This sounds to me like a guaranteed hedge fudge

- Expand the direct loan demonstration gradually to include more schools, without threatening loan availability. While the direct loan idea is too promising to ignore, and the potential savings too great to ignore, there are compelling reasons to proceed cautiously. We propose expanding from 200 to 500 schools in the first year of the test. Further expansion would be authorized, depending on results and interest.

*Why won't
the banks
be able to
fuck this
one up too?*

The advantages of this option are:

1. *Increase Momentum to Change.* This option moves the system toward a direct loan program without fighting the battle for immediate implementation. A larger demonstration will quickly indicate whether the program is really feasible, and success on a large scale will bring pressure for expansion from schools who will want to participate. Such pressure will make it easier to overwhelm opposition from those with a stake in the current program whose primary line of defense against the program is that it is untried.
2. *Encourage Competition.* Keeping both systems will provide students with more attractive repayment options both from the government and private lenders. Sallie Mae recently dropped rates for those who pay on-time, the first time a major lender admitted they could afford to charge less for student loans. They deny it was a response to the direct lending threat. It could also save money by giving Congress a better sense of the subsidy level necessary to keep banks and secondary markets in the program.
3. *Simpler to Implement.* The administrative challenges are more manageable, and the risks of a serious administrative problem greatly reduced, by phasing the program in more slowly.
4. *Selectivity Among Schools.* By selecting which schools will participate in the direct loan initiative, the federal government will be in a better position to ensure that only schools with the administrative capacity to run the program are permitted in the program.
5. *Easier Politically.* While lenders, guarantee agencies, secondary markets and servicers should find it more difficult to oppose this initiative, the threat of change may lead them to offer alternative ideas worth could be worth pursuing.

Analysis and Recommendations

The major challenge in developing the National Service Trust Fund is how to balance the desire to move boldly forward with a major new initiative that captures the public imagination with the dangers inherent in proceeding in uncharted territory. Nothing could be more damaging than to have the program's objectives and public support undermined by encountering unexpected consequences from a poorly thought-

out or tested reform effort. Incremental reform as in Option 2, would be easier to pass and easier to implement. Dramatic changes, such as a quick move to a full direct loan program (Option 1), would clearly capture the public's attention but face serious administrative and political problems discussed above.

To combine a significant new reform of student aid with minimal political problems and make implementation more manageable, we recommend the third option. By pursuing this course, we can take credit for dramatically expanding options for education, training, and economic opportunity while maximizing political support. This strategy also minimizes the chances of significant administrative problems and allows time to correct them. Finally, it sets in motion an orderly process that, over time, will lead to a total transformation of the current system, which would not be feasible if pursued immediately and explicitly.

There are several major issues to consider in designing the proposal for income-contingent repayment of loans, including:

IRS participation. Some argue that the IRS exists to collect taxes, not loan payments. While student loan payments can be based on income, they should still be collected by servicers. Experience in one test program points to significant possible problems, particularly getting former students to send copies of tax returns to loan servicers to confirm their income. Without returns, payment schedules have to be based on assumed income increases from the previous year, instead of real income.

We recommend collecting payments through the existing tax system. To reduce the burden on employers, extra amounts due could appear as increased income tax withholding rather than a separate line item. The amounts can later be reconciled with the borrower's income tax filing.

Option or requirement? If income-contingent repayment is required on all loans, we can assume that borrowers will have a wide variety of income patterns, and that losses on some loans will be balanced by gains on others. The program will be actuarially sound. But if, under an optional plan, only borrowers who expect to be low income participate in the program, or if borrowers are allowed to move in and out of the income-contingent repayment system, gaming of the program may make its costs more unpredictable. This problem is known as "adverse selection."

We recommend making income contingent repayment optional, exercised either at the time the loan is taken or upon graduation. Borrowers who default on their traditional loans should automatically be placed on the income-contingent collection system. *really?*

Avoiding adverse selection. Past designs for income-contingent loan collection often included "cross-subsidies"—borrowers who make high incomes after college in effect subsidize those with lower income. For example, a program at Yale in 1972-73

allowed students to "postpone" tuition payments by agreeing to pay a percentage of income over 35 years, up to a maximum of 150% of the tuition charge, plus interest. The program was discontinued, in part because the high-income penalty led to low participation.

We do not recommend including a significant cross-subsidy in the program. Subsidies for lower-income borrowers should come through default reduction (due to IRS collection), and perhaps with some of the savings from direct lending. If income-contingent repayment is an option, it should offer slightly better terms than conventional repayment, such as a lower interest rate or lower fees reflecting the lower cost of automatic collection and countering the impression that there is a high income penalty.

Eligibility and consolidation. While it would be simplest to implement income-contingent repayment for borrowers who do not already have any guaranteed student loans, many current and former students will want to participate in the program.

We recommend making the national service and income-contingent repayment options available for new loans, including new loans to old borrowers. Borrowers who opt for income-contingent repayment on their new loans should be allowed to consolidate their old loans into the program. Consolidation for purposes of national service forgiveness would be too costly, however.

Payment formula. This is perhaps the most complex issue. Having borrowers pay a fixed percentage of income for a fixed number of years won't work because it results in a major cross-subsidy, leading to adverse selection (discussed above). Some propose addressing this problem by requiring a fixed percentage of income until the loan is paid off, subject to an outside time limit. That is not without its own problems, however. For example, an 8 percent payment may be a burden for someone in poverty, but not a problem for a middle-income borrower. It also seems unreasonable to require an \$8,000 payment from someone making \$100,000 a year if they only owe \$10,000.

One approach to be seriously considered is an "adjusted amortization schedule," under which repayment for a borrower with average income is set so that the loan is paid off over a reasonable period, such as 12 years. The schedule could be adjusted for borrowers whose income is significantly above or below the average. At the low end, a basic living allowance should be protected, and a ceiling imposed on the maximum percentage of remaining income that can be taken for loan payment. Any remaining debt should be forgiven after 25 years.

We must also pay particular attention to what we demand of borrowers who are relatively low income after college. We do not want to subsidize students who simply take time off after college, but we may want to assist those who do low-income work, or are low income for a longer period. This will add to the cost of the program, but will also encourage students to perform community service or go into a lower-paying pro-

fession.

Designing the payment formula and testing it for unintended incentives and actuarial soundness requires further time and consideration. The issues discussed here are just some of the complexities associated with designing the payment formula. Others include the treatment of married couples and the definition of income.

Costs, Savings & Related Issues

A direct loan system could save a substantial amount of money, as could income-contingent repayment, depending on the design of the program. These savings could be used to offset the costs of the National Service program.

Direct Lending. The U.S. General Accounting Office estimates that the federal government could save \$4.8 billion over five years by switching completely to a direct lending system for all new loans. The Congressional Budget Office and the Education Department have previously estimated similar or higher savings. These savings arise primarily because it is cheaper for the federal government to acquire capital directly, rather than paying banks to do it. The savings under our recommended plan will obviously be less since savings depend on the size and pace of the expansion of the Direct Loan Demonstration.

Income-contingent repayment. Using the tax system to collect loan payments will reduce loan defaults substantially. One third of the nearly \$3 billion set aside for the cost of loans made this year covers the cost of future loan defaults. Savings will be highest if either (1) all loans are collected on an income-contingent basis, or (2) all new borrowers, even those who choose conventional repayment, switch automatically to IRS collection in the case of default. The marginal cost of IRS collection will likely be lower than contracting with outside servicers for conventional collection, although start-up costs at IRS may be substantial.

Income-contingent repayment will also involve some costs. Borrowers who remain very low-income after college (or after dropping out) will have their remaining debt forgiven by the government after a period of time (25 years in most proposals). This is essentially a "default" that cannot be avoided, because the person has no or inadequate income. In addition, it may make sense to design a system that helps lower-income borrowers in other ways, such as reducing the interest that is capitalized when payments are too low. As noted above, helping these borrowers would have the added benefit of subsidizing people who engage in low-paying public service jobs.

Questions have also been raised about the appropriateness of the current in-school interest subsidy received by Stafford borrowers, and about the possible impact of the National Service Trust Fund on college tuition.

In-school interest subsidy. The largest government cost in the student loan pro-

gram is making interest payments on Stafford loans while students are in school. This benefit goes to poor and middle-income students, and graduate students who qualify based on need. According to the Congressional Budget Office, charging these borrowers interest while they are in school would save \$575 million in 1992, and \$4.1 billion over the 1992-96 period.

There are serious political problems in using these savings to fund National Service. Like earlier proposals to fund service by eliminating Pell Grants, this would be portrayed as taking aid away from needy students to fund a non needs-tested program. It might be more equitable — but still very controversial — to use the savings to subsidize borrowers who are low-income after college, instead of during college. The argument for this approach is that students with high incomes after college should not be getting a large subsidy while in school; instead, the program should provide those who fail to reap the income benefits of postsecondary education with lower indebtedness. But to the higher education community, the in-school interest subsidy is sacred, and any proposed changes will be vehemently opposed.

Rising college tuitions. Some fear that a major new student aid program will result higher college tuitions. This should not be an issue with the National Service Trust Fund because the program does not increase the amount of aid that most students can receive, it simply offers new options for repaying loans. Research suggests that while federal aid and tuition may be related at proprietary schools, there is no such link in the traditional college sector. Tuition at community colleges and other state institutions is affected almost exclusively by the level of state appropriations, while private colleges respond principally to forces other than student aid. We would view any proposal for a federal role in college tuition-setting practices as politically unpalatable and administratively unworkable.

CONCLUSION: AN HISTORIC OPPORTUNITY

Like John F. Kennedy three decades ago, a young President-elect has captured the nation's imagination with his call for a renewed ethic of service to country. There is now an historic opportunity to mobilize citizens and resources, public and private, to address long-ignored national needs.

There are signs that this mobilization is already gaining momentum. The recently authorized Civilian Community Corps offers a promising new way for recently deactivated military personnel to guide young people in performing national service. The Returned Peace Corps Volunteers, numbering more than 135,000, have indicated their eagerness to respond to your call. Across the country, service organizations are growing, in communities and schools, on college campuses, and among senior citizens.

The untapped potential to address unmet needs is enormous. The federal gov-

ernment itself can be made service-friendly. Business can be challenged to do more. Each of us can be challenged to do better. With efficient use of resources and effective employment of the moral authority of your office, you can catalyze the profound social transformation—the renewal of citizenship—for which so many Americans have yearned and worked for so long.

Individuals and Groups Consulted (partial listing)

Full Board of the National and Community Service Commission

Ad hoc Washington working group

Craig Bury, Chambers Associates

Richard Danzig, Latham and Watkins

Peter Edelman, Georgetown Law Center

Terry Hartle, Senate Committee on Labor and Human Resources

Nick Littlefield, Senate Committee on Labor and Human
Resources

David Long, Manpower Demonstration Research Corporation

Shirley Sagawa, National Women's Law Center

John Shattuck, General Counsel, Harvard University

Bob Shireman, Senate Subcommittee on Employment and
Productivity

Melanne Verveer, Presidential Transition Office, Office of
Hillary Rodham Clinton

National Service Meeting, John F. Kennedy School of Government

Senator Sam Nunn

Senator Barbara Mikulski

Senator Harris Wofford

Congressman Dave McCurdy

Alan Khazei, Co-Director, City Year

Mike Brown, Co-Director, City Year

Catherine Milton, Executive Director, NCSC

Charles Moskos, Northwestern University

Gary Orren, JFK School

Graham Allison, JFK School

Will Marshall, Progressive Policy Institute

Kevin Kelly, office of Senator Mikulski

Alden Schacher, office of Congressman McCurdy

Joe Duffey, President, American University

Richard Rosser, President, National Association of Independent
Colleges and Universities

Robert Atwell, President, American Council on Education
Neil Rudenstine, President, Harvard University
Clare Cotton, President, Association of Independent Colleges and Universities of Massachusetts
Gregory Fusco, Vice President, Columbia University
David Morse, Vice President, University of Pennsylvania
Hank Dullea, Cornell University
Jack Crowley, Director of Federal Relations, MIT
Madeleine Kunin, Former Governor of Vermont
Sam Brown, Former Director, ACTION
Bob Durkee, Vice President, Princeton University
Dorothy Robinson, Vice President, Yale University
Norm Richter, staff, Senate Finance Committee
Amy Peck Abraham, staff, Senate Budget Committee
Carol Mitchell, staff, Senate Appropriations Committee
Ken Holdsman, Legislative Director, Congressman Rob Andrew
Representative Bill Ford, House Education and Labor Committee
Susan Stroud, Executive Director, Campus Compact
Lisa Woll, National Association of Service and Conservation Corps
Vanessa Kirsch, Public Allies
Sam Halperin, WT Grant Commission
Jerry Klepner, AFSCME
 Youth Serve America Working Group
 Young Peoples's National Service Coalition
 National and Community Service Act Coalition
John Briscoe, Executive Director, PennSERVE
Don Mathis, Director, Pennsylvania Conservation Corps
Mimi Mager, Former Executive Director, Friends of VISTA
Richard Celeste, Former Governor, Ohio
Dave Evans, office of Senator Pell
Kim Wallace, office of Senator Mitchell
Ken Apfel, office of Senator Bradley
Kathleen Kennedy Townsend
Toby Moffitt
Michael Bailin, Public/Private Ventures
Roger Landrum, Director, Youth Service America
Frank Slobig, Youth Service America

BUDGETARY EFFECTS
(In Billions)

<u>NATIONAL SERVICE</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
National Service (Cost Per 100,000 Students, Assumes 100,000 Students By January 1996)	0	.350	1.1	1.8	2.1	2.4	7.75
NATIONAL SERVICE SUBTOTAL	0	.350	1.1	1.8	2.1	2.4	7.75

A REVOLUTION IN GOVERNMENT

"We must lead a revolution in government so it becomes an engine of opportunity again, not an obstacle to it. . . . If we reinvent government to deliver new services in different ways, eliminate unnecessary layers of management, and offer people more choices, we really can give taxpayers more services with fewer bureaucrats for the same or less money. . . . What I am proposing is hard, unglamorous work. It will require us to reexamine every dollar of the taxpayers' money we spend and every minute of time that the government puts in on business. It will require us to enlist the energies of front-line public servants who are often as frustrated as the rest of us with bureaucracy. And if we do it in Arkansas, which has among the lowest taxes in the country, imagine how much more important and productive it will be at the federal level."

— Georgetown University
November 20, 1992

Our government is in crisis. The deficit is over \$300 billion. Public approval of Congress is below 20%. The average American voter believes that 44 cents of every tax dollar are wasted. And in a poll this summer, 85% of the electorate agreed that the government needs "fundamental changes" or "complete rebuilding."

George Bush was right about one thing: government is too big, and spends too much. But it's not just government that's broken -- it's the system. Politicians find themselves spending more time listening to lobbyists at fundraisers than working to solve the problems of real people back home. Civil servants who mean well end up trapped in a low-performance bureaucracy that emphasizes rules and procedures instead of results. People think their government takes more from them than it gives back, and looks the other way when moneyed interests only take from this country and give nothing back. And they're right.

Throughout the campaign, you talked about the need for radical change in Washington. You vowed to create a government that shares the values and fights for the interests of ordinary taxpayers — a government that works for the people, not the other way around.

This chapter presents ideas to revitalize our democracy and radically change government. Our goal is to make government smaller, better, and more responsive to the people. That in itself would be a tremendous achievement. But we believe government reform will mean even more for the country down the road if we can restore people's faith that their government works hard, respects their tax dollars, and tries to do the right thing.

1. Presidential Reorganization Authority
2. A Presidential Campaign on Government Reform
3. Executive Orders to Reinvent Government
4. Performance Management
5. Expedited Rescission Authority
6. Campaign Finance and Lobbying Reform
7. National Voter Registration Act

PRESIDENTIAL REORGANIZATION AUTHORITY

If we want to change the way government does business, we can't rely on the normal legislative process. We have to ask for Presidential Reorganization Authority in order to break the political stalemate.

Reorganization authority can grant you expedited Congressional consideration of your government reform legislation through "Fast Track" procedures similar to those currently used to vote on trade agreements and military base closing proposals — one vote, up or down, no amendments, within a set period of time.

Every expert we have consulted on government reform — including David Osborne, Alan Schick of Brookings, and Comptroller John Sharp of Texas — has agreed that a "Fast Track" approach is the only way to short-circuit Congress and enact meaningful reforms.

Traditionally, incoming Presidents have used reorganization authority to reorganize — to move boxes around on the Executive Branch organizational chart. As you pointed out during the campaign, that exercise is largely a waste of time. It costs too much political capital for mostly ephemeral gains.

Instead, we recommend that you use reorganization authority and the expedited legislative consideration it grants to bring more fundamental changes to the federal government: to eliminate programs, subsidies, and duplicative functions, downsize the federal workforce, implement performance-based management and budgeting, and encourage innovation and greater efficiency.

Reorganization Authority — A Brief History

Congress granted every President from FDR to Reagan broad powers to reorganize the Executive Branch, subject only to a single or limited number of up-or-down votes. Since 1949, the statute governing such powers has been the Reorganization Act,

which granted Truman broad powers to create or eliminate agencies and departments.

Since Truman's Presidency, Congress has amended the Reorganization Act to restrict Presidential power 25 times -- to the point where the Act is practically worthless. Johnson was denied the ability to propose new departments with new functions; Carter was prohibited from abolishing any departments or eliminating any statutory programs; and Reagan was prevented from eliminating any agencies. Since the Carter administration, Congressional distrust of the White House has been so intense that little power for change has been granted. The last time the Reorganization Act was passed, in 1984, the leash was drawn even tighter, and Reagan, probably wisely refused to have anything to do with it.

A Clinton Reorganization Statute

If you are going to use reorganization authority as a centerpiece of your government reform strategy, a new reorganization statute must be written and passed by Congress at the opening of your term that grants you reorganization powers comparable to those possessed by Franklin Roosevelt and Harry Truman. Otherwise the Act is not worth having.

Broad reorganization authority of the type we believe you should request will differ in two ways from the last version of Presidential reorganization authority passed in 1984:

Expanded Scope

We believe you should ask for reorganization powers prohibited in the current statute, but included or implied in its original form, to include:

- Creation and elimination of departments and agencies
- Elimination of statutory functions that are wasteful or duplicative
- Consolidation of grant programs into block grants and challenge grants
- Expansion of state/local innovation waivers
- Civil service reform
- Performance budgeting
- Sunsets for programs and regulations

These powers, though no greater than those granted previous incoming Presidents, are immense. The power to propose the elimination of statutory functions - denied to Carter in 1977 -- would allow you to get the deficit under control by cutting programs and subsidies that no longer serve an important social function. The power to eliminate departments and agencies -- also denied to Carter -- would allow you to eliminate bureaucratic functions that are more properly the responsibility of state and local government, and to downsize sprawling departments like USDA. Finally, the

power to create new agencies, eliminated in 1964, would allow you to go beyond government reform to accomplish other substantive goals — like creating a national service program and an agency to administer it.

Legislative Approval Mechanism

The method by which past reorganization plans were voted on by Congress — one house legislative veto — was declared unconstitutional in 1984. Thus, our statute would have to include a new mechanism for legislative consideration. We recommend the route used in the base closing commission, which requires a single vote on commission proposals within a tight deadline. This approach actually improves the President's chances to pass legislation, and it passes the test of constitutionality.

*Politically
hard to
imagine
Congress
going
along.*

PRESIDENT'S CAMPAIGN ON GOVERNMENT REFORM

Getting broad reorganization authority from Congress is only half the battle. You also need a team of experts and auditors to develop a comprehensive reform agenda that you can send to Congress under the statute.

We propose that you create a President's Campaign on Government Reform. This task force will develop the President's government reform agenda while using innovative communications techniques to build grass roots support. The campaign will be based on the highly successful Texas Performance Review, run by Comptroller John Sharp, which passed numerous reinventing government reforms through the Texas Legislature under similar circumstances.

How The Campaign Will Work

The Campaign to Reinvent Government will not be business as usual — or as John Sharp put it, "Just another commission full of prominent suits that will accomplish nothing." Unlike traditional Presidential commissions, which have ten to twenty members and a relatively weak chair, we recommend that you appoint a single Chair who can provide centralized leadership and political direction with help from a staff director who knows the issues.

Unlike the Grace Commission, which released plenty of findings, ideas, and hypothetical solutions but few programmatic or legislative proposals, the campaign will produce only real reforms — drafts of administrative actions or legislation ready for Congressional consideration. These will be prepared for submission to Congress within the deadline established by the reorganization statute discussed above.

The chairman and staff director should be assisted by a staff of approximately 300 people on loan from the private sector, think tanks, Congressional staff, OMB and government agencies.

The Campaign will conduct an aggressive public outreach campaign with untraditional communication methods, including:

- A 1-800 number that any American can call to suggest reforms and get information.
- Reports to the American people through television infomercials.
- Electronic town hall meetings.
- A pamphlet from the President to the American people discussing the findings and recommendations of the Campaign, mailed free of charge to any American who calls the 800- number.

Should this relatively unaccountable body be that out front?

What It Will Propose

The Campaign will be expressly charged by the President to investigate and develop proposals in three critical areas.

1. A new compact with the states: a reevaluation of federal/state roles and responsibilities. The Campaign will suggest ways to limit unfunded mandates, devolve responsibilities to the states, expand the use of non-bureaucratic, cost-efficient block grants and challenge grants, and increase the availability of federal grant waivers to encourage innovation at the state and local level.
- ✓ 2. A new compact with the taxpayers: creating a new era of fiscal responsibility. The Campaign will propose ways to reduce the deficit by eliminating wasteful programs, entitlements, commissions, and subsidies; by reorganizing, downsizing, and reinventing federal departments and agencies; and by reforming the budget and creating sunset provisions for programs and regulations.
3. A new compact with federal employees: creating a performance based budget which encourages efficiency, greater savings, and improved service; implementing civil service reform to reward performance, create incentives for innovation, and establish greater managerial flexibility; and downsizing the federal workforce.

The commission should have a built-in deadline to prevent it from dragging out its work and to insure that it places emphasis on action. We suggest six to nine months.

EXECUTIVE ORDERS TO REINVENT GOVERNMENT

The following proposals can be implemented on the first day of your administration through Executive Order. Taken together, they will demonstrate that you are committed to reforming government — and keeping your campaign promises.

Executive Order No. 1: 3% Annual Cut in Administrative Costs

Throughout the campaign, ~~you talked~~ about reducing the real administrative costs of the federal government by 3% annually. This cut would set a productivity standard for government, downsize the bureaucracy, utilize resources and personnel more efficiently, and cut the deficit without affecting the level of services on which both poor and middle-class Americans depend.

Unlike a business, the federal government does not currently budget for administrative costs independent of programmatic costs. As a result, the government simply has no idea how much it spends on overhead. Departments are able to hide administrative fat in the budgets of popular programs and prevent reasonable cuts by claiming that cuts would reduce benefits or services. To fix this mess, our Executive Order must direct the government to begin keeping separate accounts for administrative costs as well as order cuts in administrative spending. ✓

To send the right signal to the federal agencies and departments, we suggest you propose a 5% cut in your first year. A 5% reduction will compensate for growth in administrative costs in the FY93 budget and make it harder for departments to pad their 1994 budget to prepare for future cuts.

The proposed Executive Order will:

1. Define administrative costs and order the Director of OMB and directors of agencies and departments to break out administrative costs as a separate budget line item in the FY 1994 budget. This new baseline will become the standard of measurement for annual cuts in administrative costs.
2. Require the Director of OMB to ensure that administrative budgets are 5% lower in real costs in FY 1994 than in FY93. Since administrative costs have never been broken out in a line item before, the 5% cut in FY 1994 will be based on an estimate of 1993 costs, not on a hard figure. The Director of OMB will have total authority to cut agency requests for administrative spending more than 5% if he feels that a request has been padded to prepare for future cuts.
3. Order agency and department heads to build 3% real cuts in administrative costs into the FY95-97 budget requests, as measured by the FY94 baseline, and direct the

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as to
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Director of OMB to insure that the Administration's budget submissions to Congress include these cuts.

