INFRASTRUCTURE POLICY

Executive Summary
Rob Shapiro

American productivity and growth rates will not likely return to healthy levels unless we rebuild our core economic infrastructure systems -- highways, bridges, mass transit, rail and air transport, wastewater treatment and drinking-water supply. Neither "needs studies" nor economics can tell us precisely what amount or mix of infrastructure investment would restore healthy growth and productivity. There is a consensus, however, that the highest returns on infrastructure spending can be attained by better maintaining current systems, expanding the capacity of selected congested facilities, implementing efficient new technologies, and implementing public-policy and market-based reforms to screen-out less productive proposals.

We can identify a limited volume of projects that could spur rapid job creation. The main focus of the program, however, should be directed to longer-term projects and to reforms that can help identify the most efficient uses of limited resources -- including planning requirements; provision to allow states to trade-in demonstration-project funding; new performance standards incorporated into the spending allocations; and new pricing, cost-sharing and demand-reduction strategies. To this end, the policy options also stress the primary roles of state and local governments in selecting and developing projects, and proposals for expanding the incentives and opportunities for private infrastructure investment.

The high-funding options would cost $71.65 billion in new infrastructure investment in addition to current spending commitments, including $12.45 billion in FY 1993 supplemental spending and $59.2 billion for FYs 1994-97. The modest-spending strategy would cost $45.95 billion in new infrastructure investment, over and above current commitments, including $9.25 billion in FY 1993 supplemental spending and $36.7 billion for FYs 1994-97.

* **Highways, Bridges and Mass Transit.** The high-funding option would provide $37.2 billion in additional spending in FYs 1993-97 through the Intermodal Surface Transportation Efficiency Act (ISTEA), including $6.3 billion in supplemental spending in FY 1993. ISTEA stresses maintenance, enhanced planning, and state and local flexibility to shift funds between highways and mass transit. Additional spending would focus on mass transit, R&D, and on congested metropolitan areas. Reforms would allow states to trade-in funding for pork-barrel projects, encourage new construction technologies, accelerate ISTEA and Clean Air regulations, introduce new performance standards, and improve policy coordination by the Transportation Department.

* **High Speed and Other Rail.** The high-funding option would establish a high-speed-rail office in Transportation Department and provide $7.9 billion in additional spending in FYs 1993-97, including $1.2 billion in FY 1993. The program would upgrade existing rail corridors for trains operating at 125-150 mph and fund R&D on more advanced systems. However,

analysis suggests that the advanced systems would be competitive in only a few, densely-populated corridors, and will require the purchase of costly new rights-of-way. Additional initiatives would expand funding for AMTRAK equipment, provide loan guarantees for private-rail freight improvements, and dedicate one-cent of the gas tax to a rail trust fund.

* **Airports and Aviation.** The high-funding option would provide $2.75 billion in additional spending in FYs 1993-97, including $0.95 billion in FY 1993. The new funds would focus on job-intensive runway and terminal improvements, and upgrades in the Air Traffic Control System.

* **Wastewater Treatment.** The high-funding option would provide $14 billion in additional spending in FYs 1993-97, including $2 billion in FY 1993, to expand EPA grants that capitalize the State Revolving Fund (SRF) program. SRF provides the states significant capacity to leverage both their federal grants and their state-matching shares in order to raise additional resources in private capital markets. The option also includes enhanced conservation measures and new subsidies for rural and economically-distressed areas.

* **Drinking Water Supply.** The high-funding option would expand the SRF program to provide substantial federal support for state and local drinking-water supply systems. This option would provide $10 billion in FYs 1993-97, including $2 billion in FY 1993, directed primarily to the replacement of lead pipes in urban areas, upgrading small-community systems, and promoting conservation.

* **Local Public Works.** There are many proposals for expanded block grants for cities, aimed at rapid job creation. These proposals focus on maintaining and constructing city streets, parks, public buildings and housing. Advocates provide strong social-policy arguments, but the option's direct relationship to productivity issues is attenuated.

* **Private-Sector Financing.** This option reviews a series of proposals for encouraging greater private and pension-fund investment in infrastructure, both as debt and equity, through new tax incentives, infrastructure-bond enhancements, and an Infrastructure Bank. These proposals require more development and analysis; this process should be coordinated by the National Economic Council, which could report to the President in Fall 1993.

DEFENSE REDUCTION OPTIONS

This section presents two options for implementing the national security program that President-Elect Clinton proposed during the campaign. Option I offers a path aimed at achieving the $60 billion in FY 1993-97 defense savings called for during the campaign. At your request, we have prepared Option II, a deeper reduction that achieves $75 billion in reductions over the same period. We do not recommend Option II. Before describing each option, it is important to understand the context in which they are presented.

Prior Defense Reductions. First, the base from which defense reductions would be made has shrunk substantially since the 1980s. Fiscal year 1993 is the eighth year of real decline in the defense budget, making it the longest period of sustained decline since World War II. Between FY 1986 and FY 1993, the defense budget declined 29 percent in real terms. Under the Bush plan, this decline would reach 35 percent by FY 1997. As this base shrinks, any additional reductions become more difficult and the policy choices associated with those reductions become more profound.

Smaller Share of GNP and Federal Spending. Second, the defense share of both the national economy and federal spending is at its lowest point in 50 years. By FY 1997 under the Bush plan, defense will fall to 3.4 percent of GNP versus 6.3 percent during the 1980s and to 16 percent of federal outlays versus 27 percent during the 1980s. (See attached graphs.) This creates a scale problem. It takes proportionately larger defense reductions to make the same absolute contribution to deficit reduction than in the past.

Dislocations in Defense Establishment. Third, there is a lag between when cuts are made in defense budget authority and when the resulting turbulence and dislocations are actually felt in the economy. Although defense budget authority began dropping in FY 1986, defense outlays -- the actual spending -- did not begin to drop until FY 1990. This four-year lag means that the largest disruptions from the Bush defense cuts will be felt during the Clinton administration. For example, although President Bush has presided over two rounds of base closures, the round scheduled for the spring of 1993 will be much more severe. Similarly, although 800,000 defense jobs were lost between 1988 and 1992, another one million jobs are projected to be lost from 1993 to 1997 under the Bush plan. The deferred pain associated with the Bush reductions will make the additional Clinton cuts that much harder. Adoption of either option would exacerbate this turbulence in the defense establishment. More bases would be closed, more production lines shut down and more defense jobs would be lost.

OPTION I

Over the FY 1993-97 period, Option I would achieve $53 billion in defense savings, close to what President-Elect Clinton proposed during the campaign. The bulk of the savings would derive from three areas targeted for reductions in the campaign:

- Force structure -- a reduction to an end strength of 1.4 million personnel by FY 1997 with associated cuts of the primary force elements, Army divisions, Air Force wings and Navy battle groups.

- Overhead expenses -- implementation of a series of steps to streamline operations, consolidate common functions, and establish centralized support activities.

- The Strategic Defense Initiative -- reductions in the space-based portions of President Bush's program and a re-shaping of the ground-based defense scheme.

There also would be smaller reductions in the national and tactical intelligence programs and certain acquisition programs. This option also would include increases over the Bush program for programs that President-Elect Clinton supported during the campaign -- the V-22 Osprey, sealift, National Guard, Soviet aid, preservation of the defense industrial base, transition assistance, and dual-use technology programs. In addition, this option would include savings from an adjustment in the FY 1994 military and civilian pay increases dictated by changed economic assumptions. Adoption of this option would save $53 billion in budget authority and $51 billion for the FY 1993-97 period. In FY 1997, the total defense budget would be approximately $273 billion in budget authority and $271 billion in outlays.

OPTION II

This option represents a more aggressive approach to reducing the defense budget. It would take the same force structure and overhead reductions as the first option. But, it would go further in three other areas:

- First, this option would propose a deeper reduction in the Strategic Defense Initiative program, which would defer deployment of any ground-based defenses of the United States.

- Second, it would cut deeper into the national and tactical intelligenceprograms, reducing them at the same rate as the defense budget as a whole. In order not to lose important capabilities, this level of reduction probably would require some redefinition of intelligence roles and missions.

- Third, it would build on the acquisition reductions in the first option by stretching out some weapon systems.

In anticipation of possible OMB action, this option assumes greater savings from the pay raise adjustment by revising the economic assumptions for the outyears to conform with the most recent OMB data. Option II would yield savings beyond the FY 1993-97 Bush program of $75 billion in budget authority and $69 billion in outlays. The FY 1997 defense budget under this option would be approximately $265 billion in budget authority and $264 billion in outlays.

DEEPER REDUCTIONS

To go beyond the reductions outlined in these two options would require policy choices that carry substantial additional risks to national security and would be controversial politically. There are several major areas that additional savings could be sought. None are very promising.

Personnel Reductions. Adopting a program that reduces the proposed and strength below 1.4 million military personnel could achieve additional savings. But, the end strength reductions proposed in both options already cut personnel at the rate of 100,000 per year until FY 1997. To achieve further savings in the FY 1993-97 period, we would have to increase the pace of this drawdown. The military services believe strongly that an annual drawdown of 100,000 personnel is the fastest that end strength can be reduced without causing serious damage to the quality of the personnel and the integrity of the force. To go faster would risk the coherence of the armed forces and would break faith with the all-volunteer force. Such a course of action would engender substantial opposition within the uniformed military up to and including General Powell and the Joint Chiefs of Staff. All emphasize maintaining a prudent personnel reduction path as their highest priority.

Investment Cuts. President Bush has already taken substantial reductions in the investment accounts -- procurement and R&D -- as part of his defense drawdown. With a few exceptions, the Defense Department already has terminated production of the current generation of weapon systems. The Department is effectively enjoying a procurement holiday made possible by the large weapon buys during the Carter-Reagan buildup. Thus, for example, the Navy is buying only 6-8 ships per year, which is about half what would eventually be required to replace even the smaller fleet proposed by President-Elect Clinton. The story is the same in the aircraft area, where production is well below the replacement rate. Because of this procurement holiday, only limited savings could be achieved by cutting funding for investment further. And even these limited cuts would have a disproportionate impact on the next generation of weapon systems, now in development.

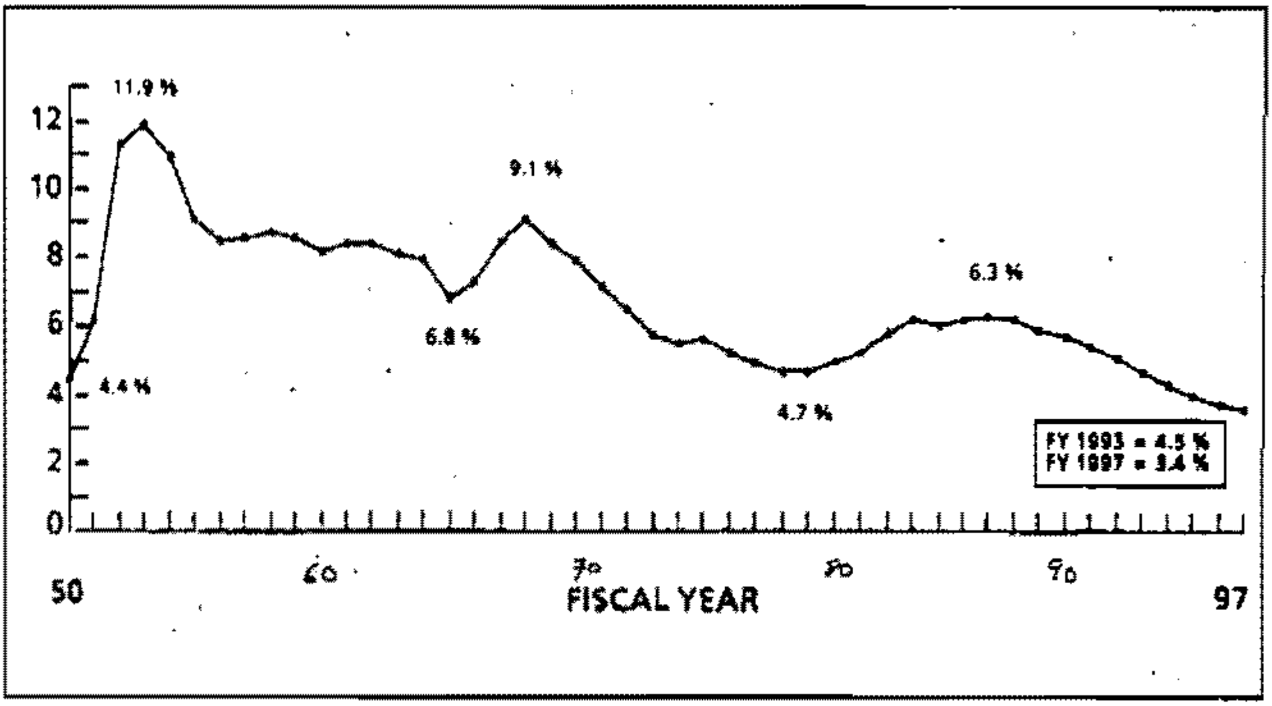
Overhead Savings. As the Defense Department reduces from the peak level of 2.1 million personnel in 1987 to 1.4 million by 1997, it is crucial to shrink the infrastructure at the same time.

