November 26, 1993

MEMORANDUM FOR BOB RUBIN

FROM: GENE SPERLING

SUBJECT: PRESIDENTIAL LEGACY

The goal of having a legacy is to bring about a lasting change that makes our country greater in the long-run, not so members of the Administration can feel they accomplished something. That is the sense of what this memo addresses.

I. PROMOTING OUR LEGACIES: In considering what the Clinton legacy should be, I want to start with two main points. One, is that to leave any, we must show in everything we do and everything we say, that we have new ideas, that we believe in them, and that they are going to make a lasting difference in peoples lives. Bill Clinton, the candidate, promoted new ideas that lit up peoples' imaginations. It is harder here, because by the time we even pass a new piece of legislation, we have heard so much naysaying, doubts about anything that is a new idea, and arguments for the status quo, that it is easy for us, almost subconsciously to let up in promoting our new ideas. We cannot let the naysayers, the skeptics and the interest groups who have been here forever dampen our enthusiasm for our new ideas. If we do not believe in our new ideas with all of our hearts, no one else will. It will always be easier to tear down later what we fail to establish as the importance of today. We do it beautifully for health care, but we must not forget to do it for National Service, empowerment zones, community development banks and community policing, income contingent loans and so on.

II. TYPES OF LEGACY INVESTMENTS: Second, and related to the first point, we must consider what types of positive investments are capable of leaving lasting legacies. When considering budget choices, it is helpful to divide up new investments into three types. Type One, is where we simply increase funding for programs we support -- education, technology, infrastructure, environment, etc. Type Two, are investments in existing programs, but where our increased funding works to establish a lasting principle. Type Three investments, are new investments that fill structural gaps. I believe the legacy we leave will be based on how committed we are to making tough choices to focus on Type Two and Type Three forms of investments.

Type One Investments: *Why Spending More on the Right Investments is Not Good Enough with Tight Caps:* In the war room, we used to say to remember that if Clinton won, more kids would go to college, more cops would be on the street, more homeless people would have homes. These differentials in investments help real people and are important and are often what distinguishes Administrations of different philosophies. Yet, in a budget world where we cannot do everything we want, we should focus on those investments that will allow us to leave lasting changes. As the years go by, all that is remembered about most investments is that during the Democratic administrations, more was spent on Education Program A, and under the Republican Administration less was spent, and then Democrats won and more was spent and so on.

Legacies are left when an Administration comes in and fills a structural gap or sets a principle that leaves a strong enough legacy that it lasts through any administration. Consider Medicare, Social Security, or the Civil Rights Act of 1964. And so when you look back in 2006, you can say here are the lasting changes we left America that continue to make it a better place.

Type Two Investments - Establishing A Lasting Principle: When we increased funding for the EITC, it was not just another moment that another proposal was increased in a Democratic Administration, later to be decreased in a Republican Administration. If we keep getting out our message, we will have established a principle that if you work full-time and have a child at home, you should not raise that child in poverty. If we continue to stress this, it could become a lasting principle that is not open to major alteration by future Administrations. If we do not continually build up and establish this principle, then it will be just another spending program that goes up when Democrats are in office and down when Republicans are in.

Type Three Investments - Filling Structural Gaps: This is where an Administration seeks not only a new idea, but to fill a structural gap in the society or economy. Retirement security was the gap that was filled with Social Security. For us, the main one is health care. The gap is the lack of universal care, and if we fill that gap, it will leave a legacy. No later Administration will be able to unravel that Administration, and people will be able to say in 1996, 2006 or 2046, that was a lasting legacy of the Clinton Administration.

III. 1995 BUDGET CHOICES - FOCUSING ON LASTING LEGACIES: Health Care is our greatest chance for legacy if we both fill the structural gap, and ensure we establish that this is embedded in a fundamental principle of universal coverage. National Service can be a legacy because it too can fill both goals. The hardest decisions are, as you approach the 1995 budget, how to focus our limited resources on the few other areas where we can do more than good: we can leave a mark on America.

Legacy Pieces of Lifelong Learning: Training And Pre-Kindergarten Readiness:

Training: In worker training, as in health care, there is a strong case to be made that there is a fundamental gap in our economy. Unlike other developed countries, we have no nationwide principle of training any laid-off worker and no real avenue for high- skilled training for those people who don't go to college. If we fill those gaps, with universal displaced worker training and a nationwide school-to-work initiative, then we can say that we filled a structural gap in our economy that empowers people. Yet, these investments will only be seen as new Democratic spending, unless we build them up as major initiatives that, for the first time, say to all Americans, prior to our Administration, we had no ethic or program that said to Americans, we will help those who want to be empowered with training be empowered -- whether you are a high school student, a welfare recipient or a displaced worker -- and with our Administration that changes now. The other aspect we could do to help leave this legacy is to establish income-contingent loans, as EXCEL Accounts, where in every home in America, people knew that we would always allow them to borrow to invest in themselves, and then pay back as their investment in themselves pays off.

Parents Helping Kids Entering School Ready to Learn: The other area in lifelong learning where we should seek a legacy is in early childhood education. Giving every child a chance is the most fundamental moral and economic imperative in our nation. The danger again, is that we simply spend more and better, but fill no structural gap or establish no lasting principle. Clearly one principle would be full-funding or pre-K programs that work, yet doing so with Head Start is going to be a squeeze budget-wise. An area where we could leave a legacy, however, is a rock-solid, nationwide commitment to parental involvement in making every child ready to learn. It is government at its best: empowering families to help themselves, yet ensuring that every child has a fair chance to learn. We could stress the role of parents as first teachers in HIPPY-type programs, Head Start and all children's programs, and ask business leaders to join us in a bipartisan nationwide effort to ensure that every child enters school ready to learn. Because this was one of the NGA's Education Goals, and because of HIPPY, this is a perfect principle that this President can call on for us to look to our better selves and ask America to put their time and their wallets where their rhetoric is when it comes to giving poor children a chance.

In sum, I believe we should do what we can to do more for technology, infrastructure, energy, trade promotion, and certainly urban economic development. Yet, we must have some priorities among our priorities. Health care is clearly number one, yet in choosing beyond that, I believe that areas of lifelong learning where we can fill a structural gap and establish a lasting principle -- national service, universal training (for welfare recipients as well), school-to-work, and a national commitment toward parental involvement in school readiness -- is where we can best leave a legacy and should guide our budget choices.

IV. NON-BUDGET LEGACIES: There are two I wish to stress.

Service: Kennedy used the Peace Corp to leave lasting legacy on service. To take his legacy a step further, we must appeal to more Americans. The key may be to call for every high school (or junior high school student) in the nation to allow every student to do service with a class room component for school credit. By doing so, you would be able to appeal to not just 100,000 homes, but to 60 million homes who might have a child in junior high school or high school. Everywhere you go, you could ask to join your national service, but also to do high school community service. You could appeal directly to millions of young people in a way that the full National Service does not allow.

Parental Responsibility: The second legacy would be the principle of parental responsibility. It is a principle that matters to everyone, and allows you to speak directly to every home in America. Like service, there are also programs that give content and substance to the message, so it cannot be portrayed as simply a principle. You can talk about parents helping their kids with school and their young kids to be ready to learn, toughness against dead-beat dads, helping kids make the right choice about sex and drugs. Yet, also you can stress that government seeks to empower such parental responsibility through HIPPY programs, Family and Medical Leave and EITC.

and if so I believe we if

an doHere, I feel we should do more, because on a moral and economic level, I feel we have an obligation to give all children a fair chance. The problem, we face, is that this could too easily become a "spend more" area, and not a legacy area. A clear established principle of full-funding every Head Start and WIC -- could raise it to establishing a principle of commitment to fully-funding programs that work for disadvantaged children. Yet, we face severe budget restraints in fully-funding Head Start.

In other words, while I believe that GOALS 2000 and other school issues are important and should be stressed, I believe your greatest capacity for lasting change at this period of time, is to focus on the training that comes after school and before school. If we both pass and constantly promote universal worker training and apprenticeships, than we can say in the year 2006, that when the Clinton Administration took office, there was no nationwide training system for dealing with all displaced workers
and no national strategy for training students who didn't go to college.

If all we do is find more money for vocational education or increase worker training money, than we will have done the right thing, but we will not leave a legacy. Yet, and continually explain and promote that change to America, than we will have left a lasting positive change in how the American economy invests in people. I believe the other area is that we as a gap

believe the other main legacy should be a few major components of lifelong learning where we can permanently fill a structural gaps or establish a lasting principles that will
live on through any Administration. If we just increase funding for good education and training programs, we will not leave a legacy. What we should do is identify where we can fill a structural gap or establish a lasting principle. I believe the main places are 1) a universal displaced worker training program;
2) the first Nationwide apprenticeship program; 3) the first capacity to borrow at any time in your life and pay back as a percentage of your future earnings; and 4) a new principle on fully-funding efforts to have every parent involved in making their children ready to learn.

N life long learning we must establish the principle of full-funding for getting disadvantaged children ready to learn with the participation of their parents. HIPPY is the greatest program. Let's believe enough in it to promote it, even though we would of course allow flexibility to do things like Missouri's Parents as Teachers.

In fairness, I have chosen these over things like infrastructure, technology and energy, because if we have to focus on a few things, these are the ones that will most likely lead to a legacy and fundamental change.

While I think we should clearly try to play a leadership role on GOALS 2000 and school reform, it is hard to see how a President at this moment could leave a strong lasting legacy in major structural reform. The areas where we can make a distinctive legacy comes from learning before kindergarten and in worker training.

Creating Principles:

education to make parents the first teachersusing or any program that is proven effective. I think what full-fund
Principle: every child should enter school ready to learn.

made
The three main areas I would stress are comprehensive worker training and apprenticeships and parent education.

Health Care

Lifelong Learning: With your four distinctive proposals that will last being 1) before the Clinton Administration there was a gap in our training programs. We did not have a principle that all being who are dislocated should have options for retraining. If we fill this gap, it will be more than just money for training
2. Not apprenticeship new principle: 3) Not system for lifelong investment. EXCEL Accounts -- can always borrown and invest.
3) Pre-School. If do more, think it is right, But we need to set a legacy must be a national commitment. Our distinctive legacy can be parental reponsiitiby
We need to believe in our programs. We need to promote them in the way we talk about them.
income contingent loans

The other are comprehensive worker training and apprenticeship The differnce between and investment making just being more spending and an investment leaving a lasting legacy may be simply how we build it up, and give it meaning.

SErvice-- high school service lasting legacy: can affect million

Responsibility

Parental responsiblity: Lasting legacy

1. Deficit Reduction:
   - •Entitlement
   - •Deficit Reduction Trust Fund

2. Economic Development and Job Creation
   - •75% Increas in Small Business expensing
   - •new small business capital gains
   - •Empowerment Zones
   - •Implementation of Technology Reinvestment Program

3. Opening Markets For American Exports
   - •Passage of NAFTA
   - •Successful G-7 Negotiations
   - •Export Control

4. Invest in People
   - •Immunization
   - •Full reform of education grant
   - •National Service

5. Reward Work and Family:
   - •Family and Medical Leave
   - •EITC expansion

704-3212 Darryl Wilburn

THE WHITE HOUSE

WASHINGTON

January 9, 1996

MEMORANDUM FOR THE PRESIDENT
THE VICE PRESIDENT

FROM: BRUCE REED
GENE SPERLING

SUBJECT: CABINET RETREAT BRIEFING:
EDUCATION ISSUES

I. Overview

The most important thing this Administration can do to prepare America for the 21st century is to raise the level and quality of education for all our people.

Twice before in the 20th century, America led the world in expanding education opportunity for its citizens: first, by making high school universally available in the first great transition from farm to factory; and second, by expanding access to college through the G.I. Bill during the second great transition to a booming industrial economy. These great commitments built the broad American middle class and enabled this country to enjoy the most prosperous century the world has ever known.

We are now in the midst of another great transition to an information age and a global economy — and once again our success in this transition depends on education. All Americans deserve the opportunity and the challenge of an education that gives them the tools to make the most of their God-given potential.

II. Key Legacy Objectives

Education is at the heart of your strategy for economic growth and national unity, as well as your fundamental governing philosophy: that all Americans should have the opportunity to get ahead and take responsibility to make the most of it. The depth of your experience and commitment to education, the amount your Administration has already accomplished, and the sweep of your agenda give you the chance to leave a lasting legacy as the Education President.

The Administration has already established Direct Lending and National Service programs which make it easier to borrow or earn the money to pay for college, and has launched a nationwide effort to build new paths from school to work. It will make a difference in ensuring that schools of the future strive to meet high standards and use 21st century technology. And it will help guarantee that parents can send their children to the public school of their choice, including charter schools. The following areas of education stand out as key elements of your education legacy:

A. Standards of Excellence for All

American students are making progress in reading, science and math, but still don't measure up to the standard they will need to compete in the next century. Our goal is that one day America's grade schools and high schools are the envy of the world, not just our colleges and universities.

You already have an ambitious agenda to raise the quality of elementary and secondary education: public school choice and charter schools to increase accountability; an army of tutors and volunteers to teach reading; education technology and school construction to modernize our schools for a new century; school uniforms, truancy enforcement, safe and drug-free programs, religious expression, and character education to promote our basic values. As you set out to build and secure that legacy, the greatest remaining challenge is what to do next to advance the standards movement that began with Goals 2000.

