December 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING AND BRUCE REED**

RE: **Policy Initiative Memos**

Please find attached additional memos on domestic discretionary spending. We will present the major mandatory initiatives -- health care, child care and the 21st Century Bio-Medical fund -- in the next several days. We will also be sending you a housing and community development memo.

(1) Child Labor Initiative

(2) Community and Economic Adjustment Initiative

(3) New AIDS Initiative

(4) Initiative to Reduce Racial Disparities in Health

(5) Civil Rights Enforcement Initiative

(6) Indian Education Initiative

THE WHITE HOUSE

WASHINGTON

December 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
ANNE LEWIS

RE: PROPOSED BUDGET INITIATIVE ON CHILD LABOR

OVERVIEW

We have been coordinating a process to develop a Presidential initiative on child labor. This memo presents the first -- and most urgent -- decision relating to such an initiative: whether to include new funds in the FY99 discretionary budget to support several programs to fight child labor domestically and internationally. The memo also previews other policies and ways to use the bully pulpit to fight child labor, which we hope would be part of an action plan to be announced early next year, perhaps as part of the State of the Union. You should know that the non-budget items need further review and discussion before they are put forward for your consideration.

THE PROBLEM OF CHILD LABOR

The ILO estimates that there are over 120 million children between the ages of 5 and 14 working "full time," -- though not necessarily illegally. Most are in Asia (61%), with 32% in Africa and 7% in Central America. Proportionally, Africa has the highest incidence of work (40%) among its children. Children under 10 tend to account for as much as 20% of the child labor in rural areas, although this concentration is even greater in certain occupations such as domestic service, and home-based industries. These ILO figures represent a significant upward adjustment from the previous consensus view.

Of course, not all of these children are working in illegal or otherwise unacceptable conditions, but tens of millions are. Occupations that are considered particularly hazardous where there is a high concentration of children are: mining, ceramics, glass work, matches and fireworks, deep sea fishing, and domestic service. Clearly, slavery, usually in the form of bonded labor, trafficking and child prostitution, are also significant problems, but there is less documentation about the extent of the problem.

As the facts above make clear, this is a serious and substantial problem around the world. However, the solutions are far less clear. The reasons families resort to child labor are often economic and cannot easily be overcome. The choice is sometimes not between work and school but between more or less exploitative forms of work. *Therefore it is vital that we examine any project that we support to make sure that we are not harming those we wish to help.*

Domestically, although we have made considerable progress in reducing illegal child labor, significant concerns remain about children working illegally on farms. While there are no reliable numbers giving the dimensions of such work, the best -- albeit conservative -- estimates are that fewer than 200,000 children under 18 work at some time during the year in agriculture, including on family farms. One source suggests that over two thirds of migrant children come from households below the poverty level.[1]

There are two dimensions to this problem of children working in the fields. First, U.S. law governing child labor in agriculture is more permissive than U.S. non-farm labor law and is probably in some areas more permissive than the international standard. For example, children age 12 and 13 may work legally on farms for unlimited hours -- as long as it is outside of the regular school day -- with parental consent. Both the international standard (as defined by ILO Convention #138) and U.S. law governing non-farm labor prohibit most work by children under 14.[2]

The second dimension is inadequate child care and difficulty of completing high school as a consequence of the problems created by migration. Among the many factors which complicate the provisions of services to this population are: the need for older children to stay home from school to care from younger children for whom the parents cannot find or afford child care; long hours that older children work during the growing season; lack of transportation to and from schools; complications arising from frequent changes of schools.

We feel that this is an opportune time to engage this issue, because child labor is gaining prominence on both the domestic and international agendas:

- The FY98 Treasury appropriations included language directing Customs to enforce a ban on the import of goods made with forced or bonded child labor.
- In January 1998, an international coalition of child labor advocates will launch a global march starting in San Diego.

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[1] 1991 Migrant Student Record Transfer System.

[2] Both domestic laws and international standards exempt family farms and "small enterprises." Convention 138 permits light work by children as young as 12, as long as the work is not likely to be harmful to their health or development and does not prejudice their school attendance.

- In June 1998, the ILO will begin debate on a convention prohibiting the most intolerable forms of child labor.

- The Associated Press is expected to publish a major investigative series on domestic farm labor, with some segments dedicated to the problem of child labor.

PROPOSED BUDGET ITEMS

The proposal under consideration could entail additional FY99 funding of:

- **$27 million for the International Programme on the Elimination of Child Labor [IPEC].** The money would be given to the Department of Labor, which in turn would fund projects and research by IPEC.
- **$3 million for the Customs Service** to launch a high visibility effort to enforce U.S. law by stopping the import of goods made with forced or bonded child labor.
- **$50 million for the Migrant Education Program** to: (1) increase participation (2) provide better services during the summer and (3) expand preschool, child care and out of school youth (ages 12-15) services; and
- **$4.1 million for the Department of Labor to double its enforcement of domestic farm labor laws** and significantly improve its data on and documentation of agricultural workers.

Taken as a package, this group of budget items will:

- Establish the United States as the world leader in supporting efforts to reduce child labor internationally through IPEC.
- Enhance Customs' enforcement capacity and thus send a strong signal that the U.S. will not allow the illegal import of goods made with forced or bonded child labor. Specifically, we hope to leverage change in the behavior of U.S. rug importers by raising the specter of a high profile seizure of rugs made with illegal child labor imported from South Asia.
- Enhance our domestic ability to get and keep the children of migrant farm workers in school, document the problems of children in farm labor and enforce the law.

1. $27 Million in New Funds for IPEC

The NEC proposes to increase support for IPEC ten-fold by giving IPEC a total of $30 million in FY99 ($27 million in new funds and $3 million that we already provide) and $150 million over five years for programs aimed at fighting the most intolerable forms of child labor. The Department of Labor would manage the program and give grants and other support to IPEC.

IPEC, an ILO program, was founded in 1992 to finance technical cooperation activities in countries where child labor problems are acute. **IPEC's mission is the progressive elimination of child labor, with a current focus on the most intolerable forms of child labor** such as: bonded and slave labor, commercial sexual exploitation and trafficking, hazardous work and the work by children under 12. IPEC's direct action programs have three key characteristics: sustainable, main-stream, in-country ownership; emphasis on prevention and abolition of the most intolerable forms of child labor by involving the family and developing reasonable educational alternatives; and reliance on partnerships including employers, among others.

In contrast to remedies focusing exclusively on government prohibitions, which may have unintended adverse consequences, such as forcing children out of formal sector jobs into more exploitative informal sector positions, IPEC programs involve families and employers and make available viable educational alternatives for former child workers. IPEC also commits support for serious research and data collection to document the problem of child labor and other efforts to raise public awareness.

IPEC's 1998 annual budget will be no more than $15 million, with a U.S. contribution of $3 million. To date, the U.S has committed a total of $8.1 million.

To maximize the impact of our grant money and ensure that the funds are well-spent, DOL would: focus U.S.-supported projects on the most intolerable forms of child labor; establish parameters for categories of spending; require the ILO to commit additional staff and administrative support to effectively administer the program. We would also suggest that you challenge other countries, business and leading philanthropists to match our contribution.

IPEC has **bipartisan support on the Hill**, including from Senator Harkin, who has called on Secretary Herman to double the U.S. contribution to IPEC, and from Congressman Chris Smith, who has proposed legislation to increase our support of IPEC to $10 million annually. IPEC is generally well regarded by NGOs, who would likely applaud our initiative on international child labor and give high marks to many of IPEC's programs. Business and labor organizations have participated in some key IPEC projects that the U.S. has supported, so we do not expect criticism from either U.S. or international business or labor organizations.

2. $3 Million for Stepped up Customs Enforcement of Ban on the Importation of Goods Made with Forced or Bonded Child Labor.

With clear authority emanating from the FY98 Treasury Department appropriation, the Customs Service will launch an enforcement initiative with the following elements:

- Designation of forced and endentured child labor as a major enforcement priority, with new staff and offices working to document and pursue a high profile case, for instance by targeting a shipment from an individual carpet manufacturer in South Asia after gathering demonstrable evidence of the involvement of exploitative child labor;

- Establishment of a Treasury Advisory Committee to improve coordination and establish a regular dialogue with NGOs, other federal agencies and industry; and
- Creation of a "jump team" capable of conducting investigations of forced and bonded child labor, initially targeted at the rug industry in South Asia.

It is important to note that the World Trade Organization (WTO) does not currently authorize any ban on imports made with exploitative child labor. Further, we must be careful that this inititiative is not viewed by our trade partners as providing license for them to restrict or harass imports of U.S. goods produced using techniques they do not approve. This is particularly important to our agricultural sector, where we have been arguing that the manner in which goods are made (e.g. with hormones or genetic engineering) should not be used as a basis for restrictions. The Customs initiative is carefully designed to minimize the potential for a challenge in the WTO or retaliatory actions, by limiting Customs enforcement to cases of individual shipments or importers where Customs has gathered demonstrable proof of the exploitation of children.

3. $50 Million (for FY99) for the Migrant Education Program [MEP]:

Because of their mobility, migrant children -- more than 80 percent of whom are Hispanic -- often do not "belong" to any one school system or even any one State. That is why the Federal role is critical. Funded at $305 million in FY 1998, MEP is run on a State formula basis for supplemental education and support services for migrant children.

This program supports an extremely wide range of interventions specifically tailored to the needs of the local population it serves. Services range from the identification and recruitment of kids into schools, to all kinds of school-based interventions, to after school programs and summer sessions.

Despite a narrowing of eligibility rules in 1994, the number of participating children has been increasing, in part because of partnerships between MEP and several major agribusiness partners. These partnerships have led to improved service and coordination by local providers (education, health, public safety, and library).

In spite of an increase in eligible students, the MEP has been level funded since 1994. In FY99 at the current level of funding only 75 percent (roughly 550,000 to 600,000) of eligible students will be served. The suggested increase of $50 million would allow the program to serve about half the unserved students and to continue providing a richer array of supplemental educational services. This investment would support the full range of MEP-supported activities, including child care, after-school programs, summer sessions, tutoring and other activities critical to getting and keeping these kids in school.

We anticipate that the Hispanic Caucus and advocates for migrant farm workers would react positively to this proposal.

A $50 million investment in MEP is also included in our Hispanic Education Action Plan.

4. **$4.1 Million for the Department of Labor to Double Enforcement Resources and Collect Data.**

With this additional money, DOL will add 40 FTEs to enforcement initiatives in agriculture (and other low wage industries). Specifically, DOL will replicate efforts like "Operation Salad Bowl" – a targeted enforcement action aimed at child labor violations in the fields. These resources will also be used to support DOL's comprehensive compliance strategy, which combines enforcement with a legal strategy to enhance the value growers, processors, wholesalers and grocery stores place on compliance. DOL will also increase its investment in collecting data on farm labor.

PROS AND CONS OF BUDGET INITIATIVES

Pros:

- Positions the U.S. as a leader in the *mainstream* fight against international child labor, focusing our IPEC support on the most intolerable child labor and focusing our Customs efforts on forced or bonded child labor.

- IPEC's approach has won the support of business organizations who oppose more punitive approaches to the child labor problem.

- The combination of support for the Migrant Education Program and DOL's enforcement is a balanced approach that creates opportunity for kids, but holds employers accountable for any illegal actions.

- Both DOL's and Custom's enforcement approach are aimed at attaining greater *compliance* with the law -- not just catching offenders.

Cons:

- NGOs may view the Customs program as business as usual.

- The ILO may be a lightening rod for criticism, although Senators Hatch and Moynihan are strong supporters.

- Some advocates may claim that this package is inadequate given the magnitude of the problem both domestically and internationally, although we believe that including this budget initiative as part of a broader child labor action plan will mitigate this criticism.

VIEWS AND RECOMMENDATIONS

There is broad support for this initiative among interested agencies. Ambassador Barshefsky, Sandy Berger and Dan Tarullo all support this effort. Secretary Albright also supports it, although wishes to reserve judgement on the specifc funding levels. Maria Echaveste supports this effort. Secretary Herman also supports it and is eager to work on international and domestic child labor issues. Secretary Daley also supports this initiative and Secretary Riley supports increasing the Migrant Education Program. Director Raines supports the initiative, but needs to reserve judgment on the specific funding level. Secretary Rubin supports the initiative, but feels strongly that all international efforts remain focused on the most intolerable forms of child labor. And of course, we at the NEC feel that child labor is an issue whose time has come and that it is a great issue for you to champion at the State of the Union and over the next three years. We hope that we will be able to develop many other policies to support these budget items and create a broader initiative.

PREVIEW OF BROADER CHILD LABOR ACTION PLAN

We are working on a broader intiative and want to give you a sense of the actions and policies we will consider in our NEC process.

A broader action plan to fight child labor would:

- Provide a larger context for the budget initiative, thus leveraging more change as a result of U.S. investment;
- Maximize the impact of the bully pulpit which can be an effective tool in raising public awareness and establishing international and domestic norms; and
- Establish you as a leader in fighting this important problem.

Although we cannot predict the outcome of such a process, items worthy of consideration for inclusion in the larger plan might include:

- Presidential challenge to private organizations, such as the Girl Scouts or the Boy Scouts, to adopt a "No Sweat"policy for procurement of their uniforms.

- Department of Labor child labor enforcement strategy designed to promote greater compliance with current law by encouraging -- through enforcement actions and partnerships -- growers, food processors, wholesalers, and grocery story chains to value compliance by their suppliers.

- Department of Labor grant to support the voluntary adoption of codes of conduct and external monitoring in the garment industry through the Apparel Industry Partnership and its successor, the Fair Labor Association.

- Joint Customs, Department of Labor and Department of State conference with U.S. rug importers and NGOs to urge their support of voluntary efforts to eliminate forced and endentured child labor in the rug industry in South Asia, specifically including broader support of the *voluntary* Rugmark label.

- Presidential support for an ILO Convention on Intolerable Child Labor which will be debated in June, including outreach to employers.

- Plan to consult farm labor advocates and agribusiness community on possibilities for harmonizing U.S. farm labor law and non-farm labor law and/or U.S. law and international law.

- Joint U.S.-E.U. conference with business, government and labor organizations to disseminate best practices on voluntary labelling, monitoring and codes of conduct efforts.

- Seek an amendment to the WTO to authorize a ban on imports made with exploitative child labor. This would complement the Customs enforcement initiative and, if successful, would shield broader Customs efforts from a WTO challenge. While Secretary Rubin supports this worthy goal, he feels very strongly that any effort in this arena should be narrowly construed to target forced and indentured child labor.

These and other proposals will be considered through an NEC interagency process, including in shaping fast track legislation, and presented in a subsequent decision memo.

THE WHITE HOUSE

WASHINGTON

December 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
DOROTHY ROBYN

RE: COMMUNITY AND ECONOMIC ADJUSTMENT INITIATIVE

You announced this initiative on November 5, as part of your Fast Track-related strategy to help workers and communities succeed in a global economy; and the $250 million over five years to fund the initiative is *already* in your FY99 budget. Thus, this memo is not a proposal but rather a summary of the previously announced initiative. In addition, it describes a pilot effort to implement the initiative using existing funds. The Departments of Commerce, Labor and Defense and OMB were involved in putting together this initiative.

Proposal: To help trade-impacted regions compete in a global economy, the Community and Economic Adjustment Initiative will borrow a page from the Administration's successful defense economic adjustment effort. Key elements include:

- **Create Office of Community and Economic Adjustment**: Modeled after DoD's highly respected Office of Economic Adjustment -- the federal government's first point of contact with communities slated for a military base closure -- the Office of Community and Economic Adjustment will provide planning grants and help communities organize themselves and develop an economic adjustment strategy. OCEA will be located in the Commerce Department's Economic Development Administration and will draw on the expertise of staff detailed from DoD.

- **Expand Community Adjustment Assistance by $250 million over 5 Years**: The Administration will propose $50 million per year in additional community adjustment funding as part of EDA's budget. Of this amount, $10 million a year will go for OCEA planning grants; $40 million a year will go to expand EDA's Title IX (Sudden & Severe Dislocation) program, with priority for trade-impacted communities.

