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January 21, 1993

Memorandum to: Ms. Matthews

Re: National Economic Council

I attach a revised draft of the NEC charter. The one remaining issue to be resolved is to ensure that Ron Brown is satisfied with the Charter language concerning trade matters. Mickey Kantor has indicated that he will contact Ron Brown and Bob to resolve this issue tonight or tomorrow morning.

Please let me know if I might be of any additional assistance.

Best regards.

David L. Caplan
(212) 450-4156

National Economic Council

The President shall establish and chair a National Economic Council, and appoint an Assistant to the President for Economic Policy to direct the Council's activities. The NEC will consist of the President, the Vice President, the Secretary of the Treasury, the Secretary of State, the Director of the Office of Management and Budget, the Chair of the Council of Economic Advisers, the Secretary of Energy, the Secretary of Labor, the Secretary of Commerce, the Secretary of Housing and Urban Development, the Secretary of Health and Human Services, the Secretary of Transportation, the Secretary of Agriculture, the Secretary of Education, the United States Trade Representative, the Assistant to the President for Domestic Policy, the Assistant to the President for National Security Affairs, the Assistant to the President for Economic Policy and such other persons as the President may designate. Other department and agency heads will participate on appropriate issues. The President will chair the Council. In his absence, the Assistant to the President for Economic Policy will preside.

On many issues, the Council will function through established or ad hoc subcommittees, task forces or interagency groups, which will be chaired by the President, the Assistant to the President for Economic Policy or a Council member designated by the President (or by appropriate designees of the foregoing persons).

The Secretary of the Treasury will continue to be the government's senior economic official and the President's chief economic spokesman. The Director of the Office of Management and Budget will continue to be the government's senior budget official.

Responsibilities of the Council

The Council will have responsibility for coordinating advice to the President on overall economic strategy, including both domestic and international economic policies.

The Council will assist the President in setting goals and objectives for economic policy, ensuring that individual programs or policies fit within the overall economic strategy, and monitoring efforts to carry out and implement the President's economic agenda. The Council will coordinate the establishment of interagency subcommittees, task forces or groups to address a variety of economic policy matters, including broad public policy issues affecting the economy (e.g., trade and export policy,

defense-conversion policy, infrastructure policy and research and commercial technology policy).

The Council's responsibilities will include coordinating advice to the President and coordinating policy decisions on the development of all aspects of the domestic economic recovery program, including job development strategy, inflation and deficit reduction strategy, investment programs, tax policy and industrial competitiveness strategies. They should also include such international economic issues as trade, international monetary and financial policy.

The Council's functions will not include the following: operating and administrative responsibilities; the development and implementation of regulations (although the Council may from time to time initiate regulatory proposals); and follow-up on second level legislative initiatives not having a significant effect on the President's economic agenda. In addition, the Council of Economic Advisors will continue its traditional function of providing independent economic advice and analysis to the President. The establishment of the NEC will not affect the authority conferred by law on any department or agency of the government.

The fundamental responsibility for development of policy initiatives and implementation of policy once the President has set the course will rest with the departments and agencies (e.g., Treasury on tax matters, OMB on budget matters and the USTR with respect to the coordination and development of trade policies), with the Council providing coordination as needed. This means, in particular, monitoring progress on decisions already made and taking steps to ensure that Presidential decisions are followed throughout the executive branch.

The President will instruct all departments and agencies to cooperate with the Council, including providing information and assistance as required and participating fully in the Council's activities.

Assistant to the President for Economic Policy

The Council's activities will be coordinated by the Assistant to the President for Economic Policy, who will have rank and responsibility on a par with the Assistant to the President for National Security and the Assistant to the President for Domestic Policy. The Assistant will assemble policy recommendations from relevant departments and agencies, ensure that the President is presented all views on policy issues and draft decision memoranda for the President. The Assistant should be a

coordinator and honest broker framing policy options fairly for the President.

In each area of economic policy, the Assistant to the President for Economic Policy is expected to perform the following functions:

1. To preside over Council meetings in the absence of the President;
2. To assemble recommendations and information from appropriate departments;
3. To direct the activities of the Council, including subcommittees, task forces and interagency groups;
4. To prepare agendas for Council meetings;
5. To draft decision memoranda for the President;
6. To participate with OMB in the review of significant regulations affecting overall economic strategy, with the CEA fulfilling its traditional role in this regard;
7. To participate with OMB in the review of legislative proposals and enacted bills which have a significant impact on the President's economic agenda, with the CEA fulfilling its traditional role in this regard;
8. To provide independent, objective evaluations of policy options;
9. To provide to the President, as requested, the Assistant's own views of the policies under discussion, free of the particular orientation of individual departments or agencies; and
10. To assist the President in reaching out and consulting with public and private sector groups, domestic and international, on economic issues and the President's economic agenda.

Operation of the Council

On the President's overall economic strategy, the NEC's functions will be performed by the full Council. On individual issues, these functions will either be performed by the full Council or by working subcommittees, task forces or interagency groups. The Council will coordinate efforts to develop policies and to implement the President's decisions on economic strategy.

On individual policy projects, the Council will generally function by responding to proposals from or soliciting proposals from the appropriate department or agency, for example, Treasury on tax matters. The Council staff will review the proposal, circulate it to other appropriate agencies for comment, and convene ad hoc groups or meetings of certain Council members to discuss the proposal before preparing a decision memorandum for the President. Decision memoranda will be circulated to appropriate departments for comment prior to submission to the President, and will in all cases fairly transmit the recommendations and issues of the department with an interest in the project.

The Council should generally have a regular weekly meeting. Outside experts may be invited to participate on particular agenda items. In formulating a recommendation to the President, or when a decision needs to be made, the relevant members with an interest in the matter will meet either in person or by telephone to deal with the matter.

The Council's staff should be adequate to fulfill its mission. It should include persons with a background in federal budget, capital markets, international economic policy, tax and fiscal policies, trade, and economic regulation. Staff members should combine substantive and analytic ability with communication skills and political sensitivity. Technical macroeconomic and microeconomic analysis will continue to be provided by the CEA.

In addition, the staff should have the ability to draw on and work together with other White House staff, including congressional relations, legal counsel, and communications.

In addition, the Council's staff should monitor implementation sufficiently to assure that the President's agenda is achieved.

Relationship with the President

To emphasize both the reality and the perception of the significance of economic issues on the President's agenda, the regular morning intelligence briefing schedule should include, whether as a single session with both the Assistant for Economic Policy and the Assistant for National Security or as a separate session with the Assistant for Economic Policy, a briefing on economic developments. The order or length of the briefing can vary, depending on the specific issues occupying the President's attention and developments around the world at the time. The Assistant for Economic Policy should receive full access to intelligence briefings on economic matters from Treasury,

Commerce, State and the CIA and have full access to foreign cables on economic issues.

To make the new process work effectively, the Assistant to the President for Economic Policy should generally participate or be represented in meetings the President has with members of the Cabinet or agency heads on economic issues; and proposals or initiatives from the departments and agencies on economic matters should be directed to the President through the Council.

Similarly, to make the new process work effectively, White House staff preparation for and participation in meetings with foreign leaders on economic issues should generally include the Assistant for Economic Policy as well as the Assistant for National Security, with the relative responsibility depending on the agenda for a particular meeting.

The Assistant and his staff should generally have access to activities of the Domestic Policy Council and the National Security Council on a regular basis, with liaison procedures established to ensure consultation and information flow on matters affecting overall economic strategy. The Assistant to the President for Economic Policy should have responsibility for coordinating preparation for Presidential briefings on economic policy; and, along with the Assistant to the President for Communication, the Assistant for Economic Policy should have responsibility for coordinating preparation of Presidential statements relating to economic policy.

Relationship with other Assistants to the President

The Assistant will have to establish effective working relationships with other senior White House staff, including particularly the Chief of Staff, the Assistant to the President for National Security and the Assistant to the President for Domestic Policy. There will inevitably be overlapping jurisdiction and uncertain boundaries among the three principal policy Assistants. At the boundaries, jurisdiction should be worked out on a practical basis, depending on such factors as the particular interest of the Assistant, the capacity and qualifications of his staff, and the departments most directly involved in the issue. Subject to these guidelines, the three policy Assistants should attempt to agree on the allocation of jurisdiction and procedures for working together, subject to review and resolution of any differences by the Chief of Staff. Certain principles, however, should be established in advance:

- The strategic decision to include a particular initiative in the President's economic agenda, and its scope and cost -- for example, the amount of infrastructure spending or training and education investment or the budgetary impact of health care reform -- should be within the purview of the National Economic Council, while the content, follow up and specific design of the initiative would fall under the Domestic Policy Council.

- International economic policies which bear on economic prosperity and global economic coordination will be the responsibility of the National Economic Council. As a result, White House preparation for international meetings on economic policy such as an economic summit of industrial nations or economic agenda items for other bilateral or multilateral meetings will be coordinated jointly by the National Economic Council and the National Security Council. The role of the departments on international meetings will remain with State and Treasury, as appropriate to the agenda.

Administration of William J. Clinton, 1993 / Jan. 25

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**Executive Order 12835—
Establishment of the National
Economic Council**
January 25, 1993

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

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

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

- (a) President, who shall serve as Chairman of the Council;
- (b) Vice President;
- (c) Secretary of State;
- (d) Secretary of the Treasury;
- (e) Secretary of Agriculture;
- (f) Secretary of Commerce;
- (g) Secretary of Labor;
- (h) Secretary of Housing and Urban Development;
- (i) Secretary of Transportation;
- (j) Secretary of Energy;
- (k) Administrator of the Environmental Protection Agency;
- (l) Chair of the Council of Economic Advisers;
- (m) Director of the Office of Management and Budget;
- (n) United States Trade Representative;
- (o) Assistant to the President for Economic Policy;
- (p) Assistant to the President for Domestic Policy;
- (q) National Security Adviser;
- (r) Assistant to the President for Science and Technology Policy; and
- (s) Such other officials of executive departments and agencies as the President may, from time to time, designate.

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

absence the Vice President, and in his absence the Assistant, will preside.

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

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

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

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

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

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

(c) All executive departments and agencies shall cooperate with the Council and provide such assistance, information, and advice to

the Council as the Council may request, to
the extent permitted by law.

William J. Clinton

The White House,
January 25, 1993.

[Filed with the Office of the Federal Register,
2:07 p.m., January 25, 1993]

NOTE: This Executive order was published in the
Federal Register on January 27.

THE WHITE HOUSE

WASHINGTON

March 24, 1993

PRESIDENTIAL DECISION DIRECTIVE/NEC-2

TO: THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
THE ADMINISTRATOR OF THE ENVIRONMENTAL PROTECTION
AGENCY
THE CHAIR OF THE COUNCIL OF ECONOMIC ADVISORS
THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND
BUDGET
THE UNITED STATES TRADE REPRESENTATIVE
THE ASSISTANT TO THE PRESIDENT FOR ECONOMIC POLICY
THE ASSISTANT TO THE PRESIDENT FOR DOMESTIC POLICY
THE NATIONAL SECURITY ADVISER
THE ASSISTANT TO THE PRESIDENT FOR SCIENCE AND
TECHNOLOGY POLICY

SUBJECT: Organization of the National Economic Council

To assist me in carrying out my responsibilities in the area of the national economy, I hereby direct that the National Economic Council system be organized as follows.

A. The National Economic Council (NEC)

The National Economic Council will be the principal forum for consideration of economic policy issues requiring Presidential determination. The responsibility, functions, and membership of the NEC shall be as set forth in Executive Order 12835 and this Presidential Decision Directive. The NEC shall (1) advise and assist me in integrating all aspects of national economic policy -- macro-economics, micro-economics, domestic, international and sectoral (in conjunction with the National Security Council); (2) develop and manage the economic policy-making processes with respect to domestic and international economic issues; (3) coordinate economic policy advice to the

President; (4) ensure that economic policy decisions and programs are consistent with the President's stated goals, and ensure that those goals are being effectively pursued; and (5) monitor implementation of the President's economic policy agenda. The Assistant to the President for Economic Policy may take such actions as may be necessary or appropriate to implement these responsibilities. As provided in Executive Order 12835, (1) the Council may function through established or ad hoc committees, task forces or interagency groups. (2) The Council shall have a staff to be headed by the Assistant to the President for Economic Policy. The Council shall have such a staff and other assistance as may be necessary to carry out the provisions of this order. (3) All executive departments and agencies shall cooperate with the Council and provide such assistance, information, and advice to the Council as the Council may request, to the extent permitted by law. Along with its subordinate committees, the NEC shall be my principal means for coordinating Executive departments and agencies in the development and implementation of national security policy.

The NEC shall have as its members the President, the Vice President, the Secretary of State, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Secretary of Housing and Urban Development, the Secretary of Transportation, the Secretary of Energy, the Administrator of the Environmental Protection Agency, the Chair of the Council of Economic Advisors, the Director of the Office of Management and Budget, the United State Trade Representative, the Assistant to the President for Economic Policy, the Assistant to the President for Domestic Policy, the National Security Adviser, and the Assistant to the President for Science and Technology Policy. The heads of other Executive departments and agencies and other senior officials shall be invited to attend meetings of the NEC where appropriate.

The NEC shall meet as required. The Assistant to the President for Economic Policy, at my direction and, when appropriate, in consultation with the Secretary of the Treasury, the Director of OMB, and the Assistant to the President for National Security Affairs, shall be responsible for determining the agenda and ensuring that the necessary papers are prepared. Other members of the NEC may propose items for inclusion on the agenda. The Assistant to the President shall be assisted by a National Economic Council staff.

B. The NEC Principals Committee (ECON1)

An NEC Principals Committee is established as the senior interagency forum for the consideration and integration of policy issues importantly effecting the national economy. The NEC Principals Committee shall review, coordinate, and monitor the

development and implementation of national economic policy. The NEC/PC should be a flexible instrument -- a forum available for Cabinet-level officials to meet to discuss and resolve issues not requiring the President's participation. The Assistant to the President for Economic Policy will serve as chair of the NEC Principals Committee. The Assistant to the President for National Security Affairs shall be informed of meetings and invited to attend all those with international economic and international security implications and considerations.

