DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

OCT - 5 1999

TO: The Secretary
Through: DS______
COS______
ES______

THRU: Margaret A. Hamburg, M.D. Ann Segal for
Assistant Secretary for Planning and Evaluation

FROM: Patricia Ruggles PR
Deputy Assistant Secretary
for Human Services Policy/Chief Economist

SUBJECT: Additional Analyses of 1998 Census Data on Families with Children - **INFORMATION**

On September 30, 1999, I sent you an information memo describing the official 1998 poverty statistics released that day by the Census Bureau. Previously, on August 31, 1999, I sent you an information memo on reports released by the Children's Defense Fund (CDF) and the Center on Budget and Policy Priorities (CBPP) concerning families with children at the bottom of the economic ladder based on data for 1997. I have attached copies of both memos. The Children's Defense Fund is expected to issue an update adding the 1998 data to their August report later this week, although additional analyses from CBPP are not expected immediately. This memo discusses additional analyses of the Census Bureau data by ASPE staff to determine whether the trends identified in the earlier CDF and CBPP reports continued or changed in 1998.

<u>Summary Information</u>

The Children's Defense Fund report was entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report was that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997. The report used a definition of income which includes the effects of both in-kind benefits such as food stamps (but not medical care) and taxes. Official Census Bureau calculations, which do not count in-kind benefits or the effect of tax policy, showed no change in the proportion of children living in extreme poverty from 1996 to 1997.

This difference between the Census and CDF findings implies that an important factor in the increase in extreme poverty found by CDF was reductions in the in-kind benefits received by very low-income households. This point was further emphasized in the CBPP report, which found that means-tested cash and in-kind benefits received by poor female-headed families with children fell substantially between 1996 and 1997, resulting in an increase in poverty for this group.

In contrast to the trends seen from 1996 to 1997, the 1998 poverty data show that the number of children living in families with income less than one-half the poverty line decreased from 1997 to 1998. This was true even for children in single parent families, and under both the official poverty definition and the expanded definition used by the CDF. However, the decrease in extreme poverty under the expanded definition (including taxes and in-kind benefits) was much smaller than the decrease under the Census definition, and was not statistically significant. The 1998 decrease in extreme poverty under this definition did not eliminate all of the increase in extreme poverty CDF reported from 1996 to 1997.

The trend toward increases in poverty for female-headed households with children found by CBPP between 1996 and 1997 also came to an end in 1998. Average means-tested benefits received by this group continued to decline in 1998 as they did in the previous year, but in 1998 the earnings and other income of this group increased by enough to offset the decline in benefits. As a result, the poverty rate (again, under the expanded definition) for these families remained essentially unchanged in 1998--the small decline observed was not statistically significant.

Highlights:

- The number of children in families with incomes below one-half of the poverty line decreased by more than 550,000 children between 1997 and 1998 using the Census Bureau's official measure of poverty. This is in sharp contrast to no change between 1996 and 1997, and is due to a large decline in the number of children who were extremely poor before transfers.

- The number of children in families with incomes below one-half of the poverty line also decreased when using the CDF's expanded definition of income to measure poverty (which includes food stamps, taxes, EITC, etc.), but by a much smaller and not statistically significant amount. The total number of extremely poor children declined by just over 100,000 children, most of them in female-headed single-parent families. This is in contrast to the dramatic increase reported by the CDF of 426,000 children between 1996 and 1997, including 376,000 children in female-headed families, but of course was not large enough to bring the number of extremely poor children down to 1996 levels. (See Table 1, attached.)

- The August CDF report pointed to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children, and this trend continued in 1998, about 2.3 million children lifted out of extreme poverty by cash welfare and food stamps.

- As found in the CBPP report for 1997, receipt of means-tested benefits by poor female-headed families with children continued to fall in 1998. In 1998, however, the decline in means-tested benefits was offset by an increase in market incomes.

  - For female-headed families in the bottom 20 percent of the income distribution for such families, for example, average means-tested benefits fell from $5055 in 1997 to $4889 in 1998. (See attached Table 2.) This continued the trend seen from 1996 to 1997, when they fell from $5323 to $5055.

  - Total income for this group, however, counting both earnings and benefits (as well as any other sources of income) rose between 1997 and 1998, from $7311 on average in 1997 to $7424 on average in 1998. This reversed the 1996-1997 trend, when total income fell from an average of $7640 to $7311 for the bottom 20 percent of female-headed families with children.

  - In fact, although average means-tested benefits for this group were at their lowest level since 1990 in 1998, total incomes were near their 1994-1996 highs. This implies that the very poorest female-headed families with children, at least, are now making up for reductions in benefits with increased incomes from other sources such as earnings. Those in higher income categories show similar patterns, as the attached Table 2 shows.

We are continuing to analyze these data and will send you additional updates as they are available.

Attachments

cc: Melissa Skolfield
Rich Tarplin
Mary Bourdette
Olivia Golden
Howard Rolston

TABLE 1

Poverty Rates and Extreme Poverty Rates for Children Under Official and Comprehensive Definitions of Poverty, 1990 - 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Percentage of Children in Families with Incomes Below 100 Percent of Poverty Line									
Official Measure:	*20.5*	*21.5*	*21.7*	*22.5*	*21.6*	*20.5*	*20.2*	*19.6*	*18.6*
Comprehensive: (Includes Taxes and In-Kind Benefits)	*18.6*	*18.9*	*19.2*	*20.5*	*18.5*	*16.0*	*15.9*	*15.4*	*14.2*
Percentage of Children in Families with Income Below 50 Percent of Poverty Line									
Official Measures:	*8.7*	*9.6*	*10.0*	*9.9*	*9.6*	*8.2*	*8.7*	*8.7*	*7.9*
Comprehensive: (Includes Taxes and In-Kind Benefits)	*3.8*	*4.1*	*4.7*	*4.7*	*4.4*	*3.5*	*3.3*	*3.9*	*3.7*

NOTE: These rates differ slightly from the poverty rates for all children because they exclude children not in families (e.g. foster children.)

TABLE 2

PRELIMINARY NUMBERS

Average Disposable Income (Comprehensive Definition) and Average Means-Tested Benefits by Quintile of Income, for Female-Headed Families with Children, 1990-1998
(1998 Dollars)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average Disposable Income									
lowest 20 percent	$6,843	$6,756	$6,659	$7,109	$7,586	$7,775	$7,640	$7,311	$7,424
second 20 percent	14,365	13,979	13,383	13,645	14,221	15,739	14,879	15,491	16,048
middle 20 percent	18,272	18,046	18,205	18,220	19,365	20,681	20,097	20,535	21,969
next-highest 20 percent	25,950	25,224	25,106	26,153	27,090	28,344	27,516	27,912	29,394
highest 20 percent	43,876	43,559	43,201	44,895	44,363	47,081	50,011	50,025	51,570
Average Means-Tested Benefits									
lowest 20 percent	$5,421	$5,474	$5,314	$5,711	$6,045	$5,680	$5,323	$5,055	$4,889
second 20 percent	8,510	8,499	8,052	8,282	7,951	7,983	7,124	6,175	5,225
middle 20 percent	5,394	5,988	5,375	5,006	4,948	3,768	3,492	3,200	2,694
next-highest 20 percent	1,645	1,751	1,592	2,391	2,444	2,505	1,606	1,466	1,383
highest 20 percent	542	462	626	845	796	886	661	653	407

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TO: The Secretary
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THRU: Margaret A. Hamburg, M.D.
Assistant Secretary for Planning and Evaluation

FROM: Patricia Ruggles PR
Deputy Assistant Secretary
for Human Services Policy/Chief Economist

SUBJECT: Highlights and Analysis of Two Reports on Families with Children - **INFORMATION**

On August 22, 1999 both the Children's Defense Fund and the Center for Budget and Policy Priorities issued reports concerning families with children at the bottom of the economic ladder. The memo is in response to your request for a review of these reports.

Summary Information

The Children's Defense Fund (CDF) report focuses on the economic condition of children in families with income below one-half the poverty threshold. The report is entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report is that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997.

Unlike the official poverty statistics issued by the Census Bureau, which do not show such a sharp increase, the CDF figures are calculated including the effects of both in-kind benefits and taxes. Counting only cash income, as the official poverty definition still does, the rise in extreme poverty was fairly small (and not statistically significant) between 1996 and 1997, but was larger between 1995 and 1996.

According to CDF's calculations, the increase in extreme poverty under the expanded definition of income was proportionately largest for children living in single parent families. They found a 26 percent increase in the number of such children between 1996 and 1997.

The Center for Budget and Policy Priorities (CBPP) report is concerned with the economic condition of single parent families, particularly those in the bottom 20 percent of the income distribution, in the context of a strong economy and welfare reform. The report is entitled, "The Initial Impacts of Welfare Reform on the Economic Well-being of Single Mother Families with Children."

This report focuses on a slightly longer time period than does the CDF report. It compares disposable income of single parent families in the 1993-1995 period with the incomes of similar families in 1995-1997, and finds that while the disposable income of the bottom 20 percent of single mother families increased during the 1993-1995 period it declined in the latter period. (CBPP has used the same income definition as the CDF report--cash income plus in-kind benefits and taxes.) The report notes that a small part of this decline resulted from a loss in earnings for these families in 1995-1997, but about 80 percent of the decline was due to declines in the amounts of means-tested benefits received by these families.

Because single-parent families with children are generally likely to have low incomes, however, it should be noted that the bottom 20 percent of these families have incomes that are at a maximum 75 percent of the poverty level. The second 20 percent—those with incomes between 75 percent and 112 percent of the poverty level—had no statistically significant change in average incomes during the 1995-1997 period. Unlike the families in the bottom 20 percent, these families relied on earnings for a significant proportion of their total income, although means-tested benefits also remained an important income source.

Both reports point out that this decline in the economic well-being of the poorest families with children occurred during a time of continued economic expansion, low unemployment and continued increases in the Earned Income Tax Credit. The reports blame declines in the level of participation in cash assistance programs and in food stamps for the decline in the incomes of these families.

Highlights of the CDF report include:

- The CDF report focuses on those families with income below one-half of the poverty line. The poverty line for a family of 3 (one adult and 2 children) was $12,931 in 1997. One-half the poverty line as a measure of extreme poverty would be $6,465. Income at that level is equivalent to a working a half time, year round job at about $6.50 per hour. 40 percent of the children living in extreme poverty lived in a family where someone worked sometime during the year and 17 percent lived in a family where someone worked at least 1000 hours (equivalent to a half-time year round job.)

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- The number of children in families with incomes below one-half of the poverty line is unchanged from 1996 to 1997 using the Census Bureau's official measure of poverty. The trend in the number of extremely poor children, as measured by the official definition of income, had been declining since it peaked in 1993~~ and increased in 1996~~.

- The number of children in families with incomes below one-half of the poverty line is up dramatically for single parent families from 1996 to 1997 (26 percent or 372,000 children) when using an expanded definition of income to measure poverty (e.g., counting food stamps, housing assistance, taxes.) Overall, the number of extremely poor children in all families increased by 426,000 under this definition of income.

- The increase in the number of extremely poor children, as measured by an expanded definition of income, sharply reverses a downward trend which began in 1993.

- Children living in larger families (i.e., more than 2 children) made up 90 percent of the increase in children living in extreme poverty.

- The report points to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children.

Highlights of the CBPP report include:

- The CBPP report looks at the disposable income of single-mother families with children. The definition of disposable income is the same as the expanded definition of income used in the CDF report. Disposable income includes earnings and other cash income as well as food stamps, housing assistance, EITC and other non-cash benefits. The report focuses on the bottom quintile and decile of the income distribution. As defined in the CBPP report the bottom quintile has income below 75% of the poverty threshold (income less than $9,672 for a family of 3) and the bottom decile has income below 52% of the poverty threshold (income less than $6724 for a family of 3.)

- During the period 1995 to 1997 the disposable income of single-mother families in the bottom income quintile declined by an average of $577 per family while the income of single mother families in the poorest 10% fell an average of $814. The losses during the 1995 to 1997 period are in contrast to the gains in the earlier period, 1993 to 1995.

- Participation in food stamps and cash assistance programs has declined much faster than one would expect given changes in need as measured by the number of poor. During the 1995 to 1997 period the number of people receiving benefits from AFDC/TANF declined by 22.3 percent and the number receiving food stamps declined by 16.6 percent, while the number of people living in poverty declined by only 2.9 percent.

- The proportion of poor children receiving benefits from either AFDC/TANF or food stamps has declined over the period 1993 to 1997. In 1993, 85 percent of poor children benefitted from the food stamp program and 57 percent benefitted from AFDC. In 1997, the proportion of poor children benefitting from the food stamp program had declined to 70 percent and the proportion receiving benefits from the AFDC/TANF program had declined to 40 percent.

- The CBPP report, like the CDF report, points out the failure of the safety net to perform as well as in the past in moving poor families out of poverty. In 1995, 20.6 percent of children living in poverty were lifted out of poverty by means tested transfers including food stamps, AFDC/TANF, SSI and housing assistance. In 1997, these means tested programs moved a smaller proportion of poor children out of poverty – 16 percent.

- Another indicator of the falling economic well-being of children living in these families is the poverty gap (the amount of money needed for a poor family to reach the poverty line). After falling from 1993 to 1996 ($20 billion to $16.5 billion) the poverty gap increased in 1997 to $17.1 billion, although the total number of poor children declined. This indicates that the economic situation of those in poverty has deteriorated, and is consistent with the finding that a larger proportion of poor children are in families with incomes below 50 percent of the poverty line.

<u>Issues</u>

ASPE has reviewed both reports carefully. In general, we believe that they are both well done and their findings are consistent with other research that is examining the economic well-being of families with children and the outcomes of welfare reform, including the Department's own reports and sponsored research. In the Second Annual TANF Report to Congress we note that those at the bottom of the income ladder are not faring as well as those on the higher rungs of the ladder and that this bears monitoring. We anticipate that the Census Bureau will release the 1998 poverty and income statistics on September 30, 1999. At that time the Census Bureau will release the micro-data and we plan to analyze these data to determine if these trends are continuing.

We do have some concern that part of what we are seeing in both these reports is an increase in the under-reporting of income, particularly welfare income, amongst the lowest income families. Both the CDF and CBPP reports recognize this problem and make attempts to account for it in their analyses. Nevertheless, the proportion of total welfare and food stamp benefits reported to the Census Bureau has fallen substantially in recent years, which could have a significant effect on the perceived impacts of these safety net programs on family poverty.

It is well documented that welfare caseloads are down, as are food stamps and Medicaid caseloads, and employment is up. It is also clear that some families are doing better under welfare reform and the strong economy, while others are doing worse and still others are about the same. The Department and the Administration have expressed concern regarding the declines in both Food Stamps and Medicaid and action is being taken to ensure that those who are eligible for assistance are provided with the opportunity to enroll.

Both ASPE and ACF have taken steps to evaluate the outcomes of welfare reform and the well-being of our nation's families and children. We will continue to work to monitor the well-being of families with children. We will report back to you on our analysis of the 1998 Census Bureau data in early October.

If you require additional information please call me at (202) 690-7409, and I will be more than happy to assist you.

cc: Olivia Golden, ACF
Howard Rolston, ACF
Melissa Skolfield, ASPA
Richard Tarplin, ASL

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SEP 30 19

TO: The Secretary
Through: DS ___
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Through: Margaret A. Hamburg, M.D. Wm Segal For
Assistant Secretary for
Planning and Evaluation

FROM: Patricia A. Ruggles PR
Deputy Assistant Secretary for
Human Services Policy and Chief Economist

SUBJECT: Release of 1998 Poverty Rates and Income Estimates – **INFORMATION**

The Census Bureau has just released the 1998 Income and Poverty Estimates. Increases in income and declines in poverty in 1998 were larger than had been anticipated based on the experience of the past several years.

Poverty Highlights:

- The overall poverty rate fell from 13.3 percent to 12.7 percent – a surprisingly large drop. This brings the poverty rate below the 1989 level of 13.1 percent for the first time in this decade. The total size of the poverty population is now 34.5 million people, a decline from 35.6 million in 1997.

- The percentage of children under 18 in poverty also fell, from 19.9 percent to 18.9 percent. This is also a large and statistically significant change. There are now 13.5 million poor children. Children are 39 percent of the poor though they are but 26 percent of the total population. This is the first time the poverty rate for children has been significantly below 20 percent since 1980.

- The largest declines in poverty were seen in the South, where the overall poverty rate fell from 14.6 percent to 13.7 percent. This is the lowest rate seen in the South since regional figures have been calculated, and this decline accounted for a large share of the total decline in poverty. Declines in the other regions were smaller and not statistically significant.

- Poverty did not decline for Blacks--it remained unchanged at 26.1 percent. While this is the same as last year's rate, that rate was the lowest since 1959. For Hispanics there was a decline in the rate from 27.1 percent in 1997 to 25.6 percent in 1998, bringing the Hispanic rate below the rate for Blacks for the first time (although the difference between the rates for the two groups is not statistically significant in 1998.)