Secretary Cheney has instituted a program, called the Defense Management Review (DMR), to do this pruning. The DMR program calls for $70 billion of efficiency and infrastructure savings through FY 1997. This already is a very aggressive program, which the military services believe could fall short of its savings target. Nevertheless, on the premise that the additional Clinton force structure reductions allow further overhead savings, the proposals contained in both options would seek to go further and achieve an additional $10 billion in savings from management improvements. The DMR program plus the additional Clinton proposals would change the core of how the Department of Defense manages itself and they will involve substantial civilian, as well as military, reductions. It may be possible to find additional savings in this area in the future, but it is hard to propose a more ambitious program at the current time. Moreover, because infrastructure savings come primarily from the operations and maintenance accounts, any shortfalls in the savings would directly reduce operational readiness.

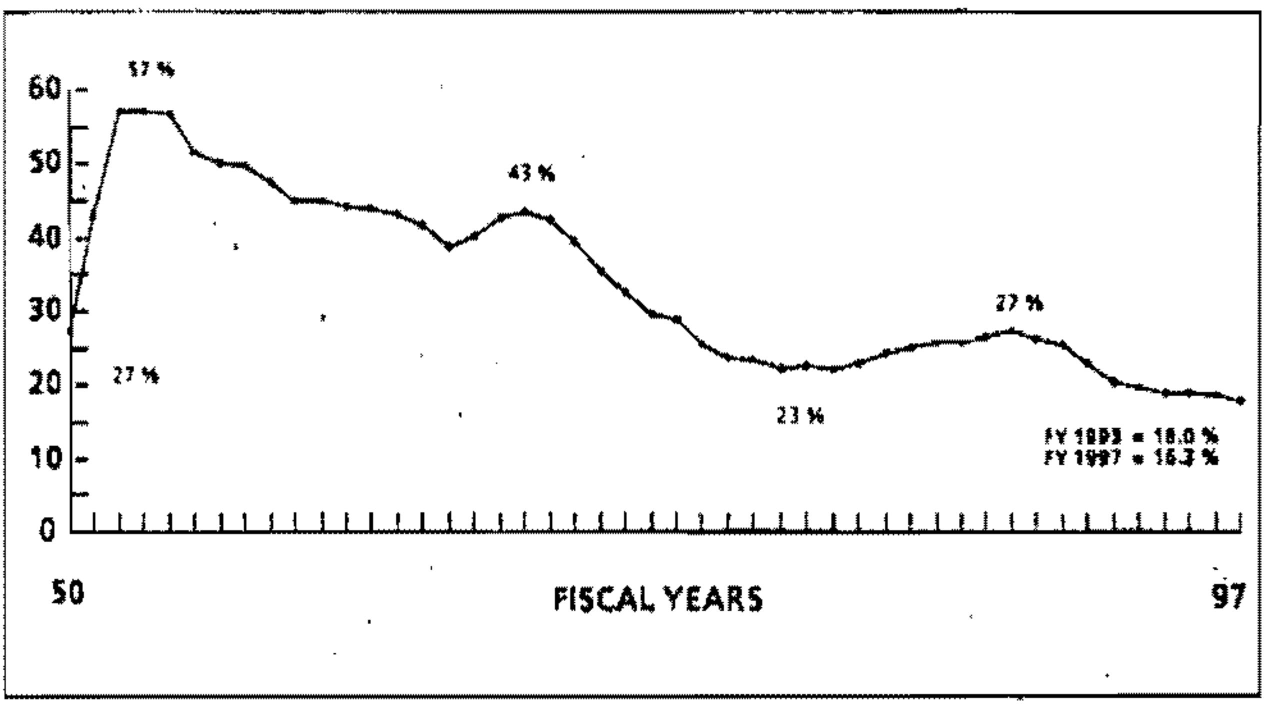
<u>Roles and Missions</u>. The 1986 Goldwater-Nichols Defense Reorganization Bill required the Department of Defense to review service roles and missions every three years; the latest of these review is nearly complete. Substantial in roles and missions, such as reducing the overlap between Navy deep strike aircraft and Air Force bombers or concentrating the light infantry mission in either the Marine Corps or Army, could lead to some defense savings. But, any of these steps would be extremely contentious in the Pentagon. Moreover, because they would require significant changes in both existing force structure and acquisition plans, it would take 5-10 years to begin to realize most of the savings.

<u>Unfunded Liabilities</u>. Finally, in assessing possible defense reductions, it is important to note that some accounts are likely to increase. In particular, the environmental clean up costs for Defense Department and Department of Energy facilities are likely to rise, perhaps dramatically, as state and local environmental standards rise. As we seek to close these facilities down faster, it becomes impossible to defer the clean up costs. In addition, the cost of military health care is rising for the same reasons as civilian health care. Although the number of active duty personnel will decline through the next few years, the health care costs will not fall because many of the personnel simply shift to the retired rolls. Increases in these two areas are likely to offset any unanticipated reductions in other areas.

Defense Outlays as a Share of GNP



Defense as a Share of Federal Outlays



OPTION ONE
NATIONAL DEFENSE FUNCTION (050)
(Budget authority in billions of current dollars)

Fiscal Year	1993	1994	1995	1996	1997	1998	93-97 TOTAL
BUSH DEFENSE PROGRAM							
Budget Authority 1/	281.6	281.6	284.3	285.7	290.6	N/A	
Outlays 2/	291.4	283.4	282.9	286.1	289.4	N/A	
OPTION ONE PROGRAMMATIC CUTS:							
FORCE STRUCTURE CUT	--	-1.70	-2.90	-5.60	-9.20	-9.20	-19.80
OVERHEAD REDUCTION 3/	-2.40	-0.90	-2.10	-2.15	-4.30	-3.05	-11.85
SDI REDUCTION	-1.60	-1.20	-2.20	-2.20	-2.20	-3.00	- 9.40
ACQUISITON CUT	--	-0.65	-0.65	-1.05	-1.25	-0.65	- 3.60
PROGRAM INCREASES	--	1.05	1.55	1.80	2.40	2.65	6.80
NATIONAL AND TACTICAL INTELLIGENCE CUT	-2.60	-1.00	-0.70	-0.70	-0.60	N/A	- 5.60
PAY RAISE ADJUSTMENT	--	-2.00	-2.70	-2.80	-2.80	-2.90	-10.30
TOTAL CHANGE							
Budget Authority	-6.6	-6.4	-9.7	-12.7	-18.0	N/A	-53.4
Outlays	-2.1	-2.1	-10.7	-13.0	-18.0	N/A	-51.1
OPTION ONE							
Budget Authority 4/	275.0	273.4	274.6	273.0	272.7	N/A	
Outlays	289.3	275.0	271.5	273.1	271.4	N/A	

1/ FY 1993 request includes original request and later emergency declaration totaling $642 million.

2/ Represents CBO's reestimate of proposed spending in the President's budget request, except for FY 1993 for which the administration's estimate is used.

3/ The total FY 1993 request was reduced through congressional action by a net amount of $6.6 billion. The $2.4 billion reduction in FY 1993 shown here for accounting purposes is a net figure representing many funding changes.

4/ FY 1994 includes a cut in budget authority of $1.8 billion to reflect the lower projected DOD purchases inflation rate. An associated cut in outlays is included in FY 1994 and FY 1995.

OPTION TWO
NATIONAL DEFENSE FUNCTION (050)
(Budget authority in billions of current dollars)

Fiscal Year	1993	1994	1995	1996	1997	1998	93-97 TOTAL
BUSH DEFENSE PROGRAM							
Budget Authority 1/	281.6	281.6	284.3	285.7	290.6	N/A	
Outlays 2/	291.4	283.4	282.9	286.1	289.4	N/A	
OPTION TWO PROGRAMMATIC CUTS:							
FORCE STRUCTURE CUT	--	-1.70	-2.90	-5.60	-9.20	-9.20	-19.80
OVERHEAD REDUCTION 3/	-2.40	-0.90	-2.10	-2.15	-4.30	-3.05	-11.85
SDI REDUCTION	-1.60	-2.00	-3.10	-3.20	-3.70	-5.50	-13.60
ACQUISITION CUT	--	-1.90	-2.75	-2.05	-2.75	-1.05	- 9.45
PROGRAM INCREASES	--	1.05	1.55	1.80	2.40	2.65	6.80
NATIONAL AND TACTICAL INTELLIGENCE CUT	-2.60	-1.50	-1.20	-1.20	-1.10	N/A	- 7.60
PAY RAISE ADJUSTMENT	--	-2.0	-4.4	-6.4	-7.3	-7.7	-20.1
TOTAL CHANGE							
Budget Authority	-6.6	-9.0	-14.9	-18.8	-26.0	N/A	-75.2
Outlays	-2.1	-8.1	-14.0	-19.0	-25.4	N/A	-68.7
OPTION TWO							
Budget Authority 4/	275.0	270.9	269.4	266.9	264.7	N/A	
Outlays	289.3	274.2	268.2	267.1	264.0	N/A	

1/ FY 1993 request includes original request and later emergency declaration totaling $642 million.

2/ Represents CBO's reestimate of proposed spending in the President's budget request, except for FY 1993 for which the administration's estimate is used.

3/ The total FY 1993 request was reduced through congressional action by a net amount of $6.6 billion. The $2.4 billion reduction in FY 1993 shown here for accounting purposes is a net figure representing many funding changes.

4/ FY 1994 includes a cut in budget authority of $1.8 billion to reflect the lower projected DOD purchases inflation rate. An associated cut in outlays is included in FY 1994 and FY 1995.

FORCE STRUCTURE REDUCTIONS
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Options I and II	**-0.4**	**-1.7**	**-2.9**	**-5.6**	**-9.2**	**-19.8**

Bush Program

- o The Bush program, known as the Base Force, called for manpower reductions from 1.9 million personnel in FY 1992 to a goal of 1.63 million personnel by FY 1997.
- o In the preparation of the most recent defense budget, the Defense Department has accelerated the draw down and reduced the FY 1997 target to 1.57 million personnel.
- o The additional personnel reductions anticipated cuts that President-Elect Clinton had proposed during the campaign and thus reduce the force structure savings by about 25 percent.

Proposed Change

- o The proposal would reduce force levels to 1.4 million personnel by FY 1997.
- o Reductions in any one year, however, would be limited to 100,000 personnel, in order to preserve the coherence and military effectiveness of the force.

Defense Implications

- o The personnel reductions would require cuts in each major element of the force structure -- Army divisions, Navy carrier battle groups and Air Force wings.
- o These reductions would be focused on parts of the force structure, such as troops in Europe, that were originally intended to meet the threat of a Soviet conventional attack.
- o It would be essential to develop a new Base Force concept -- Base Force II -- to provide a framework for these reductions.