The NEC Principals Committee shall have as its members the Secretary of the Treasury; the Director of the Office of Management and Budget; the Chairman of the Council of Economic Advisers; the Secretary of Commerce; and the Secretary of Labor; and the Assistant to the President for National Security Affairs as appropriate. Other heads of departments or agencies shall be invited as needed.

The Assistant to the President for National Economic Policy shall be responsible -- in consultation with the Secretary of Treasury and Director of OMB, and, when appropriate, the Assistant to the President for National Security Affairs -- for calling meetings of the NEC/PC, for determining the agenda, and for ensuring that the necessary papers are prepared.

C. The NEC Deputies Committee (ECON2)

An NEC Deputies Committee shall serve as the senior sub-Cabinet interagency forum for consideration of policy issues affecting the national economy. The NEC Deputies Committee shall review and monitor the work of the NEC interagency process (Including Interagency Working Groups established pursuant to Section D below). The Deputies Committee also shall focus significant attention on policy implementation. Periodic reviews of the Administration's major economic initiatives shall be scheduled to ensure that they are being implemented in a timely and effective manner. Also, these reviews should periodically consider whether existing policy directives should be revamped or rescinded.

The NEC Deputies Committee shall have as its members the Deputy Assistant to the President for Economic Policy (who will serve as the chairman) and the appropriate senior officials of Deputy Secretary or Under Secretary rank chosen by the relevant heads of departments or agencies which compose the NEC in consultation with the Deputy Assistant to the President for Economic Policy. The Deputy Assistant to the President for National Security Affairs shall be a member of the NEC Deputies Committee and attend meetings as needed. The Deputy Assistant to the President for Economic Policy may invite representatives of other Executive departments and agencies, and other senior

officials, to attend meetings of the NEC Deputies Committee where appropriate in light of the issues to be discussed.

The Deputy Assistant to the President for Economic Policy shall be responsible for calling meetings of the NEC Deputies Committee, for determining the agenda, and for ensuring that the necessary papers are prepared. The NEC Deputies Committee shall ensure that all papers to be discussed by the NEC or the NEC Principals Committee fully analyze the issues, fairly and adequately set out the facts, consider full range of views and options, and satisfactorily assess the prospects, risks, and implications of each. The NEC Deputies Committee may task the interagency groups established pursuant to Section D of this Presidential Decision Directive.

D. Interagency Working Groups (ECON3)

A system of Interagency Working Groups -- some permanent, others -- ad hoc -- is hereby authorized. The NEC Interagency Working Groups shall be established at the direction of the Deputies Committee, which shall also determine the chair of the NEC Interagency Working Groups -- either departmental or NSC, NEC, or DPC. The Interagency Working Groups shall convene on a regular basis -- to be determined by the Deputies Committee -- to review and coordinate the implementation of Presidential decisions in their policy areas. Strict guidelines shall be established governing the operation of the Interagency Working Groups, including participants, decision-making path and time frame. The number of these working groups shall be kept to the minimum needed to promote an effective NEC system.

William Clinton

CS

048194 SS

FG006-2C

Dec. 27, 93 memo to the president

Re: Year-End Thoughts on the NEC

COPY

Hopefully, with repetition, the message that you have a broad, many-faceted economic strategy will take hold in the media and in the public mind, with the following effects:

- 1) creating greater confidence about both the short-term and the long-term because people believe you understand the problems and have a plan for dealing with them;
- 2) for the same reasons, helping see us through whatever difficulties might arise; and
- 3) tying together various measures that might otherwise be viewed as unconnected, such as GATT, displaced worker programs and deficit reduction.

On a final note, the NEC will have ups and downs, like anything else, but we feel that it has worked well and grown in 1993 and recognize that continued effectiveness will require vigorous attention to the needs of the process, as well as to the substantive issues.

I agree w/ this. Only
weakness I see is that I don't think
we have a system to solicit & take
seriously new / different ideas for dealing
w/ intractable problems (e.g. black youth
unemployment, discrimination in hiring /
underclass) or to provide an arena to
meet w/ outside thinkers on a regular basis.
BTW in / think it's going
well

Strongest
weakness for
the

BR/S4/GS

THE WHITE HOUSE
WASHINGTON

November 30, 1994

MEMORANDUM FOR BOB RUBIN & BO CUTTER

FROM: Peter Yu 

SUBJECT: Attached Memorandum

A number of NEC staff have been discussing the future of the NEC. As part of those discussions, I prepared the attached memorandum. I thought you might find it of interest.

Thanks.

THE NATIONAL ECONOMIC COUNCIL: A MID-TERM ASSESSMENT

Like any "agile" organization, the National Economic Council needs to respond to the changing environment in which it operates. This paper offers thoughts on the function and future of the NEC, and proceeds in three parts. The first section reviews the functioning of the NEC over the Administration's first two years; the second discusses major changes in the political, institutional, and policy environment and how the NEC's role might change in response. The third section identifies several actions the NEC might consider.

I. LOOKING BACK: SEVEN ROLES OF THE NEC

One can distinguish among seven functions the NEC staff¹ have played during the Administration's first two years. These roles are obviously not mutually-exclusive; indeed, every NEC activity involves more than one of these functions.

- (1) Interagency Manager--This is the NEC's "honest broker" role, by which it convenes, facilitates, and referees the decisional process. There are dozens of examples of this function: such as Japan negotiations, disaster insurance, and intellectual property issues.
- (2) Policy Development (including relevant legislative liaison activity)--The NEC has assumed the lead on certain Presidential initiatives, such as CDFIs, infrastructure investment, and urban policy.
- (3) Policy Implementation--On certain Presidential priorities, the NEC has played a critical role in implementation, including influencing authorizations and appropriations. Defense reinvestment and EZ/ECs are examples of this function.
- (4) The "Economic Perspective"--In many areas, the NEC has emphasized the "economic perspective" on issues. Here, China's MFN status, regulatory issues (such as risk and cost-benefit), and agricultural policy are examples.
- (5) Outreach and Liaison to the Business Community & Others--On many issues, the NEC serves as a contact point for the business community, environmental interests, and others. NAFTA, GATT, NII, and the electronics/telecommunications industries illustrate this well.
- (6) Facilitation of Private-Party Negotiations--Building on its "honest broker" capacity and its White House reputation, the NEC has facilitated negotiations among private parties. The Superfund-insurance negotiations and Car Talk are good examples of this dynamic.
- (7) Strategic Planning--At times, the NEC has applied its resources to broader projects concerning the future of the economy. The workforce and structural transformation groups are examples of this activity.

Over the first two years of the Administration, the NEC has evolved very quickly and has functioned remarkably well. The dramatic mid-year changes, however, require a critical reexamination of the NEC's role and functioning.

¹This discussion does not include Bob's, Bo's, or Gene's roles as individual advisers to the President.

LOOKING AROUND: HOW THINGS ARE CHANGING

Changes in the political environment, the policy agenda, and the institutional environment challenge the NEC to reconsider its roles and functions for the next two years.

In general, the third and fourth years of most Presidential first terms have been dedicated to policy implementation and reelection---not to policy development, the activity to which a majority of NEC staff time has been dedicated. Moreover, the Republican's control of Congress and their "Contract" provide them with extra influence over the policy agenda. Accordingly, the Administration's efforts will likely be more reactive than they were during the first two years.

In addition, with one exception, the current Administration agenda does not suggest a central role for the NEC. The current agenda includes: health care reform, welfare reform, the budget process, and political and governmental reform. While DPC and NEC are collaborating on health care reform, welfare reform is DPC-centric; the budget is OMB-centric, and governmental reform is OVP-centric.

There is, of course, no reason why the NEC *must* play a central role: agency aggrandizement has never served Presidents well. Rather the point is that the coincidence of these changes requires a reexamination of the NEC's roles. Of the seven roles outlined above, several will likely be less relevant in the coming years; for example:

- The "interagency manager" and "policy development" functions will be less significant because of the emphasis on implementation and the Republican agenda.
- The "strategic planning" function will likely be overshadowed by a shorter-term focus on reelection.
- The "economic perspective" function will be less prominent but more refined. The NEC will need to distinguish rational regulation from reactionary deregulation, clarifying how the Administration and the Republican Congress differ on *some* of these issues.
- The "liaison" function will be transformed. For the first few months, business and other groups will court the new Congress; the NEC will need to be more proactive in its outreach.

In reconsidering the NEC's role, one might ask: *what are the NEC's strengths? where are opportunities for the NEC best to serve the President?* Four possibilities include:

- Maximize the NEC's role in the budget and government-reform activity. This is where much of the NEC's substantive expertise lies: in creative policymaking in a constrained environment. Expanding the NEC's role will require significant effort, however, and may require some reform of internal NEC operations.
- Develop "niches"---policy initiatives in which the NEC can play a central role. Fast track and product liability reform may be examples of such niches. The NEC should

identify other priorities not addressed in the existing processes and establish policy processes for these.

- Provide policy support for congressional Democrats. Both because of reduced congressional staffs and because the Administration may wish congressional Democrats to carry some of the more negative messages, this may emerge as a critical NEC role. Currently, however, the NEC lacks the capacity (i.e., strong contacts with Members, a war-room like capacity to combine policy and communications, and management-and-control mechanisms) to do this effectively.
- Stand ready to facilitate negotiations. There is some possibility that the new Congress will itself encounter gridlock as some interests push too hard and others refuse to compromise. If the NEC stands ready to facilitate negotiations in these circumstances, it could play a critical role in breaking that gridlock. To do this, the NEC would need to develop relationships with key Republicans.

III. LOOKING AHEAD: WHAT THE NEC MUST DO TO ADAPT

Obviously, the foregoing list is merely suggestive. But the point should be clear: the NEC should take a hard look at itself and its environment and reconsider its roles for the next two years. Several next steps are possible; these include:

- Develop an NEC policy agenda that fits within the Administration's overall agenda. As suggested above, the NEC should identify 5-10 issues on which it will take the lead. This will minimize duplication and maximize the clarity of the NEC's objectives.
- Improve internal NEC communications. Staff are, at times, disconnected from the principals/deputies process. Better communications is essential in the new environment.
- Improve ties with Legislative Affairs. Nothing less than a full-scale overhaul is needed here. NEC and Legislative Affairs staff must be provided with *common* goals and a common agenda; and they must collaborate to achieve those goals.
- Build ties with key congressional staff. With the approval and assistance of Legislative Affairs, NEC staff should develop direct contact with key congressional staff to minimize response time.
- Improve ties with Communications. If war-room type responses are needed, NEC staff will need to work far more closely with Communications staff. As with Legislative Affairs, common goals and a common agenda are necessary to achieve this.
- Improve ties with OVP, NSC, OMB. There remain gaps in communication and apparent lapses of trust between these offices and the NEC. This needs to be corrected.

CLOSING REMARKS

This paper does not offer conclusions. It is designed primarily to provoke thoughtful reconsideration of the NEC's roles and functions as the Administration enters its third year.

TO: ERSKINE
FROM: LAURA TYSON; GENE SPERLING

Mission And Outreach

The NEC plays five basic roles: First, as coordinator of economic policymaking, the NEC organizes and leads interagency groups to develop economic policy options for the President on both domestic and international issues. It also brings together policy and political considerations affecting specific issues. The NEC plays this coordinating role in broad areas of economic policy, such as the budget, as well as on specific policy initiatives, such as the minimum wage increase and the US-Japan Economic Framework. The NEC works to assure full representation of all relevant agency views and rigorous economic analysis of all policy options. The NEC works to develop interagency consensus to limit the issues that must be passed onto the President for decision.

Second, the NEC is the President's advocate for his economic goals within the interagency policymaking process. For example, in the annual budget formation and review process, the NEC seeks to identify and emphasize the President's spending priorities within the budgetary submissions of individual agencies. Third, although the NEC consciously eschews an operational role per se, it sometimes works with relevant operational agencies to make sure that the implementation process is working smoothly. For example, the NEC has worked closely with the State and Transportation Departments to develop and refine our positions in a number of international aviation negotiations. The NEC also consults with economic agencies on policies -- such as exchange rates -- which are not appropriate for normal interagency consideration.

Fourth, the NEC also plays a major role in the development and coordination of the Administration's economic policy message. The NEC has developed a reputation for working with the agencies to develop objective and informative talking points that provide a unified Administration message on the economy. Fifth and finally, the NEC serves as a conduit with business, labor, environmental, consumer and other groups that seek a forum in which to express their economic policy concerns to the Administration. Staff maintain channels to principal constituents in their areas of responsibility, while the National Economic Advisor and her deputies meet frequently with senior officials of these groups.

Description of Key People and Tools

The National Economic Advisor has overall responsibility for the missions described above. In particular, she must assure that key economic issues are anticipated, considered and presented to the President for his decision in an efficient fashion. Along with the Treasury Secretary and Chair of the CEA, she speaks for the Administration on economic policy.

The two deputies are responsible for resolving issues among agencies, or preparing them for consideration by Principals or the President. One deputy is principally occupied for budget and non-regulatory domestic issues, the other with international and domestic regulatory issues.

The policy staff of about 16 is roughly divided among senior directors/special assistants to the President, directors, and researchers/analysts. They are responsible for preparing issues for Deputy/Principals consideration and overseeing implementation of NEC or Presidential decisions.

Current NEC leadership would recommend using the opportunity created by vacancies and the inevitable transition turnover to establish a more clearly defined two-tier policy staff, along the lines

of the CEA or the NSC, with a group of 6-7 special assistant/senior directors, supported by 10-12 directors.

Coordination and Overlap

By their nature, significant economic policy issues often overlap significantly with other important interests. As appropriate, the NEC coordinates with other units within the White House. Shared responsibility is warranted in many circumstances to ensure that all relevant units and agencies have a voice in the policy process and to develop a comprehensive set of options or recommendations.

In general, such instances of shared responsibility and shared accountability have worked well as long as the lines of shared authority are well established and understood within the Administration at the outset of the policy development process. For example, the DPC and the NEC have jointly led interagency policy making processes on education and training from the beginning of the first term, and have jointly led the interagency health care process during the last two years. Other current examples of joint responsibility include the NEC's work with the DPC and OVP on urban economic issues, the CEQ on the global warming policy agenda, and with the OMB and the COS on the budget process. As to urban economies, better coordination with OVP would be useful.