- **Coordinate Federal Response**: As OEA has done for base closure communities, OCEA will coordinate the Administration's response to trade-impacted regions by working with Labor, Commerce, USDA, Treasury, SBA, HUD, DOT and other federal agencies. This will ensure that communities are aware of all available federal resources and that federal agencies respond in a coordinated way.

Background: The Administration has had considerable success in helping regions hurt by defense downsizing through its coordinated, community-based approach to providing economic adjustment assistance. Initially developed for communities experiencing a base closure, this approach has been used effectively as well in places such as St. Louis and Ft. Worth that faced defense industry cutbacks. Three features distinguish the approach:

- Focus on community organization and planning
- Targeted support for implementation
- Close interagency coordination

The Administration's secret weapon in this effort has been DoD's Office of Economic Adjustment. Created by Defense Secretary Robert McNamara in 1961, OEA has earned a superb reputation using only limited resources. Key to its success are the following:

- OEA is small, agile and has a focused mission: community organization and planning. Located outside the Pentagon physically, OEA has a community orientation not found elsewhere in DoD.
- As the chair of an interagency committee established in 1970, OEA is at the center of a enduring network of federal adjustment specialists and skilled at helping communities tap into a broad range of federal programs at the appropriate time.
- OEA project managers are economic adjustment experts, skilled at helping catalyze a local, grassroots adjustment planning process, using modest planning grants as a financial carrot to get key stakeholders at the table.

Office of Community and Economic Adjustment: The key to this initiative will be our ability to set up an office in EDA that -- like OEA -- is small, agile and focused on community organization and planning. We are working with senior officials at Commerce to accomplish this. Ideally, we will use OEA project managers on detail to (and paid for by) the Commerce Department. (Although OEA's current portfolio of base closure communities is shrinking, another BRAC round will likely occur in 3-4 years. By detailing some of its project managers to Commerce temporarily, OEA can keep its team together.)

Pilot Effort in Roswell, New Mexico: Last month, Levi Strauss announced that it is closing 11 plants, including one in Roswell, New Mexico. When Sen. Bingaman asked the NEC for help in organizing a coordinated federal response, it presented a good opportunity to test our Community and Economic Adjustment Initiative on a pilot basis. Commerce has agreed to pay for an OEA project manager on detail, who will be assigned to Roswell; EDA also agreed to provide an initial planning grant of $40,000. Administration officials announced both of these steps at a Nov. 22 meeting in Roswell convened by Sen. Bingaman and Rep. Skeen, which brought together community leaders with officials from the White House, EDA, USDA, Labor, SBA and DOE.

December 8, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
CHRIS JENNINGS

SUBJECT: New AIDS Initiative

We have developed a $115 million initiative for your FY 1999 budget to improve AIDS treatment and prevention programs. This increase would go to expand programs that are critical to preventing and treating this epidemic, including the AIDS Assistance Drugs Program (ADAP), which extends life-saving new treatment therapies to low-income and underserved populations.

Background on AIDS Funding

Since you came into office, AIDS programs that focus on treatment and prevention have improved dramatically. Medicaid, which provides coverage for half of all people with AIDS, now covers protease inhibitors. Funding for the Ryan White Program has increased by 200 percent since FY1993, funding for research at NIH has increased by 50 percent since that year, and funding for the ADAP program has increased 450 percent since 1996.

The AIDS community, however, has expressed disappointment with the Administration's recent efforts in this area. AIDS groups criticized the Administration for failing to propose major increases in discretionary spending in FY1998, which allowed Congress to outspend us in this area. And in just the last few weeks, the AIDS community reacted negatively to HCFA's conclusion that budget neutrality requirements prohibit establishing a Medicaid demonstration to provide early treatment to relatively healthy HIV-infected individuals. There is no doubt that the AIDS community will be examining the Administration's FY 1999 budget submission very closely.

Proposal

The AIDS office is recommending, and we agree, that you propose an $115 million increase in your FY 1999 budget for AIDS treatment and prevention. (OMB is currently recommending $100 million). All of this spending would go to existing discretionary programs that emphasize prevention and treatment. We would recommend that the majority of this increase go to the ADAP program, because new and effective treatments of this disease are currently not reaching many who need them. We also would recommend modest increases to CDC prevention education programs, as well as a range of programs providing funds to states, cities, and community health centers.

Although the $115 million that we are suggesting falls far short of the $400 million the AIDS advocates are pushing, it is a significant investment that will improve AIDS treatment and prevention and soften criticism from the community.

Finally, in the wake of HCFA's decision on the Medicaid demonstration program discussed above, Nancy-Ann Min DeParle is looking into the possibility of a legislative proposal (which of course need not be budget neutral) for a model pilot project to expand eligibility to Medicaid for people with HIV earlier in the progression of their disease. As of this writing, we have significant questions about whether such a proposal is feasible and whether it could be done in time for the budget process. At the request of the Vice President, however, we are reviewing all options in this area closely.

December 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING
CHRIS JENNINGS

SUBJECT: Initiative to Reduce Racial Disparities in Health

To support your race initiative, we have developed proposals that would commit the nation to an ambitious goal of seeking to eliminate some of the most severe racial disparities in health care by the year 2010. African-Americans, Hispanics, Native Americans, and Asian Americans suffer from certain diseases up to five times as often as whites. To reduce these disparities, the government will have to make a sustained effort to find effective approaches and apply them across all health programs. We recommend that the FY 1999 budget take a two-pronged approach to this issue by (1) expanding our finest public health programs so that they can address the problem of reducing these disparities, and (2) funding competitive grants to thirty communities to test innovative and promising new approaches in this area.

Racial Disparities in Health Care

The initiative would focus on six of the most severe racial disparities in health care: infant mortality, cancer, heart disease and stroke, AIDS, immunization, and diabetes. Some of these disparities are quite startling. For example, infant mortality rates are 2 ½ times higher for African-Americans and 1½ times higher for American Indians and many Hispanic groups than they are for whites. African-Americans have a 35 percent higher cancer death rate than whites, and African-Americans under 65 suffer from prostate cancer at nearly twice the rate of whites. Similarly, Vietnamese women suffer from cervical cancer at nearly five times the rate of whites, while Latinos have two to three times the rate of stomach cancer. African-American men also suffer from heart disease at nearly twice the rate of whites. Native Americans suffer from diabetes at nearly three times the average rate, while African-Americans suffer 70 percent higher rates. Minorities account for 25 percent of the population yet make up 54 percent of all AIDS cases. The Demographic changes anticipated over the next decade magnify the importance of addressing these disparities. As minority populations grow, finding effective ways to close these gaps will become a critical aspect of improving the overall health of the nation.

Validation

An initiative that sets the ambitious goal of reducing these health disparities would receive overwhelming support from public health groups such as the American Public Health

Association, the American Heart Association and the American Cancer Society, as well as from minority groups such as the Intercultural Cancer Council, the American Indian Healthcare Association, the National Hispanic Council on Aging, and the National Council of Black Churches.

Proposal

HHS is proposing to spend $200 million in FY 1999 for this initiative. OMB is currently recommending an investment of $30 million (along with some retargeting of existing funding streams), with all the new money to go to established HHS programs, and none to the community grant proposal discussed below. (OMB believes that most communities do not have the infrastructure necessary to implement new public health projects in the most efficient manner.) OMB's lack of enthusiasm for this initiative results partly from a fear that we will not be able to reach our goals. DPC/NEC strongly support both parts of this initative. We believe that the initiative will require an additional $80 million and that $30 million of this money should go to the new competitive grant program.

- **Applying Current Effective Public Health Approaches to Eliminate Disparities.** We recommend that you propose $50 million to apply some of our most effective public health approaches directly to reducing racial disparities. Our best public health programs already use effective prevention and education strategies to improve health care. These programs would use additional funds to implement and adapt such proven public health strategies to eliminate racial disparities. For example, CDC's breast and cervical cancer screening program could use additional dollars to target minority communities better, as well as to extend its efforts to other cancers (e.g., prostate and colorectal) disproportionately afflicting minorities.

- **Community Grants to Develop New Strategies to Eliminate Disparities.** Eliminating racial disparities in health care will require not only the focused application of existing knowledge and best practices, but also the development of new approaches. We recommend that you propose $30 million in FY 99 to enable thirty communities to develop innovative and effective ways to address racial disparities. Each community, chosen through a competitive grant process, would commence an intensive program to address one of the six health areas. (For example, a grant might go to a Native American reservation to test innovative approaches relating to diabetes.) These grants would fund education, outreach, and preventive approaches that have not been attempted elsewhere. HHS would hold periodic conferences to educate the public health and minority communities about effective strategies developed by these communities, with the aim of extending these approaches across the nation.

- **Beginning Today to Reduce Disparities.** To ensure that we begin this initiative immediately, we are identifying ways in which the FY 1998 increases in health care can be used to address racial disparities. For example, AIDS education and training centers are beginning a new partnership with the Indian Health Service to develop new approaches to educate health providers about training and prevention. In addition, the National Cancer Institute will expand efforts to recruit more Hispanics into clinical trials.

December 9, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
TOM FREEDMAN

SUBJECT: Civil Rights Enforcement Initiative

We have developed a civil rights enforcement initiative that places a new emphasis on prevention and non-litigation remedies for discrimination while also strengthening civil rights agencies' ability to bring enforcement actions for violations of anti-discrimination law. The plan promotes prevention by providing increased resources for compliance reviews and technical assistance, and offers an alternative to expensive litigation by funding a dramatic expansion of alternate dispute resolution (ADR) mechanisms. The plan also sets specific performance goals for the EEOC to speed its processing of complaints and reduce its backlog, and provides for greater coordination across federal civil rights agencies and offices. The package of improvements totals approximately $100 million, including a 16.5% increase above the enacted FY 1998 budget for EEOC and a roughly 50% increase for the relevant HUD office.

I. Strategies that Promote Prevention and Avoid Litigation

A. Resolving Problems Without Lengthy Court Fights

The plan calls for the dramatic expansion of Alternative Dispute Resolution (ADR) programs across all relevant agencies. The largest initial investment is a $40 million expansion over three years of the EEOC's mediation program. The EEOC currently sends only a small number of cases to mediation. The increased funding will allow upwards of 70% of all complainants to choose mediation, rather than the lengthy process of investigation and litigation. (The remainder will not have this option, either because their cases are seen as the most serious enforcement priorities or because their cases are wholly devoid of merit.) We expect about half of all complainants to choose the mediation option. In addition to the EEOC program, pilot mediation programs will be introduced at HHS and Labor.

B. Spotlighting the Problem and Encouraging Compliance

The initiative includes a fund to improve surveillance, technical outreach, and compliance efforts by civil rights offices. The focus on compliance is reflected in increased support for DOL's Office of Federal Contract Compliance, which ensures that businesses under contract to the federal government implement E.O. 11246 and comply with anti-discrimination law. This $18 million reform will allow the office to increase tenfold the number of compliance reviews it conducts through the introduction of a tiered review system. In addition, the initiative provides $10 million to HUD to conduct a program using paired testers, which is designed to raise awareness of the extent of housing discrimination through the public release of audit results and some focused enforcement action. This initiative also will enable the EEOC to improve compliance through videos for employers and a public service campaign.

II. Making Enforcement Work

A. Resources to Eliminate Backlogs

One of the most common criticisms of federal civil rights enforcement relates to the length of time the EEOC takes to hear and decide cases. This plan uses improvements in technology, mediation, and the addition of over 100 investigators to lower the average time spent resolving private-sector complaints to under 6 months (from the current 9.4 months) and to reduce the inventory from 64,000 cases to 28,000 by the year 2000. The plan also includes two new initiatives at HHS to reduce backlogs by expanding the use of case management techniques and giving state and local civil rights agencies an additional role in enforcement activities.

B. Coordinating and Streamlining Federal Policies

Federal civil rights offices only rarely consult or coordinate with each other. This initiative will institute a standing inter-agency working group to address issues of common interest, including development of strategy, implementation of performance outcome measures, and sharing of training initiatives and data collection.

We also recommend that you begin the process of implementing EEOC's proposal to strengthen its authority to eradicate discrimination from federal agencies, provided White House and Department of Justice attorneys approve the measures. Currently, parties who complain of discriminatory treatment by an agency can request a hearing from an Administrative Judge (AJ) who is an impartial EEOC employee. Agencies, however, can then issue a final agency decision (FAD) rejecting the AJ's decision altogether. Statistics show that agencies modify decisions adverse to them nearly two-thirds of the time, while modifying decisions favorable to them only about 1% of the time. The EEOC proposal would eliminate the FAD process where there has been an AJ hearing, and permit both the complaining party and agencies to appeal the AJ's decision to the EEOC.

C. Modernizing Civil Rights Enforcement

Many civil rights agencies have not received sufficient increases in resources to make use of technology and improve their efficiency. For instance, unlike most of the federal government, EEOC offices lack the ability to communicate with each other using e-mail. The plan includes a $15 million technology initiative for EEOC, HHS, Labor, and Education to provide for communication via electronic mail; eliminate redundant data entry procedures; permit the sharing of information and enhanced research capabilities for investigators and attorneys; allow for the filing of forms and complaints over the Internet; and provide for the sharing of civil rights data bases.

III. Status of Proposals

DPC developed this plan after consultation with representatives of leading civil rights organizations, heads of federal civil rights offices, and other White House offices. OMB has recommended a package of $57 million for this initiative, which will fund some of the measures described here. OMB is currently reviewing other agency proposals, including the $40 million expansion of ADR at EEOC and the $18 million proposal by DOL-OFCCP to expand its compliance program.

December 8, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
MIKE COHEN

SUBJECT: Proposed Budget Initiatives for Indian Education

Last July, a coalition of education-oriented groups from Indian Country proposed a Comprehensive Federal Indian Education policy statement, which emphasized the importance of Tribal governance of Indian Education, the preservation and revitalization of Native languages and cultures, and the need for equitable access to education resources. The coalition also proposed an Executive Order to implement this policy vision.

This proposal has been under review by DPC staff and the Domestic Policy Council Working Group on American Indians and Alaska Natives. Pending a determination as to whether the proposed Executive Order is desirable and likely to be effective in accomplishing its aims, we have begun to identify steps that can be taken right now to improve education for Native American students in schools controlled by the BIA and Tribes, as well as in the public schools attended by large numbers of Indian students.

The full set of initiatives we have developed is summarized below. Most involve ensuring that new education proposals and existing funding streams effectively target resources to schools in Indian Country. In one area -- school construction and maintenance -- we are going further by proposing a significant increase in funds over previous appropriations levels.

Tribal School Construction Proposal

The BIA operates 185 residential and day schools serving 51,000 Native American students, approximately 10% of all Native American students in grades K-12. Enrollment in all BIA schools has increased by 25% since 1987. Enrollment in just the day schools has increased 47% since 1987 and 24% since 1992. Consequently, BIA schools have experienced significant problems with overcrowding. In addition, according to a forthcoming GAO report, BIA schools, compared to schools nationwide, (1) are generally in poorer physical condition; (2) have more "unsatisfactory environmental factors"; (3) more often lack key facilities required for education reform (e.g., science labs); and (4) are less able to support computer and communications technology. Overall, they are in worse condition than even inner-city schools.

We are recommending an increase of $51.4 million over the FY 1998 appropriations (and an increase of $47.6 million over the Department of Interior FY 1999 request) for two Bureau of

Indian Affairs accounts for New School Construction and Facilities Improvement and Repairs. The proposed increase would double funding for new school construction and for significant improvements and repairs of existing facilities. Compared to the BIA FY 1999 request, this step would double the number of new schools to be built from 2 to 3, and increase the number of schools undergoing significant improvements or repairs from 6 to 22. The higher budget request also would provide funds for needed portable classrooms, roof replacements, and other repairs.

	FY98 Appropriations	FY99 BIA Request	FY99 DPC Recommendation
New School Construction	$19.2 million	$20.8 million	$38.4 million
Facilities Improvement and Repairs	$32.2 million	$34.4 million	$64.4 million
Total	$51.4 million	$55.2 million	$102.8 million

The Tribes would view this proposal as a significant step forward in improving the quality of education for Indian students. Congressional delegations from the affected states also would receive the proposal warmly.