The need for higher standards in core subjects is clear. On the most recent National Assessment of Educational Progress (NAEP), 42% of the 4th graders did not attain the "basic level" of proficiency (this finding is an important basis for your America Reads initiative); and on the Third International Math and Science Study (TIMSS) of 41 nations released last fall, U.S. 8th graders performed below the international average in math and slightly above the international average in science. According to the TIMSS study, one major explanation for the continuing low performance in math is that neither teaching nor textbooks in the U.S. reflect high standards.

While there has been considerable activity at the national and state level to develop standards in a variety of academic subject areas since 1991, the results have been quite mixed. Voluntary national standards have been developed by subject area specialists in virtually every discipline. Some, such as those in math, science, geography and civics, have been well received in the education community, have received at least tacit public support, and have been valuable tools to state and local officials developing their own academic standards. Others, most notably in history and English/language arts, have been highly controversial and are little used.

State experience with the development of standards has been mixed as well. Forty-eight states are developing, or have developed, standards in core academic subjects (Iowa and Wyoming have left this task entirely to the local level). This is powerful evidence that the standards movement is taking hold on a large scale. However, almost every knowledgeable observer believes that the quality of these state standards is highly varied. For example, an AFT survey released last summer indicated that fewer than fifteen states had developed clear and specific standards, while the others were too vague and general. A report to be released next week by Education Week affirms these basic findings.

Public support for raising academic standards and measuring progress is broad and deep. This is especially true for national standards and tests. At the same time, the political obstacles to setting challenging standards have been considerable. The bipartisan Congressional support that led to the enactment of Goals 2000 is much more polarized now, in particular around the issue of standards. As was evidenced at the National Education Summit between governors and business leaders last spring, state political leaders are also less united than at the 1989 Education Summit, and less sure about how best to proceed.

In short, the progress in the movement to raise standards has been considerable over the past four years, but the pace is slowing, the quality uneven, and the time is right for bold leadership to spur additional action.

One bold approach would be to promote national tests in the core subjects of 4th grade reading and 8th grade math, based on the existing NAEP and TIMSS tests.

The essence of this proposal is to transform each of these assessments into tests that will produce individual scores, and then actively challenge states and school districts to adopt them as their own. This would be the fastest way for states to put into place high quality tests aligned with rigorous national and/or international standards, and to enable students and their parents to learn how well students and schools are performing compared to state and national standards, to students and schools throughout the nation (in reading) and to international benchmarks (in math).

We could also promote the development of a high school level test and/or promote state graduation exams and policies requiring students to meet standards before moving from one school level to the next. At the same time, we could highlight a combination of successful national, state, and local efforts to raise standards and measure student performance.

This approach provides bold leadership, and can transform the debate about national standards by focusing it on concrete issues of reading and math. It holds the promise of providing parents and students with accurate information about student performance against challenging standards more quickly than most states would if they continue on their current paths. The main downside is that it has the potential to reignite a debate about federal intrusion in education, especially since both tests have been developed with federal funds and with a federal imprimatur.

B. 21st Century Schools

A second, complementary approach to the national standards proposal is to continue the effort to build 21st Century schools and classrooms for all -- so that every school and classroom provides a modern, safe environment and is equipped so that all students and teachers can learn interactively in school and at home through engaging software and discovery learning on the internet. Two major themes that you can consider are the following:

- Modernizing the Classroom of the 21st Century: Few institutions have changed as little during the past century as the classroom. Our combined emphasis on education technology, school construction, making our schools environmentally sound and after-school care is a comprehensive effort to modernize the classroom for the first time in generations so that we are ready for the 21st century. This theme provides a broader thematic structure that various sub-proposals.

- Bringing the Nation Together by Ensuring Universal Access to Information Technology: Without care, access to information and educational technology could divide the nation the way that race and income have in the past, with children who have early access to the internet and the world of education technology getting ahead and those who do not falling hopelessly behind. It would be a legacy of considerable significance if the President helped ensure that every child was technology literate and had access to the information age. For the first time in our history, every child -- regardless of income, race or background -- could have the same access to information everywhere. The internet can put millions of computers and thousands of libraries on even the poorest child's desk.

The attached memo by Greg Simon and Jim Kohlenberger gives a good overview of our initiatives and objectives. We should continue to look for bold goals to mobilize the private and public sector. One idea -- that fits our goal of every child reading by 8 years old and being on the internet by 12 years old -- is to ensure that every 6th grade teacher has solid education technology and internet training by the summer of 1998. We could call for summer sessions in universities in all 50 states in 1998 for 6th grade teachers and ask our new private sector CEO group to help mobilize it.

C. Universal Access to College and Lifelong Learning

In the last four years, you have done an enormous amount to open wide the doors of college. With the agenda you have spelled out for the next four years, you can secure a formidable legacy in expanding access to college and lifetime learning.

1. Two Year, 1997-1998 Push for Guaranteed College Education: Between the improved student loan program, income contingent loans, national service, our increases in the Pell Grants -- and the new education tax cuts we are proposing -- we will have a structure that ensures that through loans and grants, every young person who wants to can be guaranteed a higher education. Stressing this idea this year, however, could actually undermine our push for the Hope Scholarship, our $10,000 education tax cut, and our major increase in Pell Grants. Therefore, we could spend 1997 on the theme of making 13th and 14th grade universal, and set out to enact those proposals as well as the IRA for education. We could also make a communications effort in 1997 to promote:

- College Free Savings: We can better promote the notion that with IRA and \$10,000 education deduction, working families can engage in tax-free savings for college education.

- Pay-as-You-Earn/Direct Lending Campaign: We must continue to support and fight for our direct lending proposal, but we could also start a more explicit campaign to promote our new innovation: pay-as-you-earn.

In 1998, we could launch a national campaign on the theme that every American child is guaranteed financing for a college education. This would include a clear booklet showing how everyone now can obtain financing for college, and major joint campaigns with high school counselors, parents groups, etc.

Additional ideas that could be considered would be to officially make Pell Grants an entitlement to build on this message, or to more explicitly look for ways to encourage many states to imitate the Georgia Hope Scholarship. Pell Grants already function as an entitlement on the discretionary side, yet putting it on the mandatory side could be joined with possible GI Bill Proposals to make the notion of a "guarantee" or "entitlement" more explicit. The downside is that some fear that the perceptions of "entitlement" could be negative even in the college education perspective.

2. All-Out Push For GI Skill Grant Proposal: One of our best chances for lasting structural change is in the area of job training. While many Republicans insist on reforming training programs through a cut and block grant approach, several Republicans -- including Jack Kemp and John Kasich -- have shown real interest in the notion of consolidating programs and then creating a more market-oriented training system in which we use skill grant/vouchers to empower people directly. In 1995 and 1996, we laid relatively low while we worked to get the bill passed. This year, we need to more publicly call for the GI Skill Grant proposal, and a more clear presentation that we are the ones seeking to empower individuals directly, while those calling for block granting are simply seeking to shift the program from one bureaucratic structure to another.

III. Executive Action or Legislation

A. Standards of Excellence -- 21st Century Schools

The America Reads Challenge, the school construction initiative, and the youth portion of the GI Bill all require Congressional authorization and funding. The Technology Literacy Challenge requires additional funding. The testing and standards initiative can be carried out primarily through executive action and Presidential leadership.

B. Universal Access to College and Lifelong Learning

The Hope Scholarships, education and training tax deduction, expanded IRA, and basic agreements on student loans must be achieved in budget reconciliation. The Pell Grant increase may be achieved through appropriations this year, or reauthorization of the Higher Education Act next year. The GI Bill requires authorization and funding. Federal Skill

Grants (at least for dislocated workers) might be achieved as a part of a larger mandatory package in budget reconciliation or as an amendment to JTPA directed as a part of the final budget agreement.

IV. Competition with Legacy Priorities

A. Standards of Excellence -- 21st Century Schools

Republicans will press for vouchers. A few Republican governors and some congressional Republicans will seek to make standards, tests, and all K-12 school reform solely a matter of state and local prerogative and responsibility.

In addition to pressing for standards, you will also be taking the lead (1) in supporting safe and drug-free schools and a disciplined environment conducive to student learning, with mutual respect among and between teachers, students, and parents; (2) in fostering high quality teaching by encouraging over 100,000 teachers to attain National Board Certification and by calling on states, school boards and representatives of teachers to work cooperatively to get rid of incompetent teachers; and (3) calling for parents and communities to become more actively involved in schools and their children's learning, national service participants, work-study college students and 1 million volunteers to help tutor children to learn to read, and the V-chip, educational children's television, citizenship education, freedom of religious expression, and interactive educational games to engage children in the excitement of learning by doing rather than watching TV.

B. Universal Access to College and Lifelong Learning

Republican governors, Senators and Representatives will call for block-granting all DoL training resources to states to do as they please, including particularly to provide training to help states make welfare reform work.

V. Timeline

The timeline below provides a preliminary schedule of opportunities for using the bully pulpit to advance the objectives discussed above. Additional opportunities and events can be developed as needed, and as the legislative process requires.

January

Announcement of Chicago charter schools and release of ED charter schools report

February

State of Union Address -- (1) launch national standards/testing initiative; (2) announcement on college student reading tutors

Radio Address -- highlighting Chicago-area school districts reporting results from participation in TIMSS

American Council on Education speech, linked to higher education initiatives

Release of NAEP mathematics results

Release of survey of schools access to advanced telecommunications, and announcement of Technology Literacy Challenge state grants

March

Announcement of America Reads National Coalition, and release of ED kit on reading

Announcement of new board-certified teachers from National Board for Professional Teaching Standards

April-May

Several announcements highlighting promising local accountability practices for schools, teachers and students

June-July

Additional releases of TIMSS and NAEP national and state-by-state data

KEY FACTS ABOUT EDUCATION AND THE ECONOMY

1. The returns to learning are increasing -- as we move from an industrial age in which machine power leveraged human muscle to an information age in which human minds leverage knowledge and innovation through networks never before possible to add more value to goods, services, distribution, and communication:

- Each year of post-secondary education and training already adds 6%-13% to an individual's annual earnings.

- The median full-time worker with at least a bachelor's degree earns almost 75% more per week than the median full-time worker with only a high school degree, double the gap from just 1979.

- Increasing the level of education attainment by one year in a firm's workforce raises the firm's productivity by as much as 8.5% in manufacturing plants and almost 13% in non-manufacturing establishments.

2. The U.S. has a remarkably decentralized system of education, not a national system:

- Education is the largest and most costly function of the 50 states and their local school districts and higher education institutions. The federal government contributes approximately 7% of the costs of elementary and secondary education. While the federal government provides almost 2/3 of student financial aid for post-secondary education, its contribution (including research funding) is still less than 25% of the total cost.

- In elementary and secondary education, there are over 2.5 million teachers and over 50 million students, almost 90% of whom are in nation's 81,000 public schools. The public schools are governed by 14,000 local school boards and the 50 states.

- At the post-secondary level over 14 million students of all ages are served by 10,000 post-secondary public and private institutions, which are governed by a mix of autonomous public and private boards, state higher education authorities, local college districts or authorities, and 50 state legislatures.

3. In the first third of this century, the country made a commitment to universal access to high school:

- The high school graduation rate soared from less than 10% of all 18 year-olds in 1900 to almost 50% in the mid-1930's. By way of comparison, Great Britain with its national system of education did not make a similar commitment until 1944 when Prime Minister Churchill announced full public support for secondary school.

- Over the rest of the century, the high school graduation rate has risen steadily to almost 87% of all persons under 30. From 1982 to 1995, the drop-out from high school for persons 16-24 years old fell from 13.9% to 12.9%.

- Although the achievement in reading, science, and math of American students may be the same or slightly higher than a generation ago, today's children and youth are not learning to the higher standards of excellence essential to thriving in this new information age: on the most recent National Assessment of Educational Progress (NAEP), 42% of a representative sample of fourth graders did not attain the "basic" level in reading (although the U.S. does rank near the top of the world in reading for children at this age level); and, on the Third International Math and Science Study (TIMSS) of 41 nations, a representative sample of 8th graders ranked only slightly above average in science and below average in math.

4. Immediately following World War II, the nation made a commitment to increasing access to college.

- Presidents Roosevelt and Truman signed into law and implemented a G.I. Bill of Rights that directly financed the college education of a total of 3.5 million veterans of WWII and the Korean War.

- This national commitment helped catalyze the rise in college-going rates of young adults, from less than 10% in 1940 to almost 25% in 1960.

- Today, the growing supply of colleges and universities, state and local support, family investment and private endowment, and a package of federal financial aid assists almost 50% of high school graduates to benefit from college education.

- In 1994, 24% of all persons age 25 to 64 years of age in the U.S. had completed college -- almost twice the rate of our major European and Pacific Rim competitors.

5. The lesson of the two prior economic transitions in the twentieth century is simple: America will continue to be the leading force for democracy and prosperity in the world if advances in technology and innovation are matched by a real commitment to advances in education for all. Advances in both serve two key functions:

- First, they are the engines of economic growth.

- Second, they are the levers of opportunity that empower all families and workers and succeeding generations of children and youth -- who are willing to learn and to work for it -- to earn a share in the increasing prosperity and to renew the civic fabric of the world's longest running democracy.

6. A real commitment now to two advances in education offers the key to making a successful crossing to the greater possibilities in this new information age:

- A standard of excellence in learning for all children and youth

- Universal access to college for each succeeding generation and to lifelong learning for all adults.