Income Highlights:

- Median household income rose by 3.5 percent to $38,885 (in 1998 dollars). This increase was also large compared to average year-to-year growth and was statistically significant. Household income adjusted for inflation is now at its highest level since Census started doing estimates in 1967. Again, this is the first year that median household income has been higher than its previous peak in 1989~~, when it was~~ $37,884 (in 1998 dollars).

- Median income rose by 3.4 percent for family households headed by a married couple, to $54,276, while median income for female-headed family households rose even more, by 4.2 percent to $24,393. Both increases are statistically significant, although the difference between the two rates is not. This relatively large increase in the median for families headed by women is interesting in light of the fact that poverty rates for female-headed family households did not change by a statistically significant amount. (A family household is one consisting of at least two related persons. These medians exclude single-person households.)

- Median household income increased significantly in all regions of the country. Growth in the Midwest was particularly large, at 4.4 percent. (Although differences in growth rates across the regions were not statistically significant.)

- Inequality in the distribution of income has remained statistically unchanged since 1993 under the Census Bureau's measure. Households in the lowest fifth of the income distribution received 3.6 percent of total income in both 1997 and 1998, while those in the highest fifth received almost half of all income (49.2 percent in 1998). The Census Bureau cautions that income at the top may actually have increased by more than is measured, because they do not include incomes over $1 million in their survey.

Observations:

- It is remarkable that it has taken us 10 years to get to the 1989 level of poverty and of median income given the robust economy of the past decade. The overall distribution of income became more unequal in the 1980s and early 1990s and has not yet recovered from that increase, but today's release indicates that some of the improvement in economic circumstances seen by most families since 1993 is now reaching the lowest income households.

- The poverty numbers released today are based on the official definition of poverty, not the alternative definition recommended by the National Academy of Sciences. Starting from the same poverty rate in 1997, the alternative definition would produce a 1998 poverty rate slightly lower than the official rate because it includes the Earned Income Tax Credit in measured income. (The official measure does not count the EITC.)

Information on health insurance coverage will be available October 4.

The entire package of income and poverty estimates released by Census is attached.

Attachments

cc: ~~Melissa Skolfield~~
Rich Tarplin
Olivia Golden
Mike Hash
Gary Claxton

QUESTIONS AND ANSWERS ON THE UNINSURED STATISTICS
October 5, 1999

Q: Yesterday, in reaction to a report of an increase in the number of uninsured, the President said that "The First Lady and I and the rest of us were right in 1994." Isn't this statement an indication that the President himself thinks that the you cannot rely on incremental reforms to insure Americans?

A. The President was simply saying that had we enacted the Health Security Act all Americans would be insured. He was not saying that targeted reforms should not be pursued. With a Republican Congress that has shown little interest in the uninsured, the President has been faced with two choices: do nothing or take aggressive steps to improve the accessibility and affordability of coverage.

While the President still firmly believes that every single American should be insured, he has not passed up opportunities to expand access to quality, affordable health insurance. In 1996, he enacted a law to enable workers to change jobs without fearing the loss of health insurance, among other provisions. In 1997, he worked with Congress to create the Children's Health Insurance Program (CHIP) that provides millions of working families with an affordable insurance option. And the President continues to support policies like the Medicare buy in, small business purchasing coalitions, and the Jeffords-Kennedy Work Incentives Improvement Act that provide vulnerable options with new, affordable health insurance choices. Incremental policies not only provide immediate needed help to American families but takes steps towards reaching the goal of eliminating the lack of insurance.

Q: You claim that there are a million fewer uninsured with income below $25,000. Isn't this because there are just fewer people below $25,000?

A: Although there has been dramatic income gains and fewer Americans in poverty, even controlling for this trend, the rate of uninsured below $25,000 decreased. The rate takes into account the decline in the number of people in that income category. The reported increase in the uninsured of 1 million results from there being 2 million more Americans without insurance with incomes above $25,000 and 1.1 million fewer uninsured with income less than $25,000. Consistent with this finding, the rate of lack of insurance for those with income above $25,000 has increased – with a dramatic hike for those with income above $50,000 (from 10.1 to 11.7 percent for those with income between $50,000 to $75,000.

These trends are not temporary. Comparing 1995 to 1998, the rate of being uninsured for those with income below $25,000 grew one-third to one-fifth the rate increase for higher income categories.

UNINSURED BY INCOME

	1995	1996	1997	1998	1995-1998	1997-1998
< $25,000	18.713	18.47	18.361	17.229	**-1.484**	**-1.132**
Rate	*23.9%*	*24.3%*	*25.4%*	*25.2%*	***5.4%***	***-0.8%***
$25-49,999	13.697	13.585	14.527	14.807	**1.110**	**0.280**
Rate	*16.2%*	*16.6%*	*18.1%*	*18.8%*	***16.0%***	***3.9%***
$50-74,999	4.974	5.63	5.678	6.703	**1.729**	**1.025**
Rate	*9.3%*	*10.0%*	*10.1%*	*11.7%*	***25.8%***	***15.8%***
$75,000+	3.197	4.03	4.882	5.542	**2.345**	**0.660**
Rate	*6.7%*	*7.6%*	*8.1%*	*8.3%*	***23.9%***	***2.5%***

Note: Rate changes are percent change in rates (not the subtraction of rates).

Q: **The economy is doing well and the poverty rate has fallen, so why is the number of uninsured increasing?**

A: The problem of the uninsured in the United States is a complicated issue. We have just received the 1998 Census data and will be analyzing the data closely in the coming days. But it appears that the increase in the proportion of uninsured between 1997-1998, which is not statistically significant, is not concentrated among the poor. Neither the number nor the rate of uninsured poor people increased significantly. In fact, the number of the uninsured who are classified as poor dropped by 87,000.

However, the rate of uninsured among the middle class did go up: the percent of people with income between $50,000 and $75,000 who lack insurance increased from 10.1 to 11.7 percent -- or over a million people. This appears to be happening because slightly fewer middle-class people are insured through their employers. Also, as people leave poverty, fewer are eligible for Medicaid, limiting access to affordable options.

Q: **What is the Administration going to do to reduce the numbers of uninsured?**

A: The President has been aggressively pushing to enroll the millions of Americans now eligible for coverage and urging the Congress to pass additional reforms that would succeed in insuring more people. We will step up efforts both to create new options and to increase participation in existing options. The Administration's efforts include:

Ensuring rapid, aggressive implementation of the new Children's Health Insurance Program (CHIP) which targets uninsured children of working families. In addition to approving all state plans, the Administration has launched an aggressive public-private outreach campaign to educate families about this new program. Last month, the Departments of Health and Human Services, Justice and Education and 10 national, nonprofit organizations, kicked off more than 45 community events to enroll children around the country in CHIP and Medicaid. These efforts focused on outreach to minority communities, including the Hispanic community to which we have distributed Spanish language television and radio PSAs and print articles and op-eds on how to enroll in CHIP and Medicaid. Earlier this year, the President, along with the National Governors' Association, launched the Insure Kids Now campaign, including a national toll free number, 1-877-KIDS-NOW and the *insurekidsnow.gov* web site, which gives families specific information on how to enroll in CHIP and Medicaid.

Improving Medicaid. This Fall, HHS will send teams to work with state officials this fall to review programs and identify and remove possible barriers to enrollment in Medicaid and CHIP. Earlier this year, we also took action to assure and encourage legal immigrants to receive health insurance through Medicaid and CHIP. Since 1993, HHS has approved several Medicaid waivers to states for comprehensive health care reform projects to control costs and expand coverage and waivers for welfare reform projects. When fully implemented, these demonstration projects will extend health coverage to 2.2. million parents and children who otherwise would be uninsured.

Creating new insurance options. The President also continues to support policies to improve the affordability and accessibility of health insurance. These proposals include the Medicare buy-in for certain people ages 55 to 65; new Medicaid options including the ability to cover legal immigrants in Medicaid or CHIP; the small business purchasing coalitions; and the Work Incentives Improvement Act that allows more people with disabilities return to work by providing Medicare and a Medicaid buy-in.

Q: Why hasn't CHIP reduced the number of uninsured children already?

A: We are encouraged that the CPS numbers show the number of uninsured children remained stable from 1997 to 1998. We expect that this number will begin to decline now that CHIP is fully implemented. CHIP was only passed by Congress and signed by President Clinton in August of 1997. To date, HHS has approved 56 plans -- all 50 states, 5 U.S. territories and the District of Columbia. So far, we estimate that 1.3 million children have been enrolled and states expect to enroll 2.6 million by October 2000. In 1998, the year that the Census data covers, 43 states had programs in operation, but only 4 states had been enrolling children throughout that year.

We will continue to work with state and local communities and forge more public-private partnerships in our efforts to enroll all eligible children in CHIP and Medicaid.

Q: Isn't welfare reform and Medicaid declines the reason why the uninsured has increased?

A: Since it appears that the increase in the uninsured is concentrated in the middle class, and there have been slight declines in the uninsured who are low-income, the data do not validate that welfare reform contributed to the increase in the number of uninsured.

This Administration has demonstrated an unprecedented commitment to reducing the numbers of uninsured and would not take any action that would reduce access to health insurance for low-income people.

Q: But isn't it true that Medicaid roles have declined due to welfare?

A: Why Medicaid rolls are declining is a complex question with no easy answer. One explanation is that the improving economy has made it possible for many low-income people once enrolled in the Medicaid program to find jobs that offer health insurance benefits. The Census data show that the decline in Medicaid coverage occurred only among poor people, where there was also an offsetting increase in private coverage. Another answer is that individuals may not realize they are still eligible for the Medicaid program even if their income increases slightly. A recent report from the General Accounting office found that Medicaid enrollment has not declined as rapidly as welfare rols, suggesting that Federal and state efforts to provide protections and new options have had a positive effect on enrollment, It is also important to note that the Census Bureau explicitly warns that the changes in Medicaid coverage estimates from one year to the next should be viewed with caution, since Census Bureau data under-reports Medicaid coverage. In fact, preliminary 1998 Medicaid enrollment data from the Health Care Financing Administration show that there were close to 40 million Medicaid enrollees, while the 1998 Census Bureau numbers only report 28 million Medicaid enrollees. As such, it would not be appropriate to rely on the Census Bureau data to draw conclusions about the effect of welfare reform on Medicaid.

THE WHITE HOUSE

WASHINGTON

October 8, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues.

Appropriations. The Labor-HHS-ED bill passed the Senate (73-25) on Thursday, October 7th and is expected to be considered on the floor of the House on Wednesday, October 13th. The Statement of Administration Policy (SAP) sent to the Hill on September 29th highlighted the Administration's concerns that the Senate bill does not provide funding for class-size reduction. The SAP also points out that the Senate bill undermines other education priorities by not providing the requested funding level for GEAR-UP, afterschool, or the Hispanic education agenda. It also cuts funding for the Centers for Disease Control and the Mental Health Block grant. It provides no funding for the National Family Caregiver Support Program. It does, however, provide for the President's requested funding for Head Start and, through a series of aggressive efforts by Senators Dodd and Jeffords, increases funding for the Child Care Development Block Grant from $1.18 billion to $2 billion. The House version, as you know, contains many more drastic cuts in Labor-H. At this point, the House leadership has delayed the vote on the bill knowing that they do not have the support of the moderates.

Bankruptcy. Over this past week, there have been a number of conflicting signs on the fate of bankruptcy reform, though most in the Administration and on the Hill predict that the Senate will not take it up before recess. On Thursday, Senate Minority Leader Daschle reportedly rejected an offer to move forward with bankruptcy reform legislation by limiting the number of allowable amendments. The offer, which was made by Judiciary Administrative Oversight and the Courts Subcommittee Chairman Charles Grassley, R-Iowa, would permit the Democrats to offer a limited number of amendments, which could include a minimum wage increase, but not proposals that have already been considered on the floor this year. "I don't think we can accept that offer," Daschle told reporters. "The time for regular order is upon us." Daschle said he would be willing to accept time limits on amendments, but not restrictions on what amendments could be offered. He said his stance was "nothing against bankruptcy" legislation, but that the legislation is "dead" unless GOP leaders change their position.

Education: Hispanic Action Plan. On September 21st, Raul Yzaguirre, President of the National Council of La Raza, sent a letter to the President stating his concerns about the Hispanic Education Action Plan (HEAP). While La Raza is pleased with the Administration's push for additional funding of $494 million for programs that support HEAP, he is concerned about the lack of implementation and targeting of programs to the benefit of Hispanic students. This concern largely arose from the FY 1998 annual report issued by the President's Commission on Educational Excellence for Hispanic Americans claiming that most Agencies are not adequately monitoring or addressing Hispanic participation in educational and employment programs. Maria Echaveste is convening a series of meetings and action steps to address La Raza's legitimate concerns. The Department of Education is also working on finalizing the plans for more effectively implementing HEAP. The plans focus on more targeting and better services for Hispanic students under Title I, targeting GEAR-UP funds to Hispanic students (rests on the appropriations fights for more funding), and working with the Mott Foundation to better target Hispanic students under the 21st Century after-school program.

Education: House Mark-up of Title I. On Tuesday, October 5th, the House Committee on Education and the Workforce, began marking up Title I of ESEA. The Title I bill being used as a base for the mark-up was drafted by a bipartisan working group. The Administration expressed concern in a number of areas. The bill does not encourage one state-wide accountability system to hold schools accountable for improving student achievement tied to high standards; it provides no funding to help low-performing schools turn around; and it dilutes targeted funding to high-poverty areas. The Committee has not yet finished marking up the bill, but to date they have defeated a voucher amendment, passed an amendment supporting the Administration's public school choice demonstration program, and passed an amendment that would continue to hold the poverty threshold for Title I schoolwide schools at 50 percent. The Committee is expected to complete its work on Wednesday, October 13th and the bill is expected to go to the Floor shortly thereafter.

Education: Straight As. The House Committee on Education and the Work-Force is expected to take up the Majority's "Straight As" bill which would allow States to block grant their Federal ESEA dollars for five years. If, after five years, the States did not show improvement in student achievement, they would have to revert to the categorical programs. The Administration has opposed this block grant and the Secretary has sent a letter to Congress stating that he would recommend the President veto the bill if it came to his desk.

Education: Single Sex Education. As part of the Senate's consideration of the Labor-HHS-ED appropriations bill, Senator Kay Bailey-Hutchinson was expected to bring up her single sex education amendment. The amendment would permit ESEA Title VI funds to be spent on "educational reform projects that provide same gender schools or classrooms, as long as comparable educational opportunities are offered for students of both sexes." She was not able to bring up the amendment, but the proposed amendment led to a number of the women's groups contacting the White House (American Association of University Women, the Women's Legal Defense Fund, and the Women's Law Center) to urge the Administration to take a public position on single sex education which is expected to come up next in the context of ESEA reauthorization. The women's group have opposed the amendment in the past on two grounds: (1) concern that we do not have the research to support single-sex education in elementary and secondary education (2) concern that "comparability" will not be monitored or implemented effectively. Last year when the amendment was proposed, the Administration did not take a position. Instead, we argued on procedural grounds that it should be considered as part of the reauthorization of ESEA and that it was already permissible under Title IX. Furthermore, the Department of Education's Office of Civil Rights was in the process of developing regulations on single sex classrooms and schools that would provide for some flexibility in allowing for such classrooms and schools. The Department of Justice has, throughout the debate, raised constitutionality concerns, but OCR is working with DOJ on the draft regulations. The regulations are expected to be shared with the White House next week.

Note: The impetus to put out regulations on single sex education stem from a complaint by the New York chapters of the National Organization for Women and the American Civil Liberties Union filed with the U.S. Department of Education's Office of Civil Rights. The complaint asserts that the Young Women's Leadership Academy, a public school in Harlem, violates equal-protection guarantees of the Constitution. OCR has not yet ruled on this case and plans to do so in the context of releasing the Title IX regulations.

Health Care: Medicare. Late last week, Senator Daschle introduced a significant BBA provider give-back bill which attracted over 30 cosponsors. As you know, the Administration had expressed a preference to considering such proposals in the context of the broader reforms which would explicitly dedicate a portion of the surplus to Medicare, thereby not only protecting providers in the short-term, but also preventing excessive cuts to Medicare in the future. This past Tuesday, the President met with Chairman Roth and Senator Moynihan. In the meeting, Chairman Roth and Senator Moynihan urged that administrative and legislative action be taken this fall to moderate the impact of Medicare provider payment reductions included in the Balanced Budget Act of 1997 (BBA). The President indicated his openness to such initiatives, but in the context of providing additional statutory authority to modernize the purchasing practices of the Medicare fee-for-service program, as included in the Administration's plan and the Breaux-Thomas recommendations (this would be both a down-payment on broader reforms and a way to off-set the significant dollars needed to offer provider give-backs).