Some departments and agencies may want to cut their administrative costs by more than 3%. To make sure they're not locked into higher administrative spending than they need, we should allow agency heads to invest any administrative savings beyond the mandatory 3% cut in their own programs. This will create a new, powerful incentive for greater productivity and savings. This provision requires legislation, which we should ask Congress to pass under reorganization authority.

Executive Order No. 2: Cut the Federal Bureaucracy by 100,000 positions.

During the campaign, you promised to cut the federal bureaucracy by 100,000 positions in order to eliminate excess staff, improve productivity and increase the government's responsiveness to the public. This reduction represents a 4.44% cut in the government's civilian workforce of 2.254 million people (excluding the Post Office, which is already undergoing tremendous downsizing on its own).

DOD civilian staff will take the largest hit, losing 44,000 employees out of a total work force of just over 1 million. Achieving a reduction of this magnitude will not be difficult because of the base closure process and the overall downsizing of the military.

The Executive Order will allow two methods of eliminating positions: attrition or early outs. No one will be "Riffed" — fired — as a result of your order.

Attrition. Every year approximately 200,000 positions are vacated through attrition. The attrition rate is even higher in non-recessionary times, ranging from the current rate of 8% to as high as 10%. Given the current rate of attrition, it is possible to reach the 100,000 mark in less than a year, though we have phased in compliance over 2 1/2 years to give managers more time to adapt to a smaller workforce. Attrition is the least expensive method to vacate positions as it only requires the payment of annual leave and retirement benefits.

Early out program. Under the civil service retirement plan, an employee is eligible to receive his or her retirement benefits at age 55 with 30 years of service. Under the early out program, an employee is eligible for retirement benefits at age 50 with 20 years of service or at any age with 25 years of service. For every year under age 55, 2% is deducted from the retirement annuity. This early out program is the best tool to eliminate positions at the higher grade levels with large salaries.

In your executive order, we recommend a bigger reduction among senior managers than front line workers. The federal government is "top loaded" with expensive, unnecessary management positions. For example, the number of Senior Executive Service (SES) employees has grown by 35% over the last decade, and the share of the

work force at the GS 13 - 15 levels is up from 13% in 1972 to 18% in 1992. Taking 25% of the cuts from senior management will reduce unnecessary layers of management, a top personnel goal of most private sector companies in the 1980s.

The Executive Order will:

1. Order agency and department heads to eliminate through attrition or early out at least 4.5% of their positions over the next three years.
2. Establish a schedule to guarantee completion, requiring agency heads to achieve 25% of their cuts by the end of FY 1993, 62.5% by the end of FY 1994, and 100% by FY 1995.
3. Instruct the Deputy Director of OMB for Management to issue the necessary instructions to implement this order, and to report to the President on compliance.
4. Instruct OMB and agency and department heads to use personnel levels from FY 1992 as a baseline to measure their reductions. This will keep us from cutting 100,000 jobs in current programs while adding 100,000 in new Clinton initiatives.
5. Require at least 25% of the reductions in each department and independent agency come from the GS-14, GS-15 and Senior levels. This will cut approximately 25,000 senior management jobs, from 132,000 to 107,000, and achieve substantial cost savings.
6. Require agency and department heads, under supervision from the Director of OMB, to return any savings in FY 1993 to the Treasury. Savings in all subsequent years will be built into the budget.

Executive Order No. 3: Eliminate Unnecessary Executive Branch Advisory Committees

The federal government currently operates more than 1,200 advisory committees to study and report on issues of public policy. These committees employ over 29,000 people and cost the taxpayers approximately \$150 million per year. And the number of commissions is increasing at an alarming rate — between 10% and 20% per year during the Bush Presidency. //

More than 500 of these committees are established by statute, which means we cannot eliminate them without a bloody struggle with Congress. However, roughly 700 commissions with an overall annual budget of approximately \$70 million are solely the responsibility of the executive branch. You have total power over them and can do with them as you please.

We believe you should eliminate as many executive branch advisory commissions as possible at the beginning of your term. The advisory commissions are now your advisors, yet you did not appoint any of them and they do not share your interests. Many committees are stocked with Republicans, most are captives of special interest groups, and together they exemplify a government more responsive to special interests than ordinary taxpayers, and more concerned about talk than action.

Our proposed Executive Order would eliminate, after a 60-day review period, 600 of the approximately 700 advisory committees not established by law, while capping the budgets of the remaining committees. The order would allow departments and agency heads, in consultation with OMB, to make their own decisions about what to cut and what to keep — allowing, for example, important technical committees to remain in existence.

The order would:

1. Suspend operation of all advisory commissions (including those established by statute) for 60 days, except for previously scheduled meetings. At the end of this period, unless otherwise directed by waiver of this EO by the Director of the Office of Management and Budget, all commissions not established by statute will cease to exist. Commissions established by law may continue operation after the 60-day period.

2. During the first 30 days of this period, agency and department heads must review all commissions they manage and support, including those established by statute. By the end of the period, they must submit:

a. A list to OMB of those commissions established by law which must continue operation. Commissions merely authorized but not established by law should not be included on this list, since they can be eliminated through Executive Order

b. A request for a waiver of termination for each commission not established by law that they believe should continue in operation. For each of these commissions, they will provide a summary of the commission's value to the public and its current membership, plus a detailed breakdown of its budget and personnel.

3. During the final 30 days of this period, OMB will review requests for waivers and grant, to all departments and agencies, no more than 100 waivers, with a total budget of no more than \$20 million.

A list of committees you could eliminate by Executive Order is included as an appendix to this chapter.

It should be carefully vetted w/ the WH.

Executive Order No. 4: Cut White House Staff by 25%

During the campaign, you promised to cut the White House staff by 25% — but never committed to details. We believe you should cut the personnel budget by 25%, not the number of jobs. This will give your senior managers the flexibility to cut either positions or salaries.

You must also determine what constitutes the White House staff. Although some will counsel you to cut only the White House Office (WHO), we believe you should cut the Executive Office of the President as well (EOP), excluding OMB. By including the EOP, you will make it clear that you are serious about controlling the cost of government, and avoid claims that you are failing to live up to your campaign pledge. After all, it is hard to argue that the "Executive Office of the President" is not "White House Staff."

Our recommendation is that you cut the FY 1993 payroll appropriated for the WHO and EOP (less OMB) for the months of February to September by 25% from \$54.859 million to \$41.145 million, and by an equivalent amount in the FY 1994 budget request. This would eliminate 350 to 400 positions in the White House and Executive Office of the President.

The chart which follows this chapter presents an option accomplishing a 25% payroll budget cut on an office-by-office basis. The chart is followed by a summary of the justifications for our cuts. Note that this is just one option — there are obviously many different scenarios depending on your priorities.

Explanations:

White House Office and Office of the Vice President. Reductions should be possible in several offices. The seven-person travel staff could be replaced and the function contracted out. Approximately 25 slots could be eliminated by moving the political and advance functions to the Democratic National Committee.

// note - soft \$ concerns

Executive Residence at the White House. A modest reduction is required to achieve the 25% budget reduction target.

Council of Economic Advisers. The creation of the National Economic Council makes a modest reduction in CEA possible.

Council on Environmental Quality. The council coordinates environmental policy and prepares an annual report on environmental trends, based on government-wide data. Most of these functions can probably be handled better from a Cabinet-level Department of the Environment.

// I say: eliminate

Proposed Reductions in Employee Compensation and Benefits -- FY93

Office	Employee Benefits/ Comp	Proposed Cuts	Budgeted Staff	Estimated Staff Cuts
White House Office and Vice President Office	\$17,314,000	\$4,603,035	434	131
White House Residence	\$3,976,667	\$292,655	97	14
Vice President's Residence	\$42,000	\$0	1	0
Council of Economic Advisers	\$1,671,333	\$232,647	41	9
Council on Environmental Quality	\$1,256,667	\$628,630	40	20
National Critical Materials Council	\$142,000	\$142,000	3	3
National Security Council	\$2,731,333	\$895,802	60	16
National Space Council	\$707,333	\$584,047	7	4
Office of Administration	\$7,132,667	\$1,443,826	234	65
Office of Federal Procurement Policy	\$1,737,333	\$289,954	33	8
Office of National Drug Control Policy	\$5,340,000	\$3,082,150	112	75
Office of Policy Development	\$1,890,000	\$265,477	51	10
Office of Science and Technology Policy	\$1,979,333	\$547,597	43	17
U.S. Trade Representative	\$8,938,667	\$707,013	162	17
TOTAL	\$54,859,333	\$13,714,833	1,318	389

National Critical Materials Council. The Council oversees stockpiles of strategic minerals. This office can be eliminated since its authorization has already expired and its function duplicates efforts at the Departments of Commerce and Defense.

National Security Council. With the change in priorities since the Cold War, the National Security Council can function with a smaller staff by relying more on support from the Departments Defense and State.

why do we need it?

National Space Council. In the Bush Administration, this Council mostly second-guessed NASA. We recommend that some of the Council's functions be transferred to the Office of Science and Technology Policy.

Office of Administration. Cuts are justified by the reduced demand for administrative services resulting from lower EOP staffing levels.

Office of Federal Procurement Policy. This Office, which is housed within OMB, has an important mission in overseeing federal procurement, but has not been effective. With support from the OMB Director it should be able to do more with less.

Office of National Drug Control Policy. The Drug Control office has been notoriously ineffective and extremely politicized. Most of its staff is made up by Republican hacks with little experience in drug-related issues. This office can be more efficient if it is staffed with a reduced number of real experts who work closely with law enforcement, health and social service agencies.

Office of Policy Development. We assume that like the CEA, this office will lose staff slots to the newly created National Economic Council.

Office of Science and Technology Policy. This office has grown rapidly during the Bush years. While the transfer of some of the Space Council's functions would add to its workload, a net reduction in permanent staff is possible if the Office relies on the National Science Foundation and other agencies for expertise in specific areas of technology.

United States Trade Representative. The United State Trade Representative staff can be reduced because the National Economic Council will handle interagency coordination of some issues.

Executive Order No. 5: Expand Availability of State and Local Waivers

Over the last fifteen years, the federal government has placed an increasing number of restrictions on the use of federal grant money. These restrictions raise the overhead cost of the federal government by requiring more grant officers, tie up state and local governments that are hard pressed to meet the increasingly complex applica-

tions process, and stifle innovation at the state and local level.

State and local officials have incessantly complained that federal requirements prevent them from tailoring programs to meet their communities' needs in a manner that is more efficient, less costly, and still consistent with the goals of the federal government. Although many programs allow for federal waivers to encourage innovation at the state level, the process for obtaining a waiver is often difficult and time-consuming, frequently lasting up to a year.

Increasing the availability of waivers is a top priority for reinventing government. We recommend that you propose significant legislative waiver reform under reorganization authority. In the meantime, we believe you should issue an Executive Order expediting the waiver process to encourage innovation at the state and local level. The order would place the presumption on approval of waiver applications, set a 30-day deadline for approval, and put the Deputy Director of OMB for Management in charge of the process.

The order will:

1. Direct agency and department heads, notwithstanding current law, to place the presumption on approving state and local government waiver applications which meet current statutory waiver requirements. If an application is deemed unacceptable for approval because of a failure to meet non-statutory requirements, the department or agency head must inform the Deputy Director of OMB for Management in writing seven days prior to denial of the application.
2. Direct agency and department heads, notwithstanding current law, to make determinations on applications for waivers within 30 days of receipt of applications.
3. Direct agency and department heads to direct a top sub-cabinet official of the entity to supervise the waiver review process and to work with state and local governments to maximize their compliance with criteria for approval of waivers.
4. Direct the Deputy Director of OMB for Management to issue such rules as are necessary to implement this order; to oversee the entire waiver process for the government to include government compliance with the 30-day rule; and to coordinate the consideration of applications for waivers which fall under the jurisdiction of more than one department of agency.

Executive Order No. 6: The "Lorena Hickok Program"

The worst danger for a President is to fall out of touch. In the early days of the Roosevelt Administration, FDR sent AP political reporter Lorena Hickok, a close friend of the family, into the field to report back on how the New Deal was working out. If

you're serious about running a results-oriented government, you ought to dispatch a team to do the same.

✓ We recommend that you establish a small team of investigators to look into how federal programs are working at the grassroots level, and report back to you about whether your ideas are being carried out as you intended. They would not be allowed to write articles about their experiences — unless you asked them to.

Executive Order No. 7: Eliminating Perks

The Bush Administration received horrible press when senior staff abused perks — and deservedly so. We believe you should issue an Executive Order banning two perks which cause the most trouble: use of military and first class travel, and “portal to portal” limousine service. These are the two perks which most exemplify a government that is out of touch with ordinary Americans.

Currently, a large number of senior Presidential staff members enjoy “portal to portal” service — a car picks them up at home in the morning, and drops them off at the end of the day. An Executive Order or memorandum could ban portal to portal transportation for all EOP officers except the National Security Adviser, who legitimately needs to be in communication with the White House during daily travel. Only cabinet level officials in the executive branch would continue to enjoy portal-to-portal service; all others, including department and agency deputies, would drive or ride to work like any other human being.

Senior Presidential staff have also been caught using extremely expensive military aircraft for non-governmental activities, and travelling first class at taxpayer expense when other arrangements are available. A second Executive Order could terminate these practices by requiring that government aircraft be used only when commercial flights are not available or when travel by other arrangements would be detrimental to a Presidential mission. The Executive Order would also deny reimbursement for first class travel when other flight service is available.

MANAGING FOR RESULTS

Government is virtually the only sector of American society that has yet to confront the need to adapt itself to the Information Age. With its preoccupation with rules and regulations and its hierarchical chains of command, it simply cannot keep up with the rapidly changing, highly competitive, information-rich society and economy within which we live. The U.S. is 5 to 10 years behind other progressive nations such as Australia, Britain, Canada, and Sweden in creating results-oriented government.

We believe you should send to Congress under reorganization authority a “Reinventing Government Act of 1993” to create results-based budgeting and provide

managers with greater flexibility to achieve savings and enhanced performance. The legislation would make program managers and government workers more accountable for results by defining program performance goals while giving managers greater flexibility to achieve those goals in the most efficient way possible.

Changes of this magnitude should not be rushed without some careful study. We suggest this program be phased in over time, by creating a series of two-year pilot projects beginning in FY 1994 at 15 federal agencies, to be followed by implementation throughout the federal government in FY 1996 after evaluation of the results of the test program.

The Reinventing Government Act would have two goals:

Results-Based Budgeting

One of the greatest problems of the federal government is its failure to set objective goals for its agencies and programs in order to measure the extent to which government spending is achieving the results intended by the President, Congress, and the American people. This failure impedes program evaluation, protects spending of limited social or economic value, and makes it impossible to hold program managers responsible for results.

The Reinventing Government Act will require, for the first time, the setting of objective standards and goals for our agencies and programs. The act will:

1. Require each department and agency to outline its goals for the coming year in its annual budget request, including a mission statement, a set of goals and objectives, and a strategy to achieve them.
2. Require each department and agency to include concise, quantifiable, objective standards for the performance of each of its programs in the annual budget. The standards must be based on quantifiable, verifiable performance indicators. Beginning in FY 1995, each agency will be required at the end of the year to submit a program performance report consisting of a comparison of program goals to performance results, an evaluation of success or failure, and steps to be taken to improve performance.
3. Require Congressional approval of these goals and standards through the authorization and appropriation process.
4. Require Congress to establish goals and standards for every new program or government entity it authorizes.

Management Flexibility

If we are going to hold managers accountable for performance, we need to liberate them from outmoded administrative rules which keep them from getting the job done.

Currently, federal managers have their hands tied. They have almost no ability to hire or fire employees of their own choosing. They have almost no ability to shift resources around within their programs to achieve efficient performance and savings. They are discouraged from taking management risks that will increase performance and efficiency, even when doing so is clearly in the nation's best interest. Worst of all, when they innovate and achieve savings, managers are "rewarded" with lower appropriations, an immense disincentive to generate savings and productivity gains.

In return for greater accountability, we will give government managers the same tools their private sector counterparts use to get the job done. Managers at the 15 test agencies will be authorized to develop and seek waivers from OMB freeing them from following current administrative procedures in the following areas: procurement, administrative services, human resources (personnel), budget limits, and information resources.

The waivers will eliminate disincentives which prevent managers from running programs efficiently, and increase managerial control over staff and operating budgets. For example, agencies might receive waivers to carry funds over to the next fiscal year without having to return them to the Treasury; shift funds between appropriation accounts; borrow funds from future appropriations; hire, fire, and set pay levels and rewards for staff; and buy equipment and negotiate rents outside of GSA if it would be less expensive to do so. After three years, waivers would become permanent.

EXPEDITED RESCISSION AUTHORITY

As you know, the leadership in Congress opposes the line item veto. Speaker Foley and Senator Byrd feel strongly about this issue, which goes to the heart of Congressional power.

In an attempt to defuse a potentially explosive issue, you could ask Congress for expedited rescission authority instead of a line item veto. The Speaker recently endorsed this idea because it would expand Presidential power over spending without unduly sacrificing Congressional prerogatives. A bill along these lines, sponsored by Charlie Stenholm, was actually passed by the House late last session but was never considered by the Senate.

Currently, under the Congressional Budget and Impoundment Act of 1974, the President may send to Congress a proposal to cancel or reduce funds contained in appropriations bills he has already signed. These rescissions do not take effect unless

they are approved by both Houses within 45 days. If Congress does not approve them within 45 days, the money must be spent as appropriated. Congress can easily defeat a President's rescission requests by simply ignoring them.

This proposal would alter this process by requiring Congress to vote on proposed rescissions within two weeks of submission by the President, eliminating Congress's current power to completely ignore and thus kill Presidential rescissions.

In many ways, expedited rescission authority is more valuable than a line item veto because it gives the President greater flexibility: unlike the line item veto, rescission authority allows the President to eliminate projects and appropriations in conference reports as well as bills, and to strike out a percentage of an item's funding rather than either all or none of it.

It is very hard to estimate how much you could save if you had expedited rescission authority — the amount depends entirely on how effective you are in getting your rescissions approved. However, various experts believe we might be able to eliminate \$6 to \$12 billion per year, based on GAO estimates.

The only decision you need to make if you wish to go forward with this proposal is whether you want to introduce the bill in the same form passed by the House last session or with changes that would improve the legislation. There are three provisions which might be altered to the President's advantage without unduly upsetting Congress.

Scope of Rescission Authority. In the bill passed in October, a President could only rescind 25% of authorized appropriations (and 100% of unauthorized appropriations) We should propose that the bill give you the power to rescind the full amount of an authorized appropriation.

Duration of Grant of New Powers. The bill passed in October only authorizes expedited rescission procedures for two years. We should propose that these procedures remain in force for your entire first term. Or you could request that expedited rescission authority be made permanent, to strengthen your initial bargaining position and increase the appeal of the idea to Republicans.

Time Allowed for Presidential Consideration. The bill passed in October gives the President only three days after signing an appropriations bill to use his expedited rescission powers. After this time, he can only use his current, less effective rescission authority, which lasts until the end of the fiscal year. We should ask for expedited rescission powers for the duration of the fiscal year. This would give you more time to study an appropriations bill before acting -- important because Congress usually sends large, complex appropriations bills to the President in a rush at the end of a session. In

addition, it will allow you to rescind “pork” which may be hidden in the bill but which surfaces during the implementation of the bill in question.

An outline of this legislation is included in the appendix of this chapter.

CAMPAIGN FINANCE AND POLITICAL REFORM

During the campaign and the transition, you talked at length about the need for campaign finance and lobbying reform.

About 80,000 people work directly or indirectly as lobbyists in Washington — a population half the size of Little Rock. These lobbyists now provide the bulk of the financing for congressional incumbents, who must raise \$4000 a week (House) or \$12,000 a week (Senate) to retain office. This system results in a government more responsive to the needs of organized interests than it is to ordinary voters, and blocks change at every turn.

Campaign Finance Reform

The Clinton Administration should negotiate a campaign reform package with the Congress. A successful negotiation will minimize the political capital needed to pass a bill, and it would make it almost impossible for Democrats to vote against it.

We do not need to enter the negotiations with our own detailed draft legislation — through we can threaten to release such a draft if we need to strengthen our position. However, we need to come to the table with a sense of our general goals. We believe they should include the following:

Spending limits

During the campaign, you supported capping the spending in congressional campaigns. Spending limits are extremely popular with the public. S. 3, the bill vetoed by Bush last year, included voluntary spending limits for both House and Senate candidates. For the House, with its uniform districts, the limits were \$600,000 per candidates. In the Senate, caps depended on the population of the state.

We believe the spending limits in S. 3 are acceptable, and there is no reason for us to push to change them. However, the limits were predicated on current broadcast rates. It may make sense to lower them if we are successful in bringing down the cost of television advertising.

Opening up the airwaves

During the campaign, you pledged to “open up the airwaves” and “lower the cost of airtime.” There are two ways to do this, both acceptable.

Partial Public Financing

S. 3 includes partial public financing for congressional elections to open up access to the airwaves. Senate candidates who comply with the spending limit would be eligible for up to 20% of the limit in “broadcast vouchers.” House candidates would be eligible to receive matching funds for up to \$200,000 (1/3 of the spending limit). In addition, S. 3 lowers the cost of airtime by requiring stations to give candidates airtime at half the lowest-unit-rate.

Public financing of campaigns has long been the ultimate goal of reformers. To the extent it is instituted, it would replace money from private sources, and give candidates the ability to speak to the voters without incessantly fundraising or obligating themselves to donors. Presidential general election campaigns, of course, receive (theoretically) full public financing; primary candidates receive matching funds.

The value of these vouchers can be augmented by requiring broadcasters to give cheap airtime to candidates. Currently, stations are required to give the “lowest unit rate” to candidates. However, that rate is often “preemptible time” — obviously not suited to campaigns. In addition, the FCC commissioners have regularly spun through the revolving door, leading to a strong bias away from laws against past and future broadcast clients. You could require broadcasters to offer non-preemptible time at the lowest unit rate.

If you wish to follow this route, you should propose giving complying candidates “candidate communication vouchers” so that those candidates who do not buy television time can use the money for radio or mail.

Free T.V.

Although it is uncharted territory, one simple way to open up the airwaves without the cost or political fallout of public financing is by requiring broadcasters to offer free time as part of their licensing process. This would, of course, make the broadcasters scream, but in principle it is no different from requiring them to offer time for public service announcements, weather warnings, etc. On balance, we recommend this approach over public financing.

PAC limits

During the campaign, you promised to cut the maximum size of PAC gifts to

\$1000, the same as the maximum for individuals. S. 3 does not touch the size of the individual PAC gift, but imposes an aggregate cap on all candidates. In the Senate, the amount was 30% of the spending limit; in the House, \$200,000 (1/3 of the spending limit).

Our opening position in negotiations should be our campaign pledge — to reduce PAC gifts to \$1000. Political Action Committees (PACs) are the most visible manifestation of the campaign finance system. Your proposal to reduce PAC contributions by 80% should continue to be a centerpiece of the reform effort. It should be noted that such PAC reductions pose problems for House Democrats (who get nearly half their funds from PACs) and labor (which garners political heft from PAC gifts).

Independent expenditures and millionaire opponents

S. 3 includes a complex set of disincentives for independent expenditures and millionaire opponents. When an independent expenditure is made, or a noncomplying candidate exceeds the spending limit, the complying candidate receives additional funds.

Instead of providing more public money to candidates facing an opponent who goes beyond the spending limits, we recommend merely waiving the spending limit for candidates who face these competing expenditures, so they can raise and spend as much as they wish.

Soft money ("non-federal money" in federal campaigns)

Soft money is the toughest campaign finance issue of all. During the campaign, you signed a Common Cause pledge that said you supported the soft money language in the Senate version of S. 3, which was stricter than what passed. *Putting People First* endorsed this view: "End the unlimited 'soft money' contributions that are funneled through national, state, and local parties to presidential candidates."

With some justification, reformers believe soft money has negated campaign finance reform — especially at the presidential level. In 1992, both presidential candidates openly fundraised for soft money which was (by definition) in excess of the federal contribution limits. The \$100,000 contributions collected on both sides in 1992 put the fat cats back into presidential campaigns — exactly what the 1972 law was intended to prevent.