In addition, from its inception the NEC has shared joint responsibility with the NSC on all international economic issues. Occasionally, the NEC-NSC joint coordination process has encountered some difficulties, in part because of the difference in size and operating styles between the two organizations. We have not been as diligent as we should in maintaining coordination through regular weekly meetings between the NEC and NSC directors and their deputies. To avoid confusion, it would be helpful for you to confirm for White House and agency officials that international economic policy matters are jointly coordinated by the NEC and NSC.

Communication and Meetings

NEC meetings occur on both a regular and an as-needed basis. At various times during the first term, there was a regular weekly NEC meeting of the NEC core principals (Treasury, CEA, OMB, Commerce, Labor, USTR). Because of overlap with other meetings on specific issue areas and because of the demands of campaign travel schedules, the regular weekly meeting has not been scheduled in recent months. It should be scheduled -- at least for a time -- once the new core NEC principals have been named, in order to inform them of ongoing NEC issues and to establish a collegial team process. In addition to the regular weekly meetings of core NEC principals, there has been a weekly interagency deputies meeting on international economic issues. There are also regular international meetings at the principal level led by the NEC, sometimes in conjunction with the NSC. Both the regular international deputies and principals meetings should continue. Finally, the NEC either alone or in conjunction with other White House units, organizes interagency groups as appropriate to deal with individual issue areas such as coordinating the White House budget working group (interoffice amplifications of the President's budget message) and White House Economic Conferences; this process should continue.

Regular weekly briefings between the NEC director and the President are critical. A separate memo to the President (copy attached) identifies the reasons for the reinstatement and continuation of these briefings.

Goals

Fiscal Integrity (Balancing the Budget and Long-Term Entitlement Reform) And Maintaining Fairness For The Twenty-First Century

Another legacy for the President is that he inherited an economy with a \$290 billion deficit, and an unsustainable long-term retirement system. The President turned the situation around by balancing the budget and pushing through long-term Medicare reform and at least starting the process on Social Security.

Lead a National Commission To Reform Education and Training and Provide Americans With Tools For The Twenty-First Century

A vital legacy should be that the President reformed, improved and expanded education and training opportunity to meet the needs of an information economy. A vital call for higher standards, literacy for all third grade students; technological literacy for all 6th grade students; at least two years of college for all Americans and a new market-oriented training program -- would together constitute a vital reform agenda for education and training that would be a vital legacy.

Trade

An important and achievable legacy for the President would be to establish clear U. S. international economic leadership in the global economy as we enter the twenty-first century. This entails (1) re-energizing our trade initiatives to develop more export opportunities, (2) shaping international cooperation in related areas such as financial regulation and environmental protection, and (3) meeting our financial obligations in international economic institutions so as to maximize our influence in those organizations

Handwritten signature

THE WHITE HOUSE
WASHINGTON

January 12, 1995

MEMORANDUM FOR NEC POLICY STAFF

FROM: Peter Yu *Y*
SUBJECT: Attached

Attached please find a revised draft of the "transition materials." Thank you very much for your thoughtful contributions.

Please provide to me, by e-mail and by **6:00 pm, Monday, January 16**, any additional comments you might have, as well as a **one-paragraph bio** for Section VI. (For those who have led particularly interesting lives, run-on paragraphs will be tolerated. However, home movies of childhood accomplishments will not.)

Thanks.

Background Materials
on the
National Economic Council

Outline

- I. The National Economic Council: A Mid-Term Assessment
- II. The NEC Agenda for 1995-96
- III. Lessons Learned from the First Two Years
- IV. Staff Suggestions Regarding Internal Operations
- V. A Second Opinion
- VI. Biographies of Policy Staff

I. THE NATIONAL ECONOMIC COUNCIL: A MID-TERM ASSESSMENT

Like any "agile" organization, the National Economic Council needs to respond to the changing environment in which it operates, while adhering to its basic principles and functions, as discussed in Section I below. This paper offers thoughts on the function and future of the NEC, and proceeds in three parts. The first section reviews the functioning of the NEC over the Administration's first two years; the second discusses major changes in the political, institutional, and policy environment and how the NEC's role might change in response. The third section identifies several actions the NEC might consider.

LOOKING BACK: NINE ROLES OF THE NEC

One can distinguish among at least nine functions the NEC staff have played during the Administration's first two years. These roles are obviously not mutually exclusive; indeed, every NEC activity involves more than one of these functions.

- (1) *Interagency Manager*--This is the NEC's "honest broker" role, by which it convenes, organizes, facilitates, and referees the decisional process. There are dozens of examples of this function, with member agencies playing the lead role in some, such as budget and tax matters, and NEC staff playing the lead role in others, such as certain trade issues, disaster insurance, and intellectual property issues.
- (2) *Policy Development (including relevant legislative liaison activity)*--The NEC has assumed the lead on certain Presidential initiatives, such as CDFIs, urban policy, the APEC meeting, and the Detroit jobs conference.
- (3) *Policy Implementation*--On certain Presidential priorities, the NEC has played a critical role in implementation, including influencing authorizations and appropriations. Defense reinvestment and EZ/ECs are examples of this function.
- (4) *The "Economic Perspective"*--In many areas, the NEC has emphasized the "economic perspective" on issues. Here, China's MFN status, regulatory issues (such as risk and cost-benefit), and agricultural policy are examples.
- (5) *Outreach and Liaison to the Business Community & Others*--On many issues, the NEC serves as a contact point for the business community, environmental interests, and others. NAFTA, GATT, NII, and the electronics/telecommunications industries illustrate this well.
- (6) *Facilitation of Private-Party Negotiations*--Building on its "honest broker" capacity and its White House reputation, the NEC has facilitated negotiations among private parties. The Superfund-insurance negotiations and Car Talk are good examples of this dynamic.
- (7) *Strategic Planning*--At times, the NEC has applied its resources to broader projects concerning the future of the economy. The workforce and structural transformation groups are examples of this activity, as are the CIA's long-term forecasting activities.
- (8) *Message*--The NEC has also played an important role in coordinating the development and implementation of the Administration's economic message.
- (9) *Integration*--Throughout all of its activities, the NEC has integrated politics, congressional concerns, and message with policy, and maintained a sense of teamwork and collegiality among the NEC members.

Over the first two years of the Administration, the NEC has evolved very quickly and has functioned remarkably well. The dramatic mid-term changes, however, require a critical reexamination of the NEC's role and functioning.

LOOKING AROUND: HOW THINGS ARE CHANGING

Changes in the political environment, the policy agenda, and the institutional environment challenge the NEC to focus its roles and functions for the next two years.

In general, the third and fourth years of most Presidential first terms have been dedicated to policy implementation and reelection--not to policy development, the activity to which a majority of NEC staff time has been dedicated. Moreover, the Republican's control of Congress and their "Contract" provide them with extra influence over the policy agenda. Accordingly, the Administration's efforts will likely have a larger reactive aspect as well as an ongoing proactive dimension.

Of the nine roles outlined above, several may be different in the coming years; for example:

- The "interagency manager" and "policy development" functions could be less significant because of the emphasis on implementation and the Republican agenda.
- The "strategic planning" function could be overshadowed by a shorter-term focus on reelection.
- The "economic perspective" function will, at least, be as prominent. For example, the NEC will need to distinguish rational reform of regulation from reactionary deregulation, clarifying how the Administration and the Congress differ on *some* of these issues.
- The "liaison" function will be of heightened importance. For the first few months, business and other groups will court the new Congress; the NEC will need to be more proactive in its outreach.

In considering the NEC's role, one might ask: *what are the NEC's strengths? where are opportunities for the NEC best to serve the President?* Four possibilities include:

- Maximize the NEC's role in the budget and government-reform activity. This is where much of the NEC's substantive expertise lies: in creative policymaking in a constrained environment. This will require effective integration with OVP, OMB, and others.
- Develop "niches"--policy initiatives in which the NEC can play a central role. Fast track and product liability reform may be examples of such niches. The NEC should identify other priorities not currently addressed and establish policy processes for these.
- Provide policy support for congressional Democrats. Both because of reduced congressional staffs and because the Administration may wish congressional Democrats to carry some of the more negative messages, this may emerge as a critical NEC role. That will require determining how best to work with Legislative Affairs and may require more effort at integrating with Communications.

- Coordinate interagency focus on regulatory reform. There will be efforts led by other agencies but that would benefit from the NEC staff's contribution or from White House involvement. Examples of this include financial regulatory reform, policy toward derivatives, and issues concerning Washington, D.C.

LOOKING AHEAD: WHAT THE NEC MUST DO TO ADAPT

Obviously, the foregoing list is merely suggestive. But the point should be clear: the NEC should take a hard look at itself and its environment and consider its roles for the next two years. Several next steps are possible; these include:

- Develop an NEC policy agenda that fits within the Administration's overall agenda. As suggested above, the NEC should identify 5-10 issues on which it will take the lead. This will minimize duplication and maximize the clarity of the NEC's objectives.
- Improve internal NEC communications. Staff are, at times, disconnected from the principals/deputies process. Better communications is essential in the new environment.
- Improve ties with Legislative Affairs. Nothing less than a full-scale overhaul is needed here. NEC and Legislative Affairs staff must be provided with *common* goals and a common agenda; and they must collaborate to achieve those goals.
- Build ties with key congressional staff. With the assistance of Legislative Affairs, NEC staff should develop direct contact with key congressional staff to reduce response time.
- Improve ties with Communications. If war-room type responses are needed, NEC staff will need to work far more closely with Communications staff. As with Legislative Affairs, common goals and a common agenda are necessary to achieve this.
- Improve ties with OVP, NSC, OMB. There remain gaps in communication and apparent lapses of comfort between these offices and the NEC. This needs to be corrected.

II. THE NEC AGENDA FOR 1995-96

A. INTERNATIONAL ECONOMIC ISSUES

Overview. During the past two years, the Administration has begun to lay the foundation for a more free and open international economic system through, for example, passage of NAFTA and the Uruguay Round. During the next two years, we will work to (1) secure fast track authority to pursue further trade liberalizing initiatives, (2) build economic institutions for the future, and (3) cultivate a constituency in favor of free trade.

- Secure Fast Track Authority: To pursue a number of likely trade initiatives, including those arising out of the APEC and Summit of Americas process, the Administration will require fast-track authority. This will require the Administration to lay out its future trade agenda, as well as address the link between trade and labor and environmental issues. The fast track bill will probably become a larger trade bill to include provisions on a range of trade issues (e.g., dumping by economies-in-transition). We must reach an internal agreement on the coalition necessary to secure fast track and, consequently, our position on these issues.
- U.S.-Japan Relations: The Administration has built a reputation for being tough with Japan, and getting results, without resorting to Japan bashing. In the next two years, we will focus on additional Framework issues and other, good individual cases (e.g., cellular telephones) through which we can make tangible progress in opening markets.
- Halifax/International Financial Institutions: In preparation for the G-7 meeting in Halifax in June, we will complete a review of major international economic institutions and make recommendations for their reform. With regard to international financial institutions, we hope to address the need for further debt relief, a special allocation of Special Drawing Rights (SDR) in the IMF, and the replenishment of the International Development Association -- the World Bank's soft loan window.
- Jakarta/Miami Follow-Up: By the 1995 APEC Leaders' meeting in Osaka, we hope to complete work on the blueprint for achieving free and open trade in the Asia Pacific. We will work with the Japanese, who will chair this process, to produce a specific timetable and work plan. To follow up on the Summit of Americas, we hope to lay the groundwork for free trade with Latin American countries. In the short-run, this could involve preliminary consultations with the Chileans regarding a free trade agreement.
- WTO: As the WTO comes into being, we will work to develop its agenda, including unresolved Uruguay Round issues, new issues (e.g., labor, environment, competition), and the accession of new members (e.g., China, Taiwan, Russia).
- Cultivating a Free Trade Constituency: It will be important to demonstrate trade's significant economic role, in order to strengthen public support for further trade

liberalizing initiatives. In part, this is an issue of domestic education, training, and reemployment policy. However, we also must (1) make a stronger effort to promote publicly the benefits of trade for U.S. workers and firms, (2) develop strong export promotion strategies, particularly towards the Big Emerging Markets (BEMS), and (3) eliminate remaining domestic barriers to exports, such as unnecessary export controls.

B. DOMESTIC ECONOMIC ISSUES

Overview. The NEC's domestic agenda covers a broad range of issue areas and includes both issues placed on the agenda by the Administration, and those placed on the agenda by the new Republican majority.

- Health Care Reform: [to be completed]
- Welfare Reform: An NEC/DPC Working Group developed the asset development components of the Administration's Welfare Reform Bill (Microenterprise and Individual Development Account demonstrations). As Welfare Reform strategies and policies are developed in 1995, the NEC should work hard to ensure that Welfare Reform legislation supports and encourages appropriate entrepreneurial and asset-building activities by individuals receiving public assistance.
- Education, Training, and Reemployment: An NEC-led group will complete development, communication, and, to the extent enacted, the implementation of Middle Class Bill of Rights (including adult workforce empowerment and reemployment initiatives). In addition, the NEC will assist DoEd in defending and implementing the interagency Technology Learning Challenge, assist in developing options for a 1996 campaign for the Lifelong Learning Agenda (particularly Goals 2000, School-to-Work, and Skills Standards), and assist in the further development of the Middle Class Bill of Rights (including Individual Education Accounts, Skills Scholarships, education tax incentives, private sector initiatives).
- Financial services legislation: During the next several months, the House will begin to consider legislation on several issues: bank regulatory consolidation; Glass-Steagall reform/peal; derivatives; and disclosures involving municipal securities. The Senate is likely to wait for the House to move and then--except with respect to Glass-Steagall--cut back on or moderate any House bill before passage. Traditionally, banking legislation has passed in even-numbered years, so this is likely to be a two-year process.

In addition, the Administration has promised to deliver legislation to reform the Federal Home Loan Bank System early this year. We have almost completed work on the proposal, which should garner significant support. The major question with this legislation is whether we can or should attach to it provisions that would solve the longer-term weakness of the Savings Association Insurance Fund. While SAIF's flaws are structural, no one on the Hill wants to fix it unless some sort of compromise can be

brokered between the banking and savings industries, and the bankers (at least the ABA) are too short-sighted to understand how badly they'll get hurt if SAIF fails.