Political Feasibility

- o The force structure reductions in this proposal are consistent with the statements made by Governor Clinton during the campaign.
- o Force structure cuts will mean de-activating more units and closing additional bases, which will generate significant Congressional opposition due to job losses.

OVERHEAD REDUCTIONS
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Options I and II	-2.4	-0.9	-2.1	-2.2	-4.3	-11.9

Bush Program

o DOD has an aggressive program to streamline DOD operations (the Defense Management Review or DMR). The program would, for example, streamline management structures, cut excess layers of management, consolidate common functions, eliminate unnecessary functions, and improve business practices.

o In April 1992, DOD estimated that the program would save $71 billion over the seven-year period, FY 1991-97. There is some reason to believe that savings may lag current estimates.

Proposed Change

o This approach would complete all the actions previously identified as management improvement initiatives under the Defense Management Review and it would add several new initiatives to consolidate further acquisition functions, administrative support for defense agency management, and create new agencies to manage health and supply functions.

Defense Implications

o This approach would provide for a further reduction in the ratio of combat forces to support forces and is expected to improve the efficiency of the support establishment.

o There is, however, the possibility that these initiatives could go too far in the direction of centralization, reducing operational effectiveness.

Political Feasibility

o This approach is consistent with statements made by President-Elect Clinton during the campaign.

o These changes go to the core for how DOD does business and will cause more civilian job loss.

o The current DMR program is not without controversy. Depot consolidation will remain a hotly contested issue this year.

o Proceeding too quickly may cause serious dislocations in the defense establishment. Attempts to further expand the Defense Business Operations Fund (DBOF) in the interest of achieving management savings would be controversial.

STRATEGIC DEFENSE INITIATIVE REDUCTION
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Option I	-1.6	-1.2	-2.2	-2.2	-2.2	-9.4
Option II	-1.6	-2.0	-3.1	-3.2	-3.7	-13.6

Bush Program

o The Bush program supported an aggressive Strategic Defense Initiative program with three major elements: (1) a robust program to develop space-based interceptors called Brilliant Pebbles, (2) deployment of ground-based defenses of the United States at the earliest possible date, and (3) deployment of new theater-based anti-ballistic missile (ABM) systems.

Proposed Change

o Both options would cut back funding for the space-based interceptor program so that it was limited to a technology exploration effort.

o Both options also would continue as a high priority the development and deployment of new theater-based ABMs.

o The major difference between the two options is the level of support for a limited ground-based defense of the United States. Option I would allow deployments sometime after the turn of the century, while Option II would continue development but defer deployment indefinitely.

Defense Implications

o The most urgent ballistic missile threats come from shorter-range systems that threaten both our allies and our forces abroad. Both options meet this threat by focusing the largest efforts on developing more effective theater-based defenses.

o Current intelligence estimates forecast no new ICBM threats to the U.S. for over a decade. Option II risks that these estimates could be wrong.

Political Feasibility

o Reductions in SDI are consistent with the statements made by President-Elect Clinton during the campaign. A range based on CBO estimates was used for SDI cuts. Option I uses the low end and Option II uses the high end of that range of savings.

o The Republicans are likely to use any SDI cuts to accuse the administration of abandoning the effort to defend the U.S. against the threat of ballistic missiles.

ACQUISITION REDUCTION
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Option I	--	-0.7	-0.7	-1.1	-1.3	-3.6
Option II	--	-1.9	-2.8	-2.1	-2.8	-9.5

Bush Program

- o The Bush program already cuts procurement heavily, allowing the military services to live off the inheritance of the 1980s when most weapon systems were replaced.
- o Nevertheless, the weapon procurement portion of the Bush defense program is premised on maintaining the Base Force.
- o If, as President-Elect Clinton has proposed, the Base Force is reduced, adjustments can be made to the procurement budget.

Proposed Changes

- o Option I proposes cancellations and early retirements of weapon systems that would be of lesser importance under President-Elect Clinton's proposal to reduce the Base Force.
- o Option II builds on these reductions by stretching out production of several additional weapon systems that have faced either development problems or fact-of-life changes.

Defense Implications

- o Option I reduces some defense capabilities, but only in areas that are consistent with the proposed force structure reductions.
- o The stretch-outs proposed in Option II also reduce some capabilities and the resulting lower production rates would increase the unit costs of the systems.

Political Feasibility

- o Most of the Option I proposals are generally consistent with the statements President-Elect Clinton made during the campaign regarding downsizing the force.
- o The stretch-outs Option II would be consistent with current circumstances, but were not previewed during the campaign.
- o All of the proposals would face substantial opposition in Congress to some of these proposals because of the loss of defense jobs.

DEFENSE PROGRAM INCREASES
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Options I and II	--	1.1	1.6	1.85	2.45	7.0

Bush Program

- o The Bush program did not contain several programs that President-Elect Clinton supported as important to maintaining U.S. security in the post-Cold War world.

Proposed Changes

- o Develop and produce the V-22 Osprey as a replacement for the aging fleet of Marine medium lift helicopters.

- o Increase funding for strategic sealift to the levels proposed by the Joint Staff in the Mobility Requirements Study.

- o Slow the planned reduction in National Guard and Reserve forces.

- o continue the Nunn-Lugar program to provide funding to the former Soviet Union for demilitarization, particularly the dismantlement of nuclear weapons.

- o Adopt programs to maintain crucial elements of the defense industrial base, such as for armored vehicles and submarines.

- o Increasing support for the development of dual use technologies and advanced manufacturing processes.

Defense Implications

- o In different ways, all of these programs are intended to develop a military establishment focused on meeting post-Cold War security threats.

- o The V-22 and strategic sealift would enhance the mobility and flexibility of our operational forces. Am ore robust reserve provides a better hedge against unforeseen contingencies. The Nunn-Lugar program reduces the threat of nuclear proliferation. And, the armored vehicle upgrade and technology programs help protect the defense industrial base.

Political Feasibility

- o These programs were key elements of President-Elect Clinton's defense plan during the campaign.

- o These programs have strong support in Congress, which funded them in the face of opposition from the Bush administration.

NATIONAL AND TACTICAL INTELLIGENCE
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Option I	-2.6	-1.0	-0.7	-0.7	-0.6	-5.6
Option II	-2.6	-1.5	-1.2	-1.2	-1.1	-7.6

Bush Program

- o The Bush program provided for zero real growth in funding for national and tactical intelligence programs. While overall funding levels and military personnel ceilings were reduced, the Bush administration has protected intelligence funding.

Proposed Change

- o Cuts under Option I could reduce external contracts, particularly those associated with technical collection development. The work force would not be affected beyond reductions already planned.

- o Cuts under Option II would reduce external contracts, particularly those associated with technical collection.

Intelligence Implications

- o Option I would permit retention of all current intelligence capabilities with minimal programmatic impact. The intelligence community would continue to cut into its "flexibility" but would not have to reduce functions.

- o With Option II, core capabilities are retained. The ability to provide intelligence coverage to more than "one desert Storm/one Somalia scenario," however, could be called into question. Additional civilian personnel reductions may be required to protect funding for the intelligence technology base for research, development and acquisition of technical collection and processing systems.

Political Feasibility

- o Option I is consistent with the statements made by President-Elect Clinton during the campaign and reflects a proportionate reaction for intelligence under the Bush plan.

- o Option II reflects a proportionate reduction to the intelligence budgets commensurate with the deeper overall defense reductions prepared by President-Elect Clinton.

- o Further discussion requested at the classified level.

PAY RAISE
(Budget authority in billions of dollars)

	FY93	FY94	FY95	FY96	FY97	Total
Option I	--	-2.0	-2.7	-2.8	-2.8	-10.3
Option II	--	-2.0	-4.4	-6.4	-7.3	-20.1

Bush Program

- o The Bush defense program assumes a military and civilian pay raise of 4.5% in FY 1994.

- o In accordance with the Pay Comparability Act of 1990, the FY 1994 pay raise will be the Employment Cost Index (ECI) rate from September 1991 to September 1992 less 1/2 percent. The ECI for the period is currently estimated at 2.7%. By law, the pay raise will be reduced from 4.5% to 2.2% in FY 1994.

- o OMB standard procedure is to increase or decrease the DOD topline as the pay projections increase or decrease.

Proposed Change

- o Option I would consist of the four-year savings ($10.3 billion) associated with a change in the pay raise assumption for FY 1994 and would leave unrevised the outyear pay raise assumptions.

- o Option II would revise the outyear pay raise assumptions to be consistent with current OMB assumptions, doubling the savings to $20.1 billion.

Defense Implications

- o None.

Political Feasibility

- o With this proposal, the military will receive the pay raise amount required in statute. A 2.2% pay increase is relatively modest, however. There is likely to be pressure to "de-link" the military and civilian pay increases for FY 1994 to provide the military with a more substantial rate of increase. This would require an Act of Congress. Such a move would be very popular among military service members, but take a serious toll on civilian morale.

DEFENSE CONVERSION POLICY

Executive Summary
Rob Shapiro

The goal of a defense-conversion program is to reallocate public resources from defense to productive economic uses. The measures adopted to this end should, preserve the defense-industrial base required for future U.S. security, and help affected defense workers, firms and communities in their transitions from defense to commercial activities. These measures also should try to also promote growth and productivity in the larger economy.

Compared to previous U.S. military build-downs following World War II and the Korean and Vietnam wars, the defense cuts of the 1990s will be relatively modest. Your defense budgets would cut some $10-to-$20 billion a year, or less than two percent of the annual budget and less than one-third of one percent of GDP. Defense cuts of these dimensions will be felt mainly by those affected directly -- 1-to-1.5 million military and defense-firm workers, a handful of major firms and several hundred smaller companies. The impact of these cuts will be greatest in eight-to-ten states, and in 160 to 200 of the nation's 3,167 counties.

There is broad consensus that strong economic growth is the dominant factor determining the economy's capacity to smoothly reallocate human and physical capital resources from military uses to civilian uses. There is also general agreement, based on experience, that efforts by large defense-dependent firms to retool their work places to produce civilian goods rarely succeed.

The slow-growth path of the late-1980s and early 1990s supports the case for an active conversion effort. In 1992, Congress overcame the Bush Administration's passive approach to defense conversion and enacted a $1.5 billion program with initiatives in training, technology development, and community planning and adjustment.

In this context, there are three basic strategies for future defense-conversion policy, with correspondingly small, medium and large spending implications.

1) Leave conversion to the market. This low-spending options would carry out the provisions enacted in 1992 in three basic areas: a) educational and training support in various forms for displaced Pentagon, Armed Service and defense-firm workers; b) funding for programs to promote technology development and transfers, new business lines and public-private partnerships, administered through the Commerce Department, Small Business Administration and Pentagon; and, c) help defense-impacted communities plan for adjustment and speed up transfers of military base assets. Apart from these measures, this approach would promote general economic growth without additional defense-conversion-specific measures.

· These options involve no spending over the current baseline, which is both an asset and a drawback: to some it will appear fiscally-responsible; to many it will seem too passive.

2) Help defense firms, workers and communities adjust to civilian markets without providing direct subsidies. The medium-spending options would carry out the provisions enacted in 1992, plus take additional steps to promote the development of commercial lines of business by defense firms, expand training programs, and provide support for community planning.

Wherever possible, the Pentagon could shift to dual-use contracting, change its specifications and standards to more closely match civilian-purchasing practices, allow contractors greater commercial use of data from DoD-funded research, and provide support for cost-saving modernization. A portion of R&D funding would be shifted from defense to non-defense projects. Adjustment services for defense-related workers could begin before they are laid-off; and the federal government could expand the technical and information services it provides to state and local agencies for retraining, job placement and relocation. The Pentagon not only could speed-up the transfers of military-base assets, but also fund environmental clean-ups at the bases. Finally, these options would target to defense-impacted communities a portion of the current funding for general economic development, from current CDBG and FHA programs to new Community-Development-Bank lending and Enterprise-Zone incentives.