This proposal is especially important if you choose to propose a new school construction initiative on the tax side, because Tribes do not issue bonds for this purpose. Even if you choose to propose a school construction initiative on the spending side, this initiative would be valuable. In the Administration's school construction proposal last year, 2 percent of the funds were set aside for a direct appropriation for Tribal schools, over and above the accounts discussed here. This funding, however, is contingent on the passage of a school construction proposal, and in any event, is insufficient to meet the Tribes' needs.

We have developed this proposal with the involvement and support of OMB, the Department of the Interior and the Department of Education.

Other Initiatives

We are working to make sure that other education initiatives proposed for FY99 include an appropriate set-aside for BIA schools and, where feasible, for public schools that serve a large concentration of Native American students. These include:

- Education Opportunity Zones. A percentage of grant funds will be set aside for administration by the BIA, and the Education Department will be encouraged to provide at least one grant to a rural school district with a large percentage of Native American students.

- Early Intervention College/School Partnerships. We are working to determine the best ways to ensure that Tribal Colleges can effectively participate in this initiative, as well as to fund other college/school partnerships in communities with a large percentage of Native American students.

- Child Care. The Child Care Block Grant already contains a set aside for administration by BIA. Proposed funding increases in this program will automatically benefit programs serving Native Americans on reservations.

- Technology. This year the BIA launched Access Native America, an initiative to implement the four pillars of your technology challenge and to connect all schools, classrooms, and libraries to the Department of Interior's Internet backbone by the year 2000. Within the past month, DPC arranged a meeting between BIA staff and the Schools and Libraries Corporation to help Tribal schools take advantage of the e-rate. As a result, the Corporation has agreed that BIA can apply for the e-rate on behalf of all Tribal schools, and BIA has begun to develop materials and plan training so that schools can complete the necessary applications.

- Teacher Preparation and Recruitment. This initiative, which you announced at the NAACP Convention on July 17, helps to prepare and recruit teachers to serve in high-poverty urban and rural communities. At the time this proposal was developed, we did not target funds to Tribal schools. We are in the process of preparing new legislative language to take care of that omission, and will work with our Congressional allies to incorporate it into our proposal.

THE WHITE HOUSE

WASHINGTON

December 10, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**

RE: **Environmental Budget Issues for FY 1999**

As part of our effort to provide you with memos on new ideas prior to your final budget decisions, I asked Katie to provide you with a memo on the new environmental initiatives that she has been working on with the environmental agencies.

Attached is her memo.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

December 10, 1997

MEMORANDUM FOR THE PRESIDENT

JPW for KAM

FROM: KATHLEEN A. McGINTY

SUBJECT: ENVIRONMENTAL BUDGET ISSUES FOR FY 1999

OMB has provided its FY 1999 passback for discretionary spending for Federal agencies and its initial recommendation for uses of the $5 billion in discretionary spending in the Presidential Priority Reserve (PPR). At this point, any unresolved issues concerning discretionary spending in either the passback for current agency programs or proposed new environmental initiatives will have to compete for funding from the PPR.

In general, OMB has proposed an FY 1999 budget that is very strong on overall environmental priorities. However, I believe that the proposed OMB budget falls short in certain key areas, even when the OMB recommendation for additional funding from the PPR is taken into account. As a result, I recommend that another $359 million for water quality and resource stewardship be added to the OMB recommendation for the PPR, not including funding that may be proposed as part of a separate climate initiative.

This memo provides background on environmental funding issues for FY 1999 and summarizes my recommendations for new initiatives for water quality and natural resource stewardship. I also support funding for the new climate initiative, which is being developed through an interagency process chaired by Gene.

THE BBA AND THE ENVIRONMENT

Several environmental programs were included for protection in the Balanced Budget Agreement (BBA), including those counted in the Function 300 budget category. Funding for Function 300 programs offers one of the principal yardsticks for support for environmental programs and includes the environmental parts of the Environmental Protection Agency (EPA), the Department of Interior (DOI), the National Atmospheric and Oceanic Administration (NOAA), the U.S. Army Corps of Engineers (COE), and the Department of Agriculture (USDA).

However, in the FY 1999 OMB passback for nondefense, discretionary (NDD) spending, funding for these programs is down significantly -- both from the FY 1998 enacted level (minus about $1.7 billion) and the FY 1999 level of funding specified in the BBA (minus about $700 million). **OMB recommends a PPR addback of $298 million for these programs; this would still create a shortfall of nearly $400 million from the FY 1999 BBA level.** See Table 1.

THE OMB PASSBACK

The OMB budget proposal for FY 1999 contains significant funding for many important Administration environmental efforts. However, the OMB passback also decreases Function 300 programs by $1.7 billion from FY 1998 enacted levels, mainly in three areas:

(1) elimination of Congressional earmarks and other low priority programs at the Army Corps of Engineers (-$1.1 billion);

(2) reductions in high-priority acquisitions from the Land and Water Conservation Fund (-$750 million); and

(3) phasing down of the EPA State Revolving Fund water quality programs (-$450 million).

These major reductions were offset in part by increased appropriations for Superfund for FY 1999 that Congress provided in advance in FY 1998 but made contingent on enactment of reauthorization legislation (+$600 million).

Although I have concerns about the potential effects of some of these decreases, these reductions do make available resources that can be used for other purposes. It will be easier to sell these reduced levels of funding if we can show that some of the savings have gone to addressing remaining environmental problems.

SUMMARY OF MAJOR OUTSTANDING ISSUES FOR THE PPR

OMB has proposed allocating $298 million from the PPR to Function 300 environmental programs and $200 million to the climate initiative. Much of the final discretionary funding for the climate initiative will be provided though the civilian energy and technology programs of the Department of Energy. These programs are not included in Function 300, but are included instead in Functions 250 and 270. The climate initiative will also include tax incentives.

The proposed OMB level of funding, including the OMB proposed addbacks from the PPR, would not be adequate to fund fully major, new Administration environmental initiatives and existing Administration commitments. The following is a summary of the outstanding issues for Function 300, the OMB level of funding proposed from the PPR, and additional CEQ proposed PPR funding ($359 million). Also, see Table 2.

Water Resources

<u>Second Generation Clean Water</u>

The Administration could launch a major new initiative to define the next generation of clean water protection by committing to restoration of the 1000 watersheds that remain too polluted for fishing or swimming. Uncontrolled runoff from both cities and rural areas continues to generate alarming environmental and public health threats, as illustrated by the dramatic *Pfiesteria* outbreaks in Florida, North Carolina, Maryland, and Virginia. Current programs and regulatory steps will not improve the situation until more steps are taken to address polluted runoff and to implement comprehensive watershed management strategies.

OMB has proposed $248 million for the initiative from the PPR to be added to $180 million already included in the passback. CEQ and EPA support $500 million from the PPR, to be divided among five agencies (EPA, COE, DOI, NOAA, and USDA). This funding would support a variety of activities focused on giving support and incentives to local governments and private landowners to address non-point pollution. (In addition, CEQ and USDA support another $200 million to be provided as mandatory spending through USDA farm programs, not from the PPR.)

OMB has also proposed reducing EPA's water quality State Revolving Fund (SRFs) programs by $450 million from FY 1998, a reduction which EPA opposes. If the Administration does not provide substantial funding for a new water quality initiative, then the proposed reduction to the EPA's SRFs could actually put Administration FY 1999 funding for water quality below the level the Republican Congress was willing to fund in FY 1998.

Deepening of the Port of New York/New Jersey

The Administration could help ensure the economic viability of the Port of New York and New Jersey by proposing to deepen the harbor to 45 feet. Failure to fund this project is a serious, and potentially fatal, threat to the Port and to tens of thousands of union jobs. Major shipping lines are already threatening to relocate to Halifax if the 45-foot deepening project does not begin to move, because these lines already are turning away ships with 45-foot drafts. A current DOT study documents significant cargo diversion from New York to Canada because of this problem.

Funding for this project will support an Administration agreement among environmentalists, longshoremen, and port shipping interests that was announced by Vice President Gore. The agreement resolved controversy over ocean dumping, which had threatened the viability of the Port of New York and New Jersey by blocking harbor dredging for years, and coupled closure of a controversial ocean dumping site with a series of steps to ensure the economic viability of the Port. Although the agreement did not explicitly commit to deepening the harbor to 45 feet, many parties to the agreement believe that it is a necessary step to fulfilling the objectives of the agreement.

The OMB passback includes funding for explicit parts of the agreement but does not include funding for harbor deepening to 45 feet in part because of concerns that the Federal cost could total $540 million. The Port estimates the cost at only $400 million and is prepared to commit to cost-sharing. CEQ supports the Army Corps of Engineers' proposal to provide $32 million in FY 1999 toward harbor deepening while completing a longer-term study about the feasibility of eventually deepening the harbor to 50 feet.

Resource Stewardship

Endangered Species

The Administration is supporting Congressional efforts to provide DOI with additional tools for protecting species as part of a reauthorization of the Endangered Species Act (ESA). These approaches help avoid litigation and gridlock and rely on innovative approaches such as those that provide cooperative incentives to private landowners and prevent crises before they arise through ecosystem management.

However, many of these alternative tools are resource intensive, requiring substantially higher levels of funding to implement than the agency currently possesses. Furthermore, a failure to request an adequate amount of funding for these approaches in the FY 1999 budget could undermine the credibility of Administration's efforts to revise the ESA in a responsible manner.

DOI has proposed $134 million in additional funding for species and habitat funding from the PPR. OMB has recommended an increase of only $50 million but has dealt with some of the species and habitat funding issues separately. CEQ supports $75 million of the additional funding proposed by DOI, if it is focused on ESA reform and other innovative Administration approaches to species and habitat protection.

The Everglades

The Administration presently is implementing a historic plan to save the Everglades. As the Vice President's recent trip to Florida reveals, the success of this plan is very important and highly popular. The current Administration plan for Everglades restoration calls for $100 million a year for the next three years for DOI. However, the OMB passback proposes requesting only $50 million a year for the next six years because of a backlog of money stemming from the slow pace of acquisition deals.

Although land acquisition deals have been moving slowly, the OMB proposed level of funding would definitely be seen as Administration backtracking on its commitment to the Everglades. Indeed, it would be very problematic for the Administration to look like it is backing away from its commitments to Everglades restoration when we are constantly pressuring the State of Florida to maintain its commitments.

A better solution is to step up efforts to clear out the backlog. The Administration recently negotiated a purchase of 50,000 acres in the Everglades Agricultural Area. After local cost-sharing arrangements are worked out, the Federal share of this acquisition could range from $70 to $100 million. The remaining funding would be used for purchases in the East Coast buffer. The next parcel has been identified and processing will begin immediately now that the Everglades Agricultural Area deal is solidified.

CEQ supports DOI's proposal to keep requesting $100 million a year for Everglades restoration instead of $50 million for FY 1999 as proposed by OMB. Further, the additional $50 million should be provided from the PPR and not taken from DOI's base program for other acquisitions.

Land and Water Conservation Fund Acquisitions

OMB is currently working with CEQ, DOI, and USDA on possibilities for increasing funding for the Land and Water Conservation Fund (LWCF) other than using the PPR. Increased funding for the LWCF would make it possible to acquire highly desirable tracts of land such as increased bison rangeland around Yellowstone, prime forest land in the Northeast, and New Mexico rangeland for one of largest elk herds in the world.

Funding for the LWCF is supposed to be provided from Outer Continental Shelf receipts that run about $900 million a year. However, the caps on discretionary spending constrain the amounts that can actually be spent with the result that LWCF appropriations for the last four years have averaged less than $200 million a year. An exception is the $699 million that was secured as part of the BBA, which included funding for the Yellowstone and Headwaters agreements.

The OMB effort to find a new budget approach for funding for the LWCF is an extremely valuable effort and should be highly commended.

Forest Policy

Although levels of funding for national forest policy are not in dispute in the budget, it is worth noting that the FY 1999 budget will provide an excellent opportunity for announcing a far reaching position on managing our forests for the next century. CEQ and OMB are currently working with USDA and the U.S. Forest Service on the content of that position.

Any major forest policy announcement must have three central elements: (1) elimination of unwarranted subsidies such as the purchaser road credit in a way that holds counties and small businesses harmless; (2) a science-based policy to protect remaining roadless areas in national forests; and (3) delinking of current payments to local governments based on the amount of timber that is harvested.

TABLE 1.
OMB PASSBACK FOR ENVIRONMENT PROGRAMS (FUNCTION 300)
COMPARED TO FY 1998 ENACTED AND THE BBA
(in millions of dollars of discretionary budget authority)

AGENCY:	FY 1998 Enacted	FY 1999 BBA Protected	FY 1999 OMB Passback	FY 1999 OMB-BBA
Army Corps	$ 4,058	N.A.	$ 2,988	
EPA	$ 7,361	N.A.	$ 7,395	
DOI	$ 6,245	N.A.	$ 5,591	
NOAA	$ 2,072	N.A.	$ 2,157	
USDA	$ 3,293	N.A.	$ 3,166	
other	$ 239	N.A.	$ 239	
TOTAL	$23,268	$22,222	$21,536	-$ 686

Notes: Detailed Function 300 numbers for FY 1998 and 1999 are not currently available. Therefore, in order to illustrate trends in environmental spending, amounts for agencies are assumed to be as follows -- sums for the Army Corps of Engineers, EPA and NOAA are equal to the agency's total budget; DOI is equal to the agency's budget minus funding for PILT, territories, and the non-environmental part of the Bureau of Indian Affairs; USDA is equal to the total for the U.S. Forest Service and the Natural Resource Conservation Service; "other" is the residual amount for programs in FY 1998 that is unaccounted for when compared to the Function 300 total and is assumed to be the same for FY 1998 and FY 1999.

TABLE 2.
PROPOSED ENVIRONMENTAL FUNDING FOR FUNCTION 300
FROM THE PRESIDENTIAL PRIORITY RESERVE
(millions of dollars of discretionary budget authority)

INITIATIVE:	OMB PPR FY 1999	CEQ ADD TO OMB PPR	CEQ PPR FY 1999
o Watershed Health Initiative	$248	+$252	$500
o ESA Related	$ 50	+$ 25	$ 75
o Everglades	$ 0	+$ 50	$ 50
o NY/NJ Harbor	$ 0	+$ 32	$ 32
TOTAL	$298	+$359	$657

Note: Total does not include potential funding for the climate change initiative, which may be funded through activities other than Function 300 discretionary spending programs. It also does not include the new forest policy or the LWCF, since they do not require funding from the PPR.

THE WHITE HOUSE

WASHINGTON

December 7, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING AND LAWRENCE SUMMERS

SUBJECT: The unified budget surplus and Social Security

Following our previous meeting with you, we have further analyzed the possible options involving the unified surplus and Social Security. As you know, we have been holding an NEC process on these questions, and this memorandum reflects input from participants in that process, including Ken Apfel, Bob Rubin, Frank Raines, Jack Lew, Ron Klain, Janet Yellen, as well as some of your political advisers, including Rahm and Paul Begala. We have also been keeping Erskine up to date, and responding to his input.

This issue brings together three of the most important economic issues facing the Administration: the unified surplus, Social Security, and tax reform. Devoting the surplus in some way to Social Security could prove to be constructive on both policy and message grounds. From a policy perspective, it is desirable now -- when we are doing well -- to prepare for the budgetary challenge that will come with an aging population. And the Social Security problem is more analytically and politically tractable than the Medicare problem. From a message perspective, strengthening the Social Security system may be our best way to beat back proposals to use the surplus for substantial tax cuts or dramatic tax reforms with adverse distributional implications. Any of the approaches delineated below must thus be judged not only in terms of Social Security policy, but also in terms of the wider debate over possible uses of the surpluses.

Since you indicated that you wished to see how a complete package could fit together before evaluating the larger strategic and policy questions, this memorandum first presents the building blocks for reform, then presents a series of illustrative packages, and finally returns to the difficult strategic issues inherent in any of the possible approaches to this issue.