The President indicated that Administration representatives will work with the Finance Committee, as well as the House Ways and Means and House Commerce Committees, on a package of provisions that moderate the impact of the BBA and modernize the fee-for-service program. The President also agreed to provide an expeditious response regarding the administrative actions the Department of Health and Human Services can take independent of the legislative process so that the Committees can construct their legislative packages to reflect these changes. Early next week, the Administration will release a letter outlining some of the administrative, non-legislative steps we plan to take to moderate BBA.

Health Care: Patients Bill of Rights. As you know, the House of Representatives last night passed H.R. 2723, the Norwood-Dingell Bipartisan Consensus Managed Care Improvement Act of 1999 275-151 -- which the Administration strongly supports -- with the backing of over 60 Republicans. It is more comprehensive than the Patients Bill of Rights legislation that passed the Senate in July which leaves over 100 million Americans unprotected, covers less than 10 percent of HMOs, does not provide access to specialists, and limits the ability of patients to sue managed care providers. The Senate bill passed 53-47 without one Democratic vote. As the legislation moves to conference, the House Rules Committee plans to attach an insurance "access" bill passed by the House earlier in the week which would provide $43 million for health related tax breaks and expand Medical Savings accounts. These provisions were included in the Republican tax bill that the President vetoed. While the Administration does not oppose accelerating the self-employed tax deduction and other such provisions, we have raised concerns about proposals such as multiple employer welfare associations (MEWAs) and medical savings accounts (MSAs) that can segment the healthy from the unhealthy and further destabilize the insurance market. And while the President has not explicitly said he will veto a Patients Bill of Rights with these attached provisions, he has indicated that he will not support any legislation that is not paid for.

Health Care: Children's Health Insurance Program (CHIP). On Tuesday of next week, the President will address the American Academy of Pediatrics conference. In his address, he will announce that he is issuing an executive order to instruct the Secretaries of Education, Health and Human Services, and Agriculture to report to him within six months on steps to promote education and enrollment of uninsured children in schools. In addition, he will highlight the Administration's outreach to States and communities to promote CHIP.

Census Poverty/Health Insurance Release. As you know, the Census Bureau released 1998 poverty and income data on September 30, and health insurance data on October 4. The overall poverty data demonstrated some positive trends, including an increase in income for all five quintiles of the income distribution, income increases in all regions of the U.S., and increases in median household and family incomes. The poverty rate dropped to 12.7 percent -- its lowest level since 1979 -- and child poverty and extreme child poverty have declined as well. In August the Children's Defense Fund released a report noting an increase in extreme child poverty (50 percent of the poverty line) between 1996 and 1997 (the CDF uses an expanded definition of poverty which includes means tested benefits and tax deductions). CDF plans to release a new report with the 1998 data which will show a decline in poverty for children in female headed households under 50% of poverty, and a drop in child poverty in all families under 50 percent of poverty. Attached is a memo written for Secretary Shalala with some more detailed analysis of the data; OMB, CEA and HHS continue to examine the data.

The Census report on health insurance coverage rates in the U.S. for 1998 was less promising. Census reported that an estimated 44.3 million people in the U.S., or 16.3 percent of the population, were uninsured in 1998 – up about one million since 1997. The poor were the least likely to be insured with 11.2 million poor people, or 32.3 percent, lacking health insurance.

People between age 18 and 24 were the least likely age group to be insured, whereas only 1.1 percent of the elderly lacked health insurance (because of Medicare). Seventy percent of those insured were covered by their employers, however, part-time workers were much more likely to be uninsured than full-time workers, and among the poor, workers were less likely to be insured than non-workers -- almost half of poor, full-time workers were uninsured.

The 1998 uninsured rate of children has remained relatively stable since 1997 with 11.1 million children, or 15.4 percent, uninsured. Among poor children, 3.4 million (25.2 percent) were uninsured in 1998 and poor children comprised of 30.6 percent of all uninsured children. Children under the age of 12 were more likely to be insured than children between the ages of 12 and 17. Hispanic children were the most likely of all ethnic and racial groups to be uninsured (30 percent). Approximately one-fifth of insured children were covered by Medicaid. Attached is Q&A on the uninsured data which, in part, explains that low CHIP enrollment rates can be attributed to the fact that in 1998, only four states had been enrolling children throughout the year.

POTUS Message Schedule

Saturday, Oct. 9	Live Radio Address, Chicago, IL Topic: Kennedy-Jeffords/Federal Plan on Hiring People w/Disabilities
	Address Hispanic Leadership Conference, Chicago, IL
Monday, Oct. 11	DOWN
Tuesday, Oct. 12	Address to American Academy of Pediatrics OR Press Conference
Wednesday, Oct. 13	Roadless/Environmental Event, Virginia
Thursday, Oct. 14	Possible Press Conference (if not on Thursday)
Friday, Oct. 15	Meeting with Bondevik of Norway
Saturday, Oct. 16	Radio Address, Topic TBD *(taped on Friday, Oct. 15)*
	Drop-by NIAF Annual Gala
	High School Reunion Reception, White House
Monday, Oct. 18	New Markets Event, Hartford, CT (this is VERY tentative)
Tuesday, Oct. 19	Address Voices Against Violence Conference, Capitol Hill

Wednesday, Oct. 20	AmeriCorps Anniversary Event, White House
Thursday, Oct. 21	NAPO Top Cops Event, The White House
Friday, Oct. 22	WH Conference on Philanthropy, White House
Saturday, Oct. 23	Live Radio Address, Topic TBD
Monday, Oct. 25	Medical Privacy Event (tentative)
Tuesday, Oct. 26	No Message Opportunity
Wednesday, Oct. 27	Congressional Gold Medal Ceremony for President Ford
Thursday, Oct. 28	Official Working Visit w/President of Nigeria
Friday, Oct. 29	Departure Statement, Topic TBD
Saturday, Oct. 30	Radio Address, Topic TBD (taped on Friday, Oct. 29)

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

OCT - 5 1999

TO: The Secretary
Through: DS________
COS________
ES________

THRU: Margaret A. Hamburg, M.D. Ann Segal for
Assistant Secretary for Planning and Evaluation

FROM: Patricia Ruggles PR
Deputy Assistant Secretary
for Human Services Policy/Chief Economist

SUBJECT: Additional Analyses of 1998 Census Data on Families with Children - **INFORMATION**

On September 30, 1999, I sent you an information memo describing the official 1998 poverty statistics released that day by the Census Bureau. Previously, on August 31, 1999, I sent you an information memo on reports released by the Children's Defense Fund (CDF) and the Center on Budget and Policy Priorities (CBPP) concerning families with children at the bottom of the economic ladder based on data for 1997. I have attached copies of both memos. The Children's Defense Fund is expected to issue an update adding the 1998 data to their August report later this week, although additional analyses from CBPP are not expected immediately. This memo discusses additional analyses of the Census Bureau data by ASPE staff to determine whether the trends identified in the earlier CDF and CBPP reports continued or changed in 1998.

<u>Summary Information</u>

The Children's Defense Fund report was entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report was that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997. The report used a definition of income which includes the effects of both in-kind benefits such as food stamps (but not medical care) and taxes. Official Census Bureau calculations, which do not count in-kind benefits or the effect of tax policy, showed no change in the proportion of children living in extreme poverty from 1996 to 1997.

This difference between the Census and CDF findings implies that an important factor in the increase in extreme poverty found by CDF was reductions in the in-kind benefits received by very low-income households. This point was further emphasized in the CBPP report, which found that means-tested cash and in-kind benefits received by poor female-headed families with children fell substantially between 1996 and 1997, resulting in an increase in poverty for this group.

In contrast to the trends seen from 1996 to 1997, the 1998 poverty data show that the number of children living in families with income less than one-half the poverty line decreased from 1997 to 1998. This was true even for children in single parent families, and under both the official poverty definition and the expanded definition used by the CDF. However, the decrease in extreme poverty under the expanded definition (including taxes and in-kind benefits) was much smaller than the decrease under the Census definition, and was not statistically significant. The 1998 decrease in extreme poverty under this definition did not eliminate all of the increase in extreme poverty CDF reported from 1996 to 1997.

The trend toward increases in poverty for female-headed households with children found by CBPP between 1996 and 1997 also came to an end in 1998. Average means-tested benefits received by this group continued to decline in 1998 as they did in the previous year, but in 1998 the earnings and other income of this group increased by enough to offset the decline in benefits. As a result, the poverty rate (again, under the expanded definition) for these families remained essentially unchanged in 1998--the small decline observed was not statistically significant.

Highlights:

- The number of children in families with incomes below one-half of the poverty line decreased by more than 550,000 children between 1997 and 1998 using the Census Bureau's official measure of poverty. This is in sharp contrast to no change between 1996 and 1997, and is due to a large decline in the number of children who were extremely poor before transfers.

- The number of children in families with incomes below one-half of the poverty line also decreased when using the CDF's expanded definition of income to measure poverty (which includes food stamps, taxes, EITC, etc.), but by a much smaller and not statistically significant amount. The total number of extremely poor children declined by just over 100,000 children, most of them in female-headed single-parent families. This is in contrast to the dramatic increase reported by the CDF of 426,000 children between 1996 and 1997, including 376,000 children in female-headed families, but of course was not large enough to bring the number of extremely poor children down to 1996 levels. (See Table 1, attached.)

- The August CDF report pointed to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children, and this trend continued in 1998, about 2.3 million children lifted out of extreme poverty by cash welfare and food stamps.

- As found in the CBPP report for 1997, receipt of means-tested benefits by poor female-headed families with children continued to fall in 1998. In 1998, however, the decline in means-tested benefits was offset by an increase in market incomes.

  - For female-headed families in the bottom 20 percent of the income distribution for such families, for example, average means-tested benefits fell from $5055 in 1997 to $4889 in 1998. (See attached Table 2.) This continued the trend seen from 1996 to 1997, when they fell from $5323 to $5055.

  - Total income for this group, however, counting both earnings and benefits (as well as any other sources of income) rose between 1997 and 1998, from $7311 on average in 1997 to $7424 on average in 1998. This reversed the 1996-1997 trend, when total income fell from an average of $7640 to $7311 for the bottom 20 percent of female-headed families with children.

  - In fact, although average means-tested benefits for this group were at their lowest level since 1990 in 1998, total incomes were near their 1994-1996 highs. This implies that the very poorest female-headed families with children, at least, are now making up for reductions in benefits with increased incomes from other sources such as earnings. Those in higher income categories show similar patterns, as the attached Table 2 shows.

We are continuing to analyze these data and will send you additional updates as they are available.

Attachments

cc: Melissa Skolfield
Rich Tarplin
Mary Bourdette
Olivia Golden
Howard Rolston

TABLE 1

Poverty Rates and Extreme Poverty Rates for Children Under Official and Comprehensive Definitions of Poverty, 1990 - 1998

[illegible]	1990	1991	1992	1993	1994	1995	1996	1997	1998
Percentage of Children in Families with Incomes Below 100 Percent of Poverty Line									
Official Measure:	20.5	21.5	21.7	22.5	21.6	20.5	20.2	19.6	18.6
Comprehensive: (Includes Taxes and In-Kind Benefits)	18.6	18.9	19.2	20.5	18.5	16.0	15.9	15.4	14.2
Percentage of Children in Families with Income Below 50 Percent of Poverty Line									
Official Measures:	8.7	9.6	10.0	9.9	9.6	8.2	8.7	8.7	7.9
Comprehensive: (Includes Taxes and In-Kind Benefits)	3.8	4.1	4.7	4.7	4.4	3.5	3.3	3.9	3.7

NOTE: These rates differ slightly from the poverty rates for all children because they exclude children not in families (e.g. foster children.)

TABLE 2

PRELIMINARY NUMBERS

Average Disposable Income (Comprehensive Definition) and Average Means-Tested Benefits by Quintile of Income, for Female-Headed Families with Children, 1990-1998
(1998 Dollars)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average Disposable Income									
lowest 20 percent	$6,843	$6,756	$6,659	$7,109	$7,586	$7,775	$7,640	$7,311	$7,424
second 20 percent	14,365	13,979	13,383	13,645	14,221	15,739	14,879	15,491	16,048
middle 20 percent	18,272	18,046	18,205	18,220	19,365	20,681	20,097	20,535	21,969
next-highest 20 percent	25,950	25,224	25,106	26,153	27,090	28,344	27,516	27,912	29,394
highest 20 percent	43,876	43,559	43,201	44,895	44,363	47,081	50,011	50,025	51,570
Average Means-Tested Benefits									
lowest 20 percent	$5,421	$5,474	$5,314	$5,711	$6,045	$5,680	$5,323	$5,055	$4,889
second 20 percent	8,510	8,499	8,052	8,282	7,951	7,983	7,124	6,175	5,225
middle 20 percent	5,394	5,988	5,375	5,006	4,948	3,768	3,492	3,200	2,694
next-highest 20 percent	1,645	1,751	1,592	2,391	2,444	2,505	1,606	1,466	1,383
highest 20 percent	542	462	626	845	796	886	661	653	407

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

AUG 31 1999

TO: The Secretary
Through: DS______
COS______
ES______

THRU: Margaret A. Hamburg, M.D.
Assistant Secretary for Planning and Evaluation

FROM: Patricia Ruggles PR
Deputy Assistant Secretary
for Human Services Policy/Chief Economist

SUBJECT: Highlights and Analysis of Two Reports on Families with Children - **INFORMATION**

On August 22, 1999 both the Children's Defense Fund and the Center for Budget and Policy Priorities issued reports concerning families with children at the bottom of the economic ladder. The memo is in response to your request for a review of these reports.

Summary Information

The Children's Defense Fund (CDF) report focuses on the economic condition of children in families with income below one-half the poverty threshold. The report is entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report is that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997.

Unlike the official poverty statistics issued by the Census Bureau, which do not show such a sharp increase, the CDF figures are calculated including the effects of both in-kind benefits and taxes. Counting only cash income, as the official poverty definition still does, the rise in extreme poverty was fairly small (and not statistically significant) between 1996 and 1997, but was larger between 1995 and 1996.

According to CDF's calculations, the increase in extreme poverty under the expanded definition of income was proportionately largest for children living in single parent families. They found a 26 percent increase in the number of such children between 1996 and 1997.

The Center for Budget and Policy Priorities (CBPP) report is concerned with the economic condition of single parent families, particularly those in the bottom 20 percent of the income distribution, in the context of a strong economy and welfare reform. The report is entitled, "The Initial Impacts of Welfare Reform on the Economic Well-being of Single Mother Families with Children."

This report focuses on a slightly longer time period than does the CDF report. It compares disposable income of single parent families in the 1993-1995 period with the incomes of similar families in 1995-1997, and finds that while the disposable income of the bottom 20 percent of single mother families increased during the 1993-1995 period it declined in the latter period. (CBPP has used the same income definition as the CDF report--cash income plus in-kind benefits and taxes.) The report notes that a small part of this decline resulted from a loss in earnings for these families in 1995-1997, but about 80 percent of the decline was due to declines in the amounts of means-tested benefits received by these families.

Because single-parent families with children are generally likely to have low incomes, however, it should be noted that the bottom 20 percent of these families have incomes that are at a maximum 75 percent of the poverty level. The second 20 percent--those with incomes between 75 percent and 112 percent of the poverty level--had no statistically significant change in average incomes during the 1995-1997 period. Unlike the families in the bottom 20 percent, these families relied on earnings for a significant proportion of their total income, although means-tested benefits also remained an important income source.

Both reports point out that this decline in the economic well-being of the poorest families with children occurred during a time of continued economic expansion, low unemployment and continued increases in the Earned Income Tax Credit. The reports blame declines in the level of participation in cash assistance programs and in food stamps for the decline in the incomes of these families.

Highlights of the CDF report include:

- The CDF report focuses on those families with income below one-half of the poverty line. The poverty line for a family of 3 (one adult and 2 children) was $12,931 in 1997. One-half the poverty line as a measure of extreme poverty would be $6,465. Income at that level is equivalent to a working a half time, year round job at about $6.50 per hour. 40 percent of the children living in extreme poverty lived in a family where someone worked sometime during the year and 17 percent lived in a family where someone worked at least 1000 hours (equivalent to a half-time year round job.)

Page 3 - The Secretary

- The number of children in families with incomes below one-half of the poverty line is unchanged from 1996 to 1997 using the Census Bureau's official measure of poverty. The trend in the number of extremely poor children, as measured by the official definition ~~of income,~~ had been declining since it peaked in 1993 ~~and increased in 1996~~.

- The number of children in families with incomes below one-half of the poverty line is up dramatically for single parent families from 1996 to 1997 (26 percent or 372,000 children) when using an expanded definition of income to measure poverty (e.g., counting food stamps, housing assistance, taxes.) Overall, the number of extremely poor children in all families increased by 426,000 under this definition of income.

- The increase in the number of extremely poor children, as measured by an expanded definition of income, ~~sharply reverses a downward trend~~ which began in 1993.

- Children living in larger families (i.e., more than 2 children) made up 90 percent of the increase in children living in extreme poverty.