This market-based strategy could significantly enhance the ability of some defense contractors to adapt to commercial markets, at limited net cost to the budget. Taken together, these options would cost $13.4 billion over FYs 1994-1997, plus $1.5 billion in FY 1993. This approach also envisions shifting up to $17.0 billion over five years from military R&D to dual-use or commercial R&D, with no net effect on spending. The drawback of this approach is that it could take years to see the effects -- in time for the *next* sharp decline in defense spending.

3) Directly promote and subsidize the conversion of existing work places and preservation of existing jobs. This high-spending strategy would guarantee new markets for defense firms, subsidize their retooling, and provide large income support for displaced workers.

Under this approach, defense firms would receive contract-preference in non-defense national missions, including infrastructure, environment, energy, health, education, and public works. Defense contractors also would receive preference in contracts to research and develop prototypes of new transportation, communications, environmental and health-care technologies. Government would capitalize a National Conversion Bank to lend firms capital for retooling. Defense-impacted workers could receive up to 78 weeks of income support (following 26 weeks of unemployment benefits), relocation and job training allowances and health-care coverage.

These strategies, supported by labor and some conversion advocates, assume that the market is incapable of generating sufficient new economic opportunities for defense firms or workers. It would substantially expand the government's current role in the private economy, at significant costs to the budget. Taken together, the major-spending options would cost at least $44.5 billion over FYs 1994-97, plus $4.8 billion in FY 1993. This approach, like the previous one, also includes a shift of $17 billion over five years from military R&D to dual-use or commercial R&D, with no net effect on spending.

TECHNOLOGY, MANUFACTURING AND SMALL BUSINESS

Executive Summary
Laura Tyson

I. Overview

The Clinton/Gore agenda on technology, manufacturing, and small business is widely seen as critical to America's long-run productivity and competitiveness. It has strong support in the private sector and in the Congress. The major issue is the rate at which federal R&D dollars can be shifted from defense to civilian initiatives, and how new civilian initiatives should be designed. Also, it will be difficult to provide simultaneously adequate funding for (1) new civilian technology initiatives; (2) basic research; (3) big science projects, such as the Space Station or the Superconducting Supercollider; and (4) defense R&D. It is important not to take any actions that would undermine U.S. strengths in basic research, which might require cancelling or stretching-out one or more of the big science projects.

II. Manufacturing--Congress Poised to Move Clinton/Gore Proposals

Congress is already geared up to push legislation implementing many components of the Clinton/Gore manufacturing and small business plans.

A. The Senate Economic Leadership Strategy Group--representing key committees and Senate Leadership, is poised to expand on FY 93 initiatives that appropriated $1.6 billion for many of the Clinton/Gore manufacturing and technology programs.

B. Antitrust legislation permitting joint production ventures deserves immediate and is anticipated by both the House and Senate.

C. There is support from congressional committees to strengthen the manufacturing export-promotion effort, although tough decisions on shifting funds from Department of Agriculture to Department of Defense programs will have to be made. The administration should quickly put in place the Trade Promotion Coordinating Committee, a new interagency process designed to take a government-wide approach to export promotion.

D. The new Administration must decide how to approach the Super 301 question, either by sending a quick signal that the administration will act to open foreign markets or by working with Congress on legislative efforts.

E. There is widespread support in Congress for permanent extension of the R&D tax credit, although debate about whether it should be modified.

F. There is widespread enthusiasm for a nationwide, high-quality manufacturing and technology extension service, and general agreement that the program should move slowly and have strong focus on existing state programs.

III. Technology: Funding Priorities Must Be Set

In the FY94 budget and in any FY93 supplemental appropriations or reprogramming request, the Clinton/Gore Administration will have to define its research and development priorities. Key issues include the following:

A. Whether to shift significant money from defense-related R & D programs at DOD and DOE to fund civilian R & D. The Clinton/Gore technology policy mentions shifting $7 billion over the next three years. Which defense R & D programs would be cut?

B. Which civilian research agencies will benefit from the proposed shift in resources?

C. Should the incoming Administration create an independent civilian technology agency, or build on existing civilian technology programs at the Department of Commerce or DOD?

D. Should the incoming Administration terminate or significantly modify scientific mega-projects like the Space Station and the Superconducting Supercollider?

IV. Small Business: Emergency Loan Guarantee Funding

Small business issues include the following:

A. Increasing Access to Capital and Credit--The key issue here is that funding for the SBA loan guarantee program is about to run out, and emergency FY 93 supplemental funding is necessary.

B. Decreasing Government Regulation--An early signal should be sent that SBA matters, via key appointments. Also, existing paperwork reduction legislation should be enforced.

C. Increasing Market Access and R & D for Small Business--Congress has already fulfilled a Clinton/Gore campaign proposal by doubling to 2.5 percent the set aside in the Small Business Innovation and Research program. The STTR program, which requires federal R&D set-asides for technology transfer for small business, must be implemented..

D. Strengthening Investment Incentives--Key issues here include developing options for enterprise zones and for minority set-asides.

V. Telecommunications

An array of telecommunications policy and structural issues must be addressed early in the incoming administration. These include the following:

A. How to improve the system for allocating and assigning the electromagnetic spectrum.

B. Whether to convene a telecommunications summit.

C. How to implement the new Cable Act.

D. Whether the incoming administration should intercede in the 20-year dispute concerning the Financial Interest and Syndication Rules.

THE ENVIRONMENT, ENERGY AND NATURAL RESOURCES

Executive Summary
Reed Hundt

This summary presents a series of options relating to the environment, energy, and natural resources. Almost all of these options have an economic dimension. In addition, we have highlighted regulatory, legislative and international initiatives that may warrant consideration. A calendar of important events relating to the environment, energy and natural resources is also provided.

The options we have presented include one of the central tenets of the campaign -- that environmental protection, wise energy use, and economic growth are not conflicting but complementary goals. Accordingly, our proposals include a comprehensive package of infrastructure investments that will benefit the environment, create jobs, and lay the groundwork for long-term economic growth. We have also identified tax options that could contribute to deficit reduction; discourage environmentally harmful activities and reduce our dependence on foreign oil. Finally, we have provided a framework for developing environmental technology initiatives to strengthen U.S. competitiveness.

All of these options are designed to further wise energy use and environmental goals, and do not need to be viewed as an integrated package. Most proposals are freestanding, and may be evaluated on their own separate merits.

Our proposals also do not attempt to provide an exhaustive inventory of all wise energy use and environmental initiatives that may warrant consideration by the Administration. Rather, we have selected those initiatives that should receive immediate attention because they appear relevant to the early stages of the Administration's economic program or are likely to be the focus of legislative or administrative action early in the Administration. There are undoubtedly other meritorious initiatives that we have not identified but will require evaluation as the Administration progresses.

A brief summary of each of the option categories in this book is presented below.

I. INFRASTRUCTURE PROJECTS

We have assembled a group of infrastructure proposals that offer economic benefits (short and long-term) and should further environmental goals. For each proposal, we have identified a range of funding options, including moderate and substantial outlay increases. The infrastructure proposals in this package and their associated costs are as follows:

Sewage and Wastewater Treatment Plant Construction. There is an urgent national need to upgrade and expand municipal sewage and wastewater treatment systems.

Increased funding in this area will help meet national water quality goals and reduce the large backlog of approved but unfunded projects. (Costs: $2.7-$4 billion per year starting in FY 93.)

Drinking Water Projects. Funding to upgrade our drinking water infrastructure will help meet national health-based standards and assist hard-pressed local governments in complying with Safe Drinking Water Act mandates. (Costs: $2 billion per year starting in FY 93.)

Transportation. From an environmental standpoint, the best transportation infrastructure projects are those which do not increase congestion or air pollution, encourage alternatives to automobile use, and improve mass transit systems. These objectives can be achieved by fully funding the Intermodal Surface Transportation Efficiency Act (ISTEA), with modest program modifications to increase funding for metropolitan areas, where congestion and mass transit needs are greatest. (Costs: $5-8 billion per year starting in FY 93.)

High-Speed Rail Systems. By reducing automobile and airport use, a new high-speed rail network can diminish vehicle congestion in major intercity corridors, thereby conserving energy and reducing air pollution. (Costs: $200 million in FY 93, increasing to $1.3 billion per year in subsequent years.)

Natural Resource Infrastructure Investment. Increasing outlays for environmental restoration projects would create urban and rural jobs and add to the productivity and value of parks, wilderness areas, forests, coastal areas and wetlands. (Costs: between $700 million and $1.2 billion per year starting in FY 94.)

Energy Conservation. Increased outlays for existing State and Local Assistance Programs (SLAPs) would fund energy conservation investments in low-income housing, schools and hospitals, creating jobs and reducing long-term energy costs. Similarly, fully funding the Federal Energy Efficiency Fund would promote efficiency investments in federal buildings and make energy conservation a national priority. (Costs: $175 million in FY 93, with increases up to $650 million in subsequent years.)

II. DEFICIT REDUCTION

Most of the deficit reduction options we are presenting take advantage of the revenue link created by economic-based approaches to environmental protection. These "green taxes" -- or levies on polluting activities -- encourage environmentally responsible behavior by levying charges on polluters. They also raise government revenues. The specific green fees presented here can be imposed at the federal level and address environmental concerns that are a high priority.

Gross revenue estimates have been presented for each option along with a short discussion of their pros and cons. These estimates will obviously require further refinement. In addition, it was not possible to quantify a number of important concerns that are raised in the option papers. These include, the distributional effects of the taxes across industries or regions or income levels, and their ultimate impact on consumer prices. The possibility of differential impacts is highlighted, however, when appropriate. Other potential deficit reduction options, relating to reducing or removing federal subsidies or imposing user charges coupled with specific expenditure programs, are included as design options in other portions of this book.

The specific deficit reduction options presented in this section include:

Ozone Depleting Chemicals. A fee on non-taxed ozone-depleting chemicals that would help reduce the risk of stratospheric ozone loss and would raise roughly $220 million annually.

Industrial Water Discharges. A water pollution fee that is designed to help control water-related environmental risks and would raise roughly $2 billion annually.

Agricultural Chemical Test. An agricultural chemical fee that is designed to reduce the environmental risks associated with these substances and would raise around $1 billion annually.

Oil Import Fee. An oil import fee that is designed to enhance national security and could raise between $1 and $15 billion annually depending on the specific form.

Energy Taxes. A range of energy tax options (including carbon taxes, BTU taxes, and gasoline taxes) that are designed to address the environmental and other risks associated with energy use and would raise from $7.5 billion to $39 billion annually.

Elimination of Parking Subsidies. An option to reduce employer-provided parking subsidies that would lower rush-hour congestion and raise approximately $4 billion annually.

III. INITIATIVES

A. Technology

Environmental technologies are broadly defined as technologies that (1) reduce pollution levels associated with current and future economic activities (often by increasing the efficiency with which energy and raw materials are used), and/or (2) remedy sites contaminated with pollution left over from past economic activities. Environmental technologies find applications in all sectors of the economy; they not only help protect the environment, but also often incorporate the technological innovations that will increase productivity and enhance competitiveness.

All technologies enter the economy through some variation of a multi-phase process involving research, development, demonstration, and commercialization. Public and private efforts to move environmental technologies through the phases of this process reach throughout the economy and government. There are numerous opportunities for for fostering more productive public-private partnerships in environmental technologies.

The specific proposals presented in this section include:

o A set of options for stimulating research, development and demonstration of environmental technologies that include, establishing an interagency coordinating council on green technologies and increasing use of federal facilities to promote environmental technologies. Taken together, these options might require additional federal spending of approximately $350 million annually.

o A set of options to stimulate the commercialization of environmental technologies by creating an environmental technology trade program and enhancing voluntary and complimentary training programs. The total cost for these proposals is under $100 million annually.

o A proposal to help develop a globally competitive alternative fueled vehicle by the year 2000.