To confront this problem, S. 3 includes complex and strict soft money language. It limits spending by local, state and federal party committees for electioneering during federal election periods (from late spring of election years). For example:

- A state party's spending to elect the presidential ticket would be limited; the amount would vary by state and would be indexed for inflation.

- Any money raised or spent for GOTV, voter registration or other specified activities would be brought under federal spending and contribution limits.
- State level campaign activities, conducted by federal, state or local parties, would be subject to spending limits.
- National party committees, federal officeholders and federal candidates would be barred from soliciting contributions on behalf of state parties.
- Political parties would be required to itemize and disclose to the FEC all receipts and disbursements above \$200.

The state parties are adamantly opposed to the soft money provisions in S. 3, arguing that the expenditure restrictions in that bill would severely limit their ability to conduct the kind of coordinated campaigns that were so successful in 1992. State parties believe that the provisions in S. 3 would federalize their operations and eventually put them out of business. For example, S. 3 would require political parties to conduct even voter registration with hard money in an election year. However, non-profit groups would continue to be able to register voters — and undisclosed, unregulated sums would undoubtedly flow to them.

Nonetheless, Common Cause and editorial writers have drawn a clear line on soft money, and we will take considerable flak if we are perceived as “pulling back” unduly from S. 3.

We are not prepared to make a recommendation about soft money. This issue will require serious internal discussion, because the position we stake out will have a tremendous impact on Clinton-Gore '96 and on our party building efforts over the next four years. A top level meeting with party leaders, trusted state chairs like Jim Brady, and your selection to head the DNC is in order. This should be done as soon as possible so we can develop a clear negotiating position.

Options for dealing with soft money include:

- Retaining the restrictions in S. 3.
- Exempt from the soft money restrictions a list of activities such as ongoing administration, maintenance of voter files, staging of conventions, voter registration and generic party activity. (Currently, S. 3 exempts some such activities, such as building funds.) If these exemptions are sufficiently broad, state parties may be able to live with soft money limits.
- Prohibiting the raising of soft money by federal candidates (but allowing

it by parties).

- Prohibiting the use of soft money in campaigns along the lines in S. 3, but replace the money with hard money raised by an income tax checkoff plan specifically geared to political parties. Taxpayers would be encouraged to give an additional \$1-\$10 to the party of their choice, and the parties would be able to use that money to fund their coordinated campaigns. (This is similar to the system in England, Germany and other nations. David Wilhelm is especially interested in this option.)

Lobbying Reform

Lobbyists are becoming an increasingly visible target of press and public ire, with good reason. If we're going to reform government and clean house in Washington, lobbyists may be the best place to start.

Lobbying reform should not be linked to the campaign reform effort. Instead, we recommend modifying Senator Levin's bill, which has strong bipartisan support and was the model for the proposals in *Putting People First*, and sending it up as a Clinton bill early in the session. The bill would end the tax deductibility of lobbying expenses, create more full disclosure, and codify the five year ban on revolving door lobbying.

End tax deductibility of lobbying expenses — the Special Interest Tax

K Street is already gearing up to fight it, but this "Special Interest Tax" should be the centerpiece of our lobbying reform bill. Eliminating the deductibility of lobbying expenses will raise approximately \$100 million.

Tough lobbying disclosure

In the campaign, you stated: "We will push for and sign legislation to toughen and streamline lobbying disclosure. The new law will require all special interest groups to register with the Office of Government Ethics within thirty days after contacting a federal official, lawmaker, or lawmaker's aide. Lobbyists will be required to report twice a year on their contacts and expenses. We will instruct the Justice Department to strictly enforce disclosure laws and collect fines."

The Levin bill would satisfy this pledge:

- It would require registration of all professional lobbyists, and provide a more effective definition of lobbying. (Currently, only a narrow range of lobby-

ists actually have to register.)

- It would streamline lobbying disclosure requirements by consolidating filing in a single form and location, and replacing quarterly with semi-annual registration.
- It would require identification of "coalition members" who are, in effect, clients.
- It would create a new entity within the Justice Department to administer the statute.
- It would substitute fines for current criminal penalties.

The lawyer's loophole

During the campaign, we promised to eliminate the "lawyer's loophole," which allows lawyers to disguise lobbying as legal work, and thus avoid disclosure. This is not a problem substantively or politically, though some lawyers may get upset.

Foreign agent loopholes

As we discovered in preparing the revolving door rules for the transition, the definition of "foreign corporation" in the Foreign Agent Registration Act is inadequate. We need to modernize the definition to insure full disclosure.

Revolving door legislation

Our legislation should place into statute your pledge to close the revolving door between government service and lobbying. Our proposal should codify: the five year ban on lobbying by senior government officials; the lifetime ban on foreign agent registration; and the five year ban, for trade negotiators, on lobbying for foreign governments or corporations.

The major question is whether we want to apply the rule to Members of Congress and their staffs. This is good public policy, but controversial, and largely a political call.

MOTOR VOTER ELECTION REFORM

The National Voter Registration Act, known as the "motor voter" bill, is a strong, pro-democracy bill. It would make it easier for millions of Americans to register and vote. During the campaign you attacked Bush for vetoing the motor voter bill.

We believe you should actively push for the motor voter bill by sending it to Congress in a legislative message at the opening of your term. The version vetoed by Bush was fine — no need for changes. However, one possibility would be to create a \$50 million motor voter grant to help states update their voting apparatus and computer systems to comply with the law.

The bill has five main provisions:

1. *Driver's License Registration:* States must permit on-site registration by driver's license applicants. About 85% of eligible voters have driver's licenses and another 5% receive I.D. cards there.
2. *Registering While Picking Up State and Federal Assistance:* States must permit on-site registration at all state offices providing public assistance, unemployment compensation and services for persons with disabilities. Voters can also register at federal agencies.
3. *Registration by Mail:* The FEC will provide a mail-in registration application.
4. *Voter Roll Purges:* Automatic purging — for not voting over a certain period of time — is prohibited. States can only purge names with proof the voter moved or if a voter does not respond to a registrar's reminder card.
5. *Exemption:* States that currently have election-day registration are exempted.

Advisers Consulted

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John Sharp, Comptroller of Texas

Alan Schick, Brookings Institution

Government Accounting Office

OMB Management career staff

Jim Dean, GSA

Stephanie Smith, Congressional Research Service

Don Goldberg, House Government Operations Committee

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Larry Caviola, House Armed Services Committee

Ed Gleiman, Senate Federal Services Subcommittee
Frank Seidl, OMB
Larry Hicks, Personnel Director, Department of the Treasury
Bob Jones, GSA
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Richard Neustadt, DLC
Julian Epstein, House Government Operations Committee
Lorretta Dunn, Senate Commerce, State, and Judiciary Appropriations Subcommittee
W. Robert Hall, House Post Office and Civil Service Committee
Patty Lynch, Senate Treasury, Postal Service and General Government Appropriations Subcommittee
Council of Great City Schools
National Governor's Association
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John Kamensky, GAO
John Angell, Staff Director, House Budget Committee
Kathy Sykes, Congressman Dave Obey
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Craig Hannah, Majority Leader Gephardt
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Gordon Giffin, attorney and transition team member
Frank Lloyd, attorney with Mintz, Levin, Cohn, Ferris
Linda Gustitis, Chief Counsel to Sen. Levin's subcommittee
Barbara Strack, transition team staffer (on leave from Sen. Levin)
Howard Marlowe, Marlowe & Co., American League of Lobbyists
Roy Dye, Democratic Study Center

Sally Katzen, Wilmer Cutler & Pickering, chair, ABA Section on Ethics
Alan Morrison, Director, Public Citizen Litigation Group.

Appendix 1: Outline of Expedited Rescission Legislation

This proposal would establish a detailed schedule and mandatory procedures which would force Congress to vote on rescissions you propose. Note that we already have legislative language to implement this proposal — we are ready to go.

The bill would establish the following procedure:

1. Within X days after the President signs an appropriations bill, he could send to Congress legislative language canceling up to [X] of unauthorized appropriations and up to [Y] of authorized appropriations.

2. Within two days after the message is received, it would be introduced by the leadership of the body in which the relevant appropriations bill originated. If no action is taken after three days, any member may introduce the rescission bill.
3. The rescission bill is automatically referred to the appropriations committee of the relevant body, and must be reported back to the full body within seven days, without amendment, with or without recommendation.
4. A vote would then be required by the relevant body no later than ten days after the original date of introduction. No amendments are allowed by the full House or Senate.
5. If the bill is passed by simple majority, it is sent to the other body for consideration under an identical procedure. If the bill is defeated in either the House or Senate, the funds must be spent as originally appropriated.
6. No funds could be appropriated under the original appropriations bill until Congress has voted on the President's proposed rescissions. These expedited rescission procedures would only apply to appropriations bills, not revenue raising bills or authorizing legislation. The bill passed by the House would give these new powers to the President for a two year period.

Appendix 2: Committees You Can Eliminate Through Executive Order

A sample:

Advisory Panel for Animal Learning and Behaviour
Weather and Climate Coordinating Committee
Varroa Mite Negotiated Rulemaking Advisory Committee
Academic Advisory Council to the Public Printer
Library of Congress Advisory Committee on the American Revolutions Bicentennial Program

Interagency Cultural Heritage Preservation Preparedness Committee
Joint Sponsoring Committee for the Papers of Joseph Henry
General Conference Committee of the National Poultry Improvement Plan
Art Advisory Panel of the Commissioner of Internal Revenue
Thrift Institutions Advisory Council
Flue Cured Tobacco Advisory Committee
United States Organization for the International Radio Consultative Committee
Advisory Committee on Meat and Poultry Inspection
Agricultural Technical Advisory Committees for Trade in:
Cotton, Dairy Products, Grain and Feed, Livestock and Livestock Products, Oilseeds
and Products, Poultry and Eggs, Processed Foods, Sweeteners, and Tobacco
Dietary Guidelines Advisory Commission, LA
Florida National Scenic Trail Advisory Council
National Advisory Committee for Tobacco Inspection Services
National Advisory Committee on Cotton Marketing
National Advisory Committee on Microbiological Criteria for Foods
Importers and Retailers' Textile Advisory Committee
Management-Labor Textile Advisory Committee
National Sea Grant Review Panel
Air Force Reserve Officers Training Corps Advisory Committee
Defense Communication Agency Scientific Advisory Group
Defense Language Institute Board of Visitors
Defense Policy Advisory Committee on Trade
Special Operations Policy Advisory Group
Strategic Defense Initiative Advisory Committee
American Statistical Association Committee on Energy Statistics
Basic Energy Sciences Advisory Committee
Health and Environment Research Advisory Committee
National Coal Council
National Petroleum Council
Advisory Committee to the Director, NIH
Advisory Panel on the Development of Uniform Needs Assessment Instruments
Cancer Clinical Investigation Review Committee
Genetic Basis of Disease Review Committee
Immunization Practices Review Committee
National Advisory Committee on Rural Health
National Advisory Committee on Migrant Health
Pharmacological Sciences Review Committee
Prevention Centers Grant Review Committee
Program Advisory Committee on the Human Genome
Psychopharmacologic Drugs Advisory Committee
Pulmonary Diseases Advisory Committee
Secretary's Council on Health Promotion and Disease Prevention
Technical Advisory Committee for Diabetes Translation and Community Control

Program

Farmington River Study Committee

Garrison Diversion Unit Federal Advisory Council

National Capitol Memorial Commission

Advisory Committee for Cross-Disciplinary Activities

Advisory Committee for Industrial Science and Technological Information

Advisory Committee for International Programs

Advisory Committee for Materials Research

Advisory Committee for Mathematical Sciences

Advisory Committee for Microelectronic Information Processing Systems

Advisory Committee for Ocean Sciences

Advisory Committee for Polar Programs

Advisory Committee for Science and Technology Centers Development

BUDGETARY EFFECTS

(In Billions)

REINVENTING GOVERNMENT							
PROGRAM	FY93*	FY94	FY95	FY96	FY97	FY98	94-98
3 Percent Cut In Annual Real Administrative Costs/100,000 Reduction In Federal Workforce	- .400	-4.16	-6.896	-9.801	-12.908	-16.217	-49.982
25 Percent Cut In White House Budget	-.013	-.014	-.014	-.015	-.015	-.016	-.00.074
Elimination Of Unnecessary Commissions	-.025	-.052	-.054	-.056	-.058	-.060	-.00.280
Enhanced Rescission	-3.0	-6.0	-6.0	-6.0	-6.0	-6.0	-30.000
Motor Voter Grant	0	.050	0	0	0	0	.050
Performance Management Pilot Project	0	.010	0	0	0	0	00.010
Campaign To Reinvent Government	.010	0	0	0	0	0	00.000
REINVENTING GOVERNMENT SUBTOTAL(savings)	-3.328	-10.166	-12.964	-15.872	-18.981	-22.293	-80.276

AN END TO WELFARE AS WE KNOW IT

In your campaign, you set forth two ideas with the potential to transform the lives of millions of Americans: that people who work shouldn't be poor, and that no one who can work should stay on welfare forever.

These ideas represent a sweeping political, economic, and moral imperative for your Administration: to reward work and family, demand personal responsibility, and build broad and lasting support for programs that empower people and break the cycle of dependence.

We know the problem: over most of the past three decades, Washington has burdened the poor with social policies that penalize work and reward failure, economic policies that favor the rich and punish the poor, and a welfare system that saps initiative and undermines personal responsibility. The Los Angeles riots last year proved that the greatest risk of all is doing nothing.

In other chapters, we address empowering the poor by improving the communities in which they live: community development banks, tenant management of public housing, community policing to put 100,000 cops on the beat fighting crime. This chapter is about what the Clinton Administration can do to make work pay, inspire personal responsibility, and end welfare as we know it.

Political Background

During the campaign, you put forward an empowerment agenda that is pro-family and pro-work, including pledges to expand the Earned Income Tax Credit (EITC), make affordable health care available to all, crack down on child support enforcement, and reform the welfare system to educate and train people, and require them to move from welfare to work within two years.

Many of these proposals will be well received in the Congress, where there is much support for an expanded EITC and tougher child support enforcement. The centerpiece of your welfare reform plan -- the two-year time limit -- will be more controversial.

Four years ago, even though both the Reagan Administration and the congressional Democrats supported welfare reform and organized opposition was scarce (the Senate vote was 97-1), the issue tied up Congress for over a year. This time the task will be more difficult. Public employee unions and most advocacy groups oppose work requirements, and some on the Hill share that view. These opponents will not attack the new Administration directly if they can help it, but behind the scenes they will work to expand the exemptions, weaken the sanctions, and undermine the work

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Due to these impediments, the support of the states will be critical – even more important than it was in 1988. Gov. Romer has offered his help, and Carol Rasco has asked the NGA to set up a working group to help us develop a bill they can support. Sen. Moynihan and Rep. Matsui (the new head of the Ways & Means subcommittee) have told us they support this strategy of enlisting state support.

Significantly, the Republican members of the Ways and Means Committee are drafting a welfare reform bill that implements major parts of the Clinton proposal. These Republicans are actually prepared to spend some real money on the program (\$3 billion a year in the out years), so it should be possible to develop a bill with bipartisan and nationwide support.

Strategy

We believe the key to building public support for fundamental reform is time-limited welfare. The key to getting the political support necessary to pass time-limited welfare is to expand the EITC and strengthen child support. And the key to making sure time-limited welfare work is to support and encourage flexibility, creativity, and innovation at the state level.

We believe that you have an opportunity to enact the most sweeping changes in poverty policy since the 1930s: a series of reforms that over the next 5-10 years will replace welfare with work. We envision a plan that takes effect in stages: first, by making work pay, eliminating work disincentives, and strengthening child support enforcement; second, by giving people on welfare up to two years of education, training, and job search assistance; and finally, by requiring all those who can to work, either in the private sector or community service.

In the meantime, we would be building the pillars across the country to support this system: a national service program with community service placement councils at the local level; a health care system that makes affordable care available to all who work; fully-funded early childhood intervention, nutrition, and health programs that make sure all children, regardless of income, can come to school ready to learn; housing programs that give families a stake in how and where they live; and a child support system that enforces personal responsibility through the tax code, not the courts.

That, at least, is the vision. Here are the hard realities of how to get there.

EXPANDING THE EARNED INCOME TAX CREDIT TO MAKE WORK PAY

The guarantee that no one who works full time should have to raise their children in poverty involves two variables — the minimum wage and the earned income tax credit. On the one hand, the higher the minimum wage, the smaller the EITC needs to be in order to bring full-time workers and their families up to the poverty level. But the EITC is a much more effective tool to fight poverty than the minimum wage. While a larger EITC may cost more in direct outlays, its cost to the economy — and to poor people — is much less.

With indexing of the minimum wage at 1992 levels, it will take a \$4 billion increase in the EITC to lift all working families of average size out of poverty. If the minimum wage is not indexed, it will cost another \$500 million. This is a small price to pay compared to the effects of an indexed minimum wage.

A National Crackdown on Deadbeat Parents

The Family Support Act of 1988 required states to 1) ask unwed mothers for both parents' Social Security numbers; 2) begin mandatory withholding; and 3) establish uniform state guidelines for child support payments. The law is working, so far as it goes (collections are rising 10% a year), but the system is still a mess: Wages are withheld in only one of five cases where they should be. One absent parent in four is a deadbeat. It takes one to three years of red tape to track down a deadbeat, and even then he may not pay.

The Bush administration has been slow to carry out the 1988 law. The federal enforcement bureaucracy is a nightmare — one state complained to Congress about cases it had referred to the IRS for collection in the late 1970s that still had not been enforced.

We propose the following these steps to follow through on your campaign pledge to "do almost anything to get tough on child support enforcement" and restore the notion that governments don't raise children, people do.

IRS Collection of Unpaid Support

The current enforcement system performs poorly, and federalizing it would create a unified system in place of the current fragmented one which involves every branch and level of government. But turning the existing child support system over to the IRS would be a massive, costly, and unpopular undertaking. Even the staunchest advocates of full federalization believe it is years away. They recommend that we fix the problems with the current system before considering full federal control.

As an interim step, we recommend keeping most enforcement activities at the state level, but asking child support agencies to report unpaid child support obligations to the IRS at the end of the year, to be collected through the tax system. We should probably limit IRS intervention to interstate cases, where the states are least successful.

Tom Downey and most child support advocates would support expanding the IRS role, but some think that going halfway would further fragment an already unworkable bureaucracy. (David Ellwood, for instance, prefers experiments in child support assurance, as described below.) The argument for moving toward IRS collection is that it has enormous long-term potential, and any additional enforcement would be better than nothing.

Other Child Support Reforms

In October, Congress passed one of your campaign proposals into law, making it a felony to cross state lines to avoid paying child support. But much more needs to be done. We recommend the following changes, which should attract bipartisan support:

- Requiring states to report deadbeat parents to major credit agencies.
- A national registry which would allow states to find non-custodial parents who have moved to other jurisdictions.
- National guidelines so that child support awards do not differ markedly from state to state.
- A streamlined paternity process involving paternity determination in hospitals, use of a simple affidavit, and use of the administrative process for contested cases.
- Tougher enforcement of medical support, including elimination of the existing statute that allows self-insured companies to avoid providing health coverage for the non-custodial children of their employees.
- A requirement that all states have central registries of all child support orders and a central mechanism for collecting and disbursing payments; also, employers should be required to report all new hires to the child support agency; and
- Eliminating the current confusing incentives system, with money used for this purpose folded into the regular 1 child support match so that the federal government picks up 85 percent of administrative costs; at the same time, requiring states to spend their federal child support enforcement funds on child support enforcement, instead of using

them to subsidize other programs.

Child Support Assurance Demonstration Projects

Many experts, including Ellwood, believe that time-limited welfare will work only if it is linked to some form of child support assurance, which would guarantee that single-parent families receive a certain amount of money per child, in return for identifying the missing parent and helping track him down.

The advantages of child support assurance are clear: It would help the thousands of children who go hungry when their fathers don't pay, and it would give welfare mothers a greater incentive to cooperate in seeking child support orders.

But the drawbacks are also clear: A national system of child support assurance would be expensive (\$2-5 billion a year), and we don't know whether it will work. Many argue that fathers will be even less likely to meet their child support obligations if they know that government will provide for their children whether they pay or not, and that child support assurance could encourage parents to have children or families to break up in order to receive money. In any case, government shouldn't promise to make child support payments until it proves it can collect them.

We recommend a series of demonstrations to see whether child support assurance works before committing to a national program. At the same time, we can measure how much our other initiatives do to improve child support enforcement.

ENDING WELFARE AS WE KNOW IT

The heart of your promise to those on welfare is a radical transformation of AFDC from a program that provides income maintenance to one that provides transitional support and work. This proposal has three components: (1) everyone who needs help can get up to two years of transitional assistance (job search, education, training, child care) aimed at getting them off welfare; (2) cash benefits will be limited to two years; (3) after two years, all those who can work will have to work.

Below, we outline three possible ways to fulfill the vision laid out in the campaign. You should judge them on at least four criteria:

1. **Feasibility** -- Can the states make the program work in the time frame demanded, under the constraints imposed and within the available funding? This is no small challenge; as many as 1.5 million AFDC recipients could be required to work under this program, and even CETA at its peak never topped 800,000 participants. CWEP, the work component of JOBS, currently has only 13,000 participants nationwide.

2. **Results** — Does the reality match the rhetoric? Have we ended welfare as we know it? The reforms have to have wide impact to satisfy public expectations of a real change and to prevent criticism of the program as ineffective. Many will judge success by the toughest standard: the number of people who have moved from welfare to work.
3. **Cost** — Can we afford it? Can the states afford it? And what will we really get for our money?
4. **Flexibility** — It is up to the states to prove that time-limited welfare can work. Surprisingly little research has been done on the overall effects of work requirements on AFDC recipients. Any national program must encourage all manner of experimentation at the state level.

OPTIONS FOR TIME-LIMITED WELFARE

Option 1: Universal Workfare

The most literal implementation of your promise would be to seek an immediate two-year limit on all AFDC benefits and to move as rapidly as possible to implement a nationwide work program for those who pass the limit. States would be required to provide two years of education and training to all who need it, and comply with a relatively rapid timetable for phasing in a work program that would apply to all AFDC recipients after two years, subject most likely to current JOBS exemptions.

Advantages: The best argument for this approach is that it would be a shock to the system, and send a clear, immediate signal that you're serious about ending welfare. Some reformers, including Mickey Kaus, believe that a two-year limit is itself too lenient, and that phasing it in over a long period of time will dilute any impact. This option would affect the largest number of people most quickly, and would give you the best chance to point to large numbers of people moving from welfare to work. The cost per person would also be lower, because most states would turn to workfare rather than public jobs programs.

Disadvantages: This approach would require a massive, rapid phase-in of a program with which the states have little successful experience. The faster the implementation and the larger the number of participants, the higher the cost and the greater the odds that the program will be plagued by poor implementation, the appearance of make-work, and so on.

This approach would also have a chilling effect on state experimentation with creative welfare reform. The more the program demands of states, the less they will be able to take on other challenges. Finally, because of the large scale programs, it would be very expensive — at least \$4 billion a year by 1995 on jobs programs alone — and the

federal government would have to pick up most of the cost.

Perhaps the most compelling argument against universal workfare is that it moves us no closer to your real goal, which is to move people from welfare to real work, not just make them work for their welfare.

Option 2: Demonstration Projects

David Ellwood initially proposed a modest transition to time-limited welfare, starting with ambitious experiments in a handful of states and gradually adding more states over time as we learn what works. He fears that moving too quickly to a two-year time limit nationwide will discourage innovation, overwhelm the capacity of the system, and ultimately lead to workfare, which he opposes. He has outlined a more cautious strategy:

1. Choose a dozen states that are eager to reform their welfare systems, and require them to design policies that will reduce the fraction of recipients who receive welfare for more than 2 years by 25% without cutting benefits. Give the states considerable latitude to experiment and redirect existing funds, so long as their plan clearly encourages work and independence.
2. Require participating states to design a system that can track recipients' participation in employment and training. A comprehensive evaluation plan will have to accompany the state proposal.
3. Require participating states to adopt some form of time-limited cash assistance for those who can work. Some states could adopt CWEP, while others could try time-limited welfare followed by a public/private jobs program.
4. Require all 50 states to dramatically improve their child support enforcement system. Some would be encouraged to adopt child support assurance; all would have to move rapidly to adopt a series of major reforms.
5. Entice states to participate by offering a high federal match — 90% or more. Eventually, all states would be required to participate. In the meantime, we could enact other changes that will help reduce the welfare rolls and make work pay: an expanded EITC, tougher child support enforcement, and national health care.