- **Disaster insurance:** For the last year, an NEC-led interagency working group has been considering development of a program that could allow the insurance industry to pick up a larger share of natural disaster expenses. We have developed a proposal that, because it gives the insurance industry less than it would like to have, is not meeting with universal adulation. However, submitting a legislative proposal (even if in the form of a detailed policy statement rather than legislation) early in the next session may be desirable, largely because, if there is another major earthquake in the next two years, some legislation of this sort is likely to move and the extant alternatives are potentially far more costly to the federal government.
- **HUD homeownership partnership:** HUD will soon launch an exciting initiative to dramatically increase the homeownership rate by the year 2000, primarily by increasing minority homeownership rates. This is not just another government program, but rather a major effort involving most of the major players in the sector. It consists of serious pledges by those outside government who can make it happen to take specific action steps and to accomplish specific results. This high-quality program can both benefit from White House attention and can benefit the White House. The NEC should put some resources behind continuing to help it along, and in particular, to making certain it stays on the right track and gets and continues to get Presidential attention.
- **1995 Farm Bill:** The Farm Bill encompasses a very wide range of issues including: commodity programs, food and nutrition issues, export promotion, conservation, and rural development. The legislation is revisited every five years and usually consumes 4-6 months. NEC, DPC, OMB, and USDA are co-chairing the Administration's effort in this area. Current plans call for a more deductive approach, with a decision memorandum seeking presidential guidance on the general direction in agricultural policy.
- **Legal Reforms:** The "legal reforms" currently being discussed include (i) civil justice reforms (such as changes in attorneys' fees and rules of evidence); (ii) product liability reforms (such as changes in the law of damages); and (iii) securities litigation reforms (such as limits on stockholder class-action suits). NEC and the Counsel's office are co-chairing an effort to develop an Administration position and legislative strategy in this area. The Chief of Staff has offered initial guidance; a decision memorandum is expected in late January.
- **Regulatory Reforms:** The NEC is participating in the Vice President's regulatory reform task force, with a primary role in the following working groups: cross-cutting issues; financial services; information technology; and energy, the environment, and natural resources. These groups will make presentations to the Regulatory Working Group and develop administrative and legislative proposals as directed by the Vice President.

- **Regulatory Issues:** The NEC is involved in developing the Administration's position on the major regulatory issues raised in the Republican Contract including: takings, risk/cost-benefit analysis, unfunded mandates, and Reg Flex.
- **Superfund Reauthorization:** The NEC played a central role in this area last session and is expected to play a similar role this session. The Superfund taxes expire this year, but most indications are that the issue will not arise until after the first 100 days.
- **Car Talk:** This is a stakeholder-inclusive, professionally facilitated advisory committee that is designed to replace the traditional "CAFE wars" with more constructive ways of dealing with the greenhouse gas emissions from cars and light trucks. The committee is addressing vehicle fuel efficiency, vehicle miles travelled (including related land use issues), alternative fuels, and alternative-fuel vehicles. The committee is scheduled to make an interim report in March and a final report in September. The Administration will have to respond to the recommendations, some of which may be politically problematic.
- **R&D Programs:** In its first two years, the Administration created or expanded a number of technology initiatives that are characterized by cost-shared partnerships with industry. Those programs, located in agencies such as the Department of Commerce, the Department of Defense, and the Department of Energy, are now under attack by Republicans. The "Contract with America" targets the Advanced Technology Program in the Department of Commerce for elimination, and a proposal by Senators McCain and Warner would rescind funding for most of DoD's dual-use technology programs. Also vulnerable are the "clear car" initiative, environmental technology programs, and cooperative agreements between industry and the Department of Energy labs. The NEC will be centrally involved in Administration efforts to block rescission of FY95 funds and to secure FY96 appropriations for these programs, and it will take the lead (within the White House) when it comes to the dual-use programs.
- **R&D tax credit:** The R&D tax credit will expire in June 1995. High technology industries will argue for permanence, which would cost roughly \$10 billion over the next five years. The President's 1993 budget called for a permanent extension of the R&D credit. The current Administration position is to support temporary extension, with a commitment to work for a permanent extension if appropriate offsets can be found. Republicans will probably offer other business tax incentives as well.
- **Telecommunications:** The House and Senate are both expected to introduce legislation that would reform the Communications Act of 1934. The right legislation will increase competition, stimulate private sector investment in the "information highway," lower prices, give consumers more choice, and create jobs. The Administration would like legislation that promotes competition for local telephone service, gradually phases out the line-of-business restrictions that prevent the Regional Bell Operating Companies from entering long-distance and manufacturing, eliminates the cable-telco crossownership

restriction, and reaffirms our historic commitment to universal service. Although there is broad agreement on the principles of the legislation, there are differences of opinion as to how to manage the transition from the status quo (government regulation and incumbent monopolists) to a competitive marketplace with little or no government regulation. There is also a possibility that Republicans may attempt to gut the 1992 Cable Act, which would allow cable companies to raise rates again.

- **National Information Infrastructure:** Telecommunications reform is only one element of the Administration's NII agenda. Other components include: achieving the President's goal of connecting all classrooms, libraries, hospitals and clinics to the NII by the year 2000; promoting use of the NII in health care, electronic commerce, life-long learning, and the delivery of government services; increasing the dissemination of government information; and expanding overseas markets for U.S. information and communications goods and services.
- **Base Realignment and Closure:** The upcoming round of closures should be fairly large, around the same size as the Spring 1993 round. In February, Secretary Perry will announce DoD's recommendations to the Base Closure Commission, which will deliberate and make recommendations for the President's action at the beginning of July. The Administration must communicate the success of its 1993-94 policy changes, which promote economic development and ease worker transition. Several of the policy changes. In addition to effective communication and continued implementation, ongoing policy adjustments may be required.
- **Defense Economic Adjustment:** Some of the Administration's investments to ease defense economic adjustment are targets for FY95 rescission or FY96 reduction/elimination by Republicans. The NEC will be closely involved in efforts to protect these programs, which are located in the Department of Labor, EDA, and the Department of Defense.
- **Procurement Reform:** There will be several opportunities to expand on what the Administration accomplished in last year's procurement reform bill. Republicans will introduce legislation early in the session to repeal or significantly reform Davis-Bacon; although the Administration will not get out in front on reform of Davis-Bacon, we should be in a position to shape a compromise short of repeal. There may be a similar opportunity to reform the Cargo Preference Act. The defense authorization bill will provide another vehicle for enacting incremental improvements to the procurement system.
- **Restructuring federal transportation programs:** The President's Budget will propose a complete overhaul of federal transportation grant programs. Congress is likely to take up the core elements of the President's proposals, including: spinning-off the Federal Aviation Administration's air traffic control services into a government-owned corporation; establishing a network of State Infrastructure Banks that will allow states new flexibility in the use of federal transportation funds; and replacing dozens of separate

grants for aviation, highways, transit and rail with a single "infrastructure investment" block grant to states and localities. Congress must pass legislation designating a "National Highway System" by the end of the fiscal year in order to avoid disrupting the flow of federal highway grants to states.

- Community Economic Development: Our three signature community development initiatives are: the Community Development Banking and Financial Institutions Fund (CDBFI), the Empowerment Zones and Enterprise Communities Initiative (EZ/EC) and Community Reinvestment Act Reform. All three are relevant to spurring the availability of capital, investment, and local strategic action to revitalized distressed urban and rural communities. The NEC must continue to play a strong role in ensuring that these initiatives are well-implemented, protected from rescission, and fully-funded.
- Urban Policy: The National Urban Policy Report, a legislatively mandated report due in Spring 1995, offers an opportunity for the Administration to articulate a coherent urban vision that is consistent with the Middle Class Bill of Rights. The NEC must continue to play an active role in shaping these activities, as well as agency reforms, particularly at HUD and DOL/DoED, arising from the FY96 Budget.
- Community Enterprise Board: The head of the NEC serves as a Vice Chair of the Community Enterprise Board ("CEB"), a group comprised of 15 agency heads that was created to help implement the EZ/EC initiative and respond to comprehensive state and local strategies to revitalize distressed communities. (The VP is Chair and DPC is another Vice Chair.) The CEB and its subcommittees (Indian Economic Development; Local Consolidation plans) will be a focal point for reinventing government -- changing the federal government's relationship with state and local government by providing a one-stop response for multi-agency waiver and program consolidation strategies. Because the NEC is vested with the Vice Chair role and because of the importance of the CEB to ensuring the success of Empowerment Zones, the NEC must continue to be actively involved in the CEB working group.
- Minority Business: The NEC played a lead role in working with OMB, SBA, and WH Public Liaison to develop Executive Order 12928, promoting procurement with small, disadvantaged businesses. To expand economic/middle class opportunities for minorities, the NEC should continue to participate in an informal working group led by White House Public Liaison, SBA and OMB (Office of Federal Procurement Policy) that focuses on expanding procurement opportunities for minority business.
- Civil Rights: The NEC reviews all civil rights issues/initiatives for economic implications. More importantly, an NEC/DPC working group (sub-group of ETR) has identified discrimination in hiring as a critical barrier to workforce participation by minorities, particularly minority males. As a result, DOJ, EEOC and DOL are quietly developing antidiscrimination models (demonstrations using testers) and the NEC should continue to support this work over the next two years. A Civil Rights Working Group

lead by DOJ, OMB, and DPC, is beginning a review of civil rights policies. Because lax antidiscrimination enforcement has been shown to have a direct impact on employment trends for minorities, the NEC should be active in this working group.

- Other Activities: Other activities in which the NEC is involved:
Habitat II (a 1996 international conference on global urbanization)
G-7 Summit
G-7 Summit on the Global Information Society
White House Conference on Small Business
White House Conference on Travel and Tourism
National Rural Conference

III. LESSONS LEARNED FROM THE FIRST TWO YEARS

This section summarizes the staff's thoughts on lessons learned from the NEC's first two years of operation. As the comments are drawn from different staff members, they may be inconsistent.

- There is no obvious roadmap to working with other WH offices, and no project managers in the Chief of Staff's office who can bring together a group to undertake a special project. NEC staff should think hard and early about other offices that can be of assistance (or must be included), and sometimes must actively recruit participants, remembering that many offices focus narrowly on the President's concerns and tend to have very short planning horizons. In other words, sometimes new organizations have to be created around special projects.
- There are channels of action and communication in which the NEC is not naturally involved, particularly at the staff level. These include the budget, strategy and communications, legislative relations, and political affairs. Unless the NEC staff actively reaches out to address these issues, we will find that (i) on issues where we have the lead, we will get to the end of the process and discover further support lacking, and (ii) on issues where we're interested but don't have the lead, we will be left out and our (perhaps valuable) insights lost.
- "No sharp elbows" really is a good rule. In general, we have done much better when we have offered our services, than when we have demanded leadership. However, persistence is also essential; if you're not visible around here, you're forgotten.
- There's too much to do and not enough people to do it. Some of us have reacted by relatively narrow specialization--with good results in the chosen field. Others have spread far more broadly, with generally acceptable results on the coordination front and less impact on individual programs. A new head of the NEC either needs to live with this dichotomy or needs to make major management changes.
- We must be particularly vigilant in articulating the Clinton vision/message to the agencies so that the agencies programs and initiatives reflect this vision. Too often signature Clinton initiatives compete with agency priorities for limited resources. We need better systems for preventing this "competition," and for integrating the vision of the White House into agency missions.
- Average Americans do not seem familiar with the President's legislative and policy achievements, e.g., the Lifelong Learning Agenda, Community Development/Capital Access initiatives, the EITC, etc. With less than two years to go before November 1996, the NEC should focus more energy on working with WH Communications to get the message out about these initiatives.

IV. STAFF SUGGESTIONS REGARDING THE DAILY OPERATION OF THE NEC

This section summarizes staff suggestions regarding the internal operation of the NEC--primarily the dynamic between the Assistant and Deputy Assistants and the staff. Again, as these comments reflect a number of persons' views, they may be mutually inconsistent.

A. COMMENTS ON THE INTERNAL STRUCTURE OF THE NEC

- As I see it, the NEC staff was set up on a model that was appropriate for Clinton's ambitious agenda and strict WH staffing constraints. Where the NSC's structure reflects organizational rigidities (command and control) of the time of its creation (a big 1950s car company comes to mind) and the military (sensible, since the NSC deals with security issues and draws staff from the Pentagon), the NEC was modeled on more modern organizations: flat, agile, blurred boundaries, ad hoc teaming. In fact, Bo said at the time that he saw the NEC staff structure as being like a consulting firm, combining to work on various projects as they arose.
- After two years, however, things are different. I doubt we'll be sending a huge number of policy initiatives up to the hill, and suspect our new leader will want to focus on implementing and defending what we care about and communicating more effectively. Management may actually begin to matter.
- At the very least, I would think the new leader deserves a special assistant (to handle press, politics, and general support), while the staff deserves a staff director, who should live with the staff in OEOP and meet daily with the three at the top in order to keep the issues staff well-informed. The focus of this person would be communication between the staff and the West Wing, paper flows, links to the rest of the White House (we're not always well plugged-in), links to the agencies, oversight of special projects, etc. Nancy Soderberg/Will Itoh may be a model.
- An alternative to this approach would be to bolster the Bo Deputy position -- no one in Bo's peer group operates without a special assistant, and Liz does the work of several (scheduler, executive assistant, receptionist). With some support, this position might provide the management drive, but this may be unrealistic, since that position is also the driver of both international and domestic economic policy.
- If I were head of the NEC, I would
 - appoint 3 deputies--one to manage international issues, one to manage domestic issues, and Gene to manage communications issues;
 - appoint a chief of staff focused on administration and paper flow;
 - hire an overqualified young person to draft letters;
 - formally team each NEC staffer with the legislative affairs staffer and the political affairs staffer who covers similar issues.

B. COMMENTS ON THE INTERNAL OPERATIONS OF THE NEC

- The most significant change I would make centers on the internal communications flow of the NEC. Papers go up, record keeping is virtually non-existent, answers sometimes come back, decisions are made and we sometimes here sooner rather than later, information and reactions rarely flow downhill, most of us are in the dark about each other's work and ideas, and POTUS feedback is next to nil.
- If I were head of the NEC, I would
 - formalize paper flow, emphasize records management. Yes, sometimes there would be forms to fill out, but a paper trail is important.
 - establish procedures for document cc-ing and internal distribution as well as standard forms for various types of memos going upwards -- informal, small note, decision, correspondence covers, etc.
 - establish mandatory record-keeping, including returned originals with decisions checked, marked, noted or whatever.
 - require guaranteed return of notes, memos with notations -- read, ignored, used, thanks, no good, etc.
 - standardize the procedures for preparing for interagency meetings, e.g., agenda, documents, attendance, distribution of background papers.
 - distribute internal analysis to all staff. This includes CEA announcements of data release and interpretations, papers other agencies provide to Cutter/Rubin, etc."