B. Regulatory Initiatives

Several regulatory initiatives are also explored in an effort to fulfill the energy and environmental goals of Putting People First. These package of options will restore integrity and vision to the Executive Branch's energy and environmental policymaking. The options included in this section include:

o A set of options designed to reform the oversight of regulatory rulemaking by the Executive Branch.

o A proposal to accelerate the conversion of the federal fleet to natural gas and electric vehicles.

o A initiative to speed development and certification of new natural gas pipelines.

o A set of initiatives designed to encourage the use of natural gas throughout the American economy.

o An option to rescind the Alaska Wetlands Rule.

o A proposal to create an interagency task force to examine automobile fuel efficiency improvements.

o A proposal to phase-out the use of methyl bromide, an important pesticide but also a powerful ozone depleting substance.

o A proposal to encourage market development for recycled products through greater federal procurement.

o A proposal to create a taskforce to address inequalities in race and income distribution regarding environmental risks.

C. International Initiatives

Putting People First also affirms the new Administration's commitment to be a leader of the international effort to protect the Earth's environment. The options presented in this section are designed to help the U.S. regain its role as a pioneer of global environmental solutions. The specific options proposed include:

o A proposal for the U.S. to take the lead in fully implementing Agenda 21, the action plan from the UNCED conference in Brazil.

o A set of options to more formally and fully implement the U.S. obligations under the Climate Change Treaty.

o A proposal to reconsider the U.S. rejection of a global biodiversity treaty.

D. Legislative Initiatives

The 102nd Congress was unable to complete action on several environmental issues. As a result, an unusually large legislative backlog will confront the new Congress. Many of the bills to be introduced will result from the normal reauthorization cycle, but others will reflect intensifying concern about the functioning of particular laws and pressure for legislative change. During the campaign, the Democratic candidates called for revisions in the Superfund law and the Clean Water Act and support for new solid waste and recycling legislation. Other laws that will receive careful congressional scrutiny and need to be reviewed by the Administration are the Endangered Species Act and the Federal Insecticide Fungicide and Rodenticide Act (FIFRA). Finally, the Administration should consider legislation to elevate EPA to cabinet status.

THE FOLLOWING CHARTS WERE SUPPLIED BY THE DOMESTIC POLICY GROUP

APPENDIX 1

BUDGETARY EFFECTS OF DOMESTIC POLICY INITIATIVES

(In Billions)

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

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

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

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

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

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

COMMUNITY EMPOWERMENT							
PROGRAM	**FY93***	**FY94**	**FY95**	**FY96**	**FY97**	**FY98**	**94-98**
Community Development Banks	0	.130	.150	.170	.190	.210	.850
Enterprise Zones	.279	.404	.556	.769	.991	1.179	3.899
Permanent Extension Of Low-Income Housing Tax Credit	.300	.300	.300	.300	.300	.300	1.500
Permanent Extension Of The Mortgage Revenue Bond Program	.200	.200	.200	.200	.200	.200	1.000
Homelessness Rehab. Grant Program	0	.050	.050	.050	.050	.050	.250
Moving To New Opportunities	0	.250	.500	.520	.540	.562	2.372
COMMUNITY EMPOWERMENT SUBTOTAL	**.779**	**1.334**	**1.756**	**2.009**	**2.271**	**2.501**	**9.871**

PROGRAM	FY93*	FY94	FY95	FY96	FY97	FY98	94-98
DOMESTIC POLICY TOTALS	-1.354	3.823	11.508	14.716	14.414	13.588	58.469

*NOTE
FY93 numbers not included in 5-year totals.
Numbers are in outlays, not budget authority (BA).

HEALTH POLICY

Executive Summary
Judy Feder/Atul Gawande

National Health Care Reform

The Clinton health reform plan laid out in the campaign called for cost control through managed competition within the discipline of a national health budget and universal coverage through an employer mandate and subsidies to nonworkers. Because health insurance purchasing cooperatives -- the structures for managing competition -- require two to three years to develop, the earliest that competition will generate significant savings is 1997. Initially most savings will be in the private sector, although we expect increasing savings in Medicare, as well.

This fact means that you face an immediate decision on whether to delay coverage expansions until savings are available, adopt an interim regulatory cost containment strategy to generate savings to support immediate access expansion, or expand access immediately by raising new revenues. We present these options below. **For more complete analysis, see the health policy budget options briefing book.**

OPTIONS -- HEALTH REFORM INVESTMENT

<u>Option 1 - Low Cost</u> - Coverage expansion and enforceable budget do not begin until 1997.
Scenario:
- > Phase in managed competition with national budget enforced in 1997;
- > Delay mandates and unemployed coverage until 1997; universality in 2000.
- > In short term, reduce Medicare spending 1% over 4 years primarily through cuts in the rate of growth in payments for physician services and hospital outpatient care.

	94	95	96	97	98
Costs of coverage	0	0	0	16	39
Savings*	- .2	- 1	- 3	- 9	-20
Net deficit ($ billion)	**- .2**	**- 1**	**- 3**	**7**	**19**

*Substantial savings can be generated only with expansion in coverage for uninsured (see Options 2 and 3).

Alternative: Introduce limited access expansion earlier (e.g., coverage of uninsured pregnant women and children) and phase in universal coverage incrementally through 2000, keeping deficit increases minimal.

<u>**Option 2 - Moderate Cost**</u> - Begin immediate coverage expansion and create temporary, tight cost controls.

We will present two options under this heading: (2a) Temporary, tight price controls on both the public and the private sectors; (2b) Tight controls on Medicare alone. The first option is shown using tighter controls than the other.

Scenario 2a: Immediate all payer price controls and four year phase in.

Scenario:
>Phase in managed competition with national budget enforced in 1997.
>Phase in universal coverage by 1997.
>Institute temporary price controls on physician and hospital fees, insurance premiums and drug prices for all payers, limiting health expenditures to GNP and population growth in advance of the competitive system.

	94	95	96	97	98
Costs of coverage					
w/ Rx drug coverage	14	37	54	74	91
w/o Rx drug coverage	11	26	45	63	77
Savings	-6	-11	-21	-32	-49
Net deficit ($ billion)					
w/ Rx drug coverage	8	22	33	42	42
w/o Rx drug coverage	**5**	**15**	**24**	**31**	**28**

Scenario 2b. Tight limits on Medicare alone and six year phase in.

>Phase in managed competition with national budget enforced in 1997.
>Phase in universal coverage by 1999.
>In the short term, put tough growth limits on physician and hospital payments for Medicare alone.

	94	95	96	97	98
Costs of coverage					
w/ Rx drug coverage	14	27	45	62	84
w/o Rx drug coverage	11	20	36	51	70
Savings	- 6	- 9	-17	-25	-39
Net deficit ($ billion)					
w/ Rx drug coverage	8	18	28	37	45
w/o Rx drug coverage	**5**	**11**	**19**	**26**	**31**

Option 3 - High Cost - Universal coverage in first term without tight short term controls.

Scenario: > Phase in managed competition with national budget enforced in 1997;
> Phase in employer mandates and nonworker coverage by 1997.
> In short term, produce limited reductions in Medicare provider payments.
(as in Option 1).

	94	95	96	97	98
Costs of coverage	14	33	54	74	91
Savings	- 4	- 5	-10	-13	-20
Net deficit ($ billion)	**10**	**28**	**44**	**61**	**71**

In any scenario, costs will vary depending on (1) whether prescription drug benefits are covered for the elderly -- they are assumed to be included above except where specified in option 2; and (2) the size of subsidies to individuals and business. **See health policy budget options briefing book for policy and political analysis.**

HEALTH POLICY
Overview

National health care reform

OPTIONS -- HEALTH CARE REVENUE ESTIMATES (billions)

	94	95	96	97	98
Limit tax deductibility to the core benefit package -- estimated to cap deductions at $385/mo for families, $185/mo for individuals at current prices.	10	17	21	26	33
Eliminate $130,000 wage cap for Medicare hospital fund payroll tax.	3	6	7	7	8
3% Hospital Revenue Tax.	11	12	14	15	17
3% Insurance Premium Surcharge.	9	10	10	11	12

Some of these options may proceed only as we phase in universal access.

See economic policy briefing book for more complete revenue options. Also see health policy briefing book for analysis.

HEALTH POLICY

Executive Summary
Judy Feder/Atul Gawande

Long Term Care and Personal Assistance Services

The campaign position on long term care stressed a gradual expansion of coverage under the Medicare program with emphasis on home and community-based services. A commitment was also made on expanding personal care services to disabled persons. One of the major challenges in the long term care area is how to meet needs for millions of disabled persons who require expensive services in the most cost effective manner.

Presented below are three options based on varying resource commitments. All of these options recognize the need to gradually address the problem and limit spending in the first several years. The first option offers largely symbolic benefits and makes some changes that pave the way for later reforms. Option 2 represents a more expensive approach that adds limited benefits either using the Medicare or Medicaid program. Option 3 would provide a comprehensive program through Medicare, but beginning only 1996. **For more complete analysis, see the health policy budget options briefing book.**

OPTIONS - LONG TERM CARE INVESTMENT

Option 1 - Low Cost - Symbolic regulatory changes

Scenario:
- >Private long term care insurance reform;
- >Allow home and community based services to be a Medicaid option;
- >Implement and enforce nursing home quality regulations held up by OMB;
- >Improve coordination of long term care, housing and related programs;
- >Make sure that care of a disabled relative is part of any family leave legislation.

	94	95	96	97	98
Costs of coverage	.1	.1	.1	.2	.2
Net deficit ($ billion)	.1	.1	.1	.2	.2

Option 2 - Moderate Cost Option - Expanded coverage with eligibility and service limits

Scenario:

>Phase in limited coverage of long term care that would meet campaign promises. Limitations could be based on either limiting eligibility by income or by limiting services covered (or both limitations);

>Improve Medicaid by easing eligibility requirements, expanding coverage of home and community based care, increasing personal needs allowance using federal funds; OR

>Improve Medicare by expanding eligibility to disabled persons not now covered and improving Skilled Nursing Facility Benefit, expanding hospice, modestly expanding home health and adding a respite benefit.

	94	95	96	97	98
Costs of coverage	5	10	14	17	20
Net deficit ($ billion)	5	10	14	17	20

Option 3 - High Cost Option - Limited Social Insurance

Scenario:

>Universal coverage of home care;

>6 months up-front coverage for nursing homes for everyone;

>Income-related benefits thereafter, but more generous than those now offered by Medicaid. Spousal protection would be better and asset requirements would be substantially eased;

>When fully phased in, the annual costs will reach at least $45 billion.

		94	95	96	97	98
Costs of coverage	0	0	14	20	30	
Net deficit ($ billion)	0	0	14	20	30	

OPTIONS - LONG TERM CARE REVENUE ESTIMATES

	94	95	96	97
Add an income related premium to Medicare for persons with incomes over $100,000	1.2	1.2	2.5	4.5
Tax the value of both portions of Medicare for persons above an income threshold	4.7	5.6	6.7	8.0
Increase the fraction of Social Security benefits included in Adjusted Gross Income and subjected to taxation	5.6	6.2	6.9	7.7
Eliminate $130,000 wage cap for Medicare hospital fund payroll tax*	3	6	7	7
5% Value added Tax with food, housing and medical care excluded	47	70	73	77

Note: Revenue options that would affect only Medicare beneficiaries are most appropriate for the options that would expand Medicare and not for Medicaid or other changes.

* This option is also mentioned in the memo on national health care reform.