Advantages: This approach has some appeal. It will encourage state experimentation, produce useful results, and perhaps build both a political and academic consensus for further action. It avoids the risk of creating a CETA-style workfare program that could turn welfare reform into a national embarrassment — and it could be achieved for a lot less money (\$500 million to \$1 billion) and very little political capital. Ellwood believes that the best time-limited welfare system is one where no one reaches the limit,

and it would be a mistake to focus all our attention on making people work instead of moving them off welfare.

Disadvantages: There are obvious drawbacks to any effort to slow-dance the problem. First, asking a few states to conduct experiments in welfare reform without enacting a two-year time limit will not end welfare as we know it. Many observers will consider this issue the key test of whether you are willing to take on the status quo, and pilot projects will be viewed as at best a broken promise and at worst a concession to narrow interests. More important, without a two-year time limit and a work requirement, the Clinton Administration will put off progress in the majority of states and won't move many people from welfare to work.

Option 3: Phased-In Time Limits

This is the "modified demonstration" option. Some aspects of the program would be universal: all AFDC recipients would be guaranteed up to two years of education and training, and all new AFDC cases would have to go to work after two years. But sweeping welfare reform experiments would be funded in a handful of states most interested in reform while phasing in national implementation of time limits for all recipients over the next decade.

Here are the key elements:

1. All AFDC recipients would be guaranteed education and training services during the first two years of welfare receipt.
2. As of the effective date of the legislation, all individuals coming onto the AFDC rolls would be subject to a two-year time limit, after which they would have to work (in other words, the time limit would apply to all new cases).
3. A handful of states would be funded to run five-year demonstration projects to test and evaluate ways of implementing the work requirement and creative welfare alternatives that are broader in nature. As in Ellwood's plan, states would be allowed to redirect existing funds for AFDC, food stamps, and other aid so long as the plan encourages independence without reducing the incomes of most recipients. Rigorous evaluations would be required, and the results of these would be made available to all other states for use in designing their programs.
4. Five years after the legislation becomes effective, all other states will submit plans to the Secretary of HHS for phasing in the work requirement for those long-term recipients already on the rolls on the bill's effective date. This phase-in must, in all cases, be completed by year 10.

Advantages: This option gives states more time to gear up for the work require-

ment. Rather than forcing states to find work for 1.5 million people in a short time frame, applying the requirement only to new applicants would affect a much smaller group, according to unofficial CBO estimates:

Year 3	179,214
Year 4	422,979
Year 5	609,543

This option establishes the principles of time limits and work requirements. It fulfills your campaign commitment, since in time all AFDC recipients will be subject to the work requirement.

Disadvantages: This approach will cost more than Ellwood's option — \$4 billion a year by 1997. As with Option 1, states will still be hard pressed to find meaningful work for large numbers of AFDC recipients.

Summary

We favor Option 3 as the best way to encourage experimentation while requiring broad participation. We believe this proposal can attract a wide range of support from academics like Ellwood, policymakers like Senator Moynihan, and reform-minded governors across the country. The details of such a compromise option may be tough to figure out, but we would like to explore these options and others in more depth with the NGA and state welfare directors.

OTHER ISSUES

Whichever option is chosen as the overall framework for welfare reform, a number of thorny design issues will confront us in drafting a bill and affect how labor, the states, and liberal advocacy groups ultimately view the program. Some of these issues are mentioned below.

Should education and training during the first two years be mandatory?

Some will argue that the goal of welfare reform should be to increase human capital investment. They advocate making JOBS participation mandatory during the first two years. This would be expensive and increase the burden on states. Furthermore, as many as 30 percent of new AFDC recipients leave the rolls within the first six months, so a mandatory program would spend resources on individuals who are in the process of leaving welfare anyway. We recommend leaving it up to the states to decide whether participation should be mandatory for particular groups, although we should consider mandatory participation for teen mothers. We also urge job search

programs, on the grounds that job placement is better than training.

What form should the work program take?

There are numerous models for work programs, and no definitive research as to which is best. We recommend maximum state flexibility in designing the work program. Options would include:

Community Work Experience (CWEP), or workfare, which involves working in a community job for a number of hours determined by dividing the welfare grant by the minimum wage. CWEP is relatively cheap and easy to target, but is unpopular with public employees and advocacy groups.

Public Service Employment (PSE), in which those who work are paid an hourly wage, and those who do not work get nothing. Some allowance would undoubtedly have to be built in to continue providing for the children, but AFDC itself would end. PSE feels more like a real job, and is more popular with labor. It's also more expensive, as labor will likely push for at least 125% of the minimum wage.

Subsidized private sector employment would clearly be the preferred model. For years, AFDC law has permitted diversion of welfare grants to employers who hire recipients. While states have never taken to this approach (employers complain about the administrative burden), groups like America Works have been very successful in moving people off welfare into private sector jobs.

We recommend letting states decide for themselves which kind of work program to use for those who remain on the rolls after two years — Community Work Experience (CWEP); Public Service Employment; subsidized private sector employment; or a combination. That will assure a range of evidence for researchers to study.

Where will we find 1.5 million new jobs?

As with the national service program, community service jobs for AFDC graduates should not displace existing public employees. A Ford Foundation study in 1986 identified some 3.5 million potential labor-intensive jobs that could meet unmet public needs. But it still won't be easy to find jobs for welfare recipients. We will work with AFSCME and service organizations to identify the types of work that should qualify, and develop guidelines for dealing with the difficult issues of displacement that will come up consistently throughout the country.

To reduce bureaucracy, the same local councils described in the national service chapter could be asked to find community service work for welfare recipients. One day, it may be possible for those who are earning their national service vouchers and those who have moved off welfare into public sector jobs to work side by side.

How much work will be required?

Currently, in low-benefit states, the CWEP work obligation is so short as to make the program of little value (in some states it's under 10 hours a week). As a result, about half the states have eliminated the program altogether. We recommend adding the value of food stamps to the AFDC grant in computing hours of work, or setting a floor on the number of hours recipients have to work. While this will be highly controversial, it will also result in a more meaningful work obligation in all states (for mothers with children under six, the work obligation would still be 20 hours/week, as under current law).

What is the sanction for not working?

The sanction for not working after two years needs to be more meaningful than under the present CWEP structure. In Ohio, for instance, the average recipient assigned to CWEP is supposed to work 80 hours per month. If she doesn't, she loses \$60. Since a third of this is made up by an increase in food stamp benefits, the net loss is around \$40. In effect, for every hour she misses, she loses 50 cents. We recommend that the states be required to design more meaningful sanctions, perhaps in the range of 30-50 percent of AFDC benefits. This should probably be designed as an automatic reduction in benefits rather than a sanction to make the program less unwieldy to administer.

Who should be exempt from work requirements?

The Family Support Act currently exempts mothers with children under 3, pregnant women in the last two trimesters of pregnancy, and several other smaller categories from JOBS participation. We recommend exempting these same groups from the new work requirement with two exceptions: mothers who have an additional child while on welfare would only be exempt until the child is one, and teen parents should be exempted as long as they remain in school and are under 18 (it makes little sense to force a 17-year-old welfare mother to drop out of high school because she has been on AFDC for two years so that she can go to work). Finally, the two year grace period ought to be a one-time matter — recipients would not get another two years every time they return to the AFDC rolls.

How should federal funding be structured?

Welfare reform of the magnitude being discussed will cost around \$4 billion when fully phased in — plus another \$4 billion to expand the EITC. We can hardly expect states to provide much of that welfare money when they have only been able to spend two-thirds of the funds available to them in the existing JOBS program. One option, of course, is to provide 100% federal money, but this reduces the states' incentive to manage the money carefully (or so it is said). A workable funding structure

should be the subject of a working group with representatives of the states (NGA & APWA) prior to submission of legislation.

Should states be allowed to impose their own time limits on community service?

Some Republicans may propose taking your idea one step further, by calling for a time limit on public works programs as well. They will argue that our community service proposal will prove to be a disincentive to working in the private sector, and that instead of moving people off the welfare rolls, we will simply be paying them to stay there. We can rebut this argument by making sure that mandatory job searches are a component of any works program.

Other Empowerment Initiatives

We should raise the AFDC asset limit from \$1,000 to \$10,000 for assets retained for improving the education, training, or employability of family members, or for the purchase of a home or change of residence. In particular, the value of an automobile that AFDC recipients are permitted to own needs to be raised from its present \$1000.

You may also want to consider some kind of experiment in Individual Development Accounts to help the poor save — either Tony Hall's demonstration bill (\$100 million in federal matching funds for "the poor man's IRA"), or a more conservative pilot project that allows welfare recipients who lose benefits when they go to work to keep some portion of those benefits in an escrow account that could be used for an education or first home.

Finally, we can begin to reduce the marriage penalty, by allowing mothers to keep a portion of their welfare benefits when they get married (but only for the two-year time limit).

A Note on Budget Estimates

We assume that these policies will result in roughly an 8 percent reduction in AFDC payments by the fourth year. This is in the range of reductions that have been experienced in other welfare reform demonstrations, particularly those administered by MDRC. Some will argue that there is no evidence that work requirements, as such, reduce welfare caseloads. On the other hand, the Clinton program includes a range of policies that goes well beyond simply mandating work. Indeed, this is a more ambitious set of policy changes than has been attempted previously.

Advisers Consulted

David Ellwood, Harvard
Paul Legler, Harvard
Paula Roberts, Center for Law & Social Policy
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Nancy Ebb, Children's Defense Fund
David Kass, American Public Welfare Association
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Geraldine Jensen, Association for Children for Enforcement of Support
Bob Greenstein, Center for Budget & Policy Priorities
Isaac Shapiro, Center for Budget & Policy Priorities
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Mary Logan, AFL-CIO
Doug Besharov, American Enterprise Institute
Jan Peskin, Congressional Budget Office
Ray Shepatach, NGA

BUDGETARY EFFECTS
(In Billions)

<u>WELFARE REFORM</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Expanded EITC	.700	1.000	2.000	4.000	4.200	4.400	15.6
Expanded JOBS	0	.600	1.500	2.600	3.800	4.000	12.5
Child Support	0	.200	.300	.400	.500	.600	2.0
Caseload Reduction	0	0	-.400	-.800	-2.000	-2.200	-5.400
WELFARE SUBTOTAL	.700	1.800	3.400	6.200	6.500	6.8	24.700

AN END TO WELFARE AS WE KNOW IT

In your campaign, you set forth two ideas with the potential to transform the lives of millions of Americans: that people who work shouldn't be poor, and that no one who can work should stay on welfare forever.

These ideas represent a sweeping political, economic, and moral imperative for your Administration: to reward work and family, demand personal responsibility, and build broad and lasting support for programs that empower people and break the cycle of dependence.

We know the problem: over most of the past three decades, Washington has burdened the poor with social policies that penalize work and reward failure, economic policies that favor the rich and punish the poor, and a welfare system that saps initiative and undermines personal responsibility. The Los Angeles riots last year proved that the greatest risk of all is doing nothing.

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requirement.

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That, at least, is the vision. Here are the hard realities of how to get there.

Children and Families

The United States is one of the only industrial nations to ignore the importance of children and families in its tax code and social policies. Over the last twenty years, economic pressures on America's families have increased dramatically while Washington has stood by — and sometimes made things worse. The results of our short-sightedness are plain in every American city: exploding child malnutrition and poverty; a divorce rate bordering on 50 percent; an epidemic of teen pregnancy and youth violence; and, worst of all, an entire generation of children raised without hope.

Throughout the campaign you talked about the importance of families to our nation and children to our future. You promised the American people you would give the nation policies that value families. No issue is more important.

The ideas which follow form the backbone of a progressive government policy to put children and families first. These ideas are not controversial, but they will signal a fundamental change in social policy. We recognize that governments don't raise children — families do. But government can help families raise their kids in good health, with a decent education, and an equal chance to live up to their potential.

The children's agenda which follows emphasizes early childhood development and school readiness. Enacting these proposals will ensure that our children receive quality care, enter school ready to learn, and receive proper immunizations and nourishment.

Children's Agenda

1. Improve child care.
2. Fully fund Head Start to serve all eligible 3- and 4-year-olds.
3. Fully fund WIC by 1997.
4. Fund programs like HIPPI and Parents As Teachers.
5. Increase child immunizations.
6. Enforce the Children's Television Education Act.

The family agenda will empower families to stick together and get ahead. We will provide tax relief to families with children, fight teen pregnancy, and enact the Family and Medical Leave Act.

Family Agenda

1. Acknowledge federal responsibility for family policy.
2. Develop a teenage pregnancy prevention campaign.
3. Sign into law the Family and Medical Leave Act.
4. Increase the personal exemption for children.
5. Make the dependent care tax credit refundable.
6. Provide intensive services to at-risk families.
7. Expand federal efforts to encourage adoption.
8. Make the federal government into a family-friendly employer.

We believe these ideas will help you live up to the promise held forth by your campaign — that in Bill Clinton's America, we don't have a child to waste.

PUTTING CHILDREN FIRST

Child Care

Recommendation:

1. Issue a policy memorandum to the states emphasizing quality assurance and encouraging general standards.
2. Fund the Grants for Licensing and Monitoring Program
3. Reissue a regulation to allow states to pay different rates for different levels of child care.

Experts and advocates agree that you do not need to make major changes in the major federal child care program, the Child Care and Development Block Grant, until its reauthorization in 1995. But there are other ways you can improve child care — administrative actions that will encourage states to focus on quality.

The Bush Administration asked states to guarantee only minimal protection of children. You can demand more by directing HHS to work with the states to encourage stronger licensing criteria and provide guidance on how to set standards and license and train providers.

One important regulatory change would help states encourage quality day care. Right now, statutory language requires states to take into account variations in care when deciding payment rates, but regulations effectively cancel this requirement. By changing the regulations, you can give states an important tool to encourage better child care with higher payment rates.

It will also be helpful to support some funding for the state-oriented Grants for Licensing and Monitoring program, authorized at \$50 million but not yet funded.

These steps will indicate your firm commitment to strengthening child care, but they will not fully satisfy the advocacy groups. They would like to see the Block Grant doubled to \$1.8 billion for FY94.

Others will argue that the focus on standards is a backdoor vehicle for tilting the child care system away from relatives and neighborhoods and toward "professional," bureaucratic services. This issue divided many deeply committed Democrats during the 1990 debate. Nonetheless, we believe that raising standards and funding the licensing and monitoring program are the best, most cost-effective way to improve the quality of child care in America.

Head Start

Recommendation: Increase funding by \$1 billion a year for the next 5 years to provide full services to 3 and 4 year olds, with a 5 percent set aside for Early Start. Once all eligible 3 and 4 year olds are served, the program should implement a sliding scale to add children over the current income level.

Overall Funding Level

During the campaign, you committed to fully fund Head Start. People disagree over just what "full funding" involves. Two years ago, it meant providing existing services, in most cases part-year and part-day, to all 3 and 4 year olds. But today it also means expanding Head Start to begin providing full-day, full-year programs where appropriate, and to provide services for the 0-3 age group.

A full-day, full-year program will help parents who now need to find alternative care in the afternoons and summers. Full-day programs will be especially important for the children of mothers coming off welfare and going to work. But full day/full year programs cost more. CDF's goal of 30 percent of the students in a full day/full year program and 30 percent in a part day/full year program by 1998 would raise the overall cost of Head Start from \$2.8 billion to \$13 billion.

We recommend increasing Head Start by \$1 billion a year for each of the next 5 years. Such an expansion is in line with Kennedy's proposal, although it falls short of CDF's goal.

Early Start

Both CDF and Senator Kennedy propose a new early child development program called Early Start. It would provide Head Start services to 0-3 year olds and comprehensive services to children and their families, including pre- and post-natal services, immunizations, developmental screening, family support services, and home visits (through programs like HIPPI and PAT). Early Start would consolidate several smaller programs which share some of its goals.

We recommend that you begin to fund Early Start with a 5 percent set-aside from Head Start. Early Start funding should be equally divided between Head Start activities for children aged 0-3 and competitive grants to provide comprehensive services to Head Start-eligible families.

Sliding Scale

While no one disputes the success of Head Start, some do worry about segregation by social class. Currently participants are all from a single economic background, despite evidence that children do better in programs that are integrated by class. Mike Smith of Stanford suggests achieving class integration by reconfiguring the program with a sliding fee scale.

Head Start should examine the feasibility of a sliding scale once all eligible 3 and 4 year olds are being served. This step would require an adjustment in the eligibility level and a 10 percent set-aside for children over the poverty line. It would enable Head Start to integrate children of different economic backgrounds and expand services with funds from sliding scale fees.

You did not commit to a particular dollar expansion during the campaign, but Head Start advocates will aggressively press for much heavier spending. In addition, Kennedy is up for reelection in 1994, and he will want to have his imprimatur on whatever becomes law. You need to put your own full funding plan on the table so that others cannot make you look like you are backsliding.

WIC

Recommendation: Full funding by 1997.

According to GAO, pre-natal WIC benefits of \$296 million prevent \$853 million in health expenditures in the first year of life, and \$1.036 billion over an 18-year period. WIC saves money by reducing the incidence of low birthweight by 25 percent.

Currently only 55 percent of eligible pregnant women receive WIC benefits.

According to CBO, in FY91 there were 8.7 million women, infants and children eligible for WIC, but only 4.7 million being served. You can change that by fulfilling your campaign promise and fully funding WIC by 1997.

WIC is popular — not only with Congress and the public, but with business as well. In March 1991, five CEOs testified before Congress about the importance of WIC. They will support you again in this initiative.

Cost: \$361 million in FY94, rising to \$1.1 billion in FY 97.

HIPPY/Parents As Teachers

Recommendation: Propose legislation that establishes a Home Instruction Early Childhood Development and Education Program.

As you have demonstrated in Arkansas, home-instructional, parents as teachers programs help parents and children alike. Programs like Parents as Teachers (PAT) and the Home Instruction Program for Preschool Youngsters (HIPPY) empower parents to change their children's lives — and change their own in the process.

The federal government should provide matching funds to encourage states to develop programs like HIPPY and PAT. We recommend a 70 percent federal match in the first two years of the program, moving to a 50-50 split by the fifth year.

Programs that receive funds can serve all families, regardless of income, educational background, or family structure. But to ensure that the families that most need assistance receive benefits, some of the funds should be earmarked for families-at-risk. Programs should recruit among at-risk families as well.

Each program should train a group of "parent educators" who conduct home visits, group meetings and developmental screening for families. The program should also create a community referral network through which parents can learn about other community services. And each state or local program should have a citizen board to promote public awareness and expansion, encourage local development, and provide consultation and guidance.

Senator Bond and Representative Wheat introduced legislation in the last Congress to encourage states to develop early childhood education programs similar to PAT. With your support, this provision should be relatively easy to enact — whether as a freestanding bill, as part of a school readiness package, or as part of the Elementary and Secondary Education reauthorization.

Cost: \$200 million a year.

Immunizations

Recommendation: Issue two Executive Orders that significantly increase children's access to affordable immunizations.

Currently less than 60 percent of two-year olds in America are fully immunized. It will take long-term health care reform to solve the immunization crisis, but right now you can take immediate steps to improve matters.

We recommend an Executive Order that requires all federal agencies currently providing immunizations to purchase vaccines in bulk. This action will quickly reduce costs and expand coverage. Currently, many government immunization programs buy vaccines from the manufacturer at high private market prices. You can issue an Executive Order requiring all agencies to take advantage of the existing purchasing program through the Centers for Disease Control, which negotiates much lower prices for community health centers and some federal programs.

We also recommend an Executive Order instructing the Office of Personnel Management to require all federal employee benefit plans to insure the full cost of all recommended childhood vaccines. In its annual "call" letters, the OPM should inform all health plans participating in FEHB that they must include full coverage of all vaccines in their bids.

Immunization programs are very popular, and these measures should not prove controversial; indeed, the only question is whether you should go further and propose a national immunization program. Representatives Boxer and Waters introduced a bill last year that would have provided immunization vouchers to children not otherwise covered. The bill would also have established a National Immunization Registry System to track all children in the United States. These more costly efforts can be part of a health care reform plan in the future, not now; but if the health care plan seems to be moving too slowly and the vaccination crisis continues unabated, you may want to support these plans right away.

Cost: None.

Children's Television

Recommendation: Fully enforce the Children's Television Education Act.

In the 1980s, conservatives in Congress and the FCC deregulated the airwaves. In 1984 they eliminated nearly all guidelines and advertising restrictions for children's television. Now we can undo some of that damage.

In 1990 Congress enacted the Children's Television Education Act, which limits

advertising during children's programs, establishes a National Endowment for Children's Television, and codifies the broadcast industry's responsibility to limit violence and look out for children's needs. But conservatives in the FCC and broadcast industry have fought this legislation by relabeling old products and retaining vapid programming. Just as the Republicans recategorized ketchup as a vegetable a decade ago, today they call the GI Joe cartoon an educational program.

Earlier this month Senator Paul Simon brokered a broadcasters' agreement to reduce violence in children's programming. It is a good beginning. You should strongly commit to appointing FCC commissioners who will enforce the 1990 Act.

Cost: None.

A PROGRESSIVE FAMILY POLICY

Federal Responsibility for Family Policy

Recommendation: Articulate a federal commitment to and responsibility for strengthening families.

Senator Daniel Patrick Moynihan draws an interesting parallel between family policy today and economic policy after World War II. The Employment Act of 1946 did little more than create the Council of Economic Advisors, yet it had a far greater impact than any jobs bill. The reason, Moynihan notes, is that the act declared a national policy and marked the acceptance of a previously disputed social responsibility. Similarly, Moynihan suggests, it would be a significant step forward "for a national family policy to declare that the American government sought to promote the stability and well-being of the American family; that the social programs of the federal government would be formulated and administered with this object in mind; and finally, that the President, or some person designated by him, would report to the Congress on the condition of the American family."

It would be appropriate for the HHS Commissioner for Children, Youth, and Families to take the lead in such an endeavor. While Sen. Moynihan's family proposals have sometimes raised hackles in the past, this one appears to enjoy wide support. Language along the lines he suggests was incorporated in legislation that succumbed to the threat of a presidential veto earlier this year.

Cost: None.

Teenage Pregnancy Prevention Strategy

Recommendation: Issue an Executive Order establishing a task force to: (1) make recommendations on incorporating teen pregnancy prevention messages and activities in existing federal youth programs; and (2) launch a media campaign and information clearinghouse, funded with private contributions.

America spends about \$20 billion a year to support the families of teenage mothers. We need a coordinated, broad-based strategy to combat teenage pregnancy. You can take the lead and launch a national campaign to prevent teen pregnancies. The campaign should pull together the resources of government, public education, the private sector, the media, and the entertainment industry to develop a media campaign, provide information and assistance to local groups working to prevent teen pregnancy, and sponsor teen pregnancy prevention demonstration projects.

You can launch this campaign by issuing an Executive Order that establishes a task force to run the campaign and to review existing federal programs affecting youth and determine ways they can better address teen pregnancy. The task force will then work to weave teen pregnancy prevention into drop-out prevention programs, job corps, summer youth employment programs, truancy prevention and anti-gang programs, and the schools.

We recommend setting up a nonprofit corporation or foundation that will take private contributions and coordinate the national media campaign, operate a clearing-house for information on teen pregnancy prevention programs, and make grants to innovative teenage pregnancy prevention programs around the country. The media campaign should ultimately include public service announcements, TV shows, music videos, billboards and advertising, and school-based instructional programming.

This proposal would be very popular. The effort would require limited government funds (on the order of \$5-10 million annually) and focus on a proposition that enjoys wide consensus — that teen pregnancy hurts individuals and society as a whole. The message that “children shouldn’t have children — don’t get pregnant” should deflect the controversy associated with teen pregnancy issues over the last 12 years.