V. A SECOND OPINION

Some NEC staff--or more likely all NEC staff at one time or another--believe that the role of the NEC should be fundamentally reexamined. This section offers one member's observations in this regard.

"Policy, rather than process, should guide the NEC. The President's much-storied campaign mantra, "It's the economy, stupid," provides the rationale for the creation--and the mission--of the NEC. Put simply, the NEC should focus its energies and limited resources on helping the President define, articulate, and provide leadership in formulating and communicating a national economic policy that can dominate American political life for a generation (and, hence, guide the agencies and the Congress, lead the public and the parties, now and in the future). Without such a clear focus, the NEC--apart from any personal style, relationship, and authority of the new NEC head with the President--runs a real risk of merely turning into a "third wheel," to the NSC on foreign policy, the DPC on domestic policy, OMB on the budget and with the Agencies, the CEA and the Treasury on economic issues, and the OVP on governmental reform. The analogy for the NEC's mission should be achieving for national economic policy in this time of transition following the end of the Cold War what the NSC achieved for American foreign policy during the years of transition following the end of World War II.

The challenge for national economic policy is straightforward: how to make a successful transition from the stagnating wages and living standards, and small productivity increases, of the old American economy during the second generation of the Cold War to a vibrant new American economy with smartly rising productivity, wages and living standards in a post-Cold War era of global competition, whole new means of production through information and communication, and world-wide economic growth. Stated another way, the issue is whether we can articulate a national economic policy that empowers the American people with the opportunity to earn a rising income and, thereby, to build as burgeoning a middle class over the next generation as America achieved during the first generation following World War II.

Given the increasing limits on any national government's authority in such a global economy and the other marked difference in circumstances today and fifty years ago, this may seem a tall, if not daunting order. But the NEC--and this President--will ultimately not survive the 1996 presidential election unless we establish such a national economic policy as the majority position in the country.

I believe that the NEC has articulated six components to such a national economic policy, the first four of which have already been embraced by the President and are well on the way to becoming the mainstream position of both major national parties; the last two components, for different reasons, may be of less certain position and standing.

- Put our Federal Fiscal House in Order: Reorder the federal budget to reduce the annual federal deficit and to shift from financing consumption to encouraging investment.

- Tear down barriers to global free trade: The elimination of trade barriers will open burgeoning foreign markets in the increasingly global economy to American-made goods and services (as well as American-style democracy and free enterprise), assure the best quality products at the most competitive prices for American consumers, and stimulate economic growth at home and abroad.
- Increase the opportunity for all Americans to learn and to apply new skills: This holds the key to unlocking the productive capacity of every family and individual to earn higher wages and living standards by learning and applying new skills to more productive and rewarding work. In the new global economy America's choice is: high wages (from continuously learning and applying new skills to add more value to goods, services and products) or low skills (which will earn relatively lower wages in the face of technological advance and, literally, billions of workers around the world striving to build a better future for themselves and their families). Investing in skills and lifelong learning is a paramount national economic priority for the United States.
- Transform the federal government: Move toward a government that is smaller, focuses on fewer priorities in which it can play a constructive role, and fully recognizes the costs and benefits of any regulation or mandate it imposes. This is more than just a reinvention of how the federal government does business; it is a total transformation what the federal government does as well.
- Increase the investment in technological innovation and encourage its application in the workplace: Increasing the rate of productivity increase depends on applying higher skills to new technology so that greater value is added to the goods and services produced and distributed per hour of work. The difficult issue here is what role government can constructively play in developing and exploiting new technology.
- Evaluate the extent to which the evolution from a national to a global economy has a counterpart in the evolution of the national economy into the sum of a shifting set of local regional economies. This will involve determining the extent to which such evolutions in the basic economic building blocks may alter national economic analysis and policy. Although this is the most tentative and exploratory of the components of national economic policy, it may have far-reaching implications in the future—for defining appropriate federal priorities, roles, regulations—mandates, and relationships with states, localities, communities, regions, firms and families.

In sum, there are three reasons for such an approach to the role, function, and structure of the NEC:

- Over the next two years when we do not control congressional calendars, issues, and legislation, it is critical that we have a clear national economic policy to guide both our direct communications with the people and constituents and our cooperation, counterpunches, compromises, and vetoes with the Hill.

- We cannot beat any economic policy posed by the Republicans unless we go directly to the people with a clear national economic policy of our own. The President deserves the opportunity to articulate a clear national economic policy to capture a new majority of American voters.
- An NEC honest broker operating without an established, presidentially approved NEC policy direction may help to reach consensus among competing agencies and constituencies or to present competing options to the President, but such an honest broker without a clear direction does not necessarily help to articulate, let alone implement a compelling national economic policy for the President."

VI. BRIEF BIOGRAPHIES OF NEC POLICY STAFF

NEC STAFFING MEMORANDUM

Date: 7.19/95 Action/Concurrence/Comment Due By: _____

Subject: Long Range Plan

	ACTION	FYI		ACTION	FYI
Laura Tyson	<input type="checkbox"/>	<input type="checkbox"/>	Elaine Mitsler	<input type="checkbox"/>	<input type="checkbox"/>
Bo Cutter	<input type="checkbox"/>	<input type="checkbox"/>	Vicky Poppiti	<input type="checkbox"/>	<input type="checkbox"/>
Gene Sperling	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Dorothy Robyn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tom O'Donnell	<input type="checkbox"/>	<input type="checkbox"/>	Heather Ross	<input type="checkbox"/>	<input type="checkbox"/>
Lael Brainard	<input type="checkbox"/>	<input type="checkbox"/>	Ellen Seidman	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Julia Chamovitz	<input type="checkbox"/>	<input type="checkbox"/>	Dan Tarullo	<input type="checkbox"/>	<input type="checkbox"/>
Paul Deegan	<input type="checkbox"/>	<input type="checkbox"/>	Helen Walsh	<input type="checkbox"/>	<input type="checkbox"/>
Michael Deich	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Dena Weinstein	<input type="checkbox"/>	<input type="checkbox"/>
Paul Dimond	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Wendy Einhellig	<input type="checkbox"/>	<input type="checkbox"/>			
Michael Froman	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Robert Gordon	<input type="checkbox"/>	<input type="checkbox"/>			
Elgie Holstein	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Gay Joshlyn	<input type="checkbox"/>	<input type="checkbox"/>			
Tom Kalil	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Bob Kyle	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
David Lane	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Liz Lindemuth	<input type="checkbox"/>	<input type="checkbox"/>			
Theo Lubke	<input type="checkbox"/>	<input type="checkbox"/>			
Kathryn Mack	<input type="checkbox"/>	<input type="checkbox"/>			
Sonya Matthews	<input type="checkbox"/>	<input type="checkbox"/>			
Mark Mazur	<input type="checkbox"/>	<input type="checkbox"/>			
Elena McCoy	<input type="checkbox"/>	<input type="checkbox"/>			

Remarks: Deegan will call Tom to discuss the attached

Response: _____

David Lane
Executive Director
Ext. 6-5352

MEMORANDUM FOR LAURA TYSON

From: Erskine Bowles
Date: July 17, 1995
Subject: COMMENTS ON LONG RANGE PLAN

I am attaching a reformat of your long range plan, to which you have agreed to be held accountable.

Many of the goals you have listed either do not have a due date or do not have a contact person who is responsible for accomplishing the task. In my experience, if a goal does not have a particular person held responsible for accomplishing it, or does not have a date when that goal is to be accomplished, it rarely gets done. Thus, I would like for your office to revise your plan to include this important information.

Thank you for your work in this regard. We look forward to meeting with you on a regular basis to review the progress you and your team are making in accomplishing each one of these specific goals. If you have any questions, please let me know.

LONG RANGE PLAN - NATIONAL ECONOMIC COUNCIL

TASK

CONTACT

DUE DATE

INTERNATIONAL ECONOMY

Pursue open and free trade and investment in the Asia Pacific, Latin America, and other regions.		
- Prepare and review free trade proposals for APEC Leaders Summit in Japan.	Kyle	fall
- Continue discussions from Latin America Summit on free and open trade and investment.	Kyle	?
- Begin negotiations with Chile on accession to NAFTA.	Kyle	?
- Seek fast track authority from Congress to pursue trade initiatives that reduce export barriers.	Kyle	?
- Reauthorize the Export Administration Act to liberalize controls on high-tech exports.	Kyle	?
- Continue to pursue market opening with Japan through the Japanese Framework talks.	Kyle	?
- Continue to pursue market openings with other countries on a case-by-case basis.	Kyle	?
- Work to establish an effective WTO and resolve GATT issues from the Uruguay Round.	Kyle	?

G-7 Issues.		
- Follow up on initiatives of the Halifax Summit for a renewed global institutional architecture.	Tarullo	July/August?

European Issues.		
- Explore opportunities for trade liberalization with the European Union.	Kyle	?

1990 WTO Ministerial.		
- Prepare for the December 1996 WTO ministerial dealing with multilateral trade liberalization.	Kyle	?

Other areas.		
- Work on the integration of China, Russia, and other economies into WTO and global economy.	Kyle	?
- Emphasize the integration of the BEMS into the global economy.	Kyle	?

SCIENCE, TECHNOLOGY, AND INFRASTRUCTURE

Restructure the International Telecommunications Satellite Organizations to promote competition.		
- Finalize details of USG proposal to the INTELSAT Working Party on June 13.	Deich	Complete?
- Coordinate the Administration's efforts to build international support for the USG position.	Deich	?
- Support and coordinate interagency efforts to build domestic political support for the USG position.	Deich	?
- Coordinate the development of Administration positions regarding Inmarsat P services.	Deich	?

Amend agreements to provide a more liberal aviation environment with Japan and EU nations.		
- Help to resolve dispute between Federal Express and Japan re: Japan-Phillipines service.	Deich	?
- Coordinate proposals to allow limited antitrust immunity re: "open skies" agreement with German	Deich	?
- Support efforts to negotiate cargo, pricing, charters, and new access UK.	Deich	?

Reform legislation that now hampers the FAA's ability to adopt technologies and new air traffic system.		
- Determine which reforms could be meaningful towards developing a more efficient ATC system.	Deich	?

Obtain Congressional authorization for State Infrastructure Banks.		
- Work with DOT and OMB to develop legislation that gives states option of establishing an SIB.	Deich	?

Update Presidential Decision Directives on commercial space policy.		
- Support interagency review of Administration policy on commercial space launch.	Deich	?
- Seek consistent space launch agreements with Russia, China, and possibly Ukraine.	Deich	?
- Review objections to Administration's policy on commercial remote sensing.	Deich	?

Telecommunications.		
- Work with Congress to pass telecommunications reform legislation that POTUS can sign.	Kalil	?

Research and Experimentation Credit.		
- Extend or make permanent the research and experimentation credit.	Kalil	?

Investments in Science and Technology.		
- Defend the President's investments in science and technology.	Robyn/Kalil	? <i>ongoing</i>

"Information Superhighway" Issues.		
- Continue progress on the Administration's "information superhighway" agenda.	Kalil	?
- Promote applications in education, training, electronic commerce, health care, and govt. services.	Kalil	?

Export-Import Bank Issues.		
- Provide policy guidance to Ex-Im Bank on applications such as the Pratt-Whitney issue.	Robyn	? <i>Aug.</i>

MARKETS/REGULATORY ISSUES

Achieve financial services reform, including regulatory relief and solutions for the SAIF.		
- Ensure that legislation repealing Glass-Steagall maintains integrity of the financial system.	Seidman	?
- Play major role in helping Congress structure and pass a long-lasting SAIF fix.	Seidman	?

- Work to completion of Home Loan Bank reorganization legislation.	Seidman	?
Complete work of Advisory Comm. on Greenhouse Gas Reduction from Personal Motor Vehicles.		
- Develop a report that maximizes the consensus possible in the committee.	Seidman	?
Pension Simplification Legislation.		
- Complete legislation that increases funds available to plan participants, reduces plan terminations, and increases plan coverage.	Seidman	?
- Ensure that the President gets credit for this initiative, especially with small businesses.	Seidman	?
Keep the Administration well-positioned in the debate re: disaster (earthquake) insurance.		
- Ensure that legislation meets Administration guidelines and does not shift risk to federal govt.	Seidman	?
Achieve regulatory reform legislation in the Congress that POTUS can sign.		
- Work with WH offices to maximize Administration visibility and credibility on regulatory reform.	?	?
- Champion reform in ongoing rulemaking and REGO II deliberations.	?	?
- Excise language antithetical to reform from Administration statements to the public and the Hill.	?	?
- Work with Administration and Hill to develop legislation that streamlines/lightens regulations.	?	?
- Reduce 100+ page procedural bills to circa ten-page performance-based mandate.	?	?

HUMAN CAPITAL

Assure acceptance of the major principles of the President's G.I. Bill by end of Congressional session.		
- Implement these basic principles through Administrative actions and Presidential leadership.	Dimond	December
- Implement the Technology Learning Challenge throughout the next year.	Dimond	December
Work with Congress to support and implement HUD Reinvention.		
- Substitute public and project-based housing with vouchers.	Dimond	?
- Consolidate many programs into two grants for community development and housing.	Dimond	?
- Partner FHA with financing sources to expand homeownership in underserved markets.	Dimond	?
- Support revisions to HUD's Urban Report to ensure that EZs, CDFIs, etc. are highlighted.	Dimond	?

ENVIRONMENT / NATURAL RESOURCES

Enact legislation that reauthorizes and reforms the Superfund program.		
- Support reforms that speed cleanups, reduce costs, and enhance state participation.	Holstein	?

- Preserve the core liability concepts that are at the heart of the Superfund program.	Holstein	?
Enact legislation that lifts the 22-year ban on exports of Alaska North Slope crude oil.		
- Influence the outcome of pending Congressional action to reflect the President's concerns.	Holstein	?
Uranium Issues.		
- Develop options for the purchase of Russian uranium from dismantled nuclear weapons.	Holstein	?
- Finalize a privatization plan for U.S. Enrichment Corp. that provides a reasonable financial return	Holstein	?