HEALTH POLICY
Executive Summary
Judy Feder/Atul Gawande

AIDS, Women's Health, and Public Health Initiatives
Overview of Costs

The Clinton/Gore campaign laid out a number of initiatives in AIDS, women's health, and public health. AIDS initiatives included expansion in biomedical research, public education and community outreach, and improvements in funding for treatment services. Women's health initiatives included research on breast cancer, ovarian cancer, and osteoporosis, as well as services for mammography, family planning, and the prevention of domestic violence. Public health initiatives included child health (including immunizations and school-based clinics, community health centers, treatment for drug abuse, and biomedical research). In addition to these initiatives, we have proposed needed actions on tuberculosis, lead poisoning, and the infrastructure of public health systems (such as the FDA, basic disease control, and environmental health). **For further analysis, see health policy options briefing book.**

<u>Option 1--No Cost</u> Not Applicable.

<u>Option 2--Moderate Cost</u>

(In Millions)	1994	1995	1996	1997	1998
AIDS*	1,400	1,680	2,020	2,420	2,900
Women's health*	700	760	810	865	925
Child Health*(1)	700	865	1,030	1,195	1,365
Drug Treatment*	500	540	580	620	660
Community Health Clinics	300	325	350	370	400
Biomedical Research	400	430	460	495	530
Tuberculosis Control	380	460	550	660	790
Public Health Infrastructure	820	885	950	1,010	1,085
Total	5,200	5,945	6,750	7,635	8,655

Note: These are not CBO or OMB estimates, but are best guesses produced after review of Public Health Service budget documents and consultation with CDC, NIH, and private health organizations.

* Some elements of the cost of these programs may be offset when the Clinton health plan is fully implements.

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1. Child Health includes the following budget items (In Millions)

	1994	1995	1996	1997	1998
School-based clinics	25	100	175	250	325
Immunization	300	325	350	375	400
Teen Pregnancy	25	25	30	30	35
O-3 Head Start Health	190	240	290	340	390
Lead	160	175	185	200	215

Option 3--Full Funding

(In Millions)	94	95	96	97	98
AIDS*	1,900	2,280	2,740	3,280	3,940
Women's health*	980	1,060	1,130	1,210	1,300
Child Health*(2)	1,085	1,390	1,760	2,175	2,655
Drug Treatment*	750	1,000	1,250	1,500	1,750
Community Health Clinics	500	540	580	620	660
Biomedical Research	1,400	1,510	1,620	1,730	1,850
Tuberculosis Control	800	880	970	1,060	1,170
Public Health Infra-structure	1,640	1,770	1,895	2,025	2,170
Total	9,055	10,430	11,945	13,600	15,495

Note: These are not CBO or OMB estimates, but are best guesses produced after review of Public Health Service budget documents and consultation with CDC, NIH, and private health organizations.

* Some elements of the cost of these programs may be offset when the Clinton health plan is fully implemented.

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2. Child Health includes the following budget items (In Millions):

	1994	1995	1996	1997	1998
School-based clinics	50	150	300	450	600
Immunization	300	375	450	525	600
Teen Pregnancy	50	55	60	60	65
O-3 Head Start Health	200	285	400	560	770
Lead	485	525	550	580	620

HEALTH POLICY

Overview

MEDICAID COST/ADMINISTRATIVE RELIEF

The National Governors' Association requested that the Clinton Administration provide immediate relief from Bush Administration regulations, scheduled to go into effect on December 24, 1992, that regulate the implementation of recent Federal statute changes to State-based provider taxes, as well as to payments to institutions that disproportionately serve the uninsured. In addition, the NGA has suggested that the new HCFA Administrator be directed to, within 60 days, provide President Clinton with specific recommendations about how to streamline the waiver approval process.

The NGA believes that its proposed modifications to the provider tax regs are consistent with the new statute and, therefore, should not change the current budget baseline. However, since their modifications would result in greater flexibility, OMB could construe these changes as increasing Medicaid budget baseline spending. Having said this, it appears that a defensible argument could be made that the NGA proposed language does no more than to reflect the actual intent of the language. In addition, it could be reasonably argued that since the regs will have only been in effect for one month, any changes should not have a budget impact.

The cost of the disproportionate share payment change should be no more than $500 million. Moreover, it should be just a one time, one year cost. Changes to these regulations can be done by publishing an interim final rule within days of the time Bill Clinton assumes office. The many waivers the states seek have great potential to be expensive and/or politically problematic. Therefore, the NGA idea to direct the HCFA Administrator to report back within 60 days on the waiver issue seems highly advisable, since it would give the new President and his HCFA Administrator the time to evaluate each of the state requests and, for the time being, would obviously not have a budget baseline impact.

Suggested Option: Respond positively to the immediate priorities outlined above and requested by the NGA.

	94	95	96	97	98
Cost*:	.4	0	0	0	0

* Assumes no cost associated with new provided tax regs

INTERNATIONAL TRADE: GATT, NAFTA, AND PRIORITIES

Executive Summary
Barry Carter/Amanda DeBusk

You are likely to inherit a busy agenda in international trade--the GATT negotiations will be in their final stages and the NAFTA negotiations await early resumption on the proposed supplemental agreements. These talks involve high stakes and will make considerable demands on your team of negotiators.[1] If successful, the talks will eventually require major political efforts on Capitol Hill to ensure passage of the implementing legislation.

The agreements, however, should be worth the effort. Well-negotiated agreements will result, on balance, in major benefits for the United States--bringing more jobs and economic growth. A GATT agreement can also help business confidence in the rest of the world at a time that the world's economy is weak. NAFTA can help continue and solidify the truly impressive changes that President Salinas is pursuing in Mexico.

Although you inherit both negotiations from the Bush Administration and other countries have their own interests and agendas, you still can have some control over the content and the pacing of the negotiations. In addition, you control when to introduce implementing legislation in the U.S. Congress, which is of vital importance because of your many other legislative priorities.

While you and your appointees will later need to make many detailed decisions about the negotiations and the implementing legislation, it would be useful for you to decide preliminarily your priorities and their relationship to the rest of your agenda in 1993. Early decisions will help your negotiating team prepare and it will help ensure that you can better affect the pacing of the negotiations when you are President. Your principal options appear to be:

1. **Option 1: NAFTA First**. Briefly, this would entail moving forward promptly

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[1] These negotiations are part of a wide array of international trade and economic issues that await your Administration, or will soon arise after January 20. Other potentially hot topics include the ongoing dumping and subsidy cases against imported steel from almost all the major U.S. trading partners (with an important preliminary decision in the dumping cases announced just one week after your inauguration); a variety of simmering trade matters with Japan, including a likely effort by U.S. automakers to seek a much tighter voluntary restraint agreement (VRA) against Japanese automakers; and the need to address China's policies on human rights and nonproliferation before most-favored-nation (MFN) treatment is up for renewal in June 1993. (See the attached calendar of impending events in international trade.)

with NAFTA. The Mexican Government very much wants a deal soon, which gives you considerable negotiating leverage. Because of your other legislative priorities, a Congressional vote on the implementing legislation would not need to occur until around August or September. GATT could be negotiated at whatever pace the complicated circumstances swirling around it warrant, with no effort to introduce implementing legislation until after NAFTA's legislation was passed or about to be passed.

2. **Option 2: NAFTA and GATT Together (or at roughly the same time)**. This option envisions trying to reach agreement in GATT at about the same time as NAFTA, probably by next summer. Then, the Clinton Administration could prepare one piece of implementing legislation for both agreements, or two packages that proceed on roughly parallel tracks, with a goal of obtaining passage in fall 1993. Consultations with Capitol Hill sources indicate that this could be a risky and cumbersome approach.

3. **Option 3: GATT First**. This option would seek to have a GATT agreement in early 1993, which would likely require a substantial amount of your time and attention to work for a deal. Implementing legislation could be pushed through Congress by fall 1993. For NAFTA, either the negotiations for the supplemental agreements or the preparation of implementing legislation could be extended so that Congressional passage comes after GATT, and would probably not occur until late 1993 or even into 1994.

FINANCIAL INSTITUTIONS

Executive Summary*
Christopher F. Edley, Jr. and Gene Ludwig

Banking/Thrifts

Background:

Almost any significant action in the banking/thrift areas is likely to be controversial because of the intense competition among financial services providers and the stake in these issues for consumer and other groups. Legislative proposals, or even relatively minor regulatory changes, require extraordinarily careful prior consultation. These recommendations are designed to balance and advance four objectives (1) signal your administration's commitment to continuing improvement in the solvency of institutions, rejecting broad calls for relaxation of the sensible improvements in capital requirements reflected in FDICIA and the Base Accord; (2) recognize that in the wake if the S&L crisis, certain examination and regulatory practices cause unintended impediments to sound lending, without concomitant benefits in the essential financial soundness of institutions; (3) recognize that longer term robust economic growth will require a successful program to strengthen the financial sector, while assuring consumer protection and improving community lending.

Recommended Actions:

- "December Surprise": **Take no action.** Only about 20 banks with total assets of $2-$8 billion will be subject to seizure as a result of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) capital standards which will go into effect on 12/19/92. Existing reserves will easily cover the insolvencies and resolutions..

- Fill key vacancies Prompt appointments will have a settling effect on the banking industry and permit early development of coordinated policies indicating a high priority for banking issues in the new administration.

  Office of Comptroller of the Currency/FDIC/Office of Thrift Supervision: these appointments should be seen as non-political, particularly in the area of a realistic approach to resolving the S&L crisis. You will also have appointments to the FDIC Board, whose members' terms expire Feb. 28, 1993. (No Federal Reserve vacancies).

- Credit Crunch and Regulatory Rationalization:: Authorize a "regulatory relief team" to begin to put together a package of regulatory and legislative reforms to ease the credit crunch, particularly for small and medium-sized business. This initiative must not be mistaken as an exercise in forbearance or deregulation. The goals are rationalization and prudent stimulus. Possible regulatory relief measures include: alter accounting practices, improve creditor recoveries in bankruptcies, reduce paperwork requirements, institute better examination appeal process, review non-capital "tripwire" provisions in FDICIA, derail early adoption of market value accounting, and improve examination process.

*The Community Development Bank proposal is covered in the Domestic Policy materials.

NOTE: RAP/GAAP Reconciliation One possible reform involves certain reconciliations of regulatory accounting principles (RAP) with generally accepted accounting principles (GAAP). Most experts favor a reconciliation of these two standards, although others argue that it could cause problems from a political and policy perspective.

- **Capital standards:** Currently, S&L's have a tangible, leverage, capital-to-asset ratios of 3 percent while banks must maintain a 6 percent rate (minimum real capital requirement). Recommend maintaining the internationally agreed upon risk-based capital standards.

- **Structural reforms:** There are two types of reforms to be considered: changes in industry powers including the role of deposit insurance and regulatory reorganization. Both are highly charged issues that would require significant new legislation. Recommend that you authorize a team to study both kinds of reform with an understanding that given the banking climate recommendations should only develop after extensive consultation and debate.

  The following issues are possible areas for examination:

  1) Interstate Branching.
  2) Consolidation of some banking agencies, such as OTS and OCC (there are currently four with overlapping authority); antitrust policy; simplification of regulatory approval process for acquisitions.
  3) Community Reinvestment Act: Act on campaign promises to make CRA more effective and prevent redlining (part of Community Development plan).
  4) Expanded Bank Powers: Consider legislation giving banks additional powers in securities and insurance fields.
  5) The Treasury Line of Credit to the Bank Insurance Fund.
  6) Director and Officer liability: Particularly vis a vis failed S&L's/banks.
  7) Foreign banks: Do they need to incorporate separately or through traditional branches.
  8) Small Business Loan Secondary Market: If major design difficulties can be overcome, this innovation might dramatically improve access of small and medium businesses to credit markets, by analogy to the home mortgage sector.

PENSION FUNDS

Background:

Even though currently only 30 percent of all workers receive full pensions, the area of pension funds is generally one of opportunity; there are no pension policy crises that require your immediate attention. There are, however, serious long term structural problems and predicaments for the Pension Benefit Guaranty Corporation, such as whether the federal government should and can afford to back up all defined benefit pension plans. The PBGC must either shorten the time period that employers are required to provide pension plans, or cap the amount of money insured or increase premiums.

