

THE WHITE HOUSE
WASHINGTON

September 27, 1994

MEMORANDUM TO BRUCE REED
GENE SPERLING

FROM: DANA HYDE
Cabinet Affairs

CC: BILLY WEBSTER
JOHN EMERSON

SUBJECT: Defense Awards in California

Billy Webster suggested I bring to your attention two items the President may want to highlight when (and if) he visits California next month.

First, the Administration's success in improving and sustaining the C-17 Program. The C-17 program represents a total of 33,000 jobs across the nation -- 18,000 of which are located in California. The Long Beach facility has 10,000 workers dedicated to the program. The attached memorandum outlines our efforts to save the program. The President may want to consider a visit to the McDonnell-Douglas plant in Long Beach.

Second, a visit to San Diego announcing the Navy's plans to exercise a \$438 million option contract to National Steel and Shipbuilding Company (NASSCO). Award of the contract guarantees long-term job security through the year 2000 for NASSCO's 3,400 employees and helps sustain growth in the San Diego region. The project is important to both Sen. Feinstein and Rep. Lynn Schenk. Background information on the project is also attached.

Please contact me if you need further information on either of these proposals. I am in contact with the folks at DoD who are waiting to hear of our interest. Thank you.



DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330-1000

September 8, 1994

OFFICE OF THE UNDER SECRETARY

MEMORANDUM FOR CHRISTINE VARNEY, BOB BELL, AND JOHN EMERSON

Via: Margaret Sullivan
From: Rudy de Leon
Re: Status of C-17 Program in California
Opportunity to Visit Production Line

The recently completed House/Senate Conference on the Fiscal 95 Defense Authorization included a major victory on the C-17 program. The conference funded six aircraft in '95, long-lead for eight aircraft in '96, and approved the settlement of various contractual claims between the government and McDonnell-Douglas.

The C-17 program represents a total of 33,000 jobs across the nation; with 18,000 of those jobs in California. The Long Beach facility has 10,000 workers dedicated to the program.

While the C-17 program had a troubled history prior to January 1993, the Administration has since taken strong corrective action. Already progress can be seen. The fourteenth production aircraft was recently delivered -- ahead of schedule. Additionally, cost improvement initiatives are beginning to take hold and an aggressive program is in place to bring C-17 unit costs down over the next two years.

It should be pointed out that these changes -- these positive changes -- in the C-17 program were not accomplished without considerable effort on the part of the Clinton Administration. Those actions have included:

A comprehensive six month internal review by the Department of Defense. Building on the work of a Defense Science Board task force that he chartered, Dr. John Deutch revitalized a program on the verge of cancellation by injecting a series of strong corrective actions to reduce costs, improve contractor performance, and resolve hundreds of millions of dollars of contractor financial claims that threatened to bury the C-17 program in litigation.

A strong bi-partisan vote in the House of Representatives. In May, a coalition lead by Representatives Jane Harman and Steve Horn reversed a crippling cut in the program proposed by Armed Services Committee staffers. The President was a big part of this effort. Just before the critical vote, he sent a letter to all House members expressing the need for the program and the determination of the Air Force to restore the program to firm ground. The effort paid off. On May 24th, the House voted 330 to 100 to reverse the committee action.

In the Senate, Ted Kennedy secured Senate Armed Services Committee support for the C-17 program and approval of the settlement agreement. He then organized the California, Connecticut, and Missouri Senators to oppose a Grassley amendment to strike the settlement agreement from the bill. The Senate vote to defeat the amendment was 68 to 33.

While much work remains before the next program review in November 1995, the Administration should appropriately take credit for the hard work in putting the C-17 program back on track and gaining Congressional support.

In August, I visited the McDonnell-Douglas plant in Long Beach. The purpose of the visit was to thank Representatives Harman and Horn for their hard work on behalf of the Air Force and the C-17 program. I also used the opportunity to read to the hundreds of assembled workers the President's May letter on behalf of the program.

The McDonnell-Douglas workers are appropriately supportive and grateful for the effort on their behalf. I know they would also welcome an opportunity to thank the President, should his schedule permit during one of his trips to California. Please let me know if there is any additional information or follow-up that can be provided. The senior leadership of the Department of Defense and Air Force are ready to support any visit.



SPECIAL ASSISTANT

OFFICE OF THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000



September 26, 1994

MEMORANDUM FOR THE CABINET SECRETARY

FROM: Margie Sullivan

SUBJECT: POTUS Scheduling Proposal

PURPOSE:

A Presidential visit to San Diego, CA announcing a \$436 million shipbuilding contract to National Steel and Shipbuilding Company (NASSCO) would heighten the President's visibility in California's business and military communities. The contract guarantees long-term job security through the year 2000 for NASSCO's 3,400 employees and helps sustain economic growth in the San Diego region. In addition, an appearance with the President would be helpful in both Congresswoman Schenk's and Senator Feinstein's reelection efforts.

BACKGROUND:

NASSCO was awarded a \$1.7 billion contract on September 15, 1993 for construction of one new sealift ship and the option to build five additional ships. (Note: the President announced this award last year.) By December 1994, the Navy will exercise the option of awarding \$436 million to NASSCO for two of the five remaining strategic sealift ships. Navy plans to exercise the option as soon as it has completed a design review and has funds available.

DATE & TIME:

An event announcing the contract can be arranged as soon as FY '95 appropriated funds are available—anticipated in late October.