GENERAL ECONOMY

Support outstanding economic initiatives, both with Congress and within the Administration.		
- Middle Class Bill of Rights.	Tyson	?
- Minimum Wage.	Tyson	?
Organize continuing series of regional economic conferences highlighting Administration successes.		
- Pacific Rim Economic Conference in Portland.	Lane/Holstein	June
- Additional conferences in Northeast, Mountain West, and Midwest.	Lane/Holstein	?
- Maximize local and regional media attention to the President's economic successes.	Lane/Holstein	?
Tax Reform.		
- Develop tax reform/simplification policy that assures revenue neutrality.	?	?
- Develop policy that promotes fairness, simplicity, and efficiency.	?	?

THE WHITE HOUSE
WASHINGTON

June 15, 1995

MEMORANDUM FOR LEON PANETTA

FROM: Laura D'Andrea Tyson
SUBJECT: Long Range Plan

I. International Economy

The priorities of our International Economic Affairs Directorate for 1995 are a continuation of the work we have been engaged in over the past two years to develop the international economic architecture for the future:

Goal: Continue to pursue open and free trade and investment in the Asia Pacific, in Latin America and other regions. (Kyle)

Objectives:

- Prepare for APEC Leaders Summit (Fall 1995) in Japan to review a copy of the blueprint setting forth proposals to achieve free and open trade in the region by no later than 2020.
- Continue the discussion process begun at the Latin America Summit to achieve free and open trade and investment in the Western Hemisphere and start negotiations with Chile on accession to NAFTA.
- Seek fast track authority from Congress in 1995 to pursue trade initiatives in order to reduce barriers to U.S. exports without hurting national security.
- Reauthorize the Export Administration Act to adopt administrative reforms that liberalize controls on high-tech exports.
- Continue to pursue market-opening with Japan in the Japanese Framework talks and with other countries on a case-by-case basis.
- Work to establish an effective WTO and resolve the GATT issues left over from the Uruguay Round (financial services and basic telecommunications).

Goal: Laying the groundwork in the G-7 and following up the initiatives of the Halifax Summit for a renewed global institutional architecture capable of successfully meeting the economic challenges of the 21st century. (Tarullo)

Goal: Explore opportunities for trade liberalization with the European Union. (Kyle)

Goal: Prepare for the December 1996 WTO ministerial that will deal with further multilateral trade liberalization. (Kyle)

Goal: Work on the integration of China, Russia and the economies-in-transition into WTO and the global economy. Also emphasize the integration of the BEMS (Big Emerging Markets) into the global economy. (Kyle)

II. Science, Technology, and Infrastructure

Goal: Restructure the International Telecommunications Satellite Organizations (INTELSAT and INMARSAT) in a way that promotes rather than inhibits competition in the market for international satellite services. (Deich)

Objectives:

- Develop Administration consensus on final details of a USG proposal to the INTELSAT Working Party on June 13.
- Coordinate the Administration's efforts to build international support for the USG position -- including interventions in various international forums by State, Commerce, Treasury and the White House.
- Support and coordinate interagency efforts to build domestic political support for USG position -- largely from US satellite producers, US consumers of satellite services and from US-owned, separate satellite systems.
- Coordinate the development of an Administration views on whether Inmarsat P has been implemented in a way that meets the criteria set out by the USG last fall, and if not, whether COMSAT should be allowed to offer Inmarsat P services within the US.

Goal: Amend bilateral agreements that provide a more liberal aviation environment with Japan and certain EU countries. (Deich)

Objectives:

- Coordinate and support Departmental efforts to resolve the dispute between Federal Express and the Government of Japan regarding Fedex's desire to operate between Japan and the Phillipines.
- Coordinate Administration consideration of proposals to allow limited antitrust immunity for certain code-sharing operations in the context of some type of "open skies" agreement with Germany.
- Support efforts to negotiate cargo, pricing, charters and new access UK.

Goal: Achieve legislative reforms in some of the personnel, procurement and budget constraints that now hamper the FAA's ability to adopt new technologies and a more efficient air traffic control system. (Deich)

Objectives:

- Coordinate the development of an Administration position on whether to accept any substantive reforms other than a government-corporation as meaningful steps toward developing a more efficient ATC system.

Goal: Obtain congressional authorization for State Infrastructure Banks (SIBs) similar to those proposed in the President's Budget. (Deich)

Objectives:

- Work with DOT and OMB to have included in legislation designating a "National Highway System" a provision that would allow states the option of using transportation funds to establish a State Infrastructure Bank.

Goal: Update Presidential Decision Directives on commercial space policy. (Deich)

Objectives:

- Support interagency review of Administration policy on commercial space launch; support implementation of decision to seek greater consistency in space launch agreements with Russia, China and (potentially) Ukraine.
- Review the objections by Sen. Bingaman and other Congressional critics to the Administration's policy on commercial remote sensing.

Goal: Work with Congress to pass telecommunications reform legislation that the President can sign. (Kalil)

Goal: Extend or make permanent the research and experimentation credit. (Kalil)

Goal: Defend the President's investments in science and technology, especially Commerce Department's Advanced Technology Program, ARPA investments in dual-use technologies, and High Performance Computing and Communications Initiative. (Robyn/Kalil)

Goal: Continue progress on the Administration's "information superhighway" agenda, including promotion of applications in education, training, electronic commerce, health care, and delivery of government services. (Kalil)

Goal: Provide policy guidance to the Export-Import Bank regarding applications such as the one submitted by Pratt-Whitney in which it requests financing for the export of P-W engines for use on Ilyushin-96 aircraft. (Robyn)

III. Markets/Regulatory Issues

Goal: Achieve major financial services reform, including regulatory relief and a solution to the structural problems of the Savings Association Insurance Fund. (Scidman)

Objectives:

- Ensure that legislation repealing Glass-Steagall also maintains the financial and structural integrity of the financial system, and the Administration's role in its regulation.
- Take a constructive, catalytic role in helping Congress structure and pass a long-lasting SAIF fix.
- See Home Loan Bank reorganization legislation through to a successful conclusion.

Goal: Bring the work of the Advisory Committee on Greenhouse Gas Reduction from Personal Motor Vehicles to a successful conclusion, on time (end of September). (Seidman)

Objectives:

- The committee's report should maximize the consensus possible in the committee, even if the committee cannot agree on strategies to fully return greenhouse gas emissions to 1990 levels by 2005, 2015 or 2025.

Goal: Complete pension simplification legislation that (i) increases funds available to plan participants; (ii) reduces plan terminations; and (iii) increases plan coverage, with the President getting credit, particularly with small business, for proposing the package. (Seidman)

Goal: Keep the Administration well-positioned in the debate concerning disaster [earthquake] insurance. (Seidman)

Objectives:

- Make certain that any legislation enacted by Congress meets the principles enunciated in the Administration's policy paper and, in particular, does not shift uncompensated insurance risk to the federal government.

Goal: Achieve regulatory reform legislation in this Congress that the President can sign.

Objectives:

- Work within White House processes to maximize Administration visibility and credibility on commitment to reform. Champion reform in ongoing rulemakings and REGO II deliberations; pursue major opportunities for reform through administrative actions; excise language antithetical to reform from Administration statements to the public and the Hill.
- Find and build Administration and ultimately Hill support for a legislative position that actually does streamline and lighten regulatory burdens. Reduce current 100+ page procedural bills to circa ten-page performance-based mandate.

IV. Human Capital

Goal: Assure acceptance of the major principles of the President's G.I. Bill for American workers in legislation by the end of this session of Congress. (Dimond)

Objectives:

- Regardless of the legislative success, to implement these basic principles as fully as possible through Administrative action and Presidential leadership under existing authority.
- Implement the Technology Learning Challenge throughout the next year to demonstrate (1) the full potential of new, interactive learning technology to improve lifelong learning and (2) the extent of the market in schools, homes, and workplaces for such interactive learning and communication.

Goal: Implement HUD Reinvention in support of the following basic principles:

- to end public and project-based housing as we know it by substituting a rapid transition to vouchers
- to consolidate dozens of separate programs into two, performance-based, incentive block grants for community development and housing
- to create a much more agile FHA to partner with other major financing sources to expand home-ownership opportunities in underserved market niches. (Dimond)

Objectives:

- provide support to enact major elements of these reforms in this session of Congress
- provide support to implement administratively as much of the principles of this reform as possible
- support the revisions to HUD's Urban Report to make sure that such New Covenant approaches (empowerment zones and CDFIs, in addition to the HUD Reinvention) are highlighted.

V. Environment/Natural Resources

Goal: Enact legislation re-authorizing and reforming the Superfund program, while preserving its fundamental tenets. (Holstein)

Objectives:

- To preserve the core liability concepts that are at the heart of the Superfund program, while supporting reforms designed to speed cleanups, reduce costs, and enhance state participation.

Goal: Enact legislation lifting the 22-year ban on exports of Alaska North Slope (ANS) crude oil. (Holstein)

Objectives:

- To influence the outcome of pending congressional action relating to ANS exports so that it reflects the President's concerns: environmental protection, preservation of West Coast refinery employment, retention of Presidential energy emergency authorities, and compliance with international trade principles.

Goal: Respond to the national security need to purchase uranium from decommissioned Russian missiles, coordinated with the development of a plan to privatize U.S. uranium enrichment services. (Holstein)

Objectives:

- To develop options for the purchase of Russian uranium that will provide acceptable cash flow to Russia in exchange for uranium from dismantled nuclear weapons. To finalize the privatization plan of the U.S. Enrichment Corporation to create a viable private corporation while providing a reasonable return to the Treasury.

VI. General Economy

Goal: Continue promoting outstanding Administration economic initiatives, including the Middle Class Bill of Rights (Child Tax Credit, Education tax deduction, IRA expansion and the G.I. Bill for America's Workers) and increasing the Minimum Wage. (NEC)

Objectives:

- To advance these issues with Congress as appropriate and ensure that they continue to be in the forefront of the Administration's economic planning and strategy.

Goal: To organize a continuing series of Presidential regional economic conferences highlighting the Administration's economic successes. (Lane/Holstein)

Objectives:

- On June 27th, the Pacific Rim Economic Conference -- the second in a series of regional economic conferences -- will be held in Portland, OR. Additional conferences in the Northeast, Mountain West, and Midwest will follow. The objective is to maximize local and regional media attention to the successes of the Clinton economic philosophy and programs.

Goal: Develop tax reform/simplification policy options that promote (i) fairness, (ii) simplicity, and (iii) efficiency, while assuring revenue neutrality.

cc: Erskine Bowles, Harold Ickes

THE WHITE HOUSE
WASHINGTON
MEMORANDUM

To: Tom O'Donnell
From: Tom Kalil TAK
Re: NEC accomplishments, areas for improvement
Date: October 13, 1996

This memo discusses the NEC's accomplishments in the area of technology policy and the National Information Infrastructure. In these areas, the NEC staff was part of a small White House "team" that included the Office of the Vice President and the Office of Science and Technology Policy.

The NEC plays a variety of roles, including:

1. Serving as "honest broker" in the development of common Administration-wide positions;
2. Generating "new ideas" and helping to set the Administration's agenda in a particular policy area;
3. Serving as an advocate for Presidential priorities both internally (within the government) and externally (broader public);
4. Interacting with specific "policy networks" (Congressional committees, agencies, companies, public interest groups, industry associations, specialty press, the "attentive" public, etc.).

I spent more of my time on 2-4 than 1. The reason for this is clear. Although some policy areas were controversial (e.g. encryption) and required inter-agency deliberation, many did not. No agency was against using the Internet to disseminate more information, but few members of the Cabinet and sub-Cabinet were aware of its potential. No agency was against connecting all schools to the Internet by the year 2000, but actually making it happen will require the cooperation of teachers, CEOs, governors, local communities, etc.

Specific NEC accomplishments are outlined below:

A. Technology policy

1. Wrote (with OSTP) *Technology for America's Economic Growth*. This was the February 1993 document that set the Administration's technology policy.
2. Helped develop the S&T budget included in the President's economic program. This budget included:
 - An expansion of the Commerce Department's Advanced Technology Program, from \$68 million in FY93 to \$750 million in FY97.
 - Sufficient funding of the Manufacturing Extension Partnership to meet the President's campaign promise of creating 100 manufacturing extension centers.
 - An increase in "dual-use" R&D through the Technology Reinvestment Program and other ARPA programs.
 - Strong support for basic research at NSF and NIH.
 - An increase in the national lab budgets devoted to technology transfer.
 - Increased funding for specific technologies such as environmental technology, renewable energy, high-performance computing and communications, the "Clean Car", etc.

The 104th Congress targeted some (although not all) of these programs for elimination, but the White House was able to secure some level of funding for them.
3. Helped manage Administration's relationship with important industry sectors. An example of this was the annual meetings with the CEOs of the computer industry held with Rubin, Tyson, and other Administration officials. This process eventually led to major reforms in export controls on computers and encryption.
4. Led the inter-agency process that lead to the President signing anti-trust reform legislation.
5. Fought for extension of the R&E tax credit.

B. National Information Infrastructure

1. Helped draft the Administration's September 1993 *NII Agenda for Action* and February 1995 *GII Agenda for Cooperation*. These documents set the Administration's agenda in a variety of areas, including:
 - Telecommunications reform;
 - Spectrum allocation;
 - Information policy (privacy, security, intellectual property, dissemination of government information);
 - Promotion of applications in areas such as education, health care, delivery of government services, digital libraries, improving the lives of Americans with disabilities, etc.; and,
 - International cooperation/market access.
2. With OSTP and the Commerce Department, established the Information Infrastructure Task Force. This was the organization that was responsible for implementing the *NII Agenda for Action*.
 - The NEC tasked the IITF with developing a series of 14 white papers on NII applications.
3. Drafted the Executive Order that established the NII Advisory Council. This led to broad private sector support for the Administration's goal of connecting every school and library to the "information superhighway" by the year 2000.
4. Worked with OVP to negotiate a telecommunications bill that the President could sign. The Telecommunications Act of 1996 was the first major legislative reform in 62 years.
5. Served as the national coordinator for the 11 G-7 Global Information Society pilot projects.
6. Helped develop (with Paul Dimond and others) and implement the President's Educational Technology Initiative.
 - Responsible for President's support for NetDay, which has become a grassroots movement active in 49 states plus the District of Columbia.