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THE WHITE HOUSE

WASHINGTON

February 1, 1996

MEMORANDUM TO THE PRESIDENT

CC: LAURA TYSON
DON BAER

FROM: GENE SPERLING
GABRIELLE BUSHMAN
JON ORSZAG

SUBJECT: Facts in the State of the Union

Despite the fact that several newspapers assigned people to scrutinize the statistics in your State of the Union, we have not seen a single article or analysis that focused primarily on challenging the factual accuracy of your address. Through good coordination of the NEC and Communications, we prepared a background paper documenting each fact in the speech (attached) that was ready by the start of the speech. We have offered this backup to anyone who has asked.

There were two articles, however, that disputed different facts in your speech. In both cases, Gene talked with the reporters. One reporter admitted our fact was correct. The other reporter stood by his critique but admitted that his contention was trivial and technical.

The two facts mentioned were the following:

1. Beth Belton of the *USA Today* wrote a story in which she disputed the claim that the combined rate of unemployment and inflation was at its lowest level in 27 years; she stated that the combined rate of unemployment and inflation was the lowest in nine years -- since 1986. While there are a variety of ways of calculating the index, virtually all show that our statement is correct.

   If one looks at 1995, in terms of unemployment and inflation measured by year over year averages, we have the lowest combined rate of inflation and unemployment in 27 years. (This is the way the Blue Chip records yearly unemployment and inflation figures.) If, instead, you look at the last two years combined -- under any formulation -- we have the lowest combined rate of inflation and unemployment in 27 years. Moreover, the average Misery Index

State of the Union

during your Administration -- measured on any basis -- is the lowest since the Johnson Administration.

The *USA Today* number is only correct if you sum the unemployment rate (annual average) and the inflation rate (December-to-December). Under this calculation, the combined rate of inflation and unemployment is only the lowest since 1986 -- because of the aberrant drop in oil prices that year. Even under this calculation, the rate is the lowest since 1968 if the core rate of inflation -- excluding food and energy prices -- is used. In sum, we feel our claim is solid. Joe Stiglitz feels this way too. He has talked to the reporter, and has already written a letter to the editor.

2. Al Kamen and Warren Brown wrote in *The Washington Post* that you misstated the statistic that "America is selling more cars than Japan for the first time since the 1970s." *They argued that you should have said "producing", instead of "selling".*

This is an issue of semantics: in 1994, more American-produced cars were sold world-wide than Japanese-produced cars--for the first time since the 1970s. They, on the other hand, understood your statement to mean that American *car dealers* sold more cars than Japanese *car dealers*. This has always been true. Therefore, it would not be the first time since the 1970s. Gene has spoken with Al Kamen and Warren Brown and they agree that it was nit-picky and extremely technical.

We feel that "sold" is accurate (since we care more about American-produced cars that are then sold). However, to avoid any potential confusion, we suggest that you say either American workers are *making* more autos than Japanese workers for the first time since the 1970s or America is *making* more autos than Japan for the first time since the 1970s.

2/10/96

Not forwarded to POTUS per Phil Caplan

JRA

STATE OF THE UNION FACT SOURCES
JANUARY 23, 1996

INTRODUCTION

FACT: **"Our economy is the healthiest it has been in three decades."**

Source:

In 1995, the Misery Index--the combined rate of unemployment and inflation--reached its lowest level since 1968.

Over the last three years, mortgage rates have been at their lowest sustained levels in three decades.

The annual rate of inflation -- as measured by the core CPI -- during the last three years is lower than during any comparable period in three decades.

The Dow Jones Industrial Average increased over 33 percent in 1995 -- that's the second biggest increase since 1958, only 1975 was better.

Alan Greenspan, testimony to the House Budget Committee, 2/22/94, "The outlook, as a result of subdued inflation and still long-term interest rates, is the best we've seen in decades."

Alan Greenspan, 6/22/94, "The outlook for the U.S. economy is as bright as it has been in decades."

FACT: **"We have the lowest combined rate of unemployment and inflation in 27 years."**

Source:

Bureau of Labor Statistics, *Employment and Earnings,* Table A1, October 1995 and Bureau of Labor Statistics, *CPI Detailed Report*, Table 24, October 1995. Data on unemployment represent the average annual rate, while data on inflation represent the percentage change in the year-over-year Consumer Price Index for all urban consumers.

In 1995, the combined rate of unemployment and inflation was 8.2, down from 8.7 in 1994. In 1968, it was 7.8.

FACT: **"We have created nearly 8 million new American jobs, over a million in basic industries like construction and automobiles."**

Source:

Bureau of Labor Statistics, *Employment and Earnings*, October 1995, and Bureau of Labor Statistics, December Employment Situation, January 19, 1996.

Since January 1993, the economy has created more than 7.8 million net new jobs; non-farm payroll employment increased from 109.477 million to 117.315 million in December 1995.
Basic industries are manufacturing, construction, and the automobile industry. Since President Clinton took office, employment has increased by 1.022 million in these key industries (from 22.604 million in January 1993 to 23.626 million in December 1995).

FACT: **"America is selling more cars than Japan for the first time since the 1970s."**

Source:

1. American Automobile Manufacturers Association

Between 1985 and 1987, annual motor vehicle production in the United States declined from 11.65 million to 10.93 million.

In 1994, the United States produced 12.26 million motor vehicles, while Japan produced 10.55 million. That was the first time the U.S. had out-produced Japan since 1979, when the U.S. produced 11.48 million motor vehicles and Japan produced 9.63 million.

2. Yomiuri Shimbun, "Nov. Car Output Falls 9.1%," *The Daily Yomiuri*, December 26, 1995.

"The drop means that Japan will fall short of the United States for the second year in a row in terms of total auto production for 1995, the Japan Automobile Manufacturers Association said... During the January-to-November period, Japan produced a total of 9,423,306 automobiles, down 2.8 percent from the same period last year. For calendar 1995, the country is expected to produce slightly more than 10 million cars. The United States produced 11,158,072 cars over the same 11-month period. Last year, it knocked Japan from its perch as the world's top car maker for the first time in fifteen years."

FACT: **"And for three years in a row, we have had a record number of new businesses started in our country."**

Source:

Dun and Bradstreet.

In 1995, the new business incorporations increased at a rate of 769,248 per year. This broke the old record of 741,657 per year in 1994, which broke the previous record of 706,537 in 1993.

FACT: **The crime rate, the welfare and food stamp rate, the poverty rate, the teen pregnancy rate are all down.**

Source:

Crime:
FBI press release, December 17, 1995

"The number of crime index offenses reported to law enforcement agencies throughout the U.S. decreased 1% during the first six months of 1995."

Welfare:
March 1994: 14,361 million recipients
August 1995:13,210 million recipients
These figures represent an 8% decline.

Food stamps:
U.S. Department of Agriculture Release, January 23, 1996.

Since August 1994, Food Stamp Program participation has dropped consistently each month compared to the same month a year earlier. In October, 1995 (the most recent month for which data exists) participation dropped by nearly one million people compared to October 1994. The decline in participation between August 1994 and October 1995 has resulted in a cumulative savings to taxpayers of over $800 million.

Poverty:
Bureau of the Census, *Income, Poverty, and the Valuation of Non-Cash Benefits*, 1994.

There were 38.1 million Americans in poverty in 1994, or 1.2 million fewer than in 1993.

Teen pregnancy:
HHS Press Release, 9/21/95

CDC's *Advance Report of Final Natality Statistics*

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers of Disease Control and Prevention. Teen pregnancy rates (including both births and abortions) were down in a majority of states, as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers -- United States, 1991-1992, in the September 22 Morbidity and Mortality Weekly Report.

FACT: **"And I thank the Democrats for passing the largest deficit reduction plan in history in 1993, which has cut the deficit nearly in half in just three years.**

Source:

Office of Management of Budget, *Mid-Session Review of the 1996 Budget*, July 28, 1995, p.3, and Department of Treasury, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government*, October 27, 1995, Table 2, page 3.

In Fiscal Year 1992, the federal budget deficit as percentage of GDP was 4.9 percent. In Fiscal Year 1995, it was 2.3 percent.

FACT: **"We all have the seen the benefits of deficit reduction. Lower interest rates have made it easier for business to create new jobs. Lower interest rates have brought down the cost of home mortgages, car and credit card rates to ordinary citizens."**

Source:

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, 1/31/94: "The actions taken last year to reduce the federal budget deficit have been instrumental in creating the basis for declining inflation expectations and easing pressures on long-term interest rates."

Business Week, 2/7/94: "Both Clinton and the economy head into 1994 on the momentum from a strong showing at the end of 1993. Lower long-term interest rates, for which the White House can take partial credit, helped to rev up spending for cars, homes, and durable goods generally, boosting factory orders and production, while better growth in jobs and incomes kept people happy."

Department of the Treasury and Haver Analytics:
The 30-year Treasury bond fell from 7.34% in January 1993 to 6.06% in December 1995. The effective interest rate on new average-fixed mortgages dropped from 8.26% in January 1993 to 7.74% in November 1995.

CHALLENGE: TO CHERISH OUR CHILDREN AND STRENGTHEN THE AMERICAN FAMILY

FACT: **"Every year, a million children take up smoking, even though it is against the law. Three hundred thousand of them will have their lives shortened as a result."**

Source: Centers for Disease Control and Prevention

FACT: **"To strengthen the family we must do everything we can to keep the teen pregnancy rate going down."**

Source:
HHS Press Release, 9/21/95
CDC's *Advance Report of Final Natality Statistics*

Teen births are down nationwide and teen pregnancy declined in a majority of states, according to two new studies from the Centers of Disease Control and Prevention. Teen pregnancy rates (including both births and abortions) were down in a majority of states, as reported in "State-Specific Pregnancy and Birth Rates Among Teenagers -- United States, 1991-1992, in the September 22 Morbidity and Mortality Weekly Report.

CHALLENGE: TO PROVIDE AMERICANS WITH THE EDUCATIONAL OPPORTUNITIES WE NEED FOR A NEW CENTURY

FACT: **"We are working with the telecommunications industry, educators and parents to connect 20% of California's classrooms by this spring, and every classroom and library in America by the year 2000."**

Source:
Office of the Vice President press release, September 17, 1995

FACT: **"We've created a new student loan program that's made it easier to borrow and repay those loans."**

Source:

The direct loan program was created by OBRA '93.

The Student Loan Reform Act of 1993, a part of OBRA '93, redressed many of the problems that had grown out of the old student loan program--specifically, the complexity for schools and borrowers and its cost to the taxpayer.

FACT: **"...and we have dramatically lowered the student loan default rate."**

Source:

Department of Education press release, 1/22/96

From 22.4% three years ago to 11.6% in the most recent year, due in part to Department of Education's aggressive accountability and collection efforts. The new default rate is from FY 1993, the most current data available.

FACT: **"Through AmeriCorps, our national service program, this year 25,000 students will earn college money by serving their communities."**

Source:

Corporation for National Service Advisory, 10/95

In its second year, AmeriCorps will involve some 25,000 members in service to more than 400 community programs throughout the country. In FY 1994, more than 20,000 individuals served in AmeriCorps, in 350 programs.

CHALLENGE: HELP EVERY AMERICAN ACHIEVE ECONOMIC SECURITY

FACT: **"Within the year, the minimum wage will fall to a 40-year low in purchasing power."**

Source:

Department of Labor, Office of the Chief Economist.

Depending upon the rate of inflation, the real value of the minimum wage will reach its 40-year low sometime near the end of 1996 or at the beginning of 1997.

FACT: **"In 1993, Congress cut the taxes of 15 million hard-pressed working families to make sure that no parents who work full-time would have to raise their children in poverty."**

Source:

Department of the Treasury, Office of Tax Analysis.

In 1996, 15 million families received a tax cut.

FACT: **"This expanded Earned Income Tax Credit is now worth about $1,800 to a family of four living on $20,000."**

Source:

Department of the Treasury, Office of Tax Analysis.

In 1996, a family of four earning $20,000 would receive $1,795 from the EITC.

FACT: **"The budget bill I vetoed would have reversed this achievement, and raised taxes on nearly 8 million of these people."**

Source:

Department of the Treasury, *Distributional Effects of the Congressional Tax Plan*, November 22, 1995.

"After accounting for the fully phased-in $500 child credit and the increase in the standard deduction for married couples, about 7.7 million families who earn under $30,000 a year would face a net income tax increase, on average, of $318 under the proposal."

FACT: **"Two years ago, with bipartisan support that was almost unanimous on both sides of the aisle, we moved to protect the pensions of eight million working people and stabilize the pensions of 32 million more."**

Source:

Pension Benefit Guaranty Corporation, press release, November 29, 1995, and Update to Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin*, Abstract of 1991, Form 5500 Annual Reports, Winter 1995.

"An estimated 8 million people are covered by about 10,000 underfunded plans..." These 8 million people all had their pensions protected

The remaining 32 million Americans in defined benefit plans had their pensions stabilized.

FACT: **"Over the past two years, over one million Americans in working families lost their health insurance."**

Source:

Historical projections based on Department of Commerce, Bureau of Census, Current Population Survey data.

In 1993, 38.6 million Americans did not have health insurance; in 1995, 39.7 million were uninsured.

FACT: **"I challenge you to pass the bipartisan bill offered by Senators Kassebaum and Kennedy to require insurance companies to stop dropping people for switching jobs or denying coverage for pre-existing conditions."**

Source:

Health Insurance Reform Act S. 1028

FACT: **"In the past three years, we've saved $15 billion by fighting health care fraud and abuse."**

Source:

Department of Health and Human Services
Michael Mangano, letter to Jennifer O'Connor.