LOCATION:

San Diego, California

PARTICIPANTS:

Congresswoman Schenk, Senator Feinstein, NASSCO's chief executives, San Diego business and community leaders.



OUTLINE OF EVENTS: TBD

REMARKS REQUIRED: POTUS would be asked to deliver introductory remarks congratulating NASSCO on their engineering design development.

MEDIA COVERAGE: The President's participation in a contract announcement of this size would generate substantial local media coverage and may warrant some national coverage.

RECOMMENDED BY: Margie Sullivan, (703) 693-0586
Nora Slatkin, Asst Secretary of the Navy for Research,
Development and Acquisition, (703) 695-8315

THE WHITE HOUSE
WASHINGTON

January 28, 1994

Ernest J. Oppenheimer, Ph.D.
40 Central Park South, 9D
New York, New York 10019

Dear Dr. Oppenheimer:

Thank you for your letter of December 11 offering your ideas concerning defense spending.

I appreciate your taking the time to write. We welcome your ideas.

Sincerely,

Bruce Reed

Deputy Assistant to the President
for Domestic Policy

ERNEST J. OPPENHEIMER, PH. D.

December 11, 1993

Mr. Bruce Reed
Domestic Policy Council
The White House
Washington, DC 20500

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Dear Mr. Reed:

I read with interest yesterday's Wall Street Journal story "Centrist Reed and Liberal Sperling Represent the Contradictory Blend of Clinton Ideology." I would like to share with you and with Mr. Sperling an approach to defense spending that may make sense to both of you.

I have dealt with budget issues for many years and have published a number of works on this topic (see attached flyer). I am currently working on a book entitled Budget Therapy, which presents the thesis that the government's budget policies are afflicted with a considerable degree of irrationality. In the book I make use of therapeutic procedures to get to the essence of problems and to develop solutions.

Our excessive contribution to the defense of the Free World is a blatant example of irrational behavior. This policy has enriched foreigners at the expense of the American people on a massive scale. In addition to causing huge budget deficits, this policy has played a major role in undermining U.S. competitiveness in the international marketplace, resulting in enormous foreign trade imbalances and the loss of quality jobs and productive assets to foreign control. The transformation of the U.S. from the world's leading creditor to its biggest debtor is a direct outgrowth of this self-destructive approach, which is a legacy of the irresponsible policies implemented by the Reagan and Bush administrations. President Clinton ought to take decisive steps to extricate the nation from this predicament. The enclosed article "Sharing Free World Defense Costs" elaborates on the problem and suggests a solution.

My background combines academic training in the social sciences with practical experience in finance and investment banking. I received the doctor of philosophy degree in international relations from the University of Chicago.

Please feel free to call on me if I can be of service to you and Mr. Sperling on this matter. I am writing a similar letter to Mr. Sperling.

Sincerely,

Ernest J. Oppenheimer

BALANCING THE FEDERAL BUDGET

The Cure for U.S. Wealth Dissipation

Ernest J. Oppenheimer, Ph.D.

ISBN 0-9603982-6-0.

Cloth cover

List price \$20.00

Published in 1991

In about forty thousand words, the author challenges prevailing budget theories and practices. Chronic deficit spending has led to massive wealth dissipation which costs far more than the growth it is supposed to promote. The author has rediscovered the validity of classical economic thinking which holds that governments should live within their means. Specific recommendations for balancing the federal budget are presented.

Choice (October 1991) considers this book "suitable for general readers and as supplementary material in introductory courses on U.S. politics." Booklist (February 1, 1991) recommends the book "for libraries building comprehensive collections devoted to public policy." David M. Jones, a leading business economist, comments "It is the simple elegance of classical economic analysis as applied to the budget problem that distinguishes this book."

The substance of Dr. Oppenheimer's budget proposals received positive comments from Alice M. Rivlin, former Director, Congressional Budget Office, who wrote "I agree with your basic thesis and many of your specific suggestions" (letter dated November 11, 1991). Similarly, Robert D. Reischauer, the current head of that institution, noted "Your concerns are well placed and your policy prescriptions deserve serious attention" (letter dated December 26, 1991).

TABLE OF CONTENTS

Foreword

Preface

Part I. The Problem: Budget Deficits and Wealth Dissipation

1. Introduction

An Overview of Wealth Dissipation
Budget Misconceptions

2. The High Cost of Deficit Spending

Interview with Democrat*
Interview with Republican*

3. History's Biggest Wealth Dissipator

Reagan's Wrong Assumptions

4. Wealth Dissipation Benefits Foreigners at U.S. Expense

Part II. The Solution: Balancing the Budget and Wealth Accumulation.

5. Let's Cut Defense Spending by \$100 Billion a Year

6. Let's Raise the Gasoline Tax by \$1 a Gallon

7. Options for Coping with Wealth Dissipation

An Open Letter to President Bush

About the Author

Index

* Subsequent chapters also contain such interviews

Related Publications by Dr. Oppenheimer

THE FEDERAL BUDGET FIASCO (paper cover booklet, 1991, list price \$3.50. This six thousand word booklet summarizes the author's main ideas and brings the budget story up-to-date. Most of the text is in the form of questions and answers. This booklet is well suited as an introduction to the budget problem.