7. Launched (with OVP) the Leland Initiative, a program to expand Internet access in 20 African countries.
8. Developed the "Next Generation Internet" initiative announced by the President on October 10, 1996.
9. Developed an Administration policy on siting of wireless facilities that is designed to allow roll-out of new wireless services while protecting environmental concerns.
10. Served as an advocate for expanded government use of the Internet for:
 - Dissemination of government information;
 - Delivery of government services; and,
 - Two-way interaction with the public.
11. Helped develop Administration's policy on health care applications of the NII, including:
 - HCFA reimbursement for telemedicine on a pilot basis;
 - Increased availability of consumer health information;
 - Government-wide database of telemedicine projects;
 - Privacy of medical records.

What could the NEC have done better?

1. Better articulation of an overall "NEC agenda." It would have been helpful at the beginning of each year to identify the "top 10" list of things the NEC Chair and staff want to accomplish.
2. More teamwork between NEC staff. The atmosphere was very collegial, and there was cooperation on an ad hoc basis, but there is definitely room for improvement. Examples:
 - Exploration by several NEC staff of the "new economy."
 - More sharing of lessons learned on "tactics" and "process."
 - * Putting together a Presidential event
 - * Chairing an inter-agency working group
 - * Getting an Executive Order signed
 - * Setting up a Federal Advisory Committee
 - * Effective working relations with other White House offices
 - * Effective participation in the budget process

3. Greater leverage of talent, ideas, and expertise both within and outside the federal government.
4. Closer working relationship with OSTP. Although OSTP has significant resources (staff, expertise) -- they tend to be less familiar with the overtly political process of moving an agenda through the White House. A closer NEC/OSTP working relationship might have leveraged the comparative strengths of the two organizations.
5. More active efforts to recruit people to specific positions within the government. I was repeatedly struck by the importance of having good people at the sub-Cabinet level to develop and implement the President's agenda.
6. More attention to identifying "cuts." A "cut and invest" strategy won't work without identifying areas that are of lower priority. I know that I certainly spend too much time learning about the programs I liked and not enough time identifying low priority or poorly executed programs.

THE WHITE HOUSE

WASHINGTON

October 4, 1996

INFORMATION

MEMORANDUM FOR LAURA TYSON

FROM:

BOB KYLE *RK*

LAEL BRAINARD *LB*

MALCOLM LEEM *ML*

HELEN WALSH *HW*

SUBJECT: NEC Record - International Trade

We thought it might make sense to respond to your memo of September 26 by providing one memo for the entire International Economics Group.

I. NEC Successes

A. NEC/NSC Generally: The International Office under the combined NEC/NSC has been one of the most successful innovations of the Clinton Administration. Most of the major international initiatives we are confronting in the post-Cold War world involve the intersection of economic and foreign policy, whether it is NAFTA, the Uruguay Round, liberalization of export controls, economic sanctions policy, China MFN or a host of trade disputes involving important allies. The joint appointment of staff to both the NEC and the NSC has also had the benefit of reducing policy parochialism; it encourages sensitivity to both economic and foreign policy concerns. We think this kind of dual tasking should be used more commonly in government.

B. Leading/Coordinating Large Initiatives: The NEC has taken a leading role in virtually every major international economic initiatives of the Administration. As a general matter, the NEC has been most effective in coordinating policy. It should avoid becoming operational. In the case of large, operational initiatives (e.g., NAFTA, Uruguay Round) the process worked best when a separate White House coordinator was named to lead the operational/Congressional effort. Even in these cases, however, the NEC/NSC continued to coordinate the policymaking effort. Examples include:

- NAFTA: The NEC led an interagency principals process that ultimately led to the momentous decision to conclude the NAFTA. NEC was instrumental in ensuring economic agencies' views were

fully aired, adding an important domestic economic rationale to the foreign policy case for pursuing the agreement. The NEC convened a series of principals and deputies meetings to guide key decisions during the negotiation process. In the runup to the Congressional vote, the NEC/NSC continued to provide policy guidance, complementing the operational direction provided by Bill Daley and White House staff. Since the NAFTA was ratified, the NEC has played a central coordinating role on controversial implementation issues. NEC decisions have struck a careful balance between domestic political considerations, economic considerations, and foreign policy considerations in implementing the trucking provisions and responding to allegations of injury by the domestic tomato industry and the domestic broomcorn broom industry.

- Uruguay Round: The NEC led the policymaking process involved in every step of the Uruguay Round process, from the decision to secure the initial fast track authority in 1993 to final negotiating positions to policy decisions regarding the content of the implementing legislation. Again, the NEC operated most effectively when it left negotiating to USTR and the Congressional effort to John Emerson, the White House coordinator of the Congressional effort. But Bo Cutter convened weekly meetings of a small interagency group that provided a consistent policymaking forum for deciding the multitude of policy issues that needed to be addressed to secure final passage of the agreement.

- China MFN: The China MFN process has gone through an evolution in which the NEC has developed an increasing leadership role. The first policy decision actually was made during the election campaign, when the President favored linking China MFN and human rights. The 1993 decision to continue that linkage occurred through a fairly informal process led chiefly by NSC and State, with NEC playing a moderating but secondary role. Largely because of dissatisfaction with the 1993 process/result, the NEC and NSC led a more formal process in 1994 resulting in delinkage. The process probably took too long, permitting interagency disagreements to emerge publicly before the President made his decision. But the NEC/NSC process honestly presented all views to the President (including substantial data on the economic effects of various options), then coordinated agency rollout of every dimensions of the announcement.

By 1994 and 1995, a by then formalized NSC/NEC Deputies group organized an effort that won large Congressional majorities on this issue. The 1995 effort in particular required the White House to weave through numerous issues prior to the MFN debate: missile firings in the Taiwan Strait; the ring magnets issue; a burgeoning trade deficit; little progress on human rights and China's failure to comply with our intellectual property

agreement. The breadth of these issues demonstrates why both NEC and NSC joint leadership was critical. The NEC/NSC International Economic Affairs staff worked successfully to forestall alternative resolutions, coordinated cabinet level meetings with members of Congress and generated all of the Administration's issue papers. Laura and Dan held countless meetings and breakfasts with members to generate support. The NEC itself oversaw the intellectual property dispute that yielded, just prior to the MFN vote, a commitment by China to step up enforcement against pirates of American CD's and software.

- Japan Trade Policy: In prior Administrations, Japan frequently played warring agencies against each other regarding disputes with Japan. One of the legacies of the NEC process has been to minimize this phenomenon by creating an NEC process in which all agencies participated. Most outside observers note a striking difference between the unity of this Administration and disunity of those in the past.

This began with an intensive process in 1993 to craft a create a new "results oriented" policy. The Framework Agreement signed by the President in July 1993 has produced over 20 such trade agreements, including a successful auto agreement. Exports in sectors covered by these agreements are up 85% -- total 1995 exports are up 35% since 1993.

At times, action has occurred in this area without interagency consultation. Examples include the decision to seek a new U.S.-Japan semiconductor agreement and various early decisions in the U.S.-Japan auto dispute. But the NEC played an important role in steering the Kodak dispute to the WTO, in ensuring our objectives in a semiconductor agreement were useful and reasonable and in creating more formalized interagency consideration as the auto dispute progressed. Dan Tarullo has helped ensure Japan continues to uphold our bilateral insurance agreement, and has provided active oversight of our dispute over civil aviation, where our economic stakes are enormous. Finally, the NEC has played a central role in articulating the Administration's trade accomplishments with Japan, and ensuring that our claims are well founded.

- APEC: The initial decision to host the first-ever APEC leaders meeting was developed through an NEC-led process. Since that time, the NEC has effectively acted as the "sherpa" in coordinating the policy process that leads to the APEC leaders meeting each year. APEC is similar to the G-7 in that much of the preparatory work is carried out by economic agencies in international meetings. The NEC ensures that the President's priorities are reflected as initiatives are proposed and developed through APEC's myriad working groups and ministerials, negotiates

the leaders statement, and briefs the President on his objectives for the leaders meeting. The NEC is also the primary point of contact for the U.S. CEOs who are appointed by the President to serve on the APEC Business Advisory Council.

- FTAA: The NEC process shaped the economic agenda for the Summit of the Americas, providing policy guidance to economic agencies as they negotiated the Summit declaration. The NEC process led to the decision to pursue free trade in the hemisphere by 2005 -- the commitment that ultimately dominated the positive press coverage of the Summit.

- Trade Message: The NEC has played an important role in coordinating the economic message on trade, which has proven very effective in deflecting attacks and defending the record. The NEC/NSC has developed and coordinated the Administration's message at critical junctures: during the lead-up to the NAFTA and Uruguay Round votes, defending NAFTA in the wake of the Mexican financial crisis, providing the rationale for China MFN renewal, and demonstrating the success of the Japan Framework Agreement. It has played an important role in ensuring consistency among agencies and in ensuring high analytical standards for all quantitative claims.

- G-7 Summits/Halifax Initiatives: Overall, the NEC (through the sherpa) has taken the lead role in organizing all of the annual G-7 Summits. A good example was the Halifax Summit for the which the NEC/NSC pressed, among other things, for initiatives to address the possibility of future financial instability in big emerging markets. It is a good example of the White House exerting leadership to get ahead of potential problems.

- Export Controls: Probably more than any international economic issue, export control policy involves policymaking among entrenched agency interests with strongly differing views and a long history of distrust. The NEC/NSC has been enormously successful in overcoming these differences to secure landmark export control reforms. In 1993, an NEC/NSC process led to the decontrol of \$37 billion worth of U.S. telecommunications and computer exports. To give some sense of the magnitude of this reform, when the Administration took office all computers operating above speeds of 10.5 MTOPS (million operations per second) were controlled. The 1993 reforms decontrolled virtually all computers below 1000 MTOPS. Subsequent reforms have also been achieved.

C. Developing Coordinate Policies/Themes Involving Several Initiatives

- Triple Play: The NEC has also played an important role in bringing coherency to U.S. international economic policy and making sure our communications strategy emphasizes it. A good example occurred in the fall of 1993, when the Administration completed the "triple play" of winning the NAFTA vote, launching the leaders' APEC process and completing Uruguay Round negotiations. We both achieved and communicated a coherent policy, favoring opening foreign markets and creating good jobs in the U.S. This triple play was repeated by another in 1994, when the Administration won the Uruguay Round vote, held the second APEC leaders' meeting and convened the Summit of the Americas to launch the free trade process in this hemisphere.

D. Ensuring Full Consideration of Economic Views

- Sanctions: Over the last two years, there has been increasing resort to economic sanctions as a foreign policy tool. The NEC worked with the economics agencies to ensure that economic implications of possible sanctions options were considered (e.g., Iran-Libya, Nigeria, Liberia, Burma, Vietnam). We coordinated the legislative negotiations on the Iran and Libya Sanctions Act of 1996 and the Cohen legislation on Burma. We established a procedure whereby any agency action taking us down a sanctions path must receive approval from both Sandy Berger and Dan Tarullo.

- Economic Espionage Legislation: The NEC brokered an agreement between economic agencies and the law enforcement agencies on proposed legislation to criminalize theft of trade secrets. The legislation had been under interagency consideration for over a year, with agencies at loggerheads. At the same time, the Congress was considering similar legislation that contained many problematic provisions. The NEC's intervention allowed agencies to agree on an Administration proposal that met economic agencies' concerns while maintaining the core provisions that Justice and FBI believed were essential. Congress subsequently passed legislation that was modeled on our proposal.

- Economic Assistance: The NEC ensured that economic agencies views and sound economic principles were taken into account in the consideration of economic packages for key countries. For example, we worked with the NSC on assistance for Russia, and at a critical time in Russia's reform efforts, we brought in outside experts to present the case to senior NSC officials that there was no alternative to the adjustment path that Russia was pursuing. When State sought to offer loan

guarantees to Turkey, we convened a meeting of economics agencies that provided the analysis used to convince senior White House officials that was not necessary or feasible.

II. Areas of Improvement

The NEC has had a remarkable amount of influence and positive effect, particularly for an entity that has existed for less than one administration. The points below are not meant as criticism as much as how the evolution of this institution should continue.

A. Decisionmaking Process: The NEC process has improved, but still could be better. Early Deputies meetings were inconclusive or reopened earlier decisions. At the same time, the TPRG mechanism, which decided many routine trade issues, became moribund. The institution of weekly international deputies meetings with early circulation of papers and agenda has greatly improved decisionmaking. Beyond this, there needs to be a more active IWG process to settle issues or sharpen them for Deputies consideration. This could be achieved by reviving the TPRG mechanism or by adding more NEC staff with the understanding that they would chair these processes. Since USTR is unlikely formally to forfeit the TPRG role, one solution may be to have NEC play a somewhat greater IWG role as necessary, while pressing greater TPRG activity when that is appropriate.

B. Agency Drives Process Too Much: A second problem has been that agencies sometimes advance their initiatives quite far without interagency review, foreclosing options once the NEC weighs in. Part of the solution is simply to better anticipate initiatives on the horizon and to insist on lower level interagency review (such as through the TPRG). Modest additions to the NEC staff might help monitor the full range of issues developing.

C. Coordination Between Domestic/International Policymaking: When the NEC was formed, there was much discussion of the need to coordinate domestic and international economic policy. We suspect that Laura/Dan may do some of this, but there is very little discussion between, for example, the International Economic Group and Dorothy Robyn/Tom Kalil on how to structure a coherent telecommunications policy that links domestic and international policymaking. This tends not to happen unless some pressing issue invokes both dimensions, as was the case with the recent, good discussion over the position we should take in the WIPO talks on intellectual property. We do not have a specific solution, except to note that this is one area where the original expectations for the NEC may be falling short.

D. Too Little Attention Paid to Agencies: There have been situations in which the NEC/NSC paid too little attention to red flags correctly raised by the agencies. A good example is Global 2000, the trade initiative proposed by the NEC/NSC somewhat belatedly before the Naples G-7 Summit. Various agency officials warned that the proposal had not received sufficient vetting before the summit to be received successfully - and they were right. The lesson is that a healthy respect for agency expertise and career officials is warranted.