Recommended Actions:

- **Create a new financial institution that would draw upon pension funds to support infrastructure and environmental spending and authorize a working group to develop legislative specifics with Congress, now.**

  If an annual tax revenue stream of $10 billion per year were committed, more than $100 billion of capital could be borrowed from pension funds and other sources at a budget cost of $50 billion over the next five years. The experts we canvassed supported this idea. Congressional reaction is likely to be positive (unless certain committees interpret it as bypassing the current appropriations process). Expect some opposition from disgruntled competitors and private sector providers.

- **Take administrative steps to encourage funds to use their resources for economically targeted investments.**

  Options include: DOL liberalization of current investment constraints, within the "prevailing rate of return" rule; clarify pension trustee responsibilities to permit targeted investments; and avoid legislative efforts to change the "exclusive benefit" rule and impose a CRA-type requirement on pension funds. Modest changes properly presented will not raise concerns among beneficiary groups or Congress.

- **Nominate SEC Chair and one Commissioner as soon after your Inauguration as possible.** SEC will face relevant issues, such as accounting and disclosure rules, during spring "proxy season" and you should get a friendly voice and ear on the Commission as soon as possible. One of these seats is currently vacant.

- **Take no immediate action to expand private sector pension coverage and adequacy.** [Note: other advisors have advocated at least a review board/commission to assess overall situation.]

RESOLUTION TRUST CORPORATION

Background:

There is no agreement on the amount of money that will be needed to complete the S&L cleanup. Current estimates range from $25 billion to upwards of $70 billion. There is broad consensus that the Administration's new funding request should come as soon as possible, and the sum requested should be sufficient to make it unlikely that Congress will have to vote on it again. Clouding the picture is the widespread perception that the RTC is grossly mismanaged. In addition, some of its practices, especially securitization and litigation fees, are very controversial. It is impossible to make an accurate assessment of financial or management practices without a detailed investigation of the agency. That must be completed before seeking legislation, and should begin as soon as possible.

Recommended Actions:

- **Deploy a comprehensive, pre-inauguration financial and management audit of the**

RTC. Direct the audit team to present a critical analysis of the RTC, a detailed administrative reform package, and a reliable financial status report. <u>Prevailing perceptions of mismanagement may not have caught up with management improvements undertaken in the past year.</u>

- **Propose legislation to provide additional funding of $50- $60 billion** (assuming the audit does not come up with a more reliable figure) to the RTC as soon as possible after inauguration. Without funding, the cost of the bail out continues to climb at $6 million per day -- nearly three times the federal investment in day-care for AFDC and at-risk children. RTC financing should be bundled with any necessary legislative or administrative reform in management. The House and Senate leadership are prepared to act along these lines.

LABOR ECONOMICS

Executive Summary

Derek Shearer

Background

As you and Bob Reich requested, I have spent the past three weeks meeting with the players in labor economics: key Hill staffers; leaders of the AFL-CIO and presidents of member unions; leading academics; business spokesmen; and think tank researchers. I solicited opinion memos on all the major labor issues (except training which the Domestic Policy Group is handling) facing your Administration. Copies of these memos, plus some additional material, are attached in this book. I asked Larry Mishel, research director of the Economic Policy Institute - a Labor funded think tank that actively supported you - to write his own overview of labor economics. Larry was very helpful in providing additional research staff and secretarial assistance. Lawyer Seth Harris, my administrative assistant for the transition, provided invaluable daily assistance and wrote the section on executive orders affecting labor.

Political Context

All of the people with whom I spoke mentioned your commitment to building a high wage/high skill society. Your good faith in making this a campaign theme is taken for granted, and has engendered much goodwill and optimism, especially among organized labor.

It is important that you keep using the language from the campaign while discussing your decision on labor issues as President, especially the emphasis on cooperation and teamwork in the workplace. All of the issues discussed in this volume can be spoken about as building blocks of a high wage/high skill team, work economy.

Below is a roadmap to the most critical and/or immediate labor issues. A more detailed discussion is contained in memos in the companion book.

<u>Immediate</u> (Decision required between now and the Inauguration)

(1) <u>The Family and Medical Leave Bill</u>

Congress could pass this bill and have it on your desk within about two weeks after your Inauguration. You indicated to Congressman Bill Ford that you are ready to sign the bill, and his staff told me that he will move it as quickly as you request. I asked George to call him to confirm this understanding.

Quick passage of this bill will redeem a major campaign pledge, and be popular with labor and women's groups.

(2) Striker Replacement Legislation

During the campaign you supported this bill that passed the House in July, 1991 by a vote of 247 to 182, but was filibustered to death in the Senate a year later and the bill was pulled.

Sentiment among organized labor is strong that you make good on your campaign promise and support a reasonable strong version of the bill. The Executive Council of the AFL-CIO, in November and voted to pursue the bill at the onset of the new Congress. The Congressional leadership is waiting for your instructions on how you want them to proceed, both as to pace and content.

You gained a lot of support among organized labor during the campaign when you went to Peoria and talked to workers on the picket line at the Caterpillar strike. This was mentioned to me by every union president with whom I've met. Almost every one of them reminded me as well that the two Senators from Arkansas did not support the bill.

Whatever level of political capital you invest in supporting the bill, it would be good to talk about the measures in the broader context of the cooperative work place. As a Wall Street Journal article in the companion book describes, a very promising employee involvement program between Labor and management at caterpillar was wiped out by last year's strike and the management's stand on non-union replacements. If management won't recognize the democratic right to strike, it is very difficult to get unions and workers) to change attitudes and work rules to participate in cooperative decision making.

If you choose to signal your support for the Family Leave and striker replacement bills in the State of the Union, you might want to place both in framework of cooperation and teamwork and state that the cooperative work place must be humane and democratic to function productively.

(3) Extension of Unemployment Benefits

The Emergency Unemployment Compensation expires on March 7. You have to decide whether to extend the program for six months at a cost of $2.8 billion. A detailed discussion is contained in the option memos on Unemployment Insurance. Pressure to act will depend in large part, on economic conditions in January.

(4) Labor Department Appointments/Organization

Other than your top appointments to the Labor Department, your decisions about members of the NLRB and especially about the General Counsel of the NLRB will be a very much watched signal as to your attitude about unions and the depth of your support for any increase in the unionization rate in the U.S. (now down to 12%, the lowest of our major competitors).

One reporter who covered your campaign commented that you want a high wage/high skill society, but without unions, and he questioned whether this is, in fact, possible to achieve without a higher percentage of union membership in the workforce.

Without trying to discuss this question here, I do think it is important to put the matter of unions and their role in the economy in Clintonomics terms and the need to build the cooperative-productive workplace in the 21st Century. (see my discussion of your options on Labor Law Reform in the companion book.)

The Bush administration eliminated and/or downgraded some successful programs in the Labor Department that you should consider restoring in the FY 94 budget. Most significant is the abolition of the Bureau of Labor Management Relations carried as part of a department reorganization scheme. The Bureau supported important research on innovative approaches to workplace cooperation and promoted greater labor/management participation. Restoration of the Bureau and full funding at its FY 92 level of $5 million would be a strong signal that you care about cooperative approaches to management.

You will also have the opportunity to appoint a new Commissioner of the important Bureau of Labor Statistics and to direct a review of data gathering, analysis, and dissemination practices in the BLS. (These and other issues are discussed at length in a memo in the companion book.)

<u>Semi-Immediate</u> (Decision required in first six months)

(1) <u>Minimum Wage</u>

Since 1980, the real value of the minimum wage has fallen about 25%. During the campaign, you promised to at least index the minimum wage to inflation. Labor's position is that the minimum wage should be permanently pegged to 50% of average hourly earnings in the private sector (the current minimum wage of $4,25 is 40% of this mark. It was raised to this level by Congress in April, 1992).

While raising the minimum wage is strongly supported in principle by organized labor, it is not viewed as an item on which they expect you to act in the first year although they would be pleased if you did.

Arguments that raising the minimum wage causes unemployment, especially among younger workers, appears to be refuted by recent economic research, in particular the work of Larry Katz of Harvard, a strong BC supporter. Raising the minimum wage also offsets the cost of implementing an Earned Income Tax Credit program (see memo in companion book for detailed discussion).

You can probably put off action on this issue until you have a welfare reform/earned income credit package ready.

(2). OSHA Reform Bill

In August, 2992 the Comprehensive Occupational Safety and Health Act was introduced by Senators Kennedy and Metzenbaum and Congressman Ford and Gaydos. The bill would make improvements in 1976 regulations and most interestingly, change the approach to workplace safety and health from a top down regulatory methods towards a decentralized, cooperative one by establishing joint worker-management safety and health committees to formulate workplace programs and implement them.

The approach of the bill - stressing empowerment and cooperation - fits with Clinton themes. It can be viewed as a New Democrat's bill.

Labor supports the measure but is not pushing for passage in 1993. Congressional sponsors will most likely follow your wishes on whether or not to pursue passage in the upcoming term.

(3) Labor Law Reform\Participation\Employee Ownership

On December 9, the Senate Subcommittee on Employment and Productivity chaired by Senator Paul Simon held a one day hearing on the state of the labor movement. The principal topic was the need for labor law reform - an issue of great interest to Senator Simon (the only other Senator present was Paul Wellstone).

Prior to that hearing I met with Simon's staff and they indicated both Simon's strong concern about the weak position of unions in the American economy and his readiness to work cooperatively with the Clinton Administration on the issue of labor law reform.

The AFL-CIO leadership was not enthusiastic about Simon's hearing. There is no clear consensus in the AFL-CIO Executive on Labor Law Reform. Many remember the defeat that the AFL-CIO suffered by attempting passage of a labor law reform bill in the Carter administration and don't want to repeat the experience. At the very least, there is no sentiment for pushing a labor law reform bill early in the Administration.

However a number of union presidents responded very favorably to my suggestion that the best way to approach labor law reform was to discuss it in the broader context of the high wage/high skill cooperative workplace.

You could put the issues on the agenda of your administration without committing yourself to exact solutions by appointing a commission on the future of the workplace to study labor law, labor-management relations, employee involvement and ownership, flexible work and worktime, etc. Here's a political hierarchy of choice of such an option:

(A) (High Visibility) Presidential Commission on the Workplace - Members include labor, business and academics. Co-chairs might be Irving Bluestone and John Sculley, for example. Announce Commission in State of Union. Give it a deadline of nine months to report back.

(B) (High Visibility) White House Conference on the Future of the Workplace - Different format. Probably more work, but would be an event that would be well covered by media.

(C) (Medium Visibility) Labor Secretary's Commission on the Future of the Workplace - Same idea as above but lower prestige.

(D) (Medium Visibility) Conference on the Future of the Workplace - Secretary of Labor hosts conference held at the National Center for the Workplace - a new university center created by Title XV of the Higher Education Reauthorization Act (PL 102-325) in 1992. Most likely, the Center will be located at Cornell University's School of Industrial and Labor Relations.

You could announce one of these options in the State of the Union, or alternatively, you could visit the Saturn plant in Tennessee where the UAW and GM have a cooperative workplace and make the announcement there in early February - or you could choose to give a speech at Harvard Business School or in a similar location on the future of labor-management relations and include the announcement in the speech.

(4) International Labor Standards

Implementation of NAFTA, especially any trade adjustment program or retraining programs, will raise the issue of international labor standards and agreements (See companion book memo on NAFTA.)

There are additional ways that you can signal your concern about how American workers will fare in the new world economy. One is to strengthen American involvement in the International Labor Organization (see companion book memo by Steve Schlossberg). Another is to upgrade the status of the Labor Department's International Labor Affairs Bureau by making the head of the bureau an Assistant Secretary, and having that Assistant Secretary participate in the activities of the White House Economic Policy Council and other interagency groups. ILAB also needs reorganization and clearer missions for the post-Cold War era (see companion book memo).