I. Building blocks

The Social Security problem is usually analyzed in terms of the Trust Fund. Under the current intermediate projections of the Social Security actuaries and with no change in policies, revenues and interest on the Trust Fund are sufficient to fund full benefits through 2029. At that point, revenues are expected to be sufficient to fund only about three-quarters of currently promised benefits -- that is, in order to avoid the Social Security system's contributing to the unified deficit, it would be necessary at that point to either reduce benefits by 25 percent or increase revenues by 25 percent, or some combination thereof. In the context of Social Security reform, the long-term gap between revenues and benefits is typically framed in terms of the 75-year actuarial imbalance, which compares the present value of revenues plus the assets currently in the Trust Fund, to the present value of benefits. The result is generally expressed as a fraction of taxable payrolls over the same period. At present, the actuarial imbalance is estimated at 2.23 percent of taxable payrolls. This means that actuarial balance could be restored by raising the Social Security payroll tax to 14.63 percent from its current level of 12.4 percent. To the extent that actions are deferred, the policy corrections would have to be more severe.

A complete package of reforms to the Social Security system that would address the structural imbalance in the program would comprise some combination -- though not necessarily involving all -- of the following four building blocks:

- Traditional solutions, such as benefit reductions or revenue increases;
- Funding from the unified surplus;
- Investments in private securities to raise the rate of return on the Trust Fund; and
- Individual accounts, which provide an alternative source of retiree income.

A. Traditional solutions

The first building block comprises benefit cuts or revenue increases within the Social Security system:

1. Benefit reductions. The entire imbalance could be eliminated on the benefit side, but that would imply approximately a 25 percent cut in benefits. Reforms that are often proposed and that would have the effect of reducing benefits include increasing the number of years used to compute benefits, raising the normal retirement age, reducing annual COLAs, and reducing the adjustment factors used in the benefit computation formula. Actions of this type could be adjusted to achieve differing degrees of progressivity. A more complete menu of such reforms is provided in the appendix.

2. Revenue increases. A second traditional alternative is to raise revenue for the Social Security system. Common proposals in this area include expanding the coverage of the system to include all state and local government employees; treating Social Security benefits like other defined benefit pensions for income tax purposes; raising the payroll tax; or expanding earnings covered by the existing payroll tax. Again, the appendix provides more information about such possibilities.

B. The unified surplus

A second building block is the projected surpluses, which could be used to plug some of the financing gap in the Social Security system or to fund small individual accounts. The appendix provides a menu of possible ways to use the surplus to address the actuarial imbalance in Social Security. But there are two critical issues surrounding the surplus:

1. The perception of a "double counting" problem. Until 2008, the entire unified surplus results from surpluses within the Social Security system. The logic of contributing the unified surpluses to the Social Security Trust Fund could therefore be questioned, since the excess of Social Security taxes over benefits is already credited to the Trust Fund. In effect, the simplest proposals would credit that excess to the Trust Fund twice (producing what many of us have been referring to as the "double counting" problem).

An alternative approach would eliminate the double counting problem by purchasing private securities for the Trust Fund (which would be scored as an outlay), but offsetting those purchases with reductions of the bonds currently held by the Trust Fund (which would *not* be scored). In effect, this approach would eliminate the surplus while merely shifting the allocation of assets held by the Trust Fund (more private securities, less Treasury securities) -- and would not represent double counting because it would not immediately affect the total size of the Trust Fund. It thus has the attraction of eliminating the double counting problem. But the disadvantage is that it relies heavily on a scoring rule that could be changed in the future, especially if those scoring rules are attacked as taking away funds for tax cuts.

2. The fiduciary problem. If specific proposals for the surpluses are put forward, it is far from clear how much of the projected surpluses will be creditable to the Social Security system. The assessment of the impact of policy changes on the Social Security system is the responsibility of the Social Security actuaries, who are likely to find it difficult to credit in current calculations projected surpluses that are not locked in by current budget rule (e.g., paygo and discretionary caps), but are freely at the discretion of future Congresses. Any earmarking of the surplus would require an extension of the budget rules, but such an extension probably could not be taken out beyond the next 10 or 15 years. Therefore, many of your advisers strongly prefer to restrict attention to the near-term surpluses.

Even within the period in which outcomes are constrained by the budget rules, is doubtful that credit could be taken for surpluses of the magnitude now projected for two reasons: First, the benchmark assumption of constant real non-defense discretionary (NDD) may seem implausible and undesirable. Official OMB projections of the surplus are predicated on the assumption that non-defense discretionary (NDD) spending grows at the rate of inflation after 2002. If instead such spending were assumed to remain a constant share of GDP, the projected surpluses would be significantly smaller: $167 billion in 2010, for example, relative to $237 billion if NDD grows at the rate of inflation. (The figures in this memorandum rely on the OMB projections, in which NDD spending is assumed to grow with inflation, not GDP.) Second, although OMB's economic assumptions have proven to be too conservative for five years in a row, the assumptions used by the Social Security actuaries are more pessimistic than those used by OMB, and these differences in assumptions imply a substantially less favorable budgetary outlook.

C. Raising the rate of return earned

Another alternative would be to raise the rate of return earned within the Social Security system. Since 1959, the nominal rate of return to the special purpose bonds held by the Trust Fund has averaged 6.95 percent per year, while the rate of return on equities has averaged 11.06 percent per year. Thus one possible approach to improving the financial status of the Trust Fund would be to allow it to invest in private securities (the appendix provides a menu of possibilities). But purchasing private securities raises a series of difficult issues related to government intrusion in the economy and volatility in the financial markets. For example, who would decide which shares to purchase, how those shares would be voted, which investments would be prohibited (e.g., tobacco) or mandated (e.g., environmental or social concerns), which categories of investments would be excluded by investing solely in indexes (e.g., small businesses that are not publicly held), and how the exposure of the Trust Fund to volatility in financial markets would be handled. Secretary Rubin is particularly concerned about investing the Trust Fund in equities.

Some experts may complain that investing the Trust Fund in private securities is an accounting gimmick, with no real economic consequences. The critical question is what the baseline is: If experts agree that using the unified surpluses to purchase private securities for the Trust Fund prevents them from being dissipated in low-priority spending or consumption-oriented tax cuts, then they are not likely to criticize the strategy (since it produces a positive impact on national saving). If, however, they believe that the baseline is that the surpluses would be used to reduce debt, they could attack the proposal as a shell game. As Chairman Greenspan and others have repeatedly emphasized, allowing the Trust Fund to hold private securities would mean that fewer such securities were held by the private sector. In effect, in the first instance, the proposal involves a simple reallocation of portfolios: the private sector would hold more government debt, and less equity, and the Trust Fund would hold less government debt and more equity.

D. Individual accounts

A final potential building block is individual accounts, which arise frequently in discussions of Social Security reform. From a purely economic perspective, individual accounts have a variety of both attractions and disadvantages. On one hand:

- Small individual accounts could improve norms on saving behavior, and thus have a "magnification" effect.

- The accounts give people a tangible benefit that they can see.
- Such accounts would offer a higher rate of return than the traditional Social Security system, which for today's 30-year olds is likely to have a very small rate of return.

On the other hand:

- Individual accounts could reduce national saving -- relative to using the surplus entirely for Social Security -- by encouraging individuals to save less in other accounts, and perhaps by encouraging some employers to reduce pension plans.
- Many individuals are unsophisticated investors, and
- Administrative costs would be higher for individual plans than for centralized investment.

The major objection to individual accounts has been that they would be seen as an opening wedge to privatizing Social Security, with adverse implications for the preservation and progressivity of the public retirement system. In particular, Bob Ball and others argue that many people will prefer the higher returns earned on individual accounts relative to those earned on traditional Social Security, and that the social compact supporting the system will therefore erode -- undermining the social insurance inherent in the Social Security program. In the context of using the unified surplus to fund such accounts, however, it may be possible to mitigate some of these concerns. For example, if the individual accounts were funded by the government as a flat contribution per person, the accounts would be even *more* progressive than Social Security. (The appendix provides a menu of options on using the surplus to fund such flat contributions per person.) In addition, the new accounts could be designed to be available for cushioning the impact of life emergencies, such as catastrophic medical events or long-term unemployment. A provision of this type could advance your message that the government can help limit the risks of full participation in the global economy, although it could reduce the beneficial impact on national saving.

II. Illustrative packages

The three illustrative packages presented below, which involve elements put forward by others, combine these building blocks into complete plans. The appendix provides further information on the potential constituent parts, to allow you to see more of the possible combinations. The tables present the impact of the package on the Social Security Trust Fund (all four are currently estimated to at least eliminate the 75-year actuarial imbalance, although the estimates are still preliminary), as well as the impact on the retirement benefits for a hypothetical 65-year old retiree in 2015 with an average earnings history, and a similar retiree in 2040.

For purposes of discussion, the analysis uses the 75-year actuarial balance, which is the traditional metric used to judge reforms to the system. Many of your economic advisers, however, prefer other metrics – such as ensuring perpetual (not just 75-year) balance in the system, putting more of an emphasis on the unified budget balance in the outyears, using the rate of return earned by the average person, or placing a lower bound on the Trust Fund as a ratio of benefits. It is worth noting that under all the approaches, the Trust Fund is declining rapidly at the end of the 75-year period (implying that a 75-year deficit will reappear over time).

Based on proposals put forward by others, the following is an *illustrative* example. Its presence does not imply in any way that it is being proposed by the Administration.

Illustrative package 1

Description: This package invests 70 percent of the surpluses in private securities for the Trust Fund and creates small individual accounts with the other 30 percent. Its other steps do not include covering all state and local government employees, or indexing the normal retirement age. But it also suffers from the double counting problem.

	Impact on 75-year deficit in Social Security system	Impact on average 65-year old's income in 2015, 1997$ (as % of benefits)	Impact on average 65-year old's income in 2040, 1997$ (as % of benefits)
Invest 70 percent of surpluses between 2002 and 2012 in Trust Fund, with equity investments up to 40 percent of Trust Fund.	1.08	NA	NA
Other 30 percent of surplus funds individual accounts.	NA	+$168 (1.4 percent)	+$398 (3.0 percent)
Modify benefit formula by reducing adjustment factors by 6 percent	0.6	-$700 (6.0 percent)	-$807 (5.0 percent)
Accelerate increase in normal retirement age, but do *not* index thereafter	0.1	-$833 (7.1 percent)	-$0
Extend computation period from 35 to 38 years	0.25	-$442 (3.8 percent)	-$510 (3.8 percent)
TOTAL, without interaction effects. Actuarial balance includes 0.22 percent for CPI changes already announced.	**2.23**	**-$1,807* (15.9 percent)**	**-$919* (6.9 percent)**
Current 75-year actuarial imbalance	**2.23**		
Benefit reduction consistent with current-law financing		**$0**	**-$3,363 (25 percent)**

Note: Does not account for indirect effects through unified surplus.

* Including annuity provided by individual account

Based on proposals put forward by others, the following is an *illustrative* example. Its presence does not imply in any way that it is being proposed by the Administration.

Illustrative package 2

Description: This package retains the bonds-only structure of Trust Fund and adopts several other steps that were prominent in proposals made by some members of the Gramlich commission to eliminate the actuarial imbalance in the system. But it suffers from the double counting problem, and leaves the unified surplus "on the books."

	Impact on 75-year deficit in Social Security system	Impact on average 65-year old's income in 2015, 1997$ (as % of benefits)	Impact on average 65-year old's income in 2040, 1997$ (as % of benefits)
Invest 100 percent of surpluses 2002-2007 in Treasury securities for the Trust Fund*	0.25	NA	NA
Reduce adjustment factors used to calculate PIA by 8 percent, phased in between 2002 and 2011	0.82	-$933 (8.0 percent)	-$1,076 (8.0 percent)
Cover state and local workers hired after 1999	0.22	NA	NA
Accelerate scheduled increase in normal retirement age, index thereafter	0.48	-$833 (7.1 percent)	-$1,164 (8.7 percent)
Extend benefit computation period from 35 to 38 years	0.25	-$442 (3.8 percent)	-$510 (3.8 percent)
TOTAL, without interaction effects. Actuarial balance includes 0.22 percent for CPI changes already announced.	**2.28**	**-$2,208 (18.9 percent)**	**-$2,750 (20.4 percent)**
Current 75-year actuarial imbalance	**2.23**		
Benefit reduction consistent with current-law financing		**$0**	**-$3,363 (25 percent)**

Note: The figures do not account for indirect effects of the reforms through the unified surplus.
* Transferring Treasury securities to the Trust Fund, under current budgetary accounting, leaves the unified surplus on the books.

Based on proposals put forward by others, the following is an *illustrative* example. Its presence does not imply in any way that it is being proposed by the Administration.

Illustrative package 3

Description: This package also involves private investments by the Trust Fund, but it does not create individual accounts. Unlike all the previous packages, it does not double count the surplus.

	Impact on 75-year deficit in Social Security system	Impact on average 65-year old's income in 2015, 1997$ (as % of benefits)	Impact on average 65-year old's income in 2040, 1997$ (as % of benefits)
Invest 100 percent of surpluses between 2002 and 2007 in Trust Fund, with equity investments up to 40 percent of Trust Fund. Offset with redemptions of special purpose bonds (eliminates double-counting).	0.57	NA	NA
Subject Social Security benefits to taxation as other defined benefit pensions and phase out lower-income thresholds	0.33	-$350 (3.0 percent)	-$404 (3.0 percent)
Recognize additional changes likely to be adopted by BLS is measuring consumer price inflation (reducing COLAs by 0.2 percentage points per year after 2000)	0.29	-$70* (0.6 percent)	-$81* (0.6 percent)
Extend computation period from 35 to 38 years	0.25	-$442 (3.8 percent)	-$510 (3.8 percent)
Accelerate scheduled increase in normal retirement age, index thereafter	0.48	-$833 (7.1 percent)	-$1,164 (8.7 percent)
TOTAL, with interaction effects. Actuarial balance includes 0.22 percent for CPI changes already announced.	**2.31**	-$1,695 **(14.5 percent)**	-$2,159 **(16.0 percent)**
Current 75-year actuarial imbalance	**2.23**		
Benefit reduction consistent with current-law financing		$0	-$3,363 (25 percent)

Note: Does not reflect indirect effect through unified surplus.

* Has more substantial effects on older retirees.

III. Strategic issues

(A) Key issues

In addition to deciding on the substance of any approach, we face many difficult strategic issues. This section reviews three of them: whether to offer a full or partial plan in the next month, and if the plan is partial, how much specificity to provide; whether to include individual accounts in your initial plan; and whether to earmark a small share of the surpluses for non-retirement priorities.

1(A). Initially offer full plan or only down-payment

Using the surplus to provide additional funding for the Social Security system, as well as potentially achieving higher returns (either through investing the Trust Fund in private securities, or through creating individual accounts), makes it conceivable that you could put forward a complete solution to the Social Security problem that would not look excessively harsh or draconian.

Providing a complete plan would be seen -- by both the elites and the general population -- as a very strong sign of leadership. But the some token, it may attract heavy fire. While the use of the surplus could make a full plan seem relatively mild to those intimately familiar with the Social Security problem, most full proposals will still involve some pain (as the illustrative packages illustrate). In particular, most such proposals could be attacked as cutting benefits for average people. Furthermore, on both the left and the right, we can expect prominent officials to make the argument that we can grow our way out of the Social Security problem -- despite the fact that the increase in growth would have to be implausibly large to make a substantial difference -- and that we are therefore unnecessarily hurting retirees.

The only way of not including *any* pain in a full package is to use all of the projected surpluses over the next two decades for equity investments or individual accounts, as illustrated in the table below. But such a strategy, which uses unified surpluses well beyond the 10-year budget window and is predicated on a falling share of NDD relative to GDP, is likely to lack credibility. It could therefore be severely attacked by both media elites and budgetary experts.