GASOLINE TAX ADVANTAGES (ISBN 0-9603982-5-2, paperback book, 1987, list price \$10.00. This 86 page book describes the benefits from a substantial gasoline tax increase. In addition to reducing budget deficits, such action would strengthen energy security and improve the environment. Booklist (July 1987) called this work "an intriguing volume."

For additional information, please contact Pen & Podium, Inc., 40 Central Park South, New York, N.Y. 10019. Tel (212) 759-8454

NATURAL GAS, THE BEST ENERGY CHOICE

Ernest J. Oppenheimer, Ph.D.

ISBN 0-9603982-7-9.

Cloth cover

List price \$22.50

Published in 1990

In about 50,000 words, this book presents comprehensive information on natural gas resource, technologies and applications. It is suitable as a reference source as well as for study programs on energy and environmental topics. About 17,000 copies have been purchased.

The Library Journal (May 1, 1990) recommended the book for academic and large public libraries. Choice (July-August 1990) called the book "a useful primer." Stephen D. Ban, Ph.D., President, Gas Research Institute, stated "This book does a highly effective job of communication on a technically complicated subject. The average reader should have no problem understanding the text." Professor Turgay Ertekin, Head, Petroleum and Natural Gas Engineering, Penn State University, wrote "The book provides an effective comprehensive overview on utilization of natural gas and fills a gap not covered by other books."

TABLE OF CONTENTS

Forewords

Preface

Sources

Summary

Chapter

1. The Favorable Outlook

Part I. Methane Gas Resources and Supply

2. The Origins of Methane

3. Methane Gas Energy Forever!

4. The Large Conventional Gas Resource Base

5. Tight Formations Contain Large Treasures of Methane

6. One Thousand Years of Methane from Solid Fossil Fuels

7. Methane, a Renewable Resource

8. Pipelines and Storage

9. Gas Imports from Canada

10. A Long-Term Perspective on Gas Supply

Part II. Gas Markets and Technologies

11. Expanding Markets for Gas

12. Gas Heats Best

13. Heating Water with Gas Achieves Great Savings

14. Gas Cooling Benefits Consumers and Industry

15. Cogeneration, a Growing Market for Gas

16. The Choice Fuel for Efficient Electricity Generation

17. Promising Prospects for Gas in Commercial Markets

18. Energy-Efficient Industry, a Good Gas Market

19. The Cleanest and Safest Fuel for Vehicles

Part III. Gas Advantages

20. Environmental Benefits

21. A More Secure Energy Future

22. Gas Price Trends Favor Increased Demand and Supply

23. Gas and Electricity

24. Economic Advantages of Gas Over Oil

25. International Gas Boom

26. Trends Favoring Natural Gas

27. Gas Ranks First

About the Author and Books by Ernest J. Oppenheimer

Some Gas Statistics

Information Sources and Energy Measurements

Index

About the Author:

Dr. Oppenheimer has devoted his professional career since 1970 to independent studies on public policy issues. He has published the following books:

Balancing the Federal Budget

Natural Gas; The Best Energy Choice

Gasoline Tax Advantages

Solving the U.S. Energy Problem

Natural Gas, the New Energy Leader

A Realistic Approach to U.S. Energy Independence

The Inflation Swindle

His background combines academic training in the social sciences with practical experience in investment banking. He received the doctor of philosophy from the University of Chicago.

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SHARING FREE WORLD DEFENSE COSTS

Ernest J. Oppenheimer, Ph.D.

The author's book Budget Therapy, a work-in-progress, was used in the preparation of this article.

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40 Central Park South
New York, NY 10019
Telephone: (212) 759-8454

During the Reagan-Bush era (1981-1992) the U.S. spent about \$3 trillion on defense, or \$12,000 for every American. In the same period, our allies in Europe and Japan contributed less than \$6,000 and \$2,000 per capita respectively to their own security and that of the Free World. If one multiplies the 200 million West Europeans allied with the U.S. by the \$6,000 per capita lower defense spending, their aggregate financial advantage totaled \$1.2 trillion. Similarly, the 120 million Japanese gained \$1.2 trillion in benefits by keeping their per capita defense spending \$10,000 below the U.S. level.

These discrepancies in defense spending had a profoundly negative impact on the competitive position of the private sector U.S. economy in the international marketplace. The money our allies saved from defense spending had characteristics similar to free financing. They were able to use these funds to build up their industrial facilities and to develop better products with which to penetrate world markets. They perfected their automobiles, computers and electronic products while the U.S. devoted major resources to creating the world's best missiles, nuclear weapons and warships. These realities were major causes of U.S. foreign trade deficits, which have aggregated about \$1 trillion over the past twelve years and are continuing at an annual rate in excess of \$100 billion. The loss of millions of U.S. manufacturing jobs was closely linked to our lopsided contribution to Free World security costs.

Defense spending is damaging to a nation's economic well-being and wealth. Weapons are costly to build and generate a stream of expenses throughout their period of use. For example, a warship may cost \$1 billion to construct and may involve annual operating expenditures of \$100 million. Assuming a life of twenty years for the ship, the total cost

to the nation would be \$3 billion. The nation's wealth would be reduced by that amount. In contrast, any successful commercial investment would add to the nation's financial resources by generating a stream of income that would repay the original cost and produce profits. Since 1981 the U.S. has victimized itself with a \$3 trillion wealth-devouring defense spending spree while its allies in Europe and Japan devoted most of their energies to wealth creation.