Some questions must be resolved early on, such as: Should the campaign promote abstinence but acknowledge that birth control and abortion are options too? Should the campaign talk about the risk of sexually transmitted diseases?

Cost: \$5-10 million a year.

Family and Medical Leave Act

Recommendation: Early in the first 100 days, sign into law the version of the bill which passed Congress last year; on the same day issue an Executive Order applying the provisions to White House and political appointees.

The Family and Medical Leave Act provides unpaid leave for new parents. It also allows people to take a sick leave when their child, parent, or spouse is ill, or when they are ill. Last year’s bill could become the first you sign this year — fulfilling a promise and signalling change. Key members of Congress and advocacy groups are willing to fit the process to your timetable. They would like to introduce the bill on January 5th, but need a signal from you on how to proceed.

Opponents of the bill are likely to try to undermine it with floor amendments. The sponsors (Dodd and Bond in the Senate; Ford, Clay and Roukema in the House) believe that members will more easily hold the line if they are voting for what they supported last year. If you alter the legislation, you run the risk of a major legislative battle on what should be an easy political victory.

The coalition that signed off on this bill last year — a strong and active group of supporters including labor unions, women's groups, and children's groups — has agreed not to ask for strengthening language. The only group talking about changes is the National Organization of Women, which favors applying the bill to businesses smaller than 50 employees.

For your part, you should consider issuing an Executive Order the day you sign the bill that applies the terms of the legislation to White House and political employees, who are not covered by the Act as written. Doing so would send a strong message to the business community that "we're all in this together"; you will be giving your employees the same benefits you require businesses to give theirs.

Cost: None.

Children's Tax Allowance (Middle Class Tax Relief)

Recommendation: Increase the personal exemption, equalizing it across tax brackets, targeting it at families with young children, and providing a refundable tax credit alternative for those who work.

You can fulfill a campaign promise and support good social policy by giving parents more resources to raise their children. A children's tax allowance will help the middle class, the working poor, and the near poor.

We recommend that you support the provision introduced by Senator Lieberman in the last Congress. It is similar to Gore-Downey, but focuses on families with young children. The Lieberman version increases the personal exemption and adjusts it to provide the same tax value at all income levels. For poor working families who qualify for the EITC but wouldn't benefit from the increase in the personal exemption, the bill also provides a refundable tax credit of the same tax value. Because the costs of raising children decline as children grow older, the proposal also phases down the increased exemption or credit for children above age 5, and above age 9, the exemption returns to the current level.

This proposal is slightly more complicated than a flat credit for all families, but by targeting the working poor and parents with young children, it is less costly and more effective than most other proposals. It would cost about \$9 billion a year. A broader credit for all children would either be very expensive (up to \$25 billion) or much smaller (in the range of \$300-400 per child).

Children's advocacy groups will support refundable tax relief. Moderates and conservatives will support the credit if it doesn't cost too much and only helps parents who work. Rockefeller took heat last year because his proposal was expensive and gave the full credit to those on AFDC.

Many members of Congress have introduced legislation in this area, including Rockefeller, Bentsen, Gore, Dodd, and Bradley in the Senate, and Downey in the House.

Dependent Care Tax Credit

Recommendation: Make the credit refundable and phase it down at upper income levels.

The Dependent Care Tax Credit (DCTC) is a credit for a percentage of the actual expenses incurred for care of a child under 13 or another dependent (a disabled spouse or parent who resides with you). It is worth up to \$2,400 for one dependent or \$4,800 for two or more. The credit ranges from 20% to 30% of expenses, with taxpayers with incomes under \$10,000 entitled to the maximum and those with incomes over \$28,000 the minimum.

Because the credit is not refundable, low-income families usually cannot benefit from it — even though they have the most trouble paying their child care bills. Currently the bottom 40% of households receive only 9% of the subsidies provided by the credit; 49% of those filing for the credit have incomes between \$20,000 and \$50,000; and 38% have incomes over \$50,000.

Only a refundable credit will ease the financial stress on the working poor. The added costs of a refundable credit can be paid for by phasing the credit down or out at upper income levels — lowering it to 10% of expenses for a \$50,000 income or capping it at \$60,000.

Some people argue that the DCTC should be dropped entirely in favor of a children's allowance for all parents with children. A children's allowance would be available to families where two parents work and to families where one parent stays home; the DCTC, in contrast, is available only to the former. The argument for the DCTC is that families where both parents work (and single parent families) need the added help which the DCTC provides. The argument against the DCTC is that many families make a financial sacrifice to have one parent stay at home with children during their most formative years, and that the public sector should recognize these costs and the equal validity of the choice that produces them.

Sixty percent of women with children under 5 and 80% of women with older children work outside the home, many out of economic necessity. A children's allowance would significantly reduce that necessity. Unless the children's allowance were quite large, however, it would not provide working parents with enough money to stay at home. In many cases working parents do not qualify for Head Start or child care assistance from the state; in most cases child care is their largest expense after food, housing, and taxes. In lieu of a large allowance, a refundable DCTC will provide many working parents with important assistance, improving their ability to afford quality

day care for their children.

The Senate passed an amendment making the credit refundable with bipartisan support in 1990, but it was struck in conference.

Cost: \$53 million in FY 94; rising to \$1.2 billion in FY 97.

Family Preservation/Foster Care

Recommendation: Fund innovative family preservation services that keep children out of foster care.

Besides supporting broad-based programs for all families, the federal government needs to ensure that intensive family preservation services are available for families at risk. In H.R. 11, the vetoed tax bill, Congress included a package of amendments to the current child welfare programs which greatly expanded the support services available to at-risk families: payments to states for innovative family support services, substance abuse services for women and children, and respite care for foster parents. These programs garnered significant support, and the sponsors expect them to be reintroduced. The package creates new entitlement spending and must be enacted with a revenue raiser.

Federal funding to help states reduce the need for out-of-home placement is a key to reducing the costs and problems of foster care. By keeping children in homes and out of foster care, intensive family intervention is highly cost-effective.

Innovative family preservation legislation targets three types of families. It offers services to families of children in foster care which enable children to return to their families and enter permanent living arrangements. It offers follow-up care to families of children who have been in foster care. And for children at risk of entering foster care, it provides intensive family preservation efforts and general family support to strengthen families.

The entire package of family preservation provisions passed the 102d Congress, and it will be brought up again this Congress in the same form. Downey and Bentsen led the way on the legislation.

Cost: \$95 million in FY 94, rising to \$320 million in FY 97.

Encouraging Adoption

Recommendations:

1. Reestablish a national adoption database.

2. Ensure that adopted children are not discriminated against in health insurance coverage.
3. Create a tax deduction for special needs adoptions.
4. issue an Executive Order allowing federal employees to use sick leave for adoption-related activities.

A broad-based family preservation agenda should encourage adoptions — particularly of special needs children who often do not get adopted. We recommend four measures:

A national adoption database. A complete national adoption data collection system was discontinued in 1975, and currently HHS collects information only on adoptions supervised by public agencies. By legislation or Executive Order, you can establish a national system to collect data on how the adoption option is being used, by whom, and by what methods. A similar provision was introduced by Senators Gorton, Nunn, and Pressler.

HHS would compile the data in an annual report, analyze the effects of governmental adoption assistance, and make recommendations for other actions to remove barriers to adoption. The information can guide public policy on the tough adoption issues: public versus private adoptions, international adoptions, confidentiality, restrictions on who can adopt, and so on. It will also help federal and state agencies determine how to increase adoption of special needs children.

Health insurance. Too often, children placed in homes before the finalization of their adoptions do not receive coverage under their family's health insurance, and pre-existing conditions are seldom covered.

You can ensure that adopted children are treated just like other children by amending the Employee Retirement Income Security Act and barring discrimination against adopted children in the Federal Employee Health Benefit plan and in CHAMPUS. You can also commit to including in any health reform package the requirement that adopted children be covered by the family policy at the time of their placement, regardless of their physical condition.

Special needs adoption. Over 70,000 special needs children are awaiting adoption, and their problems grow worse as they remain in foster care or group homes. Providing tax relief for special needs adoption expenses helps adoptive families with the costs of adoption in much the same way that health insurance, government health care programs, and the tax deductibility of some expenses assist families who give birth. If you want to support adoption, make it easier for those who are not upper-middle class to adopt, and encourage the adoption of special needs children, tax relief is an important step.

We recommend a tax deduction for special needs adoption expenses of up to \$5000, phased out at an income level between \$80,000 to \$90,000. Because there are plenty of adoptive parents for children with no special needs, and because a deduction for all adoptions would be very costly, the deduction should be available only for special needs adoptions.

Federal employee adoption policy. As noted elsewhere, you should apply your family policies in the federal employment arena. An Executive Order allowing federal employees to use sick leave for adoption-related procedures (home visits, visits to the state or country where the child lives, court proceedings) is a cost-free way to support adoption.

This would be popular among pro-life and pro-choice advocates alike. Republicans and Democrats in Congress have been active on these issues, including Senators Nunn, Gorton, and Hatch and Representatives C. Smith, Armey, and Schroeder.

Cost: A tax deduction for adoptions would cost \$1 million in FY94, rising to \$18 million in FY97.

Federal Government as Model Employer on Work and Family Issues

Recommendation: Issue an Executive Order that requires federal agencies to assess employees' child care needs, encourages the establishment of more on-site day care, and asks agencies to determine which jobs are appropriate for part-time, flextime, job sharing and telecommuting.

The federal government is the country's largest single employer. Pledging to make the federal government a model employer on work and family issues is a simple, no-cost way to send a message that your Administration is committed to working parents and their children. And you'll send a special message to businesses -- that as the federal government encourages businesses to become more involved in child care and education, it is dealing with these issues itself in inexpensive and productive ways:

Child care. While the Department of Defense has more than 600 child care centers serving more than 95,000 children, the rest of the government has facilities for only 2,000 kids — though 200,000 federal employees have children who require child care. We can do better.

Under existing law, the federal government can provide unused space in federal buildings to child care centers free of charge. But it has not taken full advantage of this ability. You can issue an Executive Order requiring agencies to survey their employees' child care needs and space availability, and to make needed child care available to employees. The federal government should also review the elder care needs of its employees.

Flexible Work Schedules. The federal government has already developed some initiatives for flextime, part-time work, and telecommuting. But policies have not been consistent within or across agencies, and employees often do not know what options are available to them. All agencies should be directed to determine which jobs are appropriate for part-time, flextime, job sharing and telecommuting, and to make it easier for their employees to participate in these programs.

Cost: None.

Advisors Consulted

Wendell Primus, Rep. Downey's staff, House Ways and Means
Margaret Malone, Sen. Bentsen's staff, Senate Finance
Ed Gleiman, Governmental Affairs Committee
Rich Tarplin, Sen. Dodd's staff
Leanne Jerome, Senator Bond's staff
Maxine Waters' staff
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Nancy Duff Campbell and *Shirley Sagawa*, National Women's Law Center
Robert Greenstein, Center for Budget and Policy Priorities
Lynn Kagan, Yale, Bush Center for Child Development
Sarah Green and *Linda Likens*, Head Start Association
Mike Smith, Stanford University
Tom Shultz, National Assn. of State Boards of Education
Miriam Westheimer, HIPPY USA
Joyce Rouse, Parents as Teachers National Center

BUDGETARY EFFECTS
(In Billions)

<u>CHILDREN & FAMILIES</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Family Preservation Services	0	.095	.220	.300	.320	.340	1.275
Tax Deduction For Adoption \$5,000 deduction phased out at \$80,000-\$90,000 AGI	.001	.018	.019	.019	.019	.020	.095
Grants For Licensing And Monitoring	0	.025	.025	.025	.025	.025	.125
Head Start	0	1.000	2.000	3.000	4.000	5.000	15.000
HIPPY	0	.200	.200	.200	.200	.200	1.000
WIC	0	.361	.570	.776	1.083	1.110	3.900
Dependent Care Tax Credit	0	.053	1.12	1.14	1.2	1.248	4.761
Children's Tax Allowance	0	4.77	9.60	9.72	9.72	9.72	43.53
Teenage Pregnancy Prevention Strategy	0	.008	.008	.008	.008	.008	.040
CHILDREN & FAMILIES SUBTOTAL	.001	6.53	13.762	15.188	16.575	17.671	69.726

Education and Training

"In the first 100 days of my Administration, I'll give Congress and the American people a real education reform package."

— East Los Angeles Community College
May 14, 1992

The central goal of your campaign for President and your work in Arkansas has been to close the opportunity gaps between ourselves and the rest of the world, and among our own people. Those gaps lie not only in how much we spend on students, but in the kind of courses they get in school, the opportunities they have afterward, and the amount of attention and involvement they get at home.

Other chapters address some of these gaps: The Children and Families chapter includes proposals for Head Start, WIC, HIPPIY, and other efforts to see that every child comes to school ready to learn. The National Service chapter lays out a plan to expand opportunity for those who go to college and those who do not. The Crime chapter calls for a program to make schools safe, and anti-gang initiatives to give young people something to belong to besides gangs. Finally, the chapters on government reform and welfare reform set out ways to close the responsibility gaps in our society, from bureaucrats who would rather shuffle paper than change lives to deadbeat parents who cheat their children out of much more than money.

This chapter deals primarily with elementary and secondary education. It is based on the goals you laid out during the campaign: to develop a national apprenticeship system that gives students the basic skills they need to get and keep good jobs; to establish world-class standards in math, science, and other key subjects; a meaningful examination system to measure whether our children meet those standards; to make sure all kids start out on a level playing field, and recognize that all children can learn. And finally, to challenge government and business to give adults access to the skills and training they need to compete in an economy where what you can earn depends on what you can learn.

1. A National Apprenticeship Program
2. A Strengthened National Education Goals Panel
3. School Reform
4. Quality Workforce Development and Dislocated Worker Training
5. A Supplemental Chapter 1 Appropriation for FY 1993

Our education strategy is based on clear substantive and political goals. First, we believe you will want to show some results early on. For that reason, we have proposed an Executive Order to expand the National Goals Panel.

In the interest of speed, we also recommend that you push Clinton education reform and apprenticeship legislation independent of the Elementary and Secondary Education Act. ESEA is up for reauthorization in 1993, and though it would normally be the perfect education reform vehicle, it could easily get bogged down until late in the session. (A strategy for dealing with ESEA is included in an appendix to this chapter.)

We have also leaned toward creating new, comprehensive education and training systems rather than simply pouring more money into old things that don't work. For that reason, much of our emphasis in the early years is on planning grants to states to encourage development of a system that can take us into the next century.

Finally, our approach to education and training is truly "federal." In every case — education reform, apprenticeships, training — we argue that the federal government should be a catalyst, not the primary provider of services. This approach will encourage a wide variety of experimentation at the state level, and allow the states to develop local strategies that best fit their needs and resources.

A NATIONAL YOUTH APPRENTICESHIP PROGRAM

We believe you should introduce a bill creating a national apprenticeship program early in your term.

Youth Apprenticeship programs span secondary and post-secondary education, developing workplace skills and making college more accessible to a broader range of the population. Most frequently, programs will combine the last two years of high school and the first two years of post-secondary school into a 3-year program leading to a college-level degree or certificate. Youth Apprenticeship programs involve intensive learning at the worksite combined with relevant academic instruction. Participating students should achieve a high level of both academic and work-related skills.

Key components of youth apprenticeship programs include a formal worksite training plan for structured work-based learning; a contract between student, parent, school and employer; industry certification of skill mastery; a worksite mentor; integration of academic and vocational instruction both in school and at the worksite; paid work at levels that increase as students progress through the program; career guidance and exploration for younger students; feeder programs and remediation of students to ensure broad access and continued participation; and the active involvement of employers, schools, students, parents, unions, and community-based organizations in

planning, operating, supervising and setting standards and outcomes.

As you know, creating a national apprenticeship program would be a radical departure for American society and for the federal government. A few key issues need to be considered before we take the leap.

What should we call it?

We need to distinguish between "Youth Apprenticeships" as described here, and the traditional registered apprenticeship programs which have operated in the building trades and selected other occupational areas. The building trades unions are committed to preserving the identity of their programs, and oppose the youth apprenticeship proposals in part because of the confusion over names. We may want to find an alternative name to describe our program.

How many young people can we serve?

There are fewer than 3,000 students presently enrolled in youth apprenticeship programs which meet the definition described above. Hilary Pennington believes that an Administration proposal should aim to create 200,000 to 300,000 apprenticeship slots by 1996 (there are 300,000 people in registered apprenticeship programs), and 1 million by the year 2000. This target is very ambitious, and needs careful study.

The only realistic way to achieve such a goal by 1996 would be to build upon existing programs which meet some but not necessarily all of the components of apprenticeship programs described above. Over time, these programs may mature into more full-blown models, depending upon local conditions.

How much can business do?

Reaching this target will also require an aggressive effort to convince business and industry to offer paid employment slots. While the legislation described below offers some incentives for business, there is a large role for continuing Presidential leadership:

1. Challenging the Business Roundtable and other major national business groups to provide apprenticeships that hire high-school level employees, and to challenge their suppliers to do the same;
2. Requiring major federal contractors, where appropriate, to create apprenticeship slots; and
3. Creating apprenticeship slots within the federal government.

The National Youth Apprenticeship Act

Standards

The National Youth Apprenticeship bill would establish a National Council for Professional and Technical Standards, reporting to the National Education Goals Panel. The Council should be not-for-profit, chartered by Congress, and eligible to receive appropriated funds from Congress, private foundations, individuals and corporations. The Council's membership should include leading figures from post-secondary education, business, labor, government, secondary education, and advocacy groups.

The Council will establish broad performance standards and assessment for college-level professional and technical certificates and degrees in a limited number of broad occupational clusters. The standards will establish a core set of skills, which can be supplemented by states and by individual industries and occupations. This modular approach allows for the initiative of particular states or industries, while still permitting mobility across geographic or occupational lines. The Council would determine the number and nature of the occupation areas, develop the standards, administer the assessment system, and continuously update the standards and examinations.

These standards should be utilized throughout the worker training/human resources system, and not just for apprenticeships.

Developing Programs at the State and Local Level

The National Apprenticeship Program Act would provide support to states and localities for the development and implementation of youth apprenticeship programs.

All states would be eligible to receive planning grants, which would be used to identify occupation and industry areas appropriate for apprenticeship programs; identify communities with the potential to start rapidly; develop plans for expanding to a critical mass of apprenticeship opportunities throughout the state over a five year period; and plan and begin to build the necessary infrastructure of employer networks, state and local labor market information systems, and secondary/post-secondary articulation agreements.

Submission of state plans would constitute an application for implementation funding, provided on a competitive basis. The intent is to fund first those lighthouse states which have already been working on apprenticeships and which can therefore point the way for other states. Eventually, all states would be expected and encouraged to receive five-year implementation grants.

The implementation grants would support the developmental and infrastructure costs of apprenticeships. This could include seed money for employer organizations;

curriculum and staff development; training of mentors in the workplace; development of assessments; and start-up costs for prototype models. Federal funds would not be used to subsidize youth employment, or to pay for secondary or post-secondary instructional programs.

The bill would also create a competitive grant process to support a number of technical assistance programs throughout the nation. Assistance would be provided on such key program components as curriculum and teacher development, credentials and assessment, and formation of employer consortia. The assistance would be aimed at all levels and parts of the system, including state, local and business leaders, educators and worksite mentors, and local employer networks.

The bill would establish an R&D program and an aggressive information clearinghouse, linked to the technical assistance program. R&D would focus on program design problems, the effort to monitor student outcomes, program costs, implementations strategies and barriers, curriculum design, approaches to work-based learning, and incentives and strategies for employer involvement.

Program Leadership and Administration

At present, responsibility for vocational education resides in the Departments of Education and Labor, and in several subcabinet agencies within each of those departments. These agencies would be important in the future. The need for a business-driven program that trains workers of real value suggests an important role for the Department of Commerce as well.

No one has much confidence that any one department could effectively lead and manage the development of the apprenticeship system, as these departments function today. Nor do they believe that any one of the departments has the stature and credibility with all of the relevant constituency groups required to successfully lead this effort.

For these reasons, the bill would establish a National Apprenticeship Agency, combining the functions currently housed with the Assistant Secretaries for Employment and Training, Vocational Education and Higher Education.

A STRENGTHENED NATIONAL EDUCATION GOALS PANEL

We believe the National Education Goals Panel can play a great role in education reform, if it is given a wider mandate. We propose that you issue an Executive Order which would strengthen the National Education Goals Panel by:

- Giving it responsibility for the development of work-related and apprenticeship technical and professional standards, in addition to its existing

responsibility for student performance standards at the elementary and secondary level. This would be accomplished through the creation of a National Council on Professional and Technical Standards that would report to the Panel.

- Making it responsible for developing a national examination system for both work-related and elementary and secondary education.
- Making it a forum for identifying and recommending ways of addressing the most significant barriers to achieving the national education goals. This would turn the panel into an arena for addressing critical public policy questions, well beyond its current, limited role of presiding over the development and reporting of measures of each goal.

This action will underscore your commitment to achieving the national education goals, put your personal imprint on the entity most closely associated with the goals, and demonstrate that you are serious about education reform.

The expanded mission for the panel might require an expanded membership as well, including Cabinet members (Secretaries of Labor, HHS and Education, Director of OMB), business leaders, and possibly education and labor leaders. In addition, we would alter the appointment process for the chair: instead of being appointed by the chair of the NGA, it should become a Presidential appointment. Obviously, these changes will require close consultation with the Governors.

SCHOOL REFORM: THE EDUCATION FOR AMERICA'S FUTURE ACT

In 1993, the Elementary and Secondary Education Act (ESEA) is up for reauthorization. While this would normally be the vehicle for any significant school reform, we are concerned that tying our reform agenda to reauthorization will prevent rapid passage. Everyone is predicting a long and bloody battle over ESEA this year. Thus, we propose that you send an independent reform bill to Congress and move it separately -

- The Education for America's Future Act.

The bill would provide quick action on several components of the campaign agenda, including the development of national standards and exams, site-based management and decentralization of decision making, and public school choice.

Create Standards and Testing

The bill would endorse the national education goals and establish the National Education Goals Panel. The Panel would develop a national, voluntary system of inter-

national competitive elementary and secondary-level standards and assessments, as well as professional and technical standards and assessments to be used in the workplace and in apprenticeship programs. (This would write the Executive Order discussed above into statute — a very important goal.)

Encourage School Reform

The bill would provide support to states to stimulate the development of comprehensive statewide school reform strategies centered around high standards.

All states will be able to participate in this program. In the first year, they will automatically receive an average of \$1 million to develop systemic reform plans, with the amount of funds determined by the population of the state. This formula process allows the funds to flow as soon as they are appropriated, and state activity to begin soon thereafter. After the first year, states will be required to submit grant proposals for careful review before approval. An independent review and advisory group will be established to review and make recommendations to the Secretary on each state's proposal.

The grants will help the states to develop a comprehensive and cohesive strategy for restructuring their education systems. Each plan needs to include specific outcome benchmarks and timelines for which the state will be accountable. The plan should address:

- Standards and assessment.
- Curriculum, instruction, teacher preparation, licensure and continuing professional development.
- Changes in governance, management, financing and accountability needed for a performance-based system.
- Improved health and social services for students and families.
- Strategies for involving parents and communities, including school choice and charter schools.
- The transition from school to work or further postsecondary education and training.

The plan should be both "top down" and "bottom up," showing how local school districts and schools will be engaged and supported in the restructuring process. After the initial planning year, funds should be available for subgrants from states to local districts to support local planning and restructuring.

State and local plans should specify how all available federal, state and local funds will be used to create and operate systems that help all students meet high standards. Once the plans are approved through a rigorous review process, the Secretaries of Education, Labor and HHS will be authorized to provide waivers from laws or regulations necessary for the state to implement its plan and achieve its standards. Deregulating the grant process will provide a significant incentive for states to participate in this program.

The grants should be ten years and used to fund elements of the state's approved plan. The funding level for each state should increase annually, as the number of schools and districts involved also increases. States will be required to provide matching funds, with the state share expected to increase annually.

Level the Education Playing Field Through Reform

In addition, the bill would target additional resources to support systemic reform efforts in urban and rural areas with high concentrations of poverty. We believe even the most impoverished communities can be turned around through the more effective use of existing resources as well as careful additional investments.