Assuming that some traditional solutions are necessary to maintain credibility, announcing your own complete plan could also subject it to partisan attack. Such partisan attacks could potentially be avoided if we pursue a bipartisan approach over the next year or so. In particular, reforms that may not be attacked under a Clinton-Daschle-Lott plan could be attacked if you go out alone. Examples include covering all state and local government workers, and taxing benefits like other defined benefit pensions.

	Impact on 75-year deficit in Social Security system	Impact on 65-year old's income, 2015	Impact on 65-year old's income, 2040
Invest 100 percent of surpluses between 2002 and 2023 in Trust Fund, with equity investments up to 40 percent of Trust Fund	1.82	NA	NA
Cover state and local workers hired after 2007	0.19	NA	NA
TOTAL, without interaction effects. Actuarial balance includes 0.22 percent for CPI changes already announced.	**2.23**	**-$0**	**-$0**
Current 75-year actuarial imbalance	**2.23**		
Benefit reduction consistent with current-law financing		**$0**	**-$3,363 (25 percent)**

1(B). Specificity of down-payment

If you decide to pursue a down-payment approach rather than a full plan, you need to decide how specific you should be over the next month or so about various details of the down-payment. In particular, you could, if desired, offer specific proposals on the following issues:

- Whether we were supporting use of the surplus to fund individual accounts;
- Whether we support purchases of private securities for the Trust Fund; and
- If we set aside some share of the surplus for non-retirement priorities, what those priorities are.

A general commitment to using the surplus for Social Security and retirement needs, without any details, may not be sustainable and may lack credibility. General statements could also be useful in engaging the country and the Hill in a debate over how to approach the problem -- it could jump-start the discussions. On the other hand, too much specificity may inevitably involve offering something could be attacked.

2. Individual accounts

As discussed in the first section above, individual accounts involve numerous policy questions. Crucial issues include whether the contributions should be a flat amount per person, how the contributions would be linked to the unified surplus (and what would happen after the surpluses run out), whether loans would be allowed against the accounts for life emergencies, whether individuals would be allowed to make their own contributions in addition to those made by the government, whether new accounts would be created for this purpose (or whether these accounts would be combined with existing IRAs), and whether any tax cut would be refundable (and if not, how low-income taxpayers would benefit).

be

Strategic advantages. The strategic advantage of using individual accounts is that they are likely to be a more effective means of neutralizing Republican tax cut proposals: An individual account can be portrayed as a tax cut or a payroll tax rebate. Including such accounts as part of an Administration proposal therefore allows us to present a broader Social Security proposal that incorporates tax cuts. And tax cuts linked to individual accounts could neutralize and trump ill-advised Republican tax cut proposals. Those who support individual accounts also fear that without such an option, Republicans could claim to addressing Social Security through proposals such as Feldstein's regressive approach to individual accounts. The logic of this argument is that we would be at a disadvantage if we only supported the Social Security Trust Fund, while the opposition was "addressing" Social Security through accounts that provide a higher return.

Strategic disadvantages. There are also serious strategic problems. Individual accounts may be seen by Moynihan and the AFL-CIO as a first step toward privatization. More broadly, individual accounts could split the Democrats, as Bob Ball and others raise concerns about whether such accounts would undermine long-term support for the Social Security system. Even some of those who would accept individual accounts in the end would argue that starting there is giving away the store -- without locking in a Republican guarantee that the overall package be progressive. Also, some argue that we could get the same advantages in terms of higher returns through equity investments in the Trust Fund, and avoid many of the political difficulties involved in individual accounts.

If we decide to support individual accounts, a major strategic question is how closely any such accounts should be linked with "Social Security":

> *Link with Social Security.* The logic here is that the Social Security message has power, so if we do have individual accounts, they should be linked to that message. The argument that individual accounts will necessarily lead to privatization may not seem as strong when the accounts involve only a fraction of the surplus, and are not financed by diverting funds from the 12.4 percent payroll tax. Another argument in favor of this approach is that even if try to separate accounts from "Social Security" reform, we will not necessarily be believed.

No Link with Social Security. The logic of distinguishing the accounts from "Social Security" is that we would have a better chance of keeping the Democrats from revolting if we describe the accounts as part of a universal pension approach, and promise to fix Social Security separately. We could state that we would not accept a smaller Social Security system merely because of the accounts.

3. Devoting the entire surplus to retirement needs

Another policy and strategic question is whether we should devote the entire surplus, or only part of it, to Social Security and retirement. The advantage of devoting the entire surplus is that it provides a clear "don't spend the surplus, we need it for Social Security and retirement" message. That message is muddied if we devote any part of the surplus to non-retirement needs. In addition, using the near-term surpluses for anything but retirement needs would imply that we were financing such non-retirement items through the regressive payroll tax.

The downside of specifying that the entire surplus should be devoted to retirement needs is that it precludes funding other, non-retirement priorities (e.g., Children's Fund, biomedical research, or tax reform). The attractions of providing such funding, especially in a relatively tight budgetary world, are clear. It may be hard to explain why we can't use even 10 percent of the projected surplus for such high priorities, when we have always emphasized public investments in addition to private investment/saving. Others might argue that devoting a small percentage of the surpluses could allow us to repeat our successful 1996 strategy of defeating ill-advised, large tax schemes with small, targeted tax cuts.

(B) Illustrative strategic options

This section provides a very brief summary of some illustrative strategic options.

Timing

The first dimension of the strategic options involves timing:

- **December/Early January option.** Some would like an announcement as early as possible -- even in December if ready. We all agree, however, that this is too important an issue to make an announcement until we are sure of our policy. When we have reached agreement on the policy, some feel it may be worthy of an Oval Office announcement either in December or January prior to the State of the Union.

- **State of the Union:** Some feel that if would be better to save until the State of the Union -- because this issue could be the "big idea" that would lift the entire State of the Union.

- **1998 Strategy:** If you announce less than a full plan, another timing question involves

- whether you announce some form of process for dealing with the rest of the Social Security problem. One aspect of that process could involve "setting the table" for real reforms after the fall 1998 elections -- for example, through a Social Security commission reporting in December 1998; a bipartisan advisory commission to issue papers forums and papers; a nationwide forum with 7 regional Presidential Social Security Conferences, or other steps. Another aspect could involve setting up some sort of process for the real deal -- for example, a special session of Congress, a special committee of Administration and Hill representatives, or other possibilities.

Announcements

In addition to timing questions, there are different options for what we announce. The proposals below do not reflect any specific recommendation, but they do reflect the type of strategies that key adviser have been putting on the table for discussion.

- **Whole Plan Announcement: Announce a full plan in January 1998.** Take a combination of a surplus strategy and a set of traditional reforms, and announce the whole deal in January. We still must confront all of the issues. As mentioned above, this approach may imply that we have to avoid some options on the revenue side.

- **Downpayment Strategy: Devote entire surplus between 2002-2007 (or 2002-2012) to Social Security as a downpayment, but make divisions between the Trust Fund and individual accounts part of an ongoing dialogue.**

- **Devote entire surplus between 2002-2007 (or 2002-2012) to the Social Security Trust Fund as a downpayment, but make clear that the Trust Fund would invest in private securities to raise return and counter individual accounts.**

- **70% to Social Security Trust Fund and 30% Payroll Rebate to Individual Accounts as Downpayment.**

- **60% to Social Security Trust Fund, 30% Individual Accounts and 10% for a Future Fund for Children and Biomedical Research.**

APPENDIX: POSSIBLE ELEMENTS OF COMPLETE PLAN

Below are illustrative elements that have been proposed by others as elements of a Social Security plan. They have not been subject to any formal review within the Administration.

(A) Menu on Traditional Solutions

	Effect on 75-year actuarial imbalance in Trust Fund	Impact on average 65-year old's income in 2015, 1997$ (as % of benefits)	Impact on average 65-year old's income in 2040, 1997$ (as % of benefits)
COVERAGE:			
Cover all state and local government workers hired after 1999	0.22	NA	NA
Cover all state and local government workers hired after 2007	0.19	NA	NA
BENEFITS:			
Reduce adjustment factors used to calculate PIA by 5 percent, phased in between 2002 and 2011	0.51	-$583 (5 percent)	-$673 (5 percent)
Increase benefit computation years from 35 to 38, phased in 2002-2004	0.25	-$442 (3.8 percent)	-$510 (3.8 percent)
Accelerate increase in normal retirement age to 67, by eliminating current 11-year hiatus in increase between 66 and 67	0.10	-$833 (7.1 percent)	0
Index normal retirement age after it reaches 67 under current schedule	0.30	0	-$604 (4.5 percent)
Accelerate scheduled increase in normal retirement age, index thereafter	0.48	-$833 (7.1 percent)	-$1,164 (8.7 percent)

Recognize additional changes likely to be adopted by BLS is measuring consumer price inflation (reducing COLAs by 0.2 percentage points per year after 2000)	0.29	-$70 (0.6 percent), with more substantial effects on older retirees	-$81 (0.6 percent), with more substantial effects on older retirees
Reduce spousal benefit from 50 percent to 33 percent of PIA	0.16	-$1,283 (22 percent of spousal benefit)	-$2,287 (34 percent of spousal benefit)
BENEFITS TAXATION:			
Beginning 2002, subject OASDI benefits to personal income tax in same manner as applied to other DB pensions	0.12	-$105 (0.9 percent)	-$202 (1.5 percent)
Phase out thresholds for taxation of OASDI benefits 2002-2011 (85 percent of benefits subject to tax after 2010)	0.21	-$309 (2.6 percent)	-$357 (2.6 percent)
CONTRIBUTION BASE:			
Raise taxable earnings base to 90 percent of covered earnings, phased in between 2002 and 2006 (equivalent to an increase in taxable earnings limit from $65,400 to roughly $110,000)	0.54	NA	NA

Note: Dollar figures are in 1997 dollars, percentage cuts are relative to future projected benefit

(B) Menu on Using the Surplus (Impact on Actuarial Balance of Trust Fund)

1. Transfer surpluses into Trust Fund; buy bonds only

Transfer surpluses from:	All surpluses	70 percent of surpluses	50 percent of surpluses
2002-2007	0.25	0.17	0.12
2002-2012	0.60	0.39	0.27
2002-2026	1.12	0.67	0.43

2. Transfer surpluses into Trust Fund; buy private securities (cap at 40 percent)

Transfer surpluses from:	All surpluses	70 percent of surpluses	50 percent of surpluses
2002-2007	0.88	0.70	0.56
2002-2012	1.36	1.08	0.86
2002-2026	1.82	1.30	1.02

3. Invest in bonds only, until on-budget balance moves into surplus (cap at 40 percent)

Transfer surpluses from:	All surpluses	70 percent of surpluses	50 percent of surpluses
2002-2007	0.25	0.17	0.12
2002-2012	0.86	0.63	0.50
2002-2026	1.47	0.97	0.73

4. "Use" surpluses to buy private securities (no transfers into Trust Fund)

Transfer surpluses from:	All surpluses	70 percent of surpluses	50 percent of surpluses
use only 2002-2007	0.57	0.51	0.43
use until hit portfolio cap	0.57 (2008)	0.55 (2010)	0.52 (2012)

Note: Private securities are assumed to earn 3.8 percent per year more than Treasury securities.

(C) Menu on Investing the Trust Fund in Private Securities

Percentage of Trust Fund assets under current law invested in private securities, phased in between 2000 and 2014

	Effect on 75-year actuarial imbalance
10 percent	0.15
20 percent	0.29
30 percent	0.43
40 percent	0.56
50 percent	0.68

Note: Figures assume that the rate of return on private securities is 3.84 percent per year higher than on special purpose bonds. Figures presented in table are very approximate.

(D) Menu on Individual Accounts: Impact on Retiree Income

The figures below give the annual annuity income in the given year that would obtain from investing either 30 or 50 percent of the projected surpluses, for the years given, in individual accounts. The figures assume a flat contribution per worker, and that half of account balances are invested in bonds, with the other half in private securities.

Surpluses, 2002-2007

	2015	% of Social Security benefits for average earner	2040	% of Social Security benefits for average earner
30 percent of surpluses	$81	0.6 percent	$192	1.4 percent
50 percent of surpluses	$135	1.2 percent	$320	2.4 percent

Surpluses, 2002-2012

	2015	% of Social Security benefits for average earner	2040	% of Social Security benefits for average earner
30 percent of surpluses	$168	1.4 percent	$398	3.0 percent
50 percent of surpluses	$281	2.4 percent	$663	4.9 percent

Surpluses, 2002-2023*

	2015	% of Social Security benefits for average earner	2040	% of Social Security benefits for average earner
30 percent of surpluses	$194	1.7 percent	$534	4.0 percent
50 percent of surpluses	$323	2.4 percent	$891	6.6 percent

* Using the surpluses for individual accounts and/or purchases of non-Treasury securities implies higher debt servicing payments relative to the baseline surplus projections. The surpluses thus end earlier than under the baseline.

THE WHITE HOUSE

WASHINGTON

'97 DEC 13 P...

December 13, 1997

Copied
Reed
Sperling
Jennings
Bowles

MEMORANDUM FOR THE PRESIDENT

12-29-97

FROM: BRUCE REED
GENE SPERLING
CHRIS JENNINGS

SUBJECT: Health Insurance Coverage Initiatives

Throughout your Administration, you have worked to enact legislation to expand access to affordable health insurance. The Balanced Budget Act included an unprecedented $24 billion investment for state-based children's health insurance programs. This historic initiative will clearly reduce the number of uninsured. However, there are other deserving populations whom we could target in our step-by-step reforms. These include the pre-65 year olds (referenced in the Medicare memo), workers between jobs, and workers in small businesses. In addition, we are working on possible proposals to expand Medicaid coverage to people with AIDS and disabilities through pilot programs. The policy development of these proposals is still underway, so we have not included them here.

Taken together, these initiatives total around $10 billion over 5 years. This amount is less than half of the health investments enacted as part of the Balanced Budget Act and less than 4 percent of the premium assistance proposed in the Health Security Act. Having said this, none of your advisors believe the Medicare and Medicaid savings left after last year's deficit reduction effort are sufficient to fund these initiatives. There may be $0.5 to 1 billion over 5 years in Medicaid savings, but those savings will be difficult to achieve and there may be other claims on them (e.g., child care, benefits to immigrants). Another possible source of funds is the tobacco settlement, given the natural link between tobacco and health care.

Your advisors uniformly agree that we need to take all actions possible to achieve if not exceed your goal of increasing insurance coverage for 5 million children. A series of proposals are described in this memo to help accomplish that goal. There is less agreement on whether we should address a new group of uninsured people in this budget. The Department of Labor strongly supports the workers-between-jobs demonstration; of all health initiatives in the budget, it is their highest priority. OMB also supports that demonstration if sufficient funds are available. HHS believes that this proposal has merit, but is skeptical that it will attract any more support than it has in the past three years.

THE PRESIDENT HAS SEEN
12-29-97

A. CHILDREN'S HEALTH OUTREACH

The Children's Health Insurance Program (CHIP) provides funds for coverage of millions of working families' uninsured children, a population that previously had trouble affording coverage. It also builds upon the Medicaid program, which covers nearly 20 million children. But important work remains to be done. In particular, we need to work with states to enroll the millions of uninsured children in these programs.

Medicaid eligible children are especially at risk of remaining uninsured. Over three million uninsured children are eligible for Medicaid. Educating families about their options and enrolling them in Medicaid has always been a problem, but it has recently become even more challenging. The number of children covered by Medicaid leveled off in 1995 and, according to the Census, dropped by 6 percent in 1996. While some of this decline may be due to the lower number of children in poverty, another part may result from families' misunderstanding of their children's continued eligibility for Medicaid in the wake of welfare reform.

Options to Increase Outreach for Medicaid and the Children's Health Insurance Program

when can't we pay for it? 8/24 b

To address the need for children's health outreach, we propose a series of policy options. Together, these initiatives could cost $1 to 2 billion over five years (or more depending on policy choices about the enhanced match). Preliminary discussions with NGA and some children's advocates suggest they strongly support these efforts. In addition, the Administration is developing partnerships to encourage a complementary range of private outreach activities.