The Reagan administration increased defense spending from \$134 billion in 1981 to more than \$300 billion annually soon thereafter. Simultaneously, it implemented history's biggest tax cuts in 1981. As a result, about half the \$3 trillion defense expenditures during the Reagan-Bush era were left unfunded and became part of the federal debt. Unfunded defense spending exceeding \$100 billion annually has become part of the government's structural budget deficit, which has continued during the Clinton presidency. To meet its borrowing requirements, the government has relied heavily on foreign sources.

The combination of chronic foreign trade imbalances and heavy reliance on foreigners for financing federal budget deficits has caused the U.S. to become the world's largest debtor. This development constituted a throwback to the nineteenth century, when the U.S. borrowed heavily to build up its economy. In contrast, the recent borrowings from foreigners were largely due to the excessive contribution by the U.S. to the defense of the Free World. Rather than negotiating a fair sharing of such costs with affluent allies, our government dissipated the wealth of the American people and undermined their most vital interests. This irrational policy has exploited the American people for the benefit of foreigners. The time is long overdue to put an end to this self-destructive behavior.

To place this matter into historical perspective, during and immediately after the Second World War the U.S. was the only major country with an intact industrial base and the financial resources to restore the devastated economies of Europe and Japan. Under these conditions, it was appropriate for the U.S. to safeguard the security of its allies largely at the expense of its own taxpayers. However, with the economic and financial revival of these nations this policy has become increasingly damaging to vital U.S. interests. The beneficiaries of our largess have become major competitors in the international marketplace. It is inappropriate to provide a subsidized defense umbrella to affluent allies who ought to contribute their fair share to the costs involved in providing for their own security and that of the Free World.

The end of the threat from the Soviet Union has created a unique opportunity for a fundamental reappraisal of the U.S. defense posture. The greatest challenge today is no longer from military adversaries but from economic competitors. To paraphrase Karl von Clausewitz, global competition for markets and wealth is war by other means. The U.S. has been losing this war. Its excessive contribution to the defense of the Free World endangers its national interest. A fair sharing of Free World security costs with affluent allies is an essential precondition for restoring soundness to the government's financial affairs and to the long-term revitalization of the U.S. economy.

The Clinton administration has proposed cutting defense spending to about \$250 billion annually by 1997, when it would constitute an estimated four percent of the U.S. gross domestic product (GDP). In the meantime, Japan intends to continue limiting defense spending to about one percent of its GDP. West European governments, which spent an average

of 2.5 percent of GDP on defense during the Cold War era, are making drastic cuts to move in the direction of the Japanese model. On the basis of these data, the financial advantages of our affluent allies as a result of their lower defense spending would continue at an annual rate of about \$200 billion.

If the U.S. were concerned solely with its own security on the North American continent, it could probably cut defense spending to a yearly rate of \$100 billion. The additional \$200 billion the U.S. has been spending annually on defense in recent years may be largely attributed to the task of providing Free World security on a global basis. These expenditures should be shared with affluent allies in an equitable manner. The U.S. might continue to contribute half of this amount, while its allies pay the other half. This arrangement would mean that the allies would reimburse the U.S. at an annual rate of about \$100 billion for its defense services. As a result, the contribution of the U.S. and its affluent allies would become more equitable in terms of their financial resources in relation to GDP.

This approach would build upon the procedure that was used by the Bush administration to share the costs of the conflict with Iraq. All the beneficiaries from the U.S. military action contributed to covering the expenses. The main purpose of a powerful military force is to deter aggression from happening in the first place. Therefore, annual contributions by affluent allies to maintain a strong U.S. defense establishment for its global role would be appropriate.

The estimated \$100 billion a year the U.S. would receive from affluent allies for its defense services should be applied to reduce budget deficits. Such action would greatly improve the government's financial position and debt management. It would also create a more level playing field for private sector U.S. companies, who would no longer need to

compete with foreign enterprises enjoying financial advantages from their governments' low contributions to Free World security costs. The U.S. foreign trade deficits would largely disappear. The loss of quality jobs and productive U.S. assets to foreigners would stop. The federal government's dependence on foreigners to help finance its deficits would be eliminated. The U.S. would once again become a net provider of capital to the rest of the world. Wealth creation would replace wealth dissipation. Last but not least, U.S. taxpayers would no longer be saddled with an unfair burden that has enriched foreigners at the expense of the American people.

In view of the paramount importance of this issue, the Clinton administration should give top priority to negotiating a fair sharing of Free World security costs with affluent allies.

About the Author. Dr. Oppenheimer has spent the past twenty years doing independent research on public policy issues and has published seven books. His latest work, Budget Therapy, which is being considered for publication, was used in the preparation of this article. His background combines academic training in the social sciences with practical experience in the investment business. He received the doctor of philosophy degree in international relations from the University of Chicago.

DEFENSE REINVESTMENT AND CONVERSION

MARCH 11, 1993

Today, President Clinton announced a major Defense Reinvestment and Conversion Initiative that will go into effect immediately. In a sweeping policy shift, the Clinton Administration will distribute \$1.4 billion that Congress appropriated last year for defense conversion, which the Bush Administration had opposed and declined to spend. In addition, the Clinton Administration has redirected funds and proposed other FY93 spending totaling \$300 million. By 1997, the investments for defense conversion would almost triple to over \$5.2 billion, with a total of nearly \$20 billion invested in FY93-97. These investments will promote economic growth while preserving a strong military and defense industrial base.