- The report points to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children.

Highlights of the CBPP report include:

- The CBPP report looks at the disposable income of single-mother families with children. The definition of disposable income is the same as the expanded definition of income used in the CDF report. Disposable income includes earnings and other cash income as well as food stamps, housing assistance, EITC and other non-cash benefits. The report focuses on the bottom quintile and decile of the income distribution. As defined in the CBPP report the bottom quintile has income below 75% of the poverty threshold (income less than $9,672 for a family of 3) and the bottom decile has income below 52% of the poverty threshold (income less than $6724 for a family of 3.)

- During the period 1995 to 1997 the disposable income of single-mother families in the bottom income quintile declined by an average of $577 per family while the income of single mother families in the poorest 10% fell an average of $814. The losses during the 1995 to 1997 period are in contrast to the gains in the earlier period, 1993 to 1995.

- Participation in food stamps and cash assistance programs has declined much faster than one would expect given changes in need as measured by the number of poor. During the 1995 to 1997 period the number of people receiving benefits from AFDC/TANF declined by 22.2 percent and the number receiving food stamps declined by 16.6 percent, while the number of people living in poverty declined by only 2.9 percent.

- The proportion of poor children receiving benefits from either AFDC/TANF or food stamps has declined over the period 1993 to 1997. In 1993, 85 percent of poor children benefitted from the food stamp program and 57 percent benefitted from AFDC. In 1997, the proportion of poor children benefitting from the food stamp program had declined to 70 percent and the proportion receiving benefits from the AFDC/TANF program had declined to 40 percent.

- The CBPP report, like the CDF report, points out the failure of the safety net to perform as well as in the past in moving poor families out of poverty. In 1995, 20.6 percent of children living in poverty were lifted out of poverty by means tested transfers including food stamps, AFDC/TANF, SSI and housing assistance. In 1997, these means tested programs moved a smaller proportion of poor children out of poverty – 16 percent.

- Another indicator of the falling economic well-being of children living in these families is the poverty gap (the amount of money needed for a poor family to reach the poverty line). After falling from 1993 to 1996 ($20 billion to $16.5 billion) the poverty gap increased in 1997 to $17.1 billion, although the total number of poor children declined. This indicates that the economic situation of those in poverty has deteriorated, and is consistent with the finding that a larger proportion of poor children are in families with incomes below 50 percent of the poverty line.

<u>Issues</u>

ASPE has reviewed both reports carefully. In general, we believe that they are both well done and their findings are consistent with other research that is examining the economic well-being of families with children and the outcomes of welfare reform, including the Department's own reports and sponsored research. In the Second Annual TANF Report to Congress we note that those at the bottom of the income ladder are not faring as well as those on the higher rungs of the ladder and that this bears monitoring. We anticipate that the Census Bureau will release the 1998 poverty and income statistics on September 30, 1999. At that time the Census Bureau will release the micro-data and we plan to analyze these data to determine if these trends are continuing.

We do have some concern that part of what we are seeing in both these reports is an increase in the under-reporting of income, particularly welfare income, amongst the lowest income families. Both the CDF and CBPP reports recognize this problem and make attempts to account for it in their analyses. Nevertheless, the proportion of total welfare and food stamp benefits reported to the Census Bureau has fallen substantially in recent years, which could have a significant effect on the perceived impacts of these safety net programs on family poverty.

It is well documented that welfare caseloads are down, as are food stamps and Medicaid caseloads, and employment is up. It is also clear that some families are doing better under welfare reform and the strong economy, while others are doing worse and still others are about the same. The Department and the Administration have expressed concern regarding the declines in both Food Stamps and Medicaid and action is being taken to ensure that those who are eligible for assistance are provided with the opportunity to enroll.

Both ASPE and ACF have taken steps to evaluate the outcomes of welfare reform and the well-being of our nation's families and children. We will continue to work to monitor the well-being of families with children. We will report back to you on our analysis of the 1998 Census Bureau data in early October.

If you require additional information please call me at (202) 690-7409, and I will be more than happy to assist you.

cc: Olivia Golden, ACF
Howard Rolston, ACF
Melissa Skolfield, ASPA
Richard Tarplin, ASL

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

SEP 30 1999

TO: The Secretary
Through: DS ___
COS ___
ES ___

Through: Margaret A. Hamburg, M.D. Ann Segal For
Assistant Secretary for
Planning and Evaluation

FROM: Patricia A. Ruggles PR
Deputy Assistant Secretary for
Human Services Policy and Chief Economist

SUBJECT: Release of 1998 Poverty Rates and Income Estimates – INFORMATION

The Census Bureau has just released the 1998 Income and Poverty Estimates. Increases in income and declines in poverty in 1998 were larger than had been anticipated based on the experience of the past several years.

Poverty Highlights:

- The overall poverty rate fell from 13.3 percent to 12.7 percent – a surprisingly large drop. This brings the poverty rate below the 1989 level of 13.1 percent for the first time in this decade. The total size of the poverty population is now 34.5 million people, a decline from 35.6 million in 1997.

- The percentage of children under 18 in poverty also fell, from 19.9 percent to 18.9 percent. This is also a large and statistically significant change. There are now 13.5 million poor children. Children are 39 percent of the poor though they are but 26 percent of the total population. This is the first time the poverty rate for children has been significantly below 20 percent since 1980.

- The largest declines in poverty were seen in the South, where the overall poverty rate fell from 14.6 percent to 13.7 percent. This is the lowest rate seen in the South since regional figures have been calculated, and this decline accounted for a large share of the total decline in poverty. Declines in the other regions were smaller and not statistically significant.

Page 2 - The Secretary

- Poverty did not decline for Blacks–it remained unchanged at 26.1 percent. While this is the same as last year's rate, that rate was the lowest since 1959. For Hispanics there was a decline in the rate from 27.1 percent in 1997 to 25.6 percent in 1998, bringing the Hispanic rate below ~~the rate for Blacks for the first time (although the difference~~ between the rates for the two groups is not statistically significant in 1998.)

Income Highlights:

- Median household income rose by 3.5 percent to $38,885 (in 1998 dollars). This increase was also large compared to average year-to-year growth and was statistically significant. Household income adjusted for inflation is now at its highest level since Census started doing estimates in 1967. Again, this is the first year that median household income has been higher than its previous peak in 1989~~, when it was~~ $37,884 (in 1998 dollars).

- Median income rose by 3.4 percent for family households headed by a married couple, to $54,276, while median income for female-headed family households rose even more, by 4.2 percent to $24,393. Both increases are statistically significant, although the difference between the two rates is not. This relatively large increase in the median for families headed by women is interesting in light of the fact that poverty rates for female-headed family households did not change by a statistically significant amount. (A family household is one consisting of at least two related persons. These medians exclude single-person households.)

- Median household income increased significantly in all regions of the country. Growth in the Midwest was particularly large, at 4.4 percent. (Although differences in growth rates across the regions were not statistically significant.)

- Inequality in the distribution of income has remained statistically unchanged since 1993 under the Census Bureau's measure. Households in the lowest fifth of the income distribution received 3.6 percent of total income in both 1997 and 1998, while those in the highest fifth received almost half of all income (49.2 percent in 1998). The Census Bureau cautions that income at the top may actually have increased by more than is measured, because they do not include incomes over $1 million in their survey.

Observations:

- It is remarkable that it has taken us 10 years to get to the 1989 level of poverty and of median income given the robust economy of the past decade. The overall distribution of income became more unequal in the 1980s and early 1990s and has not yet recovered from that increase, but today's release indicates that some of the improvement in economic circumstances seen by most families since 1993 is now reaching the lowest income households.

- The poverty numbers released today are based on the official definition of poverty, not the alternative definition recommended by the National Academy of Sciences. Starting from the same poverty rate in 1997, the alternative definition would produce a 1998 poverty rate slightly lower than the official rate because it includes the Earned Income Tax Credit in measured income. (The official measure does not count the EITC.)

Information on health insurance coverage will be available October 4.

The entire package of income and poverty estimates released by Census is attached.

Attachments

cc: ~~Melissa Skolfield~~
Rich Tarplin
Olivia Golden
Mike Hash
Gary Claxton

QUESTIONS AND ANSWERS ON THE UNINSURED STATISTICS
October 5, 1999

Q: Yesterday, in reaction to a report of an increase in the number of uninsured, the President said that "The First Lady and I and the rest of us were right in 1994." Isn't this statement an indication that the President himself thinks that the you cannot rely on incremental reforms to insure Americans?

A. The President was simply saying that had we enacted the Health Security Act all Americans would be insured. He was not saying that targeted reforms should not be pursued. With a Republican Congress that has shown little interest in the uninsured, the President has been faced with two choices: do nothing or take aggressive steps to improve the accessibility and affordability of coverage.

While the President still firmly believes that every single American should be insured, he has not passed up opportunities to expand access to quality, affordable health insurance. In 1996, he enacted a law to enable workers to change jobs without fearing the loss of health insurance, among other provisions. In 1997, he worked with Congress to create the Children's Health Insurance Program (CHIP) that provides millions of working families with an affordable insurance option. And the President continues to support policies like the Medicare buy in, small business purchasing coalitions, and the Jeffords-Kennedy Work Incentives Improvement Act that provide vulnerable options with new, affordable health insurance choices. Incremental policies not only provide immediate needed help to American families but takes steps towards reaching the goal of eliminating the lack of insurance.

Q: You claim that there are a million fewer uninsured with income below $25,000. Isn't this because there are just fewer people below $25,000?

A: Although there has been dramatic income gains and fewer Americans in poverty, even controlling for this trend, the rate of uninsured below $25,000 decreased. The rate takes into account the decline in the number of people in that income category. The reported increase in the uninsured of 1 million results from there being 2 million more Americans without insurance with incomes above $25,000 and 1.1 million fewer uninsured with income less than $25,000. Consistent with this finding, the rate of lack of insurance for those with income above $25,000 has increased – with a dramatic hike for those with income above $50,000 (from 10.1 to 11.7 percent for those with income between $50,000 to $75,000.

These trends are not temporary. Comparing 1995 to 1998, the rate of being uninsured for those with income below $25,000 grew one-third to one-fifth the rate increase for higher income categories.

UNINSURED BY INCOME

	1995	1996	1997	1998	1995-1998	1997-1998
< $25,000	18.713	18.47	18.361	17.229	-1.484	-1.132
Rate	*23.9%*	*24.3%*	*25.4%*	*25.2%*	*5.4%*	*-0.8%*
$25-49,999	13.697	13.585	14.527	14.807	1.110	0.280
Rate	*16.2%*	*16.6%*	*18.1%*	*18.8%*	*16.0%*	*3.9%*
$50-74,999	4.974	5.63	5.678	6.703	1.729	1.025
Rate	*9.3%*	*10.0%*	*10.1%*	*11.7%*	*25.8%*	*15.8%*
$75,000+	3.197	4.03	4.882	5.542	2.345	0.660
Rate	*6.7%*	*7.6%*	*8.1%*	*8.3%*	*23.9%*	*2.5%*

Note: Rate changes are percent change in rates (not the subtraction of rates).

Q: The economy is doing well and the poverty rate has fallen, so why is the number of uninsured increasing?

A: The problem of the uninsured in the United States is a complicated issue. We have just received the 1998 Census data and will be analyzing the data closely in the coming days. But it appears that the increase in the proportion of uninsured between 1997-1998, which is not statistically significant, is <u>not</u> concentrated among the poor. Neither the number nor the rate of uninsured poor people increased significantly. In fact, the number of the uninsured who are classified as poor dropped by 87,000.

However, the rate of uninsured among the middle class did go up: the percent of people with income between $50,000 and $75,000 who lack insurance increased from 10.1 to 11.7 percent -- or over a million people. This appears to be happening because slightly fewer middle-class people are insured through their employers. Also, as people leave poverty, fewer are eligible for Medicaid, limiting access to affordable options.

Q: What is the Administration going to do to reduce the numbers of uninsured?

A: The President has been aggressively pushing to enroll the millions of Americans now eligible for coverage and urging the Congress to pass additional reforms that would succeed in insuring more people. We will step up efforts both to create new options and to increase participation in existing options. The Administration's efforts include:

Ensuring rapid, aggressive implementation of the new Children's Health Insurance Program (CHIP) which targets uninsured children of working families. In addition to approving all state plans, the Administration has launched an aggressive public-private outreach campaign to educate families about this new program. Last month, the Departments of Health and Human Services, Justice and Education and 10 national, nonprofit organizations, kicked off more than 45 community events to enroll children around the country in CHIP and Medicaid. These efforts focused on outreach to minority communities, including the Hispanic community to which we have distributed Spanish language television and radio PSAs and print articles and op-eds on how to enroll in CHIP and Medicaid. Earlier this year, the President, along with the National Governors' Association, launched the Insure Kids Now campaign, including a national toll free number, 1-877-KIDS-NOW and the *insurekidsnow.gov* web site, which gives families specific information on how to enroll in CHIP and Medicaid.

Improving Medicaid. This Fall, HHS will send teams to work with state officials this fall to review programs and identify and remove possible barriers to enrollment in Medicaid and CHIP. Earlier this year, we also took action to assure and encourage legal immigrants to receive health insurance through Medicaid and CHIP. Since 1993, HHS has approved several Medicaid waivers to states for comprehensive health care reform projects to control costs and expand coverage and waivers for welfare reform projects. When fully implemented, these demonstration projects will extend health coverage to 2.2. million parents and children who otherwise would be uninsured.

Creating new insurance options. The President also continues to support policies to improve the affordability and accessibility of health insurance. These proposals include the Medicare buy-in for certain people ages 55 to 65; new Medicaid options including the ability to cover legal immigrants in Medicaid or CHIP; the small business purchasing coalitions; and the Work Incentives Improvement Act that allows more people with disabilities return to work by providing Medicare and a Medicaid buy-in.

Q: Why hasn't CHIP reduced the number of uninsured children already?

A: We are encouraged that the CPS numbers show the number of uninsured children remained stable from 1997 to 1998. We expect that this number will begin to decline now that CHIP is fully implemented. CHIP was only passed by Congress and signed by President Clinton in August of 1997. To date, HHS has approved 56 plans -- all 50 states, 5 U.S. territories and the District of Columbia. So far, we estimate that 1.3 million children have been enrolled and states expect to enroll 2.6 million by October 2000. In 1998, the year that the Census data covers, 43 states had programs in operation, but only 4 states had been enrolling children throughout that year.

We will continue to work with state and local communities and forge more public-private partnerships in our efforts to enroll all eligible children in CHIP and Medicaid.

Q: Isn't welfare reform and Medicaid declines the reason why the uninsured has increased?

A: Since it appears that the increase in the uninsured is concentrated in the middle class, and there have been slight declines in the uninsured who are low-income, the data do not validate that welfare reform contributed to the increase in the number of uninsured.

This Administration has demonstrated an unprecedented commitment to reducing the numbers of uninsured and would not take any action that would reduce access to health insurance for low-income people.

Q: But isn't it true that Medicaid roles have declined due to welfare?

A: Why Medicaid rolls are declining is a complex question with no easy answer. One explanation is that the improving economy has made it possible for many low-income people once enrolled in the Medicaid program to find jobs that offer health insurance benefits. The Census data show that the decline in Medicaid coverage occurred only among poor people, where there was also an offsetting increase in private coverage. Another answer is that individuals may not realize they are still eligible for the Medicaid program even if their income increases slightly. A recent report from the General Accounting office found that Medicaid enrollment has not declined as rapidly as welfare rols, suggesting that Federal and state efforts to provide protections and new options have had a positive effect on enrollment, It is also important to note that the Census Bureau explicitly warns that the changes in Medicaid coverage estimates from one year to the next should be viewed with caution, since Census Bureau data under-reports Medicaid coverage. In fact, preliminary 1998 Medicaid enrollment data from the Health Care Financing Administration show that there were close to 40 million Medicaid enrollees, while the 1998 Census Bureau numbers only report 28 million Medicaid enrollees. As such, it would not be appropriate to rely on the Census Bureau data to draw conclusions about the effect of welfare reform on Medicaid.

THE WHITE HOUSE

WASHINGTON

September 27, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues.

Appropriations. The Labor-HHS-ED Appropriations bill was marked-up in the Labor, Health and Human Services, and Education Subcommittee (Chairman Porter, R-Ill.) of the House Appropriations Committee on Thursday, September 23, 1999. The package is an $89.4 billion spending proposal. The bill stays within its $73 billion allocation by including $15.7 billion in advanced appropriations.

The bill will be considered in full committee on Thursday, September 30th and is expected to go to the Floor shortly thereafter. The White House is planning a series of responses leading up to the Thursday mark-up by releasing paper outlining the cuts to each agency and a possible Hill rally with the three Secretaries and key Congressional Democratic leaders.