Enhanced match for outreach. One option for improving state outreach is to provide an enhanced match to enroll children who are eligible for but not previously enrolled in Medicaid. At the end of each year, if a state can document that it has increased its enrollment over its baseline, it would receive an increased matching amount per newly covered child (possibly through administrative payments). This policy rewards states only if they succeed in outreach, rather than matching activities that may or may not work. Depending on the amount of the incentive and the administrative design, this option could cost to $0.5 to 1 billion over five years.

good

Moving outreach to schools and child care sites. We could build upon the "presumptive eligibility" provision in the Balanced Budget Act to make it easier to enroll children in Medicaid and CHIP. The BBA option allows limited sites (e.g., hospitals) to give low-income children temporary Medicaid coverage on the spot while they are formally enrolled in CHIP or Medicaid. This proposal would broaden these sites to include schools, appropriate child care sites, and Head Start sites, at the state's option. HCFA actuaries preliminarily estimate that this proposal would cost $400 million over 5 years. Also, under the BBA, states that use presumptive eligibility must pay for its costs out of the CHIP allotment, reducing the amount available for other coverage. States have advised us that this requirement discourages them from taking advantage of the presumptive eligibility provision. HCFA actuaries preliminarily estimate that dropping this requirement would cost $25 million over 5 years.

good

Accessing 90 percent matching funds for outreach. A third way to increase funding for children's health outreach is to increase states' flexibility in using a special Medicaid fund set aside in TANF for outreach for children losing welfare. This $500 million fund is currently allocated to states with a 90 percent matching rate for outreach activities to certain children. We could expand its use to all children, not just welfare children. HCFA actuaries preliminarily estimate that this policy would cost $100 million over 5 years. NGA supports this change.

Simplifying enrollment. A simple, accessible enrollment process could encourage more families to enroll their children in Medicaid or CHIP. To help create such a process, we propose several actions, all of which are inexpensive. First, we could streamline the application process by simplifying Medicaid eligibility and by encouraging the use of simple, mail-in applications. HCFA has already developed a model single application form for both Medicaid and CHIP. We could condition some of the financial incentives described above on using a single or simple application. Second, we are reviewing the feasibility and cost of a nationwide 1-800 number that will link families with their state or local offices. Such a number could be placed in public service announcements, on the bottom of school lunch program applications, and on children's goods like diaper packages.

Discussion

There is unanimous support across agencies for focusing on children's health outreach. HHS, Treasury and CEA believe that such outreach should be the Administration's first priority. NEC/DPC and OMB believe that aggressive outreach will be needed to meet or exceed the Administration's goal of covering 5 million uninsured children. Although OMB is supportive, it points out that because some children may be impossible to reach and some states may not use these options, we are unlikely to enroll all 3 million children. NEC, also supportive, raises the concern that spending on an outreach initiative may be a communications challenge so soon after the enactment of the $24 billion base children's health program. However, policy experts, Governors, and children's advocates alike will endorse this initiative.

One great challenge is the difficulty of finding savings from Medicaid to offset the costs of this initiative. With this in mind, your advisors are considering the tobacco settlement as a financing source. Specifically, we are exploring the advisability of allowing states to retain the Federal share of the tobacco funds if they dedicate those funds to high-priority Administration initiatives like child care, education, and health care. Governor Chiles would support such an approach if we dedicate the funds to children's health care, not just outreach.

THE PRESIDENT HAS SEEN
12-29-97

B. WORKERS BETWEEN JOBS INITIATIVE

Families who lose health insurance while they are between jobs are a small but important group of uninsured Americans. These people pay for health insurance for most of their lives, but go through brief periods without coverage when they are temporarily unemployed. If they experience a catastrophic illness during this transition, the benefit of their years' worth of premium payments is lost. In addition, they could lose protection under the provisions of the Kassebaum-Kennedy legislation once they regain coverage.

Policy Options

There are two options. The first is that we include the same proposal that we have carried in our last two budgets. All states would receive grants to provide temporary premium assistance to eligible low-income families. States would use this money to partially subsidize families' premium payments for up to 6 months. This program costs $10 billion over four years, or about $2.5 billion per year. The same program could be scaled back by sunsetting it in two or three years or possibly reducing the subsidy amount. It would still probably cost at least $1 billion per year to have a nationwide program with enough funding per states to address this problem.

A second option is to propose the same policy but in a limited number of states. To test how best to address this population's needs, we would select states using a range of approaches like a COBRA-based subsidy, Medicaid, or covering the parents of children covered by CHIP. Since it is a grant program, we could make this program as large or small as we want. To give a sense of the options, last year's $10 billion proposal over four years covered about 3.3 million people with incomes below 240 percent of poverty. If we assume the same set of policy parameters, a demonstration of $1 billion over 5 years would cover about 230,000 people; a demonstration of $2.5 billion would cover about 600,000; and a demonstration of about $3.5 billion would cover about 800,000 people. OMB has suggested that we could limit the costs by only offering assistance to people below poverty. However, NEC/DPC are concerned about that this shifts the target away from the middle-class families we originally intended to help.

Discussion

On policy grounds, all of the agencies support this policy. It has been in our last two budgets because of its merits. Health coverage for workers changing jobs could also be important to a worker security theme in the State of the Union. This policy remains Labor's first priority because it targets a particularly vulnerable group and addresses the worker insecurity issues that played such a large role in the debate over Fast Track. OMB and CEA would support this initiative if there are sufficient funds. HHS believes that this policy is no more viable this year than it has been in the past; HHS would also object to using Medicare and Medicaid savings to fund this proposal. DPC/NEC are concerned about dropping this policy altogether and support a demonstration that is large enough to be viewed as improving coverage. If resources are limited, however, we would prefer the children's outreach initiative to this proposal.

12-29-97

C. VOLUNTARY PURCHASING COOPERATIVES

Workers in small firms are most likely to be uninsured. Over a quarter of workers in firms with fewer than 10 employees lack health insurance — almost twice the nationwide average. While 88 percent of workers in firms with 250 or more workers are offered health insurance, only 41 percent of workers in firms with less than 10 workers are offered coverage. This disparity reflects the poor functioning of the small group health insurance market. Studies have shown that administrative costs are higher and that small businesses pay more for the same benefits as larger firms.

Grants to States

Given the disadvantages faced by small firms, the question is: are there policies that can make insurance more affordable for small businesses and their employees? In the last two budgets, we have included a policy to provide seed money for states to establish voluntary purchasing cooperatives. These cooperatives would allow small employers to pool their purchasing power to try to negotiate better rates for their employees. This year, we propose both the original policy and a variation: a competitive grant approach so that a more limited number of states could receive a smaller, but more targeted, pool of funds. The total costs would be $50 to $100 million over 5 years.

Discussion

All agencies remain supportive of this policy and believe it should be included in this year's budget. In the past, we have failed to enact this proposal because Congressman Fawell has pushed an alternative approach more attractive to small businesses. Fawell's proposal would help small businesses to self-insure and in so doing escape all state regulation. Governors and consumer groups have consistently opposed the Fawell approach, fearing that it would leave the small group market with only the most risky and expensive groups, as low-risk groups move into the self-insured, non-regulated market. Our recent conversations with Fawell suggest that he may be open to compromise this year in a way that he has not been in the past.

good - I'd like to do more —

THE WHITE HOUSE

WASHINGTON

December 13, 1997

MEMORANDUM TO THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING
CHRIS JENNINGS

SUBJECT: Reforms that Prepare Medicare for the Retirement of the Baby Boom Generation

The Balanced Budget Act (BBA) that you enacted took necessary steps to modernize the Medicare program and prepare it for the twenty-first century. It extended the life of the Trust Fund to 2010, invested in preventive benefits, provided more choice of plans for beneficiaries, strengthened our ongoing fraud activities, and lowered cost growth to slightly below the private sector rate through provider payment reforms and modest beneficiary payment increases. However, the BBA's policies were not intended to solve Medicare's long-term problems.

The Medicare Commission was established to address the demographic challenges posed by the retirement of the baby boom generation. The question is whether we should take action prior to the March 1999 Commission deadline to further strengthen the program and lay the groundwork for implementation of likely Commission recommendations.

The NEC and DPC have led an interagency examination of several policy options. This memo examines options to insure pre-65 year olds, to extend Medicare coverage of patient care costs associated with clinical trials, and to increase private long-term care insurance. Financing options to pay for these proposals follow this description.

Your advisors have differing views on whether to pursue any new proposals while the Medicare Commission is active and which proposals to pursue if you choose to do so. OMB and to some extent Treasury have concerns about a pre-65 option, because it may open the door to subsidies for a costly population and have the unintended effect of reducing employer coverage. Both OMB and Treasury oppose the clinical cancer trials proposal because it could set a precedent for every other disease group to ask for the same treatment.

Should you decide to pursue all of the options, traditional Medicare savings alone may not be sufficient to offset the costs and a Medicare income-related premium may be necessary. Such a premium will be politically contentious, although possibly more acceptable to our Democratic base if linked to a benefit expansion. Given the complexity of any decision to adopt an income-related premium, we outline here some of the issues, but defer a recommendation until we can meet with you on the subject.

A. PRE-65 HEALTH INSURANCE OPTIONS

Although people between 55 and 65 years old are more likely to have health insurance than others, they often face greater problems with access to affordable health insurance, especially when they are sick. Individuals in this age group are at greater risk of having health problems, with twice the probability of experiencing heart disease, strokes, and cancer as people ages 45 to 54. Yet their access to affordable employer coverage is often lower because of work and family transitions. Work transitions increase as people approach 65, with many retiring and shifting to part-time work or self-employment as a bridge to retirement. Some of this transition is involuntary. Nearly half of people 55 to 65 years old who lose their jobs when firms downsize or close do not get re-employed. At the same time, family transitions reduce access to employer-based health insurance, as individuals are widowed or divorced, or as their spouses become eligible for Medicare and retire.

As a result, the pre-65 year olds, more than any other age group, rely upon the individual health insurance market. Because their costs are not averaged with younger people's (as in employer-based insurance), the pre-65 year olds often face relatively high premiums and may face exorbitant premiums if they are sick. While the Kassebaum-Kennedy legislation improved access for people with pre-existing conditions, it did not restrict costs.

These access problems will increase because of two trends: the decline in retiree health coverage and the aging of the baby boom generation. Recently, firms have cut back on offering pre-65 retirees health coverage; in 1984, 67 percent of large and mid-sized firms offered retiree insurance but in 1997, only 37 percent did (although this decline may be slowing). In addition, in several small but notable cases (e.g., General Motors and Pabst Brewery), retirees' health benefits were dropped unilaterally, despite the firm's prior commitment. These "broken promise" retirees do not have access to COBRA continuation coverage and could have difficulty finding affordable individual insurance. An even more important trend is demographic. The number of people 55 to 65 years old will increase from 22 to 30 million by 2005 and to 35 million by 2010. Assuming current rates of uninsurance, this trend could raise the number of uninsured in this age group from 3 million today to 4 million by 2005, without even taking into account the decline in retiree health coverage.

The last reason for considering the coverage issues of this age group is the likelihood of proposals to raise Medicare eligibility age to 67, consistent with Social Security. The experience with covering a pre-65 age group now will teach us valuable lessons if we need to develop policy options for the 65 to 67 year olds.

Policy Questions

Two central questions determine the policy options for the pre-65 year olds: what is the target population, and what is the best way to cover these people.

Whom to Target. As with any incremental reform, targeting is essential to reduce the chance that the policy unintentionally offsets or reduces employer health coverage. While this policy will not affect employers' decisions to offer coverage to their current workers, it may affect employers' decisions to cover retirees, as well as employees' decisions to retire early. To protect against substitution, your advisors recommend limiting eligibility to a subset of the pre-65 year olds. There are two ways to limit eligibility.

The first approach is to limit eligibility to people ages 62 to 65. The 6 million people ages 62 to 65 work less than to people ages 55 to 59 (48 percent versus 74 percent), are more likely to have fair to poor health (26 versus 20 percent), and are more likely to be uninsured or buy individual insurance (28 versus 21 percent). In addition, 62 is the age at which Social Security benefits can be accessed. Within this 6 million, we could limit eligibility to the 2 million without access to employer or public insurance, and require that they exhaust COBRA coverage. These steps should reduce the likelihood that the policy will lead individuals to retire or drop retiree coverage.

A second approach is to limit eligibility within a broader age group — e.g., 55 to 65 year olds — to individuals who lack access to employer-based insurance for particular reasons: (1) Displaced workers: About 60,000 people ages 55 to 65 lost their employer insurance when they lost their job because a firm closed, downsized, or eliminated their position. (2) Medicare spouses: As many as 420,000 people lost employer-based family coverage when their spouses (almost all husbands) turned 65 and retired. This number could grow if employers drop retirees' dependent coverage for these spouses as a result of this policy. (3) "Broken promise" people: A small but visible and vulnerable group is the pre-65 retirees who lost retiree health coverage due to a "broken promise" (i.e., when the employer unexpectedly terminated coverage).

How to Provide Coverage. The second question is: what is the best way to increase access to affordable insurance? One approach is to extend COBRA continuation coverage for longer than 18 months. Currently, COBRA allows insured workers in firms with 20 or more employees to continue that coverage for 18 months by paying 102 percent of the premium. The major problems with extending COBRA are that (1) people in small firms are not eligible, (2) businesses will consider the policy an unfunded mandate, and (3) the policy could lead to discrimination against hiring older workers. In addition, firms could use this longer COBRA mandate as an excuse to not cover any employees.

A second approach is a Medicare "buy-in." Eligible people could buy into Medicare by paying a premium. Since Federal premium assistance for this group is prohibitively expensive, your advisors agree that participants should pay the full premium: the age-adjusted Medicare payment rate, plus an add-on for the extra risk of participants. This add-on could be high if, as the actuaries expect, most participants will be sicker than average. To attract healthier people and make it possible for more people to take advantage of the benefit, we could defer payment of part of the premium (e.g., this risk add-on) until age 65 by "amortizing" the payment. Under this option, Medicare would pay part of the premium as a loan up front, with repayment by the beneficiaries with their Part B premiums. This loan would be a Medicare cost in the short term.

Option 1. "Broken Promise" People Only. The minimal option, with no Federal cost, is to require employers to offer COBRA coverage to retirees whose coverage they have dropped. This would allow retirees to buy into their active employer plan until age 65 at a premium (possibly 150 percent of the group rate, as has been done for other special COBRA populations). Even taking into account the premium payments, employers would bear some of the costs of their decision to terminate coverage, given the higher costs of people in this age group.

Option 2. Medicare Buy-In for Select Groups. The second option is to allow a Medicare buy-in for a subset of 55 to 65 year olds who have limited access to employer insurance. One group is the "Medicare spouses" — primarily uninsured women ages 55 to 65 whose husbands are already on Medicare. An alternative (or complement) is displaced workers. Since these groups are small, Medicare costs would be low.

Option 3. Medicare Buy-In for 62 to 65 Years Old Plus Selected Groups. The third option is to allow 62 to 65 year olds, plus a group like displaced workers, to buy into Medicare. This group is representative of the 65 to 67 year old population, giving a sense of what would happen if Medicare eligibility were postponed to 67 years old. The HCFA actuaries estimate that the Medicare cost of the worst-case scenario — 300,000 sick participants —is $1.1 billion per year, not taking into account any beneficiary pay-back. Their initial estimate for the 62 to 65 year olds' costs, using more realistic assumptions, is about $300 million per year. They assume that 160,000 people will participate: 70,000 currently uninsured and the remainder previously insured by expensive, individual insurance. Note that OMB has not yet cleared these estimates.

Discussion

Despite likely business opposition, your advisors all support a COBRA option for the "broken promise" retirees. Beyond this, your advisors have not yet reached a consensus. OMB and CEA are concerned that any unsubsidized entitlement for pre-65 year olds will not stay that way for long because pressure will build to lower the premiums. To test a buy-in for the pre-65 year olds, OMB and CEA would recommend covering only Medicare spouses, because doing so would probably have a smaller effect on the general trend in retiree health coverage and retirement. The Department of Labor supports a general Medicare buy-in. It feels strongest about covering displaced workers because of its broader goal of improving workers' security,. Treasury shares OMB and CEA's concerns but would not object to a general Medicare buy-in if there were strong incentives for participants to enroll in managed care. This policy would make insurers, not Medicare, bear the risk, but could be politically difficult. HHS supports the broadest option and is concerned about only covering select groups since the enrollment may not be sufficient to justify the administrative effort.