(5) Women's Economic Issues

These are discussed in attached memos and include such issues as pay equity, flexible worktime, job sharing and job redesign. Professor Juliet Schor of Harvard and Karen Nussbaum, President of 9 to 5, an organization of working women have provided a memo among others.

LABOR ISSUES

(((The following memo provides additional information on labor issues)

FAMILY AND MEDICAL LEAVE

BACKGROUND: The FMLA will almost certainly be introduced in Congress at the beginning of the new session and is likely to be passed within several weeks of the inauguration in essentially the same form that it passed in the fall (with a few technical changes and some very minor substantive changes). Business representatives argue that the FMLA imposes on businesses a very large "mandated benefit" and businesses might have to reduce or eliminate other, more popular benefits in order to pay for family leave. Business leaders also argue that the Act would lead to layoffs as they seek to cut costs. FMLA proponents argue that it does no more in terms of "mandates" than labor standards have always done (for example: Fair Labor Standards Act, Social Security Act, OSHA) and additionally that many of America's most productive trading partners offer similar benefits.

POLITICAL CONSIDERATIONS: The vote to override President Bush's veto of the FMLA was 68 to 32 in the Senate and 258 to 169 in the House. These numbers should increase in the new Congress.

COST: None for government. A 1990 GAO study the cost to employers of providing family leave to be only $5.30 per employee per year.

WORKPLACE FAIRNESS ACT

BACKGROUND: During the Campaign, you supported the Clay-Metzenbaum strike replacement bill that passed the House 247-182 in July 1991. The bill was filibustered to death in the Senate last June. Your visit to the Caterpillar plant was viewed as a major signal of support.

POLITICAL CONSIDERATIONS: Unions favor the Act and while it may not be their single most important issue this year, it is certainly very high on their agenda. They prefer more comprehensive legislation, but see this bill as a symbolic "must win." Democratic congressional leadership is waiting for your lead on whether to expend political capital on this.

COST: N/A

MINIMUM WAGE

BACKGROUND: Since 1980, the real value of the minimum wage has fallen almost 25%, and during the campaign, you supported indexing the minimum wage for inflation. The two main policy options are
1) to peg the minimum wage to the rate of inflation, and thus maintain its absolute purchasing power, or 2) to peg the minimum wage to a percentage of the average non-supervisory private

sector worker's wage. Some business costs are involved, although much research indicates a negligible correlation between indexing minimum wage and unemployment.

POLITICAL CONSIDERATIONS: Labor doesn't expect you to push this in your first year. Small businesses are particularly concerned about a rise in the minimum wage and this is especially true of businesses in the South. For this reason, the Senate will be particularly active in the minimum wage debate.

EARNED INCOME TAX CREDIT

Background: Decisions about the level of funding for EITC and the program's effectiveness in helping lift working families out of poverty depend heavily on the level of the minimum wage. The Center on Budget and Policy (which is one of the most important advocates for the EITC program) has recommended lifting the minimum wage to $5.50/hour by 1994 (just below 1970s levels) and expanding EITC to 20% for 1 child families, 26.5% for 2 child families, and 33% for families with 3 children in order to honor your pledge that no one working full-time should have to raise their children in poverty.

COST: EITC expansion costs will vary widely depending on the level of the minimum wage.

OSHA

BACKGROUND: Labor is very interested in worker safety issues and will be eager to see signs of a coordinated strategy for OSHA, MSHA and NIOSH. During the Campaign, you supported the Kennedy-Ford bill that is to be reintroduced in the 103rd Congress, which contains innovative joint worker-management safety and health committees to formulate and implement workplace programs. Separate legislation to address safety and health issues in the construction industry has been rolled into the Senate version of the OSHA reform bill.

POLITICAL CONSIDERATIONS: Labor strongly supports this legislation, but is not pushing for this in 1993. Congressional sponsors will most likely follow your guidance on whether or not to pursue passage in the upcoming term.

COST: OSHA's current budget is only $300 million. CBO recently estimated that the OSHA budget under Kennedy-Ford would rise from by $94 million in FY93 and to an $141 million increase in FY97. CBO estimates that the construction industry safety and health components will cost $9 million in FY93.

UNEMPLOYMENT INSURANCE

BACKGROUND: Several questions will need your immediate attention: 1) Should emergency unemployment compensation be extended for six months beyond the March 7 expiration date. 2) Should any structural changes to unemployment insurance, such as a restructuring of the

FUTA tax, be proposed in a stimulus proposals or in a deficit reduction package. Options for FUTA restructuring include: A) extending 0.2% FUTA surtax rate scheduled to expire at the end of FY96 (adding $1 billion to tax revenue) B) raising FUTA taxable wage base to defray regressiveness and C) authorizing a FUTA tax credit for state re-employment assistance programs.

POLITICAL CONSIDERATIONS: Roughly 10 million Americans are still out of work, and weekly initial unemployment claims remain volatile. Pressure to act will depend, in large part, on economic conditions in the Spring (Putting People First states that benefits will be extended if the Country is a recession) and the status of state funds.

COST: $2.8 billion for a six month extension of EUC.

ROLE FOR THE DEPARTMENT OF LABOR

BACKGROUND: Two separate issues: 1) There is widespread agreement that DOL needs to be restructured to coordinate employment and training with other agencies. 2) Within the Administration, options for greater coordination should include consideration of a seat for the Labor Secretary on the CEA and NEC and development of interagency task forces. The Bush administration eliminated and or downgraded some successful programs in the Labor Department which you should consider restoring in the FY94 budget. Most significant is the abolition of the Bureau of Labor Management Relations, which researched innovative approaches to workplace cooperation and promoted greater labor/management participation. Other options include increased support for the department's analysis and research and an effort to strengthen its regulatory powers.

POLITICAL CONSIDERATIONS: An agency restructuring and increased funding levels would send a strong signal that you care about labor relations and conditions and that you want an expanded role for DOL. Other than your top appointments to DOL, your decision about members of the NLRB and especially about the General Counsel of the NLRB will be a much watched signal as to your attitude toward unions and the depth of your support for any increase in the unionization rate (now down to 12 percent).

COST: N/A

NAFTA/TRADE ADJUSTMENT ASSISTANCE

BACKGROUND: Fast track legislation will probably be labor's number issue of the year. Unions are very concerned about dislocated workers and the availability of targeted assistance. The AFL-CIO's agenda for NAFTA and other dislocated workers stresses longer benefits duration, targeted job creation by industry, medical benefits for the unemployed, "bridges" for the federal government, making TAA an entitlement, loosening eligibility requirements and apprenticeship and national service programs. The major criticism of TAA is that it's fragmented, and should be replaced with a comprehensive adjustment assistance package.

COST: Cost estimates range from $500 million to over $3 billion for a comprehensive trade adjustment package.

INTERNATIONAL LABOR STANDARDS

BACKGROUND: Some argue that improving labor standards and assisting in the development of market economies in underdeveloped nations is in the country's best economic and national security interests. The U.S. could push for other nations to adopt "internationally recognized worker rights" through a designated agency. Super 301 and increased use/funding for the Bureau of International Labor Affairs are other existing means to improve labor standards. In addition to integrating domestic/foreign labor policy, the BILA could also target specific industries abroad and at home to improve labor standards. In the area of third world development, the U.S. should coordinate and increase funding for the work of the World Bank/the IMF/Treasury Department and penalize countries that exploit poor labor condition. This goal might also be achieved through a new position of a U.S. Trade Representative for International Labor Relations.

Part of the debate on this subject will revolve around the expiration of the Generalized System of Preferences which come up for renewal in 1993 and which include worker rights as one of the relevant criteria. Also relevant issues include China and its status as a Most Favored Nation and the worker rights provision associated with NAFTA.

COST: N/A

OTHER

Taxation of Fringe Benefits: One of the most important issues to labor. Union members have traditionally had superior benefits compared to non-members and unions will react with grave concern to any effort that might limit the attractiveness of benefit packages.
This is especially true of health care.

Pensions: Currently, less than half the U.S. workforce is guaranteed a viable pension. The real policy question is whether the Pension Benefit Guarantee Corporation can afford to bail out private companies when they go out of business or can no longer provide viable pension plans for their employees. The most common options to address the current shortfall in the PBGC are to
1) shorten the time period that employers are guaranteed to provide pensions for their employees and/or 2) reduce the amount of money the federal government is responsible for insuring. Other key issues include pensions for small businesses; portability of pension plans; legal reform/assistance, state vs. federal responsibilities, health benefits tied to pensions; alternative "investment" uses for pensions. One final concern involves the possibility of premium increases and whether they will be necessary to ensure future stability.

<u>Davis-Bacon Prevailing Minimum Wage Requirements</u>: Bush suspension of Davis-Bacon for Hurricanes Andrew and Iniki was largely seen as a political move to appeal to the Association of Building Contractors. The key policy issue for deciding whether to rescind the suspension is whether lower wage requirements will necessarily mean lower project costs. Does not need immediate attention and would be a plausible area for the Secretary of Labor to examine.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 25, 1993

EXECUTIVE ORDER

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ESTABLISHMENT OF THE NATIONAL ECONOMIC COUNCIL

By the authority vested in me as President of the United States by the Constitution and the laws of the United States of America, including sections 105, 107, and 301 of title 3, United States Code, it is hereby ordered as follows:

Section 1. Establishment. There is established the National Economic Council ("the Council").

Sec. 2. Membership. The Council shall comprise the:

(a) President, who shall serve as Chairman of the Council;

(b) Vice President;

(c) Secretary of State;

(d) Secretary of the Treasury;

(e) Secretary of Agriculture;

(f) Secretary of Commerce;

(g) Secretary of Labor;

(h) Secretary of Housing and Urban Development;

(i) Secretary of Transportation;

(j) Secretary of Energy;

(k) Administrator of the Environmental Protection Agency;

(l) Chair of the Council of Economic Advisers;

(m) Director of the Office of Management and Budget;

(n) United States Trade Representative;

(o) Assistant to the President for Economic Policy;

(p) Assistant to the President for Domestic Policy;

(q) National Security Adviser;

(r) Assistant to the President for Science and Technology Policy; and

(s) Such other officials of executive departments and agencies as the President may, from time to time, designate.

more

(OVER)

Sec. 3. Meetings of the Council. The President, or upon his direction, the Assistant to the President for Economic Policy ("the Assistant"), may convene meetings of the Council. The President shall preside over the meetings of the Council, provided that in his absence the Vice President, and in his absence the Assistant, will preside.

Sec. 4. Functions. (a) The principal functions of the Council are: (1) to coordinate the economic policy-making process with respect to domestic and international economic issues; (2) to coordinate economic policy advice to the President; (3) to ensure that economic policy decisions and programs are consistent with the President's stated goals, and to ensure that those goals are being effectively pursued; and (4) to monitor implementation of the President's economic policy agenda. The Assistant may take such actions, including drafting a Charter, as may be necessary or appropriate to implement such functions.

(b) All executive departments and agencies, whether or not represented on the Council, shall coordinate economic policy through the Council.

(c) In performing the foregoing functions, the Assistant will, when appropriate, work in conjunction with the Assistant to the President for Domestic Policy and the Assistant to the President for National Security.

(d) The Secretary of the Treasury will continue to be the senior economic official in the executive branch and the President's chief economic spokesperson. The Director of the Office of Management and Budget, as the President's principal budget spokesperson, will continue to be the senior budget official in the executive branch. The Council of Economic Advisers will continue its traditional analytic, forecasting and advisory functions.

Sec. 5. Administration. (a) The Council may function through established or ad hoc committees, task forces or interagency groups.

(b) The Council shall have a staff to be headed by the Assistant to the President for Economic Policy. The Council shall have such staff and other assistance as may be necessary to carry out the provisions of this order.

(c) All executive departments and agencies shall cooperate with the Council and provide such assistance, information, and advice to the Council as the Council may request, to the extent permitted by law.

WILLIAM J. CLINTON

THE WHITE HOUSE,
January 25, 1993.

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