The bill's most egregious act is that it significantly undercuts critical education funding. The bill is $2.8 billion below the President's request on a gross basis for key education priorities. In addition to gutting the President's education priorities, it also significantly weakens critical investments in programs for children, youth, and families overall. Highlights include:

Education:

- **Eliminates Class-Size Reduction priority.** The bill would eliminate the Class-Size reduction initiative by block granting class-size, Goals 2000, and the Eisenhower Professional Development program into a $1.8 billion allotment for the Teacher Empowerment Act, which is $426 million below the request for the three combined programs. The President threatened to veto the Teacher Empowerment Act when it passed the House because it makes it impossible to meet the President's goal of reducing class-sizes to an average of 18 students per teacher in grades 1-3.

- **Terminates GEAR-UP.** Completely eliminates funding compared to $120 million in FY 99 and $240 million in the President's budget. Over 260,000 children who received support in FY99 to help them succeed in school and prepare for college would receive no services, nor would the 400,000 expected to receive support in FY2000.

- **Significantly reduces key funding for after-school, educational technology, and Title I accountability.** Provides only $300 million of the President's request for $600 million for after-school programs serving 900,000 less than the 1.8 million students expected to be served in the President's budget; provides $251 million less than the President's request for $801 million for a variety of innovative educational technology programs; and, the bill does not honor the President's request to set-aside $200 million in Title I to turn around failing schools.

- **Guts Investment in Hispanic Education.** The House bill barely increases funding for the Hispanic Education Agenda, providing only $53 million of the $444 million increase requested in key programs, such as migrant, bilingual, and adult education, to raise achievement and reduce dropout rates in the Hispanic community.

Health and Human Services:

- **Major cut in Head Start.** The bill funds Head Start at $507 million below the President's request. The mark would freeze Head Start participation at its current level making it the first time in a decade that Head Start participation would not increase.

- **Jeopardizes Temporary Assistance for Needy Families (TANF).** The bill delays the availability of $3 billion in TANF funds (the welfare block grant), sending the wrong message to states who have prudently set aside "rainy day" reserves, and to states otherwise preparing to invest in new programs for welfare recipients with multiple barriers and for those who have already begun the transition to work. Through the first quarter of FY 1999 states have obligated 88% of their TANF dollars and have met all maintenance of effort requirements. By cutting billions from the program, the federal government would undermine the true goals of welfare reform and abandon its commitment to provide a fixed level of funding to states who live up to their commitment to invest their own dollars in assistance to needy families.

- **Cuts the Social Service Block Grant (SSBG).** The bill cuts SSBG by $471 million below the President's request. SSBG provides funding to states to support a wide range of programs including child protection and child welfare, as well as services focused on the needs of the elderly and disabled.

- **Eliminates the President's Family Caregiver Support Program.** The House bill does not include funds for the President's $125 million new initiative to support those who care for the over 5 million disabled Americans who have long term care needs. The Family Caregiver Program is one piece of the Administration's four-part Long-Term Care proposal to provide comprehensive services to support caregivers.

- **Fails to Increase Funding for Home-Delivered Meals.** The House bill funds the widely supported home-delivered meals program at $112 million, which is $35 million below the President's request. The President's funding level would provide 27 million additional meals to at-risk older adults. These meals allow many of these adults to remain in their homes and communities, avoiding or delaying the need for costly institutionalization.

- **Cuts Important Health Initiatives.** The bill cuts public health priorities, including preventive health, mental health and substance abuse, health care access for the poor, and efforts to reduce racial health disparities and the spread of AIDS worldwide. The bill would also threaten our ability to manage key entitlement programs, such as Medicare and Medicaid. It would prevent us from continuing to provide important patient protections to American workers, and improving our nation's organ distribution system.

Labor:

- **Terminates Youth Opportunity Grants.** The Youth Opportunity Grants Program is an initiative to provide comprehensive employment and training assistance to all out-of-school young people in high poverty areas. The program was passed last year as part of the bipartisan Workforce Investment Act. Eliminating this program would deny essential support for up to 58,000 of the most disadvantaged young people in central cities and rural communities across America. The President's budget provides $250 million for Youth Opportunity Grants, which are a critical component of the New Markets Initiative

- **Cuts Summer Jobs Program and Youth and Adult Training.** The House bill provides almost $200 million below the President's request of $ 1.96 billion for Youth and Adult Training. These cuts would result in lost job training, summer employment, and education opportunities to some 60,000 disadvantaged youth, and 38,200 adults would not have access to essential job training and placement services.

- **Cuts Dislocated Worker Assistance.** The House bill cuts Dislocated Worker Assistance by $335 million below the President's request of $ 1.6 billion. The Dislocated Worker Employment and Training program provides core services, intensive services, training and support to help permanently separated workers return to productive, unsubsidized employment. The President's Universal Reemployment initiative would put us on a five-year path toward universal job training services to all dislocated workers, by gradually increasing funding for Dislocated Worker Assistance. Instead of taking a step forward for dislocated workers, the House is proposing a giant leap backward by proposing cuts that will deny 176,000 dislocated workers access to these vital services. The bill also cuts funding for One-Stop Career Centers and Reemployment Services.

- **Threatens Enforcement of Labor Protections.** The House bill freezes or cuts all Department of Labor domestic workplace enforcement programs at or below FY 1999 levels, resulting in a $112 million reduction below the President's request. For example, OSHA is cut $51 million below the President's budget. As a result of this cut, some 5,000 fewer OSHA compliance inspections would be performed.

The Senate Appropriations Committee is expected to mark-up the Labor-HHS-ED appropriations bill on Tuesday, September 28th. The Senate mark is expected to be more in line with the President's budget request, including the requested funding for class-size reduction, after-school programs, and Head Start.

Bankruptcy. Prospects for the bill's consideration on the Senate floor this year, after last week's failed attempt by the Republican leadership to invoke cloture on a strictly party-line vote and end all debate, are unclear. Many predict the bill is dead for the year, but the creditor lobbyists reportedly are not satisfied with Republican attempts to blame Democrats for the bill's fate. The White House continues to work with Senate Democrats to ready balancing amendments for a floor battle, in case a time agreement is reached.

Abortion. This Thursday, the House is expected to vote on H.R. 2436, the "Unborn Victims of Violence Act of 1999," which would make it a separate federal offense to cause "death or bodily injury" to "a child in utero" in the course of committing any one of 68 listed federal crimes. This bill, sponsored by Representatives Charles Canady, Lindsey Graham, and Christopher Smith, is a clever and not so thinly veiled attempt to bestow upon a fetus the status of life under federal law and, in so doing, to erode the tenets of Roe v. Wade. Rep. Zoe Lofgren is expected to offer the alternative she advanced in Judiciary Committee. This alternative would create a new federal crime for injury to the mother, without establishing a new legal status for the fetus. While considered objectionable by some pro-choice House members (such as Rep. Nita Lowey), the substitute hopefully will provide cover for Democrats to vote against the underlying bill and therefore achieve a veto-sustaining margin. Because the substitute does not include an "intent standard" (*i.e.* the perpetrator need not *know* the victim is pregnant to be punishable), the Administration will not embrace the substitute. Still, the Administration will likely issue a Statement of Administration Position (SAP) which states that the President's senior advisors recommend that he veto the bill if it reached his desk – the women's groups have strongly urged that we take this stance. There is no similar bill pending in the Senate.

Education. On Thursday, September 23rd the House Budget Committee held a hearing on state, local, and private education reforms. Witnesses for the hearing included Gov. Jeb Bush (R-FL), Secretary Riley, and Governor Voinovich. The undertone of the hearing was a focus on vouchers with Bush urging the Federal government to allow flexibility for accountability including supporting the State's effort to provide vouchers. Secretary Riley focused on the need for comprehensive reform and highlighted the Administration's record of and commitment to public school choice. Voinovich talked about the need for a strong Federal role, but encouraged the Federal government to be less intrusive.

Crime: Juvenile Justice Bill. Lack of activity by the Juvenile Justice conferees led several Members to offer motions to instruct the conferees on the gun control provisions of the legislation. Rep. Lofgren (D-CA) offered two motions: the first instructs conferees to produce a loophole-free system that does not weaken current law, and enforces current laws (passed, 305-117); the second motion instructs conferees to require background checks at gun shows, ban the juvenile possession of assault weapons, and require child safety locks (passed, 241-167). Rep. McCarthy (D-NY) moved that the conferees hold regular, open meetings (failed, 190-218). And, Rep. Doolittle (R-CA) moved to instruct the conferees to produce a conference report that comports with the requirements of the Second Amendment (passed, 337-73).

The hottest issues holding up the conference are the gun provisions and the provision requiring the display of the Ten Commandments in public schools.

The co-chairs of the Juvenile Justice Coalition, from the Children's Defense Fund and the Youth Law Center, briefed Ann and Ruby on issues that they hope you will continue to monitor as the JJ bill moves forward. Their overarching message was that while they understand the importance of focusing on the gun provisions, they want to urge the Administration not to lose sight of the comprehensive message around juvenile justice that includes both prevention and protecting youth in the juvenile justice system. Specific issues of concern included:

- **Protections for Children in the Juvenile Justice System.** First, they very much appreciated the column you dedicated to the issue of children in jails in October of 1998. The Coalition is focusing on the need to fix certain provisions in the House bill that could erode the traditional protection of children in jail from adults. The House bill would weaken the policy by allowing "incidental" contact between adults and juveniles. Additionally, the House bill includes a loophole that could allow youth as young as 13 prosecuted in Federal Court to have unlimited exposure to adult inmates. The Administration has come out in preference of the Senate version that maintains current protections, but has noted some technical difficulties with the bill.

- **Disproportionate Minority Confinement (DMC).** Current law requires States participating in the formula grants program to address efforts to reduce disproportionate minority confinement in their State plans. States must assess reasons for its existence and design and implement strategies to reduce the problem. The Senate changes this requirement in an attempt to be race neutral and only calls for addressing problems of over-representation by any segment of the juvenile population. Both the Coalition and the Administration have been outspoken about maintaining the requirements in the current law.

- **Prevention.** Both bills include a "prevention block grant," but the funding does not have to be spent on primary prevention. The Coalition is urging the passage of the Senate bill that requires a 25% set-aside for primary prevention. The Administration is urging that the conferees consider maintaining a greater portion of the prevention block grants for primary prevention efforts (targeting youth who are not yet in the juvenile justice system).

Census Poverty Number Release. On September 30, the Census Bureau will release its annual report on poverty in the U.S. This report measures poverty data by characteristics such as age, race, work experience, and geography and also presents an overall national picture of poverty in the U.S. Selected White House staffers are privy to a preview of the data a day before the public release. In preparation for the meeting we have asked the Census Bureau to develop timed sequences of some specific data that we anticipate will be favorable indicators of the progress of some of our policies. An event announcing the results of the report is tentative on the President's schedule on September 30.

New National Center for Health Statistics Release. In early October, the National Center for Health Statistics (NCHS) will release its latest data indicating that homicide deaths are down by about 14 percent, for the fifth straight year in a row and that homicides, HIV/AIDS deaths, and the teen birth rate are all down. The data will also show that there is no improvement in the infant mortality rate and that there has been an increase in the out of wedlock birth rate.

Americorps. Last week, the Senate voted 61-38 to defeat an amendment introduced by Senator Smith (I-NH) that would have removed all funding in the VA-HUD bill -- $224.5 million -- for AmeriCorps grants and redirected the funding to veteran's programs. Sixteen Republicans joined all of the Senate Democrats to vote against the amendment. Sen. Smith argued strongly against "paid volunteers" and suggested that AmeriCorps is un-American. Sen. Bond (R-MO), who chairs the VA-HUD appropriations committee, argued against the amendment, citing the value of AmeriCorps. He also pointed out that there is no chance the President would sign a VA-HUD bill that does not fund AmeriCorps. Sen. Mikulski also spoke strongly against the Smith amendment.

Last year, Senator Sessions (R-AL) offered a similar amendment that failed 58-37. Sessions' amendment would have moved $33 million from AmeriCorps to the space program. This week's vote against the Smith amendment was even bigger and potentially more controversial because he pitted AmeriCorps against the needs of veterans.

POTUS Message Schedule

9/28	Religious Leaders Breakfast Meeting w/PM Ecevit of Turkey
9/29	Arts & Humanities Awards Meeting w/Foreign Minister of Syria
9/30	Departure Statement -- Income/Poverty Numbers (possible CR signing) Address "Achieve, Inc." National Education Summit, Palisades, NY
10/1	Departure Statement -- Social Security Mailing (tentative)
10/2	Radio Address -- topic TBD

10/4	Message Opportunity (pending Hill action)
10/5	Patients' Bill of Rights Event at the White House
10/6	Comprehensive Test Ban Treaty Event
10/7	Healthcare Event (possibly Medicare -- Health reporters have been invited to spend the day at the White House)
10/8	Travel to Ottawa, Canada for Embassy Event and Federalism Conference
10/9	Radio Address -- topic TBD

THE WHITE HOUSE

WASHINGTON

September 10, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
PATTI SOLIS DOYLE
MARSHA BERRY
SHIRLEY SAGAWA

SUBJECT: MESSAGE EVENT OPPORTUNITIES

We understand that your schedule for late next week will likely not allow you to add to your schedule. The purpose of this memorandum, however, is to outline a few opportunities for official message events late next week. While not definite, September 17th (Friday) will likely be the day that the President vetoes the Republican tax cut proposal (the Republicans have not yet sent us the bill); if it happens, you may want to consider joining that ceremony.

- **Minimum Wage Event.** As you know, Kennedy's minimum wage proposal is expected to be considered as an amendment to the bankruptcy bill next week (prospects for passage reportedly have improved). To engender support for his proposal, on the morning of Wednesday, September 15, Senator Kennedy, Rep. Bonior, and Secretary Herman will release a new report on the effects of the minimum wage on women. The report will show that the majority of beneficiaries of an increase in the minimum wage are women (58 percent of the 11.8 million workers who would receive a pay raise), and that about 7 million women nationally, 12.6 percent of all working women, would be directly affected by an increase in the federal minimum wage. The report will also feature state-by-state data on the numbers of women impacted by an increase in the minimum wage. Senator Kennedy has invited you to join this event. Since you will be in New York on Wednesday, however, we are exploring a message event there that would highlight the new report and urge passage of the minimum wage increase. Senator Kennedy also plans to pen an op-ed next week on the minimum wage and has offered to share a byline with you. Let's discuss this offer.

- **Children's Health: Health Care Coverage Report and Initiative.** On the morning of Thursday, September 16th, Secretaries Shalala and Riley and Attorney General Reno are participating in an event at Eastern High School in Washington D.C. which will serve as a national kickoff for community CHIP enrollment events in 25 communities during the last two weeks of September. They will launch a series of radio PSA's that will air in 21 cities and announce HHS's commitment of $1 million for a radio campaign to promote CHIP outreach event and the 877 KIDS information line. They have invited you to join the event. If you are unable, you might consider joining the President for a likely CHIP event in mid-October, where the President and you could release a new Families USA report stating: that enrollment in the new CHIP program is increasing; enrollment in some states is lagging behind; and that that we still face some challenges in Medicaid enrollment, especially in regards to welfare reform. In addition, you both could (1) release a new TANF regulation establishing financial incentives to enroll eligible individuals in the Medicaid program; (2) announce a new Back to School campaign to distribute applications for and information about CHIP through school systems around the country; (3) release the second Federal Interagency Task Force Report on Children's Health Insurance Outreach, including new outreach efforts by the Postal Service, Americorps and the Department of Transportation; and (4) direct the Department of Education and HHS to develop a plan to make school-based screening for health insurance a standard part of school enrollment, like immunizations.

- **Education: Teacher Quality Conference of Higher Education Presidents.** On September 15-16, approximately 150 college presidents will meet in Washington D.C. to develop recommendations for reforming schools of education. The two-day summit will also include other education leaders, foundation representatives, and Congressional staff. You could join the Secretary in challenging the college presidents to take a strong leadership role in improving teacher education to ensure that all children are taught by high quality teachers. Senators Jeffords and Kennedy will speak to the group from the Indian Treaty Room on Wednesday evening, September 15, and, if you were able, you could address the group at lunch on September 16 or later in the afternoon for closing remarks.

- **Education: Charter Schools.** You have expressed interest in visiting a D.C. charter school to highlight your commitment to the issue. Two charter schools in particular could serve as good vehicles for this message. The Maya Angelou Public Charter School in Ward 1 helps young people who have been in the juvenile justice system re-enter the educational system. Another charter school, the Cesar Chavez Public Charter High School in Ward 2, focuses on getting young people involved in public policy. This event could serve as a follow-up to the day long meeting and workshop that you hosted for D.C. public charter schools last year, and a celebration of the successful start-up of the schools. You could also hold this event at another time – perhaps during the Holiday season.

THE WHITE HOUSE

WASHINGTON

September 10, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues. Attached please find a compilation of strategy memos from the policy councils to the President, which include the Presidents comments.