In today's announcement, the President described in detail the \$1.7 billion in specific programs that will be implemented in 1993. The immediate conversion package includes four major areas of new investment:

- 1. WORKER TRAINING AND ADJUSTMENT**
- 2. INVESTING IN HARD-HIT COMMUNITIES**
- 3. DUAL-USE TECHNOLOGY AND COMMERCIAL-MILITARY INTEGRATION**
- 4. CONVERSION OPPORTUNITIES IN NEW CIVILIAN TECHNOLOGY INVESTMENT**

A National Economic Council interagency working group on defense reinvestment and conversion will issue a white paper in early April.

BRIEF SUMMARIES

1993 DEFENSE REINVESTMENT AND CONVERSION INITIATIVE:

1. MILITARY AND CIVILIAN WORKER TRAINING AND ADJUSTMENT: Now that we have won the Cold War and are readjusting our defense posture, we cannot leave the talented individuals who are responsible for that victory out in the cold. To achieve the economic strength that will ensure our national security in the new era, we must refocus the talents, energy and dedication of the men and women involved in national defense on creating economic growth and serving their communities. That is why the President's Defense Reinvestment and Conversion Initiative will dedicate over \$375 million in FY93 alone to transition assistance, employment services and job training. Some defense funds will be transferred to the Labor Department and other agencies to carry out these programs. During FY93-97, the President's defense conversion plan will allocate nearly \$4 billion for worker adjustment. FY93 funding includes:

- o \$150 million for government- and employer-sponsored training programs for displaced defense workers
- o \$112 million for transition initiatives for members of the guard and reserve and severance pay and health benefits for separating civilians

- o Early retirement benefits for military personnel with 15 or more years of service; retirement credit for service in law enforcement, teaching and other critical professions
- o Pilot programs to train separating military personnel and defense workers to enter critical jobs in teaching, law enforcement and health care

In addition:

- o The Department of Energy is redirecting \$25 million for employee retraining and assistance programs.

2. INVESTING IN HARD-HIT COMMUNITIES: There is a compelling need for actions that will speed and ease the transition of workers, communities and firms that are being hard hit by cuts in defense spending. Scores of defense-dependent communities are undergoing distress, as their workers lose jobs and their businesses contract. The recession and high unemployment have aggravated all of these problems. For communities that lose a military base, environmental clean-up is a major obstacle to base reuse. The 1993 package helps hard-hit communities by providing:

- o \$30 million to substantially expand DoD's Office of Economic Adjustment so that every community with a military base scheduled for closure will have the tools and expertise to plan and adjust and create new economic opportunities
- o \$80 million for revolving-loan programs and grants through the Commerce Department to target the communities that will be most hard-hit by declines in the industries affected by the defense contraction
- o \$84 million for Defense Department programs that allow retired military and reserve personnel to address unmet needs in the nation's schools and communities

In addition:

- o DoD will streamline environmental clean-up to speed local economic recovery; a new DoD deputy undersecretary for the environment is being created to make this happen.
- o The Administration will explore the potential for using unneeded military facilities for community health and other programs.

3. DUAL-USE TECHNOLOGY AND COMMERCIAL-MILITARY INTEGRATION: For too long, our nation has denied itself the benefits to economic growth and technological advancement that could result from integrating the pursuit of defense and civilian goals. But we can no longer separate national security from economic security; in a post-Cold War world, they are one and the same. We must restructure the military-industrial complex so that commercial firms play the dominant role, since they now produce much state-of-the-art

technology. That is why the Defense Advanced Research Projects Agency (DARPA) was renamed the Advanced Research Projects Agency (ARPA) -- as the agency was known before 1972. This change symbolizes the Clinton Administration's commitment to supporting dual-use technology and integrating the commercial and military sectors.

- o ARPA is now ready to accept proposals for over \$500 million in technology and industrial base programs. These funds will support industry-led R&D consortia in critical dual-use technologies and pioneering state/local efforts to commercialize and deploy technology. All programs require matching funds and merit-based selection. (For information, call: 1-800-DUAL-USE.)
- o ARPA and four other agencies (Commerce, NSF, Energy and NASA) are cooperating to jointly implement these programs through the Technology Reinvestment Project. The agencies will hold a series of regional outreach meetings in early April to brief potential applicants and answer questions. These programs, some of which were mentioned in our technology initiative, include:
 - o \$255 million for government-industry partnerships to develop advanced materials, manufacturing and other dual-use technologies
 - o \$100 million for "regional technology alliances" among firms to share information and develop new products and markets
 - o \$100 million for state and local manufacturing extension programs to assist small defense firms in making the transition to commercial production
 - o \$100 million for other programs to help small defense firms acquire dual-use capabilities

In addition:

- o ARPA has \$200+ million for industry research to develop electronics and materials technologies with both commercial and military application.
- o DoD is redirecting \$85 million of Small Business Innovation Research (SBIR) funds to companies that are developing dual-use technology in such areas as electronics, materials, and instrumentation.
- o To encourage large defense firms to pursue dual-use and commercial applications, DoD is enlarging the scope of independent research and development (IR&D) reimbursed under defense contracts. This should result in the redirection of some share of IR&D activities, which total several billion dollars annually.