E. NEC Role Vis-a-Vis Treasury: The NEC exercises far greater interagency oversight role over other agencies (e.g., USTR) than over the Treasury Department. Undoubtedly, some restraint makes sense, given the sensitivity of some Treasury issues and Treasury's sensible handling of many issues. But some Treasury issues are not unusually sensitive and the unequal treatment is a sore point with USTR. We ought to give greater thought to the types of issues that should be reviewed and the appropriate types of processes.

CC: DAN TARULLO
TOM O'DONNELL

THE WHITE HOUSE

WASHINGTON

October 7, 1996

TO: TOM O'DONNELL

FROM: MARK MAZUR 

SUBJECT: NEC PLANNING ISSUES

This is in response to your request for a discussion of the more and less successful NEC endeavors during my tenure on the staff. As you know, I have been on the NEC staff for only about a year, perhaps limiting the range of my comments. Please let me know if you wish to discuss this memo.

General Achievements of the NEC

The NEC appears to have brought a necessary discipline to the policy-making process in the Clinton Administration. As time has gone by, the role of the NEC has become somewhat institutionalized. Now, many of the agencies expect any serious policy initiative involving economic issues (at least on the domestic side) to go through a rigorous process where the pros and cons of the initiative are debated. This process ensures that either a consensus is forged or the differences sharpened so that higher level participants can make an informed decision.

One aspect of the NEC's imposing discipline on the policy process is the requirement, accepted by all NEC agencies, that all new spending and tax initiatives be "paid for" in the sense of having revenue offsets. This usually places the onus on the proposing agency to generate a revenue item and permits decision makers to weigh the costs and benefits of a policy proposal in fairly concrete terms. This requirement has also prevented a "free for all" from occurring as agencies rush to move programs from the discretionary side of the budget onto the mandatory side, in order to free up scarce resources for other initiatives.

Another achievement of the NEC has been the ability to adapt to changing circumstances. Until the November 1994 election, the NEC presided over numerous discussions on how to improve, expand, or create discretionary spending programs. After that election, it became apparent that discretionary spending would be on a downward path in real and probably nominal terms. The NEC helped organize the various agencies in the "budget wars" that occurred in late 1995 and early 1996. This endeavor helped the NEC gain credibility with the various agencies as an effective participant in the policy development process in an era of increasingly tighter budgets.

My Portfolio

I view my role at the NEC as having three components: (1) to a large extent, I function as a kind of utility economist, able to help other NEC staff in several specific policy areas (e.g., working with Ellen Seidman on retirement issues, with Elgie Holstein on energy issues, with Paul Dimond on economic development issues); (2) by virtue of keeping in close contact with the CEA Members and staff, I act as a liaison between the NEC and CEA on numerous smaller issues that need not rise to the Deputy level or higher; (3) I maintain a portfolio of tax and related issues.

More Successful Efforts

- Generating several revenue raising items that Treasury included in its package for the President's balanced budget submission (e.g., a proposal to increase the caps on amounts that can accumulate in various trust funds without the related taxes being triggered off).
- Working with DPC, EPA, and Treasury staff to develop the Administration's "Brownfields" tax incentive and related proposals (included in the President's FY 1997 Budget).
- Working with DPC staff to develop language on a demonstration program that the Administration used in its negotiations with Congress over Medical Savings Accounts (enacted in August 1997).
- Working with DPC and other agency staff to develop a proposal to provide health insurance subsidies for the temporarily unemployed (included in the President's FY 1997 Budget).
- Working with staff from Treasury, Commerce, OMB, and Labor to develop a way for the agencies to share statistical data without compromising taxpayer-identified information (bill language introduced).
- Worked with NEC, OMB, and HUD staff to develop and promote the homeownership capital gains proposal introduced by the President in August.
- Working with Elgie Holstein and staff from OMB and Energy to respond to increasing gasoline prices in the Spring of 1996. The Administration's response of accelerating oil sales from the Strategic Petroleum Reserve and its patience in dealing with calls for greater action allowed gasoline prices to fall throughout the summer and prevented Congress from enacting an ill-conceived reduction in motor fuel excise taxes.
- Wrote about half of a Chapter in the 1996 *Economic Report of the President* that dealt with tax issues. This Chapter provided strong critiques of broad-based capital gains cuts and the flat tax that have formed the basis for much of the Administration's response on these issues.

- Wrote numerous articles in the *Weekly Economic Briefing*, with areas of emphasis being tax issues, supply-side economics, and energy issues.
- Helped subject numerous tax subsidy proposals to increased scrutiny that resulted in many being rejected as inequitable, inefficient, or having costs that outweighed the potential benefits. Two examples are: (1) the proposal to impose a "tax" or "tariff" on legal immigrants to fund training programs; and (2) the "R-Corporation" proposal of Senator Bingaman (and others) that would have provided an alternative tax system for businesses meeting criteria deemed to characterize "corporate responsibility".

Less Successful Efforts

- Trying to get a serious discussion of tax reform into an NEC-led process. This proved more difficult than expected, because White House participants were concerned about public expectations if it became known that tax reform was under consideration and because Treasury was adamant about maintaining complete control over the tax policy development process.
- Getting a commitment for a serious and impartial evaluation of the effectiveness of the Empowerment Zone/Enterprise Community program. Both HUD and many of the more political people in the White House were reluctant to risk a negative evaluation of this signature initiative. An inability to communicate that a serious evaluation was in the Administration's long run interest, if the program is to be extended or expanded in the future, led to rejection of an analytically objective evaluation through inaction.
- Inability to get the NEC to consider a serious economic comparison of the costs and benefits of the proposed tuition tax deduction and, more recently, the proposed tuition tax credit. In both cases, insufficient attention has been paid to the incentives for schools to increase tuition or decrease financial aid to capture much of the value of the tax break from targeted individuals. Moreover, these proposals raised substantial tax policy and compliance concerns that were generally unaddressed in the decision-making process. In the case of the tuition credit, the policy development process was conducted at a very rapid pace, limiting the ability of skeptics to question the policy desirability of the proposal and to shape the details.

THE WHITE HOUSE

WASHINGTON

October 7, 1996

MEMORANDUM FOR TOM O'DONNELL

FROM: Ellen Seidman

SUBJECT: The NEC

The NEC's Successes

General

1. Getting the economic team recognized as a team and as a real player in domestic policy discussions

There are two major elements of NEC success here: (i) making certain that discussions of domestic issues included consideration of economic elements, both economic issues intrinsic to the particular policy issues under discussion and broader macroeconomic impacts of potential policies; and (ii) bringing team members together so that they could develop a coherent and consistent message. Both the 1993 budget and the 1996 initiatives were key examples of success of this nature. It is also possible that initiatives such as school-to-work and skill grants were able to overcome -- at least at the top political levels -- the bureaucratic imperatives of the Education and Labor Departments in part because the discussion was in the language of economic growth. A structural part of this success was bringing the CEA, with its professional economics expertise, back to the table, where it hadn't been since about 1976. This was particularly apparent in the regulatory reform discussions and in some environmental issues, such as superfund.

2. Adding a coordinating device for non-budget issues to the OMB-based system

OMB runs a very useful set of coordinating mechanisms in the budget, regulatory and legislative arenas. However, these tend to be one-issue-or-regulation-or-bill-at-a-time discussions, and sometimes get held at too low a level to be really creative and constructive. Moreover, at least on budget matters and perhaps regulatory ones, OMB is perceived as a player with a clear agenda, not an "honest broker." The NEC has provided a useful forum for development of policy on a broader basis, at a higher level.

3. Creating a forum for dealing with inherently inter-agency issues, such as pensions, insurance and trade

A number of issues are inherently inter-agency either because more than one agency has clear jurisdiction over it or because no agency is really in charge. For example, pension policy is firmly in the hands of both the Treasury and the Labor Department. And no executive branch agency is responsible for securities law regulation, which is largely the province of the SEC. In these situations, as well as with trade, the NEC was able to establish on-going interagency forums that allowed for coherent policy development and a more unified Administration front than has usually been the case. However, this system has worked less well when one agency has had the lead in an area in which other agencies are interested. Then, a combination of turf consciousness, lack of serious high-level interest on the part of the secondary agencies, and log-rolling made the process less successful. For example, the Treasury was very conscious of wanting to do banking modernization policy by itself and once the NEC working group figured out that earthquake insurance was an issue that needed to be part of a broader natural disaster policy, FEMA decided to pick up the ball and go home.

Substantive successes

1. Pension policy

The NEC has helped take pension policy off the back burner and make it a real success for the Administration. The pension working group -- NEC, CEA, OMB, Treasury, DOL, PBGC -- started in March 1993 and has been working together ever since. It has developed two successfully-enacted pieces of legislation: the Retirement Protection Act to strengthen the traditional pension system and the PBGC, and the pension portions of the minimum wage bill which expand pension coverage by simplifying the system. In addition, the working group served as a forum for discussion and development of administrative actions and for broader policy development and, on occasion, event planning.

2. Urban economic development issues

The NEC helped create a presidential, White-House-based urban economic development policy that simply would not have come out of the agencies left to their own devices. The focus on encouraging private businesses and development rather than government programs, on protecting CRA, using the GSEs and establishing the CDFI fund would not have happened had HUD or Treasury been left to develop the initiatives. Later additions such as brownfields expensing and the more economic-development-oriented second round of EC/EZs also showed the NEC stamp. The NEC was also important in making certain that the first round of EC/EZs relied heavily on private participation and leverage.

3. Maritime subsidies and state infrastructure banks

These two issues came early in the term and could easily have been disasters, because the Administration could simply have pandered to the spending advocates or could have listened to those who wanted to do away with all federal support for either the maritime industry and infrastructure other than highways -- politically thoroughly untenable positions. The NEC helped negotiate intelligent compromise solutions in both cases, and the issues have never seriously resurfaced as problems.

4. Base closure, technology

[I hope you get some good stuff from Dorothy, because these were real NEC successes.]

5. Homeownership, banking regulatory reform (including interstate), BIF/SAIF fix

These are issues where single departments (HUD and Treasury) had the lead and did the vast bulk of the work. However, the NEC, by bringing a White House presence to the issues, was able to (i) in the case of homeownership, take a program that could easily have either languished or become another government spending program, and help HUD keep it focused on partnerships and give the President, not just HUD, credit for it; and (ii) make certain that the banking issues became Administration, not just Treasury, priorities and that Administration priorities within the broader topics were developed and respected.

The NEC's failures

General

1. Letting health care, welfare reform and many of the initial environmental policies develop without sufficient economic policy input

These were largely tactical decisions by Bob Rubin, and may well have been important in enabling the NEC to be successful in many other areas, but all these policies could have benefitted from greater NEC involvement. This is also a set of special cases of a broader problem: the extent to which the NEC can force policy development in areas where politically the best choice appears to be not to have a policy at all. See Car Talk, Retirement income security and civil legal issues, below.

2. Losing much of its policy development focus after November 1994

After about November 1994, the NEC switched largely from assisting in the development of major Administration policies to holding on to what had been developed, working on the budget (done almost exclusively at the most senior levels), and providing a forum for discussion of relatively minor, if annoying issues (e.g., Mexican tomatoes). Much of this was due to (i) the long interregnum; (ii) the Republican sweep in Congress, which left the agencies (and the economic agencies in particular) prone to make their own deals on the hill and the President relatively weak through 1995; (iii) the continuous front-and-center nature of the budget through all of 1995 and 1996; and (iv) the fact that the third and fourth years of a term are largely ones of consolidation rather than new initiatives. Nevertheless, a more focused NEC that had not undergone a 6-month leadership vacuum at just the wrong time might well have been able to be more productive in the second half of the term, in areas other than the budget and individual initiatives.

Specific

1. Financial services modernization

This is one of the major issues for the next decade, and one in which the government has an inherently important role, as regulator, as the center of the payments system and monetary policy, and as participant. At the beginning of the term, OMB, CEA, Treasury and NEC were ready to take on the issue, which would have required a significant amount of both internal resources and outside assistance. For a number of reasons, including Treasury's desire to handle the issue alone, enactment of a law mandating a Treasury study and commission to consider the issue, and thin NEC resources, we never pursued the issue. The result is that, while a fair amount of work has been done on the technology issues, the larger regulatory issues are simply going along with somewhat better coordination, but little serious policy development. Whether the Administration would have been better prepared to work with Congress on banking reform in the 104th had we gotten farther on the issue, or whether the Hill landscape was going to make this a disaster anyway and we're just lucky nothing happened, is unclear.

2. Disaster assistance reform

The NEC working group that was established after the Northridge earthquake was very effective in (i) stopping really bad insurance bailout legislation that was gaining serious momentum; and (ii) getting the Administration a seat at the table in the insurance debates. However, when FEMA decided that the working group was infringing on its turf and had become a opportunity for

the economic agencies to "gang up" (yes, they really used that term) on FEMA, the exercise lost its focus and led to an unpleasant finale on the Hill.

3. Car Talk

It's unclear whether this was a success or a failure. By bringing all the parties together for a year in an unsuccessful attempt to reach some sort of consensus on how best to reduce greenhouse gas emissions from cars and light trucks, the Administration (i) demonstrated exactly how hard this was and (ii) dodged calls for increasing CAFE at a time when politically the Administration did not want to do it, delaying the entire action until after it became clear even to the environmentalists that a press to increase CAFE was likely to be counterproductive. And, moreover, the group that worked together developed a fair amount of understanding of the complexity of the issue from a variety of perspectives and some level of trust for each other. However, as an attempt to come to a positive resolution of a difficult policy issue, this was a failure.

4. Retirement income security

This is clearly a major issue for the second term, and one we all knew would be easier to solve the earlier we tackled it. Yet, neither the NEC nor any of the other policy agencies was able to move on any part of this issue -- except the private pension system -- through the first term. This is not only an NEC failure -- DPC and OMB are other candidates for the title -- but it's an area where one might wish the NEC had figured out some way to move the policy ball without hitting the political third rail.

5. Civil legal issues with economic impacts

Certainly after Peter Yu left, we did not cover this area very well, and neither did anyone else in either Justice or the White House. All parties were dealing with these issues solely as a crisis-oriented sideline, not with the sustained care they deserved. Whether this led to the embarrassing results on securities litigation reform is hard to know; it clearly hurt the White House's ability to be a constructive part of the debate on both securities litigation reform and broader tort reform -- although maybe politically that's where we wanted to be.