Bankruptcy. Next week, Senator Lott is expected to take up the bankruptcy reform bill. As you know, the Senate bill, S. 625, is an improvement over the House-passed bill (which the Administration said his senior advisors would recommend he veto), but not enormously so. We have been working closely with Senate Democrats (principally Senators Schumer, Kennedy, Feingold, Durbin, Leahy, and Dodd) to devise an amendment strategy for the Senate floor. Currently, the Democrats have about 50 amendments to offer – many of which represent the Administration's specific proposals to improve the bill – and no time agreement has yet been struck. Amendments which are likely to pass include a deal on curbing coercive reaffirmations, some (fairly insignificant) new credit card disclosure requirements, a cap to the homestead exemption, and some, limited improvement to the means test formula. The challenge will be for these improvements to survive conference (last year, as you'll recall, the final conference report stripped all balancing provisions gained by Senate Democrats). Unfortunately, the numbers don't look good – by the latest whip count, 80 plus Senators (and as many as 90) plan to support the underlying bill. Currently, the President's senior advisors are waiting to watch the bill's progress on the floor early next week before signaling our position. Many foresee passage with a veto-sustaining margin, and hope that the marginal improvements will allow him to sign the bill, while stating his reservations. (For additional information, see page 14 of the NEC report, which is tagged.)

Importantly, many Senators see the bankruptcy bill as the only remaining vehicle for legislative action, and Senate Democrats are considering offering a host of non-germane amendments such as minimum wage, guns, Patients Bill of Rights, etc. Senator Kennedy's minimum wage proposal will certainly be offered and debated – reports suggest that a deal may be in the works to allow it to be attached to the bankruptcy bill.

Crime. Yesterday, at a meeting with Mayors and Police Chiefs from around the country, the President urged Congress to pass common sense gun legislation. The President also unveiled new reports and initiatives aimed at keeping guns out of the wrong hands and reducing gun violence.

The President released a report by the FBI and the ATF showing that in its first seven months of operation the National Instant Criminal Background Check System (NICS) has conducted over 4.7 million background checks and blocked an estimated 100,000 prohibited guns sales, bringing the number of gun sales blocked to felons, fugitives and other prohibited persons to over 400,000 since the Brady Law took effect in 1994. The report showed that the vast majority of NICS checks are completed very quickly -- 75 percent within 30 seconds and 95 percent within two hours. It also indicated that of the sales denied by the FBI, 76 percent were based on a felony conviction, and 11 percent for domestic violence misdemeanors or retraining orders. Finally, the report showed that if the FBI had only 24 hours to complete background checks, instead of three business days under current law, 20,000 prohibited purchasers – over 41 percent of FBI denials – would have received guns.

In addition to the report, the President announced a $15 million HUD initiative to help public housing authorities partner with local law enforcement departments to establish gun buyback programs – removing up to 300,000 guns from circulation by the end of the year. Additionally, the President released $146 million in COPS grants to fund nearly 1600 new officers. $61 million will be provided to 151 state and local law enforcement agencies to hire over 850 new officers for our streets; and $85 million will be awarded to 319 state and local police departments to put over 750 police officers in schools. Please see attached for a listing of the local grantees for the COPS grants.

Education. <u>ESEA</u>: The reauthorization of the Elementary and Secondary Education Act is progressing slowly. In May the President transmitted his proposal to Congress – the Educational Excellence Act for All Children of 1999. As you know, the main focus of the Administration bill is: a firm commitment to high standards in every classroom; the improvement of teacher and principal quality; strengthened flexibility coupled with accountability; and a guarantee of safe, healthy, disciplined, and drug-free learning environments for all children.

The House leadership has chosen to break apart the ESEA by considering and voting on the proposal one Title at a time instead of offering an alternative comprehensive package or considering the Administration's omnibus bill. The House first took up the issue of Teacher Quality through HR 1995, Title II of ESEA – the Teacher Empowerment Act. This bill would consolidate Title II, Class-Size Reduction, and Goals 2000 into one program. It would provide formula funding to States and school districts and require the funds to be used for both professional development and class-size reduction. The professional development aspect of the bill includes similar language to the Administration's proposal – calling for on-going intensive on-site professional development for teachers. The Class-Size reduction provision, however, does not include a dedicated funding stream for class-size reduction nor does it include a focus on reducing class-sizes in the early grades. It would not allow the President to meet his goal of hiring 100,000 teachers to reduce class-sizes in grades 1-3. The House passed HR 1995 in July and the President has threatened to veto the bill if it comes to his desk. The Senate has introduced this bill, but is not expected to vote on it.

The House is currently considering Title I – Helping Disadvantaged Children Meet High Standards – and is expected to mark-up Title I at the full-committee level on September 23rd. A bipartisan working group is using the Administration's proposal as a base and drafting an alternative proposal. Possible hot button issues include: Republicans would like to dilute the targeted funding to our highest poverty areas; neither side has come to an agreement on how to ensure that failing schools receive the additional resources needed to improve; and, the issue of increasing the training and education of paraprofessionals and ensuring that they are placed in appropriate roles has not been resolved. Democrats and Republicans agree with the Administration that that students should be taught by highly qualified individuals and that paraprofessionals should have additional requirements for education and training, but Democrats are very concerned that these requirements will result in massive job displacement.

The Senate is expected to take up the entire ESEA package as one bill. Currently, Senator Jeffords is drafting a bill, but it is not expected to be completed until the end of the month at the earliest. In the meantime, Jeffords continues to hold hearings on issues throughout ESEA.

In both the House and the Senate, the Administration expects to have difficulty passing the President's Educational Accountability Act. The Republicans continue to claim that the provisions amount to Federal intrusion and heavy handedness, while some Democrats are concerned that there are not enough supports and resources in place to effectively implement the provisions.

<u>Recent Research on School Finance, including call for Voucher Experiment:</u> On September 10, the National Research Council released a study on school finance, "Making Money Matter: Financing America's Schools" arguing that money can and should be used more effectively to make a difference in improving U.S. Schools. The study outlined three goals as a framework under which to improve school finance: promoting high-achievement for all students in a cost-effective way; reducing the nexus between student achievement and family background characteristics; and, raising revenue fairly and efficiently.

The report supports many of the same types of investments that the Administration has proposed: investing in professional development of teachers throughout their careers; promoting comprehensive educational reforms; reducing class-sizes; and modernizing school buildings.

It also, however, calls for a ten-year large-scale voucher experiment to determine if vouchers can successfully empower schools and parents to make better decisions about public funds and improve student achievement in a cost-efficient way.

U.S. News & World Report and *Education Week* are expected to pick-up this report and cover the voucher angle. Secretary Riley is prepared to respond by lauding the recommended investments and stating that we do not have ten-years to wait to find out what we already know from small-scale experiments that vouchers are not a magic-bullet solution to comprehensively fixing our failing schools.

District of Columbia: The DC College Access bill, HR 974, passed the House by voice vote in May and is now being considered in the Senate. The Senate Committee on Government Affairs reported it out of Committee on September 9, 1999. The Administration is currently working with a bipartisan group (including leadership from Senators Voinovich and Durbin with Representatives Norton and Davis) to develop a compromise bill that could be passed by unanimous consent in both the House and Senate. Currently, $17 million is included in the President's FY 2000 budget to support DC College Access. H.R. 974 would: (1) allow the Federal Government to pay the difference between in-State and out-of-State tuition at public colleges and universities in Maryland and Virginia (or in other States under certain circumstances) on behalf of qualified D.C. residents; (2) provide grants to D.C. residents who choose to attend private colleges and universities in the Washington, D.C. area; and (3) authorize financial support to the University of the District of Columbia (UDC). The Administration supports the bill, but is concerned about provisions in the bill that would phase-in eligibility over time. The Administration is concerned that this phase-in would postpone the true cost of the program, thereby encouraging the D.C. Mayor to expand the program in its early years (by awarding grants for attendance at institutions in States other than Maryland and Virginia), which may result in serious funding constraints and dashed student expectations in future years. The phase-in could also skew initial program evaluations and understate operational requirements.

National Campaign Against Youth Violence. In this week's radio address (for broadcast, Saturday, September 11), the President highlighted the prevention of youth violence by announcing grants to local communities. The President announced the award of $180 million in Safe Schools/Healthy Students grants to 54 communities. These grants are the result of a joint effort between the Departments of Justice, Education, and HHS to promote coordinated policies and programs at the local level between schools and community, health, and law enforcement agencies. Funds can be used for three purposes: to hire law enforcement personnel to provide security in schools; for early intervention and prevention programs designed to make schools and students safer and free of drugs; and for mental health services and early childhood development programs.

On Tuesday, September 14, 1999, Senator Specter is holding a hearing on youth violence. Secretary Shalala, Secretary Riley, Secretary Herman, and Deputy Attorney General Eric Holder will all testify at the hearing. Their testimonies will focus on the work of their respective agencies on preventing youth violence.

New Markets. All three components of the New Markets Initiative that require legislation have Democratic sponsors. For the most part the bills reflect the Administration proposal, with a few modifications. The New Markets Tax Credit, a tax credit worth 25 percent for investments in a wide range of vehicles to help spur $6 billion in equity capital for investment in New Markets (likely to be folded into our tax bill), is being sponsored by Rep. Rangell and Senator

Rockefeller. America's Private Investment Companies (APICs), modeled after our Overseas Private Investment Corporation to encourage private investment in America's untapped markets, is being sponsored by Rep. Lafalce and Senator Sarbanes. The New Markets Venture Capital (NMVC) Firms, which would make both capital and expert guidance available to small business entrepreneurs in inner-city and rural areas (most likely to be introduced next week), is being sponsored by Rep. Velasquez and Senator John Kerry.

In November the President will lead a second New Markets tour. The NEC is looking eagerly for thematic and geographical suggestions that will distinguish this tour from the previous trip.

POTUS Week Ahead

Following is a list of upcoming POTUS message events for next week.

Friday, 9/10 - Wednesday, 9/15	New Zealand Visit
Saturday, 9/11	Radio Address (taped at WH Thursday 9/9) Topic: Safe Schools, Healthy Students/COPS grants
Thursday, 9/16	Arrive WH -- No Event Planned
Friday, 9/17	No Event Planned

NOTE: The message schedule for Sept. 16 and 17 may change pending Hill activity – i.e. the GOP tax cut veto.

Bruce

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THE WHITE HOUSE

WASHINGTON

August 17, 1999

MEMORANDUM FOR JOHN PODESTA, DOUG SOSNIK, STEVE RICCHETTI, MARIA ECHAVESTE, KAREN TRAMANTANO

FROM: **GENE SPERLING**

SUBJECT: **NEC's Long-Term Policy Announcements and Message Ideas**

The overarching theme of our economic message is President Clinton as protector of the economy. President Clinton has had a three-part economic strategy since he took office in 1993: fiscal responsibility; investing in people; and opening foreign markets. This strategy has led to the creation of over 19 million new jobs, the first budget surplus in a generation, low inflation, low interest rates, and strong economic growth. And now, President Clinton will not let the congressional Republicans or anyone else threaten this economy.

- He will insist on a responsible fiscal plan and will veto any tax bill that would lead to higher interest rates and hurt the economy.
- He will not sign appropriations bills that harm priorities such as education and health care, and he will ensure that we do not leave any communities behind.
- He will fight to open markets around the world, resist protectionism, and ensure vigorous, timely enforcement of our trade laws.

We have structured this strategy memorandum in the manner you requested, listing message ideas and policy announcements for the President and Vice President. It is organized as follows:

<u>Strategic Theme: President Clinton as Protector of the Economy</u>
- Preventing a Bad Tax Cut that Would Hurt the Economy
- Saving Social Security and Strengthening Medicare
- Ensuring that Everyone Participates in the Growing Economy
- Fighting to Open Markets Abroad
- Reforming the International Financial Architecture

<u>Upcoming Challenges Requiring Administration Response</u>
- Timing; Responses; and Presidential Action

<u>Executive and Other Non-Legislative Actions</u>

STRATEGIC PLANS

I. PREVENTING A BAD TAX CUT THAT WOULD HURT THE ECONOMY. Perhaps our most important objective for the remainder of the year is to ensure that we are able to keep a harmful tax cut from becoming law. The President will continue to make statements and hold events that present him as the protector of the economy and as a strong fiscal hawk on this issue.

Veto the Tax Bill with Constructive Offer. When Congress returns from recess in September, we will receive the tax legislation from the Hill for the President's veto. We need to consider how we want to handle the actual veto in early September. Clearly, we want to present this veto as a necessary step for the President to take to protect the economy from fiscal recklessness. We should make news and policy by making a veto statement -- or the next day make a specific announcement on Medicare. *Timing: early September*

Final Budget Surplus Numbers. At the end of the fiscal year, we will receive the final budget surplus numbers for FY99. We should, as we do annually, hold an event where the President and Vice President can tout the successes of fiscal discipline and of our economic strategy – and warn that we cannot abandon the strategy that has created the strong current fiscal situation. *Timing: September 22*

Highlight Threat to Interest Rates Increasing. We could highlight the threat that the Republican tax plan and higher interest rates pose to ordinary Americans by holding an event focused on the benefits of low interest rates (e.g., highlight homeowners, college students, small business owners).

II. SAVING SOCIAL SECURITY AND STRENGTHENING MEDICARE. We need to continue to create an environment in which the President's Social Security and Medicare reform proposals can be enacted this year. By presenting President Clinton as a leader willing to address the twin fiscal challenges – maintaining budget discipline and addressing long-term entitlement reform – we can continue to promote the image of the President as protector of the economy.

A. *Specific Agenda Items*

Medicare. I am working with Larry Stein on a strategy memo on how to both engage internally and publicly on Medicare, with a possible public offer to work together after the veto or with the veto.

Continuing Legislative Process on Our Social Security Framework. Archer may do a mark-up of his bill in September. We need to decide between the following four approaches:

Yes (& like to other Dems, ann.-

- Stay where we are
- Put out lock-box legislation
- Put out lock-box legislation without "mirroring"
- Seek to work on negotiations with Archer/Democrats

We need to explore whether the House Democrats feel it is helpful to have an administration legislative proposal.

B. *Possible Presidential Actions*

Call for Process to Achieve Medicare Reform. When the Hill completes work on its Medicare bill, the President could call for a process whereby the Administration would work together with both parties on the Hill to achieve meaningful Medicare reform.

Release the Social Security Actuaries Memo. The Actuaries memo will show that the President's Social Security plan extends the solvency of the Social Security program to 2053. This event will give us the opportunity to reiterate our commitment to the Social Security program and provide further details about our plan. We could use this event to signal our willingness to work with Congress in a bipartisan fashion to further extend the solvency of the program.

Ann. soon

Release Further Details on Reducing Widow Poverty and Earnings Test. At this point the economics team is still analyzing several anti-widow poverty initiatives and the repeal of the Social Security earnings test. A key issue is whether to release such details even though we said in the State of the Union that we would only do this with bipartisan reform.

Good idea

Conduct Event around First Mailing of Social Security Statements to American Workers. On October 1, SSA will begin mailing annual Social Security statements to American workers age 25 and older. The statement provides workers with estimates of benefits they can expect to receive when they retire or become disabled, or what their family can expect from Social Security if the worker dies. These mailings (125 million per year) represent the largest customized mailing ever by the federal government. *Timing: end of September, early October*

Medicare State by State. We are working on compiling state-by-state information on Medicare, for a possible event early in September. It would mostly include basic information like the number of beneficiaries by gender, race, etc. by state -- not very specific to the proposal. The idea would be to bring in regional press for a day-long White House event with briefings, an event with the President, etc. (modeled on the climate change/weathermen event a couple years ago). *Timing: early September*

Children's Health Outreach Event. In late September, we are hoping to get a POTUS event to: (1) announce the new Federal Interagency Task Force report, that includes new actions like getting AmeriCorps involved in kids' outreach; putting posters on public transportion with the toll-free number; and putting the information on stamps or change of address cards through the postal service; (2) ordering HHS and Education to develop a plan to institutionalize school-based enrollment in CHIP; and (3) more private actions including a multi-million dollar foundation effort to promote outreach. *Scheduling request is pending for late September*

C. ***Republican Agenda and Likely Response***

The Hill Republicans are trying to sell their tax cut agenda over the August recess. After the veto, they may seek a new tax cut compromise. We must make Medicare the next step. Come the end of the fiscal year, they intend to send one short continuing resolution at last year's levels after another, hoping that these Spartan levels will coerce us into agreeing to tax cuts. Diminished and diminishing expectations limit the credibility of large-scale responses. As the year progresses, the size of the initiative that the Administration can credibly advance will decline.

D. ***Timing and Strategy***

Toward the end of the fiscal year, we need to remind observers of the government shutdown scenarios of the past and highlight the inability of Hill Republicans to govern.

III. ENSURING THAT EVERYONE PARTICIPATES IN ECONOMIC GROWTH. The President will continue to promote economic opportunity for all Americans by promoting economic development in New Markets, expanding worker training, increasing mentoring opportunities for pre-college students, and pressing for other initiatives for working families. *This is particularly important through the fall Appropriations process.*

A. ***Specific Agenda Items***

Appropriations Process. We need to ensure that over the course of the fall, we are holding events regularly that show the President as protecting our domestic economic priorities by highlighting issues like education, health care, and other priority initiatives that he will not allow to be cut from the budget.