The new funding would support the development and implementation of comprehensive, community-wide strategies which pull together services offered by schools and school systems, day care agencies and preschool programs, health and human service agencies, other municipal services such as police, and community-based and non-profit organizations.

The plans should address the same set of issues as described above; provide for specific benchmarks and timelines against which the community would be held accountable; for waivers and flexibility in the use of federal, state and local funds; and for a rigorous review process before awards are made and periodically over the course of the funding period.

There should be substantial amounts of funds available through this program over a ten year grant cycle. The funds would not be used for school operations during the regular school day -- these needs would be met through Chapter 1 of Hawkins-Stafford. The funds would be used to extend school time (days or weekends) within schools or other sites such as community centers or housing developments, to coordinate health services, to establish job placement centers, to make the streets safe, and to provide educational services for adults (particularly non-English speakers). Neighborhoods would develop the plan and then be held responsible for meeting the goals they establish. Funds should also be used for continuing professional development of teachers, linked to standards and assessment.

QUALITY WORKFORCE DEVELOPMENT AND DISLOCATED WORKER RETRAINING

As you discussed throughout the campaign, America needs a training system for the 21st century, designed to boost productivity and give workers world-class skills.

Based on the America's Choice report, this bill will provide for the design, development and implementation of a national human resource development system, to include national professional and technical standards, state and local labor market boards, a strengthened job service, counseling system and labor market information exchange. The bill also contains important proposals for training dislocated workers. The funding levels are consistent with the Kennedy training bill.

The national human resources development system is intended to provide opportunities for all prospective and current workers to obtain the skills needed to compete in a global economy, the information necessary to guide career decisions, and the economic security provided by continuous training and skill upgrading.

This bill must reinforce the goals and procedures of the national apprenticeship program outlined above. For that reason, we have intentionally designed some "systematic overlap" into the bill to insure that states design comprehensive training programs which dove-tail with our apprenticeship efforts.

Creating Professional and Technical Standards

The bill would establish a National Board for Professional and Technical Standards, a private not-for-profit board chartered by Congress, with membership composed of representatives from business, labor, postsecondary education and training institutes and advocacy groups. The board sets broad national occupational performance standards, conducts research and evaluation, and supports the development of industry specific standards through grants and technical assistance.

The standards are intended to be used to certify that individuals meet internationally competitive standards of performance at the sub-baccalaureate level for entry level professional and technical work requiring college level education and training. The standards may be utilized for students coming out of high school, students participating in school-to-work transition programs as well as for training and retraining adult workers.

Once the standards are established, federal training funds under this Act or others should be used only in institutions or programs which succeed in preparing students to meet the standards. All institutions receiving federal grant or loan funds must provide specific cost and student performance outcome information to the public.

This board and the apprenticeship standards board are one and the same — the board would be created by whichever piece of legislation passed first, and dropped from the other.

Workforce Education and Training System Planning Grants

Planning Grants would be provided to states to stimulate the development of comprehensive education and training systems. Each state's plan should address the establishment of:

- A statewide system of regional or local labor market boards, which would be responsible for coordinating federal, state and local programs for job training, vocational education, school-to-work transition programs, adult basic education, second chance systems including JOBS and JTPA, dislocated worker programs, and opportunity cards. The boards will also oversee labor exchange functions, labor market information and job counseling, and data on the outcomes of training and education programs to employers and individuals.
- Programs to provide alternative education, counseling, job experience and placement services to dropouts.
- Close coordination of worker training programs with state youth apprenticeship programs created under the National Youth Apprenticeship Act.
- School-to-work transition assistance for youth including counseling, labor market information, and job placement services.
- Second chance programs for adults including adult basic education, JOBS, JTPA, etc.
- Programs for dislocated workers.
- Technical assistance and referral services to help firms to develop high-performance work organizations.
- Strategies to ensure that education and training programs under the statewide system lead to student attainment of professional and technical certification once those standards are available.
- Strategies for enriching existing co-op, tech prep and other training programs to meet professional and technical standards.

Implementation Grants

States with approved system development plans may compete for five-year grants to implement state/local workforce development systems. Each year's funding is subject to annual review and based on progress toward implementation of approved plan. Under the implementation grant, states with approved plans will be permitted to waive specific federal program requirements to permit coordination and flexible utilization of federal funds.

Up to \$250 million will be allocated on a competitive basis to states with approved plans. The amount of funding shall take into account the size of the state's labor force. It is intended that up to 15 states will be funded to implement statewide Workforce Education and Training Systems during the first year in which implementation grant funds are available, and that each year thereafter, an additional fifteen states with approved plans will be funded.

Second Chance/Dropout Recovery Programs

Federal grant funds will be available to provide alternative programs for dropouts up to age 21 to attain general education standards and to provide school-to-work transition services to enable such youth to actively participate in the workforce. Services include academic instruction, classroom and workplace training leading to professional and technical certification, counseling, diagnostic, placement and testing services.

Up to \$250 million would be available as a 25% match for state and local funds equivalent to those funds which would have been available had the student stayed in school. States implementing statewide Workforce Education and Training System Grants will be given priority to receive funds for Second Chance/Dropout Recovery Programs.

Dislocated Worker Assistance

Given the potential effects of NAFTA on the workforce, the administration needs to include an aggressive dislocated worker strategy in its training program. The goal of our program would be to address the problems of dislocated workers and simplify the current patchwork of federal plans by combining them into a universal program.

Assistance to dislocated workers would be designed around grants based on the number of dislocated workers in states, regions, and industries with the object of providing adequate access to general education certificates and to education and training for professional certificates.

The program would eventually be fully incorporated into the comprehensive education and training network established by the Quality Workforce Development Act, but would use the existing network provided by the Job Training Partnership Act and state agencies in the meantime.

Retraining for Dislocated Workers -- the Federal Effort

The bill would provide for one-third of the appropriated funds to go into a discretionary fund controlled by the Secretary of Labor. These funds are to be used to:

- Fund federal retraining and transitional income-support grant programs for large-scale NAFTA dislocations.
- Fund federal retraining and transitional income-support grant programs for other large-scale worker dislocations, including those resulting from environmental actions, multi-state, and industry-wide worker displacements
- Cover all federal administrative and oversight costs for the programs established by this act.

Retraining for Dislocated Workers — Aid to the States

Two-thirds of the appropriated funds are to go directly to states under a formula that would take into account both the proportional number of total unemployed in each state and the proportional number of workers dislocated as a result of large-scale layoffs and plant closings. States would be allowed to retain 30-40 percent of the grant to run a state dislocated worker unit designated or created by the Governor, to provide for rapid response to state-wide, regional, or industry-wide dislocations, and to administer and coordinate the programs of substate agencies given grants under the provisions laid out below.

States would be required to pass along the remaining 60-70 percent of the money they receive to substate grantees, which would serve as the largest set of direct service providers for workers. As the training infrastructure of labor market boards is fully developed under the Quality Workforce Development Act, we expect that these elements of the infrastructure will play major roles in monitoring and service delivery.

Worker Eligibility Requirements

The bill would provide for a broad range of workers to be eligible for this assistance. No distinctions will be drawn based on the cause of dislocation; the primary requirement will be that a worker's return to his or her previous industry is unlikely, based on regulations promulgated by the Secretary.

The bill would provide phase-out dates and mechanisms for existing federal dislocated worker programs, such as Trade Adjustment Assistance and the panoply of programs under Title III of the Job Training Partnership Act.

FY 93 CHAPTER 1 SUPPLEMENTAL APPROPRIATION

In the campaign, you promised to expand Chapter 1 funding. We recommend a supplemental appropriation of \$250 million for the Chapter 1 program. These funds are needed as a result of the shift to the 1990 Census figure as the basis for distributing Chapter 1 funds. The new figures result in significant losses of funds in virtually every state East of the Mississippi, and equally significant gains in the West.

Current law provides for losing recipients to maintain 85 percent of the previous year's allocation. If there is no supplemental appropriation, virtually all states will be losers — those in the West will not be able to receive the additional funds they are due, and those in the East will experience significant losses. This is especially true in urban areas.

A supplemental of \$250 million will enable states in the West to receive the funds they expect, and bring those in the East to 92.5 percent of the previous year's funding — halfway between what they would otherwise receive and what they received last year. We expect this will keep the entire education community happy, and earn goodwill needed for other initiatives.

A similar amount of money will be needed for FY 94, for the same reasons.

Advisers Consulted

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Appendix 1: ESEA

ESEA is up for reauthorization this year. Ordinarily this might be viewed as beyond the purview of the first 100 days — managing this bill will be a full time job for your Department of Education. But there is consensus that we should at least give Congress some guidance and lay down some markers early in the session to insure that the final product supplements our reform agenda. For example, there is a growing consensus that Chapter 1 can be written in such a way as to force some real systemic change.

ESEA, the primary legislative vehicle for education-related government action, with a FY 1993 appropriation of over \$8 billion, comes up for re-authorization in 1993. It is very likely to require the entire legislative session to be re-enacted both because of its size and complexity and because population shifts from the Northeast and Midwest to the sunbelt will generate substantial formula funding conflicts.

Of the \$8 billion in appropriations, almost 75 percent is in Chapter 1, a program which provides supplemental services for low scoring students in high poverty areas in almost all of the school districts throughout the nation. (Chapter 1 will be the formula battleground.)

The other program with a strong political constituency is Title VII, the Bilingual Education Act. Although the appropriation is relatively small — about \$200 million — Title VII is symbolically very important to Hispanic Americans. A less powerful but also important group served in this act are Native American school children who do not go to a tribal school.

Most of the other programs are targeted on specific problems generally related to especially needy students (e.g. dropouts, drugs) or are capacity building programs (Chapter 2 Block Grants to States and the Eisenhower Program for providing assistance for teacher training and other purposes for improving mathematics and science instruction.) Many of these programs have strong Congressional sponsors.

Because of the scope and complexity of the Act and its politics it is not possible within this appendix to set out detailed specifications of proposals for reauthorization. It is possible, however, to sketch out some of the principles which should drive the reauthorization, with special attention to Chapter 1, and to establish a rough timetable for working on the Act.

Principles for Re-authorization of Hawkins-Stafford

Achieving the National Education Goals provides a fundamental rationale for reauthorization proposals. In the past the changes to Chapter 1 and to Title VII and the creation or modification of other general support or categorical programs in ESEA have

not been developed in the context of an overall set of national education goals or strategies for achieving these goals. This must change. Five principles should drive the reauthorization:

Focus on outcomes and high standards for all: The driving focus for all of the programs in the new authorization ought to be bringing all students the opportunity to succeed in achieving high performance standards. For example, the targeted students in Chapter 1 and Title VII and other programs ought to be expected to perform to the same standards as other, more "educationally advantaged" students in their states.

Focus on supporting systemic state and local reform in order to help provide all students, especially the most needy, the resources necessary to give them the opportunity to attain high state performance standards: The general service programs such as Chapter 2 and the Eisenhower Math/Science program must be focused on addressing as a top priority the systemic changes necessary to assure that all schools that serve identified populations are of high quality. This means building a strong state and local district capacity to train incoming teachers, provide substantial professional development to present teachers, develop high quality curriculum materials, and design assessments which are in line with the state content standards.

Target resources on the highest poverty schools: Though politically difficult, the population-specific categorical programs such as Chapter 1 and Title VII should be focused on the schools with the highest concentrations of poor and otherwise especially needy students.

Establish school accountability for performance and results: States must have a system of incentives, interventions, and other consequences which reward improvements in school and school district performance and effectively turn around instances of continued poor or declining, school or district performance.

Build strong relationships with other service sectors which interact directly with schools: This includes the health sector, adult education, and the labor training sector. There are a variety of places within Hawkins-Stafford where this could be strengthened including Chapter 1.

The ESEA Legislative Schedule

The House and the Senate each plan to hold hearings on the Hawkins-Stafford Amendments during the early months of 1993. It is incumbent on the new administration to have a fully prepared bill ready for Congress by April 15, 1993.

Under a fast timeline, the House Subcommittee on K-12 education would begin to mark up a bill in early summer, perhaps late May or early June. With more to do, the Senate Committee probably would not begin to mark up a bill until later in the sum-

mer, even under an accelerated schedule. It is very important that the bill marked up in both the House and the Senate be the administration's bill.

This means that the Administration (the Secretary and possibly the President) must meet as soon as possible with Congressmen Kildee and Ford and with Senators Kennedy and Pell to work out a schedule for consideration of Hawkins-Stafford, and arrange with them for subcommittee markup of the Administration bills.

Appendix 2: America 2000

You need to decide what to do about America 2000. America 2000 is currently housed in the Department of Education with funding from the Secretary of Education's Discretionary Fund. Like so many of the Bush Administration efforts, this never amounted to much more than a PR effort. States, cities and schools were urged to become "America 2000 states," and "America 2000 Schools." They pledged to adopt the National Education Goals and figure out how to meet them.

When they so designated themselves, the Secretary recognized them and added them to the list. There was always an implication of money somewhere down the road. In fact, the rhetoric specifically said that to receive America 2000 money, it was necessary to be in an America 2000 state. Many communities believed what they were told and started the process, with little or no capacity to make any decision or judgement regarding education or school reform which would look different from business as usual.

The question for us is whether that enthusiasm and effort can be captured and redirected to support the overall education goals of this administration. We recommend that we look for a graceful way to encourage communities to continue their reform efforts under a different rubric.

BUDGETARY EFFECTS
(In Billions)

<u>EDUCATION & TRAINING</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
National Education Goals Panel	.034	.034	.037	.037	.038	.038	.184
State And Local Reform Grants	0	.050	.100	.150	.200	.200	.700
Urban Reform	0	.125	.125	.125	.125	.125	.625
Youth Apprenticeship	0	.075	.175	.325	.525	.750	1.850
Chapter 1 Supplemental	.250	.520	.540	.561	.583	.606	2.81
Office Of Educational Research And Improvement (Reauthorization)	0	.010	.014	.014	0	0	.038
Quality Workforce Development Act	0	.025	.625	.886	1.137	1.40	4.073
Dislocated Worker Assistance Act	0	.500	.500	.500	.500	.500	2.500
EDUCATION & TRAINING SUBTOTAL	.284	1.339	2.116	2.598	3.108	3.619	12.780

A NATIONAL CRIME STRATEGY

In 1992, for the first time in decades, Democrats were able to neutralize the crime issue. This happened not only because of your solid record on crime, and Bush's spotty one, but because you put forth innovative crime fighting ideas that showed ordinary people you cared about their safety.

This chapter fleshes out the important crime proposals you discussed during the campaign: putting 100,000 new police on our streets; passing the Brady Bill; promoting community-based policing; and combating violence against women.

1. 100,000 More Police on our Streets
2. Stopping Gun Violence
3. Boot Camps
4. Expanded Drug Treatment
5. Safe Schools Program
6. Fighting Gang Violence
7. Violence Against Women
8. Death Penalty Reforms
9. A Commission to Study Habeas Corpus Reform
10. White Collar and Environmental Crimes
11. Crime Miscellany

We believe these proposals should be sent up to Congress as an omnibus crime package at the opening of the session. This package would pass quickly; demonstrate that you intend to keep your campaign promises; prove that you truly are a different kind of Democrat; and make a tangible difference in the lives of ordinary Americans.

Each of these initiatives is significant in its own right. Combined, they would represent the most sweeping federal assault on crime in our nation's history.

100,000 NEW POLICE OFFICERS

No single crime-fighting idea you talked about was as revolutionary as putting "100,000 more police on our streets." It is good policy and good politics — simply stated, more cops means better protection. Currently, there are only 500,000 police in America. Thus, we are proposing a significant, 20% increase.

We propose putting 100,000 more police officers on the street by the end of FY97 through the Police Corps, a plan for military retirees, and increased aid to local law enforcement. This will also meet your campaign pledge to expand assistance to local law enforcement for community policing.

Police Corps

The Police Corps will provide four-year college scholarships of \$7,500 per year in exchange for four years of service as a police officer. Students must also participate in two summer training programs, paid for by the program, to prepare them to serve upon graduation. At the outset, the Corps will also provide "retroactive" scholarships: forgiving a student's debt up to the maximum amount in exchange for a prospective four year commitment to serve. The Police Corps will put 50,000 new officers on the streets by the end of FY97. We will also provide funds for scholarships for existing police officers, to enable them to advance and complete their educations.

One budget issue deserves special attention. Since its inception, the Police Corps has had a "soft underbelly:" the question of who will pay the Police Corps graduates. As originally conceived, the incentive to hire Corps graduates was the promise that they could be paid sub-standard wages and benefits. This element of the plan was dropped many years ago to appease police groups. To overcome this deficiency, and to insure that the Police Corps plan works in practice, we propose that the federal government subsidize a portion of the graduates' pay, a stipend of \$5,000 annually per Corps member hired, paid to the employing police force. The cost of this stipend is \$400 million annually when the Corps is fully operational — but we believe it is necessary to facilitate the implementation of the Police Corps plan. This plan is consistent with your national service proposal, but is separate from the National Service Trust Fund. We believe that Congress is more likely to fund, and police groups more likely to support, a freestanding ROTC-style program that recognizes the rigorous nature of police work. In short, police groups don't want to deal with rookie cops who will only be around for one or two years.

Transfer of Military Personnel to Police Work

We propose assisting individuals who are involuntarily separated or retire from military service in making a transition to police work. In return for working in law

enforcement, former servicemen will continue to receive credit toward retirement benefits as if they were still in the service. This will provide an attractive incentive for individuals to choose a law enforcement career, help us downsize the post-Cold War military on a voluntary basis, and help local police forces reduce their pension costs. We estimate that this program will put 25,000 new officers on our streets by the end of FY97.

Re-Hiring Laid Off Police Officers

During the last few years, thousands of police officers have lost their jobs due to fiscal pressures on city governments and the recession. Helping cities rehire laid-off police officers is essential to our relations with police groups, who will resent new hiring and training while experienced police officers are out of work. It is also good policy — why force departments to hire rookies when experienced officers can't find work? This will put approximately 29,000 more police on the streets.

Putting Federal Police Back to Work

We will redeploy approximately 800 federal agents to the streets from their current administrative and low-priority jobs in federal agencies.

Expanding Aid to Local Law Enforcement/Community Policing

To fulfill our campaign pledge to increase aid to local law enforcement agencies, we propose raising the funding for the Byrne grant, the basic federal grant to state and local law enforcement, from \$550 million to \$1 billion. The increase in funds would be used to help cities develop community policing plans and to provide additional crime assistance to emergency crime areas. We also suggest renaming the grant the Byrne/Gould grant, in honor of Officer James Gould, a slain policeman whose life could have been saved had the Brady Bill been law.

STOPPING GUN VIOLENCE

During the campaign, you committed to three prominent gun-related legislative proposals, which should be sent to Congress immediately.

The Brady Bill

The version of the Brady Bill we believe you should support is the Mitchell-Kohl-Gore compromise text — the only version of the Brady Bill to have passed both the House and Senate. This version subjects commercial handgun sales to a five business-day waiting period during which law enforcement is required to make a "reasonable effort" to determine whether or not there is any legal impediment to the purchas-

er's owning the gun. It also creates a National Felon Identification System that could eventually make it possible to conduct a point-of-purchase background check on individuals buying firearms through a licensed gun dealer. Finally, it provides funding for the computerization of state and local record systems to complete the national system.

A Ban on Semiautomatic Assault Weapons

This proposal would prohibit the possession and transfer of 13 types of new semi-automatic assault weapons specifically named and listed in the bill — weapons favored by gangs and drug dealers. It also applies the prohibition to copies of the listed assault weapons, so that manufacturers cannot evade the law by renaming the listed weapons or making minor or cosmetic changes. The bill would allow the Secretary of the Treasury to recommend to Congress that firearms be added to or removed from the list. Also, it prohibits the future production, sale or possession of ammunition feeding devices holding more than 10 rounds.

Frankly, a ban on semiautomatic assault weapons is not likely to pass Congress, but its proposal fulfills an important campaign promise.

Enhancing Penalties for Gun Crimes

We would increase the penalties for the use of guns in selected, extremely serious offenses: ten years instead of five for using a semi-automatic firearm in the course of a drug-trafficking or violent felony and stiffer penalties for possession of a firearm by persons with a previous conviction for a violent felony or serious drug offense.

Bar leaders and judges may oppose the penalties, but we believe that their inclusion is an important sign of your balanced approach on the gun issue: supporting both reasonable limits on firearms and increased penalties on gun criminals.

An Executive Order Banning Assault Pistols

Finally, we recommend an Executive Order instructing the Secretary of the Treasury to take those steps necessary to ban the importation of assault pistols. Under current law, you cannot take such action directly by Executive Order.

The importation of assault rifles is currently banned due to a 1989 Bush Executive Order. The NRA may oppose your order, but less strenuously than other measures since their funding comes from domestic gun manufacturing interests.

BOOT CAMPS

During the campaign, you pledged to expand boot camps. We would establish 10 boot camps in the Federal Bureau of Prisons, primarily for use by state prisoners. These camps would be located on closed military installations. Like other boot camps, they would provide a highly regimented schedule of physical training, work, remedial education and substance abuse treatment. Eligible prisoners would include drug offenders under age 25 with no serious prior conviction.

In the interim, you can issue an Executive Order, directing the Bureau of Prisons to immediately expand the number of boot camps for federal prisoners. One such boot camp now exists, but it is estimated that there are enough young federal drug offenders on waiting lists to fill three to five more such camps. No legislation is required.

DRUG TREATMENT

During the campaign, you proposed expanded and improved drug treatment programs as key components of an effective anti-crime strategy. In statements and speeches, you called for "treatment on demand," drug treatment in prisons, and treatment for pregnant addicts.

We believe the only way to meet the "treatment on demand" goal is through health care reform: ensuring that treatment for substance abuse is among the basic services offered by a national health insurance plan. The case for including drug treatment as a basic health service is justified by the catastrophic health consequences and costs of drug abuse. For example, an estimated 20% of the medical costs of AIDS cases — \$3.2 billion — are the direct result of IV drug abuse. The 400,000 annual drug overdoses that require emergency room treatment cost the health care system an estimated \$400 million every year.

In addition, we propose a few smaller programs that can help us develop innovative drug treatment approaches in the future.

Expanded Testing: We propose creating a small pilot drug testing and treatment program for offenders arrested and placed on probation for drug crimes. Funding this program at \$100 million would be sufficient to monitor 30,000 drug-addicted offenders — and provide badly needed information on how to run this type of program. If it is successful, it could be expanded in later years.

Fighting AIDS Through Drug Treatment: This would permit states to authorize needle exchange programs that allow IV drug users to exchange used hypodermic syringes for clean syringes. Second, it would authorize interim methadone maintenance programs that allow methadone treatment without the accompanying therapy for a short time, until a therapy slot is available for the addict.

School-Based Efforts to Reach Drug-Addicted Children: According to the Household Survey on Drug Abuse, roughly 1.4 million 12-17 year-olds were regularly (at least once per month) abusing drugs in 1991. While drug abuse among children has declined markedly since 1985, the total is shockingly high. This proposal would center outreach efforts in our schools in an aggressive school-based education and health program. A school drug program could be a great way for you to involve sports stars in the fight against drugs.

Drug Treatment Research: We should support continued research on new promising methods of treating drug abuse, including:

- *Aftercare:* Supports the best treatments to provide continued therapy after the completion of format treatment. use of aftercare programs.
- *Pharmacotherapies* (This is the term for using medicines to treat drug abuse): Numerous promising medicines are currently being researched. This proposal fully funds the existing Medications Development Program, pioneered by Senators Biden and Kennedy. The cost is \$24 million annually.

SAFE SCHOOLS

Rising crime and violence in our schools is disrupting the ability of our students to learn — and taking too many young lives. Although precise figures are difficult to determine, the National Crime Survey reports that nearly 3 million attempted or completed crimes take place every year inside schools or on school property. That translates into 16,000 crimes committed in schools every day — about one every 6 seconds. These include approximately 60,000 aggravated assaults, 300,000 simple assaults, and 70,000 weapons offenses. And everyday, approximately 135,000 youths enter schools carrying guns.