"In fiscal years 1993 through 1995, our Office of Inspector General accounted for $14.71 billion in Medicare and Medicaid program savings..."

CHALLENGE: TAKE BACK OUR STREETS FROM CRIME AND DRUGS

FACT: **"In New York City, murders are down 25%; St. Louis, 18%; Seattle, 32%."**

Source:

Time magazine, 1/15/96, page 56. (*Time* cites local police departments). DOJ's Bureau of Justice Statistics also independently confirmed with each city's police department.

FACT: **"It provides funds for 100,000 new police in communities of all sizes. We're already a third of the way there."**

Source:

All Programs Master Summary, COPS Office, Department of Justice.

As of 1/16/96, 31,395 new officers have been funded.

FACT: **"The Brady Bill has already stopped 44,000 people with criminal records from buying guns."**

Source:

44,274 felons have been denied access to handguns by Brady Bill checks from March to December, 1994. *Bureau of Alcohol, Tobacco & Firearms, "Felons Denied Access to Handguns by Brady Law", 1/18/96.*

FACT: **"The assault weapons ban is keeping 19 kinds of assault weapons out of the hands of violent gangs."**

Source:

Title 11, Section 110102 of the Crime Bill.

CHALLENGE: PRESERVE OUR ENVIRONMENT FOR FUTURE

FACT: **"Because of a generation of bipartisan effort, we do have cleaner water and air."**

Source:

President Nixon created the EPA in 1970. The Clean Water Act was bipartisan. Both vetoes by Nixon and Reagan were easily overridden. The Safe Drinking Water Act was passed in 1974 by voice vote in the Senate and 296-84 in the House, and then signed by President Ford. President Bush championed and then signed the last reauthorization of the Clean Air Act in 1990

FACT: **"...lead levels in our children's blood have been cut by 70 percent."**

Source:

National Health and Nutrition Examination Survey, HHS. Survey was published in *The Journal of American Medical Association*, July 27, 1994.

Mean blood levels of children between the ages of 1-5 years declined 77% during the time period 1976-1991.

FACT: **"...toxic emissions from factories are cut in half."**

Source:

US EPA 1993 Toxic Release Inventory data

Total percentage decrease in total releases for ten industries from 1988-1993 was 47.9%

FACT: **"Lake Erie was dead, and now it's a thriving resource."**

Source:

Clean Water: A Memorial Day Perspective, US EPA Office of Water, May 1994, pages 12-14)

Water quality improvements and increased lakeside development have caused people to return to the shore of Lake Erie to enjoy boating, fishing, swimming and other activities.

FACT: **"But ten million children under 12 live within four miles of a toxic waste dump."**

Source:

US EPA Superfund database, US Census Bureau data, 12/14/95.

The population data of children under 10 living within four miles of Superfund National Priority List sites was generated using LandView, a computer program that presents selected population/demographic information from the 1990 census and from five EPA databases. Using LandView, EPA was able to determine that 9.8 children under the age of 10 live within four miles of a Superfund National Priority List site.

FACT: **"A third of us breathe air which endangers our health."**

Source:

US EPA National Ambient Air Quality Trends Report (11/6/95)

"Based on air quality data from 1992-1994, 93 million people were living in counties that did not meet the air quality standard for ozone pollution."

FACT: **"Congress has voted to cut environmental enforcement by 25%."**

Source:

Statement of Administration Policy, OMB, Dec. 14, 1995

H.R. 2099 -- The appropriations bill for the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies for FY 1996 includes a 25 percent cut in enforcement and a 22 percent cut in requested funding for the EPA

CHALLENGE: PERSONAL RESPONSIBILITY FOR THE FUTURE

FACT: **"We are eliminating 16,000 pages of unnecessary rules and regulations."**

Source:

National Performance Review, *Common Sense Government*, page 3

"Agencies are sending 16,000 pages to the scrap heap, of 86,000 pages of regulations reviewed."

FACT: **"We are increasing border controls by 50%."**

Source:

Immigration and Nationalization Service, release on January 23, 1996.

"Working with Congress, we are working to strengthen our border control force -- including Border Patrol agents, INS inspectors and other enforcement personnel -- by over 50 percent since President Clinton took office."

FACT: **"Today our federal government is 200,000 employees smaller than the day I took office. Our federal government is the smallest it has been in 30 years, and it's getting smaller every day."**

Source:

Office of Management and Budget, January 23, 1996.

Policy Options

8/21/96

August 20, 1996

MEMORANDUM FOR THE PRESIDENT

THROUGH: LEON PANETTA

FROM: LAURA TYSON

RE: Possible new policy initiatives and offsets

At your request, several interagency groups organized under NEC auspices have developed and analyzed several possible new policy initiatives for introduction either during your pre-convention train trip or during your acceptance speech in Chicago. These initiatives fall into a few basic categories: initiatives to help move people from welfare to work; initiatives to enhance early childhood education and literacy; environmental cleanup initiatives; and additional targeted tax relief for middle-income families.

I have attached individual memos giving the rationale, description, price tag, and pros and cons for each of these initiatives. In addition, I have included two summary tables: a table listing all six initiatives along with their individual cost, and a table listing the possible "pay-fors" we have identified.

In total the initiatives carry a price tag of approximately $17 billion. We could save about $7 billion without too much controversy: $5 billion from replacing the sales source rules and another $2 billion from miscellaneous user fees and charges. As your will see from the list of offsets, almost everything else is very controversial and would require making choices that are strongly opposed by at least some of your economic advisers and carry substantial political risks of their own. For example, phasing out ethanol subsidies could save another $3.6 billion and would be supported by most, if not all of your economic team, but would be interpreted as a reversal of Administration environmental policy.

Among the most controversial of the "pay-fors" are: taking any portion of the $16 billion in "extra" welfare savings from the welfare reform bill; limiting tax deferral through controlled foreign corporations; imposing a fee on corporate jets; and reducing or eliminating the tax deductibility of tobacco advertising expenses. The first of these options seems to many of your advisers to be in conflict with your stated goal of restoring legal immigrant and food stamp protections in your second term, while the latter three options alone or in combination could unleash the wrath of a substantial part of the business community. A scaled-down package of initiatives with a price tag in the range of $10 billion would still involve painful choices but would be substantially easier to achieve.

The interagency groups developing the individual initiatives have worked under extreme time pressure, but in each case have managed to provide you with the relevant detail and analysis I believe will help you determine your priorities within very tight budgetary constraints. However, because of this time pressure and because most of the NEC principals were out of town last week, there has not been a full interagency discussion either of the relative merits of each policy option compared to the others, or of the overall pros and cons of introducing several new policy initiatives now.

Nonetheless, I do know that most of the proposals discussed here including the welfare-to-work initiative and the early childhood and literacy initiatives have broad support among your economic team. All of your economic advisers continue to believe that any new option you announce should be fully and specifically paid for and should be consistent with your existing economic policy agenda and message. Some of your economic advisers, however, are concerned that introducing a large number of new initiatives in a short period of time following Dole's convention bounce in the polls could be interpreted as a sign of political weakness, not strength. This concern is particularly pronounced in the case of a possible initiative to reduce capital gains on homeownership, an initiative which has no economic growth justification as most of the other initiatives do.

There is also some concern that introducing several new spending policy options paid for primarily by revenue increases or fees could raise the criticism of "tax-and-spend" elitist Democrats. As an alternative to proposing new options that run this risk, you could emphasize existing proposals that have not received adequate attention, such as our proposed subsidies to help workers in transition purchase health insurance and our IRA proposal that allows for tax-free savings for educational expenses.

Finally, introducing several new initiatives runs the risk of blurring our overall economic message -- our economic strategy is working, and we are on course to balance the budget by the beginning of the next century, providing a more prosperous future to our children. We shouldn't allow Dole to bet their future on a political tax gimmick that has been tried before with disastrous results.

DESCRIPTION OF POLICY OPTIONS

SUMMARY OF EDUCATION INITIATIVES

Note: *Each Option Costs $3.75 Billion Over 5 Years:*

OPTION I. CHILDREN READING BY 3RD GRADE WITH PRESCHOOL AND K-3 EMPHAS

1. **Literacy Campaign to Ensure That Every Child Is Reading by the End of Third Grade.** In 1994, 40% of 4th grade students could not read at a basic level. Mobilize up to 1 million volunteers to provide extra reading help after school and during the summer for K-3 children behind in reading. *By 2002, we could have a tutor in approximately half of the 50,000 elementary schools, tutoring approximately 3 million children or nearly half the children needing extra help in reading.* (Cost: $1.5 billion, plus $1 billion already in National Service budget)

   - **Target National Service To Reading.** (no new cost)
   - **Additional Grants To Hire Reading Specialists and Purchase Materials.**
   - **Challenge the Nation on Child Literacy.**
   - **Accountability.** Progress measured by 4th grade NAEP reading scores.

2. **Guarantee At Least One Year of Head Start to Every Eligible Child.** Stated goal could be to make two years of preschool and two years of college as universal as 4 years of high school. Provides Administration with a visible preschool proposal and addresses need to start early in a child's life. (Cost: $2 billion)

3. **Challenge and Help Parents Be Their Children's First Teachers.** Challenge every parent to be their children's first teacher and make voluntary support available to parents to help them get their children ready for school. Would be described as a bipartisan proposal, supported by Hillary Clinton in Arkansas (HIPPY), Barbara Bush, and Senators Ashcroft and Bond when they were governors, but may still be criticized. (Cost: $250 million)

OPTION II. CHILDREN READING BY 3RD GRADE *WITHOUT* PRESCHOOL EMPHASIS:

Broaden the child literacy campaign above to reach more children, but without further expansion of Head Start and with less emphasis on parental involvement.

1. **Expanded Literacy Campaign.** Expand funding so by 2002, we could have a tutor in approximately 40,000 of the 50,000 elementary schools, tutoring nearly 5 million children and over two-thirds of the children needing extra help. (Cost: $3.375 billion plus $1 billion in budget)

2. **Support Parental Involvement and Community Institutions to Help Young Children Read.** Provide some limited additional support for family literacy programs, parent training centers, and for expanding library literacy programs. (Cost: $375 million over 5 years.)

III. CHILDREN ARRIVE AT SCHOOL READY TO LEARN PRESCHOOL PROPOSAL:

1. **Guarantee at least one year of Head Start to every eligible and interested child.** Provides visible preschool proposal. (Cost: $2 billion)

2. **Quadruple the Number of 0-3 Year Olds in Early Head Start.** Quadrupling the number of families still only bring us from 25,000 today to 100,000 in 2002. (Cost: $1 billion)

3. **Challenge and Help Parents Be Their Children's First Teachers.** Challenge parents plus grants to states based on bipartisan programs. (Cost: $750 million)

JOB CREATION INITIATIVES

TWO MAJOR COMPONENTS OF JOB CREATION INITIATIVE:

I. Targeted Wage Subsidy
II. Welfare-To-Work Challenge Fund

OPTIONS -- WORK OPPORTUNITIES TAX CREDIT:

I. Expand the Entire WOTC
II. Expand the WOTC for Welfare Recipients
III. Adopt Some Combination of I & II

WAYS TO SWEETEN THE WORK OPPORTUNITIES TAX CREDIT:

- Increase the wage limit from $6,000 to $10,000;
- Allow employer provided education assistance, health care, and dependent care to be treated as eligible for wages; alternatively, employers could get more of a credit if they provide education assistance, health care, or child care;
- Increase the credit rate from 35 percent to 50 percent;
- Allow employers to claim the credit for two years, instead of one year; and
- Expand the qualified food stamp category to include adults 18 to 50 years old who lose food stamp benefits under the welfare bill because they do not satisfy the minimum work requirements.

RECOMMENDED OPTION:

- *Super WOTC for Harder-To-Place Welfare Recipients.* For harder-to-place welfare recipients, include all of the above sweeteners and a three-year extension.

- *Expand WOTC.* Expand the qualified food stamp category of the WOTC to include adults 18 to 50 years old who lose food stamp benefits under the welfare bill because they do not satisfy the minimum work requirements through September 30, 1997.

- *CDFI Initiative.* Provide a total amount of $100 million (or $200 million) in nonrefundable tax credits that would be made available to the CDFI fund to be allocated among equity investors in qualified CDFIs.

- **Revenue** Loss: Treasury has not officially scored these options, but we expect that our proposal will cost approximately $1.1 billion between FY97 and FY2002.

OTHER OPTIONS:

- The working group developed a number of other combinations of proposals (e.g., extending the credit for everyone for an additional year, while providing a Super WOTC for harder-to-place welfare recipients, etc.)

WELFARE-TO-WORK CHALLENGE:

The President would launch a $3 billion Welfare-To-Work (WTW) Challenge to place one million harder-to-employ welfare recipients in jobs by the year 2000. The Challenge would ultimately provide $3,000 per job, with substantial funding at the beginning of each program year, but full funding available only for successful job placements.

1. **Accountability:** To ensure jobs for the hardest to employ, the WTW Challenge will only provide full funding upon a showing of successful placements of the target population into jobs lasting at least 9 months. Up to 25 percent of a State's allocation would be provided only after successful performance has been documented.

2. **Flow of funds:** A formula allocation to States, with automatic pass through to sub-state areas. The factor used for formula distribution could be the distribution of the welfare population, but that might have the perverse effect of "rewarding" States that spend more on welfare or do the least to help welfare recipients find jobs. For now we would use poverty -- despite some pitfalls -- as the factor for distributing funds to States and within States.