4. CONVERSION OPPORTUNITIES IN NEW CIVILIAN TECHNOLOGY

INVESTMENTS: Technology is the engine of economic growth. By investing more in new civilian technologies, we can create exciting new opportunities for defense workers and firms, enhance U.S. competitiveness, and tackle unmet domestic needs. That is why the Clinton Administration has redirected funds and proposed other FY93 spending totaling \$300 million.

Proposed spending in the President's stimulus package includes:

- o an additional \$94 million for Department of Energy R&D partnerships with industry
- o \$117 million for the Advanced Technology Program and other activities of the Commerce Department's National Institute of Standards and Technology
- o \$64 million for pilot projects to demonstrate the benefits of computer networking to schools and libraries

10-Mar-93

Defense Reinvestment and Economic Growth Initiatives

Budget Authority (\$ in millions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1993-7</u>
<u>Assistance for Defense Workers, Personnel and Communities</u>						
Department of Defense Personnel Assistance and Community Support	597	697	697 1/	697 1/	697 1/	3,385
Department of Energy Personnel Assistance	25	100				125
Department of Labor Displaced Worker Training	2/	300 3/	400 3/	400 3/	400 3/	1,500
Department of Commerce Community Diversification Assistance (EDA)	15 4/	33	55	55	55	213
Total: Worker and Personnel Assistance Programs	637	1,130	1,152	1,152	1,152	5,223
<u>Department of Defense Dual-Use Technology Reinvestment</u>	845 5/	964 5/	964 1/	964 1/	964 1/	4,701
<u>New Federal High Technology Investments (Conversion Opportunities) 6/</u>	185	1,206	2,329	2,758	3,175	9,851
Grand total: Programs that will assist Defense workers, personnel, communities and firms	1,667	3,300	4,445	4,874	5,291	19,575

1/ This is the 1994 level. Specific estimates for 1995, 1996, and 1997 will not be available until the DOD completes its comprehensive review of Defense programs this year.

2/ \$75 million will be transferred in 1993 from the Department of Defense.

3/ This is the portion of overall investment increase that could be expected to be used to retrain displaced defense workers.

4/ In addition, \$80 million will be transferred in 1993 from the Department of Defense.

5/ This excludes impact of broadened scope of allowable (R&D) reimbursement.

6/ This includes investment programs that provide direct conversion opportunities (e.g., Department of Energy/industry R&D partnerships and NASA civil aviation research) and 50% of programs that provide some conversion opportunities (e.g., Department of Commerce programs for information highways, manufacturing and advanced and advanced technology.) Not included are increases for Enterprise zones, Community Development Banks, National Science Foundation, highway programs, and the R&D tax credit that will provide opportunities for defense firms and workers, and help develop infrastructure useful for community economic diversification.

10-Mar-93

Defense Reinvestment and Economic Growth Initiatives

Details of 1993 Programs
Budget Authority (\$ in millions)

Assistance for Defense Workers, Personnel, and Communities

Department of Defense Personnel Assistance and Community Support

Temporary early retirement	10
Temporary health transition assistance	11
Guard and reserve transition initiatives	40
Separation pay and civilian health benefits	72
Troops to teachers/healthcare/law enforcement personnel	6
DOD Environmental scholarships and grants	1/
Job training and employment services (Department of Labor)	75 2/
Job bank program	4
Military personnel occupational conversion & training	75
Transition Assistance/Relocation Assistance Programs 3/	60
Office of Economic Adjustment	30
Philadelphia Naval Shipyard Economic Conversion (1-time)	50
Community diversification (Department of Commerce)	80 4/
Retired military and reserve support of community programs 5/	84
Subtotal: Department of Defense	597

Department of Energy Personnel Assistance

25

Department of Commerce Community Diversification Assistance (EDA)

15 6/

Total: Community Adjustment and Assistance Programs
--

637

1/ Program in development.

2/ These funds will be transferred to the Department of Labor.

3/ Although this is a continuing program, it is shown here because it is an important element of the Department's transition program.

4/ These funds will be transferred to the Department of Commerce.

5/ This includes high school training programs and Civilian Community Corps/National and Service programs.

6/ In addition to this funding, the Department of Commerce will have \$80 million transferred from the Department of Defense.

10-Mar-93

Defense Reinvestment and Economic Growth Initiatives

Details of 1993 Programs
Budget Authority (\$ in millions)

Department of Defense Dual-Use Technology Reinvestment	845 2/
<u>Reinvestment initiatives</u>	<u>327</u>
Dual Use Technology Partnerships	95
Commercial-Military Integration Partnerships	48
Regional Technology Alliances	95
Agile Manufacturing/Enterprise Integration	29
Advanced Materials Partnerships	29
Advanced Manufacturing Technology Partnerships	23
Manufacturing Engineering Education Program	29
US Japan Management Training	9
Less baseline programs included above	(30)
<u>Manufacturing/Technology Extension 1/</u>	<u>190</u>
<u>Electronics and Materials Initiatives</u>	<u>243</u>
High definition systems	92
Optoelectronics	23
Metal matrix and ceramics	9
Diamond substrates	9
Multi chip modules/high temperature superconductivity	14
Multi chip modules	25
Advanced lithography	71
<u>SBIR refocused to dual use</u>	<u>85</u>
<u>New Federal High-Technology Investments (Conversion Opportunities)</u>	
<u>Direct conversion opportunities for defense firms and workers</u>	
Department of Energy	<u>94</u>
Government/Industry R&D partnerships, civil	47
Government/Industry R&D partnerships, defense	47
<u>Some conversion opportunities for defense firms and workers</u>	
Department of Commerce	<u>181</u>
National Institute of Science and Technology (NIST)	117
Information highways	64
Assume 50% of this category provides conversion opportunities	91
Total: New Federal high-technology investments (conversion opportunities)	185
Grand total: Programs to assist defense workers, personnel, communities, and firms.	1,667

1/ Program to be managed by DOC (NIST) with active DOD participation; FY 1993 funds support program over two year period.