New Markets Initiative Legislation. We will continue to push forward this legislation, parts of which were formally introduced the week of August 2. The New Markets Legislation includes the New Markets Tax Credit and the America's Private Investment Companies which were introduced on Thursday August 5. We anticipate that the remaining major component of the legislation, the New Markets Venture Capital Firms will be introduced immediately following the recess.

Strong do

Bipartisan New Markets Effort. We are working on the following steps to get a bipartisan agreement. First, Larry Stein and I will meet with Danny Davis, a lead co-sponsor with Talent and J.C. Watts on the Republican American Community Renewal Act. Second, we could do a possible "offer" letter from the President to Hastert saying that there are some elements of the American Community Renewal Act with which we could live.

1. Thompson to be involved or up

New Markets Regulatory Changes. Several elements of the New Markets Initiative do not involve statutory changes. These include, Small Business Investment Companies targeted to Low and Moderate Income areas. SBA will propose these regulatory changes this fall.

Manufacturing Task Force. The presidents of the industrial unions have raised concerns about recent slippage in manufacturing employment and softness in the manufacturing sector associated especially with a downturn in exports. The President and Vice President recently committed that we would undertake an Administration-wide process to develop a comprehensive plan for the manufacturing sector. The plan should encompass technology, training, offsets/outsourcing, small and medium enterprise, and export promotion policies. We would work towards consultations with labor and industry on an initial proposal by mid-Autumn and then work to finalize the plan as part of the State of the Union/Budget process in the winter.

Highlighting Education Priorities in Appropriations Process. The President could release a list of ten key education items that are critical priorities and that we expect to win on during the Appropriations process. We could present these items as the types of things that must be in any budget for the President to sign it. This will set up clear "wins" for us on our education agenda. *Timing: Fall*

Must do - priority e.g. Newark

B. *Possible Presidential Actions*

A Second New Markets Trip. Focusing on economic development needs in North Carolina, Hartford, Newark, and other locations, we will prepare for a second trip in early November. *Timing: October-November* tour [illegible]

also poss- [illegible] Ohio [illegible] [illegible] E. Washington [illegible]

Good

Announcement of the Community Development Financial Institutions Fund Awards. Possible announcement of the CDFI Fund announcements of awards to groups around the country. This event could take place at the White House or off campus. *Timing: August - September*

Executive Order on Market Research for New Markets. Possible announ[illegible]

[illegible] do could do off campus [illegible] [illegible]

Ok

interagency task force that will be responsible for assembling and publishing data helpful the private sector in their evaluation of investment opportunities in untapped markets. The task force might also work to coordinate a conference with leading practitioners and academics that do work on new markets and related community development. *Timing for EO: September; Timing for Conference: November*

Highlighting the Census Study: Poverty in the United States: 1998. The President could roll out the Census Bureau study on poverty in the United States on September 30. Each year the Census Bureau releases the study. Given the strong economy, low unemployment and low inflation, the numbers should be extremely good. In addition to the statistical findings of the study, the President could highlight the Clinton/Gore policy accomplishments in this area and then say that more needs to be done and that is why he is doing another New Markets trip to highlight the pockets of poverty that remain. *Timing: September 30*

Addressing the Skills Gap and Training American Workers for American Jobs. One recent survey found that over 60 percent of corporate leaders say that the number one barrier to sustained economic growth is the lack of skilled workforce. The President and Vice President could meet with a number of CEOs to discuss the current skills gap and what needs to be done to close it. We have a number of ideas, but the Vice President may want to take the lead on this.

HS - or [illegible] go to a real GED ceremony [illegible] N.H.?

Adult Literacy Initiative. We could help to highlight the Adult Literacy Initiative by focusing on the importance of Graduate Equivalency Degrees (GEDs). This could be done by having a graduation ceremony at which the President could distribute diplomas to 50 recent GED graduates – one from every state. We could announce a new Administration initiative, possibly an Executive Order designed to further education and training opportunities to GED graduates. One student could play a valedictorian role and tell a personal story. Secretary Riley and Secretary Herman could participate, and students from every state might encourage members of Congress to attend. *Timing: September or October, or anytime*

Could we do at one of the Higher Ed [illegible] meetings? College Univ [illegible] Comm. College? or [illegible] city [illegible]?

Making College Available to All Through the GEAR UP Mentoring Initiative. We could follow up on this week's announcement of the $120 million in GEAR UP grants by further addressing the initiative through the appropriations process. We could hold an event where the President will make several announcements regarding GEAR UP, including: the Ford Foundation's partnership with the Administration to provide technical assistance to applicants and grantees, doubling of the Ford Foundation's funding to their own grantees, the creation of the High Hopes for College Leadership Group, the President's letter to all College Presidents urging them to participate, and the unveiling of the GEAR UP application package. He will also obviously push for his proposal to double funding for the GEAR UP mentoring program.

Focus on the Minimum Wage. Obviously, this is an issue we want to coordinate closely with the Hill. One possibility would be to have the Labor Department write a short report on the impact of the 1996/1997 minimum wage increase on job growth, unemployment, and wages. *Timing: TBD*

C. ***Republican Agenda and Likely Response***

The Republicans will have a limited training and economic development agenda. Nonetheless, there have been some indications that key Republicans may want to move on some of our legislation. For example, Rep. Goodling made some very positive statements about our entire workforce initiative on the day the President announced it in late January. And Reps Watt and Talent have moved forward on a New Markets-style initiative of their own. We will continue to try to forge bipartisan support around as many of these initiatives as possible.

D. ***Timing and Strategy***

We would like to focus a great deal of attention on our worker training agenda and our community empowerment agenda over the next four months. In some instances, our timing on these issues will be dictated by movement on the Hill (e.g., when Kennedy moves on minimum wage).

IV. FIGHTING TO OPEN MARKETS AROUND THE WORLD AND RESIST PROTECTIONISM. We need to use Presidential leadership to build a new consensus in favor of opening markets and resisting protectionism, as it delivers on his commitment to uphold our trade laws and to put a human face on the global economy.

A. ***Specific Agenda Items***

Launching a New WTO Round: The President announced the launch of a new Round at the Seattle WTO ministerial in December. This will provide an opportunity to set ambitious objectives on opening agricultural and services markets and to advance "new consensus" issues, such as increasing the accountability and openness of the WTO and securing a forum for consideration of the effects of trade on labor and environmental standards. We are also seeking important outcomes at the Ministerial, including an extension of the WTO prohibition on e-commerce duties (especially relevant in the Seattle area), a procurement transparency agreement, and an accelerated tariff liberalization (ATL) agreement on key sectors where the U.S. is quite competitive. However, many of our foreign partners will pursue opposing agendas, such as attempting to place U.S. anti-dumping laws on the table or to reopen the controversial area of investment -- non-starters for us. We will seek strong endorsement by APEC Leaders of our key priorities for the WTO Ministerial. However, the ministerial also presents a convenient target for domestic opponents of trade, and a coalition of opposition groups is organizing now to get their message across loudly in Seattle.

China WTO Accession/MFN: This issue is both an opportunity and a challenge. We continue to push hard to conclude a WTO accession agreement with China in the run-up to the Seattle WTO ministerial – using the bilateral meeting between the President and Chinese President Jiang to make progress. Such an agreement would be applauded by the multinational segment of our business and agricultural communities and would significantly bolster our bilateral relationship. The associated need for permanent NTR status will also load up our trade legislation agenda with a potentially tough fight; organized labor has already signaled strong concerns.

Good

Securing Passage of the CBI and Africa Trade Bills: Senate floor consideration of a trade bill including CBI and Africa trade preferences is likely by late September. The goal is to marry the Senate product, which could include an extension of the Trade Adjustment Assistance and Generalized System of Preferences programs and possibly a wool tariff reduction favored by UNITE and the domestic wool suit industry, with the House-passed Africa bill in conference. We will seek to promote compromises in conference sufficient to ensure Congressional passage while preserving adequate trade benefits and improving worker protections for CBI and African countries.

Good

Securing Passage of a Southeast Europe Trade Initiative: We will also work with Senator Moynihan and others to identify an appropriate vehicle for the trade initiative proposed by the President at the Southeast Europe Stability Pact Summit in Sarajevo.

Weigh offer a Pacific Rim-Draft for Chile, Singapore, Australia, etc.

Articulating a Strategy to "Level Up" Labor and Environmental Standards: The President's Chicago and ILO speeches expanded upon the SOTU call for a new consensus on trade policy based on a process of leveling up labor and environmental standards as the liberalization of trade and investment rules proceeds. Our efforts to promote a successful Seattle WTO ministerial and lay the groundwork for a potential Congressional vote in connection with China's WTO accession would benefit by further policy advances in this regard. We will need to continue articulating and elaborating a clear, comprehensive policy including both long-term objectives and specific, near-term initiatives to help blunt labor and other domestic criticism of our efforts in Seattle and improve the climate in the House Democratic Caucus for trade legislation. Staff is developing additional policy options and themes addressing public concerns about the "race to the bottom" concerns, which will focus primarily on initiatives outside the traditional boundaries of trade policy and on applying carrots rather than sticks.

New Arm at the ILO to Strengthen International Labor Standards: We are working with the AFL and others to design and fund a new program at the ILO that would provide assistance to developing countries to enforce core labor standards such as collective bargaining. We are seeking FY'00 appropriations of $25 million for the ILO ...

million for DOL to advance this initiative.

Bilateral Trade Agreement with Vietnam: We are aiming to conclude a bilateral trade agreement with Vietnam for possible signature at APEC. The business community will be very enthusiastic about the terms we have secured so far. However, we will need to nail down a strong textiles agreement (with labor conditions) before submitting legislation to Congress granting Vietnam NTR.

B. ***Possible Presidential Actions***

[illegible]

Opening or Closing Address at WTO Ministerial Meeting. The President should give a speech at the ministerial in order to highlight his leadership in the launch of the new global round, emphasize the core U.S. agricultural and high tech interests at stake, take credit for implementation of the WTO reform agenda he laid out two years ago, and discuss his vision of how the globalization process must become a mechanism for leveling up as we move into the 21st century. *Timing: November 30 – December 03.*

Presidential Speech at the APEC CEO Summit: The President is scheduled to give a speech to the CEO Summit at APEC in New Zealand. Although this speech will not get a lot of attention at home, it provides a good opportunity for the President to lay out a strong pro-trade agenda going into the WTO ministerial – which would be welcomed particularly by domestic agriculture. Depending on what happens in our trade negotiations with China, it could also provide an opportunity for making a strong case for a possible trade agreement with China. *Timing: September 12.*

Yes

Presidential Witnessing Signing of Vietnam Bilateral Trade Agreement at APEC: We are working hard to wrap up negotiations with Vietnam on a trade agreement by the time of the APEC leaders meeting. The President could join with the President of Vietnam in witnessing the signing of the trade agreement when both are in Auckland. Obviously, such an event would invite some criticism as well as strong support from the business community and some other groups. *Timing: September 11-12.*

Presidential Speech on "Leveling Up": The President could give a speech outlining a broad policy framework to guide our efforts to promote broad-based improvements in living standards through parallel trade liberalization (WTO/China/regional agreements) and "leveling up" (economic democracy institutional building) agendas, per above. The speech could be presented before a major international affairs audience in the autumn a few weeks before the Seattle ministerial. It could include, but would preferably be separate from, an articulation of our specific goals for Seattle (see separate entry).

Yes

Africa Trade Bill Event: The President should do an event highlighting his strong commitment to passage of the Africa trade bill this year prior to any Senate floor action. Such an event would highlight the diversity and breadth of international and domestic

[illegible] for CBI [illegible] Florida?
[illegible]?

support for this legislation – and the President's personal commitment, which has been less visible of late. The thrust of the event should be limited to an appeal to Congress to work together in a bipartisan fashion to send a bill to the President this year. It should steer clear of bill specifics, which remain somewhat in dispute. Also, given that Senate Finance is likely to move the Africa trade bill in a package with CBI enhancement, which is much more controversial with Labor, we will need to navigate the politics carefully. *Timing: Early October.*

C. ***Republican Agenda and Likely Response***

CBI/Africa Omnibus Trade Bill. The Senate is likely to consider by late September a trade bill including CBI, Africa, GSP, TAA and perhaps other items. Senators Lott and Roth will try to discourage amendments to the CBI and Africa provisions, arguing that conference is the best place to consider compromises. Nevertheless, Gramm is likely to offer House-like Africa textile provisions, which we support, and lose. And Jeffords may offer a compromise between the House and Finance Committee textile texts depending on assurances from Lott and Roth as to what they would support in conference. Feingold may offer Jesse Jackson, Jr.'s bill as an amendment but should attract limited support. Helms' and Hollings' ultimate posture is unclear.

ok

Trade Authority. Whereas the House is unlikely to initiate any legislation to renew fast-track trade negotiating authority, Senator Roth may conduct a Finance Committee markup of a bill in late September. His intention would be to report a modified version of last Congress' bill with bipartisan support as a signal to our trading partners in Seattle that the U.S. is likely to have negotiating authority in place when it needs it. He is not interested in pressing for a vote by the full Senate in this session. Discussions on a potential Administration response have been pessimistic, although there is some interest in exploring the possibility of a "new consensus" WTO-only approach. We may want to develop a set of principles for the treatment of labor and environment that could demonstrate broad Democratic unity – as opposed to the much more difficult task of crafting a "Democratic" bill. If instead we remain silent, we may send Finance Committee Democrats again into the hands of their Republican colleagues out of frustration with a lack of Presidential leadership, cleaving the Party further on trade. The endgame may be an attempt by Roth to draft a Senate or Concurrent Resolution limited to an expression of support for certain WTO trade negotiating objectives.

agree we can't do that

D. ***Timing and Strategy***

Trade Authority. Should Senator Roth proceed with a mark-up in late September, the Administration could make a policy statement on the treatment of labor and environmental objectives that commands broad Democratic support – as described above. This statement could take the form of a broader policy speech focused on "levelling up" labor and environmental standards as discussed above. *Timing: September/October.*

<u>CBI/Africa</u>. In anticipation of a likely Senate consideration in late September, we are preparing for a debate on textile and apparel trade and conducting Hill and private sector outreach. It may also be advisable to make a high-level appeal to the Congressional leadership in early September to place this bill on a schedule that would permit it to be sent to the President by mid-October. The goal would be to prevent it from being backed up against the end of the session, when opponents have used their enhanced leverage in the past to block passage of CBI and Africa. *Timing: September/October.*

V. <u>REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE AND RELIEVING THE DEBT BURDENS OF HIGHLY INDEBTED POOR COUNTRIES</u>.

Continue to work with the G-7 and others to implement the debt relief plan and international financial architecture agenda agreed to at the G-7/8 Summit in Cologne.

A. *Specific Agenda Items*

This is very important to me (stay with account so [illegible])

<u>New Debt Policy</u>. The NGO community and primarily African beneficiary nations are pressing for radical debt relief as a demonstration of our commitment to a relationship of partnership and equality with the poorest nations as we enter the new millennium. Under the Cologne Debt Initiative, which we championed, the U.S. is responsible for providing financing for substantial additional bilateral and multilateral debt relief. Our share of these costs is estimated to be approximately $850 million over 5 to 10 years. In addition, we had planned to seek Congressional authorization for the use of a portion of the IMF's gold reserves to fund its debt reductions – although that plan is now in doubt with the Congressional prospects worsening. We will seek authorization for the full $850 million this year and appropriation of a significant share in FY 2000 (depending on budget constraints) in order to give the Initiative international credibility and attract early financing from other countries. Treasury will also work with Congress to authorize a modified approach to tapping the market value of the IMF's gold reserves.

Good

<u>New Social Safety Net Policy</u>. G-7 countries are discussing ways to encourage the implementation of better social safety net policies in developing countries, particularly those hit hard by the world financial crisis. An internationally accepted set of best practices or principles could be established to guide the policies of poor countries and the lending practices of MDBs. In addition, the need for crisis-stricken countries to protect budgets for social programs should be emphasized in IMF and World Bank programs per the recent agreement by G-7 leaders to place greater emphasis on poverty alleviation in economic reform programs. Finally, we are exploring with the international financial institutions whether they might play an expanded role in helping emerging market economies launch unemployment insurance and other social insurance programs.

<u>Implement G-7/8 Reforms of the International Financial Architecture:</u> We conti[illegible]

to implement the international financial architecture reforms agreed in Cologne, to further strengthen international financial institutions, such as the Financial Stability Forum, and to institutionalize a finance ministers process that includes key emerging markets along with the traditional G-7 industrial economies.