NEC/DPC recommend a package that includes (1) a Medicare buy-in for 62 to 65 year olds; (2) a Medicare buy-in for displaced workers; and (3) COBRA for the "broken promise" people. We think that this package is sufficiently narrow to limit effects on retiree health coverage or retirement. At the same time, the policy responds to the concerns of pre-65 year olds who feel vulnerable to losing employer coverage and/or facing unaffordable premiums.

B. PRIVATE LONG-TERM CARE OPTIONS

A second idea to improve access to insurance focuses on long-term care. Unlike acute care, long-term care is not primarily financed by private insurance, which pays only 6 percent of its costs. Medicaid pays for 38 percent, Medicare pays for 21 percent, and families pay for 28 percent of the costs out of pocket. This large government role may not be sustainable as the baby boom generation retires. Today, one in four people over age 85 lives in a nursing home. This could increase substantially as the proportion of elderly living to age 90 is projected to increase from 25 percent to 42 percent by 2050. Thus, it is important to encourage the development of private insurance options. The Kassebaum-Kennedy legislation took a step in this direction by clarifying that certain long-term care insurance is tax deductible. But because many people incorrectly assume Medicare covers all of their long-term care needs and do not know about private long-term care insurance, more action is needed. This action could include providing information to Medicare beneficiaries about private insurance, funding a demonstration program to improve the quality and price of private insurance, or both. None of these options includes a new Medicare entitlement or subsidy.

Information on Quality Private Long-Term Care Insurance

We propose to leverage our role in Medicare to improve the quality of and access to private policies. HCFA would work with insurers, state regulators, and other interested parties to develop a set of minimum standards for private long-term care policies. If a plan met these standards, Medicare would approve its inclusion in the new managed care information system. (As a reminder, the BBA included provisions to provide annual information on managed care choices to beneficiaries.) This proposal would build upon that system and cost up to $25 million in discretionary funds over 5 years ($5 million in FY 1999), distinct from the user fees currently authorized for the managed care information system. We also could propose a demonstration that would test the feasibility of a partnership between Medicare and private long-term care insurance on a limited basis. Alternatively, we could experiment in providing more long-term care through Medicare managed care. The cost of a demonstration would depend on its size and policy parameters, but could be limited to $100 to 300 million over 5 years.

Discussion

We believe this proposal has significant potential and is worth further development. There is some concern at HHS that coming to an agreement on a set of standards could be difficult and that insurers may argue that our standards drive up the cost of the policies, making them unaffordable. HHS also would prefer that any demonstration be funded through the mandatory budget. However, these concerns may not be insurmountable, especially since one objective of a demonstration could be to investigate high-quality private options that are affordable. Finally, we are still looking into the feasibility and advisability of using tax incentives to encourage the purchase of private long-term care policies and/or the use of IRAs for long-term care financing, although Treasury has strong concerns about the effectiveness of such options.

C. MEDICARE COVERAGE OF CANCER CLINICAL TRIALS

Medicare has not traditionally covered patient care costs associated with clinical trials. Scientists and advocates believe that we are not making sufficient progress in treating cancer, in part because the lack of Medicare coverage limits participation in these trials. HHS and DPC have been working on an approach that covers patient care for a limited number of these trials. Because of concerns about its cost, OMB and Treasury strongly oppose this option.

Nearly half of all cancer patients are covered by Medicare, yet Medicare does not cover patient care costs associated with these trials. This care can often be prohibitively expensive for cancer patients and their families. Expanding Medicare coverage could increase access to trials for the many beneficiaries with cancer. Historically most insurers have covered clinical trials for children. As a consequence, nearly 70 percent of children with cancer participate in clinical trials. Scientists agree that this participation rate has helped improve cancer treatments for children, and some argue that it is one reason for the dramatically higher survival rates for children cancer patients.

The lack of participation in trials, related to lack of Medicare coverage, has significant implications for research in all cancer areas, particularly for those cancers like prostate cancer where clinical trials are particularly undersubscribed. According to a former National Cancer Institute director, if 10 percent of all cancer patients participated in such trials, trials that currently take three to five years would take only one year. Additionally, as the nation's largest insurer, Medicare plays a significant role in setting the standard for the insurance companies. A commitment from Medicare to cover clinical trials would go a long way to encourage private insurance companies to cover these trials.

Proposal

We have developed a proposal to expand Medicare to cover patient care costs of cancer clinical trials conducted at the NCI and trials with comparable peer review. In addition, we would require a National Cancer Policy Board to make further coverage recommendations, and HHS to assess the incremental costs of such trials compared to conventional Medicare-covered therapies. Assuming the true incremental costs are substantially less than the actuaries project, as we believe, additional trial coverage as recommended by the Board could occur. The initial coverage would cost $1.7 billion over five years. Senators Mack and Rockefeller have developed a more expansive and expensive proposal (co-sponsored by 26 Senators), which covers all FDA trials, many of which the experts believe do not meet a scientifically-meritorious standard.

A possible alternative way to cover clinical cancer trials' patient care costs is to dedicate resources from any significant increases that NIH / NCI receive in the upcoming budget. NCI could use these increases to simplify and centralize its clinical trials system, which has the potential to increase patient access. Although this option may be effective, the cancer community has clearly stated its preference for extending Medicare coverage. Another possibility is to require drug companies desiring Medicare coverage of additional clinical trials to contribute to part of the patient costs.

Discussion

HHS is supportive of this policy and believes that it would not only give Medicare beneficiaries choices, but would encourage the private industry to cover clinical trials as well. HHS notes that this proposal is the highest priority for most of the cancer community as well as many in the women's community who believe it is an essential step to improve breast cancer treatment. The advocates have made it clear that they would strongly prefer the more expansive and expensive Rockefeller/Mack approach. But, the Senators might well support our proposal as an important first step and this would matter greatly to patient groups and the cancer community.

OMB and Treasury strongly oppose the Medicare coverage option. They note that Medicare would incur a large cost to provide medical services that are experimental and, therefore, unlikely to help the majority of beneficiaries. They also believe it will create enormous pressure to cover more types of cancer trials as well as non-cancer trials. Congress would likely expand the proposal beyond coverage of NCI trials, which will be very costly (up to $3 billion over five years). Moreover, similar support will be demanded for trials of treatments for Alzheimer's, Parkinson's, and other maladies. OMB also believes drug companies — not Medicare — should take the lead in improving Medicare beneficiaries' access to clinical trials.

While recognizing the OMB and Treasury concerns, DPC/NEC believes that Medicare coverage has potential to contribute to expansions of clinical trials and possible break-throughs in cancer treatment. Our recommendation to include it in the FY 1999 budget depends on other decisions. If resources are limited, we would propose the pre-65 initiative instead of this one. In addition, a major increase in the NIH — and NCI — budgets could lessen the need for this policy. But, if sufficient resources are available, we would recommend that you support this benefit as a reinvestment in Medicare and an enhancement of our biomedical research package.

D. MEDICARE ANTI-FRAUD POLICIES AND INCOME-RELATED PREMIUM

Funding for Medicare initiatives will probably require Medicare offsets. One approach is to use Medicare anti-fraud initiatives. HHS and OMB believe that these offsets could total about $2 billion over 5 years. This amount could fund some, but not all of the initiatives described above. To fund a more expansive series of initiatives, you may have to consider an income-related premium, which generates at least $8 billion over 5 years.

ANTI-FRAUD PROVISIONS

In our ongoing efforts to reduce Medicare fraud, we have identified a number of small but important policies that could total about $2 billion over five years. Several of them address problems identified by the HHS Inspector General, such as the overpayment by Medicare for certain cancer drugs, that you highlighted in your radio address today.

INCOME-RELATED PREMIUM

Medicare subsidizes 75 percent of the Part B premium for all beneficiaries, including the wealthiest. Higher income beneficiaries, who actually receive more Medicare benefits than do poor beneficiaries, could afford premiums without subsidies. However, the addition of an income-related premium would make Medicare less of a social insurance program.

As you know, the Administration has publicly supported an income-related premium. It is not clear, however, that we should include this policy in our budget. Because this issue is very complicated, we will not make a recommendation until we meet with you on the subject.

Policy Options

Building from our position last summer, the income-related premium would be administered by the Treasury Department, not HCFA or the Social Security Administration. Eligible people would fill out each year a Medicare Premium Adjustment form (a separate form or a line on the 1040 form) and send a check to "The Medicare Trust Fund." Revenue from this premium, which is at least $8 billion over 5 years, depends on who pays and how much they pay.

Who pays. The income thresholds determine how many people are paying the higher amount. We proposed thresholds of $90,000 for singles and $115,000 for couples in the Health Security Act. Last summer, the Senate, including most centrist Democrats, passed a policy that began the extra premium payment at $50,000 for singles and $65,000 for couples. During the budget debate, we did not express support for particular thresholds.

How much. The amount of the payment for the wealthiest beneficiaries is a second question. In the budget debate, we argued that a 100 percent premium (no subsidy) would cause some healthy and wealthy people to opt out of Medicare. However, an analysis by the Treasury Department this fall found that the effects of a 100 percent premium would be smaller. HHS would strongly object to changing our position to support an income-related premium that completely phases out the Part B subsidy. If we decide to change our past policy, we should have a strategic discussion about the timing of announcing such a change.

Discussion

The decision to propose an income-related premium is complicated, and your advisors have differing views about its timing and, to some extent, advisability. Some believe that we made a decision last summer to support this policy, regardless of circumstances. However, its introduction may provoke criticism. Many Democrats and possibly AARP will oppose the income-related premium (though this opposition may soften if the premium is linked to a Medicare investment). In addition, Republicans might label it a new tax and use our support for it as an issue during the 1998 campaign. The Medicare Commission almost certainly will recommend this policy if you do not in the spring of 1999. Leaving it to the Commission has the advantage of providing both Democrats and Republicans with political cover, but the disadvantage of decreasing your control over the structure of the premium and how it will be spent. DPC/NEC will prepare for a separate meeting to discuss this issue.

THE WHITE HOUSE

WASHINGTON

'97 DEC 16 PM1:43

December 15, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Gene Sperling
Elena Kagan

SUBJECT: New Initiatives on Discretionary Side of Budget

As you know, OMB is trying to find an additional $6 billion for discretionary spending. Assuming this money becomes available, the DPC and NEC recommend that you fund the new initiatives listed below -- in the amounts listed below -- in your FY 1999 budget. OMB has signed off on these recommendations. Some of the departments, however, may appeal for increases in base programs that would cut into the amount of money available for new initiatives.

We already have given you detailed memos on most of these initiatives. If you approve the initiatives, you can announce any or all of them in the State of the Union.

Because so many of the new initiatives involve education, we are attaching an appendix to this memo that shows recommended funding levels for the Department of Education's major base programs. In reviewing the education spending, you should note that the Department has just reestimated Pell Grant costs in a way that will free up additional monies. We had thought we would need a $434 million increase in the Pell Grant Program to raise the maximum award from $3,000 to $3,100. The new estimates show we can finance these policies with between $150 million and $220 million less. We are currently considering whether to keep these funds in the Pell Grant Program to support a larger increase in the maximum award and make other policy changes, or alternatively to invest them in the After-School and Head Start components of the child care initiative.

Education

1. **Education Opportunity Zones ($225 million):** This initiative will provide funding to about 25 high-poverty urban and rural school districts for agreeing to adopt a "Chicago-type" school reform agenda that includes ending social promotions, removing bad teachers, reconstituting failing schools, and adopting district-wide choice.

2. **College-School Partnerships ($150 million):** This initiative, which builds on Eugene Lang's model of helping disadvantaged youth, will provide funding for college-school partnerships designed to provide mentoring, tutoring, and other support services to students in high-poverty schools, starting in the sixth grade and continuing through high school. The six-year funding

path will provide help to nearly 2 million students. The proposal also will include Chaka Fattah's idea of early notification to disadvantaged 6th graders telling them of their Pell Grant and loan eligibility.

3. Campaign on Access to Higher Education ($20 million): This initiative will fund an intensive publicity campaign on the affordability of higher education. The goal of the campaign will be to make every family aware that higher education is now universally accessible -- and that it is the key to higher earnings.

4. Teacher Recruitment and Preparation ($67 million): This initiative, which you previewed last July at the NAACP Conference, will provide scholarships to nearly 35,000 new teachers over five years for committing to work in high-poverty urban and rural schools. It also will upgrade the quality of teacher preparation programs serving these communities.

5. Technology Teacher Training (Approx. $230 million): This initiative will dedicate 30 percent (about $150 million) of the Technology Literacy Challenge Fund (which is being increased from $425 to $500 million) to ensure that at least one teacher in every school receives intensive training in the use of technology for education, so that those "master teachers" can train their colleagues. An additional $80 million will begin an effort to train every *new* teacher in the latest technology.

6. Hispanic Education Action Plan -- ($195 million or more): This initiative will increase funding for a number of existing programs to improve education for Hispanic Americans and other limited English proficient (LEP) children and adults. It would double our investment in training teachers to address the needs of LEP children; boost the Migrant Education Program by 16 percent; increase the TRIO college preparation program by 10 percent; and create a 5-year, $100 million effort to disseminate best practices in ESL training for adults. We would accompany these program increases with administrative actions to help Hispanic students complete high school and succeed in college.

7. Distance Learning -- ($50 million?): We are still in the process of developing a new initiative, related to Governor Romer's Western Governors University, to promote the use of technology to give people "anytime, anywhere" access to learning opportunities.

<u>Child Care</u>

We recommend placing most of the child care initiative -- in particular, the proposed increase in the Child Care and Development Block Grant and the establishment of a new Early Learning Fund -- on the mandatory side of the budget. The smaller pieces of the initiative that we propose placing on the discretionary side are the following:

1. After-School Program Expansion ($100-200 million): This program expansion will increase funding of the 21st Century Community Learning Center Program (now funded at $40 million) for before- and after-school programs for school-age children at public schools. Depending on the exact funding level chosen, this investment will create new programs in 1,500-4,000 schools with slots for between 75,000 and 200,000 children; at the same time, it will enable still more students to participate in other school-site activities.

2. Standards Enforcement Fund ($100 million): This new fund will support state efforts to improve licensing and accreditation of providers, and to enforce health and safety standards -- particularly through unannounced inspections of child care settings. The fund also will enable states to issue report cards, for use by consumers, on the quality of the facilities inspected.

3. Provider Training ($51-60 million): A new Child Care Provider Scholarship Fund, which you proposed at the Child Care Conference to fund at $50 million annually, will support 50,000 scholarships each year to child care workers working toward a child care credential. The students will commit to remaining in the field for one year for each year of assistance received, and will earn increased compensation or bonuses when they receive their credential. An additional $1-10 million will allow the Department of Labor to expand its Child Care Apprenticeship Training Program, which funds providers combining work toward a degree with on-the-job practice.

4. Research and Evaluation Fund ($10-30 million): This new fund will establish a National Center on Child Care Statistics, and provide grants for research projects and state and local child care hotlines and consumer education activities.

5. Head Start and Early Head Start Expansion ($284-334 million): This level of increased investment in the overall Head Start budget should permit doubling the set-aside for Early Head Start over five years without reducing the resources available for children 3-5. The doubled set-aside would enable more than 50,000 additional children to receive Early Head Start services in 2003.

Welfare, Housing, Urban

1. Welfare-to-Work Housing Vouchers ($283 million): This initiative will provide 50,000 new housing vouchers to help welfare recipients in public housing who need to move in order to find employment. HUD will distribute these vouchers on a competitive basis to public housing authorities working with local TANF agencies and/or grantees of the new $3 billion welfare-to-work program. (A separate proposal, for which no new funding is needed, would allow families in public or assisted housing to use vouchers to buy a home; HUD expects this proposal to assist some 25,000 people become homeowners over two years, though OMB believes this figure to be exaggerated.)