2/ Excludes impact of broadened scope of allowable IR&D reimbursement.

**DEFENSE REINVESTMENT AND CONVERSION INITIATIVE
DOD PROGRAM SUMMARIES**

Personnel Assistance Programs

Early Military Retirement

This initiative would offer retirement benefits to military personnel with 15 or more years of service. Previously, DoD offered retirement benefits after 20 years of service. The goal of the new incentives is to encourage voluntary retirements of military personnel with greater than 15 but less than 20 years of service, and thereby minimize lay-offs. This program is targeted at military personnel who are not covered by other retirement or separation incentives, such as the Voluntary Separation Incentive/Special Separation Bonus, which are aimed at personnel with between 6 and 15 years of service.

Health Transition Assistance

This program is aimed at providing transitional health insurance to separating military personnel from the time they leave the armed services until the time they obtain health insurance through their civilian employer.

Guard and Reserve Transition Initiatives

These initiatives are designed to ease the transition for members of the guard and reserve who are released as a result of the defense cutbacks. The initiatives include, among other things, new retirement incentives, separation pay, and priority placement in open positions in guard and reserve units.

Separation Pay and Civilian Health Benefits

This initiative would offer retirement and resignation incentives to DoD civilian personnel. The goal of this initiative is to encourage voluntary retirements and resignations among the civilian workforce, thereby minimizing layoffs. The incentives would be equal to \$25,000 or the amount of severance pay to which an individual would be entitled, whichever is less. This initiative also offers transitional health insurance to separating civilians.

Troops to Teachers/Health Care/Law Enforcement Personnel

This initiative would establish three pilot programs to train separating military personnel, DoD and DoE civilian employees, and private sector defense workers to enter three public service professions for which many are particularly well suited: teaching, health care, and law enforcement. These programs use as a starting point the "Troops to Teachers"

legislation passed for fiscal year 1993.

DoD Environment Scholarship Program

The FY93 defense conversion package called for scholarships, fellowships, and training administered by DoD for the purpose of enabling individuals to qualify for employment in the field of environmental restoration and waste management in DoD. Program details are being developed.

Grants to Colleges for Training in Environmental Restoration

The FY93 legislation authorizes DoD to establish a program to assist institutions of higher education to provide education and training in environmental restoration and hazardous waste management techniques applicable to DoD and DoE facilities. Program details are being developed.

Job Training and Employment Services

This initiative will establish a \$75 million program to provide job training to separating military personnel, DoD civilians, and private sector defense workers. The program will be carried out by the Department of Labor.

Job Bank Program

DoD will expand access to the Interstate Job Bank, a Department of Labor-administered list of job openings. In addition, DoD will improve integration of existing databases of jobs and resumes to improve job search services for separating military and civilian personnel.

Military Personnel Occupational Conversion and Training

This \$75 million program will provide employer-sponsored, DoD-approved job training for veterans. Employers who participate in the program would agree to hire individuals following on-the-job training. DoD will work closely with the Departments of Veterans Affairs and Labor in implementing this initiative.

Transition Assistance/Relocation Assistance Program

Each of the armed services offer transition assistance programs for their separating personnel. These programs provide services such as pre-separation counseling, employment assistance, and a variety of other services and benefits.

Community Adjustment and Assistance Programs

Office of Economic Adjustment

DoD will increase substantially the activities of its Office of Economic Adjustment (OEA). OEA is responsible for leading DoD's efforts to work with communities severely affected by reductions in defense spending. In particular, OEA will assist each community affected by a base closing develop a plan for economic conversion and revitalization. OEA works closely with other federal, state, and local government organizations to bring the full range of assistance programs to bear on affected communities. OEA grants will help communities develop adjustment plans and states develop assistance and diversification programs.

Philadelphia Naval Shipyard Economic Conversion

The 1993 Appropriation Act stated that \$50 million may be available for conversion projects in Philadelphia. DoD is ready to work with Philadelphia to develop effective defense conversion programs using these funds. If the entire sum is not required for these programs, DoD proposes to use the remaining funds to run defense transition demonstration projects.

Community Diversification

DoD will dedicate \$80 million to pay for adjustment programs for defense-dependent communities to be carried out by the Economic Development Administration (EDA) of the Department of Commerce. The charter for EDA's Title IX program allows it to provide funds to pay for a variety of services in communities experiencing economic dislocation. EDA grants and revolving loan funds can be used to support business development, technical assistance, public works, or almost any other activity that addresses economic adjustment problems that have been identified in each community's economic adjustment plan. DoD will execute a memorandum of agreement with EDA to transfer the \$80 million. EDA will speed up the application process and provide priority attention to applications for these funds, and to reduce sharply its processing time for such applications.