3. **Targeting:** WTW therefore would require funds to be used for the hardest to place population within targeted geographic areas. Geographic targeting would be based on factors such as high poverty and concentration of individuals on welfare. Individual targeting would be based on residency in a targeted area, plus factors such as length of stay on welfare.

4. **Program planning and management -- role of cities and others:** We believe it is essential to have close collaboration among the State, local governments, community organizations, and the private sector. The flow of funds and targeting requirements will ensure that WTW money must be spent in the areas and on the people most in need. The planning and management structure will ensure that communities plan together, and that in at least the largest cities, the mayors manage the funds.

5. **Matching; combining with other resources:** States and localities can use the WTW funds they receive in any proportion per job, but most expect that additional resources will also be needed to meet jobs targets. Local plans will have to specify how State block grant and child care funds will be brought to bear in the process. Private sector commitments will also be sought, as will the participation of local organizations. Cities and other local government may also contribute funding. WTW would not specify how much State and other funding is required; that will be determined by the plan.

6. **Uses of the WTW Challenge funds:** It is essential to permit maximum flexibility to localities and States in program design. Our key feature is the withholding of a significant portion of funds until there is a showing of successful placement. Precisely how that placement is achieved is a local concern. However, we do envision four broad types of activity:

   i. Creating jobs through cleaning up and rebuilding communities.
   ii. Jobs in expanded child care.
   iii. Proven job creation/job placement models.
   iv. Other strategies.

7. **Evaluation:** At the end of the program period, the Challenge Fund will be evaluated, so that the President and the Congress can determine whether it should be renewed.

POSSIBLE ENVIRONMENTAL INITIATIVES

OVERVIEW: Under the theme of protecting communities from toxic chemicals, these are several initiatives building on the Administration's environmental record:

1. Double the pace of Superfund cleanups at the nation's worst toxic waste sites, with the goal of cleaning up two-thirds of the sites on the current priority list. (cost: $1.5 - $2 billion)

2. A new set of proposals to clean up and re-develop "Brownfields" to complement the Administration's previously announced tax incentive. (cost: ($400 million)

3. Safe drinking water for all Americans' communities through implementation of the recently enacted Safe Drinking Water Act reauthorization, and protection of drinking water sources. (cost: $800 million)

4. Expanding the community right-to-know program to collect and make available via computer local information about toxic threats in air and water. (cost: $355 million)

5. An environmental crimes legislative proposal that would increase penalties for the worst environmental offenders and strengthen the federal government's partnership with state and local law enforcement. (cost: zero)

TOTAL COST:

Total 4-Year Cost for this agency-proposed agenda: $3.05 - 3.55 billion

The package summarized above is set out in greater detail in the following pages. To construct an environmental package at lower cost, *two alternative packages* may be considered:

Alternative Package A: (cost: $2.9 billion)

- Low end of Superfund range would be selected. (revised cost: $1.5 billion)

- Brownfields same as above. (cost: $400 million)

- The scope of the right-to-know initiative would be limited to fewer communities. (revised cost: $250 million)

- The drinking water budget would be trimmed. (revised cost: $750 million)

- Environmental crimes, same as above. (cost: none)

Alternative Package B: (cost: $1.5 billion)

- Erase the Superfund Backlog: provide sufficient funding to permit EPA to clear out its current backlog of 70 Superfund sites which are ready to be cleaned up, but for which funds have been unavailable. (New sites would continue to be added, however.) We would also expand the Reagan executive order to give more environmental agencies (in addition to EPA) authority to order cleanups. This proposal would end the waiting for communities with Superfund sites at which all preliminary assessments and design work has been completed but actual cleanup has been stalled because of a lack of funds. (cost: $500 million)

- Brownfields: Increase the EPA grant program to local governments for brownfields site assessment and cleanup as discussed in item II. (cost: $245 million)

- Safer Drinking Water Implementation but at a lower level and without source water protection. (cost $400 million)

- Community Right-to-Know - modified: (cost: $355 million)

- The Environmental Crimes legislative proposal.

Note: Both CEQ and EPA believe that the resources in this alternative are too few, and too thinly spread among proposals, to support a presidential initiative on toxics, specifically, that will be either credible or well-received among major constituencies. There are other difficulties as well: the proposal to "clear the Superfund backlog" highlights the fact that we have created a backlog by inadequate budget requests; the drinking water request is likely to be derided by any constituency informed about the magnitude of the need.

OPTIONS ON HOMEOWNERSHIP CAPITAL GAINS

BACKGROUND -- CURRENT LAW

- Gain can be deferred through the purchase of a new home of equal or greater value.
- One-time election for taxpayers over 55 to exclude up to $125,000 of gain from the sale of a principal residence.

OPTION 1: ORIGINAL PROPOSAL

- Replace both provisions of current law with a $500,000 exclusion (indexed for inflation), available once every two years. The maximum exclusion would be $250,000 for taxpayers other than those who are married filing jointly.
- The exclusion would increase by $50,000 per year ($25,000 for non-joint returns) for taxpayers living in the same home for at least 15 years, up to a maximum of $1 million ($500,000 for non-joint returns) after 24 years.
- **Revenue loss (1996-2002): $2.4 Billion**

OPTION 2: ORIGINAL PROPOSAL PLUS RETAIN ROLLOVER

- Replace the current exclusion for taxpayers 55 and over with a $500,000 exclusion (indexed for inflation), available once every two years. The maximum exclusion would be $250,000 for taxpayers other than those who are married filing jointly.
- The exclusion would increase by $50,000 per year ($25,000 for non-joint returns) for taxpayers living in the same home for at least 15 years, up to a maximum of $1 million ($500,000 for non-joint returns) after 24 years.
- Gains in excess of the new exclusion could still be deferred by purchasing a new home.
- **Revenue loss (1996-2002): $2.8 billion**

OPTION 3: EXPAND ONE-TIME EXCLUSION AND ALLOW ROLLOVER INTO IRA'S

- Increase current exclusion for taxpayers 55 and over to $200,000 per person (i.e., $400,000 for joint returns with both spouses ages 55 and over, and indexed inflation).
- Retain current rollover rules.
- Taxpayers not using the exclusion would be permitted to offset any tax that would otherwise be due by contributing up to $200,000 per person ($400,000 for joint returns, and indexed for inflation) into an IRA.
- **Revenue loss (1996-2002): $1.4 billion**

Options for Expanding Tax Benefits for Educational Savings Bonds

SUMMARY

- **Broad option:** Eliminate income limits and other restrictions.
- **Narrow option:** Conform income limits and other restrictions to those used in the President's tuition tax credit and deduction proposal.

BROAD OPTION

For Savings Bonds issued after 11/1/97, when redemption proceeds are used to pay for qualified educational expenses:

- Remove income limits and age requirements and substitute an annual, indexed cap of $5,000 per student on the amount of excluded interest;
- Include room and board and books and supplies in the definition of qualified educational expense;
- Expand the definition of eligible educational institution to include certain proprietary institutions;
- Allow grandparents to claim the exclusion with respect to bonds redeemed to pay the qualified educational expenses of their grandchildren; and
- Exclude Savings Bonds from assets taken into account to qualify for Federal student aid.

NARROW OPTION

Conform income limits and other restrictions on the exclusion of interest on Savings Bonds to the Administration's tuition tax credit and deduction proposal. Specifically:

- Increase the income limits applicable at the time Savings Bonds are redeemed to match the income limits in the proposal;
- Conform the definition of eligible educational institution to the proposal, i.e., those proprietary institutions eligible to participate in the Department of Education's student assistance programs would be eligible institutions;
- Substitute the rule that the exclusion cannot be claimed by any taxpayer who is a dependent of another for the age 24 purchase requirement;

BASE PACKAGE

Initiatives	Cost
3rd Grade Literacy / Head Start -- Early Childhood	$3.7 billion
Job Creation Initiative to Move People From Welfare to Work	$4.0 billion
Environmental Initiatives	$1.9 billion
Total	**$9.6 billion**

Offsets	Savings
Impose spectrum royalty user fees	$1.6 billion
Increase Hart Scott Rodino merger filing fees based on firm size	$0.42 billion
Replace sales source rules with activity-based rule	$5 billion
Tighten the substantial understatement penalty	$0.2 billion
Replace Single-Family Loan Limit with Freddie Mac Limit	$0.2 billion
Relax the Restriction on FHA Multifamily Property	$0.08 billion
Charge vendors for cost of making payments by paper check	$0.07 billion
Allow use of credit cards to pay tax debt	$0.4 billion
Reduce corporate jet subsidies	$1.1 billion
Deny dividends-received deduction (DRD) for portfolio preferred stock	$0.2 billion
Total	**$9.27 billion**

Potential Initiatives and Offsets

Potential Initiatives	Cost
Change Treatment of Capital Gains from Home Sales	$2.8 billion
College Savings Proposals	$0-$1 billion
D.C. Initiative	$0.5 billion
Total	$3.3-$4.3 billion

Potential Offsets	Cost
Phase-out ethanol subsidies	$3.6 billion
Partial limit on availability of tax deferral through controlled foreign corporations	$2 billion
Permit only 50% deductability of tobacco advertising	$2 billion
Reduce FSC benefits	$2.5 billion
Eliminate NCUA share insurance fund	$0.2-$0.6 billion
Transfer of Federal Reserve surplus to Treasury	$0.8 billion
Total	**$13.1-13.5 billion**

POTENTIAL OFFSETS

1. IMPOSE SPECTRUM ROYALTY USER FEE (<u>WITHOUT</u> DOING DIGITAL SPECTRUM AUCTION)

Revenues: $1.6 billion over 6 years

Description: This option would assess a fee on the gross revenues of firms that use the radio spectrum to conduct their business and did not purchase their spectrum licenses at an auction. It would include the commercial television broadcasters. The fee would increase from 0.25% of gross revenues in 1997, to 0.5% in 1998, to 0.75% in 1999, to 1.0% in 2000 and later years. Most current licenses for commercial radio and television broadcasting, satellite transmission, cellular radio services, and paging services would be subject to an annual royalty fee. Governmental or nonprofit entities serving the public health, education, safety, or welfare as determined by the FCC would be exempt, as would small television and radio broadcasters to ensure continued service to rural areas.

Arguments For: In the case of cellular radio services, satellite transmissions, and paging services, companies that did not receive their licenses at auction enjoy an advantage over those that had to pay for their licenses. The royalty user fee would strive to correct this discrepancy in these markets.

Arguments Against: The commercial broadcasters (television and radio), who would vehemently oppose this option, have never had their licenses auctioned, so this fee would not be as equalizing within the industry. Rather, it would provide for more equity among various telecommunications industries.

2. INCREASE HART SCOTT RODINO MERGER FILING FEES

Revenues: $420 million over 6 years

Description: The FTC and DOJ's Antitrust Division share about $120 million/year in fees that are paid by firms filing for merger under the Hart Scott Rodino Act; the rest of their budgets are funded through appropriations. Firms that are now required to file pre-merger notification are assessed a flat fee of $45,000. This option would restructure the fees to: $25,000 for entities with total assets of under $100 million (i.e., a reduced fee for small mergers); $55,000 for entities with total assets of between $100 million and $500 million; and $95,000 for entities with total assets of over $500 million. The fees now offset discretionary appropriations, but an increase could produce mandatory savings.

Arguments For: This option would ensure that users fully pay for the Government's costs of Hart Scott Rodino activities. Thus, general taxpayers would no longer subsidize the Federal review of mergers.

Arguments Against: The business community would probably object to this fee increase. In addition, congressional appropriators would object to capturing the receipts on the mandatory side of the budget. And the Senate Appropriations Committee, in the 1997 Commerce/Justice/State Appropriations bill, used the [illegible] fees [illegible] and Antitrust, thus freeing up funds [illegible] Program [illegible]

3. REPLACE SALES SOURCE RULES WITH ACTIVITY-BASED RULE

Revenues: $5 billion over 6 years

Description: Currently, exporters with excess foreign tax credits can take advantage of a safe harbor rule that lets them treat 50 percent of their foreign sales income as foreign source, even if the actual percentage of foreign activities generating the income is lower. This option would replace the fixed-percentage safe harbor with an activity-based test. In helping to finance the tuition tax credit, the Administration proposed cutting this safe harbor from 50 to 25 percent.

Arguments For: No safe harbor is appropriate. Rather, the sales income should be sourced according to the location of the economic activity that produces the income. In addition, export benefits should apply in a neutral manner to all exporters, rather than provide special benefits to only those exporters that also have excess foreign credits generated by other foreign operations.

Arguments Against: This proposal will be opposed by U.S.-based multinational companies that both conduct high-taxed foreign operations and export products for the United States.

4. TIGHTEN THE SUBSTANTIAL UNDERSTATEMENT PENALTY

Revenues: $200 million over 6 years

Description: Currently, taxpayers may be penalized for erroneous, but non-negligent, return positions if the amount of the understatement is "substantial" and the taxpayer did not disclose the position in a statement with the return. "Substantial" is defined as 10 percent of the taxpayer's total current tax liability, but this can be a very large amount even for very large corporate taxpayers. This option would consider any deficiency greater than $10 million, even if it is less than 10 percent of the total liability, to be "substantial."

Arguments For: The ability to comfortably avoid any penalties on an aggressive position with substantial potential liabilities at risk has prompted many large corporations to take very aggressive positions with large amounts at stake -- in effect playing the audit lottery without any downside risk. This option would discourage such aggressive tax planning.