As a result of the increase in violence in our schools, a number of school districts and individual schools are taking steps both to prevent and respond to crime in the schools. These measures often include physical facilities such as safer school design, metal detectors, safety doors, and video surveillance equipment. Many schools have established security officers and employ professional security personnel. Others utilize parents to monitor hallways and restrict access to those with legitimate business. Some schools prepare for disaster with crisis intervention plans and drive-by shooting drills.

During the campaign, you pledged to launch a federal "Safe Schools Initiative so that children could focus on learning again." To make good on this pledge, we propose establishing a grant program to help states develop the types of security and safety programs described above.

We propose spending \$100 million in grants to local educational agencies for the purpose of fighting crime and violence in our schools. The funds could be used for a broad range of anti-crime and safety measures, to include: education programs for crime and drug prevention; in-school counseling programs for victims of crime; crime prevention equipment, such as metal detectors and video surveillance devices; or prevention and reduction of gang-related activities.

FIGHTING GANGS

Gang-related violence has been growing substantially for the last half-decade. In Los Angeles, gang membership grew from 45,000 in 1985 to over 90,000 last year. Statistically, virtually all of the record-breaking tallies for murder, robbery, and violent crime are explainable by considering the epidemic rise of violent crime among people under age 25. By some measures, gangs have become the nation's leading organized crime problem. And in too many neighborhoods, young boys feel they must choose between belonging to a gang — or belonging to nothing at all.

To fight gangs, we propose:

Juvenile Gang Prevention Grants: Authorize \$100 million for fiscal years 1994 to 1996 to support innovative local programs that combat juvenile gangs and drug-related crime and provide alternatives to youth gangs, by, for example, putting Boys' and Girls' Clubs in public housing projects.

Increase Penalties for Criminal Gangs: Strengthen the penalties for use of juveniles to distribute drugs near schools and playgrounds, to protect young people from being used by drug dealers. This initiative provides for enhanced penalties for second offenders who commit illicit drug or felony offenses in association with a street gang.

Support Model Gang Initiatives: To further promote anti-gang programs, we propose that the Attorney General reward and highlight successful local initiatives with grants using the \$50 million in existing Bureau of Justice Assistance discretionary grants. In this way, early in the Administration, you can highlight your commitment to addressing the problem of gang violence.

A Midnight Basketball League: One of the most successful anti-gang programs is the Chicago Public Housing Authority's Midnight Basketball program, which gives kids a place to hang out and play ball late at night when most playgrounds are either closed or racked by violence. The program has proved to be a very successful alternative to gang membership or crime.

Some Members of Congress have called for a "Midnight Basketball Grant Program." Frankly, we think the government has got to stop thinking that the solution

to every problem is a grant. It would be more effective (and less expensive) if you summoned a few top NBA players like Magic Johnson, Larry Bird, and Michael Jordan to the White House and asked them and their teammates to help set up a league throughout the country. The NBA would jump at the opportunity, even if they wound up footing part of the bill, and the resulting publicity would make the program more effective than a federal grant program. Possibilities include having each NBA team set up a league in the city in which they are located. Obviously, endorsement of midnight basketball by the President and Michael Jordan would convince more kids to participate. And the political possibilities are endless.

THE VIOLENCE AGAINST WOMEN ACT

American women are more at risk of being raped or beaten than women living in any other industrialized nation. An American woman is 10 times more likely to be raped than a woman in Italy; 40 times more likely than a Japanese woman. Domestic violence is the leading single cause for emergency room visits by women in this country. Worse, violent assaults on women are on the rise. In fact, from the years 1974 to 1990, violent crimes against men actually fell slightly in this country — but violent crimes against women went up almost 50%. During the campaign, you pledged to “support and sign” the Violence Against Women Act. The Act was first proposed in 1990 by Senate Judiciary Committee Chairman Joseph Biden, and was sponsored in the House by Rep. Barbara Boxer, who made it a substantial element of her successful Senate campaign. We propose to advance the Act in the form that the Senate Judiciary Committee approved it.

The Violence Against Women Act is composed of five titles; each addressing a different facet of the problem:

Safe Streets for Women: This combats rape by increasing the sentences for the offense; requiring rapists to pay mandatory restitution to their victims; and extending the rape shield law to civil cases. Also, the Act provides grants for increased policing, prosecutorial resources, and prevention (e.g., street lights in parks) in areas with high rates of sexual assaults.

Safe Homes for Women: This combats domestic violence by requiring all states to recognize the validity of a spousal stay-away order issued in another state; creating a federal crime for crossing state lines to violate a stay-away order; and targeting funds to support the prosecution of spouse abusers.

Civil Rights for Women: This recognizes a woman’s right to be free from violent attacks based on gender, and identifies such crimes as hate crimes for the first time under federal law — and creates a civil rights cause of action for violations of that right.

Safe Campuses for Women: This provision promotes rape prevention on college campuses. It passed as a separate bill last year.

Equal Administration of Justice: This creates training programs for state and federal judges to create awareness of, and knowledge of, violence against women.

A federal response to this problem is long overdue. It is an important and meaningful campaign promise you should keep.

THE FEDERAL DEATH PENALTY

There is widespread support in Congress for a federal death penalty law, to provide procedures for reinstitution of the death penalty for federal homicide offenses and to expand the death penalty to new offenses. We advocate a federal death penalty law for 54 of the 56 offenses included in the House version of the Crime Bill. Those 54 offenses would include first degree murder, drive-by shootings, and gun-related violent crime. It would not, however, include non-homicidal offenses such as treason or being a drug king-pin.

We would also establish death penalty procedures based on those found in the Conference Report on the Crime Bill:

- Death eligibility only for persons 18 and older, and a ban on the execution of the retarded;
- A requirement of an intent to kill for homicidal offenses;
- Jury instructions to insure a rigorous understanding of the appropriateness of sentencing options — with counsel standards for capital cases;
- Limits to insure that the law applies equally on Indian reservations.

More contentious is the question of “racial justice” provisions: measures sponsored by civil rights groups that would enact a federal law to ban state executions based on statistical imbalances in the race of defendants or victims in capital cases. From a civil rights perspective, a crime bill without a “racial justice” provision is a federal sanction of racist justice. From a prosecutor’s perspective, winning a federal death penalty law which affects 5 cases per year, but comes linked with a “racial justice” provision that forbids 2,000 state capital sentences annually is no victory at all.

While the Racial Justice Act has commendable intentions, we cannot recommend its inclusion in a Clinton crime bill. It was rejected by both Houses of Congress last year, and stands no realistic prospect of enactment. It will arouse intense ire from prosecutors across the country.

Instead, we would recommend that in sending the death penalty legislation to Congress, the President take three steps:

- First, direct the Justice Department to study the issue of racial basis in capital sentencing in state systems, and present recommendations for addressing any disparities found in those systems.
- Second, implement rigid prosecutorial guidelines to insure that no such disparities arise in a new, federal death penalty regime.
- Third, issue an Executive Order to guard against racial discrimination in the implementation of the federal death penalty.

HABEAS CORPUS REFORM

The single most contentious issue in past crime bill debates, habeas reform, is a no-win proposition. Though it is hard to believe, this issue — along with gun control — sunk a 400-page omnibus crime bill that had overwhelming support in all other respects. This highly technical, difficult issue can ruin an anti-crime package — and must be dealt with carefully by the new administration.

During the campaign, you promised to support “reform of death penalty appeals.” But in comments on these reforms, you embraced a wide variety of plans, saying, for example, that both the ABA reform proposal and a plan prepared by retired Justice Lewis Powell “have merit.” To practitioners, these two proposals are as different as night and day.

Whatever proposal you offer in this area will be viewed as retreating on a perceived campaign pledge. The defense bar expects you to move towards the ABA plan; the prosecutors expect you to move towards the Powell Report — and you cannot do both.

The best answer may be to do neither. We recommend that our legislation propose a Presidential study commission to examine the habeas reform question, and offer answers within one year. This is good politics, and will help pass our crime bill quickly. It is also a good way to bring some clarity to an issue that has overheated beyond reason.

WHITE COLLAR AND ENVIRONMENTAL CRIME

White collar and environmental crimes are two of the hottest areas of federal law enforcement in the 1990s. The number, scope, and nature of the prosecutions are expanding — and the public’s interest and demand for justice against the “robber barons” and “polluters” of the 1980s is pushing this trend further and further along.

The major changes needed in this area are not in the law but in the way the law is enforced. Tough new federal statutes have been enacted in each of these fields in the past five years. The failure of the past four years has not been the lack of legal weapons to attack "crime in the suites," but the lack of political will to do so.

The principal emphasis here, therefore, should be not on new policy measures, but on a new tone and a new approach — coming down just as hard on people who rob banks with pencils as we do on those who rob banks with pistols. We propose:

White Collar Crime Enforcement: This would authorize additional FBI agents, Assistant U.S. Attorneys, and other investigators and prosecutors to step up federal investigation and prosecution of white collar crime. It places a particular focus on financial institution fraud, and on obtaining restitution from those guilty of fraud.

Health Care Fraud Enforcement: This legislation increases the penalties for health care fraud; assigns new FBI agents to track down such fraud; and creates special task forces to detect, investigate, and prosecute these crimes. It also makes full restitution for fraud a major enforcement priority.

Environmental Crimes Act: This proposal, drawn from the 1991 Crime Bill, would require that a judge sentencing a corporation found guilty of an environmental felony add — on top of any other punishment — the requirement that the entity pay for an "environmental compliance audit." The audit would be a mechanism for a court and for regulators to determine the company's current state of compliance with federal environmental laws. The Act would further order the Sentencing Commission to study the penalties assessed for environmental crimes, to determine if those penalties are sufficiently severe in light of the offenses and the need for deterrence.

In addition, you could issue an executive order on white collar crime that would:

1. Create Financial Crimes Task Forces in 25 cities — something that the Bush administration promised but never delivered.
2. Make White Collar Crime prosecution a clear priority, with an emphasis on restitution to victims.
3. Address the need for stepped-up enforcement of environmental crimes.

MISCELLANEOUS PROPOSALS

In addition to the major proposals outlined above, there are ten lesser provisions that merit inclusion in any Omnibus Bill that we might craft.

National Child Protection Act

Often known as the "Oprah Bill," because the moving force behind it is Oprah Winfrey, this legislation establishes a national computerized database against which names of potential school teachers and day care workers can be checked. The database would include criminal history information — essentially, a finished version of the currently rudimentary NCIC system. States that have such systems have found that as many as 1 in 20 applicants for positions as school teachers or day care workers have prior convictions for violent crimes, sexual offenses, or child abuse. The need for a national database is obvious.

Crime Victims - Victims' Rights and Restitution Act

This provision establishes a federal "Victims Bill of Rights," similar to what most states have now adopted. It also expands the use of restitution to victims as a sentence in federal court cases. The victims provision also increases the funds available to victims by removing the "cap" on the Victims' Fund: the fund that collects fines paid by offenders and distributes the money to victims. Currently, when the collections to the Fund exceed \$150 million, all other fines are sent to the general treasury. This amounts to nothing more than a second theft from a crime victim, and should be reversed.

Law Enforcement Family Support

This provides grants to state programs that aid the families of slain law enforcement officers. It is a small (\$5 million) but emotionally important program to law enforcement.

Civil Rights Suits

This is a modest provision that allows the Attorney General to sue police departments for civil rights violations where he/she determines that there is a "pattern or practice" of police abuse in the community. In light of the Rodney King case, this would be a smart move.

Study Rights of Police Officers

This provision orders a study of "Police Officer Bill of Rights" proposals. It was a compromise between those who favor such legislation, and those who oppose it. It should be included in any omnibus bill to maintain that compromise.

Rural Crime

This is a \$50 million, comprehensive program to address the exploding problem of crime and drug in rural communities. The program provides high caliber training to small rural police forces on new developments in crime control; targets some drug treatment funds to small rural communities; and provides excess equipment from federal supplies to rural law enforcement agencies. Rural crime is an increasing problem — and is growing in salience as a political issue. This is a valuable program with a small price tag.

Miscellaneous Drug Control

Two minor provisions: The first tries to limit the export of so-called “precursor chemicals” — the chemicals used to manufacture cocaine — to Latin America. The second is a minor reform provision needed to address technical problems in existing drug treatment grant programs.

Drunk Driving Child Protection Act

This legislation provides a one-year sentence enhancement when a driver is convicted of driving drunk with a child as a passenger in a car.

Illegal Drug Profits Act

This legislation merely requires local courts and jails to file papers akin to Currency Transaction Reports (CTRs) whenever someone pays \$10,000 or more in cash bail. It is a sensible, no cost proposal that may help the IRS track drug profits.

Protections for the Elderly

This proposal raises the penalties for crimes committed against persons who are 65 or older. The enhancements vary depending on the crime.

ADVISERS CONSULTED

We have consulted with a wide variety of individuals and groups in an effort to solicit their input on the crime initiatives.

Members of the Clinton/Gore Crime and Drug Advisory Group

Mark Gittenstein, Mayer, Brown & Platt (former chief counsel to Senate Judiciary).
Gail Hoffman, former Legislative Director to Handgun Control, Inc.
Eugene Ludwig, Covington & Burling
Charles Ruff, Covington & Burling
Laurie Robinson, American Bar Association
Cheryl Anthony Epps, former Legislative Counsel to The International Chiefs of Police
Dennis Eackley, Friend of NJ Attorney General Bob Del Tufo
Michael Zeldin, Counsel, October Surprise Task Force
Mathea Falco, Chief Drug Policy Advisor
Mitch Rosenthal, President, Phoenix House
Leslie Thornton, Brand & Lowell
N. Peter Kostopulos, Watt, Tieder, Killian & Hoffar

Chairman Joe Biden - Senate Judiciary Committee

Chris Putala, Professional Staff
Victoria Nourse, Counsel

Chairman Chuck Schumer - House Judiciary Crime Subcommittee

Andy Fois, Chief Counsel

Senator DeConcini

Dennis Burke, Counsel
Tim Carlsgard, Professional Staff Member

Charlie Rangel - House Select Committee on Narcotics

Ed Jurith, Staff Director/General Counsel

Hon. Don Edwards - Subcommittee on Civil and Constitutional Rights

Ginny Sloan, Counsel
Jim Dempsey, Counsel
Hon. Edward Feighan - Brady Bill Sponsor

Leah Gurowitz, former counsel
Bert Brandenburg, former counsel

Senator Herbert Kohl - Senate Subcommittee on Juvenile Justice

Jon Lebowitz, Chief Counsel/Staff Director

National Association of Police Organizations

Jules Bernstein, Legislative Counsel (also represents the Federal Law Enforcement Officers Association)

International Association of Chiefs of Police

Steve Harris, President
Roy Kime, Legislative Counsel
Dan Rosenblatt, Executive Director

Police Executive Research Forum

Martha Plotkin, Associate Director

International Brotherhood of Police Officers

Chris Sullivan, Legislative Representative

International Union of Police Associations

Robert Kliesmet, President
Sam Cabral, Secretary-Treasurer

Combined Law Enforcement Associations of Texas

Ron DeLord, President

National Association of Attorneys General

Christine Milliken, Executive Director and General Counsel
Lynne Ross, Deputy Director and Legislative Director
Lisa K. Wells Harris, Civil Rights and Criminal Law Counsel

National Association of District Attorneys

Dwight Price, Executive Director
Cabell C. Cropper, Director, American Prosecutors Research Institute (APRI)
Patricia Toth, Director, APRI's National Center for Prosecution of Child Abuse
Terry Farley

National League of Cities

Janet Quist

National Governors' Association

Nolan Jones, Committee Director, Justice Group

National Criminal Justice Associations

Gwen Holden, Executive Vice President

National Organization for Victim Assistance

Marlene Young, Executive Director
John Stein, General Counsel

National Association of Criminal Justice Planners

Mark Coniff

Judicial Conference Committee on Criminal Law

Hon. Vincent Broderick

Handgun Control, Inc.

Bernie Horn

Police Corps

Adam Walinsky

American Civil Liberties Union

Leslie K. Harris

National Association of Criminal Defense Lawyers

Nancy Gertner

BUDGETARY EFFECTS
(In Billions)

<u>CRIME STRATEGY</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
100,000 New Cops/Police Corps	.150	.913	.745	1.200	1.248	1.297	5.403
Byrne Grants/Community Policing	.060	.900	.900	.900	.900	.900	4.500
Brady Bill	0	.100	0	0	0	0	.100
Criminal Justice Drug Testing/Treatment	0	.100	.100	.100	.100	.100	.500
Medications Development Program	0	.024	.024	.024	.024	.024	.120
Drug Treatment Research	0	.149	.149	.149	.149	.149	.745
SAFE Schools	0	.100	.100	.100	.100	.100	.500
Gang Prevention Grants	0	.100	.100	.100	.100	.100	.500
Domestic Violence/Rape Grants	0	.145	.120	.120	.120	.120	.625
White Collar Crime	0	.050	.050	.050	.050	.050	.250
Law Enforcement Family Support	0	.005	0	0	0	0	.005
Rural Crime Initiative	0	.050	.050	.050	.050	.050	.250
CRIME STRATEGY SUBTOTAL	.210	2.636	2.338	2.793	2.841	2.890	13.498

COMMUNITY EMPOWERMENT

When you came back from touring the streets of South Central L.A. in the wake of the riots, you predicted that despite all the media attention, Presidential fanfare, and Congressional breastbeating, a year would pass and nothing in South Central would change. You were right. We must find a way in your Administration to arrest the deterioration of America's great cities and close the gap between the urban poor and the rest of the country. As Bob Rubin has argued, our cities are rapidly becoming a millstone around the neck of the economy -- and the decline of community in America is eating at our soul.

We believe it is time to chart a new course which will help restore hope in the cities. In the 1960s and 1970s, urban leaders, federal officials, and policy experts viewed federal urban policy as a question of dollars — the more you spent, the better the policy. Unfortunately, these past efforts failed to achieve their goals. The country is dotted with urban white elephants which looked good on paper but failed to increase the quality of life.

Our first answer to the problems in our cities must be a radical expansion of individual opportunity — empowering every American with a chance to improve their own lives. A domestic policy for the nation which includes national health care, guaranteed access to college loans, apprenticeship programs for non-college bound youth, and a growing economy will do more for America's cities than any amount of targeted fiscal aid.

Second, we need to recognize that the long-term recovery of America's great cities must be predicated on urban economic recovery. The key to healthy cities is the restoration of private enterprise to our inner cities.

Finally, our programs cannot simply pour money into federal or city bureaucracies. They must empower people and grass roots organizations to help themselves. The solution to our pressing urban social problems is not "more of the same," but hard work leavened with innovation, grass roots empowerment, and hope.

This chapter proposes three major initiatives to restore the American dream to our cities:

1. A Network of Community Development Banks
2. Comprehensive Enterprise Zones
3. Housing Empowerment

These initiatives do not represent a comprehensive urban recovery plan — turning our cities around will take more than federal programs. But they will help expand private

enterprise, create new jobs, and increase the availability of affordable housing throughout our cities.

COMMUNITY DEVELOPMENT BANKS

During the campaign, you pledged to establish a nationwide network of community development banks (CDBs). As proven, cost-effective ways to expand the availability of credit in areas underserved by traditional lending institutions, they are a cornerstone of our urban development strategy. More credit means empowerment — an expanded opportunity to start or expand a small business, buy or renovate a home, or borrow for education and training. Of all the ideas you talked about in the campaign, development banks have perhaps the greatest potential to radically improve conditions in our cities.

Despite their impressive track record during the 1980s, community development banks have not spread throughout the country because of two barriers: the lack of information to guide prospective bank operators on how to start and successfully operate a community development bank and a shortage of start-up capital. To address these barriers, our plan to create a nationwide network of development banks includes two important features:

1. A national information clearinghouse and support system to help prospective development bank operators start and run a profitable, socially constructive institution.
2. A series of federal capital formation assistance options that will dramatically expand the amount of capital available for development bank start-up without creating enormous financial liabilities for the federal government.

In our plan, both of these missions will be accomplished by a single independent institution — the National Community Development Trust.

National Community Development Trust

The National Community Development Trust will be responsible for implementing the development bank strategy. The Trust would have two main tasks:

1. Establishing and investing in a nationwide network of CDBs and related community investment institutions.
2. Supporting these institutions with technical assistance and serving as a clearinghouse for a wide variety of management assistance information.

Because the Trust will be one of the first new government entities established during the Clinton era, we need to take every step to guarantee that it is a successful, innovative, "reinvented" operation and not just another bureaucracy. For this reason, we believe the Trust should be an independent agency rather than falling under a particular department like HUD or Treasury.

As James Q. Wilson writes in his book *Bureaucracy*, nothing is more harmful to a new program or organization than assigning it to a larger, established department with a conflicting sense of mission or a lack of commitment to excellence. Making the Trust an independent agency would give it added prestige and political autonomy. But more important, it would let the staff develop their own sense of mission and operating procedures without interference from the outside.

For example, placing the Trust in HUD, perhaps the most poorly managed department in the government, would guarantee that HUD's pathetic management ethic would be transferred to your program — perhaps with fatal results. In addition, it would place the Trust's funding stream at risk because the permanent HUD bureaucracy would constantly attempt to move its funding to one of HUD's more traditional programs, like HOME. Rural constituencies might also feel slighted if the Trust was located in an agency that has a primary focus on urban issues. Placing the Trust at Treasury would make sense given the fact that CDBs are financial institutions. However, the program's community development mission might get slighted at an agency with no community development orientation. Thus, we recommend creating an independent entity.

The Trust would receive an authorization of \$850 million over five years. The Trust would be run by a President and Board of Directors. The President of the Trust would be a Senate confirmed, Presidential appointee. The board would be comprised of representatives from the Small Business Administration, the Treasury Department, HUD, Agriculture, the bank regulatory agencies, community development financial institutions, and other relevant community groups.

Creating a Community Development Bank Network

Our network will consist of relatively large, chartered community development banks supplemented by a broad array of smaller, less formal community lending institutions.

Currently, there are only a few community development banks in operation, of which South Shore and Elk Horn are the best known. These institutions are banks: chartered, regulated, insured for-profit depository institutions associated in bank holding companies with special-purpose subsidiaries providing technical assistance to the bank and bank customers. Although their low-default experience and overall economic success indicate that having a chartered depository institution within a bank holding

company is the best corporate structure for a CDB, these banks are difficult to establish because they require a great amount of capital and must meet tough standards in order to qualify for deposit insurance. Attempting to build a network of similar institutions in a few short years would be extremely risky.

Several other types of community financial institutions have been very successful in providing much needed credit and investment to distressed communities. For example, community development loan funds, community development corporations, microenterprise funds and other non-profit groups have a great deal of experience and success in promoting community development in under served areas.

Our program would create a network that includes all these types of institutions. This approach will take advantage of the great pool of knowledge and experience that already exists in the community development community by assisting grass roots lending operations already underway, while slowly developing a strong network of safe and sound development banks. A narrow, exclusive "CDB-only" program would make inadequate use of the human resources and substantial expertise that currently exists outside of chartered institutions. In addition, such an approach would greatly decrease the support of the many grass roots organizations and individuals who are needed to make a federal program work but are more comfortable with less imposing, less formal models than South Shore.

Under the proposed program, federal assistance would be available to the entire range of community development financial institutions (CDFIs). For example, the federal government could provide a small capital matching contribution to help a group of citizens and community organizations start a new non-profit community development loan fund; or, a technical assistance grant could be provided to an existing state chartered community development credit union that wanted to expand its business or geographic area.

Although structured to assist all types of CDFIs, the federal program would favor CDBs as the highest form of community development financial institution on the evolutionary chain. The program would recognize that, as chartered, insured entities, CDBs have the greatest ability to leverage funds, the greatest potential to realize economies of scale, and the ability to attract and retain sophisticated lending and management staff. Thus, the federal program would encourage but not require CDFIs which have reached a certain size and level of sophistication to eventually become chartered depository institutions.

This flexible approach will allow individual community groups to follow a strategy that best fits the unique needs of their community and is best suited for their talents and resources, and to receive federal assistance as long as they meet a strict community purpose and community involvement test.