2. Housing Portability/Choice ($20 million): In addition to the new welfare-to-work housing vouchers discussed above, our proposed package on housing portability and choice expands Regional Opportunity Counseling sites and takes administrative actions to eliminate obstacles to portability in the Section 8 housing program.

3. "Play-by-the-Rules" Homeownership Proposal ($30 million): This initiative will assist families that always pay their rent on time to become homeowners. The Neighborhood Reinvestment Corporation will provide downpayment assistance, interest rate buydowns, or rehabilitation loans to approximately 10,000 families.

4. Homeownership Opportunity Fund ($11 million): This initiative will provide funds for HUD to develop a loan guarantee program to allow state and local governments to leverage current HOME funds with private-sector investments to fund large-scale, affordable housing developments in distressed communities.

5. Community Empowerment Fund ($300-400 million): This initiative establishes a public/private fund ("Eddie Mac"), which will invest in inner-city businesses and create a secondary market for economic development loans (like Fannie Mae).

6. Homeless Assistance ($250-325 million): This level of increased investment includes $177 million to help 32,000 homeless people receive Section 8 vouchers.

<u>**Labor and Workforce**</u>

1. Child Labor ($89 million): This initiative is anchored by a $30 million commitment -- up from $3 million -- to the International Program on the Elimination of Child Labor (IPEC). The initiative also will include funding to improve Customs Service enforcement of U.S. law banning the import of goods made with forced or bonded child labor ($3 million) and to double the Department of Labor's enforcement of child labor laws in the agricultural sector ($4 million). Finally, the initiative will provide additional funding to the Migrant Education Program so it can reach 50,000 more migrant children ($50 million). We are developing non-budget items to fill out the package.

2. Community Adjustment ($50 million): This initiative will fund the creation of the Office of Community and Economic Adjustment (OCEA), which we proposed as part of the Fast Track debate. As you know, this office will be modeled after the Defense Department's Office of Economic Adjustment -- the Administration's first point of contact with communities experiencing a military base closure or defense plant closing. We expect the Office to help 35-40 communities in its first year of operation. The initiative also will fund a variety of other efforts to assist communities that face sudden and severe economic dislocation.

3. Out of School Youth Opportunity Program ($250 million): Congress advance appropriated $250 million for this program last year contingent on the passage of authorization legislation. The program will fund competitive grants for efforts to increase employment among out-of-school youth between the ages of 16 and 24.

Health

1. 21st Century Trust Fund (Approx. $1 billion): This initiative will provide substantial additional funding to NIH ($750 million) and NSF ($250 million), ramping up substantially over time, for research activities -- particularly on the treatment and cure of diseases. We will provide you with a separate memo on this initiative in the next day or two. Funding for this initiative will come from comprehensive tobacco legislation.

2. AIDS Programs Expansion ($165 million): A funding increase for the Ryan White Program of almost 15 percent will go principally toward ADAP, to ensure that new and effective treatments of AIDS reach those who need them. Some of the funds will support education and prevention programs operated by states, cities, and community health centers, as well as by the CDC.

3. Racial Disparities in Health Care ($80 million): This initiative will address racial disparities in six areas of health care: infant mortality, breast and cervical cancer, heart disease and stroke, diabetes, AIDS, and immunization. The proposal includes additional funding ($50 million) to established public health programs to adapt and apply their prevention and education strategies to eliminate racial disparities. It also includes funding ($30 million) for up to thirty local pilot projects to test innovative approaches to reach this goal.

Environment

(Katie McGinty proposed and has further information about these initiatives)

1. Climate Change ($400 million): To support our broader climate change initiative (including tax incentives), this funding will go to a number of departments in accord with PCAST's recommendations.

2. Second Generation Clean Water ($450 million, including some on mandatory side): This initiative will assist in restoring 1000 watersheds that are too polluted for fishing or swimming. Funding will go to five agencies to support a variety of activities designed to address polluted runoff and implement comprehensive watershed management strategies.

Crime

1. Community Prosecutors ($50 million): This initiative will provide grants to prosecutors for innovative, community-based prosecution efforts, such as Eric Holder adopted in the District of Columbia. A full 80 percent of the grants will go to pay the salaries and training costs associated with hiring or reassigning prosecutors to work directly with community residents.

Race

A number of the above proposals -- e.g., education opportunity zones, university-school partnerships, housing vouchers -- can be presented as part of the race initiative, because they target predominantly minority areas or provide disproportionate benefits to members of minority groups. Other proposals described above -- the Hispanic dropout plan and the race and health initiative -- have obvious and explicit race connections. In addition:

1. Civil Rights Enforcement ($72 million): This initiative will fund reforms to the EEOC and the civil rights offices at DOJ, HUD, HHS, Education, and DOL. Most important, additional funding of $37 million will allow the EEOC to expand its mediation program (allowing more than 70 percent of all complainants to choose mediation by the year 2000), increase the average speed of resolving complaints (from over nine months to six) and reduce the EEOC's current backlog (from 64,000 cases to 28,000). The initiative also will fund a dramatic expansion of HUD's civil rights enforcement office (in the 30th anniversary year of the Fair Housing Act) and improve coordination among the government's civil rights offices. We are preparing a number of non-budgetary administrative actions, especially involving fair housing and lending, to accompany our budget proposals in this area.

Appendix – Education Budget

The recommended funding level for all of the Department of Education's discretionary programs (including new initiatives) is $30.9 billion, an increase of $1.4 billion (4 percent above FY 1998). In addition to providing for the new initiatives described above, this recommended budget maintains or increases funding for the Department's major base programs, while reducing certain lower priority spending.

Major Base Programs

Education testing: $16 million. The full amount needed to maintain progress on test development.

Pell Grants: $7,779 million. A $289 million increase would maintain higher independent student eligibility and raise the maximum award from $3,000 to $3,100. The additional $150 million previously thought necessary to effect these policies would increase the maximum award by another $50; alternatively, as noted earlier, we could use these funds to increase our investments in the After-School and Head Start components of the child care initiative.

America Reads, $260 million. We did not get our America Reads bill in FY 1998. We did obtain increases for tutoring in the Corporation for National and Community Service. Congress did, however, "advance appropriate" $210 million for FY 1999 for Education, contingent upon enactment of new law. The increase to $260 million reflects our original first year plan.

Title I, Education for the Disadvantaged, Grants to LEAs: $ 7,725 million. A $350 million (4.5 percent) increase over FY 1998 to serve an additional 400,000 children in poor communities. Secretary Riley requested a $492 million increase.

Goals 2000: $510 million. A $10 million increase over FY 1998, to maintain momentum in the States for school reform.

Comprehensive School Reform: $175 million. A $30 million increase over FY 1998 for demonstrations of school reform models.

Adult Education: $394 million. A $33 million (9 percent) increase over FY 1998 for basic education and English language training for the disadvantaged, immigrants, and welfare recipients. This increase is part of Hispanic Education Action Plan discussed above.

Special Education: $4,811 million. Same as the FY 1998 level, which was increased by $775 million over FY 1997. States can spend the increase over 2 years. Secretary Riley has expressed concern about the lack of an FY 1999 increase. We are convinced that no increase will satisfy the advocates, and would prefer to negotiate this level in Congress, rather than use up scarce funds in your budget now.

College Work-Study, $915 million. An $85 million increase over FY 1998, make progress toward your goal of 1 million Work-Study positions by FY 2000. Given the reduction in Perkins loans (noted below), this increase keeps the campus-based aid programs at level funding from FY 1998.

Reductions in the Base

A number of programs have been reduced to make room for initiatives and major base programs, including: Impact Aid (-$92 million), the Education Block Grant (-$350 million), and Perkins Loans (-$85 million). Each of these has a vocal constituency. We believe we can make the case that our funding of initiatives and base programs are all higher priority than these programs.

CORE PLUS BUDGET STRATEGY

1. WHITE HOUSE CORE BUDGET STRATEGY TEAM

Bowles
Raines
Lew
Podesta
Mathews
Hilley
Klain
Rubin
Summers
Sperling
Tarullo
Sosnick
Reed
Rahm
~~Yellin~~
McCurry
(Foley, Chow, Angell)

212/579-8470

2. ~~WEEKLY (BI-WEEKLY)~~ NEC PRINCIPALS MEETING: paper

Parnell
Wed 22nd

Sperling
Tarullo Wallman
Rubin (after 2pm 3pm
Summers
~~Yellin~~ Stiglitz
Munnell
Frankel
~~Daly~~ / Kantor 205
Herman
Charlene
Shalala
Klain
Raines
Lew
Mathews
Reed
Podesta
Bowles

Waldman
Jean 5-9492
9051
Phil Lader

Wed. 22nd
K.K.
3 P.M

3. MEDICARE/MEDICAID PRINCIPALS

Core Plus:

Shalala
Vladek
Jennings
Min
Herman (Medicare)

Working Group Facilitator: Jennings

4. CPI STRATEGY:

Core Plus:

Chow
Roberts

Working Group Facilitator: Sperling/Lew

5. CPI SUBSTANCE

Core Plus:

Herman + Chief Economist
SS Commissioner
Shalala
Munnell

Working Group Coordinator: Yellin/Summers

6. OMB/CBO Differences:

Core Plus:

Minarik
Munnell

Working Group Coordinator: Yellin/Summers

7. SOCIAL SECURITY:

Core Plus:

Munnell
Shalala
SSA Administrator

Working Group Coordinator: Summers

8. TAX ISSUES AND BASE BROADENING

Core plus:

Lubick
Minarik

9. WELFARE TO WORK:

Core plus:

Shalala
Glickman
Kagan
Apfel

10. LINE-ITEM VETO:

ACTION PLAN

1. Presidential Mandate: Erskine Bowles Should Get Mandate From the President on Importance of Balanced Budget Plan.

2. Erskine Should Ask NEC to Head up White House Core Budget Strategy Team:

- Erskine should play leadership role in ensuring that Hilley, NEC, OMB, Treasury are working together on Congressional Strategy.

- Inter-Department Budget Implementation Working Group:
    - ** Gene/Rahm plus Managing Director and representative from each department

    - ** Less frequent Meetings now/but process in gear when need push

3. Core Budget Strategy Team Should Meet:

Thursday or Friday, January 9 or 10
Tuesday January 14
Wednesday January 15

POTUS Meetings:
Thursday January 16: Overview Strategy:
Wednesday January 22: Longterm Session

4. Agenda:

1. Timeline and Process for getting to negotiations
    - Concrete outreach steps that are top priority
    - Statements/Policy at Inaugural and State of Union
2. CPI process strategy
3. Balanced Budget Amendment Strategy
4. Longterm Entitlement Strategy

5. Other Processes To Start -- Not Urgent for January

CPI substance
Medicare/Medicaid alternatives
Medicare Commission ideas
Review of Social Security Recommendations
Analysis of Likely Republican Tax Alternatives
Possible Base-Broadening ideas
Line-Item Veto

INITIAL AGENDA ITEMS FOR CORE BUDGET STRATEGY

I. OVERALL BALANCED BUDGET STRATEGY:

1. POTUS want as key White House priority?

2. How to capture Presidential leadership?
- Republican field hearings?
- Emphasize in dramatic way in Inaugural/SOU?

3. Congressional Outreach Strategy for Each Key Group:

Core Democrats
Blue Dog
Republican Moderates
Ask Hilley for explicit plan for each Group

Issues: Message from now until the release of the budget
Who should be delivering it?
When? Briefings?
Strategy for Cultivating Key Spokesman on Hill
Means for sharing information

4. Bipartisan Business Outreach Strategy:

Early Outreach to 20 Key CEOs

5. Opinion Leader/Press Rollout
- Both overall importance/commitment on balanced budget
- Stages of roll-out
- Ask Rahm, Gene, Lew, Summers, Dreyer for plan

6. Health Care Outreach/Roll-Out Strategy:
- Defense of Medicare policy
- Promotion of reforms
- Defense of Home health
- Ask Jennings for plan

7. Welfare/Education Outreach Strategy

II. BALANCED BUDGET AMENDMENT

1. Vote Count in House and Senate

- Appears Split in House: Whip occurring now
- Senate comes down to Cleland, Landrieu, Johnson (SD) and Torricelli
- Secure Feinstein
- Any chance for Mosely-Braun/someone surprising?

2. Message Development on Balanced Budget Amendment

- Research on what works
- Share research?

3. Communication that for Balanced Budget for 2002 but not for Constitutional Balanced Budget Amendment for 2002

4. Do we Get into "How to Fix" Lobbying? If so, when?

- Escape hatch/anti-recession fixes
- Bad Bill easier to defeat in states?

5. Social Security Issue as Key Democratic Alternative?

- Likelihood Republicans accept a Social Security exclusion with later date?
- Hollings, Conrad, and Dorgan?

6. Cabinet Involvement: Rubin, Defense, Riley?

7. POTUS and VPOTUS Involvement:

- Do we wait till end or speak out

8. Debt Limit Vote:

- Greenspan or financial community speak out in light of recent events?

9. Role of Judges as Budget Committee Chairpersons:

- meaningless or over judicial involvement?

10. Other Amendment Strategy:

- Medicare exclusion
- capital budget
- Best Technical BB Amendment

III. CPI PROCESS

1. What process would we want to happen to facilitate a broad-based technical agreement?

- Set up a 12 person expert board: two appointed by POTUS, Greenspan, Lott, Daschle, Gephardt and Gingrich.
  - ** Potential for some baseline agreement among 8 of 12
  - ** Something that bipartisan negotiators could turn to
  - ** Risk: seen as promoting/some Dems not go along

- Set up 15 Person expert board -- 1983 Greenspan style. (Executive Order)
  - ** President, Senate, House each choose 5: better institutionally
  - ** Each 5 can be no more than 3 of one party.

- Wait until negotiations and have each major party in the negotiations choose one or two experts?

  - ** Less forward lean, yet some possible expert process that could be pointed to by budget negotiators

- Set Up Social Security or Bipartisan Entitlement Process and ask that first Report be on Cost-of-Living Adjustment

- Base-Closing Commission Idea: Panel of Experts gives Best Recommendation: one up or down vote.

2. Is Process a Relatively Safe Means to Take Bold Leadership without Committing to Specific result?

3. How should we react if Moderates come to us with proposal for bipartisan process?

4. Why different from Boskin Commission? Is there enough to point to already?

- Hard for us to say that there is a broad-based agreement currently, when people see Boskin vs. BLS.

5. Create Process Designed to Lead to COLA as Partial Long-term Social Security Fix and not as part of Balanced Budget Plan:

- Easier to get agreement for changes that impact people further out.
- Takes away reasons for not waiting for BLS longterm solutions

OVERALL STRATEGY ON LONGTERM ENTITLEMENTS

1. Longterm Medicare:

- Nation ready to address it
- Elite support
- Are solutions palatable? Is it easier to get consensus for commission but far harder to get consensus for any plan.

2. Social Security:

- Less national consensus and urgency
- Easy for politicians to avoid imperative to act:
- Partial solutions make it even easier to avoid longterm solutions
- productivity debate: will tax reform advocates say reform unnecessary if higher productivity through new tax code.
- How much cure Social Security should be linked to savings debate?

3. CPI:

- If consensus is this best way to address longterm Social Security and savings?

4. Bipartisan Commissions:

- Understanding Presidential role and opportunities
- What is the conditions for major politically tough reforms? 1983 Commission/ 1986 Tax reform

5. Legacy Analysis:

- Political risk for legacy reward analysis

6. If Presidential Direction on Longterm: Impact on Short-term Action.

CPI SUBSTANCE

1. Distributional impacts and distributional Fixes:

- Even if COLA adjustment correct, could have adverse distributional consequences

- On policy and political grounds, best to look for package.

    - Structural: less payroll tax on low-income workers

    - Programmatic: higher education and EITC for poor

2. COLA and Elderly:

- Need to have administration opinion as to COLA for elderly

3. Quality Adjustment:

4. New Goods.