Arguments Against: Taxpayers with tax liabilities of at least $100 million -- the target of this option -- will argue that the penalty should continue to be measured as a percentage of total tax liability, even where very large amounts are involved.

5. **REPLACE SINGLE-FAMILY LOAN LIMITS WITH FREDDIE MAC LIMIT**

Revenue: $200 million over 6 years

Description: Currently, the Federal Housing Administration (FHA) is authorized to insure mortgages that are not more than 95 percent of the area median house price, subject to a $155,250 ceiling and a $73,000 floor. This option would replace these limits with the $207,000 Freddie Mac loan limit, allowing FHA to compete for business that the private market now services.

Arguments For: In most places, FHA insures mortgages that are below 95 percent of the area median house price. Raising the limit to the Freddie Mac level would increase homeownership opportunities for homebuyers who are now constrained by the FHA mortgage limits and often cannot meet the higher downpayment requirements for a conventional mortgage. A higher limit also would increase FHA's guaranteed loan volume and the amount of receipts generated from fees. This option could result in savings from a net increase in insured mortgage volume. Because the insurance fees now more than offset the estimated risk to the Federal Government of providing insurance, the program has a negative subsidy rate of 2.3 percent.

Arguments Against: Private mortgage insurers would strongly oppose this provision because it would take business away from the private insurers in favor of a public mortgage insurers.

6. **RELAX THE RESTRICTION ON FHA MULTIFAMILY PROPERTY DISPOSITION AND LOAN SALES**

Revenues: $80 million over 6 years

Description: FHA faces various restrictions when it tries to sell properties or mortgages. For example, states and localities have the right to veto property sales and arrange to buy the properties themselves. Also, with limited exceptions, subsidized housing projects must continue in their configuration. These restrictions complicate the disposition and sales process, delaying receipts and creating large holding costs ($400 per unit per month) while HUD owns properties.

Arguments For: Allowing FHA to relax selected restrictions creates a more flexible and expedited process (the savings estimate assumes that all sales are accelerated by one year). In all cases, HUD will protect the interests of currently assisted low-income tenants by continuing their assistance or providing portable vouchers. This provision was included in the 1996 VA/HUD 1996 Appropriations bill.

Arguments Against: The House and Senate versions of the 1997 VA/HUD Appropriations bill already include this proposal. Thus, if the Administration assumes these savings, Congress then would need to find another $80 million in savings in the VA/HUD bills. We are already concerned about the funding levels in these bills, and additional savings would make the problem worse.

7. CHARGE VENDORS FOR THE COST OF MAKING PAYMENTS BY PAPER CHECK

Revenues: $70 million over 6 years

Description: This option would require the Secretary of the Treasury to charge a fee to vendors for the continued receipt of payment by paper check.

Arguments For: The Federal Government makes over 40 million check payments to vendors a year. The Debt Collection Improvement Act of 1996 requires a mandatory phase-in of electronic payment for all federal payments by 1999, with the exception of tax refunds.

Arguments Against: Many small businesses now receive their payments from the Federal Government in the form of checks. This option would impose additional costs on them for using electronic transfers at a time when they are also absorbing the cost of transferring to other electronic transfer features. In addition, Treasury is probably not equipped to handle a large increase in the volume of electronic transfers.

8. ALLOW THE USE OF CREDIT CARDS TO PAY TAX DEBT

Revenues: $400 million over 6 years (Treasury and JTC both think the revenue estimate could be zero.)

Description: This option, which would require that Congress amend the Internal Revenue Code, would allow the payment of taxes by credit card. The Federal Government would receive a one-time acceleration of revenues as taxpayers pay their entire tax debt in the current fiscal year, rather than stretching it out over several years through an installment agreement. In addition, revenues also could increase as taxpayers who would otherwise be delinquent might pay with a credit card.

Arguments For: This option likely would reduce defaults, may improve compliance, and increase convenience for taxpayers. Some counties around the country have implemented this type of program and have a 30 percent usage rate. The IRS also would face fewer administrative burdens.

Arguments Against: Taxpayers may not want to carry a large tax liability, plus interest, on their credit cards and may find it more cost-effective to use installment agreements. Also, many taxpayers who use installment agreements may not have credit cards. In addition, some banks may not want to carry tax debt on credit cards. Nor is it clear who should pay the credit card fees.

9. CHARGE BUSINESS JETS FOR THE COSTS THEY IMPOSE ON THE FAA

Revenues: $1.1 billion over 6 years

Description: Corporate and business turbine aircraft (turbo jets and turbo props) have historically paid a 17.5 cent/gallon excise tax on non-commercial jet fuel. The receipts have covered only 25% of the fully-allocated costs of air traffic services that the FAA provides to these users. To fully recover the costs, this option would impose an additional charge of $300 per flight hour or $450 per flight, or an annual registration fee of $60,000 per aircraft.

Arguments For: Commercial airlines have historically covered the full costs of FAA services through the 10% tax on airline tickets. This option would normalize the treatment of commercial and private corporate turbine aircraft. These planes are extremely rare and extremely expensive, and the users surely could bear the added cost. Another option is to impose a smaller fee, providing partial user-fee financing for business aircraft.

Arguments Against: Critics will decry a $300 charge per flight hour for business jets as excessive, although it would be affordable in most cases. As a result, it will suppress flight hours by business jets and their patrons. The average cost of operating a business jet is about $1,000 per hour. Thus, a charge of $300 per hour represents a 30 percent increase in operating costs.

OTHER POTENTIAL OFFSETS

10. ELIMINATE SUBSIDIES FOR ETHANOL

a. Immediate repeal **$4.2 billion**

b. 3-year phaseout **$3.6 billion**

Description. Current law subsidies for ethanol would be repealed or phased out over a three-year period. Under current law, gasoline blended with ethanol (gasohol) qualifies for a partial excise tax exemption. Gasoline is generally taxed at a rate of 18.3 cents per gallon, but 10-percent gasohol is taxed at a rate of 12.9 cents per gallon. A proportionally reduced exemption applies to 7.7-percent gasohol and to 5.7-percent gasohol. Alternatively, a gasohol producer may claim a 54-cents-per-gallon credit for the ethanol used in gasohol production.

Pros. The subsidy results in economic inefficiency by encouraging the use of higher-cost gasohol rather than lower-cost gasoline and, when the use of oxygenates is required, by encouraging the use of higher-cost ethanol rather than lower-cost MTBE.

The tax subsidies for ethanol can be viewed as a special interest provision. About two-thirds of total ethanol production capacity is controlled by a single taxpayer, Archer-Daniels-Midland (ADM).

Not all environmentalist support this subsidy because of the high energy consumption involved in producing ethanol.

Cons. The proposal is inconsistent with the spirit of Treasury regulatory actions and legislative proposals. Treasury regulations have generally applied the rules relating to ethanol liberally (e.g., by permitting ETBE to qualify for subsidies). Similarly, ethanol would have been exempt from the Administration's proposed BTU tax.

The proposal will face intense opposition from ADM and Midwestern corn farmers and their Congressional representatives (including Senator Daschle).

Some ague that the ethanol subsidy increases national energy security by reducing the demand fc imported oil and U.S. dependence on foreign oil sources.

Ethanol is produced principally from corn. Thus, encouraging the use of ethanol as a fuel provides an additional market for U.S. farmers. Conversely, repealing the subsidy could result in higher Federal outlays for price support loans.

11. LIMIT AVAILABILITY OF TAX DEFERRAL THROUGH CONTROLLED FOREIGN CORPORATIONS

Revenues. $6 billion

Description. U.S. corporations are subject to current U.S. tax on their worldwide income, but the tax on the active business income earned by their controlled foreign corporations (CFCs) generally is deferred until the income is repatriated to the United States. (CFCs include all foreign corporations that are more than 50 percent owned by U.S. shareholders.) The proposal is to eliminate the deferral of U.S. tax on CFC income and to make other related changes in the tax code. The revenue gain from this proposal can be reduced to as little as $1 billion by providing tax relief (such as increased foreign tax credit utilization) that would be appropriate in the absence of deferral.

Pros. The proposal would improve the allocation of resources by reducing the possible tax incentive for investments by U.S. multinationals in low-tax countries. The proposal would simplify the tax code and reduce the amount of resources taxpayers spend on tax planning and compliance. The proposal would reduce the incentive for countries to act as tax havens to attract foreign investment. Under current law, deferral is effectively elective since it only applies when a foreign corporation is utilized (as opposed to a branch or a partnership). The proposal will eliminate this electivity.

Cons. This would be a major departure from our general method of taxing foreign income of multinational companies which would make our rules much tougher than those of our major competitors. The proposal would therefore reduce the competitiveness of some U.S. companies operating in low-tax countries. The proposal would encounter strong taxpayer resistance from the business community, including the high tech community. Such resistance has never been overcome by previous administrations.

Contrary to some claims, the proposal may fail to increase net U.S. exports and might, in some cases, hurt exports because many subsidiaries of U.S. multinationals purchase intermediate goods used in their overseas plants disproportionately from producers in the United States.

12. PERMIT ONLY 50% DEDUCTIBILITY OF TOBACCO ADVERTISING

Revenues. $2 billion

Description. Currently, all advertising, marketing and promotional expenses are deductible from taxable income. This proposal would limit to 50% the deduction for advertising of tobacco products.

Pros. Recognizing the substantial social costs attributable to tobacco usage, the elimination of the deductibility of costs that encourage consumption can be viewed as an appropriate penalty on those that encourage consumption.

Cons. Advertising and promotion costs are ordinary costs of doing business and should be deductible from taxable income just as any other cost of doing business.

It is bad precedent to use the income tax system in this manner to penalize industries that are deemed "socially undesirable." Other industries, such as the alcoholic beverage industry, may also oppose the proposal on the grounds that they may be the next to be viewed as socially undesirable.

Industries, such as publishing, that rely on the print advertising of tobacco companies may be adversely affected by this proposal and can be expected to express their displeasure..

13. REDUCE FSC BENEFITS

Revenues. $2.5 billion

Description. The foreign sales corporation (FSC) provisions provide an export tax benefit that effectively allows a U.S. exporter to exempt approximately 15 percent of its export sales income from U.S. tax. This proposal would reduce FSC benefits by 20 percent (to an exemption of approximately 12 percent).

Pros. This proposal would reduce an inefficient export tax benefit. Treasury studies have indicated that the cost of the FSC program is very high compared to the amount of additional exports created.

Cons. Companies that utilize the FSC program will claim that this will reduce U.S. exports with a corresponding decline in U.S. employment. The Administration has strenuously worked for the legislative extension of FSC benefits to exports of computer software with the right to reproduce abroad. This proposal would appear to weaken the Administration's commitment to, and undermine the policy rationale for, the earlier proposal. The Dole proposal also supports FSC benefits for software.

14. REQUIRE THE FEDERAL RESERVE TO TRANSFER ITS SURPLUS RESERVE ACCOUNT HOLDINGS TO THE TREASURY.

Revenues. $ 1.7 billion

Description. Currently, the Federal Reserve has a $3.5 billion surplus reserve that represents retained earnings of the Fed that have not been transferred to the Treasury as deposits of earnings.

Cons. The Fed argues it needs this "rainy day account" to insulate it from risk of loss in international currency and other monetary transactions.

Congress has directed CBO, in recent budget resolutions, not to score any savings from legislation that required transfer of these surplus earnings. In addition, the proposal would be viewed as a gimmick because additional Fed payments now would be offset by lower [illegible]

EDUCATION INITIATIVES
August 21, 1996

OVERVIEW:

An NEC/DPC working group involving HHS, Education, Corporation for National Service, OMB, and CEA developed several options to help ensure that all children are reading by the end of third grade and/or arrive at school ready to learn. The three main options include:

1. **Children Reading by 3rd Grade with Preschool and K-3 Emphasis:** Ensure that all children are reading by the end of 3rd grade through volunteer and AmeriCorps tutoring in grades K-3, guaranteeing 1 year of quality preschool for all children eligible for Head Start, and recognizing that parents have to be their children's first teachers.

2. **Children Reading by 3rd Grade *Without Preschool Emphasis*:** Child literacy campaign withou further expansion of Head Start and with only a rhetorical emphasis on parental involvement.

3. **Children Arrive at School Ready to Learn Preschool Proposal:** Ensure that all children arrive at school ready to learn by guaranteeing 1 year of Head Start for all eligible children by 2002, expanding the Early Head Start program, and helping parents be their children's first teachers.

All of the proposals could cost as much as $6 billion over 5 years (FY98-2002) to meet fully our universal goals. Yet at $3.75 billion they are still substantial, and they would still be major proposals at $2-$3 billion. The lower the cost, however, the more we will have to make clear that we need contributions from others to meet the universal goals we are setting.