Retired Military and Reserve Support of Community and Educational Programs

The Department of Defense will expand its support of a variety of programs that allow retiring and reserve personnel to address unmet needs in the nation's schools and communities. In particular, programs that foster youth development -- such as the National Guard Civilian Youth Opportunity Pilot Program and Junior ROTC Career Academies For At-Risk Youth -- can put to good use the mentoring skills of retiring defense personnel.

Defense Reinvestment Technology Programs

Dual-Use Critical Technology Partnerships

This program will support partnerships aimed at developing technologies that have both military and commercial applications. Industry will take the lead in submitting proposals, and may include federal laboratories, universities, and other entities.

Commercial-Military Integration Partnerships

This program will support partnerships aimed at developing and maturing dual-use technologies with clear commercial viability. Industry again takes the lead in submitting proposals, with other research institutions involved as industry deems appropriate.

Agile Manufacturing/Enterprise Integration Program

This program is designed to capitalize on the emerging shift from mass production to flexible or "agile" manufacturing. Agile manufacturing allows independently-owned companies to form instantaneous partnerships with firms that have complementary capabilities in order to exploit market opportunities. These partnerships -- called "virtual enterprises" or "virtual corporations" -- will leverage our nation's strengths in information technology. Agile manufacturing capabilities are required in both the commercial and military sectors and are key to reconstituting military capabilities in any future national emergency. Industry will take the lead in submitting proposals in partnership with universities and other appropriate institutions.

Advanced Materials Synthesis and Processing Partnerships

This program will support partnerships aimed at improving industry's ability to take new materials from the laboratory to commercial production. Industry takes the lead in submitting proposals with other institutions involved as appropriate.

Advanced Manufacturing Technology Partnerships

This program will fund partnerships aimed at developing new manufacturing technologies with dual-use applications with particular emphasis on significantly reducing health, safety, and environmental hazards associated with existing manufacturing processes. Industry will take the lead in submitting proposals with other institutions involved as appropriate.

Manufacturing Engineering Education Grant Program

This program will support manufacturing engineering education programs at colleges, universities and other institutions of higher education, on a matching basis. Educational institutions will submit proposals in partnership with industry and other institutions as appropriate.

Manufacturing Experts in the Classroom Program

This program will support teaching, curriculum development and other activities of manufacturing experts with practical experience at institutions of higher education. Educational institutions will submit proposals in partnership with industry or labor organizations and other institutions as appropriate.

US Japan Management Training Program

This program provides training for US scientists, engineers, and managers in Japanese technology management, language, and culture, and provides research opportunities in Japan to: 1) increase understanding of Japanese industry and technology management methods, 2) provide US scientists, engineers, managers, and students an understanding of Japanese business and social culture, and 3) provide opportunities for direct involvement in research, engineering and management activities.

Manufacturing/Technology Extension Programs

Manufacturing Extension Program: this program will assist small manufacturing (with up to 500 employees) in upgrading their capabilities to serve commercial and defense needs. Modelled after the agricultural extension program, this program will fund on a matching basis the efforts of state and local governments to deliver services to small manufacturers. State and local governments will submit proposals under this program in partnership with other institutions as appropriate. —

Dual-Use Extension Assistance Program: this program will assist businesses economically dependent on Department of Defense expenditures to acquire dual-use capabilities through a variety of mechanisms. The program will involve state and local governments, the private sector, nonprofit organizations and other federal agencies.

Electronics and Materials Initiatives

These initiatives support industry research to develop dual-use technologies in: higher definition systems, optoelectronics, metal matrix and ceramics, multichip modules, multichip integration, advanced lithography, diamond substrates, multichip modules/high temperature superconductivity, battery technology, and composite materials manufacturing.

For information on the above programs, call 1-800-DUAL-USE.

New Civilian Technology Investments

R&D partnerships between industry and the National Labs: This initiative provides \$235 million in FY93 to encourage partnerships between industry and the Department of Energy's defense and civilian labs. These labs are home to more than 59,000 scientists, engineers and technicians who perform over \$6.6 billion worth of R&D each year. With the end of the Cold War, the mission of the National Labs should expand to include partnering with industry in areas such as renewable energy, microelectronics and photonics, environmentally-conscious manufacturing, and high-performance computing. Using Cooperative Research and Development Agreements (CRADAs) and other mechanisms, the labs can increase the share of their resources devoted to industry-driven, cost-shared partnerships.

Advanced Technology Program: The Commerce Department's Advanced Technology Program, managed by the National Institute of Standards and Technology, provides matching grants for industry-led R&D projects, which are proposed by single companies or joint ventures. The Advanced Technology Program has provided funding for projects in machine tools, advanced automotive manufacturing, recycling of plastics, and flat panel display manufacturing. ATP can help defense contractors make the transition to the civilian sector. One defense contractor commented that "I've got a better perspective of the way commercial businesses operate than I did prior to our collaboration with... [joint ventures partners]... on the ATP."

Information Superhighways: Although the private sector will take the lead in deploying an advanced communications network, government can act as a catalyst by helping non-profit institutions such as schools link up to national networks. With the right investments, students will be able to tap into on-line electronic libraries, conduct scientific experiments using equipment anywhere in the country, and collaborate with other students on a wide variety of learning projects. In FY93, the National Telecommunications and Information Administration will have \$64 million to promote networking pilot projects.