Selecting Network Participants

To receive financial or technical assistance from the National Community Development Trust, a community institution would have to be part of our national community development network. Membership would hinge on three principal qualifications. First, a group would have to exhibit a primary, explicit and very public commitment to community development in a targeted area. Second, the CDFI's loans and investments would have to be directed at supporting community development — with more than 75 percent of its loans and investments directed toward development in targeted communities. In addition, perhaps the most important qualification for federal assistance would be a demonstrated ability to manage a CDFI.

Two concerns emerge in the application process. First, the danger that the process will become too subjective and indeterminate. Second, that the program will be subject to political pressure in Congress. Recognizing both of these concerns, it is essential that the Trust consider a number of additional selection criteria, including:

- Leverage — the number of nonfederal dollars in capital or other support relative to each federal dollar in support.
- Sustainability after expiration of government support.
- Need for federally-supported credit in defined service area.
- Expertise in technical assistance.

This last criterion is extremely important. It is generally agreed that many small borrowers default not because of economic conditions, but rather because of ignorance about management, financial, and legal matters. Existing CDFIs have shown that with active guidance and credit counseling, low income residents of distressed areas can be extremely credit worthy. This counseling is key — CDFIs simply won't succeed without helping their borrowers achieve success.

Accordingly, providing technical and development assistance services to CDFI borrowers is a top criterion for network membership. These services are a necessary complement to CDFI lending activity in order to reduce default rates. Technical assistance to individual borrowers would be provided by each network member either directly through a subsidiary or affiliate, or by contracting for such consulting services through a local organization such as a CDC. As an additional option, several CDFIs could form a regional Technical Advisory Group that would service borrowers or management of several institutions. The National Office would weigh the availability of such services in awarding CDFI financial support.

Capitalizing Network Members

The National Community Development Trust would help institutions accumulate or expand their start-up and operating capital. Individuals or entities applying to

establish a new CDFI or expand an existing one would choose the capitalization/financial assistance options that best fit their needs and prospects. The choice of one option wouldn't necessarily preclude the concurrent or future use of others. The options (discussed in detail in the appendix of this chapter) would include:

- Federal matching grants for capital
- Grants for technical assistance and development services
- Direct loans and loan guarantees for technical assistance or capital projects
- Access\membership in the Federal Home Loan Bank System
- A tax credit to individuals or entities who invest in CDFIs
- Community Reinvestment Act (CRA) credit for banks who assist CDFIs

Providing Technical Support and an Information Clearinghouse

In addition to providing financial assistance, the National Trust would provide information and technical support as well. One of the central challenges facing existing and newly established CDFIs is the shortage of experience in and information about the development and management of their particular type of institution. The National Trust would establish an information clearinghouse for the productive exchange of information about community-development lending and management. This would allow for the dissemination and duplication of innovations — a way for CDFIs to learn easily from the mistakes and successes of others. Some resources should also be made available to support feasibility studies, business-plan development, and application preparation.

The National Trust would have a staff of consultants to work with community groups and banks to improve their operations and help develop community development and lending projects. Shore Bank has successfully operated such a consulting team on a small scale for a number of years.

Starting Off Right

Because the Trust needs to get off on the right foot, we suggest tapping members of the Shore Bank and Elk Horn staffs to run and staff the operation. We believe this could go a long way toward the creation of a successful operation.

ENTERPRISE ZONES

During the campaign, you called for the creation of enterprise zones to spur job creation and economic vitality in America's inner cities. The theory behind enterprise zones is simple. The government gives tax and regulatory incentives to businesses operating in a designated area. This helps existing businesses in the zone to grow, and encourages entrepreneurs to start new businesses to take advantage of the incentives. The result, at least in theory, is a return of private enterprise and the availability of jobs in previously destitute areas.

Enterprise zones remain extremely controversial. Liberals attack them for being "trickle-down". Many economists believe the zones merely redistribute wealth geographically instead of creating new wealth. The evidence from state and local experiments with zones is mixed.

We believe you should go ahead and try enterprise zones on a large scale. Congress has been debating them for years. They have been passed twice by Congress in 1987 and 1992, only to be killed by the Reagan and Bush Administrations. And while there is no conclusive evidence that they will work, they clearly won't hurt. It is time we try them, give them time to work, and see what happens. America's cities are in great trouble, economically and socially. The stakes are so high that any experiment which holds out the potential for success should be tried.

History

Since the early 1980s, 36 states and the District of Columbia have enacted enterprise zone legislation, most offering only tax and regulatory incentives. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October of 1992, Congress passed H.R. 11, (the urban aid tax bill that Bush vetoed in November), which included a proposal for "enhanced enterprise zones."

As passed by both houses, H.R. 11 would enable up to 50 enterprise zones by the end of 1996 to receive an average of \$500 million per year in federal tax incentives. However, liberals opposed providing straight tax and regulatory relief — it sounded too much like trickle-down, and would have been a feather in the conservatives' cap. So they torpedoed straight tax relief, and added on increased social spending by \$500 million a year on a broad array of programs within each zone.

A Clinton Enterprise Zone Proposal

We recommend building on H.R. 11 but making some substantial improvements as well. We recommend creating the same number of zones as H.R. 11: 25 rural, 25 urban. This compromise was the result of intense negotiation on the Hill that no one wants to go through again. However, our approach differs from the bill passed by Congress in two significant ways:

1. We believe that each zone should *not* receive a small amount of additional spending on social programs as proposed in H.R. 11. Social programs are going to receive an enormous boost nationwide under a Clinton Administration — more than the authors of H.R. 11 thought possible. For example, we propose full funding of WIC, Head Start, and child immunization programs; a major expansion of the EITC; and a major increase in aid to local law enforcement. Within this context, we advocate a return to the original intent of enterprise zones — providing business and employment incentives to help restore private enterprise to America's destitute inner cities and rural areas.

These business incentives would be identical to those passed in H.R. 11, to speed passage of the bill in the new Congress: an employer wage credit, increased Section 179 expensing, capital gains exclusion, capital gains deferral, ordinary loss treatment for certain property, and a deduction for purchases of enterprise zone stock.

2. The major criticism of enterprise zones from the left is that they do not provide jobs for inner city residents — workers simply commute in to work at businesses that have relocated to take advantage of lower taxes. In other words, trickle down doesn't work. We believe this critique has merit. However, the answer, in our opinion, is not that zones don't work, or that they must be supplemented by increases in targeted aid to urban governments or social programs. Instead, we believe each zone must be given special employment tax incentives to insure that zone residents do not get left out in the cold. Assuming that poor residents are intended to be the main recipients of the economic benefits of zones, we propose \$250 million in additional employment tax credits for employers who give jobs to welfare recipients. This will ensure that zone benefits do accrue to the poor, while assisting our efforts to end welfare as we know it by substantially boosting the employment opportunities available to welfare recipients.

HOUSING EMPOWERMENT

America's housing programs are in bad shape. After twelve years of Republican rule, funding levels are low, programs are mismanaged, and the corporate ethic at HUD is a disaster — arguably the worst of any federal department or agency. This is sad, because the need for a progressive, comprehensive housing policy has never been greater. Millions of Americans are homeless, public housing residents are trapped in a

web of squalor and dependency, there is a tremendous shortage of affordable rental units, and the American dream of home ownership is slipping through our fingers.

Throwing money at the problem won't work. In its current condition, HUD is part of the problem, not the solution. We believe the best approach is to maintain current funding levels for the HOPE and HOME programs, while implementing reforms that have the greatest chance for success:

1. Permanent extension and support of highly successful tax incentive programs like the Low Income Housing Tax Credit and the Mortgage Revenue Bond Program.
2. Dramatic expansion of the "Moving to Opportunities" empowerment program.
3. Transfer of under-utilized federal housing stock to community groups to house the homeless.

If, after a period of time, the Clinton Administration believes HUD is back on track, a major expansion of current housing programs should be considered.

The Low Income Housing Tax Credit

During the campaign, you pledged to make permanent the Low Income Housing Tax Credit (LIHTC). Authority for the LIHTC expired on June 30, 1992. Permanent extension was passed by Congress in H.R. 11 but vetoed by President Bush. We believe you should ask Congress to pass permanent extension immediately.

Enacted in 1986 and administered by Treasury, the Low Income Housing Tax Credit and the private/public partnerships it creates are proven winners. Despite some complaints about specific provisions, it has been a powerful and fruitful tool of federal housing policy, leveraging our housing dollars for maximum effect. The tax credit is distributed to states based on a \$1.25 per capita formula. The state allocates credits to developers of proposed low-income housing projects. The developer attracts investors who in return receive the credit. The credit costs \$300 million per year.

The LIHTC has extremely important economic and housing effects:

- Since its creation, the Low Income Housing Tax Credit has helped finance more than 420,000 units of affordable rental housing. Currently, it results in the production of more than 100,000 units of low-cost rental housing per year.
- The tax credit accounts for more than one-third of all multi-family rental construction starts and more than 95 percent of low income housing construction.

- The LIHTC is responsible for approximately 60,000 to 90,000 jobs, \$1.8 billion in wages, and \$14 to \$15 billion in associated economic activity.

Permanent extension will increase the effectiveness of the program by providing greater security to investors. It will keep a campaign promise, and send a clear signal both to advocates and developers that we take housing policy seriously.

There are some criticisms of the LIHTC. Some believe we need to increase long-term federal monitoring of compliance and property condition to avoid creating a new stock of substandard housing 15 or 20 years down the line. Others, including the GAO, believe that the credit is too lucrative to developers. While these criticisms have some merit, we are afraid that attempting to "fix" the LIHTC will delay and otherwise imperil its passage, to the detriment of the housing market. Thus, we recommend that you push for immediate permanent extension with the proviso that Congress should investigate the need for long-term reforms over the course of the next session.

The Mortgage Revenue Bond Program

During the campaign you pledged to permanently extend the Mortgage Revenue Bond Program. Like the Low Income Housing Tax Credit, authority for the MRB expired in June. The vetoed H.R. 11 would have permanently extended this program. We believe you should move quickly to extend the MRB program permanently.

The MRB program helps make home ownership a reality for millions of Americans. It is the only federal program which reduces mortgage costs for lower income, first-time homebuyers.

- Since the creation of the program, MRBs issued by state and local housing finance agencies have helped more than 1.9 million lower income households to become homeowners.
- More than 120,000 households were assisted in 1991.
- Assisted buyers are largely blue-collar working people. In 1991, for example, the average MRB borrower earned \$28,740 per year and bought a house with an average purchase price of \$63,123. By comparison, the average unassisted first time homebuyer earned \$43,900 to buy housing at an average price of \$103,800.

Permanent extension will pass Congress without controversy.

Moving to Opportunities

Perhaps the biggest problem with federal public housing programs is that they ghettoize participants. Children grow up in depressing environments, lacking role models, good schools, and a hopeful atmosphere. Parents find few job opportunities, and everyone is constantly threatened by crime and drugs.

One way to break this cycle of dependency and hopelessness is to empower public housing tenants to seek rental housing on their own in better neighborhoods, where there are more job opportunities, less crime, and better schools. People moving from projects to their own rental unit assume a more independent life style and greater responsibility for their own lives.

In 1992 Congress created a demonstration project, Moving to Opportunities, which empowers volunteer families with five years of rental assistance to help them move from projects to their own rental units. Participants are offered Section 8 rental housing assistance, which allows them to leave a public housing project and seek more attractive rental housing in a good neighborhood at a subsidized price. They are also offered extensive counseling to help them to move to racially and economically mixed neighborhoods. The rental assistance contract lasts for five years. During that time, families in the program have a lengthy opportunity to seek better paying jobs, additional education, or training to help them to achieve independence.

The program has tremendous potential to transform housing policy, replacing permanent dependence with temporary assistance. Judging from non-federal experiences with similar programs, it will lead to higher employment rates and improved school performance for kids. Most important, we believe a significant percentage of participants will achieve independence during the five-year period in which they receive assistance.

Currently authorized at \$50 million, the program involves 1500 families in six cities. We propose expanding tenfold to \$500 million.

Housing the Homeless

During the campaign, you talked about transferring federally-owned but underutilized housing stock to community groups to house the homeless. This is a great idea, and well worth pursuing.

As a result of the S&L debacle, the federal government has become one of the largest owners of residential property in the nation. In addition, a large percentage of HUD stock is not in use because of disrepair and mismanagement. The underutilization of these properties remains one of the great "missed opportunities" of national

housing policy. We believe that aggressive pursuit of initiatives to put this housing stock back into play would repay itself many times over. It would also exemplify our commitment to reinventing government — doing more with less by using what we have more efficiently.

Our program would have two parts:

1. A federal housing stock inventory.

Currently, the federal government has a very imperfect idea of what housing stock it owns and the percentage of that stock which would be suitable for housing the homeless. There is an inter-agency task force which attempts to coordinate public housing stock disposition. This group should be up-graded and assigned to produce, in six months on an emergency basis, a federal homeless housing inventory. To ensure that the inventory is as complete as possible, the President should call on homelessness advocates, community groups, and state and local governments to identify housing stock in their area which they believe would be suitable for homeless housing.

2. A federal transfer and rehabilitation grant program.

A federal program would be established to transfer under-utilized federal properties to nonprofit organizations and public agencies for rehabilitation and occupancy by the homeless. Participating agencies would include HUD, the Veterans Administration, the FDIC, the RTC and FmHA. The program would be administered by HUD. Federal housing stock which is currently under-utilized would be eligible for transfer to community groups to house the homeless, and grants would be made available for rehabilitating stock which is not currently habitable.

To be included in the program, properties would have to:

- Have an appraised per-unit value below \$50,000.
- Have been under federal control and unoccupied for more than one year;
- Be located in a low-income neighborhood.
- Have been previously used as low-income housing.

Transferred properties could be used as either transitional or permanent housing. At least 25 percent of the units in permanent housing would have to be occupied by formerly homeless residents. The remainder would be occupied by households with incomes below 60 percent of the area median income and paying no more than 30 percent of that income for rent.

The government would require no payment for transfer of the federal properties. In addition, HUD would provide deferred payment, interest-free second mortgages, repayable upon termination of eligible use or after 50 years, whichever is sooner.

Second mortgage assistance would be limited to \$25,000 per unit occupied by the homeless. No operating or rental subsidies would be available. However, states and localities would be permitted to supplement assistance with existing subsidies in their control, including HOME, CDBG, Low Income Housing Tax Credit (LIHTC), tax-exempt bond financing, and Section 8 certificates and vouchers. Section 8 certificates and vouchers could be assigned as project-based assistance without regard to current limitations.

Because much of the vacant federal inventory of residential property is believed to be unsuitable for occupancy, and because governments and community groups are unlikely to have resources sufficient to upgrade these facilities, our federal disposition program must include grant moneys to rehabilitate and repair transferred housing stock.

POLITICAL OVERVIEW: COMMUNITY EMPOWERMENT

We believe our community development agenda would be popular in Congress and signal that you are a new kind of Democrat, by focusing on new and innovative solutions to pressing problems.

Community Development Banks

There is strong support in Congress for non-traditional community development strategies, and for community development banks in particular. Senator Riegle is perhaps our strongest backer. He included funding for development bank demonstration projects in the latest housing bill, and has signalled that his committee will work with us to pass a comprehensive provision early in the session. The main area of controversy is likely to be reform of the Community Reinvestment Act (see discussion in appendix). Also, Barney Frank and others may argue that the federal government should not be subsidizing for-profit banking institutions. This argument is a bit specious — obviously, deposit insurance, which every bank receives, is a similar subsidy. We provide deposit insurance for the same reason we should support for-profit development banks: because it serves an important social and economic purpose.

Enterprise Zones

Despite the longstanding controversy over enterprise zones, we believe they will pass quickly if you ask for them. In the House, enterprise zones are strongly supported by Gephardt, Rangel, Waters, members from urban districts generally, and members of the Congressional Black Caucus — proof that not all liberals think they are a bad idea. In the Senate, strong supporters are Kennedy, Riegle, Sasser, Mitchell, Byrd and Lieberman. (Bentsen is very skeptical.)

Housing

Everything we are proposing is very popular. As long as we fund the rather modest costs with new money, rather than transferring funding from current housing programs, we should not have too much trouble. Some may advocate a tremendous increase in funding levels for current programs, and in particular HOME. HUD is in such trouble, however, that we believe you can put them off by arguing that we need to overhaul the department before substantially increasing its budget.

Advisers Consulted

Community Development Banks

Bruce Katz, Matt Roberts — Senate Banking Committee
Martin Trimble — National Association of Community Development Loan Funds
Deepak Bhargava — ACORN
George Surgeon — Southern Development Bancorporation (Elk Horn)
Bob Weissbourd — Shorebank Advisory Services, Inc. (SouthShore)
Cliff Rosenthal — National Federation of Community Development Credit Unions
Floyd Stoner — American Bankers Association
Amy Anthony — former Massachusetts Secretary of Housing and Community Development
Bryan Hassle — Center for Community Self-Help (N.C.)
Josh Gotbaum — Lazard Freres
Eugene Ludwig — Covington and Burling
Sarah Kovner — Community Capital Bank

Enterprise Zones

Bruce Katz — Senate Banking (Sarbanes)
Matt Roberts — Senate Banking (Riegle)
Marsha Simon — Senate Labor (Kennedy)
Ken Glueck — (Lieberman)
Chris Walker, George Peterson, George Galster, Tom Kingsley, Ron Mincy, and Margery Turner
Urban Institute Senior Analysts
Bob Greenstein, Paul Leonard — Center for Budget and Policy Priorities
Will Marshall — PPI
Dick Cowden — American Association of Enterprise Zones
Richard Price, Marc Weiss, and James Schuyler

Housing

Bruce Katz — Senate Housing Subcommittee Staff Director
Fred Karnas — National Coalition for the Homeless
Barry Zigas — Low Income Housing Coalition
Paul Leonard — Center for Budget and Policy Priorities
Josh Pozner — Community Builders
Robert Rozen, Grace Reef — National Housing Law Project
Buzz Roberts, Paul Grogan (and others) — Local Initiatives Support Corporation
Dr. Michael A. Stegman — Professor N.C. at Chapel Hill
Anthony Friedman — Powell, Goldstein and former Asst. Secretary under Carter
Larry Simons — Powell, Goldstein

Chris Walker, George Peterson, George Galster, Tom Kingsly, Margery Turner, Ron Mincy —
Urban Institute Senior Analysts
National Council of State Housing Agencies
Kevin Kelly — Senate Appropriations (Mikulski)
Frank DeStefano — House Banking Housing Subcommittee Staff Director (Gonzalez)
Bob Rapozza — Rural Housing

Appendix: Community Development Bank Financial Assistance Options

1. **Federal matching grants for capital.** For a de novo CDFI of any type, the Federal government could provide a start-up capital grant. This contribution would be provided on a one third/two thirds matching basis with private equity raised by the applicant. (The contribution for a community development credit union could be in the form of a purchase of membership shares). In most cases this would be a one-time contribution. The one-time nature of capital assistance would prevent dependence on annual government capital contributions and would therefore prevent political manipulation of CDFIs.

In the case of a for-profit CDB, the federal government could provide a start-up capital contribution through the purchase of subordinated equity. A stock purchase agreement could be structured so that if a given CDB achieved a certain level of profitability, some or all of the government's initial contribution would be repaid. Such an agreement would also give the government additional control and leverage if needed. The government could also choose to retain its equity for an indefinite period.

2. **Soft grants.** Grants would also be made for planning, technical and development services assistance. Grants for this purpose would not have to be made on a matched basis.

3. **Direct loans and loan guarantees.** The government could also make direct loans (at Treasury rates) or provide loan guarantees for expansion, technical assistance, or for other services needed to enhance the CDFIs mission. The loans or loan guarantees would be made at terms to be determined by the government.

4. **Access to the Federal Home Loan Bank System.** The federal government could also pay for CDFIs to join the Federal Home Loan Bank System (FHLB) when appropriate. Because so many of the FHLB's primary customers (thrifts) have disappeared due to insolvency, the system has become an entity in search of a mission. Since the purpose of CDFIs is so close to that of the thrifts of yesteryear (the same thrifts which the FHLB system was originally created to support and regulate), the system is a natural support network for CDFIs. FHLB membership would give CDFIs access to a liquidity facility (a "window") and access to longer term funds at below-market rates for community investment activities. Under current law, any financial institution may join the system (Community Capital Bank, a New York bank founded in 1990 with \$6 million in capital, is currently a FHLB member). However, the cost of membership through a purchase of FHLB stock can be high, particularly for small banks. Having the government shoulder this cost would give CDFIs a big boost.

Although the Home Loan Banks currently have the authority to lend to non-member institutions (as they have recently for state finance agencies) the Federal Home Loan Bank Act could be amended to provide CDFIs an explicit authority to join the system

with full membership rights.

Membership in the FHLB system would not be a substitute for an initial government equity contribution, but would provide a needed source of funding to enable CDFIs to grow and have a greater impact.

In addition, the FHLB system could be directed to examine the feasibility of creating a secondary market for CDFI, and possibly other financial institution loans. As a government sponsored enterprise (GSE), the FHLB system would be a very appropriate vehicle through which to establish a secondary market for CDFI loans — most of which, for reasons of size and credit quality, don't conform to current secondary market standards. A secondary market for small business loans would be particularly helpful to CDFIs and other small financial institutions and could certainly increase credit availability for small businesses.

5. CDFI Tax Credit. The government could provide a tax credit to individuals or entities who invest in CDBs. The tax credit could be modeled on the Low Income Housing Tax Credit with benefits allocated to a community or institution and the total expenditure capped.

While there might be substantial political resistance to creating another tax credit, its potential benefit to CDFIs makes it worth pursuing.

6. Community Reinvestment Act (CRA) credit. The current CRA gives bank regulators broad discretion to decide how, and in what manner, commercial banks may demonstrate that they are making good faith efforts to lend to their local communities. Currently, regulators give banks CRA credit for contributions to and investments in CDBs. Without any legislative action, the regulators could easily let bankers know that a good way to demonstrate "substantial compliance" with CRA is to invest in and assist the formation and/or operation of CDFIs. Such a pronouncement would certainly increase the flow of commercial bank funding to CDFIs and would be a good first step.

One additional step could be taken to provide even greater incentives for banks to assist CDFIs; CRA could be amended to authorize the regulators to give banks enhanced CRA credit for assistance to CDFIs. This step would undoubtedly increase the amount of bank assistance to CDFIs. However, it would also be highly controversial — probably the most contentious part of this CDFI proposal.

Community groups and many members of Congress would view enhanced CRA credit as a way for banks to take a shortcut through CRA. They would see it as a way to lessen banks' existing obligations to meet the credit needs of low and moderated income communities — an obligation which is the foundation of CRA. (Senator Riegle has already stated that he would oppose any bill that provides enhanced CRA credit).

On the other hand, the banking industry would probably fight any CDB proposal that does not give them additional CRA credit. Most banks simply hate CRA. They view it as an overly burdensome and unnecessary form of credit allocation. For many years, they have waged a campaign to weaken and win exemptions from CRA. They plan a major push this year and will certainly view any CDFI legislation as a perfect vehicle through which to achieve their CRA goals. Thus, any legislative proposal that is sent to Congress risks being bogged down on CRA issues.

It is therefore recommended that any decision on CRA in the CDFI context be deferred until some compromise can be found. Such a compromise could be sought through extensive consultations with the two warring factions (banks and community groups) and government regulators and policymakers. The sides are so polarized that a compromise might not be achieved, but one needs to be sought. At a minimum, a working group process would enable the incoming Administration to develop a position on CRA which it would feel comfortable defending.

BUDGETARY EFFECTS

(In Billions)

COMMUNITY EMPOWERMENT							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
Community Development Banks	0	.130	.150	.170	.190	.210	.850
Enterprise Zones	.279	.404	.556	.769	.991	1.179	3.899
Permanent Extension Of Low-Income Housing Tax Credit	.300	.300	.300	.300	.300	.300	1.500
Permanent Extension Of The Mortgage Revenue Bond Program	.200	.200	.200	.200	.200	.200	1.000
Homelessness Rehab. Grant Program	0	.050	.050	.050	.050	.050	.250
Moving To New Opportunities	0	.250	.500	.520	.540	.562	2.372
COMMUNITY EMPOWERMENT SUBTOTAL	.779	1.334	1.756	2.009	2.271	2.501	9.871