I. CHILDREN READING BY 3RD GRADE -- WITH PRESCHOOL AND K-3 EMPHASIS
(costs $3.75 billion over 5 years)

Over 6 million K-3 students are currently behind in reading; 40% of 4th grade students in 1994 could not read at a basic level. This proposal to ensure that all children are literate by the end of third grad has three components:

1. **Literacy Campaign to Ensure That Every Child Is Reading by the End of Third Grade.** W would launch a major campaign to mobilize up to 1 million volunteers to provide extra reading help after school and during the summer for K-3 children behind in reading. *By 2002, we could have a tutor in approximately half of the 50,000 elementary schools, tutoring approximately 3 million children or nearly half the children needing extra help in reading.* The campaign would include:

   - **National Service Targeted To Reading:** Nearly three-quarters of AmeriCorps programs a already working in schools. We would designate about one-quarter of our annual budget f the Corporation for National Service, or $1 billion over 5 years, for participants to tutor, recruit, and coordinate volunteer tutors, and to organize community-based reading program Some of the additional college work-study slots in our budget could also be directed at literacy, and the Education Department's discretionary competitions could be refocused on [illegible] goal. No additional cost [illegible] already in our budget

- **Additional Grants To Hire Reading Specialists and Purchase Materials:** We would provide additional grants for states to give to school districts and communities to hire reading specialists and purchase reading materials. Communities would have to come up with the funds to keep schools open after hours or provide alternative facilities, although many communities are already doing this. Cost: $1.375 billion over 5 years.

- **Challenge the Nation on Child Literacy.** The President would challenge schools to improve their regular reading programs; parents to read with their children at least 30 minutes a day; software producers to make high-quality affordable reading games; and challenge communities, public libraries, businesses, civics clubs, seniors, and national groups to organize volunteer tutors. Provide limited funding to organizations. Cost: $70 million over 5 years.

- **Accountability.** Progress would be measured by 4th grade reading scores on the National Assessment of Education Progress (NAEP) with the target of all 4th graders reading at a basic level. Some additional funds would be used to provide annual NAEP reading data at the national and state level. Cost: $55 million.

2. **Guarantee One Year of Head Start to Every Eligible Child.** Head Start currently serves 750,000 children or 40% of eligible children. The President's budget would already expand Head Start to 1 million in 2002. With an additional $2 billion over 5 years, we could serve 1.2 million children and *guarantee one year of Head Start to every eligible and interested child* by 2002 (assumes 20% of eligible will not apply). About half would get a second year of Head Start as well. *The President's stated goal could be to make two years of preschool and two years of college as universal as 4 years of high school.* Cost: $2 billion over 5 years.

3. **Challenge and Help Parents Be Their Children's First Teachers.** The President would challenge every parent to be their children's first teacher and to read with them at least 30 minutes each day, and would challenge states to make voluntary support available to all parents to help them get their children ready for school. For states that accept, we would provide $250 million over 5 years in challenge grants. This would be described as a bipartisan proposal, supported by Hillary Clinton in Arkansas (HIPPY), Barbara Bush, and both Senators Ashcroft and Bond when they were governors of Missouri. Alternatively, the challenge grant could be dropped, retaining only the challenge to parents.

Pros:

- Present and future-looking. It reinforces our commitment to all children learning the basics -- a priority of the public's -- and that reading is the foundation on all learning, from science to technology (a child cannot "cruise the Internet" without knowing how to read).

- Starts early enough and follows through. Preschool component addresses criticism that one needs to start early, or tutoring addresses criticism that there is not enough follow-up of preschool.

- Visible Administration preschool initiative. While we have significantly increased funding for Head Start and WIC, we are not perceived as having a major preschool agenda, leaving this area open for others to claim.

- [illegible] there may not be great clarity on the effectiveness of tutoring, [illegible]

- Could reduce the number of children in special education, improve discipline problems in classrooms (which correlate with low academic achievement); and provide critical additional help for the 2.8 million limited English proficient students.

- Summer and after-school tutoring programs support other important goals: Tutoring provides additional and individualized learning time; helps schools stay open afternoons and weekends, and leverage community schools; addresses the lack of adequate day care, child care, and positive after-school experiences, and provides additional "safe havens;" and provides children with mentors and adult role models.

- Builds on the efforts of a number of states and cities (TX, CA, CO, GA, Boston, NYC) who already are focusing on early reading.

Cons:

- May not provide enough funding for any of the components to have a universal reach. The literacy campaign may reach less than half of the K-3 children behind in reading.

- Goal and focus of the initiative may be diluted. The focus on Head Start and supports for parent could dilute emphasis on universal literacy.

- Program focused on after-school and summer reading tutoring could raise questions about the efficacy of Title I and the overall school program. However, we have a strong record of actions to strengthen Title I and improve schools overall, and can make clear that no matter how good th school, there will always be a need for additional tutoring and parental involvement in reading.

- Reading campaign could further ignite the phonics vs. whole language debate. However, locals, not the federal government, would have control of all program decisions and good teachers generally use a range of reading strategies, including phonics and reading for comprehension.

- Effectiveness of tutoring by volunteers has not been very well documented.

- Tutoring programs are often difficult to run and sustain. They depend on volunteers who may lac training and only make short-term commitments. Mobilizing 1 million volunteers may also prove unrealistic. However, the initiative would fund paid reading specialists, full-time, paid tutor coordinators, and a strong focus on training to mitigate these problems.

- Volunteer programs always present some risk of child abuse problems. We would need strong screening and well trained tutor coordinators to deal with this.

- Parenting proposal could be demagogued as government and community intrusion into families, even though it would be voluntary. Although we could point to the support of Barbara Bush an Senators Bond and Ashcroft, we have learned from National Service and Goals 2000 that Republican support for a program does not always stop the criticism.

II. CHILDREN READING BY 3RD GRADE – *WITHOUT* PRESCHOOL EMPHASIS
(costs $3.75 billion over 5 years)

This option has the same goal as Option 1, but focuses only on grades K-3, without a significant preschool component.

- **Mobilize 1 million volunteer tutors to provide after-school and summer reading help for children in grades K-3 behind in reading.** This would expand the funding in the proposal above to reach more children behind in reading. *By 2002, we could have a tutor in approximately 40,000 of the 50,000 elementary schools, tutoring nearly 5 million children or over two-thirds of the children needing extra help in reading.*

    - **Target National Service for Literacy.** Cost: $1 billion already in our budget.

    - **Additional Grants To Hire Reading Specialists and Purchase Materials:** Cost: $3.25 billion over 5 years.

    - **Support Parental Involvement and Community Institutions to Help Young Children Read.** The would provide some limited additional support for family literacy programs, parent training centers, preschool programs, and for expanding library literacy programs. Cost: $375 million over 5 years.

    - **Challenge the Nation on Child Literacy.** Cost: $70 million.

    - **Accountability.** Test annually at state and national level. Cost: $55 million

Pros:

- Goal is straightforward, concrete and universal: to help all children read independently and well by the end of 3rd grade as measured by the NAEP. If a child can't read well by 3rd grade, chances for later success are significantly diminished.

- Greater focus on literacy increases reach and is more likely to meet our universal goal.

- Many of those in option one.

Cons:

- Starts too late. Without the preschool component, some will say this initiative waits until childre are too old and that research shows we need to start younger.

- Same as in option one.

III. CHILDREN ARRIVE AT SCHOOL READY TO LEARN PRESCHOOL PROPOSAL:
(costs $3.75 billion over 5 years)

While we have significantly increased funding for Head Start and WIC, we are not perceived as having a major preschool agenda, leaving this area open for others to claim. This proposal would help ensure that all children arrive at school ready to learn by expanding the availability of high-quality preschool, and by challenging and supporting parents. The President's stated goal would be *to make two years of college and two years of preschool* as universal as 12 years of school is today. This preschool proposal has three components:

1. **Guarantee At Least One Year of Head Start to Every Eligible and Interested Child.** Cost: $2 billion over 5 years.

2. **Quadruple the Number of 0-3 Year Olds Participating in Early Head Start.** Research indicates that the first few years of a child's life are critical to their future success. As a result, the 1994 reauthorization of Head Start set-aside a small percentage of Head Start funding for an Early Head Start program, providing family-centered and community-based services to poor families with children age 0-3. This proposal would quadruple the number of families served from 25,000 in FY96 to 100,000, funding an additional 1,000 early Head Start programs nationwide. Cost: $1 billion more over 5 years.

3. **Challenge and Help Parents Be Their Children's First Teachers.** The President would challenge every parent to be their children's first teacher and to read with them at least 30 minutes each day, and would challenge states to make voluntary support available to all parents to help them get their children ready for school. For states that accept, we would provide $750 million over 5 years in challenge grants. This would be described as a bipartisan proposal, supported by Hillary Clinton in Arkansas (HIPPY), Barbara Bush, and both Senators Ashcroft and Bond when they were governors of Missouri. Cost: $750 million over 5 years.

Pros:

- Visible Administration Preschool Initiative.
- Universal and Innovative. Provides a universal goal of providing everyone eligible and interested a year of Head Start, and is innovative because of its emphasis on 0-3 year olds and on parenting.
- Emphasizes Parents. Based on parenting programs with bipartisan support.

Con:

- Claim that Benefits Fade. People may point to some research showing that the benefits from Head Start fade after a few years without better follow-up.
- Claim That It Is Intrusive. Parenting proposal could be demagogued as government and community intrusion into families, even though it would be voluntary. Although we could point to the support of Barbara Bush and Senators Bond and Ashcroft, we know from National Service and Goals 2000 that Republican support for a program does not always stop the criticism.
- Early Head Start program would still be tiny, even after this $1 billion expansion, and research on its effectiveness has not yet been completed, although it was designed based on research.

JOB CREATION INITIATIVES

The working group has developed options on two major components of our proposal:

I. Targeted Wage Subsidy
II. Welfare-To-Work Challenge Fund

The basic notion would be that these two components would work together. We would establish a tax credit for businesses to hire the hardest to hire workers, and the President would challenge states, cities, counties, and the private sector to do their part to move people from welfare to work. In order to facilitate this transition, we would set up a challenge fund that would provide a targeted pay-for-performance program for states, cities, counties, the private sector and other representatives that will reward the movement of one million hard to employ welfare recipients to work. We get the added bonus that these proposals fit nicely into the President's Corporate Citizenship message.

TAX INITIATIVES:

WORK OPPORTUNITIES TAX CREDIT:

The Work Opportunities Tax Credit (WOTC) is the revamped (and renamed) Targeted Jobs Tax Credit. This new tax credit will enable employers to claim a 35 percent credit on the first $6,000 of first-year wages paid to a qualifying individual ($3,000 of first-year wages paid to summer youth employees). The credit is effective October 1, 1996 and expires after one year (September 30, 1997).

This revamped wage credit addresses previous criticisms of employer subsidies programs (including the Targeted Jobs Tax Credit) by requiring pre-certification of eligible workers, increasing the retention requirement and simplifying the administrative burden of identifying who is eligible for the credit.

Employers are required to pre-screen an individual on or before the day the individual is offered employment. Current qualifying individuals include: (1) members of families receiving assistance under a IV-A program for a period of at least 9 months, part of which is during the 9-month period ending on the hiring date; (2) qualified veterans; (3) qualified ex-felons; (4) 18-24 year olds who live in an Empowerment Zone or Enterprise Community; (5) vocational rehabilitation referrals; (6) qualified food stamp recipient who is 18 to 24 years old and a member of a family receiving food stamps for a period of at least six months ending on the hiring date; and (7) qualified summer youth employees. The employer can only receive the credit if the employee works at least 180 days (400 hours) or in the case of qualified summer youth employees, 20 days (120 hours).

The working group has developed a number of other options, but our main proposal consists of the following components:

- ***Super WOTC For Harder-To-Employ Welfare Recipients.*** Extend the WOTC for harder-to-employ welfare recipients for three years (through September 30, 2000).[1] We would also include the following sweeteners:
  - Increase the wage limit from $6,000 to $10,000;
  - Allow employer provided education assistance, health care, and dependent care to be treated as eligible for wages; alternatively, employers could get more of a credit if they provide education assistance, health care, or child care;
  - Increase the credit rate from 35 percent to 50 percent; and
  - Allow employers to claim the credit for two years, instead of one year.

- ***Expanded WOTC.*** Expand the qualified food stamp category of the WOTC to include adults 18 to 50 years old who lose food stamp benefits under the welfare bill because they do not satisfy the minimum work requirements just through September 30, 1997.

- ***CDFI Initiative.*** Provide a total amount of $100 million (or $200 million) in nonrefundable tax credits that would be made available to the CDFI fund to be allocated among equity investors in qualified CDFIs (see below).

REVENUE ESTIMATE: Treasury has not officially scored this option, but we expect it to cost approximately $1.1 billion between FY97 and FY2002 (including the CDFI initiative).

The working group's other options include countless combinations of expanding the Work Opportunities Tax Credit for everyone, expanding the WOTC for just welfare recipients, combinations of the two, and extending the WOTC for one or three additional years. Treasury has not yet scored these proposals, but some of the additional options would include:

Option A.

- Expand the qualified food stamp category to include adults 18 to 50 years old who lose food stamp benefits under the welfare bill because they do not satisfy the minimum work requirements. These people would receive the WOTC for up to three years.

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[1] The working group is still trying to define what are "harder-to-employ" welfare recipients. We have assumed that we would classify that harder-to-employer welfare recipients are (1) members of families that have received family assistance (AFDC or its successor program) for two consecutive years ending on the hiring date; (2) members of families that have received family assistance for a total of at least two years beginning on the date of enactment, provided that they are hired within two years of the date that the two-year total is reached; and (3) members of families who are no longer eligible for family assistance because of Federal or state time limits, provided that they are hired within two years of the date that they became ineligible for family assistance.

Option B.

- Extend the WOTC for an additional three years (through September 30, 2000) for certain long-term family assistance recipients. This option also includes the following modifications: increase the wage limit from $6,000 to $10,000; allow employer provided education assistance, health care, and dependent care to be treated as eligible for wages; increase the credit rate from 35 percent to 50 percent; and allow employers to claim the credit for two years, instead of one year.