B. ***Possible Presidential Actions***

Speech at Africa Economic Conference to Roll Out New Debt Policy. In an event this fall, the President could propose a budget amendment representing part or all of the costs of the Cologne Debt Initiative, while appealing to Congress to pass an authorization that includes authority to support use of the IMF's gold to finance its debt reductions. Interagency staff is reviewing appropriations and IMF gold policy options as well as potential event ideas. *Timing: Early September for World Literacy Day or Late September in advance of IMF/World Bank annual meeting.*

Speech on Strengthening Social Safety Nets in the Developing World. Either separately or as part of a broader speech on leveling up labor and environmental standards (see above under Building a New Consensus on International Trade), the President could articulate a U.S. strategy to promote implementation of basic social safety programs in the developing world. He could challenge the international financial institutions to play a more deliberate role in this area as part of their efforts to redeploy and better coordinate their energies and financial resources, particularly with respect to middle income countries that no longer require large amounts of official international financing and whose social safety nets proved woefully inadequate during the financial crisis. *Timing: September/October.*

UPCOMING CHALLENGES REQUIRING ADMINISTRATION RESPONSE

End of Fiscal Year. As the October 1 deadline for enactment of appropriations bills approaches, Hill Republicans will likely ratchet up the blame game, attempting to place the onus for appropriations deadlock on the President.

Emergency Agriculture Spending. As the President and Vice President have both noted, farmers have been hurting this year due to low prices, and the absence of a sufficient safety net in the Freedom to Farm Act has exacerbated their pain. In working with the Congress on emergency agriculture spending, we should emphasize the need to ensure additional spending is directed to those in the greatest need, and not according to existing formulas that would direct a large portion of the funds to large farms that are weathering the current situation. The NEC agriculture working group recommended a counter-cyclical income assistance program that would do just that. We should work to see that such a program is the most prominent feature of any emergency agriculture spending. *Timing: September.*

Yes

Computer Export Controls. Computer industry CEOs will be in town on January 20, 2000, asking for export relief again. This will be needed because of a new powerful microchip that Intel will be shipping called the Merced. In the announcement that the President made in July 1999, he agreed to a six-month review. An announcement in this area could show the President's continued commitment to maintain America's high-tech leadership while protecting our national security. NEC and NSC should start a working group process in September so that we can have a decision by January 2000. We should also consider getting a few computer industry execs cleared so that they can have classified discussion of long-term implications of Merced. *Timing: January 2000*

Yes - Flex position to announce

Encryption. The Administration should announce new steps to eliminate some restrictions on the export of encryption (e.g., 64-bit globally, unlimited exports to Europe, and exports of "recoverable" encryption to most countries and end-users). This will be particularly important if the House and Senate move legislation that is unacceptable to the Administration. *Timing: September-October*

I'd like to get this done

Electricity Restructuring: Under electricity restructuring, state regulated utilities would no longer have the exclusive right to sell electricity in their geographic territories. Instead, consumers could purchase electricity from any generator that served their market, just as they currently choose their long distance telephone carrier. The bill is expected to generate $20 billion of savings and to provide important environmental benefits.

A. ***Timing.*** The Department of Energy submitted the Administration's bill to Congress on April 15th. Both the House Energy and Power Subcommittee and the Senate Energy Committee have held hearings, although there is more momentum in the House. Chairman Barton plans to mark up a bill by late

September, and Chairman Bliley plans for the full committee to consider the bill shortly thereafter. There is little likelihood of a bill passing this year, but a small chance that one could pass before Easter 2000.

B. *Responses.* We are monitoring the bill's progress, and are working with Energy and committee staff as they move forward on the legislation.

C. *Presidential Action.* None.

Bankruptcy. In May, the House passed its bill 313 to 108, a margin sufficient to override a Presidential veto. Unless privacy or another unrelated issue sidetracks Senate floor debate, the bill is expected to pass the Senate by a comparable margin sometime this fall. The Senate Republicans have agreed to adopt on the floor an amendment on reaffirmations that we believe offers significant new consumer protections in this one area. It also will adopt an amendment providing limited new credit disclosures and protections, although far less than we believe is appropriate. However, if these provisions survive conference, they provide some balance to a bill that we have long criticized as grossly unbalanced.

A. *Timing.* Majority Leader Lott promised Senator Grassley that the bill would go to the Senate Floor the first week that Congress returns from recess if a time agreement can be reached. Democrats believe a time agreement is unlikely. If not addressed early when they return, it could be delayed until October.

B. *Responses.* We are exploring whether recent overtures present a genuine opportunity for some movement in our direction. Meanwhile, we are working with Democrats on amendments that would be difficult to oppose (e.g., exceptions for sympathetic debtors like victims of domestic abuse and displaced steel and agricultural workers).

C. *Presidential Action.* Given strong support from Democrats for the bill, we will not do anything more to escalate our public opposition and will avoid issuing a veto threat on the Senate bill. If the bill that results from Conference does not contain even the few improvements achieved in the Senate but commands strong support in both chambers, the President will have the option of allowing it to go into law without his signature.

Financial Modernization. The President has threatened to veto the Senate-passed version, which we believe would weaken CRA, limit choice in bank operating structure, and provide inadequate consumer protections. The Administration strongly supports the House bill, although we would like to see its financial privacy provisions strengthened and its weak medical privacy provisions eliminated. The Conference Committee has not begun serious deliberations. Everyone is waiting for a signal from Senator Gramm about how far he will be willing to compromise in order to get a bill that the President will sign. We are working very closely with House Banking

Committee Republicans and Democrats and Senate Democrats as their views and ours are most closely allied.

A. *Timing.* Uncertain. Some believe that the Conference could last months, spilling over until next year. The Conference Committee is so large that effective negotiations will be difficult. Others expect that Senator Gramm will quickly put an offer on the table and a deal will be cut quickly with just a few around the table.

B. *Responses.* The Administration is taking every opportunity to reiterate that we will hold firm on CRA and choice in bank operating structure. There is some fear that our supporters might be too eager to compromise with Senator Gramm on our core concerns in order to get a bill. We have the option of elevating the public attention to the CRA and privacy issues, if need be.

C. *Presidential Action.* Nothing foreseeable at this time.

Class Action Reform. This bill is the highest priority of the industry tort reform coalition for this year. They hope to build on momentum from the Y2K bill, which contained comparable provisions for Y2K actions. The House Judiciary Committee completed mark-up of its bill, which could go to the House floor this fall. The Senate Judiciary Committee has held hearings, but Senator Hatch is reluctant to move the bill without stronger bipartisan support. Our allies (consumer groups and trial attorneys) will be looking for us to continue to demonstrate our strong opposition. We will continue to work to strengthen our case against the bill and find opportunities to express our concerns.

A. *Timing.* House floor action could come in September if there is time on the calendar. Senate mark-up is unlikely soon, unless additional Democratic sponsors are found or until after House floor action puts pressure on the Senate to act.

B. *Responses.* We will hold a series of outreach meetings with affected constituencies and State government groups that might be concerned about the federalism implications. We will work closely with Democrats in the House and Senate on strategy.

C. ***Presidential Action.*** We may reiterate last year's veto threat when the bill gets to the House floor. Nothing else foreseeable at this time.

EXECUTIVE AND OTHER NON-LEGISLATIVE ACTIONS

I. Building the New Economy and Advancing Technology

Technology Training for Tomorrow's Teachers. The Department of Education will soon be ready (after August 16th) to announce $75 million in grants to help train new teachers to use technology effectively. This is a key component of the President's Educational Technology Initiative, since getting schools connected to the Internet will not improve educational performance unless teachers can use technology in the classroom. Currently, Riley is scheduled to announce these grants sometime during an August 23-26 trip to California. The Department would like to announce the grants in August. The Vice President is not available. *Timing: Sometime in August*

Good idea now after Jan. before Cong. comes back — or Dec. ala L.R. Econ Conf '92

White House Conference on the New Economy. We could bring together top economists to meet with the President and Vice President on this issue. High profile panelists such as Alan Greenspan and a substantive discussion of major, cutting edge issues would ensure significant press coverage. Topics could include the impact of information technology on productivity, the business cycle, and inflation; the changing relationship between unemployment and inflation; and the changing relationship between regulation and international trade. *Timing: open*

Research Funding in a Post-Cold War World. Although there is strong support for bio-medical research, there is little public or congressional understanding of the importance of investing in other research areas, such as physical sciences and engineering. In the past, DOD conducted much of the research in this area, but it has been cutting back on long-term research for the last ten years. The Administration needs to define and fund a set of research challenges for the 21st century (e.g., sustainable development) and the President could do so, just as he did at the MIT commencement in June 1998 in the context of the information revolution.

E-Society Initiative. In 1997, the Administration pulled together a set of public policy activities under the umbrella of "e-commerce." We believe that there is a value to organizing a similar effort on the social benefits and dimensions of the Information Revolution. By launching an "e-society" initiative, the President and Vice President can reinforce the message that the Information Revolution is not just about commerce, it is also about enabling Americans with disabilities to lead more independent lives, improving the way we educate our children, allowing adults to acquire new skills at a time, place and pace that is convenient for them, making government more open, efficient, and responsive, and expanding access to quality health care in rural communities. The Administration's budget makes significant contributions in this direction. We could potentially issue an Executive Order -- like the e-commerce EO -- to

and closing the digital divide
very important.

delegate the Administration's e-society agenda to the appropriate government agencies. *Timing: November-December*

II. International Economic Initiatives

Executive Order on Sanctions Reform. Sanctions reform remains a critical priority for our agriculture and business communities. The President could announce an Executive Order imposing discipline on the imposition of economic sanctions under executive authority to broaden our policy on food and medicine sanctions announced this past spring. This action could provide leverage for a broader deal for similar self-restraint by Congress. We have already indicated support for sanctions reform legislation sponsored by Dodd, and are attempting to work with Helms and Lugar on their alternative proposals. However, it appears that the Helms legislation, which is most likely to move, will not contain our key priority (freestanding national interest waiver authority for the President) and may be more restrictive of the Executive Branch than Congress. As a fall-back, we would issue the Executive Order, challenge the Congress to get their own House in order, and then work with the Congress on a food and medicine sanctions bill that parallels the President's recent policy change. (There is an Ashcroft/Hagel amendment on food and medicine sanctions attached to the agriculture appropriations bill). *Timing: September* — All in favor here? — strongly

I should call him personally

International Child Labor. The President recently sent the new ILO convention on the worst forms of child labor to the Senate. All indications are that Senator Helms and the Foreign Relations Committee will respond favorably to the convention, but there is no guarantee. We hope that Helms will hold hearings in September and move the Convention to the floor for advice and consent this year. We ~~need to find~~ a balance, ~~pressing him to move forward~~, without antagonizing him and making ratification more difficult. If the Senate gives its advice and consent, we can use the occasion of U.S. ratification to celebrate the President's leadership in efforts to eliminate abusive child labor. At the same time, we will be monitoring and pressing for full funding for our international child labor budget initiatives: (1) continued full funding ($30 million) for the ILO's International Program for the Elimination of Child Labor (IPEC); (2) $10 million in new funds for "Schoolworks!" – USAID's new program to help provide educational opportunities to remove children from abusive child labor; and (3) increased funding for customs and domestic child labor law enforcement.

agree

Meet with Ex-Im and OPIC to Promote Manufacturing Exports. The President and Vice President could sit down with Jim Harmon at Export-Import Bank and George Munoz of OPIC to discuss everything that the two agencies are doing to address the global economic situation and to promote our initiative to boost manufacturing exports.

III. Protecting Consumers

[illegible]

Financial Privacy and Other Forms of Privacy. Through a radio address or Vice Presidential event, we could focus on privacy issues before Congress returns or around that time. We do not need to identify it with either the bankruptcy bill or financial modernization. However, it will create uncertainty about our intent in both contexts and raise our leverage without committing us to insist on it in any specific context. We would not be making much policy news -- as on May 4 when the President outlined our view and two weeks ago when Gensler reiterated it before the Senate Banking Committee. Our message would be that Congress has an opportunity this fall to provide financial privacy protections to Americans, and that with so much change in the financial industries and with new technologies, we should not let the opportunity pass to make clear that financial privacy is a high priority. *Timing: early September.*

IV. Addressing Key Industry Challenges

Balancing Industry, Consumer, and Environmental Interests in Biotechnology: We have the strongest biotechnology industry in the world – and enjoy enormous economic and environmental benefits. However, concerns about biotechnology are increasingly stymieing our agricultural trade, especially with Europe, and domestic environmental and consumer groups are becoming more critical and outspoken. Unless managed carefully, the biotechnology issue could grow to similar proportions as climate change. We are in the process of an Administration-wide review of our posture toward biotechnology that should culminate in the rollout of a coherent policy plan, following extensive consultation with key outside groups. We are considering addressing the consumer's right to know through voluntary labeling, placing greater emphasis on public education, and expanding scientific assessment in those areas where there are legitimate questions. On the trade side, given the strength of EU consumer antipathy, we are examining a shift in emphasis away from trade confrontation toward winning consumer acceptance through public education and science-based regulation. We will have to navigate a shift in our posture delicately, given strong Congressional interests in this issue and divisions among the diverse elements of our own industry. *Timing: late October.*

See paper attached

[illegible]

Strengthening the Domestic Oil & Gas Industry. In 1998 and early 1999, the oil and gas industry suffered unusually low prices. Small independent producers were hit, particularly hard, and 50,000 jobs were lost. At the request of Secretary Richardson, the NEC initiated a process to identify steps to assist the industry. The industry is primarily interested in tax cuts, reduced environmental regulation, and greater access to federal lands -- each of which is opposed by the relevant federal agency. Moreover, OMB, CEA and Treasury believe that no real crisis exists, and point out that prices have rebounded. The President's decision to sign the Byrd/Domenici loan guarantee bill goes some distance in addressing the industry's concerns. Commerce will shortly send the results of a Section 232 trade investigation to the President that will recommend that we implement the existing national energy strategy, which was developed in response to an earlier Section 232 report on oil. We will need to determine whether we want to take additional steps to address DOE's concerns. *Timing: September-October.*

V. Other Initiatives and Announcements

School Modernization. There are more kids in school today than ever before. The growth of the school age population increases the need to build more new schools. In addition, existing schools are, on average, over forty years old and in need of modernization and repair. This is particularly true in urban and rural areas. The President's School Modernization proposal addresses this issue by providing tax credit bonds to help finance the building and repairing of over 6,000 schools. Representative Rangel, the House sponsor of the President's proposal, recently filed a discharge petition to force the House to consider this issue. The petition already has 190 of the 218 signatures necessary to force the House to vote on the issue. There are two upcoming opportunities to highlight this issue:

- On August 19th, the Department of Education will release the Baby Boom Echo report on the growing school age population.
- The labor movement has organized a series of school construction events throughout August, and has agreed to make school construction a focus on Labor Day. The President is scheduled to do a Labor Day school modernization at a site to be determined, near Camp David.

Domestic Child Labor Law Changes. We are analyzing with DoL legislation sponsored by Senator Harkin to enhance protection of child laborers in agriculture. Currently, U.S. law bars DoL from providing the same protections from hazardous work and from limiting hours of work for children in agriculture as they provide for children in manufacturing and all other workplaces. Administration support for this legislation now might prompt agricultural employers to oppose U.S. ratification of the ILO Convention on the worst forms of child labor, even though we argue that convention does not require any change in U.S. law for ratification. If, however, the Senate gives its advice and consent to the ILO Convention, we may then wish to announce our support for Harkin's bill, perhaps coupled with a budget initiative to fund training to allow children to work more safely on farms.

Domestic Agricultural Labor Laws. We *may* have an announcement about new policy on domestic agricultural labor laws -- but we probably want to spend a few months making the case that there is a problem, before we suggest the solution. Labor is working on a plan. *Timing: Fall*

Report on New Markets for Environment and Energy Technologies: The President's

Committee of Advisors on Science and Technology (PCAST) has completed a report examining the development of energy and environmental technologies. The report concludes that trillions of dollars of investment in this sector will be made worldwide over the next 50 years, including over $100 billion in electricity generating capacity in developing countries over the next decade. This presents a giant export opportunity for U.S. companies: The report recommends $250 million in additional federal spending in FY 2001, ramped up to $500 million by FY 2005 in support of this effort. We could plan an event at which the President acknowledges receipt of the report, and announces that the FY 2001 budget will have funds to implement PCAST recommendations (DOE, USAID are ready to say this, according to OMB). The President could also challenge Secretary Daley to develop a plan to double environmental technology exports in 4 years, a challenge that he is prepared to accept. Industry leaders who helped draft the report (Bechtel, Hewlett Packard, Enron) would attend the event. This message is that we are supporting an effort to increase exports of new technologies, creating jobs for the 21st century in the process.

VI. Upcoming Economic Releases that May Provide Message Opportunities

August 17	CPI, Housing Starts, Industrial Prod & CU
August 19	Trade
August 25	Advance Durable Goods
August 26	GDP-II (rev)
September 2	Productivity
September 3	Employment numbers (August)
September 22	Surplus for FY99
September 30	Census: Income and Poverty Numbers
October 8	Employment numbers (September)