Pros:

- Expanding the WOTC would provide additional incentives to businesses to hire workers and would improve employment (and training) opportunities for persons who need to move from welfare to work because they are no longer eligible for family assistance and food stamps.

- The WOTC is a significant improvement over the TJTC. One reason the take up rate of this type of wage subsidy are low is that the credit is relatively small. Since the main proposal from the working group is targeted to the hardest to employ welfare recipients, we could be providing a large enough incentive to business to utilize it to create job opportunities.

- Since tax credit accrues to businesses, we are providing incentives to create jobs in the private sector so we are not vulnerable to attacks that this is a "public works" program.

- Encourages employers to provide better jobs with higher wages, more training, and employer provided benefits to people most in need of these additional supports.

- Allowing employers to claim the credit for two years, instead of one, increases the incentive for businesses to retain these hardest-to-employ welfare recipients.

- Evidence suggests that one of the best ways to raise wages for welfare recipients is to provide wages subsidies along with on-the-job training. Our proposal to allow education assistance to be counted as wages -- coupled with the expanded WOTC -- should therefore yield significant returns to welfare recipients.

Cons:

- Some will argue that the WOTC will have the same pitfalls as the Targeted Jobs Tax Credit (TJTC) it replaces. That is, employers will be provided a large windfall since some of the members of the target groups would have been hired anyway absent the credit. While the WOTC makes a number of improvements over the TJTC, GAO and the Labor Department's Inspector General found that as many as 90 percent of the workers would have been hired anyway under TJTC. However, Harvard professor Larry Katz, the former Chief Economist at Labor, has found these studies to be flawed. He concludes that only 50 percent of the workers would have been hired anyway under the old program.

- We will not have any evidence on how the WOTC works, and therefore, we could draw criticism that we are expanding a tax credit that we don't know if it works.

- To some extent, we will be vulnerable to attacks that this proposal is a backdoor way of increasing spending on welfare recipients.

- This is not really a job creation initiative. It is more a "job shifting" initiative. Expanding the WOTC will help create jobs for welfare recipients and the other targeted groups, but it will not increase the rate of job growth for the economy as a whole.

CDFI Initiative

The Community Development Banking and Financial Institutions Act of 1994 created a federal CDFI fund to provide grants, loans, and technical assistance to qualifying lenders. After being reduced in 1995, the CDFI fund has $50 million in assistance to provide to various CDFI qualified institutions. Currently, CDFIs and their investors are not eligible for special tax incentives. By extending tax incentives to encourage investment in CDFIs, we could leverage additional private investment in distressed areas and help stimulate the economic revitalization of those areas.

There are two basic options with the CDFI proposal:

I. Provide a total amount of $100 million in nonrefundable tax credits that would be made available to the CDFI fund to be allocated among equity investors in qualified CDFIs; or
II. Provide a total amount of $200 million in nonrefundable tax credits.

Under the first option, the allocation of credits would be determined by the CDFI fund using a competitive process similar to the one used to allocate the $50 million in assistance. And under both options, the maximum amount of credit allocable to a particular investment would be 25 percent of the amount invested, though a lower percentage could be negotiated. The amount of the credit would be available when the contribution is made (e.g., a 25 percent credit would be claimed in the year the investment is made). The investor's tax basis in the equity interest would be reduced by the amount of the credit, which would increase any capital gain, or reduce capital loss, in the event the investor sells his/her interest in the CDFI. In addition, the credit would be subject to full recapture if the equity interest is sold or redeemed within 5 years.

REVENUE ESTIMATE: Treasury has not officially scored these options, but we expect their cost to be between $50 and $90 million for the $100 million capped credit, and between $50 and $180 million for the $200 million capped credit. For the first two cases, the loss is less than the amount of credits allocated by the CDFI fund because some of the credits are recaptured.

Pros:

- An effectively capped credit ensures that limited resources are targeted to assist those areas most in need with the best programs. The CDFI fund anticipates that they could allocate the credit to marginal investment. The $200 million option would provide less targeting than the $100 million option.

- Requiring another agency to allocate the tax credits lowers administrative costs for the IRS and is likely to limit fraudulent claims of the credit. With the uncapped credit, the CDFI fund would still be involved in certifying that a particular CDFI qualifies, but the IRS administrative costs and fraudulent claims are likely to be higher than with a capped credit.

- Increasing the equity incentives will help spur investments in venture capital funds that will then invest in new enterprises which choose to locate in poor communities

- Investors in such enterprise funds will get a 25% credit on every dollar invested up-front -- with all of the upside of every other competing venture capital fund.

- The uncapped credit has the additional benefit that the CDFI fund is less involved in allocating tax incentives.

Cons:

- This proposal does not assist <u>non-profit CDFIs</u> or those that do not issue stock, such as mutual organizations.

- Congress limited the amount of grants, loans, and technical assistance offered by the CDFI fund in 1995 and is unlikely to approve of a tax expenditure to fund this program.

WELFARE-TO-WORK CHALLENGE INITIATIVE

The working group believes that a tax credit on its own would not be enough to increase job opportunities and placements for the hardest to employ, but that in combination with a welfare to work spending program, could well result in reaching the goal of one million jobs for hard-to-place welfare recipients. As a group, we set out to develop a plan that would complement the tax credit, as well as the efforts of States with their block grant and child care funds, and require States, cities, community organizations, and employers -- working together -- to come up with strategies to create opportunities for the hardest to employ.

Overview of the Welfare-to-Work Challenge

The President would launch a $3 billion Welfare-To-Work (WTW) Challenge to place one million harder-to-employ welfare recipients in jobs by the year 2000. The Challenge would ultimately provide $3,000 per job, with substantial funding at the beginning of each program year, but full funding available only for successful job placements.

I. ACCOUNTABILITY: To ensure jobs for the hardest to employ, the WTW Challenge will operate unlike all previous Federal jobs programs: it will only provide full funding upon a showing of successful placements of the target population into jobs lasting at least 9 months. As much as 25 percent of a State's allocation would be provided only after successful performance has been documented. The bulk of funds would be available up-front to finance the necessary activities. States or areas that do not qualify for all or part of the amount held back, would lose those funds to other areas with which can produce jobs for the target population.

- ***Issue to be decided:*** How should the "pay-for-performance" aspect work? (A) The accountability could come from the 25% payment that would be withheld subject to performance on job placement, or, a more stringent approach would actually be to allow deductions from the next years payments if the state failed to even place enough jobs to justify the 75% upfront payment.

II. FLOW OF FUNDS: Welfare reform places responsibility in the States, but the impact will be felt locally. Most believe that the funds available to States, even with the additional child care and bonus funds we succeeded in having added, will not be sufficient to meet the employment needs of the hardest to place. Thus, we envision a formula allocation to States, with automatic pass through to sub-state areas. The factor used for formula distribution could be the distribution of the welfare population, but that might have the perverse effect of "rewarding" States that spend more on welfare or do the least to help welfare recipients find jobs. Employment-to-population ratio is another option but data may not be available for local areas. Finally, we could use poverty (which has distributional results similar to employment-to-population) as the factor for distributing funds to States and within States.

If we rely on the poverty criteria, each State's share of the $3 billion would be the same as its share of the poverty population. Each local area's share of the State's allocation would be based on its percentage of the State poverty population. Funds would therefore always be used where there were the highest concentrations of the target population.

III. TARGETING: Because many welfare recipients would find jobs relatively easily without new Federal assistance, and because we expect States to establish employment programs for the average recipient, it is important this new $3 billion commitment be closely focused on those least likely to succeed in the usual system. WTW therefore would require funds to be used for the hardest to place population within targeted geographic areas. Geographic targeting would be based on factors such as high poverty and concentration of individuals on welfare. Individual targeting would be based on residency in a targeted area, plus factors such as length of stay on welfare.

- *Issue to be decided:* Two forms of individual targeting have been discussed: (A) targeting to those with longer stays on welfare, which gets at the population most likely to be most difficult to place, and most in need of assistance. (B) targeting on residents of high poverty areas, which gets at people for whom the job may prevent welfare dependency, or cut short lengthy welfare stays, as well as those already on welfare for long periods. Most people in the working group believe the heart of this initiative should be geared toward the most hard-to-employ welfare recipients, yet some would allow a small set-aside for other residents of high poverty areas -- such as 10-20%.

IV. PROGRAM PLANNING AND MANAGEMENT -- ROLE OF CITIES AND OTHERS: We believe it is essential to have close collaboration among the State, local governments, community organizations, and the private sector. The flow of funds and targeting requirements will ensure that WTW money must be spent in the areas and on the people most in need. The planning and management structure will ensure that communities plan together, and that in at least the largest cities, the mayors manage the funds.

- *For the largest cities (e.g., the largest 100 as in recent education initiatives, or 200 as the EZ/EC experience indicates might capture more concentrations of poverty):* The mayor would organize the local community (private sector and other employers, labor representatives, community-based organizations, for-profit and non-profit placement organizations, etc.) and, with representatives from the State, determine the plan that would result in at least the allocated number of job placements. The plan would be devised locally. To ensure the integration with the State block grant and child care resources, the Governor would have to sign off on the plan, but no funds would be available unless the mayor had approved the plan. The mayor would be accountable for managing the funds and for performance.

- *For other local areas:* The State would have the option of granting comparable authority to other jurisdictions within the State, or organizing the planning and managing the resources through a State entity. Even under State management, the required flow of funds and targeting would determine the geographic areas from which the population to benefit from the WTW resources would be drawn.

V. MATCHING; COMBINING WITH OTHER RESOURCES: WTW's $3 billion is based an average Federal cost of $3,000 per successful job placement, but some jobs will cost more than that to generate, and some less. States and localities can use the WTW funds they receive in any proportion per job, but most expect that additional resources will also be needed to meet jobs targets. Local plans will have to specify how State block grant and child care funds will be brought to bear in the process. Private sector commitments will also be sought, as will the participation of local organizations. Cities and other local government may also contribute funding. WTW would not specify how much State and other funding is required; that will be determined by the plan.

WTW and related funds will have greater ability to place people in private sector jobs by virtue of our proposed enhanced Work Opportunities Tax Credit for the longer term welfare recipients. As WTW is implemented, placements should increase in late FY 1998 and in FY 1999 because of the benefit to employers of the WOTC.

- *Issue to be decided:* The working group is divided on whether there should be a specific, mandated match from the State block grant or other funds. While it may not be reasonable to expect the target of one million jobs to reached only by use of the $3 billion, plus whatever additional incentive arises from the tax credit, a mandated match will not be well received by States or cities. One alternative to is to require a match unless the plan can convincingly demonstrate that it is not necessary. A second option would require the use of State block grant funds, but not specify an amount. A third option would be a fixed proportion, for example one State or local dollar for every three Federal dollars. Some may argue that requiring a specific match from the overall block grant could draw scarce funds from children and basic payments.

VI. USES OF THE WTW CHALLENGE FUNDS: We have learned over the many years of welfare jobs programs and research that there is no one sure program design that will work in every part of the country to get hard-to-place welfare recipients into jobs without displacing other workers. It is therefore essential to permit maximum flexibility to localities and States in program design. Our key feature is the withholding of a significant portion of funds until there is a showing of successful placement. Precisely how that placement is achieved is a local concern. However, we do envision four broad types of activity:

- *Creating jobs through cleaning up and rebuilding communities.* Creation of new jobs through environmental clean up, such as under Brownfields proposals, and resulting economic development; EZ/EC type focused incentives for new job creation in high poverty areas; housing rehabilitation. Housing redevelopment programs such as Youth Build could also be a part of local community plans in this type of activity.

  - *Issue to be decided:* Should there be criteria to ensure that WTW is not seen as subsidizing "make work"? Some believe that the only option for at least a part of the hardest-to-employ population will be temporary jobs (i.e., lasting at least the 9 months required for WTW) in the public or private sector. Such jobs raise the specter of the old CETA public service jobs program of ill repute. It may be possible to specify a broad criterion such as, "The plan shall indicate that most job placements will be in positions that are expected to continue after the 9 month retention period."

- *Jobs in expanded child care.* We know there are not enough community-based child care centers and other sources of affordable child care. WTW funds could help create more child care and more child care jobs for welfare recipients.

- *Proven job creation/job placement models.* There are a variety of program designs which various localities have used successfully to place highly disadvantaged people. These include:

  -- The Center for Employment and Training (CET) model. Private non-profit organizations run work preparation programs of highly structured basic education, skill training and work experience leading to job placement in the private sector.

  -- America Works, Manpower, Inc, Kelly and similar organizations, including One-stop Centers which DOL is funding. Private for-profit (or non-profit) employment agencies to place the target population.

  -- Riverside GAIN Program. Broad-based welfare-to-work model that emphasizes rapid entry into the workforce through job development and job placement assistance.

  -- Organizations, such as Youth Build, that train disadvantaged young people in construction trades while rehabilitating or building new housing.

  -- Activities such as SBA has developed, under, for example, its Microloan Demonstration program.

- *Other strategies.* We would give localities free rein to devise whatever program plan they choose, as long as the plan makes clear that the result will be jobs, whether in the private, non-profit, or public sector, and, as with the activities in a-c above, that full funding will only become available when the placement has been made and the job retained.

VII. EVALUATION: At the end of the program period, the Challenge Fund will be evaluated, so that the President and the Congress can determine whether it should be renewed.